

REVIEW OF DEVELOPMENTS IN BANKING AND FINANCE IN THE FOURTH QUARTER OF 2016

1.0 INTRODUCTION

The banking sector recorded a number of developments during Q4, 2016. Some of the developments resulted from the decisions of the Central Bank of Nigeria (CBN) Monetary Policy Committee (MPC) meetings.

2.0 CBN MONETARY POLICY COMMITTEE MEETINGS

The MPC met on November 21-22, 2016, to review the economic conditions and challenges confronting the Nigerian economy, against the backdrop of increased uncertainty arising from political and economic developments around the world and the rising inflation rates and recession within the economy. The Committee noted that, the major challenges facing the economy were; shortage of foreign exchange, low fiscal activity, high energy prices and accumulation of salary arrears. The Committee further noted that as at Q4 2016, the economy had experienced three quarters of negative GDP growth.

3.0 INTERNATIONAL ECONOMIC DEVELOPMENTS

During the quarter under review, there was tapered growth in global output arising from relatively unbalanced risks to the global economic outlook. There were uncertainties created by unprecedented political and economic developments around the world directly challenging the dictates of free trade multilateralism and globalization, thereby seemingly yielding to an era of national interest by countries in the conduct of international economic relations.

The uncertainty in the external environment persisted due to political and economic developments, amongst which were the Brexit and other anti-globalization sentiments, uncertainties over the outcome and the eventual winner of the USA presidential elections, divergent monetary stance of the advanced central banks and disorderly commodity price

movements. There was a slow-down in improvements to global output recovery as shown by less than expected growth of 3.10% in 2016. The development was affected largely by the deteriorating global trade, reversal in output growth in the advanced economies and a significant slowdown in growth in the emerging and developing economies.

The major effect on growth in the advanced economies included unfavourable labour market conditions, suppressed foreign exchange demand and weaker than anticipated domestic aggregate demand. Consequently, growth in the USA exceeded its third quarter expectation, growing at an annual rate of 2.90%. Japan's economy grew at an annualized rate of 0.20%.

Growth in the Emerging Markets and Developing Economies (EMDEs) continued to face unstable macroeconomic environment, low commodity prices, rising inflation, currency instability, intractable low aggregate demand and low capital inflow. Global inflation rose moderately in response to rising prices in advanced economies due to the modest recovery in oil prices.

4.0 DOMESTIC ECONOMY AND FINANCIAL DEVELOPMENTS

4.1 Output

According to the National Bureau of Statistics (NBS), the economy further contracted by 2.24% in Q3, having slipped into recession in Q2, 2016. The non-oil sector grew by 0.03%, driven by Agriculture which grew by 4.54%. The poor performance in economic activities cuts across most sectors: Manufacturing (contracted by 4.38%), Construction (contracted by 6.13%) and Trade and Services contracted by 1.38% and 1.08% respectively, in Q3, 2016. The contraction of Real GDP is largely due to the dismal performance of the Oil sector which slipped by 22.01% in Q3 and 17.48% in Q2, 2016. The volatility of oil prices persisted in Q4, 2016, owing to the overwhelming supply glut in the energy market due to buoyant production and rising output from OPEC. However, the Bonny Light oil price had improved from, US\$36.91 per barrel in 2015 to US\$55.76 per barrel in 2016.

4.2 Inflation

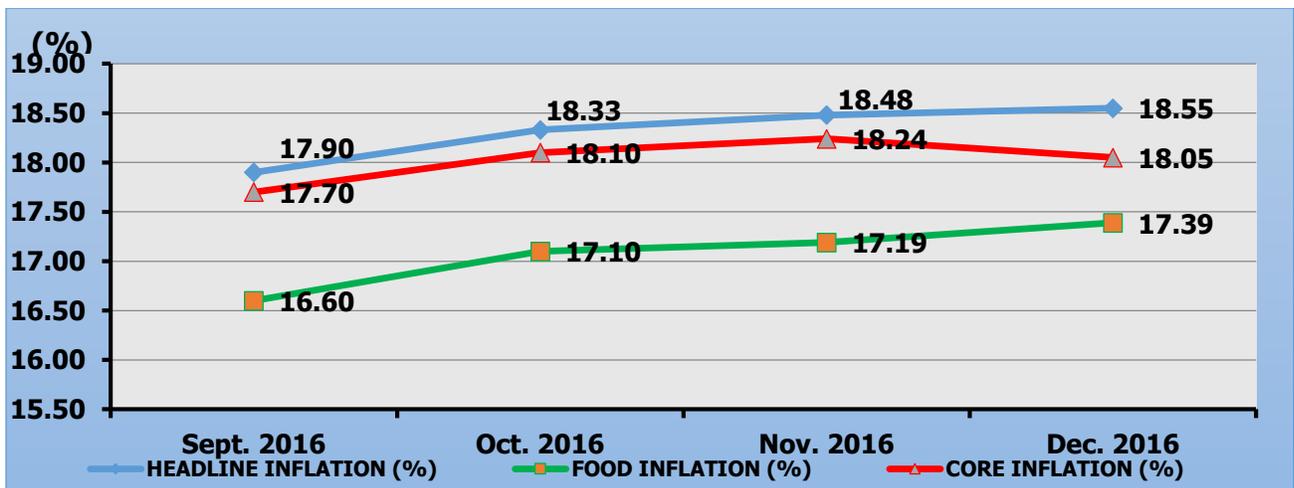
There was notable increase in year-on-year headline inflation to 18.55% in Q4, 2016 from 17.90% in Q3, 2016. The increase in headline inflation was due to increases in both food and core components of inflation. Food inflation rose to 17.39% in Q4, 2016, from 16.60% in Q3, 2016, while, core inflation rose to 18.05% in Q4 of 2016 from 17.70% in Q3, 2016. The factors responsible for rising inflation were structural such as, high cost of power and energy, transport, production factors as well as rising prices of imports as shown in **Table 1 & Chart 1**.

TABLE 1: RATE OF INFLATION FROM Q3 TO Q4, 2016

DATE	HEADLINE INFLATION (%)	FOOD INFLATION (%)	CORE INFLATION (%)
Sept. 2016	17.90	16.60	17.70
Oct. 2016	18.33	17.10	18.10
Nov. 2016	18.48	17.19	18.24
Dec. 2016	18.55	17.39	18.05

Source: CBN

CHART 1: RATE OF INFLATION FROM Q3 TO Q4, 2016



Source: CBN

5.0 MONEY, CREDIT AND FINANCIAL MARKET DEVELOPMENTS

Developments in the financial system with particular reference to Money, Credit and Financial Markets showed that broad money supply (M2) rose by 19.02% in 2016, being 8.0 percentage points higher than the programmed limit. Net domestic credit (NDC) grew by 24.79% in the same period, being 17.94% above its provisional benchmark for 2016. Growth in net credit to government stood at 58.84%, surpassing its target of 47.40%. During the quarter under review, money market interest rates fluctuated with the level of liquidity in the banking system. Average inter-bank call and Open-Buy-Back (OBB) rates, closed at 9.90% and 7.35%, respectively, in December 2016. In December 2015, the inter-bank call and OBB rates averaged 0.81% and 0.98%, respectively.

6.0 CAPITAL MARKET

The Nigerian Stock Exchange All Share Index (ASI) fell by 5.16%, from 28,335.40 in Q3, 2016 to 26,874.62 in Q4, 2016. Similarly, the Equities Market Capitalization decreased by 4.93% from ₦9.74 trillion in Q3, 2016 to ₦9.26 trillion in Q4, 2016.

The market behaviour remained bearish due to economic uncertainties especially due to the drop in oil price. Also, volatility in the financial markets as well as slowing demand in the advanced and the emerging markets were contributing factors. The current state of the foreign exchange market created both challenges and opportunities for both foreign and local investors.

7.0 EXCHANGE RATE

During the quarter under review, the average Naira exchange rate remained relatively stable at the inter-bank segment of the foreign exchange market. The exchange rate at the interbank market opened at ₦305.00/US\$ and closed at ₦305.22/US\$ between Q3 and Q4 2016. It was observed that total foreign exchange inflows through the CBN increased significantly by 82.45% in December 2016, owing mainly to the increase in oil prices.

8.0 FOREIGN RESERVE MANAGEMENT

Gross official reserves indicated a decrease from US\$23.80 billion in Q3, 2016 to US\$26.99 billion in Q4, 2016, representing a decrease of 1.2% as shown in **Tables 2 and 3**.

TABLE 2: FOREIGN RESERVE POSITION (Q3 to Q4, 2016)

MONTH	ADJUSTED EXTERNAL RESERVES POSITION (US\$,BILLION)
SEPT. 2016	23.81
OCT. 2016	23.69
NOV. 2016	25.08
DEC. 2016	26.99

Source: CBN

TABLE 3: FOREIGN RESERVE POSITION (Q3 to Q4, 2016)

Date	Gross	Liquid	Blocked	%
30/9/2016	24,531,257,239	23,828,001,188	703,256,051	2.87
31/10/2016	23,952,767,527	23,248,740,959	704,026,568	2.94
30/11/2016	24,771,597,897	24,082,803,636	688,794,261	2.78
30/12/2016	25,843,598,926	25,153,035,234	690,563,693	2.67

Source: CBN

9.0 CBN CIRCULARS

9.1 CIRCULAR TO ALL DEPOSIT MONEY BANKS, MOBILE MONEY OPERATORS AND PAYMENT SERVICE OPERATORS ON AMMENDMENT OF GUIDELINES ON TRANSACTION SWITCHING

The CBN in a Circular referenced BPS/DIR/GEN/CIR/03/008 dated 17th October, 2016, notified all stakeholders on amendments to the existing guidelines on transaction switching which would hitherto allow the Nigerian Central Switch to own and promote its' own e-payments cards and other retail products, while being run according to international best practice. The aim was to ensure the robustness and to strengthen the electronic payment system in the country through encouraging competitiveness and the promotion of shared services and innovation, amongst relevant stakeholders.

9.2 CIRCULAR TO ALL DEPOSIT MONEY BANKS (DMBs) AND OTHER FINANCIAL INSTITUTIONS REGULATED BY THE CBN

The CBN in a circular referenced CPD/DIR/GEN/CPF/03/004, released a new Consumer Protection Framework. The framework defined the direction of the CBN on consumer protection and expatiated on the structural provisions and supporting regulatory/supervisory instruments which would aid the objectives of the framework particularly the engendering of confidence in the system as well as financial inclusion.