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ECOWAS Common External Tariff: Challenges and Gains for Nigeria

INSIDE

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Nigeria: Oil Price Slump, Polls Uncertainty Weigh on Economy

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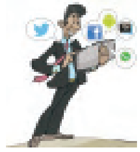
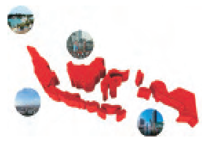
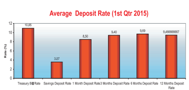






Unity in Diversity?

At a time when there is the worldwide movement toward economic, financial, trade, and communications integration, various regions of the globe are, surprisingly, also pushing for 'near-autarchy' from the rest of the world. Apparently, globalization, which implies the opening of local and nationalistic perspectives to a broader outlook of an interconnected and interdependent world with free transfer of capital, goods, and services across national frontiers—is constituting a harm to some economies. Thus, over the last three decades or so, economic blocs—both of strong and weak economies—have been finding it expedient to remain together—nationalistic boundaries and peculiarities notwithstanding.

After a long-drawn shelf life, the CET proposal became a reality—with its implementation effective January1, 2015.

It is from this perspective that bodies such as the European Union, African Union, Asia Pacific Economic Cooperation, the North American Free Trade Area, Association of South East Asian Nations, among others, locate their existence and relevance. And although these bodies have their pros and cons, many regions and groups of nations are yet coming together for 'various interests.' Thus, the Economic Community of West African States (ECOWAS), comprising 15-member nations, was formed exactly four decades ago in 1975. Among others, the body was set up to foster the ideal of collective self-sufficiency for its member states and to create a single, large trading bloc through economic cooperation. Noble as these objectives are, the body has, in these past four decades been struggling with their realization.

The issue of Common External Tariff (CET) among ECOWAS member-nations has been on the card for well over a decade. Although, singly, each of the member-nations, in a globalizing world, faces a scorching and slim prospect, nationalistic, cultural, neocolonial, linguistic and other factors had made their 'economic unification' more like a mirage. It is against this backdrop that our cover article in this edition—'ECOWAS Common External Tariff (CET): Challenges and Gains for Nigeria' is focused on this sub-regional integration effort. After a long-drawn shelf life, the CET proposal became a reality—with its implementation effective January1, 2015. Nigeria, obviously, the largest by population, economy size as well as other material and human resources, faces a largely 'unclear' prospect with the take-off of the CET initiative. The author, in this article, explores and x-rays the challenges and possible gains for Nigeria—the 'Big Brother' in the bloc.

Still on Nigeria, our article—'Nigeria's Debt Burden and the Challenge of Development'—holistically reviews the public debt of the country—its composition, terms and conditions, history and trend. It also explores the reasons and justifications for the rising public debt profile as well as arguments for its sustainability or otherwise. With this background, the author surveys the risks and costs of the debt to the economy. He sums up that "when a country's risk of debt default is high, its creditworthiness is eroded and ultimately the country's credit rating goes down…and low credit rating further increases the cost of borrowing for government and businesses." In the end, the author says, the only sure way to reduce Nigeria's borrowing needs to the barest minimum in the face of huge funding gaps is to diversify the sources of government revenue.

Yet on Nigeria, the piece—'Nigeria: Oil Price Slump, Polls Uncertainty Weigh on Economy' is a periscopic analysis of the economy during the first quarter 2015. The period, as the article reveals, was marked by uncertainty in the polity, exchange rate instability, insurgency in the Northeast of the country as well as dwindling revenue owing to the sharp decline in the price of crude oil in the international market. It was also a period that saw the scheduling and postponement of general elections in the country—with the attendant negative impact on all facets of the Nigerian polity. Thus, for the economy, virtually all its performance indices turned out not cheering.

In this edition are also the usual insightful and informative pieces in the sections: 'Foreign Insight', 'Global Watch', 'Policy', 'Facts& Figures'. Invest your time; read, and get 'enriched.'

All the best!

Marcel Okeke

from our mailbox

I am directed to acknowledge with thanks, receipt of the Zenith Economic Quarterly (ZEQ), forwarded under the cover of the above correspondence dated 8 October, 2014. The in-depth Report is undoubtedly a timely and useful publication, which will serve as a very veritable reference material on Nigeria economy for the Mission. On behalf of His Excellency, the Ambassador, please accept the assurances of his high regards.
G.I. Aluya (Mrs.)
For: Ambassador
Embassy of the Federal Republ ic of Nigeria,
Brussels, Belgium.

We acknowledge with appreciation, receipt of one complimentary copy of your publication, **Zenith Economic Quarterly,** October 2014 edition.

The publication will serve as a good addition to the collection of FITC's Pius Okigbo Library and our patrons will find it enriching and of immense value. Thank you for your kind gesture.

"The Ministry commends your effort in contributing to the economic development of the nation. Accept the assurances of the Honourable Commissioner, please."

Yours faithfully,
Anjorin Oke
Head, FITC Research

I wish to acknowledge with thanks the receipt of your publication Zenith Economic Quarterly (ZEQ) which focuses on "Global Oil Outlook: Non-Oil Export as Nigeria's Trump Card". The publication will be of immense benefit to both Staff and Students of the Institute. Thank you for your continuity in keeping us on your mailing list.
Yours faithfully,
Ohuawunwa R. I (Mrs)
For: Chief Librarian
Petroleum Training Institute
Effurun, Delta State.

Your letter, dated 8th October, 2014 in respect of the above subject matter refers. Accordingly, I am directed to acknowledge, with thanks the receipt of the publication. The Ministry commends your effort in contributing to the economic development of the nation. Accept the assurances of the Honourable Commissioner, please.
Aminu M. Kurara
For: Honourable Commissioner
Ministry of Finance and Economic Development, Bauchi State.

We acknowledge with thanks the receipt of One (1) complimentary copy of the October, 2014 edition of your Institutes' journal *Zenith Economic Quarterly (ZEQ)* focuses on ***"Global Oil Outlook: Non-Oil Export as Nigeria's Trump Card".*** We appreciate this gesture and commend your organization for this contribution to Chartered Institute of Stockbrokers and the financial industry in the area of impacting knowledge. Please be assured that you remain on our mailing list in the exchange of well-articulated research work. Thanking you for your cooperation, while assuring you of ours at all times.
Yours Faithfully,
Temitope Oginni
Ag. Head, Education and Training
CHARTERED INSTITUTE OF STOCKBROKERS

I write to acknowledge with thanks the receipt of the July 2014 edition of the above named journal and to appreciate you for always sending us copies. The journal is insightful and educative and also a solution provider for Nigeria and global economic policy challenges. The journal has been added to the list of our materials in the library for the benefit of staff and the public. Kindly accept the assurances of our highest regards.
Yours faithfully,
Dame El izabeth O. Agu *(HCIB)*
Branch Controller
Central Bank of Nigeria
Asaba, Delta State.

We wish to acknowledge with thanks, receipt of the Zenith Economic Quarterly (ZEQ), dated 08 October, 2014. We commend you for this outstanding initiative in promoting our country's economy to the world. Its contents stand clearly as products of profound research that will serve as reference material on the Nigerian economy.

Please accept, dear Editor, the assurances of the Consulate General of Nigeria, Frankfurt.
Zirra Zakari F.
Head of Chancery
Consulate General of the Federal Republ ic of Nigeria, Frankfurt, Germany.

Your letter dated 5th January, 2015 on the above subject matter refers please. This is to acknowledge the receipt of a copy of the October, 2014 edition of the Zenith Economic Quarterly (ZEQ) and to express the appreciation of the Honourable Minister for such an invaluable reference material.

While assuring that the Quarterly shall be utilized for the required purpose, please accept the Honourable Minister's best regards.
Edet S. Akpan
Director, Finance and Accounts
For: Perrnanent Secretary
Federal Ministry of Environment
Mabushi, Abuja

I am directed to acknowledge with thanks, receipt of your letter dated 8th October, 2014, forwarding a copy of the July, 2014 edition of the Zenith Economic Quarterly (ZEQ).

Also, I wish to state that the publication has been very useful in the Embassy's efforts towards encouraging Foreign Direct Investments (FDIs) into Nigeria. The delay in acknowledging your letter was inadvertent, but highly regretted. Please accept Her Excellency's best regards and esteem.
Nkwocha E. N
For: Ambassador
Embassy of Nigeria
Dubl in, Ireland

Nigeria:

Oil Price Slump, Polls Uncertainty Weigh on Economy

By Marcel Okeke

The combined effect of the steep decline of the price of crude oil in the international market since the third quarter 2014 and the uncertainties and anxiety prevalent in the Nigerian polity in the run-up to the 2015 general elections weighed significantly on the economy in the first quarter 2015. Presidential and national assembly elections which were earlier scheduled to hold in the country on February 28, 2015 got rescheduled and moved to March 28, 2015; while the gubernatorial and state assembly elections held on April 11, 2015. The unanticipated postponement of the elections heightened uncertainty in all markets; leading to some turmoil and loss of value by the local currency (Naira) in the foreign exchange market, spike in inflation, drop of the indicators in the capital market, and so on.

The price of crude oil, the mainstay of the Nigerian economy, had dropped precariously from a peak of over US$104 dollars per barrel by third quarter 2014. Specifically, the OPEC Average Monthly Basket Price of oil which peaked at US$107.89 per barrel in June 2014 came down very sharply to US$59 per barrel at end-December 2014. It further decelerated to US$54.4 by end-March 2015, resulting in Nigeria experiencing a sudden and significant drop in revenue inflow (especially foreign exchange inflow) from oil sales.Indeed, reports show that the Federal Government, owing to consistent shortfall in revenue, borrowed the sum of N473 billion within the first four months of the year to finance the 2015 budget (even before its passage by the legislature). The National Assembly had, while passing the national budget 2015, approved a benchmark oil price of US$ 53 per barrel, as against the US$52 per barrel proposed by the Executive.

As the elections were underway, Nigeria's credit rating outlook got reduced to 'negative' by Fitch Ratings, which cited falling oil prices and rising political risks in the country. Fitch however affirmed Nigeria's BB- rating, three steps below investment grade. On its part, Standard & Poor's (S & P) lowered Nigeria one level to B+, four rungs below investment grade, on March 20, 2015.

Indeed, the slow-down in business activities affected virtually all economic indicators as they came short of expectations at the close of the first quarter 2015. Thus, According to the National Bureau of Statistics (NBS), the Real Gross Domestic Product (GDP) grew by 3.96 per cent during the period compared with 6.21 per cent in the first quarter 2914, and 5.94 per cent in the last quarter 2014. A breakdown of the figures show that the oil GDP recorded a further negative growth rate of 8.15 per cent in the first quarter 2015 from a negative 6.60 per cent in the first quarter 2014; while the non-oil sector of the economy grew by 5.59 per cent, compared with 8.21 per cent in first quarter 2014.

In the quarter under review, headline inflation inched up consistently: from 8.0 per cent inDecember 2014 to 8.2 per cent in January and further to 8.4 per centin February 2015. It stood at 8.5 per cent at end-March.

In the period under review, the nation's stock of public debt was on the increase, hitting N12.06 trillion as at end-March 2015 according to the Debt Management Office (DMO); with the external debt (Federal and state governments) standing at N1.86 trillion (US$9.46 billion)—that is, 15.46 per cent of total debt. Domestic debt of the Federal Government accounted for N8.5 trillion (US$43.19 billion), or 70.53 per cent of total debt, while States' own share of domestic debt stood at N1.69 trillion)—that is, 14.01 per cent of total debt stock. A breakdown of the external debt stock shows that multilateral institutions accounted for 69.08 per cent; International Development Association (IDA), a member of the World Bank Group, accounts for US$5,635.87 million while another member of the WBG, the International Fund for Agricultural Development (IFAD) is owed US$89.40 million.

African Development Bank (AfDB) is owed US$200 million, while Africa Development Fund (ADF) accounts for US$513.75 million of the stock of external debt. Nigeria also owes the European Development Fund (EDF) US$75.12 million while US$19.63 million is owed the Islamic Development Bank (IDB). The country also owes the Arab Bank for Economic Development in Africa (ABEDA) US$4.48 million. Bilateral debt represents 15.85 per cent of the external debt stock, comprising loans of US$1,285.61 million owed Exim Bank of China and US$140.25 million owed French Development Agency. Nigeria's commercial loan—US$1.5 million Eurobonds from the International Capital Market accounts for 15.85 per cent of the external debt stock. According to the DMO data, Federal Government of Nigeria (FGN) Bonds stood at N5.37 trillion (63.13 per cent of domestic debt) as at end-March 2015. Nigerian Treasury Bills is valued at N2.87 trillion or 33.68 per cent, while Nigerian Treasury Bonds is N271.22 billion or 3.19 per cent of the domestic debt.

While the nation's debt stock experienced substantial accretion during the first quarter 2015, the external reserves on the other hand was depleting, remaining at US$29.34 billion at end-March 2015, a drop of about 13.50 per cent from the end-December 2014 level of US$34.47. This decline in the reserves was as a result of a number of factors including obviously increasing demand for the dollar at the foreign exchange market as the 2015 elections approached; the low price of crude oil (translating to drop in forex inflow); 'dumping' of naira assets by foreign investors in the build up to the elections, among others.

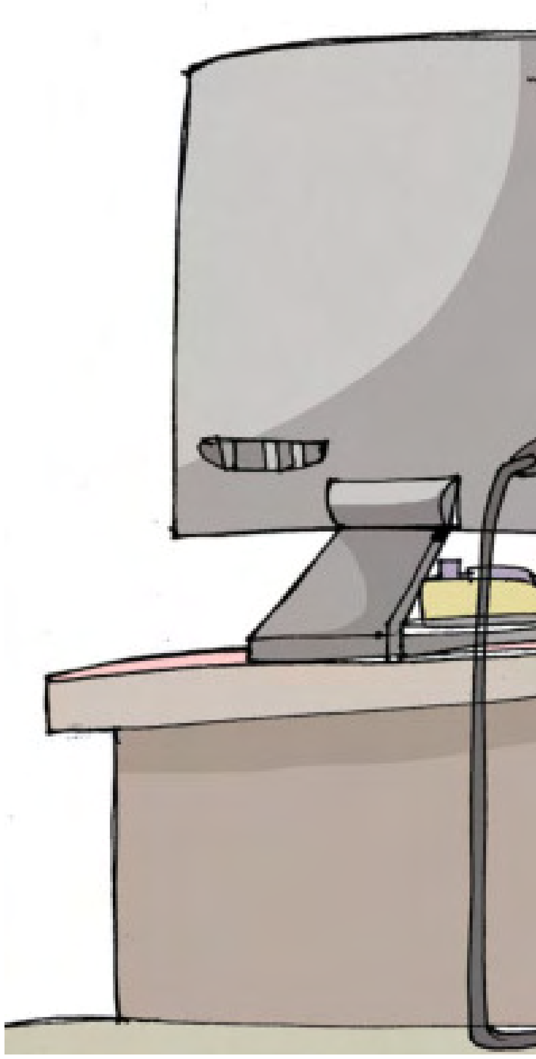
As forex inflow was declining, the CBN was also bent on 'supporting' the Naira in the foreign exchange market; yet the value of the local currency got to its all-time low during the first quarter 2015. Due to unprincipled market behaviour such as round tripping, speculative demand, and other inefficient uses of scarce foreign exchange by economic agents, the Central Bank of Nigeria was compelled to unify the foreign exchange market by closing the Retail Dutch Auction System (rDAS) in February 2015. Overall, the naira depreciated in the first quarter 2015 by about 7.56 per cent to close March at N199.10/US$1 in the inter-bank market from N185.10/US$1 at the beginning of the quarter .

The closure of the rDAS by the CBN was among other things, directed at preventing the emergence of a multiple exchange rate regime which presents a widening margin between the various windows, thus serving as an incentive for round-tripping, speculative demand, rent-seeking, spurious demand, and inefficient use of scarce foreign exchange resources. Though this represented an implicit devaluation of the domestic currency, in the end, it offered some respite to the financial markets and significantly slowed down the rate of depletion of reserves. On the whole foreign exchange demand by the authorized dealers in the quarter under review was estimated at US$14.86billion, indicating an increase of about 34.2 per cent and 23.9 per cent above the levels in the preceding quarter and the corresponding quarter of 2013, respectively. The sum of US$12.46billion was sold by the CBN during the first quarter 2015, indicating increase of 22.6 per cent and 36.9 per cent above the levels in the preceding quarter and the corresponding quarter of 2013, respectively.

Even with the depleting external reserves and relative exchange rate instability during the first quarter 2015, Nigeria recorded a favourable trade balance. According to the National Bureau of Statistics (NBS), the country recorded increased exports and lower import expenditures in the first quarter: a development that shored up her balance of trade, with a total value of N4,875.40 billion. This value is an increase of about 71.60 per cent from the preceding quarter value of N1,584.90 billion. A breakdown of the NBS data shows that the current trade balance is marginally lower (2.2 per cent) that the value of the last quarter 2014, which was N4, 985.60 billion. When classified by origin, the NBS report indicated that Nigeria imported goods mostly from China, United States, Belgium, Netherlands and India during the quarter under review.

Unsurprisingly, Nigeria's Federal Budget 2015, by the close of the first quarter was yet undergoing legislative consideration at the National Assembly. It was not until late in April that both arms of the National Assembly passed the 2015 Appropriation Bill. Specifically, the Senate passed the budget on April 28, following the passage of the same bill by the House of Representatives on April 23, with an expenditure outlay of N4.493trillion, up from the N4.425trillion proposed by the Executive. The Senate, in passing the budget, slightly reduced the N2.607,601, 000,300 proposed by the Executive to N2.607,132,491,708 as recurrent expenditure and simultaneously scaled down the capital expenditure from N642,848,999,699 estimated in the proposal to N556,995,465,449.

The budget which was signed into law by President GoodluckJonathan early in May, is anchored on US$53 per barrel oil benchmark, an exchange rate of N190 to one US dollar; 2.2782million barrels crude oil production per day; and a deficit-to-gross domestic product ratio of -1.12 per cent. The budget also put fiscal deficit at N1.075trillion; N953billion for debt service; N375.6billion as statutory transfers. Education takes the lion's share of the budget with N392.3bilion; followed by the military which gets N338.7billion while police commands and formations



will receive N303.8billion. In the same vein, N237billion was voted for the health sector; N153billion for the Ministry of Interior while N25.1billion was budgeted for the Ministry of Works.

THE CAPITAL MARKET

The 2015 general elections in Nigeria, coupled with near-term outlook of the domestic economy, monetary policy, exchange and interest rates environment were the key influencers of investor sentiment in the capital market during the quarter under review. Indeed, the Nigerian equities performance

in the first quarter was impacted by investor 'nervousness' driven by political risks—the onset of the 2015 general elections, uneven economic growth and monetary policy conditions. In consequence, for the three months ending March 31, 2015, the Nigerian Stock Exchange (NSE) All share Index (ASI) declined by 8.38 per cent to close the period at 31, 753.15 points. Market Capitalization (MC) for all listed equities on the Main Board and the Alternative Securities Market (ASeM) declined by 6.62 per cent or N760.13 billion to N10.71 trillion from N11.48 trillion, quarter on quarter.

Overall, the first quarter 2015 literally fizzled on profit taking and weak investor appetite; hence, most of NSE sectoral indicators declined. The broad market recorded a weak performance in January, achieving a negative return of -14.70 per cent; February, 1.83 per cent; March, 5.48 per cent. The most apparent gain was in the sensitive sector (that is, banking: NSE-banking at +3.63 per cent) which is the best performance for the quarter—outperforming the broad market index. Oil & gas stocks also saw renewed interest due primarily to dividend declaration.

Also, during the quarter under review, value of transactions by foreign investors on the domestic equity market outweighed value attributable to local investors. Total value of transactions during the quarter was N558.23 billion. Foreign investors recorded an average of 60.19 per cent of total transactions while local investor transactions accounted for 39.81 per cent. Overall, domestic transactions declined from N90.61 billion (foreign: N99.11 billion) in January to N50.44 billion (foreign: N133.95 billion) in February. However, remarkable improvement was made in March as domestic participation improved and boosted local transactions by 61.18 per cent to N81.46 billion (foreign: N102.56 billion).

Altogether, the market recoded net capital outflow of N34.56 billion during the first quarter 2015. This is 66.08 per cent and 66.01 per cent below the N101.89 billion and N101.68 billion net outflow recorded in the first quarter of 2014 and the last quarter 2014 respectively. In all, the negative net capital position revealed some degree of foreign portfolio investment (FPI) exit and sell off from the domestic equity market. This, amongst other things, dampened the whole market liquidity during the first quarter 2015. Notably, the highest net outflow in the quarter, N29.25 billion was recorded in February; net outflows for January and March were N3.05 billion and N2.26 billion respectively. Cumulatively, total foreign portfolios inflow into the market stood at N150.33 billion as at end-March 2015 (year-on-year). But as investor confidence was recovering following the successful elections in the country, there was visible decrease in FPI outflows in March compared to February. In the same vein, there was significant increase in domestic transactions in March, following the significant drop in February.

NSE data show that domestic transactions increased to N81.46 billion at the end of March 2015, up from N50.54 billion in February 2015. Domestic investors conceded about 11.46 per cent of trading to foreign investors as FPI transactions decreased from 72.61 per cent to 55.73 per cent while domestic transactions increased from 27.39 per cent to 44.27 per cent over the same period. Also, retail investors continued to dominate transactions over institutional investors throughout the first quarter 2015. Compared to the same period in 2014, total FPI transactions decreased by 21.44 per cent, whilst the total domestic transactions increased by 124.47 per cent.

The Nigerian Stock Exchange (NSE) recorded one new listing during the first quarter 2015, namely Trancorp Hotels Plc, which made an Initial Public Offering (IPO) (late 2014) that achieved a subscription rate of 52.30 per cent. Perhaps due to this not-so-good outing by Trancorp, among other factors, the market recorded no IPO in the first quarter 2015. The NSE delisted three quoted companiesfrom its daily official list:Cappa&D'Aberto Nigeria Plc, Afprint Nigeria Plc and Oasis Insurance Plc, following the acquisition of the company by FBN Insurance Limited.

FMDQ OTC Plc, which runs the platform for the secondary trading of fixed income securities and currency on the NSE recorded N47.023 trillion worth of transactions from January to April 2015. The transactions showed 43 per cent growth over the N32.761 trillion recorded in the first three months of the year. The performance also indicates a 30 per cent improvement in the month of April compared to the N10.9 trillion monthly average recorded in the first three months of the year. According to the NSE, the repurchase agreements/buy-back securities maintained the lead, accounting for N12.857 trillion or 27 per cent. Those securities had recorded N9.033 trillion in the first quarter of the year. Treasury bills occupied the second position with N12.564 trillion, up from N8.439 trillion recorded in the first quarter. Foreign exchange (FX) recorded a turnover of N10.633 trillion, showing an increase from N8.420 trillion posted in the first three months of the year. Unsecured placements accounted for N4.675 trillion, up from N2.669 trillion. FX derivatives recorded N3.243 trillion. FGN bonds traded N2.962 trillion compared with N1.959 trillion as at end of March. Money market derivatives recorded N49.485 billion, just as Eurobonds accounted for N30.13 billion. Other bonds accounted for N8.257 billion. Licensed by the Securities and Exchange Commission (SEC), FMDQ was officially launched in November 2013 with a mandate to work with stakeholders to develop the Nigerian 'Over-the-Counter' (OTC) market.

Telecommunications

Activities in the telecommunications sector of the Nigerian economy remained upbeat in the first quarter 2015, especially with the process of the privatization of the NIEL. Indeed, the Bureau of Public Enterprises (BPE), on behalf the Federal Government formally handed over the assets of the Nigeria Telecommunications (NITEL) to a new owner—NATCOM Consortium—during the quarter. Having been announced as the preferred winner in December 2014, NATCOM had to pay an outstanding 70 per cent of the US$252.25 million total bid price for NITEL and its mobile arm M-Tel, to take possession of the assets. The National Council on Privatization (NCP) approved the 'guided liquidation' of NITEL and M-Tel in February 2012 in the light of previous failed privatization attempts and liabilities to creditors. NATCOM is a special purpose vehicle set up for the acquisition; it is required to roll out telecoms services in Nigeria within the next three years.

During the quarter under review the Nigeria Communications Commission (NCC), the industry regulator, postponed the proposed auction of the ten-year licenses for spectrum in the 2.6 GHz frequency band. By an earlier schedule, prospective bidders were given up to April 16, 2015 to apply for participation in the auction. The auction was scheduled to take place in early May 2015. The reserve price for each lot was set at US$16 million. The technology-neutral licenses were expected to be used to launch LTE mobile broadband services. According to the NCC, the 2.6GHz auction is part of its efforts "to deepen competition and improve broadband penetration in the country towards achieving the goals of the National Broadband Plan." The NCC had also late last year similarly postponed the auctioning—planned to lead to the selling of 14 lots of spectrum ranging from 2500MHz-2570MHz and 2620MHz-2690MHZ.

Also, in its efforts to address the infrastructure challenges in the telecoms sector, the NCC during the first quarter 2015, named MianOne Cable and HIS as winners of the country's first two regional infrastructure company (InfraCo) licenses. While MainOne secured the concession for Lagos State, HIS got authorized to provide infrastructure in the North Central zone of the country. The permits will allow for the deployment of metropolitan fibre-optic infrastructure and associated transmission equipment on an open access, non-discriminatory and price-regulated basis. According to the NCC, under the next phase of licensing within the second quarter 2015, licenses would be awarded for the five zones: North-East, North-West, South-East, South-West and South-South. As outlined by the NCC's 'Open Access Next Generation Fibre Optics Broadband Network' paper, published late 2013, the InfraCos will be responsible for providing a national broadband network to service providers. The NCC notes that the Open Access Model for fibre-optics network development is best suited to bridge the digital divide, facilitate the development of local content and deliver fast and reliable broadband services to households and businesses. It is expected to help address the challenges of fibre deployment in towns and cities, promote infrastructure sharing and reduce right-of-way issues.

The subscriber base and active telephone lines were also on the increase during the period under review. Indeed, available statistics show that as at end-April 2015, active phone lines have hit 145.4 million with the country's teledensity standing at 103.9. The 145.4 million are the subscriptions on all mobile networks, including the Global System for Mobile Communications (GSM), Code Division Multiple Access (CDMA) and fixed wired/wireless operators. Nigeria's telecoms market achieved 139.1 million active telephone subscription by end-December 2014; this rose to 140.8 million in January 2015, jumped to 142.5 million in February, and rose further to 143.9 million and 145.4 million in March and April 2015 respectively.Teledensity moved from 99.39 in December 2014 to 100.56 in January 2015; for February, March and April, the figure stood at 101.85, 102.81 and 103.91 respectively.

In terms of share by technologies, NCC figures show that, of the 145.4 million mobile, GSM operators, including MTN, Globacom, Airtel and Etisalat hold 143 million, the CDMA, a market segment led by Visafone, controls 2.20 million lines while fixed line operators recorded 184, 790 active lines. The industry total connected telephone lines stood at 192.1 million in January 2015 but fell by about 1.5 million to 190.5 million in February and closed the first quarter 2015 at 194.5 million. While the total connected lines were increasing, the number of dormant lines also grew. Specifically, as at end-April 2015, a total of 51, 464, 799 phone lines in Nigeria were dormant, according to NCC data; translating to a dormancy rate (or churn rate) of 26.13 per cent, when related to 196, 941, 125 connected lines and 145, 476, 326 active lines. This level of line dormancy is attributable to a number of factors, including generally poor service quality of the networks in recent times, non-resort to number portability by phone users; and introduction of many phone lines merely to run promotional activities—most of which are usually abandoned soon after.

(Marcel Okeke is the Editor, Zenith Economic Quarterly)

Policy

Bank Customers' Bill of Rights and Duties

The Customer is the most important person in the economy and every business succeeds only when the customer is happy. This explains why the customer is regarded as King. As a King, the customer has many rights. But a King also has duties which he owes himself and the economy. In Nigeria, customers of banks have certain rights and duties guaranteed by law, regulation and conventions. This pamphlet articulates some of these rights and duties.

Your Rights as a Bank Customer

The Right to be informed: As a bank customer, you have a right to disclosure of information from your bank on goods and services the bank offers. The information provided must be complete, relevant and truthful. Your bank must explain to your understanding all contractual terms and charges prior to the consummation of any agreement or contract. This right enables customers to have relevant information in order to make rational choices. It amounts to a breach of your right if your bank fails to provide this information or deliberately misleads you in any way.

The Right to choose:

You have a right to select from the range of products and services made available by your bank at competitive prices. This means that as a customer, you can, at all times, decide on the product or service to accept/purchase and the ones to decline. It is wrong for a bank to restrict your choices or compel you to accept/purchase products or services that are ill-suited for your needs. Where you are not satisfied with your bank's service delivery on any product or service, you have the right to end the contract or even the banking relationship provided all outstanding commitments are settled by the customer.

The Right to safety:
This right requires a bank to guarantee all its customers a secure and conducive banking environment devoid of threats to their safety and health. You have the right to be reasonably protected from accidents while on the premises of your bank. You also have the right to be protected from the negative effects of pollution of any kind whether arising from your bank's operations or from other sources. It is necessary to stress that your bank is obligated to adhere strictly to applicable safety laws and directives to ensure that your safety and wellbeing are adequately guaranteed while you are on the premises of your bank.

The Right to privacy and confidentiality:
As a bank customer, you have the right to freedom from disclosure of your account details by the bank as well as intrusion into your account by third party. In other words, your bank must not divulge your account information to a third party; the bank must also protect your information from unauthorised access by a third party.

There are, however, exceptions to this right as follows:

1. Where the bank is required by law to make disclosure; and
2. Where the customer consents to the disclosure.

The Right to redress
A bank must provide its customers a redress mechanism to express their displeasure or grievance. The mechanism must be free, accessible, transparent, timely and convenient. You have a right to efficient complaints management system through which you can lodge complaints against your bank. You also have the right to be

kept abreast of resolution process (acknowledgement, feedback, updates, explanation) and ultimately, basis of decision. Where you are not satisfied with the decision of your bank, you have the right of review either by your bank, the CBN or the court.

The Right to good service:
All customers have a right to value for their money which involves the right to be treated with respect and dignity by banks and their representatives. The hallmark of banking is customer satisfaction and as such your bank would have failed if it was unable to offer quality and value-adding banking services to you as a customer. Part of this right is that your bank must provide appropriate response to your needs and complaints.

The Right to equality:
This right requires that a customer is treated equally as other customers regardless of differences in financial standing/deposit balance, physical ability, age, gender, ethnicity, or creed. It is wrong for a bank to offer preferential treatment to some customers at the expense of other similar kind of customers. However, banks may decide to differentiate customers on account of the nature of products customers purchase or subscribe to. In this case, some customers may benefit from certain privileges which are features of specific products or services.

The Right to free monthly statement of account:
The provision of the Revised Guide to Bank Charges is that banks are required to provide their customers free statement of account on a monthly basis. This means that you have a right to get your monthly statement of account from your bank at no cost. It should be noted, however, that the Guide provides that any special request attracts a fee of N50 per page.

Your Duties as a Bank Customer
Duty of knowledge and understanding: This represents the cornerstone of your duties as a bank customer and involves the search for relevant knowledge that should lead you to make informed decisions and enhance your benefits. Without adequate knowledge, customers are bound to make ill-informed decisions which may precipitate an avalanche of complaints from customers against their banks. It is generally agreed that sophistication in the banking industry has tasked the understanding of even people that are financially literate; it is, therefore, your responsibility to "shine your eyes" when dealing with your bank.

Duty of financial obligation:
This requires customers to repay credit facilities and pay mutually agreed interest on loans and other financial services rendered by their banks as and when due. This is one of your major responsibilities to the extent that banks are established to provide loans and other financial services to you and other customers. Thus, you are obligated to ensure that payments or repayments to your bank are not delayed in order not to suffer penalties in the form of default charges.

Duty to protect instruments and information:
It is your duty as a bank customer to keep your cheque book, ATM and all information relating to your account like PIN, passwords and codes safe. It is important to

stress that a bank cannot bear responsibility for any loss incurred by customers as a result of their negligence in protecting vital instruments or information.

Duty to provide factual information and not to mislead the bank:
As a bank customer, you owe your bank and the society a duty to provide factual information about yourself and where necessary, about relevant transactions therefrom. You should bear in mind that just as your bank is required to provide you with truthful information about goods and services it offers, you are also required to provide the bank with truthful information about yourself. You should also exercise reasonable care not to mislead your bank failing which you may be liable.

Duty to report suspected fraud or error:
Where you suspect a fraud or compromise, whether in your accounts or in respect of relevant information/transaction, you are duty-bound to promptly report your discovery to your bank and relevant authorities accordingly. It is also your duty to report to your bank any wrong posting into your account so that such error can be corrected immediately.

Duty of personal safety and safety of assets:
This duty is shared between you and your bank. Whereas banks are required to discharge their obligation by complying with relevant safety laws and directives, customers, on the other hand, owe themselves a duty of personal safety while on the premises of their banks. For instance, it is the duty of customers to protect their assets like cars against theft while on the premises of their banks.

Although the foregoing rights and duties of bank customers are not exhaustive, they nevertheless, represent the core rights and duties. It is necessary to stress that these rights and duties are often unconditional even

though there are instances where customers can only lay claim to their rights if they discharge their duties.

Complaints Management

This is a Guide on how and where you can lodge a complaint against Financial Institutions regulated by the Central Bank of Nigeria such as Commercial Banks, Microfinance Banks, Primary Mortgage Institutions and Discount Houses.

Contact Your Institution First

The Central Bank of Nigeria (CBN) issued a circular in 2011 directing all banks to expand their existing ATM HELP DESK to handle all types of consumer complaints. Therefore, if you have a complaint against your bank, you MUST first report the complaint at the bank/branch where the issue originated and then allow 2 weeks (it might be less in some banks) for the issue to be resolved.

If after lodging your complaint your Bank still fails to engage you and resolve the complaint within 2 Weeks as provided for in the ATM HELP DESK Circular, you have the right to escalate your complaint to the Consumer Protection Department (CPD) of the CBN.

If Your Bank Fails To Resolve Your Complain

If after lodging your complaint your Bank still fails to engage you and resolve the complaint within 2 Weeks as provided for in the ATM HELP DESK Circular, you have the right to escalate your complaint to the Consumer Protection Department (CPD) of the CBN.

Complaints to Consumer Protection Department

You can only direct your Complaints to CPD upon the failure of your Bank/Financial Institution to resolve your complaint within the 2 weeks timeline given by the CBN.

Contacting Consumer Protection Department

You can contact the CPD through the following channels:
E-mail: cpd@cbn.gov.ng

Letter: Director, Consumer Protection Department Central Business District, Abuja .

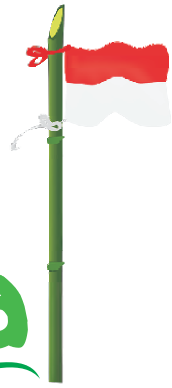
Your letter of Complaint should be addressed to the Director, Consumer Protection Department. You can submit your letter at the CBN Head Office OR at any of the Central Bank of Nigeria branches of nationwide. Does the CPD Deal with all Types of Complaints? The CBN deals with all financial related complaints so far as it is against Financial Institutions within its regulatory purview. How to Write an Effective Complaints Letter .

Your complaint should be clear and concise to avoid ambiguity. The Complaint letter (petition) should contain amongst other things the following:

- Name, Address, Contact Phone Number & E-mail of the Complainant;
- Name of your Financial Institution;
- Personal banking details (Do NOT include PIN & Passwords, please;)
- History/Date of the transaction in dispute;
- Amount claimed (if any);
- Attach relevant documents to support you claim and;
- Evidence to show that you have first lodged the complaint at your bank.

You can make your further inquiries and obtain additional information on the Complaints Handling Process of the Central Bank of Nigeria from the Complaints Unit of your Bank/Financial Institution or from CBN offices nationwide.

The Cost of CORRUPTION: a tale from Indonesia

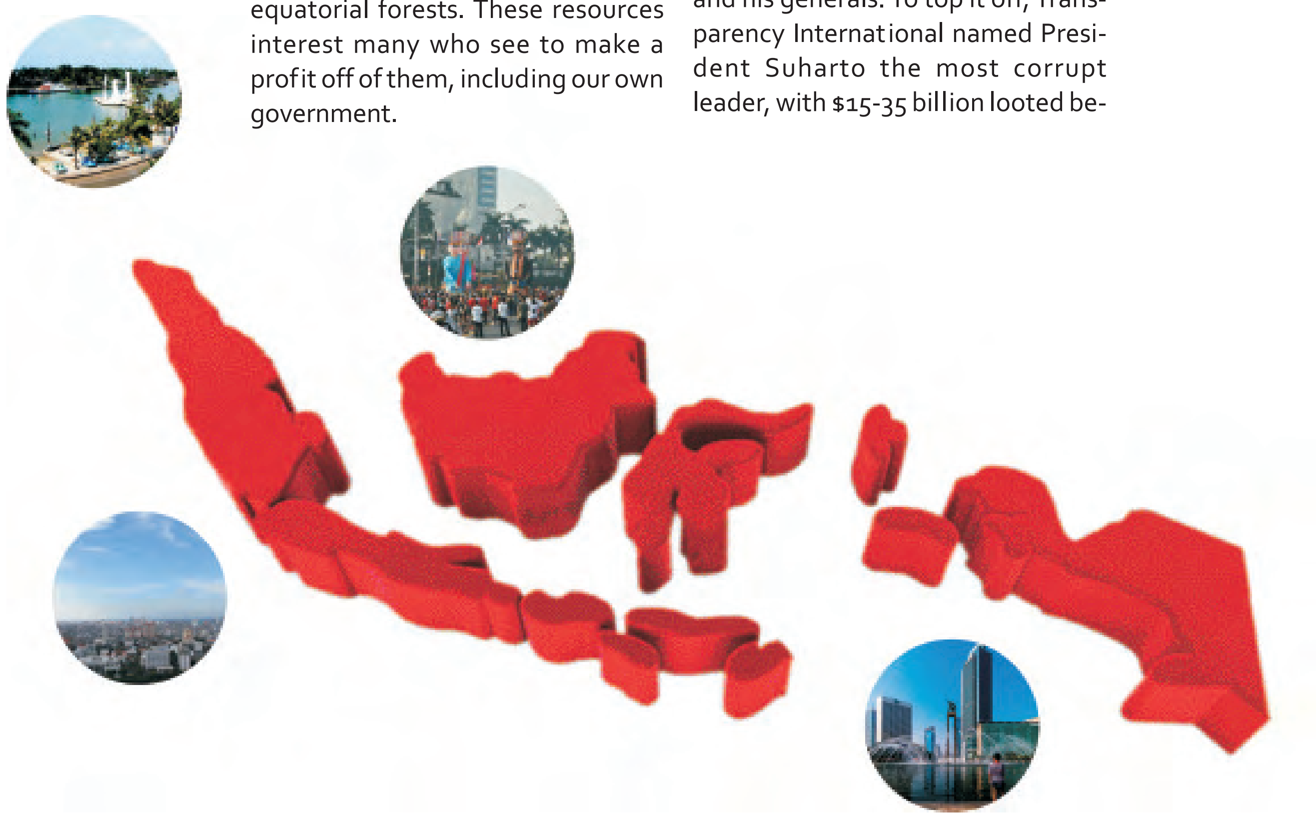


By Riska Mirzalina

I was born in Indonesia in 1988. My country back then was led by the iron man, President Suharto, who managed to bring economic and political stability to this nation. However, he achieved such stability through oppressive leadership. The lands where I live are rich with an abundance of natural resources, including plenty of oil, and are located in the heart of equatorial forests. These resources interest many who see to make a profit off of them, including our own government.

The High-Cost Economy: From Centralized To Decentralized

The iron man was a great manager, but he was surrounded by many cronies and families motivated by greed. Millions of dollars of foreign money he borrowed during his 32 years in power was misused by his sons, wife, and his generals. To top it off, Transparency International named President Suharto the most corrupt leader, with $15-35 billion looted be-



http://en.wikipedia.org/wiki/North_Jakarta#/media/File:Aerial_view_of_north_jakarta.jpg

tween 1967 and 1998.[1] In 1998, during the Asian economic crisis, mega projects which had the name of "Suharto" or "New Order" (Suharto's ministerial cabinet) collapsed overnight due to his resignation. Demonstrations erupted in the streets and many of his projects were demolished in order to proceed with decentralization, corruption abatement, political changes, a better economy, freedom, and other dreams that marked the political reformation.

It has been 13 years since the reformation took place, but the disease of corruption still lingers. We thought that the reforms would eradicate corruption, and that decentralized and autonomous government ruled by local people would result in a cleaner political system. Sadly, this was not the case. Instead, a new system of kleptocracy has emerged. The centralized system in which the New Order used to command Indonesia was replaced by the current decentralized system which permits further corruption.

During the Suharto era, when someone wanted to bribe the government, they needed to contact top level officials. These officials would then decide the precise amount of the bribe as well as the percentage they would share with their subordinates. After 1998, as various local authorities were being set up in 33 new provinces, many new rules and regulations were created. The decentralization process produced more bureaucracy in the government, even though the idea of it was to provide opportunity for areas outside of Jakarta to manage themselves more effectively. Ironically, this system created further inefficiency, especially for business people who had to face redundant local policies before getting approval for their plans. Facing this different landscape of government, the method of corruption also changed. Instead of bribing the boss at the top, now each person who required timely approval had to bribe each level of government officers, from the top down and at different rates.

Improper decentralization has provided more opportunities and alternate paths for people to participate in corruption. Many remote areas in Indonesia are still underdeveloped, with low economic and educational standards. Human resource capacity, especially in local government, was not ready for sudden change free of central government support. When the decentralization started, there was not enough guidance provided on how to manage the nation. This sudden lack of oversight enabled people to perpetuate corrupt behavior, this time with more flexibility and minimal accountability.

This passing of events, from centralization to decentralization, contributes significantly to the Indonesian economy, an economy plagued by a low quality and quantity of outputs with a high total cost. The acute lack of basic infrastructure such as poor roads, inefficient port operations and customs clearance, high lending rates, an unreliable supply of electricity, and a highly corrupt bureaucratic system makes Indonesian logistics costs among the highest in Southeast Asia.[2] Poor roads for example, are a source for many corrupt projects handled by the winning companies that are headed by the ruling party's cronies. These insiders often win the tender without proper competitive assessment. The finance of these projects comes from taxpayers and is being misused to pay these commissioners or project brokers. At the end, only petty cash is left to fund the road building itself, causing low quality roads or unfinished ones.

The (Old) System Is Still There

In 2008, after Barack Obama was elected as the president of the United States there was excitement to recruit relatively young people into parliament and politics in general in Indonesia. It was believed that young people would rejuvenate the atmosphere of Indonesian politics and drive the economy away from corruption and nepotism. Unfortunately, excitement has turned to disappointment after a series of corruption scandals was uncovered among young political leaders and business professionals in 2009. Tax Officer Gayus Tambunan, 31, amassed over U.S. $2.7 million by helping large corporations evade taxes.3 A 32-year-old former treasurer of Indonesia's ruling party, Muhammad Nazaruddin, was accused of accepting bribes worth almost US $3 million in connection with corporate tenders for the South East Asian games to be hosted by Indonesia this year.[4] And Melinda Dee, 47, a former Citibank customer relationship senior manager was charged with embez-

'Classic Marina @ Jakarta, Indonesia' by Zcamerino @flickr

zling nearly U.S. $2 million from her premium clients who consist of many politicians and corporate heads in Indonesia.[5]

The main cause of these scandals is not centered on youth, but on the old practices being passed on from generation to generation. Young politicians and professionals have to enter the tough world of politics and elites, which are still dominated by seniors who are accustomed to the old corrupt system. In order to succeed, the youth must conform to the system of their seniors. Thus, no matter how impressive these young people are, as long as the old system still exists, they have no option but to please and conform to the unethical system. Otherwise they will be eliminated from the political arena.

Corruption is rampant in the business sector. In order to smooth the business process, business people are initially forced to bribe entry-level government officers, whether it is for a promotion or on the recommendation of their seniors. This practice has created difficult situations for young entrepreneurs who are challenged to grow their business with limited sources of finance and are already blocked by unnecessary forces. Despite a recent survey from the BBC which acknowledges Indonesia as the best place for entrepreneurs to start their business,[7] another survey from Transparency International concluded that businesses in Indonesia are the fourth-most likely in the world to offer bribes in their dealings.

This has seriously damaged the desire of many young entrepreneurs in Indonesia to grow their business.[7]

Lying? Cheating? That's All Right

Family, school, and neighborhoods are three important environments where children learn to adapt to the social values that are common in day-to-day life. Unfortunately, these three basic environments play critical roles in developing the corrupt mentalities of many people in Indonesia. Lying or cheating is the source of habits that corrupt Indonesian society. These kinds of habits are nurtured even from the family and school level, a phenomenon that reinforces that this type of behavior is acceptable. Take a simple story of mine: in junior high school I was considered an unfriendly classmate because I refused to give my exam sheet or problem answers to my classmates. My classmates confirmed that cheating is a normal thing, embracing it as part of the meaning of friendship. Sadly, such a mentality is still being carried through to the university level as well.

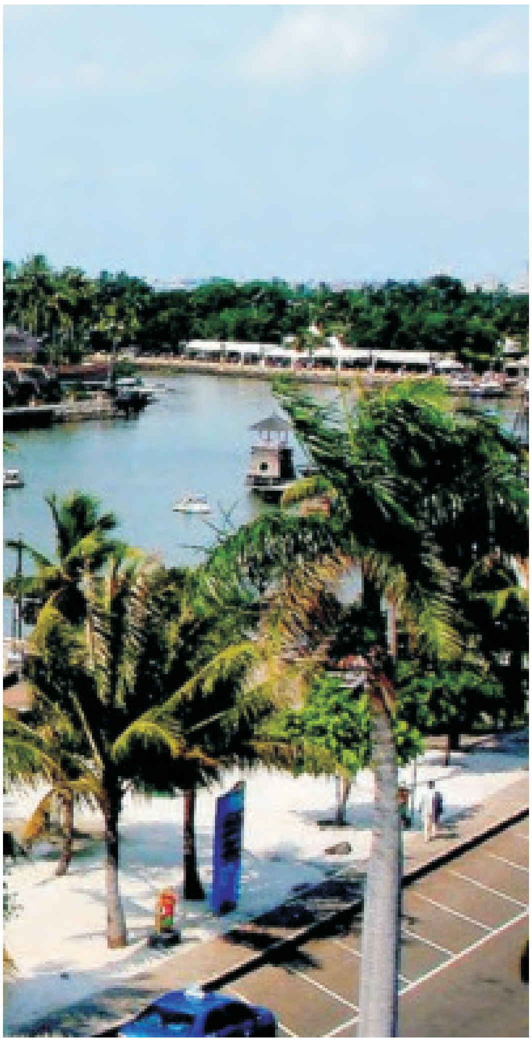
How about the teachers? Aren't they supposed to be the example of morals? A very sad story is that of Alif and his parents, who were expelled from their home in Surabaya by their own neighbors because of what they reported to the Department of Education.

Their report was in regards to the action of Alif's teacher, who took Alif's answer sheet and distributed the answers to the rest of the class during national exams at Gadel 02 public elementary school. Alif was known as the smartest student in the Gadel village and the teacher knew that distributing his answers to the rest of the class would cause the other students pass the national exam.

My brother, with his own extraordinary national exam score, was eliminated from the top junior high school which he very much wanted to attend. Not such a strange occurrence when you consider the many parents bribing the teachers, both out in the public or behind closed doors, for the sake of enrolling their students in select top schools. This causes many other kids who are unable to pay bribes, like my brother, to be eliminated.

Can Indonesia Still Be Saved From Corruption?

It may be hard and too late to change the mentality of the old people in Indonesia. Facing corruption, current business practices, and inefficient government, the people of Indonesia should nevertheless try to combat these issues to save themselves and their children.



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City of Jakarta

http://grosirgamisku.net/jakarta/jakarta-city.html

Committed to Clean Business: Do Not Feed Corruptors

Doing business in Indonesia with a population of 230 million potential customers entices many companies to expand their business here. Creating business in the beginning may not involve a lot of dealings with government officials, but as the business grows, matters involving legal issues and access will be inevitable.

My suggestion for entrepreneurs who want to do business in Indonesia is not to create the demand of illegal processes. For instance, setting up a company with a Limited Corporate status (Ltd. Corp.) needs about 2-3 months to process. Indeed, it's quite a lengthy ordeal, but even if the applicant pays illegal money no one can guarantee whether his or her company will be registered in a significantly faster time. The officers in those ministerial buildings are less productive and though you may have bribed them, they would not prioritize you if they get higher bribes than yours. Thus, if the difference between you and the normal applicant is only 3 to 5 days before getting your company registered, there is really no need to take part in this unethical practice.

If all entrepreneurs commit to clean business processes and unite not to feed the corrupt officials with bribery, the government will still not want to risk losing large amounts of investments coming to the country. Solo performance will not be effective, thus it is the challenge for the Association of Indonesian Entrepreneurs (APINDO) and likeminded organizations to publicize this commitment and to take serious action following any reports of bribery and corruption between their members and government officers.

While the entrepreneurs are waiting and hoping that the Indonesian government will get better, a number of business competitions are available for private sector and foreign government representatives to enter. These competitions provide young entrepreneurs with initial investment as well as mentorship. In my experience of setting up a small business and helping my friends establish start-ups, business competitions provide initial investment in relatively quickly, conduct fair assessments under prestigious corporate mentors, and open opportunities for foreign markets. It also pressures the government of Indonesia to become more prudent if they want their pro-entrepreneurship programs be respected by future Indonesian business leaders.

Save the Younger Generation

Young people are the current and future leaders of this country. Doing nothing about detrimental behaviors such as lying and cheating is the same as letting corruption infect the future of our nation. An anti-corruption movement that my Philippine friend has co-initiated, the Global Youth Anti-Corruption Network, has encouraged youth in the world to actively stand up against corrupt habits such as lying, cheating, bribing the police, and other dishonest acts that harm the public's confidence. The Network's most famous campaign is Voices Against Corruption, which directly targets leaders in developing countries to listen to the voices of the youth who are demanding clean government. Inspired by him, I also started my own public journal blog, the Free Thinker Journal, addressing

law violations and human rights issues, mainly focusing on corruption in Indonesia.[8] Through campaigns, on-the-spot encouragement, and publications, we aim to discourage cheating and lying, and to emphasize to the people that corruption is not something to be ignored. We understand that investing in the youth is an effort that should be sustained. We are targeting young people because we believe that they are more open to change and tend to socially influence and to be influenced by their peers; thus by understanding the harm of corruption they can be a strong catalyst for the spirit of anti-corruption.

It's a Matter of Leadership

Corruption in Indonesia may be too systemic to handle and changing the system without changing the leaders may be impossible. To lead a country with such high rates of corruption, Indonesia needs a passionate leader; a leader who is mad enough to indiscriminately combat corruptors and who has guts and the strategy to risk their life until all corrupt individuals in this country get tired of being pursued. This country needs a system which can shrink economic gaps, which makes either getting poor or getting too rich impossible. Such a system can be achieved through fair taxes which can only be managed by a prudent government who can work fast yet accurately, making sure everyone gets their portions. In addition, the Corruption Eradication Committee (KPK), along with the police and court, should work side by side to reveal and take serious action on corruption.

Hope Still

The United Nations has said that the cost of corruption is poverty, human suffering, and Under-development. Everyone pays. This is how the tale from Indonesia looks. There are still more than 30 million people living under the poverty line in Indonesia. This number is drawn from the Indonesian Central Bureau of Statistics; the actual number if using the World Bank's standards is much higher.

On the other hand, nobody was born evil; it is the situation that makes them do what they do. Thanks to globalization and free trade there is new competition in Indonesia. This hopefully means that business players and government will be awakened and realize that they cannot remain with their old corrupt strategies if they want to be competitive in an international market. Globalization coupled with the growing youth movement against corruption will hopefully compel this country to adapt and fulfill the dream of a nation held accountable for its actions.

We are grateful to the Center for International Private Enterprise (CIPE) for permission to publish this article.

*(*After graduating from Prasetiya Mulya Business School in Jakarta, Riska Mirzalina established her first start-up in 2008, Klassamirza Eco-Footwear, producing hand-made ladies footwear from recycled textiles in communities around Bogor, Indonesia. Because of her work with Klassamirza, Mirzalina has been awarded the 2009 Bayer Young Environmental Envoy in Germany and the 2010 DENSO Youth for Earth Action award in Japan. Mirzalina has also previously won first place for the 2010 World Bank Essay Competition.)*

Notes

1 "Suharto tops corruption rankings," *BBC News*, March 25, 2004, http://news.bbc.co.uk/2/hi/3567745.stm

2 "RI's logistical costs among the highest in Southeast Asia," *The Jakarta Post*, October 20, 2011, http://www.thejakartapost.com/news/2011/02/11/ri%E2%80%99slogistical- costs-among-highest-southeast-asia.html

3 "Indonesian Tax Man Jailed for Graft," *Al Jazeera*, May 19 2011, http://www.aljazeera.com/news/asia-pacific/2011/01/20111197258884511.html

4 "BBC News Asia-Pacific," *BBC News*, August 09 2011, http://www.bbc.co.uk/news/world-asia-pacific-14455617

5 "Citibank Being Careful with Melinda Case, says Lawyer," *The Jakarta Post*, November 08 2011, http://www.thejakartapost.com/news/2011/06/09/citibank-beingcareful-with-melinda-case-says-lawyer.html

6 Walker, A, "Entrepreneurs Face Global Challenges," May 25 2011, http://www.bbc.co.uk/news/business-13547505

7 Pasandaran, C, "Indonesian Firms Among World's Most Bribe-Prone," November 03 2011, http://www.thejakartaglobe.com/news/indonesian-firms-among-worldsmost-bribe-prone/475917

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CREDIT RISK MANAGEMENT in the NIGERIAN BANKING SECTOR: CHALLENGES AND PROSPECTS 7

By Chuks Nwaze

As promised in the last edition, this concluding part of the serial will be devoted not only to conclusion and recommendations arising from the credit risk management framework discussed in the previous six editions of the serial, but also a practical model will be presented. We shall also seize the opportunity to advice bankers, regulators and policy makers on the implications of the framework, all for the benefit of the financial sector in general and the deposit money banks in particular. Before that, however, we shall first highlight the unsavory implications of bad loans for banking institutions.

The most fundamental implication of delinquent loans on banking institutions is obviously the risk of losing its 'going concern' or 'good health' status by virtue of loss of solvency.

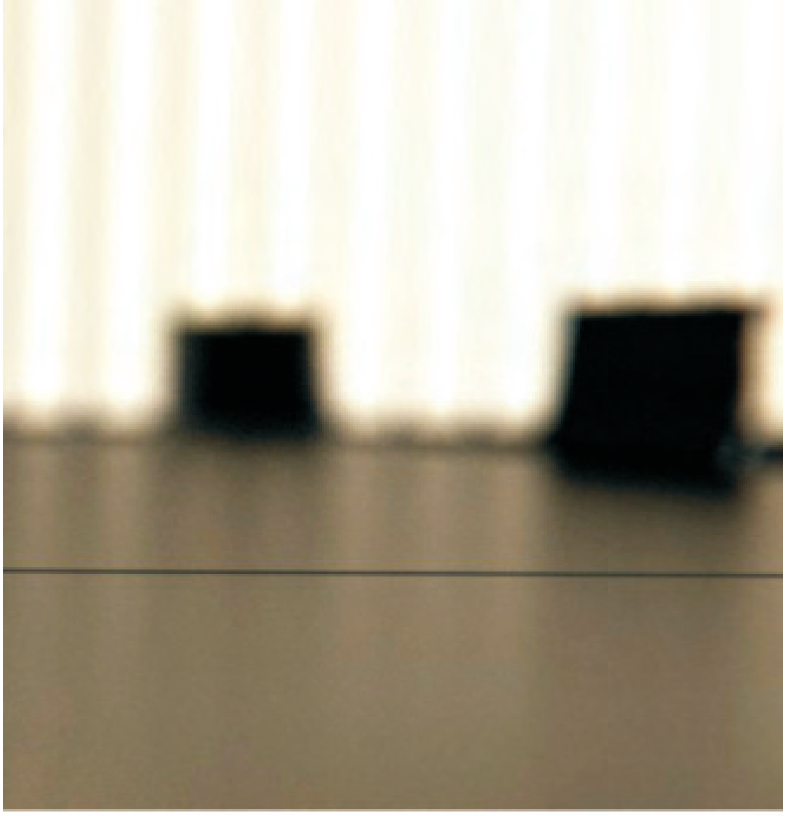
IMPLICATIONS OF BAD LOANS FOR BANKING INSTITUTIONS

The following issues which were investigated during literature survey were also covered by the questionnaire that was administered. The responses obtained are also in tandem with the literature survey and these are summarized below:

Risk of Insolvency

The most fundamental implication of delinquent loans on banking institutions is obviously the risk of losing its 'going concern' or 'good health' status by virtue of loss of solvency. This risk was well captured by Bruche, and Liobet (2010) in their study of the malaise called 'zombie' lending, evergreen or forbearance lending which adversely affected the economy of Japan in the 1990s. This refers to the situation where some banks would continue to operate even though insolvent. According to Bruche et al, the major risk here is that such banks can have incentives to roll-over loans instead of foreclosing, in an attempt to gamble for resurrection.

The more insolvent the bank the greater incentive exists to gamble. It is often hard to know whether a given bank is part of the 'walking wounded' (the bank that has taken a hit but is still fundamentally solvent) or the 'liv-



ing dead' (the bank that has taken a hit but is now fundamentally insolvent). Thus, if a regulator compares the efficiency gain from having bad loans foreclosed with the cost of inducing banks to foreclose, the optimal contract involves making banks with a relatively low proportion of bad loans foreclose but letting banks with high proportion of bad loans gamble.

Since good loans always produce higher returns than bad loans, banks are always at liberty to decide how many bad loans to foreclose and how many to roll-over. Foreclosure of a bad loan refers to the idea of realizing an immediate loss on the loan while rolling over a bad loan refers to delaying the resolution of uncertainty about the loss on the loan. In terms of expected present values, foreclosing produces a smaller loss than rolling over. However, Bruche, et al, has explained that in the absence of a specific scheme, experience has shown that banks that have few bad loans foreclose all of their bad loans while banks that have many bad loans foreclose none of their bad loans, engaging in forbearance lending as a gamble for resurrection. This happens because of the convexities introduced by limited liability of banks and is a standard limited liability distortion.

The issue of technically insolvent banks that might continue in operation, perhaps through supervisory or oversight default, is common even though the banks involved do not betray the signals, hence borrowers and depositors are often unaware of it. Many commentators are of the view that the regulatory authorities should put aside the toga of secrecy and educate the banking public about how to identify these ominous signals.

Impaired Capital Adequacy

Since capital adequacy refers to the ratio of bank's capital to risk assets (i.e. loans), it stands to reason that whatever impairs or makes the capital to deteriorate will also have a negative impact on the capital adequacy ratio. Nigeria adopts the international minimum ratio which currently stands at 10%

Reduced Profitabil ity through Bad Loans Provisioning

The Loan Classification System (International Standard) to which members of the World Bank are expected to benchmark its own system is as follows:

Period overdue	Classification status	Rate of provision	Frequency
Less than 3 months	Unclassified	1% - 5%	
Loans overdue for 3 months but less than 6 months	Substandard	0%-25%	At least Quarterly
Loans overdue for 6 months but less than 9 months	Doubtful	50% -75%	"
Loans overdue for 9 months or more	Bad/loss	100%	"

Source: Author's working notes

In line with our own domestic Prudential Guidelines for Licensed Banks, banks in Nigeria are required to make adequate provisions for bad and doubtful loans, along the lines of 10%, 50% and 100% for substandard, doubtful and lost categories respectively as the case may be. Surely, this will impact negatively on the banks' performance in terms of profitability, dividends, retained earnings, capital adequacy and even tax revenue for government. This goes to show that bad loans constitute an ill-wind that affects all stakeholders negatively.

Loss of Public Confidence

Although the negative effect of loan delinquency on liquidity has already been mentioned, it needs to be emphasized that bad loans constitute the single most potent killer of banking institutions. Apart from the risk of insolvency, it is clear enough that if old loans are not repaid, new ones cannot be granted and interest income, which is the mainstay of banks, will dry up. Sooner than later, public confidence will also suffer. According to Adhikary (2004), NPLs can bring down investors' confidence in the banking system, pilling up unproductive economic resources. If NPLs are not properly addressed, bad borrowers can create a negative psychological impact on good borrowers to prolong their payments. This situation becomes worse in an economy where enforcement status of laws is seen as weak.

Macroeconomic Distortions

As part of the conclusions reached by Nkusu (2011), in his study of the linkages between NPL and macroeconomic situations, NPL plays a central role in the linkages between credit market frictions and macro-economic vulnerabilities; a sharp increase in NPL weakens macroeconomic performance which exacerbates macro-economic difficulties. Adhikary also drove home the contagious economic, social and financial malaise implicit in non-performing loans with special reference to Bangladesh. NPLs are viewed as a typical by-product of financial crisis: they are not a main product of the lending function but rather an accidental occurrence of the lending process, one that has enormous potential to deepen the severity and duration of financial crisis and to complicate macro-economic management (Woo, 2000:2).

SUMMARY OF CREDIT RISK MANAGEMENT FRAMEWORK

Recap: Assessing the Probability of Default

The following is a recap of the key concepts for managing credit risk. Credit risk arises from changes in the financial solvency of firms and individuals. An event of default occurs when the obligor fails to perform under the terms of the contract. In this case, the lender or party with the credit is exposed to a potential or actual loss. The degree of loss will depend on how much can be recovered given the credit event or default. Many factors affect the

http://venturebeat.com/2015/04/12/7-tips-for-nailing-a-startup-pitch-to-a-boardroom-full-of-vcs/

potential exposure to credit events and hence credit-related losses. The key element in determining the acceptability of risk-taking in regard to credit exposures is in assessing the probability of default. This involves analysing and assessing counterparties based on a variety of techniques. Even so, there is the potential for exposure to unexpected and – at times – catastrophic losses from credit events. For this reason, firms need to control these credit risks through setting out policies on evaluation, management and having the correct procedures in place.

Basically, credit risk is the risk of loss from an exposure to firms which undergo credit events. This might be that the obligor defaults, but in some cases it is that adverse changes in credit quality can lead to losses. There are a great many different events that can have a credit impact, which complicates the definition, analysis, and management of the process. Credit risk can be seen as an informational problem. The credit-giver does not know enough about the quality of the credit-taker and how the obligor will perform in the future.

Credit Risk Management Framework

As a task, credit risk management involves identifying the source of risk, selecting the appropriate evaluation method or methods and managing the process. This will mean setting an appropriate cut-off point that balances the conflicting demands of the organisation with regard to credit exposure. Credit risk management can be seen as a decision problem. The assessment involves determining the benefit of risk taking versus the potential loss. Decisions about extending credit are complex and subject to change, but at the same time are critical elements of risk control within most organisations. While it is easy to outline the credit analysis decision, implementing an effective approach is more complicated. At its simplest, it requires an assessment of the likelihood that a particular counterparty will default on a contract and the loss given default. As a process, credit decisions usually involve some classification of creditworthiness into categories or classes as a precaution against credit exposure to high risk clients. This allows new credits to be analysed by comparison to pre-classified credits whose default history is known.

Credit Risk Assessment Criteria

Credit risk appraisal can involve a number of different techniques which can be used individually but are more often combined as part of the assessment process. These techniques can be categorised as either qualitative or quantitative in approach. here are basically three separate methodologies: judgement, deterministic models based on past experience or knowledge of the risks, and statistical models which may either be static or dynamic, or involve monitoring behaviour over time. Two basic methods exist for analysing credit quality: traditional quantitative-qualitative credit analysis and decision models based on deterministic or statistical processes. Each offers a different insight into the credit risk problem.

Expected, Unexpected and Catastrophic Losses

In many cases, as with financial institutions, the amount of credit given by an organisation is substantial and requires steps to control the exposure in order to prevent unanticipated losses emerging. Unanticipated losses arise due to the variability of loss rates experienced over time, for instance due to changes in business conditions. If the loss experienced in practice is above that which is expected, then organisations will experience what is known as unexpected losses over and above those anticipated. This will happen as a result of variability in the actual loss rate against the expected loss rate. In some cases losses may be catastrophic, in that they far exceed any reasonable degree of variation that historical loss experience would ordinarily anticipate. Such losses can have a disproportionate impact on organisations that are so affected.

Controlling Credit Risks

The credit analyst or manager is required to understand the ways in which bad debts or credit losses arise and to devise methods for identifying these. This then requires that due consideration is given to how these are effectively managed. A key issue here is credit control which involves constantly managing the credit granting process. This can be seen as a policy which includes procedures, guidelines, and processes for managing the credit process. Diversification can also play an important role in reducing exposure to unexpected and catastrophic losses. However, spreading risks will only be effective if the principles of efficient portfolio construction are followed.

There is a danger that if the portfolio is ill-diversified, it will lead to unexpected losses.

Constant Review of Credit Risk

As with all risk management processes, the exposure to credit risks has to be kept under constant review and action taken as required. Credit risk management is a dynamic process which responds to new information. Hence, finding the links between a firm's financial condition, behaviour and default is the key skill required in the management of credit risk. The process of credit risk management is formalised in most organisations in a set of procedures generally called a Credit Policy Manual.

TEMPLATES FOR CREDIT RISK ASSESSMENT

This section seeks to illustrate the judgemental method which is inherently qualitative in its approach. It also demonstrates the many facets of credit risk. In order to facilitate analysis, to ensure that all key areas are addressed, and to provide a consistent template for reporting, the practice is to group a credit's attributes into categories, often in the form of mnemonics. A popular template used in the banking industry is "CAMPARI" and "ICE". This, in essence, is a summary of banks' good lending practices.

"CAMPARI", which relates to the performance risk in lending, stands for the following:

C character (*of firm and its managers*)
A ability (*of managers/directors*)
M means (*of repayment based on financial resources of the credit*)
P purpose (*of credit*)
A amount *(in absolute and relative terms*)
R repayment (*how, when, likelihood*)
I insurance (*what will ensure repayment– if anything)*

Character refers to the integrity of the business and its management. Honest borrowers of good character are more likely to meet their obligations. Ability refers to the legality of the contract between the bank and customer. A company's directors must act within the legal authority granted to them in their Articles of Incorporation. Means refers to the borrower's financial, technical and managerial means. Purpose refers to the reason for granting credit, which must be unambiguous and acceptable to the lender. For example, an acceptable purpose would be borrowing to fund faster growth of a company. Amount refers to the quantity of the loan which should be sufficient to cover the purpose of the borrowing.

Repayment relates to the ability of the borrower to repay the loan, by considering the source of repayment. This repayment ability is obviously of critical importance in lending and should be demonstrated not through projected future accounting profits but from projected cash generation. In deciding the form of lending, a credit provider would also need to consider the repayment structure being considered, e.g. bullet (a one off lump sum repayment of the principal) or amortising (that is, principal repayment through instalments). Insurance refers to a safety net that the bank can rely on if the loan is not repaid. This might be collateral or the security provided in the loan, the conditions under which the loan is granted, or third party credit-enhancement.

"ICE" is the lender's rewards for assuming the perfor-

mance risk and stands for:

I interest (*paid on borrowing*)
C commissions (*paid to the lender*)
E extras (*cost of granting credit*)

Interest refers to a key factor, namely the overall interest cost to the customer. This will comprise two elements, firstly the underlying cost of funds (which could be fixed at the outset or variable) and secondly the margin. It is usually the case that the higher the risk of a transaction, the greater the interest cost. Note in bank terms this is simply an application of risk pricing. Commissions these refer to all other fees, such as a commitment fee, payable to the bank for agreeing to provide a facility for a particular time period. Extras relate to additional hidden costs, such as legal fees, associated with the provision of a loan. Note the total return to the bank will be both the interest margin earned between what it can borrow at and the rate it lends less the extras associated with granting the loan. For lending purposes the main purpose of carrying out a credit assessment such as that provided in the template above is always to ascertain the solvency and creditworthiness of the borrower. This necessitates a multidimensional study of the industry the business is involved in, its management, financial situation, and market position.

The Seven Stages of Credit Risk

Stage 1: We make only good loans. Credit approval, monitoring and pricing decisions are decentralised and judgmental. Good loans are accepted; bad ones rejected.

Stage 2: Loans should be graded. The relative riskiness of loans is formally recognised, with 3-4 grades for good loans and the same for bad. But due to grade definitions, most good loans fall into one category.

Stage 3: Return on equity is the name of the game. Business unit managers receive bonuses linked to their unit's return on equity (ROE) performance. However, measurement techniques lack the appropriate adjustments for credit risk and this can lead to managers originating many high yielding (and high risk) assets too cheaply.

Stage 4: We need to price for risk. Key risk measurement advances allow successful implementation of the ROE culture. These include expanding the loan grading scale to 10 levels, each explicitly calibrated to an expected loss level; and introducing different risk adjustments into the customer, product and business line profitability measurement systems, based on unexpected losses.

Stage 5: Manage the loan book like an investment portfolio. Modern portfolio theory is applied to the management of the loan book. A portfolio manager and statisticians are appointed. Nonetheless, this can lead to conflict between customer-focused functions and portfolio managers, while initial results may be disappointing if model inputs are inaccurate (as they are likely to be).

Stage 6: Our shareholders demand risk/return efficiency Advances, including better risk discrimination (say, 15-20 grades); appropriate default correlation measurement; and implementation of techniques to quantify unexpected loss contributions, allowing the setting of limits on exposures and volatility, target weights for sectors and expected asset returns.

Stage 7: Diversification is paramount. Portfolio management realises that diversification is paramount to achieving risk/return efficiency. This may lead to conflict with customer-centred functions, which benefits from larger transactions and specialisation. The conflict can be resolved by a formal separation of portfolio management and origination.

CONCLUSION, RECOMMENDATIONS AND IMPLICATIONS

Conclusion

From all that have been said and done in this study, the following conclusions can be reached with respect to the effects of borrowers' character, collateral, economic conditions and remedial management on the performance of loans as a vital component of the risk management framework in the Nigerian financial system. The most critical driver of loan performance in the Nigerian financial system is borrowers' character. It is, therefore, not only the most important determinant of the quality of loans granted but also the prospects of loan recovery. It has a positive statistical significance, even though its influence is much more profound and pervasive at the time of loan recovery than as a determinant of loan quality. In order of importance and size of coefficient, the next factor in line is the efficiency of remedial management of the lending institution (the bank). In the final analysis, it is the quality of management that will ensure that credit is not granted unnecessarily, that the borrower makes a success out of the venture for which the fund is sought and that the money is eventually returned to the bank in line with the agreement.

Collateral is next in order of importance according to the study. Every facility is expected to be collateralized because that is the only source of comfort that the bank has in the event of the unexpected. From the relevant coefficient in the study, the weight of collateral is heavily skewed in favour of loan recovery and as an independent variable, it has a positive statistical significance. However, this dominant influence on loan recovery is in line with both practice and literature, all of which point to the fact that as a loan appraisal criterion, collateral has no role to play if there is no default in loan repayment. Although economic conditions as one of the parameters of loan appraisal is also statistically significant in totality, this study shows that it exhibits a negative relationship with loan quality which is one of the measures of loan performance. This indicates that economic conditions such as interest rates, inflation, unemployment, government policy, etc, do not count in determining the quality or otherwise of loans granted. However, we can conveniently conclude that these factors can manifest in such a manner as to prevent a facility from being repaid and this is the reason for the positive statistical significance with respect to loan recovery.

Recommendations

Having completed this study, the following recommendations are pertinent:

1) In the process of credit appraisal, the greatest attention should be devoted to investigating the prospective borrower as this is the most important single determinant of the success or otherwise of the loan contract. No stone should be left unturned. No information about the borrower is too small or too trivial to be taken into consideration before a decision is taken.

2) From the point of view of the lending institution (the bank), management practices must be elevated to the highest possible pedestal and this includes adherence to due process in every aspect of lending. Internal control procedures must be strengthened and management unwavering commitment to the successful prosecution of loan contracts must not be in doubt

3) Although loan repayments are based on the cash flow arising from the project, as a rule, all loans should be collateralised, irrespective of the level of confidence in the success of the project. The rationale for this is evident from the uncertainties arising from the environment which can jeopardize even the most optimistic projection.

4) Economic research should form part of the loan monitoring process so that potential impact on borrowers of economic conditions and other government policies can ascertained as early as possible and suitable strategies worked out in advance. This will ensure that loan repayments are not adversely affected by these conditions.

5) There is need for credit officers and managers to be academically and professionally qualified, in addition to regular on-the-job training. This will enable them keep abreast with current realities and developments within the political, social and economic environment, both locally and internationally.

6) Regulatory authorities should develop greater capacity for surveillance, including enforcement of corporate governance codes as well as prudential guidelines for loan administration. Experience has shown that banks are unlikely to do the right thing at all times if left alone.

7) Government should discontinue from interfering with business decisions made by its agencies, employees or servants. This is what gives rise to non-performing loans as many of the bad borrowers are within the corridors of power and hence 'untouchable'.

Implications of Findings

The outcome of this study has the following implications. For **lending institutions, b**anks and other institutions in the financial sector that are involved in the process of financial intermediation should be very careful with the deficit units (borrowers) to which surplus funds are moved, with special reference to their character. It is only when the character of the borrower has been adjudged satisfactory that the issue of collateral, economic conditions and future remedial management measures will be put in focus, otherwise the application should be turned down at that point. This is the surest way to avoid the danger of non-performing loans. For **regulatory authorities,** although the regulatory authorities have, through several circulars, emphasized the importance of

http://thenextweb.com/entrepreneur/2013/10/21/entrepreneurs-instincts-always-better-bad-advice/

KYC (Know Your Customer), it would seem that there is a short supply of sanctions for erring banks in this regard. This study is of the view that the absence of sanctions for banks that disregard this critical banking principle is responsible for the preponderance of non-performing loans in the industry. The time has come for stiff sanctions to be put in place to discourage banks from putting depositors' funds in jeopardy through reckless risk-taking. Even the concept of "lifting the veil of incorporation" should also be intensified in circumstances where corporate loans go bad by pursuing the promoters as well as executive management. With respect to the government, now that we know, according to this study, that borrowers' character constitutes the single most critical contributor to non-performing loans in the Nigerian banking sector with all the attendant consequences, the government of the day will do well to take steps, through appropriate legislation, to bring such individuals to book. The relevant organ is the National Assembly.

Credit Risk Management: Contribution to Knowledge
There is no doubt, whatsoever, that this seven-part series has contributed immensely to the advancement of knowledge with specific reference to the dynamic factors at play when a prospective customer applies for loan from a banking institution. Although previous researchers have approached the subject of non-performing loans from various perspectives, not much is known about the effect of borrowers' character, collateral, economic conditions and remedial management on the performance of loans which is the focus of this study. The positive and statistically significant impact of these independent variables on the dependent variable which is performance of loans is in line with available literature. Empirically, however, it is now known that the most important factor at play is the character of the potential borrower and that proper investigation in this respect is of paramount importance. Next is the ability of the lending institution to organize itself and take the right decisions at the right time (remedial management). This study has also shown that there is no need to worry about collateral if there is certainty that the facility will be repaid. However, since this can only be a dream, every loan should, as of necessity, be accompanied by collateral as a source of comfort in the event of the unexpected. This study also revealed that there is need for sustained economic research to reduce the possible adverse impact of economic conditions on the borrower's ability to repay loans.

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Nigeria's **DEBT BURDEN** and the Challenge of Development

By **Sunday Enebeli-Uzor**

Barely one decade after Nigeria exited a sovereign debt debacle with so much exhilaration and pomp, there is now palpable consternation that another sovereign-debt conundrum looms in the horizon. Nigeria's total public debt has risen to ₦12.06trillion as at end March 2015, up 7.29 percent from ₦11.24trillion as at end December 2014, according to the Debt Management Office (DMO). The general anxiety on Nigeria's steadily growing debt burden include: the adverse consequences of external debt servicing obligations (especially now that foreign reserves are low), the crowding out effect of government domestic borrowing on the

According to the IMF, Nigeria remains at a low risk of public external debt distress under both the baseline macroeconomic assumptions and in stress scenarios.

economy, the inflationary pressures that are associated with excessive domestic borrowing, debt illusion, generational inequity of debt burden, and the challenge of financial stability. Fears about the current trajectory of rising debt is further aggravated by growing trepidation that more borrowing is imminent following persistent low oil prices and resultant decline in the monthly gross federally collected revenue shared among the three tiers of government. Anxiety over Nigeria's fast rising debt profile is further exacerbated by lack of robust fiscal buffer to mitigate any major shock to the Nigerian economy.

Although the Debt Management Office (DMO) has continuously allayed fears about Nigeria's debt sustainability, public resentment to debt has persisted on the heels of the recent debt crisis in Europe in the aftermath of the global financial crisis. The DMO has persistently justified government borrowing as healthy for the economy as government debt provides a benchmark for the issuance of private sector securitised debt. It argues that at less than 15 percent public debt to GDP ratio, compared to 67 percent for Ghana and 44 percent for South Africa, Nigeria is one of the least leveraged countries in the world. The DMO argues that external debt constitutes less than two percent of GDP and mostly from International Financial Institutions (IFIs) on concessional terms. DMO's views on Nigeria's debt sustainability was recently corroborated by the International Monetary Fund (IMF) albeit with a caveat. According to the IMF, Nigeria remains at a low risk of public external debt distress under both the baseline macroeconomic assumptions and in stress scenarios. The Fund however noted that stress scenarios suggest that a permanent shock to economic growth or a further decline in global oil prices would put pressure on the debt ratio unless offsetting measures were taken. In particular, the public debt service-to-revenue ratio is high, underlining the importance of mobilising revenues.

Why Borrow?

In the ordinary cause of government business, countries resort to borrowing to fund critical infrastructure projects needed for accelerated economic growth especially when domestic financial resources are insufficient and need to be augmented. Governments also borrow to run expansionary fiscal policies with the goal of stimulating economic activities, and reducing unemployment. Conventional economic theory posits that reasonable levels of borrowing promote economic growth through factor accumulation and productivity growth under certain circumstances. Proponents of this view believe that government borrowing can help stimulate the economy during a downturn or fund long-term investment projects that increase economic output in the future. Borrowing is also perceived as the quickest way for government to

meet huge expenditure outlay. Resorting to borrowing is second-best alternative to money creation to finance government activities. The enthralling justifications for borrowing notwithstanding, the caveat however is that government must be prudent in the utilisation of funds from debt instruments. More disturbing is the fact that often times, government borrowing is used to augment recurrent expenditure instead of funding capital projects.

Sovereign debt comes at a cost to the economy because debt is a contract, and the holder is obliged to fulfill the stated obligations along with accruing interest. Excessive debt dampens economic growth by encumbering investment and productivity growth. Arguments against government's growing domestic debt in Nigeria essentially revolve around the crowding out effect of government borrowing on the economy. There is continuous anxiety that government's dominant role in the domestic debt market is crowding out private sector investment as the government is competing with the private sector for private savings. This argument is somewhat supported by economic empirics and experience. Risk averse investors are more inclined to buy government securities. Adherents of this view believe that government's participation in the domestic debt market should be minimal because extensive domestic borrowing could have severe crowding out implications on the economy.

External debt requires servicing and a huge debt profile involve enormous foreign exchange to meet debt servicing obligations. This depletes a country's foreign exchange reserves, increases the risk of default, and exposes the economy to external vagaries. Nigeria's foreign exchange reserves currently below $30billion which can barely fund three months of imports is grossly inadequate when assessed against the emerging market reserve adequacy metric. At less than $30billion, Nigeria's reserves is below the low end of the 100-150 percent ($35-$52 billion) range stipulated by the IMF. Also, when a country's risk of debt default is high, its creditworthiness is eroded and ultimately the country's credit rating goes down. Low credit rating increases the cost of borrowing for the government and businesses thus reducing access to external sources of capital for businesses. Aside from the quantifiable impacts of a poor credit rating, the perception of a country as a high risk investment destination is a serious disincentive to foreign investors. At the extreme, excessive debt could lead to austere economic measures with attendant political instability as has recently been witnessed in some European countries.

Composition of Nigeria's Public Debt

According to the Debt Management Office (DMO), Nigeria's total public debt stands at ₦12.06trillion as at end March 2015. The country's external debt (Federal Government and States) is ₦1.86trillion ($9.46billion) – representing 15.46 percent of total debt. Domestic debt stock of the Federal Government stands at ₦8.51trillion ($43.19billion) – representing 70.53 percent of total debt while States' domestic debt stock is N1.69trillion ($10.86billion) – accounting for 14.01 percent of total debt stock. Details of the external debt stock showed that multilateral institutions accounted for 69.08 percent of the country's external debt. The International Development Association (IDA), a member of the World Bank Group, accounts for $5.635.87million while another member of the World Bank Group, the International Fund for Agricultural Development (IFAD), is owed $89.40million.

The nation's external debt stock also consists of $200million owed the African Development Bank (AfDB), while the African Development Fund (ADF) is owed $513.75million. The country also owes the European Development Fund (EDF) $75.12million while $19.63million is owed the Islamic Development Bank (IDB). Nigeria also owes the Arab Bank for Economic Development in Africa (ABEDA) $4.48million. Bilateral debt represents 15.85 percent of the external debt stock, comprising loans of $1.285.61million owed Exim Bank of China, and $140.25million owed French Development Agency (AFD). Nigeria's commercial loan – $1.5million Eurobonds from the International Capital Market accounts for 15.85 percent of the external debt stock. According to the DMO statistics, Federal Government of Nigeria (FGN) Bonds stood at ₦5.37trillion (63.13 percent of domestic debt) as at end March 2015. Nigerian Treasury Bills is valued at ₦2.87trillion or 33.68 percent, while Nigerian Treasury Bonds is ₦271.22billion or 3.19 percent of domestic debt.

States' Debt Profile

Details of States' debt profile as end March 2015 is yet to be released by the DMO. However, the combined external debt profile of the 36 States and the Federal Capital Territory (FCT) as at end December 2014

Nigeria's Public Debt Stock as at March 31, 2015

In Millions

	Debt Category	Amount Outstanding in USD	Amount Outstanding in NGN
A.	External Debt Stock (FGN + States)	9,464.11	1,864,429.67
	Domestic Debt Stock (FGN Only)	43,185.51	8,507,545.47
	Sub-Total	**52,649.62**	**10,371,975.14**
B.	Domestic Debt of States*	10,856.52	1,690,360.09
C.	Grand-Total (A+B)	**63,506.14**	**12,062,335.23**

**Actual Domestic Debt Stock for 35 States & the FCT and estimated Stock for Bayelsa State as at end-December, 2013. Compilation of 2014 Debt Stock for the States & the FCT is in progress*

CBN Exchange rate of 1 USD to 197 NGN as at March 31, 2015 and 155.7 NGN as at December, 2013 were used IRO FGN and States Domestic debt, respectively

Source: Debt Management Office (DMO)

stands at $3.27billion. Lagos ranks top as the most indebted state (external debt) with $1.17billion representing 35.82 percent of the 36 states' and FCT total external debt. Kaduna and Cross River states rank second and third with $234.42million (3.63 percent) and $131.47million (1.35 percent) respectively. Edo and Ogun complete the top five most indebted states (external debt) with $123.13million and $109.15million respectively. Taraba is the least indebted state (external debt) in country with $22.78million representing 0.69 percent of the country's external debt. Borno and Delta are the second and third least indebted states (external debt) with $23.07million (0.71 percent) and $24.23million (0.74 percent) respectively.

DEBT MANAGEMENT OFFICE
Nigeria's External Debt Stock
as at 31st March, 2015
in millions of USD

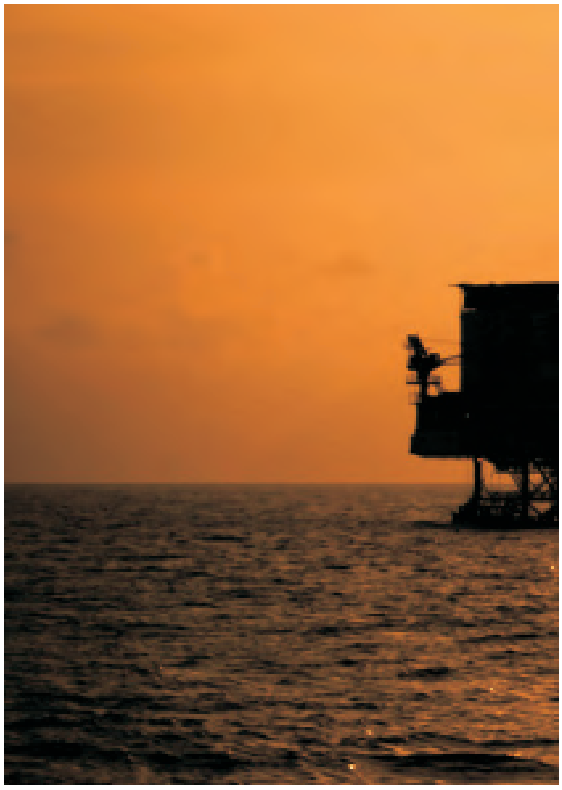
Category	Principal Balance 1	Principal Arrears 2	Interest Arrears 3	Total 4	Percentage of Total 5
MULTILATERAL					
World Bank Group					
IDA	5,635.87	0.00	0.00	5,635.87	
IFAD	89.40	0.00	0.00	89.40	
African Development Bank Group					
ADB	200.00	0.00	0.00	200.00	
ADF	513.75	0.00	0.00	513.75	
ABEDA	4.48	0.00	0.00	4.48	
EDF	75.12	0.00	0.00	75.12	
IDB	19.63	0.00	0.00	19.63	
SUB-TOTAL	**6,538.25**	**-**	**-**	**6,538.25**	**69.08%**
BILATERAL					
Exim Bank of China	1,285.61	0.00	0.00	1,285.61	
French Development Agency (AFD)	140.25	0.00	0.00	140.25	
SUB-TOTAL	**1,425.86**	**0.00**	**0.00**	**1,425.86**	**15.07%**
COMMERCIAL					
EUROBONDS	1,500.00	0.00	0.00	1,500.00	**15.85%**
GRAND TOTAL	**9,464.11**	**-**	**-**	**9,464.11**	**100.00%**

Source: Debt Management Office (DMO)

Nigeria's Debt Sustainability Analysis (DSA)

Results of the 2014 Debt Sustainability Analysis (DSA) by the Debt Management Office (DMO) concludes that Nigeria remains at a low risk of debt distress. According to the DMO, the outcome of the DSA illustrates the robustness and resilience of the Nigerian economy, if the current initiatives and reforms in the key sectors of the economy are sustained. However, the DMO cautioned that the DSA result indicated that without significant compensating revenue resources, a prolonged shock in public sector assets or deterioration in the fiscal position of the government could undermine the progress made in achieving macroeconomic and debt sustainability. Therefore, there would be the need for the government to further harness the traditional revenue sources, such as taxation and royalties, which are not subject to external vulnerabilities like crude oil.

The International Monetary Fund (IMF) also believes that Nigeria remains at a low risk of public external debt distress under both the baseline macroeconomic assumptions and in stress scenarios. According to the IMF, this holds even with a baseline scenario incorporating the sharp decline in oil prices in late 2014. In its recent Debt Sustainability Analysis (DSA) of Nigeria, the Fund says that overall public debt is at a low risk of distress under the baseline, with implementation of fiscal consolidation plans important for maintaining public debt sustainability. The IMF however noted that stress scenarios suggest that a permanent shock to



economic growth or a further decline in global oil prices would put pressure on the debt ratio unless offsetting measures were taken. In particular, Nigeria's public debt service-to-revenue ratio is high, underlining the importance of mobilising revenues. Federal Government debt service on total public debt is nearly nine percent of general government revenue, a high ratio compared to an average of 5.5 percent in developing and emerging economies. While, overall, Nigeria's federal government debt is relatively low, the debt servicing burden is substantial with interest payments alone absorbing about 29 percent of revenues. IMF's DSA also shows significant exposure to market risk in the portfolio as 85 percent is in the form of debt securities and consequently vulnerable to changes in market sentiment.

The stress tests in the IMF's DSA underscore the need for fiscal policy to adjust to the economic environment. In particular, the present value of debt in 2034 would increase to 40 percent of GDP if the primary balance is kept unchanged at its 2014 level. Public debt dynamics could also become adverse if growth is permanently lower than in the baseline, with gross public debt rising to 33 percent of GDP in 2034. In such adverse scenarios, the debt service-to-revenue ratio would increase substantially from current levels and fiscal policy would need to adjust accordingly. Temporary shocks would be unlikely to significantly alter the conclusion that the risk of debt distress is low, as the other macroeconomic shocks considered do not bring about significant changes in the projected debt ratio. However, in the presence of shocks to either the primary balance or to other debt-creating flows (contingent liabilities), debt service-to-revenue ratios would increase, illustrating the importance of rebuilding fiscal buffers over the medium term. To the extent that the fiscal policy assumptions under the baseline scenario (including gradual improvements in the primary deficit over the medium term) do not materialise, risks to debt sustainability would be higher.

Consequent on the foregoing, the DMO advised that the maximum that could be borrowed by the federal government in 2015 is $12.369billion (domestic and external), and this is expected to be raised in the ratio of 60:40 percent from external and domestic sources, respectively. The allocation of 60 percent to external financing is partly due to the very low

http://www.oilandgaspress.com/wp/?p=25074 level of external debt/GDP ratio, and partly based on the need to reduce the overall debt service, since external debt were found to be relatively cheaper than domestic debt by over 800 basis points. In this regard therefore, the DMO recommended borrowing from the domestic and external sources is $4.947billion (equivalent of about ₦795.6billion) and $7.422billion, respectively. The DSA emphasised that the amount recommended are the maximum that could be borrowed in 2015, in order to maintain overall debt sustainability. This caveat notwithstanding, the federal government has already borrowed ₦473billion in the first four months of the 2015 fiscal year to finance this year's budget while some States have tendered requests to their legislative houses to access the debt market.

Fiscal Sustainability and Stress Test

According to the IMF, gross debt of the federal and state governments is estimated at 13.4 percent of GDP as at end-2014, up from less than 10 percent of GDP through 2010, and is projected to continue rising modestly. Debt service and debt-to-revenue ratios are also projected to increase relative to recent history and previous forecasts, as a result of the rising level of debt and decline in oil prices. The IMF notes that this illustrates Nigeria's reliance on oil revenue in government funding, and underscores the importance of mobilising non-oil revenue to reduce its exposure to fluctuations in oil prices. According to the Fund, the current structure of domestic debt is favourable, with all debt carrying a fixed interest rate and the average maturity at 4.5 years. Similarly, external debt is largely on concessional terms other than the Eurobonds, and is contracted at long maturities. Forecast assumes an increase in the share of external debt contracted at commercial terms, with the grant element of external disbursements falling to less than 10 percent during the projection period. Oil and gas revenue is projected to decline as a share of GDP due to the recent drop in prices and flat production volumes going forward. It is assumed that the authorities will reduce expenditure or raise non-oil revenue in the medium term to offset this decline. Thus, these findings are highly sensitive to the resolute implementation of fiscal consolidation.

More Borrowing Underway?

Nigeria's rising debt profile notwithstanding, there are indications that further borrowing may be underway. The deteriorating fiscal position of the federal government, will almost certainly compel government to is-

sue new debt instruments in the international debt market. The federal government has already borrowed ₦473billion in the first four months of the 2015 fiscal year to finance its budget. The inauguration of a new government at the federal level and several states notwithstanding, the trajectory of rising debt is not ex-

DEBT MANAGEMENT OFFICE, ABUJA
FEDERAL DOMESTIC DEBT STOCK BY INSTRUMENTS AS AT MARCH 31ST, 2015

(AMOUNTS IN NAIRA)

INSTRUMENTS	AMOUNT	PROPORTION (%)
FGN Bonds	5,370,801,221,000.00	63.13
Nigerian Treasury Bills	2,865,523,753,000.00	33.68
Nigerian Treasury Bonds	271,220,500,000.00	3.19
TOTAL	8,507,545,474,000.00	100.00

Source: Debt Management Office (DMO)

http://shorthairstyles2014-2015.com/blog/oil-and-gas-iq-upstream-downstream-oil-and-gas-

pected to abate. In fact, debt appetite could increase as the new administrations (federal and states) will be under pressure to hit the ground running and deliver on their election promises with quick win projects and programmes. In the face of low revenue from oil, the debt market is certainly the second-best alternative to raise money to finance these projects and programmes. According to the IMF, the federal government borrowing plan indicate that existing official sector arrangements provide for substantial new disbursements, including from China's EXIM Bank and India on the bilateral side, and ADF and IDA on the multilateral side. External market-based borrowing is also likely to increase as the federal government plans to launch a Diaspora bond are well advanced with a target of up to $300million for the inaugural issue. The federal government had in March sought and received approval of the national assembly to raise additional $200million Diaspora bond from the international capital market. There are also several requests by states to their legislative houses seeking authorisation to access the debt market to raise fund.

Prioritizing Non-Oil Revenue Mobilisation as Key Fiscal Policy

There is no gainsaying the fact that if Nigeria continues unrestrained on the current trajectory of debt accumulation, another debt conundrum is imminent. The alluring economic arguments for borrowing and Nigeria's low debt to GDP ratio notwithstanding, current economic realities and public aversion to debt based on past experience and recent history does not support the argument for further borrowing. The gradual but steady debt build-up is already stirring up troubling memories of the past. A major concern about Nigeria's debt is the fear that some part of it is being used to augment recurrent expenditure. The annual budgets of the federal government and states are disproportionately skewed in favour of recurrent expenditure. Borrowing to pay wages and salaries in essence is mortgaging the future for present consumption and this calls to question Nigeria's long term fiscal

sustainability. The sure way to reduce Nigeria's borrowing needs to the barest minimum in the face of huge funding gaps is to diversify the sources of government revenue. The DMO and IMF Debt Sustainability Analysis (DSA) are unanimous in opining that there is need for the government to diversify and further harness the traditional revenue sources, such as taxation and royalties, which are not subject to external vulnerabilities like crude oil.

The foregoing therefore suggests that non-oil revenue mobilisation has to become a key fiscal priority for the government. Nigeria's non-oil revenue is currently just 4½ percent of non-oil GDP. This pales in comparison to an average of 10-15 percent of non-oil GDP for other oil producers. This scenario exposes the budget to oil shocks. Current initiatives to modernise and simplify tax laws are efforts in the right direction but a more holistic review of Nigeria's tax regime is imperative. Baring political consideration owing to public resentment to tax increase, upward review of the Value Added Tax (VAT) from the current five percent is the most practical and immediate step. Nigeria's existing five percent VAT rate is among the lowest in the world, and the lowest among its African peers (Ghana – 17.5 percent, South Africa – 14 percent, Egypt – 10 percent, Algeria – 17 percent, Angola – 10 percent, and Morocco – 20 percent). It has been variously argued that Nigeria's VAT regime is long overdue for a review. Aside short term measures to review the country's tax regime, fundamental reforms are still needed to reduce Nigeria's over dependence on crude oil revenue. Depending on oil for approximately 80 percent of revenue, and up to 95 percent of foreign exchange earnings is not only precarious but also not sustainable in the current era of low crude oil prices. The age-long clarion call for the diversification and modernisation of the Nigerian economy cannot also be overemphasised.

(*Sunday Enebeli-Uzor is a Research Economist, Zenith Economic Quarterly)

States and Federal Governments' External Debt Stock as at 31st December, 2014* (in US Dollars)

S/No	States and FGN	Multilateral ($)	Bilateral (AFD) ($)	Bilateral(CHINA EXIM BANK) & Eurobond ($)	Total ($)
1	Lagos	1,087,209,248.65	82,503,600.00	-	1,169,712,848.65
2	Kaduna	234,416,052.15	-	-	234,416,052.15
3	Cross River	131,469,661.94	10,000,000.00	-	131,469,661.94
4	Edo	123,128,295.53	-	-	123,128,295.53
5	Ogun	109,154,553.08	-	-	109,154,553.08
6	Bauchi	87,572,428.68	-	-	87,572,428.68
7	Katsina	78,925,362.41	-	-	78,925,362.41
8	Osun	67,103,294.39	6,950,000.00	-	74,053,294.39
9	Oyo	72,350,590.32	-	-	72,350,590.32
10	Enugu	62,428,599.36	6,500,000.00	-	68,928,599.36
11	Kano	59,796,931.03	-	-	59,796,931.03
12	Akwa Ibom	58,886,640.86	-	-	58,886,640.86
13	Imo	52,949,585.74	-	-	52,949,585.74
14	Kwara	52,722,198.82	-	-	52,722,198.82
15	Ondo	52,688,524.40	-	-	52,688,524.40
16	Nassarawa	49,942,696.58	-	-	49,942,696.58
17	Adamawa	40,275,205.57	6,500,000.00	-	46,775,205.57
18	Ekiti	46,452,932.15	-	-	46,452,932.15
19	Ebonyi	45,410,518.38	-	-	45,410,518.38
20	Anambra	45,154,626.04	-	-	45,154,626.04
21	Sokoto	44,864,819.46	-	-	44,864,819.46
22	Niger	38,250,438.25	6,500,000.00	-	44,750,438.25
23	Rivers	44,725,095.71	-	-	44,725,095.71
24	Kebbi	43,786,053.64	-	-	43,786,053.64
25	Gombe	39,545,598.76	-	-	39,545,598.76
26	FCT	36,636,548.58	-	-	36,636,548.58
27	Kogi	35,787,836.35	-	-	35,787,836.35
28	Jigawa	35,717,805.70	-	-	35,717,805.70
29	Zamfara	35,547,562.30	-	-	35,547,562.30
30	Bayelsa	34,832,195.13	-	-	34,832,195.13
31	Abia	33,791,420.92	-	-	33,791,420.92
32	Benue	33,074,189.47	-	-	33,074,189.47
33	Yobe	31,237,619.25	-	-	31,237,619.25
34	Plateau	30,947,579.75	-	-	30,947,579.75
35	Delta	24,233,639.67	-	-	24,233,639.67
36	Borno	23,067,549.16	-	-	23,067,549.16
37	Taraba	22,780,063.89	-	-	22,780,063.89
	Sub-Total	**3,146,863,962.07**	**118,953,600.00**	**-**	**3,265,817,562.07**
38	**FGN**	**3,652,500,496.49**	**-**	**2,793,131,051.44**	**6,445,631,547.93**
	Total	**6,799,364,458.56**	**118,953,600.00**	**2,793,131,051.44**	**9,711,449,110.00**

**Total outstanding against some States excludes arrears owed to the FGN as a result of unanticipated disbursements that occurred in 2014. Source: Debt Management Office (DMO)*

2015
Shaping up to be a really tough year... Already...

- By Neil Hitchens

The first three months of the New Year have, for investors at least, turned out to be much as they were in the final quarter of 2014 - namely on-going geopolitical problems going nowhere - fast; equity and bond markets attempting a New Year rally – again; investors trying to be a little different and finding new places to put their money, only for markets to snap back with a vengeance and ensure that generally the first quarter for the MSCI World Index was a muted one showing an overall +1.82% return. However, the devil is always in the detail as total returns for the 12 months to 31st March 2015 for the same index show a sluggish net return of only +4.0% when the performance is measured in US Dollars.

However, market uncertainties in many cases will be shown, eventually, to be where the average global investor will need to realise that sometimes the tried and tested investment themes combined with a large pinch of common sense will ensure, if not stellar returns, certainly good solid ones in what is likely to be a volatile year.

The greatest apparent fear (and yet to myself, perhaps the least surprising one), is the eternal question of when the Federal Reserve will raise rates. As we have posited for the past two quarters not only is a rate rise coming by mid-year, but it is a most welcome step on the return to the path of normality for the US economy. As has been seen, the US economy has taken in its stride the removal of the Quantitative Easing (QE) programme and the fears about the "imminent, total collapse" of US economic growth have been shown, *again*, to be totally irrational.

It must be remembered that there is a great creative step to be taken between removing the artificial QE stimulus and reversing it.

To keep investors feet firmly rooted in reality, the first possible signs of any QE retreat are unlikely to be

...The only thing we have to fear is...fear itself
President Franklin D. Roosevelt (1882 – 1945).
Inaugural address, Saturday, March 4th 1933

for a couple of years at the very minimum, well into the first term of the new US president, whoever he, or she, may be. In other words, again, it is the fear of the known-unknown that is sweeping certain elements of US equity markets when a coldly logical take on events would lead any broad, or index based, investor to realise that, just possibly, this may just be the beginning of greater things for the US equity market and not the beginning of the end.

As we have noted many times before, it will be a question of being patient and ignoring short-term, usually totally irrational worries and instead get a grip on the larger picture about the reality of the US economy. In short, the US is slowly resuming its normal place in the Global economy as not only the engine of growth, but the stimulant for many other economies.

Away from the relatively stable US, other areas of the world are, as we had feared, proving to be as difficult, if not worse than we had imagined even three months ago with the consequential impact on potential investment opportunities in equities, bonds and commodities. There are some very positive omens though in areas where regime change via the ballot has proved to be not only a raging success, but seems to have been achieved with little complexity. Then again, there are other countries in the world where looming general elections are likely to be a fraught and very difficult period with days, if not weeks or possibly months, of economic and political turmoil to come, with possible massive downside effects on stock markets and the local economy only being factored in at around a quarter or half of their potential outcome – and here I am referring directly to the UK where the potential for an extremely chaotic regime change is more than likely.

Yet the UKs electoral problems *will* eventually be resolved and stock markets *will* recover – the problem here is working out exactly when the 'when' is going to be. In a positive scenario the chaos might last around 3 – 6 months, in a negative one it could be upwards of 12 – 18 months, if not more.

In Europe, though, the economic, political and military problems previously identified continue unabated. Not only are the Eurozone economies apparently slowly splitting into two two-speed areas, with France at the pivotal epicentre of all that is affecting the Continent, being unsure if it wants to genuinely reform and join the very real growth being in seen in Northern Europe from Germany and its neighbours, or to decline into years of stagnation along with its Southern neighbours. Eastern and South-Eastern Europe is showing early signs of a possible retracement back to the dark days of the 1950's and 1960's where Russian influence over the Eastern Bloc during the Cold War led to economic paralysis via a command economy based approach.

While the latest ceasefire in Eastern Ukraine has apparently been successful, so far, the underlying tensions are still simmering away nicely, most probably awaiting the return of warmer weather – certainly the 2014-15 winter was no more than averagely cold – at which point it is highly possible that fighting could re-emerge initially for the port of Mariupol as Russian backed separatists try to extend their recent (and semi-fixed) gains to the West of Donetsk. As we have commented, were the port to fall the rebels could be emboldened and the possibility of a concerted push towards Kiev, or most certainly a push westwards, is one prospect that they might contemplate.

...what worries us more in the Eastern sector of Europe are the growing tensions within the Russian Federation as the negative effects of Western sanctions continue to deepen in conjunction with the continuing lower oil prices, upon which Russia depends so much for its foreign currency income and reserves.

However, what worries us more in the Eastern sector of Europe are the growing tensions within the Russian Federation as the negative effects of Western sanctions continue to deepen in conjunction with the continuing lower oil prices, upon which Russia depends so much for its foreign currency income and reserves. In many respects we are already back to the good old/bad old pre-détente days where Russia pursued its own agenda, ignoring the effects this had on its near-neighbours, friendly or not, as it tried to keep together disparate nationalist forces.

Certainly, recent pronouncements by President Putin in policy areas as disparate as the composition of the Russian armed forces or its diplomatic relations with Iran are a throwback for us Kremlinologists, where every nuance and word was studied in depth to try and distil reality from fiction in an attempt to work out exactly what was going on in the Kremlin. Undoubtedly the rumours at the end of March that Putin had been sacked/poisoned/murdered or otherwise replaced would have had some basis in fact, given the growing calls internally for Russia to try and reattach parts of its old Empire in a narcissistic attempt to go 'Back To The Future', possibly to try and deflect internal criticism from the collapse in the Russian economy away from the incumbent regime.

As we cautioned at the end of 2014, internal dissent in Russia is being treated today exactly the way it was in the Soviet Era – namely by complete and utter suppression by any means possible. However, in the 21st Century, the reality is that dissent is far more fluid and its components far more opaque. While publi-

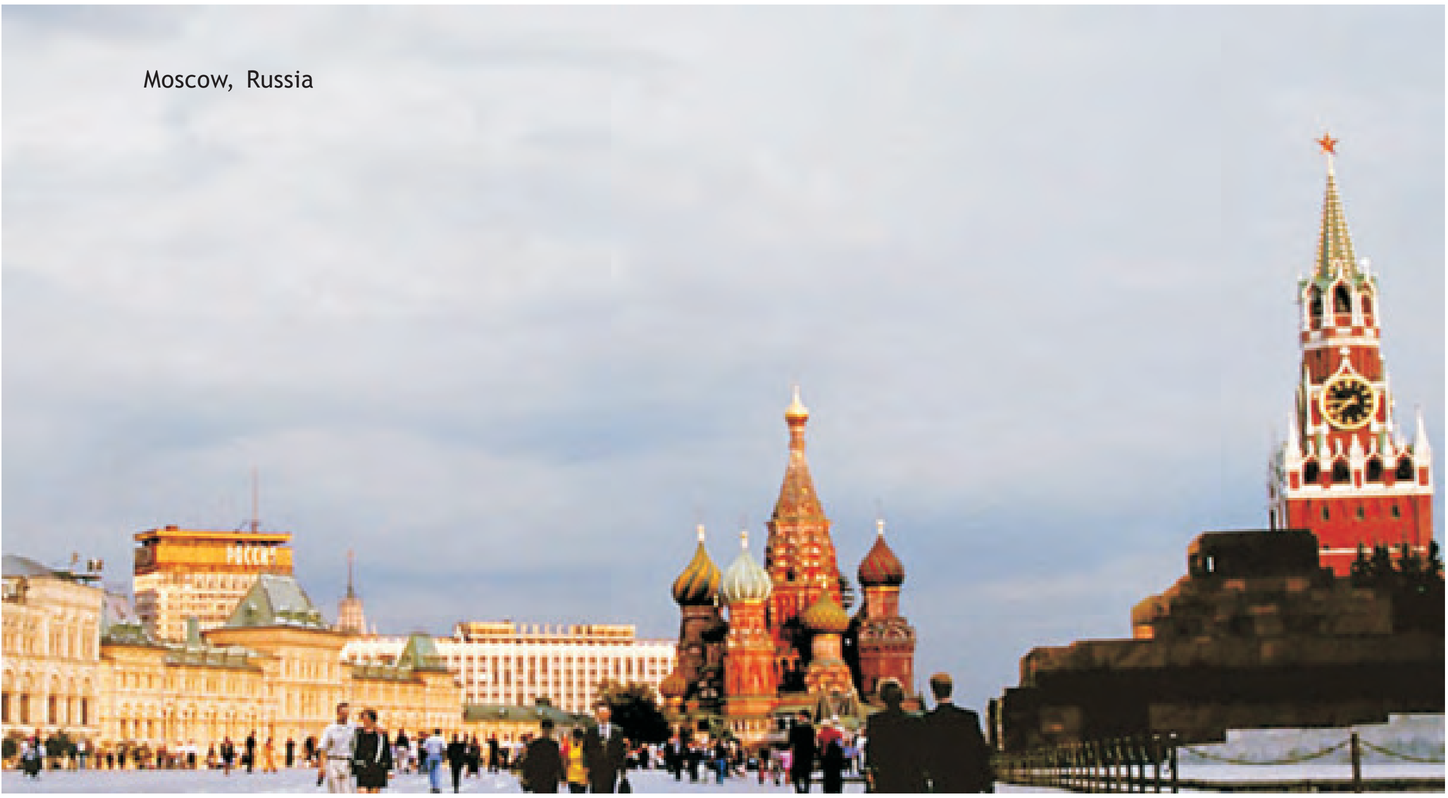
cation of this Economic Quarterly straddles the 70th anniversary celebration of the end of the Second World War (or, for the Russians, The Great Patriotic War) the potential for open and very visible opposition at such celebrations is both enormous and quite likely, given the right conditions.

Russia, though, should always be treated as being part of a very long game – certainly there will not be an overnight or instant regime change, if at all. However, if you remember your Cold War history a consensus will gradually emerge whereby if Putin outlives his usefulness he may, at best, be 'retired' but at worst might die in some unexplained plane/car/train accident. However, my money for 2015 is for him to continue in power, possibly looking more and more like a latter day Brezhnev or Khrushchev where his every order is carried out without hesitation as the economy stalls at best, or implodes.

However, in Europe the other major story that simply will not go away remains Greece. As we have been advising investors for the past couple of years there is currently, as far as we can discern, no case whatsoever for any direct equity or fixed income investment of any sort within Greece or its immediate sphere of influence. While in the short-term the European Central Bank (ECB) and the new Greek government came to a somewhat logical rapprochement at the end of the first quarter which, temporarily at least, made the possibility of a Greek exit from the Euro, the much vaunted "Grexit", slightly less probable, certainly until the end of the first half of 2015, the odds on this eventually happening continue to range from those of a raging certainty to that of a distinct possibility.

As long as the new Syriza government can continue to try and deceive the credit markets over the exact nature of their eventual economic policy, the waiting game for the almost inevitable outcome will continue. The funding crisis will continue to rumble on for the next few weeks with necessary multiple, small retreats from the Greek government in the face of continuing ECB and IMF enmity which will continue to make the Greek equity market somewhat volatile as intra-hour sentiment drives equities up or down sharply on the merest hint of a solution or apparently terminal difficulty.

The much promised overhauls and reforms to the internal financial markets are, for those who are able to take a rational step back from the



Moscow, Russia

continuing maelstrom, simply not going to happen. Certainly from the initial information that is being released, the falling level of bank deposits would appear to indicate strong and continuing physical extraction of Euro banknotes from within the Greek banking system as the ordinary Greek in the street realises that the inevitable monetary collapse and introduction of a new Drachma based currency is coming and at a pace far faster than any politician would like to admit.

Three milestone dates to come are May 1st, when €203 million is due to be paid back to the IMF, which should be quite easy to find, May 12th when a further €770 million is due and the rather more insurmountable €1.6 Billion which is meant to be repaid in June. The May money due will be found, but probably will lead to the initiation of the first of the next round of banking crises. However, the crunch point could well be in June where there may well be a stark decision to either pay back the money to the IMF or pay the millions due to Greek pensioners.

Private intelligence gathered from recent IMF meetings certainly points to the brutal way any request for payment deferrals are being handled – it is almost as if the IMF and ECB realise that they had better get their hands on as much money as possible now, before the inevitable default.

IMF officials have repeatedly said that a rescheduling of repayments can only come as part of a completely renegotiated new bailout programme. Were it to miss a payment, Greece would become the first developed economy to go into arrears at the Fund, something only counties like Zaire and Zimbabwe have done in the past.

Greece has informally raised the precedent of delaying IMF payments by at least one other developing country a generation ago in the 1980s. But IMF officials stuck to their guns saying that none of the underlying problems had been solved by payment delays.

EU ministers, while officially remaining positive about the prospects of being able to rescue Greece must privately know that in the long-run no credible long-term plan is possible and that they must brace themselves for the Grexit which could come as soon as the 3rd quarter this year.

I realise we have previously said 'Watch this space', but there is a limit on both the patience of Greek creditors in general and the willingness for specific countries such as Germany to continue to be the creditors of last resort. Were Greece a company it would have filed for Chapter 11 many years ago.

Away from Europe the news for


Istanbul, Turkey

http://freehddesktopwallpaper.info/istanbul-wallpaper-7.html#.VVHK5vlViko investors that a closed economy is suddenly open for business again should not totally surprise, given that the runes for such as step have been well signposted for those who chose to read them.

The decision by Cuba to normalise relations with the United States (or should that be the other way around – only history will tell), ahead of a US Election year, which might not be quite such a coincidence given the growing importance of the US Latino vote, has investors hyped up with repressed enthusiasm. Certainly, the need for Cuba to break away from its hyper-Marxist past in this more modern capitalist-biased era is long overdue. But Cuba is a mini-Russia, where the old Castroist regime cannot be seen to revert to sense overnight but has to give many years of hints and possible hints to gauge public appetite for a more normal existence, while taking this extended time to ensure that the State can maintain as much control as possible in the coming years while giving the illusion of complete openness and freedom.

For those who are expecting the Havana Stock Exchange at Lonja de Comercio, closed since the 1959 Revolution, to open again for business instantaneously, you will have to be patient. Up until its suspension 56 years ago the exchange was moderately successful with many issues being dual traded in Havana and New York, but at the time the majority of South American trading was dominated by Buenos Aires and Mexico City. Nowadays the trading environment is more crowded with Brazil now the dominant South American Exchange and Mexico still dealing efficiently but other exchanges such as Chile are also now well placed for specialty local issues.

In 2015, the mechanics of reactivating a stock exchange are relatively easy to replicate but as we have seen in the case of Myanmar (Burma) it is both finding companies to list that is the initial problem in conjunction with creating appropriate broker-dealer and settlement infrastructure as well as the more interesting prospect of educating the average Cuban on the street about how an exchange operates. It is plausible that Cuba will not be making its first appearance in the MSCI Frontier Market Index until around 2020, if they are lucky.

As is probable, Havana would adopt a US SEC (Securities and Exchange Commission) type regulatory approach which should ensure both adequate capital protection measures as well as an appropriate trading environment. However for those of our readers who both cannot wait for this and also wish to participate in Cuba immediately the opportunities will be there in the interim to make a lot of money, especially if you work with soft commodities and other agricultural products.

Turkey - The Empire Strikes Back?

Finally, the Middle East and North Africa continues to concern, worry and distress – while the problems in Libya grow as order disintegrates the focus of attention has moved back, again, to the ISIS controlled areas of Syria and Iraq.

While we had correctly predicted the possibility of a Turkish army intrusion into the areas south of its current borders, it was a slightly bizarre move into Northern Syria, not Northern Iraq, which caught the headlines in February. Turkey has maintained an overtly 'hands-off' approach to the growing problems of the ISIS backed war in Syria and Iraq, but it decided to show its hand with this slightly bizarre move.

The Turkish operation was to rescue the tomb of Suleiman Shah. This tomb is a peculiar historical aberration, a piece of Middle Eastern history that ties the region and modern Turkey back to the dying days of the Ottoman Empire and, even further back, to the prehistory of the dynasty. The mission to relieve it shows the nexus of Turkey's nationalist military and its Ottoman-revivalist Islamist government, and illustrates the president's fondness for skulduggery.

Suleiman Shah was a tribal leader in the 13th-century Levant, and the grandfather of Osman I, the founding patriarch and namesake of the Ottoman Empire. He is believed to have drowned in the Euphrates in 1236, and was buried in what is now Syria. In 1886, Sultan Abdul Hamid II had a tomb rebuilt on what was believed to be the grave of his ancestor (although it very possibly wasn't). After World War I and with the break-up of the Ottoman Empire, the French took control of Syria and were caught up in a brief war with the new Turkish state known as the Cilicia Campaign. This lasted between May 1920 and October 1921 and the ensuing peace treaty in part gave the [winning] Turks control over the tomb of Suleiman Shah, situated at Jaber-Kalesi which, as they stated 'shall remain, with its appurtenances, the property of Turkey, who may appoint guardians for it and may hoist the Turkish flag there'.

That agreement lasted until 1973, when the building of the Tabqa Dam threatened to flood the tomb's location. As a result, it was (bizarrely) moved 50 miles north, which is where it was until the end of February. The legal status of the tomb remained in dispute: Turkey claimed it as an exclave, arguing that the location was sovereign Turkish territory, while Syria disagreed.

This simmering quarrel became hotter as the Syrian civil war erupted, especially after the Syrians and Turks shot down each other's aircraft. In 2014, ISIS troops neared the tomb and demanded that Turkey evacuate. The then Prime Minister, Recep Tayyip Erdogan, warned that any attack would meet with retribution and without fanfare the usual force of conscripts garrisoned at Suleiman Shah was replaced by more hardened troops. While the pieces were now in play for a pretext to launch military operations in Syria—a "wag-the-dog" style attack that could help boost Erdogan's chances in the 2014 presidential election, in the end ISIS didn't attack and neither did the Turks. Erdogan handily won the election but the 38 soldiers at the tomb were stuck, effectively held hostage.

So eventually hundreds of Turkish soldiers along with heavy equipment pushed the 15 or so miles into Syria and released them and the tomb and spirited them all north. They removed the remains and rescued the garrison. Although they didn't encounter any armed resistance, one Turkish soldier was apparently killed in an accident. None of this was received well by Bashar al-Assad's Syrian government, which was livid about the incursion. Syrian officials also suggested that Turkey is colluding with ISIS, noting as evidence that the group had abstained from attacking the tomb site.

Ever since Mustafa Kemal created modern Turkey as

http://www.worldcitiescultureforum.com/cities/istanbul

a secular nation, the country has grappled with a tension between militaristic nationalism and a more traditional, religious sense of identity. Often, when the power of the more religious camp grows, the military has stepped in to re-impose Kemalism. Recently, though, Erdogan's Islamist movement seems to have gained a definitive upper hand. The Erdogan era has also ushered in a new nostalgia for the lost empire— "Ottomania". Manifestations of that trend range from the wildly popular soap opera 'Magnificent Century' (Muhteþem Yüzyýl) set in the Ottoman era, to plans to build a mall in an Istanbul park that mimics a long-demolished Ottoman barracks. (That plan was the flashpoint for massive protests in Istanbul in 2013.).

The Suleiman Shah raid is on the one hand a feather in the cap of the Turkish military and an example of Erdogan and the army's harmony. On the other hand, some nationalists are furious at what they see as a surrender of Turkish territory. This sort of turbulence is in keeping with the sad tale of the tomb, which has been more of a political symbol than a mausoleum since at least the days of Abdul Hamid II. Based on these events, a permanent resolution to this problem is unlikely to

happen in the next few years, certainly until the Syrian/ Iraqi/ISIS wars are resolved.

However, be under no illusion that this single act probably marks the beginning of another Russian-style gradual land grab of what used to be an old, inefficiently run Empire. Turkey, though, is a far better organised and disciplined force these days and having been treated so badly and so unfairly a hundred years ago has bided its time carefully. For investors though this could mark a period of considerable flux and volatility for the Ankara stock exchange were open season to be declared on parts of Syria, Iraq and Azerbaijan (including the autonomous area of the Nakhchivan Autonomous Republic). However idiotic Turkey may well appear to be by contemplating such a move, there is no likelihood of it incursing into Northern Iran or the Kurdish territories, well for the moment least, until both the ISIS problem has been successfully resolved and for Turkey to be absolutely confident that it is top dog in the Northern Middle East and could remain so for the next few generations.

But oddly enough the economic positives for such a gradual land reclamation are there and a slightly larger Turkey could eventually end up being a calming influence in the Northern Middle East and might just take some of the sting out of the long-simmering problems in the Lebano-Israeli spheres of influence and possibly, just possibly, may impose a far more cohesive and stable organisation in place of what has been a 70 year nightmare. Certainly food for thought.

Equities - a mixed start to 2015, not a happy first quarter...

When markets slid into the end of 2014 there were fears that the peak had been reached in major markets and that at best the first half of 2015 would be one where most markets marked time ahead of the inevitable Fed rate rise. However, as we have stated before, the pace of growth in the global economy is sufficient to provide a number of beneficial 'hot spots' in 2015 where there is sufficient implicit economic positivity to allow for a return or a continuation of a beneficial environment for corporate profits growth. Bond and currency markets continue to be affected by central bank decision making, especially the stark divergence in policy between the US and UK on the one hand and Europe and Japan on the other. The US and the UK most definitely 'got it' and reacted quickly enough to not only save their respective economies and equity and bond markets from the possibility of a near financial paralysis that could have made the Great Depression of the late 1920's and 1930's look like a mere practice session, but have also managed to steer their economies back to solid growth with new equity market highs coming on the back of normalcy rather than being rigged.

However, in Europe especially and to a lesser extent in Japan questions continue to be asked about the timing of the respective Central Banks' QE programmes and the questionability of the underlying economic fundamentals. While Japan has been mired in a 20+ year bear slump, Europe is having its own schizophrenic moment of reality as we and many others who belatedly realised that a one size fits all economic approach simply does not work in a unified currency, continue to wonder if the recent equity rallies are due to either growing positive economic fundamentals or as a result of not only bond markets being flooded with liquidity and supply drying up, leading to insanely low bond yields and resulting in anyone wanting a yield above 1% in the shorter term being forced into the equity market, almost in an act of desperation.

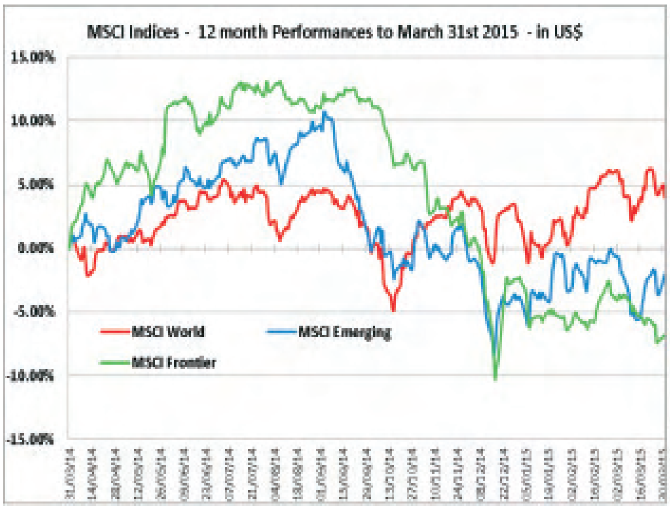
As we noted above the 1 year returns for the three main MSCI Indices at +4.00% for the World Index, -2.02%, Emerging Markets and -6.81% for Frontier equities, from the previous higher peaks seen at the end of September 2014 was on the whole down to the disproportionate weightings of the Oil sector within each index which, with the collapse in the oil price, led to falls across the board following through to year end. But in comparison with the near zero returns to be had from short term bonds combined with inflation on the cusp of turning into short-term deflation, returns of 'only' 4% are not too discouraging for those longer term investors who continue to invest cautiously only in markets that have a proven longer term future.

However, mainly from the much vaunted 'New Year' effect when fund managers used the start of 2015 to try and find undervalued sectors or individual equities, markets on the whole rallied from their lows for the first 6 weeks of the quarter before economic reality struck again in the twin forms of the Federal Reserve and Greece.

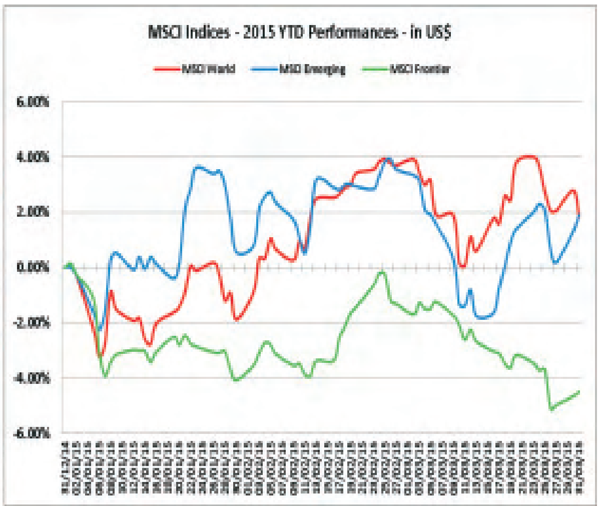
Again, I find myself questioning the innate nervousness of the US equity sector at the thought of interest rates rising. Admittedly, the US economy was slightly weaker than expected in the first quarter of the year, but this was in part down to the extreme weather conditions experienced by the Eastern half of the country which led to a dampening of growth in areas such as construction and house sales. Yet we remain cautiously optimistic about the continuing improvement in US labour markets.

The US economy added 3.1 million jobs in 2014, the most since 1999, and demand for labour has continued to strengthen into early 2015. Although nominal wage growth is picking up only gradually, the fall in inflation means that real consumer incomes are expanding at a rapid pace supporting solid consumer spending growth. The same forces are at play in the UK, where unemployment rates continues to fall, real wage growth has finally turned positive, and the employment-to-population ratio is now at its highest level since 2008.

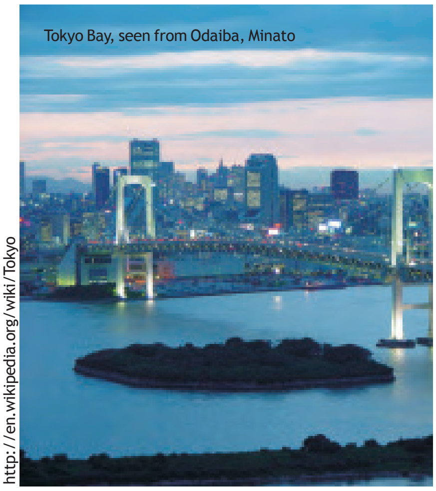
In Japan, the ratio of job vacancies to job applicants has hit its highest level since the early 1990s, de-



Source: MSCI/Barra

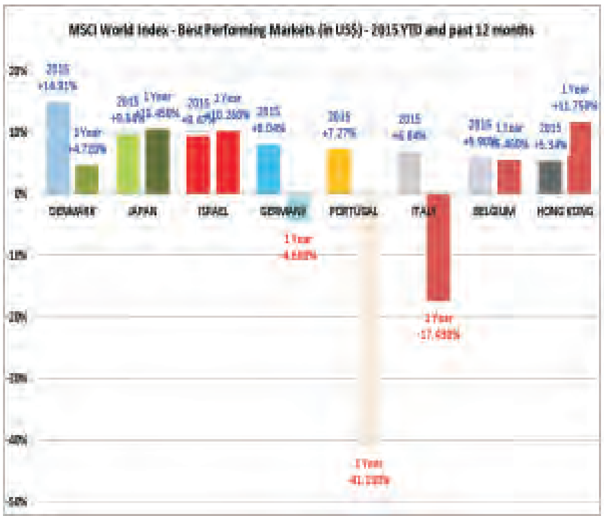


Source: MSCI/Barra



Tokyo Bay, seen from Odaiba, Minato

http://en.wikipedia.org/wiki/Tokyo



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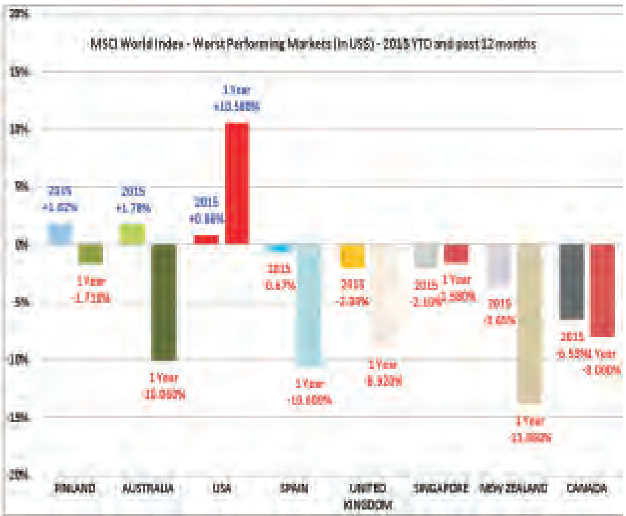


Source: MSCI/Barra

spite the deterioration in economic activity after last year's sales tax increase.

Less liquid assets such as real estate and private equity remain attractive to investors who can adopt a longer-term time scale. Improving sentiment and recent macroeconomic news has been broadly supportive of our feeling that overall global economic growth will edge up in 2015. This is most clearly apparent in measures of business sentiment. The developed market composite business sentiment index has picked up in recent months, led by the services sector, and is now sitting almost two points higher than its average over the past three years. Confidence is highest in the US and UK, but now in the Eurozone it has pared almost all of its losses from the second half of last year to remain slightly negative at worst. However, we again caution the expediency of investing anywhere in Europe outside of the Northern powerhouse of Germany and its near neighbours given both the proclivity of the Euro to implode at some stage, dragged down by the growing economic disaster that is Greece and the extreme geo-political nervousness to be found to the East of Europe.

http://www.kouwan.metro.tokyo.jp/en/

Japanese sentiment has fallen recently, but we remain cautious as to whether this is a blip or the beginning of a new downward trend. There is some disquiet that after 20 years of living in an economic desert, recent additional moves by the Bank of Japan (BoJ) to try to further stimulate the Japanese economy may well fail in the medium term.

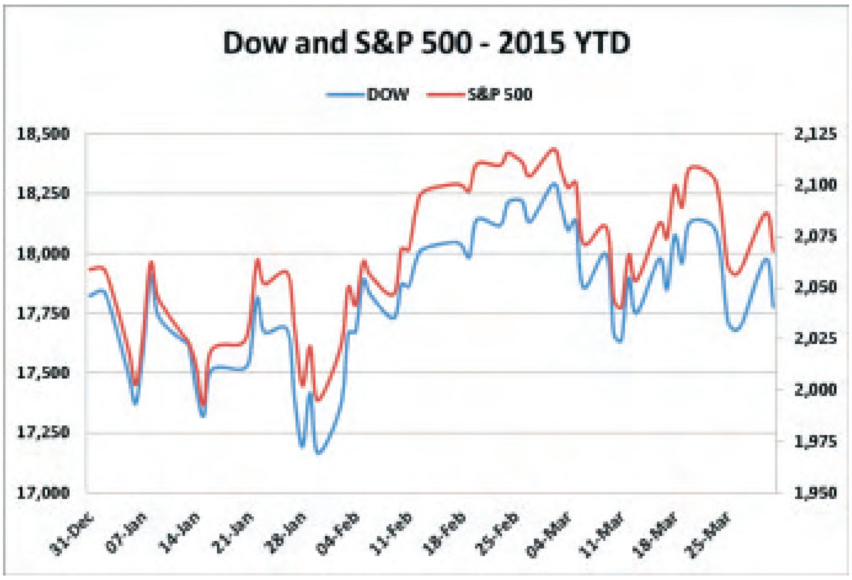
Despite the 8 best performing markets this year being equally spread around the world, there are almost some 'desperation' returns evident in this mix. Certainly, to compare and contrast the last 3 months against the past 12 month returns, shows up both the New Year effect as well as the car crash returns that have been seen – most notably Italy, -

17.43% and Portugal, -41.31%. It is almost as if someone somewhere has said 'Surely it cannot get any worse in Portugal and Italy, 2015 must be the year to return...no?'

How wrong such illogical thinking may turn out remain to be seen...

All that ultimately can safely be said is that when the first quarter returns are stripped out, the previous 9 months overall were dire to slightly bad in most of this year's gainers.

Oddly the 8 worst markets are also not quite as expected. Certainly, the impact on the Antipodean and Canadian markets from the commodity price slump was to be expected, which also dragged in Singapore. Spain's performance is what Portugal's probably should have been at slightly negative for the quarter while the US market has been taking a breather ahead of the upcoming Fed rate rises which ultimately will prove to be a positive as normalcy returns to the US economic sphere.



Source: DJ

While we remain positive about the longer-term profits that will be made via continued exposure to the US markets via an index-based approach we must strongly caution against investing 'at home' with the UK FTSE 100 and 250 indices. Certainly, while the FTSE 100 index finally nudged through 7,000 at the end of the quarter (yet because of the collapse in the value of Sterling against the US Dollar, a dollar thinker lost money this year) this was a classic example of the suspension of belief over reality. For the next 3 to 6 months the UK equity market is going to be a highly volatile and highly dangerous place to invest. We cautioned that 7,000 would be a good exit point for short term profits and this remains our implied exit point for further brief rallies.

UK and US equities - time to separate?

Be in no doubt that unless there is a spectacularly positive move the UK General Election in May is going to not only end in stalemate, as opposed to the 2010 result with which it was quite easy to form a Coalition government, but this is going to be an insidious, malevolent and capital destructive impasse that will last for months. The Leftist Labour party, were they to win the largest number of seats could only rule on a vote by vote basis with the equally militant Scottish Nationalist Party (SNP) whose economic plans, while populist, are unfunded and written purely to advance the separatist cause. The in-


http://www.puretravel.com/blog/wp-content/uploads/2012/09/Explore-London-on-a-city-break-and-include-Westminster-Bridge-and-Big-Ben2.jpg

cumbent Conservative (Right of Centre) and Liberal Democrat (Centrist) coalition is likely to fall short of an overall majority mainly because the Liberals are likely to be at the wrong end of an electoral bloodbath, losing seats mainly to the Conservatives, but also losing to the Nationalistic UK Independence Party with the additional frisson of probably begin wiped out in their entirety in their previous strongholds of Scotland and the South-West of Britain.

I am totally perplexed why, at the time of writing this, markets continue to defy logic and have priced in some kind of majority. Certainly, now is definitely **NOT** the moment to add more money to the UK markets. From the starting level of roughly 7,000 were a Labour led minority government to come to power and have insufficient MPs to be able to rule expect with the assistance of an anti-business, nationalist coalition the FSTE 100 could easily quickly fall 10% - 15% to between 6,000 – 6,300 which could accelerate depending on the difficulty they would have in trying to pass legislation. At worst, you could see a minimum of 20% wiped off shares in a matter of weeks leaving the FTSE around 5,600, which while admittedly 'only' back to the levels of June 2012 would leave the UK at the mercy of complete economic carnage. Even with a more right of centre coalition, something the markets might prefer, a minority administration would see 5% - 10% knocked off the markets, to leave it hovering between 6,650 and 6,300.

Depending on the level of minority ability it is quite unlikely that any administration could last more than a matter of months – so a further election in October 2015 would ensue with the possibility of the more entrenched positions being dominant and again no one party in overall control. What is currently unthinkable but now needs closer examination is the possibility of a Third Election at the beginning of 2016. Even then it is unlikely that the political morasse would disappear. The UK for the moment is stuck in political neutral with the temptation to change gear to a Reverse one and try and win votes on an anti-austerity ticket. Either way for the moment and for once the UK (in all asset classes including equities) is a most definite **AVOID** unless by a fluke (for that is what it will be) one party has an absolute and immediate majority; if this happens the relief rally would be fats, sharp and depending on the winning party, either fleetingly or the base for a sustained rally above 8,000.

Away from one of our previous equity favourites of the UK, the 'old stalwart' the US in the form of the Dow Jones and the S&P 500 continues to nudge around new highs on an almost weekly basis. Yes, admittedly the final day of the quarter saw a sharp, probably end of quarter induced, sell-off. Certainly, the US markets decided that even with the economy in fairly robust shape and despite the negative effects of the worse then average weather in the Northeast, markets started the year like a lion on steroids and ended having given up all the gains.

After a choppy three months of trading, stocks finished the quarter with a selloff so strong that the Dow's quarterly gain was wiped out and replaced with a loss. The silver lining for investors, at least, is that the S&P and NASDAQ managed to eke out gains for the first quarter of the year. Even with the Dow Jones Industrial Average closing on March 31st down 200 points, or 1.11%, a strong enough loss that the index logged a -0.26% loss for the quarter. The NASDAQ, meanwhile, finished the day down 46.56 points, or -0.94%, but up +3.5% for the quarter. The S&P 500 closed down 18.35 points, or -0.88% for the day but up a meagre +0.44% for Q1.

What do seem to worry markets are forward projections for earnings this year.

First quarter earnings releases were lower than hoped for – maybe it is a reversion to a more slow and steady level of earnings rise, maybe it is a factor of the skewed recovery in the US, maybe indeed it is symptomatic of firms being unable to increase prices as much as they have been able to the past because there is no inflation in the system against which price rises might be justified; or, indeed, we may need to see productivity increase more than it has recently.

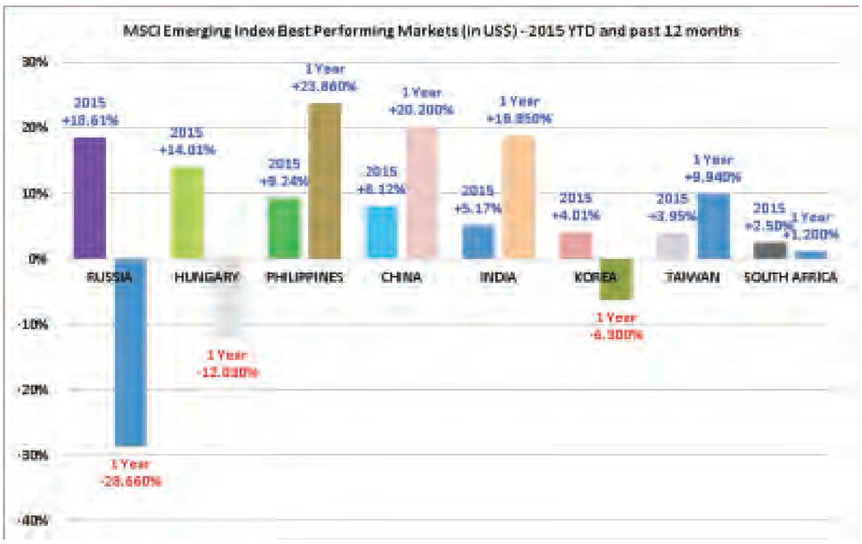
But I think that the reason analysts are widely expecting S&P 500 companies to post their first year-over-year decline since the third quarter of 2012 is slightly different. U.S. markets struggled in the first quarter as investors worried over the impact of falling oil prices on overall earnings and the effect of a strong dollar on multinational companies, whose products are more expensive in foreign markets when the greenback firms up. This though, I think, is likely to be a temporary phenomenon.

Earnings are not the only trouble spot, he said. Investors are staring down a shift from a 3% revenue growth quarter to one in which sales growth will be down 1.5%. Stripping out the energy sector, which has been battered by plummeting oil prices, earnings could achieve growth of 5%, compared with a historical norm of about 7%. As U.S. equities are at about 17 times next year's earnings, valuations are now out of line with earnings growth trends: but again this is likely to be a sort-term disconnect.

I continue to believe that the US as the world's largest single equity market is now reaping the benefits of the past few years' austerity and as such is in pole position to be the most consistent (note consistent, not the best all the time - that mantle will be passed around amongst other markets on a monthly basis). Certainly, the pain that has been endured will start paying dividends, literally as well as figuratively. QE is over: reverse QE will not even be talked about until 2017, even if the economy explodes. Interest rates are going up but by around only 1% a year for the next few years and will more than likely peak at the old historic norm of 4% or so. The Dow has skipped up to the 18,000 level we had hoped for and the small reverses are currently just that. Not that everything is rosy in the US equity world – there will still be bankruptcies and disappointments but overall on an index level, the hard lifting has been done (and to a certain extent by the UK) and I see no reason at all for a 10-12% rise in the Dow and S&P 500 this year – giving us levels of around 20,000 on the Dow and 2,275 on the S&P.

I also believe that similar rises could well be seen in 2016 and 2017 giving us targets of 2,500 and 2,800 in the S&P and 22,000 and 24,500 for the Dow.

Dow 30,000 in 60 months anyone? It's not so far-fetched and my gut feeling is that given a good win for the new President next year, this could be sooner than we have thought.



Source: MSCI/Barra

Europe, Japan and the Middle East- car-crash markets or a near miss?

Macroeconomic factors—including currency, oil and central bank policy—had an outsized impact on markets in the first quarter, to the [temporary] detriment of the United States and the benefit of Europe.

The preconditions for a more durable recovery in overall global activity are gradually falling into place, supported by three fundamental drivers – lower oil prices, widespread monetary policy easing and steady labour market repair. We attribute most of the plunge in oil prices to favourable supply developments which seem to be continuing, for the moment, despite localised oil supply disruption. This should be a positive for global growth this year to such an extent that IMF researchers recently estimated that if prices remain around their current levels ($55 or so), global GDP growth could receive a boost of between +0.3% and +0.7% in 2015. Of course, lower prices will also alter the composition of growth as it redistributes income from oil producers and exporters to oil consumers and importers.

Countries that unambiguously benefit include the Eurozone, Japan, and India. The biggest losers include the OPEC producers, Russia, Norway and Canada.

The oil shock is also redistributing activity away from investment and towards consumption, particularly in countries that are net importers of petroleum products but also produce oil domestically.

The boost to real consumer incomes from lower oil prices is being reinforced by widespread monetary policy easing, mainly by countries which up will now had hoped the problem would simply go away or would not affect their own area.

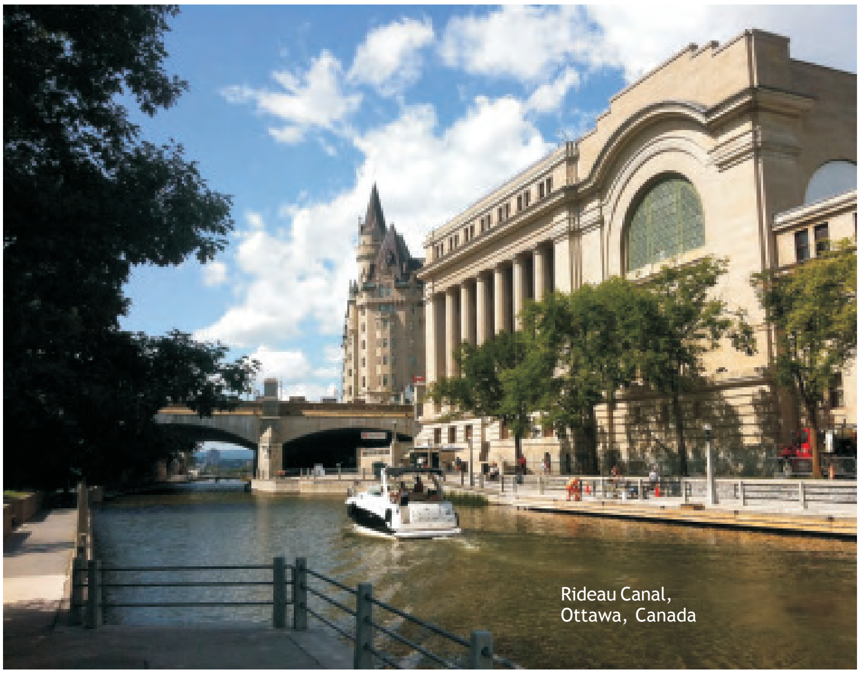
In normal economic conditions, central banks in oil-importing countries would be expected to look through the initial inflationary, or rather deflationary, effects by keeping nominal short-term interest rates steady and allowing real interest rates to rise. But the current economic environment is definitely not normal. Inflation was already too low in many countries before the oil shock hit, underpinned by considerable excess capacity in labour markets.

The Eurozone and Japan are the best examples of where this dynamic is playing out. The Bank of Japan launched an expansion of its own asset-purchase programme last November because growth and underlying inflation were falling short of its objectives. The ECB followed suit in January and will purchase around €800 billion in government bonds over the course of the next 18 months as a very minimum, probably the final figure might be well north of €1 trillion

Although QE is not a panacea for countries' economic problems, evidence is building that the transmission of monetary policy to the economy is becoming easier. There are definite signals that despite the rhetoric, lending standards are easing, while loan demand is modestly improving. Within the Eurozone, financial stresses are easing with interest rates coming down quickly in the previously higher interest rate periphery, with the exception of Greece.

The benefits are most evident in Spain, where growth has accelerated to an above 2% pace as domestic demand has responded to the easing in financial conditions.

The ECB's aggressive easing is also forcing action in the Eurozone's sphere of influence. Switzerland, Sweden and Denmark who all bravely pegged their currencies against the Euro have all pushed their policy rates into negative territory in recent months to combat deflationary fears and the forces that are pushing their currencies up against the euro. In Sweden's case, policy easing and the weaker currency are working, but the question is how long can they continue. The Swiss were even-


Rideau Canal, Ottawa, Canada

http://stophavingaboringlife.com/exploring-ottawas-streets-museums/

tually forced to abandon their Euro peg in Spectacular fashion in February resulting in falling growth in spite of the resulting lower interest rates. The Danes remain on the fence, afraid to abandon the peg but terrified of what might happen if they do not.

Here's a hint – Fixed exchange rates will **always** eventually fail.

Other countries that have eased policy recently are of two distinct types. The first group is composed of commodity exporters like Canada and Australia. Both their Central Banks have cut their rates since the beginning of 2015, partly in anticipation of the impact of the adverse impacts a trade shock is most likely to have on their domestic economies. In Canberra, lower rates are already translating into stronger housing activity. The second group are historically high-interest rate countries that can ease monetary policy as inflation falls for cyclical and structural reasons.

India is a prime example, where the Reserve Bank surprised markets in January by cutting interest rates for the first time in two years as inflation halved from just under 10% to 5%. As we have noted previously such a virtuous circle in India of lower inflation, easier monetary policy and better government under Prime Minister Modi underpins our view that India will be one of the few emerging markets where growth rises significantly this year and the stock markets will additionally benefit not only local but international investors. An already solid 5% rise this year should hopefully be repeated each quarter; but as we always caution, an index weighted position should be the initial position. As currently this is 6.5% in the MSCI Emerging Markets Index your absolute position will depend on your personal risk profile and overall Emerging Markets tolerance.

For the record the largest weighting in this index remains China at slightly less than 25%, which on a risk tolerance level is probably a little too high for comfort, so, any personal reduction in Chinese exposure might be usefully added to your Indian equity weighting.

These improving fundamentals help explain why we think that most developed economies can absorb a gradual removal of monetary policy accommodation in the US. The members of the Federal Open Market Committee (FOMC) decided at their March meeting to remove their forward guidance to be "patient" – something we had not only expected but would have been more than surprised had they not. The much anticipated June hike should occur unless the economic fundamentals disintegrate in the next couple of months. Failing a June hike then something will definitely happen in September.

After this first rate rise if the US labour market continues to improve at its current pace and forward-looking wage indicators pick up more quickly, market expectations for short-term interest rates will need to increase substantially and may create global economic and financial risks of its own. Although many central banks are currently easing policy, past experience suggests that once the Fed starts to raise rates, many emerging markets have little choice but to follow. This could lead to a further strengthening of the US dollar, which would put additional pressure on Emerging Market sovereign debt issues – especially US Dollar denominated debt.

http://blogs.reuters.com/india-expertzone/tag/reserve-bank-of-india/

Downside risks in Emerging Markets

The two major Emerging Markets most at risk from these future pressures appear to be Brazil and Turkey. Brazil was already in recession before the recent tightening of monetary policy, while fiscal policy is set to be a major drag on growth this year.

It is also being hit by lower export prices, a drought and the Petrobras

Source: MSCI/Barra

scandal which appears to be engulfing the higher echelons of political society. Inflation remains stubbornly high because of excess wage growth, rising administered prices and the Real continues to depreciate at a frightening pace. Fed tightening could trigger destabilising capital outflows.

Turkey, despite a having a very stable position (for once) may also be affected by external imbalances, and in particular significant net dollar liabilities in its banking and non-financial corporate sectors. However, I feel that, oddly, it will probably be able to survive a Dollar rate rise given the underlying strength that the economy continues to exhibit, certainly in the short and medium term.

China remains as enigmatic as ever. Yes, it can be seen as another source of risk to the global economy but the country's structural problems are well known and in their own way accepted by the global investment community. Chinese investment and credit growth have been excessive since 2008, with capital allocated in a skewed fashion, sometime ignoring the more needy or sensible projects in favour of flagship construction projects whose absolute necessity can sometimes be questionable.

The Chinese state needs to reduce leverage in the system and rebalance the economy to reflect a more logical slant towards increased consumption, without causing a domestic banking and credit crisis. The initial strains of this gradual adjustment are already being felt in the property sector as well as feeding through into the heavy industrial sectors with side effects being seen in falling producer prices. Such a statist easing of monetary and fiscal policy should work and ensure that China's slowdown is orderly.

The Chinese problems have prompted calls from some quarters for the currency, the Renminbi (CNY) to be significantly devalued but at present this is extremely unlikely given the availability of many other economic policy tools to manage any such necessary adjustment. But if it were to occur it would lower global inflation, damage growth outside China and probably prompt retaliatory easing. That would be a shock the global economy could do without.

Elsewhere in the equity world, Frontier markets have continued to suffer as oil and other commodity prices continue their slump which, in conjunction with continuing local geo-political tensions has not made for a happy quarter, or indeed a particularly successful investment picture over the past 12 months. Certainly, a first quarter return for the MSCI Frontier Index of -4.5% and a one year -6.81% is symptomatic of the hesitation with which most investors approach this equity area. For an index such as this not to have even had a positive return at any point during the quarter does not exactly inspire most investors.

Yes, there were some positive stories to be found amidst the wreckage of this sector but for there to be only six markets with a positive return this year reinforces the view that, for the moment, this particular sector will remain out of favour for the rest of this year.

Certainly, to see that Jamaica, one of the world's smallest bourses and Argentina, where if you ever manage to invest the chances of you ever seeing your money ever again are slim due to the draconian banking regulations, topping the performance lists for the year to date means that for the moment this whole sector must remain an **avoid**, especially as the worst perming markets give a fuller picture of the nightmare scenario to be found.

Oil - continuing softness, though perhaps some stability at lower levels

Away from the equity sphere oil remains a conundrum for most. Certainly the continuing game of 'chicken' between Saudi Arabia and the US frackers ensures that the oil price will remain subdued for the coming quarter, irrespective of any short term spikes that might occur on any ISIS led successes in the Middle East or the Arabian peninsula. Certainly, any supply disruption-led price moves will be offset by the increasingly friendly stance being taken by the US and Iran where, just perhaps, Tehran has worked out that for the moment it is probably better not to be an economic pariah and should try and kick start its own exports and build up much depleted foreign currency reserves.

The widening of global oil surplus to 2 million barrels per day (mbpd) led to Brent prices dropping by 29% during the quarter to $54 per barrel in Q1 2015. It is more the likely that oil markets will continue to see large, if not increasing surpluses over the next six months and as such it is more than likely that Brent crude will remain around the $55 - $65 level for the rest of the year.

This widening of the global oil glut will be counter-compensated by a reciprocal slower shale oil growth which when combined with the improving global economic growth might see a sustained price rise towards the end of 2015, if we are lucky.

Output from Saudi Arabia, the world's largest single producer, for the moment, faces intense competition in key foreign markets and this will keep exports at around last year's levels of 7 mbpd which when combined with higher domestic consumption has led many to forecast Saudi production rising to 9.8 mbpd in 2015, from 9.6 mbpd previously. However, such production levels, combined with a sharply lower oil price is leaving fiscal damage in the form of rapidly dwindling foreign reserves and

http://www.esa.int/spaceinimages/Images/2013/11/Offshore_platform

it is now highly likely that there will be a larger than anticipated fiscal deficit, with the current account now projected to record a deficit.

Faced with this excruciating dilemma it is more than possible that the Saudi government may start issuing sovereign debt in order to finance the majority of its deficit. This new financing strategy should reduce the pressure on foreign reserves as the main deficit financing tool and as such could well lead to the oil price remaining softer for longer – though external factors will have a large art to play in this as 2015 unfolds.

In the US, the combination of a growing economy and lower gasoline prices will continue to spur oil demand in Q2 2015 and beyond. Lower WTI prices have led to US retail gasoline prices dropping dramatically, with a gallon now $2.30, the lowest in five years, a 36%+ fall from the reasonably low $3.60 level seen as recently as June 2014. Rising US oil demand is very unlikely to support international oil prices, primarily because year-on-year growth in domestic supply of crude, in 2015, will conversely result in a decline in US imports.

Oil demand remains flat overall in Europe in Q1 2015, year-on-year, and is likely to show only modest growth in Q2 2015. The region's long term oil demand remains in a downward trend due to continuing improvements in fuel economy standards together with disparate economic growth during the year as Southern Europe slumps and Northern recovers marginally.

Since the Japanese economy slipped into recession in Q3 2014, there has been some improvement in GDP, which rebounded to 2.7% annualised in Q4 2014. Whilst there is some optimism that the economy will recover further, this is not likely to lead to growth in oil demand. Preliminary Q1 2015 data shows that crude oil imports were down by 300,000 barrels per day or 8% year-on-year, and this decline is expected to continue in Q2 2015 as refineries cut back on processing crude in line with seasonal maintenance. Looking ahead in 2015, Japanese oil demand will remain weak as liquefied natural gas (LNG) continues to compete with crude power generation. Given the link between LNG and crude prices, LNG continues also to be weak. It is possible also that the closed Japanese nuclear plants may be reactivated towards the end of the year.

Chinese oil demand grew by an estimated 7.4% in Q1 2015, despite the weaker economy. Chinese oil demand is likely to remain positive in Q2 2015 as the Chinese government is keen to use this period of price weakness as an opportunity to boost and rebuild commercial crude stocks. Recent strategy whereby the Chinese Republic has aimed to have a minimum of 31 days' worth of crude imports in stock has been tacitly amended so that the new target will be to have around 100 days' supply in reserve by 2020. As highlighted above, downside demand risks exist which could be aggravated by the adoption of stricter fuel emission standards.

As oil prices have dropped, Russia's economic problems have mounted. The rouble remains jittery against the dollar and the economy as a whole is suffering from US and EU applied sanctions. The Russian economy has been hit hard with capital outflows from the private sector in 2014 totalling $151.5 billion, up from $61 billion in 2013. The IMF has predicted that Russian GDP will see negative growth in 2015, at -3.0% (I think here they are being optimistic) and as such we expect oil demand growth will be meagre in Q2 2015 and throughout the rest of 2015.


http://www.atwd.com/

The potential lifting of some of the sanctions related to Iran in June is not expected to add significant amounts of crude to oil markets in 2015. In the recent past the Iranian government has said that it can add 800,000 barrels a day of production within a few months of sanctions being lifted. This is quite feasible, in theory, considering that Iranian oil exports have been down by 1.3 mbpd since late 2011, before sanctions came into effect. In practice the lifting of sanctions is not expected to happen very quickly and it could take Iran between 6-12 months to fully comply with all the terms before sanctions can be lifted.

As such the outlook for Crude remains neutral at best – only a major outbreak of hostilities in a large oil producer is likely to move prices from their current range. The US couldn't care less about the actual production levels from the Gulf as they are essentially self-sufficient. The problems recently in Yemen and Libya are in areas of low production and the ISIS threat seems to have been checked in Iraq with the retreat by their forces from areas they previously quickly overran.

So, for the moment, it will be a case of no significant news equals no significant price movements.

So, do we continue to feel confident about the prospects for 2015 – in short, yes!

2015 is already shaping up to be a year where taking any sort of risk is to be discouraged. Certainly the equity prospects for large swathes of the globe remain dubious at best and even what were previously 'sure bet' countries such as the UK are now entering periods of great uncertainty.

However, for us to again advise caution and to stick to the tried and tested areas such as the US, should not dismay most investors. As we have seen with the best performing markets so far this year, the first quarter is not usually a good indicator for performance for the year as a whole. In Europe, the Greek overhang would dissuade the opening for new positions within the Eurozone equity markets and the attempt by countries to peg their currencies to the Euro is a long-term losing game.

This will all continue to keep a lid on investment expectations and a decision to continue to build up cash reserves is certainly not to be sniffed at.

For the second quarter of 2015 our only suggestion is to be patient, do nothing stupid and if markets crash in any of your favourite equity investment areas, be careful and pick any entry point very carefully.

As the Amish of the US would say - be careful out there amongst the English.

It is going to be a difficult Second Quarter!

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ECOWAS Common External Tariff (CET): Challenges and gains for Nigeria

By Chinemerem Okoro

The long awaited Common External Tariff (CET) of the Economic Community of West African States (ECOWAS) has finally become a reality, having been approved by Member States for implementation effective January 1, 2015. The initiative, which has been pursued relentlessly for over a decade, constitutes an essential component of the integration process that the sub-region has been going through since the inception of ECOWAS in 1975. Nations within the West African region, like their counterparts in other regions, have continued to pursue inter-country trade and regional co-operation as key instrument to building a stronger and more sustainable regional and global economy; by promoting freer and more beneficial trade relationships among member states. Such enthusiasm culminated into the establishment of the Economic Community of West African States (ECOWAS).

Amongst other objectives, ECOWAS was set up to foster the ideal of collective self-sufficiency for its member states and to create a single, large trading bloc through economic cooperation. To realise this lofty vision, the Community is to ensure, in phases, among other means, the establishment of a common market through the adoption of a Common External Tariff (CET) and a common trade policy vis-à-vis third countries. The implementation of the Common External Tariff (CET) by ECOWAS Member States represents a giant stride particularly toward the full integration of the region into the global economy. Undeniably, West Africa as a sub-region, and indeed Africa as a whole, has struggled to catch the globalisation train. Even with a population of some 300 million people, representing approximately one-third of sub-Saharan Africa's total population, and a Gross Domestic Product of around US$ 675

Undeniably, West Africa as a sub-region, and indeed Africa as a whole, has struggled to catch the globalisation train.

billion (World Bank, 2013), the sub-region continues to engage at the periphery of the global economy.

This is evident in the region's declining share of global trade and output, accounting for less than three per cent of global trade. Achieving the formation of a regional economic bloc and the implementation of the CET, therefore, provides a springboard to deepen integration of the region into the global economy. Such integration guarantees a range of benefits associated with agglomeration and active participation in the global marketplace. Thus, it is aptly believed that for the West African sub-region to take full advantage of the opportunities presented by its Common Market and fast track the integration of the region into the global economy, the pragmatic adoption and implementation of the CET by ECOWAS Member States remains the way forward.

In Nigeria, the Federal Government had as far back as February 2004 announced its intention to comply with an ECOWAS CET. This is because the country recognises the role of international trade in the nation's economy as well as in her strive toward full integration into the global economy. As the sub- region's economic powerhouse, accounting for more than half of the region's GDP and population, Nigeria desires to take full advantage of the opportunities and concessions available in international trade relations at bilateral, multilateral, regional or continental levels. This is evident in her active participation in the Economic Community of West African States (ECOWAS) and other trade agreements within the continent of Africa. It was this desire that led the Federal Government to approve the implementation of the ECOWAS Common External Tariff (CET) 2015-2019 and 2015 Fiscal Policy Measures effective April 11, 2015. By this, all imports arriving into the country will be subjected to the rates contained in the CET 2015- 2019 and 2015 Fiscal Measures without recourse to the rates applicable before the coming into effect of the ECOWAS CET 2015 – 2019.

The adoption of the ECOWAS Common External Tariff (CET) has remained an issue of strong discourse and controversy in Nigeria's economic setting, especially as it relates to the benefits inherent in its implementation vis-à-vis her quest for industrialization. Without circumventing the argument, the CET presents numerous gains for Nigeria considering her strategic economic advantage as Africa's most populous and largest economy. According to the World Bank, the implementation of the CET by Nigeria would have significant and largely positive effects on Nigeria's consumers as well as producers. However, harnessing these benefits will require a conscious effort to overcome the challenges the CET would present, particularly in harmonization of tariff vis-à-vis the nation's pursuit of industrialisation and adoption of a common payment mechanism.

Common External Tariff: Nature, purpose and implication

Essentially, a Common External Tariff is a basic feature of a Customs Union – an international association of nations organized to eliminate customs restrictions on goods exchanged between member nations and to establish a uniform tariff policy toward non-member nations. That is, it is an instrument for tariff setting and liberalisation which ought to take care of a common market access within the ambit of regional trade and economic integration. The dynamics require all the countries in the Customs Union to abandon the individual tariff structure with which they trade with other countries (referred to as third countries) and adopt a parallel tariff rate agreed to by all members of the customs union on imports of a product from outside the union. Besides having the same customs duties, the countries may have other common trade policies, such as having the same quotas, preferences or other non-tariff trade regulations apply to all goods entering the area, regardless of which country within the area they are entering.

Common External Tariff is designed to end re-exportation: a situation where one member of a free trade agreement charges lower tariffs to external nations to win trade, and then re-exports the same product to another partner in the trade agreement, but tariff-free. It also seeks to end informal trading/smuggling by ensuring that customs procedures are transparent and readily followed since member states have a single tariff structure. Common External Tariff seeks to promote trade through the removal/reduction of official barriers to trade which distort the relative prices of goods and services. The removal/reduction of these official barriers will have significant effect on the economic welfare of an economy.

CET is also embraced with the purpose of checking the dumping of inferior goods and to support the protection of industries based within the customs union. Members of a customs union adopt a common external tariff as a protective structure to domestic enterprises producing intermediate and finished consumer goods with the customs union. Perhaps even more importantly, the purpose of Common External Tariff is to enhance the economic integration process of a customs union. Countries within a region can come together to adopt a CET to advance harmoniously as one region in its search for sustained economic growth and development.

ECOWAS: An evolution towards a linear market integration

The Economic Community of West African States (ECOWAS) is one of the many sub-regional economic communities in Africa. It was the result of the demonstration of the desire for cooperation among the people of West Africa that culminated into its creation in May 1975. ECOWAS is a sub-regional group of initially sixteen heterogeneous countries: Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo. However, following the withdrawal of Mauritania in December 2000, the membership dropped to fifteen (15) countries with a current combined population of about 300 million people, GDP slightly above US$675 billion as at 2013 and with similar desire to promote economic and monetary integration and foster improved trade relations among them.

Considered one of the pillars of the African Economic Community, the primary purpose of ECOWAS is to achieve "collective self-sufficiency" for its member states by creating a single large trading bloc through an economic and trading union, as well as a peacekeeping force in the region. Among some of its mandated treaty provisions are to: eliminate between member states customs duties and other charges of equivalent effect on imports and exports; eliminate quantitative and administrative restrictions on trade among members and establish a common external tariff structure and commercial policy towards non-member countries. To

http://en.wikipedia.org/wiki/Economic_Community_of_West_African_States

achieve these lofty objectives, the ECOWAS Authority of Heads of State and Government accorded topmost priority to the promotion and development of intra-community trade with the adoption of the ECOWAS Trade Liberalization Scheme (ETLS) in January, 1990.

Since its adoption, ECOWAS has evolved from a Free Trade Area; under which member countries eliminated import duties on goods from other member states, but allowed the imposition of individual country's own import duties on imports from non-member countries, to a customs union where all members maintain common tariff rates against non-member countries. The body has continued to pursue even loftier level of economic integration of a common market and ultimately, economic

union. The common market has all the properties of the Customs Union, but in addition, it provides for movement of labour and capital between member countries while economic union involves coordination and harmonization of policy in such fields as economic planning, industrialization, monetary policy, and exchange rate determination. This is the level of integration which ECOWAS hopes to attain in the future but to accomplish this requires a stepwise evolution, the latest being the full adoption and implementation of the Common External Tariff by its Member States.

ECOWAS CET: Origin, Structure and implication

As mentioned earlier, the ECOWAS CET is one of the instruments for harmonizing the policies of ECOWAS Member States and strengthening their Common Market. It is a precursor to a regional customs union, which is predicated on the harmonization and convergence of fiscal, monetary and trade policies of member states for the attainment of economic integration by the 15-nation economic community. Essentially, the CET consists of tariff bands ranging from 0 percent to 35 percent, depending on the type of good. It seeks to harmonize the duties and taxes on goods entering the ECOWAS region regardless of their points of entry and destination. Participants will have leeway to deviate from CET rates by up to 70 percent during a transition period. In other words, member countries made provision for supplementary protection measures comprising the Import Adjustment Tax and the Supplementary Protection Tax.

The ECOWAS CET was not entirely a new tariff structure, as it were. In fact, it was an amendment to a tariff structure operated by the West Africa Economic and Monetary Union (WAEMU) or Union Economique et Monétaire Ouest Africaine, (UEMOA, in French), a sub economic and monetary union made up of eight francophone countries of Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo. The West Africa Economic and Monetary Union (WAEMU) use CFA Franc as its common currency and also adopted a CET structured along four tariff bands of 0% (essential social goods), 5% (goods of primary necessity, raw materials and specific inputs), 10 % (intermediary products) and 20% (final consumption products). The double objective of this structure was to promote local value addition while applying low duties on essential goods. This tariff came into effect on January 1, 2000, though some divergences remain between national tariffs of WAEMU countries.

Thus, the ECOWAS Heads of State at their 2001 summit, reached a decision to harmonise member states' import tariffs with the existing West African Economic and Monetary Union (UEMOA) CET adopted by eight mainly francophone member states in 1998 which are no doubt in line with the global trends towards lower tariff rates and fewer tariff categories. However, the adoption was not without the addition of a fifth band (35% on specific goods for regional development) which was proposed by Nigeria, the largest ECOWAS member by far. Apart from the above highlighted rates, ECOWAS Heads of State provided specific protection instruments in addition to the customs duties - such as the regressive protection tax, the special import tax and safeguard measures - to make up for the inadequate taxation of some products. The decision further made provision for a transition period to enable non–UEMOA countries to adapt to the new tariff policy and to pursue the negotiations with a view to reaching agreement on the re-clas-

Bands of the ECOWAS Common External Tariff (CET)

S/N	Categories	Percentage of Duties	Description of Goods
1	0	0%	Essential social Goods
2	1	5%	Goods of primary necessity, raw materials and specific inputs.
3	2	10%	Intermediate goods.
4	3	20%	Final Consumption goods.
5	4	35%	Specific goods for economic development

Source: Economic Community Of West African States (ECOWAS)

sification of some products as requested by the non-UEMOA countries.

The legal mandate for implementation of the CET derives from Article 3 of the ECOWAS Revised Treaty which states clearly that one of the major aims for the creation of the community is the establishment of a common market through trade liberalization and the adoption of a Common External Tariff (CET). In addition to this, the Authority of Heads of State and Government, at its 29th session, reached a decision to adopt the ECOWAS CET for Member States. It was at an extraordinary session of the ECOWAS Council of Ministers which ended on September 30, 2013, that the five-band regional CET was adopted to become operational on 1st January, 2015.

Expectedly, the adoption of the Common External Tariff (CET) by Member states will certainly have significant impact on their tariff structures as all the countries will abandon their individual tariff structures with which they trade with other countries, and adopt a common external tariff in trade with third countries. These changes in tariff structures have substantial economic implications on the economies of Member States, both positively and negatively; although the benefits are expected to outweigh the disadvantages. Through increased access to regional and international markets on more favourable terms, reduced tariff and non-tariff barriers, fewer barriers to market entry and lower transaction costs, member states can enjoy improved efficiency, job creation and poverty reduction, improved welfare and ultimately economic diversification within their economies. The need for effective implementation of the CET by Member States is critical if ECOWAS countries are to leverage on international trade as a catalyst for economic growth.

ECOWAS CET: An essential consensus in EPA Negotiations.

The adoption of a Common External Tariff by ECOWAS countries represent an essential step to restarting the trade negotiation between West African nations and the European Union (EU). The Economic Partnership Agreement (EPA) negotiations between the EU and regional groupings of African, Caribbean and Pacific (ACP) countries, including West Africa, started in 2002 and were initially planned to be completed by 2008. Under the negotiated agreement, the EU will offer West African products full access to its market, while West African countries will gradually remove tariffs on imports from the EU for 75% of ECOWAS CET tariff lines, over a 20-year transition period and at various speeds for different categories of products. The remaining 25% of goods, which will see

no tariff reduction, will serve as a strategic measure to protect existing and/or potential producers.

The negotiations were suspended in 2012 following disagreements mainly over market access offer, the EPA Development Programme (EPADP), a dedicated funding programme to enable West Africa cope with the cost of adjustment to the impending trade regime as well as the non-existence of a common external tariff with which third party trade relations and agreements - such as the EPAs - could be mirrored and executed. Initially, West Africa had offered to open 60 per cent of its market over 25 years. It later revised this position to 70 per cent over the same period citing the protection of the region's fragile industrial base from cheaper goods from the EU. On the other hand, the EU has maintained its original position of an 80 per cent market opening over 15 years. West African States and Mauritania are also asking for 15billion Euros in new funds for the EPADP, while the EU insists that the programme should be funded from existing bilateral and multilateral contributions.

http://realnewsmagazine.net/wp-content/uploads/2014/06/ECOWAS-Headquarters.jpg

Following the implementation of the ECOWAS CET, the sub-region is able to present a level playing field for imports into the sub-region. and restart the negotiations with the European Union. The ECOWAS Council of Ministers has already endorsed the resumption of negotiators with the European Union to find the required compromise on all outstanding issues regarding the EPA.

CET Implementation, Learning from other successful blocs

Many notable regions, the world over, have applied integration approach to achieve economic development and global integration. A typical example of a successful regional bloc is the European Union (EU). A more recent type of such cooperation is that of the European Union's introduction of a single currency and adjustment of the Union's integration process to include East European countries. Some of the other known examples of this trend include initiatives such as the Asia Pacific Economic Cooperation (APEC) agreement between the United States, Japan, China, Canada, Mexico, Australia and a dozen other countries bordering the pacific ocean; the North American Free Trade Areas (NAFTA); Association of South East Asian Nations (ASEAN); Southern Common Market (MERCOSUR); and Caribbean Community and Common Market (CARICOM).

All of these bodies shared a common desire to establish free trade areas, custom unions and perhaps common currencies, to better the lot of their regions. In order to replicate the successes recorded in these regional economic blocs in its implementation of the CET, ECOWAS must learn from the successes and challenges encountered by these regions.

ECOWAS CET and Nigeria: What's in it for Africa's giant?

Nigeria aspires to take full advantage of the opportunities and concessions available in international trade relations at bilateral, multilateral, regional or continental levels. This is noticeable in Nigeria's active participation in the Economic Community of West African States (ECOWAS), African Union (AU), Cotonou Agreement, the European Union (EU) – African Caribbean and Pacific (ACP) Agreement, and the Africa Growth and Opportunity Act (AGOA) of the United States of America. Nigeria's trade policy has always recognized the critical role foreign trade plays in the nation's economy. It has as such, continued to make a strong reference to vibrant engagement in bilateral, regional and multilateral trade negotiations, as a way of boosting trade and achieving full integration into the global economy.

To give effect to the decision of the ECOWAS Authority of Heads of Governments, the federal government of Nigeria has approved the implementation of the Economic Community of West African States (ECOWAS) Common External Tariff (CET) 2015-2019 as well as the Supplementary Protection Measures (SPM). The approved Supplementary Protection Measures and Fiscal Policy Measures comprise an Import Adjustment Tax (IAT) list which involves additional taxes on 177 tariff lines of the ECOWAS CET. It also includes a national list which consists of items whose import duty rates have been reviewed to encourage more development in strategic sectors of the economy. Furthermore, the newly approved supplementary protection measures include an import prohibition list applicable only to certain goods originating from non-ECOWAS countries. The question that readily comes to mind is, what does CET hold for Africa's giant, Nigeria?

Indeed, there are numerous potential benefits Nigeria stands to gain from implementing the CET. Some of these benefits include:

- **Access to larger market resulting from preferential margin:** By implementing the ECOWAS CET, Nigerian goods will enjoy access to a larger regional market resulting from preference margin. Under the ECOWAS Trade Liberalization Scheme, Nigerian firms already enjoy duty free access to all ECOWAS partner countries. Thus, implementation of the new CET would not directly affect their market access condition. However, it would affect the market access conditions of firms from other parts of the world, resulting to less international competition in these markets and more market space for Nigerian goods.

- **Trade facilitation:** Another expected benefit of the CET is the simplification of trade procedures, improved customs cooperation between neighboring countries and fewer resources to enforce burdensome inspections as the incentives to smuggle are reduced. However, intraregional trade would benefit even more in the future from a more advanced form of customs union where the CET rate is charged at the border where a good first enters the region and tariff revenues are then distributed based on an agreed formula, removing the need for transit regimes and rules of origin verification for intra-ECOWAS trade.

- **Growth of industrial sector due to higher economies of scale:** Looking at the industrial sector holistically, Nigeria stand to benefit immensely from the adoption of the CET. Although, the country is yet to reach her industrial capacity/potential, examples abound of Nigerian firms which are taking advantage of the ECOWAS free trade scheme to export goods to neigbouring countries. Thus, CET would make room for faster business development, higher capital accumulation and increased turnover. The sector will also benefit through higher economies of scale and lower prices on inputs and equipment; leading to a net increase in profits.

- **Job Creation:** This is an area that Nigeria stands to benefit enormously from the implementation of the CET. Nigeria is burdened with a high level of unemployment. Increasing production, capacity and turnover implies that new employment opportunities will develop in firms in the country. However, while this is likely to be the case in food industries, the situation is expected to be more problematic in textile and apparel, making it a possible priority sector for adjustment assistance to strengthen firms'

http://oklahomafarmreport.com/wire/news/2013/12/06609_USAgricultureConsidering12182013_164418.php#.VV9m6vlViko productivity or help redundant workers find employment in other sectors benefiting from the reform.

ECOWAS CET: the flipside for Nigeria

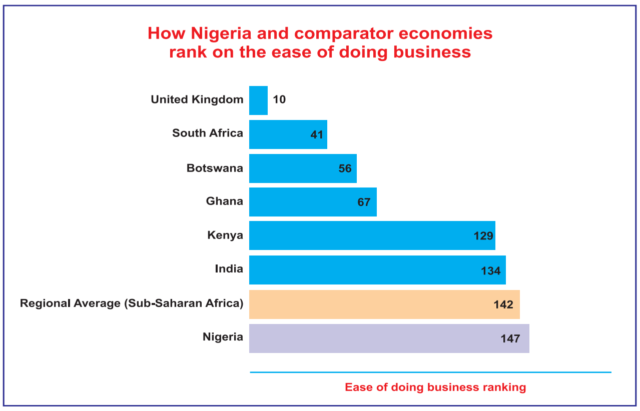
In spite of the numerous benefits which could accrue to Nigeria from the implementation of the ECOWAS Common External Tariff, there are grey areas that must be re-examined if the country must benefit optimally from CET. Firstly, the cost of doing business in Nigeria is high, when compared to other countries, due to high energy cost, high costs of funds, high regulatory charges, and high ports charges, among others. The possible implication is that Nigerian goods are not competitive in the international market, and this is a serious discouragement for industralisation and export drive. This is why goods shipped into the country are cheaper than the ones produced locally. According to the World Bank's doing business in Nigeria report 2014, sub-Saharan Africa ranked a regional average of 142nd while Nigeria ranked 147th and neigbouring Ghana ranked 67th. This means Nigeria has a more difficult business environment than the regional average, a situation which will likely translate to higher production cost.

Secondly, in order for the ECOWAS CET to work effectively, there is the need to harmonize not only the rate of customs duties, but the rates of all forms of taxation and to simplify the rate classes and the criteria for application. For instance, while Value Added Tax (VAT) is five per cent in Nigeria, it is 20 per cent in the francophone countries and 15 per cent in Ghana. This will surely have effect on the cost of goods and services in the various ECOWAS member economies. Thus, Nigeria might not attain her full potential on the platform of CET unless VATs in different ECOWAS countries are harmonised to ensure the smooth implementation of the policy.

Lastly, given the country's current condition as an import-dependent economy, the implementation of the CET could be counter-productive. Embracing CET, without putting measures in place to support the industrial sector to compete globally, could lead to flooding of the local market with 'cheap' goods from ECOWAS Member States. Not doing this would have serious implications for the economy, particularly the manufacturing sector.

(* Chinemerem David Okoro is a Research Economist, Zenith Economic Quarterly)

Source: *Doing Business database*



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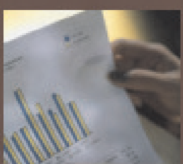

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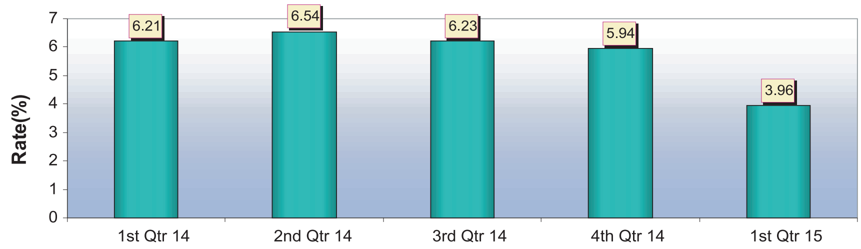
Macroeconomic Environment

The Nigerian economy in the first quarter 2015, recorded muted performance in several parameters. Some of the indicators were unable to find meaningful direction while others fell dramatically to all-time lows. GDP grew slower than expected in the first three months. Inflation drifted higher but remained within the single digit target. The nation's currency, the naira, lost value significantly against other major world currencies but stabilised towards the end of the quarter. In the capital market, bears still roam the terrain. Foreign exchange reserves dwindled as export revenues dropped. In the international oil market, crude prices continued their downward spiral, with oil producers experiencing reduced earnings during the quarter.

GROSS DOMESTIC PRODUCT

Gross Domestic Product (GDP) began the first quarter with a seasonal dip at 3.96 percent, slumping from 5.94 percent recorded in the preceding quarter. It is the third consecutive quarterly contraction and the slowest growth recorded in over two years. Lower global oil prices, as well as hitches in production prevailed over the period under review, according to the National Bureau of Statistics. The non-oil sector expanded by 5.59 percent, slowing from 6.44 percent recorded the preceding quarter. Growth was mainly driven by trade, crop production, other services, construction and telecommunications. The oil sector shrank 8.15 percent, worst than the 6.6 percent contraction a year earlier. In 2015, the economy is expected to grow by 5.54 percent, supported by growth outside the oil sector.

GDP Growth Rate (1st Qtr.14 - 1st Qtr.15)

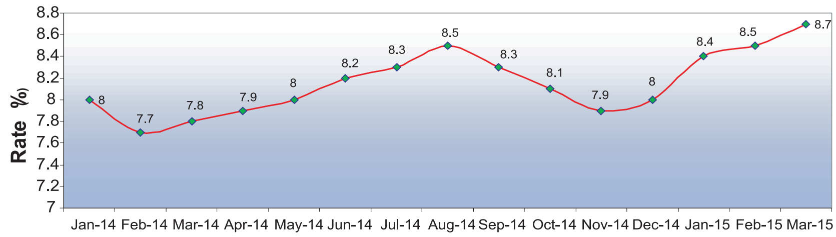


Source: National Bureau of Statistics

INFLATION

The Year-on-Year (Y-on-Y) inflation picked up in the first quarter 2015, jumping to 8.7 percent in March. It rose for the fourth consecutive month, the highest in 7 months and driven by food prices. Earlier in January, the headline rate accelerated slightly to 8.2 percent from 8 percent in December as result of higher prices of food items, transport and housing. It climbed higher for the third straight month in February to 8.4 percent partly driven by increases in prices of imported food items such as Fish, Meat, Vegetables and Potatoes due to weaker naira against the US dollar. Core Inflation also went up for the second consecutive month with strong increases recorded in furnishings, household equipments, fuels and lubricant, personal care and appliances. In the months ahead, inflationary risk remains a threat due to the devaluation of the naira. The lagged impact of the depreciation is expected in the first half of 2015.

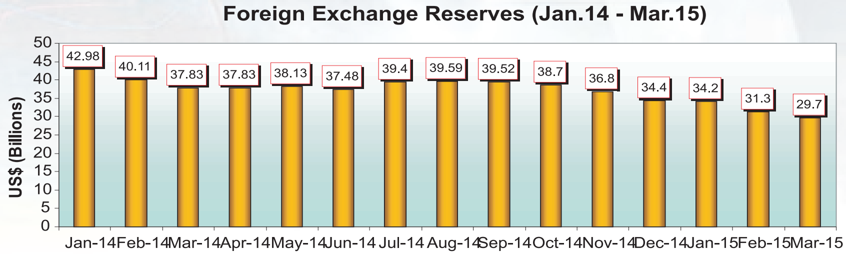
Inflation, Year-on-Year (Jan.14 - Mar.15)



Source: National Bureau of Statistics

EXTERNAL RESERVES

The nation's external reserves shrank in the first quarter 2015, hitting a new low despite rebound in crude oil prices in the international market. Foreign exchange reserves contracted by 13.5 percent, from $34.47billion to $29.79 billion, as result of increased demand of dollars and lower crude oil prices. The exit of foreign investors from Naira assets as well as increased funding of the foreign exchange market to stabilize the exchange rate raised the pressure on the stock of external reserves. Despite the leakages, however, the stock of external reserves is capable of financing up to 6 months worth of imports.



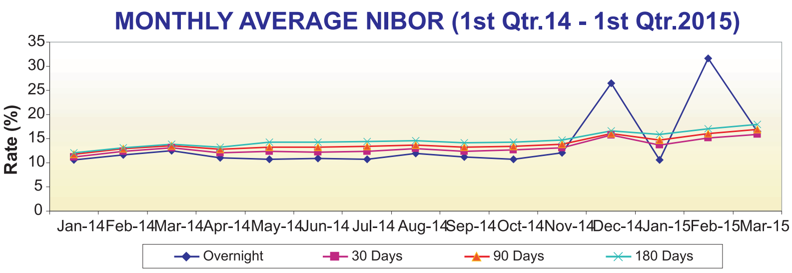
Source: Central Bank of Nigeria

INTEREST RATE

In line with expectations, the Monetary Policy Committee (MPC), kept its benchmark interest rate, the Monetary Policy Rate (MPR), unchanged at 13 percent in its January 20 and March 25, 2014 meetings. It was the second consecutive hold since the MPR was raised by 100 basis points from 12 percent to 13 per cent in November 2014, citing inflationary pressures. The committee also opted to retain its decision of November 2014 in order to allow the effects to 'crystallise' in the economy.

The average interbank rate witnessed significant swings in the first quarter 2015. In January, the system was awash with liquidity resulting in the Open Buy Back (OBB) and overnight rate to crash to 6 percent and 7 percent, respectively. However, the OBB and overnight rate shot up as high as 70 percent, in February, due to tighter liquidity as result of N162billion Cash Reserve Ratio debit, RDAS funding, NNPC remittances and Open Market Operation of the CBN. It was short-live nevertheless as the OBB and overnight dropped to 10 percent and 11 percent, respectively, as result of Statutory Revenue Allocation inflows of N250billion and maturing treasury bills. Interbank rates were relatively more stable in March despite minor spike caused by the market overreacting on the expected Treasury Single Account and NDIC remittances.

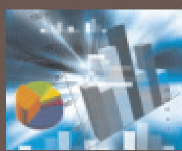
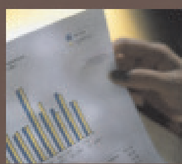
The average Prime Lending Rate (PLR) inched slightly during the period, hovering around 16 percent as at end March 2015. Returns on the average deposit rate went up across most investment horizons, with volatility higher on the savings and 90 Days tenors.



Source: FMDQOTC

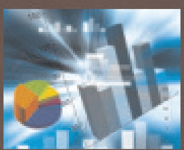
Facts & Figures

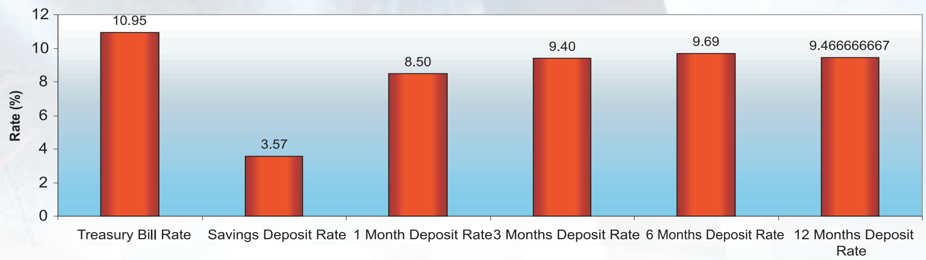


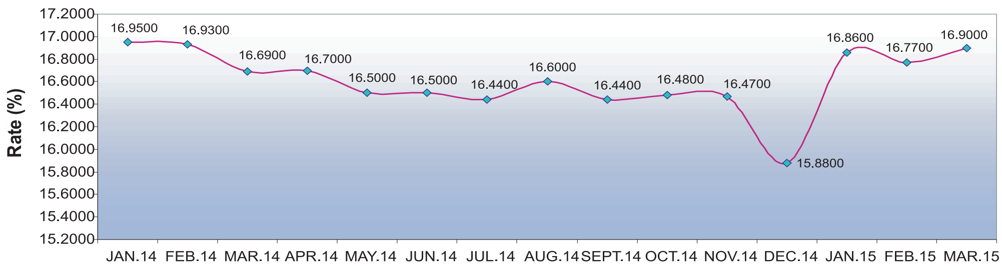








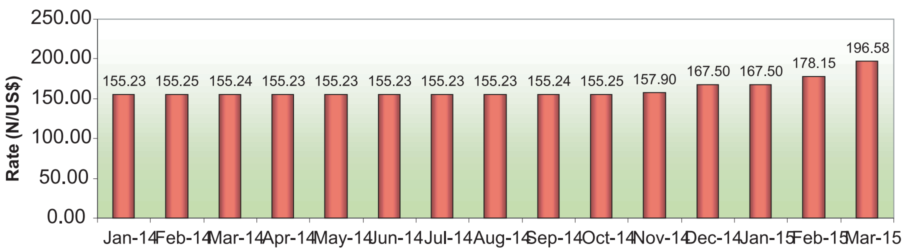
Source: Central Bank of Nigeria



Source: Central Bank of Nigeria

EXCHANGE RATE

The nation's currency, the Naira, fell to an all-time low in the first quarter 2015, after it crossed N200 to the dollar for the first time. It traded outside the new official band that emerged in November last year on several occasions in February, losing 8.3 percent against the dollar, its biggest monthly decline in more than five years. In bit to ease pressure on the naira, the Central Bank of Nigeria (CBN) scrapped the Retail and Wholesale Dutch Auction Systems (RDAS/WDAS), its bi-weekly forex auctions, on February 18. Based on the new directive, all demand for foreign exchange was channeled through the interbank foreign exchange market as well as the Bureau De Change (BDCs). Pressure on the naira eased as result of the apex banks continuous intervention through its interbank window. The move stalled the further fall of USD/NGN and maintained the range of N198 – N205. As a result, the USD/NGN which opened the quarter at N183.01 depreciated by 8.76 percent to close the quarter at N199.05. At the interbank market, the naira lost around 20 percent in value since the start of November 2014.

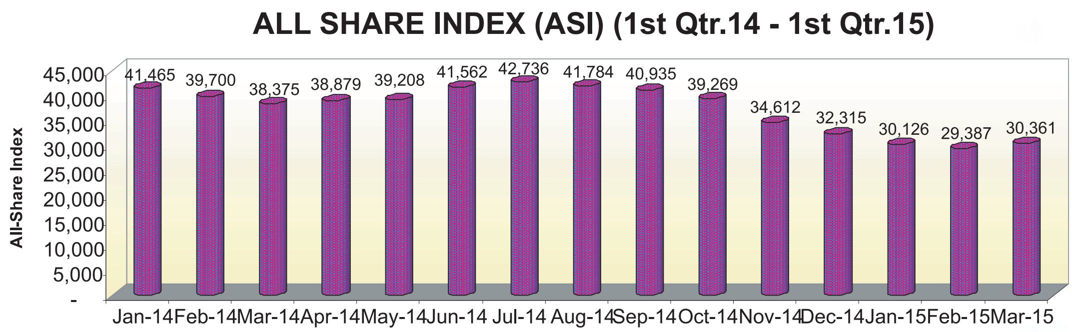


Source: Central Bank of Nigeria

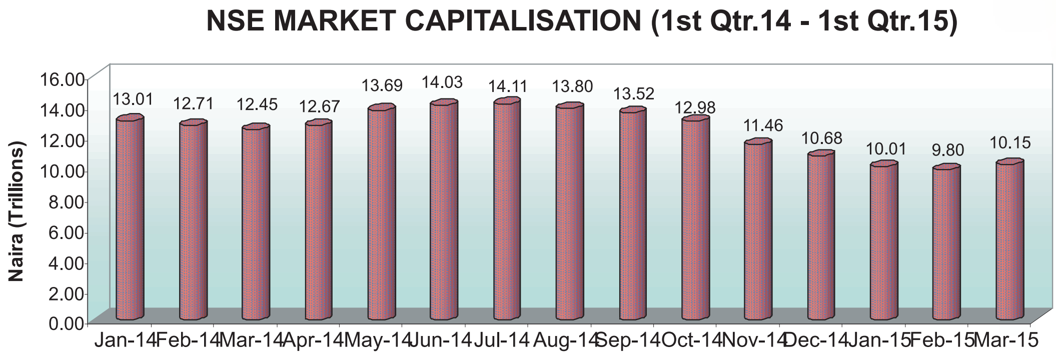
Facts & Figures

CAPITAL MARKET

The capital market got off to a slow start in the first quarter 2015, unable to sustain meaningful momentum. It lost about 8.4 percent as the All-Share Index (ASI) and market capitalization finished lower at 31,744.82 and N10.71trillion, respectively, from 34,657.15 and N11.47trillion in the preceding quarter. Selling pressure returned as the market witnessed a volatile trend during the quarter due to heightened political risk in the run up to the general election. In January, the All-Share Index recorded its biggest loss in over six years of -14.7 percent. Market sentiment was weak following the devaluation of the Naira in February coupled with dwindling crude oil prices. On a brighter note, the market improved slightly in February by 1.83 percent and then increased further by 5.45 percent in March. To boost investor confidence, a number of quoted companies such as Nestle, Forte Oil, Greif Nigeria, Zenith bank, Guaranty Trust Bank, Lafarge Africa, Mobil Oil Nigeria, Julius Berger, Dangote Cement and Cadbury Nigeria paid impressive dividends of N17.50; N2.50 (Bonus 1 for 5); 60kobo; N1.75; 1.50; N3.60; N6.60; N2.70; N6.00 and 65kobo, respectively. In the international capital market, activities in emerging market bonds remain attractive despite concerns over liquidity.



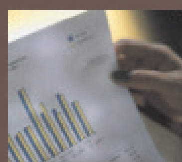
Source: Nigerian Stock Exchange



Source: Nigerian Stock Exchange

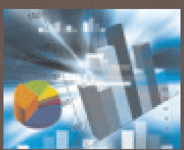
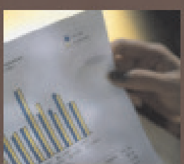
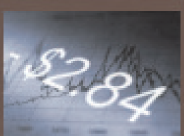






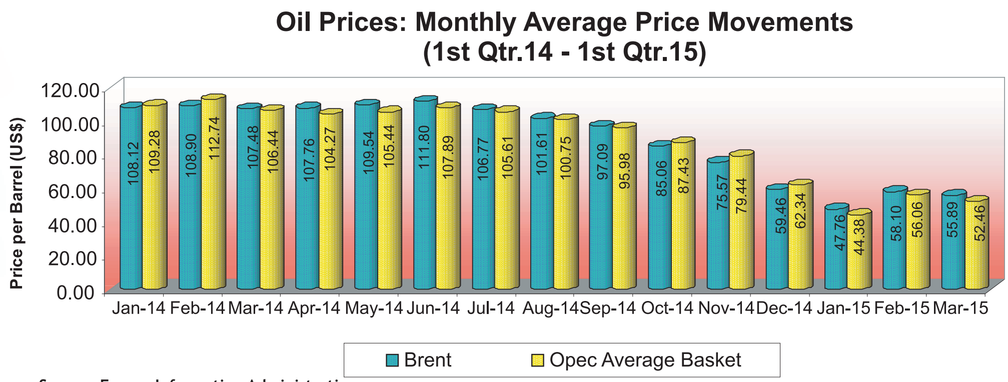

Facts & Figures



OIL & GAS

Crude oil prices fell considerably in the first quarter 2015, breaking below their 2014 lows. It posted a loss of around 12 percent owing to supply and demand imbalances. January was marked by a steady drop and temporary spike when the death of King Abdullah of Saudi Arabia was announced, triggering concern of new oil-related policies. However, oil prices tested their previous lows for a second time in early March before a series of events pushed prices up again. Nigeria's brand of crude oil, bonny light, traded within an average band of $54-$45 per barrel. Industry analysts attribute the fall in crude oil prices in January to stronger dollar, the continuing reluctance of the OPEC to cut production and the build-up in US inventories. February however was marked by US refinery strike, the first since 1980 and a slowdown in company investments which helped oil prices rebound from their January lows. However, in March, tensions in Iraq, Libya and the Yemeni civil war pushed oil prices higher. In the short to medium term, whether or not oil prices will rebound later in 2015 remains one of the biggest question marks in the market right now.



Source: Energy Information Administration