

## REVIEW OF DEVELOPMENTS IN THE FIRST AND SECOND QUARTERS OF 2018

BY

RESEARCH, POLICY & INTERNATIONAL RELATIONS DEPARTMENT

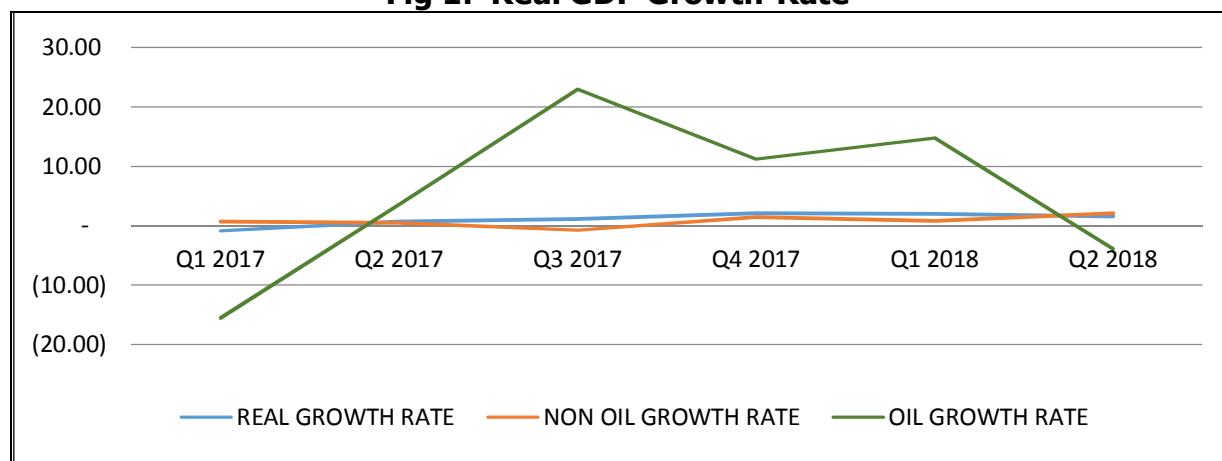
### 1.0 INTRODUCTION

The Banking Sector recorded a number of developments during the first half of 2018. Amongst these were the periodic meetings of the Central Bank of Nigeria (CBN) Monetary Policy Committee (MPC). Other notable macroeconomic events included the growth of the real Gross Domestic Product (GDP) by 1.95% in Q1 2018 from 1.92% in Q4 2017; and the decline to 1.5% in Q2 2018. The highlights of major developments in the Nigerian economy are presented below.

### 2.0 DOMESTIC ECONOMY

Nigeria’s overall GDP grew at 1.95% in Q1 2018, compared to 0.82% in 2017. The major source of the growth in Q1 2018 was the oil sector which contributed 1.26%. In Q2 2018, the GDP grew by 1.50% (year-on-year) in real terms. Unlike in the first quarter, the non-oil sector drove economic growth in the second quarter. The Oil Sector declined by 3.95% (year-on-year) in Q2 2018, which was a decrease of -18.72% relative to Q1 2018. The Non-Oil Sector grew by 2.05% in real terms in Q2 2018, 1.29% above the Q1 2018 value. Figure 1 shows the real GDP growth rate from Q1 2017 to Q2 2018.

**Fig 1: Real GDP Growth-Rate**



Source: RPIRD<sup>1</sup>, underlying data from NBS

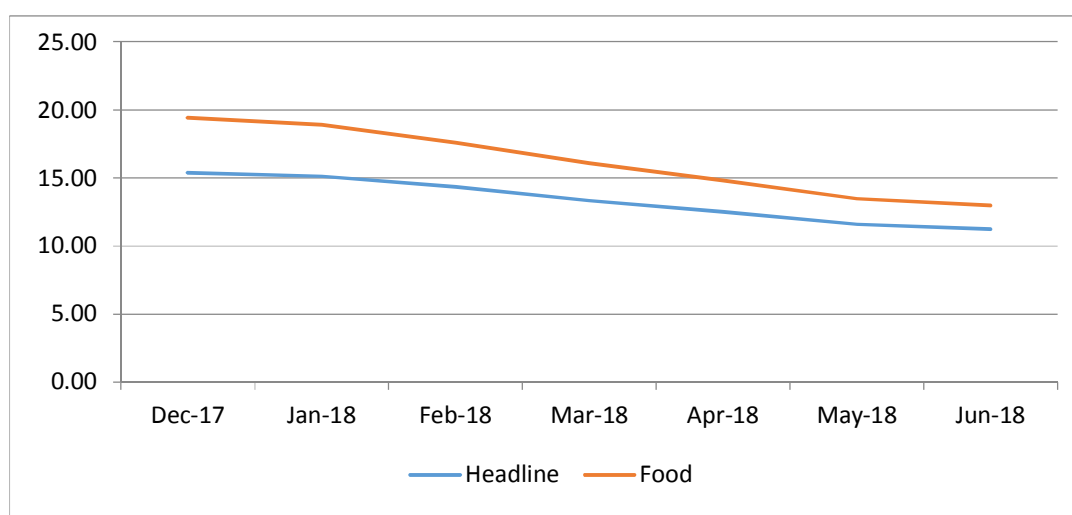
<sup>1</sup> Research, Policy and International Relations Department.

### 3.0 INFLATION

The Consumer Price Index (CPI) was 15.13% in January 2018 as against 15.37% in December 2017, indicating that inflation decreased in Q1 2018. The CPI increased by 11.23% (year-on-year) in June 2018 against 11.61% recorded in May 2018. That represents the 17<sup>th</sup> times that inflation will consistently decline since January 2017, as shown in figure 2. Core inflation, which excludes prices of volatile agricultural products, fell from 12.1% in both December 2017 and January 2018 to 10.9% in April 2018 and further down to 10.7% in May 2018. It decreased further to 10.4% in June 2018.

As at December 2017 and January 2018, food inflation was 19.42% and 18.92%, respectively, as shown in figure 2. Food inflation kept on declining until it reduced to 14.8% in April, 13.45% in May 2018 and 12.98% in June 2018 due mainly to relative stability in exchange rate and increased supply of agricultural products.

**Fig 2: Inflation Rate (%)**



Source: RPIRD, underlying data from NBS

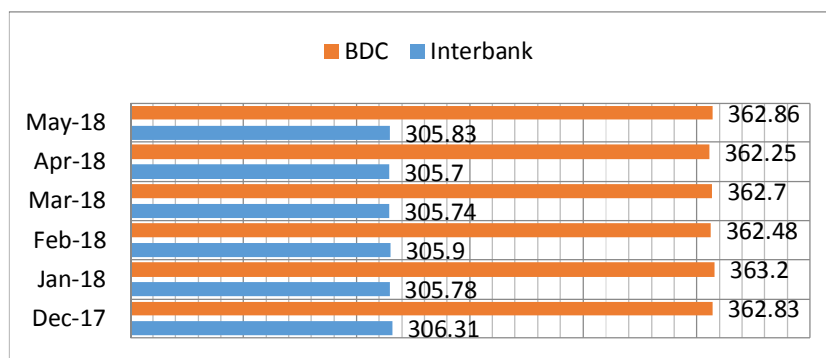
### 4.0 EXCHANGE RATE MOVEMENT

Foreign currency liquidity improved following the introduction of administrative measures by the CBN since early 2017. The measures included a trading window for portfolio investors at market determined rates and the introduction of the Nigerian Autonomous Foreign Exchange Rate Fixing, which allowed commercial banks to quote forex rates that are close to parallel market rates.

Figure 3 presents the trend of Naira/USD rate in both the Interbank and the Bureau de Change markets. At end December 2017, the interbank rate was N306.31 to the US\$. However, there was a slight decrease in the rate though not really significant in January

2018 to N305.78/US\$ and to N305.9/US\$ in February 2018. At the end of the 1st Quarter in 2018, the rate slightly decreased to N305.74/US\$ with a premium of 56.33 points.

**Fig 3: Exchange Rate Movement**



Source: RPIRD, underlying data from NBS

On the other hand, the Bureau De Change rate which increased to N363.2 in January 2018 from N362.83/US\$ at the end of Q4 2017 moderated to N362.48/US\$ in February, 2018. The rate fell further to N362.07/US\$1 at the end of Q1 2018 but increased slight to N362.25/US\$1 and N362.86/US\$1 in April and May, 2018 respectively. The exchange premium remained stable, averaging about N56. Increased oil prices and production volumes have aided the CBN to intensify interventions in the official and retail markets, thereby bridging the exchange rate premium in recent times.

### 5.0 EXTERNAL RESERVE MOVEMENT

Nigeria’s external reserves rose from US\$38.8 billion in December, 2017 to US\$ 40.7 billion in January, 2018 and further to US\$42.5 billion in February 2018. It streaked to US\$47.3 billion and US\$47.6 billion in April and May, 2018, respectively. As at June 2018, US\$47.8 billion was the value of the external reserves. That performance was due mainly to sustained high oil prices and the improved stability in the Niger Delta region.

### 6.0 CAPITAL MARKET DEVELOPMENT

The Nigeria Stock Exchange (NSE) All-Share Index (ASI) was at 38,278.55 as at the end of June 2018, representing a decline of 7.7% from 41,504.51 points recorded as at end of Q1 2018 but had grown slightly from 38,243.19 points recorded as at the end of December 2018.

Although, the market’s performance remains subdued, observed investor’s confidence was high and this was believed to have been motivated by the following factors:

- i. Expansion in global investment trade and manufacturing pushing a stronger global economy;
- ii. A stronger local economy due to higher global oil prices and domestic production, higher expectation of improved economic performance as a result of IMF forecasts of 1.9% real GDP growth in 2018 as opposed to 0.8% growth in 2017;
- iii. Continued stability and transparency in the FX market (confidence in the I & E window); and
- iv. Expected infrastructure expansion.

## 7.0 MONEY MARKET DEVELOPMENT

Most of the money market rates showed downward trends with the exception of overnight interbank (call) rate which rose from 15.16% at the end of Q1 2018 to 26.11% in May 2018 but crashed to 5% in June 2018. Treasury bills and prime lending rates went downwards from 11.84% and 17.35%, respectively, to 10.11% and 16.78%, as at the end of June 2018. Average savings rate was, however, unchanged at 4.07% during the first half of the year. The money market rates are shown in Table 1.

**Table 1: Selected Money Market Rates**

Year	InterBank Rate	MPR	Treasury Bill	Savings Deposit	Prime Lending	Max Lending
Dec-17	9.49	14	13.11	4.08	17.71	30.95
Jan-18	15.58	14	12.27	4.07	17.50	31.39
Feb-18	26.19	14	11.88	4.07	17.53	31.40
Mar-18	15.16	14	11.84	4.07	17.35	31.55
Apr-18	3.34	14	11.43	4.07	17.24	31.56
May-18	25.43	14	10	4.07	17.08	31.29
Jun-18	5	14	10.11	4.07	16.78	31.17

Source: CBN Database

Nonetheless, the rates remained high with the attendant adverse effect on liquidity and private sector's access to finance.

## 8.0 CBN MONETARY POLICY

The re-constituted Monetary Policy Committee (MPC) held its maiden meeting and its first in 2018, on 3<sup>rd</sup> and 4<sup>th</sup> of April, 2018. The MPC also met on the 21<sup>st</sup> and 22<sup>nd</sup> of May, 2018 during the period under review.

The decisions of the Committee after reviewing developments in both domestic and international environments from the two meetings are as follows:

- i. Retention of the MPR at 14 per cent;
- ii. Retention of the CRR at 22.5 per cent;
- iii. Retention of the Liquidity Ratio at 30.00 per cent; and
- iv. Retention of the Asymmetric corridor at +200 and -500 basis points around the MPR.

The monetary policy stance of the CBN since July 2016 has been contractionary and aimed at containing inflation on the back of substantial expansionary fiscal policy, pre-election spending and expected monetization of oil proceeds. The MPC believed that that policy stance would boost investor confidence, promote foreign capital flows and further enhance exchange rate stability.

## **9.0 CIRCULARS AND GUIDELINES ISSUED BY CBN**

The following are the circulars and Guidelines issued by the Central Bank of Nigeria (CBN) during the period under review.

### **9.1 Directive to Microfinance Banks and Primary Mortgage banks to place all accounts without BVN on 'post no debit' status.**

In a circular referenced OFID/DIR/CIR/GEN/018/217 dated 02/01/2018, the CBN directed all Microfinance and Primary Mortgage Institutions to place all accounts without Bank Verification Number (BVN) on 'Post-no-debit' status. This follows the expiration of an extended deadline of 31/12/2017 for the customers of these banks to enroll or submit their BVN. However, credit lodgments inclusive of deposits and inward transfers, may be received into such accounts while they continue to enroll customers of such accounts and only remove the "post no debit" restriction when the customer has been enrolled or a valid BVN has been obtained and submitted by the customer.

### **9.2 Sanctions on Erring Bank/e-Payment Service Providers for Infractions of Payment System Rules and Regulations.**

In a circular referenced BPS/DIR/GEN/CIR/05/001 dated 04/01/2018 to all DMBs, Mobile Money Operators, Switches and Payments System Service providers the CBN announced that, effective 01/04/2018, operators shall be sanctioned with a penalty of **N10,000.00** (ten thousand naira only) per day for as long as the following infractions persisted: Failure to apply for the renewal of an operating licence three (3) months before expiry date; Failure to regularize and respond to exceptions/observations noted by CBN in the course of processing application for the renewal of an operating licence within three (3) weeks.

### **9.3 Update of the List of Banks Operating in Nigeria.**

On 16/01/2018, the CBN posted an updated list of DMBs and Financial Holding Companies operating in Nigeria as at 29/12/2017. The list includes 10 commercial banks with international license, 9 with national license and 2 with regional authorization. It also includes 1 non-interest bank with national license, 5 merchant banks with national license and 3 financial holding companies.

Similarly, on 22/01/2018, the CBN updated the list of Microfinance banks operating in Nigeria as at 29/12/2017 showcasing names and addresses of a total of 1008 banks spread across the country.

### **9.4 Internal Capital Generation and Dividend Payout Ratio.**

The CBN in a directive to all DMBs and discount houses on 31/01/2018 vide a letter referenced BSD/DIR/GEN/LAB/11/002, restricted dividend payout. It stated that any DMB with Capital Adequacy Ratio (CAR) below the regulatory requirement for its class of license shall not be allowed to pay dividend. DMBs with Composite Risk Rating of "high"

or NPL ratio above 10% shall not be allowed to pay dividend. Likewise, no DMB shall be allowed to pay dividend out of reserves. However, the directive gave no regulatory restriction for DMBs with satisfactory CAR, CRR, and NPL ratios or ratings as the case may be but it was expected that the board of such institutions will recommend payouts based on effective risk assessment and economic realities.

### **9.5 Charges on the sale of foreign Exchange for Invisible Transactions (BTA, PTA, School and Medical Fees).**

In a directive to all authorized dealers on 12/02/2018, the CBN in a letter with reference number TED/FEM/FPC/GEN/01/001 abolished the charging of commissions on retail foreign exchange transactions such as BTA, PTA, School and Medical Fees.

### **9.6 Amendment to the Commercial Agriculture Credit Scheme (CACS) Guidelines**

The CBN, in its circular with reference no. FPR/DIR/CIR/GEN/01/031 dated 16<sup>th</sup> February, 2018, informed all Banks and other Financial Institutions of its review of the Commercial Agriculture Credit Scheme (CACS) guidelines to include Non-interest Financial Institutions (NIFIs).

### **9.7 Temporary engagement of Pre-Shipment Agents (PIAs) for Non-Oil Exports**

The CBN in its circular referenced TED/FEM/FPC/GEN/01/002 dated 28<sup>th</sup> February, 2018, informed all authorized dealers, Nigeria Customs Service, Nigeria Export Promotion Council, All Terminal Operators and the general public that the Honorable Minister of Finance had approved the appointment of PIAs at the various zones, borders and ports.

### **9.8 Commencement of the Non-oil Exports Stimulation Facility (NESF)**

The CBN in its circular with reference number FPR/DIR/CIR/GEN/01/032 dated 9<sup>th</sup> March, 2018, informed all Deposit Money Banks and Development Finance Institutions about the commencement of the Non-oil stimulation Facility (NESF). NESF is aimed to help redress the declining export financing and reposition the sector for economic development.

### **9.9 Compliance with the Cybercrime (Prohibition, Prevention, etc.), Act 2015: Collection and Remittance of Levy for the National Cybersecurity Fund**

The CBN in its circular dated 1<sup>st</sup> March, 2018 and referenced BSD/DIR/GEN/LAB/11/006, reminded all Banks about the provisions of Section 44 (S.1 and 2) of the Cybercrime (Prohibition, Prevention, etc.), Act 2015, and mandated the payment of a levy of 0.005% into the Fund's account in the Central Bank of Nigeria. The CBN via the circular informed the banks that a National Cyber Security Fund account had been opened and domiciled in the Central Bank of Nigeria.

It also directed all Banks with immediate effect, to comply with the statutory provision for the collection and remittance of the 0.005% on all electronic transactions levy on all electronic transactions by the businesses specified in the second schedule of the Cybercrime (Prohibition, Prevention, etc.) Act, as follows:

- i. GSM Service providers and all telecoms companies
- ii. Internet Service providers
- iii. Banks and Other Financial Institutions
- iv. Insurance Companies and;
- v. Nigeria Stock Exchange

In addition, all levies imposed under the Act should be remitted to the CBN within a period of 30 days after collection.

### **9.10 Regulatory Framework for the Use of Unstructured Supplementary Service Data (USSD) in the Nigerian Financial System**

The CBN in its circular dated 17<sup>th</sup> April, 2018 with reference BPS/DIR/GEN/CIR/05/002, in furtherance to its mandate to develop and enhance the security of the electronic payments system in Nigeria, intimated DMBs, Switches, Mobile Money Operators, Payment Solution Service Providers, Micro Finance Banks and Others of its release of the Regulatory Framework for the use of USSD in the Nigerian Financial System with effect from 1<sup>st</sup> June, 2018.

In view of the risks, vulnerabilities and growing threats inherent in the use of USSD technology, the framework seeks to establish the rules and risk mitigation considerations when implementing the USSD for financial services offering in Nigeria.

### **9.11 CBN Anti-Money Laundering and Combating the Financing of Terrorism (Administrative Sanctions) Regulations, 2018.**

The CBN in its circular dated 9<sup>th</sup> April, 2018 and referenced FPR/DIR/GEN/CIR/07/001 informed all Banks and Other Financial Institutions of the CBN AML/CFT Administrative Sanction Regime.

It became effective as a result of the official gazette passed in furtherance to the requirements of the Financial Action TASK Force (FATF) recommendation 35 on effective, proportionate and dissuasive sanctions and Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) 2007 Mutual Evaluation recommendation that "Nigeria AML/CFT sanctions regime should be reviewed and made to be proportionate and dissuasive".

### **9.12 Development in the Foreign Exchange Market- Review of Weekly Foreign Exchange Cash Sales to Bureau De Change (BDCS) Operators**

In its circular dated 28<sup>th</sup> May, 2018 and referenced *TED/FEM/FPC/GEN/01/003*, the CBN informed all Authorized Dealers, Bureau De Change Operators and the general public that the frequency of foreign exchange sales to licensed BDCs had been increased to three (3) times weekly. Authorised dealers were also admonished to continue the sale of foreign currencies for travel related invisible transactions to customers and non-customers over the counter upon presentation of relevant travel documents (Passport, Air ticket & Visa).

### **9.13 Pledge of ₦1 Billion Worth of Government Securities for OTC Trade Settlement**

In an effort to enhance efficiency in trading and post-trade activities, as well as build confidence in financial markets, the CBN in its circular referenced

*FMD/DIR/CIR/GEN/09/003* and dated 31<sup>st</sup> May, 2018; had directed all DMBs that wish to participate in OTC settlement to pledge collateral of ₦1 billion worth of Government/CBN securities for OTC trade settlement. The Apex Bank noted that failure to do so or top up a pledge when required would result to exclusion from the market.

#### **9.14 Extension of the Regulatory Framework for the Use of Unstructured Supplementary Service Data (USSD) in the Nigerian Financial System**

The CBN in its circular dated 1<sup>st</sup> June, 2018 with reference number *BPS/DIR/GEN/CIR/05/005*; informed all DMBs, Mobile Money Operators, Payment Solution Service Providers and Other Service Providers on the extension of the date for the use of Unstructured Supplementary Service Data (USSD) in the Nigerian Financial System, from 1<sup>st</sup> June, 2018 to 1<sup>st</sup> October, 2018. That, in its opinion was pertinent to fully realize the objectives of the framework.

#### **9.15 Circular to all Banks on the Redesigned CRMS: Notice of Commencement of CRMS Compliance Status Checks**

On 6<sup>th</sup> June, 2018 via circular referenced *FPR/DIR/GEN/CIR/07/002*, the CBN directed that Chief Financial Officers of Commercial, Merchant and Non-Interest Banks in Nigeria to ensure that total loans/advances/credits reported on FinA or any regulatory platform for such submission of return **MUST** match the total value of credits/exposures reported in the CRMS (including the distribution of exposures by "Business lines").

Given that Banks must complete their routine End-of-Month processes in order to generate balances required to correctly update the outstanding balance of each live CRMS record all banks were thereby advised to ensure that these records are updated and matched.

#### **9.16 EXPOSURE DRAFT OF THE RISK-BASED CYBER-SECURITY FRAMEWORK GUIDELINES FOR DMBs AND SERVICE PROVIDERS.**

In its circular referenced *BSD/DIR/GEN/LAB/11/016* and dated 25<sup>th</sup> June, 2018, the CBN informed all Banks and Service Providers about the Exposure Draft on Cyber-Security Framework and Guidelines for their input.

The apex bank noted that due to the increase in number and sophistication of cyber-security threats against them, it was pertinent that Banks and Payment Service Providers strengthen their cyber defenses in order to remain safe and sound. The CBN requested that comments and inputs on the draft guideline be sent to it before 31<sup>st</sup> July, 2018.