

ACCESS ECONOMIC QUARTERLY Q2 2014



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ACCESS ECONOMIC QUARTERLY

Q2 2014



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1.0

GLOBAL ECONOMY

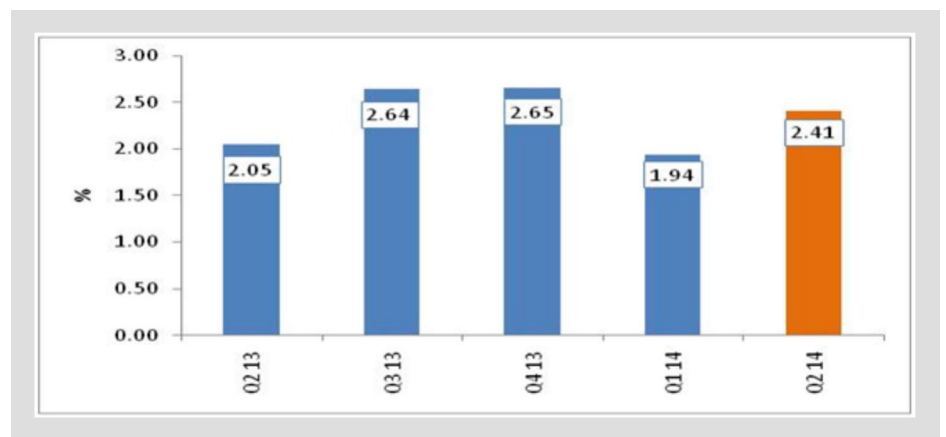
GLOBAL ECONOMY



In June, the World Bank revised global growth outlook for 2014 downwards to 2.8% from an initial estimate of 3.2% reported in January. The revision was largely in consideration of slow growth in the U.S, financial market turbulence, political crisis in Ukraine, as well as disappointing expansion in Latin America and Asia. Also, advanced economies growth outlook was marked down to 1.9% from 2.2%, while estimate for developing countries was trimmed to 4.8% from 5.3%. The second quarter has also accentuated a divergence in the monetary policy trajectories of advanced economies.

While the European Central Bank loosened policy in June by reducing the main refinancing rate to 0.15% from 0.25% and also imposed a negative interest of bank deposits, the US Fed continues to wind down its Quantitative Easing programme and hints at interest rate hike early in 2015.

GLOBAL GDP GROWTH



Source: Bloomberg



1.1 UNITED STATES

Following a dismal showing in the first quarter of 2014, the US economy posted better-than-expected results for the second quarter. The US GDP expanded by 4%, after contracting at a revised rate of 2.1% in the first quarter and 1.8% in the corresponding quarter of last year. The turnaround in the economy was broad-based with consumption, investment and inventories contributing 1.69, 2.57 and 1.66 percentage points to the growth of GDP, respectively.



GLOBAL ECONOMY

UNITED STATES/EURO AREA

The Fed continued to steadily taper its quantitative easing program on the expectation and recent emergence of better jobs and growth data. By the end of Q2, the unemployment rate was down to 6.1% following job gains of 304,000 in April, 224,000 in May and 288,000 at half year. By June the economy had created no fewer than 200,000 jobs in five consecutive months – the longest job-creation streak since the late 1990s.

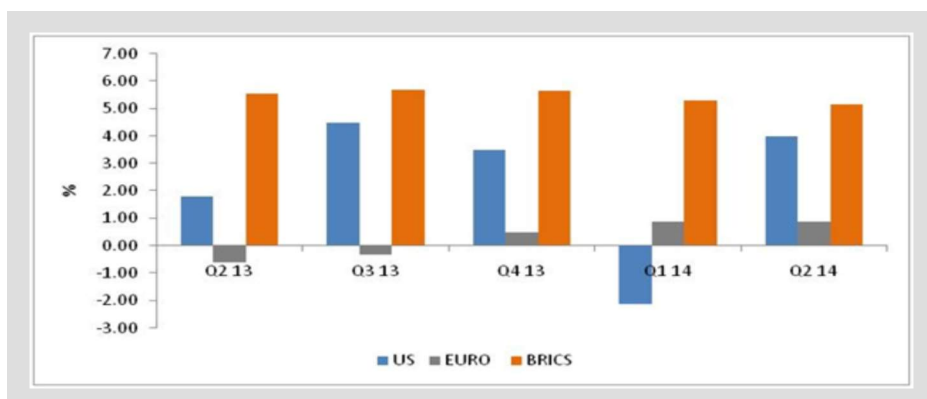


1.2 EURO AREA

Momentum in the Eurozone remained uneven and fragile in the second quarter. While growth was powered by Germany, it was undermined by contractions in Portugal, Spain, Greece, and Cyprus. One of European Union's number crunching body, the National Institute of Statistics and Economic Studies, estimates that Eurozone growth recovered in Q2 2014 with GDP increasing by +0.3% (after +0.2% in the previous quarter).

Following several months of slowing inflation, in June the European Central Bank (ECB) took an extraordinary set of steps, including the introduction of a negative deposit rate (a first for a major central bank), targeted liquidity operations and further moves towards private-sector asset purchases. Downside risks remain the strong euro and the impasse in Ukraine.

GDP Growth Rate & Forecasts – Regional Comparison



Source: Bloomberg & IMF



GLOBAL ECONOMY

UNITED STATES/EURO AREA



1.3 BRICS

The five-nation group experienced mixed fortunes in their individual economic performances. Collectively, they averaged growth rates above 5% over 4 consecutive quarters, reaching 5.17% in Q2 2014.

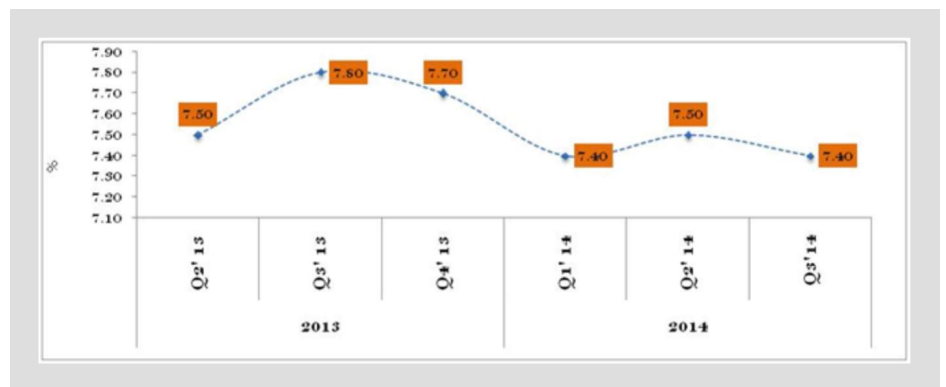


China

China's economy showed signs of stabilizing after a slowdown experienced earlier in the year. GDP grew by 7.5% in Q2 2014, slightly higher than the 7.4% posted in Q1. The performance came on the back of higher state spending and credit easing measures introduced under the mini-stimulus programme. Manufacturing output, which accounted for 45% of China's GDP in 2012, is forecast to have grown 9% in June, slightly from May's 8.8%.

Overall, China appears to have avoided a hard-landing as it pivots towards a consumption-based model of economic growth. However, the economic outlook remains clouded by ongoing property slowdown and the shadow banking sector.

GDP Growth Rate & Forecast - China



Source: Bloomberg & IMF



India

India's economy grew at an estimated 5% in Q2, up from 4.6% in Q1, largely buoyed by optimism and increased investor confidence following election of pro-reform Prime Minister Narendra Modi. Inflation rate eased to 7.31% in June from 8.28% in May, continuing the decline of 11.16% in November 2013. Prospects for the economy remain positive following on from improving global economic activity and a firming of industrial growth and exports.



GLOBAL ECONOMY
BRICS



GDP Growth Rate & Forecast - India



Source: Bloomberg

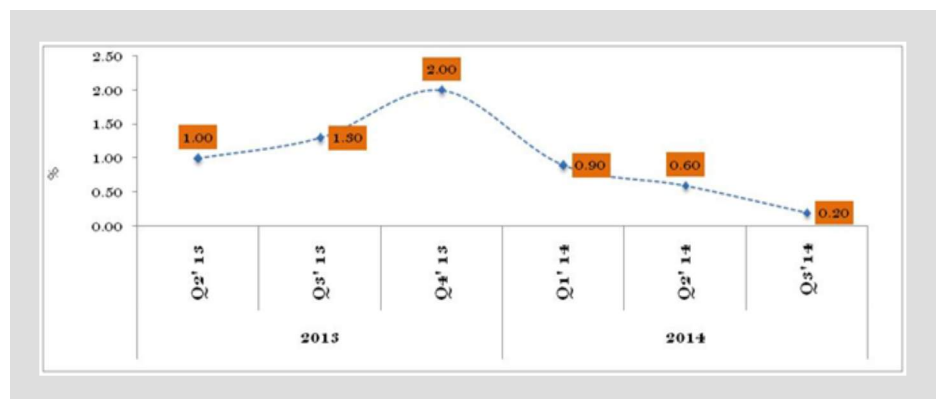
Economic growth and outlook may be on the verge of sustaining above the regulators target in Q4 2013 on better improvement in macroeconomic indicators. The International Monetary Fund estimated Chinese economy to grow 7.6% in 2013 and 7.3% in 2014.



Russia

A combination of loss of investor confidence and the ripple effect of sanctions saw Russia's economy stagnate in Q2. The economy grew by 1.2% annually in the second quarter, compared to 0.9% in the first quarter. Manufacturing activity contracted with the manufacturing PMI reading for April, May and June at 48.5, 48.9 and 49.1, respectively. High inflation rate (7.81% in June) and capital outflows will continue to hobble growth for the rest of the year.

GDP Growth Rate & Forecast – Russia



Source: Bloomberg



GLOBAL ECONOMY

BRICS



Brazil

Estimates of Brazil's Q2 GDP indicate that it fell sharply to 0.2% from 1.91% in Q1. The lower outturn was driven by, among other things, declining business confidence, domestic demand moderation, lower demand from Argentina and temporary factory closures during the recently-concluded World Cup. By categories, the contraction was skewed towards capital goods (-9.7% MoM) and durable consumption goods (-24.9% MoM). The IMF in July revised its annual growth forecast for Brazil to 1.3%, from initial projection of 1.8%. Inflation rate rose to 6.52% in June from 6.37% in May. The rising inflation rate has prompted the central bank to maintain a high policy rate even as growth remains anemic. The outlook for Brazil remains further clouded by uncertainty over forthcoming general elections scheduled for October.

GDP Growth Rate & Forecast – Brazil



Source: Bloomberg & IMF



South Africa

The economy of Africa's second largest nation is estimated to have expanded by 1.6% in Q2, same as in Q1. The lackluster growth was partly on account of a prolonged strike in the platinum mining sector, as well as weak domestic and external demand. Inflation remained unchanged in June from previous month at 6%, hitting the ceiling of the Reserve Bank's target for a third month. The Reserve Bank raised its benchmark [repurchase rate](#) by 25 basis points to 5.75% in July in a bid to bring the inflation rate under control.

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



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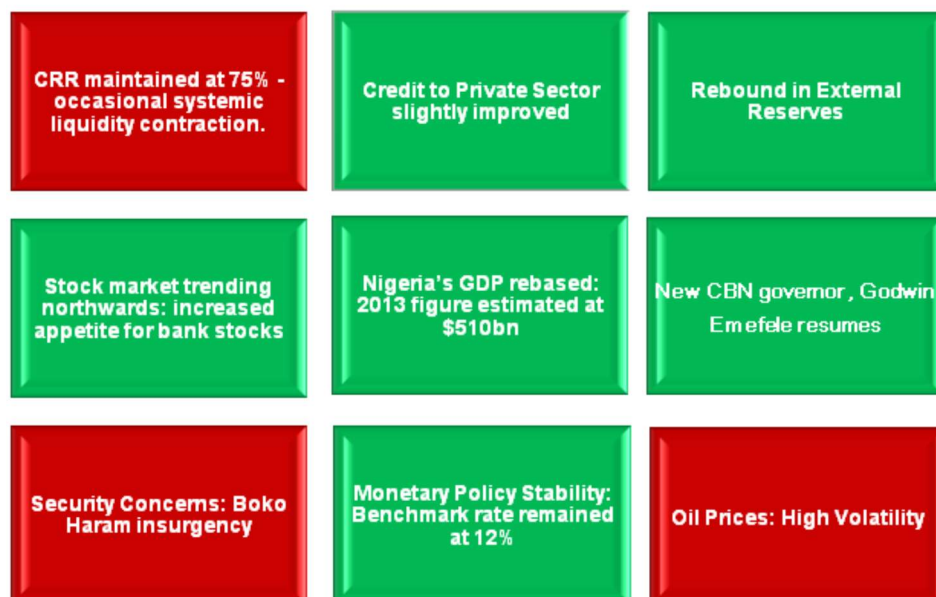
2.0

THE NIGERIAN ECONOMY



THE NIGERIAN ECONOMY

Below is a snapshot of the domestic economy in Q2 2014.



2.1 GDP GROWTH

Nigeria's GDP has almost doubled following the rebasing exercise concluded in April which saw the base year of the real GDP moved to 2010 from 1990. Nominal GDP has been revised up to US\$509billion at the end of 2013, from previous estimate of US\$270billion, making Nigeria the biggest economy in Africa.

The release of the final rebased GDP figures in July revealed that economic growth in the country was lower than previously thought. Specifically, real GDP growth is estimated at only 4.21% in 2012 (5.8% previously), and 5.49% last year (7.3% previously).

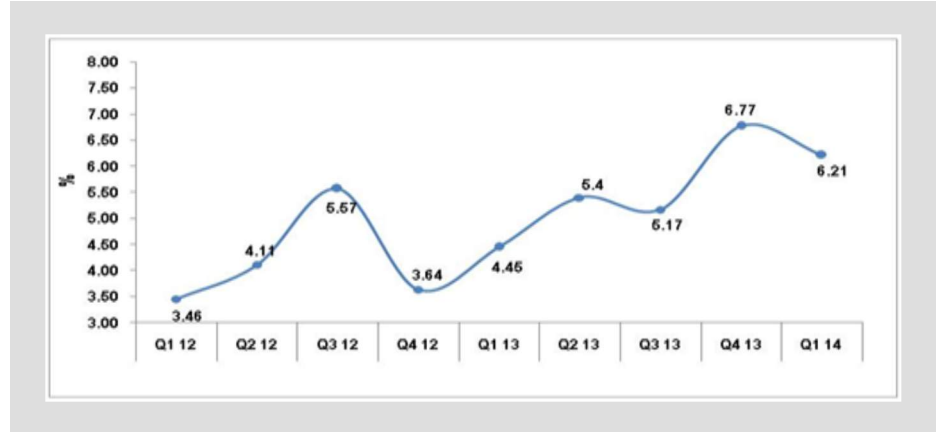


The National Bureau of Statistics (NBS) also released GDP figures for the first quarter of 2014. The crude oil and natural gas sector continued to contract (by 6.6% y-o-y) due to lower oil production, while non-oil real GDP expanded by 8.2% y-o-y, up from 7.4% y-o-y in Q1 2013. The agricultural sector performed well, with growth of 5.4% y-o-y in crop production in Q1 surpassing the 1.8% y-o-y seen in the same period of 2013. The overall growth rate for Q1 (at factor cost) is estimated at 6.21% y-o-y, compared to 4.45% y-o-y in the corresponding period last year. The NBS expects real GDP to pick up in the remainder of the year, with Q1 usually having the slowest expansion as it is the planting season and since consumers tend to spend less.



THE NIGERIAN ECONOMY

GDP Growth Rate – Nigeria



Source: NBS

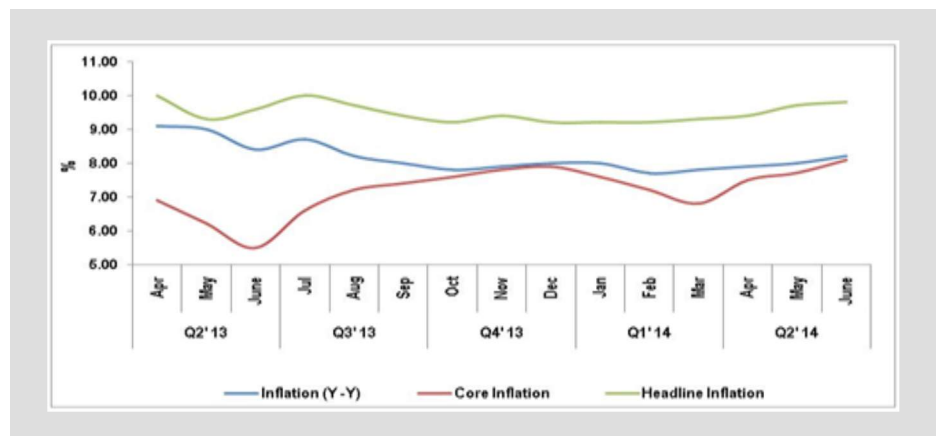


2.2 INFLATION

In June, the Consumer Price Index increased by 8.2% y-o-y (0.8% m-o-m), up from 8% y-o-y (0.8% m-o-m) in the previous month. Food price inflation edged up to 9.8% y-o-y from 9.7% y-o-y, while the core rate increased to 8.1% y-o-y from 7.7% y-o-y. CPI inflation averaged 7.9% in the first half of the year, compared to 8.9% y-o-y in the corresponding period of 2013. While core price inflation has trended upward in recent months, it remains low in a historical context. Although the headline CPI inflation rate has been in single digits for a year and a half, there is an upside risk of increased fiscal spending pressures ahead of elections next year, tipping the y-o-y rate towards double digits.



Inflation Year-on-Year



Source: NBS



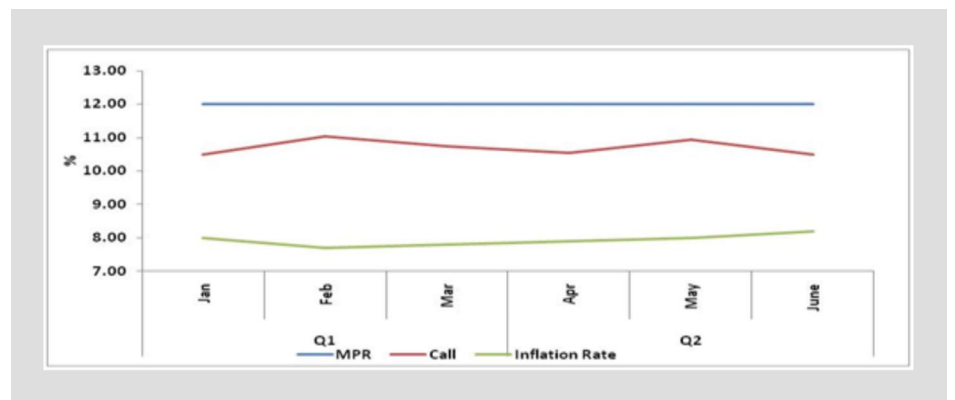
THE NIGERIAN ECONOMY



2.3 MONETARY POLICY

At the latest Monetary Policy Committee meeting of the Central Bank held on July 22, all monetary policy instruments were left unchanged. Namely; the cash reserve requirement (CRR) on public and private sector funds was retained at 75% and 15%, respectively while the Monetary Policy Rate (MPR) was left at 12%. The decision to retain the prevailing rates was hinged on the recent resurgence of inflationary pressures observed in June, as well as improved fiscal buffers stemming from a rising foreign exchange reserves.

Trends in MPR, Call and Inflation Rate



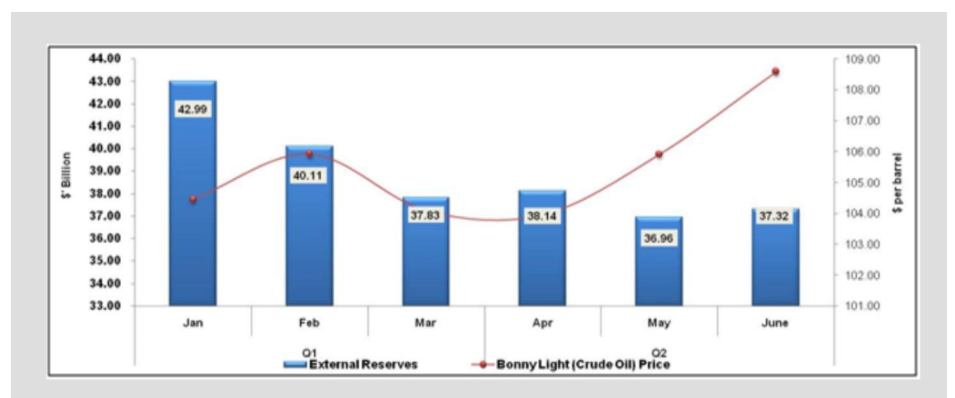
Source: NBS & CBN



2.4 EXTERNAL RESERVES

External reserves rose to US\$41.18 billion in the quarter under review from US\$36.72 billion in Q2 – an increase of 12.15% or US\$4.46 billion. The accretion to the foreign reserves came from the rising price of international crude oil and low demand pressure at the weekly wholesale Dutch Auction System (wDAS). The quarter high figure of \$41.18 billion as at end- Q3 2012 is the highest level attained since April, 14, 2010.

External Reserves and Crude Oil Price (Bonny Light)



THE NIGERIAN ECONOMY



2.5 EXCHANGE RATE

All the segments of the foreign exchange market witnessed a considerable degree of stability in the period under review. At the CBN window, the Naira appreciated by N0.01 to close at N155.73/US\$. At the inter-bank market, the selling rate opened at N164.95/US\$ and closed at N162.91/US\$, representing an appreciation of N2.04 or 1.24%.

Exchange Rates



CBN & FMDA



2.6 STOCK MARKET

Overall, it was a mixed trend for equities in the period, while market indicators started on high notes as the bulls dominated activities, it was relatively low in August 2013 and a bounce back was seen in September. On the average, market indicators were all on the positive in the review period. Gains in equity market were supported by activities largely in the financial services and consumer goods

Nigerian Stock Exchange and Market Capitalization



Source: NSE



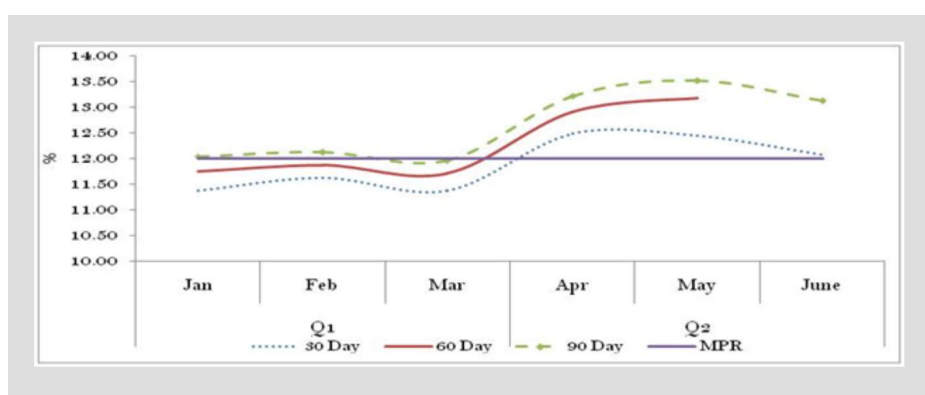
THE NIGERIAN ECONOMY



2.7 NIBOR

Interbank lending rates rose across most tenors in Q2. For the investment horizon rate, the 90-day interbank lending rate increased by 1.44 percentage points to 13.23% in June from 11.79% at the beginning of the year. The uptick was largely due to a tighter systemic liquidity. Occasional mop-up activities by the monetary authority also impacted rates in the period.

Interbank Lending Rates



Source: Budget Office & FMDA



2.8 FINANCIAL SECTOR DEVELOPMENTS.

The second quarter witnessed a flurry of economic policy pronouncements. Among others, the Central bank announced the extension of the cashless policy to the remaining 30 states of the federation effective July 1, 2014. In order to facilitate a seamless rollout in the affected states, the apex bank granted a one-year waiver of charges on individual and corporate accounts. Under the cashless policy which is aimed at reducing the dominance of cash in the system, the CBN pegged the daily cumulative cash withdrawal/deposit limit for individual accounts at N500,000 per day and N3 million per day for corporate accounts.



Also in the quarter, the CBN commenced the full rollout of biometric registration of bank customers. The exercise followed the successful conclusion of the pilot phase of the project during which over 7,000 Bank Verification Numbers (BVN) were issued by 21 banks and the Nigeria interbank settlement System plc (NIBSS) to existing and internal bank customers.



THE NIGERIAN ECONOMY



Another development of note was the introduction of new capital requirements for BDCs which saw the existing capital raised to N35 million from N10 million. The financial regulator also reviewed upwards the cautionary deposit to N35 million from \$10,000. In line with the people-centered outlook of the new Governor, the CBN mandated Deposit Money Banks (DMBs) to refund all Commission on Turnover (CoT) charges in excess of the stipulated N2 per mille.



The Central Bank also directed that maintenance fees on customers' accounts or any other fees not stipulated in the 2013 revised guide to bank charges be refunded customers. In a related development, the financial regulator issued a deadline for the refund of all trapped ATM funds to customers by July 31st. In a circular to all DMBs, the CBN directed that all debit entries arising from failed transactions attributable to system-related issues must be auto-reversed, and where auto reversal is not feasible, manual reversal must be carried out within 24 hours.



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OUTLOOK FOR Q3 2014 AND BEYOND



OUTLOOK FOR Q2 2014 AND BEYOND



3.0 OUTLOOK FOR Q4 2013 AND BEYOND

- Monetary policy softening is unlikely in the short-term given threats from both internal and external environments.
- Monetary Policy Rate (MPR) may still remain at 12%.
- Inflation to remain in the single digit region on prudent monetary policy management. However, a slight rise within the single digit will be expected.
- We expect Naira to strengthen further against the dollar, supported by strong export growth, tight monetary policy and steady portfolio flows, which would be supportive of foreign reserves accumulation, providing sufficient room for intervention against Naira depreciation should risks materialize.
- Increased government spending anticipated due to expansionary 2014 fiscal plan.
- More initiative at reducing poverty and creating jobs.



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