

## **REVIEW OF DEVELOPMENTS IN THE THIRD AND FOURTH QUARTERS OF 2018**

BY

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### **1.0 INTRODUCTION**

The Nigerian economy has experienced significant developments in Q3 and Q4 2018. Some of these developments were outcomes of the contractionary monetary policy stance maintained by the Central bank of Nigeria (CBN) Monetary Policy Committee (MPC) meetings, since the July 2016 meeting. The highlights of global economic events are discussed in sections 2 while sections 3-8 present significant developments in the Nigerian economy.

### **2.0 THE GLOBAL ECONOMY**

The global economy was estimated by the International Monetary Fund (IMF) to have grown by 3.1% in Q4 2018, the same as Q3 2018 but lower than Q2 2018. In the G7 countries, the US experienced the highest growth due to increased consumer confidence, healthy employment growth and strong wage growth. Japanese growth, in Q3 2018, was hampered by natural disasters, while Canada's growth momentum was inspired by a strong labor market in the presence of lower oil prices. The Eurozone and the UK grew at a slow rate due to social unrest in France, fragile drive from Germany and Brexit in the UK. The Asian region, excluding Japan, as emerging market, had a robust growth due to strong wage gains and labor markets, though impacted by weakened Chinese growth.

The IMF estimated, in its October 2018 World Economic Outlook, annual global economic growth for 2018 at 3.7% in spite of notable headwinds such as weaker performance in some economies, notably Europe and Asia, continued trade negotiations between the US and China, the partial US government shutdown from 22nd December in Q4 2018 and uncertainty regarding the Federal Reserve's monetary policy that led to a tumultuous year end for US in 2018.

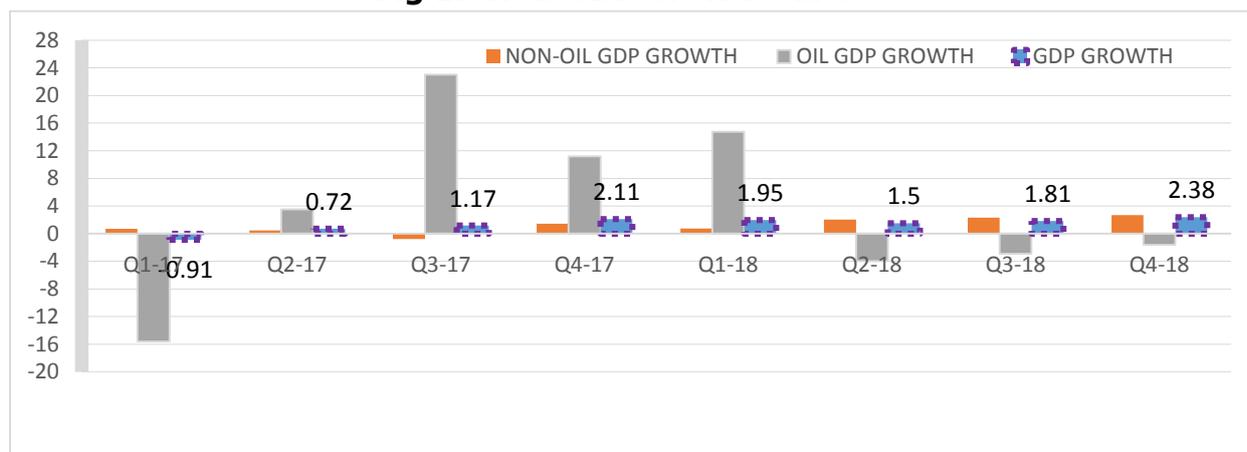
### **3.0 DOMESTIC ECONOMY**

The general economic performance in Nigeria improved as the growth in Gross Domestic Product (GDP) rose from 1.5% in Q2 to 1.81% and 2.38% in Q3 and Q4 2018, respectively. This indicates a rise of 0.55% compared with the growth rate recorded in Q3 2018. The growth in the Q4 2018 exceeded market expectations of 2.1% which is the highest growth rate since Q3 of 2015 as the non-oil sector increased further and contraction in the oil sector contracted less. The oil sector shrank 1.6% in

Q4 of 2018, contributing 7.06% of real GDP in Q4 2018 compared to 9.38% in Q3 2018 and 8.55% in Q2 2018. On the other hand, the non-oil sector contributed 92.94% to aggregate GDP in Q4 2018, compared to 90.62% in Q3 2018 and 91.45% in Q2 2018. This improvement in the non-oil sector was attributed to the increased performance in transport system, electricity, information and communication, arts and entertainment etc.

The contributions of Agriculture, Industries and Services to GDP in the final quarter of 2018 were 26.15%, 20.24% and 53.62% respectively. The contributions represent sizable improvement in Q4, compared to Q3 when these sectors respectively contributed 29.15%, 21.97% and 48.97% of the GDP. It is noteworthy that the Services Sector accounted for over half of the GDP, indicating that the Nigerian economy is showing indicator of positive economic transformation evident in a well-diversified economy like developed countries. Figure 1 shows the real GDP growth rate from Q1 2017 to Q4 2018.

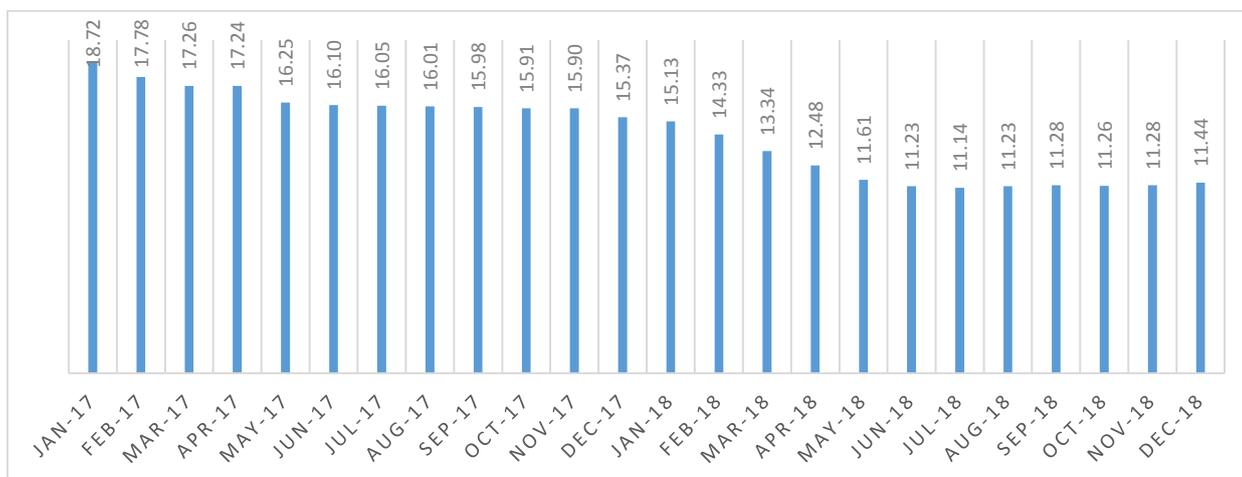
**Fig 1: Real GDP Growth-Rate**



Source: NBS

#### 4.0 INFLATION

The inflation rate is measured as a percentage change in the Consumer Price Index (CPI). CPI tracks variations in prices of goods and services consumed by people over time for daily living. Headline inflation slightly rose to 11.28% at the end of Q3 2018 from 11.23% at the end of the Q2, and further rose to 11.44% at end of Q4. This was attributed the rise in prices of selected food items, incidences of farmers/herders clash in some parts of the country also affected agricultural activities adversely in the period, fuel and lubricants, among others. Figure 2 below shows the composite inflationary trends from January 2017 to December 2018.

**Figure 2 INFLATION RATE (COMPOSITE)**

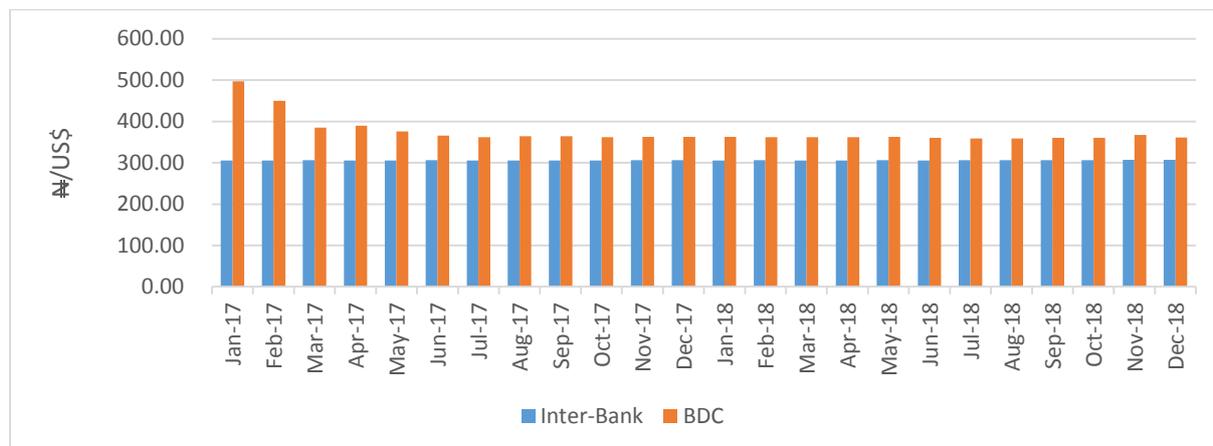
Source: NBS

## 5.0 EXCHANGE RATE MOVEMENT

There was stability in the exchange rate of the Naira to the US dollar in the year 2018, both at the inter-bank and BDC segments of the foreign exchange market. That sustained stability was on account of continuous intervention by the CBN in the foreign exchange market and activities at the Investors' and Exporters' (I&E) window, which boosted liquidity, dampened demand pressure and enhanced confidence in the market. For instance, the CBN signed a 3-year bilateral currency swap agreement with the People's Bank of China, worth 15 billion Yuan (N 720 billion), equivalent to US\$ 2.5 billion to boost liquidity and facilitate trade and investment.

The exchange rate of the Naira to the US dollar at the inter-bank segment was N306.70/US\$ in Q4 2018, a slight rise from Q3 and Q2 figures of N306.03/US\$ and N305.77/US\$ respectively. Thus, the premium between the inter-bank and BDC rates was 18.20% in Q4 2018, a slight increase from the Q3 figure of 17.40% but lower than Q2 figure of 18.34%. Figure 3 presents the trend of Naira/US\$ rate in both the inter-bank and the Bureau De Change (BDC) segments of the foreign exchange market.

**Fig 3: Exchange Rate Movement**

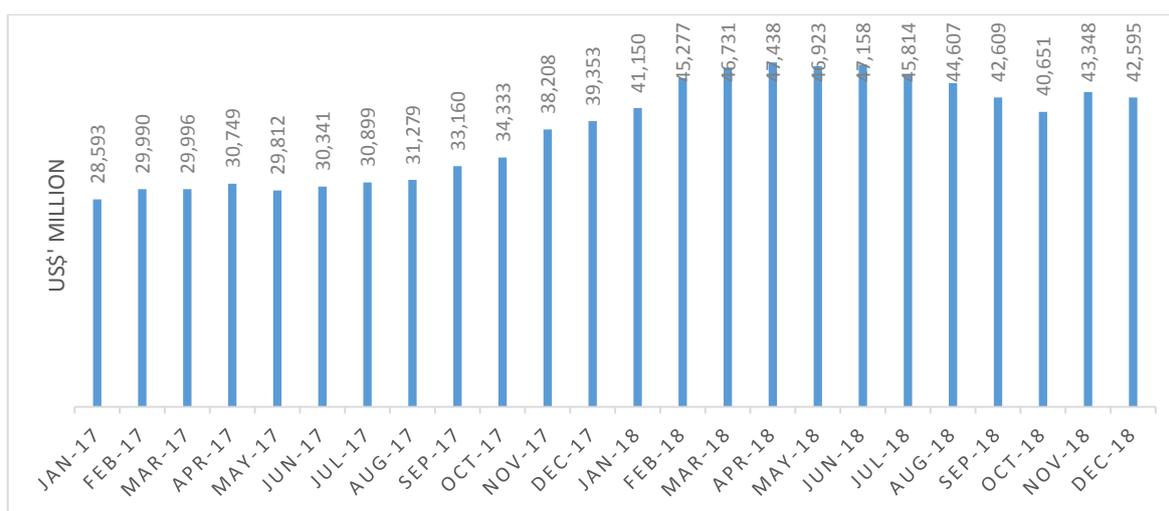


Source: CBN

## 6.0 EXTERNAL RESERVE MOVEMENT

The total external reserves in the fourth quarter of 2018 was US\$42.54 billion, compared with US\$42.61 billion in Q3 2018 and US\$47.16 billion in Q2 2018. The growth was attributed to relative peace in the Niger-Delta that led to improved crude oil sales, sustained high crude oil prices and Eurobond proceeds, amongst others. Figure 4 presents the trend of Nigeria’s Gross Official External Reserve from end-January 2017 to end-December 2018.

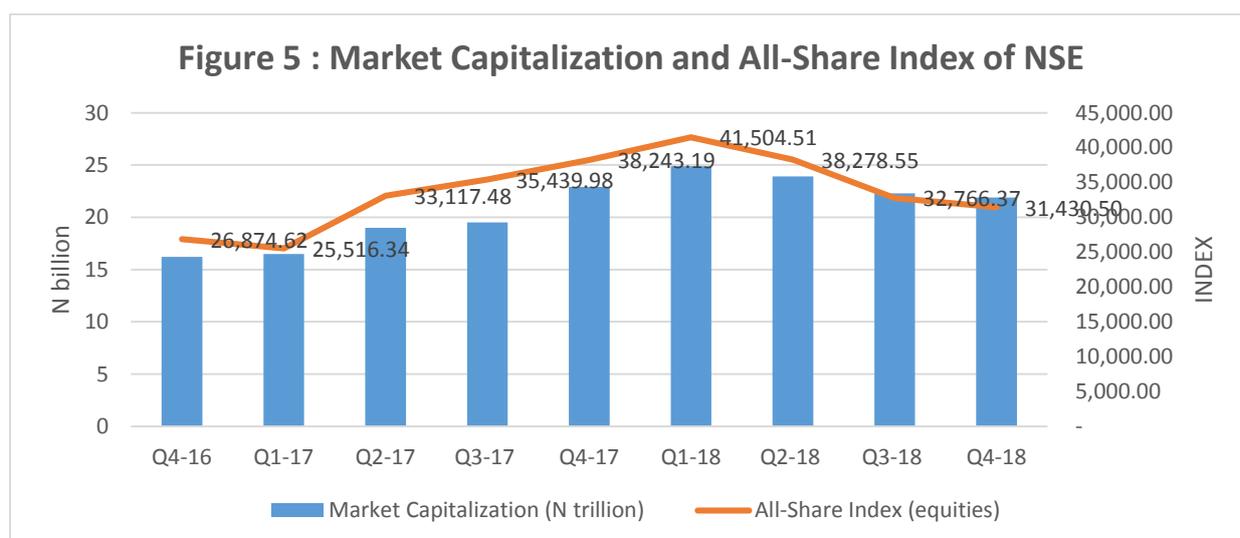
**Fig 4. GROSS EXTERNAL RESERVES**



Source: CBN

## 7.0 CAPITAL MARKET DEVELOPMENT

The Nigeria Stock Exchange (NSE) All-Share Index (ASI) was 38,278.55 in Q2 2018 which waned to 31,430.50 in Q4 2018, lower than its Q3 2018 value of 32,766.37, representing a loss of 4.08%. The Equities and Debts (aggregate) market capitalization was ₦21.9 trillion in Q4 2018, 1.8% below the Q3 2018 value of ₦22.3 trillion. Similarly, equity market capitalization as at the end of Q4 2018 stood at ₦11.72 trillion, showing a decline of 2.13% from ₦ 11.97 trillion in Q3 2018. The gradual decline in both the performance indicators of the Exchange could be attributed to the impact of the progressive monetary policy normalization in some advanced economies and the sustained profit taking activities of foreign investors arising from perceived political risk in the build-up to the 2019 General Elections. However stock market regulators remained optimistic that the trend will reverse in the medium term, albeit gradually, given the current stability in the foreign exchange market and the external reserves position, as well as continued improvements in key macroeconomic indicators. Figure 5 below highlights trends of the two performance indicators in recent times.

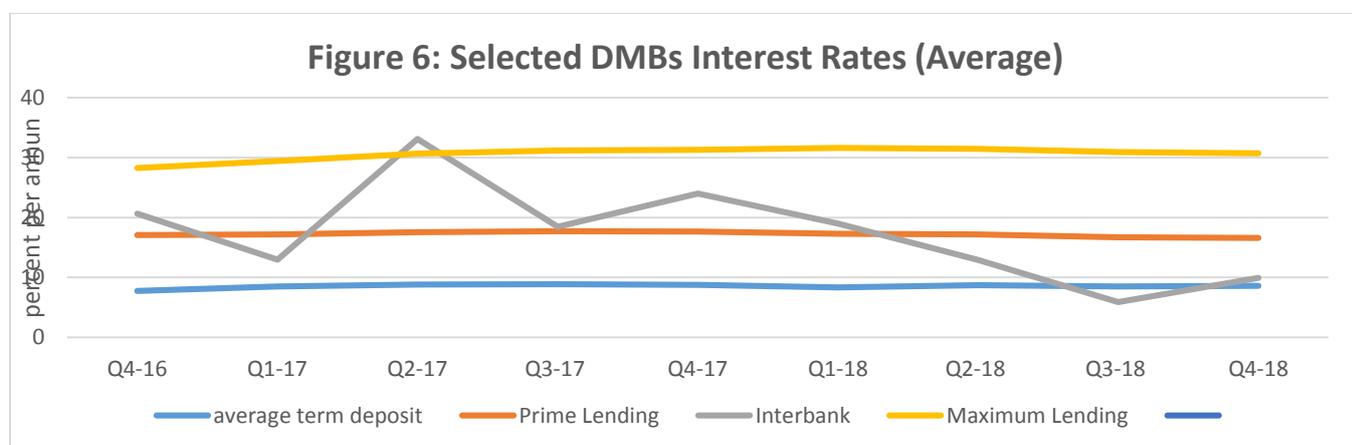


**Source: CBN Q4 2018, Economic Report**

## 8.0 MONEY MARKET DEVELOPMENT

The money market was largely stable in the fourth quarter of 2018. Liquidity was sustained by inflow from fiscal injections, Federal Government (FGN) Bonds, Nigerian Treasury Bills (NTBs) and maturing Central Bank of Nigeria (CBN) bills. Outflow, such as sale of CBN bills, FGN securities and provisioning and settlement for foreign exchange purchases, impacted on market liquidity. Overall, banks continued to access the intraday and standing facilities window to meet their short-term liquidity needs during the review quarters.

Interest rates reflected the liquidity condition in the money market during the review period. Specifically, developments in banks' deposit rates were mixed in the Q3 and Q4 of 2018, averaging 8.52% and 8.63% respectively. That represent an increase of about 1.29 %in Q4, compared of decline of 2.29% in Q3. The average prime lending rates trended downwards between Q2 and Q3 as well as Q3 and Q4 by 2.74% and 0.54%, respectively. In the interbank funds segment, the weighted average interbank rates at Q4 of same year stood at 9.93%; an increase of about 67.74% when compared with value in Q3 2018 of 5.92%. That was in sharp contrast to decline of about 54.25% from Q2 to Q3. The maximum lending rates have continued to show a falling trend since Q2, Q3 and Q4 of 2018, registering a decline of 15.91% and 0.74% in Q3 and Q4 respectively. Some of these trends in Q4 2016 - Q4 2018 period are depicted in figure 6 below.



**Source: CBN**

## 9.0 CBN MONETARY POLICY

The Monetary Policy Committee (MPC) held six meetings during the period under review, on 23<sup>rd</sup> and 24<sup>th</sup> of July, 24<sup>th</sup> and 25<sup>th</sup> September, and 21<sup>st</sup> and 22<sup>nd</sup> November, 2018.

The decisions of the Committee after reviewing developments in both domestic and international environments from the three 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, high

cost of energy, anticipated spending in the run-up to Edl Kabir/Christmas festivities, campaign-related spending towards the upcoming 2019 general elections, increased harvests, and stable exchange rate. The MPC believed that that policy stance would boost investor confidence, promote foreign capital flows and further enhance exchange rate stability.

## **10.0 CBN Circulars**

During the period under review, the CBN issued a number of circulars and guidelines to guide the operations of insured deposit-taking financial institutions. The highlights of some of these circulars are presented below:

### **10.1 BPS/DIR/GEN/CIR/05//007. Amendment to the Regulatory Framework for BVN Operation and Watch-list for the Nigerian Banking Industry.**

Issued on 4<sup>th</sup> July, 2018, the circular informs all stakeholders that the provision of valid court order is now one of the prerequisites for the release of BVN information to applicants.

### **10.2 BPS/DIR/GEN/CIR/05/009. Shared Agency Network Expansion Fund Initiative: Regulatory Data Rendition Requirements.**

The Circular issued on July 5, 2018 instructed all banks including Microfinance and Primary Mortgage banks that appoint agents, Mobile Money Operators and Licensed Super Agents to render daily returns through the Nigeria Interbank Settlement System (NIBSS) to the CBN. This is to plot the growth and type of services being offered across the country

### **10.3 Guidelines for Assessing Real Sector Support Facility (RSSF) Through Cash Reserve Ratio (CRR) and Corporate Bonds.**

The CBN announced the Guidelines after the Monetary Policy Committee's (MPC) meeting held from 23<sup>rd</sup> to 24<sup>th</sup> July 2018. It introduced Differentiated Cash Reserve Requirement (DCRR) Regime where DMBs interested in providing credit financing to greenfield and expansion projects in the real sector may request for the release of funds from their CRR to finance these projects. This is to incentivize DMBs to direct affordable long term bank credit to the manufacturing, agriculture and such other sectors considered by CBN as employment and growth stimulating.

### **10.4 TED/FEM/FRC/GEN/01/004. Introduction of the Revised Foreign Exchange Manual.**

The circular issued on 26<sup>th</sup> of July 2018 introduced the revised the Revised Foreign Exchange Manual intended to streamline documentation requirement, enhance transparency of transactions and engender compliance by stakeholders.

#### **10.5 BPS/DIR/GEN/CIR/05/010. Circular on Nigeria Bankers' Clearing System Rule, 2018 (Revised).**

On July 31<sup>st</sup> the CBN issued the Revised Nigeria Bankers' Clearing System (NBCS) Rule to provide for efficient operation of automated clearing system. Speedy and efficient collection of cheques. It also prescribed appropriate standards for the use of the NBCS. The effective date of the new rules was rescheduled for 1<sup>st</sup> September, 2018.

#### **10.6 Guidelines on the Management of Investment Account Holders (IAH) for Non-Interest Financial Institutions (NIFIs) in Nigeria.**

In August, 2018, the CBN issued exposure draft of the Guidelines on the Management of Investment Account Holders (IAH) for Non-Interest Financial Institutions (NIFIs) operating in Nigeria. It provided the minimum standard to be met by NIFIs before they can recognize Profit Sharing Investment Accounts deposits as risk absorbent and thus deduct same from the computation of Risk Weighted Assets towards the calculation of Capital Adequacy Ratio.

#### **10.7 Guideline on the Practice of Smoothing the Profit Payout to IAH for NIFIs in Nigeria.**

The CBN, in August 2018, issued exposure draft of Guideline on the Practice of Smoothing the Profit Payout to IAH for NIFIs operating in Nigeria in order to regulate and standardize income smoothing practice as well as specify and explain the techniques permitted in Nigeria.

#### **10.8 Exposure Draft Guidance Note on Supervisory Review Process for NIFIs in Nigeria.**

The Draft Guidance Note on Supervisory Review Process for NIFIs in Nigeria was issued in August, 2018. It specifies the role of NIFIs in the computation of internal capital requirement and capital management as well as the role of CBN in ensuring the maintenance of adequate capital for the level of risks the NIFIs are exposed to.

#### **10.9 Guidance Notes on Disclosure Requirement to Promote Transparency and Market Discipline for NIFIs in Nigeria.**

The exposure draft issued by the CBN in August, 2018 provided guidelines aimed at achieving transparency and promote market discipline by allowing market participants

particularly the Investment Account Holders (IAH) to access relevant, reliable and timely information on risk exposures and risk management policies and procedures of a NIFI.

#### **10.10 Guidance Notes on the Calculation of Capital Requirement for Operational Risk of NIFIs in Nigeria.**

Issued by the CBN in August 2018, the Guidelines outline two methods of calculating operational risk capital charge: the Basic Indicator Approach (BIA) and The Standardized Approach (TSA) and required the NIFIs to assess the correlations among the various types of risks and identify their possible impact in terms of operational risk.

#### **10.11 PMS/DIR/GEN/CIR/01/003. Exposure Draft of Regulatory Requirements for Non-bank Merchant Acquiring in Nigeria.**

The circular dated 7<sup>th</sup> September 2018 was addressed to all DMBs, Mobile Money Operators, Payment Solution Service Providers, Payment Terminal Services Providers and other Service Providers.

It announces the release of the Exposure Draft of Regulatory Requirements for Non-Bank Merchant Acquiring in Nigeria for review and comments before the deadline of 21<sup>st</sup> September, 2018.

#### **10.12 FRP/DIR/GEN/07/007. Circular to all Commercial, Merchant, and Non-interest Banks on Redesigned Credit Risk Management System (CRMS): Additional Guidelines for the Operation of the Redesigned CRMS.**

The CBN issued the additional guidelines on 10<sup>th</sup> September, 2018, to address some grey areas in the rendition of requirements to ensure full compliance with the operations of the CRMS.

#### **10.13 BPS/DIR/GEN/CIR/05/011. Circular to all DMBs, MFBs, Other Financial Institutions, Mobile Money Operators, Development Finance Institutions, Payment Service Providers and Other Stakeholders: The Regulation of Instant (Interbank) Electronic Funds Transfer Service (EFTS) in Nigeria.**

The circular issued on 13<sup>th</sup> September, 2018, sets out rules for the operation of EFTS which stated the rights and obligations of the parties involved. The rules prescribe N10, 000 penalty for failed NIP transaction not reversed in to customers account within twenty four hours. The rules become effective on 2<sup>nd</sup> October, 2018.

#### **10.14 Circular to all DMBs, Accredited Cheque Printers, and NIBSS: Revised Nigeria Cheque Standard (NCS) and Nigerian Cheque Printers Accreditation Scheme (NICPAS).**

The circular issued on 18<sup>th</sup> of September, 2018 introduced the Revised Nigeria Cheque Standard (NCS) and Nigerian Cheque Printers Accreditation Scheme (NICPAS) which is going to be implemented from 1<sup>st</sup> February, 2019. However the new and old standards shall run concurrently for one and a half years and by 1<sup>st</sup> August, 2020 only cheques that conform to the new standard shall be allowed in the Automated Clearing System.

#### **10.15 Inclusion Of Fertilizer On The List Of "Not Valid For Foreign Exchange" List.**

On 12<sup>th</sup> October, 2018 the CBN announced the inclusion of fertilizer on the restricted items not valid for foreign exchange list. This was announced in a circular with reference number **TED/FEM/FPC/GEN/01/006** to all authorized dealers and general public.

#### **10.16 Circular Fpr/Dir/Gen/Cir/08/064 Dated 17<sup>th</sup> October, 2018. The Redesigned Crms: Release Of Month End Update Template (Crms-400d).**

The CBN introduced additional feature/ template to specifically enable participating institutions perform "Month End Update" of outstanding balances on their CRM records – CRM-400D. Banks were advised to download the uploaded off line Validator for subsequent updates.

#### **10.17 Circular No. Fpr/Dir/Gen/Cir/07/016 To All Microfinance Banks On The Review Of Minimum Capital Requirement.**

The CBN, in exercise of powers conferred to it by the Banks and Other Financial Institutions Act, and in furtherance of its mandate to promote a sound financial system in Nigeria, has On 22<sup>ND</sup> October, 2018 increased the minimum capital requirement of Microfinance banks (MFBs). The minimum capital requirement of Unit MFB is now N200 Million; that of State MFB is N1Billion while that of National MFB is N5Billion.

#### **10.18 Notification For Change Of Name From Banking And Payment System Department (Bpsd) To Banking Services Department (Bksd).Circular No.Mps/Dir/Gen/Cir/05/014 On 23<sup>rd</sup> October, 2018.**

The CBN informed all Banks and Other Financial Institutions, and Federal and State MDAs on the restructuring of the erstwhile Banking and Payment System Department (BPSD) in to two departments: Banking Services Department (BKSD) and Payment Services Management Department. The BKSD shall handle matters relating to Banking Services such as Treasury Single Accounts, Real Time Gross Settlement System, account opening, Local and Foreign Payments transactions, banks settlement/ reconciliation issues, Government Securities, Federation Account, Letter of Credit and related services.

### **10.19 Circular On Code Of Corporate Governance For Other Financial Institutions. Reference No. Fpr/Dir/Cir/Gen/01/017 Dates 26<sup>th</sup> October, 2018.**

The CBN issued Code of Corporate Governance in respect of six Other Financial Institutions which include Microfinance banks, Primary Mortgage banks and Development Finance Banks. Others are Mortgage Refinancing Companies, Finance Companies and Bureau de Change. The Codes become effective from April, 2019.

### **10.20 Circular On The Revised Nigeria Cheque Standard (Ncs) And Nigerian Cheque Printers Accreditation Scheme (Nicpas): Sort Code And Micr Reject Flag.**

Vide circular with reference number **BKS/DSO/GEN/MPF/01/003** dated 7<sup>th</sup> November, 2018, the CBN notified all DMBs and NIBSS on the implementation of the NCS and NICPAS aka Green Book Version 2.0 using the unique state codes stipulated as components of the sort code on Cheque instruments. Each state has a unique code that must be used by all branches operating within the state. The circular also required all DMBs to activate the MICR reject/repair flag on their clearing system

### **10.21 Exposure Draft For The Revised Standards On Nigeria Universal Bank Account Number (Nuban) Scheme For Banks And Other Financial Institutions. Pms/Dir/Gen/Exp/01/002 Dated 6<sup>th</sup> December, 2018.**

The CBN issued an exposure draft for the Revised Standards on Nigeria Universal Bank Account Number (NUBAN) Scheme for Banks and Other Financial Institutions for review and comments. The draft introduced new Cheque Digital Algorithm intended to include Other Financial Institutions (OFI) who were expected to comment before 26<sup>th</sup> November, 2018.

### **10.22 Foreign Exchange Restriction On The Importation Of 42 Items.**

In a letter referenced **FRR/DIR/GEN/CIR/07/019** dated 10<sup>th</sup> December, 2018, the CBN observed the circumvention of the Foreign Exchange Restriction Policy by some banks. Therefore, the CBN informed all DMBs that its Economic Intelligence Unit and the Economic and Financial Crimes Commission (EFCC) would commence immediate investigation of the accounts of corporates and entities engaged in this unwholesome act with a view to visiting severe sanctions on all the culprits.

### **10.23 Deployment Of Consumer Complaints Management System (Ccms).**

In a circular with reference number **CPD/DIR/GEN/CIR/01/001** addressed to all Banks and Other Financial Institutions on 21<sup>st</sup> December, 2018, the CBN announced the deployment of the CCMS effective 2<sup>nd</sup> January, 2019. The system requires the institutions to assign tracking number of every complaint received from their customer,

issue acknowledgement and commence upload of complaints to the CCMS on a daily basis.