FINANCIAL STABILITY REPORT

DECEMBER 2018

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LIST OF ACRONYMS

AMCON	Asset Management Corporation of Nigeria

AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BDCs	Bureaux de Change
BOI	Bank of Industry
BRICS	Brazil, Russia, India, China, and South Africa
BVN	Bank Verification Number
CACS	Commercial Agriculture Credit Scheme
CAR	Capital Adequacy Ratio
CBN	Central Bank of Nigeria
COB	Currency Outside Banks
CRMS	Credit Risk Management System
DAX	Deutscher Aktienindex (German stock index of 30 major German companies)
DFIs	Development Finance Institutions
DMBs	Deposit Money Banks
EBAs	Eligible Bank Assets
ECB	European Central Bank
EGX CASE 30	Egypt Stock Exchange (Cairo and Alexandria Stock Exchange) 30 Stock Index
FAO	Food and Agriculture Organisation
FATF	Financial Action Task Force
FCs	Finance Companies
FGN	Federal Government of Nigeria
FMBN	Federal Mortgage Bank of Nigeria
FRACE	Financial Regulation Advisory Council of Experts
FSIs	Financial Soundness Indicators
FSR	Financial Stability Report
FSRCC	Financial Services Regulation Co-ordinating Committee
GDP	Gross Domestic Product
GSE	Ghanaian Stock Exchange
HHI	Herfindahl-Hirschman Index
ICE	Intercontinental Exchange
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
KYC	Know Your Customer
M_1	Narrow Money Supply
M_2	Broad Money Supply
M_3	M_2 plus CBN Bills held by the money holding sectors
MENA	Middle East and North African Countries
MFBs	Microfinance Banks
MICEX	Moscow Interbank Currency Exchange
MoUs	Memoranda of Understanding
MPR	Monetary Policy Rate
NBS	National Bureau of Statistics
NCR	National Collateral Registry
NDC	Net Domestic Credit
NDIC	Nigeria Deposit Insurance Corporation
NIBSS	Nigerian Inter-bank Settlement System
NMRC	Nigeria Mortgage Re-finance Company Plc
NPLs	Non-Performing Loans

NSE ASI	Nigerian Stock Exchange All-Share Index
NSE 20	Nairobi Stock Exchange 20-Share Index
NYMEX	New York Mercantile Exchange
OBB	Open Buy Back
OFIs	Other Financial Institutions
OPEC	Organisation of Petroleum Exporting Countries
ORB	OPEC Reference Basket
PAIF	Power and Aviation Infrastructure Fund
PENCOM	National Pension Commission of Nigeria
PFAs	Pension Fund Administrators
PFCs	Pension Fund Custodians
PMBs	Primary Mortgage Banks
PoS	Point of Sale
PSV 2020	Payments System Vision 2020
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real-Time Gross Settlement System
S&P/TSX	Standards and Poor's Composite Index of the Toronto Stock Exchange
SEC	Securities and Exchange Commission
SMEs	Small and Medium Enterprises
WAMZ	West African Monetary Zone
WEO	World Economic Outlook
WTI	West Texas Intermediate

GOVERNOR'S STATEMENT

The global economy witnessed a slowdown in the second half of the year, underpinned by weak economic activity, reduction in private consumption, regional tensions and elevated financial market pressures in Emerging Markets and Developing Economies. Furthermore, rising interest rates in several advanced economies triggered capital outflows from most developing economies, including Nigeria. However, the domestic economy has, through the successful implementation of various policy measures, effectively moderated the negative impacts of these developments.

Consequently, the GDP growth rate sustained its upward trend, largely driven by strong performance in the non-oil sector, reflecting government efforts at diversification of the economy and boosting alternative revenue sources. The Bank will continue to implement programmes towards supporting the real sector to ensure that the economy remains on a steady trajectory of recovery towards the achievement of its growth projections.

The Bank maintained its non-expansionary monetary policy stance in the second half of 2018 to rein in inflationary pressure. Inflation is anticipated to increase in the coming months. Consequently, the Bank will continue to apply monetary policy tools to contain the inflationary headwinds.

Potential risks to the stability of the banking system as a result of high exposure to the oil and gas sector, cyber-crime and trade tensions remain. However, the Bank has implemented appropriate policies and regulatory measures to significantly minimise the impact of such risks on the Nigerian financial system.

The Bank will intensify efforts at strengthening the existing synergy between the fiscal and monetary authorities. This will help to ensure that policies are complementary in engendering growth and development of the Nigerian economy.

Godwin I. Emefiele, CON
Governor, Central Bank of Nigeria

FOREWORD

Global economic expansion continued at a decreasing rate in the second half of 2018, with financial conditions slightly tightening against a backdrop of gradual increase in policy rates, weakening financial market sentiment, trade policy uncertainty, Brexit concerns and China's slow growth. Global financial markets recorded bearish performance in the second half of 2018, driven by declines in major equity markets in the North America region, Euro Area, UK and Asia region.

In the foreign exchange market, the US dollar appreciated against other major currencies, owing largely to increase in the US policy rate. In oil exporting countries, the relative stability in oil prices led to a sustained rebound in economic growth and a relative stability in the foreign exchange markets.

In Nigeria, real GDP growth rate rose in the second-half of the year by 2.10 per cent on a year-on-year basis from 1.73 per cent in the first half of 2018, reflecting a 0.27 percentage-point increase. The sustained non-expansionary monetary policy stance of the Bank has continued to support moderation in inflation trend and growth in foreign capital inflows.

In its continued efforts to strengthen regulation and ensure the safety and soundness of the Nigerian banking system, the CBN issued regulatory guidelines for the adoption of IFRS 9 standards and the implementation of Basel II/III requirements. Similarly, the Bank sustained its enhanced supervision of Domestic Systemically Important Banks (DSIBs) to manage systemic risks and ensure prudent business conduct by Nigerian banks.

This edition of the *Financial Stability Report* is in five sections. Section one reviews the global and domestic developments. Section two discusses developments in the financial system, while section three covers regulatory and supervisory activities and highlights key stability issues. Key developments in the payments system are discussed in section four, while section five provides the outlook for the financial system.

This *Report* is highly recommended for the general public, particularly business investors, market players and private individuals.

Aishah N. Ahmad, CFA
Deputy Governor, Financial System Stability

EXECUTIVE SUMMARY

Global output growth declined to 3.70 per cent in 2018 from 3.80 per cent achieved in 2017, largely underpinned by dwindling consumer demand, decline in oil prices and weak financial markets. Global inflation trended upward, owing mainly to the pass-through effect of currency depreciation, especially for most emerging markets and developing economies. In Sub-Saharan Africa, however, inflation dipped slightly on account of weak consumer demand. International stock markets generally showed bearish performance, influenced majorly by heightened trade tension, weak economic growth and increased geopolitical uncertainties. With the exception of Brazil and Argentina, most other key stock markets declined considerably in the second half of 2018. Monetary policy rates for most central banks were kept relatively stable. In the foreign exchange market, major currencies depreciated against the US dollar with the exception of the Japanese Yen, the Mexican Peso and the Kenyan Shilling which appreciated during the review period.

On the domestic front, the economy continued its gradual recovery as the gross domestic product grew by 2.10 per cent in the second half of 2018. The improvement was largely attributed to the rebound of activities in the services and agricultural sectors. Inflationary pressures edged up slightly in the second half of 2018 as headline inflation (year-on-year) increased to 11.44 per cent in December 2018 from 11.23 per cent at end June 2018. External reserves declined by US$4.57 billion in the second half of 2018 to US$42.59 billion, while in the foreign exchange market, the naira remained relatively stable.

The non-expansionary stance of monetary policy continued in the review period in response to global and domestic economic developments. Relative to the level at end-December 2017, broad money supply, M3, rose by 16.58 per cent at end-December 2018. Net aggregate credit to the economy rose marginally by 6.42 per cent at end-December 2018, reflecting the increases in both net claims on the Federal Government and credit to the private sector. Reserve money grew by 0.32 per cent in the review period, higher than the 2018 indicative benchmark. The growth in reserve money reflected the increase observed in net domestic assets. The Bank continues to play its developmental roles by supporting the real sector through the various intervention programmes aimed at providing affordable credit for financing the sector.

The average short-term money market rates traded mostly above the MPR of 14.00 per cent. Money market rates closed higher at the interbank market with the overnight call and Open Buy Back rates trading above their levels in the preceding half year. Short-term maturities maintained dominance in the credit market, though their share to total credit declined. Similarly, banks' short-term deposits (below one year) constituted a significant portion of the total. In the capital market, the Nigerian Stock Exchange All Share Index and Market Capitalization decreased, owing largely to foreign capital flow reversals.

Routine bank examination reports indicated improvements in the composite risk ratings of the banks. The CAR of the banking industry increased to 15.21 per cent from 12.11 per cent in the first half of 2018, reflecting improvement in the capital cover of banks' exposures. Similarly, the industry ROA, ROE and interest margin recorded improvements, signifying the profitability of the industry.

During the period under review, the Bank established a new Department known as Payments System Management Department. Its mandate are to strengthen the supervision and regulation of payment service providers as well as facilitate early identification of emerging risks, thereby boosting public confidence in the payment system.

1.0 ECONOMIC AND FINANCIAL DEVELOPMENTS

1.1 Global Developments

1.1.1 Output

Global output slowed during the second half of 2018, due largely to dwindling global consumer demand, decline in oil prices and weak financial market sentiment. Accordingly, output growth was estimated at 3.70 per cent in 2018, less than the 3.80 per cent recorded in 2017.

Growth in the advanced economies was estimated at 2.30 per cent in 2018, lower than the 2.40 per cent achieved in 2017. In the United States (US), growth increased by 2.90 per cent in 2018, compared with 2.20 per cent in 2017, driven mainly by rising fiscal stimulus and consumer spending. In Japan, output growth was estimated at 0.90 per cent in 2018, compared with 1.90 per cent in 2017, reflecting slowdown in private consumption. Growth in the Euro Area was estimated at 1.80 per cent in 2018, lower than the 2.40 per cent recorded in 2017, following the expected weak economic activity and political uncertainties.

In Emerging Market and Developing Economies, growth was estimated at 4.60 per cent in 2018, compared with 4.70 per cent in 2017, due largely to the slowdown in prices of crude oil and other commodities. Growth in China slowed down to 6.60 per cent in 2018, from the 6.90 per cent achieved in 2017. In the Middle East and North Africa (MENA) region, growth was estimated at 2.40 per cent in 2018, compared with 2.20 per cent in 2017.

Growth in Sub-Saharan Africa (SSA) was estimated at 2.90 per cent in 2018 as was the case in 2017. In Nigeria, growth was estimated at 1.90 per cent in 2018, higher than the 0.8 per cent recorded in 2017, due largely to the increase in oil receipts and non-oil growth.

Table 1.1: Global Growth

Region/Country	Year-on-Year (%)				
	2015	2016	2017	2018	2019*
World	3.4	3.2	3.8	3.7	3.5
Advanced Economies	2.1	1.7	2.4	2.3	2.0
United States	2.6	1.5	2.2	2.9	2.5
Euro Area	2.0	1.8	2.4	1.8	1.6
Japan	1.2	1.0	1.9	0.9	1.1
United Kingdom	2.2	1.8	1.8	1.4	1.5
Canada	0.9	1.4	3.0	2.1	1.9
Emerging Market and Developing Economies	4.2	4.4	4.7	4.6	4.5
China	6.9	6.7	6.9	6.6	6.2
MENA	2.6	5.0	2.2	2.4	2.4
Sub-Saharan Africa	3.4	1.5	2.9	2.9	3.5
Nigeria	2.7	-1.6	0.8	1.9	2.0

Source: *IMF's World Economic Outlook Update, January 2019* *Note: * 2019 figures are Projections*

1.1.2 Inflation

Inflation increased in some advanced economies, including Japan and the US, while it slowed down in the Euro Area and United Kingdom (UK). In the emerging market and developing economies, inflation rose due to the pass-through effect of currency depreciations in most of the economies.

Inflation in the US accelerated to 2.50 per cent in 2018, from 1.80 per cent recorded in 2017. In Japan, inflation rose to 1.10 per cent in 2018, from 0.10 per cent in 2017, driven by wage increases and sustained growth in commodity prices. However, inflation in Euro Area moderated to 1.50 per cent in 2018 as against 2.00 per cent in 2017. Inflation in United Kingdom declined to 2.70 per cent in 2018, from 2.80 per cent in 2017. The decline reflected the decrease in household demand.

In the emerging market and developing economies, inflation rose marginally to 4.60 per cent in 2018, from 4.50 per cent in 2017. Inflation in the MENA region increased significantly to 8.70 per cent in 2018, from 3.70 per cent in 2017, owing to oil production cuts, tighter financial conditions and mounting geopolitical threats. Inflation in Sub-Saharan Africa declined from 10.80 per cent in 2017 to 9.50 per cent in 2018 due, largely, to weak demand.

Table 1. 2: Global Inflation

Region/Country	2015	2016	2017	2018	2019*
Advanced Economies	0.3	0.8	1.5	2.0	1.9
United States	0.1	1.3	1.8	2.5	2.1
Euro Area	0.0	0.2	2.0	1.5	1.7
Japan	0.8	-0.1	0.1	1.1	1.3
United Kingdom	0.1	0.6	2.8	2.7	2.2
Emerging Market and Developing Economies	4.7	4.3	4.5	4.6	5.2
Middle East and North Africa	5.9	5.4	3.7	8.7	10.6
Sub-Saharan Africa	7.0	11.4	10.8	9.5	9.8

Source: *WEO Update, October. 2018 & January, 2019.*
* 2019 figures are projected annual averages.

1.1.3 Oil Prices

The prices of crude oil declined in the second half of 2018, driven by a surge in global oil supply and economic slowdown. The OPEC Reference Basket (ORB) declined by 10.36 per cent to US$65.33 per barrel at end-December 2018, from US$75.69 per barrel at end-June 2018. The ICE Brent also decreased from US$76.79 per barrel at end-June 2018 to US$51.93 per barrel at end-December 2018, reflecting a decrease of 32.37 per cent. The West Texas Intermediate (WTI) declined by 26.98 per cent to US$45.15 per barrel at end-December 2018, from US$61.83 per barrel at end-June 2018. The Bonny Light decreased by 24.50 per cent to US$59.22 per barrel at end-December 2018, from US$78.44 per barrel at end-June 2018.

Table 1.3: Oil Prices (US$ per barrel)

	End-Dec. 2016	End-Jun. 2017	End-Dec. 2017	End-Jun. 2018	End-Dec. 2018
OPEC Reference Basket (ORB)	53.30	45.63	64.47	75.69	65.33
ICE Brent	54.66	47.13	67.08	76.79	51.93

West Texas Intermediate (WTI)	54.75	45.10	60.42	61.83	45.15
Bonny Light	55.76	47.48	68.03	78.44	59.22

Source: OPEC and Reuters

1.1.4 Food Prices

The Food and Agriculture Organization (FAO) Food Price Index decreased by 6.91 per cent to an average of 161.70 points at end-December 2018, from 173.7 points at end-June 2018. The development was due mainly to the fall in the prices of sugar and dairy products.

The FAO Dairy Price Index reduced by 20.26 per cent to an average of 170.00 points at end-December 2018, compared with 213.20 points at end-June 2018. The reduction was largely due to lower price quotations for butter, cheese and whole-milk powder.

The FAO Vegetable Oils Price Index averaged 125.80 points at end-December 2018, from 146.1 points at end-June 2018, reflecting a decrease of 13.89 per cent owing, mainly, to large palm oil inventories and excess supply of soy and sunflower oils.

The FAO Meat Price Index stood at 163.60 points at end-December 2018. This indicated a 3.65 per cent reduction from 169.80 points at end-June 2018, reflecting a marginal decrease in ovine and porcine prices.

However, the FAO Cereal Price Index averaged 167.10 points at end-December 2018, reflecting a marginal increase of 0.54 per cent, compared with 166.20 points at end-June 2018. The increase was attributed to the rise in the prices of wheat and maize during the review period.

Similarly, the FAO Sugar Price Index averaged 179.60 points at end-December 2018, indicating an increase of 1.24 per cent from the 177.4 points recorded at end-June 2018, due to reduction in harvest.

Table1. 4: World Food Price Index

	Dec 2016	**Jun 2017**	**Dec 2017**	**Jun 2018**	**Dec 2018**
Food Price Index	163.4	175.2	169.1	173.7	161.7
Meat	157.9	175.2	169.7	169.8	163.6
Dairy	137.9	209.0	184.4	213.2	170.0
Cereals	156.9	154.3	152.4	166.2	167.1
Vegetable Oils	161.9	162.1	162.6	146.1	125.8
Sugar	276.0	197.3	204.1	177.4	179.6

Source: Food and Agriculture Organization (FAO), January 2019

1.1.5 International Stock Markets

The performance of the international stock markets during the second half of 2018 was generally bearish, influenced majorly by growing trade uncertainty, weak economic performance and political challenges. The weak performance of most stock markets was attributed to the US-China trade tension and other geopolitical uncertainties.

In North America, the United States S&P 500, the Mexican Bolsa index and Canadian S&P/TSX Composite indices decreased by 8.56, 13.02 and 12.63 per cent respectively. However, in South America, the Brazilian Bovespa Stock and Argentine Merval indices increased by 20.29 and 16.34 per cent respectively, due largely to general improvement in macroeconomic stability and economic growth, while the Colombian COLCAP index decreased by 15.92 per cent.

Performance in some European countries showed that the UK FTSE 100, France CAC 40 and the Germany DAX indices decreased by 11.82, 12.11 and 14.20 per cent respectively.

In Africa, the Nigerian NSE All-Share and South African JSE All-Share indices declined by 17.21 and 8.97 per cent respectively. Similarly, the Kenyan Nairobi NSE 20, Egyptian EGX CASE 30 and Ghanaian GSE All-Share indices declined by 14.75, 20.58 and 13.29 per cent respectively.

Table 1.5: Indices of Selected Stock Markets

Country	**Index**	**End-Dec 17 (1)**	**End-Jun 18 (2)**	**End-Dec 18 (3)**	**% Change (1) & (3)**	**% Change (2) & (3)**
AFRICA						
Nigeria	ASI	38,243.19	38,278.55	31,692.63	-17.13	-17.21
South Africa	JSE African AS	59,504.67	57,610.98	52,444.89	-11.86	-8.97
Kenya	Nairobi NSE 20	3,711.94	3,285.73	2,800.95	-24.54	-14.75
Egypt	EGX CSE 30	15,019.14	16,348.55	12,984.21	-13.55	-20.58
Ghana	GSE All Share	2,579.72	2,878.66	2,496.18	-3.24	-13.29
NORTH AMERICA						
US	S&P 500	2,673.61	2,718.36	2,485.74	-7.03	-8.56
Canada	S&P/TSX Composite	16,209.13	16,277.73	14,222.00	-12.26	-12.63
Mexico	Mexico Bolsa (IPC)	49,354.42	47,663.20	41,459.15	-16.00	-13.02
SOUTH AMERICA						
Brazil	Bovespa Stock	76,402.08	72,762.51	87,887.26	-15.03	20.79
Argentina	Merval	30,065.61	26,037.01	30,292.55	-0.75	16.34
Colombia	COLCAP	1,513.65	1,577.01	1,325.93	12.40	-15.92
EUROPE						
UK	FTSE 100	7,687.77	7,636.93	6,733.97	12.41	-11.82
France	CAC 40	5,312.56	5,323.33	4,678.74	11.93	-12.11

Germany	DAX	12,917.64	12,306.00	10,558.96	18.26	-14.20

1.1.6 Foreign Exchange Market

The foreign exchange market witnessed depreciation in major currencies against the U.S. dollar during the second half of 2018. The strengthening of the US dollar precipitated currency pressures in most economies.

In North America, the Canadian dollar depreciated by 3.68 per cent, while the Mexican peso appreciated by 1.32 per cent. The appreciation of the peso was due, largely, to rate hike by Banco De Mexico.

In South America, the Argentine peso and Colombian peso depreciated by 23.20 and 9.82 per cent respectively, while the Brazilian real appreciated by 0.26 per cent.

Most currencies in Europe depreciated during the review period. The pound sterling, euro and Russian ruble depreciated by 2.56, 1.15 and 10.01 per cent respectively.

In Asia, the Japanese yen appreciated by 0.98 per cent, while the Chinese renminbi and Indian rupee depreciated by 3.78 and 1.86 per cent respectively (Table 1.6). The appreciation of the yen against the dollar was due, largely, to Japan's growing economy, following strong export growth and increased government spending.

In Africa, the Nigerian naira, South African rand, Kenyan shilling and Ghanaian cedi depreciated against the US dollar by 0.41, 4.32, 0.82 and 3.86 per cent respectively, while the Egyptian pound remained unchanged.

Table 1.6: Trend of Selected Currencies

Exchange Rates of Selected Countries (Value in local currency units to US$)						
Country/Region	**Currency**	**31-Dec-17 (1)**	**30-Jun-18 (2)**	**31-Dec-18 (3)**	**% Change (App/Dep) (2) & (3)**	**Y-on-Y % (App/Dep) (1) & (3)**
AFRICA						
Nigeria	**Naira**	**306.00**	**305.75**	**307.00**	**-0.41**	**-0.33**
South Africa	**Rand**	**12.38**	**13.73**	**14.35**	**-4.32**	**-13.73**
Kenya	**Shilling**	**103.18**	**101.01**	**101.85**	**-0.82**	**1.31**
Egypt	**Pound**	**17.81**	**17.92**	**17.92**	**0.00**	**-0.61**
Ghana	**Cedi**	**4.51**	**4.73**	**4.92**	**-3.86**	**-8.33**
NORTH AMERICA						
Canada	**Dollar**	**1.26**	**1.31**	**1.36**	**-3.68**	**-7.35**

Mexico	**Peso**	**19.66**	**19.91**	**19.65**	**1.32**	**0.05**
SOUTH AMERICA						
Brazil	**Real**	**3.31**	**3.88**	**3.87**	**0.26**	**-14.47**
Argentina	**Peso**	**18.62**	**28.93**	**37.66**	**-23.18**	**-50.56**
Colombia	**Peso**	**2986.84**	**2930.50**	**3249.75**	**-9.82**	**-8.09**
EUROPE						
UK	**Pound**	**0.74**	**0.76**	**0.78**	**-2.56**	**-5.13**
Euro Area	**Euro**	**0.83**	**0.86**	**0.87**	**-1.15**	**-4.60**
Russia	**Ruble**	**57.63**	**62.74**	**69.72**	**-10.01**	**-17.34**
ASIA						
Japan	**Yen**	**112.69**	**110.76**	**109.69**	**0.98**	**2.73**
China	**Renminbi**	**6.51**	**6.62**	**6.88**	**-3.78**	**-5.38**
India	**Rupee**	**63.87**	**68.47**	**69.77**	**-1.86**	**-8.46**

Source: bloomberg

YoY = Year on Year

1.1.7 Monetary Policy Rates

Monetary policy rates in most central banks were relatively stable during the second half of 2018.

In the advanced economies, the Bank of Japan, European Central Bank, Reserve Bank of New Zealand and Reserve Bank of Australia maintained policy rates at 0.10, 0.00 - 0.05, 1.75 and 1.50 per cent respectively. These developments were attributed to moderate inflationary pressure and fall in unemployment rate in Australia, a looming uncertain policy environment of the Japanese economy and sustained efforts by the European Central Bank to achieve convergence of inflation below 2.00 per cent. However, the Bank of England, the US Federal Reserve, Bank of Canada and Bank of Korea increased policy rates from 0.50, 1.75 - 2.00, 1.25 and 1.50 per cent in the first half of 2018 to 0.75, 2.25 - 2.50, 1.75 and 1.75 per cent respectively, in the second half of 2018. Strong labour market conditions, credit growth in the United Kingdom and improved growth performance in the US accounted for the increases in rates.

In Asia, policy rate of the Bank Negara Malaysia remained at 3.25 per cent, while Bank Indonesia increased its rate from 5.25 to 6.00 per cent.

In the BRICS, the Central Bank of Brazil, Peoples' Bank of China and South African Reserve Bank kept policy rates unchanged during the second half of 2018 at 6.50, 4.35 and 6.50 per cent respectively. However, the Bank of Russia and the Reserve Bank of India changed policy rates from 7.25 and 6.00 per cent during the first half of 2018 to 7.75 and 6.50 per cent, respectively, during the second half of 2018.

In the emerging market economies, the Bank of Mexico and Central Bank of Chile increased monetary policy rates from 7.75 to 8.25 per cent and 2.50 to 2.75 per cent respectively, while Banco Central de Colombia maintained its rate at 4.25 per cent during the period under review.

In Africa, the Central Bank of Egypt, Bank of Ghana and Central Bank of Nigeria retained policy rates at 16.75, 17.00 and 14.00 per cent respectively, during the second half of 2018 (Table 1.7). This was largely on account of relatively stable domestic prices, moderate output growth and stable financial system.

Table 1. 7: Policy Rates of Selected Countries

	2018						**2018**					
Country/Region	**Jan - 18**	**Feb-18**	**Mar-18**	**Apr-18**	**May-18**	**Jun-18**	**Jul - 18**	**Aug-18**	**Sep-18**	**Oct-18**	**Nov-18**	**Dec-18**
Developed Economies												
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Europe	0.0-0.05	0.0-0.05	0.0-0.05	0.0-0.05	0.0-0.05	0.0-0.05	0.0-0.05	0.0-0.05	0.0-0.05	0.0-0.05	0.0-0.05	0.0-0.05
UK	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
US	1.25-1.50	1.25-1.50	1.50-1.75	1.50-1.75	1.50-1.75	1.75-2.00	1.75-2.00	1.75-2.00	2.00 - 2.25	2.00 - 2.25	2.00 - 2.25	2.25 -2.50
Canada	1.25	1.25	1.25	1.25	1.25	1.25	1.50	1.50	1.50	1.75	1.75	1.75
South Korea	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75	1.75
New Zealand	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Australia	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Asia												
Indonesia	4.25	4.25	4.25	4.25	4.75	5.25	5.25	5.50	5.75	5.75	6.00	6.00
Malaysia	3.00	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
BRICS												
Brazil	7.00	6.75	6.75	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Russia	7.75	7.50	7.25	7.25	7.25	7.25	7.25	7.25	7.50	7.50	7.50	7.75
India	6.00	6.00	6.00	6.00	6.00	6.00	6.25	6.50	6.50	6.50	6.50	6.50
China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
South Africa	6.75	6.75	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Other Emerging Economies & South America												
Mexico	7.25	7.50	7.50	7.50	7.50	7.75	7.25	7.50	7.50	7.50	8.00	8.25
Chile	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.75	2.75
Colombia	4.75	4.50	4.50	4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Africa												
Egypt	18.75	18.75	17.5	16.75	16.75	16.75	16.75	16.75	16.75	16.75	16.75	16.75
Ghana	20.00	20.00	20.00	18.0	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00
Nigeria	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00

Source: www.cbrates.com, www.tradingeconomics.com, Central Bank of Nigeria

1.1.8 Potential Risks from the Global Economic Developments

i. Trade disputes, especially between the US and its major trading partners, could worsen trade barriers and restrictions, thereby impacting negatively on global output.

ii. The expected slowdown in China's growth could significantly impact global demand and commodity prices.

iii. Uncertainties and soft asset prices in the global financial market could trigger deterioration in market sentiment and impact negatively on most emerging market economies, including Nigeria.

iv. Normalisation of monetary policy in the US and the euro area could exacerbate risk of capital reversal and increase foreign exchange demand pressure in emerging market economies.

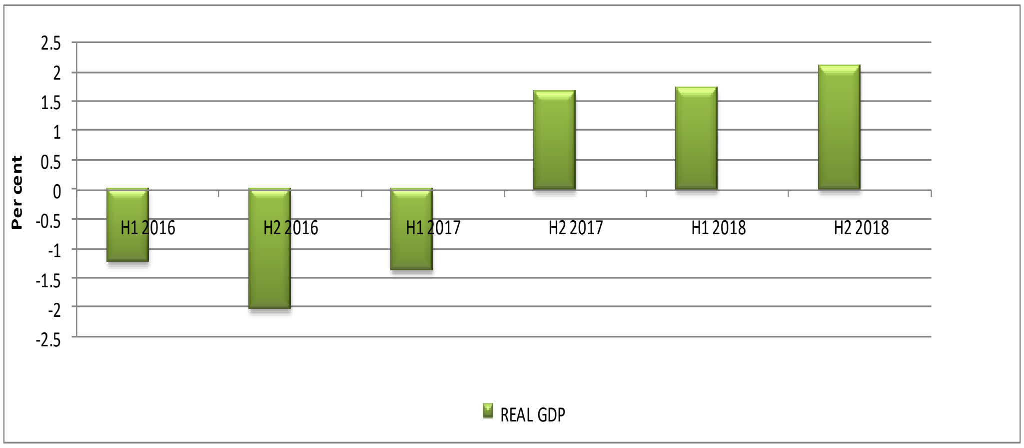
v. Declining oil prices pose major threats to projected oil revenue inflows to Nigeria and may worsen macroeconomic projections.

1.2 Domestic Developments

1.2.1 Output

The growth momentum of the economy improved in the second half of 2018, as real GDP, measured at 2010 constant prices, grew on a year-on-year basis to 2.10 per cent, compared with 1.73 per cent recorded in the first half of 2018. The sustained increase was attributed mainly to the growth in the non-oil sector of the economy.

Figure 1.1: Real GDP Growth rate (%)



1.2.1.1:Non-Oil Sector

Non-oil real GDP grew by 2.52 per cent in the second half of 2018, compared with 1.41 per cent in the first half of 2018. The percentage share of the non-oil sector to total GDP stood at 91.81 per cent, compared with 90.93 per cent recorded in the preceding half-year. With respect to sectoral contributions in real terms, the services sub-sector accounted for the largest share (35.73%), followed by agriculture (27.66%), industry (17.20%), trade (16.16%) and construction (3.25%) sub-sectors (Table 1.8).

Table 1. 8: Gross Domestic Product by Sub-Sectors (Percentage of Total)

Sub-sector	H1 2018 (%)	H2 2018 (%)
Agriculture	22.26	27.66
Construction	4.28	3.25
Services	37.93	35.73
Trade	16.75	16.16
Industry	18.77	17.20

Source: NBS

The percentage change of the non-oil GDP showed that the agricultural sub-sector grew by 2.17 per cent in the second half of 2018, compared with 2.05 per cent in the corresponding period of 2017. Similarly, the other subsectors (except oil) recorded positive changes in the second half of 2018, relative to their levels in the corresponding period of 2017 (Table 1.9).

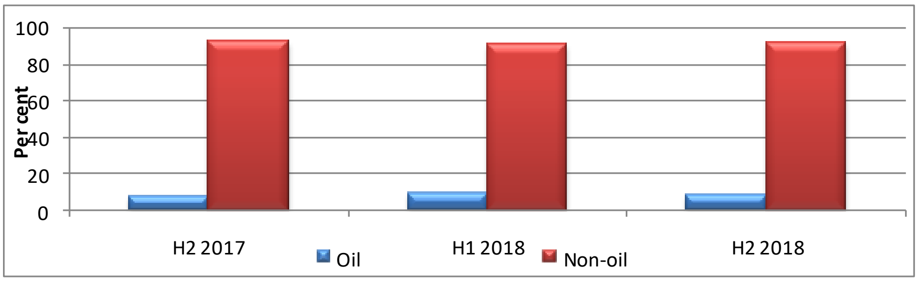
Table 1. 9: Changes (per cent) in Real GDP by Sector

Sub-sector	H1 2018	H2 2018
Agriculture	2.05	2.17
Construction	3.18	1.36
Services	2.40	3.66
Trade	(2.36)	1.00
Industry	3.48	0.02

1.2.1.2 Oil Sector

Oil GDP fell by 2.34 per cent in the second half of 2018, in contrast to the increase of 4.90 per cent in the first half of 2018. Consequently, the percentage share of the oil sector to the real GDP declined by 0.88 percentage point to 8.19 per cent, from the 9.07 per cent recorded in the first half of 2018.

Figure 1.2: Share of Oil and Non-Oil Sectors in Real GDP (%)



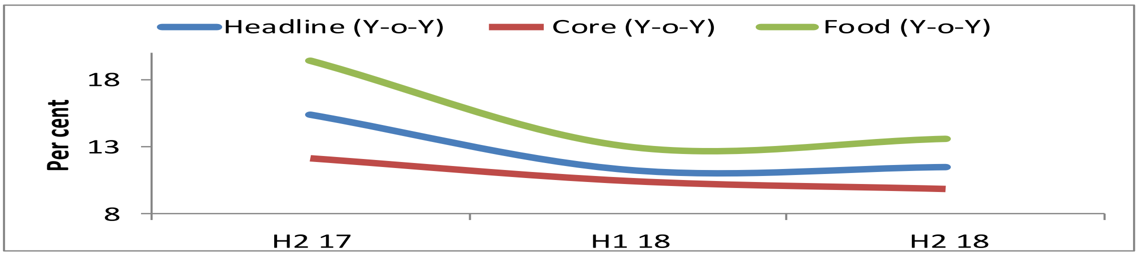
1.2.2 Inflation

The all-items composite Consumer Price Index (CPI) stood at 274.60 at end-December 2018, compared with 260.50 and 246.40 at end-June 2018 and end-December 2017, respectively. In the review period, the index was higher than the levels in the first half of 2018 and the corresponding half of 2017 by 5.41 and 11.44 per cent, respectively. Consequently, headline inflation increased slightly to 11.44 per cent in December 2018, from 11.23 per cent at end-June 2018.

The twelve-month moving average headline inflation in December 2018 stood at 12.10 per cent, compared with 14.37 and 16.50 per cent recorded in June 2018 and the corresponding period of 2017, respectively. Core inflation fell by 0.62 percentage point to 9.80 per cent in December 2018 from 10.40 per cent in June 2018, reflecting decreases in the prices of fuel and lubricants, clothing materials, furniture and furnishing, clothing and footwear, transport, health, education and miscellaneous goods.

However, food inflation, which comprised farm produce and processed food, rose to 13.56 per cent in December 2018, compared with 12.98 per cent in June 2018. The increase was driven by the two components of the index. Imported food inflation at end-December 2018 fell slightly to 15.66 per cent, compared with 15.68 per cent recorded at end-une 2018. The relative contribution of imported food components to food inflation was 3.90 percentage points at end-December 2018, compared with 3.85 percentage points at end-June 2018.

Figure 1.3: Inflationary Trend (Year-on-Year)



1.2.3 Fiscal Operations[1]

The estimated Federal Government retained revenue for the second half of 2018, at ₦1,952.16 billion, was lower than the half-year budget figure and the receipts in the preceding half of 2018 by 48.3 and 1.7 per cent, respectively. The breakdown of the retained revenue showed that the share of the Federal Government from the Federation Account was ₦1,653.06 billion (84.68%); VAT Pool Account, ₦80.08 billion (4.10%); Federal Government Independent Revenue, ₦68.53 billion (3.51%); Excess Non-oil, ₦6.18 billion (0.32%); Exchange Gain, ₦63.81 billion (3.27%); and Additional NNPC share, ₦5.50 billion (0.28%). Others (including the FGN balance of Special Accounts, unspent balance from the previous year, transfer to CRF)

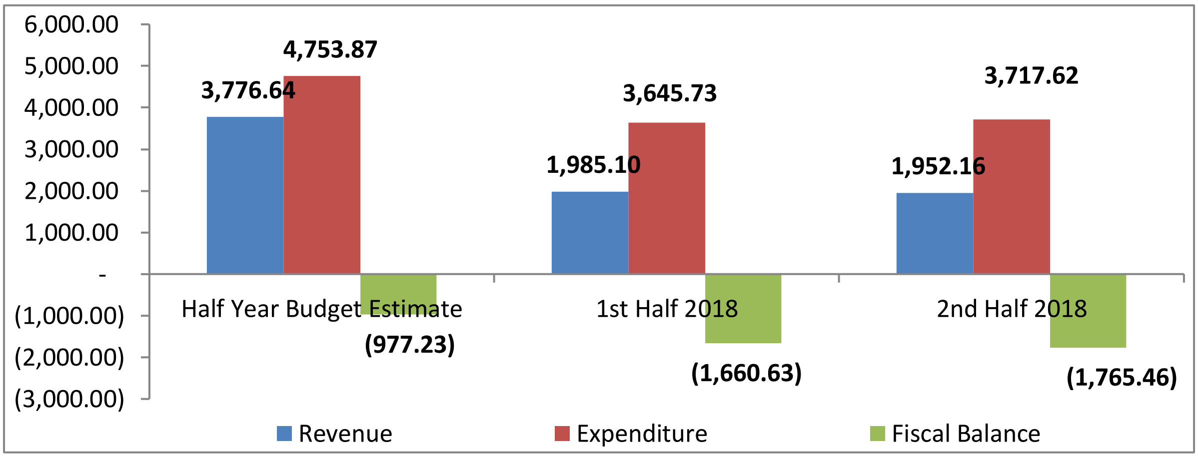
[1] Data from January to September was obtained from OAGF, while October to December was CBN staff estimate.

accounted for the balance of ₦75.01 billion (3.84%). The decrease in retained revenue relative to the first half was attributed mainly to the fall in Federal Government Independent Revenue.

Federal Government expenditure in the second half of 2018 at ₦3,717.62 billion, was lower than the half year budget figure by 21.80 per cent. However, it was above the level in the preceding half-year by 2.00 per cent. The expenditure profile of the Federal Government comprised recurrent expenditure (85.8%), capital expenditure (8.10%) and transfers (6.10%). A breakdown of the total recurrent expenditure indicated that the non-debt obligations accounted for 53.50 per cent and debt service payments, 46.50 per cent.

The fiscal operations of the Federal Government in the second half of 2018 resulted in an overall deficit of ₦1,765.46 billion or 2.57 per cent of GDP, compared with the deficit of ₦1,660.63 billion (2.81% of GDP) in the first half of 2018. The deficit was financed, mainly, through domestic sources.

Figure 1. 4: Federal Government Fiscal Operations (₦ billion)



Source: OAGF & CBN

The consolidated domestic debt stock of the Federal Government at end-December 2018 was ₦12,443.13 billion. This reflected an increase of 2.40 per cent over the ₦12,151.44 billion recorded at end-June 2018. The FGN Bonds constituted 73.41 per cent, while the Nigerian Treasury Bills constituted 21.99 per cent. The FGN Sukuk and Green Bond accounted for 1.61 and 0.09 per cent of the total domestic debt stock respectively. FGN Special Bonds, Savings Bonds and Nigerian Treasury Bonds accounted for 1.61, 0.09 and 1.21 per cent respectively.

1.2.4 External Sector

The external sector remained favourable owing largely to higher earnings from crude oil exports occasioned by the improved domestic production and prices at the international market. There was relative stability in all segments of the foreign exchange market, arising from increased liquidity, leading to gradual convergence of rates in the various foreign exchange windows.

1.2.4.1 Foreign Exchange Flows

Foreign exchange inflow through the CBN amounted to US$28.91 billion in the second half of 2018, a decline of 5.25 per cent from the level in the preceding half-year. The sources of inflow were mainly from crude oil sales, treasury single account, investment income and other official receipts.

Foreign exchange outflow through the CBN rose by 45.54 per cent to US$33.39 billion, compared with US$22.94 billion recorded in the first half of 2018.

Table 1.10: Foreign Exchange Flows through the CBN (US$ million)

Period	Inflow	Outflow	Net flow
H2 - 2018	28,910.00	33,390.29	(4,480.29)
H1 - 2018	30,511.65	22,942.31	7,569.34
H2 - 2017	27,799.64	18,959.03	8,840.61

Source: CBN

1.2.4.2 Reserve Management

External reserves decreased by US$4.57 billion or 9.69 per cent to US$42.59 billion at end-December 2018, from US$47.16 billion at end-June 2018. The decrease in the external reserves was attributed largely to sales to authorized dealers. A breakdown of the external reserves indicated that the CBN, the FGN and the Federation holdings were 82.93, 15.93 and 1.14 per cent of the total respectively. Further analysis showed that 89.24 per cent of the reserves was held in US dollars, 4.90 per cent in SDR, 4.80 per cent in renminbi and 1.06 per cent in other currencies at end-December 2018.

During the review period, inflows into external reserves stood at US$28.91 billion, on account of receipts into the treasury single account, crude oil sales and related taxes, while outflows amounted to US$33.39 billion. The outflows were driven mainly by interventions in the foreign exchange market.

1.2.5 Threats from Domestic Macroeconomic Developments

- The challenges in some major food-producing areas, leading to less-than-expected harvest.
- Pre-election spending poses a threat to inflation.
- The implementation of the OPEC production cuts and volatile oil prices could lead to lower revenues, which may dampen domestic output growth recovery.
- Political uncertainties from the upcoming general elections could create negative market sentiments and trigger capital flow reversals.

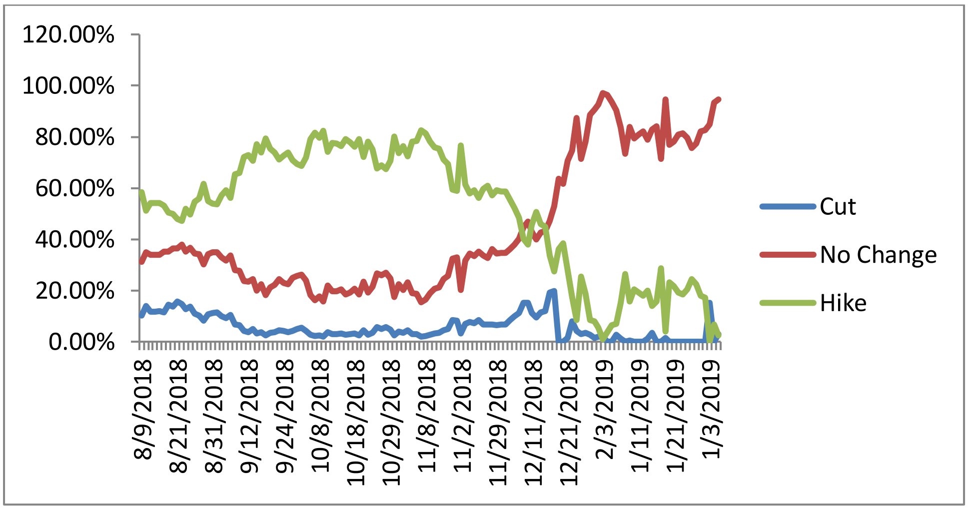
1.2.6 Potential Risks from the External Sector

i. Rising inflation and expected rate hike in the US could lead to rise in bond yields and decrease in the value of the reserve portfolio.

ii. The continued appreciation of the US dollar could result in translation losses on the conversion of external reserve assets that are held in third currencies.

iii. The prevailing policy rate uncertainties in the US could trigger major distortions in pricing projections in the international financial system and may affect Nigeria's ability to forecast portfolio value and returns.

Fig1.5: Probability of Rate Hike by the US Federal Reserve



Source: Bloomberg.

Figure 1.5 showed that the likelihood of hikes or cuts in interest rate is low, indicating that the rate is expected to remain unchanged in the short to medium-terms.

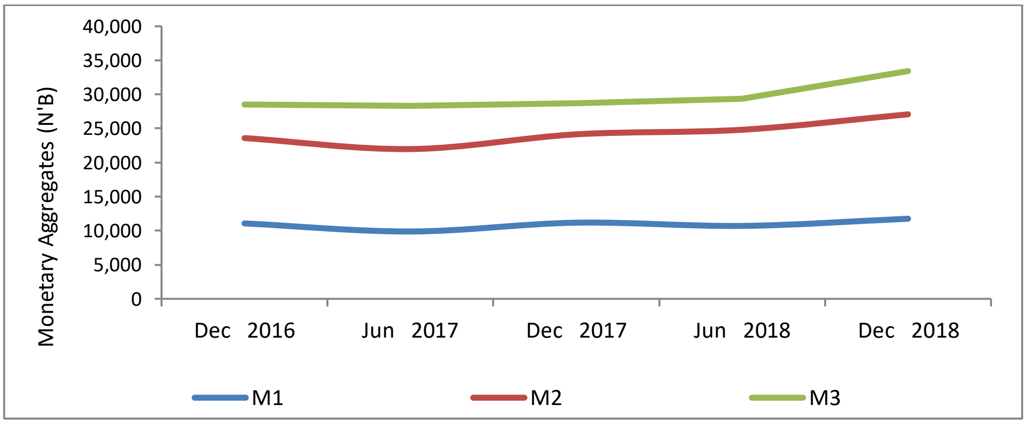
2.0 DEVELOPMENTS IN THE FINANCIAL SYSTEM

2.1 Monetary and Credit Developments[2]

In response to global and domestic economic developments, the Bank maintained its non-expansionary monetary policy stance in 2018. Monetary aggregates trended upwards in the second half of 2018 as broad money supply (M3)[3] grew by 16.58 per cent at end-December 2018, compared with 2.35 and 0.59 per cent at end-June 2018 and end-December 2017, respectively. This was due to the increases of 18.54, 6.42 and 1.65 per cent in net foreign assets, domestic credit (net) and other assets (net) of the banking system. The growth in total monetary liabilities was driven by the 5.15 and 18.22 per cent increases in narrow money and quasi-money respectively.

Provisional data indicated that narrow money (M1) rose by 5.15 per cent to ₦11,751.14 billion at end-December 2018, in contrast to the decline of 4.36 per cent at end-June 2018. The increase in M1 was due to 7.32 and 4.74 per cent rise in currency outside banks (COB) and demand deposits (DD) respectively.

Figure 2.1: Trend in Monetary Aggregates



The intermediation efficiency of the banking system, measured by the proportion of currency outside banks (COB) to total monetary liabilities stood at 5.72 per cent, indicating an increase of 0.54 percentage point above the level at end-June 2018 and a slight deterioration in the intermediation efficiency of the banking industry. The proportion of time and savings deposits, to total monetary liabilities, fell by 2.23 percentage point below its level at end-June 2018.

2.1.1 Aggregate Credit to the Economy

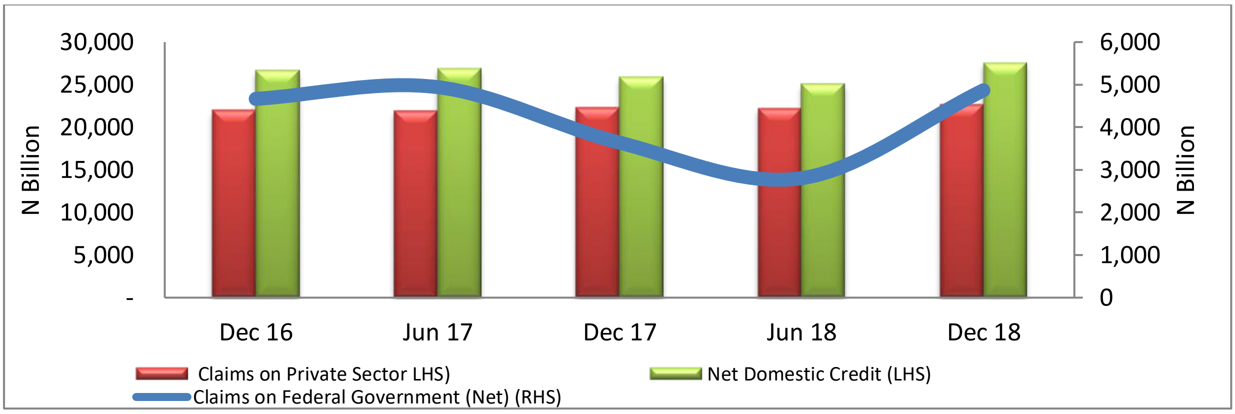
Aggregate credit to the domestic economy (net) grew by 6.42 per cent to ₦27,594.16 billion at end-December 2018 as against the decline of 16.29 per cent at end-June 2018. The growth in aggregate credit was attributed to the 33.77 and 1.96 per cent increases in net claims on the Federal Government and claims on the private sector, respectively. Consequently, aggregate

[2] December 2018 figures are provisional.

[3] M3 is M2 plus CBN Bills held by the money holding sectors (OFIs, State & Local Governments, Non-financial Public Corporations and Households).

credit to the domestic economy (net) contributed 5.8 percentage points to the growth in M3 at end-December 2018.

Figure 2.2: Credit to the Economy



2.1.1.1 Claims on the Federal Government (Net)

Net claims on the Federal Government increased to ₦4,867.52 billion at end-December 2018, compared with ₦2,805.01 billion at end-June 2018, reflecting the growth in holdings of government securities by banks.

2.1.1.2 Aggregate Claims on the Private Sector

Banking system credit to the private sector increased by 1.96 per cent to ₦22,726.58 billion at end-December 2018, in contrast to a decline of 0.04 per cent at end-June 2018. The increase was due to the 1.98 and 0.57 per cent growth in claims on the core[4] private sector and state and local governments, respectively.

Table 2.1: Growth in Monetary Aggregates

% Change (Over preceding December)	Jun 16	Dec 16	Jun 17	Dec 17 revised	Jun 18 revised	Dec 18 Provisional
Foreign Assets (Net)	25.69	61.85	(7.45)	69.63	18.15	18.54
Domestic Credit (Net)	13.93	23.30	1.02	(3.46)	(3.25)	6.42
Claims on Federal Government (Net)	9.66	61.37	5.91	(25.36)	(22.92)	33.77
Claims on Private Sector	14.59	17.42	(0.02)	1.40	-0.04	1.96
Other Assets (Net)	(33.38)	(71.51)	(10.51)	(70.29)	(10.17)	1.65
Money Supply (M1)	11.05	29.12	(10.70)	(0.85)	(4.25)	5.15
Currency Outside Banks	(5.29)	25.02	(18.86)	(2.07)	(14.74)	7.32
Demand Deposits	14.40	29.96	(9.09)	(0.62)	(2.25)	4.74
Quasi-Money	9.61	7.52	(4.30)	5.23	8.85	18.22

[4]Exclude state and local governments.

Money Supply (M2)	10.23	16.77	(7.33)	2.33	2.79	12.17
CBN Bills held by Money Holding Sectors	14.60	190.71	29.09	(7.76)	0.02	40.05
Money Supply (M3)	10.57	31.23	(0.64)	0.59	2.35	16.58

Source: CBN

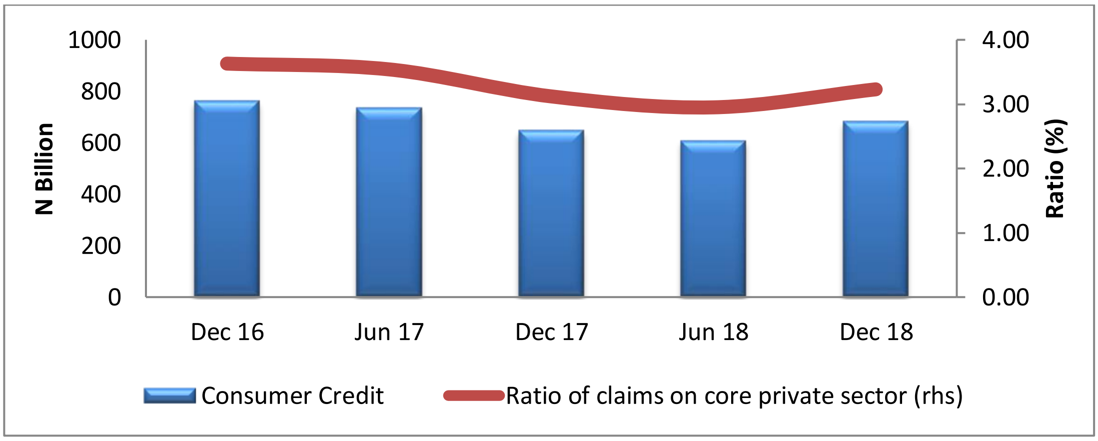
2.1.1.3 Foreign Assets (net) of the Banking System

Net foreign assets of the banking system rose by 18.54 per cent to ₦18,397.82 billion at end-December 2018, compared with the growth of 18.15 per cent at end-June 2018. The increase reflected the growth in foreign assets of the CBN by 20.13 per cent. Accordingly, its contribution to the growth of M3 was 9.80 percentage points at end-December 2018.

2.1.1.4 Consumer Credit

Outstanding consumer credit increased by 13.08 per cent to ₦683.36 billion at end-December 2018, compared with ₦608.33 billion recorded at end-June 2018. This constituted 3.23 per cent of banks' outstanding claims on the core private sector and was 0.28 percentage point higher than the proportion at end-June 2018 (Figure 2.3).

Figure 2.3: Consumer Credit



2.1.2 Classification of Private Sector Credit

Credit to the private sector fell by 1.35 per cent to ₦15,134.20 billion, compared with ₦15,340.93 billion at end-June 2018. Industry sub-sector accounted for the highest share of total credit to the private sector at end-December 2018, representing 41.00 per cent, compared with 38.50 per cent in the preceding half year.

Table 2.2: Sectoral Distribution of Credit

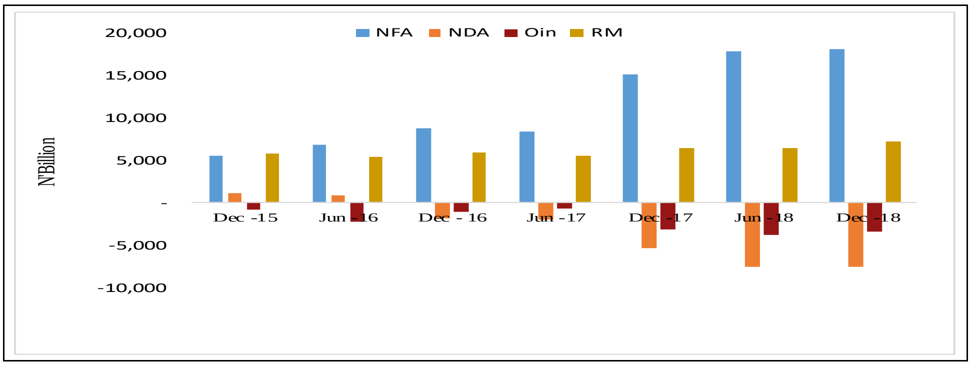
Sector	June 2018		December 2018	
	₦ 'Billion	**Share of Total (%)**	**₦ 'Billion**	**Share of Total (%)**
Industry	**5,899,919.1**	38.46	**6,203,191.74**	40.99
Others	**2,423,399.9**	15.80	**2,074,933.03**	13.71
Government	**1,474,130.7**	9.61	**1,362,578.41**	9.00
Finance, Insurance and Capital Market	**991,217.4**	6.46	**1,106,419.03**	7.31
Oil & Gas	**1,235,658.6**	8.05	**1,096,546.06**	7.25
Trade/General Commerce	**1,044,359.3**	6.81	**1,076,724.12**	7.11
Real Estate	**744,563.2**	4.85	**622,776.16**	4.12
Construction	**612,846.9**	3.99	**614,514.34**	4.06
Agriculture	**523,076.0**	3.41	**610,149.66**	4.03
Power and Energy	**319,914.4**	2.09	**309,117.02**	2.04
Education	**71,848.4**	0.47	**57,253.29**	0.38
TOTAL PRIVATE SECTOR CREDIT	**15,340,933.92**	100.00	**15,134,202.86**	100.00

The share of agriculture, construction and trade/general commerce sub-sectors of total credit increased to 4.03, 4.06 and 7.11 per cent above 3.41, 3.99 and 6.81 per cent respectively, in the first half of the year. However, the share of real estate, education, and power & energy sub-sectors declined to 4.12, 0.38 and 2.04 per cent from 4.85, 0.47 and 2.09 per cent respectively, in the first half of the year (Table 2.2).

2.1.3 Reserve Money

Reserve money at end-December 2018 grew by 10.08 per cent to ₦7,135.74 billion, compared with ₦6,362.65 billion recorded at end-June 2018. The level of reserve money at end-December 2018 was higher than the 2018 indicative benchmark of ₦7,112.74 billion by 0.32 per cent.. The rise in reserve money is attributable to the increase in net domestic assets. The corresponding upward movement in monetary liabilities reflected the 8.00 and 11.20 per cent increases in currency-in-circulation and bank reserves respectively.

Figure 2. 4: Reserve Money and its Components

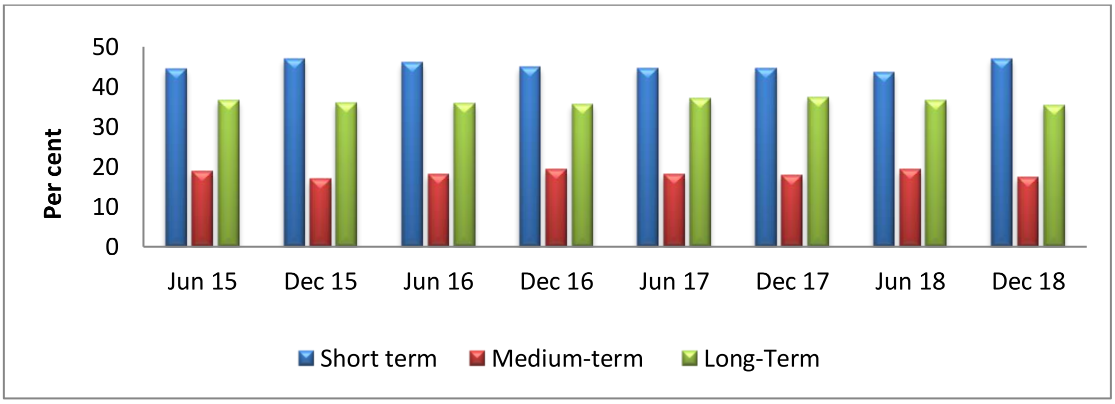


Currency-in-circulation, which constituted 32.65 per cent of reserve money at the end of the second half of 2018, rose by 8.00 per cent to ₦2,329.71 billion. Bank deposits with the CBN increased by 11.24 per cent to ₦4,806.03 billion at end-December 2018.

2.1.4 Maturity Structure of Bank Deposits and Credit

Commercial banks' outstanding credit at the end of the second half of 2018 showed that maturities below one year accounted for 47.10 per cent, compared with 44.10 per cent in the first half of 2018. The medium-term[5] and long-term[6] credit fell to 17.40 and 35.40 per cent, respectively, at the end of the second half of 2018 compared with 19.30 and 36.60 per cent recorded in the first-half of 2018. Short-term maturities maintained dominance in the credit market.

Figure 2.5: Distribution of Bank Loans and Advances by Maturity

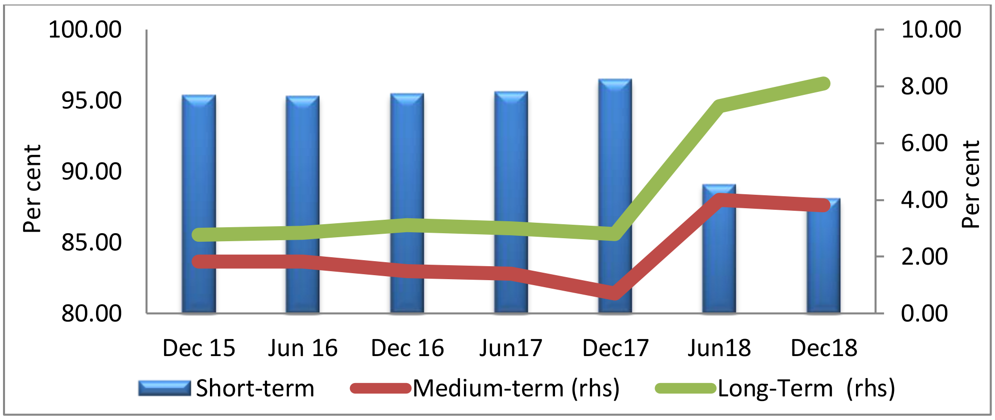


The deposit liabilities of banks showed that the short-term deposits (below one year) constituted 88.1 per cent of the total (72.90 per cent had a maturity of less than 30 days), compared with 89.10 per cent at end-June 2018. Medium and long-term deposits constituted 3.80 and 8.10 per cent of total deposits at end-December 2018, respectively, compared with 4.00 and 7.30 per cent at end-June 2018 (Figure 2.5).

[5] Medium term implies maturities ≥1yr and < 3yrs.

[6] Long term implies maturities of 3yrs and above.

Figure 2.6: Maturity Structure of Bank Deposits

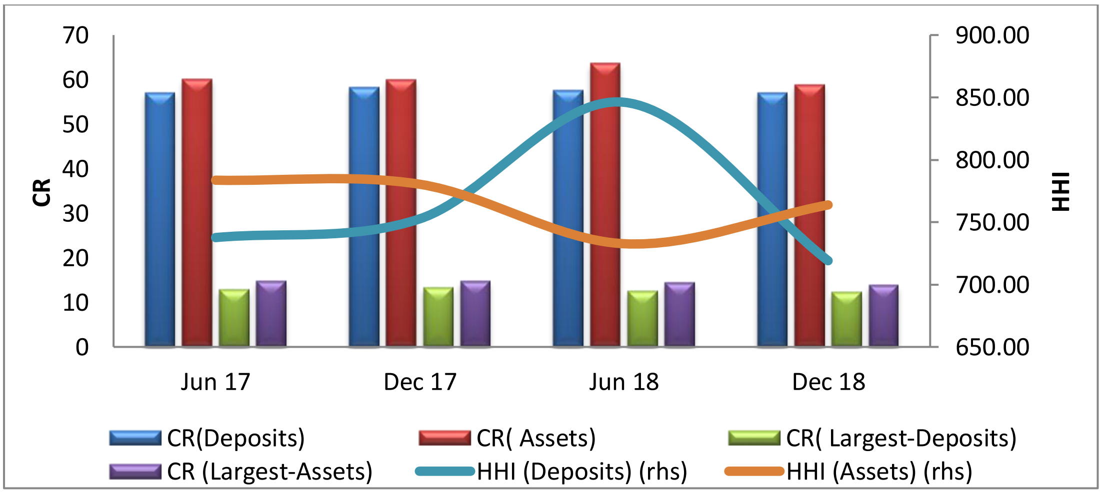


2.1.5 Market Structure of the Banking Industry

The Concentration Ratio (CR) of the six largest banks with respect to deposits and assets stood at 60.31 and 59.74 per cent at end-December 2018, compared with the 57.68 and 63.68 per cent recorded at end-June 2018, respectively. The market shares of the largest bank with respect to deposits and assets stood at 13.54 and 14.35 per cent respectively.

The remaining twenty banks had market shares ranging from 0.09 to 4.89 per cent, in deposits, and 0.14 to 4.89 per cent in assets, reflecting the skewed structure of the banking industry. The Herfindahl-Hirschman Index (HHI)[7] for the industry stood at 783.35 and 774.58 for deposits and assets at end-December 2018, compared with 846.14 and 732.72 at end-June 2018, respectively (Figure 2.8), indicating high concentration.

Figure 2.7: Concentration Ratios of the Banking Industry Assets and Deposits



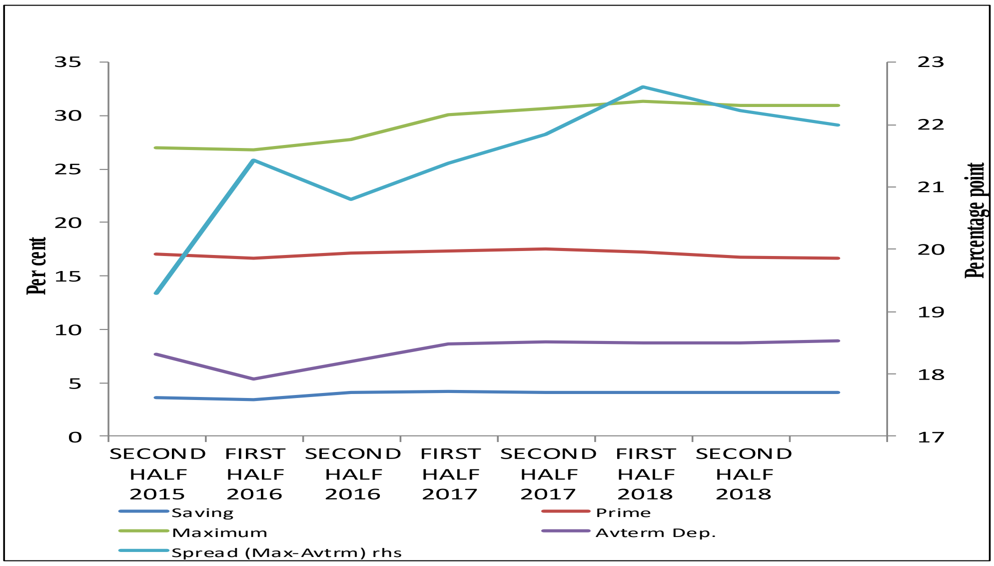
[7]HHI is based on a scale of 100 to 10,000, which measures concentration

2.1.6 Interest Rates

The 6-month weighted average prime and maximum lending rates fell in the second half of 2018 by 0.50 and 0.45 percentage points to 16.75 and 30.94 per cent, respectively, below the levels in the first half of 2018. Similarly, the average term deposit rate fell by 0.07 percentage point to 8.72 per cent in the second half of 2018. Consequently, the spread between the average term deposit and the average maximum lending rates narrowed by 0.38 percentage point to 22.22 per cent at the end of the second half of 2018. Real deposit rates were negative, while real prime and maximum lending rates recorded a positive trend, given the headline inflation rate of 11.44 per cent at end-December 2018.

All rates (on weighted average basis) except savings deposit rate, were lower than their levels in the first half of 2018. Average savings deposit rate remained at 4.07 per cent in the second half of 2018. Average deposit rates for 3-month, 6-month and 1-year tenors fell from 9.94, 10.90 and 10.36 per cent in the first half of 2018 compared with 9.50, 10.49 and 10.33 per cent in the second half of the same year. The decreases in rate were attributed to the liquidity surfeit experienced during the review period, arising from matured treasury bills and fiscal injections.

Figure 2. 8: Lending and Deposit Rates



2.2 Categorisation of Banks and Other Financial Institutions

The number of banks and other financial institutions (OFIs) licensed during the review period was 299 Bureaux De Change (BDCs), 5 Microfinance Banks (MFB) and 12 Finance Companies (FC), bringing the total number to 4,492 BDCs, 885 MFBs and 69 FCs at end-December 2018.

Table2.3 Licensed Financial Institutions

S/N	Type	Newly-Licensed Jan – Jun 2018	Newly-Licensed Jul-Dec 2018	Total Licensed in 2018	Total Number as at end-Dec 2018
1	Microfinance Banks	26	5	31	885
2	Bureaux De Change	445	299	744	4,492
3	Finance Companies	7	6	13	69
4	Commercial Banks	Nil	Nil	Nil	21
5	Merchant Banks	Nil	Nil	Nil	5
6	Specialized Banks	Nil	Nil	Nil	1
7	Development Finance Institutions	Nil	Nil	Nil	7
	Primary Mortgage Banks	Nil	Nil	Nil	35

2.3 Other Financial Institutions

There were 5,486 Other Financial Institutions (OFIs) at end-December 2018, compared with the 5,350 institutions at end-June 2018, reflecting an increase of 136 OFIs. The change was attributed to the licensing of 317 new OFIs, reinstatement of a Primary Mortgage Bank (PMB) and revocation of the licences of 182 OFIs (154 MFBs, 22 FCs, 6 PMBs).

The total assets and net loans and advances of the sub-sector increased by 8.10 per cent and 8.93 per cent to ₦2,990.82 billion and ₦1,349.42 billion at end-December 2018, from ₦2,766.62[8] billion and ₦1,238.75 billion at end-June 2018, respectively. Total deposits increased by 5.09 per cent to ₦655.73 billion at end-December 2018 from ₦623.98 billion at end-June 2018, while shareholders' funds decreased by 0.29 per cent to ₦538.73 billion at end-December 2018, from ₦540.31 billion at end-June 2018.

The increase in deposits was attributed largely to the disbursement of ₦50 billion Export Simulation Facility (ESF) to the Nigerian Export-Import Bank (NEXIM) by the Ministry of Finance Incorporated (MoFI), while the decrease in shareholders' funds was due to the revocation of the operating licences of 182 OFIs.

2.3.1 Development Finance Institutions

Total assets of the seven (7) DFIs increased by 8.59 per cent to ₦1,939.29 billion at end-December 2018, compared with ₦1,785.84 billion at end-June 2018. The paid-up capital of the institutions also increased by 0.73 per cent to ₦238.78 billion at end-December 2018, from ₦237.05 billion at end-June 2018. Similarly, the net loans and advances of the institutions

[8] First half figures for 2018 were revised.

increased by 15.74 per cent to ₦918.47 billion at end-December 2018, from ₦793.53 billion at end-June 2018.

However, the shareholders' funds decreased by 26.41 per cent to ₦248.88 billion at end-December 2018, from ₦338.18 billion at end-June 2018. The decline was due mainly to the losses reported by Bank of Agriculture (BOA), Federal Mortgage Bank (FMBN), Nigerian Export-Import Bank (NEXIM) and The Infrastructure Bank (TIB).

Bank of Industry (BOI), DBN and FMBN accounted for 56.08, 14.39 and 11.96 per cent of the total assets of the DFIs, while BOA, NEXIM, NMRC and TIB accounted for 7.63, 6.08, 3.58 and 0.29 per cent respectively. The BOI, FMBN, BOA, NEXIM, DBN and NMRC accounted for 69.37, 16.23, 5.10, 4.35, 3.08, and 1.87 per cent of the total net loans and advances respectively.

2.3.2 Mortgage Refinancing

2.3.2.1 Nigeria Housing Finance Programme

The Bank completed the implementation of the 5-year Nigeria Housing Finance Programme (NHFP), which was designed to increase access to housing finance. The Programme, supported by the World Bank/International Development Association (IDA) loan of $300 million, commenced on March 5, 2014 and terminated at end-December 2018.

2.3.2.2 Nigeria Mortgage Refinance Company

During the review period, NMRC issued a 15-year ₦11 billion Series II Bond with a coupon of 13.80% as part of its ₦440 billion Medium Term Note Programme. Following the bond issue and refinancing of mortgages valued ₦18.40 billion, NMRC fulfilled the conditions precedent to draw-down of the third tranche of the US$250 million loan allocated to it under the NHFP. With the disbursement of the third tranche of US$48.14 million, the total loan granted to the NMRC rose to US$168.14 million.

2.3.2.3 Mortgage Guarantee Product

The Bank, in collaboration with other stakeholders, commenced the development of a regulatory framework and design of the business plan for a mortgage guarantee company (MGC). The stakeholders included the Mortgage Bankers Association of Nigeria (MBAN), Nigeria Mortgage Refinance Company (NMRC), Federal Mortgage Bank of Nigeria (FMBN), Credit Bureau Association of Nigeria (CBAN) and National Pension Commission (PenCom).

The following were concluded for the MGC during the review period:

- Feasibility and business plan
- Incorporation
- Draft Shareholders' Agreement
- Programme Operational Manual

The draft Regulations for the operation of the MGC recommended a minimum paid-up capital requirement of ₦6.0 billion which is to be contributed as a pre-condition for licensing the company. The NMRC is designated to serve as anchor investor (with commitment to invest up to ₦1.5 billion in equity) and host institution for the NMGC.

2.3.2.4 Housing Microfinance

The implementation of the housing microfinance component continued in the review period with the initial assessment of seven (7) eligible MFBs to access the facility from the NHFP. Of the US$15 million Housing Microfinance (HMF) component of the NHFP, total disbursement of ₦555.94 million was made to eligible MFBs on the first tranche.

2.3.3 Developments in the Mortgage Sector

The developments in the mortgage sector in the review period included:

- The establishment of the Mortgage Interest Drawback Fund (MIDF) to deepen the housing finance market. The MIDF offers interest rate rebate/refund to mortgagors on conforming mortgages and interest rate rebate/refund to developers of residential estates, subject to compliance with the PMB guidelines.
- The commencement of the harmonisation of mortgage industry laws into a comprehensive model mortgage and foreclosure legal framework. Two states have fully adopted the implementation of the new framework, while six others have initiated processes towards full adoption.
- The establishment of the Family House Fund Limited to address the housing gap and employment challenges.
- The establishment of the Mortgage Warehouse Funding Limited (MWFL) to provide additional access to funding for mortgage lenders.
- The adoption of uniform underwriting standards for non-interest mortgages by operators.

2.3.4 Primary Mortgage Banks

There were 35 PMBs at end-December 2018, comprising 12 National and 23 State PMBs, compared with 34 at end-June 2018. The increase was due to the re-inclusion of Union Homes Savings and Loans Plc which was hitherto excluded, owing to the proposed merger arrangement with Aso Savings and Loans.

The total assets of the sector increased by 2.32 per cent to ₦451.95 billion at end-December 2018, from ₦441.71 billion at end-June 2018, owing largely to the increase in placements with banks as well as loans and advances. In that regard, total loans and advances, and placement with banks, increased by 3.27 and 11.65 per cent to ₦229.60 billion and ₦41.03 billion at end-December 2018 from ₦222.32 billion and ₦36.75 billion respectively, at end-June 2018.

Table 2. 4: PMB Financial Highlights at end-December 2018

	End-December 2018 (₦' billion)	**End-June 2018 * (₦' billion)**	**% Change**
Total assets	451.95	441.71	2.32
Loans and advances	229.60	222.32	3.27

Placements with banks	41.03	36.75	11.65
Deposit liabilities	140.43	138.87	1.12
Other liabilities	154.92	155.15	-0.15
Shareholders' funds	82.99	78.82	5.29

*Revised due to inclusion of Union Homes Savings and Loans Plc.

2.3.5 Finance Companies

The number of FCs fell to 69 at end-December 2018 from 82 FCs at end-June 2018, following the revocation of operating licences of 22 FCs during the review period. The affected institutions comprised 14 FCs that did not meet the new regulatory capital of ₦100 million and eight (8) other FCs for various reasons including: surrender of operating licences to the CBN; insolvency; and discontinuation of business.

Total assets of the sub-sector increased by 9.54 per cent to ₦174.69 billion at end-December 2018, from ₦159.48 billion at end-June 2018. The increase was attributed largely to two (2) FCs, which recorded increases of ₦6.7 billion and ₦2.6 billion respectively, in total assets. An additional factor was the increase in borrowings by 3.77 per cent to ₦103.82 billion at end-December 2018 from ₦100.05 billion at end-June 2018. Shareholders' funds increased marginally by 0.52 per cent to N29.25 billion at end-December 2018 from N29.10 billion at end-June 2018, owing largely to the revocation of the operating licences of some FCs during the review period.

Table 2. 3: Financial Position of the Finance Company Sub-sector at end-December 2018

	End-Dec 2018 (₦' billion)	**End-Jun 2018 (₦' billion)**	**Change (₦' billion)**	**% Change**
Total Assets	174.69	159.48	15.21	9.54
Cash in Vault	4.71	4.39	0.32	7.29
Balances with Banks	6.59	4.34	2.25	51.84
Loans and Advances	53.16	47.7	5.46	11.45
Investments	13.0	15.4	(2.4)	(15.58)
Fixed Assets	49.01	41.37	7.64	18.47
Borrowings	103.82	100.05	3.77	3.77
Shareholders' Funds	29.25	29.1	0.15	0.52
Paid-up capital	16.43	19.37	(2.94)	(15.18)
Reserves	12.82	9.73	3.09	31.76

2.3.6 Microfinance Banks

The total number of MFBs was 885, comprising 8 National, 135 State and 742 Unit MFBs at end-December 2018, compared with 1,034 at end- June 2018. The change was attributed to the revocation of the operating licences of 154 MFBs and licensing of five (5) new ones.

Total assets of the MFBs increased to ₦421.95 billion at end-December 2018, from ₦379.59 billion at end-June 2018, reflecting an increase of 11.16 per cent. The shareholders' funds increased by 3.63 per cent to ₦97.63 billion at end-December 2018 from ₦94.21 billion at end-June 2018. The increase was largely attributed to capital injection and the revocation of the operating licences of some MFBs.

Total deposit liabilities increased by 9.76 per cent to ₦213.25 billion at end-December 2018, from ₦194.28 billion at end-June 2018. Similarly, net loans and advances increased by 26.11 per cent to ₦220.95 billion at end-December 2018, from ₦175.20 billion at end-June 2018.

2.3. 7. Microfinance Certification Programme

During the review period, 609 candidates completed Level II Certification examination administered by the Chartered Institute of Bankers of Nigeria (CIBN), resulting in a total of 5,790 certified candidates at end-December 2018, compared with 5,181 at end- June 2018.

2.3.8 Bureau De Change

The total number of BDCs stood at 4,492 at end-December 2018 compared with 4,193 at end-June 2018, indicating an increase of 299 in the second half of 2018.

2.4 Financial Markets

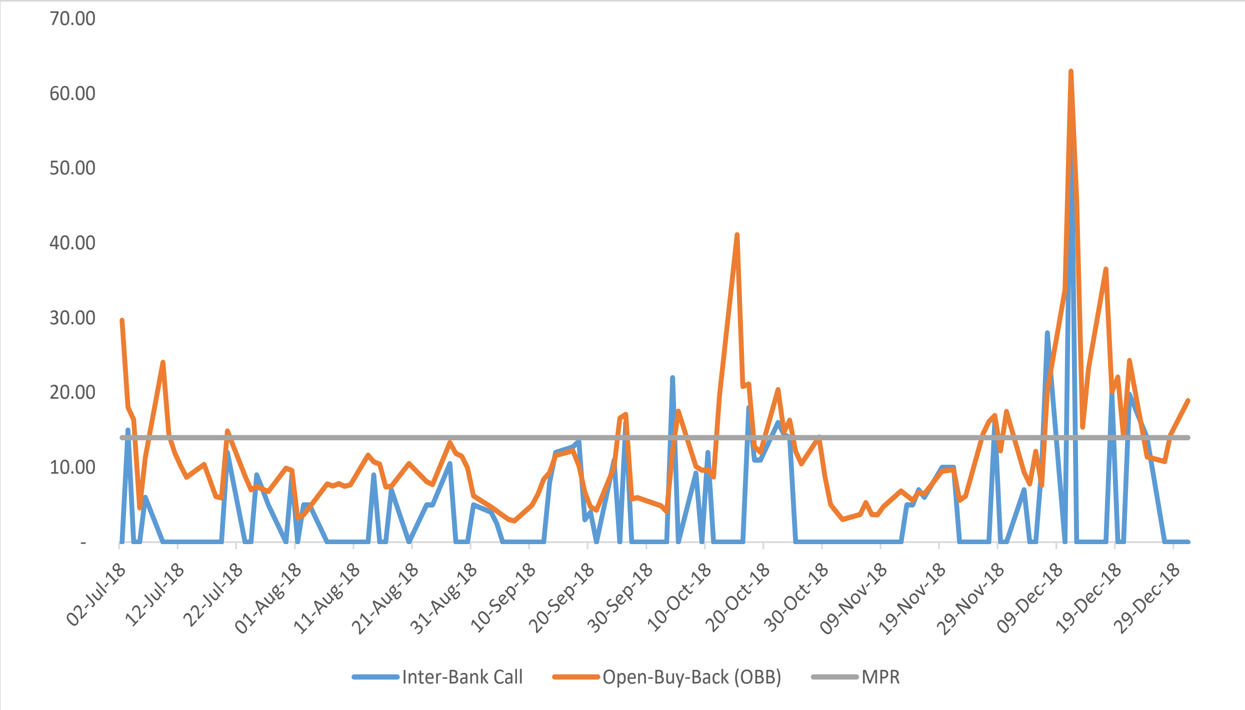
The non-expansionary monetary policy stance of the Bank was maintained in the second half of 2018 to tame inflationary pressures, attract capital inflows and sustain the stability of the exchange rate. Consequently, the Bank retained the Monetary Policy Rate (MPR) at 14.00 per cent and an asymmetric corridor of +200 basis points and -500 basis points around the MPR for the standing lending and deposit facilities respectively. Similarly, the Cash Reserve Ratio (CRR) and the Liquidity Ratio were retained at 22.50 per cent and 30.00 per cent respectively.

2.4.1 Money Market

Activities in the money market during the review period reflected liquidity conditions in the banking system. Open Market Operations (OMO) and foreign exchange interventions in the market were the major liquidity management instruments. The open-buy-back (OBB) daily average rates opened at 29.69 per cent on July 2, 2018 and unsecured inter-bank call weighted daily average rate opened at 15.00 per cent on July 3, 2018. The rates peaked at 63.00 and 60.00 per cent on December 11, 2018 and thereafter moderated to 10.81 and 14.00 per cent, respectively at end-December 2018.

During the review period, the OBB rate ranged between 2.94 and 63.00 per cent, while the inter-bank call rate ranged between 2.5 and 60.00 per cent, respectively, compared with 1.85 to 131.04 per cent and 1.00 to 140.00 per cent for the OBB and inter-bank call rates in the first half of 2018. The monthly average OBB and inter-bank call rates closed at 21.64 and 22.68 per cent at end-December 2018, respectively, compared with 12.49 and 17.28 per cent at end-June 2018.

Figure 2. 5: Daily Money Market Rates Movements July – December, 2018



2.4.1.1 Nigerian Treasury Bills

The Nigerian Treasury Bills (NTBs) for 91-, 182- and 364-day tenors totalling N1,689.02 billion were issued and allotted in the second half of 2018, indicating an increase of N35.66 billion or 2.16 per cent, from the N1,653.37 billion recorded in the first half of 2018. The increase was attributed to the rise in NTB issues. Total subscription for NTBs was N3,136.83 billion during the second half of 2018, indicating a decline of N440.12 billion or 12.30 per cent from the N3,576.95 billion recorded in the first half of 2018. The average marginal rates for the issues ranged between 10.0000 - 11.0000 for the 91-day, 10.4000 - 13.4900 for the 182-day and 11.2200 - 14.4500 for the 364-day tenors respectively.

Commercial banks (including foreign investors) took up N843.41 billion or 49.93 per cent, merchant banks, N30.05 billion or 1.78 per cent, and mandate and internal funds customers, N815.57 billion or 48.29 per cent, compared with the distribution. However, in the first half of 2018, commercial banks (including foreign investors) took up N920.07 billion or 55.65 per cent, merchant banks, N40.69 billion or 2.46 per cent, and mandate and internal funds customers, N692.61 billion or 41.89 per cent.

The NTBs outstanding at end-December 2018 showed that commercial banks accounted for 47.11 per cent, parastatals, 38.16 per cent, merchant banks, 1.31 per cent, and mandate and internal fund customers, 13.42 per cent.

2.4.2 Foreign Exchange Market

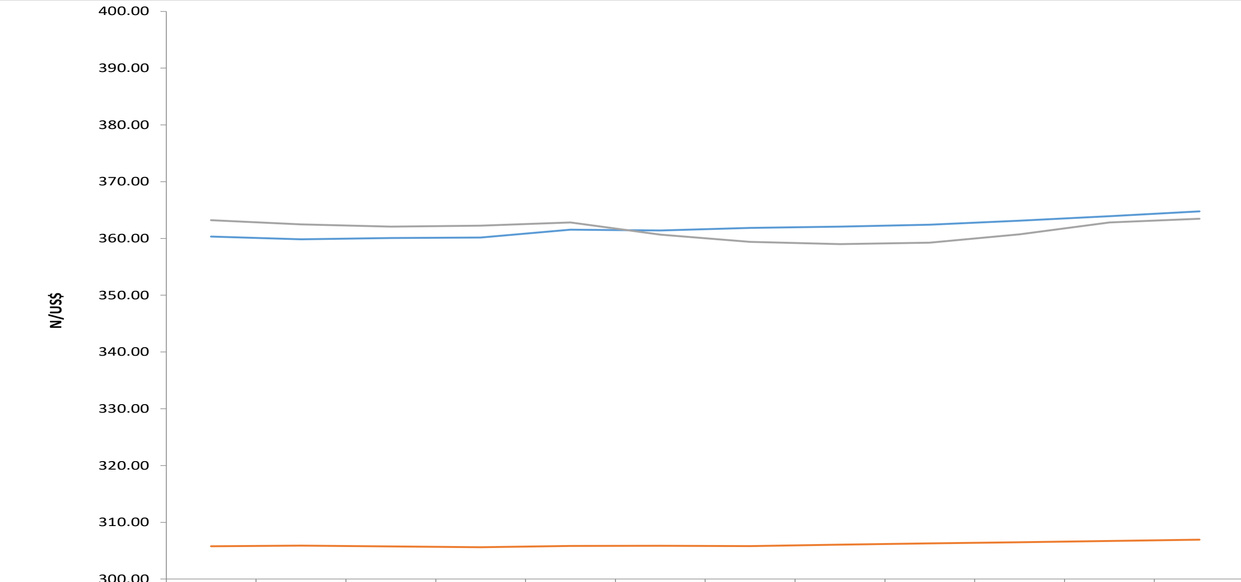
The Bank continued its intervention in the foreign exchange market through interbank operations, Investors and Exporters (I & E), SMEs, BDCs and invisible trade windows. The Bank also sustained its participation in the Naira-Settled OTC Futures Market to stabilise the exchange rate.

During the review period, the CBN executed a Bi-lateral Currency Swap Agreement with the People's Bank of China. Consequently, the Bank introduced a bi-weekly Renminbi auction on July 20, 2018, with a total of twelve (12) auctions conducted, amounting to CNY669.66 million from the initial draw down of CNY1.00 billion.

2.4.2.1 Exchange Rate Movement

The rate at the I & E window opened at N361.40 /US$ on July 2, 2018 and closed at N364.00/US$ on December 31, 2018, indicating a depreciation of 0.01 per cent. At the BDC segment of the foreign exchange market, rates opened and closed at N360.50/US$ and N361.00/US$ respectively, with a high of N367.50/US$ within the review period. The I & E window recorded a depreciation of 0.67 per cent, from N360.56/US$ on January 2, 2018 to N363.03/US$ on June 29, 2018. The BDC segment witnessed 0.01 per cent appreciation from N362.24/US$ to N360.78/US$ during the same period. At the inter-bank segment of the foreign exchange market, the rate opened at N305.75/US$ on July 2, 2018 and closed at N307.00/US$ on December 31, 2018.

Figure 2. 6: Inter-bank, BDC and I & E Rates, January – December, 2018



	January	February	March	April	May	June	July	August	September	October	November	December
I & E window	360.34	359.85	360.09	360.17	361.54	361.40	361.85	362.08	362.43	363.12	363.91	364.76
Inter-Bank	305.78	305.90	305.74	305.61	305.83	305.87	305.81	306.06	306.27	306.50	306.71	306.92
BDC	363.20	362.48	362.07	362.25	362.81	360.66	359.39	359.00	359.25	360.74	362.82	363.46

2.4.2.2 Foreign Exchange Spot, Forwards and OTC FX Futures Transactions

The total foreign exchange sale by the Bank in the second half of 2018 was US$16,168.52 million. Of this sum, the interbank spot sales accounted for US$1,898.34 million, invisibles, US$812.70 million, I & E, US$812.70 million and SMEs, US$678.50 million. Inter-bank forward sales amounted to US$5,743.42 million, while forwards that matured amounted to US$4,718.68 million and US$2,760.51 million was outstanding.

In the first half of 2018, the total CBN foreign exchange sale at the inter-bank segment was US$9,508.25 million. Of this, spot sales accounted for US$1,554.76 million; invisibles, US$1,768.70 million; SMEs, US$637.00 million; I & E, US$1,236.69 million; and inter-bank forwards, US$5,311.10 million.

The notional amount of the OTC FX Futures totalled US$3,911.47 million in the second half of 2018, compared with US$3,965.68 million in the first half of 2018. The sum of US$3,508.81 million Futures matured, while US$4,772.35 million remained outstanding at end-December, 2018, compared with US$2,914.86 and US$4,369.69 million, respectively in the first half of 2018.

2.4.3 Capital Market

Activities in the Nigerian capital market were generally bearish in the second half of 2018 as the major market indicators trended downwards, owing largely to foreign capital flow reversals.

2.4.3.1 Bond Market

Total bonds outstanding at end-December 2018 stood at ₦9,102.46 billion, comprising FGN bonds (₦8,256.57 billion or 89.72%), FGN Sukuk (₦200.00 billion or 2.17%), sub-national bonds (₦389.59 billion or 4.23%), sub-national sukuk (₦4.94 billion or 0.05%) and corporate bonds (₦351.36 billion or 3.82%). Total bonds outstanding at end-December 2018 was 6.26 per cent higher than the ₦8,660.62 billion recorded at end-June 2018.

Table 2. 4: Outstanding Bonds (₦ Billions)

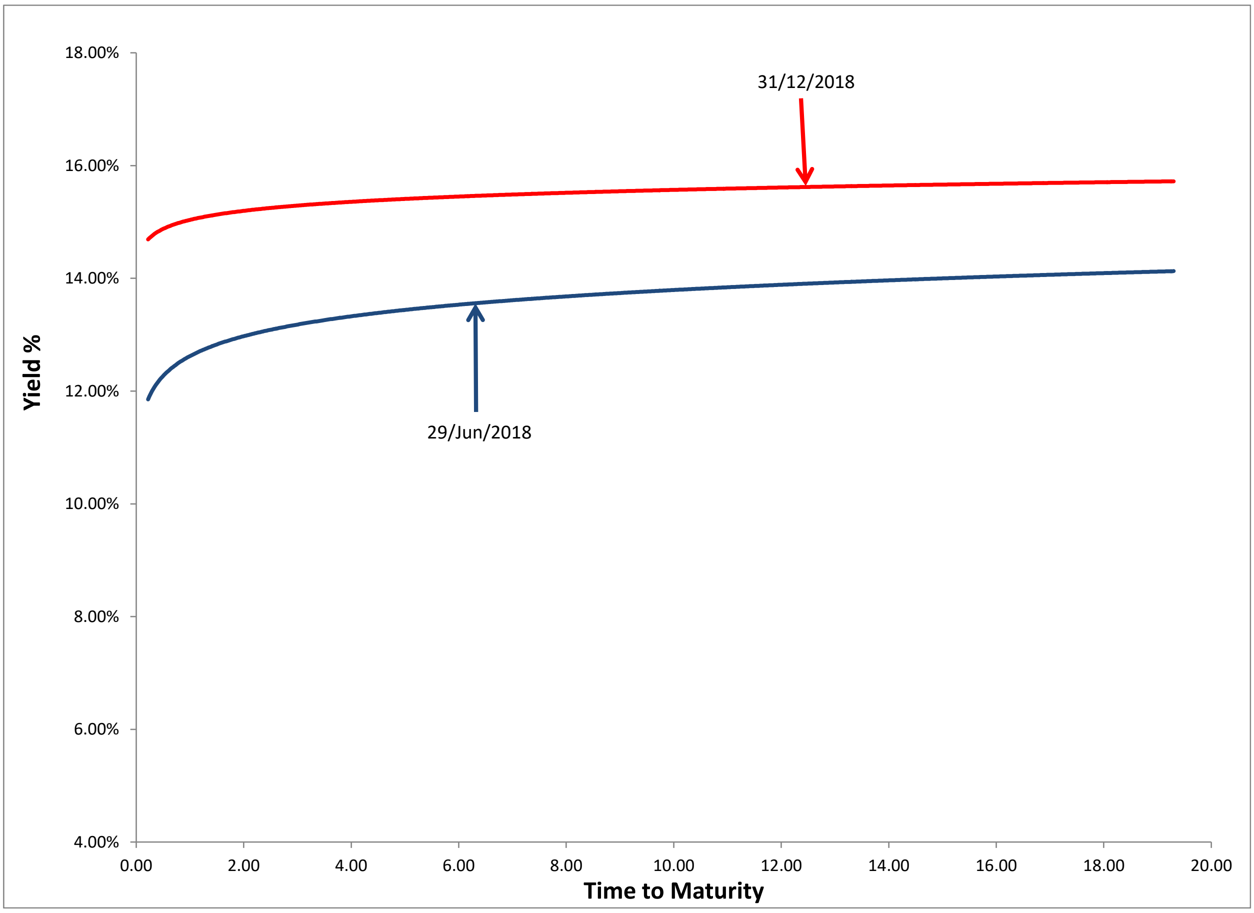
Bond Issuer	June, 2018	December, 2018	% Change	Proportion of Total (June, 2017)	Proportion of Total (December, 2017)
FGN Bonds	7,838.26	8,256.57	5.34	90.50	89.72
FGN Sukuk	100.00	200.00	100.00	1.15	2.17
Sub-National	413.39	389.59	(5.76)	4.77	4.23
Sub-National Sukuk	6.24	4.94	(20.87)	0.07	0.05
Agency	-	-	-	-	-
Corporate	302.73	351.36	16.06	3.50	3.82
Total	8,660.62	9,202.46	6.26	100.00	100.00

Source: FMDQ OTC

During the review period, new issues and re-openings of ₦570.00 billion worth of bonds were auctioned, indicating an increase of 14.00 per cent over the ₦500.00 billion auctioned in the first half of 2018. Public subscriptions and sales decreased to ₦676.61 billion and ₦336.69 billion in the second half of 2018, compared with ₦829.42 billion and ₦425.35 billion in the first half of 2018, respectively. The low subscription and allotment reflected the impact of changes in FGN debt management strategy in favour of foreign borrowing to reduce domestic borrowings.

The yield curves depicted the trend at the short and long ends of the market, both for the first and second halves of 2018. Consequently, the yield curve in the second half of 2018 was higher compared with the position in the first half owing to the lower prices prevalent in the market during the period (Figure 2.10)

Figure 2. 7: Yield Curve for Nigeria



Source: FMDQ-OTC Plc

2.4.3.1 .1 Federal Government of Nigeria Savings Bonds

FGN Savings Bonds (FGNSB) worth ₦2.23 billion were issued and allotted, compared with ₦1.36 billion recorded in the preceding period, indicating an increase of ₦0.87 billion or 64.29 per cent. The increase was attributed to government's efforts to encourage retail savings. The new issues were for 2- and 3-year tenors with the coupon rates ranging between 10.4830 - 12.4020 per cent and 11.4830 - 13.4020 per cent respectively. The coupon rates in the preceding period ranged from 9.4800 – 12.0980 per cent and 11.2770 - 13.0980 per cent for the 2- and 3-year tenors respectively. The total value of FGNSB outstanding at end-December 2018 was ₦10.75 billion, compared with ₦8.52 billion at end-June 2018.

2.4.3.1 .2 Green Bonds

There was no new issue of Green Bonds during the review period. However, the sum of ₦10.69 billion in respect of 5-Year FGN Green Bond issued at a coupon rate of 13.4800 per cent in December 2017 was outstanding at end-December 2018. The bond was issued to finance sustainable development projects with positive impact on the environment and the economy.

2.4.3.1.3 FGN Sukuk

A ₦100.00 billion 7-Year Sukuk issued in December 2018 at a rental rate of 15.7430 per cent payable semi-annually, brought the total FGN Sukuk outstanding at end-December 2018 to ₦200.00 billion.

2.4.3.1 .4 Sub-National Bonds

During the review period, sub-national debts worth ₦394.53 billion were outstanding, including the ₦4.94 billion sukuk issued by one state government. Two states fully redeemed ₦7.69 billion, eleven states partially redeemed ₦16.39 billion, while one partially redeemed ₦1.02 billion sukuk. However, the total bonds of ₦419.63 billion issued by 14 state governments were outstanding in the first half of 2018, of which one state issued ₦6.24 billion worth of sukuk and ₦4.95 billion was redeemed by one state.

2.4.3.1 .5 Corporate Bonds

Eight corporate bonds worth ₦88.09 billion issued by six companies were listed, while three bonds with a total outstanding amount of ₦35.76 billion were redeemed during the review period, compared with two corporate bonds worth ₦13.15 billion listed and a single redemption of ₦0.90 billion in the first half of 2018. The sum of ₦351.36 billion against 31 listed companies was outstanding at end-December 2018, compared with ₦302.73 billion against 27 listed companies at end-June 2018.

Table 2. 5: Corporate Bonds Listed

Issuer	Listing Date	Description	Outstanding Value (₦' Billion)
Union Bank of Nigeria Plc	7-Sep-18	15.50 Union I 3-Sep-2021	7.02
Flour Mills of Nigeria Plc	1-Nov-18	15.50 Flourmills I 30-Oct-2021	10.11
UACN Property Development Company Plc	26-Apr-18	16.00 UPDC 26-Apr-2023	4.36

C & I Leasing Plc	11-Jul-18	16.54 C&I Leasing 11-Jun-2023	6.52
Flour Mills of Nigeria Plc	1-Nov-18	16.00 Flourmills II 30-Oct-2023	10.00
Union Bank of Nigeria Plc	7-Sep-18	15.75 Union II 3-Sep-2025	6.31
Sterling Investment Management Plc	5-Oct-18	16.25 Sterling Inv. II 6-Oct-2025	32.90
NMRC	21-May-18	13.80 NMRC II 15-Mar-2033	10.87
Total			**88.09**

Source: FMDQ OTC

2.4.3.2 Equity Market

The Nigerian Stock Exchange (NSE) All Share Index (ASI) closed at 31,430.50 at end-December 2018, a decrease of 17.89 per cent from the 38,278.55 recorded at end-June 2018. Market capitalisation (MC) also closed lower at ₦11,720.72 billion, a decrease of 15.47 per cent from the ₦13,866.42 billion recorded at the end of the preceding period. The decrease in both ASI and MC was due to foreign capital flow reversals.

Foreign portfolio investment (FPI) inflows in the second half of 2018 totalled ₦195.80 billion, while outflows stood at ₦223.59 billion, reflecting a net outflow of ₦27.79 billion. Inflows in the first half of 2018 amounted to ₦380.65 billion, while outflows stood at ₦419.06 billion, reflecting a net outflow of ₦38.41 billion. The net outflow in 2018 was attributed to capital flow reversal which was due largely to concerns over 2019 general elections and policy normalization in the US.

Overall, FPIs accounted for 51.96 per cent of total equity transactions in the review period, compared with 50.07 per cent recorded in the first half of 2018. Domestic transactions accounted for the balance of 48.04 per cent in the equity market, compared with 49.93 per cent in the first half of 2018.

The All-Share Index (ASI) opened at 38,221.71 and closed at 31,430.50, indicating a decrease of 6,791.21 points or 17.77 per cent. The MC of equities decreased by ₦1.86 trillion or 13.70 per cent, from ₦13.58 trillion at the beginning of July to ₦11.72 trillion at end-December 2018. In the first half of 2018, the ASI opened at 38,264.79 and closed at 38,278.55, indicating an increase of 13.76 points or 0.04 per cent. Similarly, the MC of equities increased by ₦0.25 trillion or 1.84 per cent, from ₦13.62 trillion at the beginning of January to ₦13.87 trillion at end-June 2018.

Table 2. 6: Equities Trading

Period	Total	Foreign	% Foreign	Domestic	% Domestic	Foreign Inflow	Foreign Outflow	NSE ASI	Market Capitalization
H2 2018	807.14	419.39	51.96	387.75	48.04	195.80	223.59	31,430.50	11,720.72
H1 2018	1,597.25	799.71	50.07	797.54	49.93	380.65	419.06	38,278.55	13,866.42
H2 2017	1,607.64	777.33	48.35	830.31	51.65	556.28	221.05	33,243.19	13,609.47
H1 2017	935.26	430.23	46.00	505.03	54.00	215.97	214.26	33,117.48	11,452.12

Source: NSE

2.4.4 Potential Market Risks

1. Capital flow reversal, following continued interest rate normalization by the United States Federal Reserve and domestic socio-political concerns, threatens the continued stability of the foreign exchange market.

2. Higher preference for government securities by banks poses challenges to the expansion of credit to the real sector.

3. Fiscal injections and stimulus programme pose challenges to liquidity management and could trigger volatility in money market rates.

2.5 Real Sector Interventions

2.5.1 Agricultural Policy Support

The agricultural sector continued to benefit from a number of policies, reforms and institutional support in the second half of 2018.

2.5.1.1 Agricultural Credit Guarantee Scheme

In the period under review, 20,192 loans valued ₦2.62 billion were guaranteed, compared with 10,420 loans valued ₦1.75 billion in the first half of 2018, indicating increases of 93.8 and 49.5 per cent in the number and value of loans guaranteed respectively.

Furthermore, 12,395 loans valued ₦2.43 billion were repaid in the second half of 2018, compared with 17,977 loans valued ₦3.05 billion in the first half of 2018. A total of 30,372 loans valued ₦5.47 billion were repaid in 2018, bringing the cumulative repayments to ₦86.945 billion in respect of 889,268 loans granted since inception.

2.5.1.2 Commercial Agriculture Credit Scheme

The sum of ₦40.36 billion was disbursed to 24 projects in the second half of 2018 compared with ₦39.34 billion to 16 projects in the first half. A total of ₦37.72 billion was repaid in the review period, compared with ₦17.01 billion in the first half of 2018. A total of ₦671.41 billion has been disbursed since the inception of the Scheme, with ₦314.54 billion being repaid.

2.5.1.3 Anchor Borrowers' Programme

The sum of ₦82.59 billion was disbursed in the second half of 2018 to 490,481 farmers in the 36 States and the Federal Capital Territory for the cultivation of cassava, cotton, maize, rice, soya beans, wheat, sesame, sorghum, tomato, cocoa, castor seed and the production of fish and poultry through 6 participating financial institutions (PFIs). This reflected increases of 127.08 and 214.95 per cent above the ₦36.37 billion disbursed to 155,732 farmers in the first half of the year. Cumulatively, the sum of ₦174.48 billion had been disbursed to 902,518 farmers since inception in 2014. Total repayment in the review period was ₦3.39 billion, bringing the cumulative amount repaid from inception to ₦21.41 billion.

2.5.1.4 Paddy Aggregation Scheme

Under the first phase of the Paddy Aggregation Scheme (PAS), the sum of ₦5.0 billion was disbursed to one project in the second half of 2018, compared with ₦4.25 billion for 3 projects in the first half. The sum of ₦18.63 billion was repaid during the period under review. The cumulative disbursement and repayment stood at ₦39.62 billion and ₦25.41 billion respectively since inception.

Under the second phase, the Bank approved the sum of ₦53.00 billion for on-lending to large-scale integrated rice millers for a tenor of 24 months at an interest rate of 5.00 per cent. The sum of ₦14.00 billion was disbursed to two (2) millers in the review period.

2.5.2 SME & Industrial Policy Support

In the second half of 2018, a number of reforms and incentives were sustained to support the performance of the sector.

2.5.2.1 Micro, Small and Medium Enterprises Development Fund

The sum of ₦1.61 billion was disbursed to 1,091 beneficiaries through the PFIs and state governments in the second half of 2018, compared with ₦4.77 billion to 14,492 in the first half. This indicated a 66.2 per cent decrease in disbursements. The sum of ₦83.36 billion had been disbursed, with ₦23.63 billion being repaid, since inception in 2013. Repayments in the review period amounted to ₦3.73 billion, compared with ₦3.48 billion in the first half of 2018.

2.5.2.2 Agri-business/Small and Medium Enterprises Investment Scheme

The Agri-business/Small and Medium Enterprises Investment Scheme, which has debt and equity components, was introduced in the second half of 2018 to enhance access to finance for SMEs, leveraging on equity contribution by banks. A total of 162 projects accessed ₦343.23 million from the Scheme during the second half of 2018.

2.5.2.3 Youth Entrepreneurship Development Programme

The sum of ₦33.0 million was released for 11 projects under the programme in the review period, bringing cumulative disbursements to ₦159.98 million. Repayments valued ₦5.27 million were received from 34 projects, resulting in cumulative repayments of ₦12.28 million.

2.5.3 Real Sector Support Facility

The Bank introduced two additional windows, the Differentiated Cash Reserve Requirement (DCRR) and Corporate Bonds (CBs), to complement the regular window under the Real Sector Support Facility (RSSF). The windows were established to enhance the flow of long-term credit to the real sector, targeting the manufacturing, agriculture and other employment- and growth-stimulating sectors. Emphasis was on projects with high backward integration and import substitution potentials.

During the review period, the sum of ₦6.15 billion, under the DCRR, was disbursed to 4 projects. The RSSF financed 4 projects worth ₦38.09 billion, compared with 5 projects worth ₦23.91 billion in the first half of the year, indicating a 20.00 per cent decrease in the number of projects but a 59.30 per cent increase in the value. Total disbursements stood at ₦115.51 billion since inception. The sum of ₦4.95 billion was repaid in the second half of 2018, bringing cumulative repayments to ₦6.63 billion.

2.5.3.1 Textile Sector Intervention Facility

During the review period, the sum of ₦10.29 billion was disbursed to 2 projects under the Textile Sector Intervention Facility (TSIF), compared with ₦19.1 billion to two projects in the first half of 2018. A total of ₦55.76 billion has so far been disbursed to 33 projects since inception.

2.5.3.2 CBN-BOI Industrial Facility

The CBN-BOI Industrial Facility (CBIF) was introduced in 2018 to provide concessionary finance for expansion and diversification of the industrial sector as well as attract new investments and re-investments in value-adding projects. The Facility is managed by the Bank of Industry (BOI). The sum of N50.0 billion was disbursed to 30 projects in the second half of 2018.

2.5.3.3 Small and Medium Enterprises Restructuring and Refinancing Facility

Disbursement under the scheme was discontinued following its replacement with the Real Sector Support Facility in December 2014. However, repayments during the review period amounted to ₦12.60 billion, bringing the cumulative repayments to ₦125.86 billion.

2.5.3.4 Federal Government of Nigeria Special Presidential Fertilizer Initiative

The FGN Special Presidential Fertilizer Initiative was introduced in 2017 to increase the production of fertilizer by local blending plants with a view to making the product more affordable to Nigerian farmers. In the review period, the sum of ₦10.0 billion was released to one project, bringing the cumulative amount released since inception to ₦35.0 billion.

2.6. Export Policy Support

2.6.1 Non-oil Export Stimulation Facility

The Non-oil Export Stimulation Facility (NESF), aimed at improving access of exporters to finance for expansion and diversification of the non-oil export basket, commenced in 2016. During the review period , two projects were financed with the sum of ₦6.45 billion, compared with the same number of projects financed with the sum of ₦19.04 billion in the first half of the same year. The total repayments on the facility stood at ₦5.04 billion at end-December 2018.

2.6.2 Export Development Facility

The Export Development Facility (EDF) was introduced in 2018 to improve access to finance by exporters under the management of the Nigerian Export-Import Bank (NEXIM). The sum of ₦10.17 billion was disbursed to 18 projects during the review period.

2.7. Energy Policy Support

2.7.1 Power and Airline Intervention Fund

The sum of ₦3.25 billion was disbursed to one project under the scheme in the second half of 2018, bringing cumulative disbursements to ₦301.37 billion, of which ₦180.61 billion was for 45 power projects and ₦120.76 billion for 24 airline projects. The sum of ₦13.35 billion was repaid in the second half of 2018, resulting in cumulative repayments of ₦145.52 billion.

2.7.2 Nigerian Electricity Market Stabilization Facility

In the review period, the sum of ₦24.34 billion was disbursed to 31 market participants, comprising one distribution company (DisCo), 18 generating companies (GenCos), 6 gas companies (GasCos) and 6 service providers. Cumulatively, the sum of ₦183.09 billion had been disbursed, of which ₦8.68 billion had been repaid, resulting in total repayments of ₦30.46 billion.

2.7.3 Nigeria Bulk Electricity Trading Payment Assurance Facility

The sum of ₦176.78 billion was disbursed under the facility to the Nigeria Bulk Electricity Trading (NBET) Plc during the review period. Cumulatively, the amount disbursed stood at ₦534.10 billion at end-December 2018.

2.8. Institutional Support and Financial Inclusion

2.8.1 National Collateral Registry

During the review period, 112 financial institutions were registered, bringing the total to 628 since inception in 2016. A total of 9,421 financing statements for 16,022 collaterals, valued ₦604.56 billion, US$1.11 billion and €22,949.36 were registered in the review period. Cumulatively, a total of 39,786 financing statements for 58,843 collaterals valued ₦1.23 trillion, US$1.14 billion and €6.08 million had been registered.

2.8.2 Shared Agent Network Expansion Facility

The Bank established the Shared Agent Network Expansion Facility in 2018 to facilitate the achievement of the national financial inclusion objectives. The Facility was targeted at boosting the number of super agents and mobile money operators' agent locations to 500,000, across all local governments in the Country, by 2020. The sum of ₦1.75 billion was released to 4 projects in the second half of 2018, compared with ₦3.75 billion released to 7 projects in the first half.

2.8.3 Financial Inclusion

A revised National Financial Inclusion Strategy (NFIS) was issued in October 2018, identifying five demographic sectors that suffer the most exclusion in Nigeria, namely, Women, Youth, Rural Areas, Northern Region and Micro, Small and Medium enterprises. Some of the recommendations for addressing the exclusion situation included: creation of appropriate Regulation & Policy environment; massive roll out of Agent networks; simplification of Identity/Know Your Customer (KYC) requirements and promotion of Digital Financial Services (DFS).

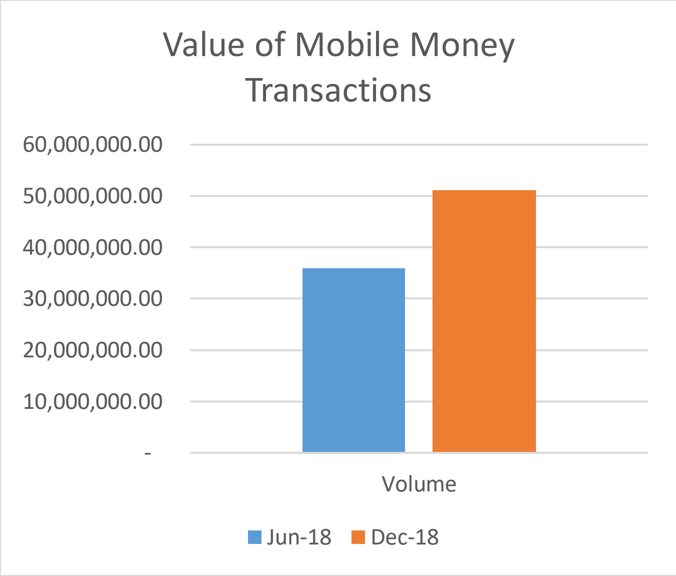
The Enhancing Financial Innovation and Access (EFInA)[9] bi-annual survey on Financial Access Point in Nigeria released in December 2018 showed that exclusion rate in Nigeria had dropped from 41.60 in 2016 to 36.80 per cent in 2018.

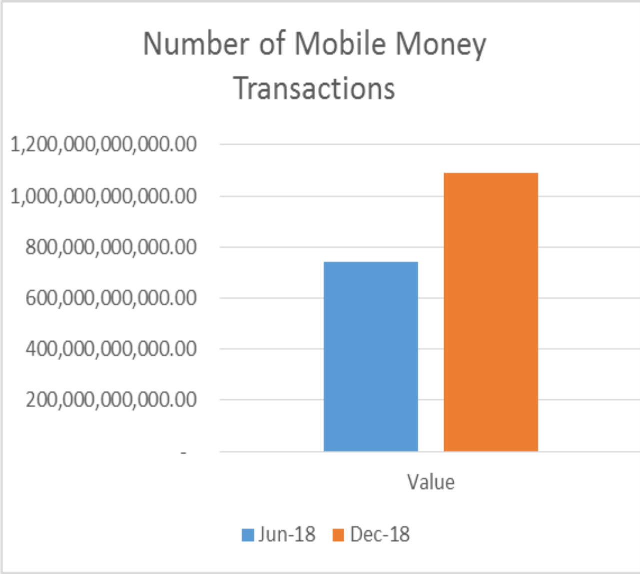
2.8.3.1 Mobile Money and Bank Verification Number

Transactions by mobile money operators increased by 29 per cent to 51,144,718 at end-December 2018 from 35,941,542 at end-June 2018. The total value of transactions increased by 32 per cent from ₦739,681,699,072 at end-June 2018 to ₦1,091,019,412,036 at end-December 2018. Similarly, the total number of Bank Verification Number (BVN) enrolments increased by 7.20 per cent from 33.50 million at end-December 2017 to 36.1 million at end-June 2018.

[9] Source: Access to Financial Services Survey in Nigeria by Enhancing Financial Innovation and Access (EFInA)

Figure 2. 8: Mobile Money and BVN Enrolment





2.8.3.3 Financial Literacy

The Bank, in collaboration with relevant stakeholders, undertook the following financial literacy activities during the review period.

2.8.3.3.1 Awareness Campaign on Financial Education

The Bank carried out an awareness campaign and distributed consumer financial education materials developed to serve various segments of the Nigerian population in Awka, Bauchi, Yola, Ibadan, Calabar and Port-Harcourt.

2.8.3.3.2 World Savings Day 2018

The Bank in collaboration with stakeholders commemorated the 2018 World Savings Day (WSD) on October 31, 2018. The WSD was used to create awareness on the importance of savings, investment, earning a livelihood, creating employment as well as entrepreneurship to enhance personal and national development. Nigeria has been part of this global programme and participates actively in marking the WSD through a mentoring programme for the young. The mentoring programme was conducted in 12 secondary schools in 12 states across the 6 geo-political zones, with 960 students directly benefiting. The Bankers' Committee also conducted the mentoring programme in secondary schools nationwide where 57,084 students benefited.

2.8.3.3.3 Financial Education Curriculum

In collaboration with the Nigeria Educational Research and Development Council, the Bank conducted a training workshop for school teachers selected to implement the pilot phase of teaching the infused Financial Education Curriculum. The training, which took place in Lagos and Katsina, was to expose the teachers to the Financial Education Curriculum and the Teacher's Guide and prepare them for the pilot run.

2.8.3.3.4 Financial Literacy E-Learning Workshop

The Bank in collaboration with external partners organized a workshop for members of the Financial Literacy Working Group (FLWG) and other stakeholders for the deployment of an e-learning platform. The platform was expected to serve as an avenue where consumers could access financial education either as trainers or end-beneficiaries. Participants at the workshop included financial services providers, other regulators in the financial system, banks and development partners. The Bank also hosted other stakeholders to a content review session where various financial education materials were reviewed in preparation for the deployment of the e-learning platform.

2.8.3.3.5 National Peer Group Educator Programme

In partnership with external stakeholders, the Bank hosted participants from the Federal Ministry of Youth and Sports Development and the National Youth Service Corps at a workshop to review and evaluate the content and strategy of the National Peer Group Educator Programme.

2.9 Potential Risks to the Financial System

- The weak internal complaints redress mechanism by banks coupled with the absence of an independent financial ombudsman could negatively impact on consumer confidence and undermine the attainment of financial inclusion targets.

- The gap between the increasing adoption of digital financial services and poor financial consumer awareness could potentially increase the incidence of fraud and financial losses for consumers.

- The security challenges in some parts of the Country, if not timely addressed, could significantly increase the number of the financially-excluded and threaten the achievement of national financial inclusion targets.

3.0 REGULATORY AND SUPERVISORY ACTIVITIES

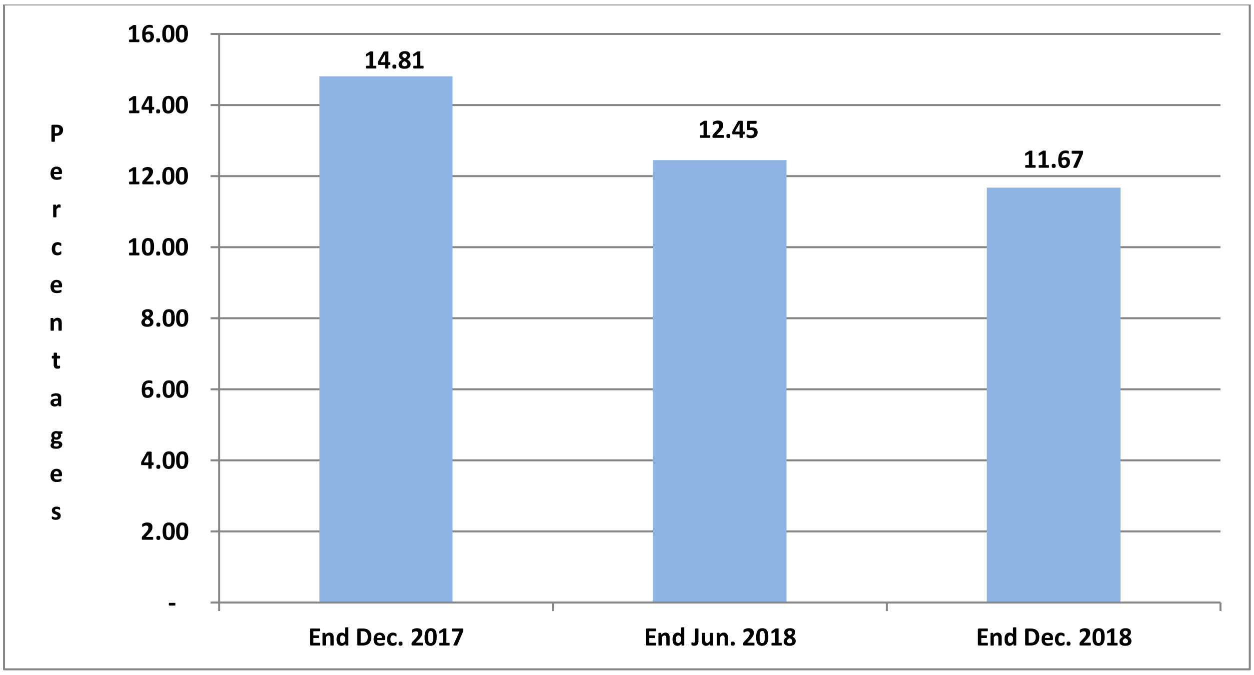
3.1 Financial Soundness Indicators

The financial soundness indicators used to assess the health and stability of the financial system included:

3.1.1 Assets-Based Indicators

The quality of banks' assets improved in the second half of 2018. The ratio of non-performing loans (NPLs) to gross loans was 11.67 per cent at end-December 2018, compared with 12.45 per cent at end-June 2018, indicating a decrease of 0.78 percentage point. The improvement was largely attributed to the sustained uptick in economic activities and the write-off of NPLs by some banks.

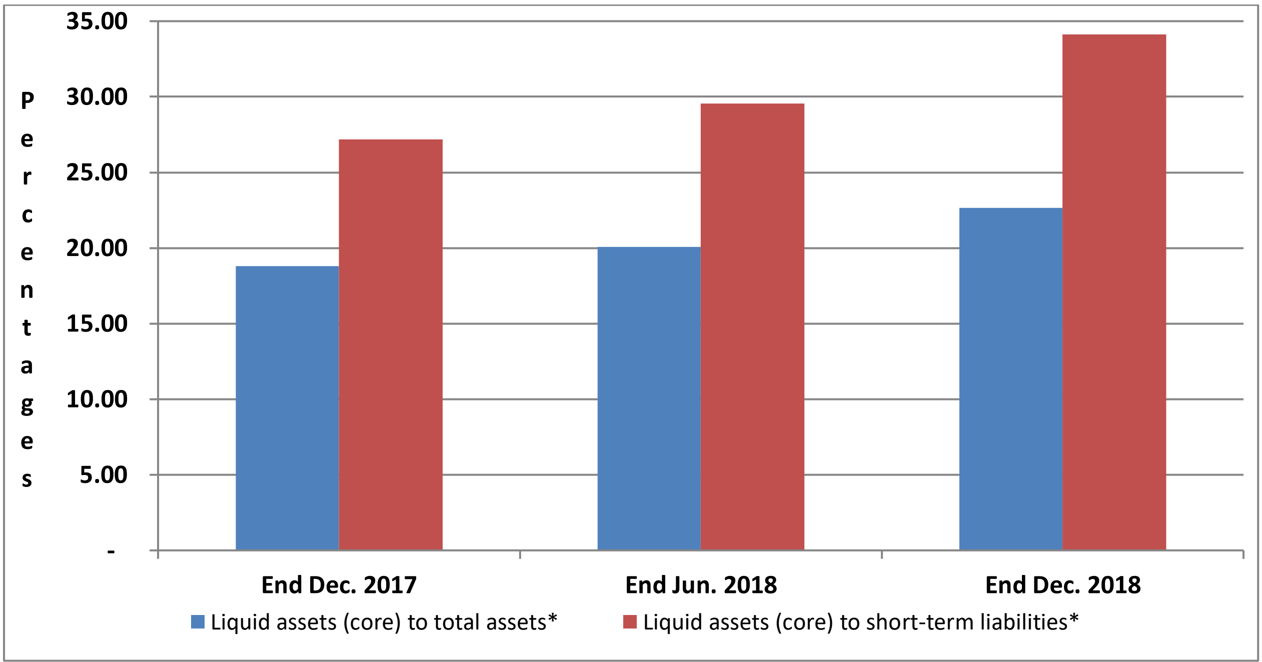
Figure 3. 1: Banking Industry NPLs to Gross Loans



3.1.1.1 Core Liquid Assets to Total Assets and Short-term Liabilities

The ratio of core liquid assets to total assets increased by 2.58 percentage points to 22.64 per cent at end-December 2018, from 20.06 per cent recorded in the first half of 2018. Similarly, the ratio of core liquid assets to short-term liabilities improved by 4.60 percentage points to 34.15 per cent in the review period, compared with 29.55 per cent at end-June 2018. The increase was attributed to banks' preference for Treasury Bills.

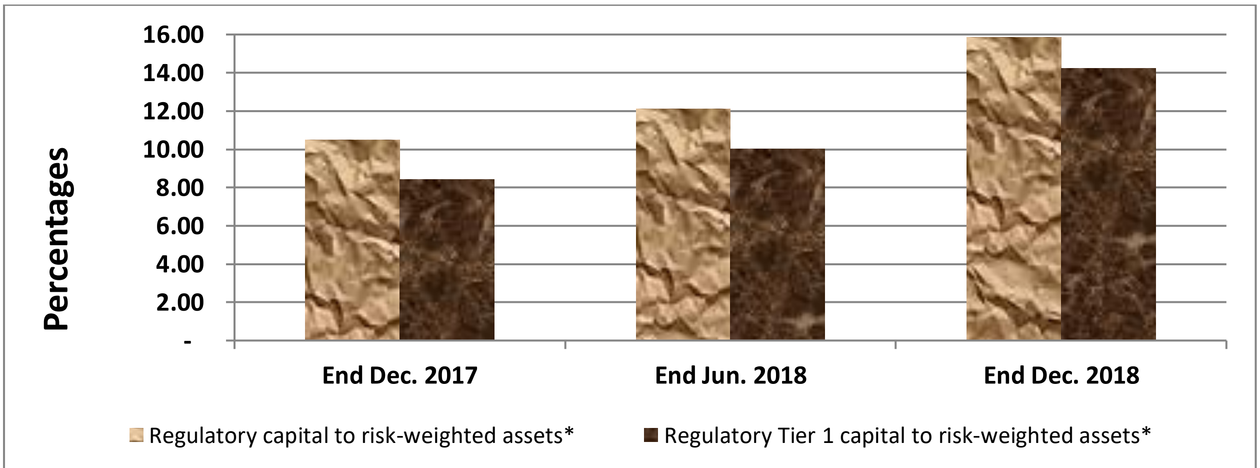
Figure 3. 2: Banking Industry Liquidity Indicators



3.1.2 Capital-Based Indicators

The ratio of regulatory capital to risk weighted assets increased by 3.10 percentage points to 15.21 per cent at end-December 2018, from 12.11 per cent at end-June 2018. Similarly, the ratio of Tier 1 capital to risk weighted assets increased by 3.53 percentage points to 13.54 per cent at end-December 2018, from 10.01 per cent at end-June 2018. The improvement reflected the capitalisation of earnings by banks to build additional capital buffers.

Figure 3. 3: Banking Industry Capital Adequacy Indicators



The ratio of non-performing loans (net of provisions) to capital for the industry increased to 0.05 per cent at end-December 2018, from negative 2.07 per cent at end-June 2018. Similarly, the return on equity (ROE) and return on assets (ROA) improved by 1.90 and 0.20 percentage points to 22.73 and 2.02 per cent at end-December 2018, from 20.83 and 1.82 per cent at end-June 2018 respectively.

3.1.3 Income- and Expense- Based Indicators

The ratio of interest margin to gross income increased to 67.27 per cent during the review period, from 63.94 per cent at end-June 2018. Similarly, the ratio of personnel expenses to non-interest expenses increased to 34.19 per cent at end-December 2018, from 31.50 per cent at end-June 2018. However, the ratio of non-interest expenses to gross income decreased to 60.90 per cent at end-December 2018, from 64.26 per cent in the preceding half.

Table 3. 1: Selected Financial Soundness Indicators of the Nigerian Banking Industry

Indicators	2015		2016		2017		2018**	
	End Jun	End Dec	End Jun	End Dec	End Jun	End Dec	End Jun	End Dec
1. Assets Based Indicators								
Nonperforming loans to total gross loans *	5.00	5.30	10.70	12.80	15.01	14.81	12.45	11.67
Liquid assets (core) to total assets*	16.30	18.50	14.00	16.20	17.43	18.81	20.06	22.64
Liquid assets (core) to short-term liabilities*	25.00	27.10	21.60	24.50	25.81	27.18	29.55	34.15
2. Capital Based Indicators								
Regulatory capital to risk-weighted assets*	17.60	16.10	14.70	14.80	11.55	10.48	12.11	15.21
Regulatory Tier 1 capital to risk-weighted assets*	17.40	17.10	15.60	16.30	9.34	8.43	10.01	13.54
Nonperforming loans net of provisions to capital *	7.40	5.90	23.60	29.00	18.69	23.89	-2.07	0.05
Return on equity*	23.30	19.66	17.84	10.03	23.71	23.51	20.83	22.73
Return on assets*	2.81	2.50	2.32	1.29	2.65	2.42	1.82	2.03
3. Income and Expense Based Indicators								
Interest margin to gross income*	65.00	62.20	61.40	67.60	57.67	61.19	63.94	67.27
Noninterest expenses to gross income*	64.70	63.10	54.60	62.80	52.03	58.22	64.26	60.90
Personnel expenses to noninterest expenses	40.10	35.00	41.20	36.10	34.51	33.44	31.50	34.19

Note: **FSIs are computed based on IMF guidelines.*

***The indicators for the period end-June 2018 are revised*

3.2 The Banking Industry Stress Test

3.2.1 Solvency Stress Test

The end-December 2018 banking industry stress test, which covered 21 commercial and 5 merchant banks[10], was conducted to evaluate and determine the resilience of the industry to probable and adverse shocks, including credit, liquidity, interest rate and contagion risks.

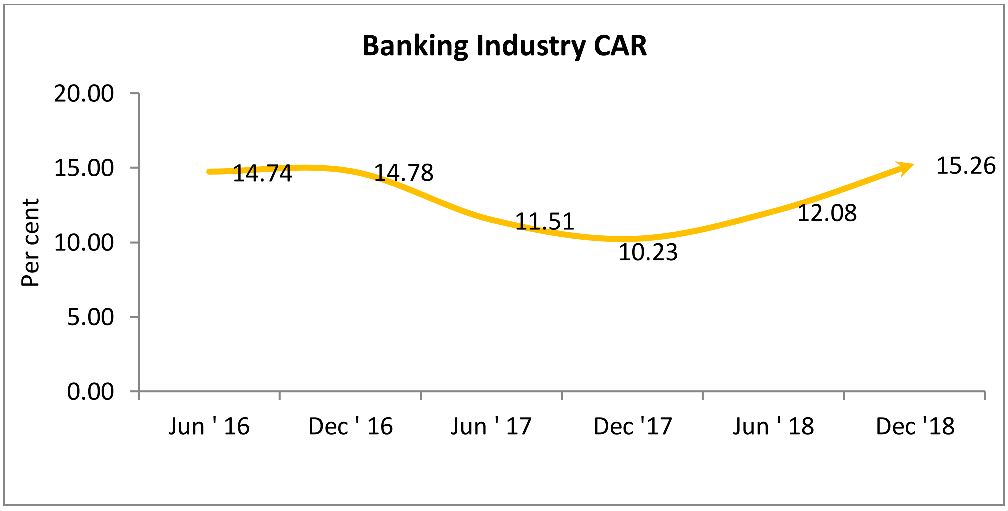
3.2.1.1 Baseline Position

Baseline capital adequacy ratio (CAR) for the banking industry at end-December 2018 was 15.26 per cent, indicating 3.18 percentage points increase from the 12.08 per cent recorded at end-June 2018 (Table 3.2, Figure 3.4). The baseline banking industry NPL ratio was 11.64 per cent at end-December 2018, showing a slight improvement of 0.81 percentage points from the 12.45 per cent recorded at end-June 2018.

Table 3.2: Banking Industry Baseline Selected Key Indicators

	CAR	LR	NPLs	ROA	ROE
December 2018 (%)	15.26	51.87	11.64	0.18	2.44
June 2018 (%)	12.08	48.5	12.45	0.26	4.07
Percentage Point Change	**3.18**	**3.37**	**(0.81)**	**(0.08)**	**(1.63)**

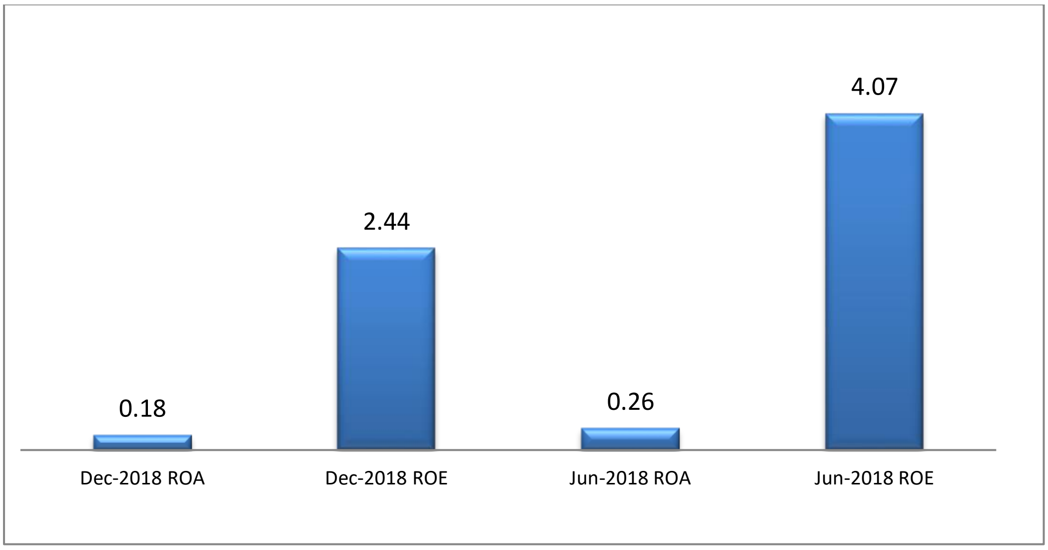
Figure 3.4: Baseline (Pre-shock) CARs (%)



The Baseline ROA and ROE of the banking industry stood at 0.18 and 2.44 per cent at end-December 2018. (Figure 3.6).

[10] Non-interest bank excluded because of its unique balance sheet structure

Figure 3.5: Baseline (Pre-shock) ROA and ROE (%)



3.2.1.2 Credit Risk

The stress test revealed that the banking industry could withstand a shock of up to 75.00 per cent increase in the industry NPLs as the CAR remained above 10.00 per cent. However, the industry was vulnerable to shocks above 100.00 per cent increase in NPLs as the industry CAR fell below 10.00 per cent.

Table 3.3: Credit Default Shocks

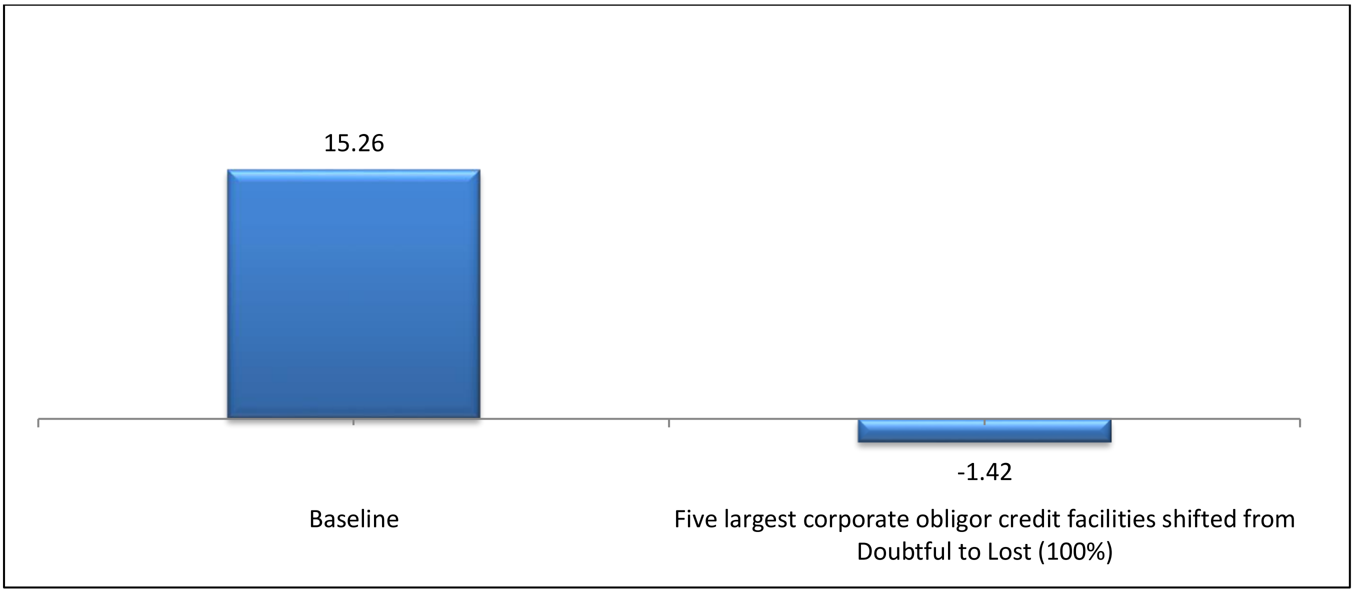
Single Factor Shocks	**Solvency Ratio After Shocks Industry**
Baseline CAR	15.26
10% NPLs increase	14.46
15% NPLs increase	14.22
20% NPLs increase	13.98
30% NPLs increase	13.50
50% NPLs increase	12.51
75% NPLs increase	11.26
100% NPLs increase	9.96

Similarly, the credit concentration stress test showed that the CAR of the banking industry fell below the 10.00 per cent regulatory threshold under scenarios 2 and 3 in Table 3.4. Under scenario 3, the CAR of the banking industry declined to (1.42) per cent, from the pre-shock position[11]. This imply a severe negative impact on the industry if the quality of the exposures to five largest obligors worsened.

Table 3.4: Credit Concentration Risk

	Industry
Baseline CAR	15.26
Single Factor Credit Concentration Shocks	**Solvency Ratio Post-Shocks**
Scenario 1 Five largest corporate obligors' credit facilities shifted from pass-through to sub-standard (10%)	12.38
Scenario 2 Five largest corporate obligor credit facilities shifted from sub-standard to doubtful (50%)	7.67
Scenario 3 Five largest corporate obligor credit facilities shifted from doubtful to lost (100%)	-1.42

Figure 3.6: Credit Concentration Risk

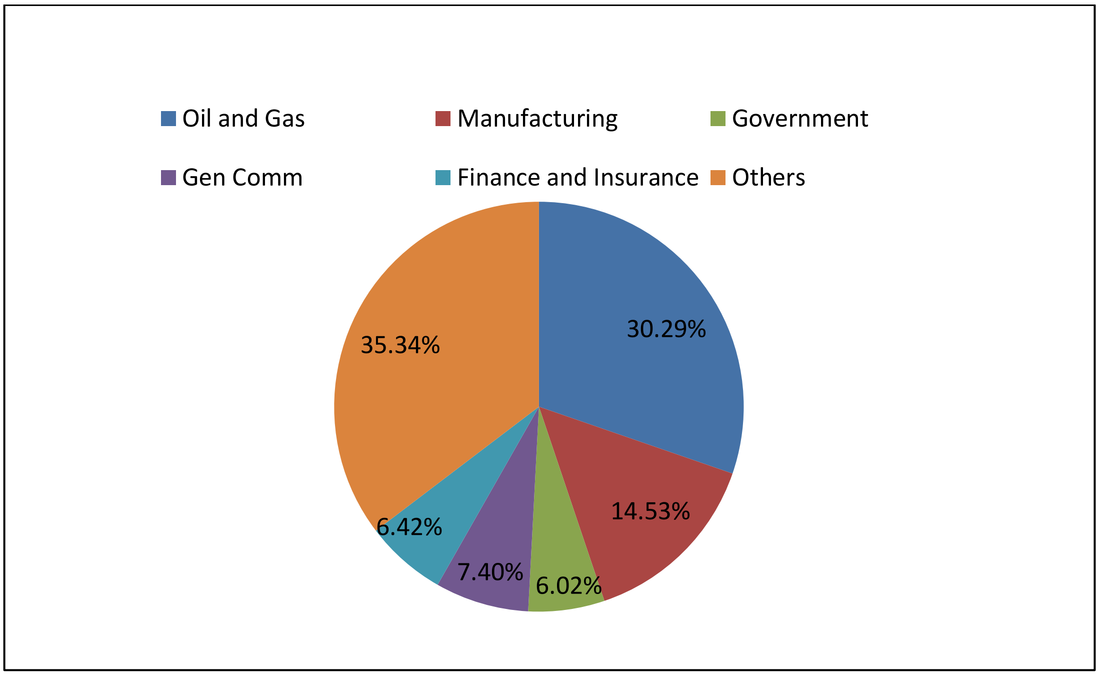


3.2.1.3 Sectoral Credit Concentration Risk

The breakdown of banking industry total credit by sector showed that the oil and gas sector accounted for 30.29 per cent, while manufacturing, government, general commerce, finance and insurance, and others accounted for 14.53, 6.02, 7.40, 6.42 and 35.34 per cent respectively, at end-December 2018.

[11] The share of five largest obligors across all banks was 26.62 per cent.

Figure 3.7: Sectoral Concentration of Credit



The results of the stress test of default in exposure to the oil and gas sector showed that the banking industry could withstand up to 50.00 per cent default as the post-shock CAR remained at 10.24 per cent (Table 3.5).

Table 3.5: Oil & Gas Sector Default Stress Test

	Industry CAR (%)
Baseline CAR	15.26
30% Default on total exposure to Oil & Gas	13.52
50% Default on total exposure to Oil and Gas	10.24

3.2.1.4 Interest Rate Risk

The results of the stress tests on the net position of interest sensitive instruments showed that the banking industry would maintain a stable solvency position to interest rate shock of up to 1000 bps downward shift in yield curve as the post-shock CAR declined marginally from 15.26 to 13.41 per cent. However, the interest rate shocks had significant adverse impact on the ROA and ROE (Figure 3.8).

Figure 3.8: Impact of Interest Rate Shocks on CAR

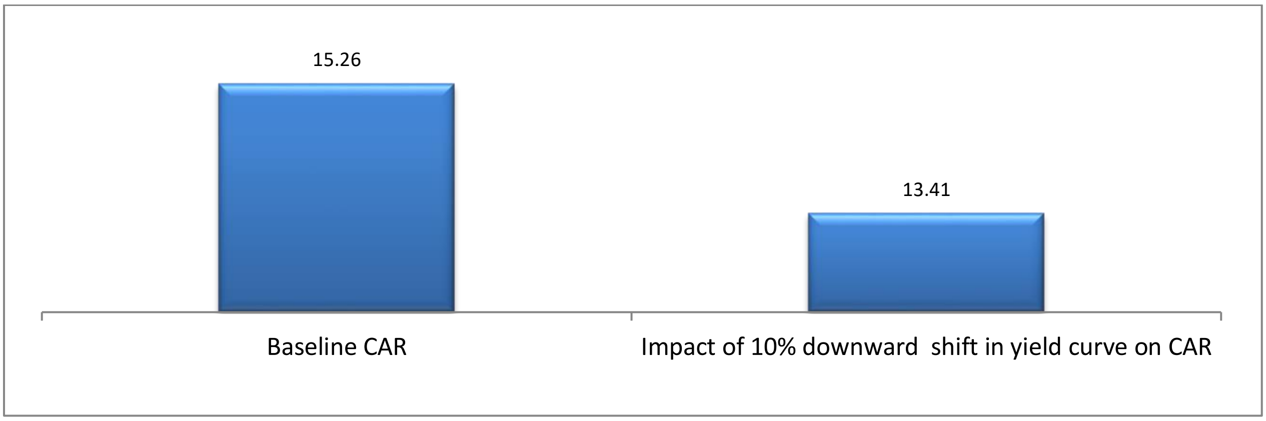


Figure 3.9: Impact of Interest Rate Shocks on ROE and ROA

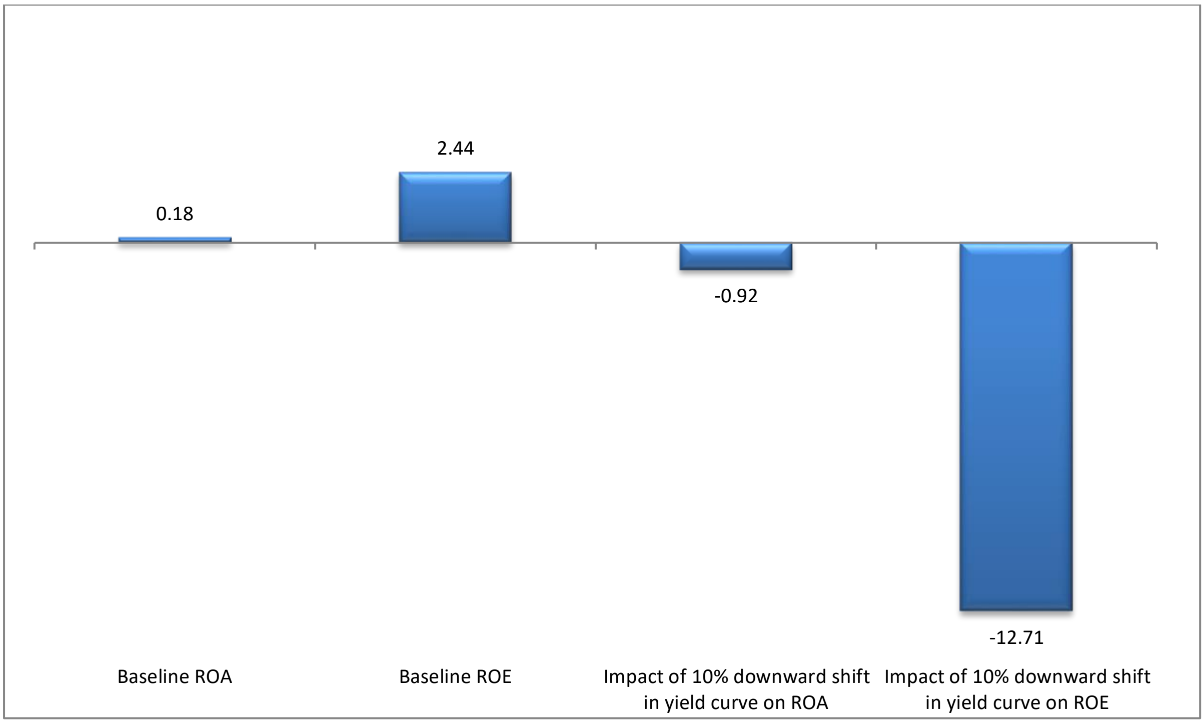


Table 3.6: Impact of Selected Shocks on CAR, ROA and ROE

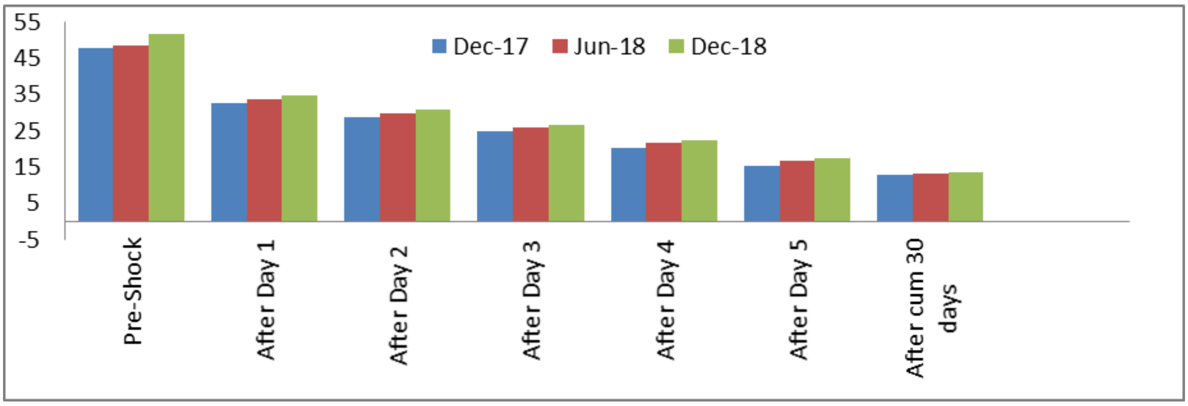
	Banking Industry (%)
Baseline ROA	0.18
Baseline ROE	2.44
Impact of Downward Shift in Yield Curve Shocks on CAR	

500 bps downward shift in yield curve	14.34
1000 bps downward shift in yield curve	13.41
Impact of Downward Shift in Yield Curve Shocks on ROA	
500 bps downward shift in yield curve	-0.37
1000 bps downward shift in yield curve	-0.92
Impact of Downward Shift in Yield Curve Shocks on ROE	
500 bps downward shift in yield curve	-5.14
1000 bps downward shift in yield curve	-12.71

3.2.2 Liquidity Stress Test[12]

The stress test result revealed that after a one-day run scenario[13], the liquidity ratio for the industry declined to 34.69 per cent from the 51.87 per cent pre-shock position and to 17.55 and 13.48 per cent after a 5-day and cumulative 30-day scenarios, respectively. The result also revealed that under 5-day and cumulative 30-day run scenarios on the banking industry, liquidity shortfalls declined to ₦1.58 trillion and ₦1.98 trillion respectively.

Figure 3.10: Liquidity Ratio at Periods 1-5 and cumulative 30-day Shocks



[12] Liquidity stress tests were conducted at end-June 2018 using the Implied Cash Flow Analysis (ICFA) and Maturity Mismatch/Rollover Risk approaches to assess the resilience of individual banks and the banking industry to liquidity and funding shocks.

[13] Assuming that customers do not resort to deposit withdrawals from one bank to the other.

Table 3. 7: Liquidity Stress Test Results (Post-Shock)

Scenario	**Banks with Liquidity Ratios (LR) < 30%**		**December 2018**	
	June 2018 (24 DMBs)	**December 2018 (26 DMBs)**	**LR (%)**	**Shortfall to 30% LR threshold (₦' billion)**
Test 1.1: Implied Cash Flow Test				Test 1.1: Implied Cash Flow Test
Day 1	13	12	34.69	Nil
Day 2	14	13	30.69	Nil
Day 3	16	15	26.67	473
Day 4	16	16	22.37	1,025
Day 5	16	16	17.55	1,580
Implied Cash Flow Test (30 Days)	17	16	13.48	1,985

3.2.3 Maturity Mismatch

The industry pre-shock assets and liabilities maturity profile at end-December 2018 revealed that the shorter end of the market (≤90 day buckets) were adequately funded. In the ≤30 day bucket, seven banks were not adequately funded, while in the 31-90 day bucket, nine banks had funding gaps. However, the cumulative position for the industry showed an excess of ₦4.8 trillion assets over liabilities.

Table 3. 8: Maturity Profile of Assets and Liabilities

Bucket	Liabilities	Assets	Mismatch	Cumulative
	N Billion			
≤30 days	16,007.54	10,565.47	5,442.08	5,442.08
31-90 days	2,427.54	2,122.90	304.64	5,746.72
91-180 days	827.52	1,435.07	(607.54)	5,139.17
181-365 days	431.97	3,575.11	(3,143.15)	1,996.03
1-3 years	1,073.43	2,999.46	(1,926.03)	70.00
>3 years	2,240.54	7,075.66	(4,835.13)	(4,765.13)
Total	23,008.54	27,773.67	(4,765.13)	

Table 3. 9: Test Results for System-wide Maturity Mismatch

	Test 2A Descriptive Maturity Mismatch. (no consideration of rollover)		**Test 2B Static Rollover risk Analysis. (No possibility to close liquidity gaps in other buckets)**		**Test 2C Dynamic Rollover risk test. (The same assumption as in 2b but with the option of closing the liquidity gap from other buckets)**	
	₦ ‘billion	**No of banks with mismatch**	**₦ ’billion**	**No of banks with mismatch**	**₦ ’billion**	**No of banks with mismatch**
≤30 days	8,363.64	7	5,162.13	8	(363.27)	8
31-90 days	3,210.98	8	(375.07)	16	(107.69)	8
91-180days	2,298.80	8	(773.05)	22	(81.41)	9
181-365days	(236.81)	13	(3,272.74)	24	(1,337.64)	12
1-3 Years	977.04	18	(2,248.06)	25	(1,156.12)	15
Above 3 years	(1,916.83)	25	(4,835.13)	26	(4,079.48)	19
Total	12,696.81		(6,341.91)		(7,125.61)	

The Test 2A in Table 3.9 was adequately funded, but Test 2B and 2C had mismatches of ₦6.3 trillion and ₦7.1 trillion respectively.

3.2.4 Contagion Risk Analysis through Interbank Exposures

Contagion risk increased in exposure and interconnectedness (via interbank placement and takings), when compared to the June 2018 position. Two banks were more central to the network as they were exposed to at least seven counterparties each. Six banks accounted for 82 per cent (₦ 252.00billion) of total placements and 86.00 per cent (₦ 266.00 billion) of total takings, of which 71.00% (₦ 190bn) was provided by the top four placers of funds.

Figure 3. 11: Network Analysis based on Interbank Exposures

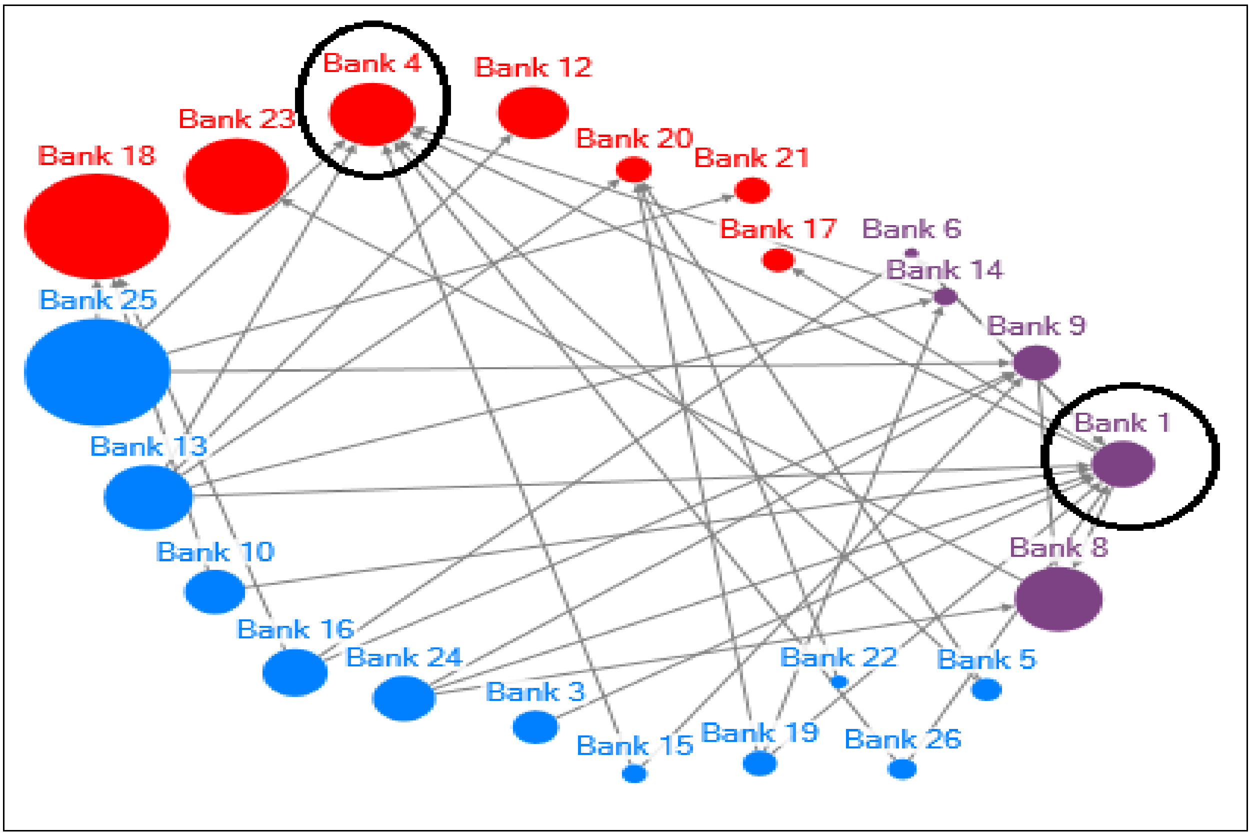
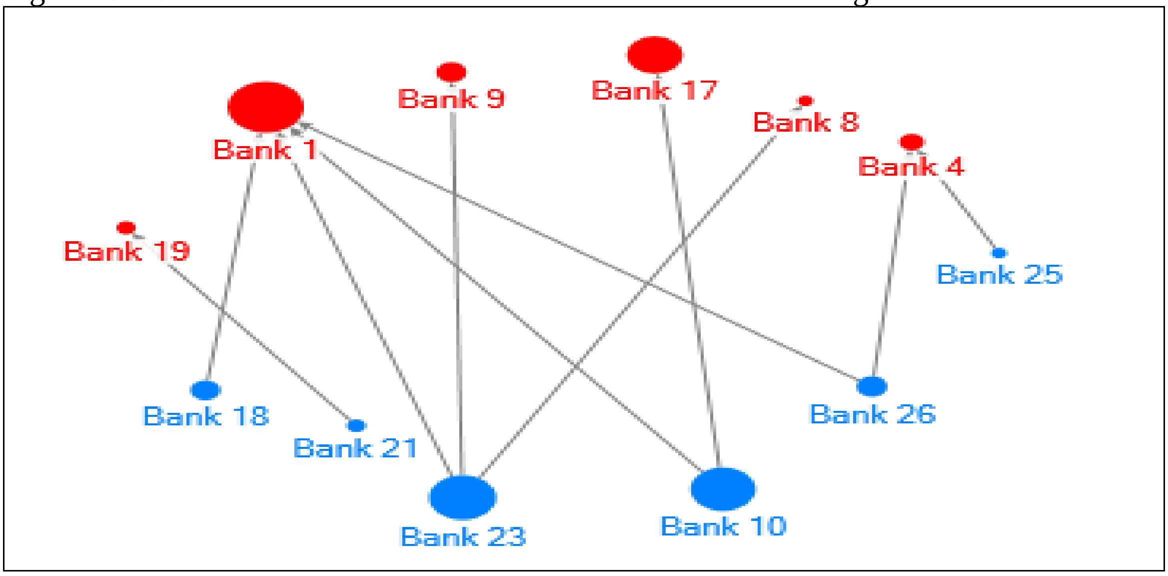


Figure 3. 12: Tiered Structure of Unsecured Placements and Takings[14]



[14] *Note: Node colour representation (Blue= Lenders; Red= Borrowers; Purple= Borrowers and Lenders); the sizes of the nodes represent the quantum of transactions.*

3.2.4.1 Unsecured Placements

Contagion risk from the unsecured transactions in the interbank market was moderate at end-December 2018. The results of simulated conditional counterparty default from unsecured interbank loans indicated low risk as the banks, except two, maintained post-shock CAR above 10 per cent (Table 3.10).

Table 3. 10: Results of Net Interbank Unsecured Exposure Stress Test on Capital Adequacy Ratio.

Lending Banks	Bank 10	Bank 18	Bank 21	Bank 23	Bank 25	Bank 26	Industry
Pre-Test CAR(%)	26.50	15.27	15.39	16.12	16.30	237.79	15.26
Post-Test CAR(%)	7.58	14.78	15.20	6.79	15.81	206.18	15.06
Placement (₦' Billion)	17.06	3.59	1.50	18.11	0.18	3.88	44.32

Box 1: Liquidity Stress Test Assumptions

Implied Cash Flow Analysis

The Implied Cash Flow Analysis (ICFA) assessed the ability of the banking system to withstand unanticipated substantial withdrawals of deposits, short-term wholesale and long-term funding over 5 days and cumulative 30 days, with specific assumptions on fire sale of assets. The test assumed gradual average outflows of 3.8, 5.0 and 1.5 per cent of total deposits, short-term funding and long-term funding respectively, over a 5-day period and a cumulative average outflow of 22.0, 11.0 and 1.5 per cent of total deposits, short-term funding and long-term funding respectively, on a 30-day balance. It also assumed that the assets in Table 3.10 would remain unencumbered after a fire sale.

The Maturity Mismatch/Rollover Risk

This approach assessed funding maturity mismatch and rollover risk for assets and liabilities in the 1-30 and 31-90 day buckets, with assumptions of availability of funding from the CBN and intra-group as described below:

*i. **Test 2a: Descriptive Maturity Mismatch** assumed that the baseline mismatch remained, but 5 per cent of total deposits would be made available from the CBN and the intra-group;*

*ii. **Test 2b: Static Rollover Risk** assumed that 80.0 and 72.0 per cent of the funding in the 1-30 and 31-90 day buckets would be rolled over, with no possibility to close the funding gap from other buckets. However, 5 per cent of the total deposits would still be available from the CBN and the intra-group; and*

*iii. **Test 2c: Dynamic Rollover Risk** made the same assumption as in 2b above, but with the option of closing the liquidity gap from other buckets.*

Table 3. 11: Percentage of Assets Unencumbered after Fire Sales

Item No	***Assets***	***% Unencumbered***
1.	*Cash and cash equivalent*	*100*

2.	*Current account with CBN*	*100*
3.	*Government bonds, treasury bills and other assets with 0% risk-weighting*	*66.5*
4.	*Certificates of deposit held*	*66.5*
5.	*Other short-term investments*	*49*
6.	*Collateralized placement and money at call*	*49*
7.	*CRR*	*100*

3.3 Supervision of Banks

3.3.1 Bank Examinations

CBN and NDIC carried out the examination of banks with composite risk ratings of 'High' and 'Above Average' and the three (3) financial holding companies during the second half of 2018. The outcome of the examination showed that the composite risk rating of two banks improved from 'Above Average' to 'Moderate', while one bank improved from 'High' to 'Above Average'. The examination of banks with composite risk rating of 'Moderate' and 'Low' was also conducted between October and November 2018.

The examination of the three credit bureaux and AMCON was also conducted during the period under review. Similarly, the Bank, in collaboration with some host supervisors, conducted routine cross border examination of Nigerian banks' foreign subsidiaries.

3.3.2 Foreign Exchange Examination

The examination of the foreign exchange transactions (Teller-point) of Authorised Dealers was conducted during the review period to assess compliance with the directive on the establishment of Foreign Exchange Teller-point in bank branches across Nigeria. The examination revealed a high level of compliance with the directive.

3.3.3 Anti-Money Laundering /Combating Financing of Terrorism

During the review period, the Bank continued the implementation of AML/CFT regulations to ensure compliance with the recommendations of the Financial Action Task Force (FATF). The effort to strengthen the AML/CFT Regime was sustained with a review of extant AML/CFT laws, including the Terrorism Prevention Act, 2011 (TPA) and Money Laundering Prohibition Act, 2011(MLPA).

In addition, the AML/CFT on-site examination of 21 OFIs was conducted to assess the OFIs' compliance with extant AML/CFT laws and regulations and evaluate the effectiveness of controls put in place to mitigate their AML/CFT risks.

During the 30th Plenary meetings of the Inter-governmental Action Group Against Money Laundering in West Africa (GIABA), Nigeria was exited from the follow-up process to enable the Country to concentrate on preparations for its forthcoming 2nd Mutual Evaluation Exercise (MEE) in 2019.

3.3.4 Domestic Systemically Important Banks

During the review period, seven banks were categorised as Domestic Systemically Important Banks (D-SIBs). The banks were selected based on the D-SIB supervisory framework, given their size, interconnectedness, substitutability and complexity. The D-SIBs accounted for 63.80 per cent of the industry total assets of ₦35.10 trillion and 65.23 per cent of the industry total deposit of ₦21.73 trillion as well as 66.00 per cent of the industry total loans of ₦15.34 trillion.

The examination revealed that the D-SIBs were largely in compliance with the regulatory requirements, including capital adequacy and liquidity ratios. The average CAR for the D-SIBs stood at 19.82 per cent, while liquidity ratio stood at 46.29 per cent. There was an improvement in non-performing loans ratio from 11.31 per cent at end-June 2018 to 9.82 per cent at end-December 2018.

3.3.5 Asset Management Corporation of Nigeria

The annual on-site routine examination of the Asset Management Corporation of Nigeria (AMCON) was carried out during the review period.

The carrying value of AMCON's liabilities increased from ₦4.53 trillion at end-June 2018 to ₦ 5.43 trillion at end-December 2018, arising from the Corporation's investment of ₦898.45 billion in Polaris Bank Ltd. The carrying value of AMCON assets net of impairment increased from ₦731.55 billion at end-June 2018 to ₦769.87 billion at end-December 2018. AMCON's liabilities ₦5.43 trillion was projected to be covered by the Banking Sector Resolution Cost Trust Fund (BSRCTF) and the Corporation's internal credit recoveries and asset sales. Contributions to the BSRCTF by the CBN and fifteen participating banks for year 2018 was valued ₦228.28 billion. The recoveries generated by AMCON as well as the contributions to the BSRCTF were used to repay the Corporation's debt obligations which fell due in December 2018.

The Corporation made cash recoveries of ₦89.97 billion for the 2018 financial year from asset sales and credit repayments, bringing its total recoveries from inception to end-December 2018 to ₦759.05 billion, consisting of cash, ₦366.85 billion; shares forfeiture, ₦128.47 billion; and property forfeiture, ₦263.73 billion.

3.3.6 Cross Border Supervision

3.3.6.1 Foreign entities of Nigerian banks

The number of offshore subsidiaries of Nigerian banks at end-December 2018 was 58, compared with 55 at end-June 2018, owing to the failed divestment effort of a bank from three of its subsidiaries.

The number of representative offices, affiliates and international branches of Nigerian banks remained six (6), one (1) and two (2) respectively, bringing the total number of offshore entities to 67.

3.3.6.2 Onsite Examination of Offshore Subsidiaries of Banks

Five (5) offshore banking subsidiaries were jointly examined by the CBN and the host supervisors in the second half of 2018. The three subsidiaries visited in The Gambia were examined using the risk-based approach as part of efforts to facilitate the country's transition to RBS under the subsisting collaboration to allow for a common risk assessment. The examination revealed that the three subsidiaries had composite risk rating of 'High' and 'Above Average' and 'Moderate'. The subsidiaries were required to take appropriate remedies to address the concerns. The reports on the fourth and fifth subsidiaries revealed that the risk profile of the subsidiaries remained 'Moderate'.

3.3.6.3 Regulatory Collaborations

The Bank, in collaboration with CABS Working Group on Crisis Management and Banking Resolution, administered a questionnaire based on the BCBS 12 Key Attributes for Effective Resolution Regime to 39 African countries. This was to evaluate the state of their preparedness towards developing an effective crisis management and resolution regime for cross border entities.

3.3.6.4 Supervisory Colleges

During the review period, the Bank participated in key regional and cross-border meetings, including the College of Supervisors of Standard Chartered Bank on Cyber Risk, College of Supervisors of Ecobank Transnational Incorporated on credit concentration and operations risks and the College of Supervisors for the West African Monetary Zone on crisis management and banking resolution.

3.3.7 Non-Interest (Islamic) Banking

3.3.7.1 Non-Interest Financial Institutions Products Development Committee

The Non-Interest Financial Institutions Products Development Committee (NIFI-PDC) developed processes for the operationalisation of two new instruments: "Funding for Liquidity Facility (FfLF)" and "Intra-day Facility (IDF)". Consequently, five accounts were created to facilitate the implementation of the products at the CBN window.

3.3.7.1 Financial Regulation Advisory Council of Experts

During the period under review, the Financial Regulation Advisory Council of Experts (FRACE) issued a regulation on the operations of the Non-Interest Version of the Commercial Agricultural Credit Scheme (CACS) and conducted Shariah audit training for financial service regulators.

3.4 Supervision of Other Financial Institutions

3.4.1 Bureau-De-Change

The target examination of 100 selected BDCs conducted during the review period revealed lapses, including: poor AML/CFT compliance; failure to keep proper records of transactions; and late/non-rendition of periodic returns. Appropriate sanctions were imposed on the errant BDCs. The Bank also held a meeting with the leadership of the Association of Bureaux De Change Operators of Nigeria (ABCON) to emphasise the need for compliance with the BDC Guidelines.

3.4.2 Finance Companies

A total of 52 FCs were examined in the review period, compared with 51 institutions in the corresponding period of 2017. The on-site examinations included nine (9) FCs that were granted forbearance of 90 days by the Bank to beef up their capital.

3.4.3 Primary Mortgage Banks

The Bank examined 30 PMBs during the period under review. The examination adjudged that the Composite Risk Rating of 16 institutions was 'High', seven (7) 'Above Average' and seven (7), 'Moderate'. To ensure compliance with the provisions of IFRS 5 on non-current assets held for sale, a special examination was conducted on some PMBs and those in breach were required to comply.

3.4.4 Microfinance Banks

The Bank carried out examination of 490 MFBs during the review period. These included the Routine Examination of 258 MFBs, Special Examination of 224 MFBs and Income Audit of eight (8) MFBs designated as Systemically Important Financial Institutions (SIFIs). The examination revealed the following shortcomings:

- High incidence of non-performing credits (above PAR of 5%);
- Inadequate capitalization;
- Absence of Capital Management Plans and weak strategic objectives;
- High operating costs;
- Weak risk management practices; and
- Poor corporate governance.

The CBN directed the affected MFBs to take appropriate measures to comply with regulatory requirements.

3.5 Financial Services Regulation Coordinating Committee

The Financial Services Regulation Coordinating Committee (FSRCC) facilitated the implementation of the Nigeria Sustainable Finance Principles (NSFP), the Executive Order on the Ease of Doing Business in Nigeria and the Nigerian Financial System Stability Dashboard (FSSD).

In a renewed effort to reduce the activities of Illegal Fund Managers/'Wonder Banks' in the financial sector, the FSRCC continued to partner with the Bank to enlighten the public through newspaper publications, radio, and television programmes.

3.6 Other Developments in the Financial System

3.6.1 IFRS 9 Implementation

During the review period, the Bank issued the final version of IFRS 9 on Financial Instruments for adoption by banks. To cushion the impact of first-time adoption of IFRS9, a transitional arrangement circular[15] was also issued to address the initial impact of the expected credit loss model of IFRS 9 on banks' financial statements.

3.6.2 Implementation of Basel II/III

A review of the ICAAP reports of banks as at December 31, 2017 was carried out during the review period to evaluate the banks' risk management practices, with emphasis on:

i. Governance of ICAAP and Data Quality
ii. Business Model and Strategy
iii. Risk Identification and Materiality Assessment
iv. Risk Appetite Statement
v. Quantification of Pillar 2 Capital
vi. Stress Testing Framework
vii. Capital Planning and Management Processes
viii. Role of ICAAP in Decision Making
ix. Internal Audit Review of ICAAP

The deficiencies observed from the review included: failure to identify and assess all material risks; failure to provide estimates of Pillar II capital add-ons; and weaknesses in methodologies adopted for stress testing. The affected banks were advised to address the deficiencies.

The Bank also issued Guidance Notes to the industry on:

- ✓ Interest Rate Risk in the Banking Book;
- ✓ Credit Concentration Risk;
- ✓ Banks' Business Models;
- ✓ Reputational Risk; and
- ✓ Stress Testing.

3.6.3 Payment Service Banks

During the review period, the CBN issued the Guidelines for Licensing and Regulation of Payment Service Banks in Nigeria. The Payment Service Banks (PSBs) are expected to leverage mobile and digital channels to enhance financial inclusion and stimulate economic activities at the grassroots.

3.6.4 Complaints Management and Resolution

A total of 1,612 complaints from consumers of financial services were received in the period under review, indicating an increase of 173 complaints or 12.02 per cent over the 1,439 received in the first half of 2018. Of this number, 1,602 complaints or 99.38 per cent were against banks, while 10 complaints or 0.62 per cent were against OFIs. The complaints were in various categories, such as Excess/Unauthorised charges, Frauds, Guarantees, Dispense errors, Funds Transfers.

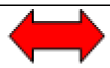
A total of 1,496 complaints were successfully resolved or closed in the period under review, compared with 4,723 in the first half of 2018, indicating a decrease of 3,227 or 215.71 per cent. Total claims made by complainants during the period amounted to N7.995 billion and US$1.767 million, while the sums of N3.093 billion and US$1.724 million were refunded to customers.

3.6.5 Potential Risks from Developments in the Financial System

- The adoption of ECL models to meet IFRS 9 requirements may produce fundamental errors and inaccurate outputs;
- Insufficient expertise in the assessment of IFRS 9 impairments may affect the level of compliance.
- Cross-border vulnerabilities may pose threats to Nigerian banks with foreign subsidiaries/affiliates.
- High number of Nigerian bank subsidiaries in the West African Region exposes them to concentration risks.

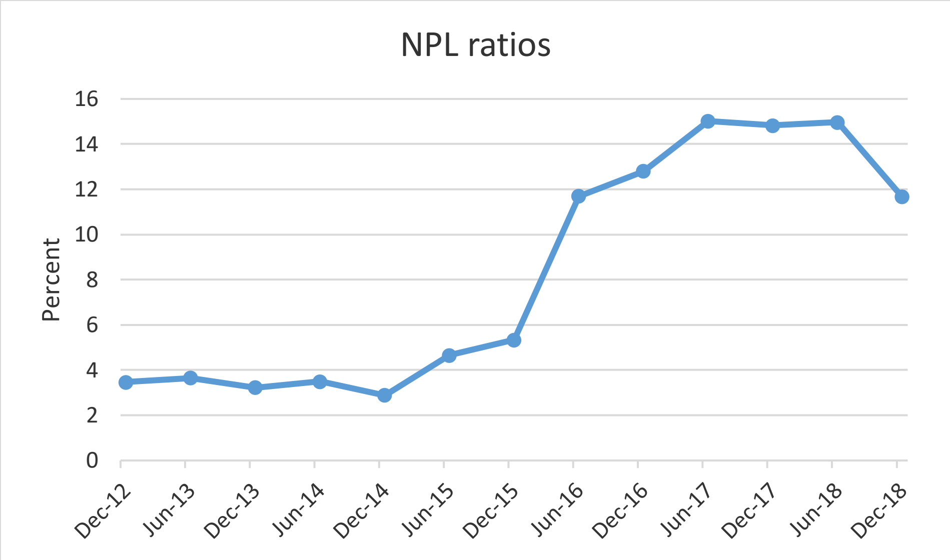
3.7 Key Risks to the Financial System

3.7.1 Credit Risk

Risk Rating (High Risk, Stable)	

During the review period, loans to the oil and gas sector was N4,665.53 billion, compared with ₦4,742.12 billion at end-June 2018. Also, loans to State Governments fell to ₦1,367.23 billion from ₦1,486.84 billion. At end-December 2018, total NPLs stood at ₦1,792.48 billion, compared with ₦1,939.15 billion at end-June 2018, while the NPL ratio declined to 11.67 at end-December 2018, from 12.45 percent at end-June 2018. The moderation in NPLs reflected loan write-offs, the impact of the debt recovery strategies employed by banks and the gradual improvement in economic conditions leading to increased repayment by obligors.

Figure 3. 13: Non-Performing Loans Ratio



3.7.2 Liquidity Risk

Risk Rating (Medium Risk, Stable)	⟺

The average liquidity ratio of the banking industry increased to 51.70 per cent at end-December 2018, from 46.09 per cent at end-June 2018. The improved liquidity position in the industry reflected the banks’ preference for holding liquid assets, as against lending.

Higher levels of liquidity in the domestic economy are anticipated as election spending peaks, with concomitant impact on rates in the money markets and liquidity management.

3.7.3 Market Risk

Risk Rating (Medium Risk, Trending Down)	⇩

The Interbank market experienced volatility during the review period, with several spikes in OBB rates, which peaked at 63.00 percent on December 11, 2018. This was as a result of liquidity shortages arising from sustained OMO operations of the Bank, reductions in bank deposits and significant FPI reversals in the capital market. However, the rates trended downward to 22.68 per cent at end-December 2018. Market rates are expected to trend lower, following heightened system liquidity in the first quarter of 2019.

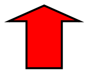
Rates in the foreign exchange market remained stable as the Bank sustained its foreign exchange policies and commenced the implementation of the PBoC and CBN Swap Agreement to reduce pressure on the external reserves. Also, the frequency of foreign exchange sales to the BDCs increased from 3 to 4 times weekly to cater for the increased demand in the market.

Investor perception of domestic political risks, volatile commodity prices and monetary tightening in the United States translated to a loss of 17.8 per cent in the capital market, as the NSE ASI closed at

31.430.50 points at end-December 2018, compared with 38,243.19 points at end-December 2017. Similarly, investors lost N1.9 trillion of investment value, reflected in market capitalization which fell to ₦11.72 trillion at end-December 2018, from ₦13.61 trillion at end-December 2017. Meanwhile, to sustain market participation and aid efficient risk management, the NSE introduced the trading of Exchange Traded Derivatives on its platform.

There was high level participation in the bond market by international investors during the review period. However, the planned strategy of the Federal Government to achieve a 60/40 split for domestic and external borrowings, which was aimed at lowering its debt servicing cost may expose the economy to external vulnerabilities. Government deficit may also be exacerbated by oil prices falling below the budget bench mark of $60 pbr and OPEC production cap of 1.685 mbd against the budgeted production level of 2.3 mbd.

3.7.4 Operational Risk

Risk Rating (High risk, trending up)	

Reported cases of fraud and forgeries by DMBs increased to 25,029 at end-December 2018 from 20, 774 at end-June 2018. However, the total amount involved, decreased to ₦18.94 billion at end-December 2018 from ₦19.77 billion at end-June 2018. Similarly, actual losses declined to ₦2.21 billion at end-December 2018 from ₦12.10 billion in the first half of 2018.The total number of reported fraud cases in OFIs stood at 754 at end-December 2018, while the actual loss of N120.98 million recorded during the same period.

ATM and mobile channels recorded the highest incidence of fraud. In order to tackle this trend, bank customers were continually sensitized on safe banking practices while banks were encouraged to implement strong authentication controls and carry out comprehensive infrastructure risk assessments.

Table 3.1: Fraud Analysis Index December 2018

Channel	Fraud Interest Index (%)
Across the counter	8.52
ATM	34.87
Cheques	1.87
e-Commerce	0.14
Internet Banking	0.43
Mobile	28.21
POS	19.55

Others	1.42
Web	4.99

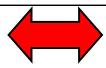
Source: NIBSS Fraud Landscape
*FII identifies the channel that are of highest interest to fraudsters.

During the period under review, the US Federal Bureau of Investigation issued a warning to banks on a new type of fraud known as the ATM Fraud or ATM Cloned Card fraud, which involves hackers accessing bank systems or payment card processors and altering data in order to withdraw large sums of cash within a short period. In response to this warning, the Bank carried out vulnerability assessments on all banks and payment system providers and directed the remediation of identified vulnerabilities on all ATM servers.

By end-December 2018, various cyber-attacks had been carried out on high profile entities, including the Central Bank of Bahamas, Marriot Hotels, Google plus, Arik Air, British Airways and UK NHIS, leading to the loss of customers' private information, revealing the vulnerability of all classes of organizations. To mitigate the incidence of attacks in the financial system, the Bank released cyber-security framework and guidelines for banks and payment service providers. The framework stipulates, amongst other requirements, the establishment of Cyber-Threat Intelligence (CTI) programmes to proactively identify, assess and mitigate potential cyber-threats and the appointment of a "Chief Information Security Officer" (CISO) to oversee and implement a bank's cyber-security programme. In line with good practice, the Bank also appointed a Chief Information Security Officer to oversee its Cyber-security programme.

Operational costs of banks increased at end-December 2018, reflecting increased fuel expenses as well as the 14 per cent hike in electricity tariffs.

3.7.5 Macroeconomic Risk

Risk Rating (High Risk, Stable)	

Government's sustained efforts at implementing the Economic Recovery and Growth Plan continued to yield positive results as evidenced by reduction in inflation rate, growth in the non-oil sector and increased tax revenue through the Voluntary Assets and Income Declaration Scheme.

The 2.3 per cent growth forecast for 2019 was primarily based on high oil receipts, higher government spending and sustained performance in the services and agricultural sectors. However, major factors that may hinder its achievement include global shifts from fossil fuel to alternative energy sources, which pose major threats to oil revenue, implementation of the OPEC production cap and inadequate credit to the private sector to drive domestic activities.

In addition, inflation rate which had sustained a downward trend was expected to rise as a result of increased electricity tariffs, reviewed minimum wages and high levels of liquidity in the system. The increase in food inflation owing to less-than-expected harvest in 2018 as a result of insecurity in some food-producing areas and NIMET's prediction of below-normal rainfall could contribute to increase in headline inflation.

3.8 Credit Risk Management System

The Bank commenced offsite compliance status checks on banks during the review period and continued the phased deployment of CRMS to OFIs with a pilot on DFIs. In addition, the Bank commenced the re-validation of all eligible bank assets transferred to AMCON, while an interface was created for the NDIC to manage credit records of banks-in-liquidation.

At end-December 2018, the total number of credit facilities reported on the database stood at 4,976,292, showing a 40.95 per cent increase over the June 2018 position of 3,530,495. Total number of facilities with outstanding balances on the database stood at 1,866,468 at end-December 2018, compared with the June 2018 figure of 1,561,869, indicating a 19.50 per cent increase. The increase in the number of credits reported was largely due to the expansion of the reporting base, the back-filling of previously unreported credits following compliance status checks and creation of new loans by participating financial institutions.

Table 3. 12: Borrowers from the Banking Sector**

Description	**June 2018**	**December 2018**	**Absolute Change: Increase/ (decrease)**	**% Change**
* Total No. of Credit facilities reported on the CRMS:	3,530,495	4,976,292	1,445,797	40.95
Individuals	3,064,977	4,453,336	1,388,359	45.30
Non-Individuals	465,518	522,956	57,438	12.34
* Total No. of Outstanding Credit facilities on the CRMS:	1,561,869	1,866,468	304,599	19.50
Individuals	1,463,314	1,763,960	300,646	20.55
Non-Individuals	98,555	102,508	3,953	4.01

** The figures include borrower(s) with multiple loans and/or credit lines.*

*** Commercial, Merchant and Non-Interest Banks only*

3.8.1 Private Credit Bureau

The number of licenced Credit Bureaux remained the same as at end-December 2018, though the industry continued to record remarkable growth following increased awareness and acceptance. As at December 31, 2018, the capital base of the three (3) Credit Bureaux was above the minimum capital requirement of ₦500 million. The composition of the credit records in their database was as follows:

S/N		**CRC Credit Bureau**	**CR Services**	**First Central Credit Bureau**
1	Number of credit records	24,860,062	46,607,328	20,846,145
2	Number of subscribers	1,186	489	1,020
3	Value of Credit Facilities	₦23.076 trillion	₦23.743 trillion	₦16.601 trillion
4	Number of borrowers	14,656,028	22,223,751	13,142,703

4.0 THE PAYMENTS SYSTEM

4.1. Establishment of Payments System Management Department

In order to enable the early identification of emerging risks in the payments system and boost public confidence, the Bank, during the review period, created a new department, with responsibilities for licensing, regulation, supervision and monitoring of payments services providers.

4.2 Bank Verification Number Operations

As at December 31, 2018, the number of Bank Verification Numbers (BVNs) assigned, stood at 36,170,176 and the number of accounts linked with BVNs was 49,318,972 out of 71,214,706 active customer accounts. During the review period, the Bank issued the Amended Regulatory Framework for Bank Verification Number (BVN) Operations and Watch-list for the Nigerian Banking Industry. The regulation mandated entities that require access to BVN information to accompany their requests with valid court orders addressed to the CBN.

4.3 Nigeria electronic Fraud Forum

The Nigeria electronic Fraud Forum (NeFF) issued its annual report titled, "Tightening the BELT[16] of e-fraud Prevention: A 4-sided Approach". This was in addition to industry engagements aimed at tackling ineffective e-product designs and account management for the industry.

4.4 Examination of Payment System Participants

The Bank conducted the examination of licensed transaction-switching companies, mobile money operators and accredited cheque printers, to monitor compliance with relevant policies, guidelines and standards. The examination revealed a number of infractions, including: lack of fraud management tools; failure to conduct failover test; non-compliance with biometric access to restricted areas; late/non-rendition of regulatory returns; non-documentation of issues; and remedial actions taken to prevent recurrence. Appropriate measures were recommended to correct the observed lapses.

4.5 Licensing of Payment System Participants

During the review period, the Bank licensed 4 payment solution service providers, 1 transaction-switching company and 1 accredited cheque printer. The number of institutions with valid licences at end-December 2018 and end-June 2018 are detailed below:

[16] **B**anking, other **E**cosystem players, **L**aw **E**nforcement and **T**elecommunication operators

Table 4. 1: Licensed Payment System Participants

License –Type	Number	
	end-Jun 2018	end-Dec 2018
Card Schemes	4	4
Mobile Money Operators	25	25
Payment Solution Service Providers	12	16
Payment Terminal Service Providers	19	19
Transaction Switching Companies	7	8
Third Party Processors	4	4
Super Agents	3	3
Non-Bank Acquirers	5	5
Accredited Cheque Printers	6	7
Total	**85**	**91**

4.6 Cheque Standards and Cheque Printers Accreditation Scheme

The Bank issued the revised Nigeria Cheque Standards and Nigeria Cheque Printers Accreditation Scheme to improve the safety and efficiency of the clearing system. Notable changes in the revised Standards included the introduction of QR code for faster verification of cheque details, expiry date of printed cheque booklet and clear zone at the back of the cheque. The new and old cheque standards would run concurrently till August 1, 2020, after which only cheques that conform to the new standards would be allowed in the clearing system.

4.7 Payment System Vision 2020

In continuation of the implementation of Payment System Vision 2020, the Bank, through the Payment Scheme Boards, Special Interest Working Groups and Initiative Working Groups, undertook the following activities:

- Issued the Regulation on Instant (Inter-Bank) Electronic Funds Transfer Services in Nigeria;
- Issued the 'Nigeria Bankers' Clearing System Rules, 2018 (Revised); and
- Conducted an independent assessment of the Payments Infrastructures in Nigeria against the Bank for International Settlement (BIS) Principles for Financial Market Infrastructure.

4.8 Payment System Statistic and Trend

4.8.1 Large Value Payments

The volume and value of inter-bank fund transfers through the CBN RTGS System increased to 559,317 and N204,212 billion at end-December 2018, from 530,121 and N179,748 billion at end-June 2018, indicating increases of 5.51 and 13.61 per cent, respectively.

4.8.2 Retail Payments

4.8.2.1 Cheque Clearing

The volume and value of cheques cleared declined to 4,274,922 and N2,042.76 billion at end-December 2018 from 4,744,356 and N2,595.97 billion at end-June 2018, indicating decreases of 9.89 and 21.31 per cent, respectively. This development reflected customers' preference for electronic transactions.

4.8.2.2 Electronic Transactions

The volume and value of electronic transactions rose to 1,108,978,388 and N70,662.09 billion at end-December 2018 from 963,118,182 and N62,965.50 billion at end-June 2018, reflecting increases of 15.14 and 12.22 per cent, respectively. The rise reflected increased adoption of electronic based transactions.

Table 4. 2: Electronic Transactions

Payment Channel	**Number of Terminals**		**Number of Transactions**		**% Change (Volume)**	**Value ₦' Billion**		**% Change (Value)**
	Jun 2018	**Dec 2018**	18-Jun	**18-Dec**		Jun-18	**Dec-18**	
ATMs	18,052	18,615	429,788,814	445,730,493	3.71	3,172.12	3,307.97	4.28
POS	118,707	144,461	120,792,684	175,097,483	44.96	1,018.36	1,364.75	34.01
Mobile	-	-	35,941,542	51,144,718	42.30	739.68	1,091.02	47.50
Internet (Web)	-	-	19,468,503	31,347,398	61.02	114	290.6	154.91
NEFT[17]			19,047,334	7,713,518		7,448.97	3,581.99	
NIP			308,408,654	354,715,485	15.01	36,892.99	43,530.03	17.99
e-Bills Pay			513,422	539,920	5.16	256.65	243.56	-5.10
REMITA			20,300,564	24,161,282	19.02	9,319.06	9,176.93	-1.53
NAPS			8,856,665	18,528,091	109.20	4,003.67	8,075.24	101.70
Total			**963,118,182**	**1,108,978,388**		**62,965.50**	**70,662.09**	

[17] Effective October 2018, data for NAPS comprised NEFT

4.9 Potential Risks to the Payment System

Nigeria's financial market infrastructures remained resilient to potential risks associated with the payments system. However, potential risks identified included:

- Fraud and cyber-attacks;
- Concentration risk arising from the use of a single payment system shared service infrastructure;
- Breakdown in the operations of third-party service providers; and
- Liquidity risk arising from the operations of Deferred Net Settlement system.

5.0 OUTLOOK

The global output growth was projected at 3.5 per cent in 2019, less than 3.7 per cent estimated for 2018. The forecast was anchored on receding fiscal stimulus and higher interest rates in the US, weak economic activity and political uncertainties in the Euro Area. The expected slowdown in prices of crude oil and other commodities could lead to reduction in economic activities in oil exporting countries, with overall negative impact on global output.

Global inflation was projected to trend downwards in 2019, also driven largely by decline in crude oil and other commodity prices. Inflation is expected to moderate in the United States and United Kingdom, while it would inch up in some advanced economies, including the Euro Area and Japan, owing largely to higher public spending and rise in wages. In the emerging markets and developing economies, inflation was projected to increase, due to oil production cuts, tighter financial environment and mounting geopolitical threats.

The outlook for the Nigerian economy is one of cautious optimism, premised largely on gradual recovery of oil prices and a stable exchange rate regime. The moderate output growth in the second half of 2018 is expected to be sustained in the near-term on account of further improvement in the performance of the agricultural, manufacturing and services sub-sectors. Furthermore, the implementation of the FGN budget is expected to stimulate consumption and boost aggregate demand in the near-to-medium term. However, the likely reduction in crude oil receipts and rising demand for foreign exchange remain downside risks to growth.

Increased election-related spending in the first quarter of 2019, alongside low harvest, could trigger inflationary pressure in the economy. However, the sustained interventions by the Bank, especially in the agricultural sub-sector should boost production and rein in inflation.

The Bank, in collaboration with key stakeholders, would continue to track the emerging developments and activities in FinTech and Distributed Ledger Technology with a view to assessing their potential impact on the Nigerian financial system. In addition, the proposed revision of the licensing guidelines for payments service providers in 2019 is expected to address the emerging issues regarding the activities of FinTech. Also, the proposed framework for risk-based collateral management is expected to reduce settlement risk for deferred net settlement and increase the efficiency of the system when implemented.

The banking industry's outlook is positive, given the expected enhanced capital base for most banks arising from the capitalisation of year 2018 profits in the first half of 2019. However, banks' exposure to the oil and gas sector as well as the implementation of IFRS9 remains a threat to overall profitability.

The Bank will continue to collaborate with the fiscal authority and other financial services regulators to address the observed challenges towards ensuring that the gains made are sustained to reinforce financial system stability.

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