CENTRAL BANK OF NIGERIA

ANNUAL REPORT 2017

Central Bank of Nigeria
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Vision

"Be THE MODEL CENTRAL BANK delivering PRICE and FINANCIAL SYSTEM STABILITY and promoting SUSTAINABLE ECONOMIC DEVELOPMENT".

Mission

To be proactive in providing a stable framework for the economic development of Nigeria, through the effective, efficient and transparent implementation of monetary and exchange rate policy, and management of the financial sector.

THE CENTRAL BANK OF NIGERIA

Established by the Central Bank of Nigeria *(CBN) Act of 1958,* the principal objects of the Bank, as contained in the new *CBN Act, 2007*, are to:

- ensure monetary and price stability;
- issue legal tender currency in Nigeria;
- maintain external reserves to safeguard the international value of the legal tender currency;
- promote a sound financial system in Nigeria; and
- act as banker and provide economic and financial advice to the Federal Government of Nigeria.

BOARD OF DIRECTORS

AS AT 31st DECEMBER, 2017

MEMBERS OF THE BOARD OF DIRECTORS OF THE BANK AS AT 31ST DECEMBER, 2017

Following the dissolution of the Board in July 2015, a new Board was yet to be constituted as at 31st December, 2017.

MEMBERS OF THE COMMITTEE OF GOVERNORS OF THE BANK AS AT 31ST DECEMBER, 2017

1.	Godwin I. Emefiele, CON	-	Governor (Chairman)
2.	Okwu J. Nnanna	-	Deputy Governor (Financial System Stability/ Economic Policy)
3.	Adebayo A. Adelabu	-	Deputy Governor (Operations / Corporate Services)
4.	Alice Karau	-	Secretary

MEMBERS OF THE MONETARY POLICY COMMITTEE (MPC) AS AT 31ST DECEMBER, 2017

1.	Godwin I. Emefiele, CON	-	Governor (Chairman)
2.	Okwu J. Nnanna	-	Deputy Governor (Financial System Stability/ Economic Policy)
3.	Adebayo A. Adelabu	-	Deputy Governor (Operations / Corporate Services)
4.	Dahiru Balami	-	Member
5.	Abdul-Ganiyu Garba	-	Member
6.	Adedoyin R. Salami	-	Member
7.	Chibuike C. Uche	-	Member
8.	Shehu Yahaya	-	Member
	Moses. K. Tule	-	Secretary

PRINCIPAL OFFICERS OF THE BANK AS AT 31ST DECEMBER, 2017

A. Departmental Directors

1.	Dipo T. Fatokun	-	Banking & Payments System
2.	Ahmad Abdullahi	-	Banking Supervision
3.	Salisu Rabeh	-	Branch Operations
4.	Chizoba V. Mojekwu (Ms.)	-	Capacity Development
5.	Umma Dutse (Haj.)	-	Consumer Protection
6.	Isaac Okoroafor*	-	Corporate Communications
7.	Alice Karau*	-	Corporate Secretariat
8.	Prescilia Eleje*	-	Currency Operations
9.	Mudashir A. Olaitan	-	Development Finance
10.	Moro D. Arowosegbe	-	Finance
11.	Alvan E. Ikoku	-	Financial Markets
12.	Kevin N. Amugo	-	Financial Policy and Regulation
13.	Mohammed D. Suleyman***	-	FSS 2020
14.	Anthony C. Ifechikwu	-	Governors' Department

15.	Lametek E. Adamu	-	Human Resources
16.	John I. Ayoh	-	Information Technology
17.	Vivian I. Agu (Mrs.)	-	Internal Audit
18.	Johnson O. Akinkumi	-	Legal Services
19.	Faozat A. O. Bello (Mrs.)	-	Medical Services
20.	Moses K. Tule	-	Monetary Policy
21.	Agnes O. Martins	-	Other Financial Institutions Supervision
22.	Lazarus M. Agbor	-	Procurement & Support Services
23.	Uwatt B. Uwatt	-	Research
24.	Tirmidhi M. Yakubu	-	Reserve Management
25.	Oluwafolakemi J. Fatogbe (Ms.)	-	Risk Management
26.	Olugbenga I. Amu	-	Security Services
27.	Tumala, M. Musa	-	Statistics
28.	Ibrahim Mu'azu	-	Strategy Management
29.	Wuritka Dauda Gotring	-	Trade & Exchange
30.	Eunice N. Egbuna**	-	Secondment to WAMI

* Overseeing the Department
** On secondment
*** On posting

B. Special Advisers to the Governor

1.	Leonard K. Chumo	-	Banking Supervision
2.	Kingsley Obiora	-	Economic Matters
3.	Emmanuel Ukeje	-	Financial Markets
4.	Yakubu Umar	-	Non-Interest Banking
5.	Titus O. Odozi	-	Nigerian Security Printing and Minting (NSPM) Plc.
6.	Aisha U. Mahmoud	-	Sustainable Banking

C. Branch Controllers/Currency Officers

1.	Obiekwe A. Obiageli (Mrs.)	-	Abakaliki
2.	Amao A. Babatunde	-	Abeokuta
3.	Agu E. Oyibo	-	Abuja
4.	Iwuaru C. Chibueze	-	Ado-Ekiti
5.	Yusuf F. Adebare	-	Akure
6.	Ikeghagu C. Hyacinth	-	Asaba
7.	Sokari C. Monday	-	Awka
8.	Umar A. Bello	-	Bauchi
9.	Jumbo R. Davis	-	Benin
10.	Babah N. Asmau (Mrs.)	-	Birnin-Kebbi
11.	Kalio I. Graham	-	Calabar
12.	Dibola I. Aliyu	-	Damaturu
13.	Zakirai T. Ibrahim	-	Dutse
14.	Okonjo C. Emmanuel	-	Enugu
15.	Goringo S. Alhaji	-	Gombe
16.	Abba B. Ibrahim	-	Gusau
17.	Olatinwo F. Musibau	-	Ibadan
18.	Ndarake E. Akpan	-	Ilorin
19.	Abdullahi S. Mohammed	-	Jalingo
20.	Jewon S. Jatau	-	Jos
21.	Saleh S. Yargoje	-	Kaduna
22.	Abubakar P. Amina (Mrs.)	-	Kano
23.	Joda A. Hamman	-	Katsina
24.	Ghasarah B. Ateh	-	Lafia
25.	Iyari O. James	-	Lagos
26.	Bafai B. Musa	-	Lokoja
27.	Ibrahim Isyaku	-	Maiduguri
28.	Achebe A. Emeka	-	Makurdi
29.	Ibrahim M. Tulu	-	Minna
30.	Bamidele B. Ibrahim	-	Osogbo
31.	Itohan M. Ogbomon-Paul	-	Owerri
32.	Alaka K. Adekunle	-	Port Harcourt
33.	Wali Yusuf	-	Sokoto
34.	Aqua V. Edem.	-	Umuahia
35.	Nwokoro O. Cletus	-	Uyo
36.	Nwajana G. Obiora	-	Yenagoa
37.	Hussein Shuaibu	-	Yola

TABLE OF CONTENTS

LIST OF TABLES IN THE TEXT

LIST OF FIGURES

LIST OF BOXES

LIST OF APPENDICES

LIST OF ABBREVIATIONS AND ACRONYMS

AACB	Association of African Central Banks
ABS	Analytical Balance Sheet
ACGSF	Agricultural Credit Guarantee Scheme Fund
ACSS	Agricultural Credit Support Scheme
ADF	African Development Fund
ADPs	Agricultural Development Programmes
AES	African Econometrics Society
AFC	Africa Finance Corporation
AfDB	African Development Bank
AGOA	African Growth Opportunity Act
AIPs	Approvals-In-Principle
AMCON	Asset Management Corporation of Nigeria
AMCP	African Monetary Cooperation Programme
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ATAP	Agricultural Transformation Action Plan
APRM	Africa Peer Review Mechanism
ATMs	Automated Teller Machines
AU	African Union
AUC	Africa Union Commission
BAs	Bankers' Acceptances
BDCs	Bureaux-de-Change
BoE	Bank of England
BOI	Bank of Industry
BWIs	Bretton Woods Institutions
CAC	Corporate Affairs Commission
CACS	Commercial Agriculture Credit Scheme
CAMA	Companies and Allied Matters Act
CAMEL	Capital Adequacy, Asset Quality, Management Efficiency, Earnings and Liquidity
CAR	Capital Adequacy Ratio

CBN	Central Bank of Nigeria
CBP	Capacity Building Programme
CBs	Community Banks
CDMA	Code Division Multiple Access
CEPR	Centre for Economic Policy Research
CG	Credit to Government
CIC	Currency-in-Circulation
CIFTS	Central Bank Interbank Funds Transfer System
CIS	Commonwealth of Independent States
CIT	Companies Income Tax
COB	Currency Outside Banks
COBEC	Code of Business Ethics and Conduct
COPAL	Cocoa Producers' Alliance
CPS	Credit to the Private Sector
CPI	Consumer Price Index
CP	Commercial Paper
CRMS	Credit Risk Management System
CRR	Cash Reserve Requirement
CSAR	Country Self-Assessment Report
CSCS	Central Securities Clearing System
CSOs	Civil Society Organisations
DFIs	Development Finance Institutions
DHs	Discount Houses
DLF	Direct Lending Facilities
DISCOs	Distribution Companies
DMBs	Deposit Money Banks
DMO	Debt Management Office
DS	Development Stocks
ECB	European Central Bank
EBP	Electronic Budgeting and Planning
EBSCO Host	EBSCO Host Research Database

ECA	Economic Commission for Africa
ECOWAS	Economic Community of West African States
EDCs	Entrepreneurship Development Centres
EEG	Export Expansion Grant
e-FASS	Electronic Financial Analysis and Surveillance System
EFCC	Economic and Financial Crimes Commission
e-FinA	Enhancing Financial Innovation and Access
EMDCs	Emerging Markets and Developing Economies
e-Money	Electronic Money
EMS	Enterprise Management and Security
ERP	Enterprise Resource Planning
ETF	Education Tax Fund
FAAC	Federation Accounts Allocation Committee
FCs	Finance Companies
FCT	Federal Capital Territory
FDI	Foreign Direct Investment
FGN	Federal Government of Nigeria
FHAN	Finance Houses Association of Nigeria
FIRS	Federal Inland Revenue Service
FITC	Financial Institutions Training Centre
FMF	Federal Ministry of Finance
fob	Free on Board
FRIN	Forestry Research Institute of Nigeria
FSS 2020	Financial System Strategy 2020
G-24	Group of Twenty-Four (G24) Developing Countries
GDP	Gross Domestic Product
GENCOs	Generation Companies
GES	Growth Enhancement Scheme
GSM	Global System of Mobile Communications
IAS	International Accounting Standards
IBRD	International Bank for Reconstruction and Development

ICCO	International Cocoa Organization
ICO	International Coffee Organization
IDA	International Development Assistance
IDMS	Integrated Document Management System
IEA	International Energy Agency
IFAD	International Fund for Agricultural Development
IFT	Interbank Funds Transfer
IGR	Internally Generated Revenue
IIP	International Investment Position
ILN	Interactive Learning Network
IMF	International Monetary Fund
IPI	Information Publication Investment
IPOs	Initial Public Offers
IPPs	Independent Power Plants
ISPs	Internet Service Providers
IT	Information Technology
ITU	International Telecommunication Union
JSTOR	Journal Storage
JVCs	Joint Venture Cash Calls
KYC	Know Your Customer
LOKAP	Lagos, Kano, Aba and Port-Harcourt
LPFO	Low Pour Fuel Oil
LR	Liquidity Ratio
LROs	Lead Research Organisations
LVIFT	Large Value Interbank Funds Transfer
M_1	Narrow Money
M_2	Broad Money
mbd	Million barrels per day
MDGs	Millennium Development Goals
MFBs	Microfinance Banks
MICR	Magnetic Ink Character Recognition

MMDs	Money Market Dealers
MoU	Memorandum of Understanding
MPC	Monetary Policy Committee
MPR	Monetary Policy Rate
MRR	Minimum Rediscount Rate
MSME	Micro Small and Medium Enterprises
MTEF	Medium-Term Expenditure Framework
MYTO	Multi-Year Tariff Order
NACRDB	Nigerian Agricultural, Cooperative and Rural Development Bank
NACS	Nigerian Automated Clearing System
NAFDAC	National Agency for Food, Drug Administration and Control
NAICOM	National Insurance Commission
NAOC	Nigeria Agip Oil Company
NAPCON	National Petroleum Company of Nigeria
NAPRI	National Animal Production Research Institute
NBS	National Bureau of Statistics
NCS	Nigeria Custom Service
NDC	Net Domestic Credit
NDIC	Nigeria Deposit Insurance Corporation
NEEDS	National Economic Empowerment and Development Strategy
NEER	Nominal Effective Exchange Rate
NEPAD	New Partnership for Africa's Development
NERC	National Electricity Regulatory Commission
NERFUND	National Economic Reconstruction Fund
NEXIM	Nigerian Export-Import Bank
NFAs	Net Foreign Assets
NGC	Nigerian Gas Company
NGOs	Non-Governmental Organisations
NIBBS	Nigeria Interbank Settlement System
NIBOR	Nigerian Inter-Bank Offered Rate
NICPAS	Nigerian Cheque Printers Accreditation Scheme

NIMASA	Nigerian Maritime Administration and Safety Agency
NITDF	National Information Technology Development Fund
NNPC	Nigerian National Petroleum Corporation
NPC	National Population Commission
NPSC	National Payments System Committee
NSE	Nigerian Stock Exchange
NSPFS	National Special Programme for Food Security
NSPM	Nigerian Security Printing and Minting
NTBs	Nigerian Treasury Bills
NWG	National Working Group
OAGF	Office of the Accountant General of the Federation
OARE	Online Access to Research in the Environment
OBB	Open-Buy-Back
ODA	Overseas Development Assistance
OFIs	Other Financial Institutions
OMO	Open Market Operations
OPEC	Organisation of Petroleum Exporting Countries
OTC	Over-the-Counter
P&A	Purchase and Assumption
PENCOM	National Pension Commission
PEP	Politically Exposed Person
PHCN	Power Holding Company of Nigeria
PIR	Process Improvement and Redesign
PMIs	Primary Mortgage Institutions
PMS	Portfolio Management System
PoS	Point-of-Sale
PPT	Petroleum Profit Tax
PSI	Policy Support Instrument
PSV	Payments System Vision
QE	Quantitative Easing
RBDAs	River Basins Development Authorities

RBS	Risk Based Supervision
rDAS	Retail Dutch Auction System
REC	Regional Economic Commission
REER	Real Effective Exchange Rate
RRF	Refinancing and Restructuring Fund
RTEP	Root and Tuber Expansion Project
RTGS	Real Time Gross Settlement
S4	Scripless Securities Settlement System
SBUs	Strategic Business Units
SEC	Securities and Exchange Commission
SFU	Special Fraud Unit
SITC	Standard International Trade Classification
SME	Small and Medium Enterprises
SMECGS	Small and Medium Enterprises Credit Guarantee Scheme
SMEDAN	Small and Medium Enterprises Development Agency
SMEEIS	Small and Medium Enterprises Equity Investment Scheme
SME-RRF	SME Refinancing and Restructuring Fund
SON	Standards Organisation of Nigeria
SPDC	Shell Petroleum Development Company
SSA	Sub-Saharan Africa
SSC	South - South Cooperation
SWETS	SWETS Wise-Database Consolidators
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TCs	Travellers' Cheques
TFM	Trust Fund Model
TIB	Temenos Internet Banking
TSA	Treasury Single Account
UAT	User Acceptance Test
UNIDO	United Nations Industrial Development Organisation
VAT	Value Added Tax
WABA	West African Bankers Association

WACB	West African Central Bank
WAIFEM	West African Institute for Financial and Economic Management
WAMA	West African Monetary Agency
WAMI	West African Monetary Institute
WAMZ	West African Monetary Zone
WB	The World Bank
wDAS	Wholesale Dutch Auction System

GOVERNOR'S PICTURE

STATEMENT BY THE GOVERNOR

Many would agree that the year 2017 was an enthralling and exerting one for the Central Bank of Nigeria (CBN) and for the Nigerian economy on the whole. As I present the 2017 Annual Report and Statement of Accounts of the CBN, I am delighted to note that the economic uncertainties and foreign exchange challenges endured in the preceding year began to abate during 2017. The onset of economic turnaround witnessed during the year was accompanied by brightening short-term outlook even as global recovery remained less-than-expected. I thank my Deputies and indeed the entire staff of the Bank for their support and diligence through those very unsavoury periods.

Amidst the remaining economic fragilities during the year, the Bank experienced significant changes in its governance structure. To begin with, I wish to acknowledge the contributions of two former Deputy Governors, Dr. Sarah O. Alade and Alh. Suleiman Barau, who exited the Bank on 24 March 2017 and on 12 December 2017, respectively, after ten years of meritorious service to the nation. In addition to these, four members of the Bank's Monetary Policy Committee — Prof. Abdul-Ganiyu Garba, Prof. Chibuike U. Uche, Dr. Shehu Yahaya, and Dr. Adedoyin Salami — completed their terms in November 2017. The Bank is immensely grateful to the exiting Deputy Governors and external MPC members for their selfless services and invaluable input which will be greatly missed. We wish them the best of luck in their future endeavours.

During the year, Mrs. Aisha Ahmad was nominated as Deputy Governor by President Muhammadu Buhari, *GCFR*. The President also nominated Prof. Festus Adeola Adenikinju, Dr. Robert Chikwedu Asogwa, Dr. Aliyu Rafindadi

Sanusi, and Dr. Asheikh A. Maidugu as external members of the MPC. Similarly, Prof. Ummu Ahmed Jalingo, Prof. Michael Idiahi Obadan, Prof. Justitia Odinakachukwu Nnabuko, Mr. Adeola Adetunji, and Dr. Abdu Abubakar were nominated as non-executive members of the CBN Board. I congratulate all the nominees and look forward to a cordial and effective working relationship. Given the extensive background and wealth of experiences of these nominees, I believe that their contributions to the Bank will indeed be immeasurable.

In 2017, the global economy witnessed a gradual dissipation of the vulnerabilities that hitherto undermined growth and outlook. The observed recovery of global growth reflected the uptick global demand, strengthened business and consumer confidence, the benign global financial environment, and the significant pickups in investment, trade, and industrial production, among others. This occasioned an increase in global crude oil demand and led to oil price recoveries. Accordingly, the average spot price of Nigeria's reference crude, the Bonny Light (37°API), rose 12.5 per cent from US$48.82 per barrel in 2016 to US$54.91 per barrel in 2017. Nonetheless, the risks associated with the pervasive global geopolitical tensions, protectionist overtones in some major economies, and the potential US-Fed instigated capital flow reversals from many emerging market economies are veritable threats to the global recovery.

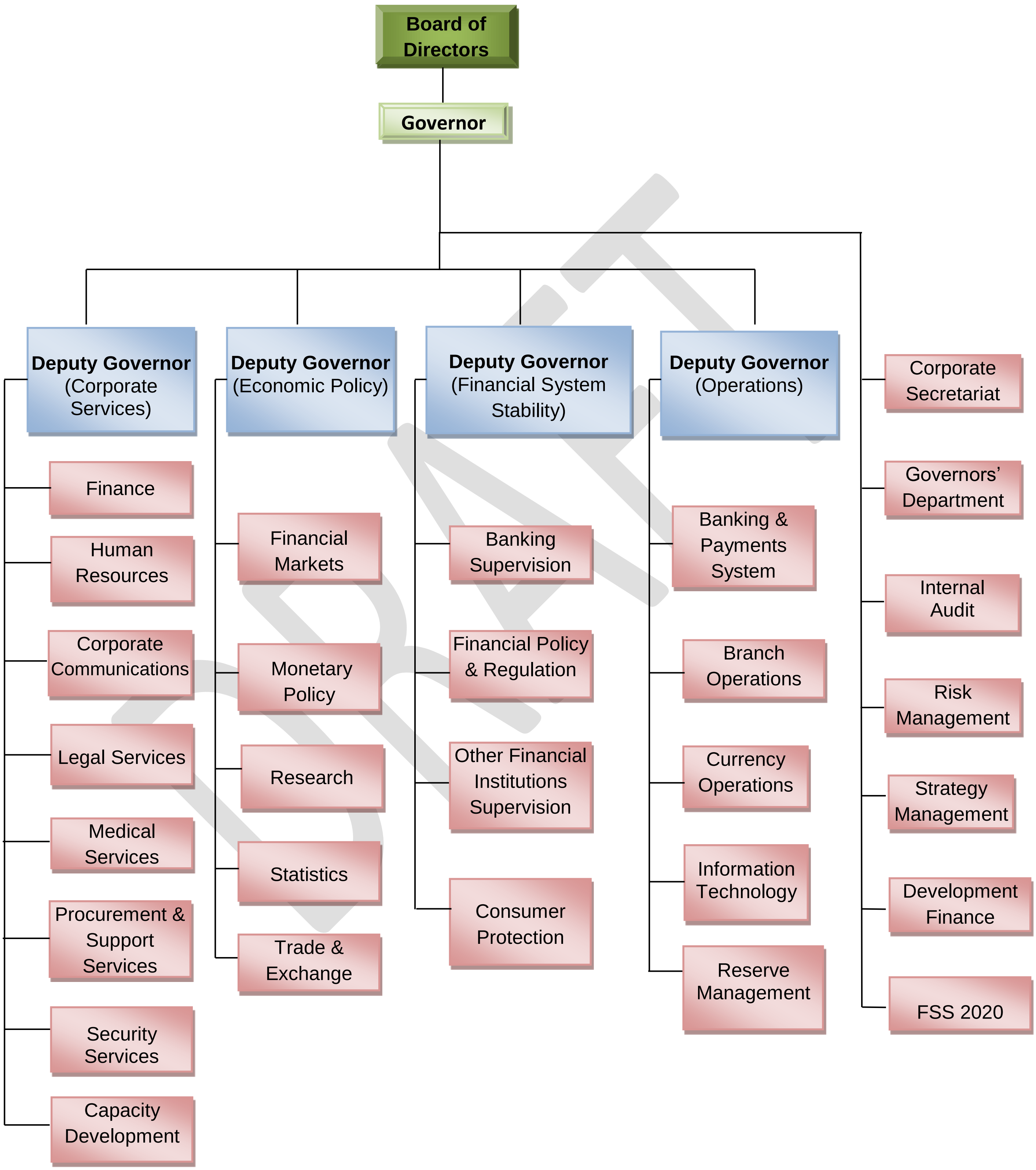
After the external shock induced slowdown, the Nigerian economy began to recover and exited recession during 2017. Having recorded a 1.6 per cent contraction in 2016, the economy expanded by 0.8 per cent in 2017. This rebound derives both from the favourable outcomes in international oil market and from improved non-oil performance following the various efforts at diversifying the economy. Similar improvements were displayed by domestic prices changes as headline inflation moderated from 18.6 per cent in December 2016 to 15.4 per cent in December 2017. In the financial markets, foreign exchange pressures which characterised the preceding year abated considerably during 2017 as the naira-dollar exchange rate appreciated, converged and stabilised across the various windows and segments of the market. External reserves also recovered remarkably during the year under review with a 45.8 per cent annual accretion to US$39.35 billion as at end-December 2017. The burgeoning investors' optimism and brightening business sentiments that resulted from the effective policies and the macroeconomic rebound also reflected in capital market gains. Consequently, the Nigeria All-Share Index (ASI) rallied by 42.3 per cent to 38,243.2 at end-December 2017 from 26,874.6 at end-December 2016.

These welcome outcomes and the economic rebound followed a number of countervailing monetary policy, exchange rate policy and development finance actions of CBN. Based on the understanding that the welfare gains of rapid disinflation outstripped the benefits of output stabilisation, the Bank's Monetary Policy Committee maintained a tight stance during the year in order to rein in inflation. This was supported with the continuous use of Open Market Operations. The Bank also adopted far-reaching strategies to stabilize the exchange rate and eliminate pressures from speculators, bettors, round-trippers and rent-seekers. During the year, special foreign exchange windows for small and medium enterprises and for Investors-Exporters were established to increase market transparency, stabilise the rates, improve investment sentiments in Nigeria and bolster foreign exchange supply. In addition to these, the CBN buoyed local production of goods in the real sector with sustained development financing. Accordingly, the Bank continued its programmes to increase access and flow of credit to the real sector, promote financial inclusion, support job creation and encourage entrepreneurship development.

To conclude this statement, I would like to express my profound gratitude to the Management and Staff of the Central Bank of Nigeria for their tireless support, commitment, diligence, innovativeness and loyalty through the outgoing year. They contributed in no small measure to the success recorded in 2017. I also wish to gratefully acknowledge the Presidency, the leadership of the National Assembly, Honourable Ministers of the Federal Republic, Nigeria's development partners, the organized private sector, as well as other stakeholders for their sustained support and cooperation during the year.

Godwin I. Emefiele, *CON*
Governor,
Central Bank of Nigeria
December 2017

Organisational Structure of the CBN as at 31st December, 2017



CENTRAL BANK OF NIGERIA
ANNUAL ECONOMIC REPORT
FOR THE YEAR ENDED DECEMBER 31, 2017
SUMMARY

This *Report* reviews the operations of the Central Bank of Nigeria (CBN) and developments in the economy in 2017. The *Report* is structured into two parts. Part 1 highlights the corporate activities and operations of the Bank, while Part II reviews the performance of the economy, vis-à-vis the various policy measures taken to promote macroeconomic stability and growth.

CORPORATE ACTIVITIES

The Board of Directors and Other Committees

The Board of Directors of the CBN, which was dissolved on July 16, 2015, was yet to be reconstituted as at December 31, 2017. Two Deputy Governors, Sarah O. Alade (Economic Policy) and Suleiman Barau, (Corporate Services), retired from the services of the Bank after serving their maximum terms. In the absence of the Board, there were no meetings of its Standing Committees. The Committee of Governors (COG) and Governors' Consultative Committee (GCC), however, held fifty (50) and five (5) meetings, respectively, in the review period.

The Monetary Policy Committee

The Monetary Policy Committee held six (6) regular meetings; in January, March, May, July, September and November 2017. At these meetings, the Committee reviewed major developments in the global and domestic economic and financial environment, and took appropriate decisions, which were promptly communicated to the public.

Monetary Policy and Surveillance Activities

Monetary policy remained, largely non-expansionary in 2017, in order to rein-in inflation. The monetary policy rate was maintained at 14.0 per cent, with asymmetric corridor of +200 and -500 basis points around the MPR, throughout 2017. Similarly, the cash reserve and liquidity ratios were retained at 22.5 and 30.0 per cent, respectively. Open market operations (OMO), remained the primary tool for liquidity management, complemented by reserve requirements and repurchase transactions.

Furthermore, the net foreign currency trading position limit of 0.5 per cent was maintained to continue limiting banks' exposure to the foreign exchange market in the face of adverse developments in the external environment. Following increased pressure on the exchange rate, the Bank established two special windows; the Investors' and Exporters' (I&E) to boost market liquidity and the small and medium enterprises window to enhance access for this category of users. This measure was supported by sustained interventions in the secondary market to further increase liquidity and thereby stabilise the exchange rate.

Growth in the major monetary aggregates was moderate and generally lower than the indicative benchmarks for 2017, reflecting the restrictive monetary policy stance. Broad money supply, (M_2), grew by 1.7 per cent, compared with the indicative benchmark of 10.3 per cent for 2017. Narrow money supply (M_1), however, contracted by 2.1 per cent. Aggregate bank credit to the domestic economy (net) contracted by 3.7 per cent, in contrast to the indicative benchmark growth of 17.9 per cent for fiscal 2017. The development reflected, mainly, the 26.7 per cent decline in net claims on the Federal Government. Credit to the private sector rose marginally by 1.4 per cent. The net foreign assets of the banking system increased significantly by 61.9 per cent, reflecting growth in foreign assets of the CBN and banks. Interest rates were generally higher than the levels in 2016, reflecting the tight liquidity condition in the banking system, due to frequent mop-up operations by the CBN.

Indicators of financial sector development trended largely downwards in 2017. Financial sector development, measured by the ratio of M_2 to GDP, was 21.1 per cent, compared with 23.3 per cent in 2016. Similarly, banking system's capacity to finance economic activities, measured by the ratio of aggregate credit to GDP, was 22.7 per cent, compared with 26.5 per cent in 2016. Credit to the core private sector, as a proportion of GDP, was 18.3 per cent, down from 20.7 per cent in 2016. Total money market assets outstanding fell by 61.1 per cent below the level in 2016, due largely to the decline in Nigeria Treasury Bills and the FGN Bonds outstanding. Activities on the Nigerian Stock Exchange were bullish in 2017.

The structure of the Nigerian banking system remained the same as in 2016. However, the number of licensed banks increased from 26 in 2016, to 27, following the licensing of the Nova Merchant Bank Ltd. Consequently, the banking system in 2017, comprised twenty-one (21) commercial banks, five (5) merchant banks and one (1) non-interest bank. The licensed operators in the other financial institutions sub-sector were seven (7) development finance institutions (DFIs), thirty-four (34) primary mortgage banks (PMBs), 1,008 microfinance banks (MFBs), 81 finance companies (FCs) and 3,740 bureaux-de-change (BDCs).

The Bank continued its supervisory and surveillance activities in 2017, towards ensuring the resilience and soundness of regulated institutions, safeguarding public confidence in the banking industry and promoting financial system stability. In this regard, the Bank deployed the Credit Assessment Analysis System, intensified the monitoring of the implementation of Basel II/III standards and continued to subject domestic systemically-important banks (D-SIBs) to enhanced regulation to strengthen its supervisory and surveillance activities. It also reviewed banks' implementation plan for the adoption of the IFRS 9 and directed them to do a parallel run of the IAS 39 and the IFRS9. An impact assessment of banks' total provisions and capital showed that capital adequacy was moderated by the huge regulatory risk reserve balances of the banks. All banks would effectively transit to the IFRS 9 Reporting Standard on January 1, 2018. Also, the Bank sustained the conduct of a top-down solvency appraisal and liquidity management of banks, to evaluate their vulnerability and soundness.

In the other financial institutions sub-sector, the Bank commenced the on-boarding of microfinance banks on the uniform application platform for MFBs – the National Association of Microfinance Banks Unified Information Technology (NAMBUIT) - to connect the industry to the national payments system and promote economies of scale. Similarly, the CBN paid the sign-up fees for MFBs to connect to two (2) credit bureaux, so as to fast-track integration into the credit reporting scheme. It also issued a circular to protect compliance officers from victimisation if and when they disclose insider-related loans to the CBN.

Routine and target examinations were conducted to, among others, determine the quality of banks' assets and adequacy of loan loss provisions. Similarly, examination of foreign exchange transactions was carried out to ascertain compliance with extant laws and regulations. Also, solo and joint examination of subsidiaries, foreign branches and representative offices, were conducted to determine the health of cross border institutions. To strengthen cooperation with supervisors in other jurisdiction, the Bank participated in meetings and engagements with them, including colleges of supervisors in jurisdictions with subsidiaries and representative offices of the Nigerian banks.

In furtherance of its anti-money laundering objectives, the CBN directed regulated institutions to strengthen their AML/CFT systems and ensure timely rendition of reports to the Nigeria Financial Intelligence Unit (NFIU). It also issued a circular to sensitise banks and other financial institutions and a cautionary notice to the public on the money laundering and terrorism risks inherent in virtual currency operations. In addition, the Bank conducted an AML/CFT compliance examination of banks to review the adequacy of their AML/CFT risk management systems and practices.

To ensure effective monitoring of adherence to the provisions of the Code of Corporate Governance for Banks, the Code of Corporate Governance Scorecard was launched in 2017 and formed the basis for compliance examination of 18 banks, covering all categories of licences. Rendition of reports on dud cheques on the CRMS platform also commenced, to facilitate the collation and analysis of data on serial dud cheque to enable the CBN take action against culprits.

Industry average capital adequacy ratio (CAR) was 10.2 per cent at end-December 2017, compared with 14.8 per cent at end-December 2016, and the 10.0 and 15.0 per cent benchmarks for banks with national and international authorisation, respectively. The development reflected the reduction in total qualifying capital, due to impairment from non-performing loans. Similarly, average industry non-performing loans ratio, worsened to 14.8 per cent, above the benchmark of 5.0 and 12.8 per cent in 2016. Banks were, therefore, directed to intensify debt recovery, realise collateral for bad debts and strengthen risk management. The average industry liquidity ratio rose marginally to 44.6 per cent in 2017, compared with 44.0 per cent at end-December 2016, and was above the prescribed minimum of 30.0 per cent.

To consolidate the progress, thus far, in modernising the payments system, the Bank reinforced the implementation of subsisting initiatives and introduced new ones, towards enhancing the credibility, reliability and efficiency of the payments system. In furtherance of its development financing roles, the Bank continued to pursue programmes that promote access and flow of credit to the real sector, encourage entrepreneurship development and promote financial inclusion. Consequently, it intensified the implementation of initiatives, such as the Anchor Borrowers' Programme (ABP), the Commercial Agriculture Credit Scheme (CACS), the Micro, Small and Medium Enterprises Development Fund (MSMEDF) and the Power and Airline Intervention Fund (PAIF). It, also, commenced operation of others, such as: the Paddy Aggregation Scheme (PAS); the CBN/NEXIM Non-Oil Export Stimulation Facility (NESF); the Accelerated Agriculture Development Scheme (AADS); and the Nigeria Bulk Electricity Trading-Payment Assurance Facility (NBET-PAF).

Operations of the CBN

To sustain quality service delivery in information technology and ensure optimal support for its operations, the Bank implemented initiatives in the areas of infrastructure, enterprise alignment, information and asset security, and, support and applications upgrades. Implementation of the second phase of the e-Library Project, comprising the Institutional Repository and Discovery System also commenced in the review year. Furthermore, the Bank continued to adopt security management best practices and deployed security tools and equipment, to guarantee asset protection, personnel safety and operational resilience. Specifically, surveillance systems were enhanced in all branches of the Bank, and specialist training conducted on installed equipment to improve monitoring effectiveness.

Similarly, the Bank continued to strengthen the legal and regulatory framework to improve overall effectiveness of the financial system. Thus, it reviewed relevant bills from the National Assembly, including the Amendment of the Central Bank of Nigeria Act No. 7 Cap C4, 2007 and the Banks and Other Financial Institutions Act Cap B3, LFN 2004. It also drafted and vetted Memoranda of Understanding (MoUs) and agreements, as well as, contributed to draft guidelines on several issues. The Bank was involved in 725 cases in 2017, out of which one (1) was withdrawn by the claimant and the Bank discharged. Of the 140 cases decided during the review year, 136 were in favour of the Bank and one (1) against, while three (3) were referred for settlement out-of-court.

In 2017, detailed audit was conducted, involving sixty (60), fifty-nine (59) and eighty (80) audits of departments, processes and branches, respectively. Also, 328 currency disposal operations, requiring audit witnessing, were completed. In addition, the Risk Control Self-Assessment (RCSA) workshops were conducted towards strengthening operational resilience, following which risk mitigation actions were developed and the Enterprise Risk Register updated. Business Continuity Plans (BCPs), detailing alternative working arrangements, were validated across SBUs, following the conclusion of the departmental business impact analyses (BIA). Furthermore, as part of its strategic initiatives and business process management, a skills upgrade session was conducted for "Initiative Managers" on requisite skills for managing and overseeing the progress of initiatives in the Bank. An impact assessment of initiatives, from 2012 to end-December 2017, commenced to highlight achievements and learning points.

The number of staff recruited into the Bank in 2016 was 424. These comprised 261 senior, and 163 junior. A breakdown by gender indicated that 323 or 76.2 per cent were males and 101 or 23.8 per cent were females. The Bank, however, lost the services of 317 staff through the following modes of exit: voluntary retirement, twenty-two (22); compulsory retirement, two (2); mandatory retirement, 228; withdrawal of service, four (4); resignation, seven (7); death, thirty-one (31); termination, five (5); and dismissal, eighteen (18). The staff strength stood at 7,062 at end-December 2016, compared with 6,955 in 2015.

In furtherance of its manpower development objective, the Bank developed the framework to support staff development in specialised fields. It also instituted soft skills training on Leadership Development, and Inspirational Leadership for Executives, CBN Analyst Boot Camp for Middle Level Managers and Lean Management for Branch Controllers and Executives. In addition, the International Training Institute (ITI) delivered seventy-four (74) training programmes, in partnership with the Federal Reserve Bank of America (FRB), the International Monetary Fund (IMF), the West African Institute for Financial and Economic Management (WAIFEM), the Lagos Business School (LBS), the Association for Talent Development (ATD), USA and the Myers-Briggs Type Indicator (MBTI) Institute. Also, the Institute commenced live streaming of the 2017 Executive Seminar held in Lagos and launched the CBN Open On-line Learning (COOL). Twenty-four (24) Bank staff were certified as Myers-Briggs Type Indicator (MBTI) professionals in the review period.

ECONOMIC REPORT

The Global Economy

Global economic growth strengthened to 3.7 per cent, from 3.2 per cent in 2016, on account of significant pickups in investment, trade and industrial production, strengthening business and consumer confidence and a benign global financial environment. Growth in the advanced economies rebounded to 2.3 per cent, from 1.7 per cent in 2016. Similarly, growth in the emerging markets and developing economies accelerated to 4.7 per cent in 2017, from 4.4 per cent in 2016, buoyed by improved near-term outlook for commodity exports, higher external demand and easing global financing conditions. In sub-Saharan Africa, growth bounced back to 2.7 per cent in 2017, compared with 1.4 per cent in 2016, due to improvements in the Nigerian and South African economies, both of which exited recession.

Global output strengthened to 3.7 per cent in 2017, due to significant growth in advanced economies and accelerated growth in the emerging economies.

Global inflation rose, owing to strong demand for and recovery of commodity prices. Increased crude oil prices caused a faster-than-expected rise in headline inflation in advanced economies, as demand accelerated. Inflation, however, remained below targets in most advanced economies, due primarily to weak wage growth.

Commodity prices were generally high in 2017, relative to 2016, owing to the pick-up in global trade and investments, which boosted economic activity. Commodity price index increased by 17.4 per cent, due mainly to 12.3 per cent increase in crude oil prices. Cyclical rebound in commodity prices reflected developments in China, including strong demand for metals and the cutback of coal production.

The 2017 Spring and Annual Meetings of the Bretton Woods Institutions (BWIs) were held in Washington D. C., USA from April 17 to 23, 2017 and October 9 to15, 2017, respectively. The Meetings urged the IMF to strengthen the international monetary system through promotion of policies that would expand opportunities and facilitate multilateral solutions to global challenges. In addition, the G-24 Ministers noted the improvement in commodity prices and the opportunity it provides for commodity exporters to diversify their economies, stimulate growth and rebuild buffers. Also, the African Caucus Meeting of the IMF/World Bank called on the Bretton Woods institutions to support the agriculture agenda in Africa, especially in the areas of financing, technology, job creation for youth and women, and infrastructure development. Within the sub-Region, the 4th Meeting of the Presidential Task Force on the ECOWAS Monetary Cooperation Programme noted the weak implementation of the roadmap for the ECOWAS Single Currency Programme and, therefore, recommended effective monitoring and strengthening of the multilateral surveillance mechanism.

The Domestic Economy

Fiscal Operations of Government

Nigeria's fiscal policy thrust in 2017 was aimed at steering the economy out of recession to a steady path of growth and development. Total federally-collected revenue (gross) increased by 30.3 per cent, to ₦7,317.7 billion (6.1% of GDP) in 2017, above the level in 2016. The development reflected improvement in crude oil price and production as well as stronger drive for non-oil revenue. Overall, oil revenue (gross) accounted for ₦4,109.8 billion or 56.2 per cent of the total (3.6% of GDP), while non-oil revenue (gross) at ₦3,207.9 billion, accounted for 43.8 per cent of total revenue (2.5% of GDP).

The consolidated revenue and expenditure of the General Government was ₦8,884.9 billion (7.7% of GDP) and ₦11,938.0 billion (10.4% of GDP), respectively, resulting in an overall deficit of ₦3,053.1 billion (2.7% of GDP).

Federal Government retained revenue and aggregate expenditure were ₦4,622.6 billion and ₦6,896.5 billion, respectively, resulting in estimated deficit of ₦2,273.9 billion, or 2.0 per cent of GDP, compared with the deficit of ₦2,675.0 billion, or 2.6 per cent of GDP in 2016. The deficit was within the revised WAMZ primary convergence criterion of 3.0 per cent of GDP. It was financed by 31.8 per cent of the total financing gap from external sources and 68.2 per cent from domestic sources.

The consolidated Federal Government debt stock, at end-December 2017 was ₦18,377.0 billion, or 16.0 per cent of GDP, compared with ₦14,537.1 billion or 14.2 per cent of GDP in 2016. The development reflected additional draw-down on commercial and domestic loans to restructure the outstanding debt portfolio, deepen domestic bond market operations and bridge the budgetary gap, particularly infrastructure funding. Domestic debt constituted 68.5 per cent, while external debt accounted for 31.5 per cent of the total.

The Real Sector

Gross domestic product (GDP), measured at 2010 constant basic prices, grew by 0.83 per cent in 2017, as against the contraction of 1.58 per cent in 2016. The agricultural, industrial and construction sectors contributed 0.84, 0.38 and 0.04 per cent, respectively, to GDP growth. The growth in output was attributed to: higher crude oil price and production level; increased agricultural output, buoyed by sustained intervention by the CBN; higher investors' confidence; and implementation of the Economic Recovery and Growth Plan (ERGP).

Average spot price of Nigeria's reference crude, the Bonny Light (37^0API), was US$54.91 per barrel in 2017, compared with US$48.82 per barrel in 2016. Similarly, average price of the OPEC basket of 15 crude streams rose by 28.6 per cent to US$52.43 per barrel in 2017. The increase was attributed to the commitment of the OPEC members to cap production under the Declaration of Cooperation (DoC) and strong demand for crude oil by China.

Sectoral Shares in GDP, 2013 - 2017

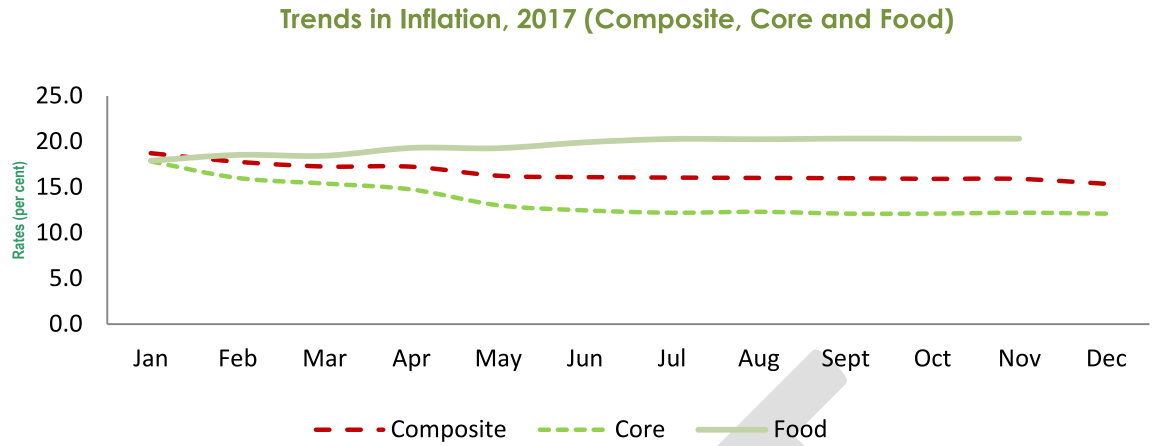
Source: NBS

Growth Rate of Major Sectors of Non-oil GDP, 2013 – 2017 (Per cent)

Source: NBS

Headline inflation (year-on-year) fell, consistently from 18.72 per cent at end-January 2017, to 15.37 per cent at end-December 2017. Similarly, the 12-month moving average headline inflation was 16.5 per cent at end-December 2017, compared with 15.7 per cent at end-December 2016.

Year-on-year headline inflation fell consistently throughout the year to 15.37 per cent at end-December 2017.

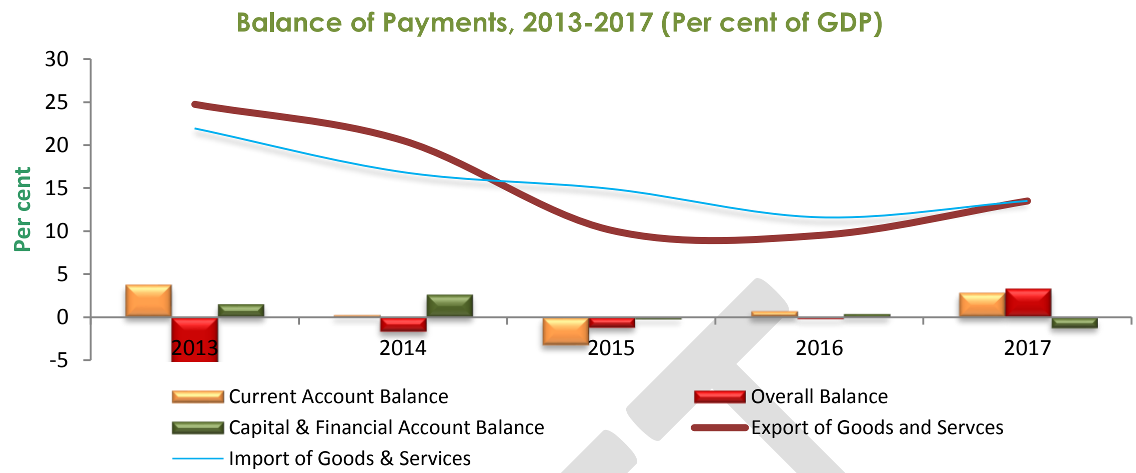


Source: NBS

The External Sector

The performance of the external sector improved in 2017. Estimated overall balance of payments was a surplus of ₦3,737.37 billion (3.3% of GDP), in contrast to ₦247.84 billion deficit (0.2% of GDP) in 2016. The positive trend reflected further improvement in the current account position, which recorded higher surplus of 2.8 per cent of GDP, relative to 0.7 per cent of GDP in 2016. This was as a result of the trade surplus recorded in the goods account, driven, largely, by the improvement in both oil and non-oil export, and sustained inflow of workers' remittances. The capital and financial account recorded a net financial asset of 1.2 per cent of GDP, compared with a net financial liability of 0.7 per cent of GDP in 2016, attributed largely to higher credits, foreign currency holdings by banks and increased external reserves.

The stock of external reserves, at end-December 2017, was US$39.35 billion and could finance 14.5 months of import of goods only or 9.3 months of import of goods and services. This exceeded both the international benchmark and the West African Monetary Zone (WAMZ) convergence criterion of 3 months import cover. The stock of external debt at end-December 2017 was US$18.91 billion or 5.0 per cent of GDP and remained within the threshold of 40.0 per cent of GDP. The international investment position (IIP) recorded a higher net liability of US$57.80 billion, indicating an increase of 9.7 per cent over the US$52.70 billion in the preceding period.



The sustained intervention and policy reforms of the CBN at the foreign exchange market, particularly the introduction of weekly sales of foreign exchange for invisible transactions, special window for small and medium enterprises (SMEs) and the establishment of the Investors' and Exporters' (I&E) window, stabilised the exchange rate during the review period. The exchange rate of the naira to the US dollar at the inter-bank segment was stable in the review period at ₦305.79/US$.

The annual average exchange rate at the BDC segment in 2017 was ₦395.42/US, representing a depreciation of 5.7 per cent, compared with the level in 2016. The end period exchange rate was ₦363.00/US$, indicating an appreciation of 35.0 per cent, relative to the level in 2016. The annual average exchange rate at the I&E window was ₦366.58/US, while the end-period exchange rate stood at ₦360.33/US$.

Figure 7.14: End-period Exchange Rate of the Naira per US Dollar, 2013 - 2017

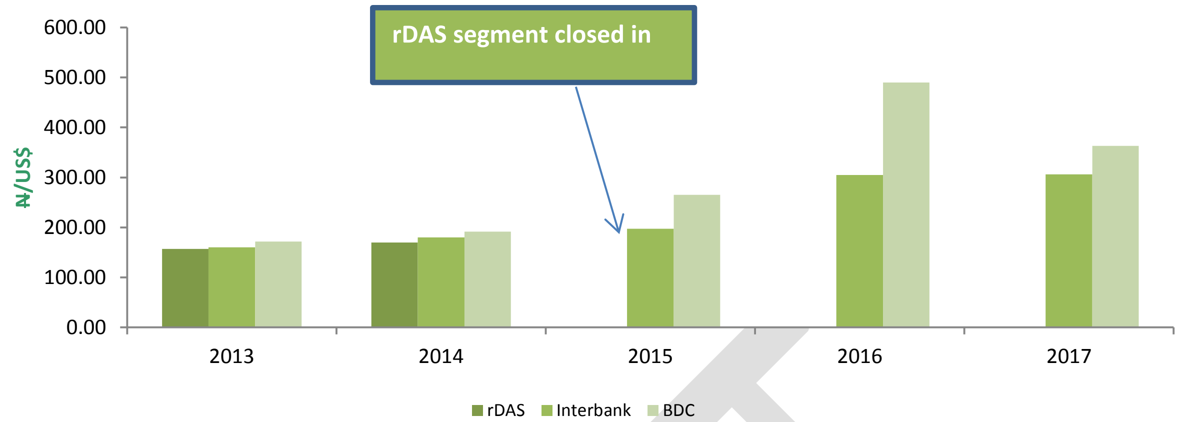
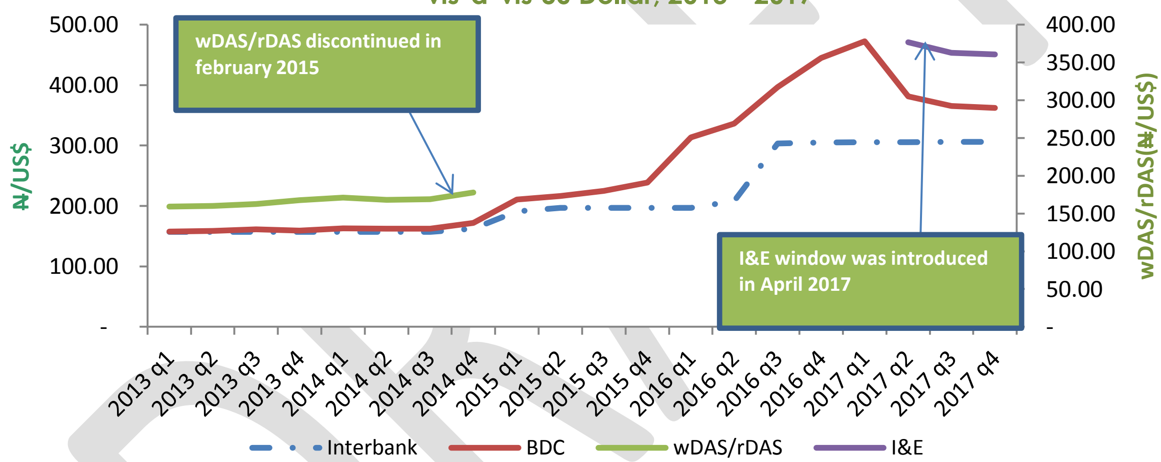
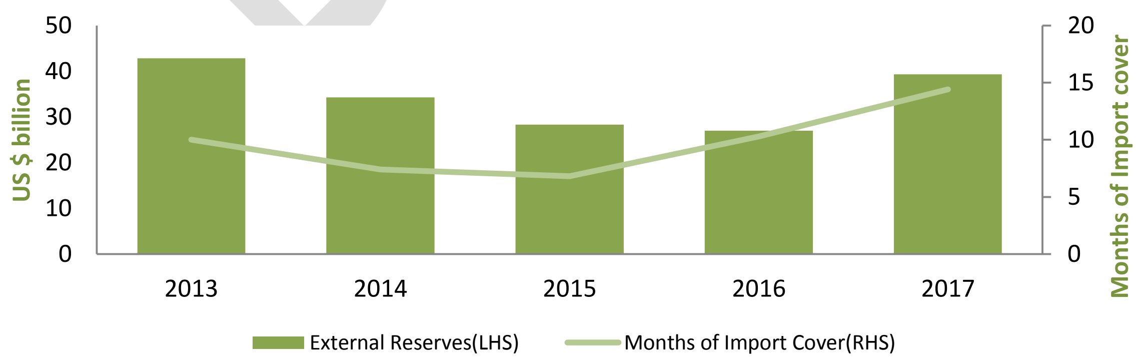


Figure 7.15: Quarterly Average Exchange Rate of the Naira vis-à-vis US Dollar, 2013 - 2017



Nigeria's Gross External Reserves Position (US$'Billion) and Months of Import Equivalent



Selected Macroeconomic and Social Indicators
Selected Macroeconomic and Social Indicators

Indicator	2013	2014	2015	2016	2017 /2
Domestic Output and Prices					
GDP at Current Mkt Prices (₦ billion)	81,010.0	90,137.0	95,177.7	102,575.4	114,906.7
GDP at Current Mkt Prices (US$ billion)	515.0	568.5	492.5	404.6	375.8
GDP per Capita (₦)	461,884.4	498,516.4	510,557.5	533,739.6	579,982.4
GDP per Capita (US$)	2,936.1	3,144.2	2,641.9	2,105.5	1,896.7
Real GDP Growth (%)	5.5	6.2	2.8	(1.6)	0.8
Oil Sector	(13.1)	(1.3)	(5.4)	(14.4)	4.8
Non-oil Sector	8.4	7.2	3.7	(0.2)	0.5
Sectoral GDP Growth (%)					
Agriculture	2.9	4.3	3.5	4.1	3.4
Industry	(0.1)	6.0	(3.8)	(9.4)	2.1
Construction	14.2	13.0	(0.4)	(5.9)	1.0
Trade	6.6	5.9	4.7	(0.2)	(1.1)
Services	9.4	7.1	3.3	(1.2)	(0.7)
Oil Production (mbd)	1.9	1.9	2.1	1.6	1.9
Manufacturing Capacity Utilisation (%)	58.3	59.8	59.9		
GDP Deflator Growth (%) 3/	5.9	4.7	2.9	9.5	11.1
Inflation Rate (%) (Dec-over-Dec)	8.0	8.0	9.6	18.5	15.4
Inflation Rate (%) (12-month moving average)	8.5	8.0	9.0	15.7	16.5
Core Inflation Rate (%) (Dec-over-Dec) 4/	7.9	6.2	8.7	18.1	12.1
Core Inflation Rate (%) (12-month moving average) 4/	7.7	6.9	8.2	15.3	13.5
Food Inflation Rate (%) (Dec-over-Dec)	9.3	9.2	10.6	17.4	19.4
Food Inflation Rate (%) (12-month moving average)	9.7	9.5	9.9	14.9	19.5
Aggregate Demand and Savings (% of GDP) 5/					
Aggregate Demand	94.2	93.3	99.3	101.6	98.8
Private Final Consumption Expenditure	72.9	71.7	78.6	81.6	81.8
Government Final Consumption Expenditure	7.2	6.5	5.9	5.4	5.0
Gross Fixed Capital Formation	14.2	15.1	14.8	14.7	12.1
Increase in Stock	0.7	0.7	0.7	0.6	0.6
Net Export of Goods and Non-factor Services	5.1	6.0	(0.0)	(2.3)	0.6
Export of Goods and Non-factor Services	18.0	18.4	10.7	9.2	11.1
Import of Goods and Non-factor Services	13.0	12.5	10.7	11.5	10.4
Domestic Saving	20.0	21.8	15.5	13.1	13.2
Gross National Saving	14.0	16.8	11.5	10.5	9.5
Public Finance (% of GDP)					
General Government					
Revenue	11.9	9.9	7.9	6.5	7.7
Expenditure	13.6	11.3	10.2	9.4	10.3
Transfers	1.2	0.9	0.8	0.7	1.1
Current Balance	4.0	2.7	0.8	(0.2)	0.5
Primary Balance	(0.7)	(0.2)	(1.1)	(1.5)	(0.9)
Overall Balance	(1.7)	(1.4)	(2.3)	(2.9)	(2.7)
Federal Government					
Retained Revenue	5.0	4.2	3.6	3.1	4.0
Total Expenditure	6.4	5.1	5.2	5.2	5.9
Recurrent Expenditure	4.6	3.8	4.0	4.1	4.5
Of which: Interest Payments	1.0	1.0	1.1	1.4	1.7
Foreign	0.1	0.1	0.1	0.1	0.0
Domestic	1.0	1.0	1.0	1.3	1.7
Capital Expenditure and Net Lending	1.4	0.9	0.9	0.7	1.0
Transfers	0.5	0.4	0.4	0.5	0.4
Current Balance (Deficit(-)/Surplus(+))	0.4	0.4	(0.4)	(1.0)	(0.6)
Primary Balance (Deficit(-)/Surplus(+))	(0.4)	0.1	(0.5)	(0.7)	(0.3)
Overall Fiscal Balance (Deficit(-)/Surplus(+))	(1.4)	(0.9)	(1.6)	(2.1)	(2.0)
Financing	1.4	0.9	1.6	2.1	2.0
Foreign	0.0	0.0	0.0	0.0	0.6
Domestic	1.4	0.9	1.6	2.1	1.4

Selected Macroeconomic and Social Indicators cont.

Indicator	2013	2014	2015	2016	2017 /2
Banking System	0.6	0.5	0.9	0.3	0.0
Non-bank Public	0.3	0.2	0.1	0.2	1.0
Other Funds	0.5	0.2	0.6	1.6	0.3
Federal Government Debt Stock 6/	10.5	10.6	11.5	14.2	16.0
External	1.7	1.8	2.2	3.4	5.0
Domestic	8.8	8.8	9.3	10.8	11.0
Money and Credit (Growth Rate %)					
Reserve Money	37.4	16.5	(2.0)	0.6	10.8
Narrow Money (M_1)	(5.2)	(11.1)	24.1	31.5	(2.1)
Broad Money (M_2)	1.3	7.2	5.9	17.8	1.7
Net Foreign Assets	(4.3)	(16.7)	(18.7)	61.8	61.9
Net Domestic Assets	9.2	36.6	20.2	0.5	(36.4)
Net Domestic Credit	14.5	13.7	12.1	24.3	(3.7)
Net Credit to Government	32.5	1.9	152.0	68.6	(26.7)
Credit to Private Sector	6.9	12.1	3.3	17.4	1.4
Money Multiplier for M_2	3.1	2.8	3.4	4.0	3.7
Income Velocity of M_2	5.2	5.4	4.8	4.3	4.8
Financial Development Indicators (%)	5.2	5.4	4.8	4.3	4.8
M_2/GDP	19.4	18.7	21.0	23.0	20.9
CIC/M_2	11.3	10.7	9.3	9.2	9.0
COB/M_2	9.2	8.1	7.3	7.7	7.4
QM/M_2	55.2	62.8	57.2	52.2	54.0
CIC/GDP	2.2	2.0	2.0	2.1	1.9
Credit to Private Sector (CP)/GDP	20.0	20.1	19.7	21.4	19.4
Credit to Core Private Sector (CCP)/GDP	19.0	19.3	19.0	20.4	18.1
CP/Non-Oil GDP	23.2	22.9	21.2	22.9	21.6
DMBs Assets/GDP	30.2	30.6	29.8	31.3	30.6
CBN's Assets/GDP	18.6	16.2	17.3	24.1	28.4
Banking System's Assets/GDP	48.8	46.8	47.1	55.4	59.0
Interest Rates (% per annum)					
Monetary Policy Rate (MPR) (end period) 7/	12.0	13.0	11.0	14.0	14.0
Repurchase Rate (Average)	15.0	-	16.1	18.5	19.0
Treasury Bill Rate (Average)					
91-day	10.9	10.5	9.4	10.1	13.5
182-day	11.6	11.4	12.2	12.7	16.9
364-day	11.9	11.7	12.9	14.1	18.0
Inter-bank Call Rate (end-period)	11.5	12.9	0.8	10.4	9.0
Deposit Rates (end-period)					
Savings Rate	2.5	3.5	3.3	4.2	4.1
3-months Fixed	8.0	9.5	6.9	8.8	9.6
6-months Fixed	7.4	9.8	5.8	10.2	11.1
12-months Fixed	5.0	9.5	4.9	10.8	10.9
Prime Lending Rate (end period)	17.0	15.9	17.0	17.1	17.7
Maximum Lending Rate (end period)	24.9	25.9	26.8	28.5	31.0
Government Bond (Average coupon)					
3-year	13.0	12.5	-	0.0	0.0
5-year	11.8	-	14.2	13.9	15.8
7-year	11.2	-	-	0.0	0.0
10-year	11.2	13.1	13.8	14.3	15.9
20-year	13.0	13.2	15.3	14.8	16.4

Selected Macroeconomic and Social Indicators cont.

Indicator	2013	2014	2015	2016	2017 /2
External Sector					
Current Account Balance (% of GDP)	3.7	0.2	(3.2)	0.7	2.8
Goods Account	8.2	3.7	(1.3)	(0.1)	3.5
Services Account (net)	(3.8)	(4.0)	(3.4)	(2.0)	(3.5)
Income Account (net)	(5.0)	(3.3)	(2.6)	(2.1)	(3.1)
Current Transfers	4.2	3.8	4.2	4.9	5.8
Capital and Financial Account Balance (% of GDP)	1.5	2.1	(0.2)	0.7	(1.1)
Overall Balance (% of GDP)	(0.2)	(1.5)	(1.2)	(0.2)	3.3
External Reserves (US$ million)	42,847.3	34,241.5	28,284.8	26,990.6	39,353.5
Number of Months of Import Equivalent	9.3	6.7	6.5	9.2	14.4
Average Crude Oil Price (US$/barrel)	111.4	100.7	53.1	48.8	54.5
Average Official Rate (₦/US$)	157.31	158.55	193.25	253.49	305.79
End of Period Official Rate (₦/US$)	157.26	169.68	197.00	305.00	306.00
Average Bureau de Change Exchange Rate (₦/US$)	162.45	171.45	222.79	372.86	395.70
End of Period Bureau de Change Exchange Rate (₦/US$)	172.00	191.50	267.00	490.00	363.00
Capital Market					
All Share Value Index (1984=100)	41,329.2	34,696.7	28,679.1	26,914.6	38,243.2
Value of Stocks Traded (Billion Naira)	2,350.9	1,334.8	961.2	578.5	1,078.2
Value of Stocks/GDP (%)	2.9	1.5	1.0	0.6	0.9
Market Capitalization (Billion Naira)	19,077.4	16,875.1	17,003.4	16,185.7	22,917.9
Of which: Banking Sector (Billion Naira)	2,940.0	2,367.0	1,447.6	1,456.9	2,501.8
Market Capitalization/GDP (%)	23.5	18.7	17.9	15.8	19.9
Of which: Banking Sector/GDP (%)	3.6	2.6	1.5	1.4	2.2
Insurance Sector/GDP (%)	0.2	0.2	0.2	0.1	0.1
Banking Sector Cap./Market Capitalization (%)	15.4	14.0	8.5	9.0	10.9
Insurance Sector Cap./Market Capitalization (%)	0.9	0.9	0.9	0.8	0.6
Social Indicators					
Population (million)	175.4	180.8	186.4	192.2	198.1
Population Growth Rate (%)	3.1	3.1	3.1	3.1	3.1
Unemployment Rate (%)	10.0	6.4	10.4	14.2	18.8
Life Expectancy at Birth (Years)	52.1	52.5	53.0	53.4	
Adult Literacy Rate (%)					
Incidence of Poverty					

1/ Revised

2/ Provisional

3/ Based on GDP measured at basic prices.

4/ Core Inflation is measured as the rate of change of all-item Consumer Price Index (CPI) less farm produce.

5/ Computations are based on GDP at Current Market Prices.

6/ Includes State Government Debts

7/ MPR replaced MRR with effect from December 11, 2006.

M_1 = Narrow Money; M_2 = Broad Money; GDP = Gross Domestic Product; CIC = Currency in Circulation

COB = Currency Outside Bank; QM = Quasi-Money; CP = Credit to Private Sector, CCP = Credit to Core Private Sector

Sources: Central Bank of Nigeria (CBN), Federal Ministry of Finance (FMF), National Bureau of Statistics (NBS), National Population Commission (NPOPC) Nigeria National Petroleum Corporation (NNPC), Nigerian Stock Exchange (NSE)

CHAPTER ONE

CORPORATE ACTIVITIES OF THE CENTRAL BANK OF NIGERIA

The execution and monitoring of the Bank's corporate strategy continued in the review period. Also, efforts at providing a conducive environment for staff and customers were sustained. Thus, three (3) building projects were completed, namely: CBN Branch development project in Yenagoa, Bayelsa State; renovation of the CBN Branch Minna, Niger State; CBN Diagnostic and Treatment Centres in Kano, Kano State. Furthermore, the Bank sustained quality information technology (IT) delivery in the areas of enterprise alignment, governance, strategy, support, infrastructure, information and asset security, as well as applications upgrade. It continued its Corporate Social Responsibility (CSR) by encouraging knowledge acquisition, through capacity building, youth, sports and women developments, provision of financial and other forms of assistance to institutions and organisations for the hosting of conferences, seminars and workshops. The Bank also provided financial support towards the implementation of 67 CSR projects, spread across the six geo-political zones, valued at N291.5 million, compared with 271 projects valued at N269.5 million, in 2015. The staff of the Bank sustained support for the less-privileged, physically-challenged groups and gender-related initiatives in the society, through regular contributions to the CBN Staff Alms Fund (C-SAF).

1.1 ADMINISTRATION

1.1.1 The Board of Directors and Other Committees

The Board of Directors of the CBN, dissolved on July 16, 2015, was yet to be reconstituted as at December 31, 2017. The Committee of Governors (COG) held fifty (50) meetings, while the Governors' Consultative Committee (GCC) held five (5) meetings. Two Deputy Governors, Dr. Sarah O. Alade, Deputy Governor (Economic Policy) and Alhaji Suleiman Barau, Deputy Governor (Corporate Services), retired from the services of the Bank on March 24, 2017 and December 12, 2017, respectively, after serving their maximum terms. In the absence of the Board, there were no meetings of its Standing Committee.

Table 1.1: Committee of Governors (CoG) Meetings: Attendance in 2017		
S/N	**Member**	**Number of Meetings Attended**
1	Godwin I. Emefiele	49 out of 50
2	Suleiman A. Barau*	38 out of 50
3	Sarah O. Alade*	9 out of 50
4	Okwu J. Nnanna	41 out of 50
5	Adebayo A. Adelabu	43 out of 50

Alade retired on March 24, 2017, while Barau retired on December 12, 2017.

Source: CBN

1.1.2 The Monetary Policy Committee (MPC)

The Monetary Policy Committee held six (6) regular meetings in January, March, May, July, September and November 2017. At these meetings, major developments in the global and domestic economic and financial environment were reviewed, appropriate monetary policy decisions taken, and promptly communicated to the public.

Attendance and key decisions of the Committee at the meetings were as follows:

Table 1.2: Monetary Policy Committee (MPC) Meetings: Attendance in 2017		
S/N	**Name**	**Number of Meetings Attended**
1.	Godwin I. Emefiele	6 out of 6
2.	Suleiman A. Barau	6 out of 6
3.	Sarah O. Alade*	2 out of 6
4.	Okwu J. Nnanna	6 out of 6
5.	Adebayo A. Adelabu	5 out of 6
6.	Dahiru Balami	6 out of 6
7.	Abdul-Ganiyu Garba	5 out of 6
8.	Adedoyin R. Salami	5 out of 6
9.	Chibuike C. Uche	5 out of 6
10.	Shehu Yahaya	5 out of 6

* Alade retired after the second meeting on March 24, 2017.

Source: CBN

Table 1.3: MPC Decisions in 2017

Date	MPR (%)	Decisions
January 23 – 24, 2017 Communiqué No. 111	14.00	• Retained the MPR at 14.0 per cent; • Retained the CRR at 22.5 per cent; • Retained the Liquidity Ratio at 30.0 per cent; and • Retained the Asymmetric Corridor at +200 and -500 basis points around the MPR.
March 20 – 21, 2017 Communiqué No. 112	14.00	• Retained the MPR at 14.0 per cent; • Retained the CRR at 22.5 per cent; • Retained the Liquidity Ratio at 30.0 per cent; and • Retained the Asymmetric Corridor at +200 and -500 basis points around the MPR.
May 22 – 23, 2017 Communiqué No. 113	14.00	• Retained the MPR at 14.0 per cent; • Retained the CRR at 22.5 per cent; • Retained the Liquidity Ratio at 30.0 per cent; and • Retained the Asymmetric Corridor at +200 and -500 basis points around the MPR.
July 24 - 25, 2017 Communiqué No. 114	14.00	• Retained the MPR at 14.0 per cent; • Retained the CRR at 22.5 per cent; • Retained the Liquidity Ratio at 30.0 per cent; and • Retained the Asymmetric Corridor at +200 and -500 basis points around the MPR.
September 25-26, 2017 Communiqué No. 115	14.00	• Retained the MPR at 14.0 per cent; • Retained the CRR at 22.5 per cent; • Retained the Liquidity Ratio at 30.0 per cent; and • Retained the Asymmetric Corridor at +200 and -500 basis points around the MPR.

November 20–21, 2017 Communiqué No. 116	14.00	• Retained the MPR at 14.0 per cent; • Retained the CRR at 22.5 per cent; • Retained the Liquidity Ratio at 30.0 per cent; and • Retained the Asymmetric Corridor at +200 and -500 basis points around the MPR.

Source: CBN

1.1.3 Development of CBN Branches and Intervention Projects

The Bank sustained its effort at providing a conducive environment for staff and customers, as well as, public sector interventions in the review period. Thus, three (3) building projects were completed, namely: CBN Branch development project at Yenagoa, Bayelsa State; renovation of CBN Branch, Minna, Niger State; and CBN Diagnostic and Treatment Centre in Kano, Kano State. The intervention projects completed included: the Centres of Excellence at the University of Ibadan, Oyo State; and Ahmadu Bello University, Zaria, Kaduna State. Others were at the Kaduna State University, Kaduna, Kaduna State; Michael Okpara University, Nwodike, Abia State; and Usman Danfodiyo University, Sokoto, Sokoto State. Also, forty-nine (49) building projects were on-going as at December 31, 2017. These were: CBN New Branch/Property (including Clinics) development (13); CBN Branch refurbishment/remodeling (11); secondary school (4); tertiary institutions (9); the CBN International Conference Centre (ICC); and other public sector interventions (12).

1.1.4 Information Technology

The Bank sustained quality information technology (IT) service delivery in the areas of enterprise alignment, governance, strategy, support, information and asset security, as well as, applications upgrade. Remarkable achievement was also recorded in the implementation of the RSA two-factor authentication, using soft tokens, to provide a secure and timely access to data and information. There was improvement in customer satisfaction, with the quality of IT support, as indicated by stakeholders satisfaction ratings on timeliness of support and quality of support, which stood at 79.0 per cent and

76.0 per cent, respectively in 2017, compared with 73.0 per cent and 76.0 per cent in 2016.

In the review period, a maturity assessment, using the Gartner ITscore was conducted across SBUs in the Bank. The Exercise evaluated the maturity of both the IT organisation, as a provider of IT services, and the enterprise, as a consumer of IT. The result showed an improvement from 3.0 in 2016 to 3.2, out of 5, in IT capabilities within the context of an enterprise culture, behaviours and capacity for leadership. The result was above the financial industry (FI) average of 2.7. As part of effort to reduce operating cost, the Bank renegotiated and restructured major service providers' (Microsoft, Oracle, NetApp MainOne, VDT, among others.) licences, maintenance/support fees and rationalised its applications, thereby reducing cost by 39.6 per cent.

The Bank in 2017, retained the International Code of Practice for Information Security, ISO/IEC27001 certification by the British Standards Institution (BSI), for the third consecutive year. This demonstrated consistent diligence and compliance with the reputable Information Security Management Standard, for protecting information assets. Also, it replaced the Record and Information Classification Policy (RICP) with the Data, Information and Record Classification Policy (DIRCP) for enhanced reliability and accessibility.

1.1.5 Library Operations

The number of library resources consulted by staff in 2017 was 29,272, representing an increase of 41.0 per cent above the level in 2016. The significant increase in usage was attributed to increased awareness, following the implementation of the e-Library project. The volume of books, in the Bank's library system, increased by 1.8 per cent to 112,872 over the period.

The Bank provided access to the following electronic resources: 5,183 electronic books from Springer, IMF e-Library and the World Bank Open Knowledge Repository (OKR); 247 electronic journals from the Emerald Group, the Elsevier Science Direct, and the Taylor and Francis Databases, including, EBSCOHost, Journal Storage (Jstor), Access to Global Online Research in

Agriculture (AGORA); and Online Access to Research in Environment (OARE). Others were: Business Monitor International (BMI); the International Monetary Fund (IMF) data; World Bank Open Data; and Economist Intelligence Unit (EIU). Furthermore, the CBN implemented the second phase of the e-Library Project, comprising the Institutional Repository and Discovery System.

1.1.6 Legal Services

The Bank continued to strengthen the legal and regulatory framework to improve the overall effectiveness of the financial system. In this regard, relevant bills from the National Assembly were reviewed, including the amendment of: the Central Bank of Nigeria Act No. 7 Cap C4, 2007; the Companies and Allied Matters Act Cap C20, 2004; the Banks and Other Financial Institutions Act Cap B3, 2004; the Currency Offences Act, Cap C44, 2004; the repealed Foreign Exchange (Monitoring and Miscellaneous Provisions) Act, Cap. P34, 2004; and the Re-Enacted Foreign Exchange Act, 2017. Others were: the Bill for an Act to Establish and Regulate the Nigerian Asset Management Agency (NAMA), charged with the responsibility of managing all government assets, including those seized, forfeited or taken over by Federal security and anti-corruption agencies, such as the Economic and Financial Crimes Commission (EFCC), the Independent Corrupt Practices and Other Related Offences Commission (ICPC), the Nigeria Police Force (NPF), the Nigeria Customs Service (NCS), the Nigeria Security and Civil Defence Corps; and the Amendment of the Asset Management Corporation of Nigeria (AMCON) Act. A24a, 2004.

The Bank drafted and vetted Memoranda of Understanding (MoUs), agreements and contributed to draft guidelines on several issues. These included: draft agreements on the Nigeria Housing Finance Programme (NHFP), through Microfinance Banks; draft Framework for Licencing and Regulation of the Private Asset Management Companies (PAMCs) in Nigeria; agreement on the Anchor Borrowers Programme (ABP); Bilateral Currency Swaps Arrangement between the People's Bank of China and the Central

Bank of Nigeria; and the proposed issuance of dollar-denominated Federal Government of Nigeria bonds.

The Bank was involved in 725 cases, within and outside the country. Of these cases, three (3) were foreign, of which one (1) was withdrawn by the claimant and the Bank was discharged. Of the 722 local cases, 393 were garnishment orders. The others bordered on various issues, arising from disputes on exercise of regulatory powers of the Bank; banking/financial operations; revocation of banking licence and matters regarding the Bank's landed properties; breach of contract; and labour related disputes. In the review period, a total of 140 cases were decided, of which 136 were in favour of the Bank and one (1) against, while 3 cases were referred for settlement out of court. Also, the Bank complied with the Order of the Court by paying the judgment sum to the Judgment Creditor in the remaining three (3) cases.

1.1.7 Security Services

The Bank sustained the application of effective security policies, procedures, processes and embedded good security protocols in the review period. Thus, the Bank researched and adopted security management best practice, deployed security tools and equipment to guarantee asset protection, personnel safety and operational resilience. Surveillance systems were enhanced in all branches of the Bank for improved monitoring, and specialist training on installed equipment conducted. Furthermore, it strengthened collaboration with relevant security agencies, including the Nigeria Police Force (NPF), the Department of State Security Services and the Federal Fire Service, and implemented security measures to mitigate unforeseen threats against the Bank's facilities and operations. In addition, the Bank organised security awareness seminars to enlighten, educate and ensure staff alertness and safety due to heightened security concerns in the country.

To further guard against fire emergencies and complement existing facilities, the CBN upgraded its fire detection and alarm system. It received the Fire Safety Certificate for its Head office, having met the requirements of the National Fire Safety Code of Nigeria.

The CBN provided personal protective equipment for all persons involved in currency movement. It also carried out offsite/onsite monitoring of its profiled service providers, in line with the respective service level agreement (SLA). Furthermore, as part of the strategy to stem the abuse of the naira, the Bank intensified collaboration with the security agencies, to curb counterfeiting, illicit sale and abuse of the currency.

1.1.8 Internal Audit

During the review period, a detailed audit was conducted, involving sixty (60), fifty-nine (59) and eighty (80) audits of departments, processes and branches, respectively. Three hundred and twenty-eight (328) currency disposal operations, requiring audit witnessing, were also completed. At end-December 2017, currency stock taking was conducted, in all branches of the Bank. Also, a capacity development programme was organised for auditees and auditors on the audit management software-Teammate, Interactive Data Explorative Analysis (IDEA), and Caseware monitor solution to ensure smooth auditing process. The deployment of these software provided a standardised audit approach across processes and transactions in the Bank.

1.1.9 Risk Management

The Bank conducted Risk Control Self-Assessment (RCSA) workshops for selected business units, towards strengthening resilience to withstand threats to its operations. The SBUs, thereafter, conducted the assessment of their operations and the outcomes of the exercise were used to initiate risk mitigation actions and update the Enterprise Risk Register.

In addition, Business Continuity Plans (BCPs), which detail alternative working arrangements to be employed in the event of unplanned interruptions to mission critical services, were validated across all SBUs, following the conclusion of departmental business impact analyses (BIA). Furthermore, Information Technology (IT) Disaster Recovery tests were conducted at the Bank's back-up sites, to ensure protection against data loss, thereby guaranteeing the continuity of critical services of the Bank in the event of disruptions at the Head Office.

In the review period, an evaluation of the Bank's cybersecurity risk profile was conducted. The Exercise was aimed at assessing the vulnerability of the Bank's IT assets. Also, to speed up the implementation of the Enterprise Risk Management Framework, the Bank started the development of risk manuals and operational procedures for its risk policies, as well as, guidelines for policy impact assessment.

The Risk Management Committee (RMC) met four (4) times during the review period to evaluate the effectiveness of risk management across the Bank. Also, the CBN hosted a meeting of Chief Risk Officers' (CROs) Forum, comprising the CROs of all banks in Nigeria. The Forum fosters interaction between banking industry operators and regulators in advancing the practice of risk management in the financial sector and aligning regulatory requirements with best practice.

1.1.10 Strategic Initiatives and Business Process Management

The execution of the Bank's corporate strategy continued in the review period, through the collation and preparation of performance reports on a monthly basis. The Bank held series of strategy workshops with internal stakeholders on the five thematic areas of the strategy, to discuss reporting requirements and address issues that could impede smooth implementation. Stakeholders were engaged to highlight data reporting issues and explore ways to address them. The Bank, also, undertook a strategy communication exercise across all branches during the review period, as part of an alignment process, involving motivation of staff towards achieving the strategy. It conducted skills upgrade session for Initiative Managers, aimed at equipping them with requisite skills for managing and overseeing the progress of initiatives in their various business units.

An impact assessment of initiatives from 2012 to end-December 2017 was conducted by the Bank, to track the achievements and highlight learning points. The budgeting process, leading to the consolidation, rationalisation and harmonisation of expenditure items across the SBUs, was sustained. Some special projects in the Bank, including the NIPOST public private partnership

(PPP), aimed at deepening financial inclusion in the country, was also continued.

1.1.11 Communications

The communication channels of the Bank remained active in the dissemination of information to stakeholders and enlightenment of the general public on policies, programmes and other activities of the Bank. The publication of communiqués of the MPC was continued, to uphold transparency and accountability in the conduct of monetary policy in line with global best practice, was continued. In addition, the Bank approved the transmission of MPC Communiqué to the Chairmen of Banking Committees (Senate and House of Representatives) of the National Assembly within 48 hours of its publication. Furthermore, the Bank consistently provided adequate briefing on the state of the economy and the health of the banking system before various committees of the two chambers of the National Assembly.

There were stakeholder engagements with the various committees of the National Assembly, MDAs, educational institutions, the business community and the general public. Specifically, the CBN facilitated retreats for the Senate Committee on Banking, Insurance and Other Financial Institutions in Lagos from May 19 to 20, 2017, and the House of Representatives Committee on Banking and Currency, at the Le-Meridien Ogeyi Place, Port-Harcourt, from August 8 to 9, 2017. The Bank also facilitated oversight visits of the Bank's project locations in Lagos by the House of Representatives Committee on Banking and Currency from February 22 to 23, 2017; and the Senate Committee on Banking, Insurance and Other Financial Institutions from December 14 to 15, 2017.

The Bank embarked on sensitisation campaigns, aimed at educating the public on its key initiatives; such as the cashless policy, Bank Verification Number (BVN), and consumer protection issues. Other developmental schemes covered were: the Micro Small and Medium Enterprises Development Fund (MSMEDF), the Power and Aviation Intervention Fund (PAIF) and the Anchor Borrowers' Programmes (ABP). States visited for the campaigns included: Abia, Anambra, Sokoto, Zamfara, Jigawa, Gombe, Rivers, Cross-River, and Niger. To educate media practitioners on the essence of the ongoing reforms in foreign exchange market, two (2) runs of Chatham House-style stakeholder engagements were held in Lagos and Abuja.

The Bank participated at the Kaduna, Enugu, Abuja and Lagos International Trade Fairs. It won the "Best Participating Financial Institution" and the "Best Participating Government Agency" awards at the Enugu and Abuja fairs, respectively. It also participated at the Niger State Economic and Investment Summit held from August 14 to 15, 2017; MSME clinics sponsored by the Office of the Vice President; the Nigerian Economic Summit and Exhibition from October 9 to 13, 2017; and the Advertising Practitioners Association Abuja Chapter (APAAC) Week and Exhibition, held from October 25 to 26, 2017.

The Bank sustained capacity building for finance correspondents and business editors by organising the Annual Seminar in two runs. The first run was held at Sokoto, Sokoto State, from February 28 to March 3, 2017; while the second run took place at Awka, Anambra State, from August 22 to 25, 2017. Also, the CBN hosted over 90 associations/institutions on educational excursions to its Lagos and Abuja offices.

1.1.12 Anti-Corruption and Ethical Issues

The Bank organised the 2017 Annual Ethics, Compliance and Anti-Corruption seminar for its employees to re-emphasise the consequences of corruption and unethical conduct. The theme for the Seminar was: "Compliance and Ethics Disasters: Prevention and Control".

The CBN received 2,236 scam e-mails and acted promptly to protect unsuspecting people in Europe, South America, Asia and Africa from falling victims of spurious contracts. Fifty-nine (59) complaints were received from members of the public against commercial banks; some of which were handled by the Bank and others referred to the EFCC, for necessary action.

A total of 14 local and foreign calls were received through the whistle-blowing helpline, and treated, accordingly. Employees were sensitised to comply with the Code of Conduct Bureau (CCB) Act on Asset Declaration.

Also, the consciousness of employees was re-awakened on the provisions of the Code of Business Ethics and Conduct (COBEC) and compliance monitored. A total of 5,436 and 6,065 employees of the Bank signed the COBEC Acknowledgment and Oath of Allegiance and Secrecy Forms (Forms EO I and EO III), respectively.

On Anti-Money Laundering and Combating Financing of Terrorism, the CBN AML/CFT Policy and Procedure Manual was developed. Furthermore, the Bank collaborated with internal and external stakeholders and participated at the bi-monthly meetings of the Compliance Officers of Banks in Nigeria (COBIN), where regulatory and law enforcement agencies, concerned with the AML/CFT issues, meet to enhance cooperation among member institutions. The Bank was also represented at the Inter-Ministerial Committee (IMC) on AML/CFT on preparation of the Financial Action Task Force (FATF) High Level Visit (HLV) to Nigeria scheduled for 2018.

The Bank reviewed the draft Code of Practice for the Asset Management Corporation of Nigeria (AMCON). Also, the CBN, in collaboration with the Presidential Enabling Business Environment Committee (PEBEC), implemented the Federal Government Executive Orders (EOs) 1 and 2, as directed by the Presidency.

1.1.13 The Financial System Strategy (FSS) 2020

The CBN engaged all the implementing Institutions to give effect to the execution of the initiatives under the FSS2020 Strategic objectives. It held a maiden FSS2020 Mortgage Market Forum, which led to the setting up of various sub-committees to address issues about the implementation of FSS2020 Initiatives and other mortgage related matters.

During the review period, the Bank participated at the public hearing on the proposed Pension Amendment Bill at the National Assembly. The proposed amendment has the intent to exclude members of the Nigerian Police, Security and Civil Defense Corps, Nigerian Customs Service, Nigerian Prison Services, Nigerian Immigration Services and the Economic and Financial Crimes Commission (EFCC) from the contributory pension scheme (CPS) which is being viewed by the financial system stakeholders as action capable of depleting the Pension Funds, encourage mismanagement of the funds by affected Ministries, Departments and Agencies (MDAs) and other Institutions and facilitate financial exclusion. It also participated in the enlightenment programme on the benefits of the National Collateral Registry (NCR) Act which aimed at improving the capacity of key stakeholders in the activities of NCR. NCR is a critical initiative in enhancing access to credit to MSME. Also, the FSS2020-MSME Sector Forum was inaugurated to serve as a platform for stakeholders' interaction to brainstorm, share knowledge and proffer solutions to the problems bedevilling the sector.

The Bank collaborated with the Financial Reporting Council (FRC) to facilitate the implementation of its initiative on MSME Corporate Governance and Business Standards, engaged the Management of FRC with the aim of creating a platform for FRC and, Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) to develop and implement a simplified corporate governance and standards framework for MSMEs. This will help to establish and provide a one-stop-shop for MSMEs to access relevant information and support for registration, taxation, trade programs, business development support, banking application and business services. The Bank also collaborated with SMEDAN, Bank of Industry (BOI) and Nigeria Export Import Bank (NEXIM) on the establishment of Rating Agency of Nigeria (RAN), that will provide background checks on MSMEs thereby minimizing risk, accelerate cash flow and monitor performance of the MSMEs. Also, effort to strengthen the relationship among FSS2020, SMEDAN and the Nigeria Institute of Leather and Science Technology (NILEST), continued during the review period.

The Financial Markets Forum was held to effectively address the issues and risks arising in the Nigerian Financial Markets, with particular reference to the achievement of the FSS2020 Financial Markets Initiatives. The two sub-committees of the Forum established are the Money Market and Capital Market (Equity and Debt markets). Achievements so far, included: the authorisation of long-term financing product development by PENCOM to broaden the FGN securities market; effective and functional payments system; and the framework and structure for commodities has been established for full take off of the operation of the Commodity Exchange. Furthermore, to provide enabling environment to support development of the commodities market, a Bill for an Act on Warehouse Receipt and other related matters that would enhance financial inclusion of the farming population and improved livelihood of farmers was undertaken.

The Bank continued its advocacy role to expand capital market listing on the Nigerian Stock Exchange (NSE) and strengthen its areas of engagements and collaboration with the National Insurance Commission (NAICOM) to deepen the insurance market and enhance co-operation between operators and the regulators. Also, during the review period, the CBN organised capacity building on industry-wide risk focused programme for staff of regulatory agencies. This is to build the capacity required to effectively perform their supervisory functions in line with the Basel 2 Principles.

1.1.14 The Shared Services Project

The CBN continued its nationwide sensitisation campaign on the Cashless Policy, aimed at encouraging members of the public to adopt alternative means of payment in their daily transactions. The campaign covered 30 states of the Federation, which were not yet under the policy. The Policy was being implemented in some States, namely, Abia, Anambra, Kano, Lagos, Ogun, and Rivers and the FCT.

Also, the Nigeria electronic Fraud Forum (NeFF) led a delegation of industry stakeholders to the Office of the National Security Adviser (ONSA), to assess the capacity of the Nigerian Cert Computer Emergency Response Team (ngCERT) and explore the possibility of the Office partnering with the financial industry. In addition, the NeFF partnered with the Nigeria Communications Commission (NCC), to conduct an industry stakeholders workshop on Cybercrime, and subsequently, on-boarded representatives of all the major TELCOs as members of the NeFF. Similarly, discussions commenced on the creation of an automated system (a shared infrastructure) for real-time exchange of information between banks and the mobile network operators

(MNOs), which will curb the rising incidences of fraud, occasioned by unauthorised Subscriber Identity Module (SIM) swaps and SIM recycle in the country. The infrastructure was proposed to be located at the Nigeria Inter-Bank Settlement System (NIBSS) Office.

During the review period, the NeFF Steering Committee held a retreat in Ibadan, Oyo State, where the payments industry's focus of engagement for 2018 was deliberated and agreed upon. The theme of the Retreat was "Operationalising a Four-Sided Approach to Preventing Fraud". It provided opportunity for dissecting contemporary issues affecting the payments system from four (4) perspectives, namely: Banking; Ecosystem; Law Enforcement; and Telecommunication. At the end of the retreat, an Industry-wide Stakeholders committee was constituted to review issues on ATM-related channels fraud and come up with recommendations for implementation in the first quarter of 2018.

To provide opportunity for a reduction of operating costs and improve the overall efficiency of the Nigerian banking sector, the Bank, in conjunction with the Bankers Committee, accepted the implementation of the shared IT Infrastructure initiatives. The initiatives were: the Shared National Financial Services Network (NFSN); the Shared Power Infrastructure; and the Tier-3 Recovery Data Centre (RDC).

Under the Shared Data Centre Project, the following vendors, namely: MainOne, MTN and Rack Centre, were selected to provide Tier-3 Data Centre Services for the DMBs. In addition, a Master Service Agreement (MSA) was executed between the vendors and the CBN, on behalf of the industry to guide the provision of the Data Centre Services and its usage.

To articulate and define the IT Standards blueprint for industry adoption and improve IT leverage to enhance operating efficiency of banks, the following milestones were achieved:

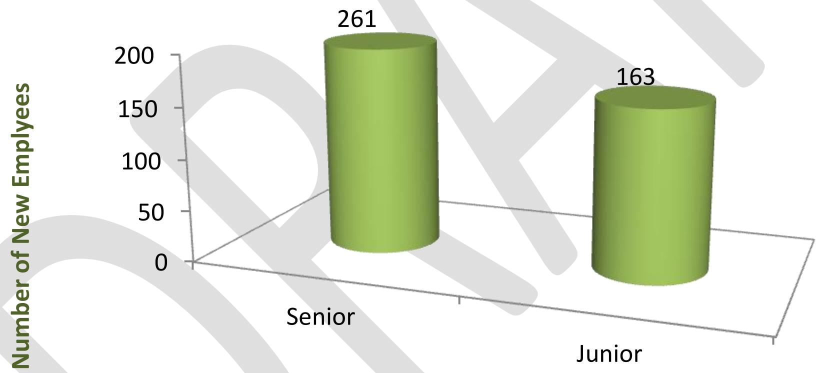
- Developed IT Standards Blueprint for compliance by publishing it on the CBN website;
- Developed Governance Model and processes;

- Inaugurated the IT Standards and Governance Council;
- Carried out the first annual review of the IT Standards Blueprint;
- Conducted IT Standards baseline Audit for IT Infrastructure Library (ITIL) and the ISO 27001 and ISO 8583; and
- Conducted IT Standards remediation exercise for gaps identified in the baseline audit.

1.1.15 Staff

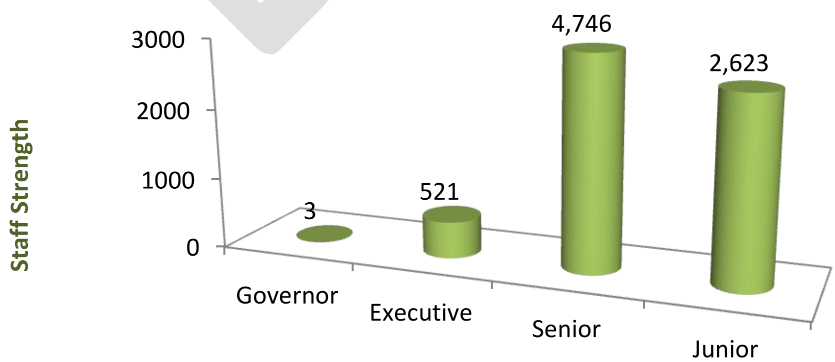
The Bank lost the services of two hundred and fifty-four (254) staff through the following modes of exit: voluntary retirement, thirty-eight (38); compulsory retirement, two (2); mandatory retirement, 143; withdrawal of service, four (4); resignation, sixteen (16); and death, twenty-two (22). The appointments of five (5) staff were terminated; seventeen (17) were dismissed; and the services of seven (7) contract staff were determined.

Figure 1.1: Recruitment of New Employees in 2017



Source: CBN

Figure 1.2: Staff Strength by Category and Gender at end-December, 2017



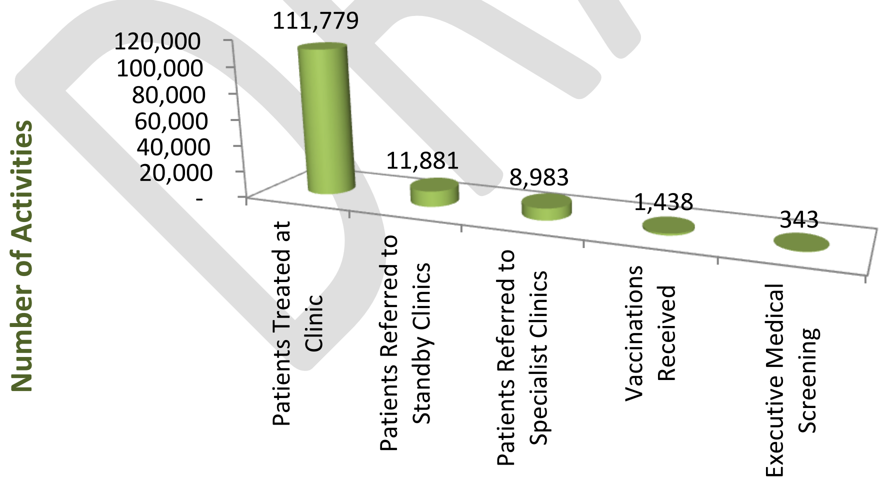
Source: CBN

1.1.16 Medical Services

The Bank provided various medical services to sustain a healthy and productive workforce. A total of 111,779 cases, involving staff and their dependants were attended to at the Bank's staff clinics. Of these cases, 11,881 were referred to the various stand-by hospitals, while sixty-five (65) staff/dependants were treated overseas for conditions that could not be handled locally. 1,438 cerebrospinal meningitis (CSM) vaccines were administered to staff and dependants before the usual epidemic period of hot weather between March and May. A total of 2,198 routine immunisation was administered to staff children. Pre-employment screening was carried out on 924 candidates. One thousand, six hundred and fifty (1,650) staff and 191 dependants participated in the Health talk sessions, while 279 staff attended aerobic sessions in Abuja.

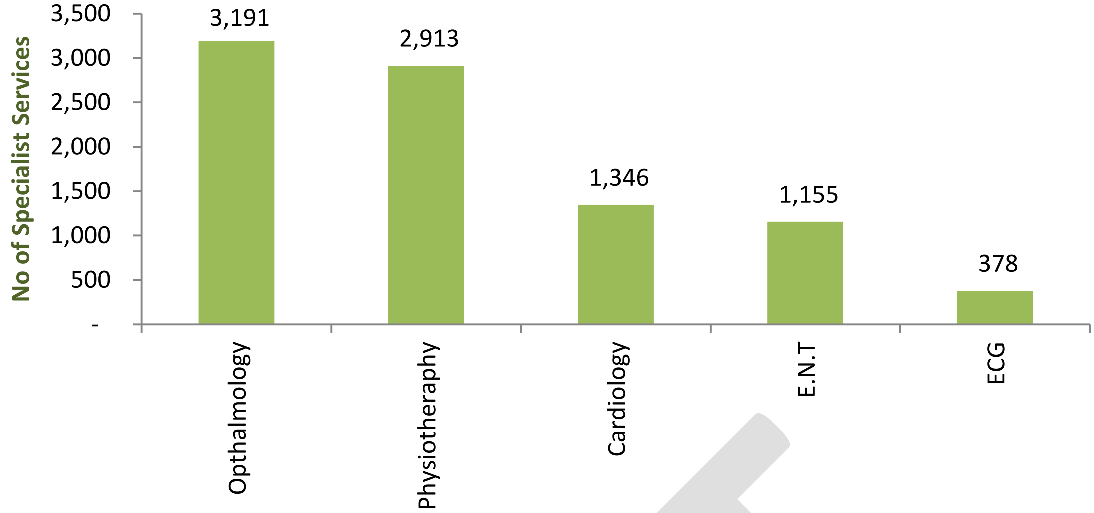
Of the five (5) in-house specialty clinics, ophthalmology had the highest attendance of 3,191, followed by physiotherapy with 2,913 and ECG had the least attendance of 378. Furthermore, the Bank sponsored 343 executives for comprehensive medical screening.

Figure 1.3: Staff Clinic Activities, 2017



Source: CBN

Figure 1.4: Specialist Medical Services, 2017

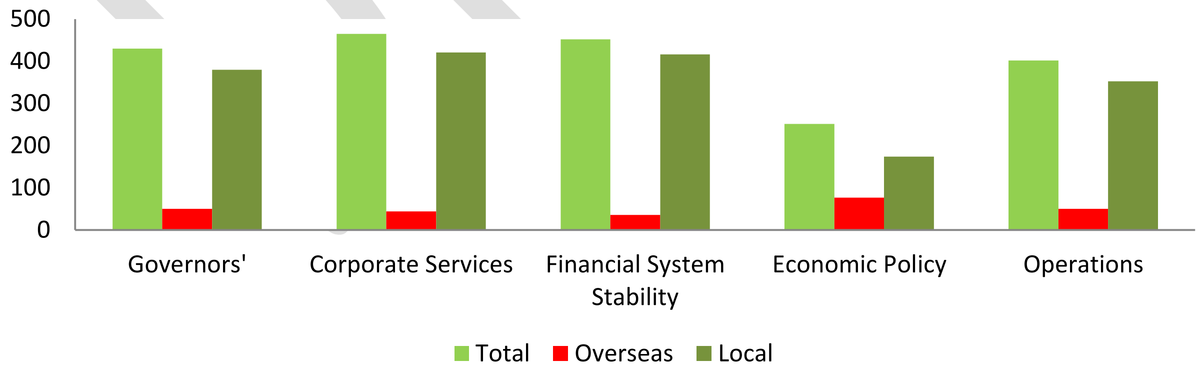


Source: CBN

1.1.17 Training

In line with the Bank's manpower development strategy, 2,725 staff participated in 227 training programmes in the review period. The training distribution pattern of the five (5) Directorates of the Bank showed that the Corporate Services Directorate recorded the highest with 465; followed by the Financial System Stability with 452; while the Economic Policy Directorate recorded the least with 251. Also, 248 new appointees/hires participated in induction courses.

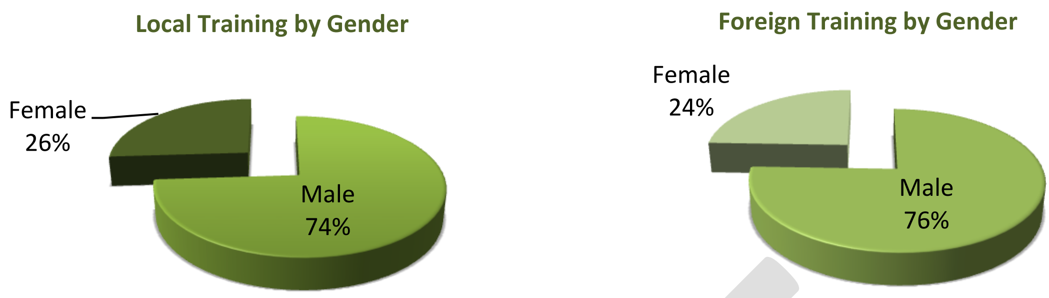
Figure 1.5: Local and Foreign Training Distribution by Directorate, 2017



Source: CBN

Analysis of local training slots by gender indicated that male staff had 1,683 training, while the female counterparts had 591, representing 74.0 and 26.0 per cent, respectively. Similarly, 241 male and seventy-eight (78) female staff participated in foreign training programme during the review period, indicating 76.0 and 24.0 per cent, respectively.

Figure 1.6: Local and Foreign Training Distribution by Gender, 2017



Source: CBN

1.1.18 The International Training Institute (ITI)

The Bank developed the framework to support staff development in specialised fields and other professional programmes such as the Certified Financial Analyst (CFA) certification. Also, in-house courses were developed on: self-leadership series, to address identified soft skill gaps; achieving peak performance for junior cadre; achieving peak performance for drivers; and understanding leadership for first line supervisors (Senior Supervisors – Deputy Managers).

In 2017, the Bank instituted soft skills training on: Leadership Development; Inspirational Leadership for Executives; CBN Analyst Boot Camp for Middle Level Managers; and Lean Management for Branch Controllers and Executives. Others were: Meeting Management and Minute Writing for Senior and Executive staff; Management Development; Pre-Retirement training; and diversified SkillSoft e-Learning platform for all staff.

In the review period, the ITI delivered seventy-four (74) training programmes. The programmes were hosted in partnership with notable institutions such as: the Federal Reserve Bank of America (FRB), the International Monetary Fund (IMF), the West African Institute for Financial and Economic Management (WAIFEM), the Lagos Business School (LBS), the Association for Talent Development (ATD), USA and Myers-Briggs Type Indicator (MBTI) institute. Twenty-four (24) Bank staff were certified as Myers-Briggs Type Indicator (MBTI) professionals in the review period. The ITI witnessed increased participation from other African central banks and MDAs, namely, Ghana, The Gambia, Lesotho, Liberia, Zimbabwe, Swaziland, Kenya, Malawi and the African Export Import Bank (AFREXIM), Egypt, as well as, the Nigerian Immigration Services (NIS), Nigerian Export-Import Bank (NEXIM), the Nigerian Association of Chamber of Commerce, Industry, Mines and Agriculture (NACCIMA), the Nigerian Maritime Administration and Safety Agency (NIMASA), Nigeria Technical Cooperation Fund (NTCF), the Nigerian Ports Authority (NPA), Ministry of Industry, Trade and Investment, Ministry of Foreign Affairs and the Standards Organisation of Nigeria (SON).

Furthermore, the Institute in 2017 commenced live streaming of the capacity development programmes with the 2017 Executive Seminar held in Lagos and launched the CBN Open On-line Learning (COOL).

1.1.19 Staff Promotion

To boost morale and enhance performance, the Bank promoted 1,633 staff in the review period. This comprised executive (334), senior (814) and junior (485).

1.1.20 Corporate Social Responsibility (CSR)

The Bank continued its corporate social responsibility through capacity building and the provision of financial and other forms of assistance to institutions and organisations. One hundred and sixty-six (166) project requests for financial assistance were received and processed in the review period. Of this number, sixty-seven (67) projects, spread across the six geo-political zones of the country, were approved, resulting in the disbursement of ₦291.5 million, compared with 271 projects valued at ₦269.5 million in 2015. Further analysis of the projects indicated that thirty-five (35) focused on community development; health care, twelve (12); education and research, eleven (11); women and youth empowerment, six (6); and sports development, three (3).

1.1.20.1 Recreational Activities

The Bank, in collaboration with relevant stakeholders, sponsored various competitions in line with its corporate social responsibility focus. These included lawn tennis, football and golf competitions. The 12th Edition of the

CBN Junior Tennis Tournament was held in Lagos from March 20 to 25, 2017. Similarly, the 39th CBN Senior Open Tennis Championship was held in Lagos from May 24 to June 3, 2017. The Bank also sponsored the 11th Edition of the CBN Governor's Golf Tournament, which took place at the IBB International Golf and the Country Club, Abuja, on November 25, 2017.

Unity Bank Plc Football Club won the final of the 31st All Financial Institutions Football Competition held in Lafia, Nasarawa State, on October 28, 2017. Similarly, the Lagos Branch of the CBN won the final of the 37th edition of the Governor's Cup Football Competition for all CBN branches, held at the Pantami Stadium, Gombe, Gombe State, on August 5, 2017. Staff continued to patronise the workplace gymnasia at the Bank's Corporate Head Office, Abuja and some branch offices.

1.1.20.2 Special Intervention Projects under CSR

Pursuant to the objective of providing learning support infrastructure for universities and secondary schools across the country, the Bank completed the construction of facilities for the following institutions in the review period: Boys Secondary School, Awkunanu, Enugu State; Anambra State University, Uli; Rumfa College, Kano, Kano State; and Government Science College, Badarawa, Kebbi State. Others included: Community Secondary School, Dukku, Gombe State; Federal Science and Technical College, Otukpo, Benue State; Cross River State University of Technology, Calabar; Bishop Phillips Academy, Ibadan, Oyo State; Lisabi Grammar School, Abeokuta, Ogun State; and Oyo State University of Technology, Ibadan.

1.1.21 Staff Social Responsibility

Staff of the Bank sustained support for the less-privileged in the society through regular contributions to the CBN Staff Alms Fund (C-SAF). A total of ₦53,539,704.89 was realised in 2017. A committee was constituted to work with the Board of Trustees (BOT), for the identification, selection and execution of projects for 2018.

1.1.22 Nigerian Sustainable Banking Initiatives

The Bank sponsored the Sustainability Award for commercial banks, to encourage them to effectively implement the sustainable banking principles. The Annual International Women Day and the World Environment Day were celebrated on March 8, and June 6, 2017, respectively. In addition, the Bank engaged a consultant to collate and submit data on green house gas (GHG) emission for an audit of its Head Office building.

1.2 RESEARCH AND COLLABORATIVE ACTIVITIES

The CBN conducted research and collaborative studies, and disseminated information on key issues relating to the Nigerian economy. The regular publications of the Bank were sustained in the review period. These included the: 2016 Annual Report; the 2017 Half-Year Economic Report; the Monetary Policy Review; the bi-annual Financial Stability Report; the Quarterly CBN Economic and Financial Review; the biennial CBN Briefs; the Education in Economics Series; the 2016 Statistical Bulletin; and the bi-annual CBN Journal of Applied Statistics. Others included: the Proceedings of the FLAC and the MPIC; occasional paper series and the CBN Bullion.

The Bank conducted research and collaborative studies, and disseminated information on key issues relating to the Nigerian economy, through its various publications.

The Bank also collaborated with the National Bureau of Statistics (NBS) to conduct the 2017 Household, Finance, Consumption and Remittance Survey.

The Bank honoured requests to present papers and facilitated training programmes, including those from the Nigeria Deposit Insurance Corporation (NDIC), the Chartered Institute of Bankers of Nigeria (CIBN), the West African Institute for Financial and Economic Management (WAIFEM), the West African College of Supervisors (WACS), the Association of African Central Banks (AACB), and the International Monetary Fund (IMF). Also, staff presented papers at professional conferences, nationally and internationally, including those of the African Econometric Society, the Nigerian Economic Society (NES), and the Nigerian Statistical Association (NSA).

BOX 1: ENHANCING MACROECONOMIC MODELING TOOLKIT AT THE CENTRAL BANK OF NIGERIA

In recent years, the Central Bank of Nigeria has relied on a suite of models for evidence-based information and forecasts to guide policy decisions. However, the dynamics of macroeconomic variables and delays in data publication have resulted in difficulties of forecasting multivariate time series, such as output growth and external balance. Thus, the Factor-Augmented Vector Autoregressive (FAVAR) model for forecasting GDP and its oil and non-oil components, as well as, the Nowcasting model for external balances were the new additions to the macroeconomic modeling toolkits during the year.

Prior to 2017, efforts were made to develop a FAVAR model for scenario and simulation analysis of monetary policy. However, the forecasting potential of the model was not explored. Thus, the model was revisited, re-estimated and simulated to forecast the various components of the Nigerian Gross Domestic Product (GDP) within a data-rich environment. GDP was decomposed into oil and non-oil components, to be able to provide robust information on the two key drivers of output, so as to guide adequately the decision-making process of the MPC.

Similarly, the development of a nowcasting model was aimed at obtaining "early estimates" of key components of the external balance - current account balance and balance of payments - from the underlining unobserved factors, before the official figures are released. Four (4) variants of the 6-variable dynamic factor model were estimated for current account balance (CAB) and balance of payments (BOP). The common factor for CAB was derived from five macroeconomic variables; namely, trade balance, exchange rate, remittances, index of industrial production and crude oil prices. The common factor for BOP was obtained from trade balances, reserves, debt services, remittances and treasury bill rate.

These new models have proved to be useful in predicting output and external balances, as well as their key components and would further help in providing forward guidance in the decision-making process of the Management of the Bank and members of the MPC.

1.3 THE CBN BALANCE SHEET

1.3.1 Income and Appropriation

The audited financial statements of the CBN for the year ended 31st December, 2017 indicated that total income was ₦2,165.10 billion, compared with ₦1,675.81 billion in 2016. At ₦400.46 billion, net operating income showed a 38.8 per cent decrease below the ₦654.87 recorded in 2016. The decrease in net operating income was as a result of fair value loss on financial instruments. The fair value loss thereby brought about a reduction of the net income for 2017 to ₦70.17 billion, compared with ₦104.93 in 2016. In line with the provisions of the *Fiscal Responsibility Act 2011*, 20.0 per cent of the net income will be credited to retained earnings (reserves), while the balance will be paid to the Federal Government.

1.3.2 Assets and Liabilities

The size of CBN's balance sheet expanded further in 2017 as total assets/ liabilities increased by 35.0 per cent to ₦29.31 trillion. The increase in assets resulted mainly from External Reserves, Loans and Receivables, holdings of SDR and Quota in the IMF. The corresponding increase on the liability side resulted mainly from increased CBN issued instruments, increased IMF and other liabilities.

CHAPTER TWO

MONETARY POLICY, SURVEILLANCE ACTIVITIES, AND OPERATIONS OF THE CBN

Monetary policy remained non-accommodative, reflecting developments in 2017, following the global and domestic economic and financial environment. On the domestic scene, the key developments were: fragile economic growth and recovery from recession; continued pressure on the exchange rate; persisting banking system liquidity surfeit; high but gradually declining inflation rates; and low fiscal buffers but with improving foreign receipts from higher international crude oil prices. Developments on the global front included: sluggish recovery; continuing BREXIT uncertainty and protectionist sentiments from the new US president; continued volatility in the global financial market; and sustained monetary policy divergence in the advanced economies. The MPR was maintained at 14.0 per cent throughout the year, along with the asymmetric corridor of +200 and -500 basis points, around the MPR. Also, the CRR and LR were retained at their respective rates, of 22.5 and 30.0 per cent, to sustain the potency of previous monetary policy measures. Growth in monetary aggregates was moderate in the review period and remained below indicative targets for the year. Interest rates were high generally, and mirrored broadly liquidity conditions in the banking system. Open Market Operations (OMO) remained the primary tool for liquidity management, complemented by reserve requirements, repurchase transactions and interventions in the foreign exchange market. Additionally, the Bank sustained its supervisory and surveillance activities to safeguard the stability and soundness of the financial system. The progress made in the payments and settlement system was sustained. Also, the development finance interventions of the Bank remained active in 2017, strengthened by the Anchor Borrowers' Programme.

2.1 MONETARY OPERATIONS

2.1.1 Monetary and Credit Developments

Monetary policy remained non-accommodative in 2017, reflecting developments in the global and domestic economic and financial environment. On the domestic scene, the key developments were: fragile economic growth signposting recovery from recession; continued pressure on the exchange rate; persisting banking system liquidity surfeit; high but gradually declining inflation; and low fiscal buffers but with improving foreign receipts from higher international crude oil prices. Developments on the global front included: sluggish recovery; continuing BREXIT uncertainty and protectionist sentiments from the new US president; continued volatility in the global financial market; and sustained monetary policy divergence among the advanced economies. To encourage foreign inflow to stabilise the exchange rate and enhance the flow of credit to the real economy, the MPR was maintained at 14.0 per cent, throughout the year, along with the asymmetric corridor of +200 and -500 basis points around the MPR. Also, the CRR and LR were retained at, their respective rates of, 22.5 and 30.0 per cent.

Growth in monetary aggregates was moderate at the end of the review period. Broad money supply (M_2) grew by 1.7 per cent at end–December 2017, compared with the growth of 17.8 per cent at end-December 2016 and the 10.3 per cent programmed benchmark for 2017. The slow growth in M_2 reflected the 3.7 and 34.3 per cent decline in net domestic credit and other assets (net) of the banking system, respectively, which offset the 61.9 per cent increase in net foreign assets of the banking system. The corresponding drag in monetary liabilities reflected the 2.1 per cent decline in narrow money supply (M_1), as quasi money grew by 5.2 per cent.

Aggregate credit to the domestic economy (net) declined by 3.7 per cent below the level at end-December 2016 and the indicative benchmark of 17.9 per cent for fiscal 2017. The decline in aggregate credit was attributed to the 26.7 per cent decrease in net claims on the Federal Government, as claims on the private sector grew marginally by 1.4 per cent.

Reserve money grew by 10.7 per cent year-on-year, and was lower than the programmed benchmark of 11.4 per cent for fiscal 2017. The development reflected significant growth in net foreign assets of the Bank, owing to increased holding of foreign currencies, arising from improvement in oil export, foreign exchange reforms, as well as, external borrowing. The corresponding upward movement in monetary liabilities reflected, wholly, the 16.5 per cent growth in bank reserves, while currency-in-circulation declined by 1.0 per cent at end-December 2017.

Table 2.1 : Key Policy Targets and Outcomes, 2013- 2017 (per cent)

	2013		2014 1/		2015 1/		2016 1/		2017 2/	
	Target	Outcome	Target	Outcome	Target	Outcome	Target	Outcome	Target	Outcome
Growth in base money	66.26	37.41	21.28	16.52	16.78	-1.99	13.21	0.61	11.41	10.70
Growth in broad money (M_2)	15.20	1.32	15.02	20.55	15.24	5.90	10.98	17.78	10.29	1.74
Growth in narrow money (M_1)	17.44	-5.23	16.23	-1.82	9.91	24.14	11.34	31.50	11.07	-2.09
Growth in aggregate bank credit	23.58	14.47	28.40	32.60	29.30	12.13	17.94	24.27	17.93	-3.70
Growth in bank credit to the private sector	17.52	6.86	23.07	11.95	26.06	3.28	13.38	17.42	14.88	1.40
Inflation rate		8.00		8.00		9.55	11.90	18.55	10.71	15.37

Source: CBN
1/ Revised
2/Provisional

2.1.2 Liquidity Management

Liquidity surfeit persisted in the Banking system In 2017, arising from maturing OMO bills, Paris Club refunds, bailouts of state governments and increased statutory revenue and Value Added Tax (VAT) receipts shared by the Federal and subnational governments. The improved disbursement was buoyed by receipts from increased international prices of crude oil. The broad thrust of liquidity management remained the achievement of monetary and price stability by ensuring optimum banking system liquidity, conducive to sustainable economic growth. Thus, a non-accommodative monetary policy was pursued in 2017, to rein-in liquidity, support domestic yields, and attract foreign capital inflow. Accordingly, a range of policy measures were to promote the efficient functioning of the financial markets, encouraging foreign inflow and enhancing the flow of credit to the real economy. These measures included the maintenance of: Monetary Policy Rate (MPR) at 14.0 per cent; Cash Reserve Ratio (CRR) at 22.5 per cent; Liquidity Ratio (LR) at 30.0 per cent; and the Asymmetric corridor of +200 and -500 basis points around the MPR, throughout the year. These policy parameters were sustained because of time lag effect of monetary policy to transmit into the real sector of the economy, and achieve desired results.

Furthermore, the net foreign currency trading position limit of 0.5 per cent was maintained to continue limiting banks' exposure to the foreign exchange market, in the face of adverse developments in the external environment. Following increased pressure on the exchange rate, the Bank established special windows for access to foreign exchange by eligible small and medium enterprises and for invisible transactions, as well as introduced the Investors' and Exporters' (I&E) foreign exchange window. These measures were supported and strengthened by the Bank's sustained interventions in the secondary market to increase liquidity and stabilise the exchange rate. Nonetheless, open market operations (OMO) remained the main instrument of liquidity management by the Bank, and was conducted frequently to rein-in liquidity, complemented by macro-prudential requirements, standing facilities, and tenored repurchase transactions.

Monetary policy measures in 2017 resulted in moderation of: banking system liquidity; pressure on the exchange rate and domestic prices. However, the key monetary aggregates performed below their benchmarks, following the contraction of aggregate credit to the economy (due to substantial contraction in net claims on the Federal Government) and the tight monetary policy stance that prevailed during the year. Net foreign assets of the banking system increased significantly by 61.7 per cent, as against the programmed contraction of 29.1 per cent, occasioned by improvements in foreign investments and international crude oil prices. With its increase by 10.8 per cent to ₦6,477.60 billion, from the level at end-December 2016, reserve money (RM) at end-December 2017 was only 1.56 per cent below the indicative benchmark of ₦6,580.39 billion. Consequently, headline inflation (year-on-year) moderated substantially to 15.37 per cent in 2017 from 18.55 per cent in the preceding year.

2.1.3 Interest Rate Policy and Developments

Interest rates movement reflected the credit and liquidity conditions in the banking system and the Bank's monetary policy stance in the review period. Consistent with the restrictive monetary policy stance, the monetary policy rate (MPR) and the cash reserve ratio (CRR) were retained at 14.00 per cent and 22.50 per cent, respectively. In addition, the asymmetric corridor around the MPR was retained at +200/-500 basis points throughout the period. Other factors contributing to the behaviour of interest rates during the year were: the fiscal operations of the Federal Government; effects of the adjustment in the CRR maintenance period; banks settlement for the foreign exchange interventions; and increased frequency of liquidity withdrawals through the sale and maturity of CBN bills.

2.1.3.1 Money Market Rates

Money market rates in the review period were generally higher than their levels in the preceding year.

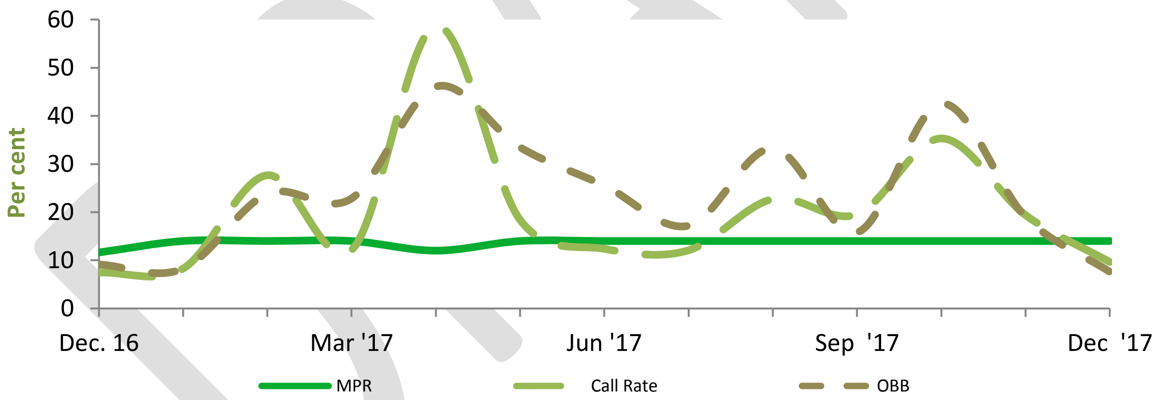
Money market rates generally rose, relative to their levels in the preceding year, which reflected the non-expansionary policy stance of the Bank. The weighted annual average inter-bank and Open-Buy-Back (OBB) rates were 21.29 and 24.58 per cent, compared with 14.31 and 10.95 per cent respectively, in 2016. The weighted monthly average inter-bank call rate ranged from 8.29 to 58.73 per cent, while the average monthly OBB ranged from 7.59 to 46.07 per cent within the same period.

Table 2.2 : Money Market Rates (Per cent)

WEIGHTED AVERAGE				
Month	MPR	Call Rate	OBB	NIBOR 30-day
Dec-16	14.00	11.62	7.45	9.13
Jan-17	14.00	8.29	8.26	10.64
Feb-17	14.00	27.68	23.81	26.78
Mar-17	14.00	12.14	22.85	19.61
Apr-17	14.00	58.73	46.07	52.74
May-17	14.00	18.40	33.46	27.75
Jun-17	14.00	12.37	25.53	26.03
Jul-17	14.00	12.08	17.18	17.90
Aug-17	14.00	22.73	33.27	26.38
Sep-17	14.00	19.55	15.80	19.11
Oct-17	14.00	35.31	42.55	39.24
Nov-17	14.00	19.38	19.00	20.02
Dec-17	14.00	9.64	7.59	16.32
Yearly Average (2017)	14.00	21.36	24.61	25.21
Yearly Average (2016)	12.83	14.31	10.95	14.29

Source: CBN

Figure 2.1: Money Market Rates (per cent), 2017



Source: CBN

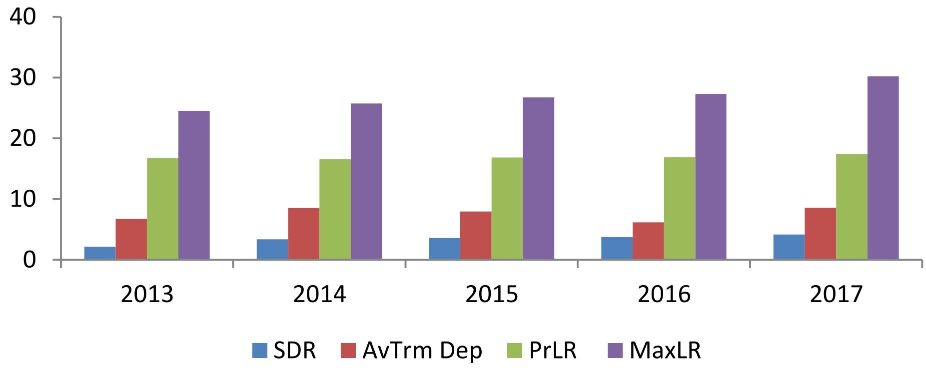
2.1.3.2 Deposit Rates

Average term deposit rate for the year rose by 2.42 percentage points to 8.60 per cent in 2017, compared with 6.18 per cent in 2016.

2.1.3.3 Lending Rates

The weighted average prime and maximum lending rates rose by 0.52 and 2.89 percentage points, to 17.39 and 30.18 per cent, respectively, in 2017, compared with 16.87 and 27.29 per cent in 2016.

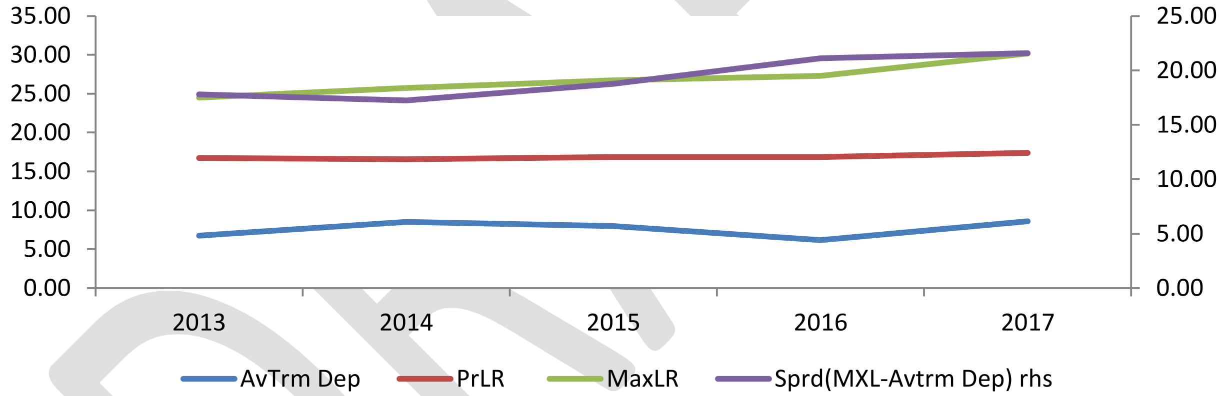
Figure 2.2: Average Savings, Prime and Maximum Lending Rates, 2013 - 2017



Source: CBN

Consequently, the spread between the average term deposit and maximum lending rates widened marginally to 21.58 percentage points, in the review year, from 21.11 percentage points in 2016.

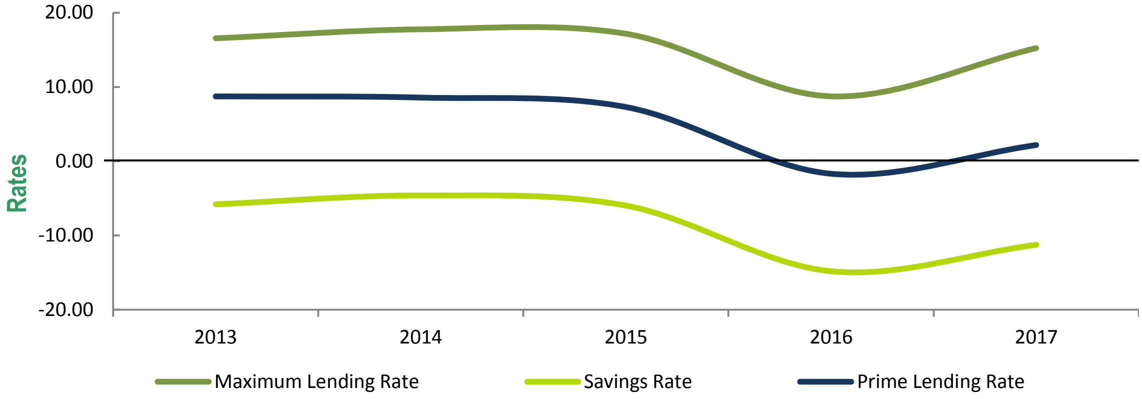
Figure 2.3: Spread Between the Average Term Deposit and Maximum Lending Rates, 2013-2017



Source: CBN

With the headline year-on-year inflation at 15.37 per cent at end-December 2017, all the deposit rates were negative in real terms, while the prime and maximum lending rates were positive.

Figure 2.4: Real Interest Rates, 2013 - 2017



Source: CBN

2.1.4 Developments in the Payments System

To consolidate the progress achieved in modernising the payments system, the Bank re-enforced the implementation of existing initiatives and introduced new ones to foster innovation. The major activities in the review period were as follows:

2.1.4.1 The Bank Verification Number (BVN) Scheme

The successful implementation of BVN continued to impact positively on fraud prevention and ensure the safety of the Nigerian Payments System. Law Enforcement Agencies continued to leverage on the Scheme to facilitate investigation of criminal cases, involving transfer of funds, and other stakeholders as credible means of identification to authenticate customers and prevent possible fraud.

During the review period, the Framework for Bank Verification Number (BVN) Operations and Watch-List for the Nigerian banking industry were issued to address incidence of frauds and other unethical practices by bank's customers, with a view to engendering public confidence in the financial system. The Watch List is a database of bank's customers identified by their BVNs, who have been involved in confirmed fraudulent activities. As part of the strategy to ensuring that the objectives of BVN implementation in Nigeria were achieved, DMBs were required to comply with the following directives:

- All bank customers should have BVN by end-December, 2016. Bank accounts without BVN should be placed on "Post No Debit";
- Invalid BVNs linked to customers' accounts should either be corrected or delinked; and
- Mismatched names between the BVN platform and Core Banking Application (CBA) of banks should be corrected.

The Report of the compliance monitoring exercise showed that all the Banks complied with "Post No Debit" directive for accounts without BVN, 17 banks had some invalid BVNs and 20 banks had some mismatched names on BVN and core banking applications. The causes of invalid BVNs were deletion of BVNs after linkage, linking of BVN to accounts without validation and typo error while linking BVN to accounts, manually. Also, the mismatched names were identified to include kids accounts that were linked to their parent's BVN, correction of name at enrolment bank after other banks had linked the BVN with the old name and typo error at the enrolment bank.

Furthermore, the BVN initiative was extended to Other Financial Institutions (OFIs), to void a broken identity link in the banking system. A deadline of end-December 2017, was given to customers of OFIs to have their BVNs. Also, effective from **January 1, 2017**, the extension granted to Nigerian bank customers in the diaspora and security personnel, who were on special assignment to complete their BVN enrolment, would lapse.

At end-December 2017, 31,426,091 bank customers had registered under the scheme with 43,959,282 accounts linked out of 66,974,029 active customer accounts.

2.1.4.2 e-Dividend Mandate Management Portal

The implementation of the e-dividend Mandate Management Portal was intensified in 2017. The objective of the Project was to increase the efficiency of dividend payment and reduce the level of unclaimed dividends in Nigeria.

During the review period, the Securities and Exchange Commission (SEC) extended the deadline for stoppage of issuance of physical dividend warrants in the nation's capital market to December 31, 2017. The free registration for e-dividend also expired on December 31, 2017. This implies that, from January 1, 2018, all Investors who were yet to enrol/register (i.e. yet to mandate their Bank Accounts for dividend collection), would be charged a marginal fee of ₦150 (One hundred and fifty Naira only), per approved and uploaded mandate.

2.1.4.3 Nigeria electronic Fraud Forum (NeFF)

The Forum remained the main collaboration platform for managing electronic fraud in Nigeria. Seminars and workshops were organised for exchange of information on key security issues affecting the payments industry. The 2016 Annual Report of the Forum, titled "A Changing Payments Ecosystem: The Security Challenge", was unveiled at a workshop organised during the year.

The Forum's Steering Committee retreat, titled "Operationalising a Four-Sided Approach to Preventing Fraud", was held during the year. The Retreat provided opportunity for analysing contemporary issues affecting the payments system from four (4) perspectives, namely: Banking; Ecosystem; Law Enforcement; and Telecommunications.

The number of fraud cases increased by 28.0 per cent to 25,043 at end-December 2017, but actual losses declined by 24.0 per cent relative to that of 2016.

Table 2.2a : Number and Value of e-Fraud in 2017

Year	No of Fraud	Attempted Fraud Value (₦)	Actual Loss Value (₦)
2017	**25,043**	**4,034,258,639.07**	**1,631,680,256.85**
2016	**19,531**	**4,368,437,371.64**	**2,196,509,038.78**

Source: CBN

2.1.4.4 Authorised Signature Verification Portal

The Authorised Signature Verification Portal developed by the Nigeria Inter-Bank Settlement System (NIBSS), with the primary objective of digitising the manual signature booklet for authenticating the validity of authorised signatures, was initiated by the CBN for internal use. The Project went live in 2017 and relevant staff were trained to enable them update signatories, verify mandates and manage the operations of the portal, efficiently.

2.1.4.5 Accreditation of Cheque Printers

The Bank, in collaboration with the MICR Technical Implementation Committee, conducted the yearly accreditation of Nigeria cheque printers for the year 2017. At the end of the exercise, the five accredited security printing companies, namely: Nigerian Security Printing and Minting Plc; Tripple Gee and Company Plc; Superflux International Limited; Papi Printing Company Limited; and Euphoria Group Limited, were re-accredited.

2.1.4.6 Nigerian Cheque Standards (NCS) and Nigerian Cheque Printers Accreditation Scheme (NICPAS)

The revised Nigeria Cheque Standards was exposed to key stakeholders for feedback. Notable changes in the revised Standards included: introduction of QR code for faster verification of cheque details; inclusion of expiry date of printed cheque booklet; and identification of clear zone at the back of the cheque. The objective of the revised Standards was to increase the efficiency and safety of the cheque clearing system.

2.1.4.7 Nigerian Automated Clearing System (NACS) Upgrade

The NIBSS, in collaboration with key stakeholders, successfully upgraded the Nigeria Automated Clearing System (NACS), to support a near real time online processing and better central image archive for the industry. The upgrade would further reduce the cheques clearing cycle from the present T + ! to T + 0, otherwise referred to as express clearing.

2.1.4.8 Electronic Payments Incentive Scheme (EPIS)

The implementation of the Electronic Payments Incentive Scheme was sustained in the year under review. The contributions of stakeholders in the electronic payments landscape were rewarded through the 2016 Electronic Payments Efficiency Award, held in February 2017. The performance of stakeholders, as well as, users, were evaluated, based on set parameters for various categories.

In the course of the year, stakeholders were called for a review of the Point-Based Loyalty Scheme and the CBN acceded to the request. The new Point Based Loyalty Scheme was expected to improve participation by users, cover more payment channels and enhance the level of redemption of accumulated points by users. The new model is expected to be presented by the NIBSS to the Bank in 2018 for necessary approval and implementation.

2.1.4.9 Aggregator Model

To engender healthy competition and ensure effective service delivery, the TSA payments gateway model was modified to accommodate other service providers. The aggregator model was developed to bring in more players into the e-collection process, thereby providing level playing field for all the payments service providers (PSPs), of which the NIBSS was appointed as the Aggregator. The Initiative is being driven by the Federal Ministry of Finance (FMF), with the OAGF, as the implementing agency, in active collaboration with the Bank.

2.1.4.10 Licensing and Approval of Other Payments Schemes/Products

One new operating licence was issued to a payment solution service provider while two were renewed. Similarly, a new licence was granted to a mobile money operator and one other renewed.

The status of all categories of licences issued to players in the payments ecosystem at end-December 2017 is as follows:

Table 2.2b : Licensed Players in the Payments Ecosystem in 2017

S/N	Payment Service Providers	Number of Operators
1	Mobile Money Operators	23
2	Card Scheme	4
3	Super-Agent	1
4	Payment Solution Service Providers	9
5	Switches	6
6	Third Party Processors	3
7	Payment Terminal Service Providers	18

Source: CBN

2.1.4.11 Payments System Vision 2020 (PSV 2020)

During the review period, the following activities were carried out towards the implementation of the key recommendations outlined in the Payments System Vision 2020 Strategy Document (Release 2):

- The statements of payment finality for the four payment schemes (RTGS, Card, Mobile and ACH, Cheque & Instant Payments) in Nigeria were issued and defined the specific point at which payments are deemed to be final and irrevocable, such that the principle of 'unwind', cannot be invoked;
- The Smart City Policy Framework was finalised and transmitted to the National Information Technology Development Agency (NITDA) for implementation;
- The Agriculture Initiative Working Group partnered with the Lagos State Government for the financial inclusion of farmers in the fish, poultry, vegetables and rice value-chains, with a project target of over 100,000;
- The CBN continued to engage the Bank for International Settlement (BIS), regarding a more active role for Nigeria in its activities. A team,

led by the Governor, attended the BIS 2017 Annual General Meeting held in June 2017, at Basel, Switzerland;

- A review of the Regulations on Banking Operations in the Free Zones in Nigeria, to address the concerns raised by banks operating in the zones; and
- The Payment Scheme Boards intensified work on the review of the Collateral Management arrangement for settlement banks in Nigeria.

Pursuant to the objectives of the Payments System Vision 2020, four (4) sub-groups were constituted to:

- Recommend a model, based on confidence factor, for the new collateral management system, the processes required to collate data from the various sources and the frequency of reporting;
- Develop the approach to implement and enforce real-time position management and centralized collateral pool;
- Determine the specific point at which a participant would be required to become a direct member of the settlement system; and
- Develop the business case for multiple clearing cycles and weekend or public holidays RTGS operations.

2.1.4.12 e-Payment Transactions

The volume and value of electronic payments in 2017 rose by 60.0 and 39.7 per cent to 1,478.5 million and ₦99,292.3 billion, respectively, compared with 941.8 million and ₦71,100.00 billion in 2016.. The rise was attributed to increased consumer awareness and confidence in e-payment channels.

Table 2.3 : Breakdown of e-Payment Transactions in 2017

Channels	Volume	Value (₦)	Proportion in Volume (Per cent)	Proportion in Value (Per cent)
NEFT	31,034,624	14,946,463,879,672.40	2.10	15.05
ATM	800,549,099	6,437,592,402,748.64	54.15	6.48
POS	146,267,156	1,409,813,091,608.35	9.89	1.42
INTERNET(WEB)	28,991,097	184,596,629,926.57	1.96	0.19
MMO	47,804,561	1,101,998,974,555.00	3.23	1.11
NIP	370,870,672	56,165,666,312,858.10	25.08	56.57
m-CASH	77,832	616,936,468.57	0.01	0.00
EBILLSPAY	905,941	550,750,791,543.15	0.06	0.55
REMITA	39,706,264	13,529,495,515,408.40	2.69	13.63
NAPS	11,900,008	4,960,349,089,466.59	0.80	5.00
CENTRAL PAY	375,356	4,996,845,611.06	0.03	0.01
TOTAL	**1,478,482,610**	**99,292,340,469,867**	**100.00**	**100.00**

Source: CBN

2.2 CURRENCY OPERATIONS

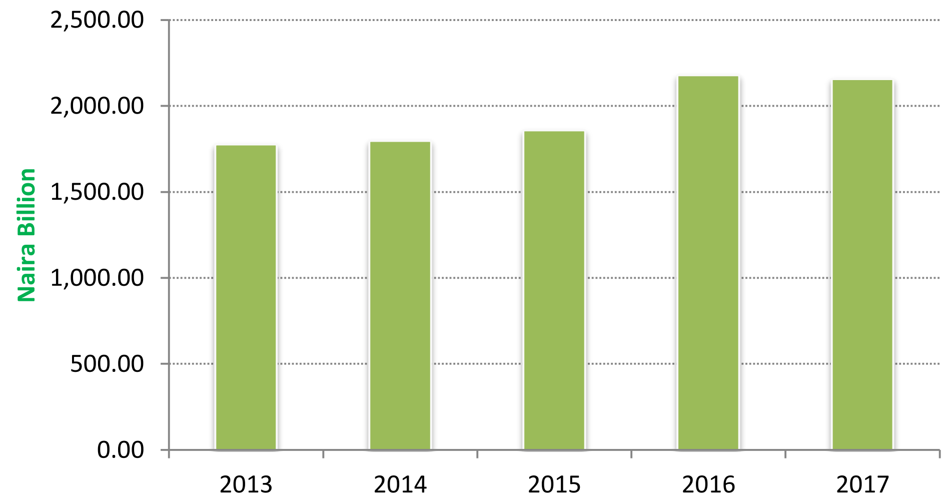
2.2.1 The Issuance of Legal Tender Currency

To meet the banknote needs of the economy, the CBN in 2017 approved an indent of 2,674.49 million pieces of banknotes of various denominations, representing an increase of 28.6 per cent, compared with the level in the preceding year. The Bank engaged the Nigerian Security Printing and Minting (NSPM) Plc to print the entire volume. The Company delivered 1,944.19 million pieces or 72.7 per cent of the total indent, compared with 1,648.26 million pieces or 79.3 per cent in 2016. Furthermore, under a domestication arrangement with the NSPM Plc on the outstanding 325.35 million pieces of the ₦100 centenary commemorative banknote originally awarded to the Crane Currency, Sweden in 2014, the Company delivered 60.15 million pieces in 2017. Thus, a cumulative of 959.84 million pieces or 95.9 per cent of the centenary commemorative banknotes had been delivered at end-December 2017, leaving a balance of 40.16 million pieces or 4.1 per cent.

2.2.2 Currency-in-Circulation (CIC)

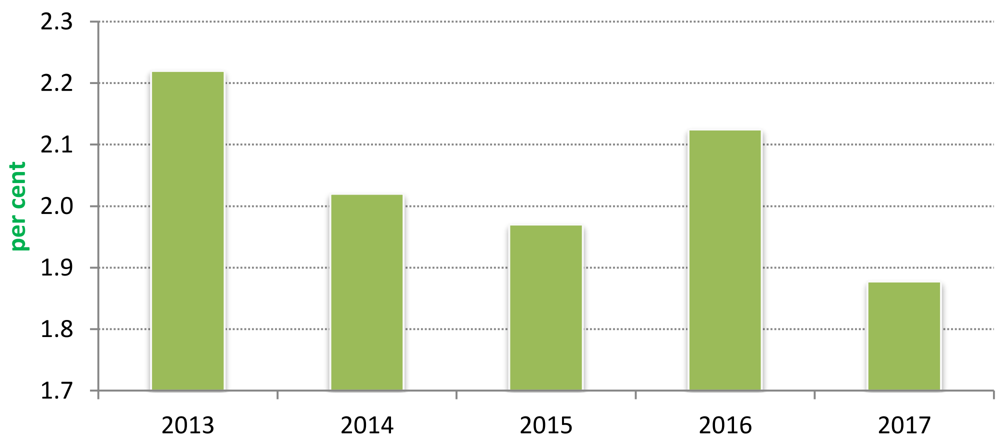
Currency-in-circulation fell marginally by 1.0 per cent to ₦2,157.24 billion as at end-December 2017, compared with the level of ₦2,179.17 billion in 2016. The decrease in CIC reflected developments in economic activities, as well as positive impact of the cashless policy of the Bank. A breakdown of the CIC indicated that the proportion of higher denomination banknotes (₦100, ₦200, ₦500 and ₦1000) fell from 44.4 to 41.9 in volume terms and from 97.6 to 96.9 per cent in value terms in 2017, respectively. The higher denomination banknotes were predominant, as these constituted 53.3 and 96.9 per cent, in volume and value terms, respectively, of the total banknotes in circulation during the review period. The ratio of CIC to nominal GDP, a measure of the moniness of the economy, stood at 1.9 per cent in 2017, compared with 2.1 in 2016.

Figure 2.5a: Currency-in-Circulation, 2013 - 2017



Source: CBN

Figure 2.5b: Ratio of Currency-in-Circulation to GDP, 2013 - 2017



Source: CBN

Table 2.4: Currency Structure, 2013 – 2017

Coins	2013 Volume (million)	2013 Value (₦ billion)	2014 Volume (million)	2014 Value (₦ billion)	2015 Volume (million)	2015 Value (₦ billion)	2016 Volume (million)	2016 Value (₦ billion)	2017 Volume (million)	2017 Value (₦ billion)
₦2	107.5	0.22	107.54	0.22	107.57	0.22	107.71	0.22	107.57	0.22
₦ 1	616.36	0.62	616.46	0.62	616.49	0.62	616.67	0.62	616.49	0.62
50k	579.7	0.29	579.95	0.29	580.07	0.29	580.24	0.29	580.07	0.29
25k	347.8	0.087	348.23	0.087	348.23	0.087	348.23	0.09	348.23	0.09
10k	315.31	0.032	315.55	0.032	315.57	0.032	315.57	0.03	315.57	0.03
1k	16.7	0.0017	31.24	0.003	31.24	0.003	31.24	0.01	31.24	0.0003
Sub Total	**1,983.37**	**1.25**	**1,998.97**	**1.25**	**1,999.17**	**1.25**	**1,999.66**	**1.26**	**1,999.17**	**1.25**
Notes										
₦1000	1,133.40	1,133.40	1,068.93	1,068.93	1,011.64	1,011.64	1,224.08	1,224.08	1,228.84	1,228.84
₦500	955.88	477.94	1051.75	525.88	1,322.26	661.13	1,453.93	726.96	1,316.57	658.28
₦200	380.01	76.00	569.16	113.83	401.63	80.33	559.11	111.82	664.46	132.89
₦100	226.29	22.63	426.34	42.63	558.95	55.89	629.04	62.9	705.59	70.56
₦50	662.04	33.10	327.68	16.38	388.18	19.41	365.27	18.26	608.25	30.41
₦20	1,165.27	23.30	956.74	19.13	1,065.56	21.31	1,189.44	23.79	1,058.81	21.18
₦10	639.05	6.39	746.02	7.46	549.54	5.49	749.51	7.49	1006.82	10.07
₦5	560.58	2.80	496.74	2.48	299.64	1.49	521.58	2.61	752.15	3.76
Sub-Total	**5,722.52**	**1,775.56**	**5,643.36**	**1,796.72**	**5,597.40**	**1,856.69**	**6,691.96**	**2,177.91**	**7,341.49**	**2,155.99**
Total	**7,705.89**	**1,776.81**	**7,642.33**	**1,797.97**	**7,596.57**	**1,857.94**	**8,691.62**	**2,179.17**	**9,340.66**	**2,157.24**

Source: CBN

2.2.3 Clean and Counterfeit Currency Notes Policy

Currency notes valued at ₦2,601.01 billion, were issued into circulation by the Bank in 2017, indicating an increase of 39.9 per cent over the level in the preceding year. In addition, the Bank continued its currency processing activities. Consequently, unfit/soiled banknotes, valued at ₦977.23 billion, were withdrawn from circulation, compared with ₦829.83 billion in 2016. Also, a total of 65,139 pieces of counterfeit banknotes, valued at ₦44.30 million, was removed from circulation, compared with 77,576 pieces of banknotes, valued at of ₦51.45 million, in 2016. This showed a decrease of 16.0 per cent in volume, but an increase of 17.8 per cent in value, compared with the level in 2016.

Furthermore, enlightenment campaigns to sensitise the public on the dangers of abuse of the naira, illicit sale and counterfeiting was sustained during the review period. The Bank collaborated with security agencies to stem the tide of illicit sale and counterfeiting of banknotes.

The CBN, in collaboration with key stakeholders, developed the Clean Note Policy and Banknote Fitness Standard. The Fitness Standard would serve as industry benchmark and reference guide for acceptable quality standard of fit notes in circulation, while the Clean Note policy would engender proper handling and ultimately, elongate the life span of banknotes.

2.2.4 The Nigeria Cash Management Scheme (NCMS)

In furtherance of the policy of outsourcing currency processing and distribution, to achieve efficiency and cost reduction in line with best practice, the Bank organised a stakeholders' retreat from April 27 – 28, 2017 in Lagos with participants drawn from banks, registered cash sorting and cash-in-transit companies and the Nigerian Inter-Bank Settlement System (NIBSS). The Retreat proposed a tiered-pricing model for depositing unprocessed lower denominations. The tiered-pricing policy would incentivise the banks to accept lower denomination banknotes from the public and deposit with the CBN for processing. In the first instance, a 3-month window, effective January 2, 2018, was approved for banks to deposit the lower denomination banknotes for processing at a reduced penal fee of ₦1000 per box instead of ₦12,000. At the expiration of the window, the penal fee for the processing of lower denomination banknotes would be ₦2,000 per box. This was a policy response to address the re-circulation of unfit lower banknotes by the DMBs. Furthermore, the Bank collaborated with the industry coordinator, the NIBSS, to deploy the Cash Activity Reporting Portal (CARP) for data collection and analysis for the industry.

2.2.5 Sustainable Disposal of Currency Waste

To reduce its carbon footprints, in line with best practice in environmental sustainability, the Bank sustained its effort at the disposal of banknotes waste, through recycling. In this regard, the Bank worked with reputable recyclers to examine possible ways of converting polymer banknotes waste to re-usable materials, such as roofing materials, tiles, among others.

2.2.6 Automation and Modernisation of Currency Management

To minimise human intervention and usher in a regime of enhanced efficiency and secured cash handling, in line with the Bank's vision and best practice, the CBN commenced the process of deploying an end-to-end solution for integrated cash management at its branches. The implementation would commence on a pilot basis, with three branches namely; Asaba, Abuja and Abeokuta, which had the conveyor belt system. The Scheme would provide seamless integration with the existing conveyor belt system and other cash infrastructure for more effective and efficient currency management system.

2.3 FOREIGN EXCHANGE MANAGEMENT

The Bank's foreign exchange policy thrust remained the maintenance of an appropriate exchange rate regime to promote macroeconomic stability. Accordingly, measures were taken to boost market liquidity and ease demand pressure and, restore confidence in the economy. In February 2017, the Bank introduced a window for the sale of foreign exchange for invisibles, comprising personal travel allowance (PTA), business travel allowance (BTA), medicals and school fees, to end-users through commercial banks and directed them to open foreign exchange outlets in major airports across the country. The Bank also increased the value and frequency of weekly foreign exchange cash sales to BDCs. These measures were aimed at increasing foreign exchange availability and easing difficulties encountered by Nigerians in obtaining funds for invisible transactions.

The Bank introduced another window in April 2017 through which small and medium enterprises (SMEs) could purchase US$20,000 per quarter, for the importation of eligible finished and semi-finished goods. In addition, the investors' and exporters' (I&E) window was established to deepen and boost liquidity in the foreign exchange market and ensure timely execution and settlement of eligible invisible transactions. The Bank further liberalised the foreign exchange market, by allowing authorised dealers to sell any foreign currency above their trading limit positions without seeking prior approval from the CBN.

Thus, among other outcomes, the Bank's foreign exchange management measures narrowed the premium between the interbank and BDC rates to 19.8 per cent at end-June 2017 and 18.5 per cent at end-December 2017, from 61.6 per cent at end-January 2017. Similarly, the premium between the

BDC and I&E rates also narrowed to 0.7 per cent at end-December 2017, from 8.2 per cent at end-April 2017. The I&E window boosted substantially liquidity in the foreign exchange market, with a turnover of US$22.85 billion at end-December 2017.

2.3.1 Foreign Exchange Flows

Aggregate foreign exchange inflow into the economy rose by 45.0 per cent to US$91.00 billion, compared with US$62.75 billion in 2016. A disaggregation showed that inflows, through the CBN and autonomous sources, were US$42.17 billion and US$48.33 billion, constituting 46.3 and 53.7 per cent, respectively, of the total.

A further analysis showed that foreign exchange inflow, through the CBN, rose to US$42.17 billion, compared with US$21.07 billion in 2016. A breakdown of foreign exchange inflow, through the CBN, showed that earnings from crude oil export increased by 1.9 per cent to US$10.37 billion, above the level in 2016. The development was attributed to price and output of crude, both of which rose relative to the preceding period. Similarly, the non-oil component of the inflow, through the Bank, rose by 192.2 per cent to US$31.80 billion in 2017, above the level in the preceding year. This was due mainly to: increase in foreign exchange purchases; government debt proceeds; securities lending cash collateral; and TSA and third party receipts. Further analysis of non-oil inflow, through the CBN, indicated increase in cash swap in respect of BDC, was US$1.92 billion; unutilised funds from foreign exchange transactions, US$1.37 billion; returned payments (wired/cash), US$1.15 billion; return of unutilised International Money Transfer Organisations funds, US$1.02 billion and interest earning on reserves and investment, US$0.33 billion, compared with US$48.70 million, US$142.10 million, US$287.42 million, US$94.55 million and US$221.05 million, respectively, in 2016. Swaps and other official receipts, however, fell to US$2.93 billion and US$2.48 billion, respectively.

Inflow through autonomous sources rose by 17.1 per cent above the level in 2016. A further analysis showed that inflow through autonomous sources comprised: invisibles, US$46.21 billion; non-oil export receipts by banks, US$2.53 billion; and external account purchases, US$0.09 billion, constituting 94.6, 5.2 and 0.2 per cent, respectively, of the total. Of the invisibles, over-the-counter (OTC) purchases and domiciliary account were US$26.38 billion (57.1%) and US$19.83 billion (42.9%), respectively. A breakdown of OTC purchases showed that: capital importation, US$12.40 billion; other OTC purchases, US$11.17 billion; oil companies, US$1.70 billion; and home remittances, US$1.10 billion.

Aggregate foreign exchange outflow, from the economy, increased by 31.8 per cent to US$33.68 billion, above the US$25.55 billion in 2016. Of this amount, outflow through the CBN accounted for 90.7 per cent, while autonomous sources explained the balance. Foreign exchange outflow, through the CBN, increased by 31.9 per cent to US$30.55 billion, compared with US$23.16 billion in the preceding year. This was attributed, mainly, to increased intervention by the Bank in the inter-bank and BDC segments of the foreign exchange market. A breakdown of foreign exchange outflow, through the CBN, indicated that 3rd party MDA transfers, external debt service and drawings on letters of credit, at US$2.68 billion, US$0.42 billion and US$0.36 billion, increased by 27.8, 20.3, and 139.2 per cent, respectively, above the levels in 2016.

A disaggregation of foreign exchange supply to the market indicated that: inter-bank forwards amounted to US$10.54 billion; inter-bank sales, US$5.60 billion; BDC sales, US$4.16 billion; and matured swaps contract, US$1.11 billion. Other official payments rose by 24.1 per cent to US$5.43 billion, attributed to increase in miscellaneous and estacode payments of US$2.99 billion and US$0.23 billion, compared with US$0.21 billion and US$0.13 billion, respectively, in 2016. However, Joint Venture Company (JVC) cash calls arrears fell by 26.3 per cent to US$2.21 billion, below the level of US$3.00 billion in 2016. Outflow through autonomous sources rose by 30.9 per cent, above the level in 2016, to US$3.13 billion, out of which payments for invisibles and import were US$2.54 billion and US$0.59 billion, respectively.

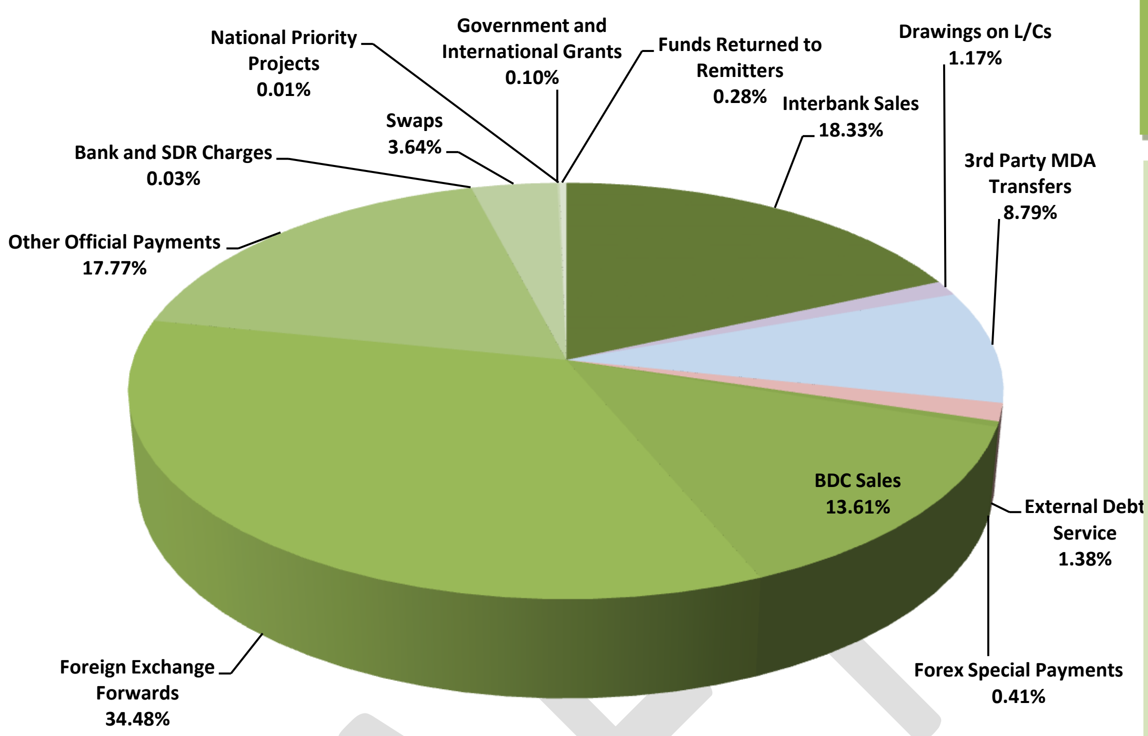
Overall, the economy in 2017 recorded a net inflow of US$57.32 billion, compared with US$37.19 billion in 2016. The CBN also recorded a net inflow of US$11.62 billion, in contrast to a net outflow of US$2.10 billion in 2016.

Table 2.5: Foreign Exchange Flows through the Economy (US$' Million), 2016 – 2017

FOREIGN EXCHANGE FLOWS	2016 /2	2017 /1
INFLOW THROUGH THE ECONOMY	62,748.56	90,997.87
A. Inflow through the CBN	21,066.19	42,172.14
1. Oil	10,180.49	10,369.18
2. Non-oil	10,885.70	31,802.96
B. Through Autonomous Sources	41,682.36	48,825.73
1. Non-oil Export	3,298.47	2,528.53
2. External Account Purchases	331.81	89.60
3. Invisibles	38,052.08	46,207.60
OUTFLOW THROUGH THE ECONOMY	25,553.60	33,679.37
A. Through the CBN	23,164.19	23,164.19
1. rDAS Utilisation	15,818.33	21,405.79
(I) wDAS/rDAS Sales	-	-
(II)Inter-bank-FWD	4,167.66	10,535.98
(III) BDC Sales	58.42	4,158.60
(IV) Inter-bank Sales	6,304.60	5,600.06
(V) Swaps	5,287.65	1,111.15
(VI) Invisibles IFEM	-	-
2. Drawings on L/Cs	149.75	358.25
3. External Debt Service	351.15	422.49
4. Govt. and International/Contributions, Grants&Equity Invests. (AFC Equity Participation)	-	29.99
5. National Indpt Priority Projects (NIPP)	25.16	2.58
6. Forex Special Payments (Cash Swap/FX Advance to MDAs)	252.74	123.71
7. Other Official Payments	4,375.38	5,429.05
8. Bank & SDR Charges	0.52	9.74
9. NSIA Transfers	-	-
10. Funds Returned to Remitters	89.98	86.97
11. 3rd Party MDA Transfers	2,101.18	2,684.19
B. Through Autonomous Sources	2,389.41	3,126.60
1. Imports	720.37	585.68
2. Invisibles	1,669.04	2,540.92
NET FLOW THROUGH THE CBN	(2,098.00)	11,619.37
NET FLOW	37,194.95	57,318.50

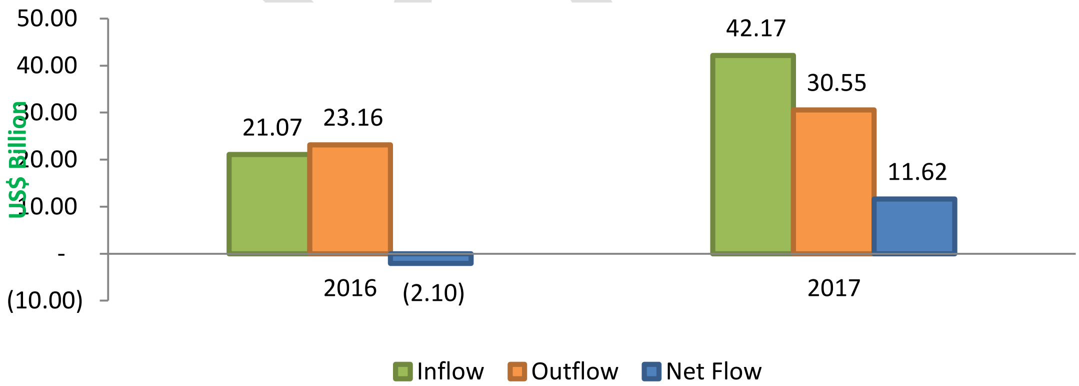
1/ Provisional
2/ Revised
Source: CBN

Figure 2.6: Foreign Exchange Disbursement through the CBN, 2017 (US$' Billion)



Source: CBN

Figure 2.7: Foreign Exchange Flows through the CBN, 2016-2017 (US$'billion)



Source: CBN

2.3.2 Developments in the Foreign Exchange Market

Demand pressure persisted in the foreign exchange market, particularly in the first quarter of 2017, due to liquidity shortage, induced by falling price of crude oil and reduced capital inflow. To curtail the pressure and stabilise the naira exchange rate, the CBN adopted various policy measures, to address the situation.

The amount of foreign exchange disbursed for the payments of matured forwards contracts increased to US$10.54 billion, compared with US$4.17 billion in 2016. Similarly, sales to BDC operators increased, significantly to US$4.16 billion in 2017, above the US$0.06 billion in 2016, owing to the resumption of sales to that segment in 2017. However, swap transactions and interbank sales fell by 79.0 and 11.2 per cent, to US$1.11 billion and US$5.60 billion, respectively, below their levels in 2016. Overall, the total supply of foreign exchange by the Bank increased by 35.3 per cent to US$21.41 billion, compared with US$15.82 billion in 2016. The development boosted liquidity in the market and narrowed the premium between interbank and BDC rates.

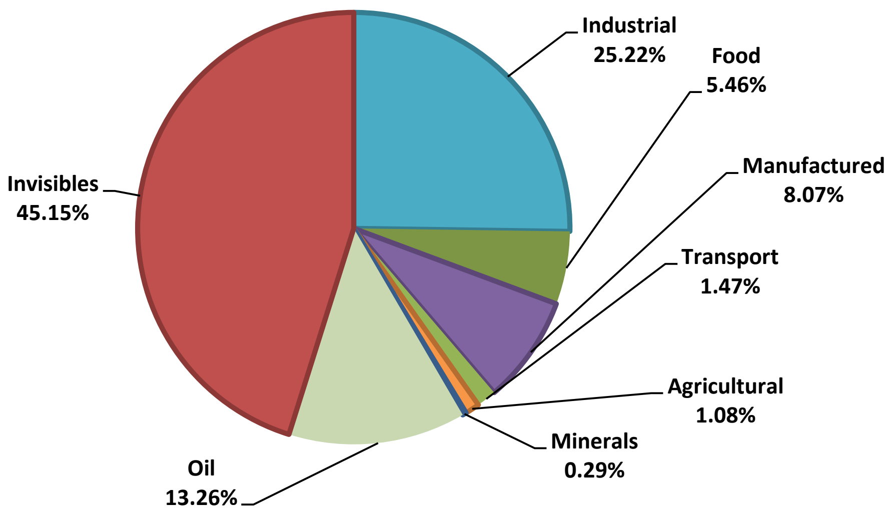
2.3.3 Sectoral Utilisation of Foreign Exchange

Aggregate foreign exchange utilisation rose by 5.2 per cent to US$27.64 billion in 2017. Visible import declined by 16.1 per cent to US$15.16 billion, from US$18.07 billion in 2016, and accounted for 54.8 per cent of the total. Foreign exchange utilisation for invisible trade improved by 52.0 per cent to US$12.48 billion in 2017, and accounted for 45.2 per cent of the total.

A breakdown of visible import showed that foreign exchange utilisation in the industrial and agricultural sectors rose by 12.4 and 3.0 per cent, to US$6.97 billion and US$0.30 billion, respectively, in 2017. However, oil, transport, and manufacturing sub-sectors fell by 40.3, 26.2, and 23.0 per cent to US$3.67 billion, US$0.41 billion, and US$2.23 billion, respectively, during the year. Similarly, the amount utilised for food products and mineral import, declined by 20.4 and 19.6 per cent, to US$1.51 billion and US$0.08 billion, respectively, in 2017.

A disaggregation of invisible import indicated that utilisation in respect of tourism and travel related services, construction & related engineering services, distribution services, and communication services increased, significantly above the levels in 2016 by 358.8, 282.4, 125.7, and 114.8 per cent to US$0.10 billion, US$100.00 million, US$30.23 million, and US$0.23 billion, respectively. Also, foreign exchange utilised for business, financial, transport, and educational services were US$1.27 billion, US$8.72 billion, US$0.87 billion, and US$0.51 billion, indicating respective increase of 96.8, 40.0, 34.4, and 15.9 per cent, over the levels in 2016. Foreign exchange utilised in respect of health-related and social services, however, declined by 48.8 per cent to US$2.15 million in 2017.

Figure 2.8: Sectoral Utilisation of Foreign Exchange, 2017

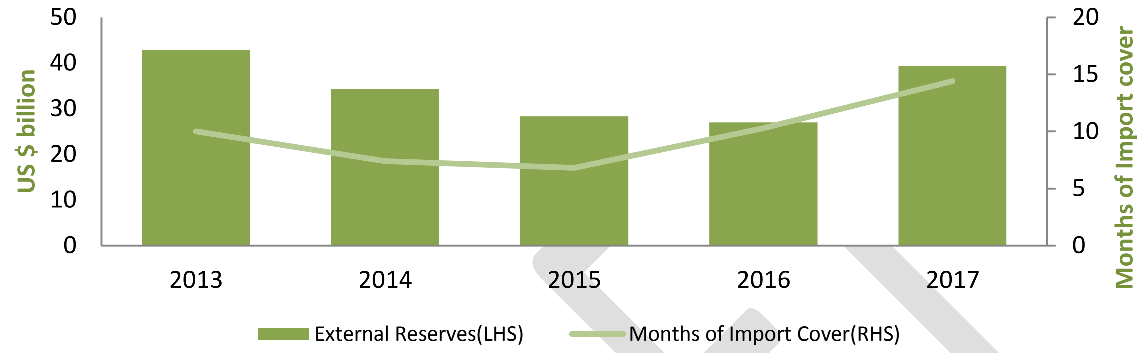


Source: CBN

2.3.4 External Reserves Management

External reserves, at end-December 2017, stood at US$39.35 billion, an increase of US$12.36 billion, or 45.8 per cent over the position at end-December 2016. The development was due, largely, to increase in oil-related revenues, TSA and third party receipts, security lending cash collateral, and Eurobond proceeds.

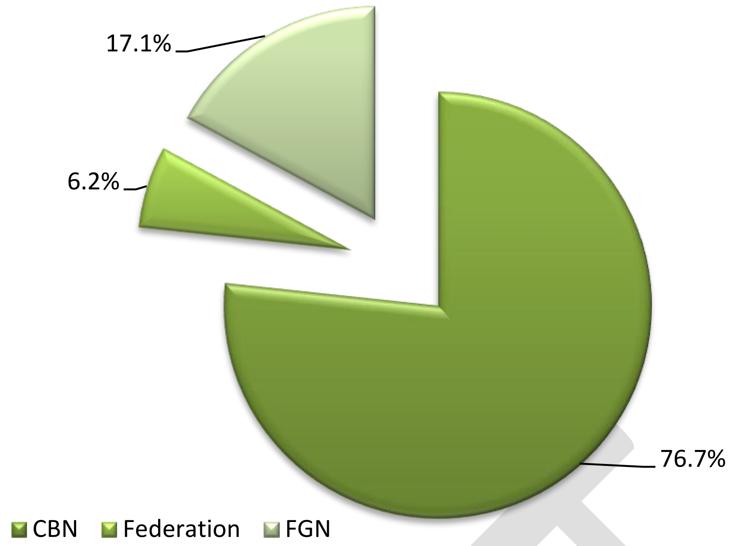
Figure 2.9: Gross External Reserves Position and Months of Import Cover, 2013 – 2017



Source: CBN

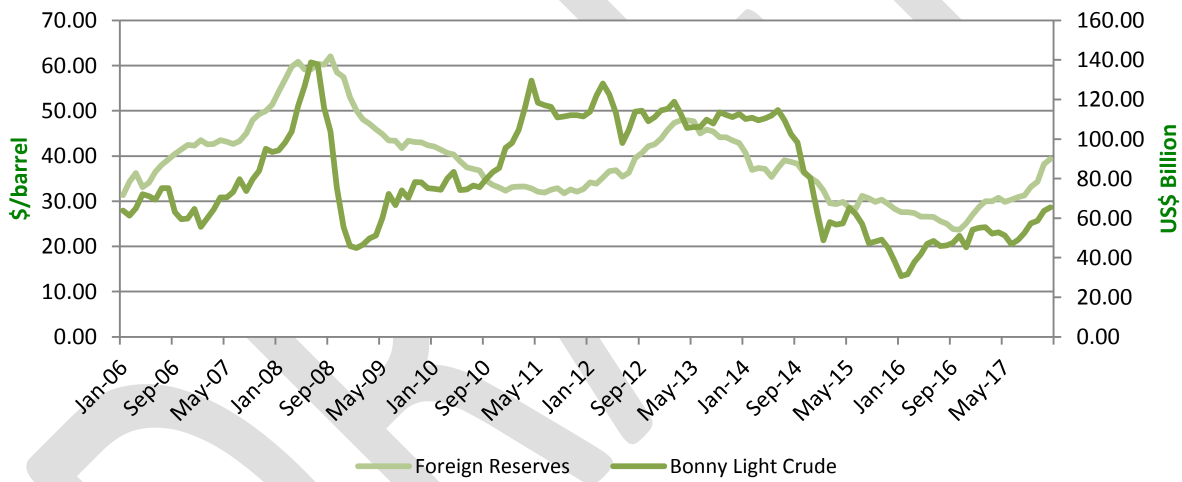
External reserves by ownership at end-December 2017 showed that the share of the CBN, Federal Government and Federation stood at US$30.17 billion, US$6.73 billion and US$2.45 billion, respectively. This represented 76.7 per cent, 17.1 per cent and 6.2 per cent, respectively, of the total. The increase of 94.2 per cent in the CBN portion was as a result of crude oil and related taxes, forex purchases, Eurobond proceeds and securities lending cash collateral. The FGN portion, of the reserves, declined by 23.8 per cent due to third party and JVC cash call arrears payments, while the Federation portion of the reserves declined by 6.7 per cent due to monetisation from the excess crude account. The external reserves, at end-December 2017, could finance 14.4 months of import (goods) or 9.4 months (goods and services), compared with 9.2 months of import (goods) or 6.9 months (goods and services) at end-December 2016.

Figure 2.10: Holdings of External Reserves at end-December, 2017, (Per cent)



Source: CBN

Figure 2.11: External Reserves Position and Crude Oil Price



Source: CBN

The CBN, under its External Asset Management programme, sustained the Master Securities Lending Agreement signed in 2014 with the Global Custodian, J. P. Morgan, to participate in its securities lending programme. The Custodian was allowed to lend the securities purchased by the Fund Managers to eligible borrowers in accordance with agreed guidelines. As at December 2017, the Net Asset Value of the entire fixed income portfolio, managed by the external asset managers, stood at US$6.89 billion. The portfolio yielded return on investment of US$479.00 million, since inception to December 2017 and recorded an aggregate performance of 39 basis points, above the composite benchmark.

Aggregate earnings from the management of external reserves in 2017 amounted to ₦77.74 billion (US$0.25 billion), an increase of 44.2 per cent above the ₦43.40 billion recorded in 2016. This represented an increase of ₦36.18 billion or 87.1 per cent over the budgeted amount of ₦41.55 billion in the year under review. The increase was due, largely, to reserves accretion. This was in addition to the increase in income on current and repo account balances, as a result of sweeping arrangement between the JP Morgan and the Federal Reserve Bank.

The bank implemented various initiatives to sustain the safety, soundness and stability of banking institutions, as well as promote public confidence in the Nigerian banking system.

The Bank maintained all the previous performance measures of its bonds. Thus, the World Bank US Treasury Bonds portfolio was measured against the Bank of America Merrill Lynch 1-3 years US Treasury Index, while the Global Government Bonds Short-Duration (US$ Hedged) portfolio was measured against the Bank of America Merrill Lynch Global Government Bond G7 1-3 year Index, ex-Italy 100% hedged into US$. The CNH portfolio was measured against the Citigroup DIM Sum off-shore CNY index. The World Bank MBS portfolio was measured against Barclays US MBS Index.

2 .4 SURVEILLANCE OF THE ACTIVITIES OF FINANCIAL INSTITUTIONS

2.4.1 Banking Supervision

The Bank continued its supervisory and surveillance activities in 2017, with a view to ensuring the safety and soundness of banking institutions, as well as, promoting public confidence in the Nigerian banking system. In this regard, it maintained the risk-based supervision (RBS) approach.

The Credit Assessment Analysis System (CAAS) was deployed in 2017, following the conclusion of a special training code-name iSight on ACL, Advanced Excel and SQL for on-site examiners. The System, based on electronic line card software, facilitated historical and more efficient analysis of credit, as well as, serve as a repository of data on banks' credit performance. The deployment of the system, during RBS examination in 2017, marked the beginning of technological approach in the evaluation of banks' credit.

In addition, the CBN continued to monitor the implementation of the Basel II/III standards to ensure regular update and improvement in its regulatory and supervisory framework such that:

- Regulatory capital assessment was in line with the prescribed standards by reviewing monthly returns by banks on capital adequacy ratio (CAR) to ensure that the minimum regulatory capital reported by banks is consistent and captured all the relevant risks;
- Banks' risk management framework could assess all the risk not captured in the pillar 1 capital assessment by reviewed banks' Internal Capital Adequacy Assessment Process (ICAAP) report, by CBN, to assess their strategies for taking on risk and ensure that the related capital needs are sufficient, now and into the future;
- Market discipline was enhanced through qualitative and quantitative disclosures of banks' core activities, risks profiles and methodologies in their websites and in printed form to the CBN to be determined by each bank's size and composite risk rating; and
- Pillar 2 risks capital assessment is carried out in a comprehensive manner by setting guidelines by CBN on "Interest Rate Risk in the Banking Book, Credit Concentration Risk, Business Risk, Reputational Risk and Stress Testing" and ensure benchmarks for internal assessment of pillar 2 risks are consistent with the provisions of the Guidance Notes on Supervisory Review Process.

Also, the CBN mandated banks to submit their comprehensive IFRS 9 implementation plans, including gaps and potential impact analysis report, towards ensuring the adoption of the IFRS 9. The Plan was expected to contain, among others, information on existing and/or proposed models for Expected Credit Loss (ECL) computation, number of years of available loss data, haircut policy for Loss Given Default valuation and policies for classifying financial assets into 12 months and Lifetime ECL buckets. Similarly, the banks conducted parallel run of IAS 39 and IFRS 9 impairment systems in the last quarter of 2017, in compliance with the CBN's directive and submitted monthly status reports for June to December 2017. An impact assessment of banks' total provisions and capital, based on the 2017 half-year audited financial statements, showed that industry total provisions for loan losses increased by 44.2 per cent, while industry capital adequacy ratio declined from 11.51 per cent to 10.46 per cent. The impact on capital adequacy was, however, moderated by the huge regulatory risk reserve balances carried by banks. All banks would effectively transit to the IFRS 9 reporting standard on January 1, 2018.

Furthermore, to deepen the implementation of the risk-based supervision framework, the Bank, with technical assistance from the International Monetary Fund (IMF), developed a framework for an Early Warning System (EWS) for Banking Supervision. The framework is an off-site surveillance tool that combines a set of financial soundness indicators (FSIs) with information from on-site examination reports and macro-economic variables to estimate the probability of bank's failure over four quarters. The modeling procedure involves the mapping of time series micro and macro data for the prediction of bank failure. It comprised two models:

- The Composite Score Model, to compute a Composite Index, based on the Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity (CAMELS) framework, using current raw financial data from examination reports and statutory returns. This permits ordinal ranking of banks by risk, over time, and relative to each other; and

- The Logit Model, to estimate the likelihood that a bank would fail (negative capital) under normal and stress conditions, given its current composite score and subsequent macroeconomic conditions.

The System was deployed in 2017 and was expected to facilitate the identification of risks to the stability of the system, in a proactive manner. It would also link banking sector performance to macroeconomic indicators and ensure efficient allocation of supervisory resources.

In the other financial institutions (OFIs) sub-sector, the Bank commenced the on-boarding of Microfinance Banks (MFBs) on the National Association of Microfinance Banks Unified Information Technology (NAMBUIT). The NAMBUIT is a uniform application platform for MFBs, comprising core and agent banking solutions that connect the industry to the national payments system and promote economies of scale. Though on-boarding was not compulsory, willing MFBs could access the various functionalities at minimum cost.

In addition, the deadline for the enrollment of customers of OFIs, in the BVN Scheme, was extended from July 31, 2017 to December 31, 2017, to allow the institutions time to resolve challenges in the process. Accordingly, effective January 1, 2018, customers without BVN linked to their accounts would not be able to make withdrawals.

Also, to facilitate data exchange between OFIs and credit bureaux, the CBN organised training sessions on credit reporting for software vendors, compliance officers, managing directors and chairmen of board credit committees of OFIs. Participants were also exposed to the obligations of compliance officers in OFIs, with regards to disclosure of insider-related facilities and other credit information. The CBN, thereafter, paid the sign-up fees of MFBs for connection to two (2) credit bureaux to fast-track integration into the credit reporting scheme. It also issued a circular to protect compliance officers from victimisation for disclosure of insider-related facilities. The Circular requires operators to ensure compliance with the provisions of the "Guidelines for the Licensing, Operations, and Regulation of Credit Bureaux and Credit Bureaux-Related Transactions in Nigeria," and specified sanctions for erring OFIs.

Other measures in the sub-sector included:

- Limiting the use of cash by individuals to purchase shares in OFIs to a cumulative maximum of ₦100,000 for individuals and prohibition of cash payment by corporate bodies;

- Redesign of the Financial Institutions Applications Processing System (FIAPS) to accommodate new requests for security enhancement, computations of financial ratios, enabling of notifications and resolution of application challenges;
- Conduct of walk-through sessions in respect of the FIAPS to ease the processing of OFIs audited financial statements and other off-site applications; and
- Revision of the returns templates for OFIs towards implementation of the Integrated Regulatory Solution.

2.4.2 Credit Risk Management System

The redesigned Credit Risk Management System (CRMS) for banks in Nigeria was deployed in 2017, following the issuance of the regulatory guidelines. Also, reporting templates were developed for non-interest banks (NIBs) to address the peculiarities of their transactions. A pilot run was initiated for the NIBs in the review year. Accordingly, the new CRMS continued to serve as a platform for the management of credit information in the banking industry. At end-December 2017, borrowers numbering 784,172 had been reported on the CRMS database, indicating a 430.5 per cent increase over the 147,828 in 2016. Of the total, there were 752,692 individuals and 31,480 corporate borrowers.

Similarly, following the capture of all loans, regardless of amount, as against only loans of ₦1.0 million and above in the past, as well as historical data on hitherto unreported credits, the total number of credit facilities reported on the database rose from 516,848 in 2016 to 2,692,403 in 2017. This consisted of 2,263,109 and 429,294 facilities granted to individuals and corporates, respectively. Thus, the number of borrowers, with outstanding facilities, rose by 1,113 per cent to 1,418,081 in 2017, from 127,374 in 2016. The significant increase also reflected the effect of stricter regulations and enhanced enforcement, thereby improving the transparency and credibility of the overall debt profile in the industry.

Table 2.6: Borrowers from the Banking Sector (Commercial and Merchant Banks)				
Description	**2016**	**2017**	**Absolute Change**	**% Change**
Total No. of Borrowers reported on the CRMS:	**147,828**	**784,172**	**636,344**	**430.46**
• *Individuals*	106,074	752,692		
• *Corporate*	41,754	31,480		
Total No. of Credit/facilities reported on the CRMS:	**516,848**	**2,692,403**	**2,175,555**	**420.93**
• *Individuals*	215,990	2,263,109		
• *Corporates*	300,858	429,294		
Total No. of Outstanding Credit facilities on the CRMS:	**127,374**	**1,418,081**	**1,290,707**	**1113.32**
• *Individuals*	81,605	1,322,076		
• *Corporates*	45,769	96,005		

Source: CBN CRMS

The Credit Reporting Act was enacted in 2017 to regulate all providers of credit report. The Act empowered the CBN to regulate the credit reporting industry. Accordingly, the Bank intensified its supervision of the three (3) existing private credit bureaux (PCBs). The average number of records, in the database of the PCBs, was 47.2 million in 2017, reflecting 0.85 per cent increase over the 46.8 million in 2016. This was attributed to increased compliance, following the passage of the Credit Reporting Act. The number of borrowers and value of outstanding credit, however, declined from 16.03 million and ₦24.07 trillion in 2016, respectively, to 15.33 million and ₦23.86 trillion in 2017. The development reflected reduced credit activities in the review year. At end-December 2017, the cumulative number of institutional subscribers to the three PCBs stood at 1,752, compared with 1,348, in 2016.

2.4.3 Prudential Review and Examination

A review of banks' prudential ratios showed that the industry average capital adequacy ratio (CAR) declined from 14.8 per cent in 2016, to 10.2 per cent at end-December 2017. Industry Non-Performing Loans ratio (NPL), further deteriorated to 14.8 per cent at end-December 2017, from 12.8 per cent in 2016. At this level, the industry NPL ratio remained significantly above the maximum regulatory threshold of 5.0 per cent. The industry average liquidity ratio (LR), however, improved from 43.9 per cent in 2016 to 45.6 per cent at end-December 2017 and remained above the regulatory minimum of 30.0 per cent by 15.6 percentage points.

2.4.4 Corporate Governance in the Nigerian Financial Services Industry

To ensure adherence to the provisions of the Code of Corporate Governance for Banks, the CBN sustained the implementation of various initiatives for monitoring and assessment of compliance. In this regard, the Code of Corporate Governance Scorecard was launched in March 2017 and formed the basis for a pilot compliance examination of 18 banks, covering all categories of licences. Highlights of the findings from the exercise were:

- Three (3) banks did not have an approved strategy document, while those for some banks were not robust and comprehensive;
- Failure to assign responsibility for the implementation of approved strategy document;
- Failure by two banks to comply with the requirements of the Code on composition of the board, board meetings, subsidiary cross directorship, holding company, succession planning, remuneration policy, limits of authority and risk management;
- All banks complied with the requirements of the Code on size of the board, separation of duties and disclosure and transparency; and
- Nine (9) banks did not comply with the requirements on ethics and professionalism, as well as, rights of other stakeholders.

In addition, banks commenced rendering reports on dud cheques on the CRMS platform in 2017, in line with the circular, titled "Need to Implement Measures to Dissuade the Issuance of Dud Cheques in the Nigerian Banking System". This would facilitate the collation and analysis of data on serial dud cheque issuers, to enable the CBN take more stringent actions against them.

2.4.5 Financial Crimes Surveillance/Anti-Money Laundering

In the review period, the CBN directed banks and other financial institutions to strengthen their systems to ensure timely rendition of reports to the Nigerian Financial Intelligence Unit (NFIU). This was to address the observation, by the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA), that Nigeria had not demonstrated effective implementation of the requirements to counter the financing of terrorism. The Bank also developed the AML/CFT Administrative Sanction Regime for the regulation of banks and other financial institutions. The document had been forwarded to the Attorney General of the Federation for gazetting.

In additon, the Bank issued a circular to sensitise banks and other financial institutions and a cautionary notice to the public about the money laundering and terrorism risks inherent in virtual currency operations.

The Bank conducted AML/CFT compliance examination of 25 banks for the period May 1, 2016 to March 31, 2017. The exercise involved review of transactions at the head offices and spot checks at two selected Lagos branches of the banks. In addition, spot checks were carried out in branches of banks at regions hitherto not visited - North East, North West, North Central, South East and South West. Specifically, the exercise involved review of the adequacy of banks' AML/CFT risk management practices. Highlights of the findings were:

- Identification documents, such as national identity cards and international passports, were not sighted in some customers' files and enhanced due diligence was either inadequate or not conducted for high risk customers in some banks;
- Collation and reporting were not fully automated in some banks, thereby increasing the risk of under reporting. Also, the AML/CFT software had not been subjected to independent testing, to determine their efficacy;
- Challenges were encountered by banks with the verification of the various acceptable means of identification, as a result of the inability to access the various portals of the identity issuing agencies, as well as the mandatory levy imposed by the Nigeria Immigration Service (NCS) and the National Identity Management Commission(NIMC) for I.D verification;

- The AML/CFT manuals/programmes of some banks had no policies covering Shell banks and evaluation of new technologies for AML/CFT risks;
- There were instances of inadequate internal control oversight, as recommended by the FATF and required by the CBN AML/CFT Regulations; and
- AML/CFT knowledge gap existed in many banks, while some banks were unable to show satisfactory evidence of training that met regulatory requirement.

Overall, there was an improvement in the AML/CFT regime of many banks, as evidenced by the general reduction in infractions.

In addition, the CBN, developed and deployed the AML/CFT Data Rendition Analysis and Processing Software (ADRAPS) in 2017 to ensure effective offsite surveillance of banks. The Software automated banks' AML/CFT returns rendition, collation and analysis. A parallel run of the automated and manual processes was ongoing. The Bank also participated in the preparation of the National Risk Assessment Report on Money Laundering and Terrorist Financing towards, the forthcoming GIABA/FATF Joint Mutual Evaluation Exercise.

2.4.6 Routine, Special and Target Examinations

The CBN/NDIC Joint Risk Assets Assessment of all the banks was conducted in the review period, to determine the quality of banks' assets and adequacy of loan loss-provisioning, required for "no objection" for the publication of banks' 2016 audited annual financial statements. Also, a CBN/NDIC joint risk-based examination of banks, in the "High" and "Above Average" Composite Risk Rating (CRR) categories, and the three (3) financial holding companies as at June 30, 2017 was conducted. Similarly, the risk-based examination of banks with "Moderate" and "Low" CRR was conducted at end-September 2017. Monitoring and follow-up checks of banks' implementation of recommendations, in previous examination reports, were also carried out during the review year.

In addition, a risk-based examination of the three credit bureaux and the Asset Management Corporation of Nigeria (AMCON) was conducted in the review period. Similarly, the maiden examination of one of the newly licensed banks was conducted. Furthermore, the Bank conducted targeted investigations to determine the exposure of the industry to some obligors and carried out spot checks on transactions of banks under the Investors' and Exporters Foreign Exchange Window. Reports of the exercises were being considered for appropriate action.

2.4.7 Cross Border Supervisory Activities

In furtherance of its objective to strengthen cooperation with supervisors in other jurisdictions, the CBN hosted the following events in 2017:

- Seminar on "Crisis Management and Bank Resolution" held at the CBN ITI from January 16 to 20, 2017. The Seminar, organised by the Association of African Central Banks, the Community of African Bank Supervisors and Making Finance Work for Africa, analysed issues that might arise from managing crises in systemically-important financial institutions. It also reviewed issues relating to micro-prudential supervision, macro-prudential regulation, financial stability and effective resolution of failed banks; and
- The 4th Meeting of the UBA College of Supervisors, comprising supervisors from 11 African countries, held from August 23 to 25, 2017. The Meeting reviewed the risk profile of UBA Group and made recommendations to improve risk management within the Group.

The Bank also participated in the following meetings and engagements with other regulatory authorities:

- The 12th BCBS-FSI[1] High Level Meeting for Africa on "Strengthening Financial Sector Supervision and Current Regulatory Priorities" held in Cape Town, South Africa, from January 26 to 27, 2017. The Meeting noted the threat to the traditional bank business model, due to

[1] Basle Committee on Banking Supervision (BCBS), Financial Stability Institute (FSI)

increased digitisation and the need to adopt a forward-looking approach to supervision;

- The 18th Meeting of the Legal and Institutional Issues Committee (LIIC) of the West African Monetary Zone (WAMZ) held in Accra, Ghana from March 21 to 24, 2017. The Meeting reviewed the draft paper on the Best Model for Banking Holding Company (BHC)/Financial Holding Company (FHC) and made recommendations on the appropriate model for regulating and supervising them in the WAMZ;

- Four (4) Meetings of the College of Supervisors for the West African Monetary Zone (CSWAMZ) hosted by the Bank of Sierra Leone (February), Bank of Ghana (April and October) and Central Bank of Liberia (July). The Meetings deliberated on joint examination of Nigerian banks' subsidiaries, implementation of the RBS, Basel II and IFRS in the WAMZ, as well as, regulation of Islamic Banking, among others. The College agreed to intensify knowledge and information sharing in the implementation of international regulatory standards, towards the harmonisation of banking supervision and regulation in the Zone;

- The 3rd Meeting of the College of Supervisors of Ecobank Transnational Incorporated (ETI) in Abidjan, Cote d'Ivoire, held from October 26 to 27, 2017. The Meeting resolved that ETI should amend its holding company's structure to improve governance, audit function and concentration risk management system in its subsidiaries. The Banking Commission of the West African Monetary Union would ensure implementation, while the CBN would monitor risks from ETI subsidiaries; and

- Conference on "Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)", hosted by the South African Reserve Bank (SARB) Pretoria, South Africa, from December 4 to 6, 2017. The Meeting noted the significant AML/CFT risks of international banks operating in Africa and the need to put in place proper procedures and policies to mitigate them.

2.4.8 Examination of Foreign Subsidiaries

The Bank conducted four (4) solo and five (5) joint examinations of Nigerian banks' foreign subsidiaries in 2017. Two of the solo examinations were maiden examinations. The solo examination revealed improvements in the risk profile and satisfactory performance of the subsidiaries with two (2) rated "Above Average" and the other two (2) rated "Moderate". The joint routine examination also revealed satisfactory performance of the examined subsidiaries.

2.4.9 Foreign Exchange Monitoring/Examination

The Bank conducted a review of the foreign exchange activities of 24 banks in 2017 to ascertain compliance with extant laws and regulations. The exercise covered foreign exchange activities for the period October 1, 2016 to March 31, 2017. Infractions detected included: failure to comply with regulations and concessionary rates on the utilisation of funds acquired from the CBN Secondary Market Intervention Sales (SMIS) foreign exchange window; non-issuance of certificates of capital importation within the stipulated time; incorrect rendition of returns; and foreign trade documentation lapses. Appropriate penalties were imposed, based on responses by banks, to queries in the reports of the exercise. Similarly, the Bank reviewed the establishment of foreign exchange teller-points in bank branches, to ascertain compliance with its directive. The exercise revealed a high level of compliance by banks.

2.4.10 Developments on Domestic Systemically Important Banks

The CBN, continued to subject the banks to enhanced supervision and sustained effort to continually improve the regulatory and supervisory framework for DSIBs. In the review period, seven (7) banks maintained their status as domestic systematically-important banks (D-SIBs), following the conclusion of the six-monthly assessment. A bank that was previously designated as a DSIB failed to meet the qualifying criteria, due to the streamlining of its business operations. At end-December 2017, the DSIBs accounted for ₦21.25 trillion or 65.4 per cent of industry total assets, ₦12.65 trillion or 65.4 per cent of total industry deposits and ₦8.68 trillion or 64.8 per cent of industry gross loans. Overall, the DSIBs complied with prudential requirements in the review period. Also, the banks resubmitted enhanced recovery and resolution plans (RRPs) to the CBN, addressing concerns raised in the ones submitted earlier.

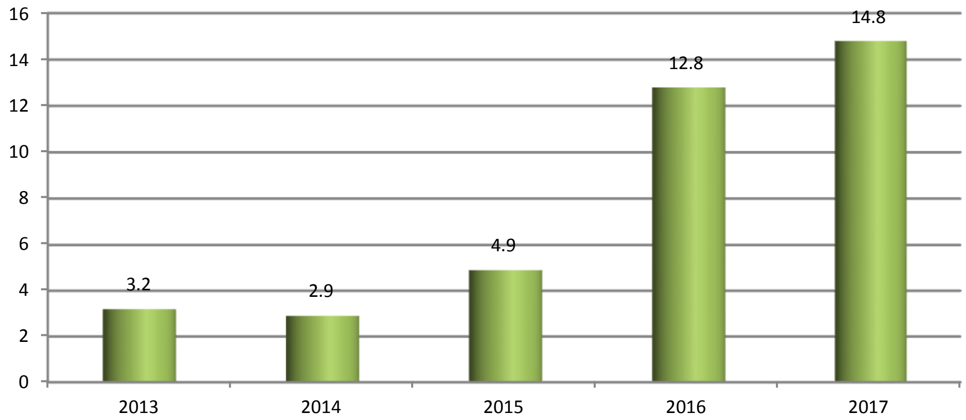
2.4.11 Macro-prudential Surveillance and Regulation

In furtherance of its macro-prudential regulation objectives, the Bank sustained the conduct of top-down solvency appraisals and liquidity management in the banking sector, in the review period. Accordingly, the CBN carried out stress tests to assess the resilience of banks to systemic risks, while the banks conducted bottom-up solvency stress tests. In addition, the CBN continued the regular review of its stress test model to enhance its analytical capabilities and efficiency, in line with advancement in modelling processes.

2.4.12 Banking Sector Soundness

Notwithstanding the gradual recovery of the economy, Banks in 2017, operated in a challenging environment. The industry average capital adequacy ratio (CAR) declined to 10.2 per cent at end-December 2017, compared with 14.8 per cent in 2016, and the 10.0 and 15.0 per cent benchmarks for banks with national and international authorisation, respectively. The decline was as a result of reduction in total qualifying capital, due to impairment from non-performing loans. Similarly, asset quality, measured by the ratio of non-performing loans to industry total, worsened to 14.8 per cent and was above both the benchmark of 5.0 per cent and 12.8 per cent in 2016. Accordingly, the banks were directed to intensify debt recovery, realise collateral for bad debts and strengthen risk management. The average industry liquidity ratio, at 44.6 per cent in 2017, was above the prescribed minimum of 30.0 per cent and the 44.0 per cent in 2016. Four banks did not, however, meet the minimum liquidity ratio at end-December 2017, same as in the preceding year.

Figure 2.12: Banks' Non-Performing Loans, 2013- 2017 (% of Total Credit)



Source: CBN

2.4.13 Examination of Other Financial Institutions

The Bank conducted on-site examination of 969 OFIs in 2017, compared with 944, in the preceding year. The exercise, involved routine risk-based supervision of six (6) development finance institution (DFIs), 34 Primary Mortgage Banks (PMBs), 526 microfinance banks (MFBs) and 51 finance companies (FCs). Target examination was also conducted on 267 MFBs and 84 BDCs in the review period.

The routine risk-based examination of six (6) out of the seven (7) existing DFIs revealed that the composite risk rating of four (4) of the institutions were "High", while two (2) were "Moderate". Earning of two (2) institution was rated "Acceptable", one (1) "Need Improvement", while the remaining three (3) were rated "Weak", arising from significant deterioration in asset quality and high provisions for loan losses. The capital ratings for the six (6) institutions were "Strong" for one (1), "Acceptable" for two (2) and "Weak" for the remaining three (3). Similarly, prudential and soundness analysis of the DFIs revealed that two (2) of the institutions met the minimum regulatory capital of ₦10 billion and capital adequacy ratio (CAR) of not less than 10.0 per cent. Two (2) of the institutions had positive adjusted capital and CAR, but fell short of the minimum regulatory capital, while two (2) had negative adjusted capital and CAR. One (1) of the DFIs had all its credit facilities performing, while the others had non-performing loans ratio above the regulatory threshold.

The routine and target examination of 793 MFBs revealed that the average capital adequacy ratio of the sub-sector declined to 32.58 per cent in 2017 from 58.09 per cent in 2016. Similarly, average portfolio-at-risk increased to 21.2 per cent at end-December 2017, from 18.9 per cent at end-December 2016, indicating a deterioration in the quality of risk assets. Industry average return on assets (ROA) and return on equity (ROE) declined to 3.9 per cent and 7.6 per cent at end-December 2017, respectively, from 4.2 per cent and 10.7 per cent at end-December 2016. There was, however, improvement in the average liquidity ratio, which increased to 91.7 per cent at end-December 2017, above 89.4 per cent at end-December 2016

Other highlights of the examination reports were:

- Weak knowledge and lack of institutional capacity;
- Poor asset quality;
- Poor corporate governance and insider abuse;
- Mission drift; and
- High expenditure profile.

Some of the regulatory interventions to address the challenges included:

- Adoption of the redesigned curriculum for the Microfinance Certification Programme (MCP), to impart requisite knowledge and skills, as well as, inculcate the concept of banking for the poor, low income and the vulnerable groups; and
- Closer and intense supervision, as well as, the implementation of the Bank's zero tolerance for infractions and stiff sanction regime to instill market discipline.

Notwithstanding the deterioration in the key performance indicators (KPIs) of the MFBs, the industry average CAR and liquidity ratio were well above the regulatory minimum of 10.0 and 20.0 per cent, respectively. As the economy continues to improve, the ROA and ROE are likely to improve on account of expected reduction in portfolio-at-risk (PAR) due to improved loan repayments.

The composite risk ratings of the 34 PMBs, examined in the review year, were "Moderate" for four (4) PMBs, "Above Average" for nine (9) and "High" for the remaining 21. The average CAR of the sub-sector increased from 19.10 per cent in 2016 to 34.08 per cent at end-December 2017. There was, however, no improvement in asset quality as the non-performing loan ratio remained unchanged at 34.75 per cent in 2017, same as in 2016. The sub-sector recorded decline in the average liquidity ratio from 51.90 per cent in 2016 to 47.16 per cent at end-December 2017. Similarly, industry average ROA and ROE declined to 0.05 and 0.14 per cent at end-December 2017, from the respective values of 0.83 per cent and 2.8 per cent in 2016. Following the examination, 10 PMBs were placed under watch-list, due to their failure to meet prescribed prudential ratios and other emerging issues.

Routine examination of 51 finance companies (FCs), was conducted in 2017. The examination showed that the average capital adequacy ratio (CAR) of the sub-sector was 18.61 per cent in 2017, compared with 13.90 per cent in 2016. This reflected improvement in the asset quality of the FCs, indicated by decline in the average non-performing loan ratio to 24.41 per cent in 2017, below 40.98 per cent in 2016. Also, industry average ROA improved to 1.08 per cent at end-December 2017, compared with 0.40 per cent at end-December 2016. The examination also revealed that products offered by the FCs, including leasing and consumer loans, were too limited to achieve the objective of financial inclusion. Products, such as debt factoring, funds management and export financing, were not commonly offered. The CBN organised a workshop for the Finance Houses Association of Nigeria (FHAN) to address the issues that arose from the examinations.

2.4.14 Financial Literacy and Education

In the review year, the Bank sustained the implementation of various initiatives and coordination of stakeholders' activities to promote financial literacy and inclusion in Nigeria. In this regard, the CBN developed financial education materials "What You Need to Know" series. The Document contains basic information on savings, access to credit facilities, insurance, investing in the capital market and planning for pension. Also, the Bank, in collaboration with the Nigeria Educational Research and Development Council (NERDC), held the Critical and Editorial Workshop for the development of the Teacher's Guide on the Curriculum as a furtherance to the development of a revised financial education curriculum for basic and senior secondary schools in Nigeria.

In addition, the Bank, in conjunction with other stakeholders, commemorated the 2017 Global Money Week with School Reach-Out sessions, held in Lokoja, Osogbo, Dutse, Uyo, Abakaliki, Makurdi and Maiduguri, involving 1,696 students. Similarly, the Bankers' Committee sub-committee on financial literacy and enlightenment, held sensitisation sessions in the 36 states, involving 85,233 students across 626 schools under its School Mentoring Programme.

Furthermore, the Bank collaborated with the World Bank and other stakeholders to develop the Financial Education Strategy and Monitoring Framework to track the implementation of the various financial education initiatives. This was expected to be followed by the development of a comprehensive evaluation framework for assessing the initiatives.

Also, the Bank, in conjunction with the Federal Ministry of Youth and Sports Development and other stakeholders in the Financial Literacy Working Group, conducted train-the-trainer sessions in 2017 in continuation of the pilot phase of its National Youth Service Corps (NYSC) Peer Educator Training Initiative. The sessions involved batches of 35 volunteer corp members and 5 NYSC staff in 12 states, namely, Sokoto, Kano, Taraba, Gombe, Plateau, Kwara, Lagos, Oyo, Abia, Anambra, Edo and Rivers. The initiative was designed to leverage on the NYSC programme to improve financial literacy among the "Adults Emerging Market" Segment, as identified in the National Financial Literacy Framework. Consequently, 1,448 trained youth corp members served as volunteer financial educators in the review year. An evaluation exercise was scheduled to be conducted in 2018.

Other financial literacy activities carried out by the Bank included:

- Train-the-trainer workshop, involving 210 participants from the targeted consumer groups in Anambra, Benue, Taraba, Jigawa, Cross-River, Enugu and Oyo states, to facilitate the implementation of the Targeted Financial Education Programme for MSMEs and Farmers;
- Collaboration with stakeholders to commemorate the World Savings Day in public secondary schools across the country, involving sensitisation of 65,701 students, resulting in over 2,700 students opening savings accounts; and
- Advocacy visits to stakeholder institutions, namely: Association of Non-Bank Microfinance Institutions (ANMFIN); Ministry of Women Affairs; and the Nigeria Social Insurance Trust Fund (NSITF); to identify areas of collaboration towards improving financial literacy in Nigeria.

2.4.15 Consumer Protection

The Bank commenced the development of the implementation guideline on nine (9) principles of the Consumer Protection Framework in the review year. Consequently, three sets of guidelines were developed, namely: "Guidelines on Fair Treatment of Consumers", to protect customers from unfair and exploitative practices by CBN regulated entities; "Guidelines on Disclosure and Transparency", which required financial institutions to provide relevant information to customers in a timely manner; and "Guidelines on Supervisory Framework" regarding the relationship between the CBN and regulated entities.

In the review period, the Bank conducted two (2) examinations to ensure compliance with the provisions in the Consumer Protection Regulations and the Guide to Bank Charges. The first examination was focused on: compliance with previous post-examination directives, resolution of outstanding complaints, insurance charges on facilities; alignment of internal policies with provisions of the Consumer Protection Framework; and debits on dormant accounts, among others.

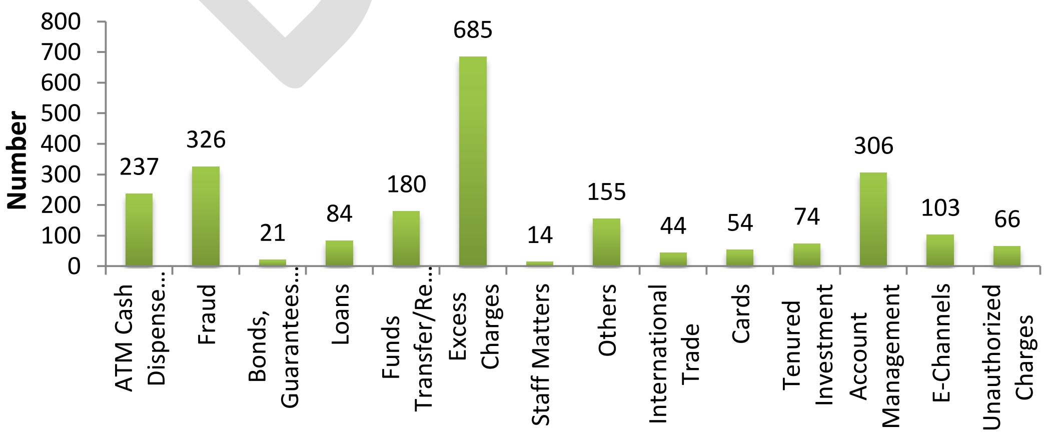
Overall, the exercise revealed the following compliance levels in each focus area: previous post-examination directives (52.6%); resolution of outstanding complaints (26.2%); 2.0 per cent maximum cap on lending fees (50.0%); insurance charges on facilities (66.7%); and debits on dormant account (42.1%).

Compliance levels, in respect of the focus areas for the second examination, were: previous post-examination directives (62.0%); resolution of outstanding complaints (24.6%); charges on debit cards (91.0%); and charge on status enquiries at the instance of customer (52.0%).

The number of complaints received from consumers against financial institutions fell by 11.5 per cent, from 2,656 in 2016 to 2,349 in 2017, with claim value of ₦22.23 billion, US$2.57 million and €6,940.00. Of this number, complaints against banks and other financial institutions (OFIs) accounted for 2,284 (97.2%) and 65 (2.8%), respectively, compared with 96.0 and 4.0 per cent in 2016. The complaints included ATM dispense errors, based on use of debit/credit cards, excess charges, disputes on international trade guarantees, loans, unauthorised charges and account management issues.

Following mediation meetings and other measures by the Bank to facilitate resolution of complaints, 2,510 complaints were resolved and closed in 2017, compared with 2,085 in 2016. Accordingly, refunds based on resolved complaints amounted to ₦5.98 billion, US$2.55 million and €6,940.00; while refunds based on directives and recommendations from compliance examination was ₦7.86 billion. Also, the Bank imposed sanctions, on 17 banks, for failure to comply with regulatory directives.

Figure 2.13: Consumer Complaints by Category, 2017



Source: CBN

2.5 DEVELOPMENTAL FUNCTIONS OF THE CBN

The Bank sustained its developmental function, with a focus on job creation, entrepreneurship development and financial inclusion, to promote inclusive growth. In this regard, it continued the implementation of existing initiatives and introduced new ones to further boost the flow of finance to the real sector.

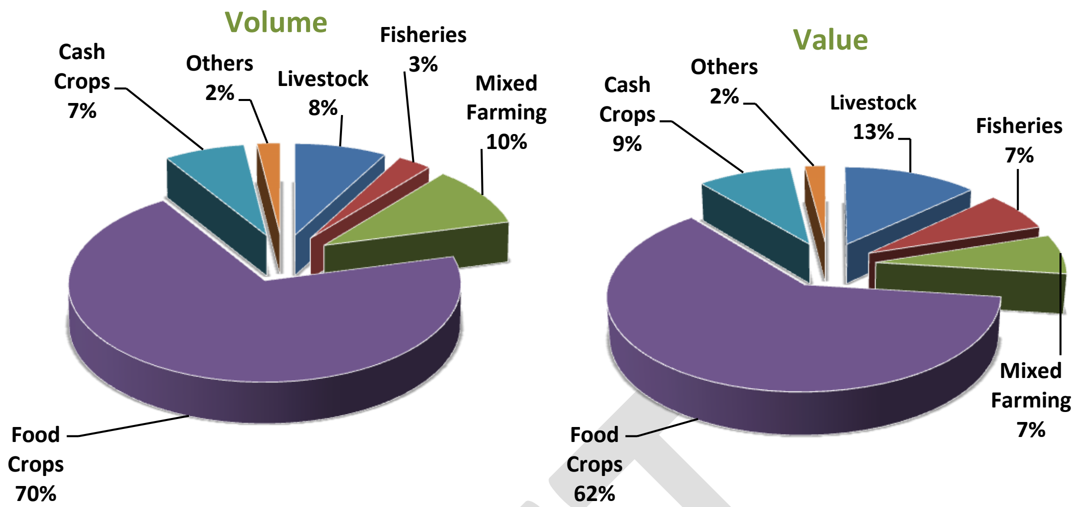
2.5.1 The Agricultural Credit Guarantee Scheme (ACGS)

A total of 41,341 loans, amounting to ₦5.85 billion, were guaranteed, compared with 58,548 loans, valued at ₦8.1 billion in 2016. This represented decrease of 29.4 per cent and 27.8 per cent in volume and value of loans, respectively. Analysis of the loans showed that microfinance banks granted 40,615 loans (98.0% of volume) valued at ₦5.7 billion (97.0% of value), while 726 loans (2.0% of volume) valued at ₦0.15 billion (3.0% of value) were disbursed by commercial banks.

Further breakdown of volume of loans guaranteed by category of borrower showed that 41,046 loans (99.3%) were granted to individuals; 215 loans (0.5%) to self-help or informal groups; 56 loans (0.14%) to cooperatives; and 24 loans (0.06%) to companies. By value of loans, the distribution translated to ₦5.77 billion (98.7%) for individuals; ₦0.03 billion (0.53%) for self-help groups; ₦0.027 billion (0.47%) for cooperatives; and ₦0.016 billion (0.28%) for companies.

The distribution of number of loans guaranteed by purpose indicated that food crops dominated with 28,774 loans (70.0%), followed by mixed farming with 4,027 loans (10.0%); livestock, 3,188 (8.0%); cash crops, 3,036 loans (7.0%); fisheries, 1,383 loans (3.0%); and 'others', 933 loans (2.0%). In terms of value of loans guaranteed, food crops accounted for ₦3.6 billion (62.0%); livestock, ₦0.76 billion (13.0%); cash crop, ₦0.52 billion (9.0%); mixed farming, ₦0.41 billion (7.0%); fisheries, ₦0.39 billion (7.0%); and 'others', ₦0.13 billion (2.0%).

Figure 2.14: Volume and Value of Loans Guaranteed by Purpose Under the ACGS, 2017 (Per cent)



Source: CBN

Cumulatively, the volume and value of loans guaranteed under the Scheme, since inception in 1977 to end-December 2017, stood at 1,101,188 and ₦109.68 billion, respectively.

In addition, 41,075 loans valued at ₦5.95 billion were fully repaid in the review period. This represented decrease of 35.4 and 37.9 per cent in number and value of fully repaid loans, respectively, compared with 63,602 loans valued at ₦9.6 billion fully repaid in 2016.

A breakdown of the volume of fully repaid loans by State indicated that Jigawa State had the highest with 3,600, followed by Ogun and Anambra States, with 3,114 and 2,962, respectively. A distribution of the value of fully repaid loans by State showed the order: Ogun State (₦0.59 billion), Edo State (₦0.48 billion) and Anambra State (₦0.38 billion). Cumulatively, repayments under the ACGS since inception stood at ₦81.5 billion for 858,896 loans, at end-December 2017.

The total value of default claims settled in 2017 was ₦8.3 million in respect of 263 loans. This brought the cumulative claims settled, since inception in 1977 to end-December 2017, to 17,570, valued at ₦645.3 million.

2.5.2 The Interest Drawback Programme (IDP)

A total of 22,035 Interest Drawback Programme (IDP) claims, valued at ₦199.2 million, were settled in the review period, compared with 25,035, valued at ₦265.9 million, settled in 2016. This represented decline of 11.9 and 25.1 per cent in number and value, respectively, relative to the level in 2016. Cumulatively, 336,729 IDP claims, valued at ₦2.9 billion, had been settled since inception of the programme in 2003.

2.5.3 Anchor Borrowers' Programme (ABP)

The sum of ₦27.5 billion was disbursed to 129,709 smallholder farmers in 2017, through 10 participating financial institutions (PFIs). The farmers cultivated 134,231 hectares of land, raised 3,077,650 poultry birds and produced 3,008,150 stock of fish, under the Programme. The benefitting farmers operated under 44 anchor companies in 26 states of the Federation.

The range of commodities eligible for financing under the ABP was expanded from 4 in 2016 to 9 in 2017 due to new risk-sharing models introduced to make the Programme more attractive for prospective anchor companies and financial institutions. These commodities included: rice; wheat; maize; soya beans; groundnut; cassava; cotton; poultry products and fish. At end-December 2017, 24 anchor companies had expressed interest in participating in the 2017/ 2018 dry season farming under the ABP.

From inception in 2015 to end-December 2017, a cumulative sum of ₦55.5 billion had been disbursed through 10 PFIs to finance 256,305 smallholder farmers, working with 69 anchor companies. Additionally, 883,657 and 2,650,968 direct and indirect jobs, respectively, had been created.

Table 2.7: Funds Disbursement under the ABP by Sector (2015 – 2017)

Anchors	Number of Anchors	Number of Farmers	Number of Hectares	Total Disbursements (₦' Billion)
State governments	10	133,066	133,066	26.6
Private	59	123,239	161,486	28.9
TOTAL	**69**	**256,305**	**294,552**	**55.5**

Source: CBN

Repayments stood at ₦11.2 billion at end-December 2017, resulting in cumulative repayment of ₦11.6 billion, since inception of the Programme in 2015.

2.5.4 Commercial Agriculture Credit Scheme (CACS)

The sum of ₦116.7 billion was released to 14 banks, in respect of 52 projects in the review year. This comprised 37 private projects, valued at ₦46.2 billion and 15 state government-sponsored projects, valued at ₦70.5 billion. Relative to the ₦69.9 billion released to 64 projects in 2016, this showed a 67.0 per cent increase in the value but 18.8 per cent decrease in number of loans disbursed.

Analysis of funds released under CACS by value-chain in 2017 showed that, production, agricultural infrastructure, input supply and processing accounted for 37.4, 34.3, 15.5 and 12.8 per cent, respectively. There were no applications for funding in respect of marketing and storage.

Table 2.8: Funds Disbursement under CACS by Value Chain Activity (2017)

Category	Projects		Value	
	Number	%	₦ 'billion	%
Input Supplies	8	15.4	18.0	15.5
Production	30	57.7	43.7	37.4
Processing	10	19.2	15.0	12.8
Marketing	0	0	0	0
Storage	0	0	0	0
Agricultural Infrastructure	4	7.7	40.0	34.3
Total	**52**	**100%**	**116.7**	**100%**

Source: CBN

From inception in 2009 to end-December 2017, a cumulative sum of ₦523.6 billion had been disbursed to 549 projects under the Programme as follows: ₦273.7 billion for 301 projects from the CACS Receivables Account; and ₦280.2 billion for 248 projects from the CACS Repayment Account.

Repayments amounting to ₦48.6 billion, were received from 17 banks in the review year, compared with ₦48.0 billion from 18 banks in 2016. The repayments in 2017 showed a marginal increase of 1.2 per cent, over the level in 2016. Cumulative repayments, since inception of the Scheme in 2009 to end-December 2017, stood at ₦273.6 billion for 547 projects, representing steady repayments for 263 projects and full repayments for 284 projects.

In addition, 1,891 new jobs, comprising 891 skilled and 1,000 unskilled jobs, were created in 2017, bringing the cumulative number of jobs created under the Scheme since inception to end-December 2017 to 1,138,244.

The guidelines of the Scheme were amended in the year to make the payment of insurance premium to the Nigerian Agricultural Insurance Corporation (NAIC) a mandatory requirement for participation under the Scheme. Moreover, a non-interest window was introduced to encourage the participation of Non-Interest Financial Institutions (NIFIs) and to address the high level of financial exclusion in areas where there were apathy to interest-based financial products.

2.5.4.1 The Paddy Aggregation Scheme (PAS)

The Paddy Aggregation Scheme (PAS) was introduced in 2017 to provide working capital facilities of 6 months duration at interest rate of 9.0 per cent per annum. It was designed to enable rice millers mop-up paddy during harvesting, when the price is lowest. The goal is to reduce the cost of paddy, which accounts for a substantial proportion of the cost of local rice production, and make the commodity affordable to final consumers. The sum of ₦30.4 billion was released to 4 banks to finance 8 integrated rice millers. The PAS is funded from the CACS Fund.

2.5.5 The Agri-Business/Small and Medium Enterprises Investment Scheme (AGSMEIS)

The Bankers' Committee, at its 331st meeting which was held on February 9, 2017, established the Agri-Business/ Small and Medium Enterprises Investment Scheme (AGSMEIS), to support the Federal Government's efforts at promoting agricultural businesses as vehicles of employment generation and sustainable economic development. The Scheme is funded from the 5.0 per cent of profit after tax (PAT) of all the commercial banks in the country. At end-December 2017, ₦26.8 billion had been received from 21 commercial banks. The guidelines for the Scheme were amended in the year to provide for the establishment of a special purpose vehicle (SPV) to midwife the process of utilisation of the funds.

2.5.6 The Accelerated Agriculture Development Scheme (AADS)

The Bank launched the Accelerated Agriculture Development Scheme (AADS) in October 2017, to address unemployment, by engaging annually, at least 370,000 youth farmers in the agricultural value chain. The Scheme provides credit at 9.0 per cent per annum, with maximum tenor of five years, depending on gestation period of the enterprise.

As part of their contribution, the state governments would provide logistic support, such as land development, infrastructure and services, including farmer training and extension. There would be a window for state governments to access funding for land development, provided they expressed acceptable level of commitment by initiating the Scheme in their states, with at least 1,000 farmers.

2.5.7 The Non-Oil Export Stimulation Facility and the Export Development Facility

The ₦500 billion Non-Oil Export Stimulation Facility (NESF) was activated in the review period. The Facility, which is managed by the CBN, was designed to increase access by export-oriented firms to affordable financing and reposition the sector for greater competitiveness and foreign exchange earnings.

Additionally, the Bank established the ₦50 billion Export Development Facility (EDF) to: finance State Export Development Initiatives in the 37 states, including the FCT; promote value-chain development in shea butter, cashew and jute/kenaf and encourage women and youth participation in these value chains; and, support projects of national economic importance and proven export potentials, that require loan restructuring. The EDF would be managed by NEXIM and also, administered at a maximum 'all-in' interest rate of 9.0 per cent per annum.

The interventions are to be funded through the CBN's investments in the ₦500 billion and ₦50 billion debentures issued by the NEXIM for the NESF and the EDF, respectively, in line with Section 31 of the CBN Act of 2007.

2.5.8 The Micro, Small and Medium Enterprises Development Fund (MSMEDF)

A total of ₦4.3 billion was disbursed under the wholesale funding and grant components of the MSMEDF. This represented a decline of 81.3 per cent, below the ₦23.0 billion disbursed in 2016, due to reduction in the number of approvals, following intensified efforts on recovery. The sum of ₦4.2 billion (98.0%) was wholesale funding through PFIs to finance MSMEs, while ₦0.1 billion (2.0%) was disbursed as grant to facilitate the registration of microfinance banks on credit bureaux and their integration into the credit reporting system.

Analysis of the wholesale funding by PFIs indicated that financial cooperatives accessed ₦62.0 million (1.5%); commercial banks, ₦0.37 billion (8.8%); microfinance banks, ₦1.6 billion (38.5%); non-bank microfinance institutions or Non-Governmental Organisation-Microfinance Institutions (NGO-MFIs), ₦7.5 million (0.2%); and state governments, ₦2.1 billion (51.0%).

The cumulative disbursement to MSMEs, from inception in 2013 to 2017, was ₦76.9 billion, comprising ₦53.1 billion (69.01%) through state governments, ₦12.6 billion (16.38%) through commercial banks and ₦10.2 billion (13.24%) through microfinance banks. Others were NGO-MFIs, ₦0.5 billion (0.65%), cooperatives, ₦0.4 billion (0.55%); and development finance institutions (DFIs), ₦10.0 million (0.01%); and Grants, ₦0.1 billion (0.17%).

2

MONETARY POLICY, SURVEILLANCE ACTIVITIES AND OPERATIONS OF THE CBN

The sum of ₦7.5 billion was repaid in 2017, representing an increase of 53.3 per cent over the ₦4.8 billion in 2016. Cumulative repayment under the intervention stood at ₦13.4 billion, at end-December 2017.

Table 2.9: Funds Uptake and Repayment under the MSMEDF (2014-2017)

CLASS	DISBURSEMENT (₦ billion)	REPAYMENT (₦ billion)
State governments	53.1	3.5
Commercial Banks	12.6	4.9
Microfinance Banks	10.2	4.5
Development Finance Institutions (DFIs)	0.01	0
Financial Cooperatives	0.4	0.2
NGO-MFIs	0.5	0.3
GRANT	0.1	N/A
TOTAL	**76.9**	**13.4**

Source: CBN

2.5.9 The Nigeria Electricity Market Stabilisation Facility (NEMSF)

Under the Nigeria Electricity Market Stabilisation Facility (NEMSF), ₦5.5 billion was disbursed to 3 participants (Eko Distribution Company, Egbin Power Plc. and Pan-Ocean Oil) in the power sector in 2017, bringing the cumulative disbursement, since inception in 2014, to ₦120.2 billion.

Table 2.10: Funds Uptake under the NEMSF (2016 – 2017)

	Description	January - December (2016)	January - December (2017)	Total (from inception)
DisCos	No. of Beneficiaries	2	1	
	Amount (₦ billion)	8.6	0.1	49.7
GenCos	No. of Beneficiaries	13	1	
	Amount (₦ billion)	30.6	5.2	54.3
GasCos	No. of Beneficiaries	5	1	
	Amount (₦ billion)	10.4	0.1	15.7
Service Providers	No. of beneficiaries	1	0	
	Amount (₦ billion)	0.5	0	0.5
	Total (₦ billion)	**49.9**	**5.5**	**120.2**

Source: CBN
Note: DisCos - Electricity Distribution Companies
GenCos - Electricity Generating Companies
GasCos - Gas Supplying Companies

The sum of ₦9.3 billion was repaid by 8 DisCos that signed up under the Facility in the review period, raising the cumulative repayment to ₦15.6 billion. The achievements under the Facility, thus far, included:

- Facilitation of capital expenditure required by the generation companies (GenCos) that led to the recovery of 1,193MW generating capacity, through the overhaul of 10 turbines at Geregu, Transcorp Ughelli and Ibom Power Plants;
- Recovery programmes in three hydro power stations (Intake underwater repair project, overhaul of Unit 4 and compliant metering/supplementary protection at the Shiroro Dam, overhaul of 2G6 at the Jebba Hydro Dam and the rehabilitation of 3 units at Kainji Dam);
- Facilitation of projected capital expenditure that enabled DisCos to acquire and deploy equipment for improved service (through issuance of LCs for the purchase of over 704,928 maximum demand 3-phase smart and single phase meters);

- Rehabilitation of over 2,226 km of 11KVA lines and 130 km of 0.45KVA lines;
- Procurement and installation of 511 transformers;
- Construction of 56 distribution sub-stations; and
- Acquisition of one mobile injection sub-station.

2.5.10 The Power and Airline Intervention Fund (PAIF)

The sum of ₦6.8 billion was released to the Bank of Industry (BOI) for two power projects under the Power and Airline Intervention Facility (PAIF). These were: the Azura Power West Africa Ltd. (₦6.2 billion); and Kano Power Project (₦0.55 billion). By end-December 2017, the cumulative amount released to BOI stood at ₦279.4 billion, out of which the sum of ₦158.6 billion was disbursed for 43 power projects, while ₦120.8 billion was released for 16 airline projects.

Repayments, in the review period, amounted to ₦26.7 billion, comprising ₦10.4 billion from airline projects and ₦16.3 billion from power projects. Cumulative repayment, from inception in 2010, was ₦119.8 billion, comprising ₦60.9 billion for airline and ₦58.9 billion for power projects.

By end-December 2017, the achievements of PAIF were as follows:

Power

- Provided support for the generation of 1,373.8 megawatts (MW) of electricity by GenCos;
- Captive power to the cement, steel production, fast moving consumer goods (FMCG), wood products, packaging, and agro-allied Industries, which resulted in reduction in domestic production costs, improvement in industrial capacity utilisation, enhanced competitiveness and employment generation;
- Financed 11 Independent Power Projects (IPPs);
- Financed the construction of the 120-kilometre natural gas pipeline from Ikpe Anang in Akwa-Ibom State to Mfamosing in Cross River State, which transports power to the Calabar IPP and the cement industry in Calabar; and

- Cost savings to promoters of power projects, through interest savings of ₦60.23 billion.

Airlines

- Cost savings of ₦74.55 billion to airlines (some returned to business and others acquired additional aircrafts); and
- Funding of hangar (which reduced the pressure on foreign exchange and also, attracted patronage from regional airlines).

2.5.11 The Nigeria Bulk Electricity Trading-Payment Assurance Facility (NBET-PAF)

The Federal Government introduced the ₦701 billion Payment Assurance Facility for the Nigeria Bulk Electricity Trading (NBET) Plc. as a bridging facility. Through this Facility, NBET provides a minimum level of payment to GenCos to enable them meet their obligations to gas suppliers (GasCos). The aim of the PAF is to increase the level of power generation in the country.

A total of ₦109.7 billion was paid in the review period for invoices raised by GenCos and GasCos between March and July 2017.

Table 2.11: Funds Disbursement under the NBET-PAF (2017)

Month	GasCos (₦ billion)	GenCos (₦ billion)	TOTAL (₦ billion)
March	12.5	8.9	21.4
April	12.8	6.8	19.6
May	14.2	7.8	21.9
June	15.2	7.6	22.9
July	14.1	9.8	23.9
Total	68.8	40.9	109.7

Source: CBN

Although the beneficiary of this facility is NBET, the company directs the CBN to settle the GasCos and GenCos as payments fall due. The Facility is backed by a guarantee of the Federal Ministry of Finance for the payment of principal and interest, where NBET is unable to pay from appropriation.

2.5.12 The Small and Medium Enterprises Refinancing and Restructuring Facility (SMERRF) and the Real Sector Support Facility (RSSF)

The Small and Medium Enterprises Refinancing and Restructuring Facility (SMERRF) was discontinued in 2015, after fulfilling its objectives and was replaced with the Real Sector Support Facility (RSSF), with a different strategic focus.

Cumulatively, ₦381.99 billion was disbursed to 604 projects under the SMERRF from inception to end-December 2015. Of this amount, a cumulative sum of ₦100.7 billion had been repaid as at end-December 2017. The Scheme had created 29,642 jobs. It also sustained the operations of 604 companies, 340 of which were in operation before benefitting from the Facility, while the remaining 264 obligors accessed the Fund to complete/ resuscitate their projects.

Table 2.12: Sectoral Distribution of Loans under SMERRF

S/N	Sector	Number of projects	Value (₦' billion)
1	Agro allied	69	22.92
2	Chemicals & Plastics	156	147.00
3	Engineering & Construction	92	56.81
4	Food & Beverages	102	72.55
5	Hotel & Tourism	2	0.53
6	Information and Communication Technology (ICT)	20	14.12
7	Oil & Gas	21	8.23
8	Paper & Allied Products	57	26.17
9	Pharmaceuticals	37	11.61
10	Solid Minerals	18	6.90
11	Textile & Leather	18	8.52
12	Transportation	12	6.63
	TOTAL	**604**	**381.99**

Source: CBN

The Real Sector Support Facility (RSSF) was established in November 2014, to provide long-term, low-interest financing solution to Nigerian SMEs with financing needs subject to a maximum of ₦10.0 billion. The objective of the

Facility was to close the short-term and high-interest financing gap for SME/ manufacturing and start-ups, as well as, create jobs through the real sector of the Nigerian economy.

The sum of ₦45.2 billion was disbursed to 11 projects under the RSSF in the review year. Cumulatively, the sum of ₦52.0 billion had been disbursed to 14 projects since inception to end-December 2017. Repayments under the Facility, which started in the year, stood at ₦0.79 million at end-December 2017.

2.5.12.1 The National Food Security Programme (NFSP)

The CBN approved the National Food Security Programme (NFSP), as a special funding window under the RSSF in November 2016, to encourage the commercial or large-scale production and processing of grains, such as rice, maize, sorghum and millet. This was designed to support the Federal Government's Strategic Grain Reserves and boost national food security.

The sum of ₦38.96 billion was disbursed in the review period. The cumulative disbursement from inception stood at ₦38.96 billion. All the facilities are still under moratorium.

2.5.12.2 The Presidential Fertilizer Initiative (PFI)

The Federal Government established the Special Intervention Programme on Fertilizer in December 2016 to facilitate the domestic production of one million metric tonnes of blended nitrogen, phosphorous and potassium (NPK) fertilizer for the 2017 wet season farming. The specific objectives were to: resuscitate moribund fertilizer blending plants and shore up domestic manufacturing capacity; reduce fertilizer importation to conserve foreign exchange; ensure affordable and timely supply of fertilizer to farmers; and ultimately, enhance job creation. The Nigeria Sovereign Investment Authority (NSIA) manages the PFI. In the review year, the CBN released ₦5.0 billion to fertilizer blending plants for procurement of raw materials, namely; diammonium phosphate, muriate of potash, urea and limestone. The funds were disbursed through the RSSF and all the facilities were under moratorium as at end-December 2017.

2.5.13 The Textile Sector Intervention Facility (TSIF)

To support the resuscitation of the textile and garment industry, the CBN introduced the ₦50.0 billion Textile Sector Intervention Facility for restructuring of existing and new facilities for textile companies. The sum of ₦26.4 billion was disbursed to 31 obligors under the Facility managed by the BOI.

2.5.14 The National Collateral Registry (NCR)

At end-December 2017, 104 financial institutions, comprising 3 commercial banks, 1 merchant bank, 1 development finance institution, 2 non-bank financial institutions and 97 microfinance banks, were registered on the NCR portal. This brought the cumulative number of financial institutions registered to 173, comprising 21 commercial banks, 4 merchant banks, 4 development finance institutions, 1 specialised (or non-interest) bank, 2 non-bank financial institutions and 141 microfinance banks.

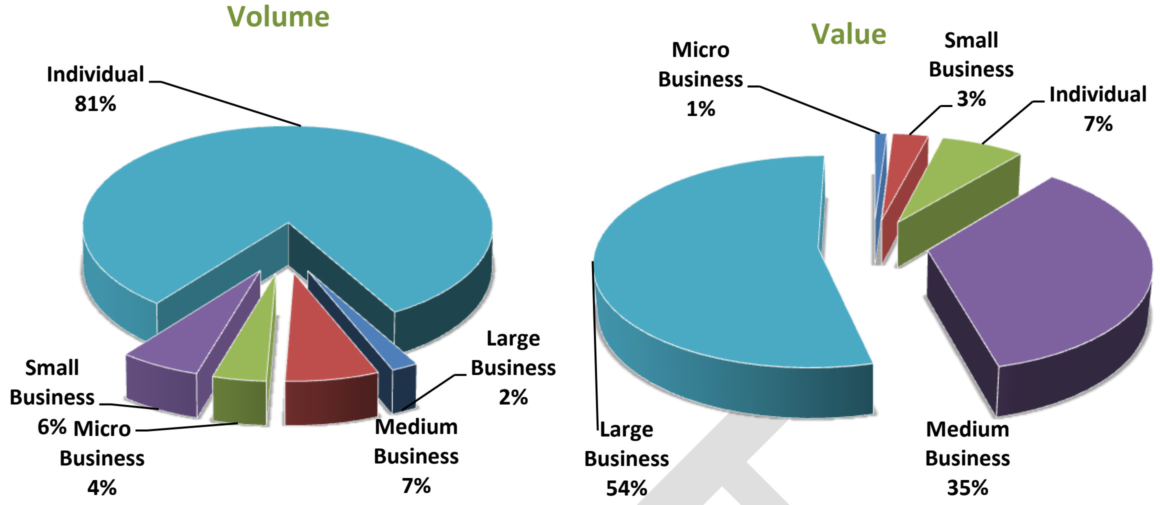
Of this number, 36 financial institutions registered their priority interests in movable assets, valued at ₦487.3 billion, US$20 million and €6.1 million, through 21,287 financing statements. The local currency value of assets registered was 1,922 per cent, higher than the corresponding value of ₦24.1 billion in 2016. There were no foreign currency-valued assets in 2016. Similarly, the number of financing statements showed a 1,361 per cent increase over the 2016 level of 1,457 statements. The increase was as a result of compliance with the Secured Transactions in Movable Assets Act (STMA), which came into effect in May 2017.

Table 2.13: Number and Value of Financing Statements by Registrants

	Number of financing statements			Value of financing statements (billion)	
Debtor type	**2017**	**Cumulative**	**Currency**	**2017**	**Cumulative**
Individual	17,221	18,396	NGN	34.3	38.1
Large Business	359	402	NGN	265.1	266.8
			USD	0.02	0
			EUR	0.006	0
Medium Business	1,601	1,728	NGN	170.5	187.2
Small Business	1,293	1,339	NGN	13.1	14.6
Micro Business	813	879	NGN	4.3	4.6
Total	**21,287**	**22,744**	**NGN**	**487.3**	**511.3**
			USD	**0.02**	**0.02**
			EUR	**0.006**	**0.006**

Source: CBN

Figure 2.15: Number and Value of Financing Statements Registered on the NCR by Debtor Type (2017) (Per cent)



Source: CBN

Analysis of the number of financing statements by debtor type showed that, the highest proportion of 81.0 per cent was registered in respect of loans to individuals, while the lowest proportion of 2.0 per cent was in respect of large businesses. Conversely, the highest value of financing statements, with a proportion of 54.0 per cent, was registered in respect of large businesses, while the lowest proportion of 1.0 per cent was in favour of micro businesses.

From commencement of operations in 2016 to end-December 2017, 22,744 financing statements had been registered on the portal and the value of assets registered was ₦511.3 billion, US$20 million and EUR6.1 million. In addition, 1,978 searches were conducted on the NCR in the review period, compared with 19 in 2016.

2.5.15 The Financial Inclusion Programme

Following the implementation of the National Financial Inclusion Strategy (NFIS), there was an improvement in the performance of electronic payments and savings in 2017, compared with 2016. The progress recorded included:

- Increase in the number of transaction-related accounts[2] with banks from 84.5 million accounts (84 accounts per 100 adults) in December

[2] Transaction accounts are all account types, which can be used for electronic payment (fixed deposit account was excluded from this classification).

2016 to 98.7 million accounts (99 accounts per 100 adults) at end-December 2017;

- Growth in the number of savings-related accounts from 67.7 million accounts (68 accounts per 100 adults) in December 2016 to 79.4 million (79 accounts per 100 adults) at end-December 2017;
- Increase in the number of transaction-related accounts with microfinance banks from 9.6 million in December 2016 to 13.8 million at end-December 2017; and
- Growth in the number of savings-related accounts with MFBs from 6.8 million in December 2016 to 10.6 million at end-December 2017.

Table 2.14: Formal Financial Service Product Indicators

Classification	Proxy Indicator	Baseline 2010[1]	Actual 12/2016[2] **	12/2017[2] **	Target 2017	Target 2020
Ownership: % of adult population having at least one transaction account with a formal financial institution **Usage:** % of adult population making electronic payments	Number of transaction accounts with a bank or Microfinance (MFB[3])	22% (18.3m adults)	82.5m **Actual** accounts (83 accounts per 100 adults)	96.5m **Actual** accounts (97 accounts per 100 adults)	59.8% (59.3m adults)	70% (77.4m adults)
Ownership: % of adult population having at least one savings-related account with a formal financial institution **Usage:** % of adult population saving with a formal financial institution	Number of savings-related accounts with a DMB or MFB[4]	24% (20.3m adults)	67.7m accounts (67 accounts per 100 adults	79.5m accounts (79 accounts per 100 adults)	49.2% (48.79m adults)	60% (66.3m adults)
% of adult population using a credit product with a formal financial institution	Number of credit accounts with a DMB or MFB[5]	2% (1.7m adults)	2.7m accounts (3 accounts per 100 adults)	2.3m accounts (2 accounts per 100 adults)	29.0% (28.7m adults)	40% (44.2m adults)

Source: CBN

[1]National Financial Inclusion Strategy, 2012; [2]Data from microfinance banks only based on returns from 64% of all MFBs for 12/2016(provisional) and for 57% of all banks for 12/2016; Data includes both personal and corporate accounts; [3]Data includes current and savings accounts for banks and current and voluntary savings accounts from MFBs; [4]Data includes current, savings and fixed/term deposit accounts for banks and current, voluntary savings, mandatory deposit and fixed/term deposit accounts from MFBs; [5]Data includes both personal and corporate accounts;

*** Provisional figure.*

Table 2.15: Channels for Formal Financial Services

Classification	Baseline 2010[1]	Actual 2016*	Actual 2017*	Target 2017	Target 2020
Number of DMB branches per 100,000 adults	6.8 (5,797 branches)	5.7 (5,564 branches)	5.5 (5,457 branches)	7.5 (7,478 branches)	7.6 (8,398 branches)
Number of MFB branches per 100,000 adults	2.9 (2,456 branches)	2.2 (2,181 branches)[2]	2.4 (2,367 branches)[2]	4.7 (4,662 branches)	5.0 (5,525 branches)
Number of ATMs per 100,000 adults	11.8 (9,958 ATMs)	17.6 (17,131 ATMs)	17.7 (17,5121 ATMs)	49.6 (49,115 ATMs)	59.6 (65,859 ATMs)
Number of POS terminals per 100,000 adults	13.2 (11,223 POS)	124.5 (121,388 POS)	126.8 (125,608 POS)	606.7 (606,606 POS)	850.0 (939,267 POS)
Number of Agents per 100,000 adults	0.0	15.5 (15,145 agents)[4]		38.0 (37,552 agents)	62.0 (68,511 agents)

Source: CBN

[1]National Financial Inclusion Strategy, 2012; Value for MFB branches approximate based on EFInA (2010); [2]Data for 12/2016 based on 57% of all licensed MFBs, while data for 12/2016(provisional) is based on 64% of all licensed MFBs only; [4]815 bank agents and 14,330 mobile money agents; Data for mobile money agents is based on only 13 out of 22 MMOs, who had already uploaded data on CBN's Agent Banking Database as at November 11, 2016.
**Provisional figure.*

2.5.16 The Youth Entrepreneurship Development Programme (YEDP)

The Youth Entrepreneurship Development Programme (YEDP) was introduced in 2016, to deepen credit delivery to youth entrepreneurs, including serving and ex- National Youth Service Corps (NYSC) members.

In 2017, three (3) banks (Sterling Bank Plc., First City Monument Bank Plc. and SunTrust Bank Limited) submitted expressions of interest to participate in the Programme. The sum of ₦123.58 million was released to Sterling Bank for 50 projects. Cumulatively, the disbursement, from inception in 2016 to end-December 2017, amounted to ₦209.33 million for 82 projects.

2.5.17 Other Development Finance Support Activities

Other channels used by the Bank to enhance credit delivery to the real sector, build capacity of institutions and contribute to the growth of the Nigerian economy in 2017 included the following activities:

2.5.17.1 Commodity Promotion

2.5.17.1.1 Oil Palm Seminar

The Bank organised a seminar on oil palm with the theme: "Developing a Framework for Sustainable Financing of Smallholders in the Oil Palm Value Chain in Nigeria", on December 6, 2017. The objectives of the Seminar were to: develop a framework for sustainable financing of smallholder oil palm production, processing and export under the Anchor Borrowers' Programme (ABP); and promote synergy between research institutes, agro-input suppliers, farmers, processors, financiers and other stakeholders, to accelerate oil palm production. At the end of the Seminar, the following resolutions were adopted:

- A working definition of smallholders as farmers with 1 – 5 hectares of oil palm plantation;
- Smallholder oil palm plantations to contribute equity of 5 per cent of loan value or documented value of farmland to qualify for participation in the ABP;
- Certification of seedlings by the Nigerian Institute for Oil Palm Research (NIFOR) and minimum of twelve months for the transfer of seedlings to production site;
- Adoption of group and individual intervention access models; and
- Request for state governments to waive documentation and survey costs on land acquisition and urgently provide key infrastructure, such as access roads.

2.5.17.1.2 2016/ 2017 National Survey on Agricultural Exportable Commodities Statistics in Nigeria

The Consultative Committee on the Agricultural Export Commodity Statistics (CCAECS) conducted the 2016/ 2017 survey on the production of exportable commodities, as mandated by the Federal Government. Collation of the report was in progress. The annual survey of agricultural export commodities provides useful data for policy makers, investors and researchers. The CCAECS comprises the National Bureau of Statistics (NBS), the Federal Ministry of Agriculture and Rural Development (FMARD), the Federal Ministry of Industry, Trade and Investment (FMITI) and the CBN, which also serves as the secretariat.

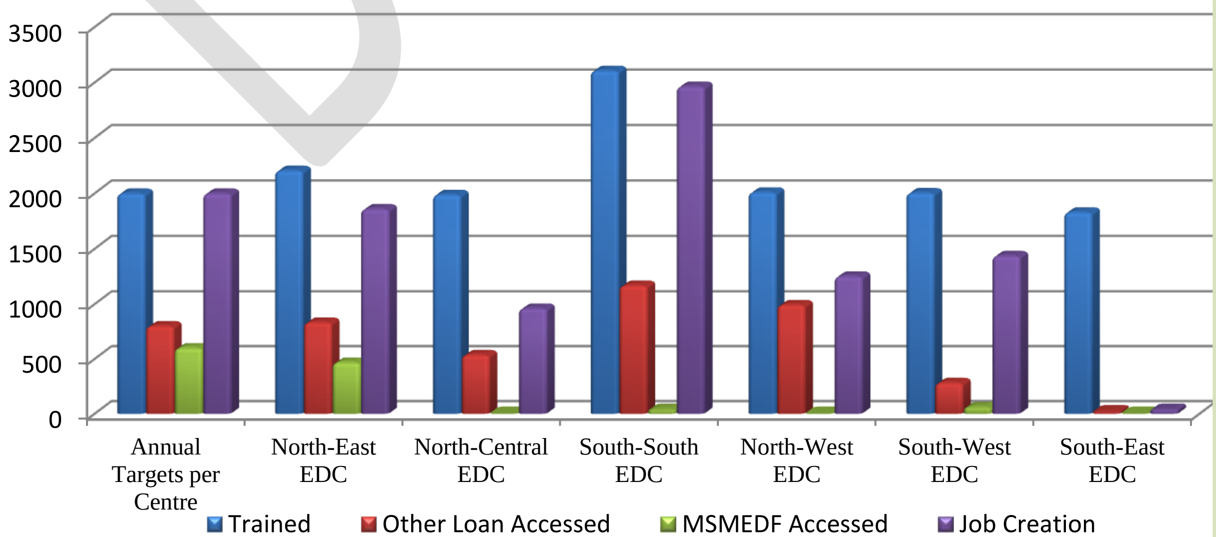
2.5.17.1.3 The National Egg Production (NEGPRO) Scheme

The CBN held several meetings with the FMARD and the TUNS Farms Nigeria Limited to fine-tune modalities for participation of the NEGPRO Scheme farmers in the ABP. It was agreed that there would be a pilot run of the Scheme with ABP financing in Kogi State. The NEGPRO Scheme is a Federal Government initiative, aimed at boosting egg production and the poultry value chain, supporting adequate nutrition for Nigerian children and generating employment.

2.5.17.2 Entrepreneurship Development

The CBN Entrepreneurship Development Centres (CBN-EDCs) collectively trained 13,564 individuals, created 9,334 jobs and facilitated access for 4,803 trainees to bank finance, in the review period. A comparison of the EDCs in 2017 showed that the South-South EDC posted the best performance in terms of three indices: number of trainees; number of participants that accessed funds; and number of jobs created. The North-East EDC was second, while the North-West EDC came third. The least performing EDC was that of the South-East.

Figure 2.16: Comparative Performance of EDCs in 2017



Source: CBN

Performance indices for the CBN-EDCs generally recorded an upward trend. The number of trainees increased at an annual average rate of 31.0 per cent from 6,361 in 2014 to 13,564 in 2017. Jobs created rose by 150.0 per cent annually to 9,334 in 2017, from 967 in 2013, while income generated increased from ₦31.8 million to ₦67.8 million, in the review period. Furthermore, the number of trainees that accessed 'other loans' increased at a slower annual rate of 30.0 per cent, from 3,373 in 2014 to 4,803 in 2017. However, access to the Micro, Small and Medium Enterprises Development Fund (MSMEDF) contracted, over the same period, as the number of trainees, who accessed it, declined by 70.0 per cent annually.

Table 2.16: Summary of EDCs Performance (Since Inception 2014 - 2017)

ACHIEVEMENTS						
S/No	Classification	Aggregate Annual Targets for the 6 centres	Aggregate achievement			
			2014 (by 3 centres)	2015 (by 3 centres)	2016 (by 5 centres)	2017 (by 6 centres)
1	Number of Participants Trained	12000	6361	10326	13141	13564
2	Number of Trainees that accessed Other Loans	4800	2373	2246	3838	4803
3	Number of Trainees that accessed MSMEDF	3600	0	1445	567	114
4	Jobs Created	12000	6360	7122	8527	9334
5	Income Generated (₦ million)	60,000,000	31.8	51.6	65.7	67.8

Source: CBN

The CBN, effective December 31, 2017, disengaged from the promotion of five (5) parent and 1 outreach centres, in line with the exit strategy for the CBN-EDCs intervention and at the expiration of the Memorandum of Understanding (MoU) signed with implementing agencies and host state governments. These were the centres in the North-East (Maiduguri), North-Central (Makurdi) with an Outreach Centre (Minna), North-West (Kano), South-West (Ibadan), and South-South (Calabar) geo-political zones. The South-East EDC, which commenced in April 2016, was the only one operating on the CBN-EDCs intervention model, but would terminate in March 2019.

2.5.17.3 Microfinance Management

2.5.17.3.1 National Microfinance Policy Consultative Committee (NMFPCC)

The 20th Meeting of the National Microfinance Policy Consultative Committee (NMFPCC) was held on October 31, 2017. The Meeting addressed the following issues: syllabus for the Microfinance Certification Programme (MCP); shadow banking (the granting of credit to members of the public by non-licenced or non-deposit-taking institutions); the MSMEDF; extension of Bank Verification Number (BVN) enrollment to microfinance clients; payment of deposit insurance to customers of failed microfinance banks; the National Association of Microfinance Banks Unified Information Technology (NAMBUIT) Platform; the National Collateral Registry (NCR); and update on the winding down of the Rural Financial Institutions Building (RUFIN) Programme.

Some of the resolutions of the Meeting were:

- Adoption of the reviewed syllabus for the MCP;
- Directing the mandatory conversion of NGO-MFIs with 2,000 members or asset base of over ₦20.0 million, to microfinance banks;
- The need for regulation and supervision of shadow banking;
- Strengthening the monitoring of the MSMEDF to forestall diversion of funds by state governments and PFIs;
- Training of MFB and MFI staff to support the BVN enrollment of microfinance customers;
- Fast-tracking of payment of deposit insurance to outstanding MFB customers by the Nigeria Deposit Insurance Corporation (NDIC);
- The need for introduction of a new programme to consolidate the successes recorded by the RUFIN in the enhancement of the capacity of MFIs to access the MSMEDF; and
- Invitation of the Development Bank of Nigeria to subsequent meetings of the Committee.

The NMFPCC is the highest decision making body on microfinance in Nigeria. It was established in accordance with the revised Microfinance Policy, Regulatory and Supervisory Framework for Nigeria. Membership of the Committee comprises: the CBN (Chairman); NDIC; Federal Ministry of Finance (FMoF); Ministry of Budget and National Planning; Federal Ministry of Agriculture and Rural Development (FMARD); Small and Medium Enterprises Development Agency of Nigeria (SMEDAN); National Poverty Eradication Programme (NAPEP); Union Bank of Nigeria (UBN); Nigerian Association of Small and Medium-scale Enterprises (NASME); National Association of Microfinance Banks (NAMB); and the Association of Non-bank Microfinance Institutions of Nigeria (ANMFIN).

CHAPTER THREE

THE GLOBAL ECONOMY

Global economic growth strengthened to 3.7 per cent in 2017, from 3.2 per cent in 2016, influenced by a number of key developments. These were: the significant pickups in investment, trade, and industrial production; strengthening business and consumer confidence; benign financial environment; impact of the recent U.S. tax policy changes; and a more robust global demand, as well as, perception of reduced geopolitical tensions. Consequently, the commodity markets rebounded, owing to significant increase in investment and trade. Global inflation increased, reflecting significant economic activity and the generally-accommodative monetary policy stance in the advanced economies. However, central banks, in most emerging market and developing economies, generally, raised their policy rates to stem inflationary pressures and encourage capital inflow to stabilise the foreign exchange markets. Thus, most currencies gained against the US dollar, owing to strengthening non-resident portfolio inflow to the emerging market and developing economies. In addition, improved investors' optimism, spurred by the perception of reduced geopolitical tensions, buoyed activities in the global financial market. These developments boosted activities in the capital market in 2017, with equities, generally, maintaining a bullish trend.

3.1 OUTPUT GROWTH

Global economic growth strengthened to 3.7 per cent in 2017, from 3.2 per cent in 2016, influenced by a number of key developments. These were: the significant pickups in investment, trade, and industrial production; strengthening business and consumer confidence; benign global financial environment; and the impact of the recent U.S. tax policy changes, as well as, a more robust global demand.

In the advanced economies, growth rebounded to 2.3 per cent in 2017, from 1.7 per cent in 2016, supported primarily by acceleration in investment demand, and expectations of a gradual normalisation of monetary policy. The U.S. economy grew by 2.3 per cent, up from 1.5 per cent in 2016, reflecting favourable market expectations of the path of monetary policy normalisation and strengthened business investment, on account of recovery in the energy sector.

Growth in the euro area firmed to 2.4 per cent, compared with 1.8 per cent in 2016. The euro area economy was spurred by the effects of a stronger momentum in domestic demand, easing financial conditions and stronger export demand.

The UK economy grew modestly by 1.7 per cent in 2017, compared with 1.9 per cent in 2016, reflecting uncertainty surrounding negotiations on the future economic relations between the United Kingdom and the European Union (EU) in the aftermath of the BREXIT referendum. The sharp depreciation of the pound, on account of the BREXIT uncertainty, continued to affect investment and prices.

The Japanese economy grew by 1.8 per cent, from 0.9 per cent in 2016, boosted largely by increased external demand. Generally, growth in the advanced economies were, largely, broad-based.

Growth in the emerging market and developing economies accelerated to 4.7 per cent in 2017, from 4.4 per cent in 2016, buoyed by improved near-term outlook for commodity exporters, higher external demand, as well as, easing global financing conditions. Asia grew by 6.5 per cent, up from the 6.4 per cent recorded in 2016, reflecting mainly the continued spillovers from the rebalancing of the Chinese economy. In China, output grew by 6.8 per cent in 2017, compared with 6.7 per cent in 2016. The growth momentum in the Chinese economy, reflected a slower rebalancing of activity toward services and consumption, acceleration in the country's efforts to curb the expansion of credit, as well as, more robust external demand. Output in India decelerated to 6.7 per cent, from 7.6 per cent in 2016, reflecting the lingering impact of the authorities' currency demonetisation exercise, as well as, the uncertainty surrounding the mid-year introduction of country-wide goods and services tax.

The Russian economy experienced a significant rebound in economic activity, after two years of recession. It grew by 1.8 per cent, up from the contraction of 0.2 per cent in 2016, reflecting mainly the recovery in domestic and external demand, improving oil prices, easing financial conditions, and improved confidence, supported by a sharper-than-expected deceleration in inflation.

The economies of Latin America and Caribbean region rebounded by 1.3 per cent, in contrast to the negative growth of 0.7 per cent in 2016. The outcome reflected a number of positive developments, including: spillovers from stronger U.S. demand; firmer recovery in Brazil; favourable effects of stronger commodity prices; and soft financing conditions in some commodity-exporting countries.

In sub-Saharan Africa, growth rebounded significantly to 2.7 per cent in 2017, compared with 1.4 per cent in the preceding year. The impressive performance of the Region was primarily on account of improvement in the Nigerian and South African economies, both of which exited recession. The Nigerian economy grew by 0.8 per cent, in contrast to the negative 1.6 per cent in 2016, while the South African economy strengthened to 0.9 per cent, up from 0.3 per cent in 2016.

The development in Nigeria reflected the effects of significant reforms in the foreign exchange market, recovering oil production, firming crude oil prices and ongoing strengthening in the agricultural sector, as well as, positive spillovers from the Chinese economy. The South African economy strengthened on account of stabilising commodity prices and strong agricultural production, despite the heightened political uncertainty, which weighed down confidence and investment.

Table 3.1: Changes in World Output and Prices, 2013-2017 (per cent)

	Output					Consumer Prices				
Region/Country	**2013**	**2014**	**2015**	**2016**	**2017**	**2013**	**2014**	**2015**	**2016**	**2017**
World Output	**3.5**	**3.6**	**3.4**	**3.2**	**3.7**	**3.6**	**3.2**	**2.8**	**2.9**	**3.2**
Advanced Economies	**1.3**	**2.1**	**2.2**	**1.7**	**2.3**	**1.4**	**1.4**	**0.3**	**0.8**	**1.7**
United states	**1.7**	**2.6**	**2.9**	**1.5**	**2.3**	**1.5**	**1.6**	**0.1**	**1.3**	**2.1**
Japan	2.0	0.3	1.1	0.9	1.8	0.3	2.8	0.8	-0.1	0.4
Germany	0.6	1.9	1.5	1.5	1.9	1.6	0.8	0.1	0.4	1.6
France	0.6	0.9	1.1	1.1	1.2	1.0	0.6	0.1	0.3	1.2
Italy	-1.7	0.1	0.8	0.8	0.9	1.2	0.2	0.1	-0.1	1.4
United Kingdom	1.9	3.1	2.2	1.9	1.7	2.6	1.5	0.0	0.7	2.6
Euro Area	-0.2	1.3	2.0	1.8	2.4	1.3	0.4	0.0	0.2	1.5
Other Advanced Economies	**1.5**	**2.6**	**2.5**	**2.5**	**1.9**	**1.7**	**1.5**	**0.5**	**1.0**	**1.8**
Commonwealth of Independent States (CIS)	2.5	1.1	-2.2	-2.2	-0.4	6.5	8.1	15.5	8.3	5.8
Regional Groups										
Emerging & Developing Europe	4.9	3.9	4.7	4.4	4.7	4.5	4.1	3.2	4.3	4.1
Russia	1.8	0.7	-2.8	-0.2	1.8	6.8	7.8	15.5	7.0	4.2
Latin America and the Caribbean	2.9	1.2	0.1	-0.7	1.3	4.6	4.9	5.5	5.6	4.2
Asia	7.0	6.8	6.6	6.4	6.5	4.6	3.4	2.7	2.8	2.6
Sub-Saharan Africa	5.3	5.1	3.4	1.4	2.3	6.6	6.3	7.0	11.3	11.0
Middle East	2.2	2.8	2.5	2.5	4.9	9.2	7.5	6.0	5.1	6.8
China	7.8	7.3	6.9	6.7	6.8	2.6	2.0	1.4	2.0	1.8

Source: World Economic Outlook (WEO), October 2017, and January 2018

3.2 GLOBAL INFLATION

Consumer prices rebounded globally, owing to strong demand and significant recovery of commodity prices in 2017. The increase in fuel prices caused a faster-than-expected rise in headline inflation in advanced economies as demand accelerated, leading to adjustments in the accommodative monetary policy stance. Inflation, however, continued to remain below targets in most advanced economies, due primarily to weak wage growth.

In the advanced economies, inflation continued its upward trajectory, rising considerably to 1.7 per cent in 2017, from 0.8 per cent in 2016, reflecting the continued cyclical recovery in demand and increase in commodity prices. Inflation in the United States picked up remarkably to 2.1 per cent, from 1.3 per cent in 2016, due to increased activity and strengthened business investment on account of recovery in the energy sector.

In the euro area, inflation rose significantly to 1.5 per cent from 0.2 per cent in 2016, largely reflecting higher energy prices, recovery in aggregate demand, as well as the effects of strong stimulus package and easing financial conditions.

In the emerging market and developing countries, inflation was estimated to decelerate to 4.1 per cent in 2017, from 4.3 per cent in 2016, reflecting the waning effects of pass-through from earlier currency depreciations, and, in some cases, modest appreciations which restrained core inflation.

Inflation in Asia declined to 2.6 per cent, from 2.8 per cent in 2016, with significant variations among countries of the Region. In China, inflation also declined to 1.8 per cent, from 2.0 per cent in 2016, reflecting the lingering impact of expansion in domestic credit. Inflation in Japan, however, increased to 0.4 percent in 2017, from negative 0.1 per cent in 2016, on the back of higher energy prices and a narrowing output gap.

In Latin American and the Caribbean region, annual inflation declined to 4.2 per cent, from 5.6 per cent in 2016. Brazil's consumer price inflation declined significantly from 8.7 per cent in 2016 to 3.7 per cent in 2017, mirroring the moderating effects of negative output gaps, currency appreciation, as well as, favorable supply shocks to food prices. In Venezuela, domestic price developments worsened, as headline inflation rose, significantly to 1,133.0 per cent, from 302.6 per cent in 2016, on account of deepening recession and ongoing political and humanitarian crisis.

In the Commonwealth of Independent States (CIS), inflation moderated to 5.8 per cent, down from 8.3 per cent in 2016. In Russia, consumer price inflation moderated substantially to 4.2 per cent, compared with 7.0 per cent in 2016, as the Russian ruble continued to appreciate with the strengthening of crude oil prices.

In the Middle East, North Africa, Afghanistan and Pakistan (MENAAP) region, consumer prices rose by 6.8 per cent in 2017, compared with 5.1 per cent in 2016, mirroring heightened uncertainty from weakening consumer and business confidence, due largely to lingering geopolitical tension in the Region.

In sub-Saharan Africa (SSA), inflation declined marginally to 11.0 per cent in 2017, from 11.3 per cent in 2016, due to modest gains from currency appreciation.

3.3 GLOBAL COMMODITY DEMAND AND PRICES

Commodity prices were, generally, higher in 2017, relative to 2016, owing to the pickups in global trade, external demand and investment, which boosted economic activity. The commodity price index increased by 17.4 per cent, driven by increase in crude oil prices. Improving global growth outlook, the extension of the Organisation of the Petroleum Exporting Countries (OPEC) plus agreement to limit oil production and adverse weather conditions in the United States were the factors that underpinned crude oil price recovery. In general, the cyclical rebound in commodity prices was supported by developments in China, including strong demand for metals, coal import restrictions to limit the adverse impact of lower international prices, as well as, the cutback of coal production. In addition, the sporadic labour disputes in coal mines in Australia, tight supply conditions for food, and a general pickup in global demand, jointly imposed renewed upward pressure on prices.

The *IMF Energy Price Index* increased significantly to 95.7, from 81.6 points in 2016, due, mainly, to sustained supply constraints, including OPEC plus agreement, and geopolitical tensions.

The Food and Agriculture Organization *(FAO)'s Food Price Index* (FPI) averaged 174.6 points, higher by 13.1 points (8.1%) from 161.5 points in 2016. The greatest year-on-year increase was recorded by dairy (31.5%), followed by meat (8.9%), cereals (3.2%) and vegetable oils (3.1%). On the other hand, sugar price index decreased by 28.7 points (11.2%), on a year-on-year basis, during the period.

The *FAO Cereal Price Index* averaged 151.6 points, representing an increase of 4.7 points (3.2%), above the 146.9 points in 2016. The increase was driven, largely, by faster feed use, which boosted global cereal utilisation and increase in global maize trade.

The *FAO Dairy Price Index* also increased, significantly by 48.4 points (31.5%) to 202.2 points, compared with 153.8 points in 2016. The development was attributed to strong import demand for all milk products in New Zealand, and cheese and whole milk powder in Europe and Asia.

The *FAO Vegetable Oil Price Index* averaged 168.8 points, representing an increase of 5.0 points (3.1%), above the 163.8 points in 2016. The marginal increase, reflected prospects of global production surplus and slower-than-expected export, which caused rising inventories in Malaysia and Indonesia.

The *FAO Meat Price Index* increased by 8.9 per cent to 170.2 points, from 156.2 in 2016, reflecting strengthening of the price of bovine meat on account of limited export availabilities from New Zealand.

The *FAO Sugar Price Index* averaged 227.3 points, representing a significant decrease of 28.7 points (11.2%) below 256.0 in 2016. The downward pressure on sugar price was attributed, largely, to production expansion by major producers, such as India and Thailand, as well as, expectations of a sharp rise in EU production, boosted by higher beet yields.

3.4 WORLD TRADE

Global trade rebounded in 2017, mirroring the continued recovery in global demand and cyclical pick-up in global economic activity after the disappointing growth of the past few years. Other drivers were: significant growth in investment and industrial production; strengthening business and consumer confidence; benign global financial environment; as well as diminished political risk and policy uncertainty. Global trade developments impacted positively on both the advanced and emerging market and developing economies.

World trade recorded a significant growth of 4.2 per cent in 2017, compared with 2.4 per cent in 2016. In the advanced economies, aggregate import and export grew by 4.0 and 3.8 per cent, respectively. However, the terms of trade deteriorated by 0.4 per cent, in contrast to the improvement of 1.2 per cent in 2016. In the emerging and developing economies, the volume of import and export grew by 4.4 and 4.8 per cent, respectively. The terms of trade in the emerging and developing countries improved by 0.1 per cent, reversing the deterioration of 1.2 per cent in 2016, due to improvement in prices.

Table 3.2: World Trade Volumes, 2013 - 2017										
(Average Annual Percentage Change in Trade in Goods and Services)										
	Advanced Economies					Emerging and Developing Economies				
Volume of Trade	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Exports	2.4	3.6	3.1	2.2	3.8	4.3	3.9	3.9	2.5	4.8
Imports	1.4	3.7	3.9	2.7	4.0	5.3	4.4	1.3	3	4.4
Terms of Trade	0.88	0.24	1.6	1.2	-0.4	-0.19	0.02	-4.7	-1.2	0.1

Source: WEO, October, 2017 and January, 2018

3.5 INTERNATIONAL FINANCIAL MARKETS

The global financial markets remained volatile, due largely, to a combination of economic and non-economic factors. The economic factors included: the uncertainty surrounding the BREXIT referendum; outstanding trade negotiations between regions and countries; as well as, the continued divergence of monetary policy among advanced economies. The largely accommodative financial conditions buoyed financial markets, and boost activities in the stock and currency markets. The non-economic factors, included: geopolitical tensions, notably in East Asia and the Middle East; and extreme weather conditions, such as hurricanes in the Atlantic, and droughts in Australia and sub-Saharan Africa.

3.5.1 Money Markets

The global money markets were influenced by a combination of financial and economic developments, including buoyant global demand, the slower pace of rebalancing in the Chinese economic activity toward services and consumption, as well as, the US Fed's decision to accelerate monetary policy normalisation, thereby widening policy divergence in the advanced economies. Other factors included: uncertainty surrounding the BREXIT referendum; the North America Free Trade Agreements (NAFTA) and other trade negotiations; and geopolitical tensions in North Korea and the Middle East. The improvement in macroeconomic conditions in the United States, including the strengthening of business investment and partly recovery in the energy sector, had favourable demand spillovers for its trading partners. Thus, capital inflow to emerging economies remained resilient throughout the third quarter of 2017, with continued strength in non-resident portfolio inflows. In commodity-exporting emerging markets and developing economies, external reserves improved as their currencies, generally strengthened, relative to the US dollar.

The responses of monetary authorities to these developments were mixed. In general, the advanced economies, except the United States and the United Kingdom, extended their monetary easing programmes, while the emerging market and developing economies retained their monetary tightening stance, to stabilise domestic prices, attract capital inflow and strengthen local currencies.

3.5.2 Capital Markets

Global stock markets were generally bullish. Stock prices in advanced economies rallied, buoyed generally by favourable earnings sentiment and low volatility in underlying fundamentals. In the euro area, the subsisting monetary measures by the ECB continued to ease financial conditions and buoy its stock markets. In the emerging market and developing economies, equity markets gained, lifted by the improved outlook for commodity exporters, diminished political risk and policy uncertainty, as well as, favourable spillovers from developments in the Chinese economy.

Following these developments, the North American S&P 500, the Canadian S&P/TSX Composite, and the Mexican Bolsa indices increased by 19.42, 6.03, and 8.13 per cent, respectively. In South America, the Argentine Merval, the Brazilian Bovespa and the Columbian COLCAP indices increased by 77.72, 26.86 and 11.98 per cent, respectively. In Europe, the FTSE 100, the CAC 40, and the German DAX indices increased by 7.63, 9.26 and 12.51 per cent, respectively, while the Russian MICEX decreased by 5.51 per cent.

In Asia, Japan's Nikkei 225, China's Shanghai Stock Exchange-A and India's BSE Sensex indices increased by 19.10, 6.58 and 27.91 per cent, respectively.

In Africa, the Nigerian NSE ASI, South African JSE All-Share, the Kenyan Nairobi NSE 20, the Egyptian EGX CASE 30 and the Ghanaian GSE indices, all increased remarkably by 42.30, 17.47, 16.50, 22.20 and 52.72 per cent, respectively. The Nigerian equities market was supported by a combination of factors, including rising crude oil prices and non-resident portfolio inflow, which helped to boost the external reserves and strengthened the domestic currency.

Table 3.3: Selected International Stock Markets Indices as at Dec 31, 2017

Country	Index	31-Dec-16	31-Mar-17	30-Jun-17	30-Sep-17	30-Dec-17	% Change b/w (a) and (e)
AFRICA		(a)	(b)	(c)	(d)	(e)	(f)
Nigeria	NSE All-Share Index	26,874.62	25,516.34	33,117.48	35,439.98	38,243.19	42.30
South Africa	JSE All-Share Index	50,653.54	52,056.06	51,611.01	55,579.92	59,504.67	17.47
Kenya	Nairobi NSE 20 Share index	3,186.21	3,112.52	3,607.18	3,751.46	3,711.94	16.50
Egypt	EGX CASE 30	12,290.61			13,976.78	15,019.14	22.20
Ghana	GSE All-Share Index	1,689.18	1,865.01	1,964.55	2,326.09	2,579.72	52.72
NORTH AMERICA							
US	S&P 500	2,238.83	2,362.72	2,423.41	2,519.36	2,673.61	19.42
Canada	S&P/TSX Composite	15,287.59	15,547.75	15,182.19	15,634.94	16,209.13	6.03
Mexico	Bolsa	45,642.90	48,541.56	49,857.49	50,346.06	49,354.42	8.13
SOUTH AMERICA							
Brazil	Bovespa Stock	60,227.29	64,984.07	62,899.97	74,293.51	76,402.08	26.86
Argentina	Merval	16,917.86	20,265.32	21,912.63	26,078.29	30,065.61	77.72
Columbia	COLCAP	1,351.68	1,365.61	1,462.90	1,487.52	1,513.65	11.98
EUROPE							
UK	FTSE 100	7,142.83	7,322.92	7,312.72	7,372.76	7,687.77	7.63
France	CAC 40	4,862.31	5,122.51	5,120.68	5,329.81	5,312.56	9.26
Germany	DAX	11,481.06	12,312.87	12,325.12	12,828.86	12,917.64	12.51
Russia	MICEX	2,232.72	1,995.90	1,879.50	2,077.19	2,109.74	-5.51
ASIA							
Japan	NIKKEI 225	19,114.37	18,909.26	20,220.30	20,356.28	22,764.94	19.10
China	Shanghai SE A	3,249.59	3,374.67	3,343.39	3,506.73	3,463.48	6.58
India	BSE Sensex	26,626.46	29,620.50	30,921.61	31,283.72	34,056.83	27.91

Source: Bloomberg

3.5.3 The International Foreign Exchange Market

Most currencies gained against the U.S. dollar in 2017, due to a combination of global developments. These developments included: resilient capital flows, especially of non-resident portfolio inflows to emerging economies; improved growth outlook; stronger commodity prices; and perceptions of reduced political uncertainty. The increased crude oil prices and non-resident portfolio inflow, helped to build up external reserves and strengthen domestic currencies. In the emerging market and developing economies, currencies strengthened on account of the improved outlook for commodity exporters, as well as, diminished political risk and policy uncertainty.

In Europe, the British pound, the euro and the Russian ruble appreciated against the US dollar by 9.43, 14.05 and 6.79 per cent, respectively. In 2016, the British pound and the euro depreciated against the dollar by 16.22 and 3.05 per cent, respectively, while the ruble appreciated by 19.59 per cent against the dollar.

In Asia, the growth momentum of the Chinese economy, reflecting its slower rebalancing activity toward services and consumption, strengthened its currency. In the region, the Japanese yen, the Chinese yuan and the Indian rupee, all appreciated by 3.79, 5.67 and 6.34 per cent, respectively, against the US dollar. Comparatively, in 2016, the yen appreciated by 2.79 per cent, while the yuan and the rupee, depreciated by 6.57 and 2.60 per cent, respectively.

In North America, the Canadian dollar and the Mexican peso appreciated by 6.59 and 5.45 per cent, respectively, against the US dollar. In 2016, the Canadian dollar appreciated by 3.28 per cent, while the Mexico peso, depreciated by 16.99 per cent.

In South America, the Brazilian real and Argentine peso depreciated by 1.47 and 14.73 per cent, respectively, while the Colombian peso appreciated marginally, by 0.51 per cent against the US dollar. In comparison, in 2016, the Brazilian real and Colombian peso appreciated by 21.60 and 5.75 per cent, respectively, while Argentine peso, depreciated by 18.57 per cent.

In Africa, the South African rand and the Egyptian pound appreciated by 10.96 and 2.84 per cent, while the Nigerian naira, the Kenyan shilling, and the Ghanaian cedi depreciated, against the US dollar, by 0.33, 0.65 and 5.88 per cent, respectively. In 2016, the Nigerian naira, the Kenyan shilling, the Egyptian pound, and the Ghanaian cedi, all depreciated, while the South African rand, appreciated.

Overall, among the currencies surveyed, the naira was the least depreciated, while the Argentine peso witnessed the largest depreciation in the review year.

Table 3.4 Exchange Rates of Selected Countries (Value in currency units to US$)

	Currency	31-Dec-15	30-Dec-16	29-Dec-17	% Change (31Dec15/30 Dec16)	% Change (30 Dec16/29 Dec17)
AFRICA					**MTM% App/Dep**	**YTD % App/Dep**
Nigeria	Nigeria Naira	197.00	305.00	306.00	-35.41	-0.33
South Africa	South Africa Rand	15.47	13.74	12.38	12.58	10.96
Kenya	Kenya Shilling	102.22	102.51	103.18	-0.28	-0.65
Egypt	Egypt Pound	7.83	18.14	17.64	-56.85	2.84
Ghana	Ghana Cedi	3.74	4.24	4.51	-11.91	-5.88
NORTH AMERICA						
Canada	Canada Dollar	1.38	1.34	1.26	3.28	6.59
Mexico	Mexico Peso	17.21	20.73	19.66	-16.99	5.45
SOUTH AMERICA						
Brazil	Brazil Real	3.96	3.26	3.31	21.60	-1.47
Argentina	Argentina Peso	12.93	15.88	18.62	-18.57	-14.73
Colombia	Colombia Peso	3174.50	3002.00	2986.84	5.75	0.51
EUROPE						
UK	UK Pound	0.68	0.81	0.74	-16.22	9.43
Euro Area	Euro Area Euro	0.92	0.95	0.83	-3.05	14.05
Russia	Russia Ruble	73.60	61.54	57.63	19.59	6.79
ASIA						
Japan	Japan Yen	120.22	116.96	112.69	2.79	3.79
China	China Yuan	6.49	6.95	6.58	-6.57	5.67
India	India Rupee	66.15	67.92	63.87	-2.60	6.34

Source: Bloomberg
MTM – Month-to-Month
YTD = Year to Date

3.5.4 Central Bank Policy Rates

In general, central banks in the advanced economies, maintained a largely accommodative monetary policy in 2017, reflecting their responses to global and domestic conditions. Headline inflation remained, largely, below central banks' targets in most advanced economies, justifying monetary easing policy stance. Other developments included: widening monetary policy divergence, due to accelerated monetary policy normalisation by the U.S. Fed; significant pick-up in global activity; recovery in inflation in some advanced economies; improved investors' optimism; and perception of reduced geopolitical tension. In emerging market and developing economies, central banks tightened monetary policy to rein-in inflation and moderate currency depreciations.

In advanced economies, the direction of monetary policy was mixed. The Federal Reserve raised its policy rate three (3) times in 2017, within the range of 0.75 to 1.25 per cent, in line with its guided monetary policy normalisation. The Bank of England (BoE) also raised its policy rate to 0.50 per cent in November 2017. The European Central Bank generally retained its zero per cent interest rate in 2017, in pursuit of its largely expansionary monetary programme. Similarly, the Bank of Japan retained its policy rate at 0.10 per cent in 2017.

In emerging market and developing economies, monetary policy stance varied. While some central banks raised rates, during the year, to encourage capital inflow and manage foreign exchange pressure, others lowered policy rates to address growth concerns. The Central Bank of Brazil reduced its policy rate six (6) times, to a range of 13.75 per cent in January to 7.5 per cent in December, to stimulate economic recovery. In India, the policy rate was lowered from 6.25 to 6.00 per cent in the third quarter. The Bank of China retained its policy rate at 4.35 per cent, throughout 2017.

The South African Reserve Bank reduced its policy rate from 7.0 per cent to 6.75 per cent in July. Ghana's policy rate was lowered four (4) times, to a range of 25.5 to 20.00 per cent, to address inflationary pressure and growth concerns. The Central Bank of Nigeria retained its policy rate at 14.0 per cent throughout 2017, to address demand pressure on the exchange rate, attract foreign capital inflow and stem inflationary pressures.

Table 3.5: Monetary Policy Rates of Selected Countries, 2016-2017

	Kenya	S. Africa	Ghana	Nigeria	Brazil	USA	Japan	Euro	India	Russia	China	UK	Indonesia
Dec-16	10	7	25.5	14	13.75	0.5-0.75	0-0.10	0	6.25	10	4.35	0.25	4.75
2017													
January	10	7	25.5	14	13.75	0.5-0.75	0-0.10	0	6.25	10	4.35	0.25	4.75
February	10	7	25.5	14	12.25	0.5-0.75	0-0.10	0	6.25	10	4.35	0.25	4.75
March	10	7	25.5	14	12.25	0.75-1.00	0-0.10	0	6.25	10	4.35	0.25	4.75
April	10	7	25.5	14	11.25	0.75-1.00	0-0.10	0	6.25	9.25	4.35	0.25	4.75
May	10	7	25.5	14	10.25	0.75-1.00	0-0.10	0	6.25	9.25	4.35	0.25	4.75
June	10	7	25.5	14	10.25	1.00-1.25	0-0.10	0	6.25	9.25	4.35	0.25	4.75
July	10	6.75	21	14	9.25	0.75-1.00	0-0.10	0	6.25	9	4.35	0.25	4.5
August	10	6.75	21	14	8.25	1.00-1.25	0-0.10	0	6	9	4.35	0.25	4.5
September	10	6.75	21	14	8.25	1.00-1.25	0-0.10	0	6	8.5	4.35	0.25	4.25
October	10	6.75	21	14	7.5	1.00-1.25	0-0.10	0	6	8.5	4.35	0.25	4.25
November	10	6.75	20	14	7.5	1.00-1.25	0-0.10	0	6	8.25	4.35	0.25	4.25
December	10	6.75	20	14	7.5	1.25-1.50	0-0.10	0	6	7.75	4.35	0.25	4.25

Source: Bloomberg

3.6 THE IMPACT OF GLOBAL ECONOMIC DEVELOPMENTS ON NIGERIA'S ECONOMY

The Nigerian economy was influenced by a number of global developments. The key developments included: the rebound in crude oil and other commodity prices, buoying the country's balance of trade and foreign exchange positions; and strengthening activity in the Chinese economy, and its favourable spill-overs to emerging market and developing economies. Other major shocks were the uncertainty surrounding the BREXIT referendum and other trade negotiations, persisting policy divergence in the advanced economies and a faster-than-expected rise in headline inflation in selected advanced economies.

The Nigerian financial market was affected significantly by these developments, leading to improved capital inflow and external reserves, thereby strengthening the domestic currency. The significant appreciation of the naira, in all market segments, moderated the exchange rate pressure and its pass-through to domestic prices. Thus, the domestic price level maintained a downward trajectory throughout 2017, reflecting the impact of tight monetary policy stance of the Bank on prices.

Consequently, the capital market gained, as the Nigeria All-Share Index (ASI) rallied by 42.30 per cent to 38,243.19 at end-December 2017, from 26,874.62 at end-December 2016. Overall, favourable global developments, including cyclical pickup in economic activity, increased investment and trade, coupled with a benign global financial environment, boosted investors' optimism and domestic activity, thereby quickening the country's exit from recession.

CHAPTER FOUR

FINANCIAL SECTOR DEVELOPMENTS

The structure of the financial sector remained unchanged in 2017. The Bank sustained its non-expansionary monetary policy stance to rein in inflationary pressure and address challenges in foreign exchange market. The monetary policy rate (MPR) and cash reserve ratio (CRR) were retained at 14.00 per cent and 22.50 per cent, respectively, throughout the year. Similarly, the asymmetric corridor around the MPR was kept at +200 and -500 basis points. The liquidity ratio (LR) was also retained at 30.0 per cent, in the review year. Growth in broad money supply, (M_2), was moderated at 1.7 per cent, compared with the indicative benchmark of 10.3 per cent for fiscal 2017, reflecting the growth in net foreign assets, which was more than offsetting the decline in the domestic credit (net) and other asset (net) of the banking system. Aggregate credit to the domestic economy contracted by 3.7 per cent, in contrast to the indicative target growth of 17.9 per cent, for 2017 and reflected the significant decrease in claims on the Federal Government, though credit to the private sector grew, marginally.

Indicators of financial sector developments trended largely downwards in 2017. The ratio of M_2 to GDP declined to 20.3 per cent, below 23.2 per cent at end-December 2016. Banking system's capacity to finance economic activities, represented by aggregate credit/GDP ratio fell to 23.3 per cent, from 26.5 per cent at end-December 2016; and credit to the private sector/GDP ratio was 19.2 per cent, down from 21.7 per cent at end-December 2016. Intermediation efficiency, however, improved with COB/M_2 ratio at 7.1 per cent, from 7.7 per cent in 2016.

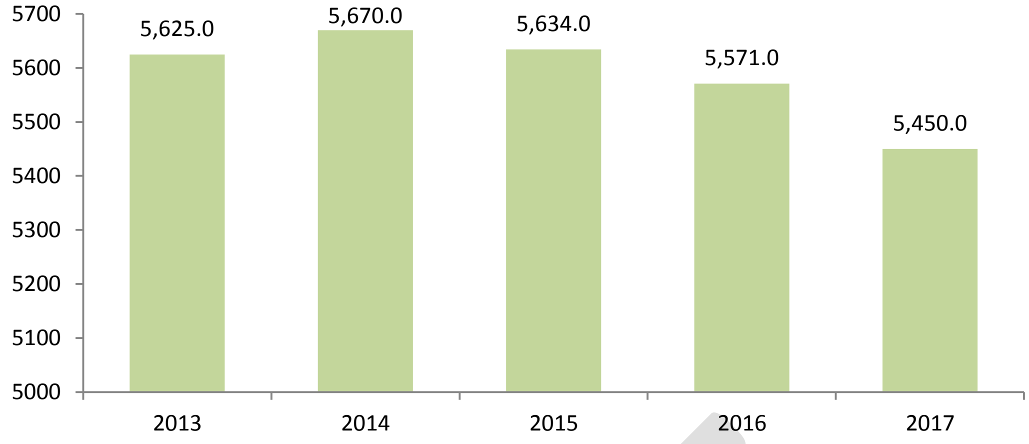
Total money market assets outstanding fell by 61.1 per cent below the level at end-December 2016, due, largely, to the decline in Nigeria Treasury bills and FGN Bonds outstanding. Activities on the Nigerian Stock Exchange were bullish in 2017, as most market indices trended upward. Total market capitalisation of listed securities and the All-Share Index rose by 41.6 and 42.3 per cent, respectively. Similarly, aggregate volume and value of traded securities increased by 4.7 and 121.7 per cent, respectively, over the levels in the preceding year.

4.1 INSTITUTIONAL DEVELOPMENTS

4.1.1 Growth and Structural Changes

The structure of the Nigerian financial sector remained unchanged in the review year. However, the number of licensed banks increased to 27, from 26 in 2016, following the licensing of Nova Merchant Bank Ltd. The licensed banks comprised 21 commercial banks, five (5) merchant banks and one (1) non-interest bank. Ten (10) commercial banks had international authorisation, while nine (9) and two (2) had national and regional authorisation, respectively. The five (5) licensed merchant banks had national authorisation. The number of bank branches, decreased to 5,450 from 5,571 in 2016.

Figure 4.1: Banks' Branch Network, 2013 – 2017



Source: CBN

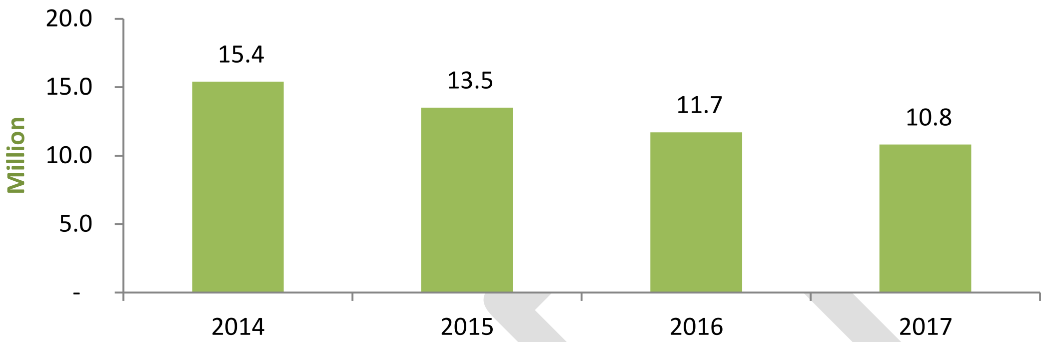
In addition, the CBN approved the establishment of two (2) offshore subsidiaries in Mali and Mozambique in 2017. Diamond Bank Plc, however, divested from its subsidiaries in Benin, Cote d'Ivoire, Senegal and Togo; and Skye Bank Plc. divested from its subsidiaries in Sierra Leone, The Gambia and Guinea. Consequently, the number of foreign subsidiaries of Nigerian banks reduced to 55 in 2017, from 60 in 2016. Also, following the conversion of Access Bank representative office in Dubai to a Prudential-Investment, Insurance Intermediation and Banking (PIB) "category 4" branch (international branch of its UK subsidiary), the number of international branches of Nigerian banks increased to three (3), from two (2) in 2016. Consequently, there were six (6) representative offices of Nigerian banks at end-December 2017, compared with seven (7) at end-December 2016.

In the other financial institutions (OFIs) sub-sector, there were 4,870 licensed institutions at end-December 2017, compared with the 4,242 institutions in 2016. The increase was as a result of new OFIs (511 BDCs, 28 MFBs, 4 FCs and 1 DFI) licensed during the year. Also, one (1) DFI in liquidation was delisted and 82 BDCs, which did not meet the deadline for recapitalisation in 2014, were reinstated to the functional group of BDCs, following their successful recapitalisation during the review year. The total number of OFIs comprised seven (7) DFIs, 34 PMBs, 1,008 MFBs, 81 FCs and 3,740 BDCs.

4.1.2 Cheques

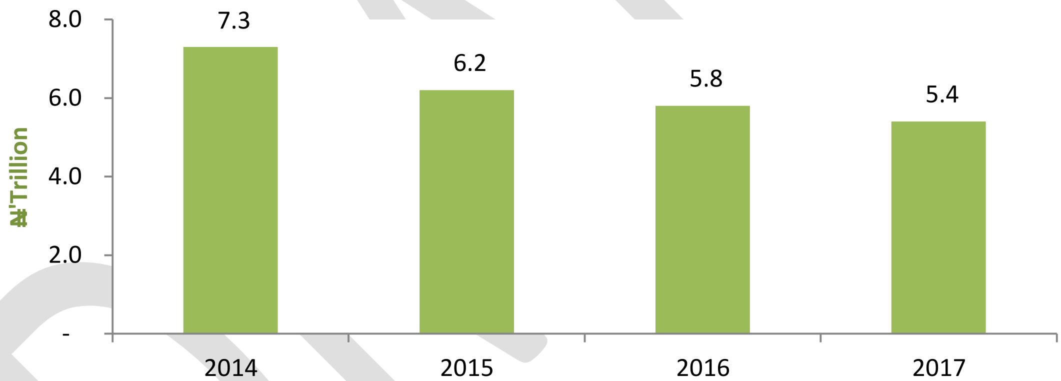
The volume and value of cheques cleared nationwide fell by 7.7 per cent and 6.9 per cent to 10.8 million and ₦5.4 trillion, respectively, compared with 11.7 million and ₦5.8 trillion in 2016. This was attributed to increased adoption of e-payment channels.

Figure 4.2a: Volume of Cheques Cleared, 2014 - 2017



Source: CBN

Figure 4.2b: Value of Cheques Cleared, 2014 - 2017



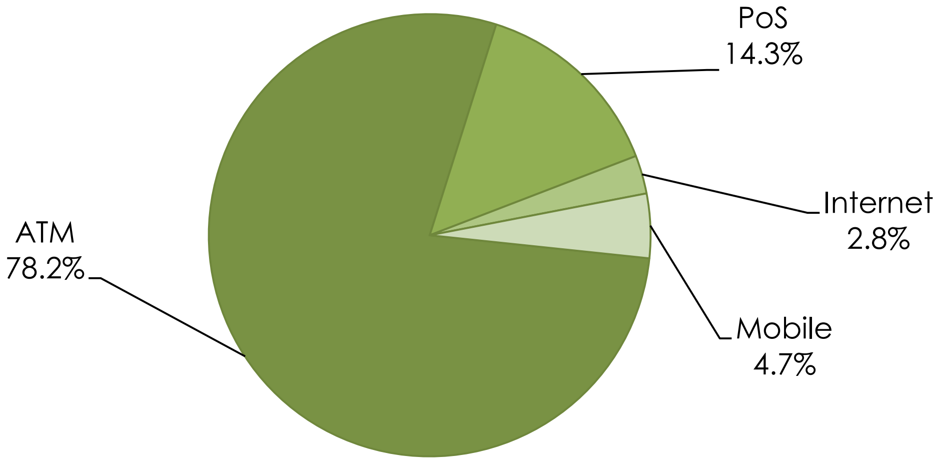
Source: CBN

4.1.3 Use of e-Money Products

The volume and value of payment on different channels (comprising ATM, PoS, Mobile and Internet) rose by 43.2 and 37.6 per cent to 1,023.6 million and ₦9,134.0 billion, respectively, compared with 715.1 million and ₦6,636.4 billion recorded in the preceding year.

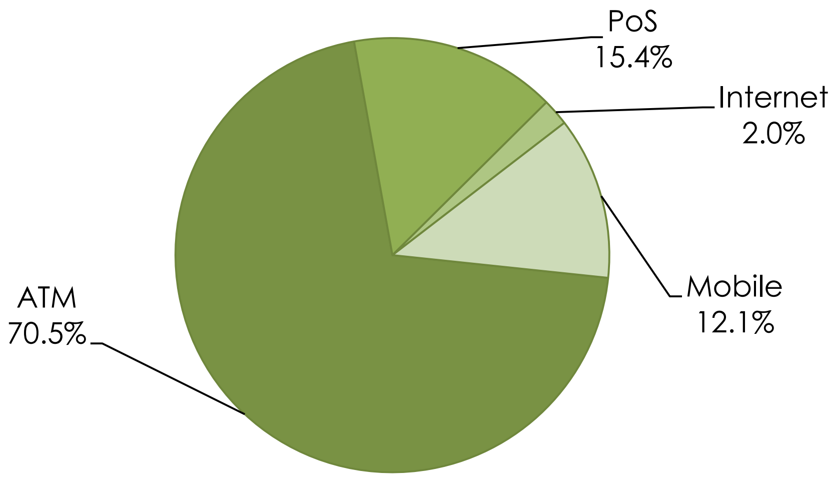
A breakdown of e-payment transactions for 2017, indicated that the ATM remained the most patronised, accounting for 78.2 per cent, followed by PoS terminals and mobile payments with 14.3 and 4.7 per cent, respectively. The web (internet) was the least patronised, accounting for 2.8 per cent of the total. In terms of value, the ATM accounted for 70.5 per cent, PoS, 15.4 per cent; mobile channels, 12.1 per cent; and web (internet), 2.0 per cent. The rise in e-payment transactions was attributed to increased consumer confidence and awareness in the use of the e-payment channels.

Figure 4.3a: Classification of e-Money Products by Volume, 2017, (Per cent)



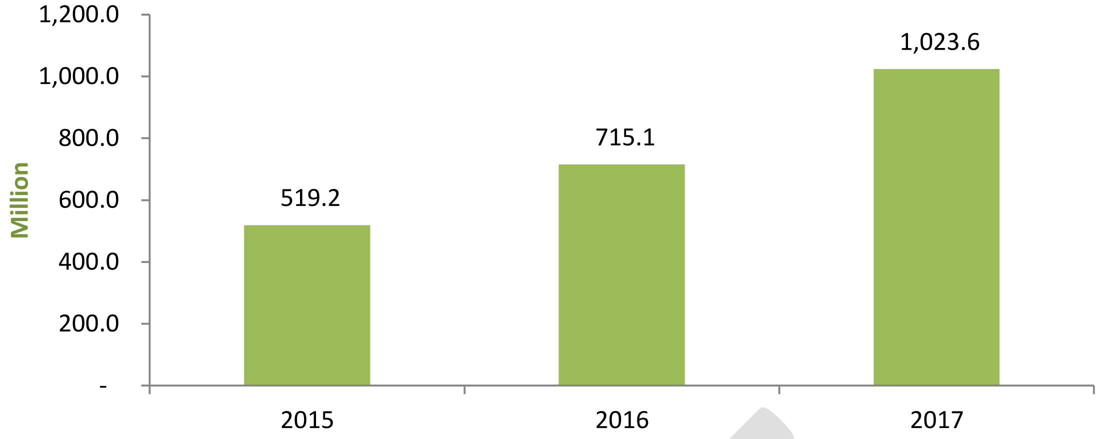
Source: CBN

Figure 4.3b: Classification of e-Money Products by Value, 2017, (Per cent)



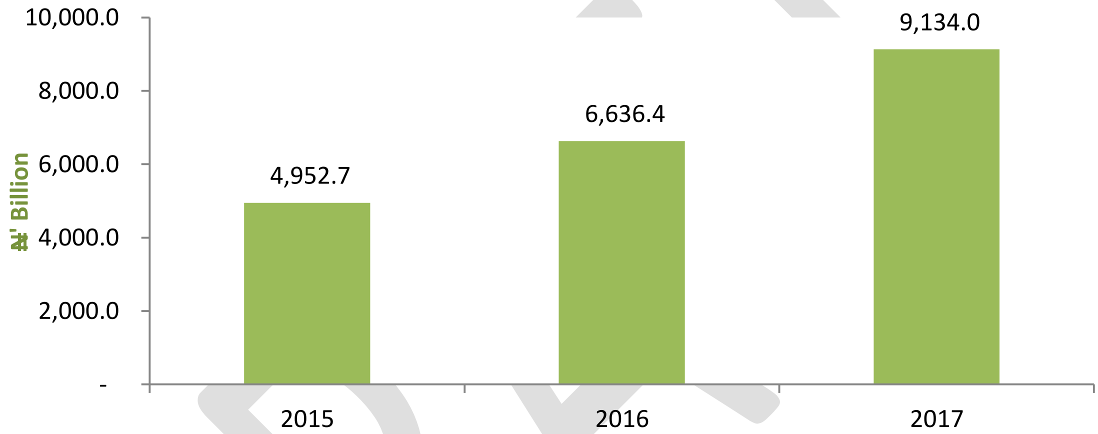
Source: CBN

Figure 4.4a: Volume of Electronic Payments (Million), 2015 - 2017



Source: CBN

Figure 4.4b: Value of Electronic Payments (₦' Billion), 2015 - 2017



Source: CBN

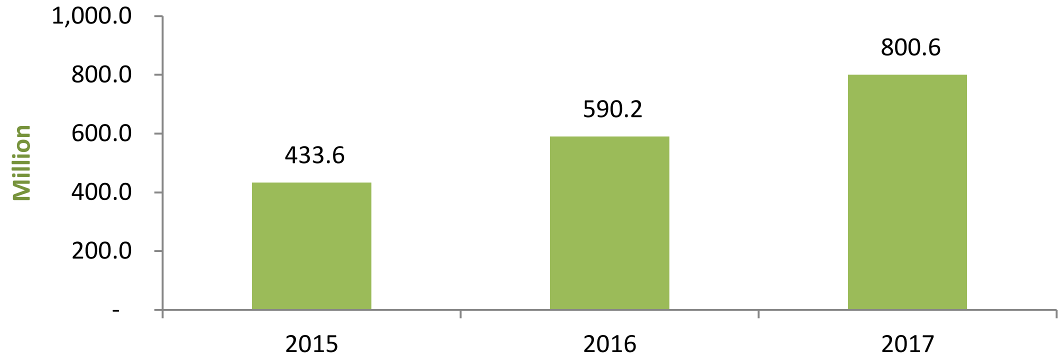
4.1.3.1 Automated Teller Machine (ATM) Transactions

The number of ATMs deployed stood at 17,449 at end-December 2017, indicating an increase of 0.3 per cent, compared with the 17,398 recorded at end-December 2016. ATM transactions increased in both volume and value by 35.6 and 29.1 per cent, to 800,549,099 and ₦6,437.6 billion, respectively, at end-December 2017, compared with 590,238,934 and ₦4,988.1 billion at end-December 2016.

4

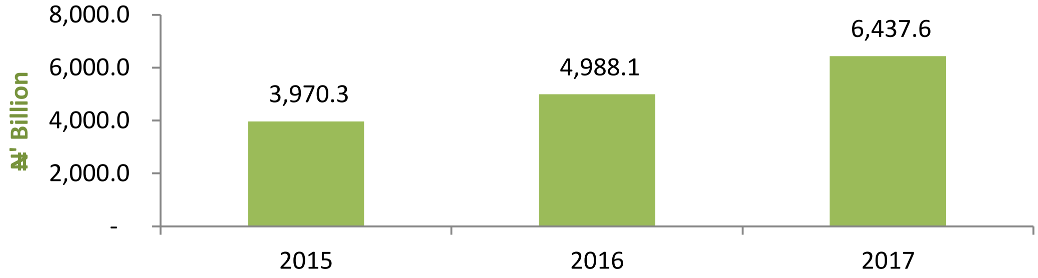
FINANCIAL SECTOR DEVELOPMENTS

Figure 4.5a: Volume of ATM Transactions, 2015 – 2017, (Million)



Source: CBN

Figure 4.5b: Value of ATM Transactions, 2015 – 2017, (₦' Billion)

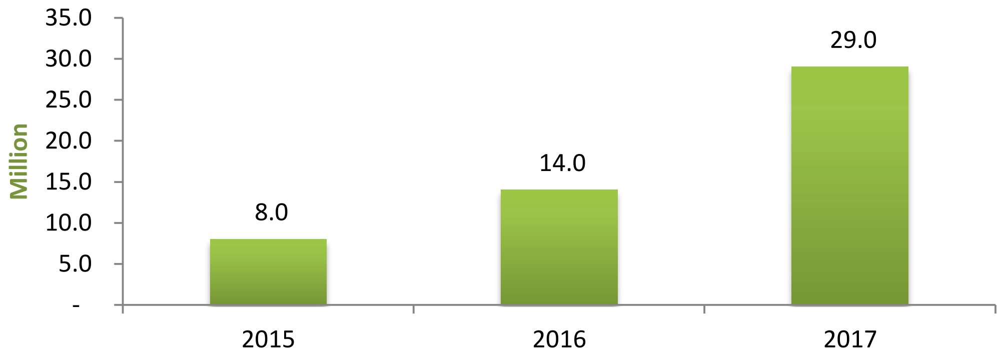


Source: CBN

4.1.3.2 Web Transactions

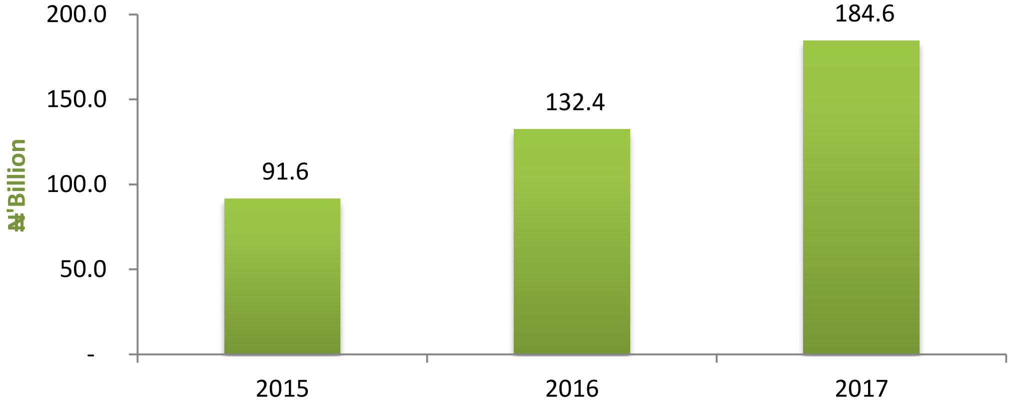
During the review year, the volume and value of transactions on the web increased to 28,991,097 and ₦184.6 billion, compared with 14,088,247 and ₦132.4 billion in 2016, respectively, representing increase of 105.8 and 39.4 per cent. This was attributed to increased consumer acceptance of the platform.

Figure 4.6a: Volume of Web Transactions, 2015 – 2017 (Million)



Source: CBN

Figure 4.6b: Value of Web Transactions, 2015 – 2017 (₦' Billion)

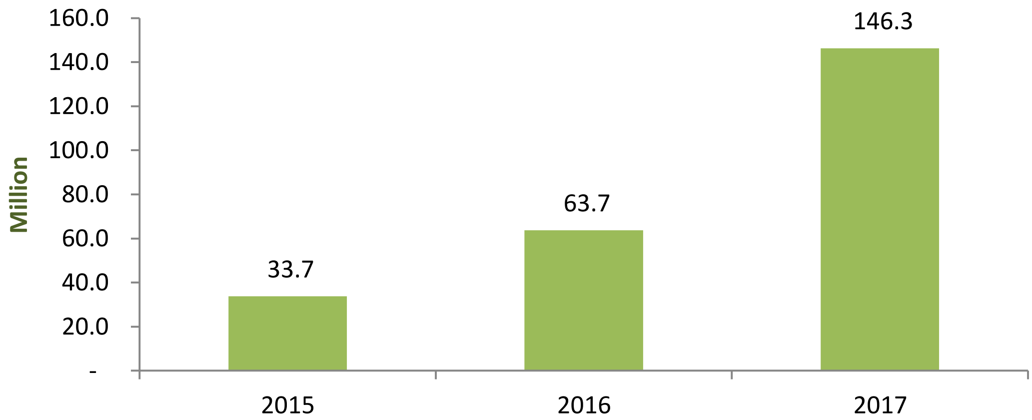


Source: CBN

4.1.3.3 Point-of-Sale (PoS) Transactions

The volume and value of PoS transactions increased to 146,267,156 and ₦1,409.8 billion, compared with 63,715,203 and ₦759.0 billion in 2016, respectively, representing increase of 129.6 and 85.8 per cent. The rise was attributed to increased public confidence in the use of the channel.

Figure 4.7a: Volume of PoS Transactions, 2015 – 2017 (Million)

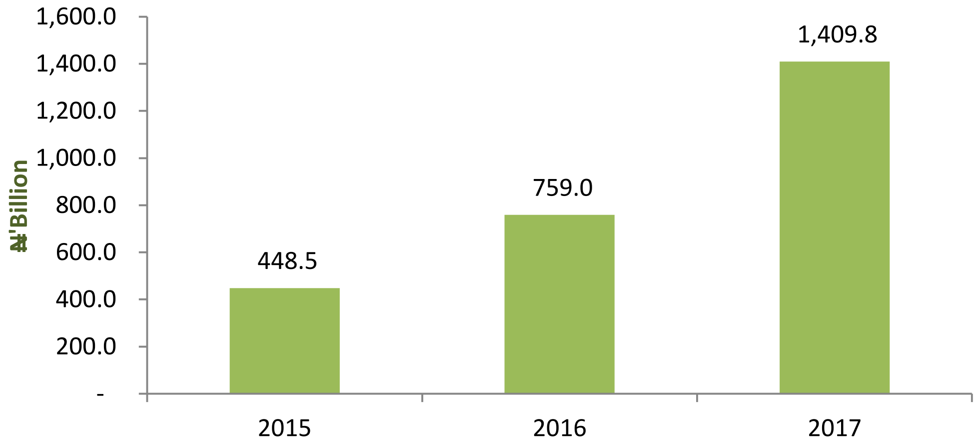


Source: CBN

4

FINANCIAL SECTOR DEVELOPMENTS

Figure 4.7b: Value of PoS Transactions, 2015 – 2017 (₦' Billion)

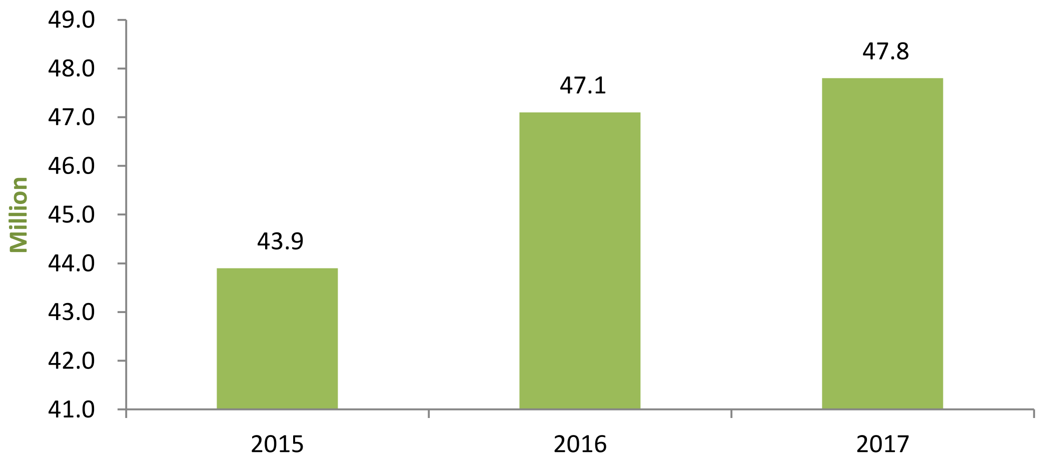


Source: CBN

4.1.3.4 Mobile Payments

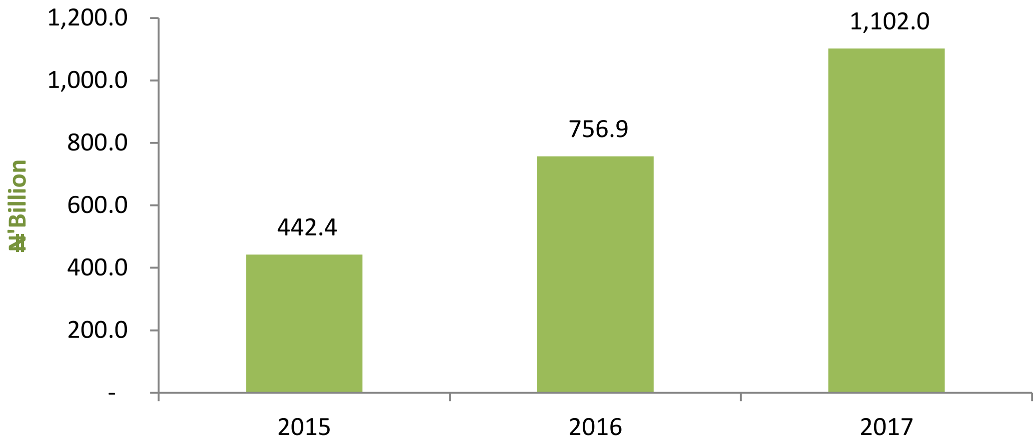
Mobile payments increased in both volume and value by 1.6 and 45.7 per cent in 2017 to 47,804,561 and ₦1,102.0 billion, respectively, compared with 47,053,252 and ₦756.9 billion in 2016. The increase in both volume and value of transactions was attributed to increased awareness and confidence in the usage of this channel.

Figure 4.8a: Volume of Mobile Transactions, 2015 – 2017 (Million)



Source: CBN

Figure 4.8b: Value of Mobile Transactions, 2015 – 2017 (₦' Billion)



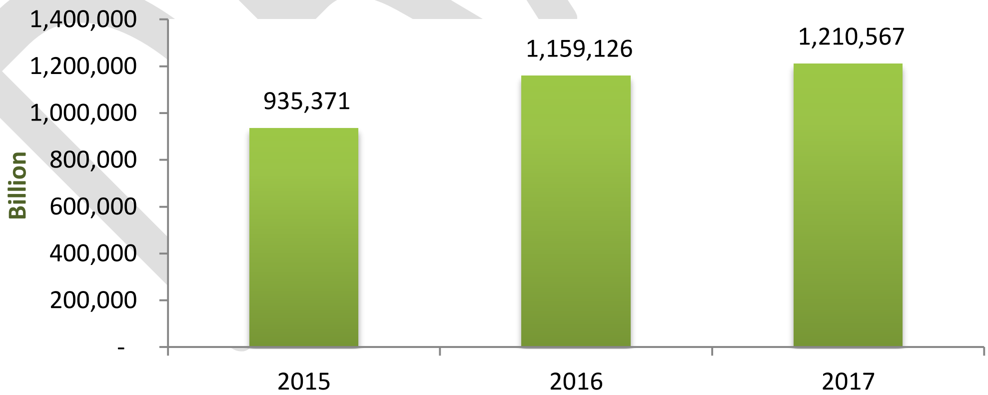
Source: CBN

4.1.4 The Wholesale Payments System

4.1.4.1 The Real Time Gross Settlement (RTGS) System

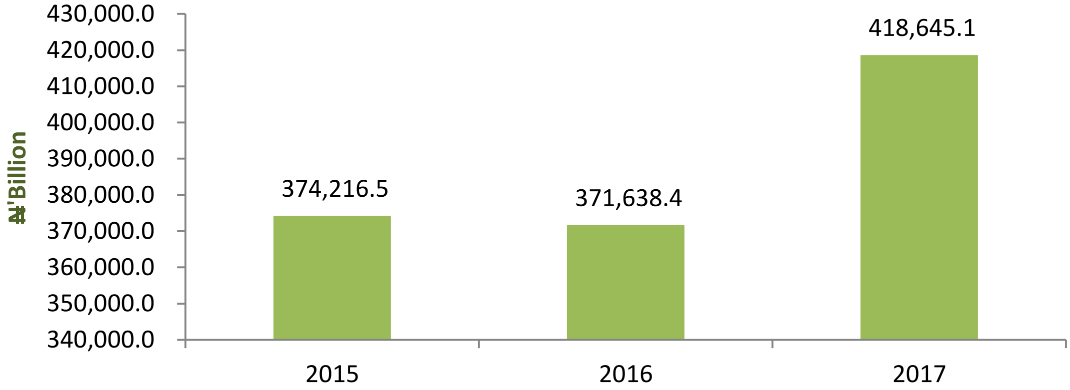
The volume and value of inter-bank fund transfers through the CBN RTGS System were at 1,210,567 and ₦418,645.1 billion, respectively. These represented increase of 4.4 and 12.6 per cent in volume and value, respectively, compared with 1,159,126 and ₦371,638.4 billion in the preceding year.

Figure 4.9a: Volume of RTGS Transactions, 2015 – 2017



Source: CBN

Figure 4.9b: Value of RTGS Transactions, 2015 – 2017 (₦' Billion)

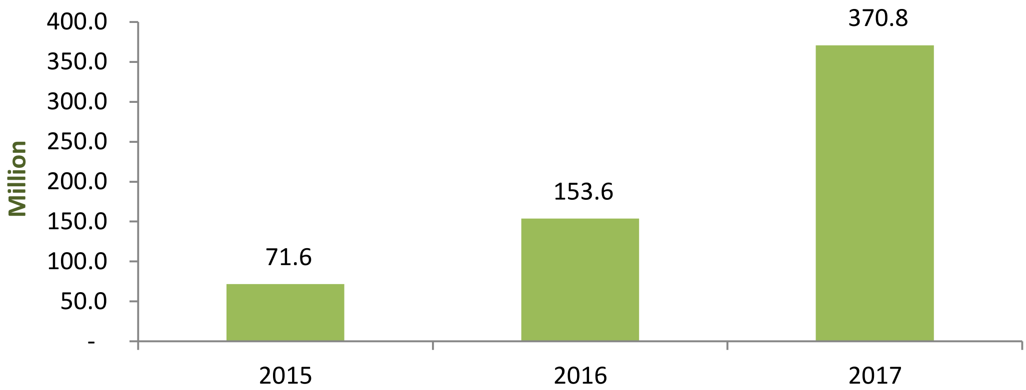


Source: CBN

4.1.4.2 NIBSS Instant Payment (NIP) Transactions

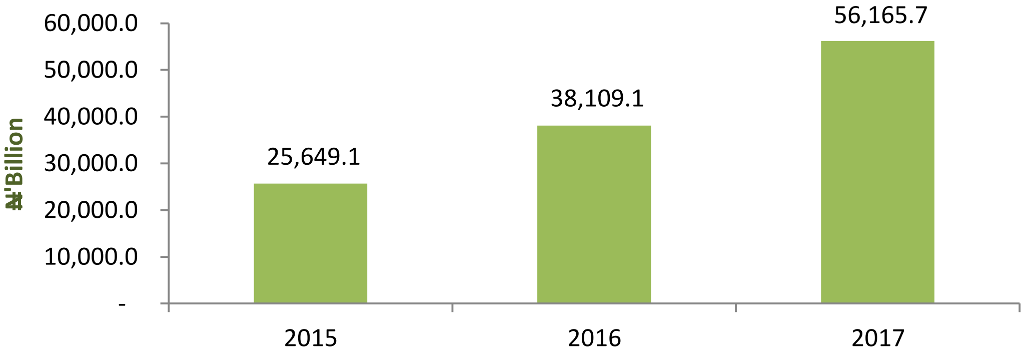
The volume and value of the NIBSS Instant Payment transactions increased, significantly by 141.4 and 55.3 per cent to 370.8 million and ₦56,165.7 billion, respectively, over 153.6 million and ₦38,109.1 billion in 2016. The significant rise in the use of the channel was attributed to increased consumer awareness and confidence.

Figure 4.10a: Volume of NIP Transactions, 2015 – 2017 (Million)



Source: CBN

Figure 4.10b: Value of NIP Transactions, 2015 – 2017 (₦'Billion)

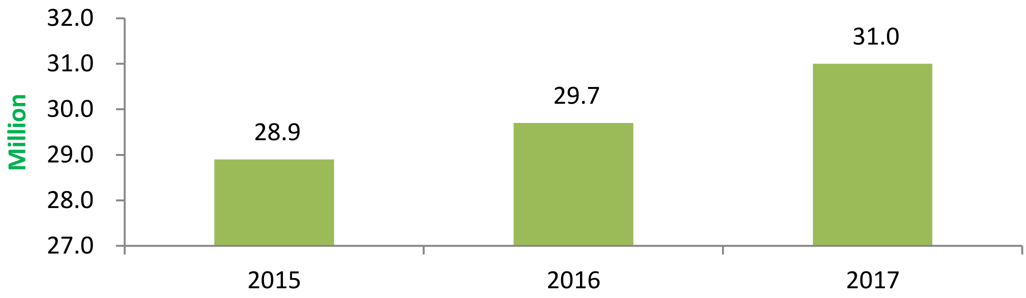


Source: CBN

4.1.4.3 The NIBSS Electronic Funds Transfer (NEFT)

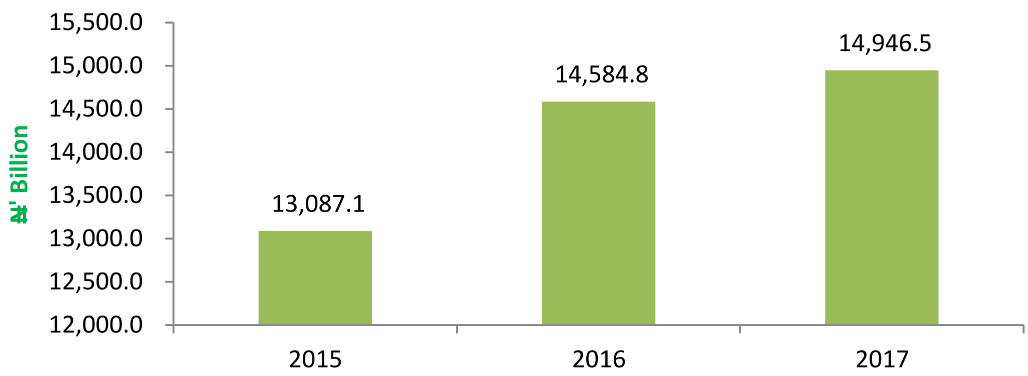
The volume and value of NIBSS Electronic Fund Transfer in 2017 increased by 4.3 and 2.5 per cent, to 31,034,624 and ₦14,946.5 billion, respectively, compared with 29,754,182 and ₦14,584.8 billion in 2016. The development was attributed to consumers' preference for the platform over cheques on account of its cost effectiveness and convenience.

Figure 4.11a: Volume of NEFT Transactions, 2015 – 2017 (Million)



Source: CBN

Figure 4.11b: Value of NEFT Transactions, 2015 – 2017 (₦'Billion)



Source: CBN

4.1.4.4 Institutional Savings

Aggregate financial savings rose by ₦641.9 billion to ₦13,396.1 billion, from the level in 2016. The ratio of financial savings to GDP was 11.7 per cent, compared with 13.4 per cent in 2016. DMBs remained the dominant depository institutions in the financial system, accounting for 95.3 per cent of total financial savings, same as in the preceding year. Other savings institutions, namely, PMBs, insurance companies, pension fund custodians, the Nigerian social Insurance Trust Fund (NSITF) and microfinance banks accounted for the balance of 4.7 per cent.

4

FINANCIAL SECTOR DEVELOPMENTS

4.2 MONETARY AND CREDIT DEVELOPMENTS

4.2.1 Reserve Money (RM)

Reserve money grew by 10.8 per cent to ₦6, 477.6 billion year-on-year. It was, however, lower than the programmed benchmark of ₦7,331.1 billion for fiscal 2017. Net foreign assets of the CBN grew by 64.1 per cent at the end-December 2017, due largely, to the increase in foreign currency holdings of the CBN, arising from improvement in crude oil export. The corresponding upward movement in monetary liabilities reflected, wholly, the growth in bank reserves, which rose by 17.8 per cent, while currency-in-circulation declined by 1.0 per cent at end-December 2017.

Table 4.1: Reserve Money (₦' Billion)

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
Sources					
Net Foreign Assets	7,043.93	6,244.72	5,545.32	8,790.70	14,427.13
Net Domestic Assets	(1,150.06)	466.01	1,090.96	(1,854.00)	(5,247.77)
Other Items Net	(803.62)	(779.78)	(823.54)	(1,088.70)	(2,701.76)
Reserve Money	**5,090.24**	**5,930.95**	**5,812.74**	**5,847.92**	**6,477.60**
Uses					
Currency-in-Circulation	1,776.41	1,797.98	1,857.94	2,179.17	2,157.23
Bank Reserves	3,313.83	4,132.97	3,954.80	3,668.74	4,320.37
Reserve Money	**5,090.24**	**5,930.95**	**5,812.74**	**5,847.92**	**6,477.60**

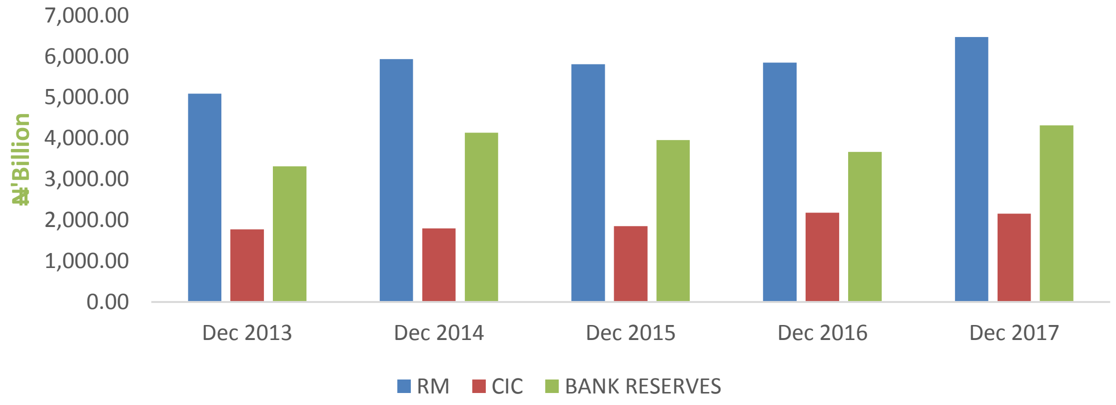
Source: CBN

Table 4.2: Reserve Money (Growth rates %)

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
Sources					
Net Foreign Assets	(4.73)	(11.35)	(11.20)	58.52	64.12
Net Domestic Assets	23.13	140.52	134.11	(269.93)	(183.05)
Other Items Net	63.35	2.97	(5.61)	(32.20)	148.17
Reserve Money	**37.41**	**16.52**	**(1.99)**	**0.61**	**10.77**
Uses					
Currency-in-Circulation	8.87	1.21	3.34	17.29	(1.01)
Bank Reserves	59.87	24.72	(4.31)	(7.23)	17.76
Reserve Money	**37.41**	**16.52**	**(1.99)**	**0.61**	**10.77**

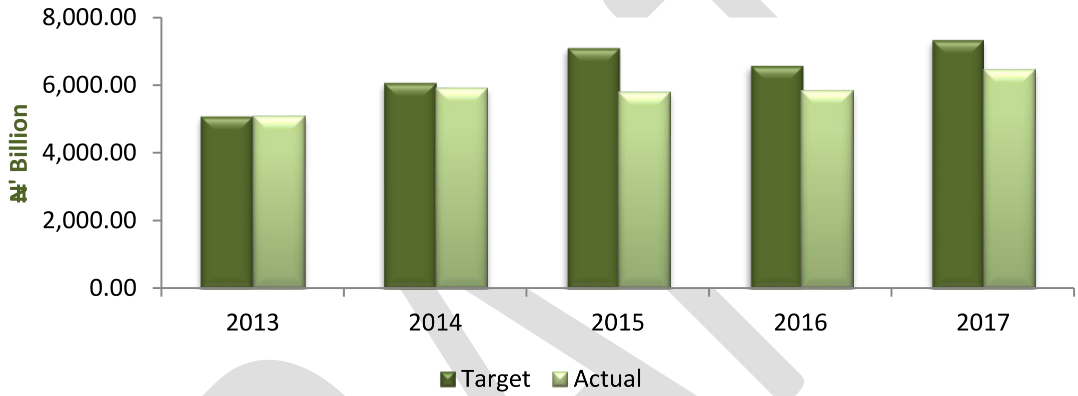
Source: CBN

Figure 4.12a: Reserve Money, 2013 - 2017



Source: CBN

Figure 4.12b: Reserve Money Targets and Outcomes, 2013 - 2017

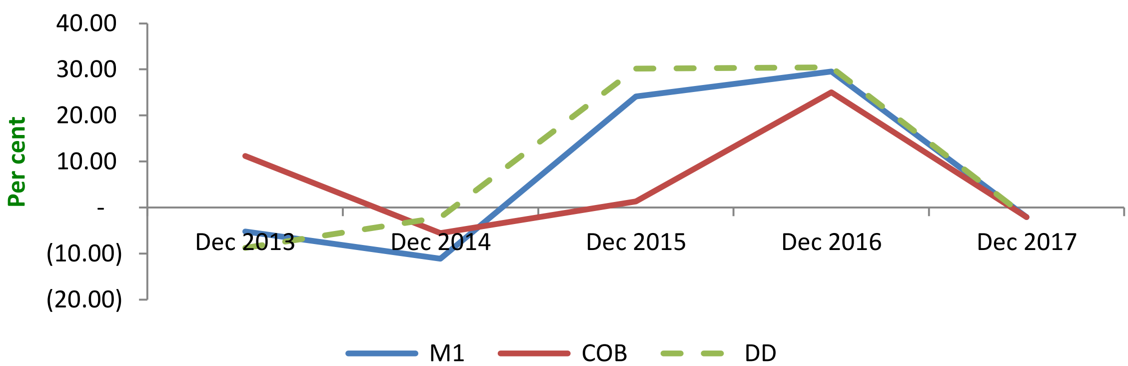


Source: CBN

4.2.2 Narrow Money (M_1)

Narrow money supply (M_1) declined by 2.1 per cent at end-December 2017, in contrast to the 31.5 per cent growth at end-December 2016. The development was due to the 2.1 per cent apiece decline in demand deposits and currency outside banks.

Figure 4.13: Components of Narrow Money (M_1) (Per cent), 2013 - 2017

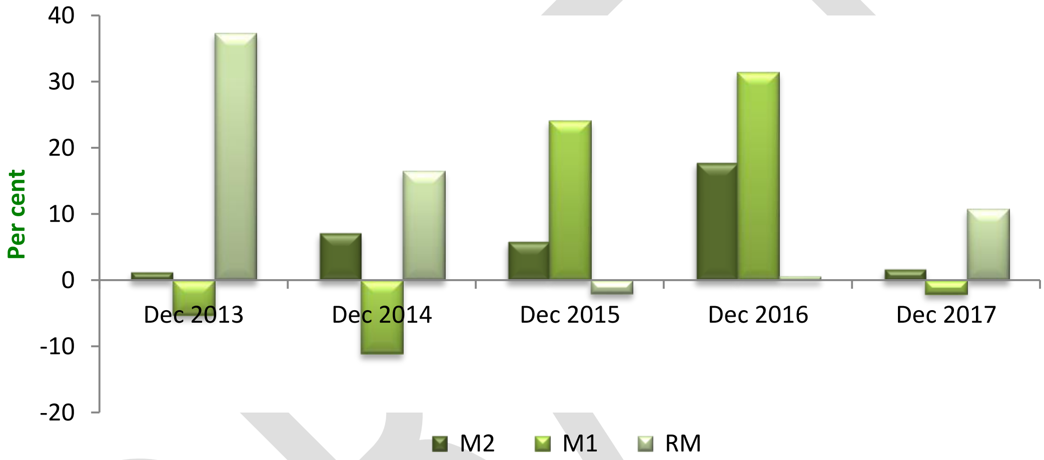


Source: CBN

4.2.3 Quasi-Money

Quasi-money rose by 5.2 per cent to ₦12, 965.06 billion at end-December 2017, compared with the growth of 7.5 per cent at end-December 2016. The development reflected the 5.0 and 19.4 per cent growth in aggregate savings (savings and time deposit) in commercial and merchant banks, respectively, above the levels in 2016. Foreign currency deposits (FCD) fell by 5.0 per cent to ₦4,352.97 billion at end-December 2017, in contrast to the 20.6 per cent growth at end-December 2016, owing to the decline of 4.9 and 17.6 per cent in FCD in commercial and merchant banks, respectively, at the end-December 2017.

Figure 4.14: Growth in Monetary Aggregates, 2013 – 2017, (Per cent)

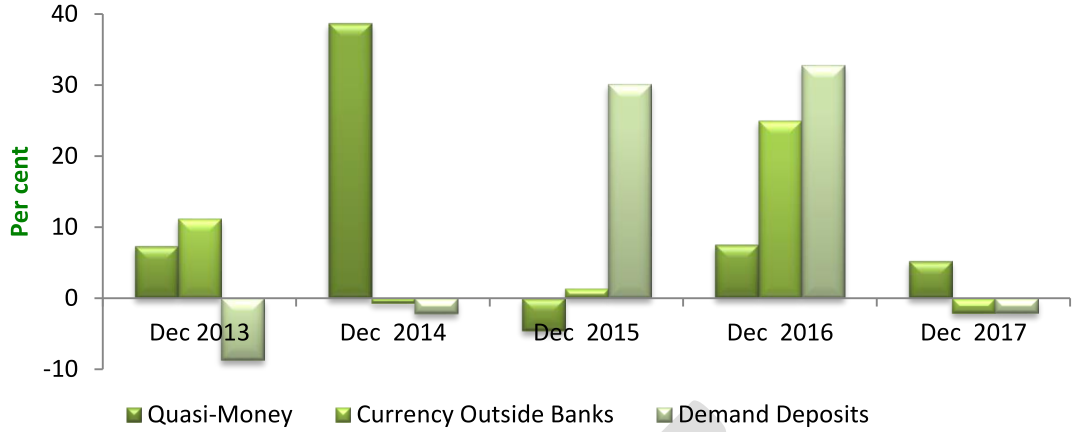


Source: CBN

4.2.4 Broad Money (M_2)

The growth in the major monetary aggregate was moderate in the review period, due to the restrictive monetary policy stance. Relative to the level at end-December 2016, broad money supply grew by 1.7 per cent at end–December 2017, compared with the growth of 17.8 per cent, but lower than the 10.3 per cent programmed benchmark for 2017. The development was due, wholly, to the 61.9 per cent increase in net foreign assets of the banking system, which was more than offsetting the effect of the 3.7 and 34.3 per cent decline in net domestic credit and other assets (net) of the banking system, respectively.

Figure 4.15: Growth in the Components of Broad Money (M_2), 2013 – 2017, (Per cent)



Source: CBN

4.2.5 Drivers of Growth in Broad Money

4.2.5.1 Net Foreign Assets (NFAs)

Net foreign assets of the banking system rose by 61.9 per cent to ₦14,813.27 billion at end-December 2017, compared with 61.8 per cent at end-December 2016. The development reflected the growth in foreign assets of the CBN and banks by 64.1 and 7.6 per cent, respectively. Consequently, the share of NFA in M_2 rose to 61.7 per cent, above 38.8 per cent at end-December 2016. Accordingly, its contribution to the growth of M_2 was 24.0 percentage points at end-December 2017, compared with 17.5 percentage points at end-December 2016.

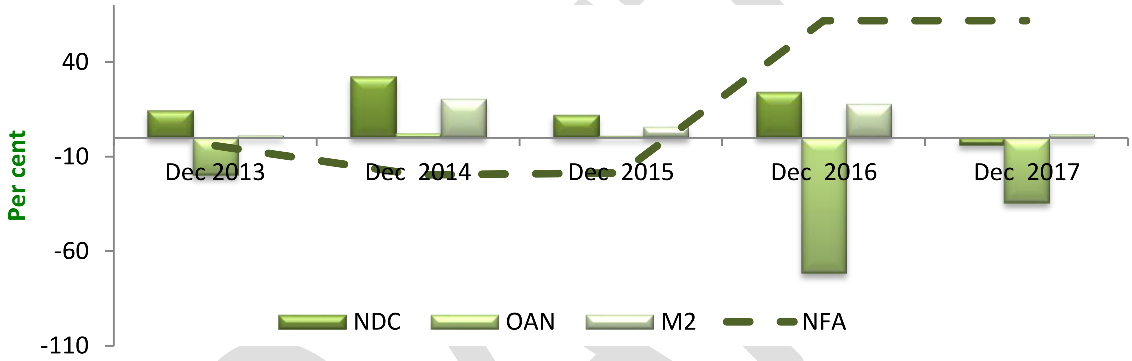
4.2.5.2 Net Domestic Credit (NDC)

Aggregate credit to the domestic economy (net) stood at ₦25, 863.3 billion at end-December 2017, representing 3.7 per cent decline below the level at end-December 2016, in contrast to the growth of 24.3 per cent at the end of the preceding period. This was also lower than the indicative benchmark of 17.9 per cent for fiscal 2017. The decline in aggregate credit was attributed to the 26.7 per cent decrease in net claims on the Federal Government. Consequently, the NDC contributed negative 4.2 percentage points to the growth in M_2 at end-December 2017, in contrast to the 26.2 percentage points at end-December 2016.

4.2.5.2.1 Net Credit to Government (NCG)

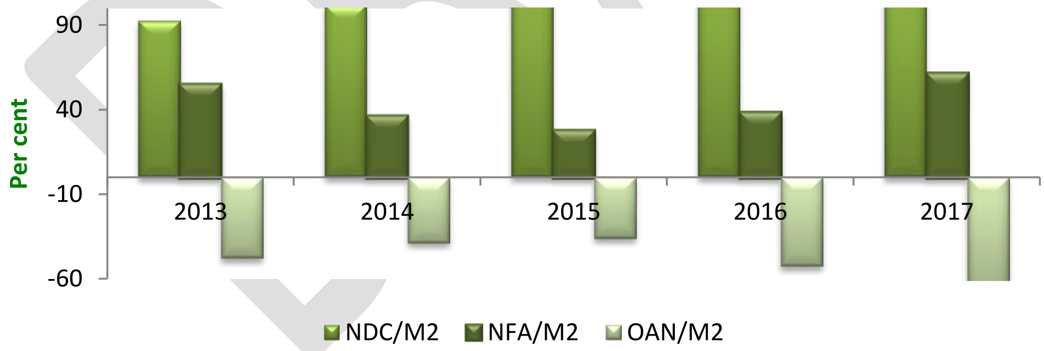
Net claims on the Federal Government decreased by 26.7 per cent, in contrast to the growth of 68.6 per cent at end-December 2016. The development reflected the decline in holding of government securities, especially the Nigerian Treasury Bills, which fell by 25.9 per cent to ₦2,525.47 billion at the end of the review period. The contribution of claims on the Federal Government to the growth in M_2 was negative 5.5 percentage points, in contrast to the positive contribution of 9.9 per cent at the end of the preceding period.

Figure 4.16: Growth in Broad Money Supply (M_2), 2013 – 2017, (per cent)



Source: CBN

Figure 4.17: Share of NFA, NDC and OAN in M_2, 2013 – 2017, (Per cent)



Source: CBN

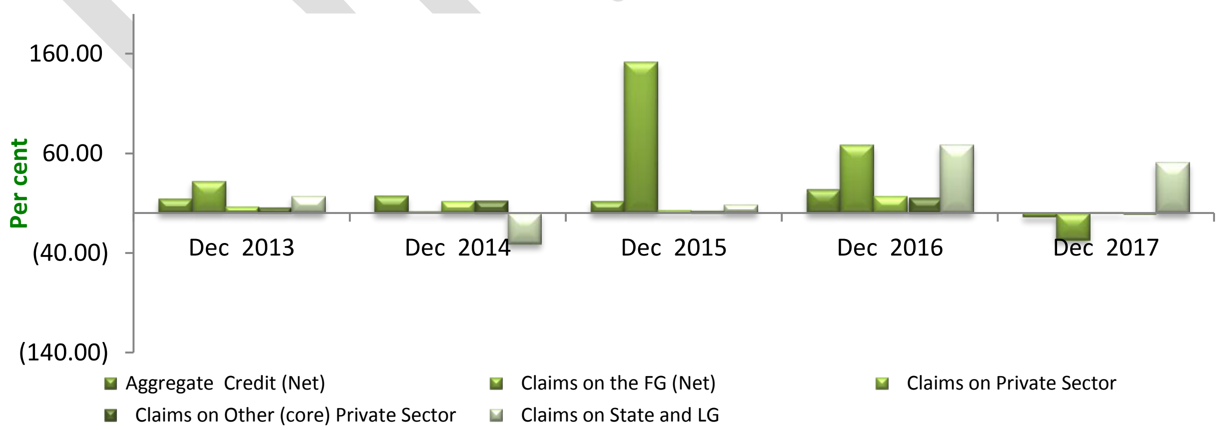
Table 4.3 Contribution to the Growth in M_2 2013-2017 (%)					
	2013	**2014**	**2015**	**2016**	**2017**
Net foreign Assets	-2.49	10.84	-6.90	17.46	24.01
Net domestic Credit	11.86	30.20	12.37	26.19	-4.22
Other Assets net	-8.05	1.19	0.44	-25.86	-18.05
M_2	1.32	20.55	5.90	17.78	1.74
Narrow Money	-2.51	-0.82	8.81	13.48	-0.99
Quasi Money	3.83	21.37	-2.91	4.30	2.73
M_2	1.32	20.55	5.90	17.78	1.74

Source: CBN

4.2.5.2.2 Credit to the Private Sector (CP)

Banking system claims on the private sector (including states, local governments, and non-financial public enterprises) grew by 1.4 per cent to ₦22, 289.3 billion at end-December 2017, compared with the growth of 17.4 per cent at end-December 2016. Of this total, claims on states and local governments grew by 51.1 per cent, while credit to the core private sector declined by 1.0 per cent. Private sector credit contributed 1.3 percentage points to the growth in broad money supply. Despite the decline in claims on the Federal government, growth in credit to the private sector remained insignificant.

Figure 4.18: Growth in Net Domestic Credit, 2013 – 2017 (Per cent)

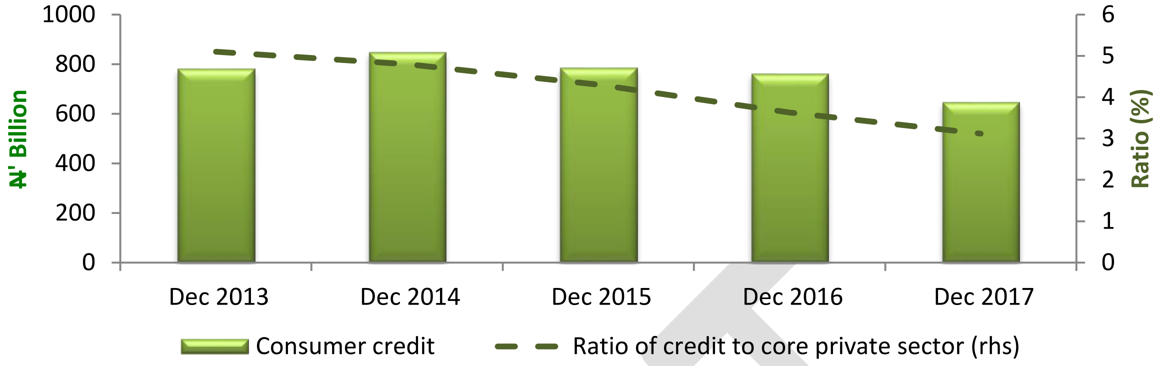


Source: CBN

4.2.5.2.2.1 Outstanding Consumer Credit

Outstanding consumer credit declined by 15.1 per cent to ₦647.27 billion at end-December 2017, from ₦762.07 billion recorded at end-December 2016. The development reflected reduced demand for consumer credit. At that level, consumer credit constituted 3.1 per cent of banks' outstanding claims on the core private sector, compared with 3.6 per cent at end-December 2016.

Figure 4.19: Consumer Credit, 2013 - 2017



Source: CBN

4.2.5.3 Other Assets (Net) (OAN)

Other Assets (net) of the banking system declined by 34.3 per cent, compared with the decline of 71.6 per cent at end-December 2016. The contribution of OAN to the growth of M_2 was negative 18.1 percentage points at end-December 2017, compared with negative 25.9 percentage points for 2016.

Table 4.4: Composition of Total Monetary Aggregates (M_2), 2013 - 2017 (Per cent)

	2013	2014	2015	2016	2017
Net Domestic credit	92.65	101.91	107.90	113.84	107.76
Claims on Federal Government (Net)	-10.56	6.08	14.44	20.67	14.89
Credit on Private Sector	103.20	95.83	93.46	93.18	92.87
Claims on Other (core) Private Sector	98.09	92.85	90.41	88.87	86.52
Foreign Assets (Net)	**55.19**	**36.77**	**28.22**	38.78	61.72
Other Assets (Net)	**-47.84**	**-38.68**	**-36.13**	**-52.63**	**-69.48**
Total Monetary Assets	**100.0**	**100.0**	**100.0**	**100.00**	**100.00**
Money Supply (M_1)	**44.83**	**36.51**	**42.79**	**47.78**	**45.98**
Currency Outside Banks	9.22	7.60	7.27	7.72	7.43
Demand Deposit	35.61	28.91	35.53	40.06	38.55
Quasi Money	**55.17**	**63.49**	**57.21**	**52.22**	**54.02**
Time & Savings Deposit	55.17	63.5	56.81	52.2	54.0
Of which: Foreign Currency Deposit (FCD)	21.70	23.6	18.96	19.42	18.14
Total Monetary Liabilities (M_2)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: CBN

4.2.6 Maturity Structure of Banks' Loans and Advances, and Deposit Liabilities

As in the preceding year, short-term maturities remained dominant in banks' outstanding credit and deposits. Outstanding loans and advances, maturing one year or earlier, accounted for 43.7 per cent of the total, compared with 46.4 per cent at end-December 2016. The share of medium-term loans (above 1 year but less than 3 years) fell to 18.0 per cent, from 20.7 per cent, while long-term (3 years and longer) rose to 38.3 per cent above the 32.9 per cent at end-December 2016.

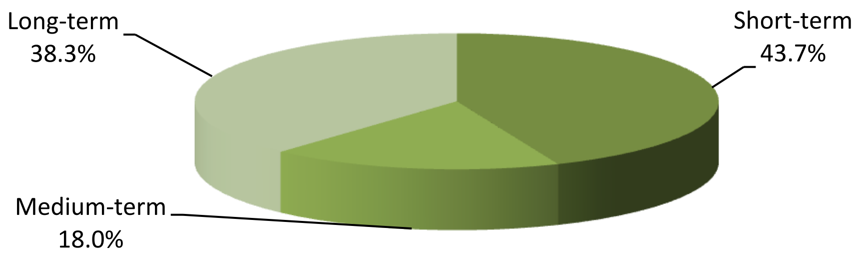
Deposit liabilities showed a similar trend, with short-term deposits, constituting 95.9 per cent of the total, compared with 95.6 per cent as at end-December 2016. Deposits of less than 30-day maturity constituted 74.4 per cent, while the share of medium and long-term deposits stood at 1.3 and 2.8 per cent, respectively, compared with 1.2 and 3.2 per cent at end-December 2016. The structure of banks' deposit liabilities in 2017 underscored their preference for short-term claims on the economy.

Table 4.5: Maturity Structure of DMBs' Loans and Advances, and Deposit Liabilities, 2015 - 2017

Tenor	Loans (%)			Deposits (%)		
	2015	2016	2017	2015	2016	2017
0-30 days	24.4	27.3	25.6	71.7	75.9	74.4
31-90 days	8.6	6.8	7.8	15.0	11.8	12.9
91-180 days	6.9	7.2	5.3	3.87	4.4	4.8
181-365 days	7.2	5.1	5.0	4.78	3.5	3.7
Short-term	47.1	46.4	43.7	95.4	95.6	95.9
Medium-term - (above 1 year and below 3 Years)	16.9	20.7	18.0	1.83	1.23	1.3
Long-term (3 years and Above)	36.0	32.9	38.3	2.77	3.15	2.8

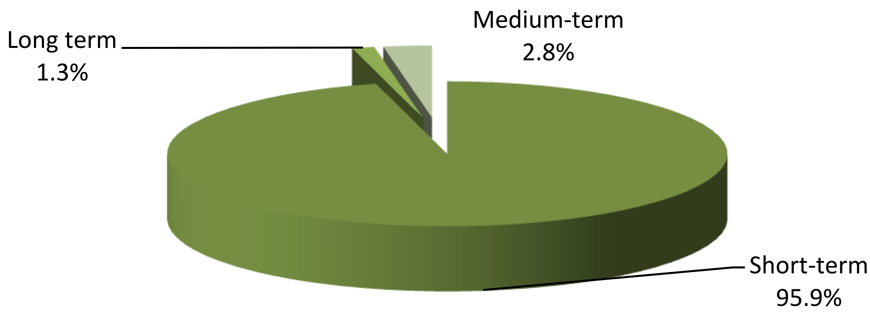
Source: CBN

Figure 4.20a: Maturity Structure of DMBs' Loans and Advances at end-December, 2017 (Per cent)



Source: CBN

Figure 4.20b: Maturity Structure of DMBs' Deposits at end-December, 2017 (Per cent)



Source: CBN

4.2.7 Sectoral Distribution of Credit

Of the total banks' claims on the core private sector in the review year, credit to the priority sectors, such as agriculture, services and construction, constituted 3.4, 37.6 and 4.2 per cent, respectively, of the total in December 2017, compared with 3.3, 39.4 and 3.9 per cent. The industry sector accounted for the largest share of 39.6 per cent, of total sectoral credit utilisation at end-December 2017, of which the manufacturing and oil & gas sub-sectors constituted 13.8 and 22.7 per cent, respectively, compared with the 38.8 per cent at end-December 2016.

Table 4.6: Share in Outstanding Credit to the Core Private Sector, 2016 – 2017 (per cent)

ITEM	Dec 16	Dec 17	Percentage Share in Total		% Change Between (1)&(2)
	₦'billion	₦'billion	Dec 16	Dec 17	
	1	2	3	4	
[a] Agriculture	526.0	528.2	3.3	3.4	0.40
[b] Industry	6,257.2	6,226.9	38.8	39.6	(0.50)
Mining & Quarrying	21.3	25.3	0.1	0.2	18.70
Manufacturing	2,215.7	2,171.4	13.8	13.8	(2.00)
Oil & Gas	3,587.9	3,576.3	22.3	22.7	(0.30)
of which Downstream, Natural Gas and	3,587.9	3,576.3	22.3	22.7	(0.30)
Crude Oil Refining					
Power and Energy	432.3	453.9	2.7	2.9	5.00
of which IPP and Power Generation	432.3	453.9	2.7	2.9	5.00
[c] Construction	631.1	657.1	3.9	4.2	4.10
[d] Trade/General Commerce	984.9	1,023.8	6.1	6.5	3.90
[e] Government	1,361.9	1,391.4	8.5	8.8	2.20
[f] Services	6,356.3	5,913.3	39.4	37.6	(7.00)
Real Estate	791.5	753.7	4.9	4.8	(4.80)
Finance, Insurance and Capital Market	937.4	1,125.9	5.8	7.2	20.10
Education	87.2	72.5	0.5	0.5	(16.80)
Oil & Gas	1,267.8	1,161.1	7.9	7.4	(8.40)
of which Upstream and Oil & Gas Services	1,267.8	1,161.1	7.9	7.4	(8.40)
Power and Energy	294.0	301.1	1.8	1.9	2.40
of which Power Transmission and Distribution	294.0	301.1	1.8	1.9	2.40
Others	2,978.4	2,499.0	18.5	15.9	(16.10)
of which: i. General	1,314.5	1,037.7	8.2	6.6	(21.10)
ii. Information & Communication	845.9	774.4	5.3	4.9	(8.50)
iii. Transportation & Storage	450.8	332.1	2.8	2.1	(26.30)
TOTAL PRIVATE SECTOR CREDIT	**16,117.3**	**15,740.6**	**100.0**	**100.0**	**(2.30)**

Source: CBN

4.2.8 Financial/Banking System Developments

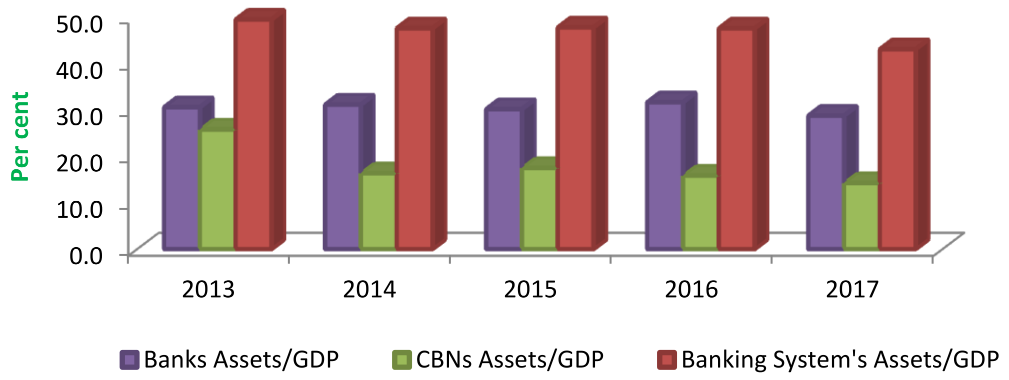
Indicators of financial sector development trended, largely, downward in 2017, reflecting the tight monetary policy stance of the CBN. Systemic relevance of the banking sector, measured by the ratio of M_2 to GDP, stood at 21.1 per cent, slightly lower than the 23.3 per cent at end-December 2016. The banking system assets/GDP ratio fell to 45.2 per cent at end-December 2017, from 47.5 per cent at end-December 2016. This was due to the decline in CBN assets/GDP ratio at 14.3 per cent from 15.9 per cent in 2016, and the Banks' assets/ GDP ratio at 30.9 from 31.7 per cent in 2016.

Thus, the capacity of the banking system to finance the economy fell, with the aggregate credit to GDP ratio at 22.7 per cent, from the 26.5 per cent in 2016. Similarly, the ratio of private sector credit to GDP fell, slightly to 19.6 per cent from 21.7 per cent in 2016. In the same vein, financial savings declined slightly in 2017, with the ratio of quasi-money to GDP at 11.4 per cent, compared with 12.1 per cent recorded in 2016. However, the intermediation efficiency indicator, measured by the ratio of currency outside the bank to broad money supply, improved to 7.4 per cent, from 7.7 per cent at end-December 2016.

Table 4.7: Indicators of Financial Developments

	2013	2014	2015	2016	2017
M_2/GDP	19.6	21.2	21.3	23.3	21.1
COB/M_2	9.2	7.6	7.3	7.7	7.4
QM/GDP	10.8	13.5	12.2	12.1	11.4
NDC/GDP	18.1	21.6	23.0	26.5	22.7
CP/GDP	20.2	20.4	19.9	21.7	19.6
Cp (core)/GDP	19.2	19.7	19.2	20.7	18.3
COB/M_1	20.6	20.8	17.0	16.2	16.1
DD/M_1	79.4	79.2	83.0	83.8	83.8
FCD/M_2	21.7	23.6	19.0	19.4	18.1

Figure 4.21: Ratio of Banking System's Total Assets to GDP, 2013 - 2017



Source: CBN

4.2.9 Money Multiplier and Velocity of Money

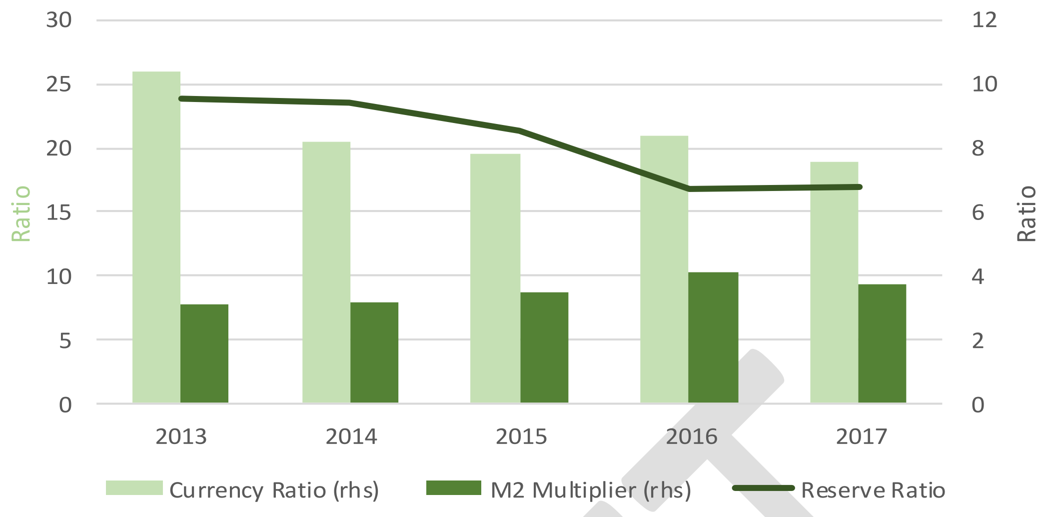
The broad money multiplier stood at 3.7, indicating a decrease of 0.4 below the level at end-December 2016. Currency deposit ratio decreased to 7.6 per cent, below 8.4 per cent in 2016, while the reserve ratio rose to 17.0 per cent, above the level of 16.9 per cent in 2016. Velocity of broad money, M_2, stood at 4.9, compared with 4.3 per cent in 2016, reflecting improvement in economic activities during the period.

Table 4.8: Money Multiplier and Velocity of M_2, 2013 - 2017

	2013	2014	2015	2016	2017
Currency Ratio	10.4	8.2	7.8	8.4	7.6
Reserve Ratio	23.9	23.7	21.3	16.9	17.0
M_2 Multiplier	3.1	3.2	3.5	4.1	3.7
Velocity of M_2	5.1	4.7	4.7	4.3	4.9

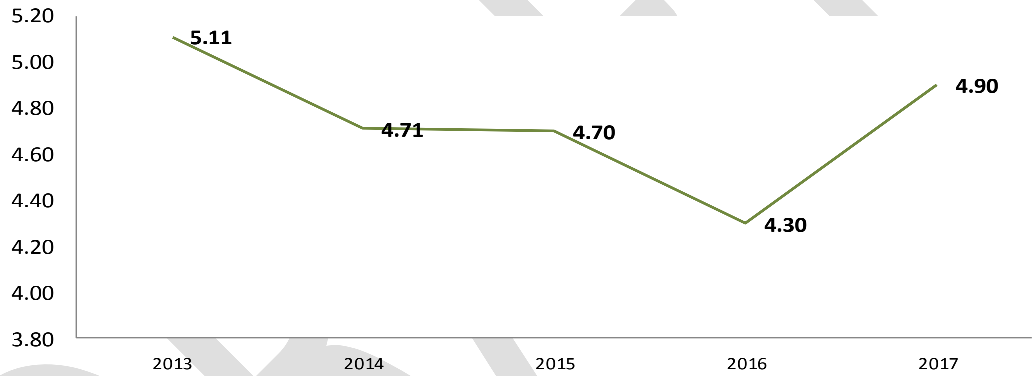
Source: CBN

Figure 4.22: Money Multiplier, Currency Ratio and Reserve Ratio, 2013 - 2017



Source: CBN

Figure 4.23: Velocity of Broad Money, 2013 - 2017



Source: CBN

4.3 MONEY MARKET DEVELOPMENTS

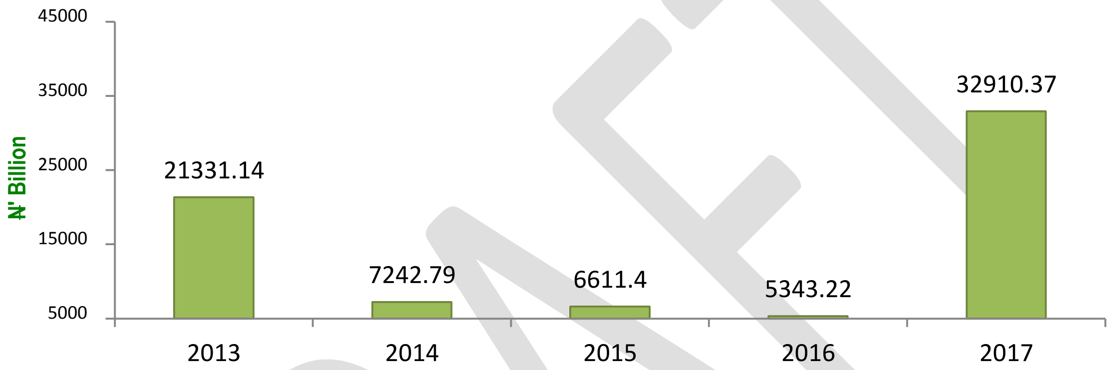
Developments in the money market reflected the liquidity condition in the banking system, influenced, largely, by statutory revenue flows, foreign exchange interventions and open market operations (OMO). There was a sharp rise in activities at both the unsecured inter-bank and OBB segments, attributed to the withdrawal of liquidity sequel to the sale of foreign exchange and fiscal operations of government. The trend of activities at the discount window, remained the same as request for Standing Lending Facility (SLF) was more dominant than Standing Deposit Facility (SDF).

4.3.1 The Inter-bank Funds Market

At the interbank funds market, the total value of transactions increased to ₦32, 910.37 billion in 2017, a 515.9 per cent rise, over ₦5, 343.22 billion in 2016.

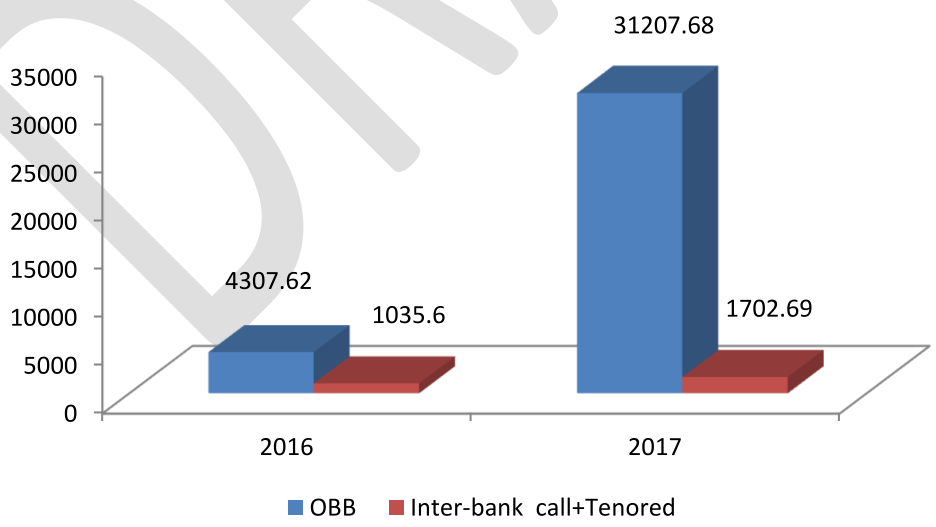
OBB transactions amounted to ₦31, 207.68 billion or 94.8 per cent of the total, while transactions at the unsecured inter-bank segment, accounted for the balance of ₦1,702.69 billion or 5.2 per cent of total inter-bank market funds in 2017. This represented an increase of 624.5 per cent and 64.4 per cent in OBB and unsecured transactions, respectively, over the levels in 2016. The sharp increase in volume of transactions was attributed, largely, to the liquidity squeeze in the banking sector, occasioned by the non-expansionary policy stance of the Bank, foreign exchange interventions and open market operations.

Figure 4.24: Value of Interbank Funds Market Transactions, 2013 – 2017 (₦'billion)



Source: CBN

Figure 4.25: Share of Interbank Funds Market Transactions, 2017 (Per cent)



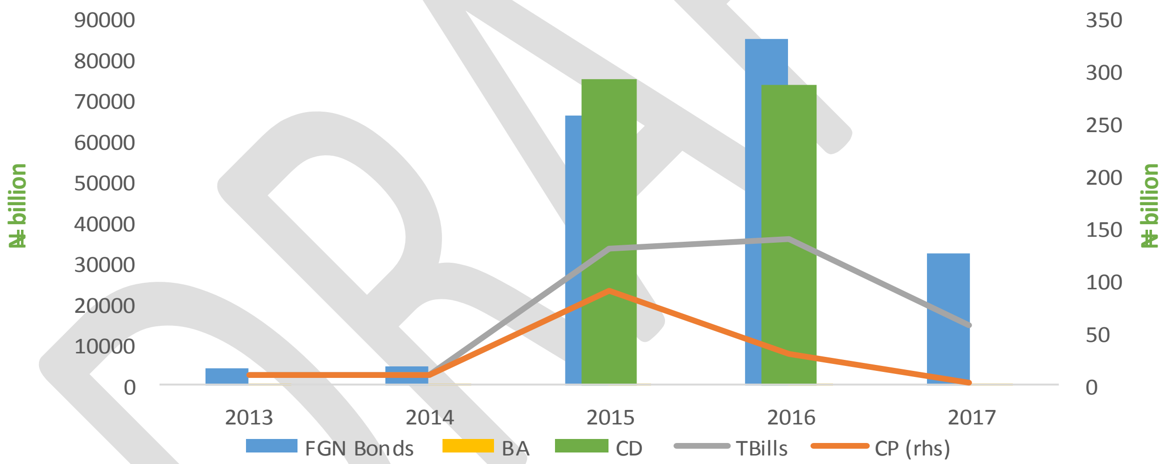
Source: CBN

4.3.2 Money Market Assets Outstanding

Total money market assets outstanding at end-December 2017 stood at ₦47, 554.29 billion, representing a decrease of 61.1 per cent from ₦122,332.41 billion at end-December 2016. The development was attributed to the decrease in the Nigerian Treasury Bills (NTBs), Commercial Paper (CP), Bankers Acceptances (BAs), Certificate of Deposits and FGN Bonds outstanding, due to lower expected yield in the market. Government securities constituted over 99.7 per cent of the total money market assets outstanding, while private sector-issued securities (commercial paper and bankers' acceptances) accounted for the balance.

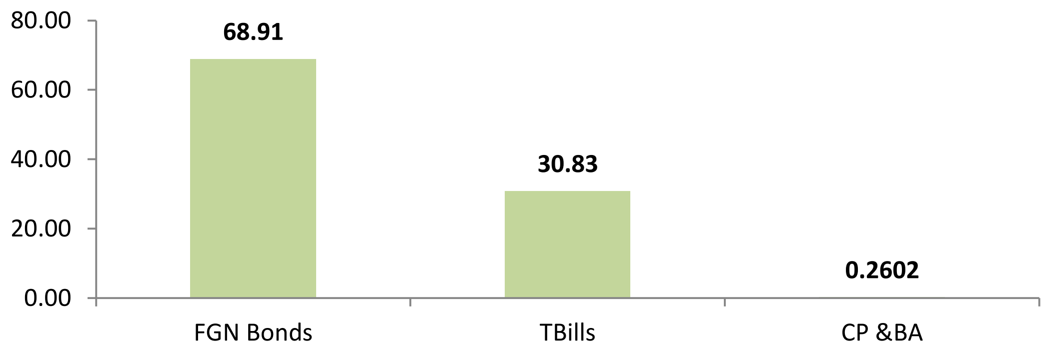
Government constituted 99.7 per cent of the total money market assets outstanding at end-December 2017.

Figure 4.26: Money Market Assets Outstanding, 2013 – 2017 (₦' billion)



Source: CBN

Figure 4.27: Growth Rates of Money Market Assets Outstanding, 2017 (Per cent)



Source: CBN

Table 4.9: Composition of Money Market Assets Outstanding, 2016 and 2017

Asset	Share in total (%) in 2016	Share in total (%) in 2017
Treasury Bills	29.66	30.83
Certificate of Deposit	0.24	0.00
Commercial Paper	0.03	0.004
Bankers' Acceptance	0.26	0.26
FGN Bonds	69.82	68.91
Total	100	100

Source: CBN

4.3.2.1 Nigerian Treasury Bills (NTBs)

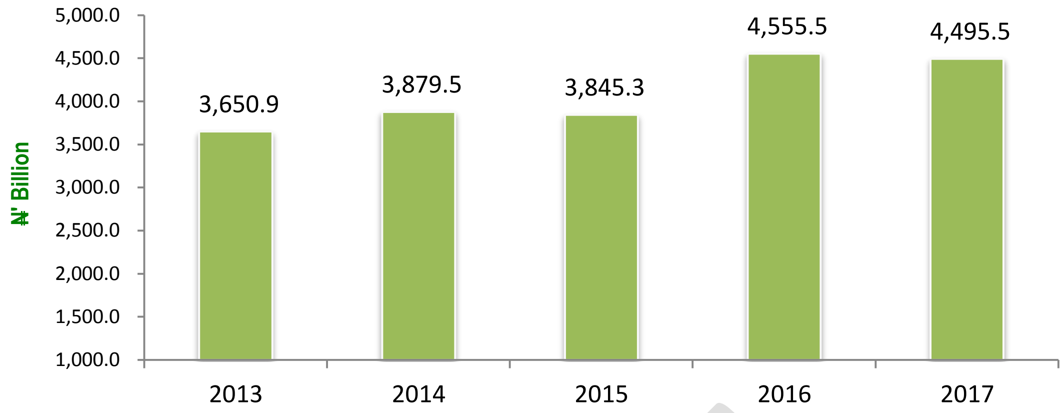
Nigerian Treasury Bills (NTBs) worth ₦4,495.5 billion were offered and allotted in 2017, representing a decrease of ₦60.03 billion or 1.3 per cent, below the ₦4,555.5 billion in 2016. The reduction in NTBs holdings reflected the strategic shift to external debt, which was deemed cheaper by the Debt Management Office (DMO). Total public subscription stood at ₦7,178.38 billion, a decrease of ₦1,499.31 billion or 17.28 per cent, compared with ₦8,677.69 billion in the preceding year. The tenors were for 91-, 182- and 364-day.

The bid rates ranged from 13.00 to 14.00 per cent for the 91-day, 15.00 to 17.50 per cent for the 182-day and 15.57 to 18.98 per cent for the 364-day tenors. In comparison, the bid rates in 2016 were from 4.00 to 15.44 per cent, for the 91-day, 6.99 to 18.06 per cent, for the 182-day and 8.05 to 18.70 per cent, for the 364-day tenor. Generally, rates trended downward in the second half of 2017, due to liquidity surfeit and declining inflation.

Figure 4.28: NTB Issues, Subscriptions and Allotments, 2013 - 2017

Source: CBN

Figure 4.29: Nigerian Treasury Bills Outstanding, 2013-2017



Source: CBN

The structure of investment (allotment) indicated that commercial and merchant banks took up ₦2,550.04 billion or 56.7 per cent, a slight reduction from ₦2,633.04 billion in 2016. CBN branches accounted for ₦120.02 billion or 2.7 per cent, mandate and internal funds customers, ₦1,698.22 billion or 37.9 per cent and CBN take-up amounted to ₦127.18 billion or 2.8 per cent.

Table 4.10: NTB Issues, Subscription, Allotments and Repayments, 2013-2017 (₦' billion)

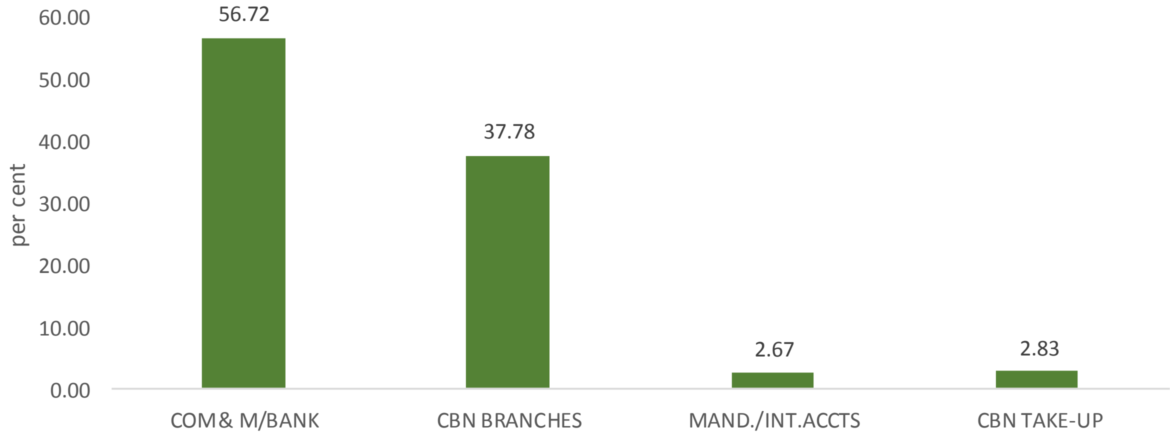
	2013	2014	2015	2016	2017
Offer Amount (₦'bn)	3,650.88	3,879.47	3,845.32	4,555.50	4,495.46
Total Subscription (₦'bn)	7,573.45	8,043.56	9,302.32	8,677.69	7,178.38
Allotment (₦'bn)	3,650.88	3,879.47	3,845.32	4,555.50	4,495.46
Commercial & MBs	1,924.07	2,213.95	2,765.62	2,633.04	2,550.04
Mandate and Internal Fund	1,691.53	1,483.94	999.50	1,609.71	1,698.22
CBN branches/CBN take-up	0.0	181.58	80.20	312.75	120.02
Average Range of Successful Bid Rates (%)	7.50 - 13.34	8.00 -15.99	3.63 -15.90	6.34 -17.40	14.52-16.83
Bid-Cover Ratio[1]	2.07	2.07	2.42	1.90	1.60
Repayments	3,192.26	1,690.05	3,875.12	3,936.12	4,432.95
Net Flows[2]	-458.62	-2,189.43	29.8	-619.38	-62.52

Source: CBN

[1]Bid-cover ratio equals Subscription divided by Allotments

[2]Net Flow equals Repayments minus Allotments

Figure 4.30: Nigerian Treasury Bills: Breakdown of Allotments, 2017 (Per cent)



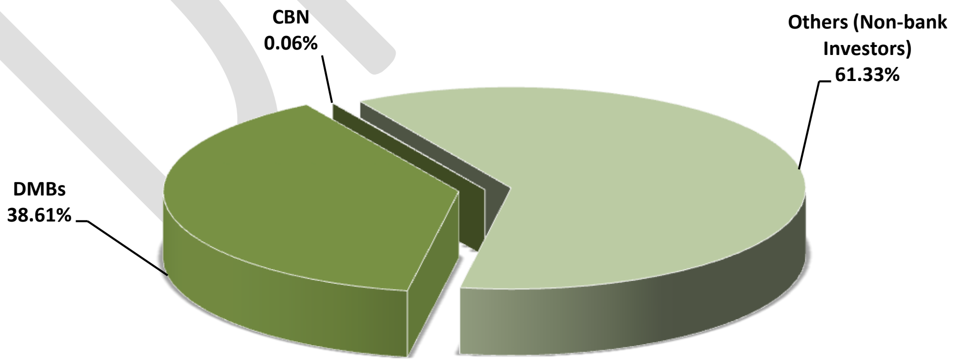
Source: CBN

The sum of ₦4,432.95 billion was repaid in the review year, resulting in a net outflow of ₦62.52 billion from the banking system, as against a net inflow of ₦619.38 billion in the preceding year.

Table 4.11: Liquidity Flows, 2016 - 2017

Period	NTBs Allotted (₦bn)	NTBs repaid((₦bn)	Net flow (₦bn)
2016	4,495.47	4,432.95	-62.52
2015	4,555.50	3,936.12	-619.38

Figure 4.31 Nigerian Treasury Bills Outstanding: Classes of Holders, 2017 (Per cent)



Source: CBN

4.3.2.2 Commercial Paper (CP)

Commercial Paper (CP) outstanding held by DMBs fell by 93.5 per cent to ₦2.0 billion at end-December 2017, from ₦30.74 billion at the end of the preceding year. The development was due to the fall in investment in CP by the commercial banks, during the review period. Thus, CP constituted 0.004 per cent of the total value of money market assets outstanding, in the review period, compared with 0.003 per cent at the end of the preceding year.

4.3.2.3 Bankers' Acceptances (BAs)

Bankers' Acceptances (BAs), held by the banks, declined by 62.3 per cent to ₦121.71 billion from ₦323.19 billion at the end of the preceding year. The development was attributed to the shift in investments by the DMBs to government securities during the year. Consequently, BAs constituted 0.3 per cent of the total value of money market assets, same as in the preceding year.

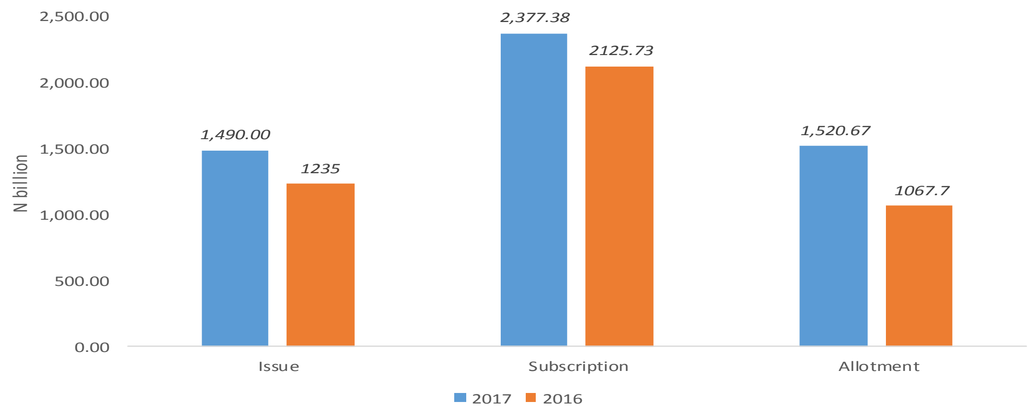
4.3.2.4 Federal Republic of Nigeria Treasury Bonds

There was no new issue of the Federal Republic of Nigeria (FRN) Treasury Bonds in 2017, same as in 2016. There was, however, a redemption of ₦40.00 billion during the year, bringing the stock of the instrument, at end-December 2017, to ₦175.99 billion, compared with ₦215.99 billion at end-December 2016. A breakdown of the amount outstanding showed that the CBN held ₦57.64 billion, while ₦118.35 billion was put into the Sinking Fund.

4.3.2.5 Federal Government of Nigeria (FGN) Bonds

New issues and re-openings of the FGN Bonds series 1, 4 and 6 were auctioned in 2017. Total FGN Bonds offered for sale was ₦1,490.00 billion, while public subscription and sale stood at ₦2,377.38 billion and ₦1,520.67 billion, respectively. This was higher than ₦1,235.0 billion, ₦2,125.73 billion and ₦1,067.70 billion, issued, subscribed to and alloted in 2016, respectively. The subscription was attributed to the high level of liquidity in the banking system and the attractive coupon yields. Total value of the FGN Bonds outstanding at end-December 2017 was ₦9,087.19 billion, of which ₦680.42 billion was restructured commercial loans by the Federal Government on behalf of state governments, compared with ₦8,245.36 billion at end-December 2016.

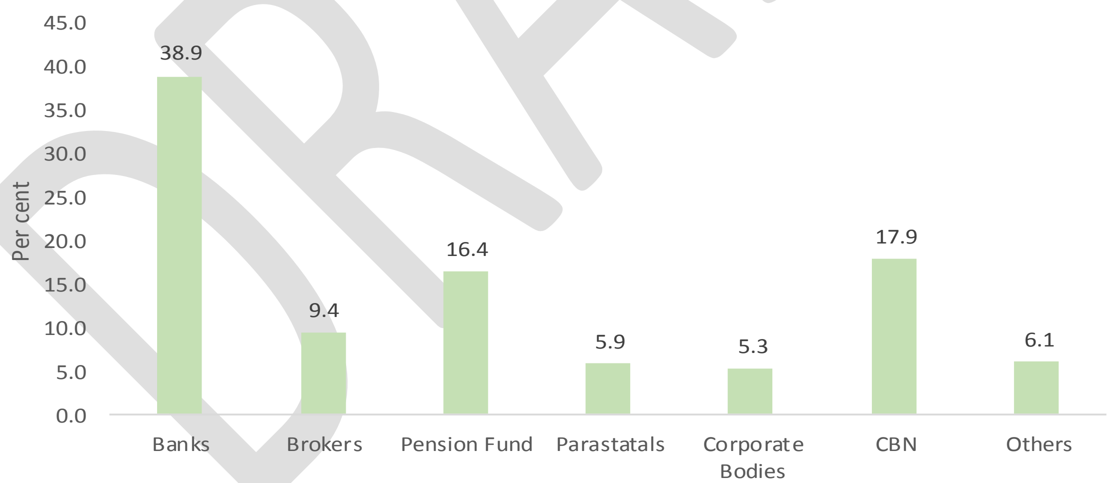
Figure 4.32: Outstanding FGN Bonds, 2017



Source: CBN

The structure of holdings of the FGN Bonds in 2017 was as follows: banks, ₦3,538.50 billion (38.94 per cent); brokers, ₦858.28 billion (9.4 per cent); pension funds, ₦1,493.64 billion (16.44 per cent); corporate bodies, ₦483.23 billion (5.3 per cent); parastatals, ₦533.56 billion (5.9 per cent); CBN, ₦1,626.00 billion (17.89 per cent), while others accounted for the balance of ₦553.98 billion(6.10 per cent).

Figure 4.33: FGN Bonds by Holder, 2017 (Per cent)



Source: CBN

4.3.2.6 Domestic Debt and Charges

4.3.2.6.1: Domestic Debt

At end-December 2017, the stock of the FGN domestic debt was ₦12,589.5 billion, an increase of ₦1,531.3 billion or 13.9 per cent over the ₦11,058.2 billion recorded at end-December 2016. The increase in the stock of the FGN domestic debt was due to the issuance of the FGN Savings, the Sukuk, Green and Special bonds, in the review year.

Table 4.12: Outstanding Federal Government Debt Instrument as at December 31, 2017

	Instrument	2016		2017	
		N'billion	Percentage Share %	N'billion	Percentage Share %
1	FGN Bonds	7,564.94	68.41	8,515.27	67.70
2	Nigerian Treasury Bills	3,277.28	29.64	3,579.80	28.46
3	Nigerian Treasury Bonds	215.99	1.95	175.988	1.40
4	FGN Savings Bonds	-	0	7.197333	0.06
5	FGN Special Bonds	-	0	200.54349	1.59
6	FGN Sukuk Bonds	-	0	100	0.79
7	FGN Green Bonds	-	0	10.69	0.00
	Total	11,058.20	100	12,589.49	100.00

Source: DMO

4.3.2.6.1.1 Federal Government of Nigeria Savings Bonds

In a bid to deepen the bond market and encourage savings from retail investors, the Federal Government commenced the issuance of 2- and 3-FGN Savings Bonds on March 22, 2017. Consequently, the total value of the savings bond issued, in the review period, was ₦ 7,197.33 billion, with the coupon rates, ranging from 11.7380 to 13.8170 per cent and 12.7380 to 14.8170 per cent for the 2 and 3 year tenors, respectively. The total value of the FGN Savings Bonds outstanding at end-December 2017 was ₦ 7,197.33 billion.

4.3.2.6.1.2 Federal Government of Nigeria Green Bonds

To provide sustainable development in an environmentally friendly manner, the Federal Government, for the first time, issued a 5-year Bond worth ₦10.69 billion. Total subscription amounted to ₦10.79 billion, by a broad range of investors, comprising banks, fund managers and pension fund administrators. The bond was fully allotted at the coupon rate of 13.4800 per cent.

4.3.2.6.1.3 Federal Government of Nigeria Sukuk Bonds

The Federal Government issued its first Sukuk bond on September 26, 2017. It was a ₦100.00 billion 7-year bond, allotted at a rental rate of 16.47 per cent. The total subscription of ₦105.9 billion was from a broad spectrum of investors, comprising pension funds, banks, fund managers, institutional and retail investors. The Funds would be utilised for the construction and rehabilitation of 25 Roads across the 6 geopolitical zones of Nigeria.

Table 4.13: Domestic Debt Charges (N' billion), 2017

	TOTAL 2017(₦)	Percentage %	TOTAL 2016(₦)	Percentage %
Nigeria Treasury Bills	445.13	30.58%	335.36	27.82%
Treasury Bonds Interest	27.30	1.88%	31.06	2.58%
Coupon Paid on all FGN Bonds	983.10	67.54%	839.18	69.61%
TOTAL	1,455.53	100.00	1,205.60	100.00

Source: CBN

4.3.2.6.2: Domestic Debt Charges

At the end of the review period, total charges on domestic debt amounted to ₦1,455.5 billion, compared with ₦ 1205.6 billion in 2016. The composition included charges on TBs, Treasury bonds and coupon paid on all FGN Bonds at ₦445.13 billion and ₦27.3 billion, respectively. Coupon paid on all FGN Bonds amounted to ₦983.1 billion.

4.3.3 Over-the-Counter (OTC) Transactions

4.3.3.1 OTC Transactions in Nigerian Treasury Bills (NTBs)

Nigerian Treasury Bills (NTBs) worth ₦60,220.60 billion were traded at the secondary market in 2017, compared with bills worth ₦45,450.16 billion in the preceding year. The increase was attributed to increased liquidity of NTBs in the secondary market.

4

FINANCIAL SECTOR DEVELOPMENTS

4.3.3.2 OTC Transactions in FGN Bonds

FGN Bonds worth ₦9,836.2 billion were traded in 2017, an increase of ₦799.18 billion or 8.8 per cent over the level in 2016. The development was attributed to growing investor confidence in long-term instruments which had acquired increasingly liquidity status.

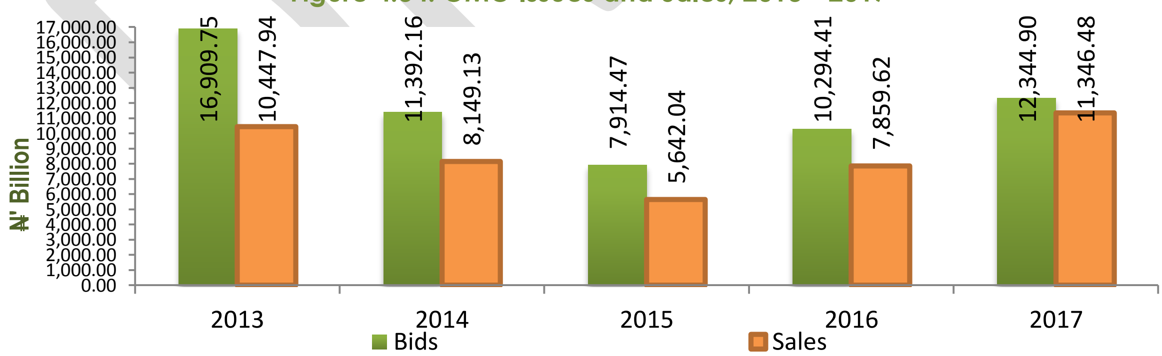
4.3.4 Open Market Operations (OMO)

The CBN bills were utilised as the main instrument for liquidity management. The bill auctions were also used to boost tradable securities and increase activities in the secondary market.

4.3.4.1 OMO Auctions

CBN OMO bills worth ₦13,762.94 billion were offered, while total public subscription and sale amounted to ₦12,344.90 billion and ₦11,346.48 billion, respectively, compared with ₦6,726.67 billion, ₦10,294.41 billion and ₦7,859.62 billion offered, subscribed and sold, respectively, in 2016. The increase in sale of CBN bills, in the review period, was attributed, largely, to increased number of OMO auctions conducted to curb excess liquidity, occasioned by maturing CBN bills, monthly disbursement of statutory revenue and swaps transactions to avoid liquidity surfeit in the banking system.

Figure 4.34: OMO Issues and Sales, 2013 - 2017



Source: CBN

4.3.4.2 CBN Promisory Note

The Bank did not issue any promissory note in 2017, same as in 2016. This was due to the absence of any claim with regard to the liabilities of the acquired banks.

4.3.4.3 Repurchase Transactions (Repo)

Total request for repo transactions was ₦1,105.96 billion, with the interest rates ranging from 18.50 to 19.50 per cent for 4 to 90-day tenors. Total interest earned on repo was ₦32.65 billion. In the preceding year, request for repo amounted to ₦207.98 billion, the interest earned was ₦2.62 billion at 16.50 to 19.50 per cent for 4 to 90-day tenors.

4.3.5 Discount Window Operations

4.3.5.1 CBN Standing Facilities

The discount window was opened all through the year. The trend of activities, at the window, showed more participation at the SLF segment, compared with 2016. Applicable rates for SLF and SDF were 16.00 and 9.00 per cent in the review period. The rates were anchored on the Monetary Policy Rate (MPR).

4.3.5.1.1 The Standing Deposit Facility (SDF)

The value of transactions at the SDF window declined from an average of ₦88.38 billion in January to ₦23.84 billion in October. However, the trend reversed in November and December, averaging ₦31.45 billion and ₦90.34 billion respectively. The reason for the increase in SDF was the reduction and, in some cases, the non-conduct of Open Market Operations in those months. Also, there was the build-up of liquidity by the banks in preparation for year-end reports. The average daily request for SDF from January to December was ₦41.90 billion in the 230 transaction days within the period, compared with ₦76.11 billion in the previous year, while average interest earned during the year was ₦14.86 million, compared with ₦20.01million in the previous year.

4.3.5.1.2 The Standing Lending Facility (SLF)

Banks accessed consistently the SLF to square-up their liquidity positions in the period. However, the request for the SLF reduced in November and December, due to some level of monetary easing by the Bank, as OMO auction reduced, drastically. Consequently, the average monthly request for SLF was ₦216.34 billion, given the 246 transaction days within the period. The average monthly interest payment was ₦159.96 million. In the previous year, the average monthly request for SLF was ₦130.47 billion, resulting in average monthly interest payment of ₦94.76 million.

4.3.5.2 Rediscounting Transactions

The rediscounting window remained open, in the review period, and the total sum of ₦27.29 billion (CBN bills) was rediscounted to meet the liquidity needs of some banks. The tenor of the bills ranged from 6 to 129 days, effected at rates from 18.00 to 19.10 per cent. Total interest earned was ₦0.67 billion. In the preceding year, the total sum of ₦35.36 billion CBN bills with 27-188 days to maturity was rediscounted at the rate of 16.25 to 17.15 per cent. Interest earned amounted to ₦1.71 billion.

4.4 OTHER FINANCIAL INSTITUTIONS

The total assets of the 4,870 other financial institutions (OFIs) (excluding the BDCs) stood at ₦2,201.64 billion at end-December 2017, compared with ₦1,823.79 billion at end-December 2016. Similarly, the aggregate net loans and advances of the sub-sector rose by 12.7 per cent to ₦1,237.14 billion at end-December 2017, compared with ₦957.19 billion at end-December 2016. Also, the shareholders' fund increased by 11.1 per cent to ₦487.61 billion at end-December 2017, while total deposits decreased by 1.9 per cent to ₦531.35 billion in 2017, from ₦541.73 billion in 2016. The improved performance was attributed, largely, to the consolidation of the financial data of the newly-licensed OFIs, including the Nigeria Mortgage Refinancing Company (NMRC) and the Development Bank of Nigeria (DBN).

4.4.1 Development Finance Institutions (DFIs)

The total assets of the seven (7) DFIs, including the Development Bank of Nigeria (DBN) and the Nigeria Mortgage Refinancing Company (NMRC), increased significantly by 36.8 per cent on year-on-year basis, to N1,318.82 billion, at end-December 2017. Analysis of the asset base by institutions indicated that the Bank of Industry (BOI), the Federal Mortgage Bank of Nigeria (FMBN), the Development Bank of Nigeria (DBN), the Nigerian Export-Import Bank (NEXIM), the Bank of Agriculture (BOA), the Nigeria Mortgage Refinancing Company (NMRC) and The Infrastructure Bank (TIB) accounted for 54.2, 19.5, 11.6, 5.6, 5.3, 3.2 and 0.6 per cent, respectively, of total assets.

Similarly, the paid-up capital of the sub-sector increased by 2.7 per cent (year-on-year), to ₦236.99 billion, at end-December 2017.

The net loans and advances of the institutions also increased by 21.3 per cent, to ₦693.75 billion in 2017, above ₦571.85 billion in 2016. The proportion of the industry net loans and advances, attributed to each institution, were: BOI, 73.3%; FMBN, 19.3%; NEXIM, 5.6 %; NMRC, 1.1%; BOA, 0.6%; TIB, 0.1%; and DBN, 0.03%. The shareholders' fund increased to ₦247.31 billion in 2017, from ₦205.35 billion in 2016 due, mainly, to the consolidation of the financial data of the NMRC and the DBN.

The 3rd Bi-annual Consultative Forum for the stakeholders of the Development Finance Institutions (DFIs) was held in Abuja in 2017. The Forum identified weak corporate governance, poor risk management and inadequate capital as major challenges confronting the sub-sector. The Forum recommended policy options to address the challenges, enjoined stakeholders to guard against mission drift and reiterated the need for them to pay-up outstanding equity contribution.

4.4.2 The Asset Management Corporation of Nigeria (AMCON)

The AMCON continued to perform its function as a resolution vehicle empowered to purchase eligible bank assets from banks and inject needed capital through the issuance of appropriate securities. The net carrying value of AMCON's outstanding liabilities remained unchange at ₦4.5 trillion at end-December 2017. The carrying value of its assets, net of impairment, however, rose to ₦769.75 billion, from ₦624.0 billion in 2016. The difference between the AMCON's assets and liabilities was expected to be recovered from the Banking Sector Resolution Cost Trust Fund (BSRCTF), credit recoveries and asset sales by the Corporation. The sum of ₦263.04 billion was realised in 2017 from the BSRCTF and recoveries by the AMCON towards the redemption of its outstanding bonds.

4.4.3 The Nigeria Mortgage Refinance Company (NMRC)

The total assets of the Nigeria Mortgage Refinance Company (NMRC) stood at ₦42.26 billion at end-December 2017, compared with ₦41.57 billion at end-December 2016. Similarly, refinanced mortgages increased by ₦0.15

billion to ₦8.15 billion in 2017, above ₦8.0 billion in 2016, reflecting the creation of additional mortgages. The adjusted capital of ₦9.693 billion was higher than the minimum capital requirement of ₦5.0 billion for the Company. Similarly, the capital adequacy ratio and adjusted capital to net credit were 139.83 and 1:1.84 at end-December 2017 and complied with the regulatory minimum and maximum of 10 per cent and 1:10, respectively.

The Composite Risk Rating of the Company was 'Moderate'. Earnings was rated 'Acceptable' and capital rated 'Strong'. In addition, all the credit facilities of the Institution were classified 'Performing', as all repayments were made to date. Overall, the NMRC remained profitable, as its profit before tax (PBT) was ₦1.43 billion at end-September 2017, compared with ₦1.29 billion at end-October 2016.

4.4.4 Microfinance Banks (MFBs)

The number of microfinance banks (MFBs) stood at 1,008 at end-December 2017, compared with 999 MFBs at end-December 2016. This comprised eight (8) National, 132 State and 868 Unit MFBs. Provisional data revealed that total assets/liabilities of MFBs was ₦375.01 billion at end-December 2017, compared with ₦354.09 billion at end-December 2016. The paid-up capital and shareholders' funds increased by 0.3 per cent and 4.0 per cent to ₦63.11 billion and ₦82.97 billion, respectively, above the levels at end-December 2016. The developments were attributed to capital injection and increased retained earnings. Net loans and advances increased by 25.5 per cent to ₦215.8 billion at end-December 2017, compared with ₦190.31 billion at end-December 2016, while deposit liabilities fell by 5.8 per cent to ₦162.5 billion. Reserves also increased by 17.6 per cent, to ₦19.86 billion at end-December 2017, compared with ₦16.89 billion at end-December 2016.

Overall, the average capital adequacy ratio of the sub-sector declined to 34.64 per cent in 2017, from 58.09 per cent in 2016. Similarly, the average portfolio-at-risk (PAR) increased to 21.2 per cent at end-December 2017, from 18.9 per cent at end-December 2016, indicating a further deterioration in the quality of risk assets. Industry average return on assets (ROA) and return on equity (ROE) declined to 3.9 per cent and 7.6 per cent at end-December 2017, respectively, from 4.2 per cent and 10.7 per cent at end-December 2016. There was, however, improvement in the average liquidity ratio, which increased to 91.7 per cent at end-December 2017, above 89.4 per cent at end-December 2016.

Investible funds, available to the sub-sector in the review year, amounted to ₦28.8 billion, compared with ₦91.1 billion in 2016. The funds were sourced from increase in other liabilities (₦7.98 billion), realisation of other assets (₦5.40 billion) and takings from other banks (₦4.47 billion), as well as, decrease in placement with other banks (₦7.98 billion) and draw-down on reserves (₦2.97 billion). The funds were used to reduce deposit liabilities (₦9.98 billion), increase long-term loans (₦7.39 billion) and net loans and advances (₦2.85 billion), as well as, acquire long-term investments (₦6.14 billion) and fixed assets (₦1.78 billion).

4.4.4.1 The Maturity Structure of Microfinance Banks (MFBs) Loans & Advances and Deposit Liabilities

Short-term credit remained dominant with microfinance banks (MFBs) in the review year, driven, largely, by the structure of the deposit liabilities in the sub-sector. Accordingly, at end-December 2017, short-term loans (with maturity less than one year), accounted for 86.3 per cent of the aggregate loans and advances, indicating 1.7 percentage points decrease below 88.0 per cent in the preceding year. Loans with long-term maturity (over 360 days) accounted for 13.7 per cent, compared with 12.0 per cent at end-December 2016. Similarly, analysis of the deposit structure showed that short-term deposit liabilities (less than one year maturity) remained dominant, constituting 88.5 per cent of total deposit liabilities, indicating 8.5 percentage points increase, above 80.0 per cent in 2016. Deposits of long-term maturity (above 1 year) accounted for 11.5 per cent at end-December 2017, compared with 10.2 per cent in 2016.

Table 4.14: Maturity Structure of Assets and Liabilities of Microfinance Banks (MFBs), 2016 - 2017 (Per cent)

	2016		2017	
Tenor/Period	**Loans and Advances**	**Deposits**	**Loans and Advances**	**Deposits**
0-30 days	16.0	53.0	24.8	44.7
31-60 days	6.0	7.3	8.3	10.7
61-90 days	8.5	10.9	10.8	12.2
91-180 days	16.5	8.8	22.0	12.1
181-360 days	41.0	9.8	20.4	8.8
Short-Term	**88.0**	**89.8**	**86.3**	**88.5**
Above 360 days	**12.0**	**10.2**	**13.7**	**11.5**
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Bank of Nigeria

4.4.5 Finance Companies (FCs)

The total assets/liabilities of the FCs decreased by 10.3 per cent to ₦119.77 billion, compared with ₦133.58 billion in the preceding year. Similarly, loans and advances decreased by 25.3 per cent to ₦39.11 billion at end-December 2017, compared with ₦52.36 billion in 2016. Investments also decreased by 14.2 per cent to ₦13.22 billion at end-December 2017, from ₦15.40 billion at end-December 2016. The development reflected the decline in the number of active institutions, as most of the 21 FCs slated for revocation had commenced voluntarily winding down. The shareholders' funds, however, increased by 15.6 per cent to ₦24.98 billion at end-December 2017, over ₦21.61 billion at end-December 2016. This was as a result of the injection of additional capital and asset revaluation surplus occasioned by the newly licensed FCs and the adoption of the IFRS by majority of the institutions.

4.4.6 Primary Mortgage Banks (PMBs)

There were 34 licensed PMBs at end-December 2017, same as in 2016. This comprised 11 National and 23 State PMBs, following the upgrade of the Safetrust Mortgage Bank Limited to a National PMB. The total assets/liabilities of the PMBs increased, marginally, by 1.2 per cent to ₦388.35 billion, compared with ₦383.67 billion in 2016. This reflected the 0.13 per cent increase in the shareholders' fund, which stood at ₦132.35 billion in 2017, compared with ₦132.20 billion in 2016. Similarly, loans and advances, short-term investment and non-current assets held for sale increased to ₦117.8

billion, ₦10.42 billion and ₦70.54 billion, respectively, compared with ₦154.46 billion, N8.84 billion and ₦35.94 billion in 2016.

Investible funds, available to the PMBs, amounted to ₦54.0 billion. The funds were sourced, mainly, from increased paid-up capital (₦6.27 billion), long-term loans (₦8.06 billion) and other liabilities (₦20.68 billion). Additional funds were also sourced from decrease in placement with banks (N16.18 billion), cash (₦3.63 billion) and realisation of other assets (₦3.48 billion). The funds were utilised, mainly, to increase loans and advances (₦23.35 billion), investment in non-current assets held for sale (₦4.18 billion) and short-term investments (₦1.57 billion), as well as, reduce deposits by ₦18.18 billion.

4.4.7 Bureaux-de-Change (BDCs)

The number of licensed BDCs increased to 3,740 at end-December 2017, compared with 3,147 at end-December 2016. The increase was as a result of the licensing of 511 new BDCs and the reinstatement of 82 BDCs that recapitalised during the review period.

4.5 CAPITAL MARKET DEVELOPMENTS

4.5.1 Developments in the Nigerian Capital Market

The Securities and Exchange Commission (SEC) sustained its activities aimed at strenghtening regulation and ensuring the efficient functioning of the Nigerian capital market. The activities included those under the Capital Market Master Plan and other programmes, to ensure the capital market contributes to economic development. Highlights of the activities, by the Commission, included:

- Relocation of the registration Division from Abuja to Lagos to enhance efficiency and reduce financial burdens of capital market operators;
- Introduction of a Scheme, requiring quoted firms to transmit electronically annual reports to shareholders, while hard copies are to be made available at Annual General Meetings and head offices of Shareholders' Associations. An impact assessment of a pilot

programme of the Scheme was scheduled to be conducted in the first half of 2018;

- Commencement of the use of risk-based supervision model towards the establishment of a stronger regulartory environment in the capital market. Approval of the framework for the regulation and supervision of systemically important financial institutions (SIFI) in 2017;
- Development of rules on a new fee structure for haircuts on the Commission, Nigeria Stock Exchange, issuing houses and receiving agents' fees. The haircuts were in respect of cost centres that charge between 70 and 80 per cent of primary issuance floatation cost. The draft rule was awaiting approval by the Minister of Finance. The Commission also set-up market-wide committees on market liquidity, listings and financial literacy roadmap; and
- Coordination of enlightenment campaigns across the northwest states, namely; Kebbi, Katsina, Sokoto and Zamfara, following the extension of deadline for free enrollment into the e-dividend Scheme to December 31, 2017. The event included on-the-spot enrollment by stand-by registrars, at the campaign. The Commission also collaborated with the Central Securities Clearing System (CSCS) and the Nigeria Inter-bank Settlement System (NIBSS) to harmonise the Direct Cash Settlement Scheme with the Electronic Dividend Mandate Management System (e-DMMS).

Other major activities of the Commission, during the year, included participation at the International Organisation of Securities Commissions (IOSCO) World Investor Week; review of seven (7) laws on Nigerian investment environment; and launch of the Nigeria Capital Market Development Fund, to promote infrastructural development in the Nigerian capital market.

4.5.2 The Nigerian Stock Exchange (NSE)

The Nigerian Stock Exchange (NSE) intensified its activities in 2017 towards becoming a demutualised Exchange, as well as promoting the development of innovative products for its efficient operations. In that regard, the

Exchange held targeted engagements with key stakeholders and secured broad-based support for the demutualisation project. Conseqeuntly, the Demutualisation Bill successfully passed the reading and public hearing stages of the legislative process, in the review year.

Also, to facilitate the establishment of the first Exchange Traded Derivative Market in West Africa, key milestones achieved in the review year included: completion of draft rules; development of product specification; and market-wide trainings on derivatives and Clearing Counterparty (CCP) transactions. The enhancement of the legal and regulatory framework was also completed and awaiting approvals for operationalisation.

In addition, major progress was made in 2017 in the areas of market and business development, investor protection and corporate citizenship. For instance, 1,279 participants and market professionals were trained at the X-Academy – the Exchange's educational institute. Also, with respect to investors' protection, the Corporate Governance Rating System (CGRS) was introduced, while the Investor Protection Fund Board settled validated claims in 2017. In the area of business development, the Exchange executed a Memorandum of Understanding (MoU) with the Casablanca Stock Exchange to promote market integration, new listings and exchange of information.

In the review year, there was significant recovery on the Exchange from the downturn, experienced during the 2016 economic recession. Specifically, sustained increase in the price and domestic output of crude oil, improvement in the ease of doing business, declining inflation and improved foreign exchange supply, promoted higher investors confidence. Therefore, the Nigerian economy experienced a general rebound in investment activities, following the exit from recession in the second quarter of 2017. Consequently, the market rally, which intensified in the second quarter, was sustained throughout 2017, as domestic and foreign investors took advantage of the improved market condition and positive outlook.

4.5.2.1 The Secondary Market

Developments in the secondary segment of the Nigerian capital market in 2017 were bullish, as major market indicators trended upward, generally. This reflected the significant rebound in investment activities on account of the gradual recovery in the domestic economy, including return to positive output growth, declining inflation, growing external reserves and improving in foreign exchange supply. The development engendered greater foreign portfolio inflow.

The cumulative volume and value of traded securities rose by 4.7 and 121.7 per cent to 100.3 billion and ₦1,273.2 billion, in 837,421 deals, respectively, compared with 95.8 billion and ₦574.4 billion, in 944,951 deals, at end-December 2016. The bulk of the transactions was in equities, which accounted for 99.9 per cent of the turnover volume and 99.8 per cent of total value of traded securities, compared with 99.9 per cent and 99.6 per cent, respectively, in 2016. The average daily volume and value of traded equities were 406.7 million shares and ₦5.1 billion, respectively, compared with 387.9 million shares and ₦2.3 billion, in 2016.

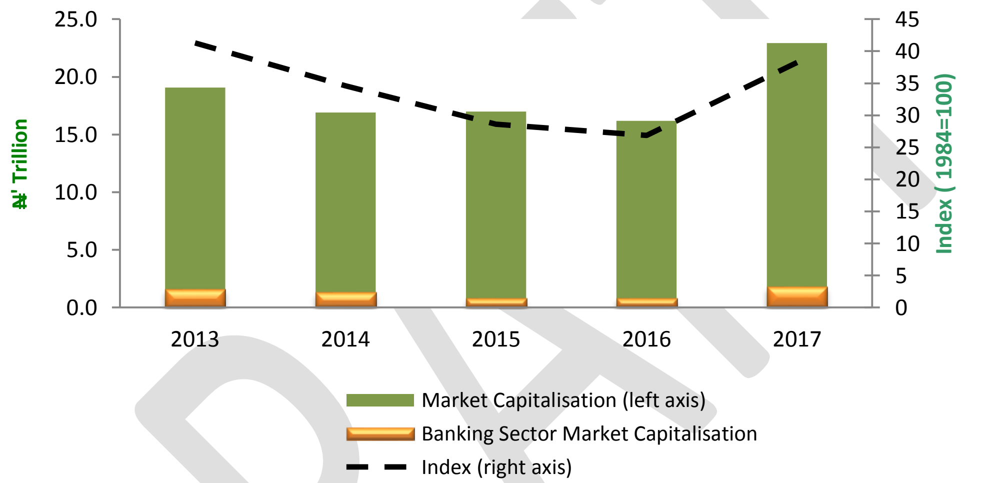
The secondary market segment of the NSE was bullish and bulk of the transactions remained in equities.

Transactions in the financial services sector accounted for the bulk of activities, with volume of traded stocks at 66.2 billion shares (66.0 %), valued at ₦488.7 billion (38.4 %) in 508,042 deals, compared with 81.6 billion shares (85.1%), valued at ₦329.7 billion (57.1%) in 508,121 deals in the preceding year. The banking sub-sector of the financial services sector remained the most active (by volume) with 39.3 billion traded securities worth ₦412.4 billion, in 338,954 deals in 2017.

The aggregate market capitalisation of the 261 listed securities rose, significantly, by 41.6 per cent to ₦22,917.9 billion, compared with the level in 2016, and reflected increase in the value of securities across different asset classes (equities and debt), due to the persisting bullish sentiments. Similarly, market capitalisation of the 172 listed equities rose by 47.1 per cent, above the level in 2016, to ₦13,619.91 billion at end-December 2017. The equities segment constituted 59.4 per cent of aggregate market capitalisation, compared with 57.2 per cent in 2016. There were 6 banks in the top twenty (20) most-capitalised stocks on the Exchange, same as in 2016. The banks accounted for 25.7 per cent of the market capitalisation, compared with 22.5 per cent in 2016, on account of impressive performance of key players in the banking sub-sector.

Total market capitalization, as a percentage of the nominal GDP, was 20.1 per cent, compared with 16.0 per cent at end-December 2016. Similarly, the ratio of the value of traded stocks to GDP was 5.5 per cent, compared with 0.6 per cent recorded at end-December 2016.

Figure 4.35: Trends in Market Capitalisation and NSE Value Index, 2013-2017

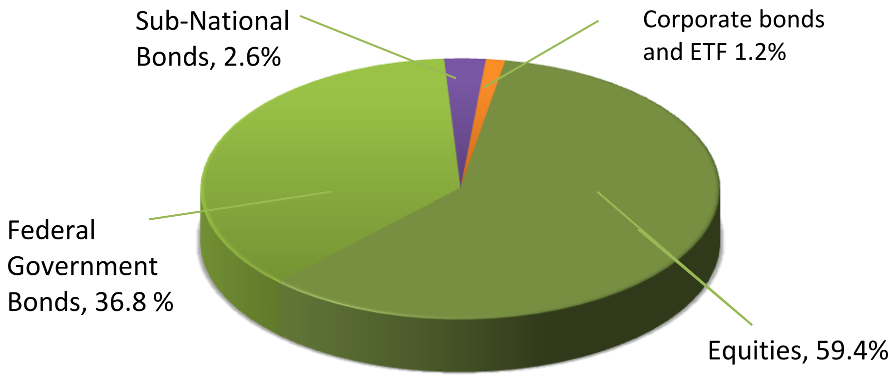


Source: NSE

The debt securities component of the market capitalisation, included Federal Government Bonds (₦8.4 trillion or 90.7%), sub-national and supra-national Bonds (₦587.7 billion or 6.3%) and Corporate Bonds/Debentures (₦276.5 billion or 3.0%), while the Exchange Traded Funds (ETFs) accounted for the balance of ₦6.7 billion or 0.1 per cent. Though, there was a general decline in the market turnover of bonds in 2017, as investors sought higher returns from products in alternative asset classes, issuance of new bonds increased, while yields moderated, due to declining inflation. The major bond listing in the review year were: the FGN Eurobond, maiden 5-year US$300 million FGN Diaspora Bond; ₦100 billion FGN Sukuk Bond; and the ₦10.69 billion FGN Green bond, which was the first Green Bond issued in Africa and the first ever Climate Bonds Certified Sovereign Bond. In the domestic corporate bond segment, the total fund raised amounted to ₦21.5 billion in three listings, compared with ₦86.1 billion in 2016.

At end-December 2017, the number of listed securities rose to 261 from 247 at end-December 2016, while the number of listed companies fell to 167 from 170 at end-December 2016. Similarly, the number of listed bonds and Exchange Traded Funds (ETF) rose to 80 and 9, respectively, at end-December 2017, while the number listed equities fell to 172 from 175 at end-December 2016.

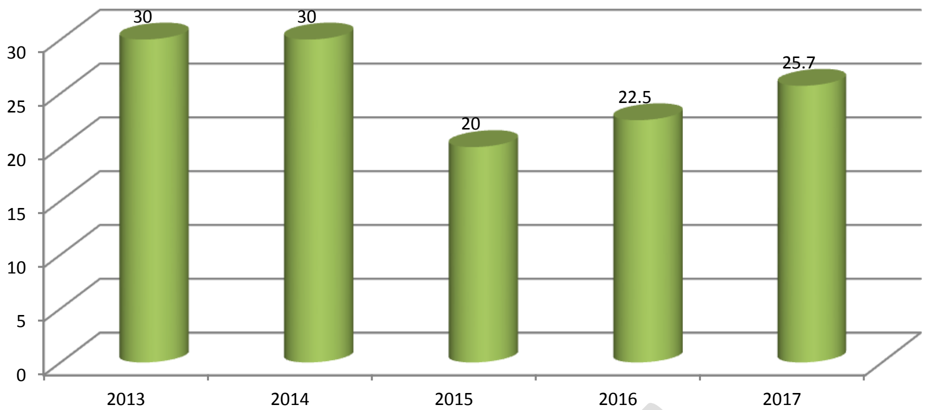
Figure 4.36: Aggregate Market Capitalisation (Per cent)



Source: SEC

Similar to the trend in the preceding year, total domestic investment flows was higher marginally than foreign portfolio investment flows. Also, the positive net foreign flow was sustained from the beginning of the second quarter, throughout the year. The domestic retail investor segment recorded the least growth of over 39.0 per cent, while triple-digit growth was recorded in all other investor classes. Accordingly, the share of foreign portfolio investors, in total transactions, was 47.5 per cent, while the domestic transactions accounted for 52.5 per cent of total transactions, compared with 45.0 per cent and 55.0 per cent, respectively, in 2016. Overall, with 42.3 per cent year-on-year growth, the NSE ranked among the top five (5) markets in the world in 2017.

Figure 4.37: Share of Banks in the 20 Most Capitalised Stocks in the NSE, 2013 – 2017



Source: NSE

Table 4.15: Indicators of Capital Market Developments in the Nigerian Stock Exchange (NSE), 2013 - 2017					
	2013	**2014**	**2015**	**2016**	**2017**
Number of Listed Securities	254	253	257	247	261
Volume of Stocks Traded (Turnover Volume) (Billion)	267.3	108.47	92.9	95.8	100.3
Value of Stocks Traded (Turnover Value) (Billion Naira)	2350.9	1338.6	952.8	575.7	1,273.2
Value of Stocks Traded/GDP (%)	2.9	1.5	1.0	0.6	
Total Market Capitalisation (Billion Naira)	19,077.4	16,875.1	17,003.4	16,185.7	22,917.9
Of which: Banking Sector (Billion Naira)	2,939.9	2,367.0	1,888.8	1,905.7	3,292.2
Total Market Capitalisation/GDP (%)	23.51	19.00	18.00	16.00	20.1
Of which: Banking Sector/GDP (%)	3.62	2.7	2	1.9	2.9
Banking Sec. Cap./Market Cap. (%)	15.4	14.0	8.5	11.8	14.4
Annual Turnover Volume/Value of Stock (%)	11.4	8.1	9.8	16.6	7.9
Annual Turnover Value/ Total Market Capitalisation (%)	12.3	7.9	5.6	3.5	5.6
NSE Value Index (1984=100)	41,329.2	34,657.2	28,642.3	26,874.6	38,243.2
Growth (In per cent)					
Number of Listed Securities	-0.8	-0.4	1.6	-3.9	5.7
Volume of Stocks	156.5	-59.4	14.4	3.2	4.7
Value of Stocks	190.6	-43.1	-29	-39.6	121.2
Total Market Capitalisation	28.9	-11.5	0.8	-4.8	41.6
Of which: Banking Sector	30.6	-19.5	-20.2	0.9	72.8
Annual Turnover Value	11.4	0.0	-29.0	-39.6	4.7
NSE Value Index	47.2	-16.1	-17.4	-6.2	42.3
Share of Banks in the 20 Most Capitalised Stocks in the NSE (%)	30.0	30.0	20.9	22.5	25.7

Source: Securities and Exchange Commission

4.5.2.2 The NSE Value Index

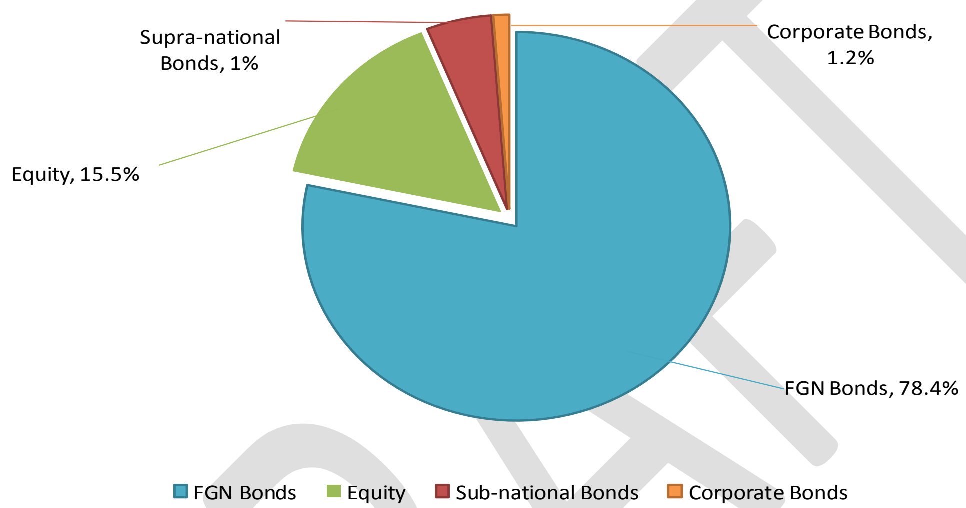
Impressive gains and returns were recorded across various sectors and asset classes at end-December 2017, due to sustained bullish sentiment in the market. The NSE All-Share Index, which is the lead barometer of the Exchange, closed at 38,243.19 at end-December 2017, representing 42.3 per cent increase over the 26,874.62 at end-December 2016. Also, the Premium Board Index rose by 51.2 per cent to close at 2,564.13 at end-December 2017, reflecting the attraction of investors to companies listed on the Premium Board. Similarly, the Main Board Index closed at 1,713.69 in 2017, indicating a 42.4 per cent increase over 1,203.79 at end-December 2016. Generally, the developments reflected investors' optimism on the positive outlook for the Nigerian economy, which informed the retention of Nigeria in the Morgan Stanley Capital International (MSCI) Frontier market Index at the June 2017 Index Review.

Furthermore, all other sectoral indices recorded positive returns with the exception of the NSE-ASeM index, which posted negative annual returns of 8.9 per cent as a result of the slow recovery of businesses in the segment. The NSE-Banking index recorded the most improvement, rising by 73.3 percent to 475.44 at end-December 2017, reflecting the impressive corporate earnings by the major players in the sector. The Pension Index, which tracked the performance of the top 40 companies by liquidity and market capitalisation, also rose, significantly by 70.3 per cent, above the level at end-December 2016, to close at 1,379.74 at end-December 2017. Similarly, the NSE-Lotus Islamic, the NSE-Consumer Goods, the NSE-Industrial Goods, the NSE-Insurance and the NSE-Oil and Gas Indices recorded positive returns of 39.0, 36.9, 23.8, 10.4 and 5.7 per cent, respectively, relative to the levels at end-December 2016.

4.5.2.3 The New Issues Market

Activities in the primary segment of the market improved in 2017. There were 54 new securities issues, worth ₦1.98 trillion, in the review year, compared with 55 securities, worth ₦1.37 trillion, in 2016. Though, activities in the Initial Public Offer (IPO) remained mute, there were supplementary listings and new issuance. There were fourteen (14) equity rights issue, worth ₦306.5 billion, approved by the Commission. In addition, three new equities were listed on the Exchange, namely; the Medview Airline, the Jaiz Bank Plc. and the Global Spectrum Energy Services Plc., while seven (7) equities were delisted. Consequently, the number of listed equities declined from 175 in 2016 to 172 in 2017. In the debt securities category, four (4) sub-national bonds, amounting to ₦97.4 billion, and three (3) corporate bond, worth ₦23.1 billion were issued. Thus, the total new issues approved by SEC, amounted to ₦427.0 billion. Furthermore, there were 33 new bonds issues by the Debt Management Office (DMO), worth ₦1,550.5 billion. Consequently, the number of listed bonds and Exchange Traded Funds were 80 and 9, respectively, at end-December 2017.

Figure 4.38: New Issues by Sector 2017 (Per cent)



Source: SEC

CHAPTER FIVE

FISCAL POLICY AND GOVERNMENT FINANCE

Nigeria's fiscal policy thrust in 2017 was aimed at bringing the economy out of recession to a steady path of growth and development. Actual federally-collected revenue (gross), was ₦7,317.7 billion or 6.1per cent of GDP, indicating a rise of 30.3 per cent over the amount realized in the 2016 fiscal year. The development was attributed to the enhanced earnings from both the oil and non-oil sources due, respectively, to the rallying prices of crude oil in the international market and widening of the economy base. The sum of ₦4,370.7 billion was transferred to the Federation Account, reflecting an increase of 40.6 per cent above the level in fiscal 2016.

The Excess Crude Account (ECA), however, fell slightly from US$2.63 billion at end-December 2016 to US$2.45 billion at end-December 2017, owing to moderate draw-down on the account to bridge the budgeted revenue gap of the three-tiers of government.

Federal Government-retained revenue in 2017, at ₦4,622.6 billion, rose by 45.0 per cent above the level in fiscal 2016, while aggregate expenditure, at ₦6,896.5 billion, increased by 17.6 per cent above the level in 2016. Consequently, the fiscal operations of the Federal Government resulted in an overall deficit of ₦2,273.9 billion, or 2.0 per cent of GDP, financed through domestic and external sources.

Provisional data on state governments and the FCT finances indicated an overall deficit of ₦710.4 billion, or 0.6 per cent of GDP, while the local governments recorded a deficit of ₦0.6 billion or 0.001 per cent of GDP.

The consolidated debt stock of the Federal Government stood at ₦18,377.0 billion, or 16.0 per cent of GDP, at end-December 2017, compared with ₦14,537.1 billion, or 14.2 per cent of GDP, at end-December 2016. External debt stock rose by 65.8 per cent to US$18.9 billion, following additional dawn-down on commercial loans to finance maturing Nigeria Treasury Bills and critical infrastructure. Similarly, domestic debt grew by 13.8 per cent to ₦12,589.5 billion as a result of the issuance of additional existing domestic debt instruments and the introduction of new ones to further bridge FGN financial gap and boost domestic bond market operations.

5.1 THE FISCAL POLICY THRUST

The 2017 Budget, "the Budget of Recovery and Growth", was aimed at achieving economic recovery through a combination of policies to stimulate economic activities in order to spur growth and employment. Thus, the fiscal thrust focused on the optimal use of local content in manufacturing, supporting innovation, and promoting investment in the critical sectors of the economy.

The specific objectives of the 2017 budget were to:

- Restore growth by bringing about stability and greater coherence between monetary, fiscal and trade policies;
- Diversify the economy and create jobs with emphasis on agriculture, manufacturing, solid minerals and services;
- Prioritise investments in human capital development, especially in education and health;
- Ensure wider social inclusion, through job creation, public works and social investments;
- Improve governance by enhancing public service delivery, as well as securing life and property; and
- Ensure high quality infrastructural development.

The key assumptions of the budget were: benchmark oil price of US$42.5 per barrel (pb); crude oil production of 2.2 million barrels per day (mbpd); and exchange rate of ₦305/US$. In line with these assumptions, the budget projected distributable revenue (net) of ₦9.16 trillion, with oil revenue constituting ₦5.08 trillion or 55.4 per cent of the total; and non-oil revenue, accounting for the balance of ₦4.09 trillion or 44.6 per cent. Of the distributable revenue, the shares of the Federal and sub-national governments were projected at ₦3.83 trillion and ₦5.33 trillion, respectively. Also, the Federal Government was to obtain ₦0.81 trillion and ₦0.75 trillion from independent revenue and other miscellaneous sources, respectively, bringing FGN retained-revenue to ₦5.40 trillion.

The budget envisaged an aggregate expenditure of ₦7.75 trillion, comprising statutory transfers, ₦0.43 trillion; debt service (including provision for sinking fund), ₦1.84 trillion; non-debt recurrent expenditure, ₦3.30 trillion; and capital expenditure, ₦2.17 trillion. Thus, an overall deficit of ₦2.36 trillion or 2.2 per cent of GDP was projected to be financed from both external and domestic sources

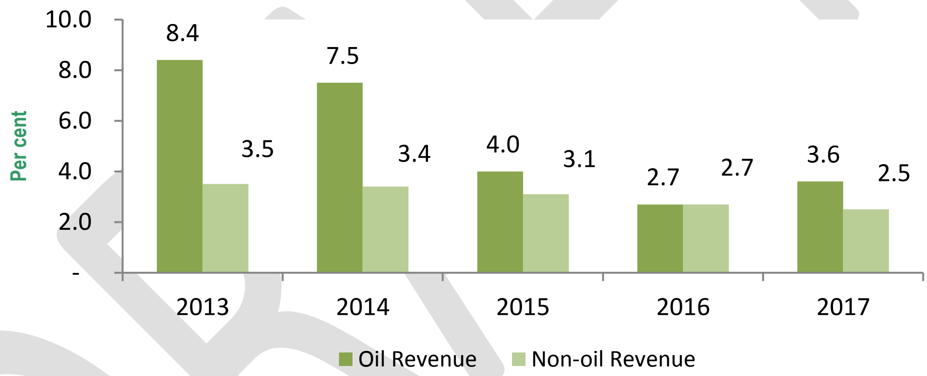
5.2 FEDERATION ACCOUNT OPERATIONS

5.2.1 Federally-collected Revenue

Total federally-collected revenue (gross) rose by 30.3 per cent to ₦7,317.7 billion in 2017, constituting 6.1 per cent of GDP. The development was attributed to improved receipts from oil and non-oil sources, owing to the increase in crude oil prices in the international market, enhanced efficiency in tax collections, through the automation of Value Added Tax (VAT) collection in most sectors of the economy, and also, the expansion of the tax base.

Total federally-collected revenue rose by 30.3 per cent to ₦7,317.7 billion in 2017 and constituted 6.1 per cent of GDP.

Figure 5.1: Oil and Non-oil Revenue (per cent of GDP), 2013 - 2017



Sources: Computed based on data from the Federal Ministry of Finance (FMF) and the Office of the Accountant General of the Federation (OAGF)

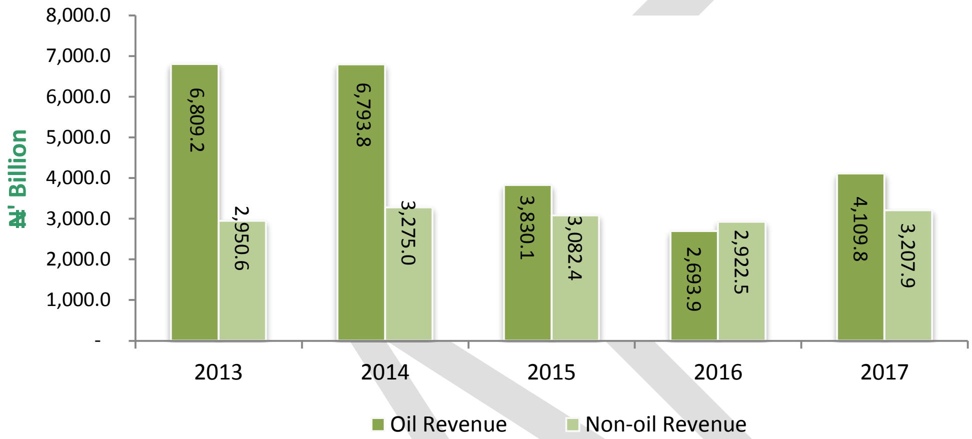
5.2.1.1 Oil Revenue

Oil revenue (gross) was ₦4,109.8 billion or 3.6 per cent of GDP, representing 56.2 per cent of total federally-collected revenue. This indicated an increase of 52.6 per cent above the level in 2016. A breakdown of oil revenue showed that crude oil/gas export and petroleum profit tax (PPT)/royalties rose by 104.2 and 51.1 per cent to ₦795.4 billion and ₦1,801.4 billion, respectively. The development was attributed, largely, to improvement in crude oil price and subsisting peace deal in the Niger Delta, which had boosted crude oil production and export. Specifically, the average price of crude oil in the international market increased by 12.5 per cent, above the level in 2016, to

US$54.91pb in 2017. Also, average crude oil production and export increased by 6.2 and 8.5 per cent, above the levels in 2016, to 1.72 mbpd and 1.27 mbpd, respectively, in 2017.

Of the gross oil revenue, ₦1,237.0 billion was deducted for the Joint Venture Cash (JVC) calls, ₦151.6 billion for excess crude/PPT/royalty proceeds and ₦54.8 billion for "others"[3], leaving a balance of ₦2,666.4 billion for distribution to the three tiers of government.

Figure 5.2: Federation Account: Composition of Revenue (Naira Billion), 2013 – 2017



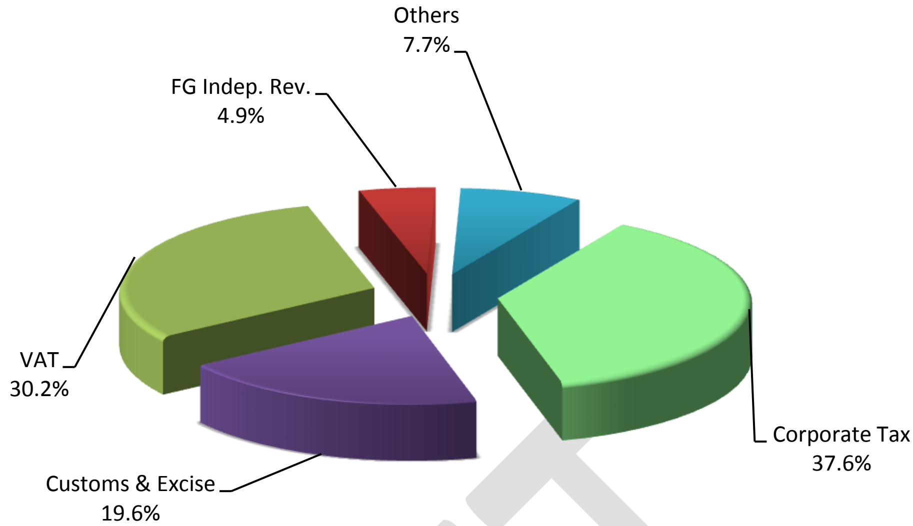
Sources: Computed based on data from the FMF and the OAGF

5.2.1.2 Non-oil Revenue

Non-oil revenue (gross), at ₦3,207.9 billion, or 2.5 per cent of GDP, accounted for 43.8 per cent of total revenue, indicating a 9.8 per cent increase above the level in 2016. The rise in non-oil revenue reflected improvement in economic activities in the non-oil sector, and the expansion of the tax base. A breakdown of non-oil revenue (gross) indicated that corporate tax (CT), VAT and customs/excise duties rose by 22.0, 19.3 and 14.4 per cent to ₦1,206.3 billion, ₦967.7 billion and ₦628.0 billion, respectively. This was attributed, largely, to the improved revenue drive by the FIRS to bring more companies and individuals into the tax net. The FG Independent Revenue, and "others"[4], however, fell by 34.4 and 25.8 per cent to ₦156.1 billion, and ₦249.8 billion, respectively.

[3] Include Excess Oil Revenue, NNPC Refunds and DPR cost of collection.
[4] Include Education Tax, Customs Special Levies (Federation and Non-Federation Accounts) and the National Information Technology Development Fund (NITDF)

Figure 5.3: Composition of Non-oil Revenue, 2017



Sources: Computed based on data from the FMF and the OAGF

The sum of ₦168.7 billion was deducted from the non-oil revenue as cost of collection, leaving a net distributable balance of ₦3,039.2 billion.

5.2.2 Federation Account Distribution

The sum of ₦5,705.6 billion, was retained in the Federation Account, representing an increase of 27.9 per cent above the level in 2016, after an aggregate statutory deduction of ₦1,612.1 billion from both oil and non-oil revenue. Of this amount, ₦929.0 billion, ₦156.1 billion, and ₦249.8 billion were transferred to the VAT Pool Account, FG Independent Revenue, and 'other transfers'[5], respectively, leaving a net revenue of ₦4,370.7 billion for distribution. In addition, ₦258.2 billion from the Excess Crude/PPT Account; ₦311.8 billion from the Exchange Rate Differential Account[6]; ₦55.3 billion as NNPC Refunds[7]; and ₦0.9 billion as Recovered Excess Bank Charges were added to the federally-collected revenue (net) to raise the distributable amount to ₦4,996.9 billion.

Analysis of the distribution, among the three tiers of government, showed that the Federal Government (including Special Funds) received ₦2,424.6 billion; state governments, ₦1,220.9 billion; and local governments, ₦938.2 billion;

[5] Include the Education Tax, Customs Levies, and the National Information Technology Development Fund.
[6] This is the difference between the budgeted and actual exchange rate, which was shared as "**Exchange Gain**"
[7] Includes the NNPC Additional Distribution

while ₦413.2 billion was shared as 13.0% Derivation Fund among the oil-producing states.

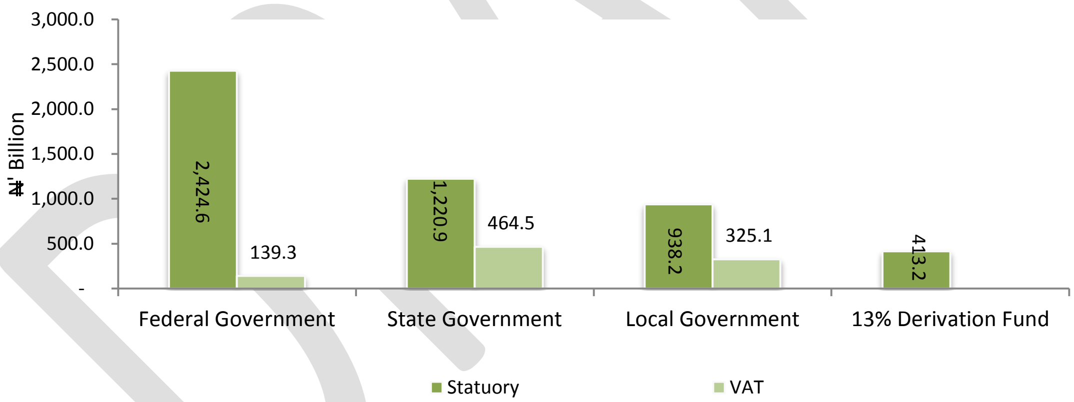
5.2.3 VAT Pool Account Distribution

The sum of ₦929.0 billion was transferred to the VAT Pool Account, representing an increase of 19.3 per cent above the level in 2016. Analysis of the distribution among the three-tiers of government, showed that the Federal Government (including the FCT) received ₦139.3 billion (15.0%), while the state and local governments got ₦464.5 billion (50.0%) and ₦325.1 billion (35.0%), respectively.

5.2.4 Cumulative Distribution

Cumulatively, the three-tiers of government and the 13.0% Derivation Fund, shared the sum of ₦5,926.0 billion from statutory revenue and VAT in fiscal 2017. This was above the preceding year's level of ₦4,734.2 billion by 25.2 per cent, but below the 2017 budget target of ₦9,402.9 billion by 37.0 per cent.

Figure 5.4: Cumulative Distribution of Statutory Revenue & VAT, 2017 (Naira Billion)



Sources: Computed based on data from the FMF and the OAGF

5.3 GENERAL GOVERNMENT FINANCES

5.3.1 Aggregate Revenue

Provisional data showed that, at ₦8,884.9 billion or 7.7 per cent of GDP, the aggregate revenue of the general government in 2017, comprised: the Federation Account, ₦4,370.7 billion; VAT Pool Account, ₦929.0 billion; Exchange Gain, ₦311.8 billion; Excess PPT, ₦258.2 billion; Recovered Excess Bank Charges, ₦0.9 billion; and NNPC Refunds, ₦55.3 billion[8]. Revenue

[6] Includes additional NNPC Payment to the three-tiers of Government.

exclusive to the Federal Government consisted of: Federal Government Independent Revenue, ₦156.1 billion; and "Others[9]", ₦1,902.6 billion. In addition, revenue exclusive to the sub-national (state and local) governments included: ₦790.4 billion; ₦49.2 billion; ₦3.1 billion; ₦12.9 billion; and ₦44.8 billion, from Internally-Generated Revenue, Grants, Stabilisation, State allocations to local governments and "Others", respectively.

Table 5.1: Sources of Funds For The Three Tiers of Government, 2017 (Naira Billion)

SOURCE	Federal Government			State Governments			Local Governments	Grand Total
	FG's Share	FCT	Sub-Total	States	13%	Sub-Total		
Statutory Allocation	2,079.6	40.2	**2,119.8**	1,075.2	346.8	**1,422.0**	828.9	**4,370.7**
Share from Excess Petroleum Profit Tax 1/	117.0	2.3	**119.3**	60.5	31.8	**92.3**	46.7	**258.2**
Exchange Gain	143.2	2.8	**146.0**	74.0	34.7	**108.7**	57.1	**311.8**
NNPC Refunds	38.3	0.7	**39.0**	7.0	3.9	**10.9**	5.4	**55.3**
Recovered Excess Bank Charges	0.5	0.0	**0.5**	0.3	0.0	**0.3**	0.2	**0.9**
Share of VAT	130.1	9.3	**139.3**	464.5	0.0	**464.5**	325.1	**929.0**
FG Independent Revenue	156.1	0.0	**156.1**	0.0	0.0	**0.0**	0.0	**156.1**
Internally-Generated Revenue	0.0	18.7	**18.7**	746.3	0.0	**746.3**	38.2	**803.2**
Less State Allocation to LG	0.0	0.0	**0.0**	12.9	0.0	**12.9**	0.0	**12.9**
Net Internally-Generated Revenue	0.0	18.7	**18.7**	733.5	0.0	**733.5**	38.2	**790.4**
Grants	0.0	0.0	**0.0**	35.1	0.0	**35.1**	14.1	**49.2**
Share of Stabilization Fund	0.0	0.0	**0.0**	3.1	0.0	**3.1**	0.0	**3.1**
State Allocation to LG	0.0	0.0	**0.0**	0.0	0.0	**0.0**	12.9	**12.9**
Others	1,902.6	0.0	**1,902.6**	35.4	0.0	**35.4**	9.4	**1,947.4**
TOTAL	**4,567.3**	**74.0**	**4,641.3**	**2,488.5**	**417.2**	**2,905.7**	**1,338.0**	**8,884.9**

1/Includes Distribution of US$30.0 billion from Forex Equalisation Account
Sources: FMF, OAGF, and CBN Sub-National Governments' *Annual Fiscal Survey*.

5.3.2 Aggregate Expenditure

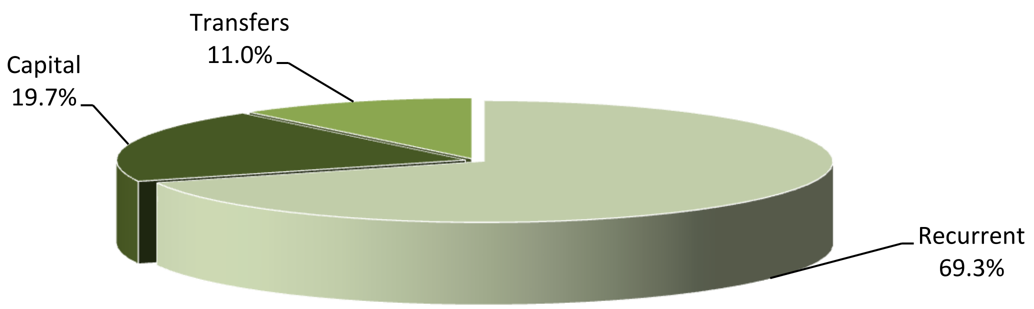
At ₦11,938.0 billion, aggregate expenditure of the general government increased by 16.4 per cent, from the level in 2016. This was attributed to the respective increase of 70.8 and 40.8 per cent in the overhead cost and domestic interest payments components of the recurrent expenditure. As a proportion of GDP, it represented 10.4 per cent, compared with 10.0 per cent in 2016. A breakdown showed that recurrent expenditure, which stood at ₦8,273.0 billion (7.2% of

At ₦11,938.0 billion, aggregate expenditure of general government increased by 16.4 per cent, above the level in 2016.

[9] Include *Unspent Balance from previous fiscal year, 3rd Qtr. Disbursement from 7% Port Levy, Settlement of State component of coupon payment, Refund of excess provision on 5% treasury bond 2018, Transfer from Capital Development Account to CRF & TSA Pool Acct. and other Miscellaneous Credits.*

GDP), accounted for 69.3 per cent of the total; while capital expenditure at ₦2,347.2 billion (2.0% of GDP); and transfers, ₦1,317.8 billion (1.1% of GDP); represented 19.7and 11.0 per cent of the total, respectively.

Figure 5.5: Composition of General Government Expenditure, 2017



Sources: Computed based on data from the FMF & the OAGF

5.3.3 Consolidated Fiscal Balance and Financing

The fiscal operations of the general government resulted in primary and overall deficits of ₦1,006.9 billion (0.9 % of GDP), and ₦3,053.1 billion (2.7% of GDP), compared with deficits of ₦2,071.2 billion (2.0% of GDP) and ₦3,562.3 billion (3.5% of GDP), respectively, in 2016. The overall deficit was financed, largely from domestic sources, especially borrowings from the non-bank public and draw-down on special accounts.

5.3.4 Consolidated Expenditure on Primary Welfare Sectors[10]

Aggregate general government expenditure on primary welfare sectors amounted to ₦1,884.7 billion, or 1.6 per cent of GDP, and accounted for 15.8 per cent of the total.

Consolidated general government spending on the primary welfare sectors indicated that expenditure on education and health rose by 14.1 and 37.4 per cent to ₦1,155.8 billion ₦545.7 billion, respectively, over the level in 2016. Expenditure on agriculture and natural resources, however, declined by 3.3 per cent to ₦183.3 billion relative to the level in 2016. Aggregate expenditure on the primary welfare sectors amounted to ₦1,884.7 billion or 1.6 per cent of GDP, and accounted for 15.8 per cent of aggregate expenditure of the general government.

[10] Classification for identifying poverty-reducing expenditures

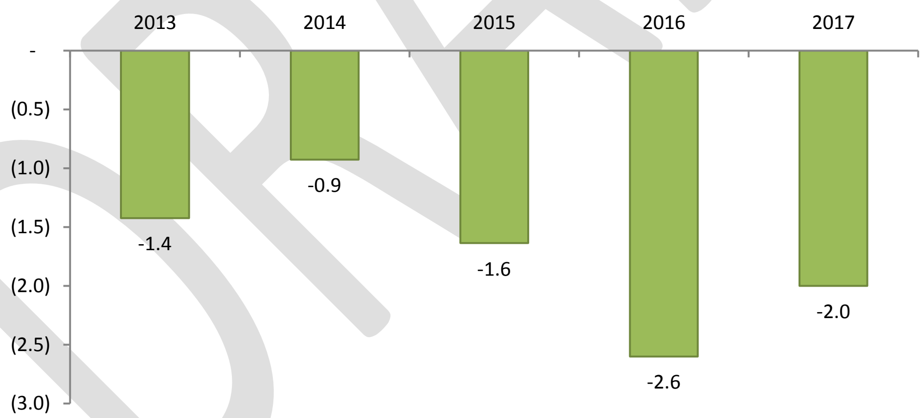
5.4 FEDERAL GOVERNMENT FINANCES

5.4.1 The Overall Fiscal Balance and Financing

The current balance in 2017 indicated a deficit of ₦664.6 billion, or 0.6 per cent of GDP, compared with the ₦1,699.2 billion deficit or 1.7 per cent of GDP in fiscal 2016. Also, the primary balance recorded a deficit of ₦314.7 billion, or 0.3 per cent of GDP, compared with a deficit of ₦1,249.0 billion, or 1.2 per cent of GDP in 2016. Furthermore, the overall fiscal balance of the Federal Government resulted in a deficit of ₦2,273.9 billion, or 2.0 per cent of GDP, compared with the deficit of ₦2,675.0 billion, or 2.6 per cent of GDP in fiscal 2016. The deficit was within the revised WAMZ primary convergence criterion of 3.0 per cent of GDP. It was financed by 31.8 per cent of the total financing gap from external sources and 68.2 per cent from domestic sources.

The overall fiscal operations of the Federal Government resulted in a notional deficit of ₦2,273.9 billion, or 2.0 per cent of GDP, compared with the deficit of ₦2,675.0 billion, or 2.6 per cent of GDP, recorded in FY2016.

Figure 5.6: Federal Government Fiscal Deficit, 2013 - 2017 (per cent of GDP)



Sources: Computed based on data from the FMF and the OAGF

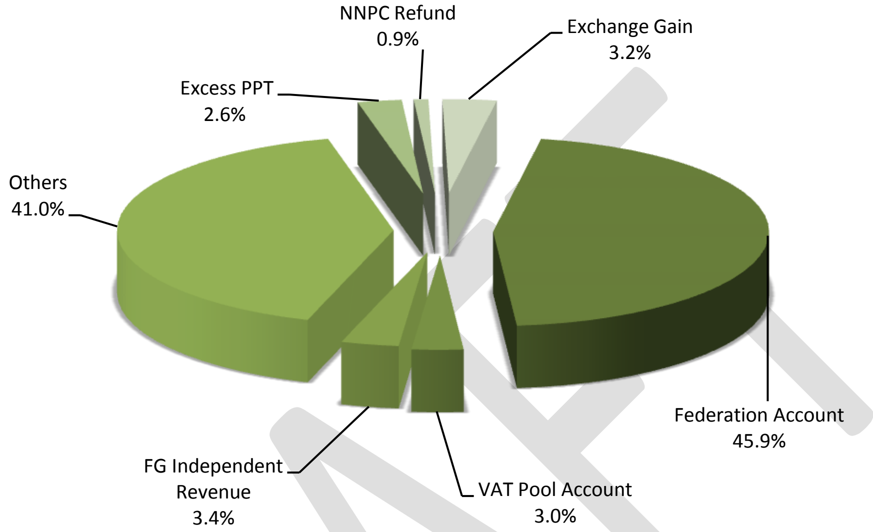
5.4.2 Federal Government-retained Revenue

The Federal Government-retained revenue rose to ₦4,622.6 billion, above ₦3,188.5 billion in 2016. This was attributed largely, to improved allocation from the Federation Account. Analysis of the revenue showed that the Federation Account contributed ₦2,119.9 billion or 45.9 per cent of the total; FG Independent Revenue, ₦156.1 billion (3.4%); and the VAT Pool Account,

₦139.3 billion (3.0%). There were also: Exchange Gain, ₦146.0 billion (3.2%); Excess PPT, ₦119.3 billion (2.6%); NNPC Refund[11], ₦39.5 billion (0.9%); and 'Others''[12], ₦1,902.6 billion (41.0%).

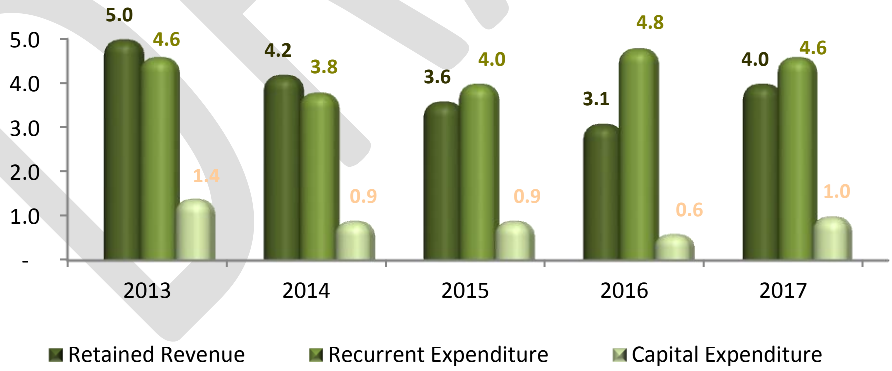
The Federal Government-retained revenue rose to ₦4,622.6 billion, above ₦3,184.5 billion, in Fiscal 2017.

Figure 5.7: Composition of Federal Government-retained Revenue, 2017 (Per cent)



Sources: Computed based on data from the FMF and the OAGF

Figure 5.8: Federal Government Revenue and Expenditure, 2013 - 2017 (Per cent of GDP)



Sources: Computed based on data from the FMF and the OAGF

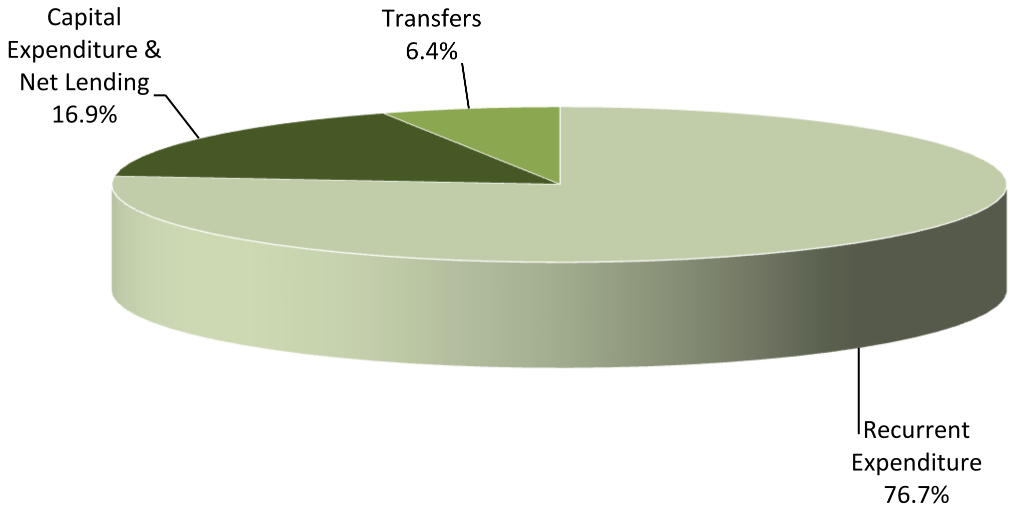
5.4.3 Total Expenditure of the Federal Government

The aggregate expenditure of the Federal Government increased by 17.6 per cent to ₦6,896.5 billion in 2017. As a proportion of GDP, it rose to 6.0 per cent over the 5.7 per cent in fiscal 2016. Non-debt expenditure rose above

[11] Include additional NNPC distribution and Recovered excess bank charges (₦0.5 billion)
[12] Include FGN balance in special accounts and unspent balances from previous year.

the level in 2016 by 11.3 per cent to ₦4,937.3 billion. Total debt service payments amounted to ₦1,959.2 billion, or 1.7 per cent of GDP, representing 28.4 per cent of total expenditure and 42.4 per cent of total retained revenue.

Figure 5.9: Composition of Federal Government Expenditure, 2017 (Per cent)



Sources: Computed based on data from the FMF and the OAGF

5.4.3.1 Recurrent Expenditure

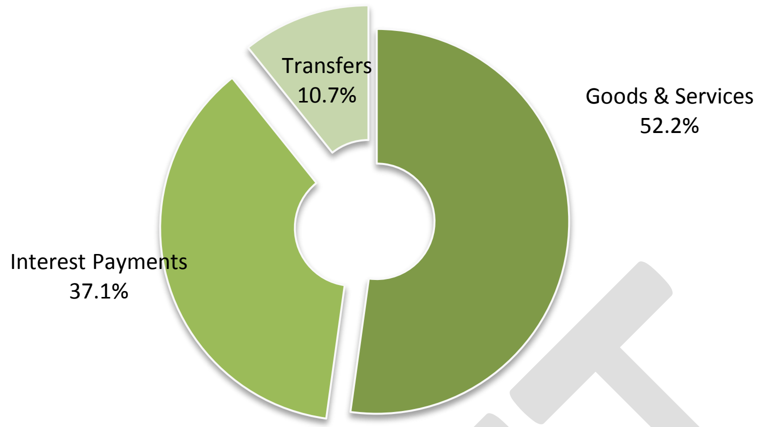
Recurrent expenditure increased to 4.6 per cent of GDP, reflecting the substantial increase in overhead cost in FY2017.

Recurrent expenditure at ₦5,287.2 billion or 4.6 per cent of GDP, rose by 8.2 per cent above the level in 2016, and accounted for 76.7 per cent of the total, reflecting the sizable increase in overhead cost. A disaggregation of recurrent expenditure showed that interest payment[13] increased by 37.4 per cent to ₦1,959.2 billion (37.1%) of the total, compared with the level in 2016. Similarly, the goods and services component rose by 10.6 per cent to ₦2,759.2 billion (52.2%), while transfers to the special funds (FCT, stabilisation, development of natural resources and ecological funds) and "others" declined by 41.2 per cent to ₦568.7 billion (10.7%). Analysis of the goods and services component revealed that personnel cost and pensions amounted to ₦1,253.8 billion (45.4%) and overhead cost was

[13]Include interest payments on Ways and Means Advances.

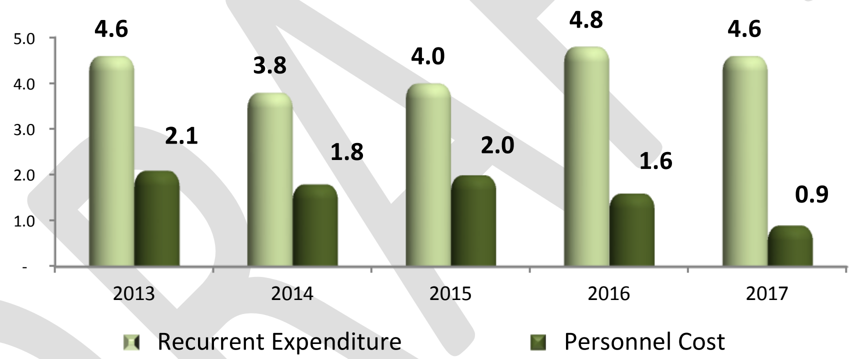
₦1,505.4 billion (54.6%). A breakdown of interest payments indicated that ₦55.8 billion was for external debt and ₦1,903.4 billion on domestic debt.

Figure 5.10: Economic Classification of FG Recurrent Expenditure, 2017 (Per cent)



Sources: Computed based on data from the FMF and the OAGF

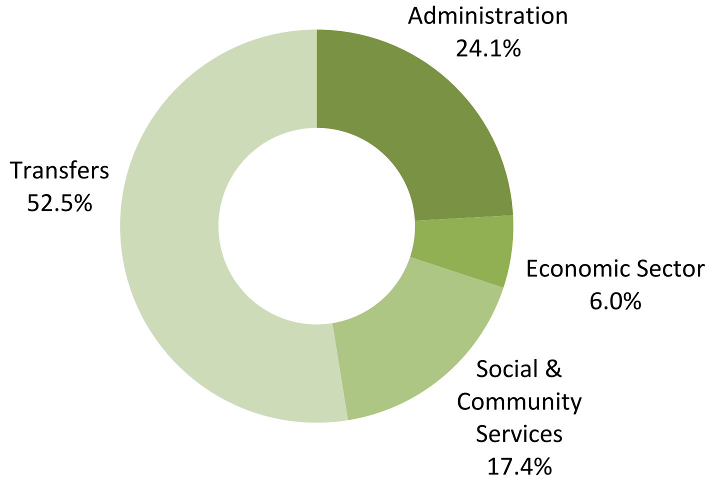
Figure 5.11: Federal Government Recurrent Expenditure & Personnel Cost, 2013 - 2017 (Per cent of GDP)



Sources: Computed based on data from the FMF and the OAGF

A functional classification of recurrent expenditure indicated that outlay on the economic sector at ₦315.0 billion, rose by 7.8 per cent and constituted 6.0 per cent of the total. Within the economic sector, road and construction accounted for 41.4 per cent, while agriculture and natural resources, transport and communications and "others" were 14.3, 7.7, and 36.6 per cent of the total, respectively. Similarly, expenditure on administration, and social and community services at ₦1,275.1 billion and ₦919.1 billion or 24.1 and 17.4 per cent of the total, respectively, rose by 9.4 and 8.0 per cent above the levels in 2016. Transfers at ₦2,777.9 billion constituted 52.5 per cent of total recurrent expenditure. Within the social and community services sector, education and health constituted 42.8 and 27.8 per cent, respectively.

Figure 5.12: Functional Classification of Federal Government Recurrent Expenditure, 2017 (Per cent)



Sources: Computed based on data from the FMF and the OAGF

5.4.3.2 Capital Expenditure

Capital expenditure rose by 78.0 per cent to ₦1,163.2 billion, above the level in 2016, and constituted 16.9 per cent of total expenditure. The significant increase in capital spending was largely, due to the rollover of ₦408.4 billion from the 2016 budgeted capital to 2017. As a percentage of GDP, capital expenditure was 1.0 per cent, compared with 0.6 per cent in 2016. Analysis of capital expenditure by function showed that outlays in the economic and administration sectors were ₦539.0 billion and ₦328.0 billion, or 46.3 and 28.2 per cent of the total, respectively, compared with 46.2 and 27.5 per cent in 2016. Within the economic sector, roads and construction, and agriculture and natural resources accounted for 35.7 and 17.7 per cent of the total, respectively. Public investment in social and community services constituted ₦143.9 billion or 12.4 per cent of total capital expenditure, while transfers amounted to ₦152.3 billion or 13.1 per cent of the total. Within the social and community services sector, education and health accounted for 35.1 and 34.9 per cent of the total. As ratios of capital spending, expenditure on education and health at 4.3 per cent apiece rose above the 4.5 and 4. 2 per cent, respectively, recorded in fiscal 2016.

Capital expenditure rose by 78.0 per cent to ₦1,163.2 billion and accounted for 16.9 and 1.0 per cent of total expenditure and GDP, respectively.

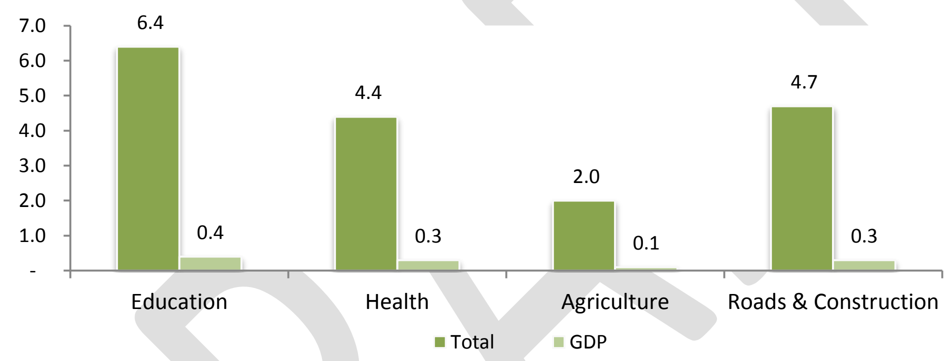
FISCAL POLICY AND GOVERNMENT FINANCE

5

Aggregate expenditure on primary welfare sectors amounted to ₦1,212.2 billion, or 1.1 per cent of GDP, and constituted 17.6 per cent of total expenditure.

Analysis of total Federal Government spending on the primary welfare sectors revealed that expenditure on agriculture and natural resources rose by 56.5 per cent to ₦140.2 billion relative to the level in 2016. Similarly, outlay on roads and construction, health and education increased by 52.9, 22.7 and 11.4 per cent to ₦322.9 billion, ₦305.6 billion and ₦443.5 billion, respectively, over the levels in 2016. Aggregate expenditure on the primary welfare sectors amounted to ₦1,212.2 billion, or 1.1 per cent of GDP, and constituted 17.6 per cent of total expenditure.

Figure 5.13: Federal Government's Expenditure on Key Primary Welfare Sectors, 2017 (Per cent of Total and GDP)



Sources: Computed based on data from the FMF and the OAGF

5.5 STATE GOVERNMENTS AND FCT FINANCES[14]

5.5.1 The Overall Fiscal Balance and Financing

Provisional data on state governments' finances indicated a decrease in the overall deficit to ₦710.4 billion, down from ₦741.5 billion in 2016.

Provisional data on state governments (including the FCT) fiscal operations indicated a deficit of ₦710.4 billion or 0.6 per cent of GDP, compared with the deficit of ₦741.5 billion or 0.7 of GDP in 2016. This was financed largely, from domestic borrowings (commercial bank loans).

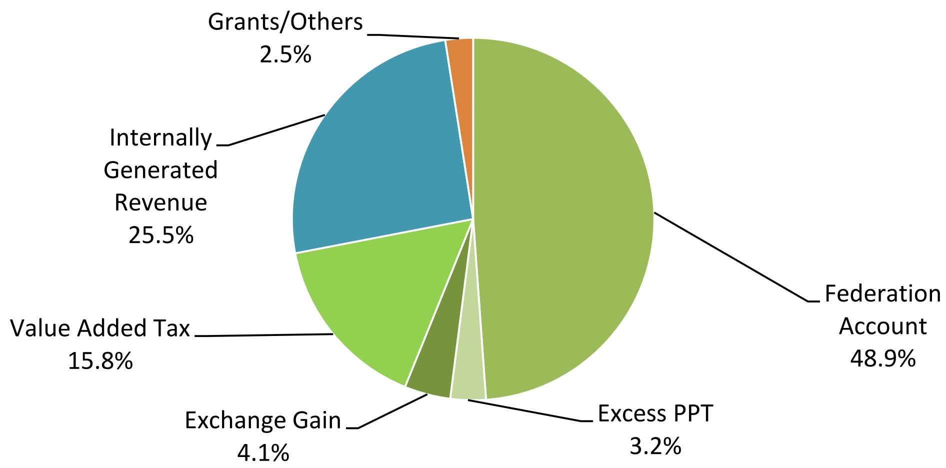
[14]The provisional data are from the CBN survey returns from 36 states and the FCT.

5.5.2 Revenue

Total revenue of the state governments grew by 21.3 per cent to ₦2,992.5 billion, or 2.6 per cent of GDP, compared with ₦2,467.7 billion or 2.4 per cent of GDP in 2016. Analysis of the sources of revenue showed that allocation from the Federation Account (including 13.0% Derivation Fund) was ₦1,462.3 billion, or 48.9 per cent of the total; VAT Pool Account, ₦473.8 billion (15.8%); Exchange Gain[15] , ₦123.1 billion (4.1%); Excess PPT[16], ₦94.5 billion (3.2%); and "Grants and Others" (including share of stabilisation fund and recovered excess bank charges), ₦73.8 billion (2.5%). Internally-Generated Revenue (IGR) constituted ₦765.0 billion (25.5%), indicating an increase of 2.5 per cent above the level in 2016.

Total revenue of the state governments grew by 21.3 per cent to ₦2,992.5 billion, or 2.6 per cent of GDP.

Figure 5.14: State Governments' and FCT's Revenue, 2017 (Naira Billion)



Sources: Computed based on data from the FMF and the OAGF

Analysis of the ratio of IGR to total revenue by state (proxied by tax effort)[17] showed that Lagos State ranked highest with 68.4 per cent, followed by Rivers and Kwara states with 43.3 and 34.4 per cent, respectively, while Bayelsa State ranked the least with 5.3 per cent. In terms of state governments' effort at increasing internally-generated revenue[18] in 2017, Gombe State topped with 16.3 per cent, from 12.9 per cent in 2016, followed by Benue and Abia

[15] Include NNPC Additional Distribution of ₦11.6 billion
[16] Include distribution from Forex Equalisation Account of ₦17.6 billion
[15] Ratio of each state's IGR to its total revenue
[18] Rate of Change in the tax effort of each state.

states in the second and third positions, respectively. Overall, the state governments' tax effort in 2017 relative to 2016 deteriorated by 4.7 percentage points.

Table 5.2: State Governments' Revenue

Item	State Governments' Revenue				Share in Overall GDP	
	2016		20171/		2016	2017
	Amount (₦' Billion)	Share (%)	Amount (₦' Billion)	Share (%)	%	%
Federation Account 2/	1,016.9	41.2	1,462.3	48.9	0.99	1.27
Excess Crude Revenue 3/	268.5	10.9	217.6	7.3	0.26	0.19
VAT	397.1	16.1	473.8	15.8	0.39	0.41
Internally Generated Revenue	746.3	30.2	765.0	25.5	0.73	0.67
Solid Mineral	3.5	0.1	-	-	0.00	
Non-oil excess	-	-	-	-	0.00	0.00
Grants & Others 4/	35.4	1.4	73.8	2.5	0.03	0.06
Total	**2,467.7**	**100**	**2,992.5**	**100.0**	**2.4**	**2.6**

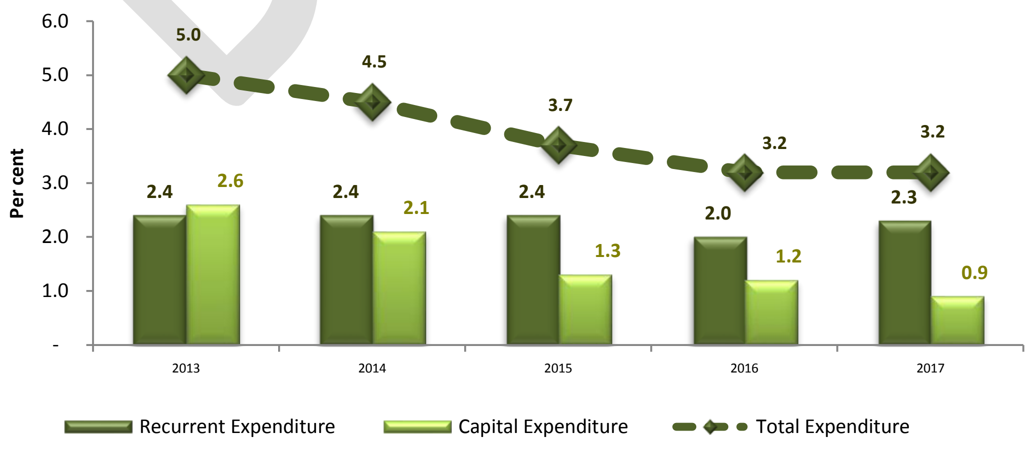
1/ Including FCT
2/ Include 13% Derivation Fund
3/ Include Exchange Gain, NLNG Distribution in 2016, NNPC Additional Distribution and Distribution from Forex Equalisation Account in 2017.
4/ Include stabilisation fund and recovered excess bank charges
Sources: FMF, OAGF and Fiscal Survey of Sub-National Governments

5.5.3 Expenditure

Estimated total expenditure of state governments increased by 15.4 per cent to ₦3,702.9 billion, or 3.2 per cent of GDP. A breakdown showed that, at ₦2,663.0 billion or 2.3 per cent of GDP, recurrent expenditure was 32.6 per cent above the level in 2016, and accounted for 71.9 per cent of the total.

The total expenditure of the state governments rose by 15.4 per cent to ₦3,702.9 billion, or 3.2 per cent of GDP.

Figure 5.15: State Governments' Expenditure, 2013 - 2017 (per cent of GDP)



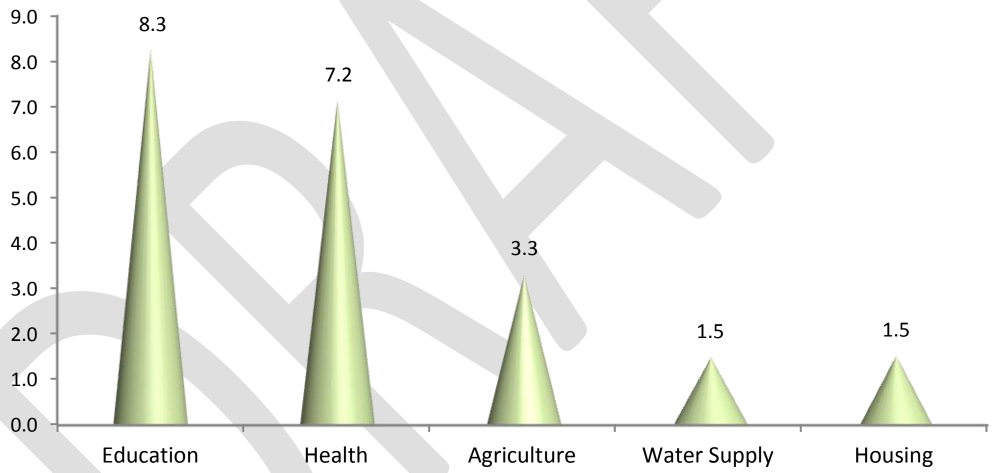
Source: Computed from *CBN's Sub-national Governments' Annual Fiscal Survey*

Capital expenditure, at ₦1,039.9 billion, or 0.9 per cent of GDP, was 13.4 per cent below the level in 2016 and constituted 28.1 per cent of the total.

Analysis of spending on primary welfare sectors indicated that outlay on education rose by 89.0 per cent to ₦305.8 billion, above ₦161.8 billion in 2016, and represented 37.9 per cent of the total. Also, expenditure on housing, health, agriculture and water supply rose by 177.3, 148.3, 34.1 and 6.9 per cent to ₦57.0 billion, ₦264.8 billion, ₦123.2 billion and ₦55.7 billion, respectively, relative to the levels in 2016. Aggregate expenditure on primary welfare sector amounted to ₦806.4 billion, or 0.7 per cent of GDP, and accounted for 21.8 per cent of total expenditure.

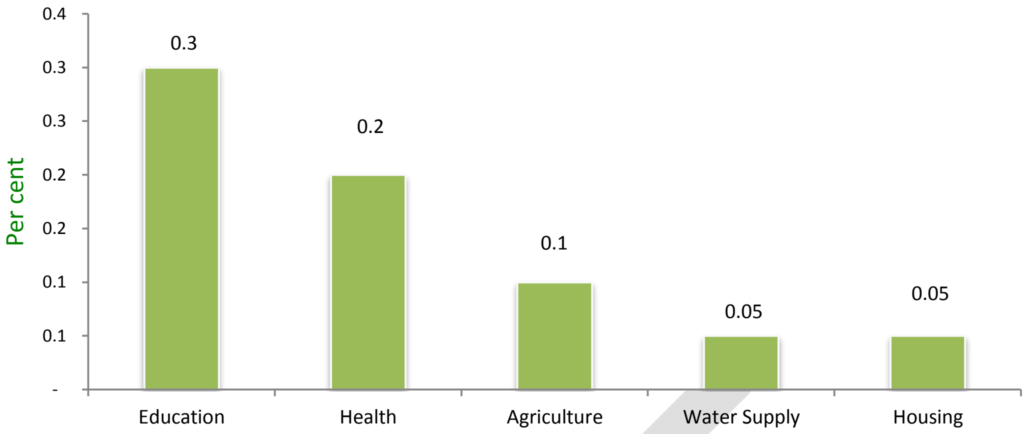
Aggregate expenditure on primary welfare sectors amounted to ₦806.4 billion, or 0.7 per cent of GDP, and accounted for 21.8 per cent of total expenditure.

Figure 5.16: State Governments' Expenditure in Key Primary Welfare Sectors, 2017 (Per cent of Total Expenditure)



Source: Computed from *CBN's Sub-national Governments' Annual Fiscal Survey*

Figure 5.17: State Governments' Expenditure in Key Primary Welfare Sectors, 2017 (Per cent of GDP)



Source: Computed from *CBN's Sub-national Governments' Annual Fiscal Survey*

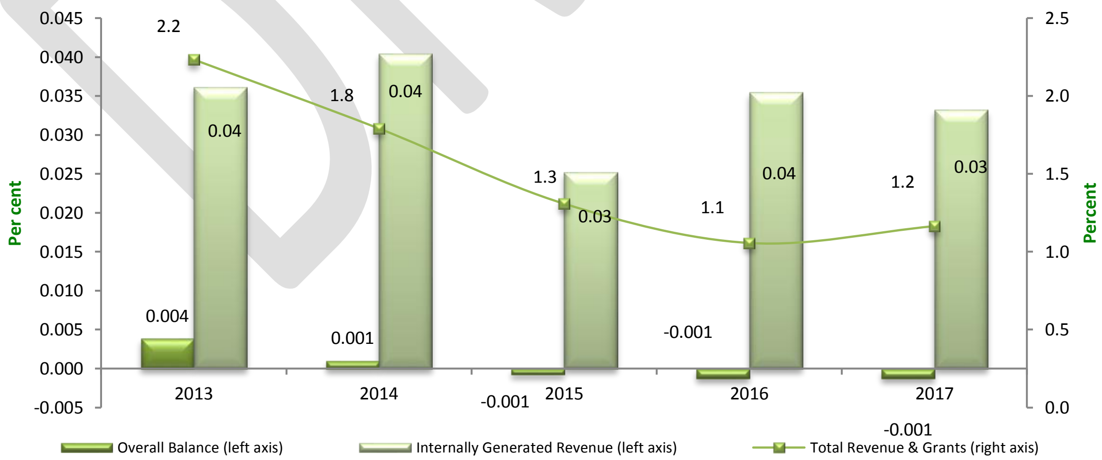
5.6 LOCAL GOVERNMENTS' FINANCES

5.6.1 The Overall Fiscal Balance and Financing

Provisional data on local governments fiscal operations indicated a deficit of ₦0.6 billion or 0.001 per cent of GDP, compared with the deficit of ₦1.3 billion or 0.001 of GDP in 2016. This was financed, largely, from domestic borrowings.

Provisional data on local governments' fiscal operations indicated a deficit of ₦0.6 billion or 0.001 per cent of GDP.

Figure 5.18: Local Governments' Revenue & Overall Balance, 2013 - 2017 (Per cent of GDP)



Sources: Computed based on data from the FMF and CBN's *Sub-national Government's Annual Fiscal Survey.*

5.6.2 Revenue

Provisional data on total revenue of local governments, at ₦1,338.0 billion or 1.2 per cent of GDP, represented an increase of 23.5 per cent above the level in 2016. The revenue comprised allocations from the Federation Account, ₦828.9 billion (62.0%) of the total; and the VAT Pool Account, ₦325.1 billion (24.3%). Others included: Exchange Gain, ₦66.6 billion (5.0%); Excess Crude/PPT, ₦37.2 billion (2.8%); NNPC Refund ₦5.4 billion (0.4%); State allocation, ₦12.9 billion (1.0%); Grants/others, ₦14.1 billion (1.1%); while 'Others'[19] amounted to ₦9.6 billion (0.5%). IGR accounted for ₦38.2 billion (2.9%), indicating a 5.0 per cent increase above the level in 2016.

The total provisional revenue of local governments at ₦1,338.0 billion, rose by 23.5 per cent above the level in F2016

Analysis of the cumulative local governments IGR on a state basis showed that Lagos State ranked highest with 14.1 per cent of the total, while Kwara State ranked the least with 0.4 per cent of the total.

Table 5.3: Local Governments Revenue

Revenue Components	**2016**			**2017**		
	Amount (₦' Billion)	% Share of Total Revenue	% Share of GDP	Amount (₦' Billion)	% Share of Total Revenue	% Share of GDP
Federation Account	596.0	55.0	0.6	828.9	62.0	0.7
VAT	272.5	25.1	0.3	325.1	24.3	0.3
Internally Generated Revenue	36.4	3.4	0.04	38.2	2.9	0.03
Non-Oil Excess 1/	0.0	0.0	0.0	0.2	0.0	0.00
Excess Crude/PPT	58.0	5.4	0.1	37.2	2.8	0.03
Exchange Gain	76.1	7.0	0.1	66.6	5.0	0.1
NNPC Refund	0.0	0.0	0.0	5.4	0.4	0.005
Grants and Others 2/	44.6	4.1	0.04	36.4	2.6	0.03
Total	**1,083.5**	**100.0**	**1.1**	**1,338.0**	**100.0**	**1.2**

1/1Include distribution from recovered excess bank charges in 2017

2/Include Solid Mineral and NLNG Dividend in 2016, State Allocation and other Miscellaneous revenue.

Sources: FMF, OAGF, and Sub-national Government Annual Fiscal Survey.

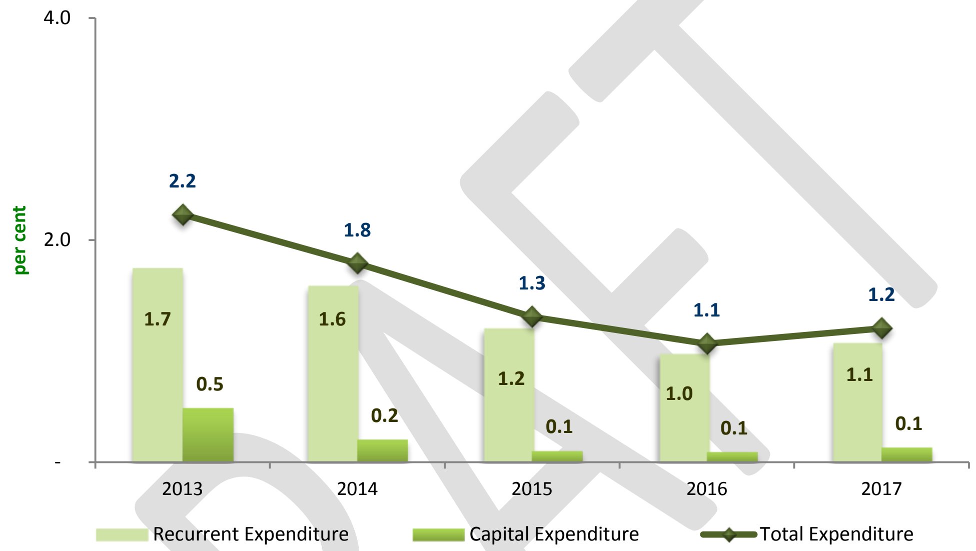
[19] Include Recovered Excess Bank Charges of ₦0.2 billion.

5.6.3 Expenditure

The expenditure of the local governments was 23.4 per cent above the level in 2016 and represented 1.2 per cent of the GDP.

At ₦1,338.6 billion, provisional total expenditure of local governments exceeded the level in 2016 by 23.4 per cent and represented 1.2 per cent of GDP. A breakdown indicated that recurrent outlay was ₦1,194.5 billion or 89.2 per cent of the total, while capital expenditure amounted to ₦144.1 billion or 10.8 per cent.

Figure 5.19: Local Governments' Expenditure, 2013 - 2017 (per cent of GDP)



Source: Computed based on data from the FMF and CBN's *Sub-national Government Annual Fiscal Survey*

A breakdown of the recurrent expenditure showed that personnel cost was ₦938.5 billion (78.6%) of the total, while consolidated fund charges/others and overhead cost amounted to ₦134.5 billion, (11.2%) and ₦121.5 billion (10.2%), respectively. A disaggregation of capital expenditure by functions revealed that the share of administration was ₦61.1 billion (42.4%), social and community services, ₦48.2 billion (33.4%); economic services, ₦31.2 billion (21.7%); and transfers, ₦3.5 billion (2.5%).

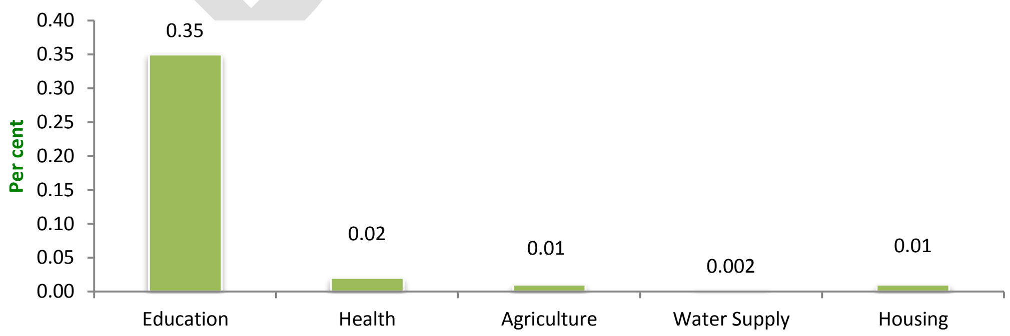
Analysis of spending on primary welfare sectors showed that outlays on education and agriculture increased by 6.7 and 21.9 per cent, to ₦406.5 billion and ₦9.2 billion, respectively, relative to 2016. In contrast, expenditure on housing, health and water supply decreased by 38.3, 3.0 and 1.7 per cent to ₦7.0 billion, ₦21.2 billion and ₦2.9 billion, respectively. At ₦446.7 billion or 0.4 per cent of GDP, aggregate expenditure on the primary welfare sectors increased by 5.2 per cent above the level in 2016, and accounted for 33.4 per cent of total expenditure.

Aggregate expenditure on the primary welfare sector increased by 5.2 per cent above the level in 2016 and accounted for 33.4 per cent of total expenditure.

Figure 5.20: Local Governments' Expenditure on Primary Welfare Sectors, 2017 (Per cent of Total Expenditure)

Sources: Computed based on CBN's Sub-national Government's Annual Fiscal Survey.

Figure 5.21: Local Governments' Expenditure on Primary Welfare Sectors, 2017 (Per cent of GDP)



Sources: Computed based on CBN's *Sub-national Government's Annual Fiscal Survey.*

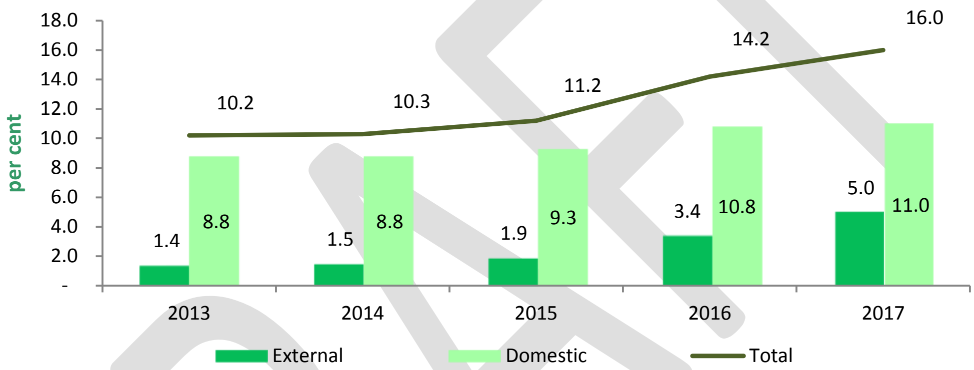
5

FISCAL POLICY AND GOVERNMENT FINANCE

5.7 CONSOLIDATED FEDERAL GOVERNMENT DEBT

Provisional data on the consolidated Federal Government debt stock, at end-December 2017, was ₦18,377.0 billion, or 16.0 per cent of GDP, compared with ₦14,537.1 billion or 14.2 per cent of GDP in 2016. This indicated an increase of 26.4 per cent, reflecting largely the additional draw-down on loans, both external and domestic, to bridge FGN financing gap, particularly infrastructure and restructure the total debt portfolio. Analysis of the debt stock showed that the domestic component constituted 68.5 per cent, while external debt accounted for 31.5 per cent of the total.

Figure 5.22: Consolidated Public Debt Stock, 2013 - 2017
(Per cent of GDP)



Sources: Computed based on data from the DMO and the CBN

5.7.1 Domestic Debt

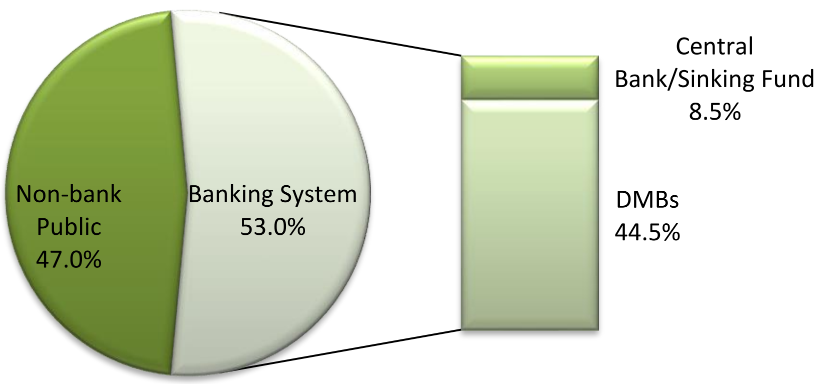
The stock of Federal Government domestic debt at end-December 2017 was ₦12,589.5 billion or 11.0 per cent of GDP, representing an increase of 13.8 per cent over the level in 2016. The development reflected the increased issuance in existing debt securities, FGN Bonds and Nigerian Treasury Bills (NTBs) and the introduction of new ones, FGN Savings Bonds, FGN Green Bonds, and FGN Sukuk to bridge the shortfall in revenue and boost domestic bond market operations. As a result, the outstanding FGN Bonds and Treasury Bills increased by 15.2 and 9.2 per cent to ₦8,715.8 billion and ₦3,579.8 billion, respectively, at end-December 2017, above the levels in 2016. The banking system remained the dominant holder of outstanding domestic debt with ₦6,668.7 billion or 53.0 per cent, while the

The stock of Federal Government domestic debt outstanding at end-December 2017 stood at ₦12,589.5 billion, representing an increase of 13.8 per cent over the level in 2016.

non-bank public accounted for the balance of ₦5,920.7 billion or 47.0 per cent. The structure of debt holding in 2017 indicated that the share of non-bank public increased by 7.8 per cent above the level in 2016, while that of the banking system rose by 19.8 per cent. A disaggregation of the banking system holdings showed that the banks held 83.9 per cent and the balance of 16.1 per cent was held by the CBN and the Sinking Fund.

Analysis of the maturity structure of domestic debt showed that long-term instruments (tenors of over three years) accounted for ₦6,251.5 billion, or 49.7 per cent. Medium-term instruments (tenors of over 1-3 years) amounted to ₦1,460.0 billion or 11.6 per cent, while short-term instruments (tenors of below one year) was ₦4,878.0 billion, or 38.7 per cent.

Figure 5.23: Composition of Domestic Debt Stock by Holder, 2017



Source: Computed based on Data from the DMO

5.7.2 External Debt

At US$18.9 billion or 5.0 per cent of GDP, Nigeria's external debt at end-December 2017 grew by 65.8 per cent over the level at end-December 2016. The rise reflected largely the draw-down on commercial loans, Euro and Diaspora bonds, for infrastructure funding and refinancing of matured NTBs. This was in line with Nigeria's Debt Management Strategy, which aimed to restructure the outstanding debt portfolio and gradually reduce the share of the domestic component by increasing the external debt component to 40.0 per cent of the total debt portfolio. This was informed by the imperative to reduce the debt service burden through cheaper and longer tenured foreign financing for the FGN, thereby releasing funds for private sector investments at reduced interest rates in the domestic market. As part of the strategy, maturing NTBs were refinanced from commercial loans (Eurobonds), thereby increasing the stock of Eurobonds from US$1.5 billion in 2016 to US$ 6.0 billion.

A breakdown of the debt portfolio showed that Debt to multilateral institutions (concessional loans) was US$10.2 billion or 54.2 per cent of the total, while commercial and bilateral debts, at US$6.3 billion and US$2.4 billion accounted for 33.3 and 12.5 per cent, respectively.

5.7.3 Debt Service

Total debt service[20] was ₦1,618.1 billion, or 1.4 per cent of GDP, indicating an increase of 22.7 per cent above the level in 2016. A disaggregation showed that external debt was ₦141.9 billion (US$0.5 billion) or 8.8 per cent of the total, while domestic debt accounted for ₦1,476.2 billion or 91.2 per cent. External debt service consisted of interest payments of 73.2 per cent and amortisation[21] of 26.8 per cent. A breakdown of domestic debt service indicated that interest payments accounted for 98.3 per cent, while amortisation was 1.7 per cent of the total.

[20]Represents actual debt service payments by the Debt Management Office which may differ from the figures in the Federal Government finances table that indicates contributions to the external creditors' fund.

[21] Principal Repayment

BOX2: THE FEDERAL GOVERNMENT OF NIGERIA GREEN BONDS

In 2015, one hundred and ninety-six (196) countries came together under the Paris Agreement to reset the world on a trajectory for sustainable development, through, among others, limiting global warming to a range of 1.5 - 2 degrees centigrade above pre-industrial levels. Article (4) paragraph (2) of the Agreement requires each country to prepare, communicate and maintain successive Nationally Determined Contributions (NDCs) that it intends to achieve. The NDCs specify efforts by each country to reduce national emission and adapt to the impacts of climate change. In September, 2016, President Muhammadu Buhari, (GCFR) signed the Paris Agreement on climate change, joining other nations to commit to reversing the negative effects of climate change. Key development targets are both renewable and energy efficiency, transport and agricultural projects that would reduce carbon emission and mitigate the effect of climate change such as desertification, flooding, erosion etc.

The Green Bond is a fixed income security issued to finance projects with environmental benefits. It was popularized by the Paris Agreement on Climate Change as part of the global response to the threat of climate change. The objective of the Agreement was to reverse the negative effect of climate change. As part of its NDCs, Nigeria committed to reducing carbon emissions by 20 percent unconditionally and 45 percent, with international support, by 2030 through energy, transport and agriculture projects that would reduce carbon emissions and lessen the effects of climate change in the country such as desertification, flooding, erosion, erratic rainfall, among others. The Green Bond proceeds would be used to finance projects in the 2017 Appropriation Act that have been certified as Green because of their positive effects on the environment. According to the World Bank, large country such as Nigeria risk major threats such as food insecurity arising from climatic change leading to reduction in major food production by 20 percent by 2050.

Following this, the Federal Government on December 18, 2017 for the first time issued a 5-year 'FGN Green Bond' worth ₦10.69 billion. Total subscription amounted to ₦10.79 billion by a broad range of investors, comprising resident and non-resident, banks, fund managers and pension fund administrators, corporate entities, government agencies, Non-Bank Financial Institutions etc. The bond was fully allotted at the coupon rate of 13.4800 per cent. Proceeds from the Bond were to be dedicated to the financing of 'Green' projects in the 2017 Appropriation act, including Renewable Energy, Micro Utilities and Afforestation Programmes. The Bond received a GB_1 (Excellent) Green Bond Assessment from the Moody's Investors Service. By the issuance, Nigeria became the first African country and the fourth nation in the world to issue a Sovereign Green Bond. The Debt Management Office as the key issuer of FG debt liaises with the Ministry of Environment while the Green Bond Account was domiciled with the Central Bank of Nigeria.

Features of the FGN Green Bond

- Offer Amount: ₦10.69 billion
- Tenor: 5 year
- Coupon Rate: 13.48 per annum (payable Bi-annually)
- Purpose: to finance Green Projects in the 2017 Appropriation Act
- Security: Backed by the Federal Government of Nigeria
- Classified as Liquid Asset by the Central Bank of Nigeria

The Benefits of the FGN Green Bond include

- Provision of finance for critical projects targeted at environmental sustainability and reversal of the harmful effect of climate change
- Diversification of government funding sources and deepening the domestic capital market
- Signaling a commitment by the FG to environmental protection and inspiring citizen action
- Setting the pace for subsequent issuance of Green Bonds by state governments and corporate entities
- Enabling investors that are interested in conservation to earn income while protecting the environment at the same time

BOX 3: THE VOLUNTARY ASSETS AND INCOME DECLARATION SCHEME (VAIDS)

In a bid to diversify its revenue base away from oil, the Federal Government has intensified efforts at increasing non-oil revenue by broadening the tax base and enforcing tax compliance. A study by the Joint Tax Board (JTB) in 2017 showed that of the 69.9 million economically active Nigerians, only 14.0 million were tax compliant. Taxes were conveniently evaded in the country through transfer of assets overseas, the use of offshore companies as tax havens to secure assets, and the registration of assets in nominee names. Consequently, Nigeria's tax to GDP ratio, at 6.0 per cent, had remained one of the lowest in the world.

To address the problem, the current administration has introduced domestic reforms and signed international agreements. The domestic reforms include inter-agency cooperation for information gathering on economically active Nigerians using the Bank Verification Number, Nigeria Financial Intelligence Unit, Corporate Affairs Commission and State Land Registries. At the global front, engagements have included the signing of agreements with a number of nations (Switzerland, Panama, the Bahamas and other tax havens) for the Automatic Exchange of Information, implementation of the Common Reporting Standards, and the establishment of the Beneficial Ownership Register. These reforms have helped to create accurate financial profile of Nigeria's taxpayers, give access to the true owners of properties in foreign countries and provide tax authorities with greater transparency into the scale of multinational company operations, as well as enable increased detection of profit shifting and other tax evasion strategies. The government is therefore, able to determine tax defaulters, and has decided to offer an amnesty window through the voluntary assets declaration scheme (VAIDS) and allow them pay-off their outstanding tax obligations.

The VAIDS is a tax amnesty programme instituted by the Federal Government to encourage voluntary disclosure of previously undisclosed assets and income for the payment of all outstanding tax liabilities in return for some waivers for declaration and payment under a specified period. The Scheme derives from the Executive Order 1 of June 29, 2017.

The tax amnesty, which will operate for a period of nine months starting from July 1, 2017 to March 30, 2018, allows interested taxpayers (both individuals and corporate entities) to voluntarily declare their income and assets. They are also expected to pay their tax arrears, backdated to a period of six years from the day of first assessment, either in one lump sum or in instalments, over a period of not more than three years as may be agreed with the relevant tax authorities.

The scheme covers both Federal and sub-national taxes and is opened to all persons and businesses that are in default of their tax liabilities, including: those who earn incomes or own assets, but are not registered with the relevant tax authorities; registered taxpayers that have additional disclosures to make or need to amend prior disclosures; registered taxpayers that have not been filing returns; registered tax payers that have not been fully declaring their taxable income and assets; taxpayers that have been underpaying or under remitting; and taxpayers under a process of tax audit or investigation with the relevant tax authority or those engaged in a tax dispute with the relevant tax authority, but are prepared to settle the tax dispute out of court.

The scheme provides for the confidentiality of all information provided by the taxpayer in accordance with the provisions of the relevant laws unless otherwise stated. Any breach of the confidentiality of such information without due authorization or in violation of the relevant laws shall be liable to prosecution under the extant Federal and/or State Laws.

Tax payers who take the opportunities provided by the Scheme to regularise their compliance status would enjoy: penalties and interest waivers on outstanding taxes; immunity from criminal prosecution for the tax offences; exclusion from tax audit/investigation over the period covered by the declaration, Negotiable instalment payment for the outstanding tax liability up to a maximum period of three years; and opportunity to regularize ownership of assets/investments owned by nominees. Tax defaulters who fail to timely and honestly utilize the opportunity provided by the Executive Order will face the following consequences at the expiration of the Scheme: full payment of the outstanding principal, including all the accrued interest and penalties; liability to prosecution for tax offences in line with the relevant extant laws; loss of any prior reprieves already granted to the participants; subjection to comprehensive tax audit; and any payments made earlier under the scheme would be taken as part payment of the outstanding tax arising from the undisclosed information.

The Scheme is in line with global best practices on disclosure of information and declaration of assets. It will address tax evasion, illicit financial flows, make more funds available to government for infrastructure funding and increase Nigeria tax GDP ratio from 6.0 to 15.0 per cent by year 2020.

CHAPTER SIX

REAL SECTOR DEVELOPMENTS

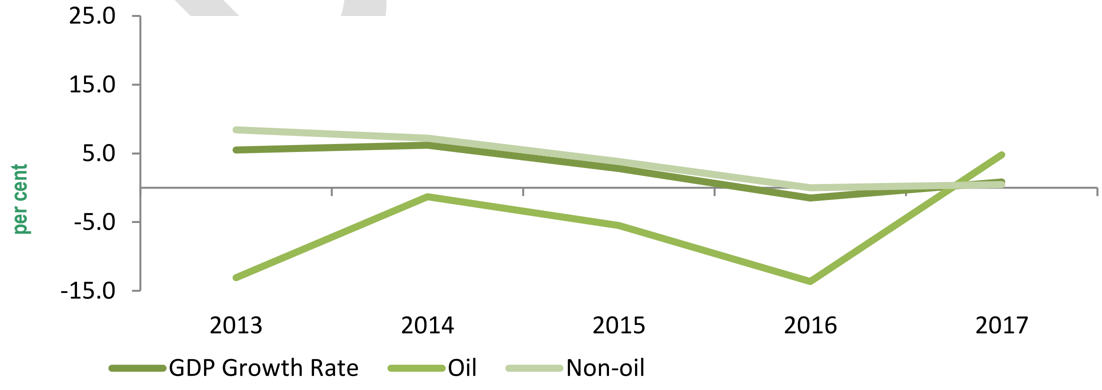
The economy witnessed a mild recovery from recession in 2017. The real Gross Domestic Product (GDP), measured at 2010 constant basic prices, grew by 0.83 per cent, in contrast to the contraction of 1.58 per cent in 2016. The development was attributed largely to increased agricultural output enabled by CBN interventions, improved crude oil receipts, fiscal stimulus, as well as, improving business environment. Oil and non-oil sectors output grew by 4.79 and 0.47 per cent, respectively. Analysis by sector showed that agriculture, industry and construction grew by 3.45, 2.14 and 1.00 per cent, respectively. However, trade, and services contracted by 1.05 and 0.67 per cent, respectively. The year-on-year headline inflation remained above the benchmark single-digit rate throughout 2017. The development was attributed largely to exchange rate depreciation pass-through to domestic prices and structural rigidities which still pervades the economy.

6.1 DOMESTIC OUTPUT

Provisional data from the National Bureau of Statistics (NBS) showed that the Gross Domestic Product (GDP), measured at 2010 constant basic prices, was ₦68.5 trillion at end-December 2017. This indicated a growth of 0.83 per cent, against the contraction of 1.58 per cent in 2016.

The Gross Domestic Product (GDP), measured at 2010 constant basic prices was ₦68.5 trillion in 2017, indicating a growth of 0.83 per cent, compared with the contraction of 1.58 per cent in 2016.

Figure 6.1 GDP Growth Rate, 2013-2017, (per cent)



Source: National Bureau of Statistics (NBS)

During the year under review, growth was driven by the Agriculture, Industry and Construction sectors which contributed 0.84, 0.38 and 0.04, per cent, respectively, while Services and Trade sectors contributed negatively to growth by 0.25 and 0.18 per cent respectively. Comparatively, Agriculture contributed 0.95 per cent to growth in 2016, while, Industry, Services and Construction and Trade had negative contributions of 1.73, 0.44, 0.04 and 0.04 per cent, respectively.

Table 6.1: Sectoral Contributions to Growth Rates of GDP at 2010 Constant Basic Prices (percentage points)

Activity Sector	2013	2014	2015	2016	2017
1. Agriculture	**0.7**	**1.0**	**0.9**	**1.0**	**0.84**
Crop Production	0.5	0.9	0.7	0.9	0.80
2. Industry	**-0.02**	**1.23**	**-0.7**	**-1.7**	**0.38**
Crude Petroleum	-1.8	-0.2	-0.6	-1.3	0.40
3. Construction	**0.5**	**0.5**	**0.2**	**-0.2**	**0.04**
4. Trade	**1.1**	**1.0**	**0.9**	**-0.04**	**-0.18**
5. Services	**3.2**	**2.6**	**1.6**	**-0.4**	**-0.25**
Information & Communications	0.9	0.8	0.7	0.2	-0.12
TOTAL (GDP)	**5.5**	**6.2**	**2.8**	**-1.5**	**0.83**
NON-OIL (GDP)	**8.4**	**7.2**	**3.8**	**-0.2**	**0.47**

Source: NBS

The boost in economic activities in 2017 was attributed to various factors, namely: recovery in crude oil production and prices; fiscal stimulus, and improving business environment. Others were improved access to foreign exchange due to sustained reforms in the market, particularly, through the Investors' and Exporters' window; and the sustained implementation of programmes in the Economic Recovery and Growth Plan (ERGP), such as the Power Sector Recovery Programme, which contributed to increases in power generation and supply during the year.

In terms of sectoral growth rates of GDP in 2017, the agricultural sector recorded the fastest growth rate of 3.45 per cent compared to 4.11 per cent recorded in 2016. Within the sector, Crop Production remained the fastest growing subsector at 3.64 per cent followed by Forestry, Livestock and Fishing which grew by 3.31, 1.61 and 1.34 per cent, respectively. Furthermore, Industry and Construction sectors also grew by 2.14 and 1.00 per cent, respectively, while Trade and Services sectors contracted by 1.05 and 0.67 per cent, respectively.

Table 6.2: Sectoral Growth Rates of GDP at 2010 Constant Basic Prices					
(Per cent)					
Activity Sector	**2013**	**2014**	**2015**	**2016**	**2017**
1. Agriculture	**2.9**	**4.3**	**3.7**	**4.1**	**3.45**
Crop Production	2.5	4.1	3.5	4.3	3.64
Livestock	6.0	5.4	6.0	2.9	1.61
Forestry	5.6	4.6	3.7	2.6	3.31
Fishing	9.0	6.7	5.9	-0.7	1.34
2. Industry	**-0.1**	**6.0**	**-3.4**	**-9.0**	**2.14**
Crude Petroleum	-13.1	-1.3	-5.5	-13.7	4.79
Solid Minerals	16.5	14.9	7.7	-14.6	0.14
Manufacturing	21.8	14.7	-1.5	-4.3	-0.21
3. Construction	**14.2**	**13.0**	**4.4**	**-6.0**	**1.00**
4. Trade	**6.6**	**5.9**	**5.1**	**-0.2**	**-1.05**
5. Services	**9.4**	**7.1**	**4.5**	**-1.2**	**-0.67**
Transport	3.8	4.4	4.5	0.4	3.86
Information & Communications	8.2	7.0	2.0	2.0	-1.04
Utilities	18.8	-3.3	-4.0	-8.7	12.64
Accomodation & Food services	73.9	18.3	2.3	-5.3	-1.61
Finance & Insurance	8.6	8.1	7.1	-4.5	1.26
Real Estate	12.0	5.1	2.1	-6.9	-4.27
Human Health & Social Services	9.6	10.5	2.5	-1.8	-0.31
TOTAL (GDP)	**5.5**	**6.2**	**2.8**	**-1.5**	**0.83**
NON-OIL (GDP)	**8.4**	**7.2**	**3.8**	**-0.2**	**0.47**

Source: NBS

At 36.4 per cent of total real GDP in 2017, the services sector accounted for the highest share compared with 36.9 per cent in 2016. Within the services sub-sector, information and communications contributed 11.4 per cent of total GDP, followed by real estate (6.9%), professional (3.7%), 'other services' (3.4%), finance and insurance (3.0%), public administration (2.3%), education (2.2%) and transport (1.2%). Furthermore, agriculture, industry, trade, and construction contributed 25.1, 18.0, 16.9 and 3.7 per cent, respectively, to the real GDP.

Figure 6.2: Sectoral Shares in GDP, 2013 - 2017

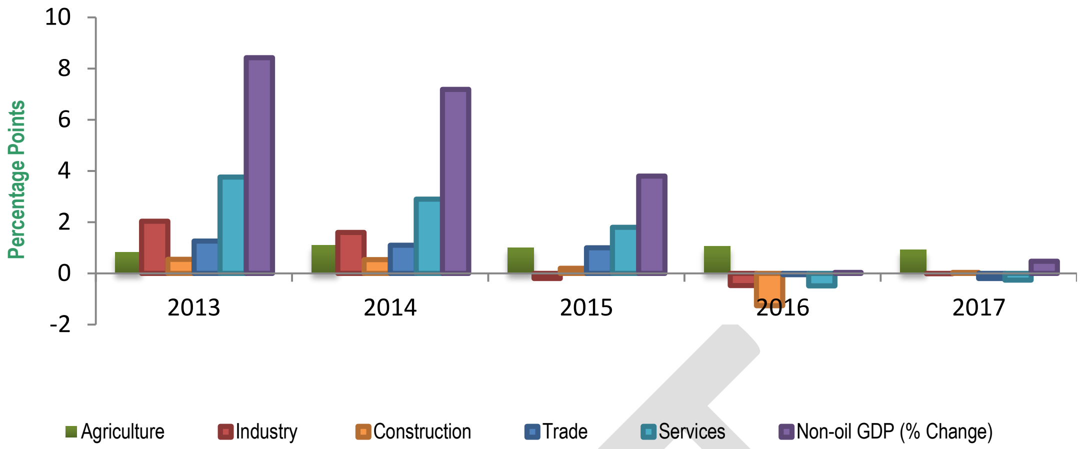
Source: NBS

The non-oil sector remained the main driver of growth in 2017. It expanded by 0.5 per cent in contrast to a contraction of 0.2 per cent in 2016. Growth in the non-oil sector was propelled mainly by Agriculture, which contributed 0.92 per cent to the growth rate of the non-oil GDP. Further analysis showed that Construction and Industry sectors contributed 0.04 and 0.02 per cent to non-oil GDP during the year. In contrast, Trade and Services sectors had negative contributions of 0.20 and 0.27 per cent, respectively, to non-oil GDP growth in 2017.

Figure 6.3: Growth Rate of Major Sectors of Non-oil GDP, 2013 – 2017 (Per cent)

Source: NBS

Figure 6.4: Contributions to Growth Rate of Non-oil GDP, 2013 – 2017 (Per cent)

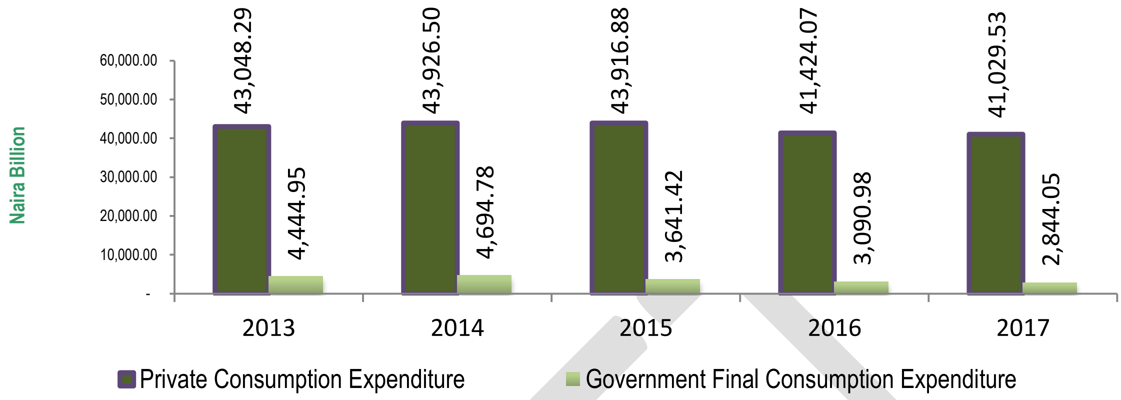


The sectoral growth rates of non-oil GDP indicated that the Agriculture sector was the fastest growing sector as it grew by 3.45 per cent during the year compared to the growth of 4.11 per cent in 2016. Within the agricultural sub-sector, crop production maintained its dominance as the fastest growing subsector as it recorded a growth of 3.64 per cent, due mainly to sustained interventions by the Government and the Central Bank of Nigeria, particularly, through its Anchor Borrowers' Programme. Also, the Sector witnessed bumper harvests, driven by improved weather condition and seedlings, as well as other input.This was followed by the Construction sector which grew by 1.00 per cent compared to a contraction of 5.95 per cent in 2016. However, Industry, Services and Trade sectors contracted by 0.21, 0.67 and 1.05 per cent during the year relative to contractions of 4.47, 1.19 and 0.24 per cent in 2016, respectively.

At ₦69,205.69 billion in 2017, data from the National Bureau of Statistics revealed that real domestic demand, at 2010 purchasers' price (GDP by Expenditure), increased by 0.8 per cent relative to ₦68,652.43 billion in 2016. Private consumption and government final consumption expenditure were ₦41,029.53 billion and ₦2,844.05 billion, respectively, compared with ₦41,424.07 billion and ₦3,641.42 billion, in 2016. Government final consumption expenditure fell by 7.59 per cent, while private consumption also declined by 0.95 per cent in 2017. Net export was ₦15,084.55 billion in

2017, representing an increase of 10.12 per cent above the level of ₦13,698.84 billion in 2016. Real investment (gross fixed capital formation) was ₦9,631.70 billion in the period under review, representing a decrease of 2.98 per cent over the level of ₦9,927.26 billion in the preceding year.

Figure 6.5: GDP (Expenditure Approach) at 2010 Purchasers' Price, 2013 - 2017



Source: NBS

6.2 AGRICULTURE

6.2.1 Policy and Institutional Support

The Federal Government continued with the implementation of the Agricultural Promotion Policy Framework (APPF) in the review period. The APPF aims at diversifying the economy, ensuring food security and reducing the level of poverty. The Project Coordination Unit (PCU) of the Federal Ministry of Agriculture and Rural Development was inaugurated for effective implementation of the APPF and Development Partner-Funded Projects. The Unit participated in the supervision of some projects and with a view to ensuring the alignment of the APPF with the Economic Recovery and Growth Plan (ERGP), among others.

The Federal Government launched the 10-year Agricultural Sector Food Security and Nutrition Strategy to provide guidance for the Federal Ministry of Agriculture and the wider agricultural sector for improved nutrition and food security in the country. The Strategy would ensure effective advocacy for sustained commitment to improved nutrition. It contains eight (8) priorities namely: enhancing value-chains for improved nutrition; diversifying household food production and consumption; improving food safety along the value-chain; building resilience; social protection; promoting nutrition research and information system; improving the agricultural sector capacity to address food security & nutrition problems and nutrition surveillance and monitoring and evaluation.

The Federal Government trained 3,000 personnel under the Agro-Rangers Programme to protect farmers and their investments from attacks. The Agro Rangers, drawn from the Nigeria Security and Civil Defence Corps (NSCDC), were trained by the Nigerian Army in weapon handling and, thereafter, deployed to guard and protect farms and ranches. The development would boost farmers' confidence to work on their farms without fear of attack.

In the rice sub-sector, the Rice Farmers Association signed an MoU with the Nigerian Customs Service to stop rice smuggling and deepen local production. A 12-man implementation committee was set up to effect the enforcement.

The Federal Government revived the School of Agriculture in Rivers State to build capacity of youths in that sector in the South-South geopolitical zone. Also, the Federal Universities of Agriculture were returned to the supervisory purview of the Federal Ministry of Agriculture and Rural Development. The Initiative was aimed at refocusing the institutions to their core mandates of developing capacity in the Sector.

The World Bank in the review period, approved a US$200 million credit facility to further support agricultural productivity of small and medium scale farmers in some states. The credit facility would cover businesses in horticulture, poultry and aquaculture. It would also address the key constraints in the agriculture sector, such as: low productivity; lack of seed funds for establishing agro-processing plants; lack of access to supportive infrastructure; low level of technology; and limited access to markets.

Furthermore, the Nigerian Export Promotion Council (NEPC) endorsed a processing and logistic facility in Lily Pond, Lagos to boost export performance in the country. The Facility would provide a conducive environment for service providers in shipping and, warehousing, and personnel of customs and certification agencies, to facilitate the clearance of goods for export.

As part of the gains of the diversification drive, the country for the first time, exported seventy-two (72) tonnes of certified yams to the United Kingdom and United States during the review period. The development boosted non-oil export contribution to foreign exchange earnings.

The sugar sub-sector was boosted with the provision of 12,000 hectares of land to Chinese investors by the Jigawa State Government to establish a sugar estate in Garki, Taura, Sule Tankarkar and Gagarawa local government areas. Also, the Dangote group signed an MoU for an investment of ₦220.00 billion towards the establishment of sugar estates in Obi, Awei and Doma local government areas of Nasarawa State. The investment involved 60,000 hectares of sugar plantation and two sugar factories.

As part of their contributions to boost capacity and increase output in the agricultural sector, the African Development Bank (AfDB) group, Centres for Disease Control and Prevention (CDC) group and the Dutch Good Growth Fund jointly committed US$31million to the "Fund Agricultural Finance in Nigeria" (FAFIN). The funds would be invested over a two-year period to support sustainable businesses that would revolutionise the agri-business landscape, improve productivity, create new jobs and strengthen the value-chains.

6.2.2 Agricultural Production

At 135.4 (2010=100), with aggregate index of agricultural production rose by 3.5 per cent in 2017. The improved performance of the agricultural sector was attributed to increase in output in all the sub sectors except fishery. The continued commitment of the Federal Government to diversification; improved implementation of various agricultural programmes and policies; and the prevalence of relatively favourable weather conditions were the main drivers of growth in the Sector. Despite remarkable performance in 2017, some challenges remained, including: delay in the supply/distribution of inputs vis a vis planting period; herders/farmers clash; insurgency in the North-East; cattle rustling; and flooding.

6.2.2.1 Crop Production

The output of crop production increased by 3.6 per cent above the level in the preceding year. Staples grew by 4.3 per cent, while 'other crops' grew by 2.2 per cent compared with 6.3 per cent, in the corresponding period of 2016. Further analysis showed that, the output of rice, plantain, beans, wheat, yam, cassava, sorghum and millet grew by 18.7, 8.3, 4.2, 3.4, 3.3, 3.3, 2.9 and 2.7 per cent, respectively. Growth in output of other commodities were: plantain (8.3%); rubber (7.0%); cocoa (4.4%); beans (4.2%); potatoes (4.1%); wheat (3.4%); yam (3.3%); millet (2.7%); maize (2.6%); and soya bean (0.8%). The development was attributed largely to improved weather condition; policy and institutional support geared towards the realisation of national food security and increased export.

Table 6.3: Growth in Major Crop Production (per cent)

Crop	2016	2017	Crop	2016	2017
Wheat	5.5	3.4	Plantain	21.5	8.3
Sorghum	2.1	2.9	Potatoes	3.2	4.1
Rice	3.7	18.7	Yam	1.6	3.3
Maize	5.0	2.6	Cassava	3.7	3.3
Millet	0.6	2.7	Rubber	21.4	7.0
Soya -bean	3.2	0.8	Palm Oil	3.8	4.3
Beans	2.2	4.2	Cocoa	3.2	4.4

Source: Staff estimates based on NBS data

6.2.2.2 Livestock

The index of livestock production at 128.1 (2010=100), grew by 1.6 per cent in 2017, compared with the increase of 0.8 per cent in the preceding year. Further analysis showed that poultry and beef production grew by 0.8 and 0.9 per cent, respectively. The output of egg, pork, goat meat and milk rose by 5.9, 3.3, 0.6 and 0.4 per cent, respectively. The growth in livestock production was enhanced by improved disease control measures and the use of improved vaccines, improved breeding and fattening programmes. The livestock sub-sector, however, witnessed some set back arising from the herders/farmers clashes and cattle rustling.

6.2.2.3 Fishery

At 141.5 (2010=100), the index of fish production indicated a positive growth of 1.3 per cent in 2017, against a negative 0.3 per cent in 2016. In terms of actual output, fish production increased from 1,042.05 tonnes in 2016, to 1,056.01 tonnes in 2017. A further analysis showed that fish farming catches from artisanal inland rivers/lakes, industrial (trawling) coastal fish and shrimps and artisanal coastal/brackish water catches recorded a positive growth of 1.6, 1.4 and 0.5 per cent respectively, against a negative 2.8, 7.2 and 1.8 per cent recorded in 2016.

Fish farming in the country also increased from a negative 3.3 per cent recorded in 2016 to 2.8 per cent in 2017, indicating increased output in the subsector. The positive growth was a result of increased partnership between the government and the private sector.

6.2.2.4 Forestry

At 129.4 (2010=100), the index of forestry production grew by 3.3 per cent to 220.5 million cubic metres in 2017, compared with 2.1 per cent in 2016. The development was attributed to the moderation in demand for wood for construction and other wood products like paper and charcoal.

In summary, the sub-sectoral performance of the agricultural sector in 2017 indicated considerable improvement over the level in 2016. Apart from crop production which grew less than its level in 2016, all the sub-sectors performed better than their levels in the preceding year. The crop production grew by 3.6 per cent in 2017, below the level of 4.9 per cent, in 2016. This was attributed to the set-back in the sector arising from the herders/farmers clash which reduced agricultural produce in the country. However, livestock, fishery and forestry grew in 2017 above the levels in 2016 by 1.6, 1.3 and 3.3 per cent, respectively.

6.2.3 Agricultural Prices

The prices of most of Nigeria's agricultural commodities maintained an upward trend in the world market in 2017 except for cocoa and coffee. The all-commodities index, in US dollar terms, stood at 67.2 (2010=100), representing a decrease of 25.3 per cent below the level in 2016. The fall in the aggregate index was due to the drop in the price of cocoa by 29.8 per cent and also, its weight in the basket. Further analysis showed that prices of four out of the six agricultural export commodities monitored increased during the period under review. The prices of cotton, copra, palm oil and soya beans increased by 12.6, 8.3, 6.3 and 4.6 per cent, respectively. The price increase was attributed largely to limited supply arising from harsh weather condition and high pest infestation in producing countries. However, the price of coffee fell by 6.9 per cent, attributed largely to excess supply of the commodity.

In naira terms, the all-commodities price index at 136.7 (2010=100), showed a decline of 9.2 per cent in 2017, below the 150.5 (2010=100) recorded in 2016. The index for cocoa fell by 14.5 per cent, while those of cotton, copra, palm oil, soya beans and coffee increased by 33.9, 29.3, 27.3, 25.6 and 10.9 per cent, respectively.

The domestic producer prices of most of Nigeria's major cash crops rose in 2017, compared with their levels in 2016. The price increase ranged from 2.0 per cent for tea to 33.7 per cent for cocoa. The increase in prices was attributed largely to high cost of transportation. The prices of five cash crops, however, decreased ranging from 4.4 per cent for cashew nut to 18.8 per cent for soya beans, due largely to the bumper harvest of the commodities in 2017.

6.3 INDUSTRY

6.3.1 Industrial Policy and Institutional Support

The strategic focus of the government to increase industrial output, improve electricity supply, diversify the economy away from oil as well as, steering the economy out of recession continued in 2017. The ERGP was launched to restore sustainable growth, build a globally competitive economy and invest in human resources, among others.

One of the programmes under the ERGP, the Power Sector Recovery Programme (PSRP), commenced during the year. The Programme aims at optimising the delivery of at least 10,000 megawatts (MW) of operational capacity by 2020 through the existing installed generation capacity; addressing gas supply facility vandalism; as well as constructing major gas infrastructure lines. The Policy, initiated in conjunction with the World Bank, also seeks to restore the financial viability of the market; improve electricity supply reliability, strengthen market governance and promote transparency; and contract-based market in the Sector.

The Transmission Company of Nigeria (TCN) completed the installation of 18 high voltage transformers to facilitate the evacuation of 1,100 MW of electricity to the national grid. The Projects, executed under the Transmission Rehabilitation and Expansion Programme (TREP), were aimed at achieving the transmission of 10,000 MW of electricity by 2020. The Programme, which would cost ₦383 billion (US$1.064 billion), was being financed by the World Bank (US$486 million (₦174.9 billion)), Agence Française de Développement (AFD) (US$170 million (₦61.2 billion)), and the Islamic Development Bank (IDB) (US$410 million (₦147.6billion)).

The Rural Electrification Agency (REA) launched the Rural Electrification Fund (REF) scheme during the year. The Scheme would, provide fund for investment in rural power projects, improve electricity supply to rural dwellers, as well as, create an enabling environment for private sector participation. The Fund, which would be in a Trust, was planned to grow from ₦311 billion in 2017 to ₦519 billion by 2020 and would be disbursed under a contract agreement. The REF would be funded through budgetary allocations, international funding, and private sector financing. Under the Scheme, 1.1 million rural households would be connected every year with the expectation that by 2020, about 60 per cent of Nigerians would have improved access to electricity.

The Federal Government, in conjunction with the European Union and Germany, launched a €24.5m technical assistance programme under the Nigerian Energy Support Programme (NESP). The Programme aims at promoting investment in renewable energy through the construction of five solar-powered mini-grids in Ogun, Niger, Plateau, Sokoto and Cross River states.

The Nigerian Electricity Management Services Agency (NEMSA) inaugurated a ₦35.0 million power testing equipment. The equipment included, power generators for field testing, cable height meter, pressure test equipment, and earthing level testing tool. The equipment would be distributed across the 18 field offices to enhance field inspection of all electrical installations before they are certified safe for use.

Nigeria's first private project-financed independent power plant, the Azura-Edo 459 MW Power Plant commenced generation of electricity in 2017, following the completion of one of its generating turbines – the 153 MW GT-11. The Plant, comprising three turbines, each of which is capable of producing 153 MW, would be completed in 2018.

To support the development of Nigeria's gas reserve and improve the supply of gas to thermal power stations, General Electric (GE) completed the US$100 million gas turbine assembly plant located in Calabar, Cross River State. The Plant provides repairs and servicing for gas turbines in the country.

In continuation of the privatisation process, the 80.0 per cent equity holding of the Federal Government in the ten (10) National Integrated Power Projects (NIPP) plants were offered to the public. The privatisation process would be done in phases, starting with the four plants that do not have gas supply and had internal constraints. An offer of US$5.6 billion (₦1.76 trillion) was made for the assets built at a cost of US$4.00 billion (₦1.25 trillion). These included the, 561 MW Calabar NIPP; 500 MW Omotosho NIPP; 434 MW Geregu NIPP; and 450 MW Ihovbor NIPP.

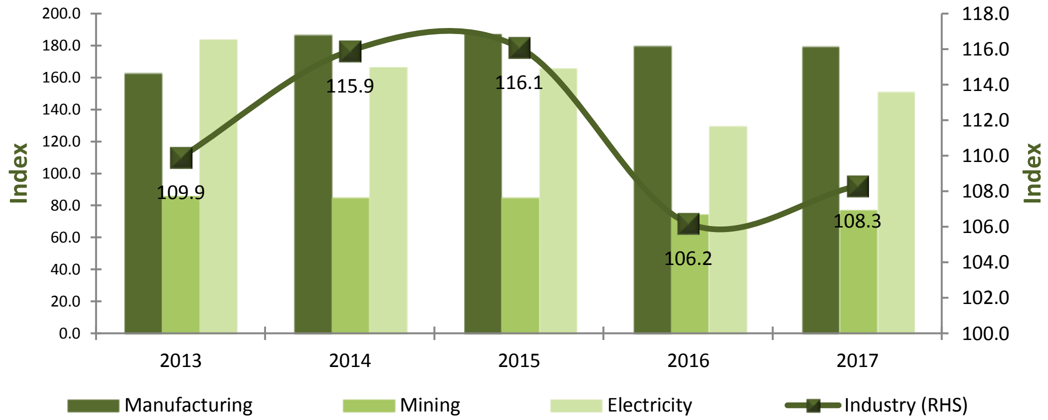
To improve the ease of doing business, the Federal Government inaugurated the Presidential Enabling Business Environment Council (PEBEC). The Council was mandated to remove administrative bottlenecks associated with doing business in Nigeria. The Enabling Business Environment Secretariat (EBES) was set up as the operational arm of the Council, with a delivery span of 2 years, to implement the reforms of PEBEC. The Council implemented the 60-day National Action Plan (NAP 60) and facilitated the passage of two new Ease of Doing Business Bills into law, namely: the Secured Transactions in Movable Assets Act 2017 and the Credit Reporting Act 2017. These laws were to strengthen the legal framework for small and medium enterprises (SMEs) to access credit across Nigeria. In addition, two executive orders on the Promotion of Transparency and Efficiency in the Business Environment and Support for Local Contents in Public Procurement by the MDAs were issued to complement the Acts. Furthermore, the National Trade Facilitation Committee was set up to put together all issues hindering smooth business practices and implement the National Trade Facilitation Roadmap. The reforms culminated in Nigeria moving up 24 places on the Ease of Doing Business Index (surpassing the target of 20) to 145th in 2017.

Several initiatives to kick-start the textile industry were undertaken in the period under review. The New Nigeria Development Company (NNDC) signed an MoU with Sur International Textile (a Turkish firm) to invest US$15 million through partnership to reactivate the moribund Kaduna Textile Company (KTC). In the short term, the KTC would produce uniforms for the Nigerian Armed Forces, Police and other paramilitary agencies in the country, and across the West Africa sub region. In a related development, Kano State Government also, signed a US$600 million MoU with the Chinese Shandong Ruyi Technology Group for the establishment of a textile industrial park in Kano. The park, which is, expected to be the biggest textile industrial park, would employ a minimum of 5,000 people.

6.3.2 Industrial Production

The industrial production index at 108.3 (2010=100), rose by 2.0 per cent in 2017, above the level in 2016. The improved performance over the preceding year was as a result of increased activities in the mining and electricity sub-sectors, following the exit of the economy from recession in the second quarter. The increased activities in these sub-sectors were attributed to improvement in crude oil production and electricity generation. The indices of electricity and mining sub-sectors rose by 16.4 and 3.8 percent, respectively, while the manufacturing subsector fell by 0.2 per cent, in contrast to contraction of 21.7, 12.3 and 3.9 per cent in 2016.

Figure 6.6: Index of Industrial Production, 2013 – 2017 (2010=100)

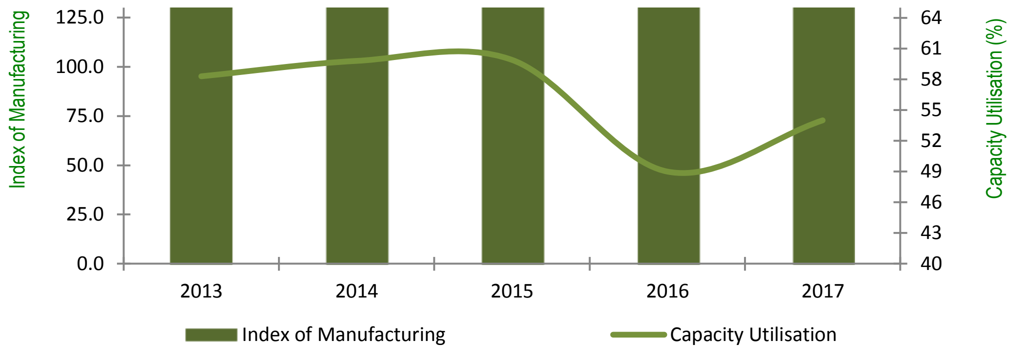


Source: CBN

6.3.2.1 Manufacturing

At 179.6 (2010=100), the estimated index of manufacturing output, showed a marginal decline of 0.2 per cent, compared with the level in 2016. However, the average manufacturing capacity utilisation in 2017 rose by 3.0 percentage points to 52.0 per cent. Although there was an overall decline compared to the previous year, the subsector improved over the four quarters. The development was attributed to improvement in access to foreign exchange, particularly the priority allocation given to the sector; increase in demand as shown by continued improvement in new orders and moderating inflationary pressure. These factors helped in stimulating activities in the sector.

Figure 6.7: Index of Manufacturing Production and Capacity Utilisation, 2013 - 2017

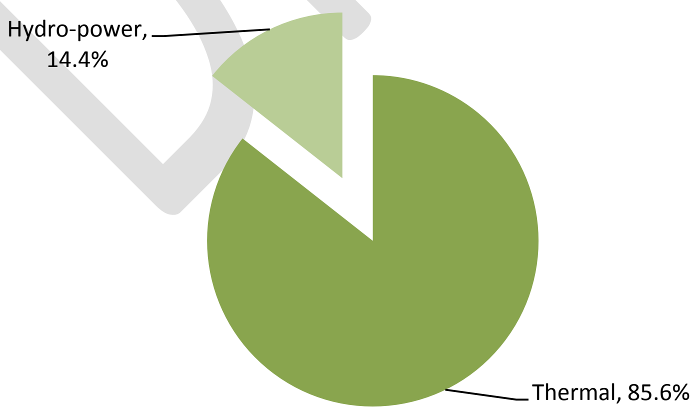


Source: CBN

6.3.2.2 Electricity Generation

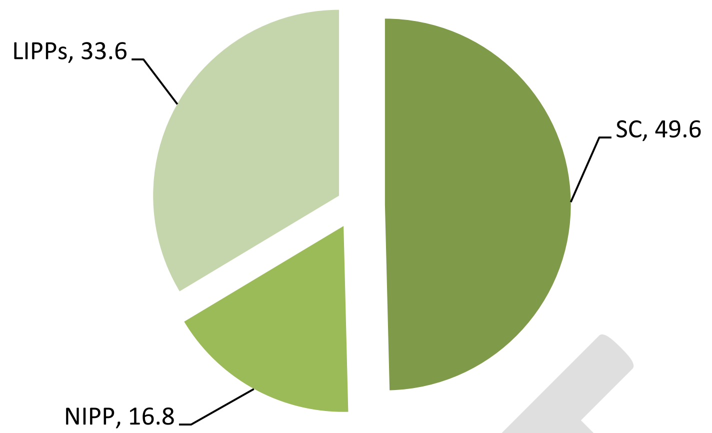
Total installed electricity generation capacity, stood at 13,363 MW in 2017, compared with 13,148 MW in 2016, indicating a 1.6 per cent increase. The increase was due to installation of new generating plants and expansion in the capacity of the existing ones. A disaggregation of the installed capacity showed that thermal power and hydro-power accounted for 85.6 and 14.4 per cent, respectively. Analysis by holding showed that the Successor Companies accounted for 49.6 per cent; National Integrated Power Plants, 33.6 per cent; and Legacy Independent Power Plants, accounted for the balance.

Figure 6.8: Nigeria's Power System: Composition in 2017 by Source (Per cent)



Sources: The Federal Ministry of Works, Power & Housing and the Presidential Task Force on Power (The Presidency)

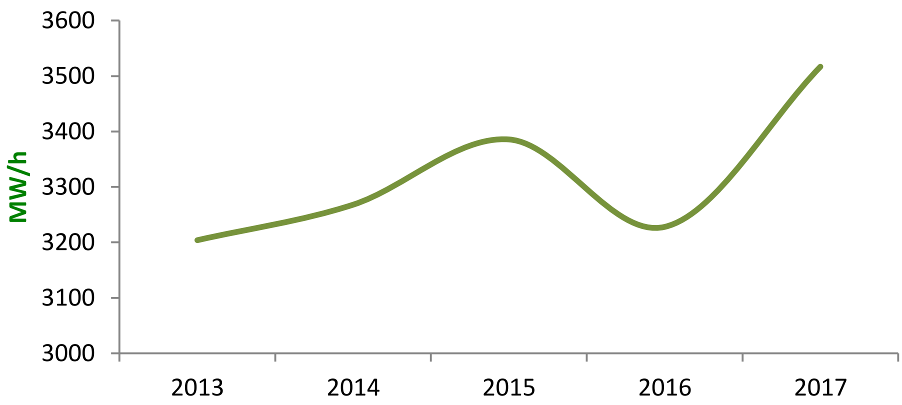
Figure 6.9: Nigeria's Power System: Composition in 2017 by Holding (Per cent)



Sources: The Federal Ministry of Works, Power & Housing and the Presidential Task Force on Power (The Presidency)

The average electricity generation in 2017, at 3,516.8MW/h, showed an increase of 8.9 per cent over the level attained in the preceding year. The increase in power generation was attributed to improved gas supply to the thermal plants and the rise in generation from the Kainji and Shiroro Hydro Stations.

Figure 6.10: Electricity Power Generation, 2013 – 2017



Source: The Ministry of Works, Power & Housing and the Presidential Task Force on Power (The Presidency)

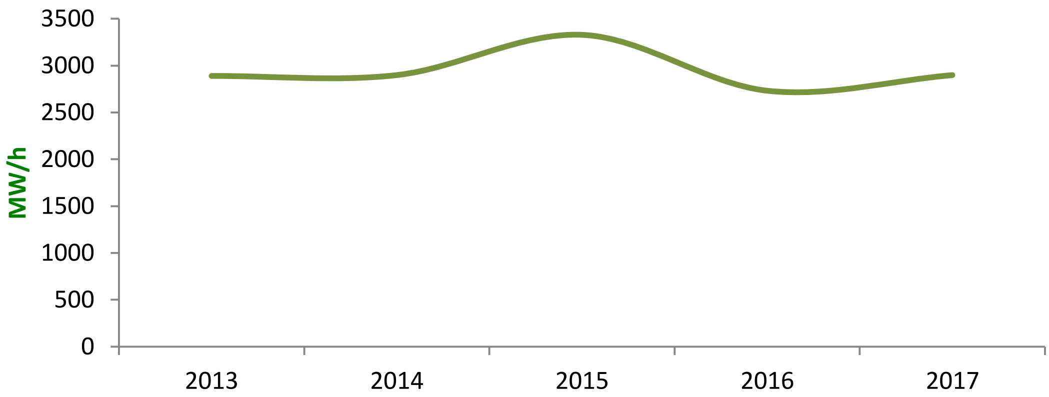
6.3.2.3 Energy Consumption

The estimated index of energy consumption for 2016 stood at 50.6 (2010=100), representing a fall of 1.0 per cent below the level in 2015. In absolute terms, estimated aggregate energy consumed in 2016 was 84,182.53 million tonnes of coal equivalent (tce), compared with 100,696.53 million tce in the preceding year. The decline in energy consumption during the review period was attributed to decrease in the consumption of gas and petroleum products due to deregulation in the downstream sector.

6.3.2.3.1 Electricity Consumption

The average electricity consumption in 2017 was at 2,898.3 MW/h, showing an increase of 6.1 per cent above the level in the preceding year. This was attributed to the improvement in generation capacity, transmission, and distribution infrastructure. Energy loss during transmission due to system breakdown was 17.6 per cent, compared with 15.4 per cent in 2016.

Figure 6.11: Electricity Consumption, 2013 - 2017



Source: The Federal Ministry of Works, Power & Housing and the Presidential Task Force on Power (The Presidency)

6.3.2.3.2 Hydro-power Consumption

At 3,869,500.0 tons of coal equivalent (tce), total Hydro-power consumption fell by 3.9 per cent, below the level in 2016. The lower level of consumption was attributed to the decline in output from the Jebba hydro-power plant by 25.1 per cent.

6.3.3 The Extractive Industry

6.3.3.1 Oil & Gas Policy and Institutional Support

To enhance regulatory efficacy in the nation's oil and gas industry, the National Assembly passed the Petroleum Industry Governance Bill (PIGB) in the first half of 2017. It provides a legal framework for a more efficient, competitive and transparent industry, as well as, supports a more conducive business environment for the operations of the petroleum industry. It also provides for the legal basis for restructuring of the Nigerian National

Petroleum Corporation (NNPC). The Bill would boost activities in the downstream sector, particularly improving the distribution of petroleum products across Nigeria.

The NNPC re-opened the Aba, Mosimi, Atlas-Cove and Kano depots in 2017. The re-opening of the depots, enhanced the availability of products across the country. In addition, various repairs were carried out on vandalised pipelines. Accordingly, all gas plants that were hitherto shut-down, including: the Oredo, Sapele, and Ovade Gas Plants, and Oben and Nigeria Gas Company (NGC) Gas Compressors, were reactivated. Furthermore, the challenge of condensate evacuation was addressed, resulting in increased gas supply across the gas plants.

The NNPC collaborated with Schlumberger Limited to deploy state-of-the-art technology in the ongoing search for commercial hydrocarbon deposits in the Lake Chad basin and other parts of the inland sedimentary basins. This would foster teamwork in vital areas bordering on exploration and reservoir management among others.

The West African Gas Limited, a joint venture company between the NNPC and Sahara Energy in 2017 took delivery of two (2) liquefied petroleum gas (LPG) carriers from the Hyundai Mipo Dockyard in Ulsan, South Korea. The vessels, "MT Africa Gas" and "MT Sahara Gas", with a combined capacity of 38,000 cubic meters (m^3), would ensure increased supply of domestic cooking gas to the market.

a. Crude Oil Production, Refinery Utilisation, Petroleum Products and Prices

i. Crude Oil Production

Nigeria's aggregate crude oil production, including condensates and natural gas liquids, averaged 1.72 million barrels per day (mbd), or 627.80 million barrels (mb) in 2017, compared with 1.62 mbd or 592.92 mb in the preceding year. The increase in crude oil production was due, largely, to a sustained stability in the Niger Delta region as a result of discontinuation of vandalism activities in oil pipelines. Aggregate export of crude oil was estimated at 1.27

mbd or 463.55 mb, compared with 1.17 mbd or 428.22 mb in the preceding year.

ii. Refinery Utilisation

The estimated average capacity utilisation of the country's three (3) refineries stood at 20.9 per cent in 2017 from 15.4 per cent in 2016. A breakdown showed that the average capacity utilisation of the Kaduna Refining and Petrochemical Company (KRPC), the Warri Refining and Petrochemical Company (WRPC), and the Port Harcourt Refining Company (PHRC) was 27.6, 10.4, and 24.7 per cent, respectively.

Aggregate production of petroleum products from the refineries was estimated at 3.7 million tonnes in 2017, compared with 2.6 million metric tonnes recorded in 2016. Efforts at ramping up production and reducing the quantity of imported refined products led the government to sustain the seasonal maintenance initiated in 2016. This improved the efficiency of the refineries, contributing to the increase in refined products. Analysis of products by refinery showed that the WRPC produced 0.38 million tonnes, while the PHRC and the KRPC produced 1.96 and 0.53 million tonnes, respectively. Of the total, PMS accounted for the largest share at 31.3 per cent, while the shares of Automotive Gas Oil (AGO), fuel oil, Dual Purpose Kerosene (DPK), fuel and losses, Liquefied Petroleum Gas (LPG), and Asphalt were 23.7, 22.3, 14.6, 5.2, 2.8 and 0.1 per cent, respectively.

iii. Petroleum Products Consumption

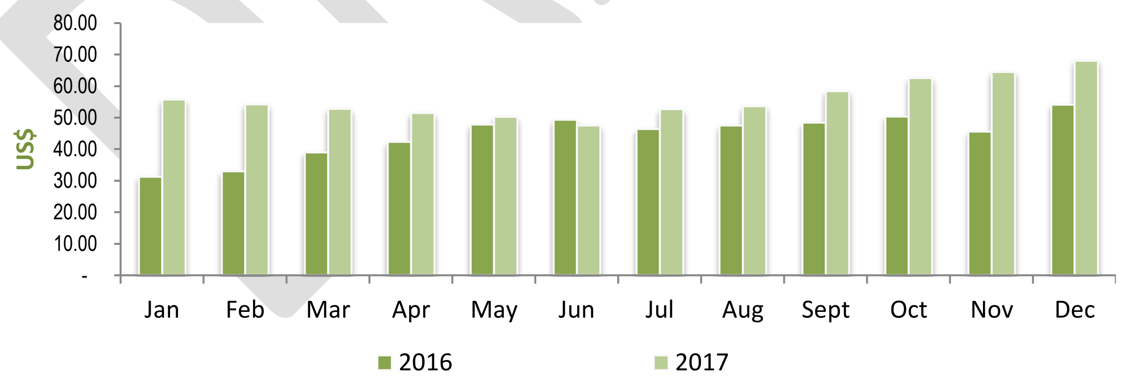
The volume of petroleum products consumed in 2017 was estimated at 15.87 billion litres. This represented a decrease of 30.7 per cent, compared with 22.89 billion litres in 2016. A breakdown by product showed that PMS had the highest consumption, with 13.3 billion litres (83.9%); AGO, 1.29 billion litres (8.2%); DPK, 0.65 billion litres (4.1%); 'Others', 0.31 billion litres (2.0%); and LPFO, 0.30 billion litres (1.9%).

iv. Prices

The average spot price of Nigeria's reference crude, the Bonny Light (37^0API), was US$54.91 per barrel in 2017, compared with the preceding year's average of US$48.82 per barrel, an increase of 12.5 per cent. The West Texas Intermediate (WTI) recorded an average price of US$50.42 per barrel in 2017, representing an increase of 16.6 per cent, relative to the level in the preceding year. Also, the UK Brent and Forcados crude prices increased to US$53.13 and US$54.76 per barrel, respectively, relative to the levels in the preceding year. The average price of the OPEC basket of 15 crude streams also rose by 28.6 per cent to US$52.43 per barrel in 2017. The increase in oil prices experienced during the year was due to commitment of OPEC members to cap production under the Declaration of Cooperation (DoC); strong economic growth in China; as well as, healthy financial markets, which helped improve market fundamentals significantly. Strong demand for crude imports in China and increased US refining activity that utilised more crude from inventories, also helped in increasing the price.

A trend analysis indicated that average crude oil prices, was US$55.65 per barrel in January 2017 and remained stable at above US$50 per barrel till May. Thereafter, it declined to US$47.48 per barrel in June. It rebounded to US$52.59 per barrel in July 2017 and held steady above US$50 per barrel till November and peaked at US$68.03 per barrel in December, 2017.

Figure 6.12: Bonny Light Monthly Prices in 2016 and 2017 (US$)



Source: REUTERS

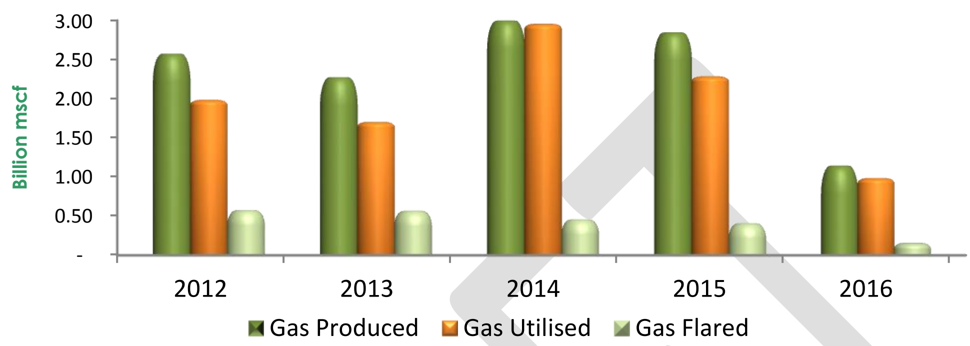
(b) Gas

i. Gas Production and Utilisation

The total estimated volume of gas produced in 2016 was 1,147.20 million standard cubic feet (mscf), representing an increase of 17.1 per cent above the level in 2015. Of the total gas produced, 86.3 per cent was utilised, while

13.7 per cent was flared. Of the volume utilised, 39.6 per cent was sold to industries, including power, cement and steel companies; and 28.3 per cent was re-injected. Gas sold to the Nigeria Liquefied Natural Gas (NLNG) Company, gas utilised as fuel, and that converted to natural gas liquid accounted for 21.8, 8.5, and 1.8 per cent, respectively.

Figure 6.13: Gas Production and Utilisation, 2013 – 2017 (Billion mscf)



Source: NNPC

6.3.3.2 Solid Minerals

(a) Policy and Institutional Support

The Federal Ministry of Mines and Steel Development signed an MoU with the Bank of Industry (BOI) for the management of a ₦5.0 billion fund in support of artisanal and small-scale miners in the country. The Ministry would contribute ₦2.5 billion to the Fund, while the BOI which serves as custodian and manager would match it with a ₦2.5 billion counterpart contribution. The Fund was set up to address the challenges of insufficient funding and access to capital militating against artisanal and small scale miners who account for 80 per cent of activities in the mining sector. The Fund would also be used to integrate informal miners into the formal sector, enhance their growth and development in a structured manner, spur productivity and job creation in the sector. Certified artisanal-scale miners would be able to access loans of between ₦0.1 million and ₦10 million, while small scale miners could access between ₦10 million and ₦100 million from the Fund at single digit interest rate.

In the review period, the Federal Government approved ₦30 billion from the Natural Resources Development Fund (NRDF) to support the solid mineral sector to ensure that it plays a key role in the economic diversification agenda. The Fund would provide cheap loans and grants to industry participants and promote direct investment in the sector.

The World Bank in the year, approved a US$150 million credit facility to support the Nigerian government's priority of diversifying the economy to a broader range of non-oil productive sectors. The Facility was expected to help in establishing a strong foundation for developing the mining sector and; enhance competitiveness by improving information infrastructure and knowledge of mining. It would also help to strengthen key government institutions, foster domestic investments in the sector, as well as develop measures for formalising, regulating and inventorying artisanal and small-scale mining, among others.

The Federal Government retrieved the Ajaokuta Steel Company Limited (ASCL) from the concessionaire after a legal tussle in the year under review. After the retrieval, the first phase of the thermal power plant was completed in a bid to rehabilitate the Steel Company. Following the rehabilitation of the power plant, 22MW was added to the national grid, creating 119,532 direct jobs.

The Raw Materials Research and Development Council (RMRDC) signed an MoU with Mintek South Africa in the year to collaborate in technical research in the field of mineral processing and beneficiation. The MoU commits the two institutions to collaborate in research through knowledge-sharing in mineral processing in furtherance of their respective activities and capacity building in the mineral sector. The collaboration was expected to aid mineral processing, support the adoption of latest technologies, strengthen research and innovation, while also helping in the diversification of the Nigerian economy.

(b) Solid Minerals Production

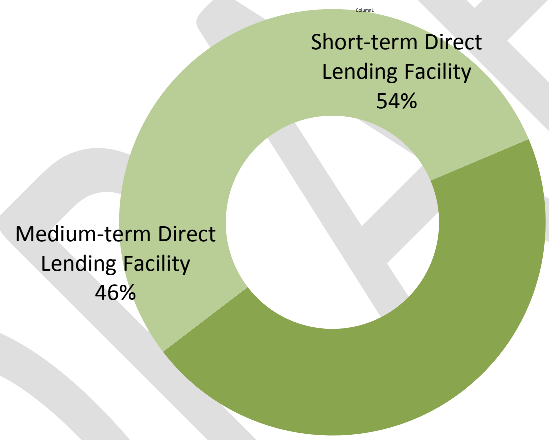
Aggregate production of solid minerals decreased in 2017 relative to the level in the preceding year. Provisional data showed that aggregate output fell from 43.94 million tonnes in 2016 to 38.53 million tonnes in 2017, a decrease of 12.3 per cent. The development was attributed to the fall in production of some principal minerals, especially columbite ore, limestone, iron ore, shale and marble aggregates.

6.3.4 Industrial Financing

6.3.4.1 The Nigeria Export-Import Bank (NEXIM)

The total funding support provided to the non-oil export sector, under various facilities of NEXIM in 2017, was ₦102.3 million for 5 projects, compared with ₦2.5 billion disbursed in 2016 for 32 projects. The low disbursement was attributed to dearth of loanable funds. A breakdown of the disbursement by facility showed that 54.0 and 46.0 per cent were disbursed under short-term and medium-term lending facilities, respectively.

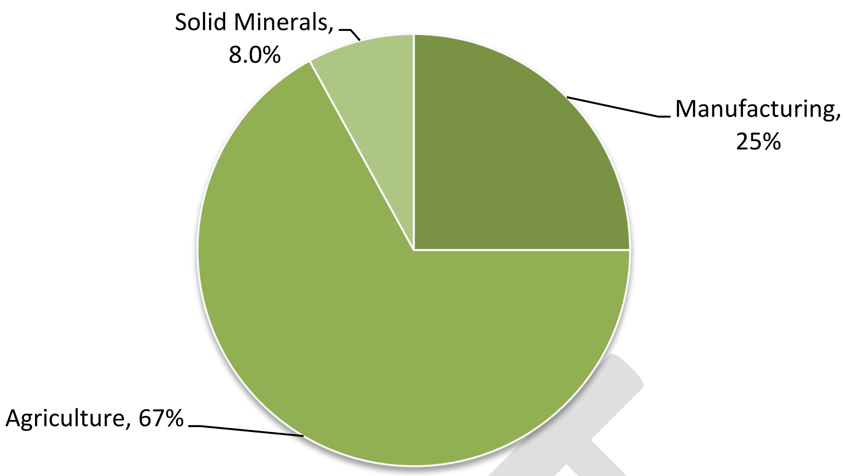
Figure 6.14: Summary of NEXIM Disbursements by Facility, 2017 (per cent)



Source: NEXIM

A sectoral analysis of disbursements showed that the agricultural sector received ₦68.9 million, representing 67 per cent of total. This was followed by the manufacturing sector, with ₦25.6 million or 25 per cent; and solid minerals, ₦7.8 million, or 8 per cent of the total.

Figure 6.15: Summary of NEXIM Disbursements by Sector, 2017 (per cent)



Source: NEXIM

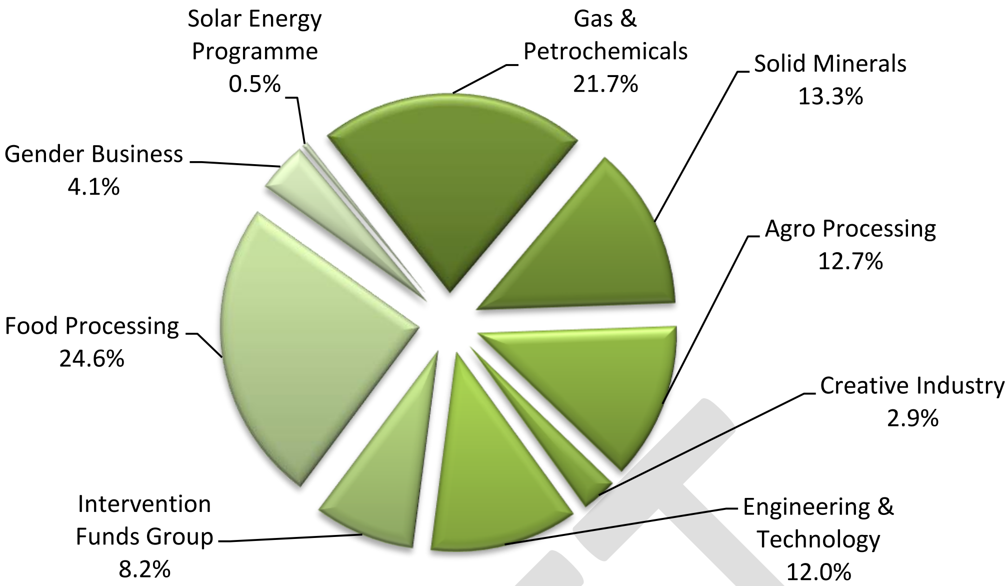
6.3.4.2 The Bank of Industry

The total credit disbursed to the industrial sector under the Bank's various facilities in 2017 rose by 87 per cent, to ₦123.57 billion, compared with ₦83.9 billion in 2016.

Of the total, large enterprises received ₦83.0 billion, representing 67.1 per cent, while small and medium enterprises, as well as micro enterprises got ₦29.5 billion and ₦11.9 billion representing 23.8 and 8.9 per cent, respectively.

A sectoral analysis of the disbursements to large enterprises showed that food-processing sector received ₦20.4 billion, representing 24.6 per cent of the total. This was followed by: the gas and petrochemicals sub-sector, ₦18.0 billion, or 21.7 per cent; solid minerals ₦11.0 billion, or 13.3 per cent; agro-processing, ₦10.6 billion, or 12.7 per cent; engineering and technology ₦10.4 billion, or 12.0 per cent; and interventions funds group ₦6.8 billion, or 8.2 per cent of the total. The gender business group accounted for 4.1 per cent of the total amounting to ₦3.4 billion.

Figure 6.16: Summary of BOI Disbursements by Sector, 2017 (per cent)



Source: BOI

6.4 TRANSPORT AND COMMUNICATIONS

6.4.1 Aviation Services

6.4.1.1 Policy and Airport Developments

To improve the safety of airline operations in the country, the Federal Government reconstructed the Nnamdi Azikiwe International Airport runway in 2017. The Airport was shut down for six weeks to allow for the reconstruction with the Kaduna International Airport, which was earlier rehabilitated, used as an alternate airport for the period.

The Murtala Mohammed and Nnamdi Azikiwe International Airports were awarded the Africa and Indian Flight Region (AFI) Plan Aerodrome Certificate by the International Civil Aviation Organisation (ICAO) in conjunction with the Nigerian Civil Aviation Authority (NCAA), during the year. The certification process was on establishing and maintaining a sustainable oversight system (infrastructure/capacity building).

To enhance the intermodal transportation of goods and passengers and provide consolidation centres for the export of agricultural commodities and solid mineral products, the Federal Government approved the establishment and concessioning of six (6) inland container depots (ICDs) in the country. These would be cited in Erunmu, Oyo State; Isiala-Ngwa, Abia State; Funtua, Katsina State; Zawachki, Kano State; Heipang, Plateau State; and Jauri, Borno State.

6.4.1.2 Domestic Operations

The harmonized data from Federal Airport Authority of Nigeria (FAAN) revealed that a total of 10,383,452 passengers were airlifted by domestic airlines in 2017. This represented a 5.4 per cent decline from the 10,971,608 passengers airlifted in 2016. Total aircraft movement for 2017 was 210,693, a 0.1 per cent increase from the 210,560 recorded in 2016.

6.4.1.3 International Operations

The number of passengers airlifted by airlines on international routes in 2017 decreased by 4.8 per cent to 4,056,717 compared with 4,260,989 recorded in 2016. Aircraft movement reduced by 7.2 per cent to 40,283 in the review period, compared with 43,406 recorded in 2016.

Cargo movement at designated airports decreased by 29.5 per cent to 137.68 million kg, compared with the 195.23 million kg recorded in 2016. Mail movement, also decreased by 47.0 per cent to 3.90 million kg in 2017, compared with 7.37 million kg recorded in 2016.

6.4.2 Railway Services

To improve the operational capacity of the rail transport system, the Federal Government approved an interim agreement for the concession of the Lagos–Kano and Port-Harcourt–Maiduguri old narrow gauge rail lines to a consortium led by General Electric during the period. With the concession, about US$2.2 billion would be invested in new locomotives and 17 wagons. The construction of the Lagos-Ibadan standard gauge rail project also commenced in the year.

In a related development, the Nigeria Railway Corporation (NRC) awarded contracts for the design, manufacture and supply of ten (10) standard gauge coaches for the Abuja-Kaduna rail service. The Corporation also received 2 standard guage locomotives from China during the year. Also, the transportation of goods across the country by rail received a boost with the commencement of haulage of fertilizers from Apapa port to Kaduna.

In a bid to improve security of the rail transport infrastructure, the NRC installed luggage and parcel scanners at Rigasa terminal in Kaduna and Idu rail station in Abuja.

A total of 2,593,744 passengers and 141,186 tonnes of freight were moved by rail in 2017 compared with 1,364,885 passengers and 53,055 tonnes of freight moved during the corresponding period of 2016.

6.4.3 Maritime Services

As part of the comprehensive port reform initiative embarked on by the Nigeria Ports Authority (NPA), the command and control, communication and Intelligence centres were commissioned. The Facilities would serve as surveillance point for all activities, and also, as an information network centre for security agencies at the ports. The Authority also launched the final billing and customer portal module of the Revenue Invoice Management System, aimed at improving services, partner relationship, creating an efficient payment method, maximising revenue, and eradicate losses associated with fraud and revenue leakages.

The NPA acquired and commissioned four new tug boats, namely MT Daura, MT Ubima, MT Uromi, and MT Majiya, to improve operational efficiency. The Agency also commenced the process of the review of her concession agreements to ensure seamless collaboration for a sustained development of the maritime industry.

To support the diversification of the economy and improve revenue earnings, the Authority developed a standard operating procedure (SOP), which among others, established dedicated terminals to handle export. The dedicated terminals included the Ikorodu Lighter Terminal for Lagos; the Shoreline Logistics Terminal for Calabar Port; the Bua Terminal and the Port and Terminal Operators Limited, both for Rivers Port. All the terminals were mandated to establish dedicated desks to handle documentations on export, receipt of consignment and the loading of vessels.

To improve the quality of port infrastructure, especially port access roads, the NPA conducted a full assessment of all port access roads across the country. It signed MoUs with the Federal Ministry of Power, Works and Housing, Dangote Group, and Flour Mills Plc for the reconstruction of the Wharf Road in Apapa.

To address the challenges of bureaucracy and chaos in clearing cargoes, the NPA in collaboration with the Nigeria Customs Service, and Nigeria Sovereign Investment Authority, developed an operational framework for establishing the National Single Window, Ports Community System and Scanning services. This was aimed at simplifying and harmonising procedures for exchange of information and documents among the various stakeholders in the port operations value-chain. Furthermore, the NPA commenced the provision of maritime services (pilotage and berthing of vessels) on a 24-hour basis in compliance with the Executive Order on Promotion of Transparency and Efficiency in the business environment.

The Nigerian Maritime Administration and Safety Agency (NIMASA) recorded a milestone in the year, with about 80 per cent (114 Port facilities out of the total 145) of Nigeria's Ports becoming International Ships and Port Facility Security (ISPS) compliant. Also, the Agency engaged some institutions overseas to build capacity of 1,045 staff on sea time training.

In addition, NIMASA procured 12 intervention vessels and 3 helicopters to fight piracy and other illegal activities on the country's territorial waters. Subsequently, the Agency commenced the operation of 24-hour surveillance system, which captures all vessels in the Nigerian maritime domain, irrespective of weather condition, in a bid to improve the safety of vessels within the nation's maritime domain. The Federal Government also signed a three-year agreement with an Israeli firm to train Nigerian security personnel to combat piracy. Furthermore, the Agency and the Nigerian Navy during the period, renewed an existing MoU for the protection and security of the nation's maritime domain.

A total of 4,175 ocean going vessels with a gross registered tonnage (GRT) of 131,569,821 berthed at Nigerian ports in 2017, compared with 4,370 vessels with a total GRT of 133,473,544 in the corresponding period of 2016. This represented a decrease of 4.46 per cent during the period under review.

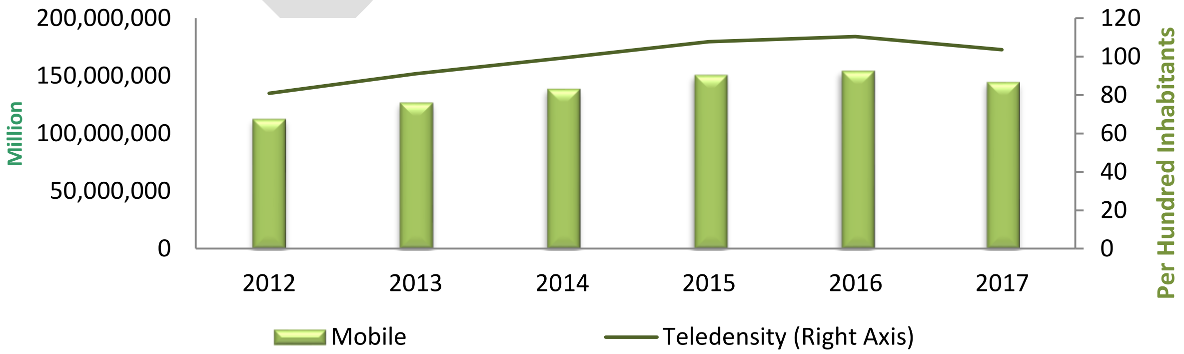
Cargo throughput stood at 71,903,266 tonnes in 2017, compared with 70,819,092 tonnes recorded in the corresponding period of 2016, representing an increase of 1.53 per cent during the period under review[22].

6.4.4 Communications

The Digital Transmission Project of the Federal Government, was launched in Jos, Plateau State in 2016 to enable Nigeria transit from analogue to digital broadcasting, was extended to Kwara and Kaduna States in December 2017. The switchover to Digital Terrestrial Television (DTT) became necessary for Nigeria as a signatory to the International Broadcast Union Agreement tagged, "Geneva 2006", which requires all countries to do so to avoid signal interference from other countries. The switchover enables television viewers access to more free-to-air channels with a bouquet of programmes that include local, national and international content.

The combined active subscriber base of the telecommunications sub-sector at end-December 2017 was 145.05 million comprising of mobile lines with 144.84 million, fixed wired/wireless with 139,344 actives and Voice over Internet Protocol with 70,926 active lines. The number of active lines decreased by 6.3 per cent, from 154.3 million in December 2016. As a result, teledensity per 100 inhabitants decreased to 103.61 lines in 2017, from 110.38 lines in 2016.

Figure 6.17: Trends of Mobile Lines and Teledensity, 2013 – 2017

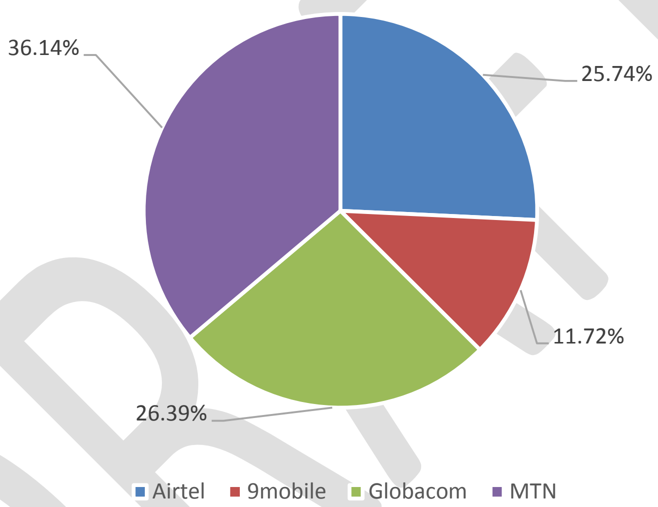


Source: NCC

[22] Data obtained from the Nigeria Ports Authority

Data obtained from the Nigerian Communications Commission (NCC) indicated that the wireless Global System for Mobile (GSM) communication segment accounted for 144.6 million lines in the telecoms sector, representing 99.7 per cent of the total 145.1 million connected lines at end-December 2017. This was a decline of 6.6 per cent below the total of 154.5 million connected lines at end-December 2016. Mobile Telecommunications Network (MTN) had the largest share of the market with 52.27 million subscribers, followed by Globacom with 38.17 million subscribers, Airtel with 37.23 million subscribers) and 9mobile 16.95 million subscribers.

Figure 6.18: Market Share by Operator (GSM) (December 2017)



Source: NCC

During the year, Mubadala (Abu Dhabi State Investment Fund), the majority investor in Etisalat, Nigeria's fourth biggest mobile operator pulled out of Etisalat Nigeria following the inability of the telecoms firm to renegotiate the US$1.2 billion loan obtained in 2013 from 13 Nigerian banks. Consequently, Mubadala transferred its 45 per cent shareholding to a loan trustee. As a result, the Board of Directors and Management was reconstituted for Etisalat Nigeria, to include representatives of the CBN and the consortium of the lending banks. Etisalat Nigeria eventually changed its trading name to "9Mobile".

6.5 CONSUMER PRICES

The year-on-year headline inflation remained above the benchmark single-digit rate in 2017, although it maintained a declining trend throughout the year. Data obtained from the NBS indicated that the all-items composite Consumer Price Index (CPI) stood at 246.4 (November 2009=100) at end-December 2017, compared with 213.6 at end-December 2016. At end-December 2017, the year-on-year headline inflation stood at 15.37 per cent, indicating a decline of 3.18 percentage points below the level at end-December 2016.

Further analysis indicated that inflation decelerated consistently from 18.72 per cent at end-January to 17.26 at end-March, 16.10 at end-June, 16.01 at end-September and 15.37 per cent at end-December 2017. The gradual decline in inflationary pressures was attributed to the effect of sustained interventions by the CBN in the foreign exchange market which moderated the exchange rate of the naira and thereby, mitigated the exchange rate to domestic pass-through effect on prices, among others.

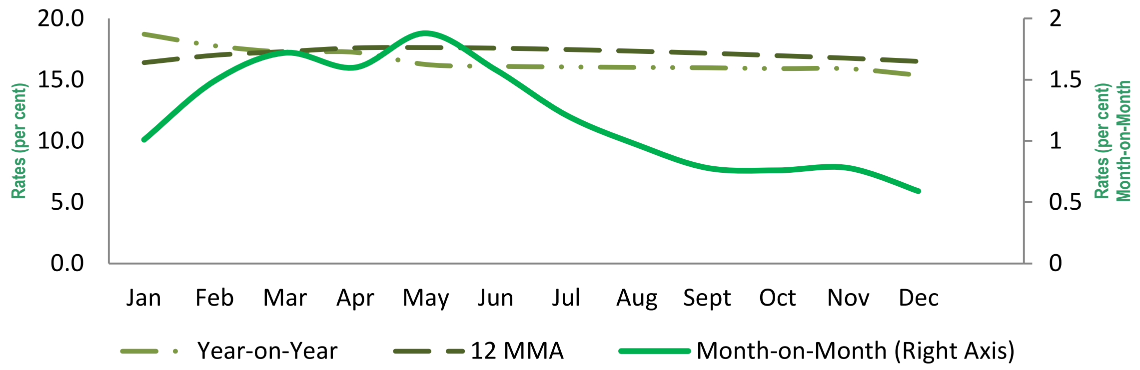
The 12-month moving average headline inflation was 16.5 per cent at end-December 2017, compared with 15.7 per cent at end-December 2016.

Core inflation (all-items, less farm produce), decreased steadily from 17.82 per cent at end-January to 15.40 per cent at end-March, 12.46 per cent at end-June, 12.10 per cent at end-September and closed at 12.0 per cent, at end-December 2017. The major contributors to core inflation were: housing; water; electricity; gas and other fuels; clothing and footwear; household equipment and maintenance; education; and transport costs.

In 2017, the year-on-year headline inflation remained above the benchmark single digit rate from 18.72 per cent at end-January to 15.37 per cent at end-December.

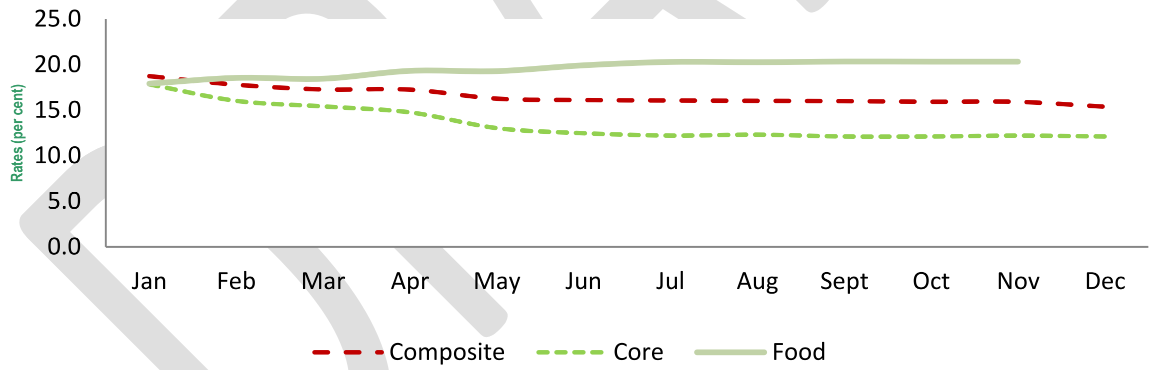
Food inflation maintained an upward trend for most of the year, from 17.82 per cent at end-January to 18.44 per cent at end-March, and further to 19.91 per cent at end-June. It trended up to 20.32 per cent at end-September before declining to 19.42 per cent at end-December 2017. The development was attributed largely to the rise in transportation cost, as well as, shortages in the supply of food items resulting from the incessant herdsmen/ farmers' crisis. The largest contributors to food inflation in the year under review were farm produce (vegetables, yam, potatoes, and other tubers, rice, sorghum, and maize), and processed food (fish & sea food, meat, oil & fats, garri, and yam flour).

Figure 6.19: Trends in Inflation, 2017
(Year-on-year, 12-Month Moving Average and Month-on-Month)



Source: NBS

Figure 6.20: Trends in Inflation, 2017
(Composite, Core and Food)



Source: NBS

Further analysis indicated that the urban headline inflation (year-on-year) decreased significantly to 15.78 per cent at end-December 2017, from 20.12 per cent at end-December 2016. Urban core also decreased to 13.09 per cent from 19.6 per cent at end-December 2016, while urban food inflation increased to 20.41 per cent at end-December 2017, from 17.6 per cent at end-December 2016, respectively.

Rural inflation (year-on-year) decreased to 15.02 per cent at end-December 2017, from 17.2 per cent at end-December 2016. Rural core decreased to

11.3 per cent at end-December, 2017 compared with 16.8 per cent in December 2016. Rural food inflation increased to 18.6 per cent at end-December 2017, compared with 17.1 per cent at end-December 2016, respectively.

Table 6.4: Headline Inflation (Year -on-Year) (Per cent)

	2013	2014	2015	2016	2017
January	9.0	8.0	8.2	9.6	**18.7**
February	9.5	7.7	8.4	11.4	**17.8**
March	8.6	7.8	8.5	12.8	**17.3**
April	9.1	7.9	8.7	13.7	**17.2**
May	9.0	8.0	9.0	15.6	**16.3**
June	8.4	8.2	9.2	16.5	**16.1**
July	8.7	8.3	9.2	17.1	**16.1**
August	8.2	8.5	9.3	17.6	**16.0**
September	8.0	8.3	9.4	17.9	**16.0**
October	7.8	8.1	9.3	18.3	**15.9**
November	7.9	7.9	9.4	18.5	**15.9**
December	8.0	8.0	9.6	18.5	**15.4**

Source: NBS

6.6 THE SOCIAL SECTOR

6.6.1 Employment and Job Creation

The 2017 Labour Force Survey conducted by the National Bureau of Statistics showed that the economically active or working age population (15 – 64 years of age) increased from 108.5 million in Q4 2016 to 111.1 million in Q3 2017, representing an increase of 2.4 per cent. The labour force population, also increased from 81.2 million in Q4 2016 to 85.1 million in Q3 2017, representing a 4.8 per cent increase. During the review period, 77.6 million persons out of the labour force of 85.1 million were engaged in some form of economic activities for at least an hour a week (8.5 million;1-19 hours; 18.0 million; 20-39 hours; 51.1 million; above 40 hours), while the remaining 7.5 million persons did not engage in any economic activity.

The unemployment rate increased from 14.2 per cent in Q4 2016 to 18.8 per cent in Q3 2017. Unemployment increased at a faster rate for urban dwellers than for their rural counterparts. The rural and urban dwellers within the labour force recorded an unemployment rate of 16.4 and 23.4 per cent, respectively.

Table 6.5 Labour Statistics, 2013-2017					
	2013	2014	2015	2016	2017
Total Population(Million)	173.6	178.5	183.6	189.5	184.2
Labour Force (Million)	71.1	72.9	76.9	81.2	85.1*
Unemployment Rate (%)	10.0	7.8	10.4	14.2	18.8*

Source: NBS
*as at Q3, 2017

6.6.2 Education

The NBS, in collaboration with the United Nations Children Fund (UNICEF), conducted a Multiple Indicator Cluster Survey (MICS) during the review period. The survey revealed that only 39.4 per cent of children of primary school age were enrolled in schools. Analysis by geopolitical zone showed that the South-East had the highest enrolment with 60.5 per cent, followed by South-West, 56.5 per cent, South-South 52.5 per cent, North-Central 48.2 per cent, North-West 32.5 per cent, while North-East had the lowest enrolment of 27.2 per cent.

The National Universities Commission licensed six new private universities, bringing the number of private universities to 74 and the total number of universities in the country to 160. The newly approved universities were: Admiralty University, Ibusa, Delta State; Spiritan University, Nneochi, Abia State; Precious Cornerstone University, Oyo State; PAMO University of Medical Sciences, Rivers State; Atiba University, Oyo State; and Eko University of Medical Sciences, Ijanikin, Lagos State.

6.6.3 Health

During the year, the Federal Government approved the third National Health Policy, aimed at promoting health care delivery to accelerate socio-economic development of the country. The Policy emphasises primary healthcare as the bedrock of the national health system in addition to the provision of financial risk protection to all Nigerians, particularly the poor and vulnerable group.

To improve the quality of health care delivery in the country, the Federal Government flagged off the National Primary Healthcare Revitalisation Initiative - to rejuvenate over 10,000 healthcare centres across the country. Under the Scheme, the government through the National Primary Health Care Development Agency (NPHCDA) and the Federal Ministry of Health, would make at least one primary health care centre fully functional to deliver a number of services in each of the wards across the country. Furthermore, the Government established six sickle cell reference centres in six Federal Medical Centres (FMCs) across the country located in Ebute Metta, Lagos State; Keffi, Nasarawa State, Gombe, Gombe State, Yenagoa, Bayelsa State; Birnin-Kebbi, Kebbi State and Abakaliki, Ebonyi State.

The Federal Government implemented new guidelines for HIV prevention, treatment and care to consolidate previous effort aimed at tackling the menace. The guidelines would ensure that those affected by HIV receive free health service at all levels in both public and private health institutions. The guidelines provide for antiretroviral drugs as prevention to all persons who are at high risk of contracting HIV infection.

The health sector experienced a meningitis epidemic in some parts of the country. The Nigerian Centre for Disease Control (NCDC) reported a total of 14,473 suspected cases and 1,155 deaths from 25 states. The Federal Ministry of Health, the NCDC, the NPHCDA, World Health Organisation (WHO), and other international development partners worked vigorously to control and reduce the impact of the outbreak on affected communities. The disease was contained in June 2017 with an official declaration by the Federal Government to that effect.

6.7 Housing and Urban Development

The Federal Government in 2017, launched the Nigeria Housing Fund Programme (NHFP), as part of the Social Investment Programme aimed at making housing financing easy and affordable. The Scheme, which has the World Bank and AfDB as contributors, would be coordinated by the Central

Bank of Nigeria. With a take-off fund of ₦100 billion, it would afford real estate developers who develop social housing the opportunity to borrow 80 per cent of the cost of the project.

6.8 Activities of National Emergency Management Agency (NEMA)

The National Emergency Management Agency (NEMA) distributed 40,000 metric tonnes of grains to 373,479 Internally Displaced Persons (IDPs) from 63,966 households in Yobe, Borno and Adamawa states.

6.9 Environment

Efforts were made by the Government towards diversifying Nigeria's energy mix through renewable energy sources to curtail the effects of greenhouse emission and accelerate plans to usher in sustainable economic growth and development in 2017. The programme is expected to finance renewable energy projects across the country through issuance of Green Bonds. The Fund would specifically be used mainly to finance three (3) renewable energy projects – Renewable Energy Micro-Utilities, Re-energising Education and Afforestation Programmes.

In 2017, the Government exhibited its commitment to the implementation of the 2015 Paris Agreement on Climate Change by signing the Instrument of Ratification. The Agreement became binding on Nigeria as the 146th member to the Paris Agreement with effect from June 15, 2017 after submission of the Ratification Instrument to the United Nations. Under the Agreement, Nigeria is committed to reducing carbon emissions by 20 per cent unconditionally, and 45 per cent with international support by 2030. The implementation of this agreement is expected to boost the nation's economy and protect the environment.

In line with the government commitment to reduce emission and protect human health, the Federal government specified the level of sulphur that would henceforth be acceptable in petroleum fuels used in the country. The Federal Ministry of Environment, in collaboration with Ministry of Trade and Investment, Standards Organization of Nigeria (SON) and other stakeholders, reviewed the standard of sulphur content in diesel and petro-products. From

July 1, 2017 the acceptable sulphur content/level in petroleum fuels used in the country would be maximum of 50 parts per million (ppm) (Reference NIS 948:2017) for diesel; maximum of 150 ppm (Reference NIS 116:2017) for petrol (PMS) and maximum of 150 ppm (Reference NIS 949:2017) for Household Kerosine (HHK). In addition, Nigeria extended its clear intention on low sulphur policy to other West African countries by facilitating an ECOWAS agreement on sulphur content in diesel and petro-products. Sulphur in petroleum fuels results in vehicle exhaust emissions that have negative health and environmental impacts.

The clean-up activities of Ogoni land continued in 2017 with activities of Hydrocarbon Pollution Remediation Project (HYPREP) to access existing water facilities in line with the recommendations of the United Nations Environment Programme's (UNEP). During the year, HYPREP carried out Initial community sensitization activities and demonstrations of remediation technologies across the land. In addition, a Memorandum of Understanding (MoU) was signed by the government with the United Nations Institute for Training and Research (UNITAR) for the restoration of livelihoods in the communities through the implementation of Health Outreach Programme as the first step towards the Health Impact Assessment Study in line with recommendations in the UNEP Report. Even though the project was expected to gulp $200 million in 2017, it was not included in the 2017 budget due to the policy of Polluter Pay.

During the period, the Federal Executive Council (FEC) approved the sum of ₦5.567billion for the 3rd Quarter Soil Erosion Control Accelerated Intervention in six (6) states – Kano, Bayelsa, Sokoto, Ondo, Osun and Enugu States to combat erosion related issues. Similarly, the Federal Government, in collaboration with the World Bank and Sokoto State Government, launched Nigeria Erosion & Water Management Project (NEWMAP) in Sokoto state. The NEWMAP project earmarked about N6.5billion for the restoration of the Watershed in the Lugu Dam area of the state.

CHAPTER SEVEN

EXTERNAL SECTOR DEVELOPMENTS

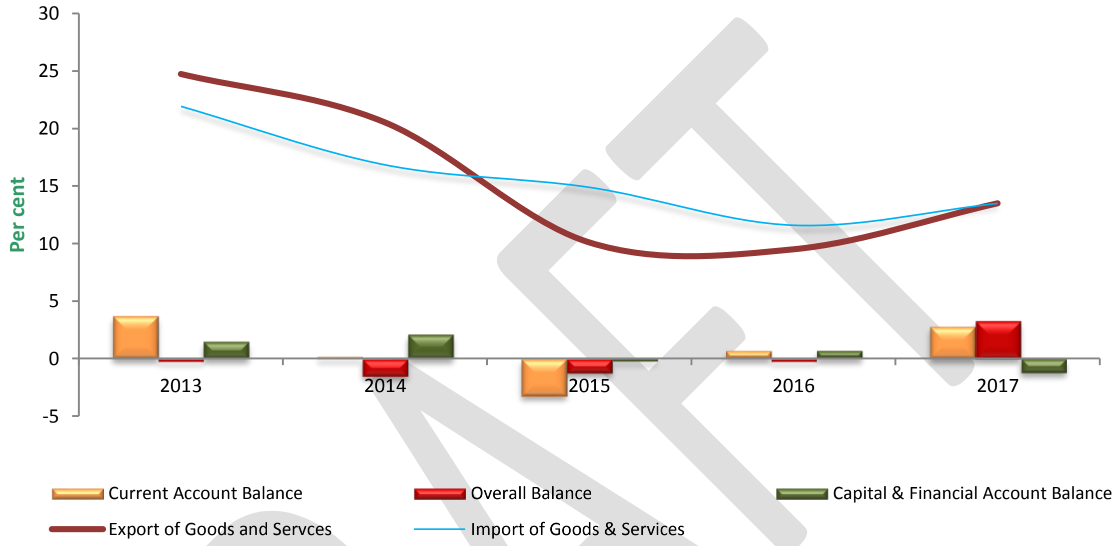
In 2017, the external sector recorded an improved performance with an overall balance of payments surplus of ₦3,737.37 billion or 3.3 per cent of GDP, as against a deficit of 0.2 per cent of GDP in 2016. The improved performance was driven mainly, as a result of the recovery in crude oil price at the international market, domestic production, and the sustained reforms in the foreign exchange market, which resulted in the accumulation of external reserves. The current account recorded a higher surplus of 2.8 per cent of GDP, relative to 0.7 per cent of GDP in 2016. The capital and financial account recorded a net financial asset of 1.2 per cent of GDP, as against a net financial liability 0.7 per cent of GDP in 2016. The stock of external reserves at end-December 2017 was US$39.35 billion and could finance 14.5 months of current import commitments. This was higher than both the three (3) months international benchmark and that of the West African Monetary Zone (WAMZ) convergence criterion. External debt increased by 65.8 per cent, to US$18.91billion or 5.0 per cent of GDP, but remained within the international threshold of 40.0 per cent of GDP. The sustained interventions and policy reforms of the CBN at the foreign exchange market, particularly the introduction of weekly sales of foreign exchange for invisible transactions, special window for small and medium enterprises (SMEs), and the establishment of the Investors' and Exporters' (I&E) window, stabilised the exchange rate during the review period. Consequently, the average official exchange rate of the naira to the US dollar was stable at ₦305.79/US$ in the review period. The international investment position (IIP) recorded a higher net liability of US$57.80 billion, indicating an increase of 9.7 per cent above the US$52.7 billion in the preceding period.

7.1 BALANCE OF PAYMENTS

7.1.1 Major Developments

The performance of the external sector resulted in a positive outcome as the estimated overall balance of payments recorded a surplus of ₦3,737.37 billion or 3.3 per cent of GDP, as against a deficit of ₦247.84 billion or 0.2 per cent of GDP in 2016. The improvement reflected the positive global and domestic economic conditions in 2017. The current account recorded a higher surplus of 2.8 per cent of GDP, relative to 0.7 per cent of GDP in 2016, driven, largely, by surpluses recorded in the goods and current transfers' accounts. The capital and financial account recorded a net financial asset of 1.2 per cent of GDP, as against a net financial liability of 0.7 per cent of GDP in 2016, attributed, largely to higher trade credits, foreign currency holdings by banks and increased external reserves. The stock of external reserves at end-December 2017 was US$39.35 billion and could finance 14.5 months of import of goods only, or 9.3 months of import of goods and services. The stock of external debt at end-December 2017 was US$18.91 billion or 5.0 per cent of GDP, which remained within the international threshold of 40.0 per cent of GDP.

Figure 7.1: Balance of Payments, 2013-2017 (Per cent of GDP)



Source: CBN

Table 7.1: Summary of Balance of Payments (BOP) Statement 1/

	₦' billion					US$' billion				
	2013	2014	2015	2016 /1	2017 /2	2013	2014	2015	2016 /1	2017 /2
CURRENT ACCOUNT	2,996.63	142.57	-3,033.48	687.91	3,174.43	19.21	0.91	-15.44	2.72	10.40
Goods	6,634.11	3,302.99	-1,266.75	-135.46	4,013.95	42.52	21.00	-6.45	-0.54	13.15
Exports (fob)	15,262.82	12,989.82	9,016.32	8,769.32	13,987.45	97.82	82.60	45.89	34.70	45.82
Imports (fob)	-8,628.71	-9,686.83	-10,283.07	-8,904.77	-9,973.50	-55.30	-61.59	-52.33	-35.24	-32.67
Services(net)	-3,052.90	-3,595.57	-3,232.72	-2,025.22	-4,040.24	-19.57	-22.86	-16.45	-8.01	-13.23
Credit	376.94	313.18	620.90	945.98	1,535.74	2.42	1.99	3.16	3.74	5.03
Debit	-3,429.84	-3,908.75	-3,853.63	-2,971.20	-5,575.99	-21.98	-24.85	-19.61	-11.76	-18.26
Income(net)	-4,014.68	-3,013.61	-2,496.90	-2,177.20	-3,514.22	-25.73	-19.16	-12.71	-8.62	-11.51
Credit	138.57	256.83	182.88	316.05	477.91	0.89	1.63	0.93	1.25	1.57
Debit	-4,153.25	-3,270.44	-2,679.79	-2,493.25	-3,992.13	-26.62	-20.80	-13.64	-9.87	-13.08
Current transfers(net)	3,430.10	3,448.77	3,962.89	5,025.79	6,714.94	21.98	21.93	20.17	19.89	22.00
Credit	3,543.80	3,585.87	4,345.76	5,291.99	6,874.19	22.71	22.80	22.12	20.94	22.52
Debit	-113.70	-137.09	-382.86	-266.21	-159.25	-0.73	-0.87	-1.95	-1.05	-0.52
CAPITAL AND FINANCIAL ACCOUNT	1,209.07	1,932.25	-201.97	732.68	-1,321.24	7.75	12.29	-1.03	2.90	-4.33
Financial account(net)	1,209.07	1,932.25	-201.97	732.68	-1,321.24	7.75	12.29	-1.03	2.90	-4.33
Assets	-2,161.74	-951.02	-1,506.06	-823.99	-6,791.72	-13.85	-6.05	-7.66	-3.26	-22.25
Direct investment (Abroad)	-193.09	-253.88	-282.00	-329.77	-392.65	-1.24	-1.61	-1.44	-1.31	-1.29
Portfolio investment	-506.58	-542.45	-329.41	-44.83	-2.21	-3.25	-3.45	-1.68	-0.18	-0.01
Other investment	-1,616.25	-1,484.01	-2,044.78	-697.23	-2,659.49	-10.36	-9.44	-10.41	-2.76	-8.71
Change in Reserve	154.18	1,329.32	1,150.13	247.84	-3,737.37	0.99	8.45	5.85	0.98	-12.24
Liabilities	3,370.81	2,883.27	1,304.09	1,556.67	5,470.47	21.60	18.33	6.64	6.16	17.92
Direct Invesment in reporting economy	875.10	738.20	602.07	1,124.15	1,069.42	5.61	4.69	3.06	4.45	3.50
Portfolio Investment	2,130.18	832.39	498.13	477.00	2,604.33	13.65	5.29	2.54	1.89	8.53
Other investment liabilities	365.52	1,312.68	203.89	-44.47	1,796.73	2.34	8.35	1.04	-0.18	5.89
NET ERRORS AND OMISSIONS	-4,205.70	-2,074.82	3,235.46	-1,420.59	-1,853.19	-26.95	-13.19	16.47	-5.62	-6.07
Memorandum Items:	2,013	2,014	2,015	2016 /1	2017 /2	2,013	2,014	2,015	2016 /1	2017 /2
Current Account Balance as % of GDP	3.70	0.16	-3.19	0.67	2.76	3.70	0.16	-3.19	0.67	2.76
Capital and Financial Account Balance as % of GDP	1.49	2.14	-0.21	0.71	-1.15	1.49	2.14	-0.21	0.71	-1.15
Overall Balance as % of GDP	-0.19	-1.47	-1.21	-0.24	3.25	-0.19	-1.47	-1.21	-0.24	3.25
External Reserves - Stock (US $ million)	42,847.31	34,241.54	28,284.82	26,990.58	39,353.49	42,847.31	34,241.54	28,284.82	26,990.58	39,353.49
Number of Months of Imports Equivalent	9.30	6.67	6.49	9.19	14.46	9.30	6.67	6.49	9.19	14.46
External Debt Stock (US$ million)	8,821.90	9,711.44	10,718.44	11,406.28	18,913.44	8,821.90	9,711.44	10,718.44	11,406.28	18,913.44
Effective Central Exchange Rate (N/$)	156.03	157.27	196.49	252.69	305.29	156.03	157.27	196.49	252.69	305.29
Average Exchange Rate (N/$)	157.31	158.55	196.49	253.19	305.79	157.31	158.55	196.49	253.19	305.79
End-Period Exchange Rate (N/$)	155.98	169.68	196.50	304.50	305.50	155.98	169.68	196.50	304.50	305.50

1/ The conversion for BOP Purposes was based on the mid-point or the effective central exchange rate.

2/ Revised

3/ Provisional

7

EXTERNAL SECTOR DEVELOPMENTS

7.2 THE CURRENT ACCOUNT

Provisional data in the review period showed that the current account improved, significantly, to a surplus of ₦3,174.43 billion, equivalent to 2.8 per cent of GDP, compared with ₦687.91 billion or 0.7 per cent of GDP in 2016. This was as a result of the trade surplus recorded in the goods account driven, largely by the improvement in both oil and non-oil export, and sustained inflow of workers' remittances.

In 2017, the current account improved significantly as it recorded a surplus of ₦3,174.43 billion equivalent to 2.8 per cent of GDP, compared with ₦687.91 billion or 0.7 per cent of GDP in 2016.

The goods account swung from a deficit of ₦135.46 billion or 0.1 per cent of GDP in 2016, to a surplus of ₦4,013.95 billion, equivalent to 3.5 per cent of GDP, in the review period.

The deficit in the services account widened, significantly, to ₦4,040.24 billion (3.5% of GDP) in 2017, from ₦2,025.22 billion (2.0% of GDP) in 2016. This was as a result of increased payment in respect of personal travels (mainly education and health related). Similarly, the deficit in the income account widened to ₦3,514.22 billion (3.1% of GDP) in 2017, from ₦2,177.20 billion (2.1% of GDP) in 2016, due, largely, to higher repatriation of dividends and other interest payments to non-resident investors. The sustained inflow of remittances from Nigerians in the diaspora resulted in a higher surplus in the current transfers account at ₦6,714.94 billion, representing 5.8 per cent of GDP, compared with ₦5,025.79 billion or 4.9 per cent of GDP in 2016.

7.2.1 The Goods Account

The goods account swung from a deficit of ₦135.46 billion (0.1% of GDP) in 2016 to a surplus of ₦4,013.95 billion or 3.5 per cent of GDP, due to the rise in the receipts from crude oil, gas and non-oil export. Aggregate export, which represented 12.2 per cent of GDP, rose by 59.5 per cent to ₦13,987.45 billion in 2017, above the ₦8,769.32 billion in 2016, attributed, largely, to the increase in international price of crude oil and domestic production. A breakdown showed that crude oil and gas export dominated total export, accounting for 92.3 per cent of the total, while non-oil export represented the balance.

Similarly, aggregate import rose by 12.0 per cent to ₦9,973.50 billion in 2017, compared with ₦8,904.77 billion in 2016. The increase was occasioned by improved access to foreign exchange for the importation of raw materials for domestic production. A further analysis of aggregate import showed that non-oil import, at 6.5 per cent of GDP, remained dominant and accounted for 75.0 per cent of the total, while oil import, representing 2.2 per cent of GDP, accounted for the balance.

Figure 7.2: Value of Import, Export and Trade Balance, 2013 – 2017 (₦' million)

Source: CBN

7.2.1.1 Import (CIF)

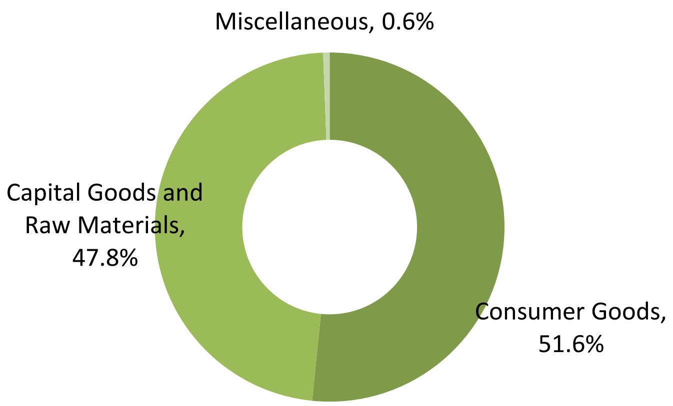
Aggregate import, unadjusted for balance of payments, increased by 14.0 per cent to ₦10,804.85 billion, over the ₦9,480.37 billion in 2016. Further analysis showed that non-oil import increased by 15.4 per cent to ₦8,189.39 billion, in the review period, compared with ₦7,095.95 billion in 2016. In the same vein, oil sector import increased by 9.7 per cent to ₦2,615.45 billion in 2017, above the ₦2,384.41billion in 2016, reflecting the persisting low operating capacity of domestic refineries.

Analysis of aggregate import, based on returns from the banks on foreign exchange utilisation, showed that the industrial sector accounted for 46.0 per cent of total import, followed by the oil sector with 24.1 per cent. Manufactured products, food products, transport, agriculture and minerals sub-sectors accounted for 14.7, 10.0, 2.7, 2.0, and 0.5 per cent, respectively, of the total.

(a) Import by Major Groups

A disaggregation of import by major groups showed the dominance of consumer goods with a value of ₦5,575.49 billion or 51.6 per cent of the total, compared with ₦4,682.16 billion or 49.4 per cent in 2016. The capital goods and raw materials category, which constituted 47.8 per cent of the total, rose to ₦5,160.67 billion in 2017, while miscellaneous import, at ₦68.69 billion, accounted for the balance. A further breakdown revealed that, under the consumer goods category, importation of durable goods, valued at ₦3,069.14 billion, accounted for 28.4 per cent of the total, while non-durable goods, at ₦2,506.35 billion, represented 23.2 per cent. In the capital goods and raw material category, capital goods dominated, with a value of ₦4,018.18 or 37.2 per cent of total, while raw material, mainly industrial chemicals, at ₦1,142.48 billion, was 10.6 per cent.

Figure 7.3: Import by Major Groups, 2017 (Per cent)



Source: CBN

(b) Import by the Harmonised System (HS) Classification

Analysis of import by the Harmonised System (HS) classification showed that machinery and mechanical appliances valued at ₦2,924.24 billion, accounted for the largest share of 27.1 per cent of the total. This was followed by products of chemicals or allied valued at ₦1,465.46 billion or 13.6 per cent. Vehicles, aircraft, vessels and associated transport equipment, ₦929.08 billion (8.6%); vegetable products, ₦923.11billion (8.5%); plastic and articles thereof, ₦874.44 billion (8.1%); prepared foodstuffs, ₦831.39 billion (7.7%); and base metals and articles of base metal, ₦771.61 billion (7.1%).

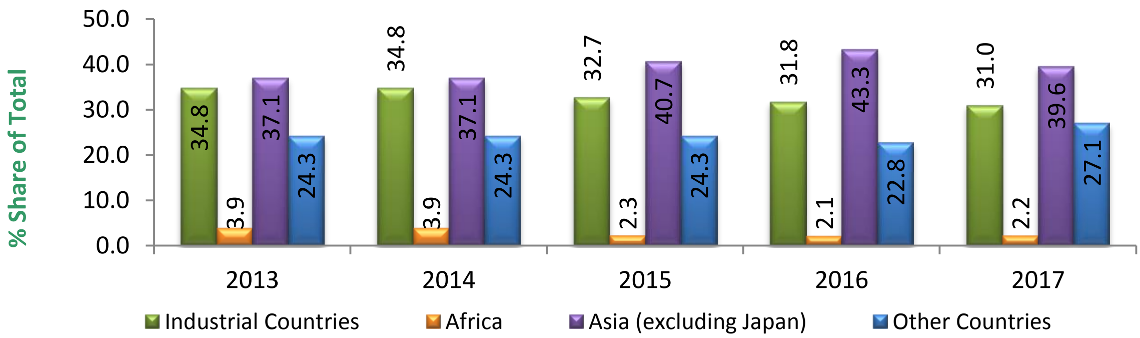
Others included live animal & animal products, ₦607.89 billion (5.6%); mineral products, ₦342.41 billion (3.2%); and pulp of wood, ₦324.70 billion (3.0%). Textile & textile article; optical and precision medical equipment, valued at ₦217.20 billion and ₦164.86 billion, respectively, constituted 2.0 and 1.5 per cent of the total. Animal fats and their cleavage products accounted for 1.3 per cent, at ₦143.96 billion, while "others" explained for the balance.

(c) Non-oil Import by Country of Origin

A disaggregation of non-oil import to Nigeria by country of origin showed that China remained dominant in 2017, accounting for 26.7 per cent of the total. This was followed by the USA and India, with 9.8 and 7.1 per cent, respectively. Non-oil import from Germany was 4.2 per cent, while the United Kingdom had a share of 4.2 per cent of the total. Import from Brazil represented 4.3 per cent; The Netherlands, 3.4 per cent; and Belgium, 2.6 per cent. Other countries accounted for the balance.

Analysis of import by group showed that the share of Asia (excluding Japan) countries decreased to 39.6 per cent, below the 43.3 per cent in the preceding period. Industrialised countries also declined to 31.0 per cent from 31.7 per cent in 2016. The share of import from other countries as a group, and African countries, also as a group, increased to 27.1 and 2.2 per cent, respectively, above the 22.8 and 2.1 per cent in 2016.

Figure 7.4: Non-oil Import by Country of Origin, 2013-2017 (Percentage share of total)



Source: CBN

7.2.1.2 Export (FOB)

During the review period, aggregate merchandise export rose, significantly to ₦13,987.45 billion, equivalent to 12.2 per cent of GDP, above ₦8,769.32 billion or 8.5 per cent of GDP in 2016. The boost was attributed to the higher crude oil prices in the global market and improvement in domestic production. Also, non-oil export improved, significantly, due, largely, to the diversification drive of the Federal Government. The average price of Nigeria's reference crude, the Bonny Light, increased to US$55.03 per barrel in the review period from US$44.53 per barrel in 2016, following the decision of the Organisation of Petroleum Exporting Countries (OPEC) to retain the cap on crude oil production. Domestic production increased to 1.72 mbpd, from 1.65 mbpd in 2016. The proceeds from crude oil export remained dominant, accounting for 78.8 per cent of the total; gas sales, 13.5 per cent; and non-oil export, accounted for the balance.

A further breakdown of export showed that crude oil receipts rose by 59.5 per cent to ₦11,026.07 billion or 9.6 per cent of GDP, in the review period, above the ₦6,912.72 billion or 6.7 per cent of GDP in 2016. Similarly, gas export, including liquefied natural gas and condensate, increased by 59.8 per cent to ₦1,886.57 billion or 1.6 per cent of GDP, compared with ₦1,180.68 billion (1.2% of GDP) in 2016.

The value of non-oil export increased by 59.0 per cent to ₦1,074.80 billion in the review period, above ₦675.91 billion in 2016, reflecting the outcome of progress in the diversification drive of the Federal Government.

[a] Direction of Oil Export

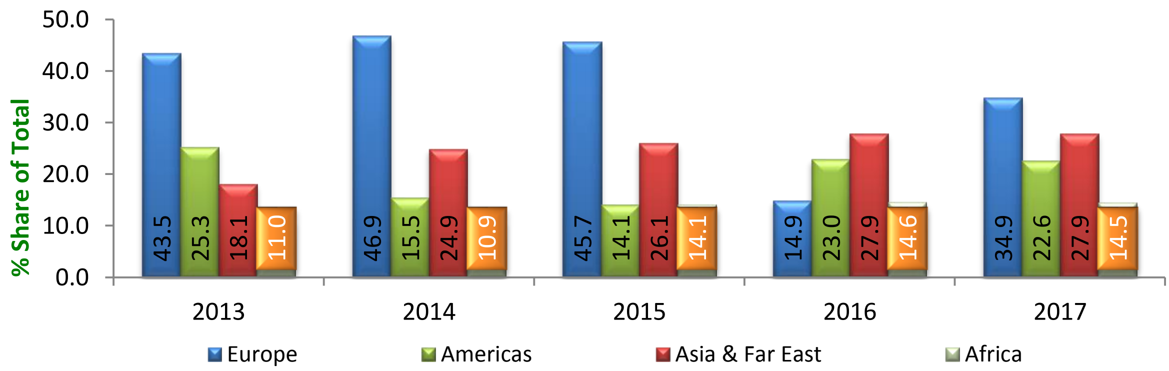
During the review period, provisional data on the direction of Nigeria's crude oil export revealed that Europe, as a group, remained the major regional destination of Nigeria's crude oil. This was followed by Asia and the Far East, Americas, and African countries in that order. By country of destination, India ranked highest, followed by the United States of America, Spain, The Netherlands, and South Africa in that order.

Europe constituted 34.9 per cent of the total, with crude oil export of ₦3,845.72 billion. Within the group, Spain retained its top position, with a share of 8.8 per cent of the total, followed by The Netherlands (7.9%), France (6.0%), the United Kingdom (5.1%), Italy (2.5%) and Sweden (2.1%). Asia and the Far East, as a group, accounted for 27.9 per cent of the total, with a value of ₦3,071.10 billion. Export to India dominated the group, accounting for 20.7 per cent, followed by Indonesia (4.6%), Singapore (1.1%), China (1.0%), and Malaysia (0.4%). Within the Oceania/Pacific region, New Zealand was the only destination of Nigeria's crude oil with a value of ₦9.31 billion.

Export to the Americas, as a group, increased to ₦2,496.21 billion or 22.6 per cent, of the total in 2017, compared with ₦1,559.31 billion or 22.6 per cent of the total in 2016. Within the group, export to the United States of America accounted for 14.7 per cent, followed by Canada, with 3.6 per cent; Brazil, 2.7 per cent; Uruguay, 0.7 per cent; and Argentina, 0.6 per cent. Other countries in the group explained the balance.

The share of African countries was the least at 14.5 per cent of the total. South Africa remained the highest buyer with 6.7 per cent of the total, followed by Côte d'Ivoire, 2.6 per cent; Senegal, 1.6 per cent; Cameroun, 1.6 per cent; and 'other countries', accounted for the balance.

Figure 7.5: Direction of Crude Oil Exports, 2013 - 2017



Source: CBN

[b] Non-oil Export

Non-oil export increased by 59.0 per cent to ₦1,074.80 billion, or 0.9 per cent of GDP, in 2017, compared with ₦675.91 billion or 0.7 per cent of GDP in 2016.

This was due to the sustained diversification drive of the Federal Government and improved access to foreign exchange by exporters.

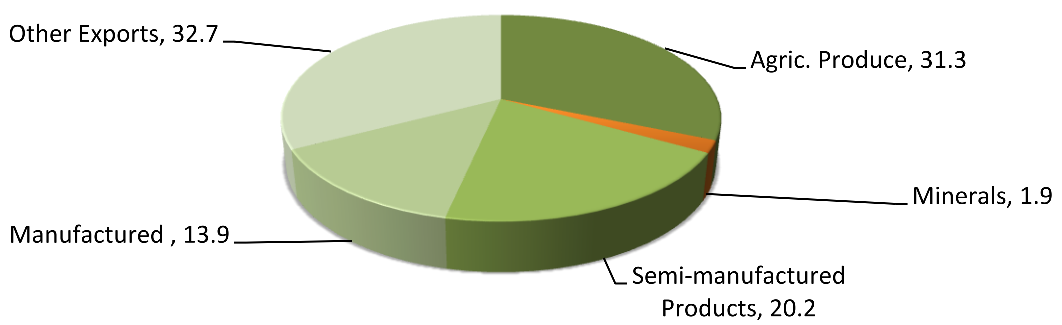
A breakdown of non-oil export by product showed that agricultural produce category, valued at ₦336.37 billion, constituted the highest share of 31.3 per cent of the total. Within the category, export of cocoa beans, represented 10.4 per cent; followed by sesame seeds, 7.3 per cent; cashew nuts, 4.3 per cent; rubber, 3.3 per cent; fish and crustaceans, 2.7 per cent; and other agricultural produce accounted for the balance.

The semi-manufactured products sub-category, at ₦216.73 billion, constituted 20.2 per cent, compared with ₦143.72 billion or 21.3 per cent in 2016. Within the category, export of cocoa products, recorded the highest performance of 3.5 per cent, followed by poly products at 2.9 per cent. Leather and processed skin constituted 2.6 per cent; aluminum, 1.8 per cent; furniture, 1.5 per cent; lead, 1.4 per cent; and steel/iron, 1.0 per cent. Other products within the sub-category accounted for the balance.

The manufactured goods category, which was ₦149.05 billion, accounted for 13.9 per cent of the total, out of which export of tobacco was 6.1 per cent. Other manufactured products had 3.0 per cent; beer/beverages, 1.2 per cent; plastics, 1.0 per cent; insecticide, 0.7 per cent, soap and detergent, 0.6 per cent while "others" accounted for the balance.

The other export sub-category was ₦352.39 billion, accounting for 32.8 per cent, of which petroleum products and urea constituted 18.0 and 9.0 per cent, respectively, of the total.

Figure 7.6: Non-oil Export by Product, 2017 (Per cent)



Source: CBN

[c] Non-oil Export to the ECOWAS Sub-Region

Non-oil export to the ECOWAS sub-region increased, significantly, by 31.8 per cent to US$370.24 million, compared with US$281.0 million in 2016. Among member-countries, export to Ghana remained dominant at US$114.99 million, or 6.4 per cent of the total. This was followed by Togo, US$85.53 million (4.8%); Niger, US$62.07 million (3.5%); and Cote d'Ivoire with US$56.55 million (3.2%). At US$0.39 million, export to The Gambia was the least. The dominant export products to the sub-region remained: tobacco, plastics, rubber, plastic footwear, soap and detergents, and polybags.

[d] Activities of the Top 100 Non-oil Exporters

The aggregate value of export of the top one hundred exporters increased by 81.3 per cent to US$1.65 billion, compared with US$0.91 billion in 2016. The increase was attributed to the introduction of the I&E window, which incentivised exporters to repatriate their proceeds. The NNPC/PPMC ranked 1st with proceeds valued at US$323.29 million for the export of Naphtha, a petroleum by-product to the USA. Olam Nigeria Limited ranked 2nd with US$201.01 million with the export of sesame seeds, cocoa beans and dried raw cashew nuts to The Netherlands, Greece, Turkey and the UK. Indorama Eleme Fertilizer and Chemicals Ltd, ranked 3rd with US$111.08 million from export of granular urea to Spain and Israel. British American Tobacco (BAT) Nigeria ranked 4th with US$102.30 million with export of cigarettes to Ghana and Cameroun. Dangote Cement Plc ranked 5th with export valued at US$51.94 million. Wacot Limited ranked 6th with US$46.91 million from the export of ginned cotton lint and raw cashew nuts to India and China. Mamuda Industries Nigeria Limited ranked 7th with receipts valued at US$36.54 million, from the export of bulk hides and skin to Spain and Italy.

Indorama Eleme Petrochemicals Limited and Tulip Cocoa Processing Limited ranked 8th and 9th with receipts valued at US$34.58 million and US$32.44 million, respectively. Indorama exported granular urea in bulk to Uruguay, Brazil and Argentina, while the Tulip Cocoa Processing Limited exported dark alkalised Nigerian cocoa cake and pure prime pressed Nigerian cocoa butter to The Netherlands, Spain, Germany and Russia.

Crown Flour Mills Limited, GZ Industries Limited, West African Tannery Company Limited, Beta Glass Plc and Alkem Nigeria Limited ranked 24th, 33rd, 41st, 45th and 49th, with earnings of US$12.04 million, US$9.91 million, US$8.76 million, US$7.05 million and US$6.28 million from the export of soya beans to Italy, aluminum cans to Togo, leather to China and Italy, bottles to Cameroun and Ghana, and polyester staple fibre to the USA, Italy and Germany, respectively.

Among the last 20 exporters, Top Steel Nigeria Limited ranked 85th and earned US$2.50 million through the export of steel billets to Kenya. In the 88th, 92nd, 97th and 98th positions were Lafarge Africa Limited, the Procter & Gamble Nigeria Limited, Life Flour Mill Limited and the Seabless Fishing Co. Limited, with proceeds of US$2.30 million, US$2.00 million, US$1.80 million and US$1.79 million from the export of cement, cocoa butter, raw cashew nuts and frozen shrimps & crabs to Ghana, Senegal, Vietnam and Belgium, respectively. Osun Agri Commodities and Export Limited earned US$1.52 million from the export of agricultural commodities, placed 100th.

7.2.2 The Services Account

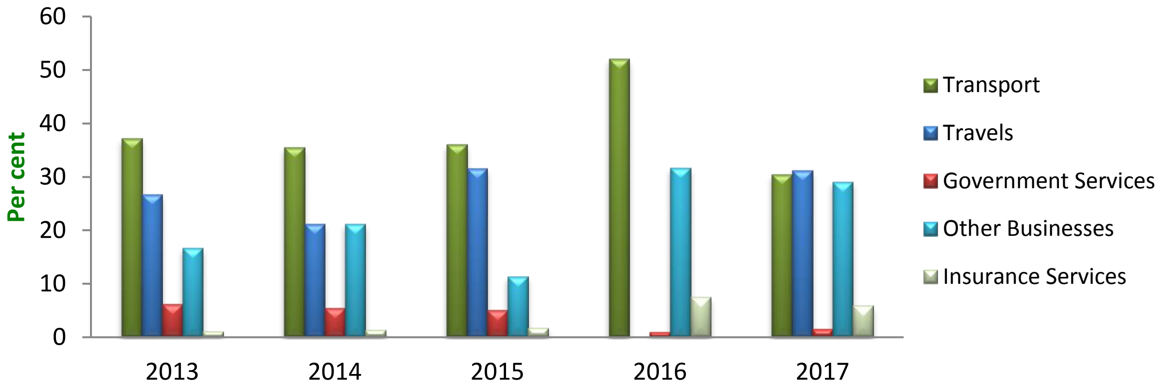
The deficit in the services account widened, significantly, to ₦4,040.24 billion (3.5% of GDP), compared with ₦2,025.22 billion (2.0 % of GDP) in 2016. The development was on account of increased out-payments, particularly in respect of travel, insurance, financial and other business services, in the review period.

A breakdown of the account showed that net-payment, in respect of travel services, increased, significantly, to ₦991.62 billion, compared with ₦2.23 billion in 2016. This was due, largely, to the improved access to foreign exchange in respect of personal travels (mainly education and health-related). Similarly, payments in respect of insurance services at ₦227.04 billion, increased by 46.2 per cent, as a result of higher payments in respect of insurance service charges.

Payments in respect of financial services and other business also increased to ₦75.59 billion and ₦1,634.75 billion, respectively, from ₦30.36 billion and ₦655.85 billion, in 2016. On the other hand, communications and government services recorded net surpluses of ₦21.39 billion and ₦67.10 billion, from a deficit of ₦20.12 billion and a lower surplus of ₦21.59 billion, respectively, in 2016.

In terms of their contributions to total net payments, other business services accounted for 40.5 per cent; transportation services, 25.3 per cent; and travel services, 24.5 per cent. Insurance services, royalties and license fees, financial services and computer & information services, contributed: 5.6, 1.9, 1.9 and 1.7 per cent, respectively. Other services accounted for the balance.

Figure 7.7: Percentage Share of Major Invisible Services, 2013-2017



Source: CBN

Table: 7.2 Net Share of Major Invisible Transactions (Per cent), 2013 – 2017					
Items	**2013**	**2014**	**2015**	**2016**	**2017**
Transportation	37.2	35.6	36.1	52.1	25.3
Travel	26.7	21.2	31.6	0.1	24.5
Insurance Services	3.5	1.4	1.8	7.5	5.6
Communication Services	2.6	3.7	3.9	1.0	(0.5)
Construction Services	0.4	0.3	0.3	0.0	0.01
Financial Services	3.6	5.5	5.3	1.5	1.9
Computer and Information Services	1.7	3.1	2.1	1.8	1.7
Royalties and License Fees	1.3	1.1	1.5	3.1	1.9
Government Services	6.2	5.5	5.1	1.0	(1.7)
Personal, Cultural & Recreational Services	0.1	1.4	1.0	0.2	0.8
Other Business Services	16.7	21.2	11.4	31.7	40.5
Total	**100**	**100**	**100**	**100**	**100**

Source: CBN

7.2.3 The Income Account

In the review period, the deficit in the income account widened, substantially, to ₦3,514.22 billion, equivalent to 2.4 per cent of GDP, compared with ₦2,177.20 billion or 2.1 per cent of GDP in 2016. The development was attributed, mainly, to higher deficit recorded in the investment income sub-account. The deficit in the sub-account rose by 61.3 per cent, to ₦3,584.10 billion, above the ₦2,222.61 billion in 2016, due, largely, to increased repatriation of dividends and distributed branch profits by non-resident investors, as well as, interest payments on portfolio investments. However, the "Other" investment income sub-account, driven, largely, by interest earnings on external reserves, maintained a surplus position, rising to ₦57.21 billion in 2017, compared with ₦6.93 billion in 2016. Also, the surplus in the compensation of employees' sub-account increased by 53.9 per cent to ₦69.88 billion, over the ₦45.42 billion recorded in 2016.

7.2.4 Current Transfers

The surplus in the current transfers account increased by 33.6 per cent to ₦6,714.94 billion, representing 5.8 per cent of GDP, compared with ₦5,025.79 billion or 4.8 per cent of GDP in 2016. This was due to the steady inflow of workers remittances. Transfers by general government, which comprised expenses on foreign embassies and payments to international organisations, declined to ₦207.49 billion in 2017, compared with ₦355.53 billion in the preceding period. On the other hand, the "Other" sectors sub-account, driven, largely, by the inflow of workers' remittances, increased by 39.3 per cent to ₦6,507.45 billion, compared with ₦4,672.19 billion in 2016. This was as a result of increase in workers remittances, by 35.5 per cent, to ₦6,655.75 billion in 2017, from ₦4,929.13 billion in 2016, occasioned by improved global economic conditions.

Table 7.3: Current Transfers (Naira Billion), 2015 – 2017

	2015	2016	2017
INFLOW (credit)			
1.General government (Grants, ODA, Technical Assistance & Gifts)	328.6	355.5	207.5
2. Other sector account (remittances and other transfers in kind)	4,017.1	4,936.5	6,666.7
OUTFLOW (debit)			
1.General government (Payments to International Organizations & other payments)	29.6	(1.9)	-
2. Other sector account (remittances and other transfers)	353.3	(264.3)	(159.2)
NET CURRENT TRANSFERS	**3,962.9**	**5,025.8**	**6,714.9**

Source: CBN

7.3 THE CAPITAL AND FINANCIAL ACCOUNT

The capital and financial account recorded a net financial asset of ₦1,321.24 billion, equivalent to 1.2 per cent of GDP, as against a net liability of ₦732.68 billion in 2016. The development was attributed to higher trade credits, foreign currency holdings by banks and the accretion to external reserves.

A further analysis showed that aggregate financial assets, representing financial outflow, increased, significantly, to ₦6,791.72 billion or 5.9 per cent of GDP in the review period, compared with ₦823.99 billion or 0.8 per cent of GDP in 2016. A disaggregation of financial assets, showed that direct investment abroad, driven by fresh equity investments in foreign enterprises, increased by 19.1 per cent to ₦392.65 billion (0.3% of GDP) in the review period, compared with ₦329.77 billion (0.3% of GDP) in 2016. Portfolio investment assets, on the other hand, declined, significantly, to ₦2.21 billion below the ₦44.83 billion in the preceding period, reflecting resident investors' preference for the domestic financial market, due to higher returns. Other investment sub-account increased to ₦2,659.49 billion, in the review period, largely driven by higher trade credits, loans, and foreign currency holdings by banks and the general government. However, it witnessed a draw-down on foreign currency holdings by the private sector, indicating renewed confidence in the foreign exchange market and reduction in speculative activities.

Total financial liabilities, representing foreign financial inflow, increased significantly to ₦5,470.47 billion (4.8% of GDP) in the review period, compared with ₦1,556.67 billion (1.5% of GDP) in 2016. This was due to a significant inflow of foreign portfolio equity and the issuance of the Euro and Diaspora bonds by the Federal Government. A breakdown of foreign financial liabilities showed that inflow of foreign direct investment declined by 4.9 per cent to ₦1,069.42 billion, representing 0.9 per cent of GDP in 2017, compared with ₦1,124.15 billion in 2016. This was due, largely, to lower inflow of fresh equity capital in the wake of economic recession. However, retained investment earnings by Nigerian companies increased by 25.7 per cent, during the review period.

In contrast, inflow of portfolio investment surged to ₦2,604.33 billion or 2.3 per cent of GDP, compared with ₦477.00 billion (0.5% of GDP) in the preceding period. This reflected the resurgence of the Nigerian capital market, following a huge inflow of capital for the purchase of equity securities worth ₦892.74 billion, in the review period, compared with ₦82.16 billion in 2016, signifying renewed investors' confidence on the Nigerian economy. Similarly, portfolio inflow, in respect of debt securities (mainly in form of government bonds), increased to ₦1,711.59 billion, above the ₦394.84 billion in 2016. This was attributed, largely, to the issuance of the Euro and Diaspora bonds by the Federal Government and high returns on investment. The ratio of external reserves to portfolio investment was 461.3 per cent, well above the benchmark of 100.0 per cent short-term debt cover of the Greenspan-Guidotti measure of external reserves adequacy.

Other investment liabilities, driven largely by loans, recorded inflow of ₦1,796.73 billion (1.6% of GDP), as against an outflow of ₦44.47 billion or 0.04 per cent of GDP in 2016. Drawings on fresh loans by the general government increased, significantly, to ₦1,595.46 billion, from ₦778.82 billion in 2016. Similarly, inflow of loans to the banking sector increased to ₦184.03 billion, from a repayment of ₦183.98 billion, while the private sector also made a loan repayment of ₦517.57 billion, during the review period. In terms of currency and deposits by non-residents in Nigerian banks, a placement of

₦534.81 billion was recorded as against a draw-down of ₦485.09 billion, in the preceding year.

In terms of share of the components in total capital inflow, portfolio investment inflow accounted for 47.6 per cent; other investment liabilities accounted for 32.8 per cent; and foreign direct investment inflow, the balance of 19.6 per cent.

The stock of external reserves increased by 45.8 per cent, to US$39.35 billion at end-December 2017, compared with US$26.99 billion at end-December 2016. The current level of external reserves could finance 14.5 months of current import of goods only or 9.3 months of import of goods and services.

The stock of external debt at US$18.91 billion, increased by 65.8 per cent above the US$11.41 billion at end-December 2016, due to the issuance of the Euro and Diaspora bonds, and fresh disbursements from multilateral sources. Multilateral debt, mainly from the World Bank and the African Development Bank, stood at US$10.24 billion and constituted 54.2 per cent of total external debt stock, while loans from commercial sources, in form of Euro and Diaspora bonds at US$6.30 billion, accounted for 33.3 per cent of the total. Loans from bilateral sources, principally the China Exim Bank, constituted the balance of 12.5 per cent of the total. At 5.0 per cent of GDP, public sector external debt remained within the international threshold of 40.0 per cent of GDP.

7.4 CAPITAL IMPORTATION

7.4.1 Capital Importation by Nature of Investment

Analysis of new investment inflow from the returns of the commercial banks showed that fresh capital injected into the economy stood at US$12.40 billion in 2017, compared with US$5.11 billion in 2016. A disaggregation of capital imported by type of investment showed that portfolio investment stood at US$7.43 billion, accounting for 60.0 per cent of the total. Of this amount, equity dominated total inflow, accounting for 29.0 per cent, with a value of US$3.59 billion, in the review period. Portfolio investment inflow, by money market instruments and bonds, were US$3.31billion and US$0.53 billion, respectively, representing 26.7 and 4.3 per cent, of total inflow. Foreign direct investment inflow in the form of equity was US$1.04 billion, accounting for 8.4 per cent of total inflow in 2017. Other investment inflow, in the form of loans, other claims, and trade credit, was US$3.93 billion or 31.6 per cent of total capital importation. Of this amount, inflow of loans was US$2.89 billion or 23.3 per cent, while other claims and trade credits were US$0.74 billion (6.0%) and US$0.30 billion (2.4%), respectively. Currency deposits accounted for the balance.

Table 7.4: New Capital Inflows (US$' Thousand)

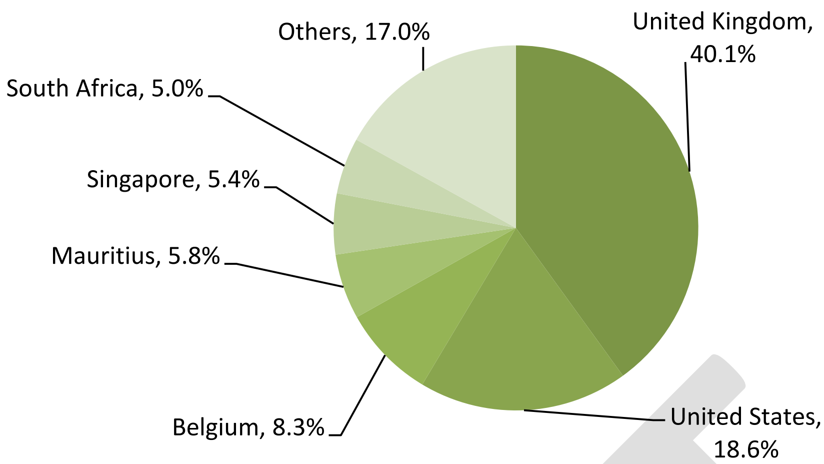
NATURE OF CAPITAL	2013	2014	2015	2016	2017
Foreign Direct Investment – Equity	1,646,108.00	2,292,466.20	1,469,093.20	1,043,142.80	1,038,697.63
Foreign Direct Investment - Other capital	30,065.80	13,028.90	4,210.40	874.8	2,318.60
Sub-Total	1,676,173.80	2,305,495.10	1,473,303.60	1,044,017.60	1,041,016.22
Portfolio Investment – Equity	16,865,724.30	11,448,161.00	4,691,540.40	859,053.60	3,593,989.34
Portfolio Investment – Bonds	1,209,437.70	2,451,604.60	827,144.00	395,900.00	526,807.97
Portfolio Investment - Money Market Instruments	1,065,039.40	1,025,018.40	571,955.30	557,917.90	3,309,508.90
Sub - Total	19,140,201.40	14,924,784.00	6,090,639.70	1,812,871.50	7,430,306.21
Other Investments - Trade Credits	-	22,030.00	-	160	295,646.45
Other Investments - Loans	2,237,431.10	1,428,567.80	1,685,965.40	2,240,109.70	2,894,334.07
Other Investments - Currency Deposits	4,209.00	-	8,102.70	27.5	3,517.95
Other Investments - Other Claims	530,771.30	2,120,050.00	527,581.10	26,940.80	739,598.56
Sub - Total	2,772,411.40	3,570,647.80	2,221,649.20	2,267,238.00	3,933,097.03
TOTAL	23,588,786.56	20,800,926.95	9,785,592.41	5,124,127.07	12,404,419.46

Source: CBN

7.4.2 Capital Importation by Country of Origin

A breakdown of capital importation by country of origin showed that: the United Kingdom accounted for US$4.97 billion (40.1%); the United States of America, US$2.30 billion (18.6%); Belgium, US$1.03 billion (8.3%); Mauritius, US$0.72 billion (5.8%); and Singapore, US$0.67 billion (5.4%). Inflow from South Africa was US$0.61 billion (5.0%), while other countries accounted for the balance.

Figure 7.8: Capital Importation by Country of Origin, 2017
(Per cent)

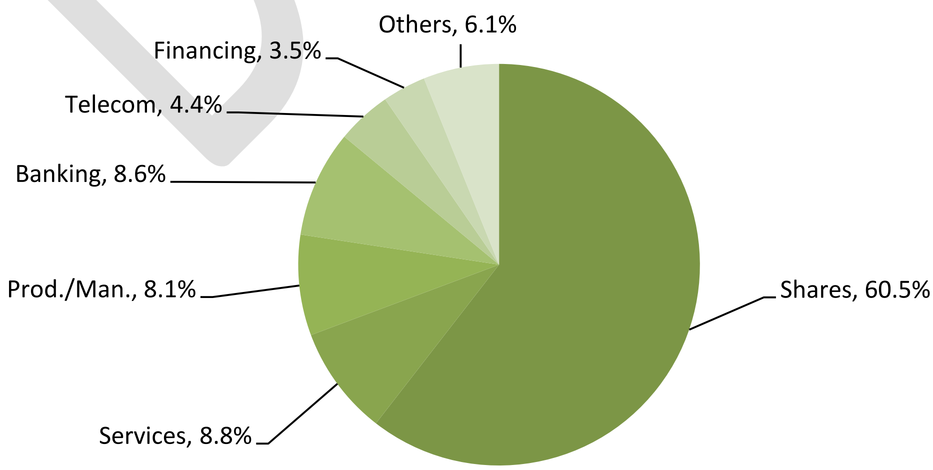


Source: CBN

7.4.3 Capital Importation by Sector

Analysis of imported capital by economic sectors indicated that the capital market received the highest share of 60.5 per cent, valued at US$7.50 billion for the purchase of shares. Inflow into the services sector amounted to US$1.1 billion and accounted for 8.8 per cent of the total. The banking, production/manufacturing, telecommunications and financing sectors received US$1.06 billion, US$1.00 billion, US$0.55 billion and US$0.44 billion and constituted 8.6, 8.1, 4.4 and 3.5 per cent, respectively, of the total. Inflow to other sectors accounted for the balance.

Figure 7.9: Capital Importation by Sector, 2017
(Per cent)

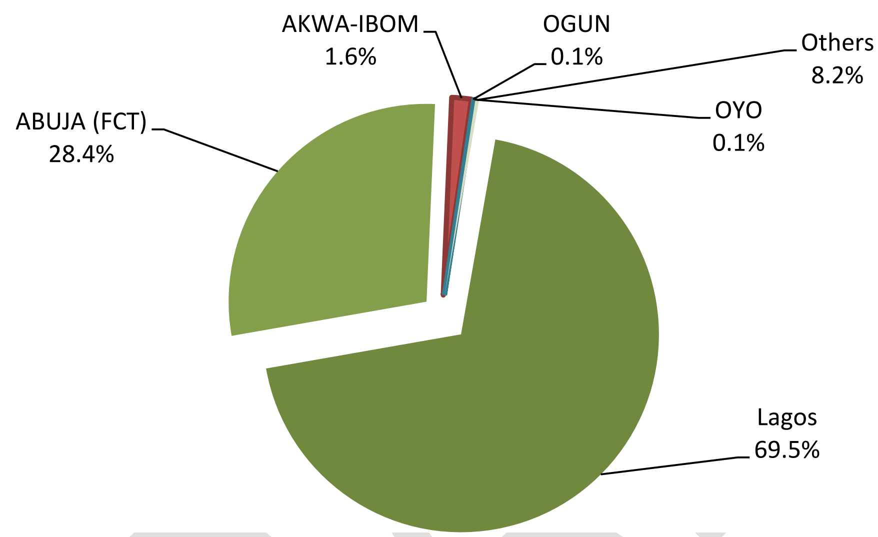


Source: CBN

7.4.4 Capital Importation by Destination

In terms of the destination of capital imported into the economy, during the review period, Lagos State received the highest inflow, with 69.6 per cent, followed by the Federal Capital Territory (FCT), 28.5 per cent. Akwa-Ibom State received 1.6 per cent, while inflow to Ogun and Oyo states constituted 0.1 per cent, each. Other states accounted for the balance.

Figure 7.10: Capital Importation by Destination States, 2017 (Per cent)



Source: CBN

Country	2014	2015	2016	2017	Sector	2014	2015	2016	2017
United Kingdom	10,953	3,913	2,132	4,969.1	Shares	13,808	5,780	1466	7,502.5
United States	3,742	2,477	946	2301.5	Services	569	201	299	1,096.4
Belgium	-	-	79	1,025.3	Banking	964	964	933	1061.7
Mauritius	496	557	129	718.7	Prod./Man.	944	433	303	1003.3
Singapore	-	-	276	672.1	Telecom	998	944	931	544.6
South Africa	278	261	177	614.4	Financing	2,726	866	95	439.3
Switzerland	155	119	272	415.9	Oil and Gas	208	32	720	331.9
United Arab Emirates (U.A.E)	321	62	51	358.9	Agriculture	-	-	22	159.4
The Netherlands	566	1,152	517	246.3	Construction	56	28	32	98.9
France	-	-	77	153.1	Trading	394	175	125	81.9
Luxembourg	78	48	139	117.0	Breweries	-	9	54	27.2
China	86	11	17	50.7	Electrical	-	-	125	13.4
Sweden	63	32	70	24.5	Transport	2	10	5	3.0
Others	3,867	1,071	803	737.0	Others	120	342	287	40.9
Total	**20,605.0**	**9,703.0**	**5,685.0**	**12,404.4**		**20,789.0**	**9,784.0**	**5,397.0**	**12,404.4**

Table 7.5: Capital Importation: Country and Sector Inflow (US$' Million)

Source: CBN

7.5 THE INTERNATIONAL INVESTMENT POSITION (IIP)

The estimated International Investment Position (IIP) for Nigeria recorded a net liability of US$57.80 billion in 2017, indicating an increase of 9.7 per cent, above the level in the preceding period. The stock of financial assets increased by 10.0 per cent to US$153.91 billion at end-December 2017, compared with US$139.97 billion in 2016, due, largely, to accumulation of external reserves by the monetary authority.

A further breakdown showed that the stock of foreign direct investment increased by 9.9 per cent to US$14.29 billion, compared with US$13.00 billion at end-December 2016. The stock of portfolio investment assets, on the other hand, remained at US$25.19 billion at end-December 2017. Other investment assets increased by 0.4 per cent to US$75.08 billion at end-December 2017, compared with US$74.79 billion at end-December 2016, due, largely, to the increase in trade credits and loans. The stock of trade credits increased by 32.0 per cent to US$7.53 billion at end-December 2017, compared with US$5.71 billion at end-December 2016. Similarly, loans increased by 14.5 per cent, to US$14.30 billion, in the review period, from US$12.49 billion in the preceding period. The stock of currency deposits, however, declined by 5.9 per cent to US$53.24 billion at end-December 2017, below the US$56.60 billion at end-December 2016, due, largely, to the 30.9 per cent drop in foreign currency holdings of the private sector. As a share of total stock of assets at end-December 2017, other investment assets dominated, constituting 48.8 per cent, followed by reserve assets, 25.6 per cent; portfolio investment, 16.4 per cent; and direct investment, the balance.

The stock of financial liabilities increased by 9.9 per cent to US$211.71 billion at end-December 2017, compared with US$192.67 billion at end-December 2016. A disaggregation of the stock showed that direct investment increased by 3.7 per cent to US$97.69 billion at end-December 2017, compared with US$94.18 billion in the preceding period. Of the total stock of direct investment, equity capital and reinvested earnings increased by 3.8 per cent to US$95.82 billion, compared with US$92.31 billion at end-December 2016. Other FDI capital also increased marginally by 0.1 per cent to US$1.87 billion in 2017.

A further analysis revealed that the stock of portfolio investments increased by 13.4 per cent to US$72.41billion, in the review period, compared with US$63.88 billion at end-December 2016. This was due, majorly, to the increase in the stock of both portfolio equity and debt securities, which rose from US$27.61 billion and US$36.27 billion at end-December 2016, to US$30.53 billion and US$41.88 billion, respectively, at end-December 2017. “Other” investment liabilities, which included loans and foreign currency deposits, increased by 20.2 per cent to US$41.61 billion, above US$34.61 billion in the preceding period. Both the stock of loan liabilities, and currency & deposits increased by 21.5 and 17.3 per cent to US$29.71 billion and US$11.90 billion, respectively, at end-December 2017.

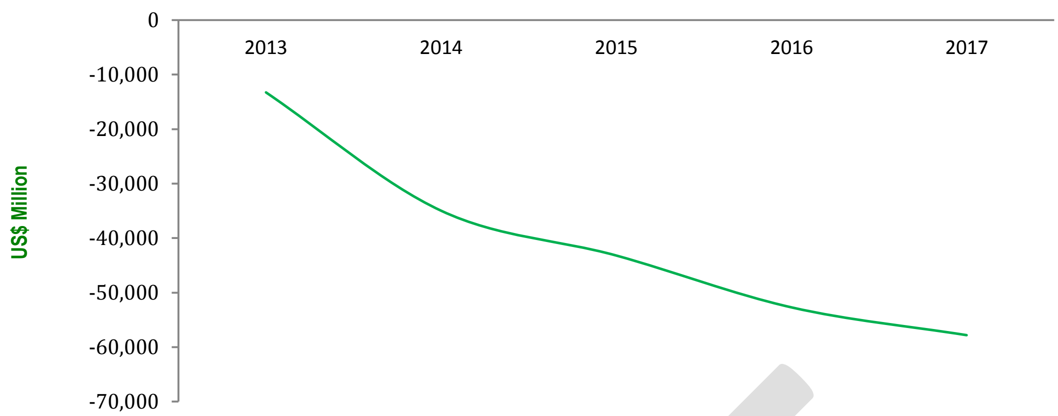
In terms of share, the stock of FDI dominated total financial liabilities, accounting for 46.1 per cent of the total, followed by portfolio investment with a share of 34.2 per cent and other investment liabilities accounted for the balance.

Table 7.6: International Investment Position (IIP), 2013-2017 (US$' Million)

Type of Asset/Liability	2013	2014 /1	2015 /1	2016 /1	2017 /1
Net international investment position of Nigeria	**(13,265.40)**	**(34,974.09)**	**(43,190.71)**	**(52,704.08)**	**(57,799.14)**
Assets	**150,829.02**	**148,362.73**	**145,685.61**	**139,969.54**	**153,908.01**
Direct investment abroad	***8,644.65***	***10,258.94***	***11,694.15***	***12,999.19***	***14,285.36***
Portfolio investment abroad	***19,883.84***	***23,332.99***	***25,009.48***	***25,186.90***	***25,194.14***
Equities	17,505.46	20,264.78	21,605.98	21,747.91	21,753.70
Debt Securities	2,378.38	3,068.21	3,403.51	3,438.99	3,440.44
Other foreign assets	**79,453.21**	**80,529.25**	**80,697.15**	**74,792.88**	**75,075.01**
Trade Credits	16,079.71	13,577.39	7,543.19	5,704.75	7,531.64
Loans	9,107.15	11,925.83	13,886.51	12,489.70	14,299.52
Currency and Deposits	54,266.36	55,026.03	59,267.46	56,598.43	53,243.85
Reserve Assets	***42,847.31***	***34,241.54***	***28,284.82***	***26,990.58***	***39,353.49***
Liabilities	**164,094.41**	**183,336.82**	**188,876.32**	**192,673.62**	**211,707.15**
Direct investment	***81,977.41***	***86,671.23***	***89,735.40***	***94,184.14***	***97,687.14***
Portfolio investment	***54,162.23***	***59,454.99***	***61,990.19***	***63,877.88***	***72,408.65***
Equities	26,716.30	27,761.26	27,284.64	27,609.77	30,534.04
Debt Securities	27,445.92	31,693.73	34,705.55	36,268.11	41,874.62
Other Investment Liabilities	**27,954.78**	**37,210.59**	**37,150.72**	**34,611.61**	**41,611.36**
Trade Credits	-	-	-	-	-
Loans	20,239.31	25,887.36	25,081.49	24,462.07	29,710.01
Currency and Deposits	7,715.47	11,323.23	12,069.24	10,149.53	11,901.35

1/ Revised
2/ Provisional
Source: CBN

Figure 7.11: Net International Investment Position (IIP) 2013 - 2017 (US$' Million)



Source: CBN

7.6 EXCHANGE RATE MOVEMENTS

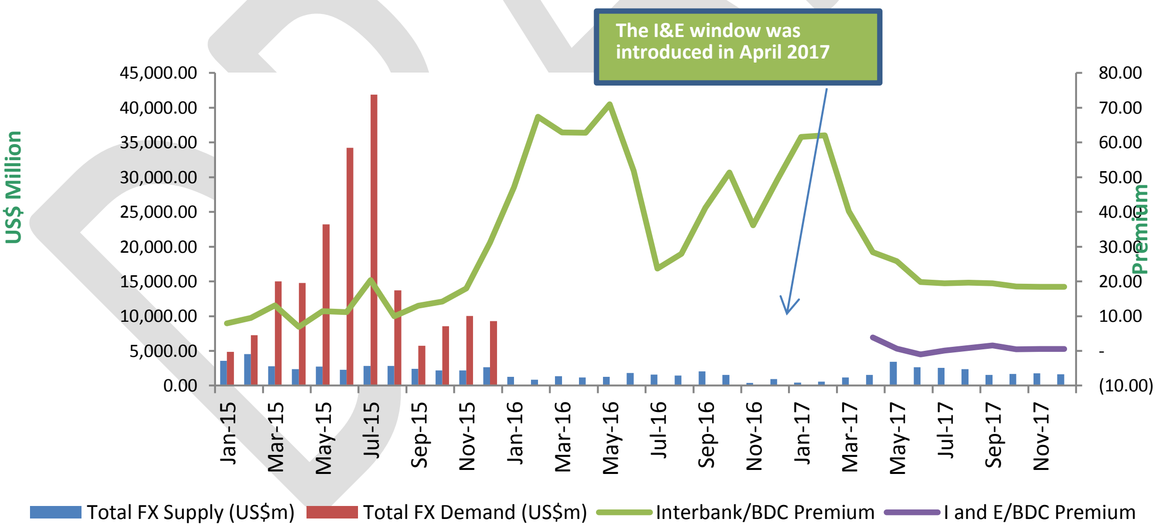
The average exchange rate of the naira, at the interbank segment of the foreign exchange market, depreciated from ₦305.00/US$ in December 2016, to ₦305.20/US$ in January 2017, and further to ₦306.40/US$ in March 2017. Thereafter, the rate maintained relative stability for the rest of the year, averaging ₦305.54/US$, ₦305.67/US$, ₦305.65/US$, and ₦305.31/US$ in May, August, October and December 2017, respectively. The annual average exchange rate at the interbank, in 2017, was ₦305.79/US, representing a depreciation of 17.1 per cent, compared with the level in 2016. The naira closed at ₦306.00/US$, indicating a depreciation of 0.3 per cent when compared with the level in 2016.

The pressure in the foreign exchange market intensified at the BDC segment in the beginning of 2017. The naira showed more volatility, opening at ₦493.29/US$ in January 2017, from ₦455 in December 2016. Demand pressure remained unabated throughout the first quarter of 2017. The rate, however, appreciated to ₦392.89/US$ in April 2017, following the resumption of foreign exchange sales to that segment by the Bank. It further appreciated to ₦366.25/US$, ₦365.61/US$, ₦362.21/US$, and ₦362.83/US$, in June, August, October and December 2017, respectively. In spite of the positive development in the market, the annual average exchange rate at the BDC segment in 2017, depreciated by 5.7 per cent to ₦395.42/US$, compared with ₦372.86/US$ in 2016. The end period exchange rate, however, appreciated by 35.0 per cent to ₦363.00/US$, relative to ₦490.00/US$ in 2016.

At the "I & E" window the naira exchange rate which averaged ₦378.11/US$ in April 2017, appreciated to ₦365.00/US$ in July 2017 and further to ₦359.99/US$ in September 2017. It remained stable through the rest of the year, averaging ₦360.33/US$ and ₦360.68/US$ in November and December 2017, respectively. The annual average exchange rate was ₦366.58/US, while the end-period exchange rate stood at ₦360.33/US$.

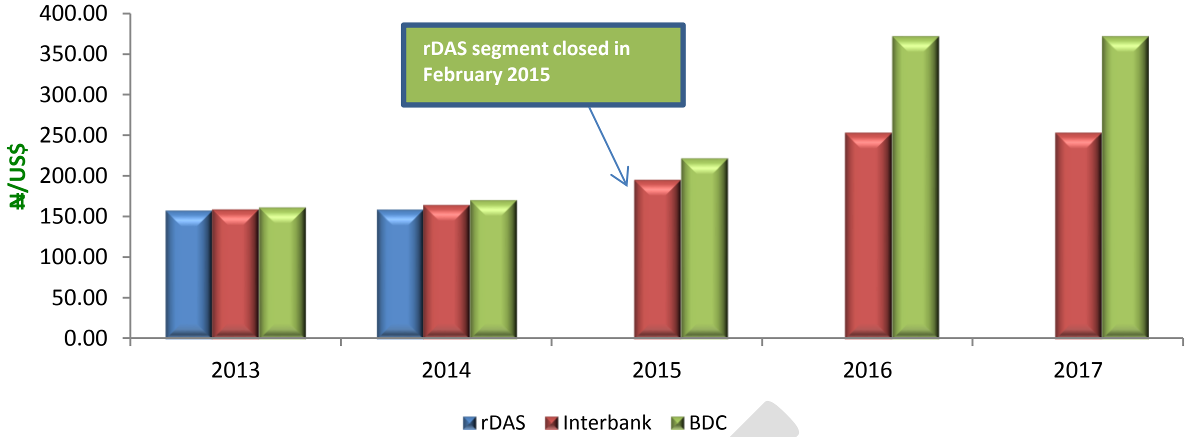
The premium between average annual Interbank and BDC rates was 29.3 per cent in 2017, compared with 47.1 per cent in 2016, while the premium between annual I&E/BDC rates was 7.9 per cent. The premium between the end-period exchange rates of the interbank and BDC rates was 18.6 per cent in 2017, while at the I&E/BDC rates, the end-period premium was 0.7 per cent.

Figure 7.12: Demand and Supply of Foreign Exchange, Interbank/BDC Rate Premium and rDAS/BDC Rate Premium, 2015-2017



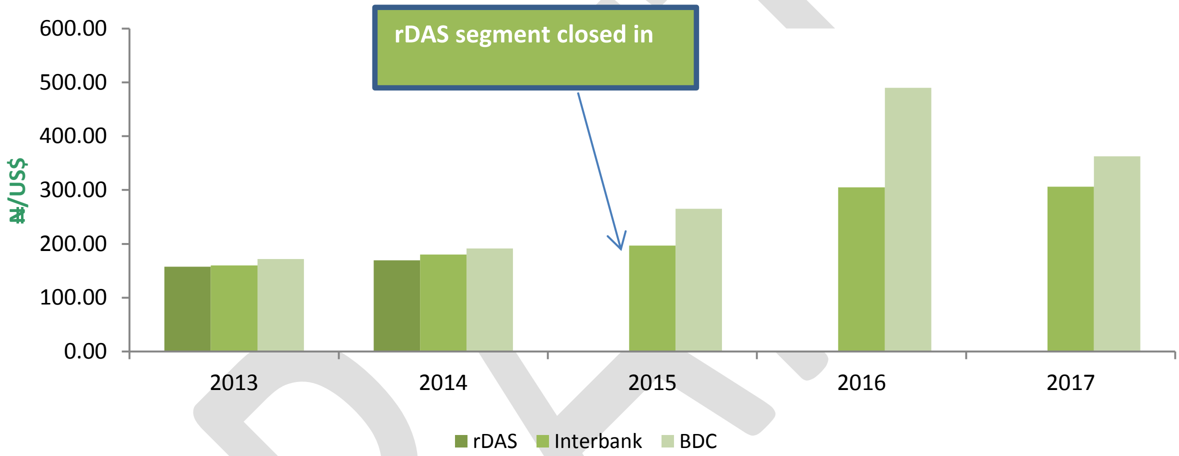
Source: CBN

Figure 7.13: Average Yearly Exchange Rate of the Naira per US Dollar, 2013 - 2017



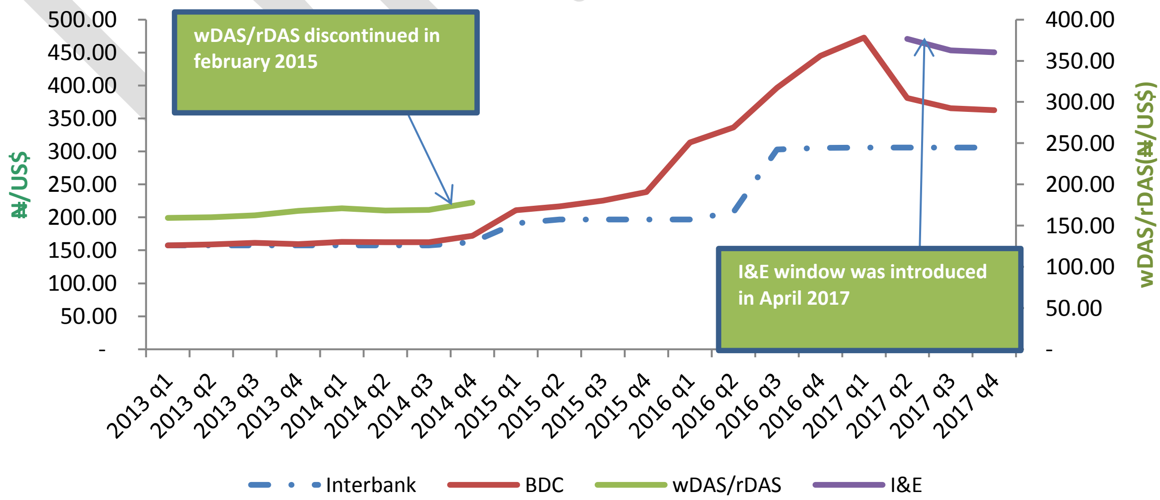
Source: CBN

Figure 7.14: End-period Exchange Rate of the Naira per US Dollar, 2013 - 2017



Source: CBN

Figure 7.15: Quarterly Average Exchange Rate of the Naira vis-à-vis US Dollar, 2013 - 2017

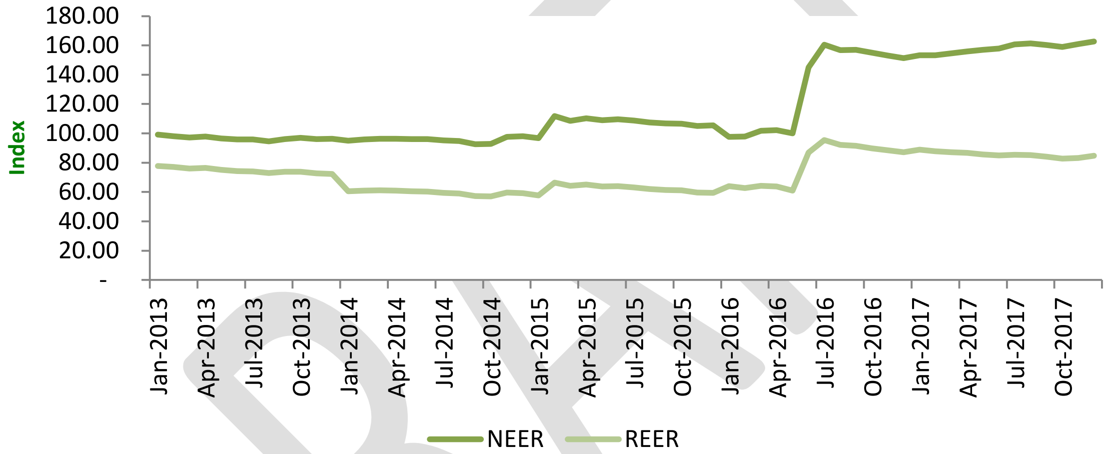


Source: CBN

7.7 THE NOMINAL AND REAL EFFECTIVE EXCHANGE RATES

The average 13-currency nominal effective exchange rate (NEER) index rose by 20.4 per cent to 158.07, above the level in 2016, indicating a depreciation in the exchange rate. Similarly, the average 13-currency real effective exchange rate (REER) index, increased by 8.6 per cent to 85.49, above the level in 2016. In real terms, the increase in REER implied higher inflation in the domestic economy, thus, showing loss of external competitiveness. The REER index opened at 88.76 in January 2017 and closed at 84.68 at end-December 2017.

Figure 7.16: Nominal and Real Effective Exchange Rate Indices, 2013 - 2017



Source: CBN

Table 7.7: Nominal and Real Effective Exchange Rate Indices (November 2009=100)

	2016		2017		Percentage Change	
	Monthly Index	Annual Average Index	Monthly Index	Annual Average Index	Monthly Index	Annual Average Index
NEER	150.94	131.50	162.66	158.07	7.76	20.39
REER	86.13	78.90	84.68	85.49	(1.69)	8.64

Source: CBN

7

EXTERNAL SECTOR DEVELOPMENTS

CHAPTER EIGHT

INTERNATIONAL AND REGIONAL INSTITUTIONS

The 2017 Spring and Annual Meetings of the Bretton Woods Institutions (BWIs) urged the IMF to strengthen the international monetary system through promoting policies that would expand opportunities and facilitate multilateral solutions to global challenges. Accordingly, they advised member countries to sustain monetary policy accommodation where inflation was still below target and output gaps negative. At the sideline meetings, the G-24 Ministers noted that commodity prices were stabilising, thus providing commodity exporters the opportunity to continue to undertake reforms to rebuild buffers, diversify their economies and stimulate growth. They, however, expressed concern about the medium-term downside risks of the development. At the continental level, the African Caucus Meeting of the IMF/World Bank called on the Bretton Woods institutions to support the agriculture agenda in Africa, especially in the areas of financing, technology, job creation for youth and women, and infrastructure development. At the sub-Regional level, the 4th meeting of the Presidential Task Force on the ECOWAS Monetary Cooperation Programme (EMCP) noted the slow implementation of the roadmap activities for the ECOWAS Single Currency Programme, in terms of achieving the convergence criteria, lack of multi-year convergence programmes in some member states, and low level of implementation of the various statistical harmonisation programmes. They, therefore, recommended the effective monitoring of national economies and strengthening of the multilateral surveillance mechanism.

8.1 THE INTERNATIONAL MONETARY SYSTEM

8.1.1 The International Monetary Fund (IMF)/World Bank Spring and Annual Meetings

The 2017 Spring and Annual Meetings of the Bretton Woods Institutions (BWIs) were held in Washington D. C., USA from April 17 to 23, 2017 and October 9 to15, 2017, respectively. The sideline meetings of the International Monetary and Finance Committee (IMFC) of the Governors of the International Monetary Fund (IMF) and the Development Committee (DC) of the World Bank Group, as well as, that of the Ministers and Governors of the Intergovernmental Group of Twenty Four (G-24), were also held. The following were the highlights of the meetings.

The IMFC:

- Welcomed initiatives by the IMF in providing country-specific advice on a policy mix that would help sustain ongoing recovery and address excessive global imbalances;
- Called on the IMF to promote policies that would expand opportunities, facilitate multilateral solutions to meet global challenges, and strengthen the international monetary system;
- Endorsed the Fund's continued support for the 2030 Sustainable Development Goals (SDGs), including the Financing for Development agenda by helping fragile and small states to strengthen domestic revenue mobilisation and public financial management systems, as well as, deepen their financial markets;
- Advised that monetary policy should remain accommodative where inflation was still below target and output gaps, negative and that the conduct of policy should, however, be underpinned by credible policy frameworks; and
- Called on the IMF to continue to analyse the causes of the slowdown in productivity and the measurement challenges of the digital economy, and assist members identify structural reform priorities, as well as, analyse their impact on macroeconomic resilience.

The G-24 Ministers:

- Welcomed the increasing momentum in global growth, trade and investment, noting that emerging market and developing economies (EMDEs) would continue to account for the bulk of global growth;
- Observed that commodity prices were stabilising, providing commodity exporters the opportunity to continue undertaking reforms, rebuild buffers, diversify their economies and stimulate growth, but expressed concern about the medium-term downside risks of the development, which included potential increase in protectionism, sudden tightening

of global financial conditions, roll back of regulatory reforms, and geopolitical risks;

- Expressed support for a quota-based, adequately-resourced IMF that is less-dependent on borrowed resources; and called for the full implementation of the 2010 Governance Reforms on Board Representation, as well as, the completion of the 15th General Review of Quotas, including a new quota formula.

8.1.2 African Caucus Meeting of the IMF/World Bank

The African Caucus, comprising African Governors of the International Monetary Fund and the World Bank Group, met in Gaborone, Botswana from August 2 to 4, 2017. The theme of the meeting, "Economic Transformation and Job Creation: A Focus on Agriculture", centered on confronting the challenges facing the Continent's quest to achieve food sufficiency, given the significance of agriculture in Africa. The five seminar sessions, of the Meetings, addressed the following issues: Agricultural Policy Foundations: Financing, Land Tenure and Markets; Technologies for Agricultural Development and Climate Smart Agriculture: Role of Private Sector; Fiscal Policy to Support Agriculture Transformation in Africa; Agricultural Value Chains and Sustainable Job Creation for Youths and Women; and Financial Deepening and Inclusion to support Agriculture Development. The Meeting also featured presentations by the International Monetary Fund (IMF) on the Regional Economic Outlook and the Finalisation of the Gaborone Declaration. The Meeting concluded that:

- African farmers needed new technologies to help facilitate higher yielding and more resilient food crops that deliver bountiful harvests, coupled with more electricity, irrigation, and better infrastructure to link them to lucrative regional food markets;
- Africa needed sound policies that did not discriminate against the agricultural sector, but attracted and allocated financing it;
- Skills acquisition would be critical in positioning youth for Africa's transformation, with improving access to land and other productive

assets, especially for poor women in the development of agriculture and improvement of household welfare;

- Climate-smart agriculture, built on three pillars - increasing productivity and incomes; enhancing resilience of livelihoods and ecosystems; and reducing greenhouse gas emissions from the atmosphere - was a pathway towards development and food security; and
- Central banks played a crucial role in creating the enabling environment for access to finance, while safeguarding financial stability and preventing other disturbing risks, which could be achieved by making laws and regulations that would encourage both financial sector development and inclusion.

The IMF Regional Economic Outlook (REO) highlighted:

- That commodity-exporting countries in Africa experienced a broad-based slowdown in GDP growth, and increasing vulnerabilities, as inflation ticked up, fiscal deficits widened, debt levels increased, exchange rates depreciated and external reserves nose-dived in 2017; and
- Three priority areas to ensure a stronger and durable recovery in Africa, which included: reinforcing emphasis on macroeconomic stability; promoting structural reforms to support healthier macro balances to support growth and job creation; and stronger emphasis on social protection.

The Meeting ended with a Declaration issued by the Governors, calling on the Bretton Woods institutions to support the Agriculture Agenda in Africa, especially in the areas of financing, technology, job creation for youth and women, and infrastructure development.

8.1.3 The Group of Twenty-Four (G-24) Technical Group Meeting

The 2017 Spring Technical Group Meeting (TGM) of the Group of 24 developing countries (G-24) was held from February 27 to 28, 2017 in Addis-Ababa. Members discussed key issues related to investing in infrastructure, managing structural transformation, and mobilising domestic resources for development, as well as, international tax cooperation.

The Meeting:

- Observed that budget appropriations were becoming grossly - inadequate to meet the huge infrastructural gaps in member countries;
- Identified key options in domestic infrastructure financing to include the huge idle and long term funds locked up in pension and insurance schemes, as well as, the potentials of private sector participation through Public-Private-Partnerships (PPP) including the role of capital market in mobilising long-term finance for infrastructural development;
- Advocated for the design of government policy frameworks that were supportive of long-term investment in infrastructure, through policy planning, tax incentives and risk transfer mechanisms, as well as, regulatory reforms for long-term investment;
- Noted that transformative industrial policy required productive capability building in economic development and that there was a need for industrial policy-makers to acquaint themselves with a range of industrial policy experiences, to design policies with the greatest possible effectiveness;
- Noted that the recent changes in the global industrial policy environment, including the shrinkage in 'industrial policy space' and the rise of global value chains (GVCs), had not rendered industrial policy irrelevant, but rather underlined the need for developing country industrial polices to be 'smarter';
- Recognised the challenge that governments in developing countries faced in mobilising tax revenues, that resulted in a gap between what they could collect and what they actually collected, which were hard to quantify, are due to tax evasion, avoidance, or exemptions, and inequitable rent-sharing in the extractive sector, among others;
- Advocated a broader and longer-term perspective for domestic revenue mobilisation strategy through the creation of an environment

conducive to sustainable revenue mobilization, as part of a legitimate social contract between the government and the citizens;

- Advised countries to study thoroughly the implications of tax treaties and various negotiation strategies before embarking on new treaty agreements or revising existing ones, in order to ensure consistency between domestic and international tax rules; and
- Recommended the development of a coherent and sustainable revenue mobilisation strategy that ensured the consistency of a country's tax policy with broader national objectives that fed into the national development strategy.

8.1.4 The 95th Regular Council Meetings and Other Subsidiary Bodies of the International Cocoa Organisation (ICCO)

The 95th Regular Session of the International Cocoa Organisation (ICCO) was held from April 24 to 28, 2017 in Abidjan, Cote D'Ivoire. The Meeting reviewed developments in the world cocoa industry, to include:

- The Report of the Working Group, comprising the Voice Network, World Cocoa Foundation, the UTZ certified, the German Sustainability Initiative and the International Cocoa Initiative, set up by the ICCO Board to monitor the World Cocoa Agenda;

- The proposed change to the maximum residue levels (MRLs) for raw cocoa imported into the EU, which would have implications on cocoa-exporting nations, especially the capacity and funding required to implement the proposal, which led to delegation from Cote d'Ivoire and Ghana visit the European Union Headquarters and appeal for the suspension of the initiative, pending the outcome of further deliberation on the issue; and

- The recommendations of the Consultative Board of the World Cocoa Economy on the low prices of cocoa and the danger it portended to producers, including the need for collaborative effort amongst all stakeholders, to reverse the current trend of falling prices.

The ICCO:

- Recognised that the global decline in cocoa prices had dramatically increased the level of poverty among small-holder cocoa farmers and reduced the contribution of cocoa to GDP and revenue of producing countries;
- Advised member countries to consider direct engagement with stakeholders in the cocoa industry, such as processors and chocolate manufacturers, with a view to finding an urgent solution to the current crisis to achieve price levels that promote sustainability of the entire cocoa value-chain;
- Urged members to undertake activities, aimed at developing local and regional cocoa-processing and consumption, which would include diversification of products derived from cocoa, as well as, innovative products, in accordance with article1 (h) and Article 37 of the ICCO Agreement 2010;
- **Advised cocoa-importing** countries to comply with the provision of Articles 30 and 31 of the ICCO Agreement 2010, relating to the provision of information and market transparency, as well as, providing data on semi-finished products and cocoa stocks to the ICCO Secretariat; and
- Cautioned on the preponderance of interventions, aimed at increasing cocoa productivity without due regards to the impact on supply, thereby affecting cocoa prices negatively.

8.1.5 The 96th Regular Council Session and Subsidiary Bodies of the International Cocoa Organisation (ICCO)

The 96th Regular Council Session and the Meetings of the ICCO subsidiaries were held from September 18 to 22, 2017 in Abidjan, Cote d'Ivoire. The Meetings noted that:

- Global cocoa output in 2016/17 was 4.7 million tonnes, with African countries producing over 3.5 million tonnes or 75 per cent of the total, followed by the Americas with 0.76 million tonnes (16 per cent), while the Asia & Oceania produced 0.4 million tonnes (9 per cent);
- Total grindings of cocoa beans in 2016/17 were 4.26 million tonnes, indicating an over-supply of the commodity to the tune of 0.43 million tonnes in the market;
- Cote d'Ivoire was the number one country in grinding cocoa beans, with 550,000 tonnes, representing 12.9 per cent of global total, followed by The Netherlands and Germany with 538,000 and 413,000 tonnes, respectively, with Nigeria's grinding of cocoa beans accounting for 30,000 tonnes, representing 0.7 per cent of the total;
- Among producing countries, Cote d'Ivoire topped the list with 1.98 million tonnes, representing 42.2 per cent of the global production, followed by Ghana with 0.95 million tonnes (20.2 per cent) with Nigeria as the sixth with 0.22 million tonnes (4.7 per cent);
- During the 2016/17 cocoa year, prices declined by almost 40 per cent, from US$3,093/tonnes in 2015/16 to US$2,264/tonnes in the current season with no realistic prospects of price recovery in sight;
- Consumers of chocolate confectionery products did not benefit from the lower cocoa prices and small holder producers were living in extreme poverty with over 50 million small cocoa farmers estimated to have lost income of over US$4.5 million, due to the fall in producer prices;
- igeria had not signed the International Cocoa Agreement 2010, but continued to honour the terms of Gentleman's Agreement, by paying

financial contributions to the Organisation and willing and ready to complete the necessary formalities to become a party to the ICA, 2010;

- There were 22 countries listed as exporting members and the distribution of votes among members in accordance with Article 10 of the International Cocoa Agreement showed that Cote d'Ivoire had the highest voting right of 400 followed by Ghana, (215), Indonesia (85), and Cameroun, (58); and Nigeria's voting right was 52 out of 1,000;
- The fourth edition of the World Cocoa Conference (WCC), the world's largest cocoa event, themed: "A New Vision for the Cocoa Sector" was scheduled to take place in Berlin, Germany in April 2018; and
- The level of cocoa beans processing in Nigeria was very low and almost insignificant at 30,000 tonnes per annum, which was only 6.0 per cent of Cote d'Ivoire's 550,000 tonnes and Ghana's annual processing of 220,000 tonnes was about 7 times that of Nigeria.

8.2 REGIONAL INSTITUTIONS

8.2.1 The Annual Meetings of the African Development Bank (AfDB)

The 2017 Annual Meeting of the Board of Governors of the African Development Bank Group (AfDB) was held from May 22 to 26, 2017 in Ahmedabad, India. The Meeting which was themed: "Transforming Agriculture for Wealth Creation in Africa"**,** focused on the significance of agriculture in Africa and the challenges confronting the continent's quest for food sufficiency.

The highlights of the Meetings were:

- Under the New Deal on Energy for Africa initiative aimed at achieving universal access to energy in Africa by 2025, the AfDB reported working with governments, the private sector, and bilateral and multilateral energy sector stakeholders to develop a *"Transformative Partnership on Energy for Africa";*
- The AfDB reported progress on the initiative: "Feed Africa Strategy for Agricultural Transformation, 2016–2025", with the objective of

supporting the four specific goals of Comprehensive Africa Agriculture Development Programme (CAADP), namely: contributing to eliminate extreme poverty in Africa by 2025; ending hunger and malnutrition in Africa by 2025; Making Africa a net food exporter; and moving her to the top of the export-orientated global value chains;

- The Meeting emphasised strengthening the centuries' old historical ties between Africa and India through greater economic, technical and social cooperation, by commanding the implementation of the second phase of the Cotton Technical Assistance Programme (CTAP) launched in 2012; and
- The Meeting of the Board of Governors commended the Board of Directors, Management and staff of the AfDB for exceeding its lending and disbursement targets for 2016; applauded the robust net incomes recorded at all the three windows of the Bank Group, which far exceeded the achievements of the previous year; and appreciated the Bank's role in attracting more investment for youth in agriculture, through the implementation of the Bank's Jobs for Youth in Africa Initiative.

8.2.2 The 40th Ordinary Meeting of the Assembly of Governors of the Association of African Central Banks (AACB)

The 40th Ordinary Meeting of the Assembly of Governors of the Association of African Central Banks (AACB) was held on August 16, 2017 at the South Africa Reserve Bank (SARB), Pretoria, South Africa, under the chairmanship of Mr. Godwin I. Emefiele, Governor of the Central Bank of Nigeria. The Meeting was preceded by the Technical Committee and Bureau Meetings as well as, the Governors' Symposium, which was held from August 12 to 15, 2017.

The Meeting:

- Adopted the report of the 39th Ordinary Meeting of the Assembly which was held on August 19, 2016 in Abuja, Nigeria;
- Reviewed the status of implementation of the African Monetary Cooperation Programme (AMCP), and adopted the report of the

Experts Group on the refinement of the convergence criteria and the time-lines for the creation of the African Central Bank (ACB);

- Noted the report of the AUC on its implementation plan for the establishment and take-off of the African Monetary Institute (AMI), in its 2018 budget;
- Adopted the theme for the 2018 Annual Symposium - "Correspondent Banking Relationships: Risks, Constraints and Opportunities for Africa"; and "Combating Illicit Financial Flows from Africa" - and the topic for the Continental Seminar for year 2018 titled: Implications of Cyber Security Issues for Central Banks; and Financial Technology Innovations and Challenges for Central Banks;
- Elected the Governor of the South Africa Reserve Bank (SARB), and former Vice Chairman of the AACB, Mr. Lesetja Kganyago, as the new Chairman of the Association, while the nomination for Vice Chairman was reserved for the Northern African sub-region;
- Approved the constitution of a new Bureau and the creation of the position of Deputy Chair of Bureau in which West Africa was represented at the Bureau by The Gambia with Sierra Leone as the Deputy;
- Welcomed the partnership between the AACB and the European Central Bank (ECB), as well as that with the Federal Reserve Bank of New York (FRBNY); and
- Agreed on the need for commitment towards monetary integration in the region, following the Governor's Annual Symposium which was held on the side-lines.

8.2.3 Ordinary Meeting of the Bureau of the Association of African Central Banks (AACB)

The Bureau of the Association of African Central Banks (AACB) held its Ordinary Meeting on March 8, 2017 in Dakar, Senegal. The Meeting was preceded by the Technical Committee Meeting of the Bureau from March 6 to 7, 2017.

The Meeting, which was attended by all the central bank members of the Bureau, was chaired by Mr. Godwin I. Emefiele, Governor of the Central Bank of Nigeria (CBN), who also Chairs the AACB. The European Central Bank (ECB) and the Federal Reserve Bank of New York (FRBNY) were invited to make presentations on the cooperation they wished to establish with the AACB.

The Bureau reviewed the implementation of the decisions of the 39th Ordinary Meeting of the Assembly of Governors which was held on August 19, 2016 in Abuja, Nigeria.

The Meeting:

- Agreed on the topic: "*Monetary Integration Prospects in Africa: Lessons from the Experience of the European Monetary and Financial Integration*" for the 2017 AACB Symposium;
- Selected the topic: "*Credible Communication Strategies for Central Banks in the Framework of Monetary Policy and Financial Stability*", as the theme for the 2017 AACB Continental Seminar; and
- Directed the Experts Group to examine the amended report on the refinement of the convergence criteria for the African Monetary Cooperation Programme (AMCP) and:
    - Provide justifications for the selected criteria and thresholds;
    - Present time-lines for the creation of the African Central Bank (ACB);
    - Submit the report to the member central banks and the Regional Economic Communities (RECs) for comments; and
    - Present the report at the 40th session of the Assembly of Governors in August 2017, in South Africa.

8.2.4 The Continental Seminar of the Association of African Central Banks (AACB)

The 2017 Association of African Central Banks (AACB) continental seminar was held from May 3 to 5, 2017 in Accra, Ghana. The theme of the Seminar was "Credible Communication Strategies for Central Banks in the Framework of Monetary Policy and Financial Stability". The Seminar noted that:

- Some central banks introduced Strategy and Risk Management and Communications departments to improve risk assessment and enhance communication;
- Central banks use various communication channels with differing risk levels; and
- Measuring the impact of communication on monetary policy and financial stability requires innovation.

The Seminar recommended that:

- Central banks should train journalists and engage the media on emerging crisis, the implications and how they could be managed;
- Central banks should have a ready team of experts to be deployed for public engagement in times of crisis;
- Communication should be well-coordinated in order to advise management on the implications of a chosen course of action;
- Central banks should have a full-fledged and functional communication department with adequate budget and authorisation to carry out their mandate;
- There should be a definitive communication strategy for monetary policy and financial stability;
- The communication team should comprise a blend of communication experts and economists, where necessary, and must extensively collaborate with monetary policy and financial stability departments;
- The central bank should measure the effectiveness of its communication regularly and review its strategy, where necessary, to isolate factors that contribute to failure or success of communication; and
- The timetable or calendar for regular communications should be published, and central banks communication strategy should be flexible enough to accommodate unplanned or emergency situations.

8.3 SUB-REGIONAL INSTITUTIONS

8.3.1 34th Meeting of the WAMZ Committee of Governors

The 34th Meeting of the Committee of Governors (CoG) of the Central Banks of the West African Monetary Zone (WAMZ) was held in Freetown, Sierra Leone on February 9, 2017, to deliberate on the status of implementation of the WAMZ work programme. The Report of the 40th Meeting of the Technical Committee formed the basis for the deliberations. The CoG endorsed the following recommendations for consideration by the Convergence Council. The recommendations urged member states to:

- Diversify their economies to minimise the impact of shocks, domestic or external, as well as, stimulate growth through targeted spending in growth-enhancing sectors for employment generation and poverty reduction;
- Strengthen fiscal consolidation through expenditure rationalisation and revenue mobilisation measures, including tax administration and enforcement strategies, aimed at curbing tax evasion and excessive duty waivers to improve the fiscal deficit to GDP ratio;
- Restrain the rising wage bill in some member-countries through the development and implementation of reforms in public financial management; and
- Redouble their efforts to address the constraints inhibiting the deepening of capital market integration in West Africa, while noting the progress so far made.

The CoG further directed the WAMI to:

- Undertake a study on the implications of fragility of member states' economies on the convergence process, with implementable recommendations at the next statutory meetings;
- Finalise and re-present the paper on "Managing Commodity Price Shocks in the WAMZ: The Role of Fiscal, Monetary and Exchange Rate Policies" to the Technical Committee;
- Prepare a proposal and seek funding for the WAMZ Payments and Settlement System (WAMZPSS), which would function among others, as an inter-linkage between the RTGS of the WAMZ member states

via SWIFT to facilitate cross border trade and efficient and safe transfer of funds, as well as, serve as a platform for quoting and trading in the WAMZ national currencies; and

- Establish three sub-committees, i.e., Legal and Institutional, Payments System, and Operations - to facilitate the work of the Experts Committee on Quoting and Trading in the WAMZ national currencies;

The CoG also:

- Endorsed the transformation of WAMI into a commission based on the lean structure model;
- Approved the roadmap leading to the establishment of the proposed WAMZ Commission, including the preparation of a project document, proposals for the amendment of the WAMZ Agreement and the convening of WAMZ Heads of State Summit to consider and approve the establishment of the Commission; and
- Urged member states, that were yet to commence implementation of the Common External Tariff (CET), to make efforts to resolve issues hindering the take-off, as those countries that had implemented have not suffered any revenue loss.

8.3.2 32nd Meeting of the Board of Governors of the West African Institute for Financial and Economic Management (WAIFEM)

The 32nd Meeting of the Board of Governors of the West African Institute for Financial and Economic Management (WAIFEM) was held in Freetown, Sierra Leone on February 9, 2017. The Meeting was preceded by the 35th Meeting of the Technical Committee held on February 5, 2017. The Meeting was chaired by the Deputy Governor, Bank of Liberia and Chairman, Board of Governors of WAIFEM. The report of the Technical Committee formed the basis for the deliberations by the Board.

The Governors:

- Adopted the draft minutes of the 31st Meeting of the Board of Governors and the progress report by the Director General;
- Approved the Draft Revised Budget for the Year 2017; and

8

INTERNATIONAL AND REGIONAL INSTITUTIONS

- Noted the Report on studies conducted by the Research Unit; the Progress Report on the Implementation of the WAIFEM's Strategic Plan; as well as, the Status Report on WAIFEM as an ECOWAS Training Institute.

8.3.3 49th Meeting of the Committee of Governors of Central Banks of ECOWAS Member States

The 49th Ordinary Meeting of the Committee of Governors (CoG) of Central Banks of ECOWAS Member States was held on February 9, 2017 in Freetown, Sierra Leone. The Meeting was preceded by the 30th Meeting of the Technical Committee which was held from February 3 to 4, 2017. The CoG Meeting reviewed and discussed the report of the 30th Meeting of the Technical Committee. After deliberations, the CoG endorsed the following recommendations:

I. On the ECOWAS Monetary Cooperation Programme, the CoG urged Member Countries to:
    - Improve the business climate with the aim of diversifying their economies, strengthening growth prospects and boosting exports;
    - Take all necessary measures to contain budget deficits, halt the rapid growth in public debt and improve the impact of government expenditure on their citizenry; and
    - Show more commitment to the monetary integration agenda by ensuring compliance with the convergence criteria on a sustained basis;
    - Liberia should fast-track efforts in the de-dollarization of its economy;
    - Urged WAMA to conduct studies on:
        a. The Relationship between GDP, Growth in Money Supply and Inflation in ECOWAS Member Countries; and,
        b. The Sufficiency of the Convergence Criteria as Basis for Monetary Integration in ECOWAS.

II. The CoG also noted the Report on Exchange Rate Developments for ECOWAS Currencies in 2015 and the first half of 2016 and urged member States to:

- Undertake structural reforms, aimed at transforming and diversifying their exports to increase their foreign exchange earning capacities;
- Take measures to encourage local production and consumption, as part of the process of import substitution;
- Promote the use of local currencies in domestic transactions; and
- Strengthen economic policies by enhancing the collaboration between monetary and fiscal authorities.

The CoG further took cognisance of the report on Financial Sector Developments and Stability in ECOWAS in the First half of 2016, and urged member countries to:

- Adopt risk-based supervision and set up deposit insurance schemes to safeguard depositors' funds, reinforce public confidence in the banking system and contribute towards financial stability; and
- Initiate the establishment of colleges of supervisors for systemically-important financial institutions to guard against financial instability.

III. The CoG directed WAMA to:

- Assess whether inflation targeting lite could be the optimal framework for the ECOWAS monetary policy;
- Undertake a study on the compatibility of the inflation targeting lite framework with exchange rate regimes of the ECOWAS member countries;
- Update the Proposal for the Establishment of an Exchange Rate Mechanism for ECOWAS, taking into account recent developments in ECOWAS currencies;
- Review the strengths and weaknesses of the currencies of the ECOWAS member countries and evaluate movements towards convergence; and

- Conduct a study to assess the impact of the proposed exchange rate mechanism on the economies of member states.

8.3.4 37th Meeting of the Convergence Council of Ministers and Governors of Central Banks of the West African Monetary Zone (WAMZ)

The 37th Meeting of the Convergence Council of Ministers and Governors of the Central Banks of the West African Monetary Zone (WAMZ) was held on February 10, 2017 in Freetown, Sierra Leone, to deliberate on the status of implementation of the WAMZ Work Programme. The Report of the 34th Meeting of the Committee of Governors formed the basis for the deliberations. The Meeting unanimously elected the Republic of Sierra Leone as Chair of the Convergence Council. The Council approved the recommendations of the Committee of Governors.

8.3.5 Mid-Year Statutory Meeting of the Economic Community of West African States (ECOWAS)

The Mid-Year Statutory Meeting of the Economic Community of West African states (ECOWAS) was held in Monrovia, Liberia from May 25 to June 4, 2017, to assess the progress made in the implementation of the ECOWAS Monetary Cooperation Programme (EMCP), highlight the major areas of concern, as well as, identify important areas requiring urgent attention towards the 2020 monetary integration deadline. The major outcome of the Meeting was the adoption, in principle, of Morocco as a member. Importantly, the President of Liberia, Mrs. Ellen Johnson Sirleaf, who was also the outgoing ECOWAS President, handed over the mantle of leadership to the President of Togo, Faure Gnassingbé, in line with the rotational principle.

8.3.6 The 4th Meeting of the Presidential Task Force on the Economic Community of West African States (ECOWAS) Single Currency Programme

The 4th Meeting of the Presidential Task Force on the ECOWAS Monetary Cooperation Programme (EMCP) was held on October 24, 2017 in Niamey, Republic of Niger. The Meeting was preceded by the Technical Committee and Ministerial meetings, which held from October 22 to 23, 2017. The purpose of the Meeting was to examine the status of implementation of the

ECOWAS single currency programme and make concrete proposals to accelerate the programme. The Meeting also reviewed the status of implementation of the roadmap for the ECOWAS Single Currency programme and proposals to fast-track the process.

The Meeting:

- Noted that not much progress had been made regarding the implementation of previous recommendations of the Presidential Taskforce;
- Set up a special Fund for the financing of the activities of the roadmap and the support of national statistics towards improving the quality of statistics was still pending;
- Observed weak performance in the implementation of the roadmap activities for the ECOWAS Single Currency Programme in terms of achieving the convergence criteria; lack of multi-year convergence programmes in some member states and low level of implementation of the various statistical harmonisation programmes; and
- Recommended the effective monitoring of national economies and strengthening of the multilateral surveillance mechanism by improving the human resources capacity of the Multilateral Surveillance Directorate, and revitalisation of the Convergence Council meetings with effective participation of the Ministers of Finance and Governors of Central Banks.
- The meeting recommended:
  - Regular holding of the meetings of the Presidential Task Force, the last being in February 2015;
  - Improvement in the quality and frequency of statistics produced;
  - The improvement of the mechanism of multilateral surveillance by strengthening the technical and financial capacities of the National Coordinating Committees (NCCs) in the member states; and,
  - Provision of adequate financing for the roadmap activities.