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CBN offshore policy unsettles banks

JOHN OMACHONU

The Central Bank of Nigeria's (CBN) May 18 directive stopping deployment of capital from parent banks to strengthen or recapitalise their foreign subsidiaries has put banks under pressure to meet up with requirements from the host countries, BusinessDay investigations have revealed.

The CBN, in anticipation of regulatory capital increases under Basel two and three, has barred local banks from guaranteeing the deposits of their foreign subsidiaries. Additionally, the regulator is requiring banks with foreign subsidiaries to submit, latest by July 14, 2012, plans to ensure that their subsidiaries are fully capitalised, so as to be internationally competitive. Consequently, the CBN has

through the circular, given the banks three options: raise fresh capital from the offshore capital markets via private placements, or public offerings; pursue a merger or acquisition, and should the external capital raisings fail, submit a strategy for exiting the relevant foreign jurisdictions, not later than 30 June, 2012.

Samir Gadio, Emerging Market Strategist at the Standard Bank,

London, advised banks with expansion ambition and those currently having offshore subsidiaries to be cautious, adding, "The CBN's circular probably factors in these risks, but also seeks to ensure that Nigerian banks have adequate buffer to absorb any systemic or economic shocks. Additionally, Nigerian banks with expansion ambitions will have to appropri-

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L-R: Felix Achibiri, chairman, Fortis Microfinance Bank plc; Oscar Onyema, chief executive officer, Nigerian Stock Exchange, and Kunle Oketikin, MD/CEO, Fortis Microfinance Bank, during the listing by introduction of the bank in Lagos, yesterday.

Pic by Udo Ogbonna

Kaduna, Damaturu in lockdown after 101 killed

BLESSING OLAIFA
Kaduna with agency report

Soldiers and police patrolled the empty streets of Kaduna capital of Kaduna State and Damaturu capital of Yobe State on Wednesday, after three days of sectarian violence left at least 101 people dead, with some residents still unable to return to their homes.

Religiously mixed Kaduna, near the "Middle Belt", where Nigeria's mostly Christian south and largely Muslim north meet, was the scene of a triple church bombing on Sunday that sparked days of revenge killings.

The violence between Sunday and Tuesday in Kaduna and Damaturu has led to round-the-clock curfews in both areas and raised fears of further reprisal attacks.

Pope Benedict XVI on Wednesday pleaded for calm.

Some in Damaturu have been stranded and unable to access food since Monday, when a shootout between suspected Boko Haram Islamists and soldiers led authorities to impose a ban on movements.

The gun battles, which killed at least 40 people, have stopped but the curfew remains in place, said Patrick Egbuniwe, Police Commissioner of Yobe State.

"So far we have four dead policemen, two soldiers and 34 insurgents," said Egbuniwe.

An auto mechanic in the restive city said he has not been home since the fighting started.

"I have been in my workshop since Monday," Gambo Bakanike told a newswire. "We have an open well from which we can get our drinking water, but we have

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Downward trend in oil prices poses strong risk to economy

BIODUN COKER

The Nigerian economy is under threat from deteriorating global market conditions, typified by dwindling fortunes in the international oil market and uncertainty in the eurozone. Also, poor sentiments in the econ-

omy are inducing most importers to bring forward their dollar obligations to hedge against the weakening naira, while dollar flows from offshore investors into the local debt have ceased, piling up pressure on the naira.

Analysts are of the opinion that the current foreign reserves at N37.4 billion are not sustainable unless steps are

taken to reverse the unsavoury trend. The implication is that the Central Bank of Nigeria (CBN) would not have any option than to fall back on the reserves, to fund the forex market, so as to ensure stability of the exchange rate.

The price of oil in the international market has nose-dived in the past three months, compounding the uncertainty,

considering that the commodity generates 75-80 percent of government revenue and around 95 percent of exports.

Samir Gadio, emerging market strategist at Standard Chartered Bank in London, noted that: "The drop in oil prices, which is a worrisome development has caused African frontier currencies (especially the

most traded pairs such as USD/NGN, and other foreign currencies USD/KES or USD/ZMK) to be under severe pressure, following which foreign investors lightened up their exposure to the most developed financial markets in this space (i.e. Nigeria) as domestic sentiment worsened across

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PRINTED SIMULTANEOUSLY IN LAGOS, ABUJA AND ABA			CURRENCY RATES			MARKET WATCH			DAILY ELECTRICITY DATA 19/6/12	
Brent crude US \$93.86			CBN			NSE Close			Peak Generation	
US \$ 1,604.30			PARALLEL			ACCRA Close			3,341.6 mw	
GOLD (CLOSING PRICE)			USD			JSE Close			Minimum Generation	
US \$ 1,604.30			N155.90			↑ +428.59			2,942.7 mw	
COCOA (CLOSING PRICE)			POUND			↓ -0.46			System Collapse	
Close US \$2,164.00			N242.19			↑ +74.31			Nil	
			EURO			21,510.70				
			N195.59			970.35				
						34,788.37				

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Kaduna, Damaturu in lockdown after ...

run out of food."

A senior hospital official said he and his staff have also been stranded since Monday.

"There is water but we don't have any food. Our families can't bring us anything because of the curfew," said the official who asked to remain anonymous.

In Kaduna State, residents remained indoors after three days of violence that killed at least 61 people.

Boko Haram claimed responsibility for suicide attacks at three churches in the state on Sunday, which killed at least 16 people and sparked reprisal violence.

Hours after the youths' rioting began, the state government imposed a state-wide ban on movements, which was briefly eased on Monday, but reinstated when

groups started reciprocal rioting.

Police spokesman, Frank Mba, said he was "confident the curfew would be relaxed soon," insisting that the police have enough men in Kaduna "to manage any eventuality."

Nasiru Abdullahi, who lives in the Tudun Wada area where some of the latest rioting took place, said residents were observing the curfew.

"People are indoors. It's quiet everywhere and troops are patrolling the streets," he said.

Burned vehicles and destroyed shops were visible around Kaduna city on Tuesday.

Pope Benedict XVI on Wednesday condemned those "spilling the blood of innocent people."

"I hope all parts of society will collaborate in not taking the road

of reprisals," Benedict said during a weekly general audience.

Meanwhile, the Chief of Defence Staff (CDS), Air Marshal Olusheyin Petinrin, on Wednesday assured of protection of lives and property in Kaduna State.

"Security agencies have been deployed all over the state to achieve just that," Petinrin said during a courtesy call on Governor Patrick Yakowa of Kaduna.

The CDS said the security chiefs were working round the clock to ensure complete restoration of law and order in the state.

He commended the state government and the security chiefs in the state for curtailing the violence that erupted on Sunday after the bomb attacks on three churches in the state.

The CDS said they would soon address the security challenges facing some parts of the country,

including Kaduna State.

According to him, they will bring back peace in the state as soon as possible, to enable law abiding citizens go about their businesses.

Yakowa commended the security agencies in the state for their prompt intervention in the violence that broke out in the state shortly after the multiple bomb attacks.

President Goodluck Jonathan was criticised by parliament for travelling to a U.N. summit in Brazil instead of staying to deal with the unrest. The lower house voted on Tuesday to summon him for an explanation.

Information Minister Labaran Maku defended Jonathan's decision, telling Reuters on Wednesday the president could "take decisions from anywhere in the world."

Downward trend in oil...

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the board.

"Also the risk aversion that has gripped global markets since mid-May, more specifically in Nigeria, the offshore capital inflows having supported the NGN since February, dried up last month, while a number of foreign accounts liquidated their T-bill positions and sought to repatriate FX proceeds.

This development subsequently precipitated a noticeable shift in domestic confidence in the NGN, also concomitant with rising USD demand and further local positioning against the currency.

Accordingly, USD/NGN weakened rapidly from a firm support level of around 157 in the interbank market, to an initial resistance of 160 which was eventually broken (the unit closed at 162.7 on 8 June).

On the equity side, it seems that there has been relatively less net foreign exit for now."

Similarly Bismarck Rewane, managing director, Financial Derivatives, said "the prevailing global risk-off episode, stronger USD, deteriorating growth and demand dynamics have pushed the Bonny Light oil price lower, to about USD100 pbl in recent days (in fact USD99 pbl Wednesday), from highs of USD128 pbl in March. While the Federal Government's 2012 budget is based on an oil price benchmark of USD72 pbl, the actual break-even fiscal point at the three-tier level is much higher, as illustrated by the absence of relevant fiscal savings, as well as the sustained monetisation and sharing of Excess Crude Account proceeds (USD5bn left at best, if not less)."

Continuing, he noted that should the oil price maintain the same downward trajectory in coming weeks before stabilising at a new equilibrium, the adjustment process is likely to weigh negatively on local FX expectations and exacerbate the upward pressure on USD/NGN, a risk probably factored in by international investors.

On the upside, the CBN has stepped up to stabilise the forex market and regularly sold USD to interbank players over the past fortnight, while it also increased the size of FX sales at the bi-weekly WDAS auctions (USD300m on 6 June). This is certainly encouraging, since the central bank continues to see USD/NGN as the nominal monetary policy anchor and exchange rate stability, as fundamentally important for a sustainable macroeconomic framework.



L-R: Andrew Azazi, national security adviser; Mike Ogedohme, chief of staff to the president; Bello Sali, head of civil service of the federation; Anyim Pius Anyim, secretary to the government of the federation, and Vice President Namadi Sambo, at the Federal Executive Council meeting in Abuja, yesterday.

CBN offshore policy unsettles ...

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Nigerian banks with expansion ambitions will have to appropriately assess the viability of the

has to put in place the best safeguards available to it. This involves raising the capital adequacy ratio for all banks granted international

as both banks have the highest number of offshore operations within the industry, with 18 and nine respectively, in offshore countries. While the two are thinking of asking for an extension of the deadline, one of them

their profitability and competitiveness."

The analysts however observed that there was less clarity about the deployment of capital for future/new subsidiaries by some banks