

REVIEW OF DEVELOPMENTS IN BANKING AND FINANCE IN THE THIRD QUARTER OF 2016.

1.0 INTRODUCTION

The banking sector recorded a number of developments during the third quarter of 2016. Some of these developments were by-products of the Central Bank of Nigeria (CBN) Monetary Policy Committee meetings.

2.0 CBN Monetary Policy Committee Meetings

The CBN Monetary Policy Committee (MPC) met on July 25 and 26, 2016 and September 19 and 20 to evaluate the global and domestic economic and financial developments as well as the challenges to the economy.

3.0 International Economic Developments

During the period under review, global output continued to decline emanating from relatively unbalanced risks to the global outlook. Consequently, the IMF had in July 2016, downgraded its baseline global growth forecast from 3.2 percent in April to 3.1 percent in July 2016. The World Bank has been cautious in retaining its June, 2016 global output growth projection of 2.4 percent. However, global recovery remains fragile in advanced economies while the emerging markets and developing economies continue to struggle against strong headwinds, including low commodity prices, slowing demand and instability of capital markets.

It was reported that real GDP in the Euro zone is expected to maintain or outperform its second quarter growth rate of 0.3 percent in the third quarter. While short-term downside risks from the Brexit vote had largely subsided, the long term potential economic impact remains uncertain. Consequently, the zone's growth path remains challenged. The European Central Bank (ECB) at its April 21, 2016 meeting maintained its soft monetary policy by keeping its refinancing rate at 0.0 percent, marginal lending facility at 0.25 percent and deposit rate at -0.4 percent. The Bank also moved inflation towards its long term objective of 2.0 percent.

The United State (US) economy exceeded its growth expectation in the third quarter of 2016, growing at an annual rate of 2.9 percent, a significant improvement from the average growth rate of 1.1 percent in second quarter of 2016. The improved performance of the economy was attributed largely to the growth of inventories and robust surge in exports, coupled with improved consumer spending, even as the mining sector recorded a pull back.

The Bank of England had continued its £435 billion monthly asset purchase program, while leaving its policy rate at 0.25 percent as part of its bold step to support output recovery in the aftermath of the Brexit vote.

Japan's economy grew at a seasonal adjusted annualized rate of 0.2 percent in the second quarter of 2016 compared with 1.7 percent in the first quarter of 2016. The government had, in August, approved a fiscal stimulus of ¥13.5 trillion (US\$132 billion) in a bold attempt to jumpstart the economy.

Emerging Markets and Developing Economies (EMDEs) had continued to contend with low capital inflow and unstable macroeconomic environment, the prospect for their recovery look more promising within the period under review.

4.0 Domestic Economy and Financial Developments

The output of the domestic economy continued to decline due to shortage of foreign exchange, low fiscal activity, high energy prices and the accumulation of salary arrears, especially at the sub-national levels of government among others.

In the second quarter of 2016 domestic output contracted by 2.06 percent indicating that the economy had slipped into recession following a second consecutive contraction in two quarters of 2016. However, during the third quarter, the economy had suffered further contraction in output by 2.24 percent relative to its level in the previous and corresponding quarter of 2015. The non-oil sector grew by 0.03 percent, driven by Agriculture which grew by 4.54 percent, following the 0.38 percent contraction in the second quarter.

5.0 INFLATION

It has been noted that headline inflation rose to 17.9% in September. Core and food inflation have increased from 16.93% to 15.80% in July to 17.2% and 16.43%, respectively, in August 2016. Indeed, the increase in prices of goods and services was associated with reform-related legacy and structural factors including high costs of electricity, transport, production inputs, as well as high prices of both domestic and imported food products.

6.0 MONEY SUPPLY

Broad Money Supply (M2) grew by 10.50 per cent in September, 2016, compared with the 8.8 per cent in August, 2016. When annualized, M2 grew by 14.0 per cent in September 2016, above the growth benchmark of 10.98 per cent for 2016.

Net domestic credit (NDC) grew by 21.88 per cent in the same period, annualized at 29.17 per cent. At this rate, the growth rate of NDC was above the provisional benchmark of 17.94 per cent for 2016. The development in NDC, essentially reflected the relative growth in credit to the private sector of 20.69 per cent in September, annualized to 27.59 per cent. Credit to the government grew by 29.57 per cent in the review period, which annualized to a growth of 39.43 per cent compared with the growth benchmark of 13.28 per cent for fiscal 2016. The growth in government borrowing was largely to compensate for the continued decline in oil receipts.

7.0 CAPITAL MARKET

The Nigerian Stock Exchange All Share Index (ASI) fell by 7.33 per cent from 27,839.93 on September 19, 2016, to 25,797.88 on November 16, 2016. Similarly, Market Capitalization (MC) declined by 7.11 per cent from N9.56 trillion to N8.88 trillion during the same period. In addition, relative to end-December 2015, the capital indices fell by 9.93 per cent and 9.85 per cent, respectively, reflecting the challenges facing the economy.

8.0 EXCHANGE RATE

The average naira exchange rate weakened at the inter-bank segment of the foreign exchange market within the period under review. The exchange rate at inter-bank opened at N305.00/US\$ and closed at N305.90/US\$ between September 1st and October 27, 2016. It was observed that total foreign exchange inflows through the CBN decreased by 31.85 per cent, from US\$ 1,404.84 million in September to US\$957.37 million in October 2016. The decrease was attributable to lower oil and other government revenues in the period under review. Beside of the resumed Joint Venture Payments in October, total outflows also continued to decrease, dropping significantly by 58.68 per cent from US\$2,456.86million to US\$1,015.08 million during the same period. Based on this premise, the MPC committee had suggested the Management of CBN to continue to direct more focus at making foreign exchange available to Agriculture and manufacturing sectors of the economy by enforcing its policy via directing DMBs to allocate 60% of the forex available to these sectors.

11.0 CBN CIRCULARS

11.1 REVIEW OF RESTRICTIONS AND LIMITS ON LEVEL I AND II OF THE TIERED KYC ACCOUNTS

The CBN in a circular referenced FPR/DIR/CIR/GEN/06/002 dated 1st July, 2016, in furtherance of its efforts to deepen financial inclusion, reviewed upward current transaction limits on Tier I and II accounts.

11.2 MANDATORY REGISTRATION AND LISTING OF COMMERCIAL PAPERS (CPs)

The CBN in a circular referenced BSD/DIR/GEN/LAB/09/035 dated July 12, 2016, permitted Banks only to deal in CPs that are registered on Authorised Securities Exchanges with effect from July 11, 2016. Accordingly banks are prohibited from transacting in CPs (that are not quoted or intended for quotation on an Authorised Securities Exchange) in any capacity whatsoever, including but not limited to as issuer; Guarantor; Issuing, Placing, Paying and

Collecting Agent ("IPPCA"), Collecting and Paying Agent ("CPA"); etc., from the effective date.

11.3 PROVISIONING FOR FOREIGN CURRENCY LOANS

The CBN issued a circular referenced BSD/DIR/GEN /LAB/09/037 dated July 27, 2016 to all Banks and Other Financial Institutions in respect of provisioning for foreign currency loans, are by this circular required to ensure adequate and proper provisioning, banks are by this circular, required to ensure that the un-provisioned portion on all such facilities are fully provided for immediately in the income statements and evidence of the additional provisions forwarded to the Director of Banking Supervision within one week of the date of this circular.

11.4 FURTHER EXTENSION OF BVN FOR NIGERIAN BANKS' CUSTOMERS IN DIASPORA

The CBN in a circular referenced BPS/DPD/GEN/CIR/01/002 dated July 29, 2016 2016 extended the deadline for the registration and linkage of BVN to accounts of Nigerian Banks' Customers in diaspora to December 31,2016.

The CBN had initially set the deadline for January 31, 2016, then extended it to June 30, 2016 but had to extend it when it observed that the low percentage of registration was as a result of lack of accessibility and availability of registration centres in some cities where Nigerians reside abroad.

11.5 WRITE OFF OF FULLY PROVIDED NON PERFORMING LOANS

In a circular dated July 28, 2016 and referenced BSD/DIR/GEN/Lab/09/038, The CBN in view of the current macro-economic challenges grants a one-off forbearance, this year 2016, to banks, to write-off fully provided NPLs without waiting for the mandatory one year.

11.6 CIRCULAR TO ALL DEPOSIT MONEY BANKS (DMDs)

The CBN in its Circular dated September 28, 2016 and referenced BSD/DIR/GEN/lab/09/038 directed DMBs to appoint Executive compliance Officers (ECOs)

not below the rank of an Executive Director and Chief Compliance Officers (CCOs) below the rank of a General Manager (GM) in order to ensure strict compliance with all extant regulations, particularly those relating to Foreign Exchange Transactions, Financial Action Task Force (FATF), and Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT).