

# **REVIEW OF DEVELOPMENTS IN THE THIRD AND FOURTH QUARTERS OF 2017**

BY

RESEARCH, POLICY & INTERNATIONAL RELATIONS

## **1.0 INTRODUCTION**

The finance and banking sector recorded a number of developments during the third and fourth quarters of 2017. Some of these developments were the outcome of the CBN Monetary Policy Committee (MPC) meetings as the dynamics of the financial sector and the trends of the indicators relied so much on the MPC meetings and other global financial trends.

## **2.0 CBN Monetary Policy Committee Meeting**

The CBN MPC met thrice during the period, on the 24<sup>th</sup> to 25<sup>th</sup> July 2017, 25<sup>th</sup> to 26<sup>th</sup> September 2017 and 20<sup>th</sup> to 21<sup>st</sup> November 2017. The meetings reviewed the macroeconomic conditions and exogenous global challenges confronting the Nigerian economy with a view to proffering policy directions for the financial sector. The Committee, through a thoughtful consideration and analysis of the challenges threatening the domestic economy coupled with the volatility in global economic environment, decided to retain the MPR at 14%, CRR at 22.5% and the liquidity ratio at 30% throughout the two quarters to curtail the inflationary pressure in the economy.

## **3.0 Global Economic Developments**

The global economic developments are of interest to banks and policy makers. That is because there are linkages between domestic trends in economic activities and the economic and financial world, which invariably determines the level of stability of businesses. A number of factors such as loose monetary conditions, supportive fiscal policies in some advanced economies, higher commodity prices and rising aggregate demand contributed to the growth trajectory during the period.

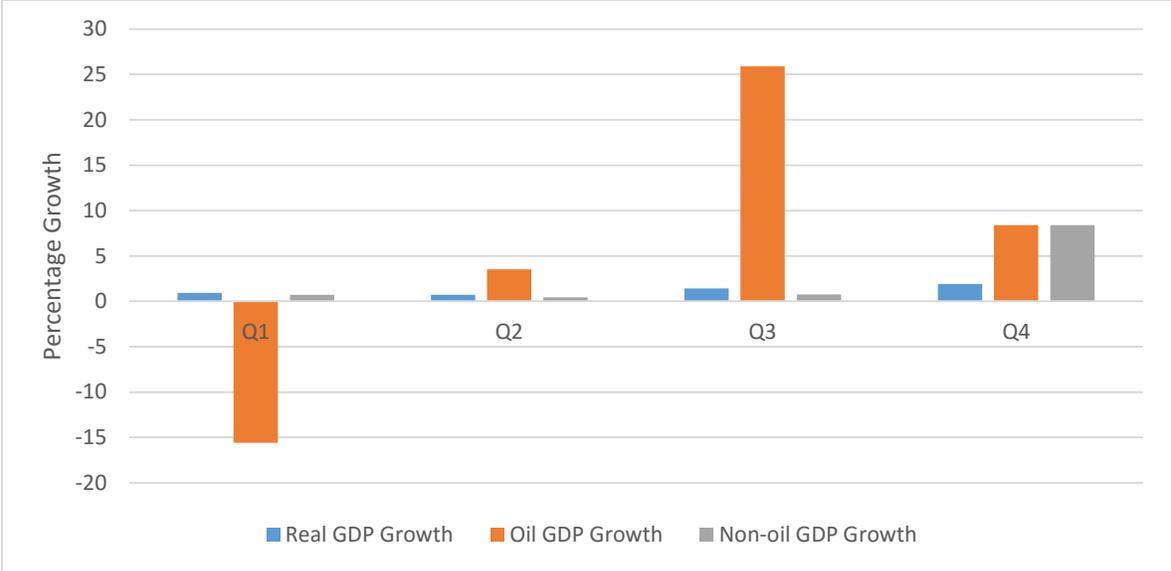
## **4.0 Developments in the Domestic Economy**

### **4.1 Gross Domestic Product (GDP)**

Nigerian economy had firmed up months after it officially came out of recession in Q2, 2017. According to the National Bureau of Statistics (NBS) real Gross Domestic Product (GDP) grew by 1.92% in Q4 of 2017, from 1.40% and 0.72% in the Q3 and Q2, respectively. Chart 1 presents GDP growth for the oil and non-oil sectors as well as the

overall economy. It is evident from the chart that the oil sector grew by 25.89% in Q3 2017 from the 3.53% growth recorded in Q2 2017. However, in Q4 2017 the oil sector grew by 8.38% representing a decline in growth from the 25.89% recorded in Q3 2017 and higher than the 3.53% recorded in Q2 2017. On the other hand, the non-oil sector contracted by -0.76% in Q3 2017 from the expansionary growth path of 0.45% recorded in Q2 2017. But in Q4 2017, the non-oil sector recovered with a positive growth of 1.45% from the contraction recorded in Q3 2017.

**Chart 1: Real GDP Growth**



**Source: Data from NBS**

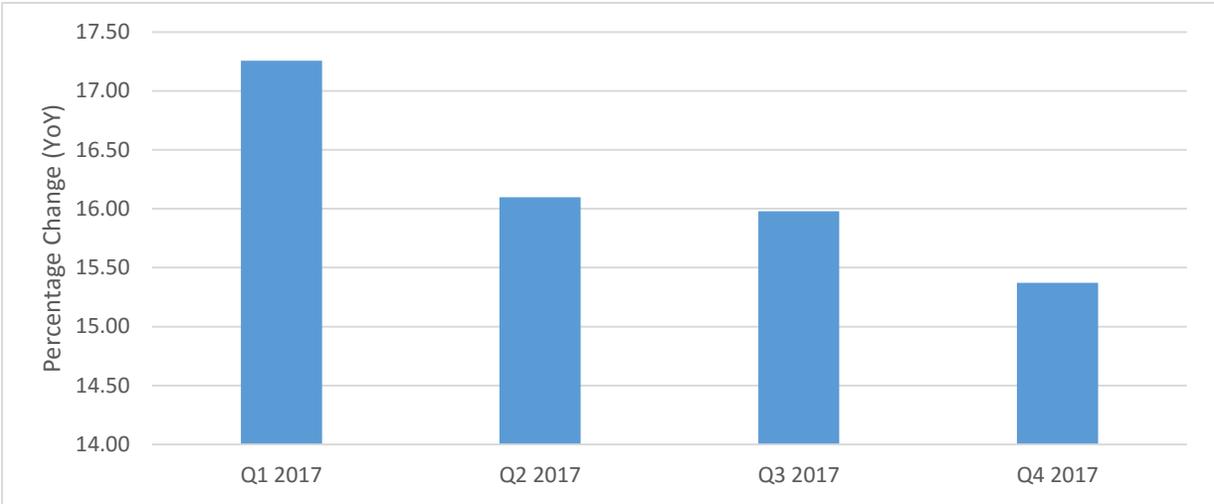
The overall economy however maintained its recovery in Q3 2017 with a real GDP growth of 1.40% from the 0.72% growth recorded in Q2 2017, as at end of Q4 2017, the economy expanded by 1.92% representing about 37% increase from the value in Q3 2017. According to the NBS, 2017 recorded a real annual GDP growth rate of 0.83%. The growth in the nation’s economy was a result of relative rise in crude oil price and production, stability in the foreign exchange market, moderate reduction in inflation rate and improvement in the nation’s foreign reserve. That propelled renewed confidence in the economy.

**4.2 Inflation**

Changes in the Consumer Price Index (CPI) measures inflation rate and Chart 2 presents inflation rate for Nigeria from June to December, 2017. From the chart, inflation rate as at end of Q2 2017, recorded a 16.10% inflation which fell by 0.05 percent points to

16.05% at the start of Q3 2017 in July. The rate declined further by 0.04 and 0.03 percent points to 16.01% and 15.98% in August and September, 2017, respectively. Consequently, inflation declined by 0.09 percent points between end of Q2 with a value of 16.10% to 16.01% at end of Q3 2017. A further decline was recorded in October at the start of the last quarter in 2017 with an Inflation rate of 15.91% representing a 0.07% point lower from the previous month. In November and December 2017, inflation receded by 0.01 and 0.53 percent points to 15.90% and 15.37%, respectively. Therefore, inflation rate receded by 0.61 percent points from the 15.98% recorded at the end of Q3 2017 to 15.37% at the end of Q4 2017.

**CHART 2: Inflation Rate**



**Source: Data from NBS**

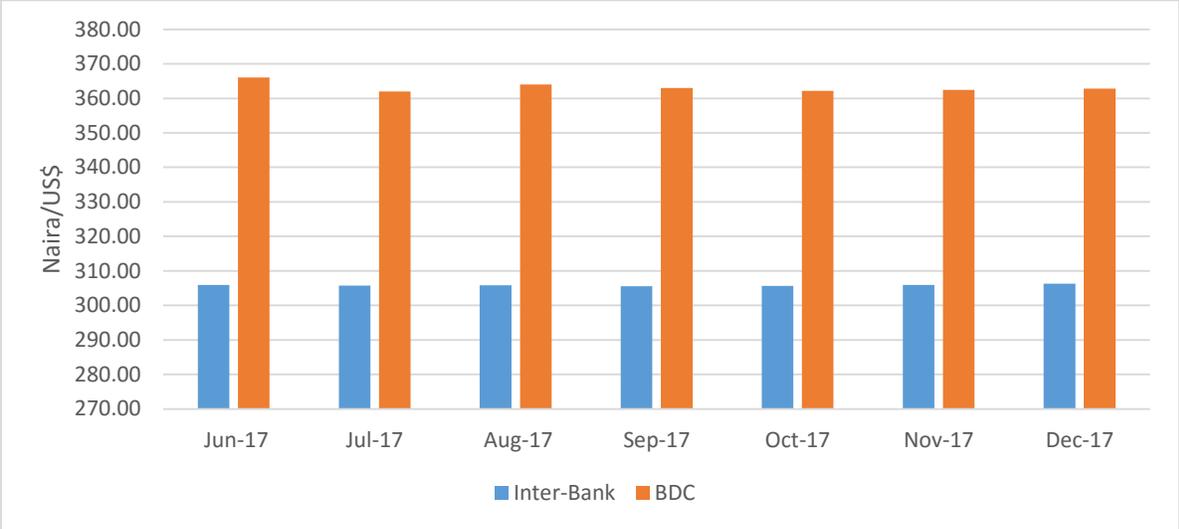
The consistent decline in inflation rate could be attributed to the contractionary monetary policy stance of the CBN, increase in agricultural products as well as the relative stability and improvement in the foreign exchange market arising from the introduction of the Investors and Exporters (I&E) Foreign exchange window, amongst others.

**4.3 Exchange Rate**

From the second half of 2017, the country achieved relative stability in the Foreign Exchange Market due to the introduction of I&E window by the CBN, rising price of crude oil amongst others.

Chart 3 presents the trend of Naira/USD interbank Market. The interbank exchange rate as at end Q2 2017 was ₦305.90 to 1USD as against the ₦366 to the 1USD at the BDC market, representing about N60.10 premium. However, the interbank rate fell slightly by 20kobo to N305.70 to the 1USD as at July 2017 while the BDC rate fell by ₦2.00 to N362 to the 1USD in same month, bridging the premium from ₦60.10 to ₦56.30.

**CHART 3: Exchange Rate Movement**



**Source: Data from CBN**

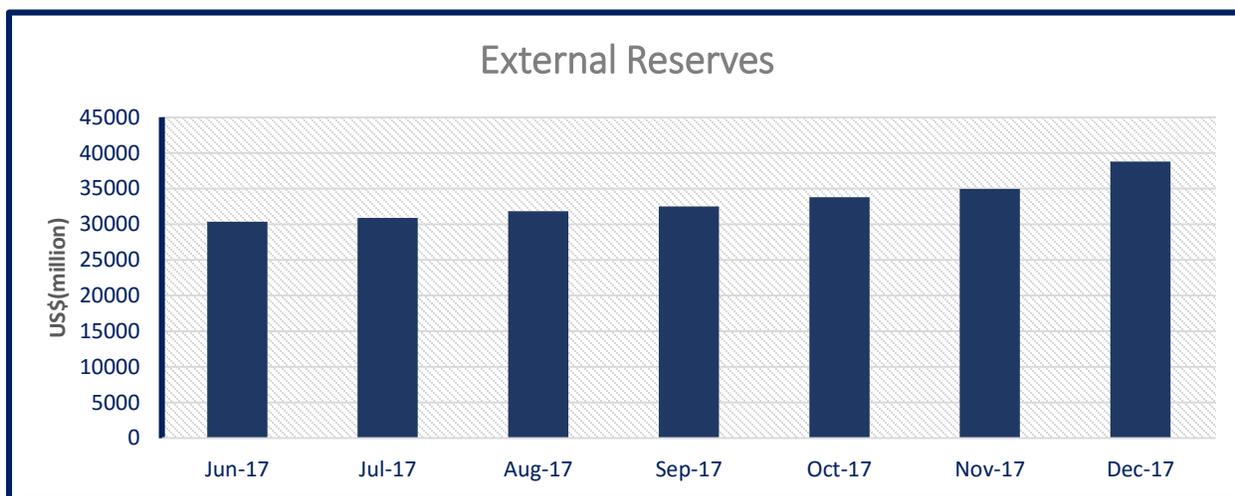
In August 2017 the interbank rate increased by 15kobo to ₦305.85 as against the BDC rate that increased by ₦2.00 to ₦364 to the USD and by implication representing an increase of the premium by ₦1.85 to ₦58.15. However, at the end of Q3 2017, the interbank rate increased slightly to ₦305.90 to the USD, which was the same rate it was at end of Q2 2017. The rate was lower by 10kobo in October 2017 to ₦305.80 to USD but increased by 10kobo to ₦305.90 to the USD in November and ₦306 in December, 2017. It is an indication that the interbank Naira to the USD rate increased by 10kobo from ₦305.90 at end Q3 2017 to ₦306 at end Q4 2017.

**4.4 External Reserves**

Chart 4 presents the trend of Nigeria’s external reserves from June 2017 to December 2017. The statistics show that, the external reserves position has been on an upward trend as it increased from USD30.3 billion at the end of Q2 2017 to USD30.9 billion in July 2017 representing a 1.98% increase. The external reserves position also rose to

US\$31.8 billion in August 2017 and as at end of Q3 2017 maintained the same upward trend to US\$32.5 billion indicating about 7.26% increase from the value in Q2 2017. In October 2017, the external reserves increased slightly to US\$33.8 billion and further increased to US\$34.9 and US\$38.8 billion in November and December respectively. By implication, Nigeria’s external reserves increased by 19.39% from the value as at end Q3 2017 to US\$38.8 billion it recorded at the end of Q4 2017. The progress could be attributed to the foreign exchange supply from the success of the Eurobond issued by the Federal Government, increased foreign inflow through the CBN I&E window and increasing foreign exchange earnings alluded to rising oil prices.

**CHART 4: External Reserves Position**

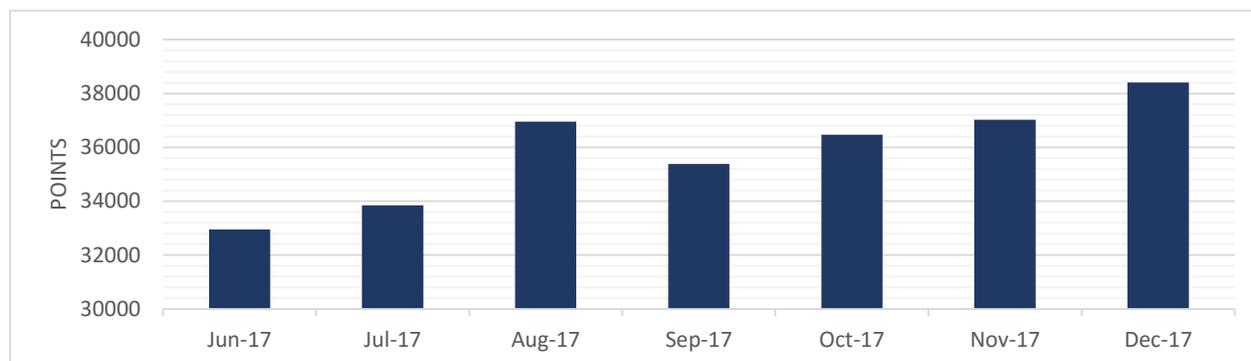


Source: Data from CBN

#### 4.5 Money and Financial Market Development

The total market capitalization of the Nigerian Stock Exchange (NSE) stood at ₦13.54 trillion as at Q4 2017, a rise from the ₦12.20 trillion in Q3 2017 and ₦11.39trillion in Q2 2017. The NSE ended 2017 with the All-Share Index (ASI) closing at 38,404.53 at Q4 from 35,378.89 and 32,951.67 at Q3 and Q2 2017, respectively, as shown in Chart 5. The improved performance of the capital market could be attributed to the gradual economic recovery, increase in foreign portfolio investment and rise in external reserves, as well as the improvement in the ease of doing business (EOD) index in Nigeria, amongst others.

**CHART 5: NSE All Share Index**



#### **4.6 Money Market Interest Rate**

The CBN maintained a contractionary policy stance throughout the year 2017 as the Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR) and Liquidity Ratio (LR) were maintained at 14%, 22.50% and 30%, respectively, to contain inflation.

Meanwhile, the interbank call rate as at Q2 2017 was 13.46, it was 20.44 at Q3 and 9.49 as at Q4 2017.

#### **5.0 CBN CIRCULARS**

During the period under review, the CBN issued a number of circulars and guidelines for the operations of Insured Deposit-taking Financial Institutions. Highlights of some of these circulars are presented as follows:

##### **5.1 Introduction of Two New Instruments – “Funding for Liquidity Facility” and “Intra – Day Facility” for Non – Interest Banks**

In a bid to aid liquidity management and deepen the financial system, the CBN in a circular dated 23<sup>rd</sup> August, 2017 and referenced FMD/DIR/CIR/GEN/009, introduced two new financial instruments, namely: “Funding for Liquidity Facility (FfLF)” and “Intra – Day Facility (IDF)” for access by Non-Interest Financial Institutions (NIFIs) licensed by it.

## **5.2 Further Guidance to Banks and Discount Houses on the Implementation of IFRS 9 in Nigeria**

Further to the guidance notes on the implementation of IFRS 9 (financial Instruments) in the Nigerian banking sector issued by the CBN on 20<sup>th</sup> December, 2016, the CBN in a circular dated 6<sup>th</sup> September, 2017 and referenced BSD/DIR/GEN/LAB/10/032 requested banks to assess the financial impact of the implementation of IFRS 9 on their operations. The assessment reports should detail comprehensively the expected impact on total provisions, capital and reserves as well as capital adequacy.

## **5.3 Review of Daily Mobile Money Wallet Transaction and Balance Limit and Bank verification Numbers (BVN) Requirement for Mobile Money Wallet Holders**

In line with the initiative of the CBN to enhance access to financial services through Mobile Money Services, the CBN in a circular dated 7<sup>th</sup> September, 2017 and referenced BPS/DIR/GEN/CIR/04/007, reviewed the daily transaction limit and balance limit on mobile money wallets to afford users of Mobile Money services more flexibility. The revised limits on transaction and balances are as follows: **KYC Level 1** – Daily cumulative transaction limit was fixed at N50,000 with cumulative balance of N300,000. **KYC Level 2** – Daily cumulative transaction limit was N200,000 with cumulative balance limit of N500,000. **KYC Level 3** – Daily Cumulative transaction limit was N5 million with unlimited cumulative balance limit.

## **5.4 Repatriation of Export Proceeds (oil and non-oil)**

The CBN, in the circular referenced TED/FEM/FPC/GEN/01/013 and dated 26<sup>th</sup> October, 2017 reminded exporters of the breach of the extant regulation with the failure to repatriate their export proceeds (oil and non-oil) within the stipulated 90 days. Non-compliant exporters are to be barred from accessing all banking services including the foreign exchange market.