

Weekly Economic & Business Review

DECEMBER 29, 2008

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Politics & Policies

President Umaru Musa Yar'Adua has appointed Dr. Mansur Muhtar, a former Director-General, Debt Management Office, as the Finance Minister. Dr Muhtar succeeds Shamsuddeen Usman, who has been appointed Head, National Planning Commission. Other Ministers that were appointed include Achike Udenwa (Commerce and Industry), Ufot Ekaette (Niger Delta Affairs) and Rilwan Babalola (Power).

Yar'Adua Completes Cabinet Re-shuffle

Central Bank of Nigeria (CBN) has called on the relevant arms of government to pass the Fiscal Responsibility Act into law to enhance fiscal prudence in the economy. Fiscal Responsibility and transparency are vital conditions for achieving success in inflation targeting. Nigeria plans to change its framework for monetary policy from monetary targeting to inflation targeting by January 1, 2009. Inflation targeting (IT) is a strategy in which a central bank attempts to keep inflation rate within a declared target range or specific figure by adjusting interest rate. Fiscal indiscipline by government can hinder the achievement of inflation targets.

CBN Pushes for Passage of Fiscal Responsibility Act

FG has indicated plans to adopt a Gas Oil Ratio (GOR) formula to stem gas flaring in the country. Under the proposed measure, any oil well that flares more gas than it produces oil would be shut down. Meanwhile, the Ministry of Petroleum has directed the Department of Petroleum Resources (DPR) to assess gas oil ratios of all oil wells.

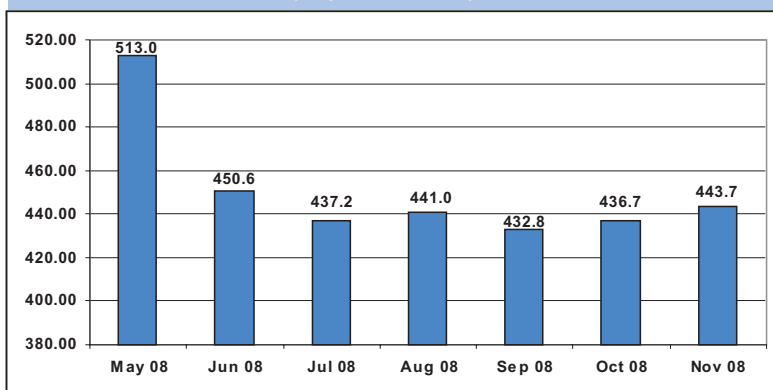
FG to Adopt Gas Flare-Out Formula

FG has given a 1-week ultimatum with effect from December 26, 2008 to British Airways (BA) to ensure its flights into the country arrive latest 6.00 pm (1800 hours) local time. The order is in response to concerns raised by the Nigerian Civil Aviation Authority (NCAA) and from protest by Nigerian passengers over the late arrival of BA flights from London to Lagos. FG has warned that the airline's operations would be grounded if it fails to revert to its approved scheduled flights.

FG Issues Ultimatum to British Airways

Federation Account Allocation Committee (FAAC) has disbursed the sum of N443.7 billion among the three tiers of government for November 2008. The amount rose by 1.6% compared to N436.7 billion disbursed for October 2008. The allocation included N85 billion from the Domestic Excess Crude Account.

Chart 1: FAAC Allocation (May '08 - Nov '08)



Source: Federal Ministry of Finance

European Union Commission (EC) has rejected Nigeria's trade deal application, following the country's delay in ratifying EU's Convention on Genocide. The trade deal (Generalized System of Preferences - GSP+) is a special incentive designed for developing countries to sell goods in the EU markets without paying duties over a 3-year period from 2009 to 2011. The recent refusal to grant Nigeria the GSP+ status is the second, following a failed application on November 27, 2007.

Crude oil price futures declined further to \$35.13 per barrels (pb) on December 24, 2008, reaching a four-and-a-half year low. The decline has continued to outweigh the impact of output cuts by the Organisation for Petroleum Exporting Countries (OPEC), which has reduced production by 4.2 million barrels per day since September 2007. The steep fall is driven by fears of a global recession resulting in weakening demand from developed economies. Oil price has fallen below FG's crude oil benchmark price of \$45.0 pb for the 2009 budget, and thus threatens the Nigeria's fiscal sustainability.

Securities and Exchange Commission (SEC) has denied setting December 31, 2008 deadline for shares to be dematerialized in stock market. The Commission stated that, although, there are plans to dematerialize all share certificates, no date has so far been fixed as deadline for the exercise. Dematerialisation is a process by which the physical share certificates of an investor are taken back by the company and an equivalent number of securities are credited in electronic form to the investors account with the Central Securities Clearing System (CSCS).

Rivers State Government has presented a 2009 budget of N432.2 billion to the State House of Assembly for consideration, representing a 14.6% increase over the 2008 budget. A breakdown shows that 79% (N341.6 billion) of the sum is set-aside for capital expenditure, while N90.6 billion is proposed for recurrent expenditure. The budget would be financed by projected revenue of N328 billion and N104.2 billion unspent portion of 2008 budget.

Oyo State House of Assembly has passed a N128.8 billion Appropriation Act, representing a 6.8% (N8.2 billion) increase over the N120.6 billion presented by the State Governor in November 2008. The sum proposed for capital expenditure and recurrent expenditure were increased by 9.9% and 2.4%, respectively, to N77.7 billion and N51.1 billion.

Yobe State Government has forwarded a 2009 budget of N46.4 billion to the State House of Assembly for consideration. A breakdown shows that 61.6% (N28.6 billion) of the sum is set-aside for capital expenditure, while N17.8 billion is proposed for recurrent expenditure. The budget is, however, lower than the 2008 budget of N73.4 billion by 36.8% (N27.0 billion).

Ebonyi State Government has forwarded a 2009 budget of N73.1 billion to the State House of Assembly for consideration, representing a 25% increase over the 2008 budget. A breakdown shows that 69.9% (N51.0 billion) of the sum is set-aside for capital expenditure, while N22.0 billion is proposed for recurrent expenditure.

Anambra State Government has presented a budget proposal of N74.9 billion to the State House of Assembly for consideration. Of the sum, N47.7 billion, representing 63.7% of the total budget would be set-aside for capital expenditure, while N27.2 billion is proposed for recurrent expenditure.

FAAC Shares N443.7 Billion for November 2008

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SEC Allays Fear Over Shares Dematerialisation

Rivers State Budgets N432.2 Billion for 2009

Oyo Assembly Passes N128.8 Billion as 2009 Budget

Yobe State Proposes N46.4 Billion Budget for 2009

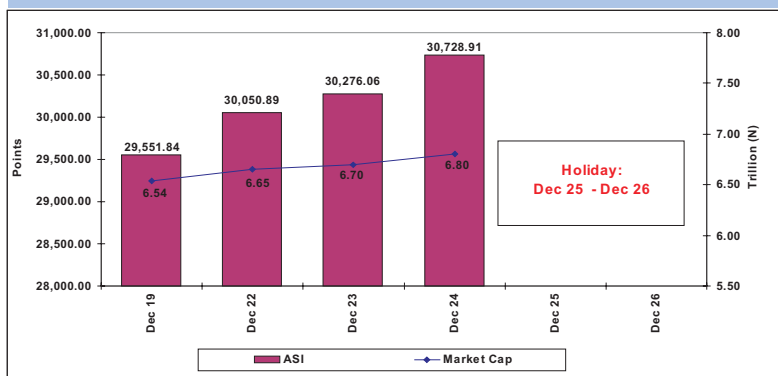
Ebonyi State Budgets N73 Billion for 2009

Anambra State Proposes N74.9 Billion Budget for 2009

The Stock Market

The stock market was bullish during the week ended December 26, 2008, as both Market Capitalization (MC) and All-Share-Index (ASI) rose by 3.98% each, to N6.80 trillion and 30,728.91 points. Trading activities increased before the holiday as investors' confidence returned to the market, with banking & insurance sub-sectors' shares accounting for the bulk of market turnover.

Chart 2: Stock Market - 1 Week Trend



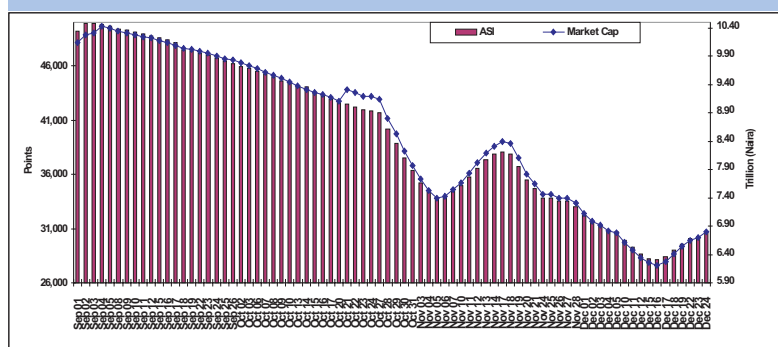
Source: NSE

Table 1: Stock Market at a Glance

	Last Week	Previous Week	1 Week Change (%)	Ytd Change (%)
ASI	30,728.91	29,551.84	3.98	(47.01)
Market Cap (N'trillion)	6.80	6.54	3.98	(33.20)
Volume (million)	1.15	2.07	(44.44)	-
Turnover (N'billion)	7.25	13.16	(44.91)	-

Source: NSE

Chart 3: Stock Market

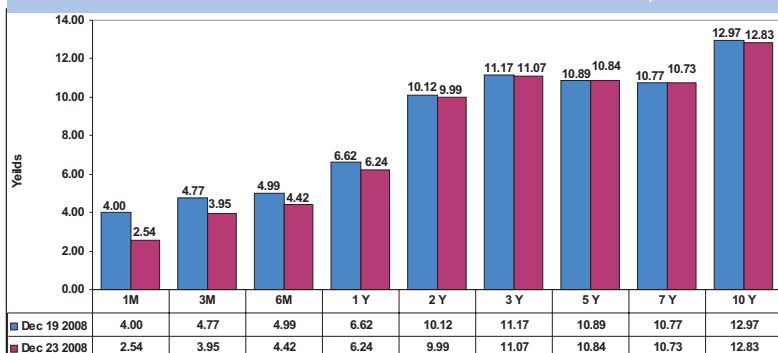


Source: NSE

FGN Securities

Yields on FGN securities generally fell during the week under review. The most significant declines were recorded in the short-tenored instruments, with 1-month and 3-month treasury bills falling by 146 and 82 basis points, respectively.

Chart 4: FGN Securities Yield - December 19 vs December 23, 2008



Source: FDHL

NIBOR Rates

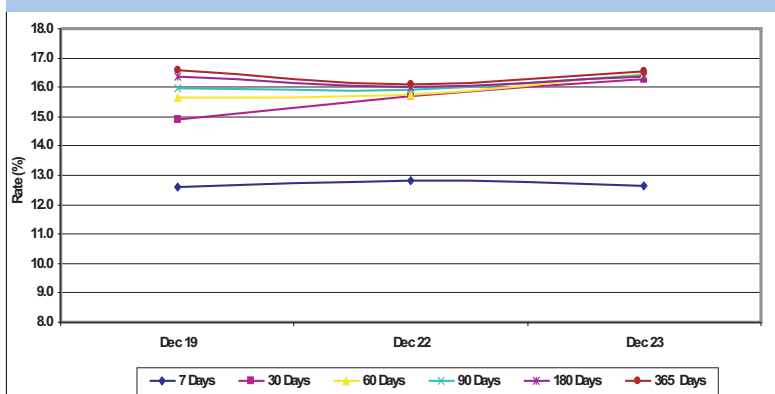
Inter-bank rates exhibited a mixed trend during the week ended December 23, 2008. While call and 365-day rates fell, rates on instruments ranging from 7- days to 180-days rose. 30-day instruments rose by as much as 138 basis points.

Table 2: NIBOR Rates

Date	Tenor						
	CALL	7 Day	30 Day	60 Day	90 Day	180 Day	365 Day
Dec 19	10.9583	12.5833	14.9167	15.6667	15.9583	16.3750	16.5833
Dec 22	10.7500	12.8333	15.7083	15.7500	15.9167	16.0000	16.0833
Dec 23	10.4583	12.6250	16.2917	16.4583	16.4167	16.3750	16.5417

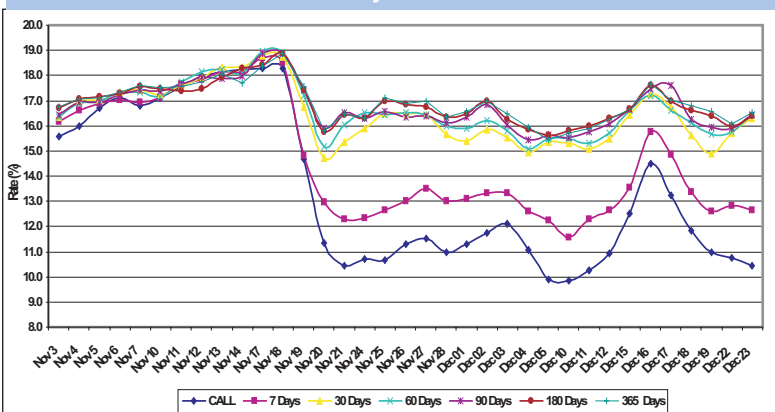
Source: FDHL

Chart 5: NIBOR Rates - 1 Week Trend



Source: FDHL

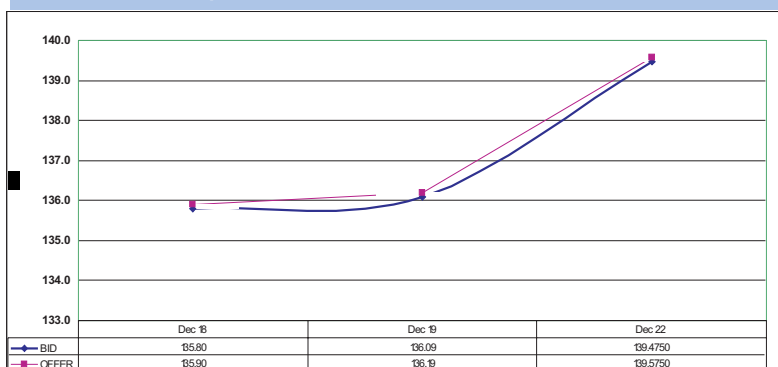
Chart 6: NIBOR Rates - Trend Analysis



Source: FDHL

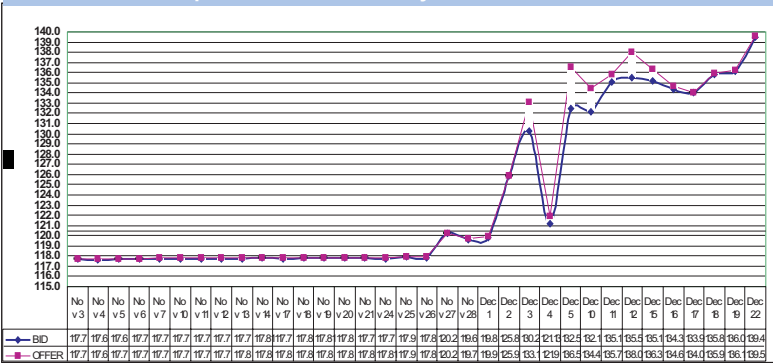
NIFEX Spot Rates

Chart 7: NIFEX Spot Rates - 1 Week Trend



Source: Money Market Association of Nigeria

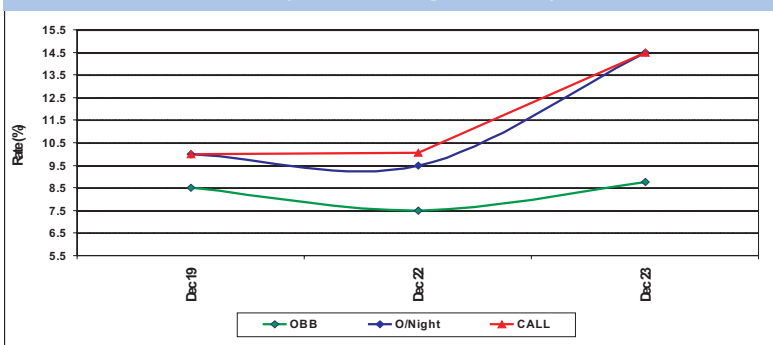
Chart 8: NIFEX Spot Rates - Trend Analysis



Source: FDHL

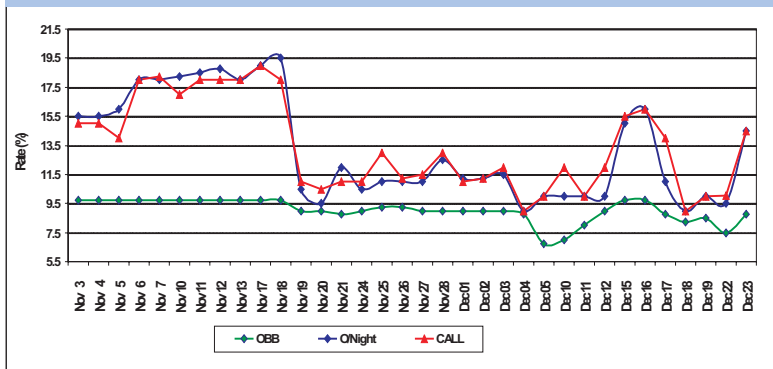
Inter-bank Rates

Chart 9: Inter-bank Rates (OBB, Over-Night and Call) - 1 Week Trend



Source: FDHL

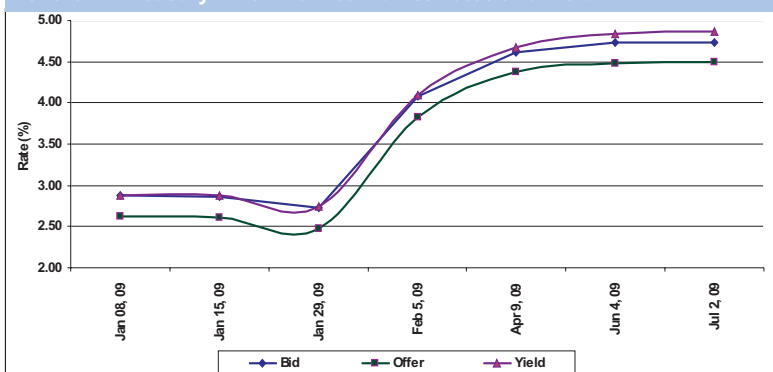
Chart 10: Inter-bank Rates (OBB, Over-Night and Call) - Trend Analysis



Source: FDHL

Treasury Bills

Chart 11: Treasury Bills - Mark to Market Rates and Yield



Source: Money Market Association of Nigeria

Exchange Rates (N/\$)

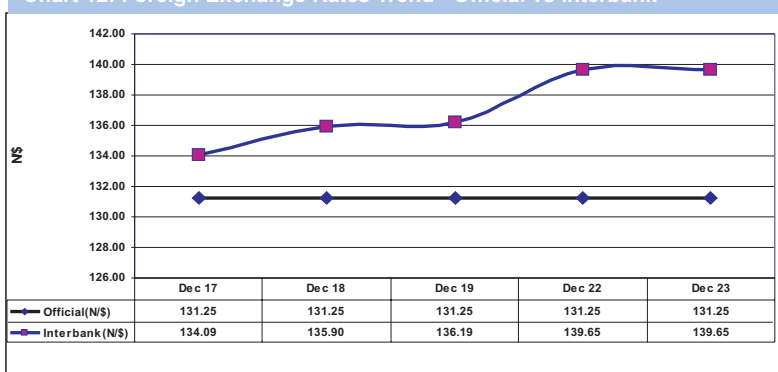
The value of naira viz-a-viz US dollar depreciated at the inter-bank and parallel markets during the week under review by 346 kobo and 281 kobo, respectively, but was unchanged at the official market due to its closure. CBN closed the Wholesale Dutch Auction System from December 22, 2008 to January 5, 2009 for the holidays. Similarly, the inter-bank market was closed on December 23, 2008.

Table 3: Exchange Rates (N/\$)

Market	December 19	December 23
Official	131.25	131.25
Inter-bank	136.19	139.65
Parallel	138.00	143.00

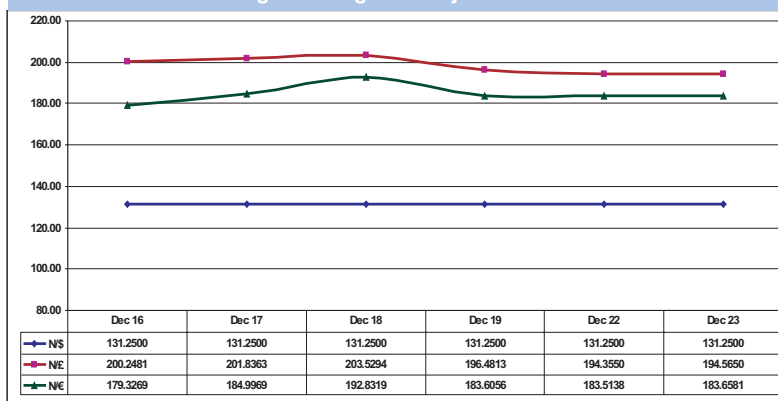
Source: CBN

Chart 12: Foreign Exchange Rates Trend - Official vs Interbank



Source: CBN

Chart 13: Naira Exchange Rate Against Major Currencies



Source: CBN

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Business Update

Globaltouch West Africa Ltd, a satellite mobile phone network provider, has commenced the construction of a \$10 million (N1.4 billion) satellite gateway in Kaduna State. The project, which is expected to be completed in April 2009, is being undertaken in partnership with Globalstar LLC, a US based company. It would support telephone services provided by GSM operators in remote areas which are not covered by terrestrial and other wireless communication infrastructure. Globaltouch is owned by Nigerian investors (70%) and Globalstar (30%).

Enel SPA, Italy's largest power utility, has indicated willingness to invest in the Nigerian power sector. The company's intention was disclosed recently by Eheneden Erediauwa, Nigeria's ambassador to Italy. He hinted that preliminary talks were temporary stopped, following FG's recent cabinet reshuffle. Enel currently has presence in 21 countries around the world.

West African Gas Pipeline (WAGP) Project has commenced operations with gas delivery to Ghana's industrial centres in Tema & Takoradi. Since construction began in 2005, the project had suffered repeated delays due to instability in the Niger Delta, damage to the pipeline, and most recently, high levels of moisture in the gas. The gas supply project is operated by Chevron Corp, and would supply gas to Ghana, Benin and Togo.

Cadbury Plc, the world's largest candy maker, has agreed to sell its Australian beverage unit to Asahi Breweries Ltd, a Japanese company, for £550 million pounds (\$811 million). The successful sale of Schweppes Australia would complete Cadbury's divestment of its beverage operations, which began in 2005 with the sale of its European beverages business to a private equity consortium for £1.3 billion. Its American beverages unit (Dr Pepper Snapple Group Inc) was sold in May 2008.

Big Treat Plc has reported a Q3 2008 profit after tax (PAT) of N275.4 million, representing a 50.4% increase over N183.1 million recorded in the corresponding period of 2007. Turnover also grew by 14.3% from N2.1 billion to N2.4 billion in the same period.

Flour Mills of Nigeria Plc, an indigenous company, has reported 1H 2008 profit after tax (PAT) of N2.5 billion, representing a 19.1% increase over N2.1 billion recorded in the corresponding period of 2007. Turnover also grew by 62.1% from N49.9 billion to N80.9 billion in the same period.

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Cadbury to Sell Australian Beverage Unit to Asahi

Big Treat Grows Profit by 50.4%

Flour Mills' Profit Grows by 19.1%

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Regional Developments

Inflation Rises to 22.37%

A recent report by the Rwandan National Institute of Statistics shows that inflation rose from 21.90% in October 2008 to 22.37% in November due mainly to external pressures resulting from higher cost of imported food items. Core inflation - which excludes fresh food and energy - rose from 15.6% in October 2008 to 16.7% in November.

Government Presents 2009 Budget

Burundi's Government has presented a 2009 budget of 819 billion francs to the National Assembly for consideration, representing a 38% increase over 2008 budget. The budget is expected to be financed by grants and loans, revenues from expected growth in coffee exports, as well as annual savings (between \$40 - \$45 million each year) from expected cancellation of its \$1.5 billion external debt in 2009.

Central Bank Leaves Key Interest Rate Unchanged at 16%

Central Bank of The Gambia left its benchmark rate unchanged at 16% during its meeting of December 24, 2008. The decision was hinged on the bank's belief that the upside risks to price stability have diminished due to fall in energy and food prices. The apex bank, however, conceded that end-2008 inflation would exceed the 6.0% target, with November's inflation rate put at 6.6%.

Q3 2008 GDP Grows by 2.1%

A recent report by the National Bureau of Statistics shows that economic growth slowed to 2.1% in Q3 2008, below 3.4% and 6.3% recorded in Q2 2008 and Q3 2007, respectively. The declining trend was attributed to internal crisis (post-election violence in Q1 2008) and external shocks, including lower demand for tourism, poor agricultural output due to unfavourable weather, and the global economic crisis.

Government Secures \$64.1 Million Loan from ADB

Ghana has received \$64.1 million loan from the African Development Bank (ADB) Group to finance the rehabilitation and upgrade of 3 major highways in the country. The road projects are Tema-Aflao Road (Rehabilitation), Akatsi-Dzodze-Noepe Road (Upgrade) and the UEMOA-Ghana Road. The latter is designed to facilitate trade with some ECOWAS land-locked countries such as Burkina Faso, Mali and Niger.

Foreign Mines Seek Tax Break

Zambia's Mines Minister, Maxwell Mwale has disclosed that foreign investors operating the country's copper mines have solicited for cuts in electricity tariffs, fuel prices and some taxes, including a 25% windfall tax introduced in April 2008. The call was based on need to cut operating costs, following current downturn in global commodities market. Meanwhile, Luanshya Copper Mine has shut down operations, with plans to resume mining activities only when copper price rises.

Government Unveils 10.4 billion Rands Stimulus Plan

Mauritius' Government has unveiled a 10.4 billion rands (\$329.2 million) stimulus package to cushion the economy against on-going slowdown in the global economy. The package, which is equivalent to about 3% of GDP, was designed to spur economic expansion, as risks to growth far outweigh inflation concerns in the economy. Meanwhile, GDP growth forecast for end-2008 has been cut from 5.4% to 5.1% due to decline in the textile and tourism sectors, following weakening demand from developed economies.

Current Account Deficit Rises by 185.4%

A recent report by the central bank shows that the country's current account deficit grew by 185.4% to \$217.5 million in October 2008, up from \$76.2 million deficit recorded in the corresponding period of 2007. The apex bank attributed the deteriorating current account balance to higher imports, mainly driven by private sector demand (PSD). The PSD rose by 25.6% to \$355.8 million in October from \$283.2 million in the same period in 2007.

*Rwanda**Burundi**Gambia**Kenya**Ghana**Zambia**Mauritius**Uganda*

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World Economy

Current Account Deficit Falls by 27.3%

A recent report by the European Central Bank shows that the zone's current account deficit fell by 27.3% to 6.4 billion euro in October 2008, down from 8.8 billion euro recorded in September. The decline was attributed to the trade surplus recorded in services, which grew by 16.7% from September's 2.4 billion euro to 2.8 billion euro, and a favourable balance in net investments inflows of 75.3 billion euro in October 2008, over 4.2 billion euro recorded in September.

Central Bank Cuts Benchmark Rate & CRR

China's central bank cut its key interest rate by 27 basis points from 5.58% to 5.31% during its Monetary Policy Committee (MPC) meeting held on December 22, 2008. Reserve requirement was also reduced by 27 basis points from 2.52% to 2.25% to encourage lending. The apex bank has cut its benchmark rate for the fifth time in three months to support the economy, after trade growth collapsed because of recessions in the US, Europe and Japan. China's exports declined by 2.2% to \$115 billion in November 2008, representing the first decline since June 2001.

Unemployment Rate Rises to 3.9%, Industrial Output Declines by 8.1%

A recent report by Japanese Statistics Bureau shows that unemployment rate rose from 3.7% in October 2008 to 3.9% in November due mainly to increases in job cuts resulting from declining industrial output. Meanwhile, Japan's industrial output fell by 8.1% in November, in line with falling demands for its exports.

Government to Buy-Back \$2.1 Billion Intervention Bonds

India's Government has disclosed plans to buy-back 100 billion rupees (\$2.1 billion) worth of market intervention bonds on January 1, 2009. The bonds were issued under the market stabilization scheme to mop-up excess cash from the banking system due to huge influx of foreign exchange into the domestic stock market.

Central Bank Weakens Currency Further

Russia's central bank has weakened the currency (the ruble) for the 5th time since November 11, 2008 to cushion the economy against falling crude oil price. Oil prices have fallen below \$40 per barrel (pb), undercutting the 2009 budget benchmark of \$70 pb. Consequently, the apex bank has allowed the currency to fall by 0.8% to 28.7 per dollar, 1.4% to 40.2 per euro and 1.0% against the central bank's target basket (45% euros and 55% US dollars). Capital outflows and tumbling oil prices are major challenges facing the economy.

Eurozone

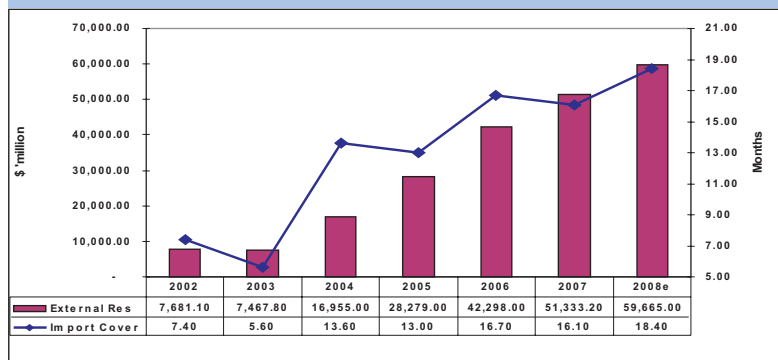
China

Japan

India

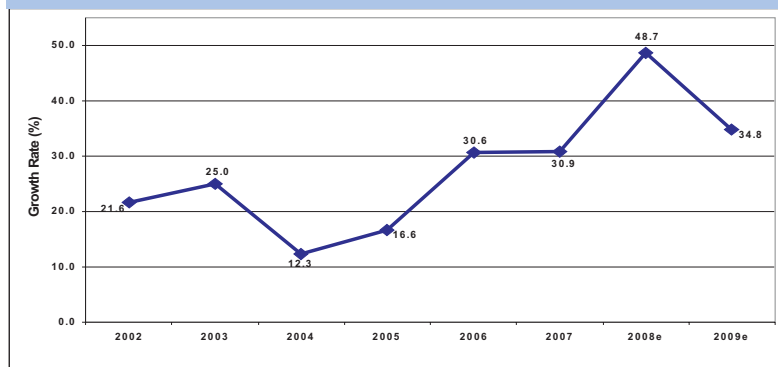
Russia

Chart 14: External Reserves and Months of Import Cover



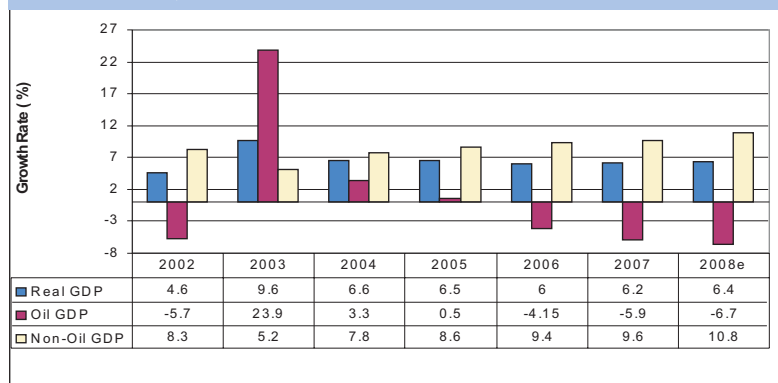
Source: CBN, Access Economic Intelligence Group

Chart 15: Broad Money (M2)



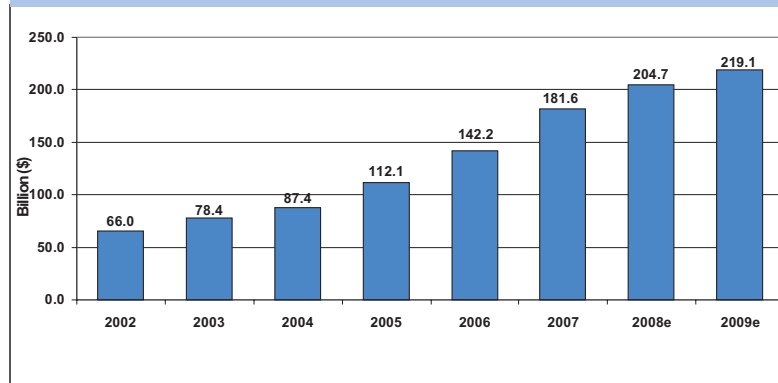
Source: CBN, Access Economic Intelligence Group

Chart 16: Real, Oil & Non-Oil GDP Growth Rate



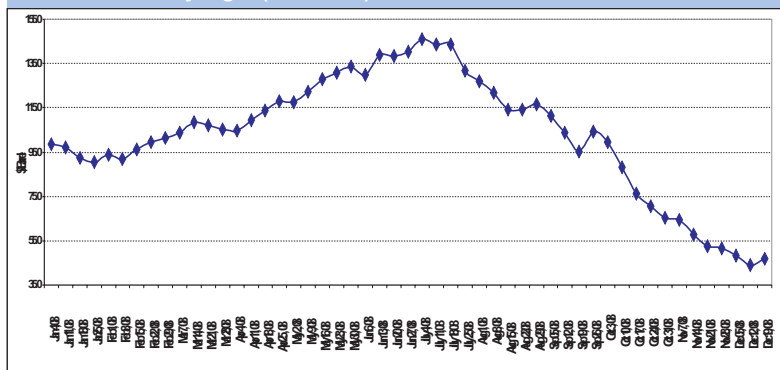
Source: CBN, Access Economic Intelligence Group

Chart 17: Nominal GDP



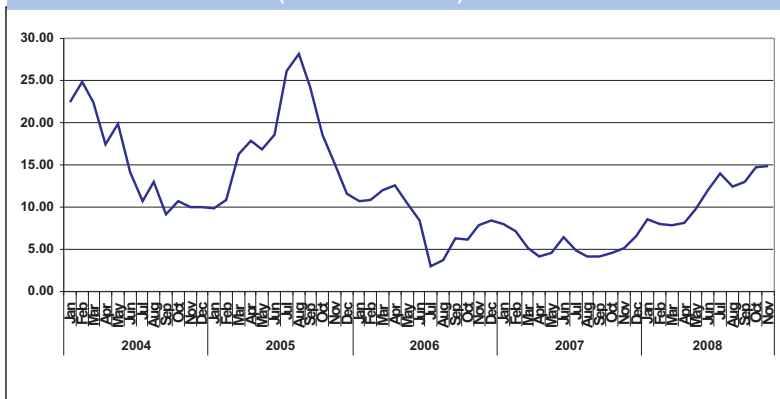
Source: CBN, Access Economic Intelligence Group

Chart 18: Bonny Light (Crude Oil) Prices



Source: Energy Information Administration (EIA)

Chart 19 : Inflation Rate (Jan '04 - Nov '08)



Source: NBS

Buzz word...

Soft Currency

Soft currency refers to a country's currency which is not readily accepted in exchange for currencies of other countries due to unrealistic exchange rates and a belief that its value will fall further in relation to others. In essence, soft currency indicates a type of currency whose value may depreciate rapidly and is difficult to convert into other currencies. The values of soft currencies fluctuate frequently, and other countries are unwilling to hold the currencies in their foreign exchange reserves due to political or economic uncertainties within the country. Currencies of most developing countries are considered to be soft currencies.

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