

## ENERGISING THE CAPITAL MARKET – Sign-Posting CBN for the Emerging Nigeria Financial System

We have over time in this column, devoted our thoughts on the emerging financial market in the country. Accordingly, we have featured reports that dwelt on specific and specialized financial products that are gradually being introduced into the capital market in particular. There are many others that are yet to find their place in the market; more for lack of appropriate regulatory framework than the demand for it. Our views are derived from two perspectives. First, the Nigerian economy is growing at a very fast pace with increasing investment interest. Second, the available products in the market cannot absorb the huge funds, both local and foreign, that now tracks the economy. What this translates to is that both the operators and the regulators must brace up to create a market that is deep enough to galvanise investments and energise the economic growth momentum.

### CENTRAL BANK AND THE CAPITAL MARKET

The policy thrusts of the Central Bank of Nigeria (CBN) have most times been skewed to the banking subsector, with interest rate, exchange rate, and inflation rate management being the focal points. Accepted that the Securities & Exchange Commission (SEC) maintains the regulatory oversight on the capital market, the activities of the CBN can and do in very many circumstances impact on the market – positively or negatively. On this grounds, therefore, it becomes imperative for the CBN to be much more sensitive to developments in the capital market in particular and the financial market in general.

Perhaps, the cross-policy regime of the CBN that have had the greatest impact on the capital market in recent times was the banking sector consolidation prosecuted by Chukwuma Soludo who superintended the apex bank as the governor from 2004 to 2009. The policy triggered the highest activity in the history of the Nigerian capital market. Key market indicators soared to unprecedented highs. The market received steady local and international reviews, as the regulators - the CBN, SEC, the Nigerian Stock Exchange (NSE), – the operators, and the investing publics were kept busy. The rave flattened following the global meltdown, and that took the shine of the equities market segment. While the secondary equities market has recorded significant recovery, the primary market is still on its bellies.

### RADAR POINTS

Mr. Godwin Emezie, until May 30, 2014 was the former group managing director of Zenith Bank Plc. He resumed office as the new governor of the CBN on June 02, 2014, ushering in a new era of central bank administration in Nigeria. He announced his agenda for the bank and the economy for the next five years in a world press conference held Thursday June 05, 2014. The new CBN chief and his team will over the period design and implement policies that will engender low interest rate, stable exchange rate regime, and maintain inflation at a single digit. In addition, the CBN will adopt a development finance initiative that will emphasise increased productivity and job creation. Prior to his articulation of the plan, there must have been very deep and wide consultations cutting across the public and private sector policy managers. Also, rich information may have been gathered from the media, which in the days preceding his taking over of office, have been awash with radar views of what the CBN should and/or should not do.

In line with available opinions, it is considered appropriate to highlight and bring to the fore new developments in the capital market which the

MARKET UPDATE			
	15/01/13	15/12/13	06/06/14
Naira/US\$	157.65	159.94	163.45
Brent,US\$/BBL	109.78	107.84	108.05
COCOA, US\$	1487.82	2685.47	2760.56
MPR%	12.00	12.00	12.00
INFLATION RATE %	10.3	7.9	7.8
MORTGAGE RATE %	22.0	23.0	23.0

STOCKS CONSTITUTING GMA INDEX			
STOCKS	31/12/13 Price (N)	06/06/14 Price (N)	%Change in Price
OANDO	24.25	19.98	-17.61
GTBANK	27.02	30.00	11.03
OKOMU	44.00	33.00	-25.00
STANBIC	21.35	25.00	17.10
DANGSUGAR	11.70	9.55	-18.38
FIDSON	2.79	2.90	3.94
TRANSCORP	4.35	4.39	0.92
CCNN	11.75	10.55	-10.21

	PRICE(N) 31/01/14	NAV (N) 06/06/14
UHOREIT	50.00	50.00
UPDCREIT	10.00	10.50

Index	31/12/13	06/06/14	% Change
NSE ASI	41,329.19	41,474.39	0.35
GMA Index	1.50	1.52	1.18

### Source: CBN, SEC and NSE

CBN must begin to pay attention to in collaboration with other relevant bodies to ensure rapid development of the entire financial market.

### EMERGING TRENDS IN THE CAPITAL MARKET

The primary segment of the equities market provides the first line of option for capital formation through the issue and sale of new shares of a company wishing to raise fresh funds. On the other hand, the secondary market offers a platform for trade and exchange of existing shares. Typically therefore, companies would access the primary market to beef up their share capital. But due to systemic default, activities in the primary market has been near zero point since years following the meltdown; except for few issues recorded in the last two years. Consequent upon this, companies sought for alternative window in the bond market.

- **THE CORPORATE BOND MARKET:** The corporate bond market is reemerging; though with an activity level that is much less than market demand. The reason for

the low activity can be attributed to what is perceived as the "crowding-out" effect of the Federal Government of Nigeria (FGN) Sovereign Bonds against the Corporate Bonds. The FGN bonds are naturally risk free and provide the bench mark for pricing other instruments. Presently, the sovereign bonds are issued at an average rate of 14%; a competitive pricing for the corporate bonds must therefore hinge at a premium of about 5%, and by implication a bond offer rate of 19%. This is clearly burdensome for the firms and works against the objective of using low interest regime to drive productivity and growth.

- **NMRC AND THE MORTGAGE MARKET:** Mortgage refinancing is a high impact activity with spiral effect on increased housing development, house affordability, and job creation. Clearly it is seen as another bold step by the government aimed at addressing the challenges of providing good and affordable houses in Nigeria. NMRC is coming in as an integral part of the country's financial system. The activity of the organization will deepen the financial market, particularly the mortgage segment. The company must play its role of intermediation between the capital market and mortgage finance institutions that provide mortgage loans to average working Nigerian citizens. NMRC can deliver on this objective by taking over the existing mortgages and release cash to the primary mortgage institutions (PMIs). Further to this, the mortgages will be repackaged for refinancing at lower rates over a longer tenor using the capital market window. With this, the PMIs that are currently faced with challenges of illiquidity will have leverage for boosted performance in housing delivery.

**SECURITISATION:** Securitized products and SPVs are investment models that will in the very near future assume very significant dimension as the financial market in Nigeria widens. The CBN can achieve compliance of the banking sector to Basle II Accord using securitization. In this process, the banks that have exceeded the 1:8 capital to debt ratio, can securitise the excess portion and offload them in the capital market. By this arrangement, the banks will maintain clean and strong balance sheet. Such products as Mortgage Backed Securities (MBS), Asset Backed Securities (ABS), Collateralised Debt Obligations (CDO) and similar products will soon find roots in the markets through the above process as their structure and application gains wider understanding across levels of the regulators, operators, and investors.

### CONCLUSION

We strongly believe that the CBN can achieve its objective of boosting productivity without necessarily devaluing the naira. This however will depend to a large extent on the creative use of the capital market instruments by the apex bank. As the governor has indicated, the key driver in achieving this will be to maintain a low interest rate regime. It is equally gladdening to know that the starting point to this will be a ownward review of the treasury bill (bond) rates to bring it closer to that of the emerging and frontier markets. The lowering of the rates of the FGN instruments will in line reduce cost of funds in the market and hence boost economic activity and employment, shore up foreign reserve, reduce inflation, strengthen the naira. The Central Bank certainly has a critical role to play in opening up the market for the emerging trends. Its policies must be such that will support creativity and innovation in product development and introduction. The apex bank must sit in with other regulators including the Pension Commission (Pencom) to steer the capital market in a manner that will boost the economy.

### Disclaimer

This report is produced by Goldbanc Management Associates Limited for information purposes only. Nothing in this report constitutes investment, legal or other advice, an offer or an invitation to sell any securities or to produce investment services of any description.

Goldbanc Management Associates Ltd. 5th Floor Medife House, 58/60 Broad Street, Tinubu Square, Lagos. P.O. Box 2294 Marina. Tel: +234 1 4480803, 4480802. Email: info@gma.com.ng Website: www.gma.com.ng



...thinking and executing new perspectives