CENTRAL BANK OF NIGERIA

ANNUAL REPORT 2016

Central Bank of Nigeria
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Vision

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

Mission

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

THE CENTRAL BANK OF NIGERIA

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

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

BOARD OF DIRECTORS

AS AT 31st DECEMBER, 2016

MEMBERS OF THE BOARD OF DIRECTORS OF THE BANK AS AT 31ST DECEMBER, 2016

Following the dissolution of the Board in July 2015, a new Board was yet to be constituted as at 31st December, 2016.

MEMBERS OF THE COMMITTEE OF GOVERNORS OF THE BANK AS AT 31ST DECEMBER, 2016

1.	Godwin I. Emefiele, CON	-	Governor (Chairman)
2.	Suleiman A. Barau, OON	-	Deputy Governor (Corporate Services)
3.	Sarah O. Alade (Mrs.), OON	-	Deputy Governor (Economic Policy)
4.	Okwu J. Nnanna	-	Deputy Governor (Financial System) Stability)
5.	Adebayo A. Adelabu	-	Deputy Governor (Operations)
	Yunusa M. Sanusi	-	Secretary

MEMBERS OF THE MONETARY POLICY COMMITTEE (MPC) AS AT 31ST DECEMBER, 2016

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

PRINCIPAL OFFICERS OF THE BANK AS AT 31ST DECEMBER, 2016

A. Departmental Directors

1.	Dipo T. Fatokun	-	Banking & Payments System
2.	Agnes O. Martins (Mrs.)	-	Banking Supervision
3.	Emmanuel C. Obaigbona*	-	Branch Operations
4.	Chizoba V. Mojekwu (Ms.)	-	Capacity Development
5.	Umma Dutse (Haj.)	-	Consumer Protection
6.	Isaac Okoroafor*	-	Corporate Communications
7.	Yunusa M. Sanusi	-	Corporate Secretariat
8.	Olufemi A. Fabamwo	-	Currency Operations
9.	Mudashir A. Olaitan	-	Development Finance
10.	Moro D. Arowosegbe*	-	Finance
11.	Alvan E. Ikoku	-	Financial Markets

12.	Kevin N. Amugo	-	Financial Policy and Regulation
13.	Mohammed D. Suleyman***	-	FSS 2020
14.	Oghenekaro A. Olori	-	Governors' Department
15.	Lametek E. Adamu	-	Human Resources
16.	John I. Ayoh	-	Information Technology
17.	Vivian I. Agu (Mrs.)	-	Internal Audit
18.	Johnson O. Akinkumi*	-	Legal Services
19.	Faozat A. O. Bello (Mrs.)	-	Medical Services
20.	Moses K. Tule	-	Monetary Policy
21.	Ahmad Abdullahi	-	Other Financial Institutions Supervision
22.	Lazarus M. Agbor	-	Procurement & Support Services
23.	Uwatt B. Uwatt	-	Research
24.	Tirmidhi M. Yakubu*	-	Reserve Management
25.	Oluwafolakemi J. Fatogbe (Ms.)	-	Risk Management
26.	Olugbenga I. Amu	-	Security Services
27.	Tumala, M. Musa*	-	Statistics
28.	Ibrahim Mu'azu	-	Strategy Management
29.	Wuritka Dauda Gotring*	-	Trade & Exchange
30.	Abwaku Englama**	-	Secondment to WAMI

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

B. Special Advisers to the Governor

1.	Vitus Ukwuoma	-	Banking Supervision
2.	Paul N. Eluhaiwe	-	Development Finance
3.	Kingsley Obiora	-	Economic Matters
4.	Emmanuel Ukeje	-	Financial Markets
5.	Yakubu Umar	-	Non-Interest Banking
6.	Titus O. Odozi	-	Nigerian Security Printing and Minting (NSPM) Plc.
7.	Aisha U. Mahmoud	-	Sustainable Banking

C. Branch Controllers/Currency Officers

1.	Obiageli A. Obiekwe (Mrs.)	-	Abakaliki
2.	Amao A. Babatunde	-	Abeokuta
3.	Ghasarah B. Ateh	-	Abuja
4.	Iwuaru C. Chibueze	-	Ado-Ekiti
5.	Yusuf F. Adebare	-	Akure
6.	Elizabeth O. Agu (Mrs.)	-	Asaba
7.	Sokari C. Monday	-	Awka
8.	Muhammad M. Ladan	-	Bauchi
9.	Jumbo R. Davis	-	Benin
10.	Asmau N. Babah (Mrs.)	-	Birnin-Kebbi
11.	Graham I. Kalio	-	Calabar
12.	Aliyu I. Dibola	-	Damaturu
13.	Danjuma A. Mohammed	-	Dutse
14.	Emmanuel C. Okonjo	-	Enugu
15.	Sanusi M. Salisu	-	Gombe
16.	Yargoje S. Saleh	-	Gusau
17.	Musibau F. Olatinwo	-	Ibadan
18.	Ndarake E. Akpan	-	Ilorin
19.	Mohammed S. Abdullahi	-	Jalingo
20.	Jewon S. Jatau	-	Jos
21.	Mohammed I. Gusau	-	Kaduna
22.	Amina P. Abubakar (Mrs.)	-	Kano
23.	Mohammed H. Adamu	-	Katsina
24.	Usman S. Sule	-	Lafia
25.	James O. Iyari	-	Lagos
26.	Musa B. Bafai	-	Lokoja
27.	Ibrahim Isyaku	-	Maiduguri
28.	Baba A. Tituwu	-	Makurdi
29.	Anini U. Mohammed	-	Minna
30.	Bamidele B. Ibrahim	-	Osogbo
31.	Itohan M. Ogbomon-Paul	-	Owerri
32.	Adekunle K. Alaka	-	Port Harcourt
33.	Mohammed L. Idris	-	Sokoto
34.	Veronica E. Aqua	-	Umuahia
35.	Caulma C. Efegi	-	Uyo
36.	Obiora G. Nwajana	-	Yenagoa
37.	Shuaibu Hussein	-	Yola

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LIST OF ABBREVIATIONS AND ACRONYMS

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

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

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

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

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

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

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

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

GOVERNOR'S PICTURE

STATEMENT BY THE GOVERNOR

It is my pleasure to present the Annual Report and Statement of Accounts of the Central Bank of Nigeria (CBN) for the year ended 31 December 2016. The year was a very challenging for the Bank, and indeed the country. I wish to begin by acknowledging the enormous support of my Deputies and the entire staff of the Bank which saw us through those difficult times.

The global economy slowed in the year due among others to the slowdown in China, spillovers from persisting weak demand in the advanced economies and ubiquitous geopolitical tensions. These factors exacerbated the structural imbalances in the Nigeria economy. During the year, the average spot price of Nigeria's reference crude, the Bonny Light (370API) stood at US$48.82 per barrel reflecting a year-on-year decline of 8.0 per cent. Declining oil and commodity prices encumbered our balance of trade and undermined our foreign exchange receipts. In congruence, external reserves experienced huge downward pressure to US$26.99 billion at end-December 2016 indicating a decline of US$1.30 billion over twelve months. In addition, rising protectionist and populist sentiments, as seen in the Brexit vote, widened policy divergence among advanced economies and intensified capital flow reversals especially from emerging markets economies.

Accordingly, the effect of the dwindling foreign exchange inflows intensified exchange market pressure and led to substantial depreciation of the naira exchange rate with a pass-through to domestic prices. Domestic price level witnessed upward pressure in 2016, despite the generally low global inflation, and the tight monetary policy stance of the Bank. Consequently, headline inflation, at 18.6 percent in December 2016, breached the Bank's single digit range of 6.0–9.0 per cent. The global surprises generally traversed the Nigerian financial markets debilitating the domestic capital market as the All-Share Index (ASI) declined by 6.2 per cent year-on-year to 26,874.62 at end-December 2016. Overall, the harsh global developments, in the form of low crude oil production and price shocks, foreign exchange shortages and energy deficit, weighed on economic activity and upended the Nigerian economy into its first recession in 23 years with serious constraints on real sector activities.

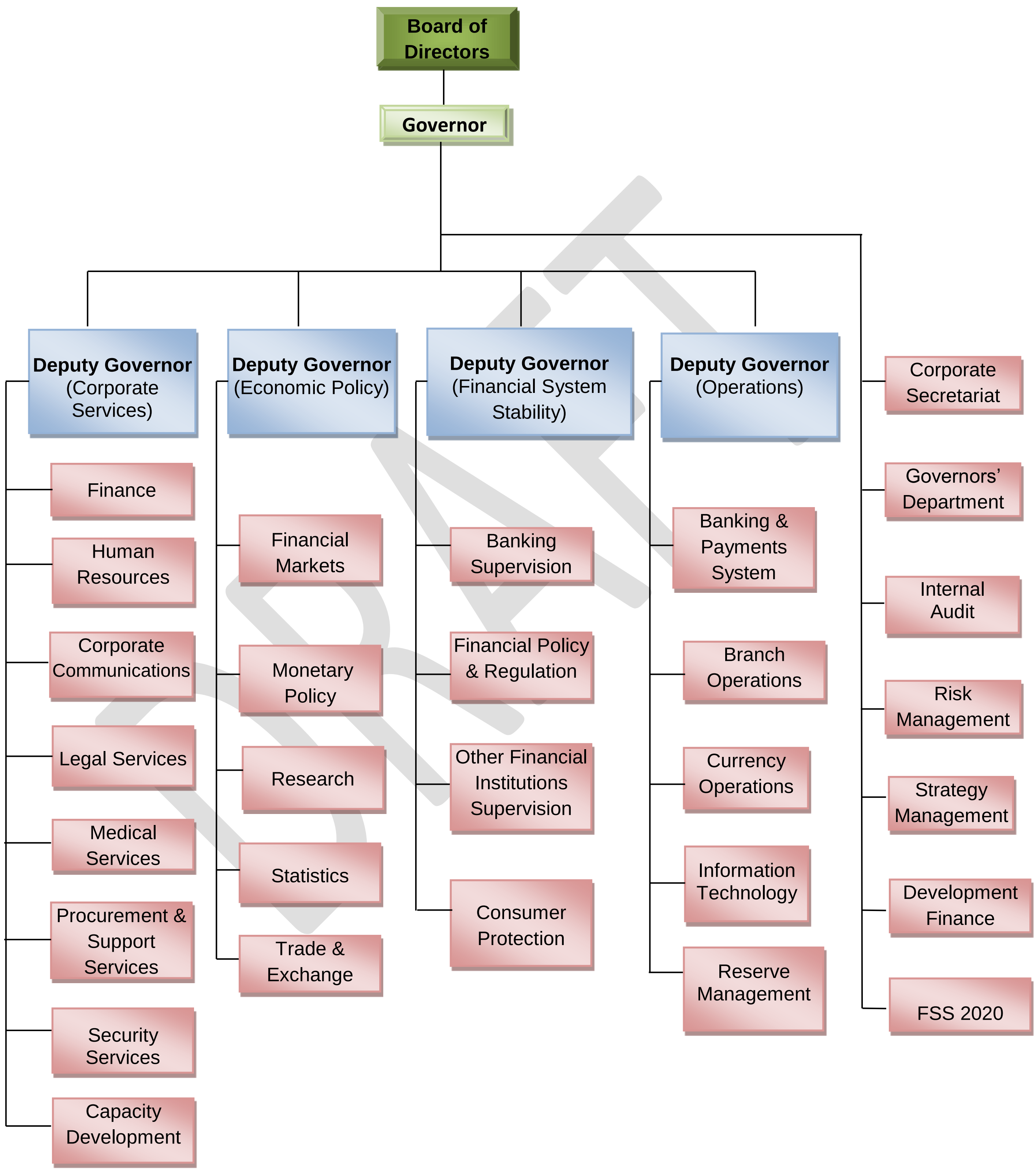
Given the enormity of the prevailing challenges and uncertain outlook, the CBN undertook a number of monetary policy, exchange rate policy and development finance initiatives to correct some of the underlying imbalances and initiate a recovery. Based on our understanding of the importance of price stability for long-term term output stabilization and welfare maximization, the Bank appropriately maintained a restrictive money policy stance with a view to containing rising inflation and extricating the system of the unwanted money illusions caused by inflation to achieve. To compliment this, we introduced a more liberalized foreign exchange market in June 2016 with a view to enhancing market transparency, jumpstarting capital inflows and stabilizing the naira exchange rate. The bank also engaged in a number of development finance intervention in order to support the diversification drive of the federal government, promote financial inclusion, initiate recovery of the economy, boost local productivity, encourage entrepreneurship development, and enhance job creation. It is our belief that the various policies and actions of the CBN will begin to yield positive results as early as the first quarter of 2017.

I would like to conclude by expressing my profound gratitude to the Management and Staff of the Central Bank of Nigeria for their support, dedication, hard work and loyalty, which contributed immensely to the success recorded in 2016 amidst the enormous challenges. I am also grateful to the Presidency, the leadership of the National Assembly, Honourable Ministers of the Federal Republic, Nigeria's development partners, the organized private sector, as well as other stakeholders for their sustained support and cooperation.

Godwin I. Emefiele, *CON*

Governor,
Central Bank of Nigeria
December 2016

Organisational Structure of the CBN as at 31st December, 2016



CENTRAL BANK OF NIGERIA
ANNUAL ECONOMIC REPORT
FOR THE YEAR ENDED DECEMBER 31, 2016
SUMMARY

This *Annual Report* reviews the policies and operations of the Central Bank of Nigeria (CBN) and the macroeconomic outcomes in 2016. The monetary policy environment was challenging due to developments in global and domestic economic and financial conditions. Generally, the focus of monetary policy was to moderate the level of banking system liquidity in order to maintain monetary and price stability conducive to sustained economic growth. Consequently, the monetary policy stance was contractionary throughout the year. A cocktail of policies to promote the efficient functioning of the financial market, attract foreign capital inflow, and stem the pressure on the exchange rate, were implemented. Despite these measures, inflation maintained an upward trend throughout 2016 with the headline year-on-year closing at 18.6 per cent at end-December 2016, while output contracted by 1.5 per cent, as against the growth of 2.8 per cent in 2015.

The *Report* is structured into two parts. Part 1 highlights the corporate operations of the Bank, while Part II appraises the performance of the economy against the backdrop of monetary policy measures taken to engender macroeconomic stability and growth.

CORPORATE ACTIVITIES

The Board of Directors and Other Committees

The Board of Directors of the CBN, which was dissolved on July 16, 2015, was yet to be reconstituted at end–December 2016. The Committee of Governors (COG) held fifty-four (54) meetings, while the Governors' Consultative Committee (GCC) held five (5). In the absence of the Board, there were no Standing Committee meetings.

The Monetary Policy Committee

The Monetary Policy Committee held six (6) regular meetings, in January, March, May, July, September and November 2016. At the meetings, major developments in the global and domestic economic and financial environment were reviewed and appropriate monetary policy decisions taken. The decisions were promptly communicated to the public.

MONETARY POLICY, SURVEILLANCE ACTIVITIES AND OPERATIONS OF THE CBN

Monetary policy was contractionary in 2016, following adverse developments in the global and domestic economic and financial environment. The global headwinds included: growth slowdown; persistent monetary policy divergence; the Brexit vote; and the trend towards economic protectionism in some advanced economies. The domestic headwinds were: dwindling foreign exchange reserves, arising from low crude oil prices and production; intensified pressure in the foreign exchange market due to low supply of foreign exchange and excess liquidity in the banking system; mounting inflationary pressure; and the eventual sliding of the economy into recession. These developments had serious implications for domestic macroeconomic conditions requiring proactive measures by the monetary authority. Consequently, the monetary policy rate was raised twice, first from 11.0 to 12.0 per cent in March, and further to 14.0 per cent in July 2016. The cash reserve ratio (CRR) was also increased to 22.50 from 20.0 per cent during the year. In addition, the asymmetric interest rate corridor on standing facilities was narrowed to +200/- 500 basis points around the MPR, from +200/- 700 basis points. Interest rates largely trended upward, reflecting tight liquidity condition in the banking system. Open Market Operations (OMO) remained the primary tool for liquidity management, complemented by reserve requirements, repurchase transactions, and interventions in the foreign exchange market.

The progress made in the payments system was sustained with increased use of e-money products. The Bank continued to fine-tune implementation of the Bank

Verification Number (BVN). Customers with irregular identity details were required to harmonise them, while accounts not linked with BVN were classified as "Post No Debit" and monitored. The deadline for BVN enrolment for customers in diaspora and security personnel serving abroad was extended to address logistic challenges. The CBN and the Securities and Exchange Commission (SEC) collaborated with relevant stakeholders to establish a Committee of e-Dividend Champions that served as a train-the-trainer platform for banks and Registrars. The CBN deployed the Authorised Signature Verification Portal, developed by NIBSS with the primary objective of authenticating the validity of authorised signatures. Furthermore, the development finance interventions of the Bank were bolstered with the tempo of activities under the Anchor Borrowers' Programme in 2016.

Growth in major monetary aggregates was generally higher than the indicative benchmarks for 2016. Broad money supply, (M_2), expanded by 17.8 per cent and was higher than the indicative benchmark of 10.98 per cent for 2016. Aggregate bank credit and credit to the private sector grew by 24.3 and 17.4 per cent, and were significantly higher than their targets of 17.94 and 13.38 per cent, respectively. The net foreign assets of the banking system significantly increased by 61.8 per cent, in contrast to the programme benchmark contraction of 40.58 per cent, due to the modest recovery of crude oil prices. Interest rates in most segments of the market rose, reflecting tight liquidity in the banking system. The full implementation of the Treasury Single Account (TSA), maturity of CBN bills and liquidity withdrawals through the sale of CBN bills by the Bank were some of the factors that shaped banking system liquidity in 2016.

Indicators of financial sector growth in 2016 recorded improvements. Financial sector development, measured by the ratio of M_2 to GDP, at 23.2 per cent, was higher than the 21.3 per cent in 2015. Banking system's capacity to finance economic activities, measured by the ratio of aggregate credit to GDP, increased slightly to 26.4 per cent, compared with 23.0 per cent in 2015, and credit to the core private sector as a percentage of GDP was 20.6, up from 19.2 in 2015. Total money market assets outstanding grew by 35.5 per cent over the level in 2015, due to increased holdings of treasury bills and FGN Bonds. Activities on the Nigerian Stock Exchange were bearish in 2016. Total market capitalisation of listed securities and the All Share Index fell by 4.8 and 6.2 per cent, respectively. Aggregate volume of traded securities increased by 3.2 per cent, but the value of traded securities fell significantly by 39.6 per cent, relative to the preceding year.

The structure of the Nigerian financial system was the same as in 2015 and comprised the CBN, the Nigeria Deposit Insurance Corporation (NDIC), the Asset Management Corporation of Nigeria (AMCON), the Securities and Exchange Commission (SEC), the National Insurance Commission (NAICOM), the National Pension Commission (PENCOM), the Federal Mortgage Bank of Nigeria (FMBN), and twenty-six (26) banks, made up of twenty-one (21) commercial banks, four (4) merchant banks and one (1) non-interest bank. Others were five (5) development finance institutions (DFIs), thirty-four (34) primary mortgage banks (PMBs), 978 microfinance banks (MFBs), 75 finance companies (FCs), 3,147 bureaux-de-change (BDCs) and one (1) mortgage refinance company.

Pursuant to the mandate of promoting a sound financial system and safeguarding public confidence in the Nigerian banking system, the Bank strengthened its supervisory and surveillance activities in 2016. In addition to the use of risk-based supervision approach, the Bank relied on the provisions of extant laws and regulations, including issuance of supervisory letters, guidelines and circulars in the course of its regulatory functions. The Bank continued to subject domestic systemically important banks (D-SIBs) to enhanced regulation and issued guidelines on the Minimum Content for Recovery Plans and Requirements for Resolution Planning for D-SIBs to address observed deficiencies. The Guidelines required the D-SIBs to include recovery plan as an integral part of their risk management framework. In addition, the Bank conducted a top-down solvency and liquidity management appraisal of the banking system to assess the resilience of banks to systemic risks. Furthermore, bottom-up solvency stress tests were carried out to evaluate the vulnerability and soundness of institutions. In partnership with the United Nations Environment Programme Finance Initiative (UNEP-FI), the Financial Sector Regulation Coordination Committee (FSRCC) developed the Nigerian Sustainable Finance Principles (NSFP).

The credit risk management system (CRMS) remained a veritable source and platform for managing credit information in the banking industry. The CRMS was redesigned to cover OFIs and create a process for identification of predatory borrowers to ensure transparency and credibility of data on industry debt profile.

The Bank continued to implement various initiatives in the other financial institutions sub-sector to further strengthen and ensure soundness of the institutions. To check unwholesome practices in the foreign exchange market and stem demand pressure on the naira exchange rate, the Bank introduced greater flexibility in the inter-bank foreign exchange market, and reduced funding of the BDCs, while the sale of foreign exchange to BDCs by international money transfers operators commenced. Other initiatives included the continuation of the enrollment of OFI customers on BVN to deepen the Know-Your-Customer (KYC) policy and also complement the activities of credit bureaux towards the improvement of credit risk management in the financial system.

The Bank intensified effort at enhancing capacity and information sharing among supervisors of the financial system in Nigeria and other jurisdictions in the review year. The CBN participated in the Association of African Central Banks (AACB) Seminar on Cross-Border Banking Supervision held in Cape Town, South Africa from January 24 – 26, 2016. The Seminar focused on enhancing the practice of cross-border banking supervision and improving participants' leadership skills. Similarly, the Bank participated in the 11th Basel Committee on Banking Supervision - Financial Stability Institute (BCBS-FSI) High Level meeting for

Africa, held in Cape Town, South Africa from February 4-5, 2016. The theme was "Strengthening Financial Sector Supervision and Current Regulatory Priorities". Four (4) meetings of the College of Supervisors for the West African Monetary Zone (CSWAMZ) were also held in Ghana and Guinea to deliberate on issues requiring supervisory cooperation in the Zone.

The Bank hosted the 9th Meeting of the Financial Stability Board Regional Consultative Group for sub-Saharan Africa (FSB-RCG-SSA) in May 2016. The FSB-RCG-SSA Group is a platform for SSA countries to exchange views and share experiences on vulnerabilities affecting their financial systems and initiatives to promote financial stability. The CBN also hosted regulators from eleven (11) African countries at the 3rd Meeting of UBA College of Supervisors held from July 18 -19, 2016. The Meeting reviewed the risk profile of the UBA Group and the level of compliance with regulations in the various jurisdictions. A memorandum of understanding (MoU) for the College was reviewed at the meeting. Two (2) other MoUs were signed during the annual meeting of the AACB held in Abuja, Nigeria, in August 2016.

In furtherance of the Bank's zero-tolerance policy on money laundering activities, the Bank particpated in the maiden ML/FT National Risk Assessment exercise coordinated by the Nigeria Financial Intelligence Unit (NFIU). Similarly, the CBN particpated in the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) plenaries held in Cape Verde and Senegal. The Bank, in compliance with the Financial Action Task Force (FATF) Recommendations 2 & 40, also particpated in the meetings of the Inter-Ministerial Committee for coordination of the Nigeria AML/CFT regime.

The CBN continued to strengthen governance practices in the financial system. As part of the measures to promote compliance with extant regulations, the CBN directed each bank to appoint a chief compliance officer (CCO) and an executive compliance officer (ECO), not below the rank of general manager and executive director, respectively. In collaboration with the Islamic Financial

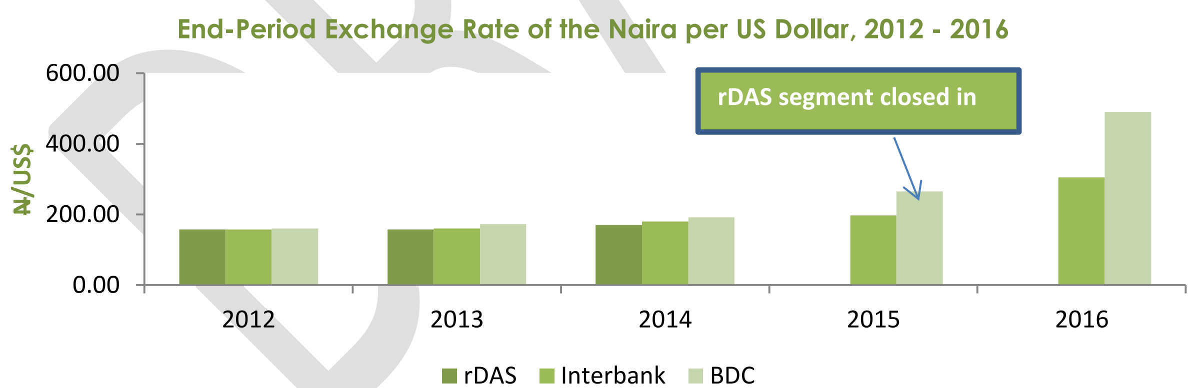
Services Board (IFSB), the Bank held a workshop in February 2016 for regulators and operators in the Non-Interest Finance industry. The workshop was aimed at facilitating the implementation of IFSB Standards 15 and 16 on "Revised Capital Adequacy Standard for Institutions Offering Islamic Financial Services" and "Revised Guidance on Key Elements in the Supervisory Review Process of Institutions Offering Islamic Financial Services". Furthermore, the Bank coordinated two (2) meetings of the Financial Regulation Advisory Council of Experts (FRACE) in 2016 and, an interactive session between members of the FRACE and Advisory Committee of Experts (ACE) of non-interest financial institutions (NIFIs) operating in Nigeria.

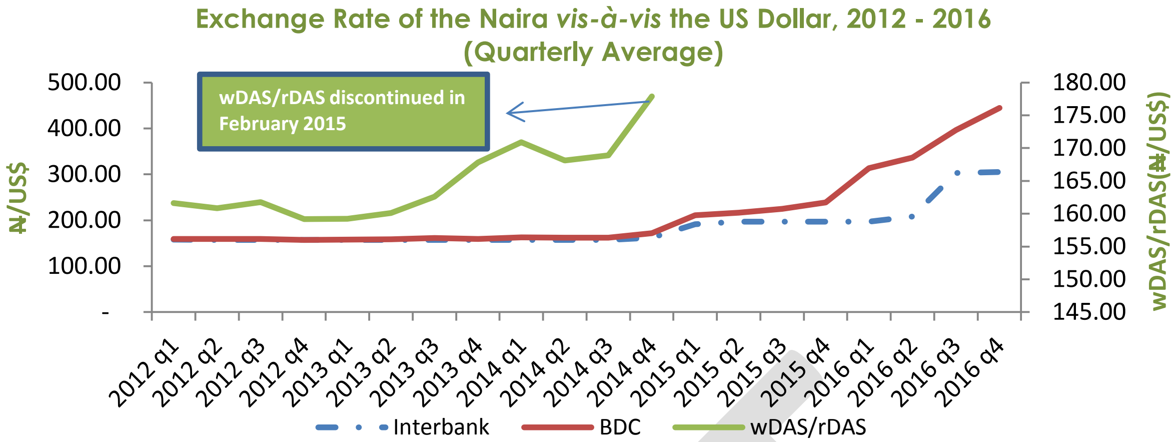
The health of the banking sector was generally sound. Industry average capital adequacy ratio (CAR) fell to 14.8 per cent below the 17.7 per cent at end-December 2015, but was significantly above the international benchmark of 8.0 per cent. The decline in the CAR was attributed to higher rate of increase in risk weighted assets, compared with the increase in qualifying capital of banks. Similarly, the industry average liquidity ratio (LR) fell from 48.6 per cent in 2015 to 43.9 per cent at end-December 2016, but was above the regulatory minimum of 30.0 per cent by 13.9 percentage points. The quality of bank assets, in terms of ratio of non-performing loans to total loans (NPL/TL), further deteriorated, as it increased from 4.9 per cent in 2015, to 12.8 per cent at end-December 2016. At this level, the industry NPL ratio was significantly above the regulatory threshold of 5.0 per cent. The significant deterioration in the quality of banks' assets was attributed, largely, to adverse effect of the economic downturn.

The average exchange rate of the naira to the US dollar at the interbank segment prior to the adoption of the more flexible exchange rate regime was sticky at ₦197.00 per US dollar, from January to June. With the introduction of the new policy on June 20, 2016, the interbank rate depreciated by 29.6 per cent to ₦280.00/US$, while the rate at the BDC segment depreciated by 22.3 per cent from ₦268.00/US$ in the beginning of January 2016 to ₦345.00/US$ on June 20,

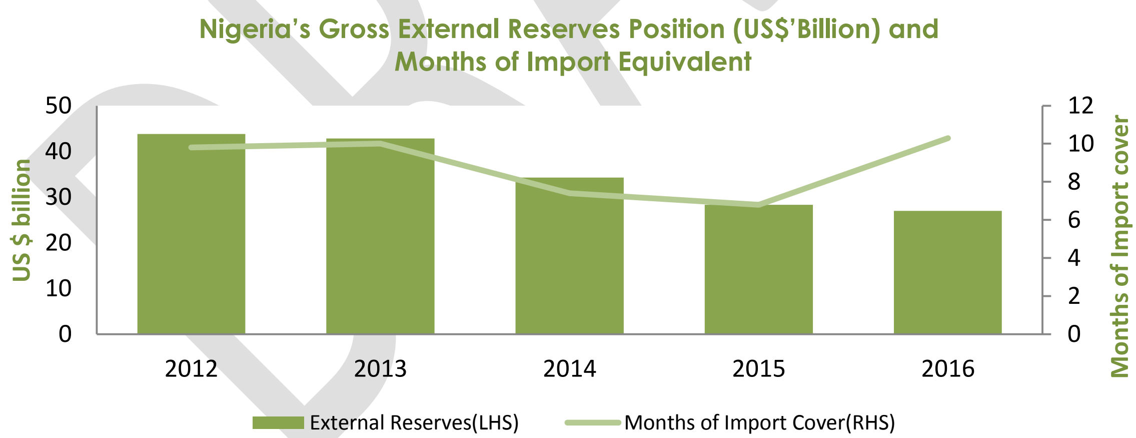
2016. The rates at the interbank and BDC segments closed at ₦305.00/US$ and ₦490.00/US$ at end-December 2016, indicating a depreciation of 35.4 and 45.5 per cent, respectively, compared with the levels at end-December 2015. The end-period premium between the interbank and BDC rates was 60.7 per cent relative to 35.5 per cent in 2015, which exceeded the international benchmark of 5.0 per cent. The development was attributed to the depreciation experienced in the BDCs, which increased the spread amongst rates following the introduction of the new more flexible exchange rate regime in June 2016. The rDAS segment, which was closed in February 2015, remained shut in the review period.

Under the new foreign exchange regime, trading of foreign exchange was conducted with the foreign exchange primary dealers (FXPDs) through the Financial Market Dealers Quote (FMDQ) and the Thomas Reuters Trading and Reporting System (FFTS) order book. The Bank continued to carry-out interventions in the interbank segment of the foreign exchange market during the review period.





External reserves at end-December 2016 stood at US$26.99 billion, a decline of US$1.30 billion, or 4.6 per cent, relative to the position at end-December 2015. The level of external reserves could finance 9.3 months of import (goods) and 7.4 months (goods and services) at end-December 2016, compared with 6.5 months of import (goods) and 4.7 months (goods and services) at end-December 2015. The level of months of import cover exceeded both the international benchmark and the West African Monetary Zone (WAMZ) convergence criteria of 3 months.



The Bank guaranteed 58,548 loans, valued at ₦8.1 billion under the Agricultural Credit Guarantee Scheme (ACGS) in 2016, bringing the total number of loans guaranteed since the inception of the Scheme in 1978 to 1,059,847, valued at ₦104.0 billion. A total of 25,035 interest draw-back programme (IDP) claims, valued at ₦265.9 million, was settled at end-December 2016, resulting in cumulative IDP claims of 314,694, valued at ₦2.7 billion settled since its inception in 2003. From the beginning of the Anchors Borrowers Programme (ABP) in 2015, a cumulative sum of ₦26.7 billion had been disbursed through ten (10) participating financial institutions (PFIs) to 127,068 smallholder farmers. The sum of ₦69.9 billion was released to fourteen (14) banks under the Commercial Agriculture Credit Scheme (CACS) for on-lending in respect of 56 projects in 2016. Cumulatively, the sum of ₦407.4 billion had been disbursed under the Scheme by end-December 2016. Four (4) projects, valued at ₦6.9 billion, were funded under the Real Sector Support Facility (RSSF). For the Micro, Small and Medium Enterprises Development Fund (MSMEDF), the sum of ₦48.11 billion was disbursed in 2016 to nine (9) classes of participating financial institutions (PFIs)/programmes; while ₦13.8 billion was accessed by eleven (11) states. The sum of ₦23.0 billion was released under the Power and Airline Intervention Fund (PAIF) to the Bank of Industry (BOI) to finance four (4) power projects. At end-December 2016, the cumulative amount released to BOI from inception stood at ₦272.6 billion. Within the year, a total of ₦64.76 billion was disbursed from the Nigerian Electricity Market Stabilisation Facility (NEMSF) to stakeholders in the power sector, bringing the cumulative disbursement to ₦114.75 billion. Under the Textile Sector Intervention Facility (TSIF), the BOI disbursed ₦14.9 billion to fourteen (14) obligors as at end-December 2016.

In the area of information technology, the Bank upgraded the core banking application (T24) from release 9 to 13, enabling enhanced application and functionalities. With this upgrade, business issues such as Society for World-wide Interbank Financial Telecommunication (SWIFT) connectivity and reconciliation problems, were resolved. The Bank equally implemented an online collateral registry and was able to operationalise the National Collateral Registry (NCR) framework. In the review period, an early warning system (EWS) was developed to improve efficiency of the Bank's Risk Based Supervision (RBS) regulatory framework. To resolve inefficient manual management of financial markets data, a Data Repository and Analysis Tool (DRAT) became operational. In addition, the Bank upgraded the primary and secondary network links with the Nigeria Inter-bank Settlement Systems (NIBSS) to enhance seamless internet connectivity between the CBN and NIBSS, leading to reduction in network downtime, improved and fastened staff and suppliers' payments transactions, as well as better user experience.

Within the year, the Bank was re-certified to the International Code of Practice for Information Security (ISO) 27001: 2013 by the British Standardised Institute (BSI). A cybersecurity strategy was also entrenched to proactively mitigate risk exposures of the Bank. Consequently, cybersecurity reporting was recommended for inclusion as an integral part of the mandate of the Board Audit and Risk Management Committee.

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

The Bank's manpower development strategy was aligning, learning with its strategic business needs, and entrenching a learning culture with the aim of enhancing staff competency and building required capacity to facilitate the achievement of its mandate. In this regard, 2,056 staff participated in 224 training programmes during the review period. Analysis of local training by gender indicated that male staff had 2,580 training slots, while their female counterparts had 1,021, representing 71.6 and 28.4 per cent, respectively. One hundred and thirty-eight (138) male and 69 female staff participated in foreign training during the review period, constituting 66.7 and 33.3 per cent, respectively. The International Training Institute (ITI) delivered thirty-four (34) training programmes from its curricula and hosted 47 seminars/courses organised by other SBUs. The Bank sustained its research and collaborative programmes with relevant stakeholders in 2016.

ECONOMIC REPORT

The Global Economy

The global economy slowed to 3.1 per cent in 2016, down from 3.2 per cent in 2015, reflecting a combination of factors, namely: the slowdown in China due to its continued transition to a balanced growth path; commodity exporters' adjustment to lower revenues; spillovers from persisting weak demand in the advanced economies as well as geopolitical tensions.

In the advanced economies, output slowed by 1.6 per cent in 2016 from 2.1 per cent in 2015, reflecting mainly weaknesses in the US, euro area and the UK. The U.S. economy grew by 1.6 per cent in 2016, down from 2.6 per cent in 2015, indicating a weaker-than-expected activity due to continued weakness in non-residential investment. Growth in the euro area was 1.7 per cent in 2016, compared with 2.0 per cent in 2015, considerably impacted by deceleration in domestic demand, particularly in some of the larger euro area economies.

Growth in the emerging market and developing economies remained at 4.1 per cent in 2015 and 2016 apiece. The challenge of adjusting to tightening global financial conditions, sharp currency movements, and capital flow reversals continued to confront the region.

Global output moderated to 3.1 per cent in 2016, from 3.2 per cent in the preceding year. The subdued growth was attributed primarily to persisting lower energy and commodity prices, a slowdown in the Chinese economy, and the gradual normalisation of monetary policy in the United States.

Asia grew by 6.3 per cent in 2016, down from the 6.7 per cent in 2015, reflecting mainly the continued spillovers from the Chinese economy. In China, output grew by 6.7 per cent in 2016, down from 6.9 per cent in 2015. The economies of Latin America and Caribbean region contracted by 0.7 per cent in 2016, in contrast to the growth of 0.1 per cent in 2015. The development reflected the spillovers from Brazil's recession, even as the region continued to adjust to unfavourable terms of trade. In sub-Saharan Africa, economic activity was subdued as growth fell remarkably

to 1.6 per cent in 2016, down from 3.4 per cent in the preceding year. The dismal performance of the region was due mainly to weaknesses in the Nigerian and South African economies, with respective growth of -1.5 and 0.3 per cent.
The commodity markets remained weak, owing to sluggish global demand and trade. As a result, inflation remained subdued globally, despite the generally accommodative monetary policy stance in the advanced economies. The Brexit referendum, which fuelled anti-integration sentiments, coupled with the persistent monetary policy divergence in the advanced economies, heightened uncertainties in the global financial market. World trade recorded a growth of 1.9 per cent in 2016, down from 2.7 per cent in 2015.

The 2016 Spring and Annual Meetings of the Bretton Woods Institutions centered on the prolonged weakness in global economic recovery amid increasing levels of inequality, and encouraged countries suffering persistent decline in terms of trade to implement structural reforms, as well as appropriate fiscal and monetary policies. The Group of Twenty-Four Developing Countries (G24) renewed their call on the IMF, the World Bank Group (WBG), and global financial regulators to intensify effort towards addressing the decline of correspondent banking relationships (CBRs) to reduce financial exclusion. The African Caucus Meeting of the International Monetary Fund (IMF) and World Bank Group urged the Bretton Woods institutions to fulfill their commitments to diversify the representation of the African continent in their key decision entities. At the continental level, the AACB Bureau Meeting advised the African Caucus to follow-up on the allocation of additional seat to Africa within the IMF reform framework. The Annual Meetings of the African Development Bank Group pledged the Bank's continued focus on infrastructure, regional economic integration, private sector development, governance and accountability, skills and technology, and gender issues. At the sub-regional level,

The 2015 Spring and Annual Meetings of the Bretton Woods Institutions were held in Washington D. C., USA from April 7 – 13, 2015 and in Lima, Peru from October 6 – 13, 2015, respectively.

the 32nd Meeting of the WAMZ Committee of Governors urged member states to further strengthen fiscal consolidation by addressing tax administration inefficiencies, and restructuring their debts.

The Domestic Economy

Fiscal Operations of Government

The thrust of Nigeria's fiscal policy in 2016 focused on stimulating and enhancing the competitiveness of the economy through infrastructural development. The consolidated revenue and expenditure of the General Government in 2016 was ₦6,687.9 billion and ₦9,673.4 billion, respectively. Consequently, the fiscal operations of the General Government resulted in an overall deficit of ₦2,985.5 billion or 2.9 per cent of GDP.

Total federally-collected revenue (gross) was ₦5,616.4 billion or 5.4 per cent of GDP, indicating a shortfall of 41.0 per cent and a decline of 18.8 per cent below the 2016 budget target and the level in 2015, respectively. The development was as a result of the drop in oil revenue, arising from the decline in crude oil prices in the international market and incessant crude oil theft and militant attacks on oil infrastructure, which adversely affected crude oil production and export. An analysis of the receipts revealed that oil revenue (gross) accounted for ₦2,693.9 billion or 48.0 per cent of the total (2.7% of GDP), while non-oil revenue (gross) at ₦2,922.5 billion, accounted for 52.0 per cent of total revenue (2.7% of GDP).

After statutory deductions of ₦1,155.5 billion, the sum of ₦4,460.9 billion, was retained in the Federation Account, representing a decrease of 23.7 per cent below the level in 2015. Of this amount, ₦778.6 billion, ₦237.7 billion, and ₦336.7 billion were transferred to the VAT Pool Account, Federal Government (FG) Independent Revenue, and 'Other transfers'[1], respectively, leaving a net revenue of ₦3,107.9 billion for distribution. In addition, ₦323.6 billion from the Excess Crude/PPT Account; ₦405.8 billion from the Exchange Rate Differential Account[2]; ₦105.5 billion as NNPC Refunds; ₦9.9 billion as Solid Mineral Revenue;

[1]Include the Education Tax, Customs Levies, and the National Information Technology Development Fund.
[2] This is the difference between the budgeted and actual exchange rate and its shared as "**Exchange Gain**"

and ₦3.0 billion as Recovery of Understated Funds[3] were added to the federally-collected revenue (net) to raise the distributable balance to ₦3,955.7 billion. This was shared as follows: the Federal Government (including Special Funds), ₦1,964.6 billion; state governments, ₦957.9 billion; local governments, ₦738.5 billion; and 13% Derivation Fund for oil-producing states, ₦294.6 billion. Similarly, VAT revenue of ₦778.6 billion was shared among the Federal (including the FCT), state and local governments in the ratio of 15.0, 50.0 and 35.0 per cent, respectively.

At ₦3,184.7 billion, the Federal Government-retained revenue was lower than the ₦3,431.1billion in 2015 and the 2016 budget target of ₦4,049.8 billion by 7.2 and 21.4 per cent, respectively. Aggregate expenditure of the Federal Government, at ₦5,378.0 billion in 2016, increased by 7.8 per cent and was lower than the ₦6,060.48 billion budget benchmark for 2016 by 11.3 per cent. The overall fiscal operations of the Federal Government resulted in a deficit of ₦2,193.3 billion, or 2.1 per cent of GDP, compared with the deficit of ₦1,557.8 billion, or 1.6 per cent of GDP in fiscal 2015. Provisional data on state government finances (including the FCT) and local governments indicated an overall deficit of ₦741.5 billion, or 0.7 per cent of GDP, and ₦1.3 billion or 0.001 per cent of GDP, respectively.

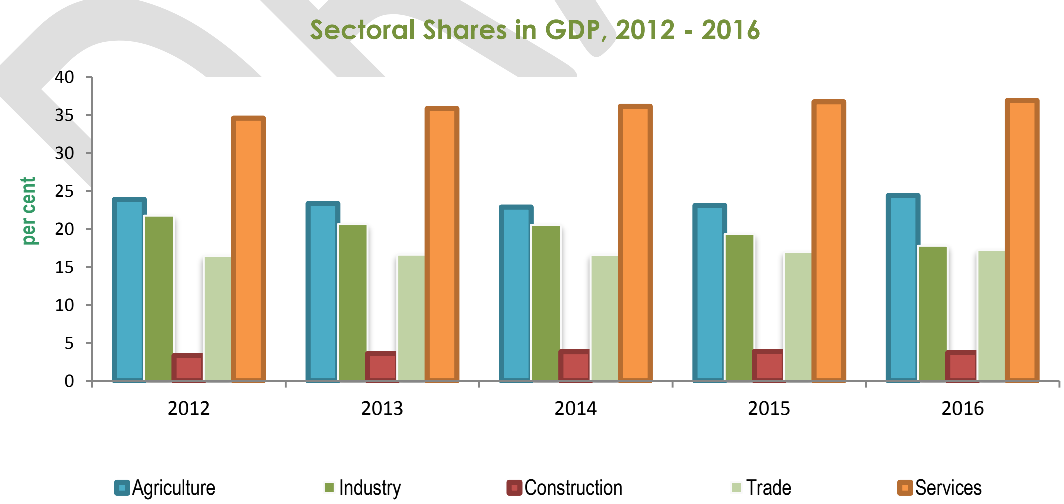
The consolidated Federal Government debt stock, at end-December 2016, was ₦14,537.1 billion, or 14.2 per cent of GDP, compared with ₦10,948.5 billion or 11.5 per cent of GDP in 2015. At US$11.4 billion (₦3,478.9 billion), external debt grew by 6.4 per cent, reflecting additional drawdown on multilateral loans, principally International Development Assistance (IDA) loans. The domestic debt stock grew by 25.1 per cent to ₦11,058.2 billion over the level in 2015.

The Real Sector

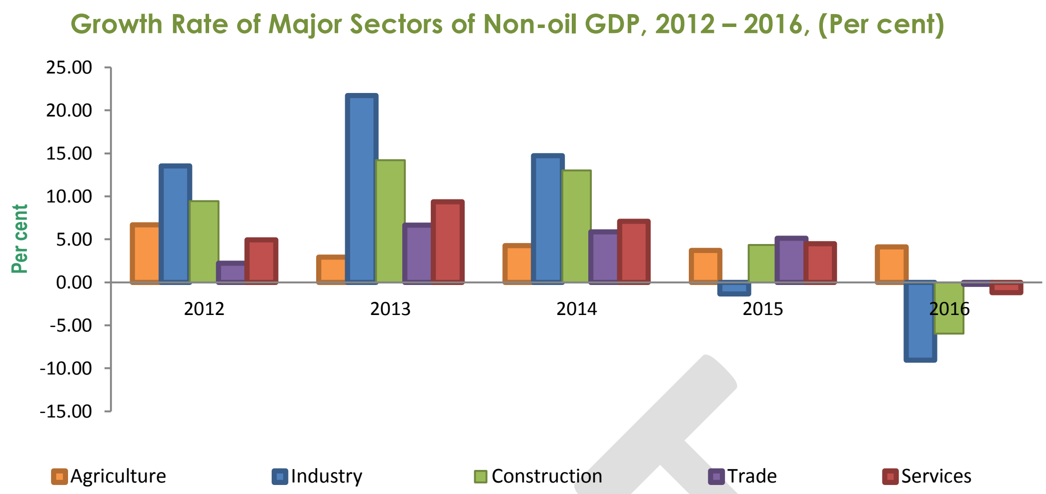
Provisional data from the National Bureau of Statistics (NBS) showed that Gross Domestic Product (GDP), measured at 2010 constant basic prices, was ₦68.7 trillion at end-December, 2016, indicating a contraction of 1.5 per cent against

[3] Represents "**Recovered Bank Charges**" in 2016

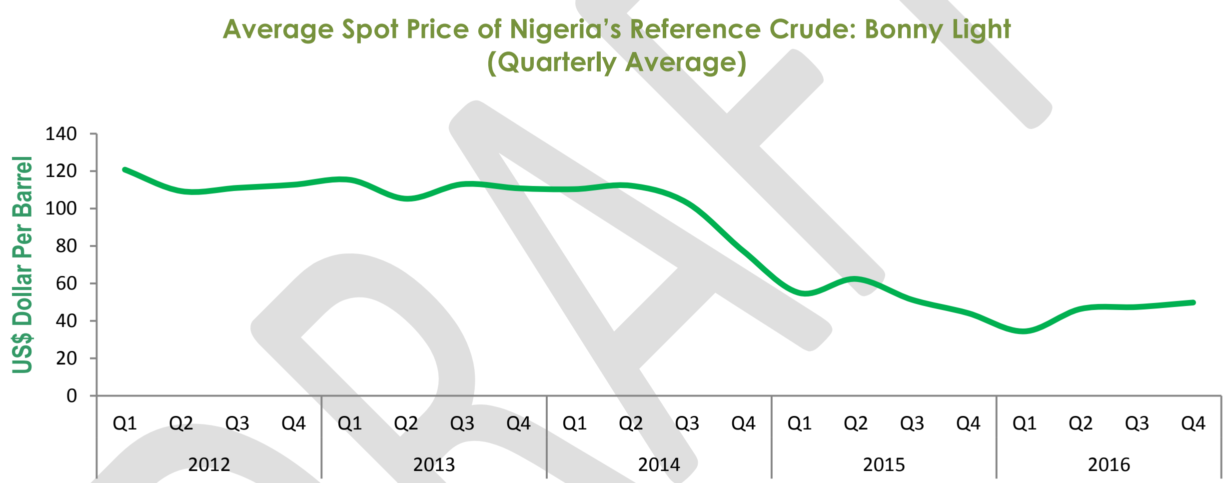
the growth of 2.8 per cent in 2015. The services sub-sector accounted for the highest share at 36.9 per cent of total real GDP in 2016, compared with 36.8 per cent in 2015. Within the services sub-sector, information and communications; real estate; professional; Other services; finance and insurance; public administration; education and transport accounted for 12.6, 7.9, 4.1, 3.6, 3.3, 2.5, 2.4 and 1.3 per cent of total GDP, respectively. Other sectors such as agriculture, trade, industry and construction contributed 24.4, 17.2, 17.8 and 3.7 per cent, respectively, during the year under review. Non-oil GDP declined by 0.2 per cent, compared with 3.8 per cent growth recorded in 2015. The decline was attributed to some industrial and services sub-sector, which declined in varying degrees in 2016. Similarly, other sectors, construction, trade and services contracted by 6.0, 0.2 and 1.2 per cent, respectively. The agricultural sector, however, recorded a growth of 4.1 per cent during the year. Growth in the agricultural sector resulted from increase in crop production supported by clement weather conditions, resurgence of farming activities in some communities, which were hitherto under the control of insurgents, and the revolutionary initiative in the Anchor Borrower's Programme of the CBN.



Source: NBS



Source: NBS



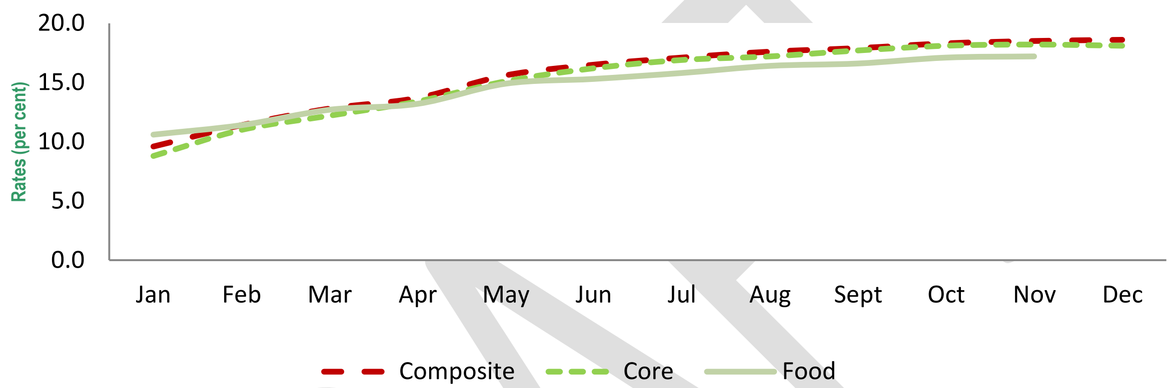
Source: Reuters

The year-on-year headline inflation remained above the benchmark single-digit rate from February to December. Headline inflation (year-on-year) increased significantly from 9.6 per cent at end-January to 12.8 at end-March, 16.5 per cent at end-June, 17.9 per cent at end-September and 18.6 per cent at end-December 2016, respectively. The inflationary pressure was attributed, largely, to a number of monetary and structural factors, including re-pricing of the PMS products as well as a strong pass-through of exchange rate depreciation to domestic prices. Similarly,

In 2016, the year-on-year headline inflation rate rose above the benchmarked single digit rate from 11.4 per cent at end-February to 18.6 per cent at end-December.

core inflation (all-items, less-farm produce) increased steadily from 8.8 per cent at end-January to 12.2 per cent at end-March, 16.2 per cent at end-June, 17.7 per cent at end-September and 18.1 per cent at end-December 2016. In the same vein, food inflation rose from 10.6 per cent at end-January to 12.7 per cent at end-March, 15.3 per cent at end-June, 16.6 per cent at end-September and 17.4 per cent at end-December 2016.

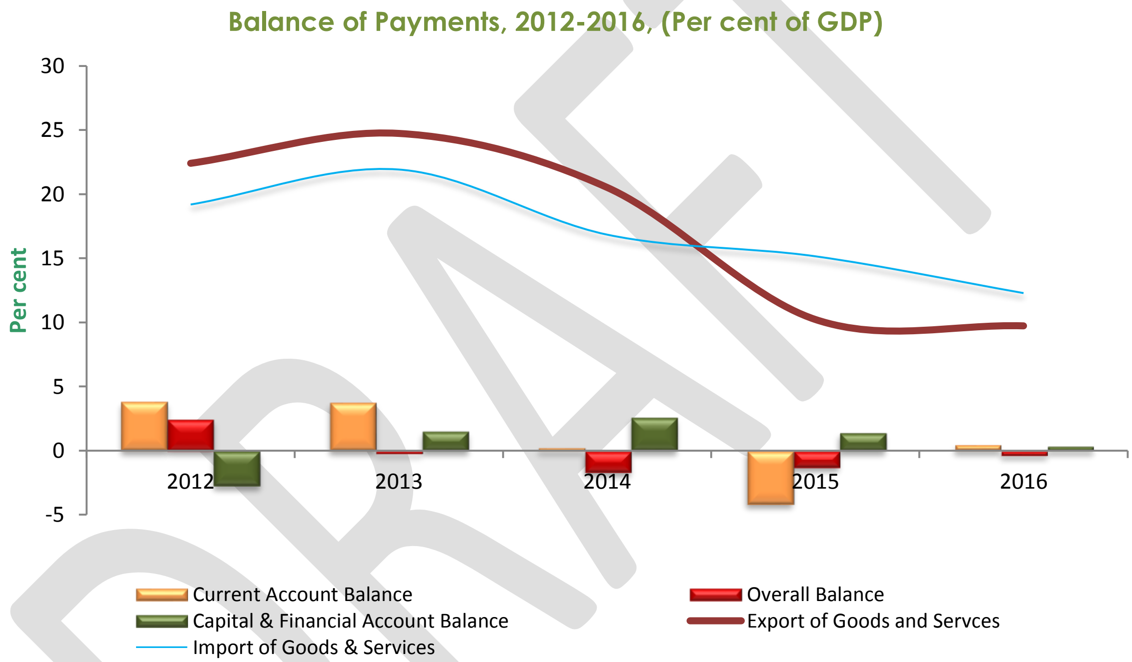
Trends in Inflation, 2016, (Composite, Core and Food)



Source: NBS

The External Sector

The balance of payments position improved moderately, despite the challenging global and domestic environments. The pressure in the external sector bottomed out slightly in 2016 with a marginal overall balance of payments deficit of ₦247.84 billion, equivalent to 0.24 per cent of GDP, compared with ₦1,150.13 billion or 1.21 per cent of GDP in 2015. The positive trend was due largely to sustained reform in the foreign exchange market to curb spurious demand for foreign exchange and the introduction of a more flexible exchange rate regime, among others. Consequently, the current account rebounded to a surplus of ₦687.82 billion or 0.7 per cent of GDP from a deficit of ₦3,033.48 billion, or 3.2 per cent of GDP in 2015. The capital and financial account resulted in a net financial liability of ₦417.19 billion or 0.4 per cent of GDP, compared with a net financial asset of ₦201.97 billion in the preceding period, indicating renewed confidence in the Nigerian economy by foreigners. The stock of external reserves at end-December 2016 was US$26.99 billion and could finance 9.2 months of import of goods. This was higher than the three (3) months international benchmark and the West African Monetary Zone (WAMZ) convergence criterion. The external debt, though increased by 5.1 per cent to US$11.41 billion or 3.6 per cent of GDP, remained within sustainable threshold of 40.0 per cent of GDP. The exchange rate of the naira to the US dollar depreciated from ₦197.00/US$ at end-December 2015 to ₦305.00/US$ at end-December 2016.



Selected Macroeconomic and Social Indicators

Indicator	2012 /1	2013 /1	2014 /1	2015 /1	2016 /2
Domestic Output and Prices					
GDP at Current Mkt Prices (₦ billion)	72,599.6	81,010.0	90,137.0	95,177.7	102,684.41
GDP at Current Mkt Prices (US$ billion)	461.0	515.0	568.5	492.5	405.1
GDP per Capita (₦)	426,662.5	461,095.7	496,887.7	508,151.4	530,963.7
GDP per Capita (US$)	2,709.0	2,931.1	3,133.9	2,629.5	2,094.6
Real GDP Growth (%)	4.2	5.5	6.2	2.8	(1.5)
Oil Sector	(4.9)	(13.1)	(1.3)	(5.4)	(13.6)
Non-oil Sector	5.8	8.4	7.2	3.7	(0.2)
Sectoral GDP Growth (%)					
Agriculture	6.7	2.9	4.3	3.7	4.1
Industry	1.2	(0.1)	6.0	(3.4)	(9.0)
Construction	9.4	14.2	13.0	4.4	(5.9)
Trade	2.2	6.6	5.9	5.1	(0.2)
Services	5.0	9.4	7.1	4.5	(1.2)
Oil Production (mbd)	2.1	1.9	1.9	2.1	1.6
Manufacturing Capacity Utilisation (%)	56.8	57.8			
GDP Deflator Growth (%) 3/	9.3	5.9	4.7	2.9	9.6
Inflation Rate (%) (Dec-over-Dec)	12.0	8.0	8.0	9.6	18.5
Inflation Rate (%) (12-month moving average)	12.2	8.5	8.0	9.0	15.7
Core Inflation Rate (%) (Dec-over-Dec) 4/	13.7	7.9	6.2	8.7	18.1
Core Inflation Rate (%) (12-month moving average) 4/	13.9	7.7	6.9	8.2	15.3
Aggregate Demand and Savings (% of GDP) 5/					
Aggregate Demand	80.8	94.2	93.3	99.2	100.0
Private Final Consumption Expenditure	58.4	72.9	71.7	78.4	79.0
Government Final Consumption Expenditure	8.2	7.2	6.5	5.9	5.6
Gross Fixed Capital Formation	14.2	14.2	15.1	14.8	15.4
Increase in Stock	0.7	0.7	0.7	0.7	0.6
Net Export of Goods and Non-factor Services	18.5	5.1	6.0	0.1	-0.6
Export of Goods and Non-factor Services	31.4	18.0	18.4	10.6	8.6
Import of Goods and Non-factor Services	12.9	13.0	12.5	10.5	9.2
Domestic Saving	33.4	20.0	21.8	15.6	15.4
Gross National Saving	27.5	14.0	16.8	11.5	11.8
Public Finance (% of GDP)					
General Government					
Revenue	12.3	11.9	9.9	7.9	6.3
Expenditure	13.9	13.6	11.3	10.2	9.4
Transfers	1.2	1.2	0.9	0.8	0.8
Current Balance	2.7	4.0	2.7	0.8	-0.7
Primary Balance	-0.6	-0.7	-0.2	-1.1	-1.5
Overall Balance	-1.6	-1.7	-1.4	-2.3	-3.1
Federal Government					
Retained Revenue	5.0	5.0	4.2	3.6	2.9
Total Expenditure	6.3	6.4	5.1	5.2	5.0
Recurrent Expenditure	4.6	4.6	3.8	4.0	4.1
Of which: Interest Payments	0.9	1.0	1.0	1.1	1.5
Foreign	0.1	0.1	0.1	0.1	0.1
Domestic	0.9	1.0	1.0	1.0	1.5
Capital Expenditure and Net Lending	1.2	1.4	0.9	0.9	0.6
Transfers	0.6	0.5	0.4	0.4	0.3
Current Balance (Deficit(-)/Surplus(+))	0.4	0.4	0.4	-0.4	-1.2
Primary Balance (Deficit(-)/Surplus(+))	-0.4	-0.4	0.1	-0.5	-0.6
Overall Fiscal Balance (Deficit(-)/Surplus(+))	-1.3	-1.4	-0.9	-1.6	-2.2
Financing	1.3	1.4	0.9	1.6	2.2
Foreign	0.0	0.0	0.0	0.0	0.0
Domestic	1.3	1.4	0.9	1.6	2.2

Selected Macroeconomic and Social Indicators cont.

Indicator	2012 /1	2013 /1	2014 /1	2015 /1	2016 /2
Banking System	0.6	0.6	0.5	0.9	0.0
Non-bank Public	0.4	0.3	0.2	0.1	0.5
Other Funds	0.3	0.5	0.2	0.6	1.6
Federal Government Debt Stock 6/	10.4	10.5	10.6	11.5	14.2
External	1.4	1.7	1.8	2.2	3.4
Domestic	9.0	8.8	8.8	9.3	10.8
Money and Credit (Growth Rate %)					
Reserve Money	33.1	37.4	16.5	(2.0)	0.6
Narrow Money (M_1)	9.6	(5.2)	(1.8)	24.1	31.5
Broad Money (M_2)	16.4	1.3	20.6	5.9	17.8
Net Foreign Assets	26.7	(4.3)	(16.7)	(18.7)	57.3
Net Domestic Assets	4.5	9.2	36.6	20.2	3.2
Net Domestic Credit	(3.5)	14.5	13.7	12.1	24.3
Net Credit to Government	(138.0)	32.5	1.9	152.0	66.2
Credit to Private Sector	6.8	6.9	12.1	3.3	17.4
Money Multiplier for M_2	4.2	3.1	2.8	3.4	4.1
Income Velocity of M_2	4.7	5.2	5.4	4.8	4.3
Financial Development Indicators (%)					
M_2/GDP	21.3	19.4	18.7	21.3	23.3
CIC/M_2	10.5	11.3	10.7	9.3	9.2
COB/M_2	8.4	9.2	7.6	7.3	7.7
QM/M_2	52.1	55.2	63.5	57.2	52.2
CIC/GDP	2.3	2.2	2.0	2.0	1.7
Credit to Private Sector (CP)/GDP	21.1	20.2	20.4	19.9	21.7
Credit to Core Private Sector (CCP)/GDP	20.2	19.7	19.7	19.2	20.7
CP/Non-Oil GDP	24.7	23.5	22.5	21.0	24.5
NDC/GDP	17.7	21.6	21.6	23.0	26.5
DMBs Assets/GDP	29.7	31.1	31.1	30.2	31.7
CBN's Assets/GDP	23.4	16.4	16.4	17.5	15.9
Banking System's Assets/GDP	58.5	47.5	47.5	47.7	47.5
Interest Rates (% per annum)					
Monetary Policy Rate (MPR) (end period) 7/	12.00	12.00	13.00	11.00	14.00
Repurchase Rate (Average)	15.00	15.00	-	16.13	18.46
Treasury Bill Rate (Average)					
91-day	13.64	10.85	10.50	9.39	10.12
182-day	14.38	11.60	11.36	12.16	12.66
364-day	14.63	11.85	11.70	12.93	14.10
Inter-bank Call Rate (end-period)	11.88	11.50	12.86	0.77	10.39
Deposit Rates (end-period)					
Savings Rate	1.66	2.53	3.46	3.33	4.18
3-months Fixed	9.15	7.96	9.48	6.91	8.80
6-months Fixed	10.87	7.44	9.77	5.78	10.23
12-months Fixed	10.63	5.02	9.51	4.88	10.76
Prime Lending Rate (end period)	16.54	17.01	15.88	16.96	17.09
Maximum Lending Rate (end period)	24.61	24.90	25.91	26.84	28.55
Government Bond (Average coupon)					
3-year	14.95	13.01	12.54	-	-
5-year	14.10	11.78	-	14.24	13.89
7-year	13.45	11.18	-	-	-
10-year	14.73	11.24	13.06	13.79	14.26
20-year	-	13.02	13.24	15.26	14.83

Selected Macroeconomic and Social Indicators cont.

Indicator	2012 /1	2013 /1	2014 /1	2015 /1	2016 /2
External Sector					
Current Account Balance (% of GDP)	3.8	3.7	0.2	-3.2	0.7
Goods Account	8.5	8.2	3.7	-1.3	-0.1
Services Account (net)	-4.7	-3.8	-4.0	-3.4	-2.0
Income Account (net)	-4.8	-5.0	-3.3	-2.6	-2.1
Current Transfers	4.7	4.2	3.8	4.2	4.9
Capital and Financial Account Balance (% of GDP)	-2.7	1.5	2.1	-0.2	0.4
Overall Balance (% of GDP)	2.4	-0.2	-1.5	-1.2	-0.2
External Reserves (US$ million)	43,830.4	42,847.3	34,241.5	28,284.8	26,990.6
Number of Months of Import Equivalent	9.2	9.3	6.7	6.5	9.2
Average Crude Oil Price (US$/barrel)	113.5	111.4	100.7	53.1	48.8
Average Official Rate (₦/US$)	157.50	157.31	158.55	195.52	253.49
End of Period Official Rate (₦/US$)	157.33	157.26	169.68	197.00	305.00
Average Bureau de Change Exchange Rate (₦/US$)	160.86	162.45	171.45	222.79	372.86
End of Period Bureau de Change Exchange Rate (₦/US$)	159.50	172.00	191.50	267.00	490.00
Capital Market					
All Share Value Index (1984=100)	28,078.8	41,329.2	34,696.7	28,679.1	26,914.6
Value of Stocks Traded (Billion Naira)	809.0	2,350.9	1,334.8	961.2	1,401.0
Value of Stocks/GDP (%)	1.1	2.9	1.5	1.0	1.4
Market Capitalization (Billion Naira)	14,800.9	19,077.4	16,875.1	17,003.4	16,185.7
Of which: Banking Sector (Billion Naira)	2,251.3	2,940.0	2,367.0	1,447.6	1,456.9
Market Capitalization/GDP (%)	20.4	23.5	18.7	17.9	15.8
Of which: Banking Sector/GDP (%)	3.1	3.6	2.6	1.5	1.4
Insurance Sector/GDP (%)	0.2	0.2	0.2	0.2	0.1
Banking Sector Cap./Market Capitalization (%)	15.2	15.4	14.0	8.5	9.0
Insurance Sector Cap./Market Capitalization (%)	1.0	0.9	0.9	0.9	0.8
Social Indicators					
Population (million)	170.2	175.7	181.4	187.3	193.4
Population Growth Rate (%)	3.25	3.25	3.25	3.25	3.25
Unemployment Rate (%)	9.0	8.1	6.4	10.4	13.9
Life Expectancy at Birth (Years)	52.1	52.5	52.9		
Adult Literacy Rate (%)	66.9				
Incidence of Poverty	72.0				

CHAPTER ONE
CORPORATE ACTIVITIES OF THE CENTRAL BANK OF NIGERIA

The Bank continued with the implementation of measures across Strategic Business Units (SBUs), to achieve its primary mandate of monetary and price stability. It sustained effort at providing a conducive working environment for staff and customers in the review period. Thirteen (13) building projects were completed: post primary schools (6 locations); tertiary institutions (4 locations); renovation of CBN Ilorin Branch; development of CBN Property at Tigris Crescent, Maitama, Abuja; and construction of CBN Yenagoa Branch building. Furthermore, the Bank upgraded the core banking application (T24) from release 9 to 13, enabling enhanced functionalities and its application. Thus, the identified business issues such as Society for Worldwide Interbank Financial Telecommunication (SWIFT) connectivity and reconciliation problems, which reduced transaction processing cycle time, were resolved. Also, the Bank implemented an online collateral registry and operationalised the National Collateral Registry (NCR) framework. It continued its Corporate Social Responsibility (CSR) by encouraging knowledge acquisition, through capacity building, youth, sports and women developments, provision of financial and other forms of assistance to institutions and organisations for the hosting of conferences, seminars and workshops. The Bank also provided financial support towards the implementation of 67 CSR projects, spread across the six geo-political zones, valued at ₦291.5 million, compared with 271 projects valued at ₦269.5 million, in 2015. It sustained the support for the less-privileged, physically-challenged groups and gender-related issues/initiatives.

1.1 ADMINISTRATION

1.1.1 The Board of Directors and Other Committees

The Board of Directors of the CBN, dissolved on July 16, 2015, was yet to be reconstituted at end – December 2016. In the review period, the Committee of Governors (COG) held fifty-four (54) meetings, while the Governors' Consultative Committee (GCC) held five (5) meetings. In the absence of a Board, there were no Standing Committee meetings.

Table 1.1: Committee of Governors (COG) Meetings: Attendance in 2016		
S/N	**Member**	**Number of Meetings Attended**
1	Godwin I. Emefiele	52 out of 54
2	Adebayo A. Adelabu	48 out of 54
3	Sarah O. Alade	48 out of 54
4	Okwu J. Nnanna*	25 out of 54
5	Suleiman A. Barau	39 out of 54

Source: CBN

1.1.2 The Monetary Policy Committee (MPC)

The Monetary Policy Committee held six (6) regular meetings in January, March, May, July, September and November 2016. At the meetings, major developments in the global and domestic economic and financial environment were reviewed and appropriate monetary policy decisions taken. The decisions were promptly communicated to the public.

Attendance and key decisions of the Committee at the meetings are presented below:

Table 1.2: Monetary Policy Committee(MPC) Meetings: Attendance in 2016		
S/N	**Name**	**Number of Meetings Attended**
1.	Godwin I. Emefiele	6 out of 6
2.	Adebayo A. Adelabu	6 out of 6
3.	Sarah O. Alade	6 out of 6
4.	Okwu J. Nnanna*	2 out of 6
5.	Suleiman A. Barau	6 out of 6
6.	Dahiru Balami	6 out of 6
7.	Abdul-Ganiyu Garba	5 out of 6
8.	Adedoyin R. Salami	5 out of 6
9.	Chibuike C. Uche	6 out of 6
10.	Shehu Yahaya	6 out of 6

Source: CBN

*Between March 10, 2016 and October 10, 2016 Okwu Nnanna was on suspension

Table 1.3: MPC Decisions in 2016

Date	MPR (%)	Decisions
January 25 – 26, 2016 Communiqué No. 105	11.00	• Retained the MPR at 11.00 per cent; • Retained the CRR at 20.00 per cent; • Retained the liquidity ratio at 30.00 per cent; and • Maintained an asymmetric corridor of +200 and -700 basis points around the MPR.
March 21 – 22, 2016 Communiqué No. 106	12.00	• Raised MPR by 100 basis points from 11.00 per cent to 12.00 per cent; • Raised CRR by 250 basis points from 20.00 to 22.50 per cent; • Retained the liquidity ratio at 30.00 per cent; and • Narrowed the asymmetric corridor from +200 and -700 basis points to +200 and -500 basis points.
May 23 – 24, 2016 Communiqué No. 107	12.00	▪ Retained the MPR at 12.00 per cent; ▪ Retained the CRR at 22.50 per cent; ▪ Retained the liquidity ratio at 30.00 per cent; ▪ Retained the asymmetric window at +200 and -500 basis points around the MPR; and ▪ Introduced greater flexibility in the inter-bank foreign exchange market structure and retained a small window for critical transactions.
July 25 - 26, 2016 Communiqué No. 108	14.00	▪ Increased the MPR by 200 basis points from 12.00 to 14.00 per cent; ▪ Retained the CRR at 22.50 per cent; ▪ Retained the liquidity ratio at 30.00 per cent; and ▪ Retained the asymmetric window at +200 and -500 basis points around the MPR.

September 19-20, 2016 Communiqué No. 109	14.00	▪ Retained the MPR at 14.00 per cent; ▪ Retained the CRR at 22.50 per cent; ▪ Retained the Liquidity Ratio at 30.00 per cent; and ▪ Retained the asymmetric window at +200 and -500 basis points around the MPR.
November 21–22, 2016 Communiqué No. 110	14.00	▪ Retained the MPR at 14.00 per cent; ▪ Retained the CRR at 22.50 per cent; ▪ Retained the Liquidity Ratio at 30.00 per cent; and ▪ Retained the asymmetric window at +200 and -500 basis points around the MPR.

Source: CBN

1.1.3 Development of CBN Branches and other Intervention Projects

The Bank continued to provide a conducive environment for staff and customers in the review period. Thus, thirteen (13) building projects were completed: post primary schools (6 locations); tertiary institutions (4 locations); renovation of CBN Ilorin Branch; development of CBN Property at Tigris Crescent, Maitama, Abuja; and construction of CBN Yenagoa Branch building. Also, fifty seven (57) building projects were on-going at end-December 2016. These were: development of CBN Branch buildings (10 locations) and adjoining property at Kaduna; renovation/refurbishment of CBN Branch buildings (12 locations); and construction of CBN Diagnostic Centres (4 locations). Others included: development of Centre of Excellence projects (9 locations); intervention in public sector institutions (6 locations); intervention in tertiary institutions (11 locations); and in post primary schools (4 locations).

The Bank acquired the property on Plots 103 and 104, Monrovia Street, Wuse 2, Abuja, comprising twelve (12) units of fully detached five (5) bedroom houses for use as hostel accommodation for CBN International Training Institute, Maitama, Abuja. Consultants were appointed for the provision of Automated

Currency Conveyor Belt Systems at CBN Enugu, Kaduna, Ibadan and Port-Harcourt branches. Furthermore, surveillance systems were completed by the Bank at thirteen (13) CBN business locations. Similarly, access control systems projects were completed at eighteen (18) CBN business locations. In the review period, the facility services for the CBN branches and the Corporate Headquarters were successfully managed.

1.1.4 Information Technology

The Bank upgraded the core banking application (T24) from release 9 to 13, enabling enhanced application and functionalities. Thus, business issues such as SWIFT connectivity and reconciliation problems, which reduced transaction processing cycle time, were resolved. Also, the Bank implemented an online collateral registry, and operationalised the National Collateral Registry (NCR) framework.

Furthermore, an Early Warning System (EWS) was developed to improve efficiency of the Bank's Risk-Based Supervision (RBS) framework. The EWS is a Management Information System (MIS) that combines predictive model capability, with a dynamic, data-driven dashboard for proactive monitoring of the safety and soundness of banks in Nigeria. The System uses bank-specific and macroeconomic variables associated with historical high risk ratings to alert supervisors of potential future crises or deterioration of a bank's financial condition at an early stage.

To resolve inefficient manual management of financial markets data in the Bank, a Data Repository and Analysis Tool (DRAT) became operational. The tool is a central platform for the storage, analysis and retrieval of financial markets data. Thus, it improved the consistency, integrity and availability of market sensitive data and supported prompt reporting and decision-making in ensuring monetary and price stability.

The Bank upgraded the primary and secondary network links with the Nigeria Inter-bank Settlement Systems (NIBSS) to improve the payment service delivery. The enhancement resulted in seamless internet connectivity between the CBN and NIBSS, leading to reduction in network downtime, improved and faster turn-around time for staff and suppliers payments transactions, as well as better user experience.

The Bank was re-certified to the International Code of Practice for Information Security (ISO) 27001: 2013 by the British Standardised Institute (BSI) in 2016. Also, it put in place a Cybersecurity Strategy to proactively mitigate the risks and exposure of the Bank. As part of the strategy, a cybersecurity report was integrated into the mandate of the Board Audit and Risk Committee.

1.1.5 Library Operations

The number of library resources consulted by staff in 2016 was 20,760, representing an increase of 35.0 per cent, above the level in 2015. The significant increase in usage was attributed to the successful deployment of the first phase of the e-Library with the attendant rise in the online visibility of Library resources. The user awareness programme on the e-Library was carried out in conjunction with the Information Technology Department during the ITD Customer Service week in 2016. The approval for the commencement of the implementation of the second phase of the Electronic Library (e-Library) Project (Institutional Repository and Discovery System) was granted in 2016. The volume of books in the Bank's library system, at 110,826, remained unchanged in 2016.

The Bank subscribed to the following electronic resources: 5,183 electronic books from Springer; 247 electronic Journals from Emerald Group; Elsevier; and Taylor and Francis. Databases such as: EBSCO Host; Journal Storage (JSTOR); Access to Global Online Research in Agriculture (AGORA); and Online Access to Research in Environment (OARE). Others were: Business Monitor International (BMI); International Monetary Fund (IMF); and Economist Intelligence Unit (EIU).

1.1.6 Legal Services

The Bank continued to strengthen the legal and regulatory framework to improve the overall effectiveness of the financial system, in line with its mandate. In that regard, relevant bills from the National Assembly were reviewed, including: the Nigerian Deposit Insurance Corporation (NDIC) Amendment Bill, 2016; Money Laundering (Prevention and Prohibition) Bill, 2016; and the Foreign Exchange (Monitoring and Miscellaneous) Provisions Act, 1995. In addition, the Bank drafted and vetted Memoranda of Understanding (MoUs), agreements, and contributed to draft guidelines.

The Bank collaborated with other stakeholders to draft the Financial System Stability Council Bill, to provide a working definition for "Financial Stability" and the reconstitution of the Financial Services Regulation Coordinating Committee (FSRCC), with specific macro-prudential objectives and oversight functions. The CBN also reviewed the transaction documents governing the Framework for the ₦213.0 billion Nigerian Electricity Market Stabilisation Facility (NEMSF) to address Legacy Gas Debts.

The Bank was involved in 641 cases pending within and outside the country. Three hundred and forty (340) of these cases were garnishee proceedings; two (2) were foreign cases, out of which one (1) was withdrawn by the Plaintiff. A total of 146 cases were decided in the review period. Of these cases, 132 were struck out or dismissed for want of jurisdiction or diligent prosecution, 10 were discontinued by the Plaintiffs, while 1 was settled out of court. The remaining three (3) were garnishee proceedings, which the Bank adhered to by complying with the Order of Court to pay the judgment sum to the Judgment Creditor.

Other suits involving the Bank bordered on a wide range of issues, arising from breach of contract, alleged wrongful termination of employment, banking/financial operations and revocation of banking licenses.

1.1.7 Security Services

The Bank sustained the application of effective security policies, procedures, processes and entrenched good security protocols in the review period. Thus, the Bank researched on security management best practices, deployed security tools and equipment to guarantee asset protection, personnel safety and operational resilience to minimise the cost of security operation. Furthermore, it strengthened collaboration with relevant security agencies, including the Nigeria Police Force, the Department of State Security Services and the Federal Fire Service, and implemented specific security measures to mitigate unforeseen threats against Bank's facilities and operations. In addition, the Bank organised security awareness seminars to enlighten, educate and ensure staff alertness and safety. It also facilitated capacity building for staff of its profiled service providers, on the basic operations of the security equipment deployed to ensure effective use of the equipment. Furthermore, as part of the strategy to stem the abuse of the naira, the Bank intensified collaboration with the security agencies, and sustained the intelligence-based and sensitisation approaches to stem counterfeiting, illegal sales and abuse of the currency.

1.1.8 Internal Audit

During the review period, a detailed audit was conducted, involving 61 audit of departments, while 80 visits were made to thirty-seven (37) branches, and 59 processes audited. Four hundred and twenty-nine (429) currency disposal operations, requiring audit witnesses, were also completed.

1.1.9 Risk Management

In 2016, the Bank approved the Enterprise Risk Management (ERM) Framework with eleven (11) risk management policies. These were: Policy Risk Management; Risk Appetite; Operational Risk; Strategy Risk; Information Technology Risk; Credit Risk; Market Risk; Fraud Risk; Incident Reporting; Business Continuity Management; and Liquidity Risk Policies. The Framework and policies were exposed to staff through series of workshops and stakeholder sessions aimed at creating awareness and obtaining feedback.

The Bank conducted eight (8) business continuity management (BCM) assessments for selected branches to test their resilience to internal and external threats. In addition, Business Impact Analysis (BIA) sessions were held with strategic business units (SBUs) to determine how critical their mandates were and how their processes were prioritised in the event of unforeseen circumstances/disruptions. The outcomes of these sessions were used to review the Bank's Business Continuity Plan.

To capture and prioritise risks within the CBN, a total of fourteen (14) independent risk assessments and one (1) cross-functional assessment on the foreign payments process were carried out during the period and the outcomes were used to update the Enterprise Risk Register. Furthermore, key risk indicators were developed and monitored for all SBUs to provide early warning signals of emerging risks to their operations.

The Bank held two (2) meetings of the Chief Risk Officers' (CROs) Forum, comprising the CROs of all banks and discount houses (DHs) in Nigeria. The Forum fostered coordinated interaction between banking industry operators and regulators in advancing the practice of risk management and aligning regulatory requirements with best practices.

1.1.10 Strategic Initiatives and Business Process Management

The Bank, conducted a review of the execution of its Strategy. The review involved directorates revalidating their respective aspects of the strategy to ensure currency and relevance to emerging issues in the economy. In addition, the review examined the progress made in the previous strategy cycles and the challenges encountered. This was to enable the Bank appraise itself of how the strategy is performing over the years and the major developments that had occurred along the way.

In 2016, a review of the Knowledge Management Framework of the Bank was completed, to ensure that its implementation reflects current realities and best practices. Knowledge management representatives across all Business Units were also set up, to ensure that knowledge issues are properly captured and disseminated in the Bank. Furthermore, expertise interviews were conducted for a number of retiring staff to capture their experiences in the Bank. These experiences were codified for onward transfer to staff still in the services of the Bank to enable learning, adaptation and innovation on the job.

During the review period, the CBN monitored strategy execution, by collating and analysing performance indicators data on a quarterly basis, for the information of the Management. In addition, it commenced the cascade of Enterprise Strategy to all SBUs, to foster better strategy execution. The process included: the determination of responsible departments for the delivery of each Enterprise Strategic Objective in the Enterprise Strategy Map. Also, all Strategy Communication Channels with the refined strategic direction of the Bank were completed. In the review period, the Bank facilitated the communication of its strategy across all CBN Branches, to ensure uniformity in messages, understanding and implementation of its strategic objectives.

In the review period, the Bank conducted a prioritization exercise of its Strategic Transformation Initiatives (STIs), Strategic Business-improvement Initiatives (SBIs) and proposed projects for the 2017 budget cycle. This culminated to a focused activity-based budget, with a cost reduction of 75.0 per cent, in period of analysis. Furthermore, it facilitated the establishment of the Enterprise Programme Management function, to eliminate duplication and silo management of projects, thereby institutionalising a project management culture in the Bank. The Bank, managed some special projects, including the NIPOST PPP to promote financial inclusion and mainstreaming micro businesses into the national economy. It developed a framework to implement coordinated Wellness and Diagnostic centers, to reduce medical tourism as well as an operating model for strategic business process improvements.

1.1.11 Communications

The communication channels of the Bank were active in disseminating and enlightening stakeholders and the general public on policies, programmes and other activities of the Bank. The publication of communiqués of the Monetary Policy Committee and the decisions of the Bankers' Committee was sustained, to uphold transparency and accountability in the conduct of monetary policy in line with global best practice. In addition, the Bank approved the transmission of MPC Communiqué to the Chairmen of Banking Committees (Senate and House of Representatives) of the National Assembly within 48 hours of its publication.

There were stakeholder engagements with the various committees of the National Assembly, MDAs, educational institutions, the business community and the general public. Specifically, the CBN facilitated the Retreat of the House of Representatives Committee on Banking and Currency, held at Le Meridien Ibom Hotel and Golf Resort, Uyo, Akwa-Ibom State from August 4 - 6, 2016.

The Bank embarked on sensitisation campaigns, aimed at educating the public on its key initiatives such as the cashless policy, real sector intervention schemes, Bank Verification Number (BVN) and issues of consumer protection. States visited were Bauchi, Bayelsa, Benue, Edo, Kogi, Kwara, Nasarawa, Ondo, Osun and Plateau. A Chatham House-style stakeholder engagements were held in Lagos and Abuja to educate media practitioners on the essence of the foreign exchange policy regarding the exclusion of 41 items from the list of items valid for access to foreign exchange from the Bank's foreign exchange window.

The Bank sustained capacity building for Finance Correspondents and Business Editors by organising the Annual Seminar in two runs. The first, with the theme "CBN Real Sector Financing: A Catalyst for Economic Growth and

Development" was held in Ibadan, Oyo State from February 9 - 12, 2016. The second, with the theme, "Financing Nigeria's Non-oil Sector for Sustainable Economic Development" was held in Abakaliki, Ebonyi State from September 27 - 30, 2016.

1.1.12 Anti-Corruption and Ethical Issues

The Bank developed draft Code of Ethics and Compliance for Bank Examiners and whistle-blowing guidelines, and automated the Oath of Secrecy and Code of Business Ethics and Compliance (COBEC) form. In addition, the Annual Management Ethics and Anti-corruption Seminar was held to sensitise Management and Staff on the identification and prevention of fraud and corrupt practices. Furthermore, a monthly serialisation of the COBEC document on the intranet (Banknet) was initiated.

The CBN received and acted on 2,430 e-mails mostly from the United States and Asia. Of the mails received, 54.6 per cent were fraud-related, while others were junk, repeat or misdirected mails. The fraud-related mails were speedily investigated and the potential scam victims appropriately advised. In the review period, thirty-nine (39) phone calls were received on the whistle-blowing helpline and prompt responses were given on the genuineness or otherwise of the reported transactions.

Staff were also sensitised on the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) in line with the extant AML/CFT laws and regulations. The CBN branches commenced the rendition of Special Reports on Funds Transactions (SRFT) in 2016.

1.1.13 The Financial System Strategy (FSS) 2020

The Bank collaborated with implementing institutions to deepen the financial system, through the initiatives of the Financial System Strategy (FSS) 2020. It continued to engage the stakeholders, including the NDIC, SEC, NAICOM, PENCOM, DMO, SMEDAN, NSE, FMBN, FIRS and FRC to strengthen the financial landscape of Nigeria. Furthermore, the CBN organised capacity building programme for Heads of Strategy of the Implementing Institutions, aimed at building skills for the implementation of FSS2020 programmes. The Programme comprised five (5) Modules, which commenced in July, 2016 and concluded in November, 2016.

In the review period, public hearings were organised by the relevant Committees of the National Assembly and views as well as opinions of stakeholders were harnessed for consideration. These Bills were: The Nigeria Independent Warehouse Regulatory Agency and Other Related Matters; The Payment Systems Management; The SMEDAN Amendment; and National Collateral Registry (NCR). Others for representation to the Assembly, included: Nigeria International Financial Centre Bill, Financial Ombudsman Bill and Electronic Transaction Bill.

1.1.14 The Shared Services Project

In 2016, the CBN continued the sensitisation of the banking public on the cashless policy, resulting in the increased use of electronic payment channels. Also, to address security vulnerabilities in the payment systems, the Nigeria Electronic Fraud Forum (NeFF) also enhanced its activities. The Forum published a report titled "NeFF: Improving and Securing the Cyber-Environment", among other projects.

To provide opportunity for the reduction of operating costs and improve the performance of the Nigerian banking sector, the Bank, in conjunction with the Bankers Committee accepted the implementation of three Shared IT Infrastructure initiatives. These were: the National Financial Services Network (NFSN); the Tier-3 Recovery Data Centre (RDC); and the Shared Power Infrastructure. Consequently, the CBN achieved the following milestones:

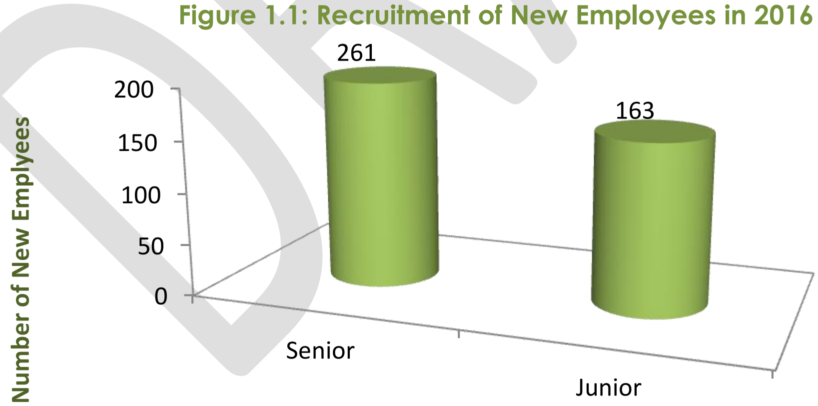
- Carried out the first annual review of the IT Standards Blueprint;
- Developed Governance Model and processes;

- Reconstituted the IT Standards and Governance Council;
- Conducted IT Standards baseline audit for IT Infrastructure Library (ITIL) and ISO 27001 as well as ISO 8583; and
- Conducted IT Standards remediation exercise for gaps identified in baseline audit.

1.1.15 Staff

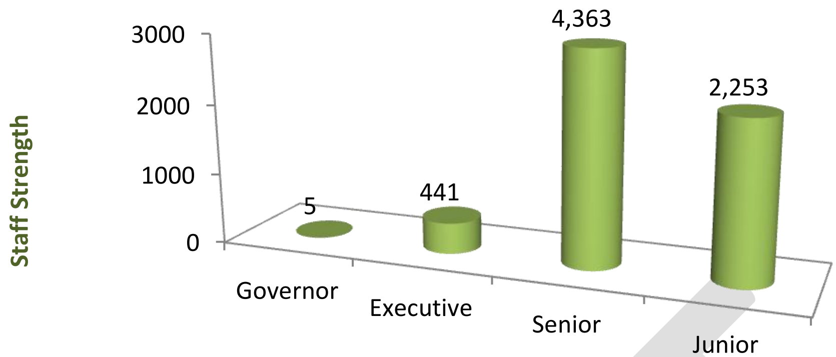
Four hundred and twenty-four (424) staff were recruited in the review period. These comprised 261 senior, and 163 junior. A breakdown by gender indicated that 323 or 76.2 per cent were males and 101 or 23.8 per cent were females. The Bank, however, lost the services of three hundred and seventeen (317)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

Figure 1.1: Recruitment of New Employees in 2016



Source: CBN

Figure 1.2: Staff Strength by Category and Gender at end-December, 2016



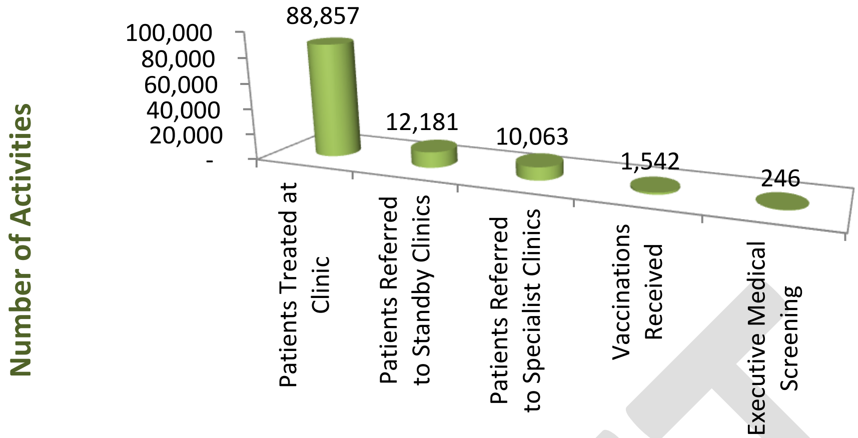
Source: CBN

1.1.16 Medical Services

The Bank provided various medical interventions to sustain a healthy and productive workforce. Eighty-eight thousand, eight hundred and fifty-seven (88,857) cases, involving staff and their dependants were attended to at the Bank's staff clinics. Of these cases, 12,181 were referred to the various stand-by hospitals, while thirty-three (33) staff/dependants were treated overseas for conditions that could not be handled locally. A total of one thousand, five hundred and forty-two (1,542) staff children were administered routine immunisation. Pre-employment screening was carried out on 261 prospective staff in the review period. One thousand, four hundred and forty-five (1,445) staff participated in the Healthy Life Style Seminar.

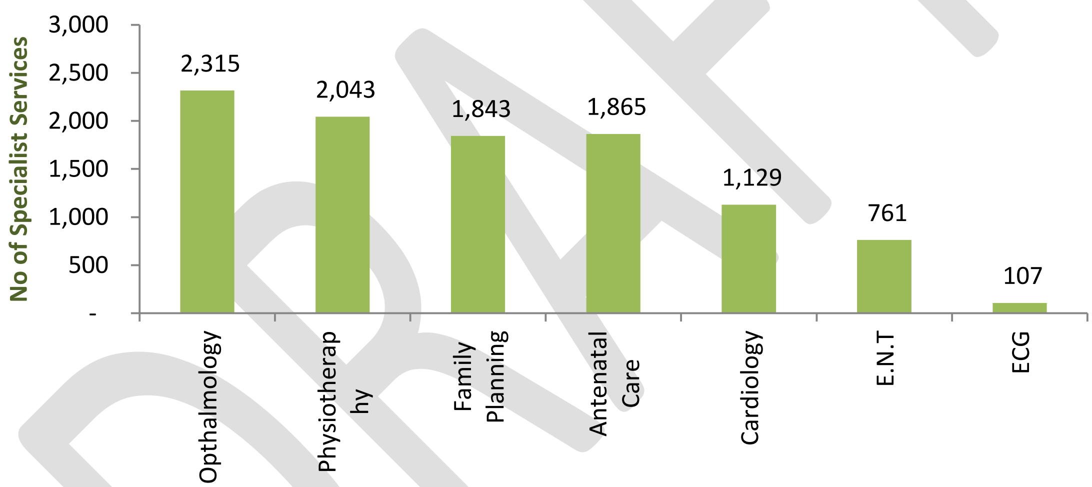
Of the five (5) in-house specialty clinics, Eye clinic had the highest attendance of 2,315 closely followed by Physiotherapy clinic with 2,043. Furthermore, the Bank sponsored the comprehensive medical screening of 246 executives.

Figure 1.3: Staff Clinic Activities, 2016



Source: CBN

Figure 1.4: Specialist Medical Services, 2016

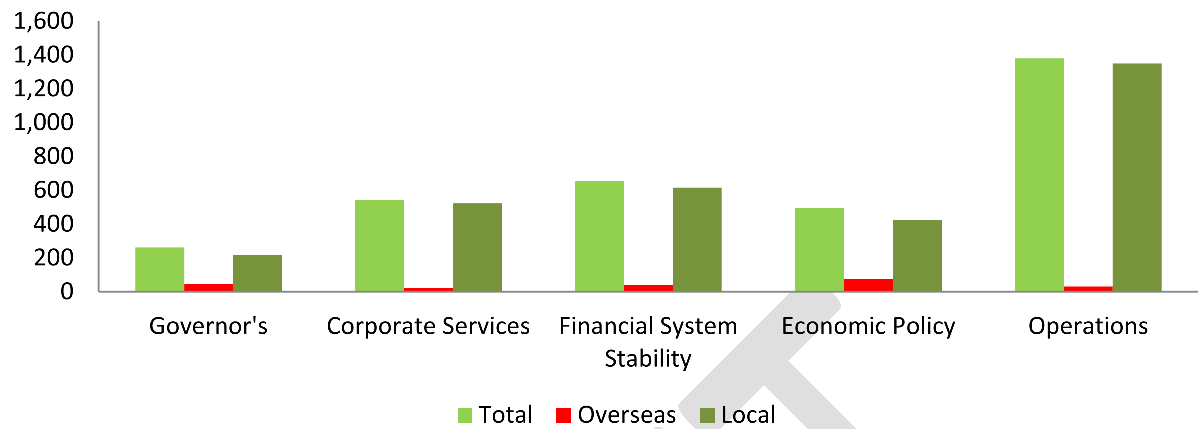


Source: CBN

1.1.17 Training

In line with the Bank's manpower development strategy, 2,056 staff participated in (224) training programmes in 2016. The training distribution pattern of the five (5) directorates in the Bank showed that the Operations Directorate recorded the highest of 1,380; followed by Financial System with 655; while the Governors Directorate recorded the least of 262. Also, 174 new appointees/hires participated in an induction course.

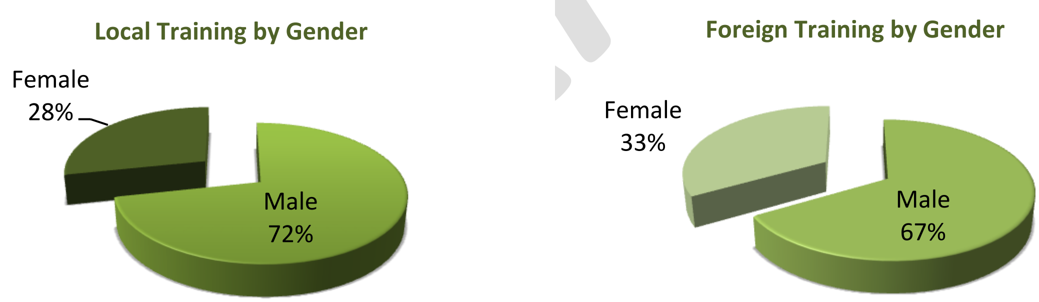
Figure 1.5: Local and Foreign Training Distribution by Directorate, 2016



Source: CBN

Analysis of local training by gender indicated that male staff had 2,580 training slots, while the female counterparts had 1,021 slots, representing 71.6 and 28.4 per cent, respectively. Similarly, 138 male and sixty-nine (69) female staff participated in foreign training slots during the review period, indicating 66.7 and 33.3 per cent, respectively.

Figure 1.6: Local and Foreign Training Distribution by Gender, 2016



Source: CBN

In addition, 232 participants from other agencies, including PENCOM, FIRS, NIBSS, SEC, NSE and NDIC were trained on Bank Examiners Foundation Course, Association for Talent Development (ATD) in America (ATD) Boot camp, CBN Credit Risk Management System (CRMS) Redesign Project and Trading Seminar.

1.1.18 The International Training Institute (ITI)

In the review period, the ITI delivered thirty-four (34) training programmes with 3,969 participants. The programmes were in partnerships with the Federal Reserve Bank of America, International Monetary Fund, West African Institute for Financial and Economic Management (WAIFEM), the Lagos Business School (LBS), Association for Talent Development (ATD), USA and Myers-Briggs Type Indicator (MBTI) institute. A total of Eight Hundred and One (801) personnel from the CBN and other regulatory and related organisations participated in the programmes.

Furthermore, the Institute ensured optimal utilisation of its facilities by internal and external stakeholders, with fourty-seven (47) programmes hosted at the ITI for other CBN Directorates and twenty-two (22) programmes hosted for other organisations.

1.1.19 Staff Promotion

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

1.1.20 Recreational Activities

The Bank, in collaboration with relevant stakeholders, sponsored various competitions in line with its corporate social responsibility. These included: lawn tennis, football and golf competitions. The 10th edition of the CBN Junior Tennis Tournament was held in Kaduna from May 23 – 27, 2016. Similarly, the 38th CBN Senior Open Tennis Championship was held in Lagos from June 16 – 25, 2016. The Bank also sponsored the 10th Edition of the CBN Governor's Golf Tournament, which took place at the IBB International Golf and Country Club, Abuja, on November 26, 2016.

The Balogun Fulani Microfinace Bank Football Club, Ilorin, Kwara State won the final of the 31st All Financial Institutions Football Competition held in Uyo, Akwa Ibom State on November 19, 2016. Similarly, the Enugu Branch of the CBN won the final of the 36th edition of the Governor's Cup Football Competition for all CBN branches held at the Confluence Stadium, Lokoja, Kogi State on July 30, 2016. Staff continued to patronise the workplace gymnasia at the Bank's Corporate Head Office, Abuja, and in some branches of the Bank.

1.1.21 Corporate Social Responsibility (CSR)

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

1.1.22 Special Intervention Projects under CSR

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

1.1.23 Staff Social Responsibility

The staff of the Bank sustained their support for the less-privileged in the society through regular contributions to the Alms Collection Scheme. A total of ₦24,764,436.74 was realised from the monthly departmental contributions in 2016. Thus, the staff embarked on twenty-five (25) social responsibility projects, valued at ₦23,265,370.00. The projects undertaken included:

- Construction of a two bedroom apartment for widows in Enugu, Enugu State;
- Donation of facilities to General Sani Abacha Specialist Hospital in Damaturu, Yobe State;
- Renovation of blocks of classrooms at Swali Community Secondary School, Yenagoa, Bayelsa and Tarauni Special Primary School, Tarauni in Kano State;
- Provision of oil-palm processing mill for Sasere Community in Ondo State; and
- Construction of a health care centre in Kanja, Nasarawa State.

1.1.24 Nigerian Sustainable Banking Initiatives

During the review period, the Bank continued the implementation of the Sustainable Banking Principles through the integration of social and environmental considerations in its operations. Accordingly, some special intervention projects were subjected to Environmental and Social (E&S) sustainability assessment. In addition, the Bank consulted the United Nations Industrial Development Organisation, National Environmental Standards and Regulations Enforcement Agency, Abuja Environmental Protection Board, Hinckley Associates, Paladine Industries Limited and V4 Advisors on efficient waste management. The Bank also engaged the Federal Ministry of Environment and other relevant stakeholders on the development of the Green Bonds initiative by the Federal Government. The Bank marked the World Environment Day with the theme “Fight against the Illegal Trade in Wildlife for

Life (zero tolerance for the illegal trade in wildlife)" at the Bank's Head Office Auditorium on June 3, 2016.

1.2 RESEARCH AND COLLABORATIVE ACTIVITIES

The Bank conducted research and collaborative studies, and disseminated information on key issues relating to the Nigerian economy through various publications. The following titles were published: "An Econometric Analysis of the Impact of Macro-Prudential Instruments on the Nigerian Economy" and "Modeling the Impact of Macroeconomic Uncertainty on the Conduct of Monetary Policy".

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

Regular publications in the review period were: the 2015 Annual Report; the 2016 Half-Year Economic Report; the Financial Stability Report, 2016; the Quarterly CBN Economic and Financial Review; the bi-annual CBN Brief; the Education in Economics Series; the 2015 Statistical Bulletin; and the bi-annual CBN Journal of Applied Statistics. Others included: the Monetary Policy Review, 2016; the Proceedings of the FLAC and the MPIC; the Understanding of Monetary Policy Series; and the quarterly CBN Bullion.

Furthermore, four (4) occasional papers, titled: A Dynamic Stochastic General Equilibrium (DSGE) Model of Exchange Rate Pass-Through to Domestic Prices in Nigeria; Application of Knowledge Management in Corporate Organisations: The Case of Central Bank of Nigeria; and the Implications of Operating Treasury Single Account (TSA) on the Risk Profile of Banks in Nigeria, were published. The Bank collaborated with the National Bureau of Statistics (NBS) to conduct the 2016 National Economic Survey.

The Bank honoured requests to present papers and facilitated training programmes, including those from the Nigeria Deposit Insurance Corporation

(NDIC), the Chartered Institute of Bankers of Nigeria (CIBN), the West African Institute for Financial and Economic Management (WAIFEM), the West African College of Supervisors (WACS), the Association of African Central Banks (AACB), and the International Monetary Fund (IMF). Also, Staff presented papers at professional conferences, nationally and internationally, including those of the International Conference on Economic Modelling (ECOMOD); the Nigerian Economic Society (NES); and the Nigerian Statistical Association (NSA).

BOX 1: Improving the Modeling Toolkits of the CBN for Effective Conduct of Monetary Policy

The achievement of price and financial stability remains the core mandate of most central banks across the globe. To this end, central banks have leaned towards employing a "Suite of Models" to facilitate the effective conduct of monetary policy. In particular, the CBN, had developed a number of models, while the Macroeconometric Model of the Nigerian Economy was revised to reflect peculiarities of the Nigerian economy.

The Bank, in collaboration with the Centre for Econometrics and Allied Research (CEAR), University of Ibadan revised macroeconometric model to reflect strong theoretical underpinnings and linkages, and capture issues in the labour market, including expectations in price variable. The revised model also captured the role of expectations and uncertainty inherent in the foreign exchange market, unemployment, energy price index, share of exports and imports to GDP and production price index.

In addition, a DSGE model was developed as a first step towards achieving a Forecasting and Policy Analysis System (FPAS). This modified model was anchored on a reduced-form new-Keynesian framework and incorporated a fiscal reaction function. The specification of the structural equations was guided by: aggregate demand; aggregate supply; uncovered interest rate parity; the monetary policy rule; and a fiscal reaction function.

Furthermore, a Structural Vector Autoregressive (SVAR) Model was built to ascertain the nature and responses of the domestic economy to macro-prudential shocks coupled with potential real sector effects. The model included seven (7) macroeconomic variables categorised into price, monetary and real variables. The framework would enrich the Bank's modelling toolkits, particularly in the area of macro-prudential analysis.

Given the recent developments in the economy, particularly the options for economic recovery initiatives, these models were expected to guide the monetary authorities in policy formulation and evaluation of the potential impact of alternative policy measures. Also, they were to highlight the imperatives of harmonising fiscal and monetary policy variables, to achieve of non-inflationary growth.

1.3 THE CBN BALANCE SHEET

1.3.1 Income and Appropriation

The audited financial statements of the CBN for the year ended 31st December, 2016 indicated that total income was ₦1,675.81 billion. At ₦654.87 billion, net operating income less interest expenses, impairment charges and other operating expenses/losses showed a 9.4 per cent decrease over the ₦722.87 recorded in 2015. The slight decrease in net operating income was as a result of fair value loss on financial instruments. The fair value loss thereby brought about a reduction of the net income for 2016 to ₦104.93 billion, compared with ₦108.53 in 2015. In line with the provisions of the *Fiscal Responsibility Act 2011*, 20.0 per cent of the net income will be credited to retained earnings (reserves), while the balance will be paid to the Federal Government.

1.3.2 Assets and Liabilities

The size of CBN's balance sheet expanded further in 2016 as total assets/ liabilities increased by 41.6 per cent to ₦21.71 trillion. The increase in assets resulted mainly from External reserves, Loans and Receivables, Investment securities and the impacts of exchange rates. The corresponding increase on the liability side resulted mainly from the rise in CBN instruments, Deposits by the Federal Government of Nigeria and Fair value of Financial Derivatives.

CHAPTER TWO

MONETARY POLICY, SURVEILLANCE ACTIVITIES, AND OPERATIONS OF THE CBN

Monetary policy remained contractionary in 2016, following adverse developments in the global and domestic economic and financial environments. The domestic developments were characterised by: dwindling foreign exchange reserves, arising from low crude oil prices and production; significant pressure in the foreign exchange market, due to shortage of foreign exchange and excess liquidity in the banking system; mounting inflationary pressures and eventual sliding of the economy into recession. The global headwinds included: growth slowdown, persistent monetary policy divergence, the UK Brexit vote and the trend towards economic protectionism in the advanced economies. These developments had serious implications for domestic macroeconomic conditions, requiring proactive measures by the monetary authority. Consequently, the monetary policy rate was raised from 11.0 to 14.0 per cent and the cash reserve ratio also increased to 22.50 from 20.0 per cent during the course of 2016. In addition, the asymmetric interest rate corridor on standing facilities was narrowed to +200/- 500 basis points around the MPR, from +200/-700 basis points. Interest rate developments broadly mirrored liquidity conditions in the banking system. Open Market Operations (OMO) remained the primary tool for liquidity management, complemented by reserve requirements, repurchase transactions, and interventions in the foreign exchange market. To check unwholesome practices in the foreign exchange market and stem demand pressure on the exchange rate, the Bank introduced greater flexibility in the inter-bank foreign exchange market and reduced funding of the BDCs. Additionally, the Bank sustained its supervisory and surveillance activities to safeguard the stability and soundness of the financial system. The progress made in the payments and settlement system was sustained. Also, the development finance interventions of the Bank remained active in 2016, strengthened by the Anchor Borrowers' Programme.

2.1 MONETARY OPERATIONS

2.1.1 Monetary and Credit Developments

Monetary policy was influenced largely by global and domestic factors in 2016. The global factors included: persistent low crude oil prices, which affected foreign exchange receipts and foreign reserves; the slowdown of the Chinese economy, on the back of its transition to a balanced growth and attendant cross border effects; the Brexit vote in the United Kingdom and its aftermath on heightened anti-immigration movement, as well as the policy realignment in some advanced countries, such as the United States of America and the associated consequences on cross-border capital movement. These were accentuated by strong domestic economic problems, characterised by inadequate infrastructure, inflation and foreign exchange pressure, high unemployment and poverty.

Monetary policy was largely restrictive throughout 2016, to contain inflation, attract foreign investment and stabilise the exchange rate. The policy rate was raised twice and the cash reserve ratio (CRR) was increased by 250 basis points to 22.50 per cent. The standing facility corridor around the MPR was adujusted in 2016. While the rate for the SLF was retained at +200 basis points, that of the deposit facility was reviewed to -500 basis points from -700 basis points.

Broad money supply, (M_2), expanded by 17.8 per cent and was above the 10.98 per cent target growth of M_2 for fiscal 2016, despite the Bank's tight monetary policy stance, and reflected the significant growth in net foreign assets and domestic credit (net) of the banking system, which more than offset the decline in other assets (net). The corresponding growth in monetary liabilities was driven by the 7.5 per cent growth in quasi-money, owing to the significant growth in foreign currency deposits (FCD). Narrow money supply (M_1) grew by 31.5 per cent at end-December 2016, in contrast to the 24.1 per cent decline recorded at end-December 2015. The significant increase in demand deposits and currency outside bank accounted for the growth in M_1.

Aggregate credit (net) to the domestic economy grew by 24.3 per cent to ₦26,857.7 billion at end-December 2016, attributed to the significant increase in both the net claims on the Federal Government and credit to the private sector.

Reserve money grew by 0.6 per cent to ₦5,847.9 billion at end-December 2016. This outcome was, however below the programmed benchmark of ₦6,580.4 billion for fiscal 2016 by 11.4 per cent. The development was owed to the significant decline in net domestic assets of the CBN, which less than offset the growth in net foreign assets. The decline in the net domestic assets of the CBN reflected significant decline in claims on the private sector. The corresponding movement in CBN's liabilities reflected decline in bank reserves (12.0 per cent), which effects, outweighed the 17.3 per cent growth in the currency component.

Table 2.1 : Key Policy Targets and Outcomes, 2012- 2016 (per cent)

	2012		2013 2/		2014		2015 1/		2016 2/	
	Target	Outcome	Target	Outcome	Target	Outcome	Target	Outcome	Target	Outcome
Growth in base money	8.23	33.06	35.24	37.41	9.30	16.52	16.78	-1.99	13.21	0.60
Growth in broad money (M2)	24.64	16.39	15.20	1.32	14.52	20.55	15.24	5.90	10.98	17.80
Growth in narrow money (M1)	34.71	9.59	17.44	-5.23	16.23	-1.82	9.91	24.14	11.34	31.50
Growth in aggregate bank credit	52.17	-3.46	23.58	14.47	28.50	32.60	29.30	12.13	17.94	24.30
Growth in bank credit to the private sector	47.50	6.83	17.52	6.86	15.85	11.95	26.06	3.29	13.38	17.42
Inflation rate	11.20	12.30	9.87	8.00	8.00	8.00	8.00	9.60	11.90	18.60
Growth in real GDP	7.33	4.20	6.44	5.50	7.02	6.22	7.25	2.79	3.59	-1.51

Source: CBN
1/ Revised
2/Provisional

2.1.2 Liquidity Management

The challenge of excess liquidity in the banking system persisted in 2016, underpinned by maturing CBN bills and government securities, the disbursement of statutory revenue and value-added tax (VAT) to the federal, states and local governments, refund of Paris club deductions as well as payments of JVC cash calls and FGN capital projects. In that regard, the thrust of monetary policy remained curbing the level of banking system liquidity to achieve the Bank's mandate of price and monetary stability conducive to sustainable economic growth. Consequently, the monetary policy stance was largely contractionary throughout the year. A cocktail of policy measures to promote the efficient functioning of the financial market, attract foreign capital inflow to grow the real economy and stem the pressure on the exchange rate were implemented. The measures included the: upward review of the MPR from 11.0 to 14.0 per cent; narrowing the asymmetric corridor of +200 and -700 basis points around the MPR to +200 and -500 basis points; and increasing the cash reserve ratio (CRR) from 20.00 to 22.50 per cent. The Liquidity Ratio (LR) of banks was, however, maintained at 30.00 per cent in 2016 as in the preceding year.

In order to continue limiting banks' exposure to the foreign exchange market in the face of the increasingly volatile external environment, the net foreign currency trading position limit of 0.5 per cent was maintained. Also, the closure of the official foreign exchange window and the retail Dutch Auction System (rDAS), was sustained with all demand for foreign exchange channeled to the inter-bank market. Nonetheless, the pressure on the exchange rate intensified, forcing the Bank to introduce a more flexible exchange rate regime in the inter-bank foreign exchange market. The development led to the depreciation of the naira/dollar exchange rate to ₦305.0/US$ at end-December 2016 from ₦197/US$ at end-December 2015.

The challenge of excess liquidity in the banking system persisted in 2016, underpinned by maturing CBN bills and government securities.

The primary liquidity management instrument of the Bank remained open market operations (OMO), which was complemented by macro-prudential requirements, standing facilities, and tenored repurchase transactions. These domestic money market instruments were supported and augmented by the Bank's interventions in the foreign exchange market.

The monetary policy measures implemented in 2016 moderated the liquidity surfeit in the banking system and the upward trend in domestic prices. The effect of these liquidity management measures was the moderation in inflationary pressure toward the end of the year, although it remained outside the target band of 6.0 – 9.0 per cent. Accordingly, headline inflation rate was 18.6 per cent, at the end of 2016.

2.1.3 Interest Rate Policy and Developments

In line with the restrictive policy stance of the Bank in 2016, the monetary policy rate was increased twice, from 11.00 per cent to 12.00 per cent and further to 14.00 per cent to provide for positive real return on investment. The standing facility rate corridor around the MPR was adjusted in 2016. The rate for standing lending facility was retained at +200 basis points, while that of the deposit facility was revised to -500 basis points from -700 basis points. The adjustment in interest rates was influenced by banking system liquidity arising from bank-financed fiscal operations of the Federal Government, banks' settlement for foreign exchange interventions, full implementation of the treasury single account (TSA), maturity of CBN bills and liquidity withdrawals through the sale of CBN bills by the Bank. Interest rates in most segments of the market generally rose, compared with their levels in 2015.

2.1.3.1 Money Market Rates

The annual weighted average inter-bank call rate was 14.31 per cent, compared with 10.48 per cent in 2015, while the Open-Buy-Back rate was 10.95 per cent, compared with 12.27 per cent in 2015. The Nigerian Inter-bank Offered Rate (NIBOR) for the 30-day tenor, averaged 14.29 per cent same as in 2015. The increase in the rate in the unsecured segment, in the review period, reflected reduced confidence for uncollaterised lending among players, the tight monetary policy stance of the Bank and the withdrawal of liquidity from banks.

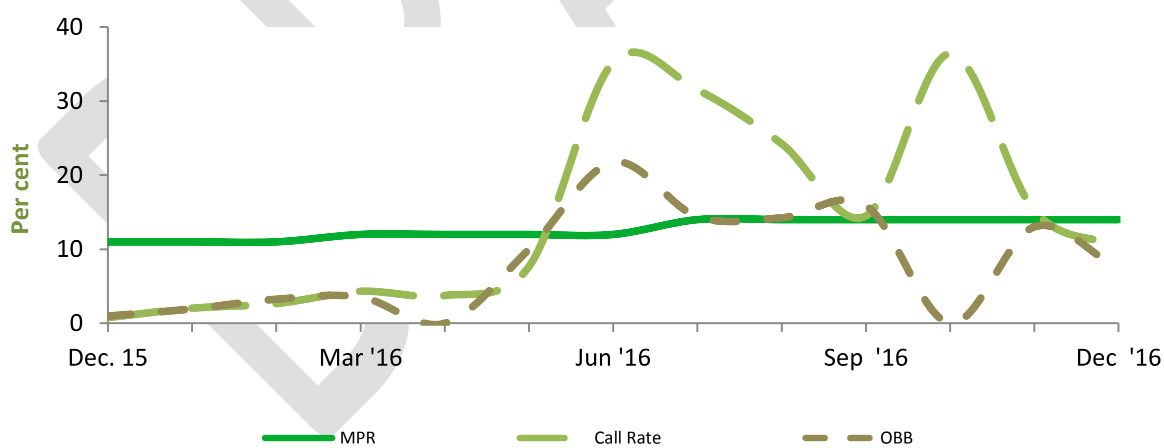
Money market rates in the review period were generally higher than their levels in the preceding year.

Table 2.2 : Money Market Rates (Per cent)

WEIGHTED AVERAGE				
Month	MPR	Call Rate	OBB	NIBOR 30-day
Dec-15	11.00	0.77	0.98	9.11
Jan-16	11.00	2.75	2.90	13.72
Feb-16	11.00	2.33	3.18	15.19
Mar-16	12.00	4.32	3.72	15.89
Apr-16	12.00	4.00	0.00	15.02
May-16	12.00	7.68	10.00	14.64
Jun-16	12.00	29.91	21.75	15.38
Jul-16	14.00	24.38	14.00	14.34
Aug-16	14.00	25.40	14.25	17.08
Sep-16	14.00	13.00	16.79	15.52
Oct-16	14.00	29.81	11.00	13.59
Nov-16	14.00	16.55	15.41	12.02
Dec-16	14.00	11.62	7.45	9.13
Yearly Average (2016)	12.83	14.31	10.95	14.29
Yearly Average (2015)	12.81	10.48	12.27	14.29

Source: CBN

Figure 2.1: Money Market Rates (per cent), 2016



Source: CBN

2.1.3.2 Deposit Rates

Deposit rates were affected by inflationary pressures, bank concentration, low savings mobilisation by banks and banking systems' liquidity in 2016.

Consequently, the average term deposit rate fell by 1.77 percentage points to 6.18 per cent in 2016, compared with 7.95 per cent in 2015.

2.1.3.3 Lending Rates

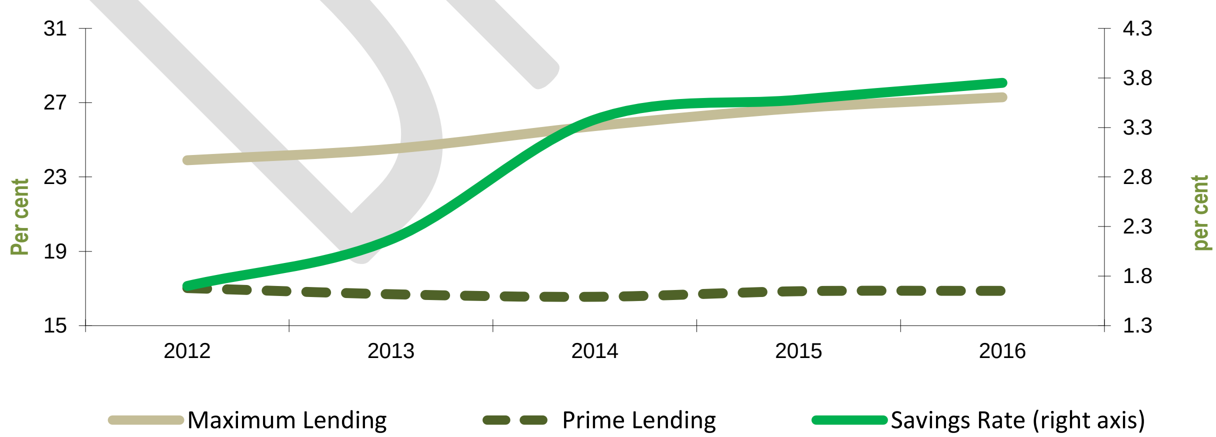
The weighted average prime and maximum lending rates rose by 0.02 and 0.58 percentage points, respectively, to 16.87 per cent and 27.29 per cent in 2016. Overall, the prime lending rate ranged from 16.54 per cent to 17.18 per cent, while the maximum lending rate ranged from 26.73 per cent to 28.55 per cent during the review period.

The spread between the average term deposits and maximum lending rates widened to 21.11 percentage points in 2016, from 18.76 percentage points in the preceding year.

Consequently, the spread between the average term deposit and maximum lending rates widened to 21.11 percentage points, from 18.76 percentage points in 2015.

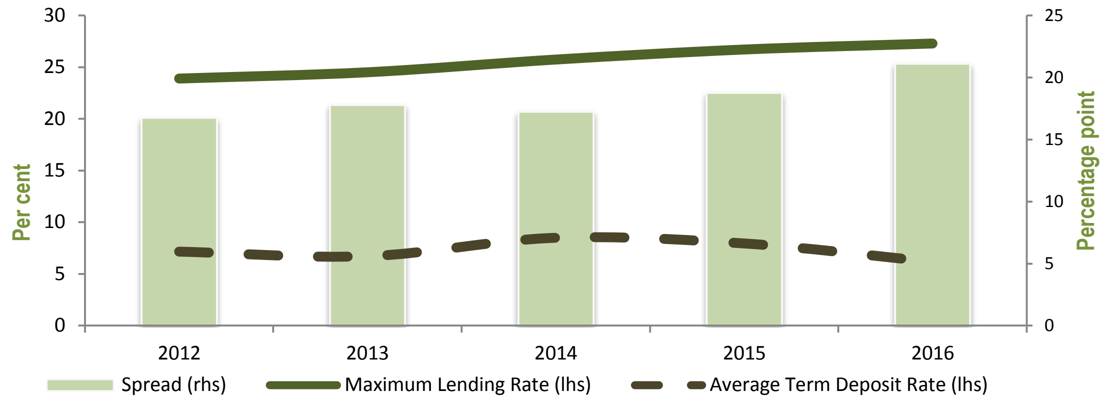
With the prevailing headline year-on-year inflation at 18.6 per cent in December 2016, all the deposit and prime lending rates were negative in real terms, while the maximum lending rate was positive.

Figure 2.2: Average Savings, Prime and Maximum Lending Rates, 2012 - 2016



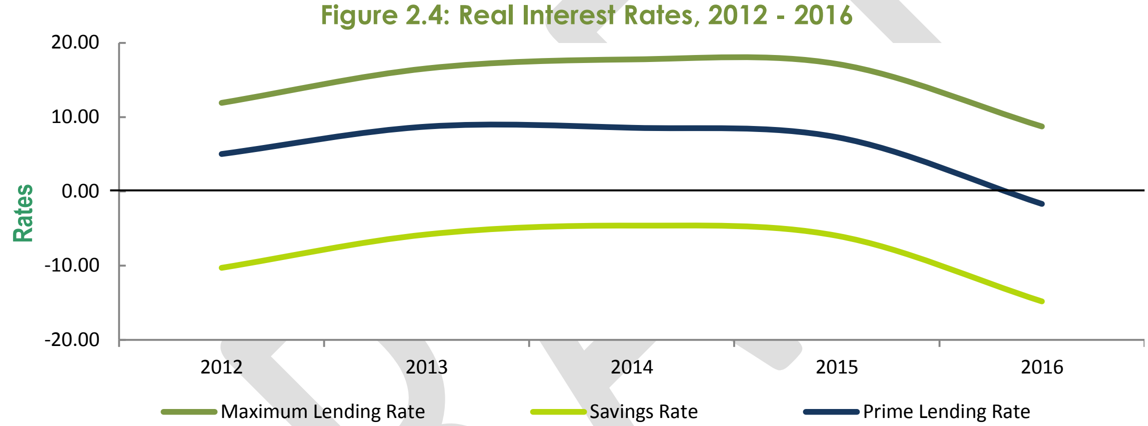
Source: CBN

Figure 2.3: Spread Between the Average Term Deposit and Maximum Lending Rates, 2012-2016



Source: CBN

Figure 2.4: Real Interest Rates, 2012 - 2016



Source: CBN

2.1.4 Developments in the Payments System

The CBN continued to monitor and review subsisting payments system initiatives and programmes, with a view to addressing emerging challenges. The major initiatives were as follows:

2.1.4.1 The Bank Verification Number (BVN) Scheme

In 2016, customers with irregular identity details in different banks were required to harmonise them (e.g. name and date of birth) with those in the BVN database. The Bank also directed that all accounts not linked with BVN to be classified as "Post No Debit" and placed under monitoring.

To address the logistic challenges of bank customers in the diaspora with respect to limited registration centres, the deadline for BVN enrolment for Nigerian banks' customers in diaspora and security personnel who were on special assignment was extended from end-June 2016 to end-December 2016. The concession also allowed security personnel on foreign postings more time for registration, considering the peculiar nature of their assignments.

The significant progress in the enrollment of bank account holders in the BVN scheme continued into 2016. At end-December 2016, there were 27,689,678 registered accounts in the BVN central database, with 39,312,797 accounts linked to the platform, out of the 60,878,449 active bank accounts. The development was expected to further enhance the objective of the KYC regime and ensure safety of the payments system. Other achievements of the BVN scheme thus far included:

- Reduction in incidence of fraud and forgery, due to inability of the fraudsters to open multiple accounts for criminal purposes;
- Increased leverage on the Scheme by law enforcement agencies to fast-track investigation and prosecution of financial crimes; and
- Increased detection and significant reduction in incidences of ghost workers, especially among the MDAs.

The implementation of the BVN scheme had attracted international attention with the expression of interest by foreign countries visiting Nigeria with a view to sharing from the experience.

2.1.4.2 e-Dividend Mandate Management Portal

The CBN, in collaboration with Securities & Exchange Commission (SEC), established a Committee of e-Dividend Champions, comprising members from all the banks, Registrars, Nigeria Inter-Bank Settlement System (NIBSS), the CBN and SEC. The Committee was expected to serve as a train-the-trainer platform for banks and Registrars to facilitate training of more staff in the branches.

2.1.4.3 Nigeria electronic Fraud Forum (NeFF)

The Nigeria electronic Fraud Forum (NeFF) embarked on a strategic partnership with key stakeholders in the fight against e-fraud in 2016. Following extensive engagement in the Forum, the first ever dedicated e-Payment and Card Crime Unit of the Nigerian Police was created. The Forum also collaborated with the Judiciary to fast-track judgment on payment fraud-related cases and relevant payments system laws.

2.1.4.4 Authorised Signature Verification Portal

The Authorised Signature Verification Portal was developed by NIBSS with the primary objective of authenticating the validity of authorised signatures. In the review period, the Portal was deployed by the CBN, and staff were trained to enable the officers update signatories, verify mandates and manage the operations of the portal efficiently. The portal would provide a secured electronic-based shared services solution for efficient and timely management of authorised signatory in a cost effective manner.

2.1.4.5 Accreditation of Cheque Printers

The Bank, in collaboration with the MICR Technical Implementation Committee (MTIC), conducted the yearly accreditation of Nigeria cheque printers. The five (5) existing accredited security printing companies, namely: Nigeria Security Printing and Minting Company Plc.; Tripple Gee and Company Plc.; Superflux International Limited; Papi Printing Company Limited; and Euphoria Group Limited were re-accredited to print cheques and other debit paper instruments for the Nigerian banking industry.

2.1.4.6 Cheque Standard Administration

The Bank received 960 sample cheques made up of: 110 cheques from accredited cheque printers for image testing and analysis; and 850 encoded cheques for MICR quality tests and analyses. The quality assurance test of the instrument was to ascertain compliance with the Nigeria Cheque Standard. In this regard, 960 sample cheques were processed in 2016, compared with 630 sample cheques in 2015. Also, the MTIC embarked on monitoring of the cheque management centres of banks to determine the level of compliance.

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

The Bank engaged the services of SIBS International, Portugal to review the maiden edition of "The Green Book". The review, carried out in collaboration with the MTIC and other relevant stakeholders, was aimed at specifying the design and security features on the instruments to increase efficiency in the clearing system and reduce cheque fraud. The Book was expected to be ready in the first quarter of 2017.

2.1.4.8 Cheque Truncation System

The Bank organised a training session for operators of the cheque truncation system in Calabar, Cross River State. The objective of the session was to keep users abreast of new developments.

2.1.4.9 Workshop on Bulk Upload of Payments

The CBN conducted training sessions for all the MDAs on bulk upload of payments in four (4) locations namely; Abuja, Kaduna, Lagos and Port Harcourt. The objective of the workshop was to empower the MDAs to validate the contents of the file before upload and reduce error in the bulk upload file, increase efficiency and safety of the system.

2.1.4.10 CBN Pay

As part of implementation of the TSA, the Bank developed a generic solution to facilitate revenue collection and payments through different service providers. The system provides a level playing field for all the payment service providers to participate under the TSA.

2.1.4.11 NACS Upgrade

To increase efficiency of cheque clearing, the NIBSS, in collaboration with key stakeholders, upgraded the Nigeria Automated Clearing System (NACS) to support near real-time online processing and improve the industry's central image archive. When fully implemented, the Project would facilitate migration to T+0 and express clearing.

2.1.4.12 WAMZ Regional Payments Integration

The Bank participated at the maiden meeting of the Expert Committee on the Scheme for Quoting and Trading in WAMZ Currencies at Accra, Ghana from November 22 - 24, 2016. The objectives of the scheme were to promote intra-regional trade and facilitate settlement for goods and services within the region in local currencies, at lower cost, as well as conserve scarce foreign exchange.

2.1.4.13 Electronic Payments Incentive Scheme (EPIS)

The cash refunds incentive, namely; the Electronic Payments Incentive Scheme (EPIS) was replaced with the Point-based Loyalty Scheme in 2016. Under the new Scheme, cardholders accumulate points on transactions consummated on Point-of-Sale (PoS) terminals and online transactions. The accumulated points could be used to redeem items available on the scheme. A comprehensive sensitisation campaign to drive awareness and participation of cardholders was being planned.

2.1.4.14 e-Payment Transactions

The volume and value of electronic payments rose by 46.9 per cent and 41.9 per cent to 941.8 million and ₦71.1 trillion in 2016, from 641.1 million and ₦50.1 trillion respectively, in 2015. The increase in the e-payment transactions was attributed to increased awareness and consumers' confidence in the use of the e-payments channels.

Table 2.3 : Breakdown of e-Payment Channels in 2016

Channels	Volume	Value (₦)	Proportion in Volume (Per cent)	Proportion in Value (Per cent)
NEFT	29,754,182	14,584,802,657,085.90	3.2	20.5
ATM	590,238,934	4,988,133,401,544.18	62.7	7.0
POS	63,715,203	758,996,505,702.20	6.8	1.1
INTERNET(WEB)	14,088,247	132,360,333,368.64	1.5	0.2
MMO	47,053,252	756,897,483,652.81	5.0	1.1
NIP	153,616,450	38,109,061,203,852.20	16.3	53.6
EBILLSPAY	1,026,886	339,407,748,303.63	0.1	0.5
REMITA	38,249,886	10,652,493,933,099.30	4.1	15.0
NAPS	3,986,067	753,689,705,802.99	0.4	1.1
CENTRAL PAY	70,239	1,442,064,836.87	0.0	0.0
TOTAL	**941,799,346**	**71,077,285,037,248.70**		

Source: CBN

2.2 CURRENCY OPERATIONS

2.2.1 The Issuance of Legal Tender Currency

The Bank approved an indent of 2,079.03 million pieces of banknotes of various denominations, 1.77 per cent higher than the level in the preceding year. The Nigerian Security Printing and Minting (NSPM) Plc was awarded the contract for the production of the entire indent. The NSPM delivered 1,648.26 million pieces or 79.28 per cent of the total, with an outstanding balance of 430.77 million, at end-December 2016.

Also, of the one billion pieces of ₦100 commemorative centenary banknotes awarded to Crane Currency, Sweden, in 2014, the Bank received 88.14 million pieces in 2016. At end-December 2016, a cumulative of 899.69 million pieces or

89.97 per cent of the banknotes had been received, leaving an outstanding balance of 100.31 million pieces.

To sustain integrity and enhance the quality of banknotes in circulation, the Bank exposed a draft manual on Banknote Fitness Standards to the financial sector, sorting companies and other relevant stakeholders. The Manual would guide the public and currency stakeholders to identify banknotes fit for re-circulation and those to be withdrawn from circulation.

In addition, the CBN sustained its currency processing and sorting activities in 2016. The Bank enforced the policy of six (6) months turnaround time for processing deposits from banks. Consequently, a total of 77,576 pieces of counterfeit notes, with a nominal value of ₦51.45 million was removed from circulation. This showed increase of 4.37 and 3.40 per cent in volume and value terms, respectively, over the 2015 figures.

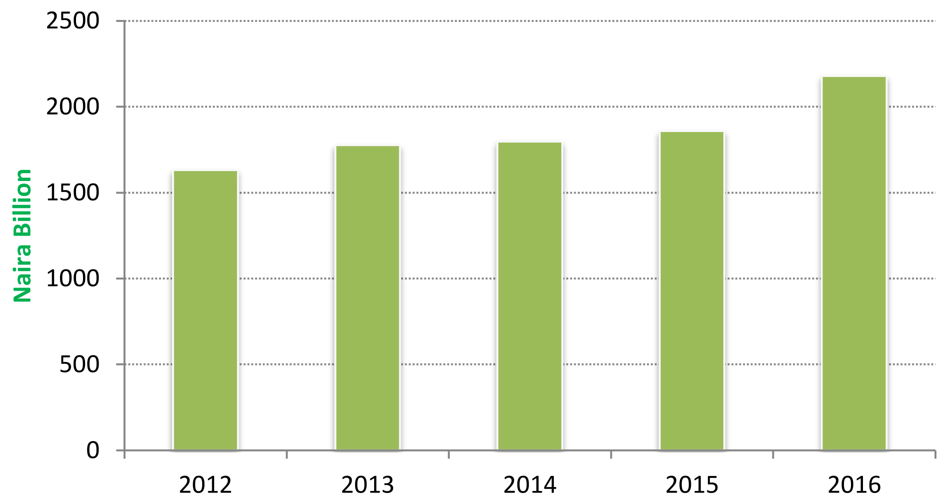
To stem counterfeiting incidences, the Bank instituted a penalty of 200.0 per cent of the value of counterfeit in any bank's deposit. In addition, the offending bank would be required to make-up the value of the counterfeit. The Bank intensified its collaboration with law enforcement agencies to monitor and track perpetrators in addition to sustaining public awareness campaigns on currency security features, proper handling of banknotes and the consequences of illegal sale of new notes.

In line with its sustainable banking principles, the Bank transited from open-air to environmentally-sustainable methods of incineration and recycling of currency waste. Also, the Bank initiated a laboratory examination of the waste in order to avoid associated environmental dangers, reputational risks and consequences of violation of extant environmental laws.

2.2.2 Currency-in-Circulation (CIC)

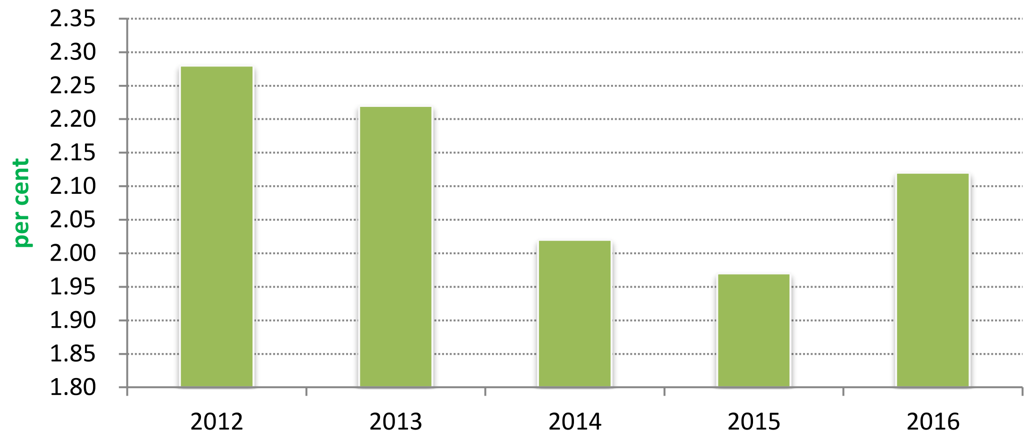
Currency-in-circulation at end-December 2016 stood at ₦2,179.17 billion, representing an increase of 17.29 per cent over the level in 2015. The growth in CIC was due to dominance of cash transaction in the economy. The ratio of CIC to nominal GDP, which measures the moniness of the economy, rose to 2.12 per cent in 2016, compared with 1.97 per cent in 2015. Though the CIC/GDP had shown a consistent decline since 2012 due to the impact of the Bank's cash-less policy, the trend reversed in 2016, as a result of increased cash holdings for speculative activities.

Figure 2.5a: Currency-in-Circulation, 2012 - 2016



Source: CBN

Figure 2.5b: Ratio of Currency-in-Circulation to GDP, 2012 - 2016



Source: CBN

Table 2.4: Currency Structure, 2012 – 2016

	2012		2013		2014		2015		2016	
Coins	Volume (million)	Value (₦ billion)	Volume (million)	Value (₦ billion)	Volume (million)	Value (₦ billion)	Volume (million)	Value (₦ billion)	Volume (million)	Value (₦ billion)
₦2	107.82	0.22	107.5	0.22	107.54	0.22	107.57	0.22	107.71	0.22
₦ 1	616.31	0.62	616.36	0.62	616.46	0.62	616.49	0.62	616.67	0.62
50k	581.07	0.29	579.7	0.29	579.95	0.29	580.07	0.29	580.24	0.29
25k	347.80	0.087	347.8	0.087	348.23	0.087	348.23	0.087	348.23	0.09
10k	315.31	0.032	315.31	0.032	315.55	0.032	315.57	0.032	315.57	0.03
1k	16.70	0.0017	16.7	0.0017	31.24	0.003	31.24	0.003	31.24	0.01
Sub Total	**1,985.01**	**1.25**	**1,983.37**	**1.2507**	**1,998.97**	**1.25**	**1,999.17**		**1,999.66**	**1.26**
Notes										
₦1000	1,071.32	1,071.32	1,133.40	1,133.40	1,068.93	1,068.93	1,011.64	1,011.64	1,224.08	1,224.08
₦500	714.98	357.49	955.88	477.94	1051.75	525.88	1,322.26	661.13	1,453.93	726.96
₦200	605.34	121.07	380.01	76	569.16	113.83	401.63	80.33	559.11	111.82
₦100	355.92	35.59	226.29	22.63	426.34	42.63	558.95	55.89	629.04	62.9
₦50	351.63	17.58	662.04	33.1	327.68	16.38	388.18	19.41	365.27	18.26
₦20	974.93	19.50	1,165.27	23.3	956.74	19.13	1,065.56	21.31	1,189.44	23.79
₦10	546.91	5.47	639.05	6.39	746.02	7.46	549.54	5.49	749.51	7.49
₦5	490.37	2.45	560.58	2.8	496.74	2.48	299.64	1.49	521.58	2.61
Sub-Total	**5,111.40**	**1,630.47**	**5,722.52**	**1,775.56**	**5,643.36**	**1,796.72**	**5,597.40**	**1,856.69**	**6,691.96**	**2,177.91**
Total	**7,096.42**	**1,631.72**	**7,705.89**	**1,776.81**	**7,642.33**	**1,797.97**	**7,596.57**	**1,856.69**	**8,691.62**	**2,179.17**

Source: CBN

2.2.3 The Nigeria Cash Management Scheme (NCMS)

1n 2016, the Bank organised a stakeholders' workshop as part of the implementation of the second phase of the Nigerian Cash Management

Scheme. Consequently, three (3) work streams were constituted, namely: the Clean Note Policy and Cash Holding Model with the responsibility to ensure clean and fit notes; Cash Processing and Shared Infrastructure, to provide oversight in currency sorting, specification, processing and guidelines for Bank Neutral Cash Hubs; and the Centralised Cash Coordination, to confirm NIBSS current capabilities with regard to its role as an industry coordinator.

The Bank in collaboration with NIBSS developed the Cash Activity Reporting Portal (CARP), a dashboard to collate and analyse cash management data for the banking industry.

2.3 FOREIGN EXCHANGE MANAGEMENT

The demand pressure in the foreign exchange market remained in 2016, due to the continued shortage of foreign exchange, induced by lower crude oil export receipts and capital inflow. Thus, the Bank implemented various policies, including retention of the policy on exclusion of 41 items from the inter-bank window to conserve foreign reserves. Furthermore, sale of foreign exchange to Bureau-de-Change (BDC) was discontinued in January 2016. Despite these measures, demand pressure persisted with attendant challenges on the external sector. Consequently, the Bank adopted a more flexible exchange rate system on June 20, 2016 with the merger of the inter-bank and the autonomous segments into a single foreign exchange market – the interbank market. The new system offers greater flexibility in the determination of *exchange* rate of the naira through a 2-way quote system, including introduction of tenored derivatives futures and foreign exchange primary dealers. Following the new regime, the naira depreciated from an average of ₦197.00/US$ in May 2016 to ₦280.00/US$ on June 20, 2016. It further weakened to ₦283.00/US$ at end-June 2016 and ₦305.00/US$ at end-December 2016.

In July 2016, the Bank directed all authorised dealers who were agents to approved International Money Transfer Operators (IMTOs) to sell foreign currency accruing from inward money remittances to licensed BDCs.

Despite these developments, the premium between the interbank and BDC segments widened, averaging 47.1 per cent at end-December 2016 on account of subsisting foreign exchange scarcity. The wide premium triggered additional measures which included: the mandate by the CBN for banks to meet foreign exchange demand of critical sectors of the economy in August 2016, including the importation of raw materials, plant and machinery, and to meet visible and invisible trade obligations. In addition, the Bank resumed the sale of foreign exchange to BDC operators in November 2016.

2.3.1 Foreign Exchange Flows

Aggregate foreign exchange inflow into the economy declined by 37.1 per cent to US$62.75 billion, compared with the level in 2015. A disaggregation showed that inflow through the CBN and autonomous sources were US$21.07 billion and US$41.68 billion, constituting 33.6 and 66.4 per cent respectively, of the total.

Aggregate foreign exchange outflow from the economy decreased by 38.3 per cent to US$25.55 billion. Of this amount, outflow through the CBN was US$23.16 billion, representing 90.6 per cent, while autonomous sources accounted for the balance of US$2.39 billion (9.4 %). Overall, the economy in 2016 recorded a net inflow of US$37.19 billion, compared with US$58.36 billion in 2015.

The inflow through autonomous sources comprised: invisibles, US$38.05 billion; non-oil export receipts by banks, US$3.30 billion; and external account, US$0.33 billion, constituting 91.3 per cent, 7.9 per cent and 0.8 per cent of the total, respectively. Of the invisibles, domiciliary account and over-the-counter (OTC) purchases were US$24.13 billion (63.4%) and US$13.92 billion (36.6%), respectively. A breakdown of OTC purchases showed that capital importation was US$5.11 billion; home remittances, US$0.42 billion; oil companies, US$5.02 billion; and other OTC purchases US$3.37 billion. Outflow through autonomous sources declined by 21.5 per cent to US$2.39 billion, out of which payments for imports and invisibles were US$0.72 billion and US$1.67 billion, respectively.

Foreign exchange inflow and outflow through the CBN fell to US$21.07 billion and US$23.16 billion, respectively, compared with US$33.53 billion and US$38.35 billion, in 2015. Consequently, a net outflow of US$2.10 billion was recorded in 2016, compared with a net outflow of US$4.82 billion in 2015.

A breakdown of foreign exchange inflow through the CBN showed that earnings from crude oil export contracted by 47.2 per cent to US$10.18 billion, below the level in 2015. The development was attributed to lower crude oil prices and decreased production. Similarly, the non-oil component of the inflow through the Bank fell by 23.7 per cent to US$10.89 billion in 2016, below the level in the preceding year. The development was due to the reduction in swap contracts and other official receipts, which fell by 27.9 per cent and 22.6 per cent, below the respective levels in 2015.

Foreign exchange outflow through the CBN declined to US$23.16 billion, compared with US$38.35 billion in the preceding year. This was attributed mainly to reduced intervention in the inter-bank segment and discontinued foreign exchange sales to BDC operators.

A disaggregation of foreign exchange funding of the market indicated that inter-bank Forwards amounted to US$4.17 billion; inter-bank sales, US$6.30 billion; BDC sales, US$0.06 billion; and matured swaps contract US$5.29 billion. Payment for National Independent Priority Projects (NIPP) amounted to US$0.03 billion, external debt service, US$0.35 billion; letters of credit (L/Cs), US$0.15 billion; and bank charges, US$0.52 million.

Other official payments, however, rose by 20.8 per cent to US$4.38 billion, owing to increased funding for the Nigerian National Petroleum Corporation/Joint Venture (NNPC/JVC) Cash calls by 66.0 per cent to US$3.00 billion. Similarly, 3rd party MDA transfers and funds returned to remitters at US$2.10 billion and

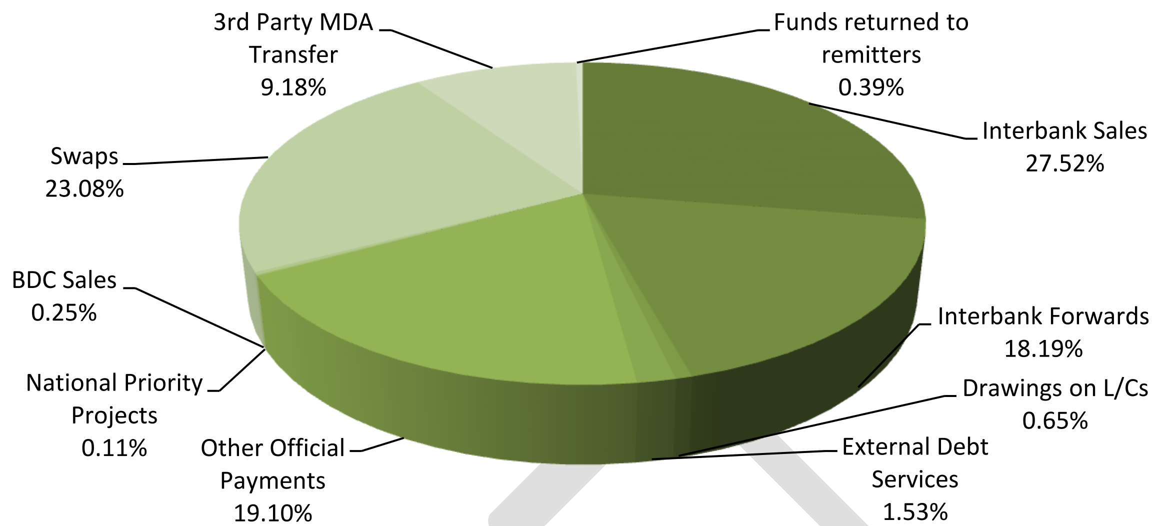
US$0.10 billion, respectively, increased by 266.3 and 15.2 per cent, from the levels in 2015. Foreign exchange flow through CBN recorded a net outflow of US$2.10 billion, a fall of 56.5 per cent, compared with the level in 2015.

Table 2.5: Foreign Exchange Flows Through the Economy (US$' Million), 2015 – 2016

FOREIGN EXCHANGE FLOWS	2015 /2	2016 /1
INFLOW THROUGH THE ECONOMY	99,755.14	62,748.56
A. Inflow through the CBN	33,529.46	21,066.19
1. Oil	19,271.40	10,180.49
2. Non-oil	14,258.06	10,885.70
B. Through Autonomous Sources	66,225.68	41,682.36
1. Non-oil Export Receipts by banks	4,365.95	3,298.47
2. Capital Inflow	83.64	331.81
3. Invisibles Purchases	61,776.08	38,052.08
OUTFLOW THROUGH THE ECONOMY	41,397.15	25,553.60
A. Through the CBN	38,351.96	23,164.19
1. rDAS Utilisation	33,332.45	15,818.33
(I) wDAS/rDAS Sales	3,184.55	-
(II)Inter-bank-FWD	2,944.12	4,167.66
(III) BDC Sales	3,943.22	58.42
(IV) Inter-bank Sales	18,310.57	6,304.60
(V) Swaps	4,950.00	5,287.65
(VI) Invisibles IFEM	-	-
2. Drawings on L/Cs	249.75	149.75
3. External Debt Service	369.58	351.15
4. National Independent Priority Projects (NIPP)	124.29	25.16
5. Forex Special Payment (Cash Swaps/Fx Advance/To MDAs)		252.74
6. Other Official Payments	3,623.47	4,375.38
7. Bank Charges	0.66	0.52
8. NSIA Transfers	-	-
9. Funds Returned to Remitters	78.10	89.98
10. 3rd Party MDA Transfers	573.67	2,101.18
B. Through Autonomous Sources	3,045.19	2,389.41
1. Imports	689.56	720.37
2. Invisibles	2,355.62	1,669.04
NET FLOW THROUGH THE CBN	(4,822.50)	(2,098.00)
NET FLOW	58,357.99	37,194.95

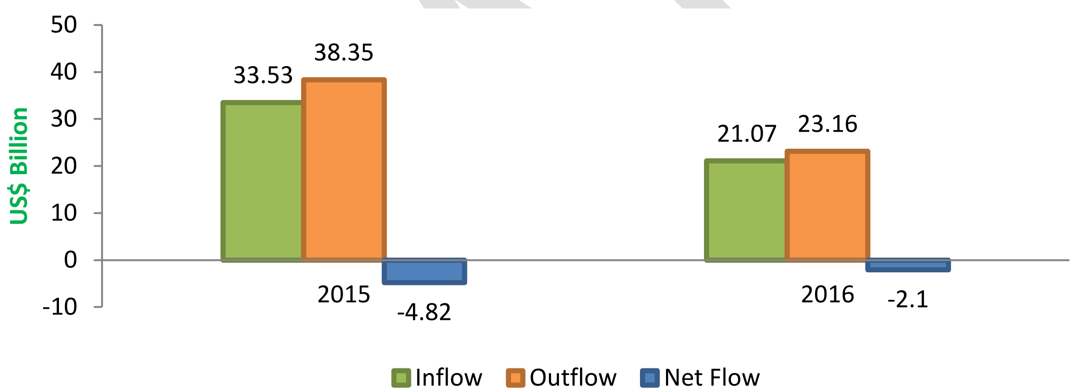
1/ Provisional
2/ Revised
Source: CBN

Figure 2.6: Foreign Exchange Disbursement through the CBN, 2016 (US$' Billion)



Source: CBN

Figure 2.7: Foreign Exchange Flows through the CBN, 2015-2016 (US$'billion)



Source: CBN

2.3.2 Developments in the Foreign Exchange Market

In 2016, the foreign exchange market witnessed liquidity constraints which precipitated immense foreign exchange market pressure. The Bank adopted various policies to promote stability in the foreign exchange market. Among which included the adoption of a flexible exchange rate regime, introduction of derivative; futures and forwards of various tenors as well as the foreign exchange primary dealers to deepen the foreign exchange market.

2

MONETARY POLICY, SURVEILLANCE ACTIVITIES AND OPERATIONS OF THE CBN

Activities at the foreign exchange market showed that the amount of foreign exchange disbursed by the Bank for matured forwards contracts and swaps transactions rose by 41.6 and 6.8 per cent to US$4.17 billion and US$5.29 billion, respectively, when compared with the levels in 2015. However, interbank sales fell by 65.6 per cent to US$6.30 billion relative to the level in the preceding period. Foreign exchange sales to BDC operators also contracted to US$0.06 billion, against US$3.94 billion in 2015. Overall, the total supply of foreign exchange by the Bank decreased by 52.5 per cent to US$15.82 billion, when compared with US$33.33 billion recorded in 2015.

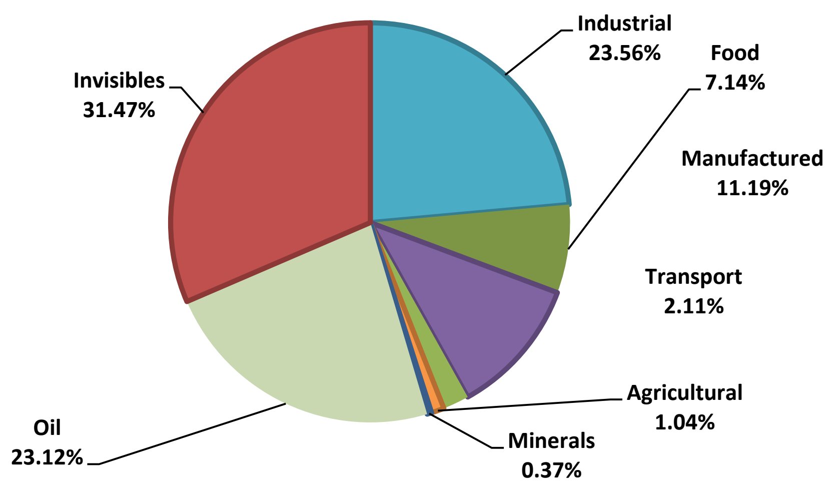
2.3.3 Sectoral Utilisation of Foreign Exchange

Aggregate foreign exchange utilisation fell by 41.6 per cent to US$25.19 billion in 2016. Visible import declined by 30.8 per cent from US$24.95 billion in 2015 to US$17.26 billion, and accounted for 68.5 per cent of the total. Foreign exchange utilisation for invisible trade also fell by 56.4 per cent to US$7.93 billion in 2016 and accounted for 31.5 per cent of the total.

A breakdown of visible trade import showed that foreign exchange utilisation in the minerals, food products, and transport sub-sector fell by 76.4 per cent, 47.5 per cent, and 42.0, per cent, respectively, to US$0.93 billion, US$1.80 billion, and US$0.53 billion, in 2016. Similarly, foreign exchange utilised by manufacturing, oil, and industrial sectors fell by 28.4, 27.8 and 25.1 per cent to US$2.82 billion, US$5.82 billion and US$5.93 billion, respectively, in 2016, from the levels in 2015. Foreign exchange utilisation for agricultural sector import fell by 5.1 per cent to US$0.26 billion in 2016.

A disaggregation of invisible import showed that foreign exchange utilisation for the financial services sector, which accounted for 75.6 per cent of the total, declined by 58.1 per cent to US$6.00 billion in 2016. Also, foreign exchange utilised by construction and other related engineering services, tourism and travel related services, communications and other-services sub- sector dropped by 99.5 per cent, 90.2 per cent, 84.9 per cent and 70.6 per cent to US$0.26 million, US$0.02 billion, US$0.11 billion, and US$0.09 billion, respectively, compared with the levels in the preceding year. Similarly, payments for distribution; recreational, cultural and sporting; business; transport; health and educational services fell by 68.7 per cent, 67.8 per cent, 42.5 per cent, 30.0 per cent, 27.6 and 26.0 per cent to US$0.01 billion, US$0.01 million, US$0.64 billion, US$0.62 billion, US$4.1 million and US$0.43 billion, respectively, from the levels in 2015.

Figure 2.8: Sectoral Utilisation of Foreign Exchange, 2016

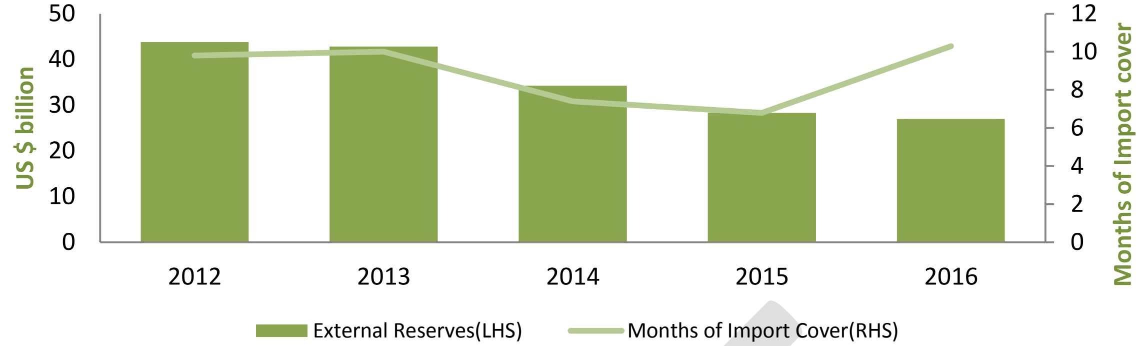


Source: CBN

2.3.4 External Reserves Management

External reserves at end-December 2016 stood at US$26.99 billion, a decline of US$1.30 billion, or 4.6 per cent, compared with the position at end-December 2015. The development was due, largely, to the contraction in oil- related revenues, reinforced by the increase in Joint Venture Cash (JVC) calls in the first half of the year. Receipts from non-oil exports and inter-bank swap transactions also dropped in the review period.

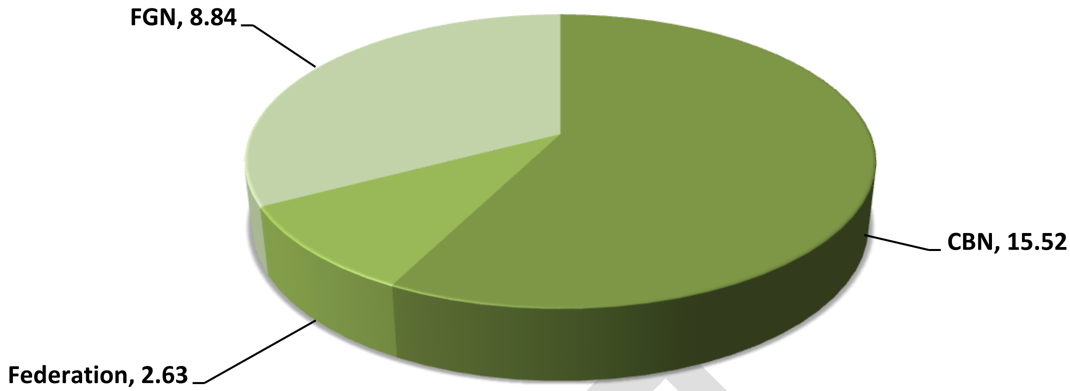
Figure 2.9: Gross External Reserves Position and Months of Import Cover, 2012 – 2016



Source: CBN

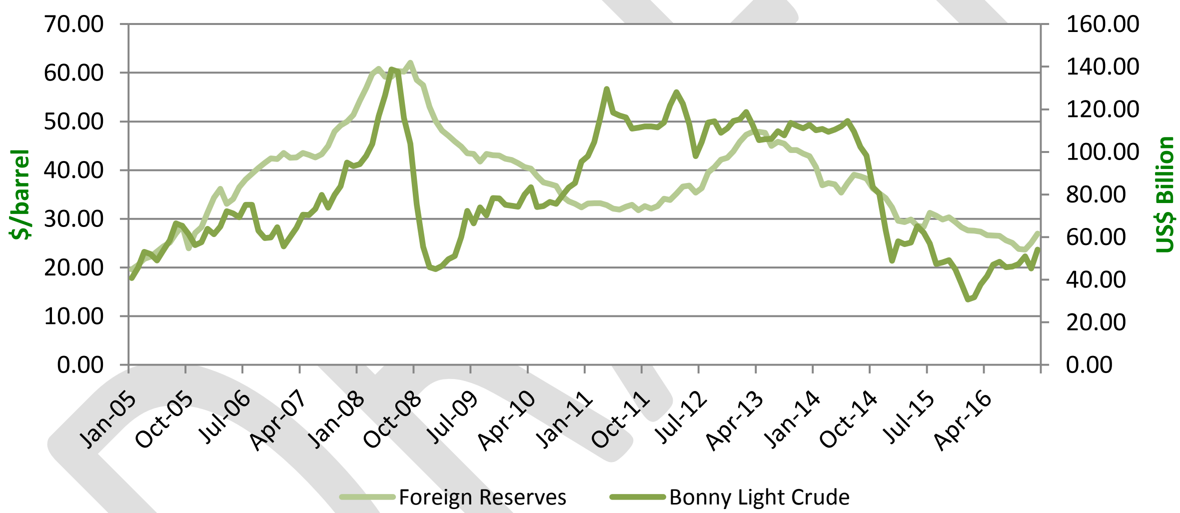
A decomposition of external reserves by ownership showed that the share of the CBN, Federal Government and the Federation Account stood at US$15.52 billion, US$8.84 billion and US$2.63 billion, representing 57.5 per cent, 32.8 per cent and 9.7 per cent, of the total, respectively, at end-December 2016. The Federation Government and the federation portions of the external reserves rose by 39.5 and 7.3 per cent to US$8.84 billion and US$2.63 billion, compared with the level recorded at end-December, 2015. The increase in the Federation portion was as a result of enhanced excess crude savings in 2016. The Federal Government portion rose on account of the increased foreign exchange proceeds from MDA's and LNG/NNPC operations following implementation of the Treasury Single Account. The external reserves could finance 9.2 months of import (goods) and 6.9 months (goods and services) at end-December 2016, compared with 6.5 months of import (goods) and 4.7 months (goods and services) at end-December 2015 position.

Figure 2.10: Holdings of External Reserves at end-December, 2016 (US$ Billion)



Source: CBN

Figure 2.11: External Reserves Position and Crude Oil Price



Source: CBN

The income earned from the management of external reserves stood at ₦43.40 billion (US$220.88 million), 24.5 per cent above the budgeted amount of ₦34.85 billion in the review period. This represented an increase of ₦7.48 billion or 20.8 per cent above the ₦35.92 billion recorded in 2015. The positive variance was due, largely, to the exchange rate differential between the budgeted figure of ₦196.5/US$1 and the actual rate of ₦304.5/US$1, as a result of the more flexible exchange rate policy adopted in June 2016.

The Bank, under its external asset management programme, continued with the Master Securities Lending Agreement signed in 2014 with the Global Custodian, J. P. Morgan, to participate in its securities lending programme. The Custodian was allowed to lend the securities purchased by the Fund Managers to eligible borrowers in accordance with pre-defined guidelines. The total earnings from securities lending operations since the inception of the programme in December 2007 to December 2016 amounted to US$58.88 million. Of this, US$1.36 million was earned in 2016, an increase of US$0.11 million, or 8.8 per cent, compared with US$1.25 million in 2015.

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

The bank strengthened its supervisory and surveillance activities to sustain the safety, soundness and stability of banking institutions and promote public confidence in the Nigerian banking system.

2 .4 SURVEILLANCE OF THE ACTIVITIES OF FINANCIAL INSTITUTIONS

2.4.1 Banking Supervision

The Bank strengthened its supervisory and surveillance activities in 2016 to sustain the safety, soundness and stability of banking institutions and promote public confidence in the Nigerian banking system. In addition to the use of risk-based supervision approach, the Bank relied on provisions of extant laws and regulations, including issuance of supervisory letters, guidelines and circulars to ensure efficiency in the performance of its regulatory functions.

The Bank continued to subject the eight (8) banks designated as domestic systematically important banks (D-SIBs) to enhanced regulation. At end-December 2016, the banks accounted for ₦20.87 trillion or 69.1 per cent of the industry total assets, ₦13.04 trillion or 70.3 per cent of total industry deposits and ₦11.76 trillion or 72.2 per cent of industry gross loans. Though four of the banks recorded NPL ratios above the regulatory limit of 5.0 per cent, due to the general downturn in the economy, report of the supervision showed that they, largely, met CBN's regulatory requirements on Capital Adequacy and Liquidity in 2016. The Bank was, however, working with the affected D-SIBs to ensure that supervisory concerns were addressed.

Similarly, following the fundamental deficiencies in the Recovery and Resolution Plans (RRP) submitted by the D-SIBs, the Bank, in conjunction with the Nigeria Deposit Insurance Corporation (NDIC), issued guidelines on the "Minimum Content for Recovery Plans and Requirements for Resolution Planning for D-SIBs". The Guidelines required D-SIBs to include recovery plan as an integral part of their risk management framework and, therefore, should include:

- Clearly identified critical functions and services that aid the smooth functioning of the financial system and impact financial stability, to serve as basis for the assessment of the degree of substitutability of the critical services/functions and interconnectedness of the institution;

- Stress test scenarios which might impinge on the bank's ability to provide critical services and core business lines on an ongoing basis. This would provide basis for assessing the impact of the scenarios on capital, liquidity, profitability and asset quality;

- Comprehensive range of actionable recovery options to remedy financial weaknesses and maintain market confidence, including potential obstacles to implementation and impact assessment;

- Evidence of the involvement of the Board of Directors and other appropriate senior governance committee in the review and approval of the plan; and
- Submission of a Resolution Plan with detailed information on the corporate structure of the D-SIBs and their critical functions/services in the economy to assist the resolution authorities in designing resolution strategy for the bank, in the event of failure.

Accordingly, D-SIBs were scheduled to submit more robust RRPs for review in the first half of 2017.

As part of the supervisory review and evaluation process of the Basel II requirement, the CBN engaged banks for the initial review of banks' internal Capital Adequacy Assessment Process (ICAAP) and on-site validation. The review showed that most banks adopted specified regulatory approaches for capital estimation in respect of credit, market and operational risks and, simple approaches for other material risks. Other banks, however, applied internal models to estimate the required capital charges for identified material risks. Overall, the engagement provided the platform for supervisors to better understand banks' risks and capital management system as well as capacity building needs in the industry.

Following extensive engagement with banks and their external auditors, the CBN issued the Guidance Note for the implementation of the IFRS 9 on financial instruments. The Note, which would take effect from January 1, 2018, provided clarifications on CBN's expectations on banks' judgement in the following areas: determination of significant increase in credit risk and staging/transfer criteria; use of low credit risk simplification; write-off of non-performing exposures; and modified/restructured financial asset. The Note required banks to fully disclose all modified financial assets that result in de-recognition in its financial statements, in line with the requirements of IFRS. The banks were also required to submit quarterly returns effective 1st quarter of 2018, on all financial assets de-recognised, due to modification, within 10 days of the end of the quarter.

In collaboration with the Islamic Financial Services Board (IFSB), the Bank held a workshop in February 2016 for regulators and operators in the Non-Interest Finance industry. The workshop was aimed at facilitating the implementation of IFSB Standards 15 and 16 on "Revised Capital Adequacy Standard for Institutions Offering Islamic Financial Services" and "Revised Guidance on Key Elements in the Supervisory Review Process of Institutions Offering Islamic Financial Services". Similarly, the Bank coordinated two (2) meetings of the Financial Regulation Advisory Council of Experts (FRACE) in 2016, and an interactive session between members of the FRACE and Advisory Committee of Experts (ACE) of Non-Interest Financial Institutions (NIFIs) operating in Nigeria.

The CBN participated in the meetings of the Governing Board (GB), the Board Executive Committee (BEC), Compensation and Remuneration Committee (CRC) and other Working Groups of the International Islamic Liquidity Management Corporation (IILM) and Islamic Financial Services Board (IFSB). At its 17th meeting held on December 16, 2016 at Jakarta, Indonesia, the GB of the IILM approved the appointment of the Governor of the Central Bank of Nigeria as the Chairman of the IILM for the year 2017. Thus, the next GB meeting was scheduled to hold in Nigeria on May 11, 2017.

The credit risk management system (CRMS) remained a veritable source and platform for managing credit information in the banking industry. At end-December 2016, the number of borrowers of ₦1.0 million and above, registered on the CRMS database stood at 221,822, indicating a 40.8 per cent increase over 157,501 in 2015. Similarly, the number of borrowers with outstanding facilities rose by 69.1 per cent to 104,126, compared with 61,580 in 2015. Furthermore, following increased compliance by banks, the number of credit facilities in the database rose significantly by 50.7 per cent to 181,987 at end-December 2016.

In the review period, the redesigned CRMS was extended to include Other Financial Institutions (OFIs) and create a process for identification of predatory borrowers to ensure transparency and credibility of data on industry debt profile. The new platform would go-live in the first quarter of 2017.

Table 2.6: Borrowers from the Banking Sector

Description	2015	2016	Absolute Change	% Change
Total No. of Borrowers	157,501	221,822	64,321	40.8
No. of Borrowers with outstanding credit	61,580	104,126	42,546	69.1
No. of Credit/facilities	120,750	181,987	61,237	50.7

Source: CBN CRMS

The three (3) private credit bureaux (PCBs) continued to complement the CRMS in credit administration through provision of timely and reliable credit information for credit providers. At end-December 2016, the cumulative number of institutional subscribers to the three PCBs stood at 1,348, compared with 1,102 in 2015. The average number of records in the database of the PCBs was 46.8 million, reflecting an increase of 1.0 million records over the 45.8 million recorded in 2015. Similarly, the number of borrowers rose from 26.7 million in 2015 to 27.2 million at end-December 2016. The development was attributed to the successful on-boarding of microfinance banks and finance companies in the services of the PCBs.

The Bank conducted a top-down solvency and liquidity management appraisal of the Banking system to assess the resilience of banks to systemic risks and soundness of the financial system, in 2016. Also, the banks carried out bottom-up solvency stress tests to evaluate the vulnerability and soundness of the institutions. Furthermore, to improve analytical strength of the process, the Bank commenced a review of the stress test models in line with recent advancement in the modelling techniques. As at end-December 2016, the macroprudential framework developed for the CBN was awaiting management approval.

In collaboration with other regulators within the financial system, the Bank, under the auspices of the Financial Services Regulation Coordinating Committee (FSRCC), conducted consolidated examination of the First Bank of Nigeria (FBN) and FCMB Groups. The exercise was aimed at assessing the Groups' safety and soundness, as well as the degree of compliance with statutory requirements and regulators' directives. Arrangements were being made to conduct consolidated examination of other financial groups without banking institutions. The process, anchored on the risk-based supervisory approach, involved pre-examination planning meeting, knowledge of business (KOB) and Risk Assessment Summary (RAS) sessions, solo examination of entities in the Group, report writing, solo examination reports consolidation and quality assurance session.

Following the workshop organised for Board members of the FSRCC member agencies in partnership with the United Nations Environment Programme Finance Initiative (UNEP-FI), the Harmonisation and Coordination Sub-Committee (HCSC) of the FSRCC developed the Nigerian Sustainable Finance Principles (NSFP). To achieve full implementation of the NSFP roadmap, each agency was expected to set-up a steering committee to develop sector-specific Sustainability Principles and Guidelines by November 28, 2018.

The Bank continued to implement various initiatives in the other financial institutions sub-sector to further strengthen and ensure the soundness of the institutions. Following the launch of the Regulatory and Supervisory Guidelines for Development Finance Institutions in Nigeria, one (1) DFI was issued the final licence, while two (2) applications were being processed. In addition, the CBN also processed the license for a Wholesale DFI (WDFI), the Development Bank of Nigeria (DBN), which had commenced recruitment of key management staff.

As part of the effort to further reposition the BDCs, the Bank introduced the following measures:

- Suspension of the sale of foreign exchange to BDCs;
- Refund of the mandatory caution deposit of ₦35 million to all BDC operators;
- Retention of ₦1 million licensing fee;
- Revision of the Guidelines for the operation of the Nigerian Inter-bank Foreign Exchange Market; and
- Commencement of the sale of foreign exchange to BDCs by international money transfers operators.

Results of the Microfinance Certification Programme (MCP) showed that 689 candidates completed the Level II certification in the review year, bringing the cumulative number of duly certified candidates to 3,899 at end-December 2016. Also, an implementation strategy meeting was held on the need to adopt emerging products/services and ensure full participation of the non-bank microfinance institution (MFI) operators, including financial cooperative societies, in the existing capacity building programme. Other issues included:

- Modalities for the revision of the MCP curriculum to incorporate emerging microfinance products and services particularly, the rural business plan (RBP); agent banking; agricultural and housing microfinance;

- Requirement to operationalise the capacity enhancement exercise for the Training Services Providers (TSPs) under the MCP;

- Risk control measures to be adopted before accessing the Micro Small and Medium Enterprise Development Fund (MSMEDF); and

- Budget implementation framework, including deliverables and timelines.

Furthermore, a 5-day Train the Trainers (TOT) workshop, sponsored by Rural Finance Institution Building Programme (RUFIN) was held in Lagos, Owerri and Kaduna for the 24 Microfinance Training Service Providers, ten (10) CBN

Examiners and other stakeholders from the CIBN, National Association of Microfinance Banks (NAMB), Association of Non-Bank Microfinance Institutions (ANMFIN) and Cooperative Colleges. Other initiatives included the continuation of the enrollment of OFI customers on BVN to deepen the Know-Your-Customer (KYC) policy and complement the activities of credit bureaux towards the improvement of credit risk management operations in the financial system. Also, a joint RUFIN/CBN sponsored peer review forum for microfinance banks was held in the review year. Feedback from the Forum indicated the need to broaden the number of participating institutions and increase the frequency of meetings.

2.4.2 Prudential Review and Examination

A review of banks' prudential ratios showed that the industry average capital adequacy ratio (CAR) was 14.8 per cent, compared with the 17.7 per cent at end-December 2015. The decline in the CAR was attributed to higher rate of increase in risk weighted assets, compared with the increase in qualifying capital of banks. Similarly, the industry average liquidity ratio (LR) fell from 48.6 per cent in 2015 to 43.9 per cent at end-December 2016, but was above the regulatory minimum of 30.0 per cent by 13.9 percentage points. The quality of bank assets, in terms of non-performing loans ratio (NPL), further deteriorated, as it increased from 4.9 per cent in 2015, to 12.8 per cent at end-December 2016. At this level, the industry NPL ratio was significantly above the maximum regulatory threshold of 5.0 per cent. The development was attributed, largely, to the adverse effect of economic downturn.

2.4.3 Corporate Governance in the Nigerian Financial Services Industry

The Bank continued with the development of the Code of Corporate Governance for other financial institutions in Nigeria in 2016, aimed at strengthening board oversight and enhancing compliance with extant laws, regulations and best practices. The Bank also engaged relevant stakeholders to finalise the Code.

2.4.4 Financial Crimes Surveillance/Anti-Money Laundering

The Bank partícpated in the maiden ML/FT National Risk Assessment exercise coordinated by the Nigeria Financial Intelligence Unit (NFIU). Following the collation of stakeholders' comments, the final report was expected to be ready in 2017. Similarly, the Bank particpated in the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) plenaries held in Cape Verde and Senegal. Also, the Bank, in compliance with the financial action task force (FATF) Recommendations 2 & 40, particpated in the meetings of the Inter-Ministerial Committee for coordination of the Nigeria AML/CFT regime.

As part of the measures to promote compliance with extant regulations, the CBN directed all banks to appoint a Chief Compliance Officer (CCO) and an Executive Compliance Officer (ECO) not below the rank of general manager and executive director, respectively. The CCO would report to the ECO, while the ECO would report to the Board of Directors.

Following representations by stakeholders for review of the limits and restrictions on the operations of Tiers I and II accounts, the CBN reviewed the transaction limits on accounts in 2016. Consequently, the transaction limits on Tier I and II accounts were increased to single deposit of ₦50,000 and ₦100,000 and cumulative balance of ₦300,000 and ₦500,000, respectively.

The CBN constituted a Committee to study the nature and dimensions of the virtual currency (VC) phenomenon in Nigeria and its implications for the financial sector and the economy. The Committee was also expected to review contemporary developments around the world with a view to leveraging on country experiences and developing regulatory framework and roadmap for implementation of VCs. It was also expected to identify and collaborate with relevant stakeholders towards the effective implementation of the framework in Nigeria. The report of the Committee was being considered by the Management of the Bank.

Furthermore, the Bank conducted an assessment of banks' operations under subsisting AML/CFT Laws and Regulations. The exercise, which involved a review of the AML/CFT policies, procedures and risk management practices of the banks, revealed several lapses, including: failure to report suspicious transactions by customers, transactions of Politically Exposed Persons (PEP) and their relations; failure to implement enhanced due diligence in respect of high risk customers; poor/incomplete rendition of returns; and breach of regulatory threshold in respect of the Three Tiered Know-Your-Customer (KYC) policy. Similarly, the Bank conducted special investigations into infractions of KYC and money laundering regulations. Accordingly, appropriate penalties were imposed on erring banks.

2.4.5 Routine/Special/ Target Examinations

The CBN/NDIC Joint Risk Assets Assessment (Target Examination) of all the banks was conducted to review bank's income, quality of risk assets and adequacy of loan loss provisions. The exercise was conducted as part of the consideration and approval of Bank's 2015 Annual Report for publication. Similarly, the CBN/NDIC Joint Risk Based examination of twelve (12) banks in the "High" and "Above Average" and ten (10) banks in the "Low" and "Medium" Composite Risk Rating categories was conducted. Also, a joint routine examination by CBN and NDIC was carried out on one (1) non-interest bank, two (2) non-interest windows and one (1) discount house. The exercise showed decline in the Capital Adequacy Ratio (CAR) of some banks, a reflection of the impact of the challenging macroeconomic conditions. Accordingly, the Bank triggered a series of countercyclical prudential measures to curb continuous deterioration in the health of banks. Furthermore, to determine level of compliance, the Bank monitored the implementation of recommendations made in the reports of the 2015 risk-based supervision, money laundering and foreign exchange examinations.

The CBN conducted special investigation to assess the inability of banks to redeem due foreign credit facilities provided by foreign banks for Letters of Credit (LCs). The exercise involved review of the treatment of un-negotiated LCs in the computation of Foreign Currency Trading Position and foreign exchange loss on transactions for which importers were unable to source foreign exchange from the inter-bank window. The investigation revealed large volumes of LCs negotiated by banks based on foreign credit lines and own funds, which were expected to be refinanced from the inter-bank window, but remained outstanding in 2015. To capture and effectively monitor activities of all International Money Transfer Operators (IMTO) and ensure repatriation of export proceeds, the CBN conducted spot checks to identify and track operations of hidden IMTO and export transactions.

The Bank carried out routine RBS examination of two (2) merchant banks (MBs) and the maiden examination of two (2) others, to assess the safety and soundness of the banks, as well as their level of compliance with extant rules and regulations. Apart from a few identified corporate governance and risk management issues, which the CBN had engaged the banks to facilitate resolution, report of the exercise revealed substantial compliance.

Also, the CBN conducted a routine examination of the activities of the Asset Management Corporation of Nigeria (AMCON) to review the management of acquired and restructured Eligible Bank Assets (EBAs), recoveries, asset disposal process and the Corporation's strategy for redemption of liabilities. Subsequently, a Supervisory Letter was issued to the Corporation for implementation of the recommendations. Similarly, the CBN, in conjunction with other members of the Financial Services Regulation Coordinating Committee (FSRCC), conducted risk-based examination of three (3) financial holding companies (FHs). Following the conclusion of the exercise, the CBN issued consolidated reports for two (2) FHCs, while that of the third was being finalised.

Similarly, routine examinations were conducted on some Nigerian banks' off-shore subsidiaries in collaboration with host supervisors in West Africa and other African countries. Furthermore, the CBN participated in the Association of African Central Banks (AACB) Seminar on Cross-Border Banking Supervision held in Cape Town, South Africa from January 24 – 26, 2016. The Seminar focused on enhancing the practice of cross-border banking supervision and improving participants' leadership skills. In the same vein, the Bank attended the 11th Basel Committee on Banking Supervision - Financial Stability Institute (BCBS-FSI) High Level meeting for Africa, held in Cape Town, South Africa from February 4-5, 2016. The meeting was on "Strengthening Financial Sector Supervision and Current Regulatory Priorities". Also, four (4) meetings of the College of Supervisors for the West African Monetary Zone (CSWAMZ) were held in Ghana and Guinea to deliberate on issues requiring supervisory cooperation in the Zone.

The Bank hosted the 9th Meeting of the Financial Stability Board Regional Consultative Group for Sub-saharan Africa (FSB-RCG-SSA) in May 2016. The FSB-RCG-SSA group is an association of central banks in the SSA region with the objective of articulating the position of central banks of SSA for consideration by the Financial Stability Board (FSB) in the formulation of the Board's policies and standards. The Meeting provided a platform for SSA countries to exchange views and share experiences on vulnerabilities affecting the financial systems and initiatives to promote financial stability.

Also, the CBN hosted regulators from 11 African countries at the 3rd meeting of UBA College of Supervisors held from July 18 -19, 2016. The meeting reviewed the risk profile of UBA Group and its level of compliance with regulations in the various jurisdictions. A memorandum of understanding (MoU) for the College was reviewed at the meeting. In a similar development, two (2) memoranda of understanding (MoUs) were signed during the annual meeting of the Association of African Central Banks (AACB) held in Abuja, Nigeria, in August 2016. The meeting was attended by Bank of Central African States (BEAC) and the Banking Commission of Central African States (COBAC).

2.4.6 Foreign Exchange Monitoring/Examination

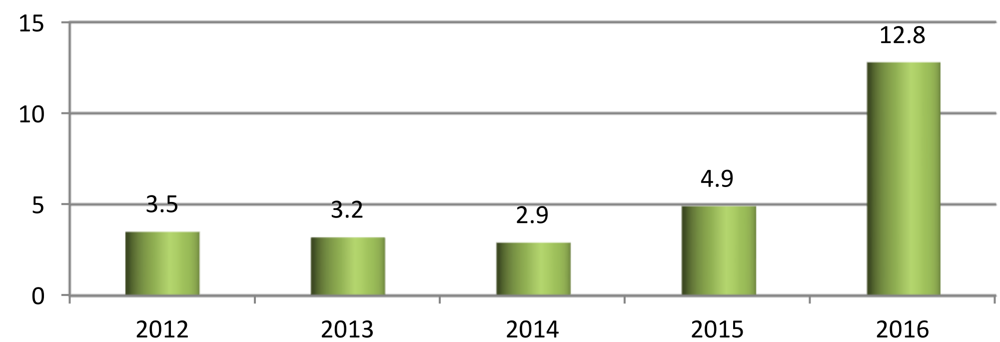
In the light of the persistent foreign exchange challenges, the Bank conducted two (2) routine examinations to review foreign exchange activities of the twenty-four (24) banks for periods ending March, 2016 and September, 2016. The examinations revealed a number of infractions including: breaches in CBN approved Net Open Position (NOP) and Foreign Currency Trading Position (FCTP) limits; failure by exporters to repatriate export proceeds within stipulated time; and inappropriate International Money Transfer activities by some authorised dealers. Other breaches were, funding of short tenored forwards from CBN longer tenored forwards, non-submission of exchange control documents by oil and non-oil importers, after 30 and 90 days, respectively, of negotiating shipping documents as well as non-compliance with the CBN directive on the disbursement of 60 per cent of available foreign exchange for importation of raw materials, plant and machinery. Accordingly, the findings and remedial actions were communicated to the authorised dealers and appropriate sanctions applied.

Also, spot checks and ad-hoc reviews were conducted on the foreign exchange activities of banks to curb malpractices and mitigate the impact of imbalances in the foreign exchange market.

2.4.7 Banking Sector Soundness

The health of banks was negatively impacted in 2016 by the challenging business and macroeconomic environment. The industry asset quality, measured by the ratio of non-performing loans to industry total, deteriorated further to 12.8 per cent and was above both the benchmark of 5.0 per cent and 4.8 per cent recorded at end-December 2015. The industry average CAR for banks stood at 14.8 per cent in 2016, compared with the average of 17.7 per cent at end-December 2015 and the 10.0 and 15.0 per cent benchmarks for banks with national and international authorisation, respectively. The average industry liquidity ratio was 44.0 per cent and above the prescribed minimum of 30.0 per cent by 14.0 percentage points, but fell below the 48.6 per cent in 2015.

Figure 2.12: Banks' Non-Performing Loans, 2012- 2016 (% of Total Credit)



Source: CBN

2.4.8 Examination of Other Financial Institutions

The Bank conducted on-site examinations of 944 Other Financial Institutions (OFIs) in 2016, compared with 821 in the preceding year. The exercise involved routine risk-based supervision/special examination of 6 development finance institutions (DFIs), 838 microfinance banks (MFBs), 34 primary mortgage banks (PMBs) and 66 finance companies (FCs).

Prior to the placement of one (1) DFI in liquidation, routine risk-based examination of the six (6) DFIs was conducted in 2016. The examination revealed that the Composite Risk Rating of two (2) of the institutions was "High", three (3) "Above Average", and one (1) "Moderate". Earnings of one (1) institution was rated "acceptable", one (1) "need improvement", while the remaining four were rated "weak", arising, mainly, from significant deterioration in asset quality and high provisions for loan losses. The capital ratings for the six (6) institutions were "strong" for two (2), and "weak" for the remaining four (4). Similarly, prudential and soundness analysis of the DFIs revealed that two (2) of the institutions met the regulatory capital adequacy ratios (CAR), while (4) had negative adjusted capital and CAR. All the DFIs had non-performing loan (NPL) ratios above the stipulated regulatory maximum of 5.0 per cent. Other regulatory challenges confronting the DFIs included:

- Inappropriate business enterprise model;
- Weak capital base and restricted access to stable long-term funding;
- Weak credit administration leading to poor asset quality and eventual depletion of capital;
- High operating costs leading to recurring operating losses and erosion of capital;
- Weak corporate governance issues and poor internal controls as well as poor risk management framework; and
- Difficulty in balancing profit and developmental objectives.

A total of 838 microfinance banks (MFBs) were examined in 2016. The exercise comprised 669 risk-based examinations and 169 target examinations. Prudential analysis of the reports were being finalised for appropriate regulatory interventions.

Of the 34 licensed primary mortgage banks (PMBs) in operation, the Bank conducted routine examination on 24 using risk-based methodology, while target examination was conducted on others. Existence check was also carried out on nine (9) PMBs, whose licences were earlier recommended for revocation. The revocation process was being concluded for ratification by the Board and transmission to NDIC for liquidation.

In line with the ongoing reform of finance companies, the CBN conducted target examination of 66 finance companies to determine the level of compliance with the prescribed minimum capital of ₦100 million, following expiration of the December 31, 2015 deadline for capitalisation. Reports of the examinations revealed that 40 finance companies met the new capital requirement. Nine (9) other companies were granted 90 days extension to make up for the shortfall in capital, while the licences of thirteen (13) FCs that appeared incapable of meeting the new capital requirement were recommended for revocation.

A finance company with a case pending with the EFCC was approved to be retained on the list of finance companies pending the determination of the cases against the promoters, while the licences of eight (8) other companies were also approved for revocation for reasons, including voluntary surrendering of licences, insolvency and discontinuation of finance company business. Also, the Bank approved the appointment of liquidators to wind up the activities of all the institutions approved for revocation and publication of the names in the Federal Gazette. Capital Verification exercise was also conducted on nine (9) institutions, comprising three (3) FCs that had earlier met the new regulatory capital from inception but had their capital eroded by losses, and additional six (6) institutions that required more time to meet the new capital. Report of the special examination was being finalised for Management approval.

The Nigeria Mortgage Refinance Company (NMRC) was examined in the year and retained its "Moderate" composite risk rating as in 2015, while its Capital and Earnings were both rated Acceptable.

2.4.9 Financial Literacy and Consumer Protection

In line with the implementation priorities of the National Financial Literacy Strategy, the Bank collaborated with the Nigerian Educational Research and Development Council (NERDC) and other development partners on a number of activities. Also, the Bank developed a stand-alone curriculum for Basic and Senior Secondary Schools and conducted workshops to review and consider the inclusion of the existing subjects into the Curriculum.

In respect of financial literacy advocacy, the Bank commemorated the Global Money Week (GMW) in conjunction with Mercy Corps and Junior Achievement Nigeria. Some of the activities carried out to mark the week included the Global Money Walk, financial literacy quiz and exhibition, and the School Reach-Out/ Mentoring programme in Gombe, Enugu, Ebonyi, Bauchi, Nasarawa and Taraba states and the Federal Capital Territory. The mentoring programme, coordinated by Branch Controllers in the various states, involved direct education of pupils and students on the importance of developing a savings habit.

Other financial literacy activities carried out by the Bank included:

- Collaboration with the Bankers Committee and other stakeholders to celebrate the World Savings Day. To mark the Day, over 230 secondary schools across the six geopolitical zones were visited. Overall, 40,931 students were sensitised/engaged in 2016, compared with 37,104 students in 2015;
- As part of its advocacy and engagements, the Bank held meetings with Consumer Protection Council (CPC), Public Complaints Commission (PCC), Association of Non-Bank Micro Finance Institutions in Nigeria (ANMFIN) and National Association of Microfinance Banks (NAMBs). The meetings were aimed at promoting collaboration between the Bank and the agencies towards achieving their respective mandates. Areas identified for cooperation included information sharing, complaints management, consumer education and entrenchment of the culture of consumer protection and financial literacy in the operations of financial services providers;
- The Bank conducted a nation-wide sensitisation campaign (CBN Fair) in twelve (12) state capitals of the Federation; and
- In collaboration with the "Deutsche Gesellschaft für Internationale Zusammenarbeit" (GIZ), the Bank conducted train-the-trainer session for

participants at the pilot-run of the targeted financial education programme for Micro, Small and Medium Enterprises (MSMEs) and farmers at Waziri Umaru Federal Polytechnics, Birnin-Kebbi.

2.5 DEVELOPMENTAL FUNCTIONS OF THE CBN

In furtherance of its development finance roles, the Bank facilitated access and increased the flow of credit to real sector in 2016. It continued to pursue programmes, schemes and initiatives that promote financial inclusion and encourage entrepreneurship development. The contributions from its effort in this regard, were noticeable from these interventions:

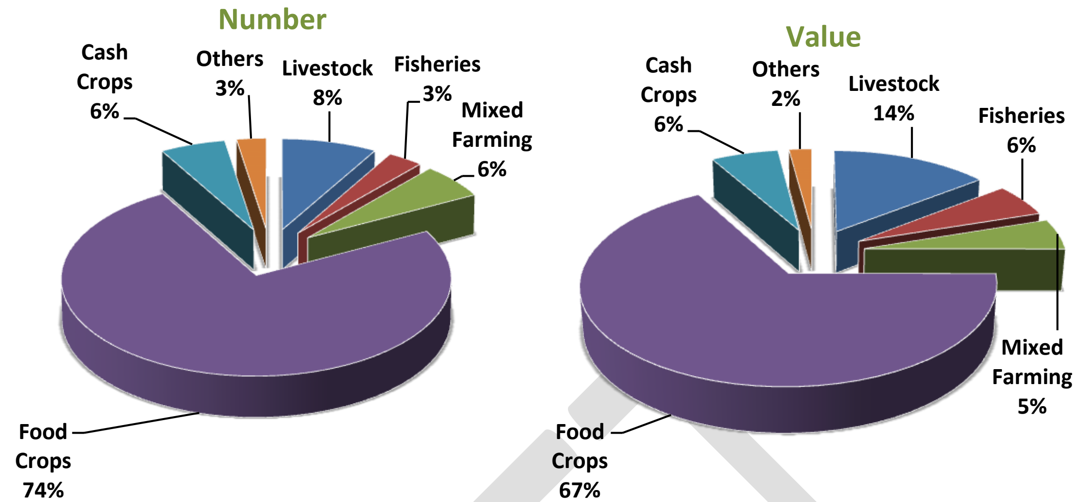
2.5.1 The Agricultural Credit Guarantee Scheme (ACGS)

At end-December 2016, a total of 58,548 loans valued at ₦8.1 billion were guaranteed as against 69,436 loans valued at ₦11.4 billion in 2015. An analysis of the loans guaranteed revealed that 55,508 loans valued at ₦7.0 billion were financed by microfinance banks, while 3,040 loans valued at ₦1.1billion were financed by commercial banks. The cumulative number and value of loans guaranteed under the Scheme since inception stood at 1,059,847 and ₦104.0 billion, respectively.

Analysis of loans guaranteed under the Scheme by gender as at end December 2016 showed that 37,677 loans valued at ₦5.5 billion were granted to male borrowers, while 20,416 valued ₦2.5 billion were granted to female borrowers. Similarly, loan repayment by gender showed that 44,019 or 69.3 per cent male borrowers repaid ₦6.4 billion, while 19,477 or 30.7 per cent female borrowers repaid loans valued at ₦3.1 billion.

The distribution of loans guaranteed by purpose in the period showed that food crops dominated with 43,562 loans valued at ₦5.4 billion, followed by livestock with 4,869 loans at ₦1.2 billion.

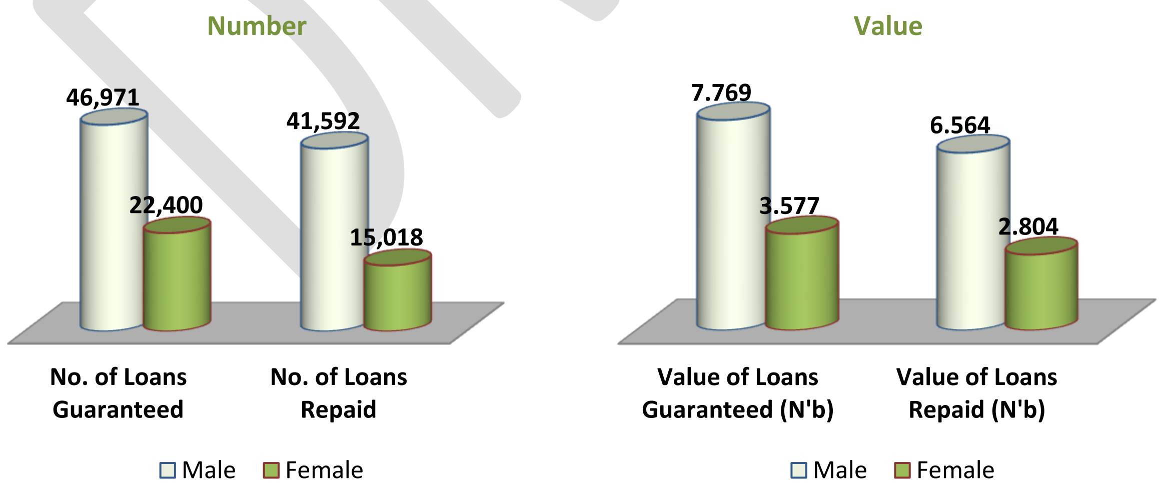
Figure 2.13: Number and Value of Loans Guaranteed by Purpose Under the ACGS, 2016 (Per cent)



Source: CBN

A total of 63,602 loans valued at ₦9.6 million was fully repaid in 2016. This represented an increase of 12.2 per cent and 1.3 per cent in number and value of fully repaid loans, respectively, compared with 56,671 loans valued at ₦9.5 billion fully repaid in 2015. Cumulatively, repayments under the ACGS stood at 817,821 loans valued at ₦75.5 billion since inception in 1978 to end-December 2016.

Figure 2.14: Number and Value of Loans Guaranteed and Repaid by Gender Under the ACGS, 2016 (Per cent)



Source: CBN

In 2016, 90 ACGS claims valued at ₦5.1 million were settled. This brought the cumulative number and value of ACGS claims settled since inception in 1978 to 17,121 valued at ₦637.1 million, respectively.

2.5.2 The Interest Draw-back Programme (IDP)

A total of 25,035 interest drawback programme (IDP) payments valued at ₦265.9 million was made at end-December 2016, compared with 31,142 valued at ₦394.8 million paid in 2015, representing a decline of 19.6 per cent and 32.6 per cent in number and value of interest drawback payments, respectively, compared with 2015. Cumulatively, 314,694 IDP payments valued at ₦2.7 billion had been settled since inception of the IDP in 2003.

2.5.3 Anchor Borrowers' Programme (ABP)

Since its inception in 2015, the cumulative sum of ₦26.7 billion had been disbursed through ten (10) participating financial institutions (PFIs) to 127,068 smallholder farmers that cultivated 161,323 hectares of land under the Programme. The benefitting farmers operated under 31 anchors drawn from 17 States of the Federation. At end-December 2016, a total of 24 anchors had expressed interest to participate in the Programme.

Table 2.7: Summary of Fund Releases under the ABP (2015 – 2016)

ANCHORS	NUMBER OF ANCHORS	NO OF FARMERS	NO OF HECTARES	TOTAL DISBURSEMENTS (₦)
STATES	4	91,197	102,660	18,090,238,156.00
PRIVATE	27	35,177	56,843	8,907,905,410.00
TOTAL	**31**	**127,068**	**161,323**	**26,998,143,566.00**

Source: CBN

2.5.4 The Commercial Agriculture Credit Scheme (CACS)

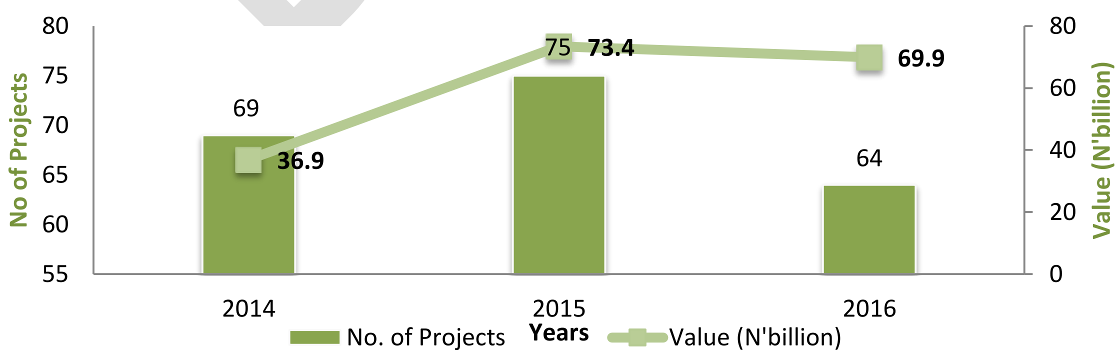
The sum of ₦69.9 billion was released to14 banks in respect of 56 private projects and 8 State Government projects in 2016 under the Scheme. This compares with ₦73.4 billion released to 75 projects at ₦73.38 billion in 2015. The performance during the year decreased by 14.7 per cent in number of projects and 4.7 per cent by value of loans, respectively.

Since inception, the cumulative disbursement by commercial banks was ₦407.4 billion for 487 projects. Of this, 436 projects valued at ₦327.4 billion belonged to private promoters, while 51 others, valued at ₦80.0 billion were State Government-sponsored.

Total repayments in the review period was ₦48.1 billion by eighteen (18) banks, compared with the ₦71.7 billion repaid by seventeen (17) banks in 2015. Analysis of the repayment by banks showed a decline of 32.9 per cent, relative to the level at the end of 2015. The cumulative repayments by banks since the scheme commenced, amounted to ₦225.0 billion for 445 projects at end December 2016.

Also, in the review period, 8 State Governments accessed the sum of ₦17.0 billion, bringing the total number of State Governments projects financed under the Scheme to 51 valued at ₦80.0 billion. Cumulatively, 29 State Governments, including the FCT, had repaid the sum of ₦51.8 billion under the Scheme.

Table 2.15: Analysis of Funds Disbursed Under CACS (2014 – 2016)



Source: CBN

Fund released under CACS by value chain in 2016 showed that production, processing, storage and input supply accounted for 65.5 per cent, 14.9 per cent, 12.2 per cent and 7.4 per cent, respectively. Marketing activities did not receive any funding during the 2016 business year. Fourteen (14) banks financed 64 projects bringing the total value of funds received by banks to ₦66.9 billion in 2016.

Table 2.8: Analysis of Bank Lending Under CACS by Value Chains (Jan. – Dec. 2016)

Category	Projects		Value	
	Number	%	₦ 'Billions	%
Input Supplies	4	6.250	5.200	7.440
Production	42	65.630	45.774	65.460
Processing	13	20.310	10.451	14.950
Marketing	0	0	0	0
Storage	5	7.810	8.500	12.160
Total	**64**		**66.926**	

Source: CBN

To further implement the new financing strategy of up-scaling the flow of credit towards the production of seven (7) priority commodities (rice, wheat, sugar, fish, dairy, oil palm and cotton), the sum of ₦58.4 billion had been released to the rice sub-sector at end-December 2016. The effort boosted the operating capacity of rice farmers as it increased national output to 980,424 metric tonnes per annum. The cumulative value of CACS financing at end-December 2016 to ₦103.9 billion at end December 30, 2016. Similarly, the effort impacted on the total number of jobs created in 2016 as 1,579 new jobs (615 skilled and 964 unskilled) were created, bringing the cumulative number of jobs created under the scheme since inception to 1,134,722.

2.5.5 CBN/NEXIM Non-Oil Export Stimulation Facility & Rediscounting and Refinancing Facility

During the year, a N500 Billion Non-Oil Exports Stimulation Facility (ESF) was introduced, while the Export Credit Rediscounting and Refinancing Facilities

(RRF) was expanded by N50 billion. These facilities would be managed by NEXIM and administered at a maximum 'all in' interest charge of 9% and 6 %, respectively.

The ESF was designed to redress the declining export credit and reposition the sector to increase its contribution to revenue generation and economic development. In addition, it would improve export financing, increase access of exporters to low interest credit and offer additional opportunities for them to upscale and expand their businesses as well as improve their competiveness. The RRF expansion, on the hand, aimed at supporting the Deposit Money Banks (DMBs) in the provision of pre- and post-shipment finance to exporters to undertake export transactions.

To finance the facilities, CBN would be investing N500 billion and N50 billion debentures in the ESF and RRF, respectively, issued by Nigerian Export-Import Bank (NEXIM) in line with section 31 of CBN Act.

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

The sum of ₦48.11 billion was disbursed to nine (9) classes of PFIs/programs in 2016. This represented an increase of 3.0 per cent, compared with ₦45.2 billion in 2015. In 2016, eleven (11) States accessed a total of ₦13.8 billion, compared with 19 that received ₦34.7 billion in 2015.

The cumulative disbursement to MSMEs from inception to date stood at ₦97.9 billion. Of this amount, ₦51.0 billion was released to 30 State Governments, representing 52.3 per cent. Commercial and microfinance banks, accessed ₦12.2 billion and ₦8.6 billion of the total disbursements on behalf of their eligible clients, representing 12.5 per cent and 8.7 per cent, respectively. The amount accessed by NGO-MFIs and Cooperatives was far less than other categories due to their inability to meet the collateral requirements. The RUFIN/NIRSAL guaranty arrangement instituted to address that challenge commenced in

September 2016. The initiative would improve access to finance by cooperative societies under the Scheme.

Table 2.9: Breakdown of Fund Uptake under the MSMEDF

CLASS	NUMBER OF PFIs IN 2016	CUMMULATIVE NUMBER OF PFIs	NET DISBURSEMENT (₦)
STATES	11	30	51,005,190,503.50
DMBs	15(218 Projects)	15 (408 projects)	12,206,678,034.30
MFBs	78	155	8,555,303,000.00
DFIs	0	1	10,000,000.00
Coop	33	44	348,400,000.00
NGO-MFIs	28	**31**	481,600,000.00
ABP	NA	NA	24,457,834,607.86
YEDP	NA	NA	776,773,885.87
GRANT	NA	NA	28,350,000.00
TOTAL			**97,849,356,976.03**

Source: CBN

2.5.7 Nigeria Electricity Market Stabilisation Facility (NEMSF)

The Nigerian Electricity Market Stabilisation Facility (NEMSF) facilitated the disbursement of ₦64.76 billion to stakeholders in the power sector in 2016, bringing the cumulative disbursement under the NEMSF to ₦114.75 billion. The sum of ₦5.53 billion was repaid by eight (8) DisCos that signed up under the Facility in 2016.

Table 2.10: Breakdown of Fund Uptake under the NEMSF

	Description	February – December. (2015)	January - December, (2016)	Total (₦)
DisCos	No of Beneficiaries	5	2	
	Amount (₦)	41,055,703,962.43	8,563,953,427.33	49,619,657,389.76
GenCos	No of Beneficiaries	7	13	
	Amount (₦)	18,457,878,439.89	30,605,908,766.89	49,063,787,206.78

GasCos	No of Beneficiaries	6	5	
	Amount (₦)	5,241,925,612.64	10,361,370,679.90	15,603,296,292.54
Service Providers	No of beneficiaries	0	1	
	Amount (₦)	0.00	459,678,889.55	459,678,889.55
	Total	**64,755,508,014.96**	**49,990,911,763.67**	**114,746,419,778.63**

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

The intervention provided enabling conditions for contracts to be signed between parties in the electricity supply value chain. The achievements registered thus far included:

- Facilitation of the massive capital expenditure (Capex) required by the Generation Companies that led to the recovery of 1,193MW generating capacity through the overhaul of 10 turbines;
- Recovery programmes in three hydro power stations (the Shiroro dam, overhaul of 2G6 at the Jebba hydro dam and the rehabilitation of 3 units at Kainji Dam);
- Rehabilitation of 10 Gas Turbines at Geregu, Transcorp Ughelli and Ibom Power Plants;
- Facilitation of Capex that enabled Electricity Distribution Companies (DisCos) to acquire and deploy equipments for improved service (issuance of LCs for the purchase of over 414,000 electronic meters);
- Rehabilitation of over 332 kms of 11KVA lines and 130 km of 0.45KVA lines;
- 70,310 number 500 KVA transformers procurement;
- Construction of 34 new distribution sub-stations; and
- Acquisition of one mobile injection sub-station.

2.5.8 The Power and Airline Intervention Fund (PAIF)

The sum of ₦23.0 billion was released to BOI for four power projects under the Power and Airline Intervention Facility (PAIF). These were: the Azura Power West Africa Ltd (₦12.8 billion), Kano Power Project (₦1.9 billion), Alausa Power (₦2.1 billion) and Ladol Services FZE (₦6.1 billion). At end-December 2016, the cumulative amount released to BOI stood at ₦272.6 billion. The sum of ₦151.9 billion was disbursed for 43 power projects, while ₦120.8 billion was released for sixteen (16) airline projects.

In 2016, the Bank received the sum of ₦28.9 billion from the Bank of Industry (BOI) as repayment. A breakdown of the sum received indicated that ₦16.2 billion was from airlines projects, while ₦12.7 billion was from power projects. The cumulative repayment from inception under PAIF, which stood at ₦93.1 billion comprised of ₦50.5 billion and ₦42.6 billion from airlines and power projects, respectively.

Thus far, PAIF has achieved the following:

Power

- Provided support for the generation of 1,758 MW of electricity by GenCos;
- Captive power to the following industries: Cement, Steel Production, Fast Moving Consumer Goods (FMCG), Wood Products, Packaging, and Agro-allied Industries. This resulted in the reduction in domestic production costs, improvement in industrial capacity utilisation, enhanced competitiveness and employment generation;
- Funded eleven (11) Independent power Projects, which are for injection into the national/mini-grids, with multiplier effects;
- Financed the construction of 120 kilometre natural gas pipeline from Ikpe Anang in Akwa-Ibom State to Mfamosing, Calabar, Cross River State. This pipeline transports power to the Calabar IPP and the cement industry in Calabar; and

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

Airlines

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

2.5.9 Real Sector Support Facility (RSSF)

The CBN in November 2014 established the ₦300.0 billion Real Sector Support Facility (RSSF) to provide long-term low-interest financing solution to Nigerian SMEs with financing needs of up to ₦10.0 billion. The objective of the Facility was to close the short-term and high-interest financing gap for SME/manufacturing and start-ups, as well as create jobs through the real sector of the Nigerian economy.

A total of 125 applications valued at ₦248.9 billion were received from thirteen (13) banks under the Facility, while four (4) projects valued at ₦6.9 billion were financed under the scheme in 2016. The remaining 121 applications received from the banks, valued at ₦242.1 billion were still being processed.

2.5.10 Small and Medium Enterprises Credit Guarantee Scheme (SMECGS)

The Small and Medium Enterprises Credit Guarantee Scheme (SMECGS) was introduced to facilitate the channelling of funds to SMEs by guaranteeing 80 per cent of the loans granted by commercial banks to qualified SMEs in accordance to the SMECGS Guidelines. At end-December 2016, 88 projects valued at ₦4.3 billion had been guaranteed from inception in April 2010. The total number of fully repaid loans from inception to date was 40 valued at ₦2.2 billion.

Table 2.11: Sectoral Distribution of Projects Guaranteed Under SMECGS

S/No.	SECTOR	NUMBER	VALUE (₦)
1	Agro-allied	3	50,195,200.00
2	Health	2	53,084,000.00
3	Manufacturing	16	977,292,800.00
4	Services	67	3,170,391,750.87
	GRAND TOTAL	**88**	**4,250,963,750.87**

Source: CBN

2.5.11 Small and Medium Enterprises Refinancing and Restructuring Facility (SMERRF)

The facility was established in 2010, with an initial sum of ₦200.0 billion but had additional approval of ₦35.0 billion in 2011, bringing the total resources under the scheme to ₦235.0 billion. The Facility was discontinued in November 2014 due to change in the financing strategy. This led to the establishment of the Real Sector Support Facility (RSSF).

Cumulatively, ₦381.99 billion was disbursed to 604 projects from inception in March 2010. During the year, the BOI remitted ₦25.5 billion bringing the cumulative repayment by commercial banks to BOI under the Facility from inception to ₦167.1 billion.

Table 2.12: Sectorial Distribution of Loans under SMERRF

S/No	SECTOR	NUMBER	VALUE (₦)
1	Agro allied	69	22,924,154,648.72
2	Chem. & Plastics	156	146,992,819,964.45
3	Eng. & Constr.	92	56,812,253,489.26
4	Food & Beverages	102	72,552,994,196.71
5	Hotel & Tourism	2	525,130,342.29
6	ICT	20	14,120,999,325.49
7	Oil & Gas	21	8,230,138,709.27
8	Paper & Allied Products	57	26,171,569,949.99
9	Pharmaceuticals	37	11,605,111,798.75
10	Solid Minerals	18	6,897,348,085.73
11	Textile & Leather	18	8,521,871,661.03
12	Transportation	12	6,634,533,579.85
	TOTAL	**604**	**381,988,925,751.54**

Source: CBN

2.5.12 Textile Sector Intervention Facility (TSIF)

In a bid to support the resuscitation of the Textiles Industry, the Bank introduced a ₦50.0 billion special intervention fund for the restructuring of existing and new facilities for textile companies. The Bank of Industry (BOI) being the managing institution of the Facility had disbursed ₦14.9 billion to fourteen (14) obligors under the Facility as at end-December 2016.

2.5.13 National Collateral Registry (NCR)

At end-December 2016, 69 financial institutions, comprising 21 commercial banks, three (3) development finance institutions, one (1) specialised bank and 44 microfinance banks had registered on the NCR portal. The five (5) financial institutions had registered their priority interests in movable assets valued at ₦24.14 billion with 1,464 financing statements. Also in the review period, the Registry implemented the use of group agreement as movable collateral that would serve as additional mitigants to reduce default under the Anchor Borrowers' Programme. Similarly, the Registry was used to secure financial institution's priority interest in movable assets presented as collateral under the Youth Entrepreneurship Development Programme (YEDP).

Table 2.13: Number and Value of Financing Statements by Registrants

REGISTRANT	NUMBER OF FINANCIAL STATEMENTS (FS)	VALUE OF FS (₦)
Bank of Agriculture	770	1,935,762,786.00
Diamond Bank Plc	469	2,023,777,220.42
Skye Bank Plc	42	176,821,570.00
Stanbic IBTC Bank Plc	167	19,897,423,385.89
Sterling Bank Plc	14	57,559,490.47
Union Bank of Nigeria	2	44,991,935.18
Total	**1,464**	**24,136,336,387.96**

Source: CBN

Sequel to the issuance of the Secured Transaction and Collateral Registry Regulation on February 3, 2015, the Secured Transactions in Movable Assets Bill 2016 passed the first and second readings in the House of Representatives. The public hearing on the Bill was held on November 28, 2016.

2.5.14 National Financial Inclusion (NFI)

Following the implementation of the national financial inclusion strategy, the banking sector recorded improvements in terms of the key indicators, namely, electronic payments, savings and pensions in 2016 compared with 2015. The progresses recorded in the review period are:

(a) Increase in the number of transaction-related accounts from 73.2 million accounts (76 accounts per 100 adults) to 82.4 million accounts (83 accounts per 100 adults) at end-December 2016;

(b) Growth in the number of savings-related accounts from 76.9 million accounts (80 accounts per 100 adults) to 85.0 million (86 accounts per 100 adults) in 2016.

(c) Rise in the proportion of the adult population that registered under the National Pension Commission (PenCom) regulated scheme from 7.3

million adults in 2015 to 7.6 million adults at end-December 2016 representing 7.6% and 7.8% of adult Nigerians respectively; and

(d) Increase in the number of electronic channels access points such as ATMs from 16,452 machines or 17.1 per 100,000 adults in 2015 to 17,131 machines or 17.6 per 100,000 adults at end December 2016. Similarly, the number of Point of Sale (POS) machines increased from 116,868 or 121.5 per 100,000 in 2015 to 121,388 or 124.5 per 100,000 adult Nigerians in the review period.

Table 2.14: Formal Financial Service Product Indicators

Classification	Proxy Indicator	Baseline 2010[1]	Actual 12/2015[2]	Actual 12/2016[2] **	Target 2016	Target 2020
Ownership: % of adult population having at least one transaction account with a formal financial institution **Usage:** % of adult population making electronic payments	Number of transaction accounts with a DMB or MFB[3]	22% (18.3m adults)	73.2m accounts (76 accounts per 100 adults)	82.4m accounts (83 accounts per 100 adults)	57.0% (56.4m adults)	70% (77.4m adults)
Ownership: % of adult population having at least one savings-related account with a formal financial institution **Usage:** % of adult population saving with a formal financial institution	Number of savings-related accounts with a DMB or MFB[4]	24% (20.3m adults)	76.9m accounts (80 accounts per 100 adults)	85.0m accounts (86 accounts per 100 adults)	46.2% (45.6m adults	60% (66.3m adults)
% of adult population using a credit product with a formal financial institution	Number of credit accounts with a DMB or MFB[5]	2% (1.7m adults)	7.3m accounts (8 accounts per 100 adults)	6.4m accounts (7 accounts per 100 adults)	29.0% (28.7m adults)	40% (44.2m adults)
% of adult population being covered by an insurance policy with a formal financial institution	Number of insurance policies regulated by NAICOM	1% (0.8m adults)	-	-	25.2% (24.9m adults)	40% (44.2m adults)
% of adult population that is registered with a pension scheme regulated by PenCom		5% (4.2m adults)	7.6% (7.3m adults)	7.8% (7.6m adults)	26.0% (25.7m adults)	40% (44.2m adults)

Source: CBN

*[1]National Financial Inclusion Strategy, 2012; [2]Data from MFBs only based on returns from 57% of all MFBs for 12/2016(provisional) and for 67% of all MFBs for 12/2015; Data includes both personal and corporate accounts; [3]Data includes current and savings accounts for DMBs and current and voluntary savings accounts from MFBs; [4]Data includes current, savings and fixed/term deposit accounts for DMBs and current, voluntary savings, mandatory deposit and fixed/term deposit accounts from MFBs; [5]Data includes both personal and corporate accounts; ** Provisional figure.*

Table 2.15: Channels for Formal Financial Services

Classification	Baseline 2010[1]	Actual 2015	Actual 2016*	Target 2016	Target 2020
Number of DMB branches per 100,000 adults	6.8 (5,797 branches)	5.7 (5,462 branches)	5.7 (5,564 branches)	7.5 (7,450 branches)	7.6 (8,398 branches)
Number of MFB branches per 100,000 adults	2.9 (2,456 branches)	2.3 (2,227 branches)[2]	2.2 (2,181 branches)[2]	4.6 (4,567 branches)	5.0 (5,525 branches)
Number of ATMs per 100,000 adults	11.8 (9,958 ATMs)	17.1 (16,452 ATMs)	17.6 (17,131 ATMs)	46.6 (46,100 ATMs)	59.6 (65,859 ATMs)
Number of POS terminals per 100,000 adults	13.2 (11,223 POS)	121.5 (116,868 POS)	124.5 (121,388 POS)	534.4 (528,364 POS)	850.0 (939,267 POS)
Number of Agents per 100,000 adults	0.0	-	15.5 (15,145 agents)[4]	38.0 (37,552 agents)	62.0 (68,511 agents)

Source: CBN

*[1]National Financial Inclusion Strategy, 2012; Value for MFB branches approximate based on EFInA (2010); [2]Data for 12/2015 based on 67% of all licensed MFBs, while data for 12/2016(provisional) is based on 57% of all licensed MFBs only; [4]815 bank agents and 14,330 mobile money agents; Data for mobile money agents is based on only 13 out of 22 MMOs who had already uploaded data on CBN's Agent Banking Database as at November 11, 2016.*Provisional figure.*

2.5.15 Youth Entrepreneurship Development Programme (YEDP)

The Youth Entrepreneurship Development Programme (YEDP) was launched on March 15, 2016 to deepen credit delivery to ex- and serving national youth corps members. The Programme would also address the challenges of unemployment, promote entrepreneurial spirits among Nigerian youths as well as boost the performance of the small and medium enterprises sector.

Training was conducted for the first batch of post-NYSC members and a total of 1,211 participants were trained out of the 1,547 pre-qualified applicants. This comprised 984 post-NYSC members and 227 serving corps members. Out of the 1,211 participants trained, 548 submitted their business plans, following which the CBN approved funding for 310 entrepreneurs.

At end-December 2016, the sum of ₦179.7 million was disbursed to 67 entrepreneurs to either start or expand their businesses.

2.5.16 Other Development Finance Support Activities

Other channels used by the Bank to enhance credit delivery to the real sector, build capacity of institutions and contribute to the growth of the Nigerian economy in 2016 were:

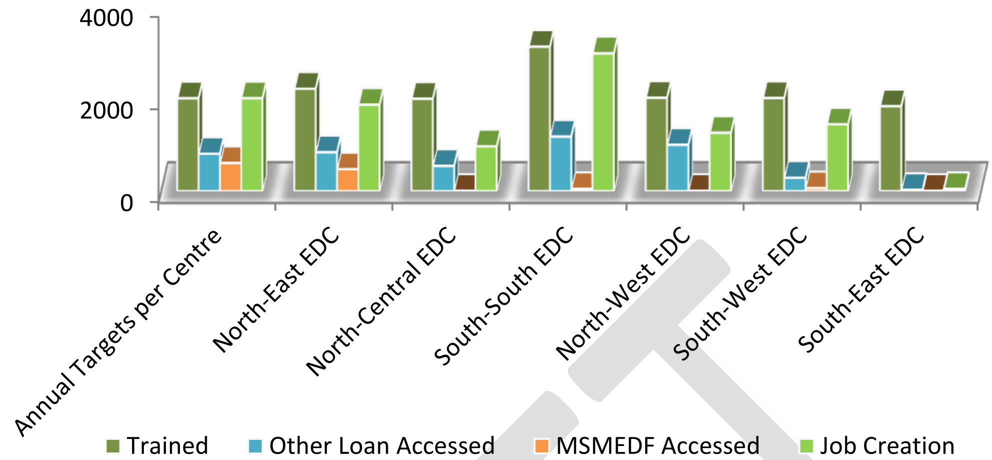
2.5.16.1 Commodities Promotion

The Bank organised the CBN/NEXIM Export Stimulation Conference with the theme: "Strategies for Growing Nigeria's Non-oil Sector" on January 19, 2016. Major highlights were to: develop a National strategy for the acceleration of growth of non-oil sub-sector; establish a Cabinet level Committee on Non- oil exports (in the Presidency); strengthen the trade desks of Nigerian Embassies and establish Export Desks in all banks.

2.5.16.2 Entrepreneurship Development

The CBN Entrepreneurship Development Centres (EDCs) collectively trained 13,143 individuals, created 8,514 jobs and facilitated access for 4,405 trainees to bank finance in the period under review. A comparative view of performance of EDCs in 2016 revealed that the South-South EDC performed best in terms of number of trainees, number of participants that accessed other funds and number of jobs created. The North-East posted a significant performance level despite the insecurity in the area.

Figure 2.16: Comparative Performance of EDCs in 2016



Source: CBN

Table 2.16: Summary of EDCs Performance (Since Inception 2013 - 2016)

ACHIEVEMENTS						
S/No	**Classification**	**Annual Targets for the Six Centres**	**2013 Total Achieved by the Three Centres**	**2014 Total Achieved by the Three Centres**	**2015 Total Achieved by the Five Centres**	**2016 Total Achieved by the Six Centres**
1	Number of Participants Trained	12000	4187	6361	11896	14106
2	Number of Trainees that accessed Other Loans	4800	548	2373	3816	4513
3	Number of Trainees that accessed MSMEDF	3600	0	0	1,445	567
4	Jobs Created	12000	967	6360	8901	9358
5	Income Generated	60,000,000	20,935,000	31,805,000	59,480,000	70,530,000

Source: CBN

2.5.16.3 Rural Finance Institutions Building Programme (RUFIN)

The Rural Finance Institutions Building Programme (RUFIN) continued support of apexes in the area of capacity building and technical assistance. The apexes of focus were: the National Association of Microfinance Banks (NAMB) and Association of the Non-Bank Financial Institutions of Nigeria (ANMFIN). In the review period, ANMFIN recorded membership of 2,936 at end-December 2016 compared with 4,121 members at end-December, 2015. The decline was due to a policy shift by ANMFIN, which required its members to have a minimum of 100 clients, compared to the previous requirement of 20 clients. Consequently, apex bodies with less than 100 members became classified as cooperative groups (1,402), until they meet the requirement.

The Bank in collaboration with IFAD/RUFIN commenced implementation of the RUFIN-Anchor Borrowers Programme (ABP) in Adamawa State for dry season farming. The Programme, which was flagged off on December 30, 2016, was expected to train about 40,000 farmers as contained in the service agreement between the Bank and the Training Service Provider.

2.5.16.4 Implementation of Rural Business Plan (RBP) by the MFIs and the Apexes

The Rural Business Plan (RPB) is an intervention of RUFIN to assist partner MFIs in developing and delivering customised sustainable financial products to the rural areas. At end-December 2016, 743 financial operators were trained on the RBP initiative of which CBN trained 70, and the Apexes collectively trained 673. Of the 70 trained by the CBN, 61 had started implementing the plan and had organised 68,982 members to 5,473 groups across 1,854 villages in 359 LGAs of twelve (12) States. The MFIs mobilised ₦1.1 billion savings, and disbursed ₦2.2 billion loans with outstanding portfolio of ₦2.3 billion.

2.5.16.5 Rural Finance Outreach Coordination (ROCC)

The Rural Finance Outreach Coordinating Committee (ROCC) was inaugurated in the twelve (12) RUFIN implementing States from April 27 to May 7, 2015 at the CBN branches in the respective states. Members of the Committee included representatives of: CBN, RUFIN, BOA, FDC, SMEDAN, NASME, NAMB and ANMFIN. With the exit date of the RUFIN programme set at 2017. It became pertinent to ensure that rural microfinance institutions continue to receive support that would help them better empower the people of Nigeria economically at the end of the programme. It was against this backdrop that the CBN and other implementing partners continued to provide these services, upon the exit of RUFIN. On this premise, the CBN organised a National Consultative ROCC Workshop in Uyo, Akwa-Ibom State from 11th to 13th November 2016, to share the Vision and Strategy and Terms of Reference (ToR) for the ROCCs.

CHAPTER THREE

THE GLOBAL ECONOMY

The global economy slowed to 3.1 per cent, down from 3.2 per cent in 2016, reflecting a combination of factors, namely: the slowdown in China, due to its continued transition to a balanced growth path; commodity exporters' adjustment to lower revenues; spillovers from persisting weak demand in the advanced economies as well as geo-political tensions. Accordingly, the commodity markets remained weak, owing to sluggish global demand and trade. As a result, inflation remained subdued globally, despite the generally accommodative monetary policy stance in the advanced economies. The Brexit referendum which fuelled anti-integration sentiments, coupled with the widening monetary policy divergence in the advanced economies, heightened uncertainties and nervousness in the global financial market. In addition, the strengthening of the US dollar and the resumption of the US monetary policy normalisation, fuelled volatility and capital reversals from the emerging market and developing economies, exacerbating the depreciation of most currencies. These developments had mixed impacts on the global capital market in 2016, with stocks predominantly bearish in Africa and Asia but bullish elsewhere. Consequently, the central banks of most emerging market and developing economies generally raised their policy rates to stem capital outflow and restore stability to the financial market, while those of advanced economies sustained monetary accommodation to revive growth.

3.1 OUTPUT GROWTH

Global output slowed to 3.1 per cent in 2016 from 3.2 per cent in 2015, reflecting the combined effects of a number of key developments. These included: slowdown in China, due to its continuing transition to a balanced growth path and the associated spillover effects, commodity exporters' continued adjustment to lower revenues, spillovers from persisting weak demand in the advanced economies as well as domestic strife and political discord fuelling geopolitical tensions in several countries. Added to these was widening divergence in the monetary policy of the major advanced economies owing to the continued normalisation of monetary policy in the United States. Also, despite the reduced drag from inventories and some recovery in manufacturing output, global activity weakened due to an unexpected slowdown in some emerging market economies.

In the advanced economies, activity slowed by 1.6 per cent in 2016 from 2.1 per cent in 2015, reflecting mainly weaknesses in the US, euro area and the UK. The development was driven mainly by global shocks, including uncertainty surrounding the outcome of the Brexit referendum, effects of ongoing rebalancing in China and adjustment of commodity exporters to a protracted decline in terms of trade as well as non-economic factors fuelling geopolitical tensions.

The U.S. economy grew by 1.6 per cent, down from 2.6 per cent in 2015, indicating a weaker-than-expected activity caused by continued weakness in non-residential investment, despite consumption growth and some recovery in the labour market.

Growth in the euro area was 1.7 per cent, compared with 2.0 per cent in 2015. The euro area economy was considerably impacted by deceleration in domestic demand, particularly some of the larger euro area economies, despite the overall muted impact of the Brexit vote on business confidence and activity.

Similarly, the UK economy grew modestly by 2.0 per cent, compared with 2.2 per cent in 2015, reflecting largely a weakening of the manufacturing sector. This was a better-than-expected performance as domestic demand remained strong even in the aftermath of the Brexit referendum.

In Japan, growth declined to 0.9 per cent from 1.2 per cent in 2015, as weaker external demand and corporate investment slowed down economic activity. Generally, the softening of activity in the advanced economies reflected failure of policies to resolve underlying weaknesses.

Growth in the emerging market and developing economies remained at 4.1 per cent apiece in 2015 and 2016. The challenge of adjusting to tightening global financial conditions, sharp currency movements, and capital flow reversals continued to confront the region.

Asia grew by 6.3 per cent, down from the 6.7 per cent recorded in 2015, reflecting mainly the continued spillovers from the Chinese economy. In China, activity grew by 6.7 per cent in 2016, down from 6.9 per cent in 2015. The growth in China was stronger-than-expected, supported by policy stimulus, despite the continued slowdown of the economy on the back of its transition to a balanced growth path. In India, output was 6.6 per cent, compared with 7.6 per cent in 2015.

The Russian economy contracted marginally by 0.6 per cent, compared with 3.7 per cent in 2015, a better-than-expected performance, reflecting mainly the easing financial conditions, and firmer crude oil prices, despite the ongoing sanctions by the North Atlantic Treaty Organisation (NATO).

The economies of Latin America and Caribbean region contracted by 0.7 per cent, in contrast to the growth of 0.1 per cent in 2015. The development reflected the spillovers from Brazil's recession even as the region continued to adjust to unfavourable terms of trade.

In sub-Saharan Africa, economic activity was subdued as growth fell remarkably to 1.6 per cent in 2016, down from 3.4 per cent in the preceding year. The dismal performance of the region was due mainly to weaknesses in the Nigerian and South African economies, with respective growth rates of -1.5 and 0.3 per cent. The contraction of the Nigerian economy reflected primarily production bottlenecks caused by shortages of foreign exchange, energy challenges and militant activity which affected crude oil production. Added to these were the continued low commodity prices, and reduced demand from China, one of the region's trade partners. The weak activity in South Africa was on account of lower export prices, elevated policy uncertainty, currency weakness and tighter monetary and fiscal policy, leading to declining business confidence.

Table 3.1: Changes in World Output and Prices, 2012-2016, (per cent)

	Output					Consumer Prices				
Region/Country	**2012**	**2013**	**2014**	**2015**	**2016**	**2012**	**2013**	**2014**	**2015**	**2016**
World Output	**3.1**	**3.3**	**3.3**	**3.2**	**3.1**	**4.2**	**3.6**	**3.2**	**2.8**	**2.9**
Advanced Economies	**1.4**	**1.3**	**1.8**	**1.9**	**1.6**	**2.7**	**1.4**	**1.6**	**0.3**	**0.7**
United states	**2.8**	**2.2**	**2.4**	**2.5**	**1.6**	**3.1**	**1.5**	**2.0**	**0.1**	**1.2**
Japan	1.4	1.6	0.0	0.6	0.9	-0.3	0.4	2.7	0.8	-0.2
Germany	0.9	0.2	1.6	1.5	1.7	2.5	1.6	0.9	0.2	0.4
France	0.0	0.3	0.4	1.1	1.3	2.1	1.0	0.7	0.1	0.3
Italy	-2.5	-1.9	-0.4	0.8	1.3	2.9	1.3	0.1	0.2	-0.1
United Kingdom	0.3	1.7	2.6	2.2	2.0	4.5	2.6	1.6	0.1	0.7
Euro Area	-0.7	-0.5	0.8	1.5	1.7	2.7	1.3	0.5	0.2	0.3
Other Advanced Economies	**1.9**	**2.2**	**2.8**	**2.1**	**1.9**	**3.1**	**1.5**	**1.6**	**0.6**	**1**
Commonwealth of Independent States (CIS)	3.4	2.2	0.9	-2.8	-0.1	10.1	6.4	7.9	15.5	8.4
Regional Groups										
Emerging & Developing Europe	1.2	2.8	2.8	3.6	3.3	5.9	4.3	3.8	2.9	3.1
Russia	3.4	1.3	0.6	-3.7	-0.6	8.4	6.8	7.4	15.5	7.2
Latin America and the Caribbean	3.0	2.8	1.2	-0.3	-0.7	6.6	7.4	8.2	5.5	5.8
Asia	6.8	7.0	6.8	6.6	6,3	5.0	3.8	3.2	2.3	2.5
Sub-Saharan Africa	4.4	5.1	5.0	3.4	1.6	9.3	6.6	6.7	7.0	11.3
Middle East	4.1	2.2	2.8	2.5	3.8	9.7	9.2	7.5	6.0	5.4
China	7.7	7.8	7.3	6.9	6.7	5.4	2.6	2.3	1.4	2.1

Source: World Economic Outlook (WEO), October 2016, and January 2017

3.2 GLOBAL INFLATION

In 2016, consumer prices remained subdued globally, owing to weak demand despite the generally accommodative monetary policy stance. Inflation began a gradual recovery in many advanced economies with the bottoming out of commodity prices. It, however, remained below most central banks' policy targets. In the advanced economies, inflation reversed its downward trend, rising significantly to 0.7 per cent, from 0.3 per cent in 2015. This reflected a reduced drag from energy and commodity prices as output gaps gradually shrank. In the United States, inflation remarkably picked up from 0.1 per cent in 2015 to 1.2 per cent in 2016, reflecting the rapid easing of previous disinflationary drivers such as dollar appreciation and lower oil prices. In the euro area, inflation also gradually picked up from 0.2 per cent in 2015 to 0.3 per cent in 2016, on account of the existing strong stimulus package, easing financial conditions, closing of output gaps and the strengthening of inflation expectations.

In the emerging market and developing countries, inflation was estimated at 4.5 per cent, down from 4.7 per cent in 2015, reflecting the moderating effects of weak currencies and strengthened commodity prices.

In Asia, the inflation rate rose to 2.5 per cent, from 2.3 per cent in 2015, with remarkable diversity among countries of the region. Inflation, however, declined in Japan to -0.2 per cent, from 0.8 per cent in 2015, despite the stimulus package implemented by the Bank of Japan, the firming of oil prices as well as the lingering effects of rising incomes and consumption tax. In China, inflation rose from 1.4 per cent in 2015 to 2.1 per cent in 2016, as weakness in the industrial sector and downward pressure on the prices of goods moderated.

In Latin American and Caribbean region, annual inflation rose to 5.8 per cent, compared with 5.5 per cent in 2015. Brazil's consumer price inflation remained at 9.0 per cent in 2015 and 2016, as the effects of past exchange rate depreciation waned. Inflationary pressures, however, remained on account of weak business and consumer confidence and supply constraints, thereby raising domestic costs.

Consumer prices in Venezuela rose sharply to 475.8 per cent, from 121.7 per cent in 2015, as the low oil prices continued to exacerbate macroeconomic imbalances and balance of payments pressures.

In the Commonwealth of Independent States (CIS), consumer prices slowed to 8.4 per cent, down from 15.9 per cent in 2015. In Russia, consumer prices moderated to 7.2 per cent, compared with 15.5 per cent in 2015, as the effects of currency depreciation dissipated with the firming up of oil prices.

In the Middle East and North Africa (MENA) region, consumer prices declined to 5.4 per cent in 2016, compared with 6.5 per cent in 2015, owing to weak business confidence attributed, largely, to lingering geopolitical tension.

In sub-Saharan Africa (SSA), consumer prices increased significantly to 11.2 per cent from 7.0 per cent in 2015, reflecting the pass-through of large currency depreciations to domestic prices.

3.3 GLOBAL COMMODITY DEMAND AND PRICES

Generally, commodity prices were lower in 2016, relative to 2015, following the continued weak global demand and sluggish growth in most regions. During the year, however, commodity prices recovered by 26.0 per cent, led by a 44.0 per cent surge in crude oil prices and 34.0 and 7.0 per cent increases in metals and agricultural prices, respectively. The rise in crude oil prices followed output freeze by OPEC and non- OPEC producers. The increase in metal prices was driven by still strong infrastructure and real estate investment in China, as well as expectations of fiscal easing in the United States.

The *IMF Energy Price Index* declined significantly to 81.7 from 97.9 points in 2015, due to supply/demand imbalances in the oil market, particularly in the first half of 2016.

The Food and Agriculture Organization's *FAO Food Price Index* (FPI) averaged 161.5 points, down by 2.5 points (1.5%) from 164.0 points in 2015. The greatest year-on-year decline was recorded by cereals (9.5%), followed by meat (7.1%), and dairy (4.1%). On the other hand, vegetable oils and sugar increased by 34.2 per cent and 11.4 per cent, respectively on a year-on-year basis during the period.

The *FAO Cereal Price Index* averaged 146.9 points, representing a decline of 15.5 points (9.5%), from 162.4 points in 2015. The decline was driven, largely, by maize and wheat, reflecting the impact of the continued appreciation of the US dollar on international cereal prices and demand.

The *FAO Dairy Price Index* also fell marginally by 6.5 points (4.1%) to 153.8 points from 160.3 points in 2015. The development was attributed to price declines across board in the second half of 2016, when the Index jumped by 50 percent.

Dairy supply was influenced by increased winter milk production in the European Union (EU) and improved production in the Oceania.

The *FAO Vegetable Oil Price Index* averaged 163.8 points, representing an increase of 16.8 points (11.4%), above the 147.0 points in 2015. The increase reflected the rise in palm oil prices which climbed to a 30-month high on lingering concerns over slow production recovery in Southeast Asia and low global inventory levels, amid strong import demand.

The *FAO Sugar Price Index* averaged 256.0 points, representing significant increase of 65.3 points (34.2%) from 190.7 in 2015. The significant increase in international sugar prices was underpinned mainly by firmer expectations of a global sugar production shortfall and protracted supply weakness in key sugar producing regions, notably Brazil, India, and Thailand.

The *FAO Meat Price Index* decreased by 7.1 per cent to 156.2 points from 168.1 in 2015. The decline was caused by drop in Oceania export prices for ovine meat, due to seasonal slaughter peaks and the boost in supply. Pig and poultry meat quotations also recorded declines due to ample world supplies and stable demand.

3.4 WORLD TRADE

The sluggish growth in global trade continued in 2016, posting the weakest trade performance in the aftermath of the 2008 global financial crisis. Compared with other post crisis years, trade sluggishness in 2016 affected both the advanced and emerging market and developing economies and reflected enduring structural issues, including slowly maturing global value chains (GVCs) and sluggish pace of trade liberalisation. Others were cyclical factors, notably slow global growth, the slack in commodity prices, and the continued rebalancing of the Chinese economy. Also, increase in policy and economic uncertainty reflected in the Brexit referendum and the trend towards protectionism in the US worsened the trade slowdown in 2016.

World trade recorded a growth of 1.9 per cent in 2016, down from 2.7 per cent in 2015. In the advanced economies, aggregate import grew by 2.4 per cent, while export grew by 1.6 per cent. In the advanced economies, terms of trade deteriorated by 0.4 percentage point to 1.2 per cent in 2016, from 1.6 per cent in 2015. In the emerging market and developing economies, the volume of import grew by 2.5 per cent, and export increased by 3.0 per cent. The deterioration in the terms of trade was less severe from negative 4.7 per cent in 2015 to negative1.0 per cent, due to improving price developments.

Table 3.2: World Trade Volumes, 2012 - 2016

(Average Annual Percentage Change in Trade in Goods and Services)

	Advanced Economies					Emerging and Developing Economies				
Volume of Trade	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Exports	2	2.4	3.6	3.1	1.6	4.6	4.3	3.9	3.9	3.0
Imports	1.7	1.4	3.7	3.9	2.4	6	5.3	4.4	1.3	2.5
Terms of Trade	-0.4	0.88	0.24	1.6	1.2	0.7	-0.19	0.02	-4.7	-1.0

Source: WEO, October, 2016 and January, 2017 updates

3.5 INTERNATIONAL FINANCIAL MARKETS

The global financial markets experienced significant volatility, due largely to the emergence of new shocks such as uncertainty surrounding the Brexit vote and its outcome and the US further rate hike, which widened policy divergence among the advanced economies. The resulting capital reversals from the emerging market and developing economies tightened their financial conditions, thereby exacerbating the vulnerabilities of stock markets and currency depreciations.

3.5.1 Money Markets

The global money markets were shaped by a number of financial and economic developments, including uncertainties surrounding the British referendum to exit the European Union (BREXIT) and its aftermath, continued transition of the Chinese economy to a balanced growth path as well as the bottoming-out of inflation in Advanced Europe. In addition, the widening monetary policy divergence among major advanced economies as the US Fed further raised rate, as well as the adjustments of commodity-exporters to terms of trade and constrained fiscal space, added to the uncertainty. These developments caused protracted financial market turbulence, especially in Asia, thereby worsening global risk aversion. In addition, improved macroeconomic conditions in the United States had negative cross-border implications for emerging market and developing economies, weakening their external reserves and currencies. Activity picked up in most advanced economies, strengthened by the pass-through of lower oil prices to end-users, leading to a rebound in aggregate demand and lower domestic costs.

A number of realignments and shocks posed major risk factors, namely the popularity of anti-integration platforms, the impact of the Brexit vote on political sentiment in other EU members, as well as global pressure to adopt populist, inward-looking policies. These developments exerted downward pressure on interest rates, thereby justifying further monetary accommodation in the advanced economies.

The monetary policy divergence of the major advanced economies remained, with Japan and the euro area, sustaining their monetary accommodation policies, while the United States intensified monetary tightening. In general, emerging market and developing economies adopted largely monetary restraints, to stabilise their local currencies, ensure price stability and attract capital inflow.

3.5.2 Capital Markets

In 2016, developments in the global stock markets were mixed. Stocks were predominantly bearish in Africa and Asia, whereas most markets were bullish elsewhere. Activity in the European and Asian stock markets was driven by a modest activity in the U.S and other advanced economies. In the emerging market and developing economies, the cross-border effects of the slowdown of the Chinese economy weakened other economies in the region, thereby subduing activity and adversely impacting their stock markets. The limited fiscal space in commodity-exporting countries on the back of lower commodity prices continued to reduce aggregate demand, and weigh down on financial markets. In the euro area, the expanded ECB's monetary accommodation programme eased financing conditions and buoyed the Euro Zone economy and its stock markets.

Following these developments, the North American S&P 500, the Canadian S&P/TSX Composite, and the Mexican Bolsa indices increased by 9.5, 17.5, and 6.2 per cent, respectively. In South America, the Argentine Merval, the Brazilian Bovespa and the Columbian COLCAP increased by 44.9, 38.9 and 17.2 per cent, respectively. In Europe, the FTSE 100, the CAC 40, the German DAX, and the Russian MICEX indices, all increased by 14.4, 4.9, 6.9, and 26.8 per cent, respectively.

In Asia, Japan's Nikkei 225 and India's BSE Sensex index increased modestly by 0.4 and 1.9 per cent, respectively, while China's Shanghai Stock Exchange-A index declined by 12.3 per cent.

In Africa, the Egyptian EGX CASE 30 index increased remarkably by 75.4 per cent, while the Nigerian NSE ASI, the Kenyan Nairobi NSE 20, the Ghanaian GSE, and the South African JSE All-Share indices decreased by 6.2, 21.1, 15.3 and 0.1 per cent, respectively. The Nigerian equities market was weighed down by a combination of factors, including low external reserves, owing to capital reversals and lower crude oil prices, as well as waning business and consumer confidence.

Table 3.3: Selected International Stock Markets Indices as at Dec 31, 2016							
Country	Index	31-Dec-15	31-Mar-16	30-Jun-16	30-Sep-16	30-Dec-16	% Change b/w (a) and (e)
AFRICA		(a)	(b)	(c)	(d)	(e)	(f)
Nigeria	NSE All-Share Index	28,642.25	25,306.22	29,597.79	28,335.40	26,874.62	-6.2
South Africa	JSE All-Share Index	50,693.76	52,250.28	52,217.72	52,217.72	50,653.54	-0.1
Kenya	Nairobi NSE 20 Share index	4,040.75	3,982.09	3,640.61	3,640.61	3,186.21	-21.1
Egypt	EGX CASE 30	7,006.01	7,524.99	6,942.52	6,942.52	12,290.61	75.4
Ghana	GSE All-Share Index	1,994.91	1,912.02	1,787.50	1,787.50	1,689.18	-15.3
NORTH AMERICA							
US	S&P 500	2,043.94	2,059.74	2,098.86	2,098.86	2,238.83	9.5
Canada	S&P/TSX Composite	13,009.95	13,494.36	14,064.54	14,064.54	15,287.59	17.5
Mexico	Bolsa	42,977.50	45,881.08	45,966.49	45,966.49	45,642.90	6.2
SOUTH AMERICA							
Brazil	Bovespa Stock	43,349.96	50,055.27	51,526.93	51,526.93	60,227.29	38.9
Argentina	Merval	11,675.18	12,992.43	14,683.49	14,683.49	16,917.86	44.9
Columbia	COLCAP	1,153.71	1,336.27	1,313.18	1,313.18	1,351.68	17.2
EUROPE							
UK	FTSE 100	6,242.32	6,174.90	6,504.33	6,504.33	7,142.83	14.4
France	CAC 40	4,637.06	4,385.06	4,237.48	4,237.48	4,862.31	4.9
Germany	DAX	10,743.01	9,965.51	9,680.09	9,680.09	11,481.06	6.9
Russia	MICEX	1,761.36	1,871.15	1,891.09	1,891.09	2,232.72	26.8
ASIA							
Japan	NIKKEI 225	19,033.71	16,758.67	15,575.92	15,575.92	19,114.37	0.4
China	Shanghai SE A	3,704.29	3,143.56	3,066.50	3,066.50	3,249.59	-12.3
India	BSE Sensex	26,117.54	25,341.86	26,999.72	26,999.72	26,626.46	1.9

Source: Bloomberg

3.5.3 The International Foreign Exchange Market

In 2016, most currencies depreciated against the U.S. dollar, due to a combination of a number of global developments. These developments included uncertainty surrounding the Brexit vote, continued US monetary policy normalization, as well as capital flow reversals. Consequently, there was subdued activity in the advanced economies, due to a drag by the United

States and the UK economies. These developments continued to fuel financial system vulnerabilities, currency depreciations and macroeconomic imbalances, especially in the emerging market and developing economies. The firming of oil prices, notwithstanding, the adjustment of commodity-exporters to protracted terms of trade deterioration due to lower commodity prices continued to cause fragilities in these economies. In Asia, the continued slowdown and realignments in China caused reverberations, with significant cross-border effects in the region, leading to the divergence of monetary policy stance between China and Japan and weak financial markets and currencies in other countries in the region.

The above developments led to the weakening of major currencies. The British pound and the euro depreciated against the US dollar by 19.1 per cent and 3.3 per cent, respectively, although the Russian ruble appreciated by 15.5 per cent. In Asia, the Japanese yen appreciated by 2.7 per cent, while the Chinese yuan and the Indian rupee depreciated by 7.1 and 2.7 per cent against the US dollar, respectively.

In North America, the Canadian dollar appreciated by 2.9 per cent, while the Mexican peso depreciated by 20.3 per cent, respectively, against the US dollar. The Brazilian real and the Colombian peso appreciated by 17.7 per cent and 5.4 per cent, respectively against the US dollar, while the Argentine peso depreciated by 22.8 per cent.

In Africa, the South African rand appreciated by 11.2 per cent, while the Nigerian naira, the Kenyan shilling, the Egyptian pound, and the Ghanaian cedi depreciated against the US dollar by 54.8, 0.2, 131.7 and 11.3 per cent, respectively.

Overall, the Kenyan shilling was the least depreciated among the currencies surveyed, while the Egyptian pound witnessed the largest depreciation in the review period.

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

	Currency	31-Dec-14	31-Dec-15	31-Dec-16	% Change (31Dec14/31 Dec15)	% Change (31Dec15/31Dec 16)
AFRICA					MTM% App/Dep	YTD % App/Dep
	Nigeria Naira	169.68	197	305.00	-16.1	-54.8
	South Africa Rand	11.57	15.48	13.74	-33.8	11.2
	Kenya Shilling	90.6	102.3	102.51	-12.9	-0.2
	Egypt Pound	7.15	7.83	18.14	-9.5	-131.7
	Ghana Cedi	3.22	3.81	4.24	-18.3	-11.3
NORTH AMERICA						
	Canada Dollar	1.16	1.38	1.34	-19.0	2.9
	Mexico Peso	14.75	17.23	20.73	-16.8	-20.3
SOUTH AMERICA						
	Brazil Real	2.66	3.96	3.26	-48.9	17.7
	Argentina Peso	8.47	12.93	15.88	-52.7	-22.8
	Colombia Peso	2376.51	3174.5	3002.00	-33.6	5.4
EUROPE						
	UK Pound	0.64	0.68	0.81	-6.3	-19.1
	Euro Area Euro	0.83	0.92	0.95	-10.8	-3.3
	Russia Ruble	60.74	72.85	61.54	-19.9	15.5
ASIA						
	Japan Yen	119.78	120.2	116.96	-0.4	2.7
	China Yuan	6.05	6.49	6.95	-7.3	-7.1
	India Rupee	61.8	66.15	67.92	-7.0	-2.7

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

3.5.4 Central Bank Policy Rates

In 2016, monetary policy remained largely accommodative in most advanced economies, reflecting monetary authorities' response to new global shocks and realignments, widening output gap in the emerging market and developing economies and fears of deflation in advanced economies. The continued slowdown in many advanced economies despite their quantitative easing programmes, led the central banks to adopt other unconventional policies, including the use of negative interest rates.

The Federal Reserve and the Bank of England (BoE) generally retained their policy rates at 0.50 per cent apiece. In December 2016, however, the Fed raised its rate by 0.25 percentage point, while the BoE lowered its policy rate to 0.25 per cent in August. The European Central Bank generally maintained zero per cent interest rate in 2016, as part of its expanded monetary accommodation programme.

In emerging market and developing economies, monetary policy stance was mixed. In some economies, policy rates increased during the year to attract foreign capital and stem foreign exchange pressure, while others lowered their policy rates to address growth concerns. The Central Bank of Brazil largely maintained its policy rate at 14.25 per cent, and lowered it in the last quarter of the year. In South Africa, the Reserve Bank raised its policy rate from 6.25 per cent to 7.00 per cent. Ghana generally sustained its policy rate at 26.0 per cent to curtail pressure on inflation and its currency, and reduced it by 0.50 percentage point in the last quarter.

India, however, continued a gradual decrease of its policy rate throughout the year, from 6.75 to 6.50 per cent in the second quarter, and further to 6.25 per cent in the fourth quarter. The Bank of China maintained a steady policy rate of 4.35 per cent throughout 2016, while the Bank of Japan retained its policy rate at 0.1 per cent in 2016. The Central Bank of Nigeria increased its policy rate from 11.0 to 12.0 per cent in April and from 12.0 to 14.0 per cent in July, 2016.

Table 3.5: Monetary Policy Rates of Selected Countries, 2015-2016

	Ghana	S. Africa	Kenya	Nigeria	Brazil	Chile	USA	Japan	Euro Area	India	Russia	China	UK	Indonesia
Dec-15	11.5	6.25	26	11	14.25	0.25-0.5	0-0.10	0.05	6.75	11	4.35	0.5	7.5	7.75
2016														
January	26	6.75	11.5	11	14.25	4.25	0-0.25	0-0.10	0.05	6.75	11	4.35	0.5	7.5
February	26	6.75	11.5	11	14.25	4.25	0.25-0.5	0-0.10	0.05	6.75	11	4.35	0.5	7
March	26	7	11.5	11	14.25	4.00	0.25-0.5	0-0.10	0	6.75	11	4.35	0.5	6.75
April	26	7	11.5	12	14.25	4.00	0.25-0.5	0-0.10	0	6.5	11	4.35	0.5	6.75
May	26	7	11.5	12	14.25	4.00	0.25-0.5	0-0.10	0	6.5	11	4.35	0.5	6.75
June	26	7	10.5	12	14.25	4.00	0.25-0.5	0-0.10	0	6.5	10.5	4.35	0.5	6.5
July	26	7	10.5	14	14.25	3.75	0.25-0.5	0-0.10	0	6.5	10.5	4.35	0.5	6.5
August	26	7	10.5	14	14.25	3.50	0.25-0.5	0-0.10	0	6.5	10.5	4.35	0.25	6.5
September	26	7	10	14	14.25	3.25	0.25-0.5	0-0.10	0	6.5	10	4.35	0.25	5
October	26	7	10	14	14	3.00	0.25-0.5	0-0.10	0	6.25	10	4.35	0.25	4.75
November	25.5	7	10	14	13.75	3.00	0.25-0.5	0-0.10	0	6.25	10	4.35	0.25	4.75
December	25.5	7	10	14	13.75	3.00	0.5-0.75	0-0.10	0	6.25	10	4.35	0.25	4.75

Source: Bloomberg

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

In 2016, the Nigerian economy was shaped by a congruence of global influences, which caused a number of macroeconomic imbalances. The key influences included the low oil and commodity prices, which impacted adversely the balance of trade and foreign exchange receipts; and slowdown of the Chinese economy, which subdued economic activity in the emerging market and developing economies. In addition, major realignments such as the Brexit vote, heightening anti-integration movements as well as widened policy divergence in the advanced economies. Consequently, capital flow reversals intensified, due to continued appreciation of the dollar.

The persisting low international crude oil prices led to a remarkable drop in Nigeria's foreign exchange receipts and external reserves, thereby creating funding challenges in the foreign exchange market. The development caused substantial depreciation of the naira exchange rate with pass-through to domestic prices. Accordingly, the domestic price level witnessed upward pressure in 2016, despite the generally low global inflation, and the tight monetary policy stance of the Bank. The price development was accentuated by structural factors, including the adoption of a new pricing mechanism for premium motor spirit (PMS) and the reform of electricity tariff. Consequently, headline inflation during the year breached the Bank's single digit range of 6.0 – 9.0 per cent.

The Nigerian financial market was significantly impacted by developments in the global economic and financial environment. Foreign capital inflow stalled due to improved macroeconomic conditions in the advanced economies, and the continued normalisation of the US monetary policy. The development pressured external reserves significantly, and weakened the naira exchange rate throughout the year. Consequently, the domestic capital market was also affected as the Nigeria All-Share Index (ASI) declined by 6.2 per cent to 26,874.62 at end-December 2016, from 28,642.25 at end-December 2015. Overall, the unfavourable global developments weighed on economic activity, pressuring the Nigerian economy into recession.

CHAPTER FOUR

FINANCIAL SECTOR DEVELOPMENTS

The structure of the financial sector remained same as in 2015. The Bank's monetary policy was restrictive in response to the challenging global and domestic economic conditions. The monetary policy rate (MPR) was raised twice, from 11.00 per cent to 12.00 per cent and further to 14.00 per cent. The cash reserve ratio (CRR) was also raised by 250 basis points to 22.50 per cent. The corridor around the MPR for standing lending facility was retained at +200 basis points, while that of the deposit facility was narrowed to -500 basis points from -700 basis points. Notwithstanding the restrictive monetary policy stance, broad money supply, (M_2), expanded by 16.9 per cent, compared with the indicative benchmark of 10.98 per cent for fiscal 2016, reflecting significant growth in net foreign assets and domestic credit (net) of the banking system. Aggregate credit to the domestic economy grew by 25.6 per cent, compared with its indicative target of 17.94 per cent for 2016 and reflected the significant increase in both claims on the Federal Government and credit to the private sector.

Developments in financial sector were mixed in 2016. An improvement in financial sector development improved, with the ratio of M_2 to GDP at 23.1 per cent, higher than 21.3 per cent at end-2015. Banking system's capacity to finance economic activities increased slightly, with aggregate credit/GDP ratio at 26.7 per cent, compared with 23.0 per cent at end-2015, and credit to the core private sector/GDP ratio at 21.2 per cent, up from 19.2 per cent at end-2015. Intermediation efficiency, however, declined, with COB/M_2 and COB/GDP ratio at 7.8 and 1.8 per cent, respectively, from 7.3 and 1.6 per cent in 2015. Although aggregate savings (quasi money), increased over its level at end-December 2015, its share in GDP, at 12.13 per cent, was slightly lower than the 12.17 per cent recorded at end-2015. Foreign currency deposits with banks, however, dominated aggregate savings and stood at 4.5 per cent as a ratio of GDP, compared with 4.0 per cent at end-2015.

Total money market assets outstanding grew by 35.5 per cent above the level at end-2015, due to increase in treasury bills and FGN Bonds outstanding. Activities on the Nigerian Stock Exchange were bearish in 2016. Total market capitalisation of listed securities and the All Share Index fell by 4.8 and 6.2 per cent, respectively. Though aggregate volume of traded securities increased marginally by 3.2 per cent above the level in the preceding year, the value of traded securities fell significantly by 39.6 per cent.

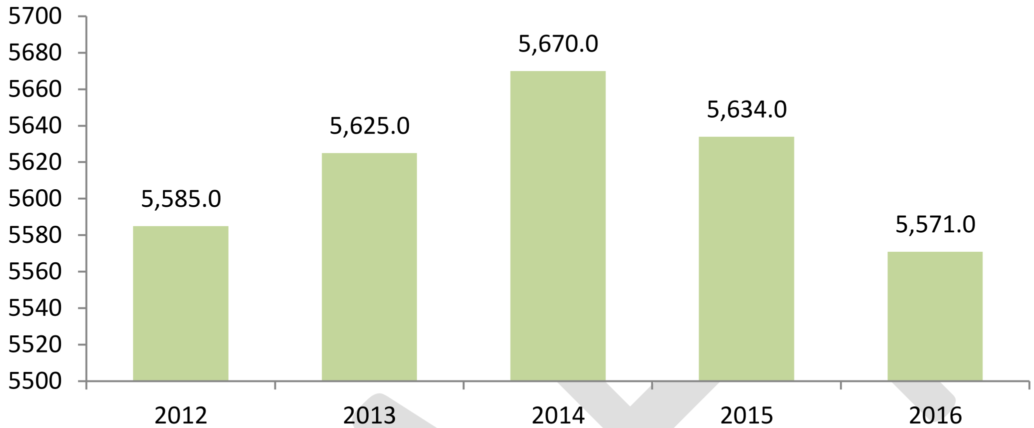
4.1 INSTITUTIONAL DEVELOPMENTS

4.1.1 Growth and Structural Changes

The structure of the Nigerian financial sector was the same as in 2015. Following the licensing of Providus Bank Plc. in the review year, the number of licensed banks in the industry increased to 26, compared with 25 in 2015, and comprised

21 commercial banks, four (4) merchant banks and one (1) non-interest bank. The number of bank branches, decreased marginally to 5,571 from 5,634 in 2015. Also, the regional authorisation licence of Jaiz Bank Plc was upgraded to national banking licence in the review period.

Figure 4.1: Banks' Branch Network, 2012 – 2016



Source: CBN

The number of foreign subsidiaries of Nigerian banks and representative offices of foreign banks in Nigeria remained unchanged at 60 and 10, respectively, in 2016. The number of representative offices of Nigerian banks abroad, however, decreased from 10 in 2015 to 8 in the review year.

In the other financial institutions (OFIs) sub-sector, following the exit of one (1) development finance institution (DFI) slated for liquidation, the number of DFIs declined to five (5) from six (6) in the preceding year. Also, I-Care Microfinance Bank was licensed as a unit Non-Interest Microfinance bank, while eleven (11) Unit Microfinance banks merged to acquire State MFB authorisation, thus bringing the number of licensed MFBs to 978 at end-December 2016, compared with 958 in 2015.

Following the conversion of one (1) primary mortgage bank (PMB) to a regional commercial bank, the number of licensed PMBs decreased to 34 at end-

December 2016 from 35 in 2015. The thirty-four (34) PMBs in operation comprised ten (10) "national" and 24 "state" PMBs.

The number of finance companies (FCs) at end-December 2016 was 75 compared with 66 in the previous year. The number included four (4) newly licensed institutions that were yet to commence operations, and five (5) FCs earlier delisted for returning their operating licences to the CBN, pending their liquidation. The number of Bureau-de-Change (BDCs) increased to 3,147 at end-December 2016, from 2,839 in 2015, owing to the issuance of 58 new BDC licences and the approval granted to 249 previously licensed BDCs that missed the deadline for recapitalisation in 2014, to do so in the review period.

4.1.2 Consumer Protection

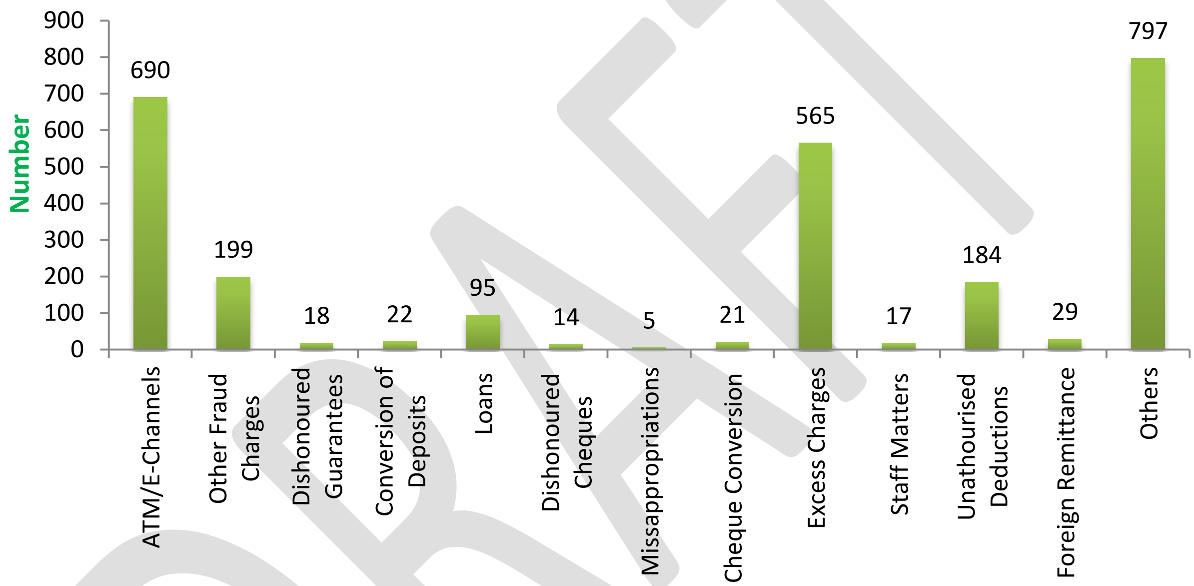
The Bank received a total of 2,656 complaints from consumers against financial institutions, compared with 1,777 in 2015. Of this number, complaints against banks and OFIs accounted for 96.0 and 4.0 per cent, respectively, compared with 99.4 and 0.6 per cent in 2015. The complaints included ATM issues, excess charges, dishonoured guarantees and cheques, fraudulent withdrawals and conversion of deposits, among others.

Twenty-two mediation meetings were held between banks and their customers, compared with 32 in 2015. Following the meetings and other measures by the Bank to facilitate resolution of disputes, 2,085 complaints were resolved and closed, compared with 1,138 resolved complaints in 2015. The remaining cases were at different stages of resolution. In addition, the Bank conducted compliance examination of banks to ascertain the level of compliance with regulatory directives and effectiveness of operators' complaint management mechanism.

The total value of unverified claims by consumers in respect of complaints lodged against banks in naira and dollar currencies were ₦73.4 billion and US$97.7 million, respectively, in 2016. The verified claims amounted to ₦26.0

billion and US$5.4 million, while the actual refunds by the banks were ₦21.3 billion and US$3.1 million, respectively. Refunds to customers based on recommendations and directives from compliance examination were ₦11.5 billion and US$58,522.0, respectively, while refunds based on consumer complaints were ₦9.8 billion and US$5.2 million. Five (5) banks were penalised for failure to comply with various regulatory directives, and corrective actions communicated to the concerned institutions.

Figure 4.2: Consumer Complaints by Category, 2016

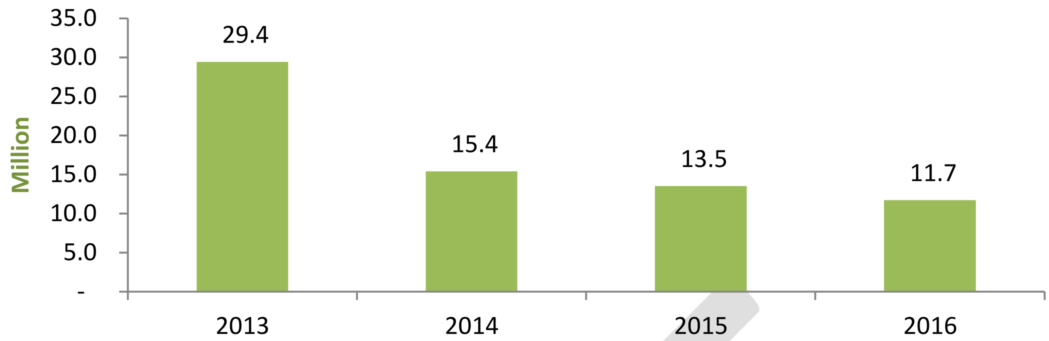


Source: CBN

4.1.3 Cheques

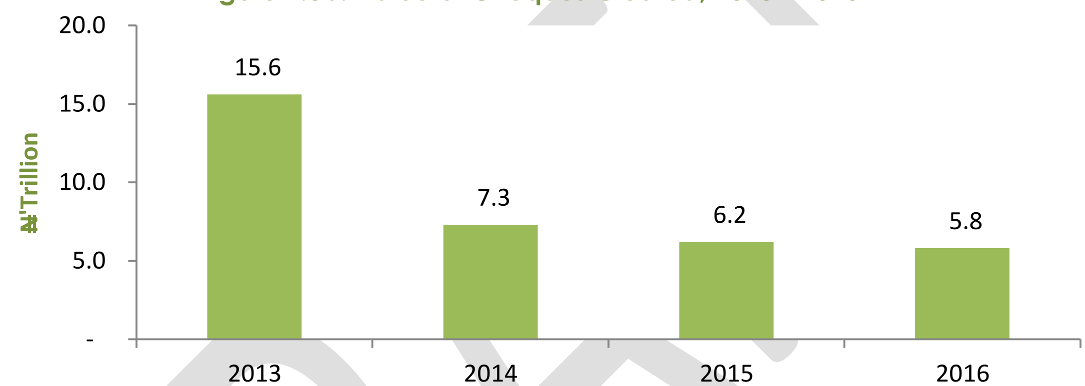
The volume and value of cheques cleared nationwide fell by 13.3 per cent and 6.5 per cent to 11.7 million and ₦5.8 trillion, from 13.5 million and ₦6.2 trillion in 2015, respectively. The development was attributed to users' preference for e-payment channels.

Figure 4.3a: Volume of Cheques Cleared, 2013 - 2016



Source: CBN

Figure 4.3b: Value of Cheques Cleared, 2013 - 2016



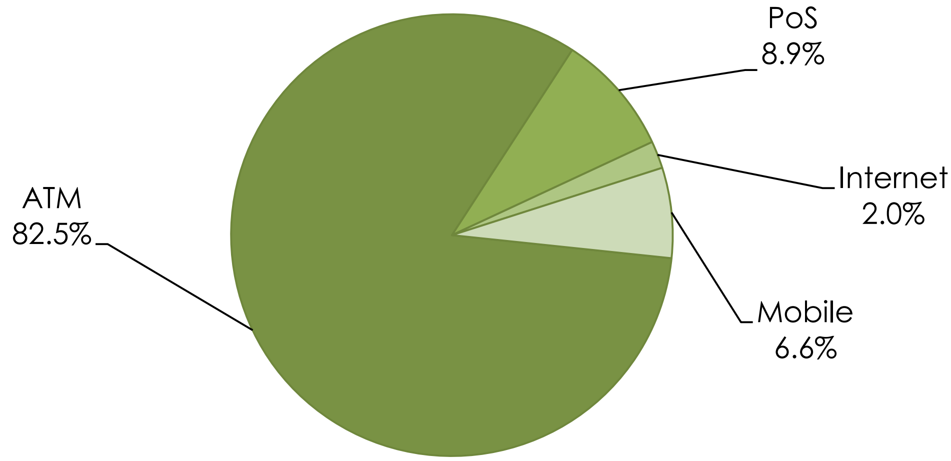
Source: CBN

4.1.4 Use of e-Money Products

The volume and value of e-money products (comprising ATM, PoS, Mobile and Internet payments) rose by 37.7 per cent and 34.0 per cent to 715.1 million and ₦6,636.4 billion, respectively, over the 519.2 million and ₦4,952.7 billion recorded in the preceding year.

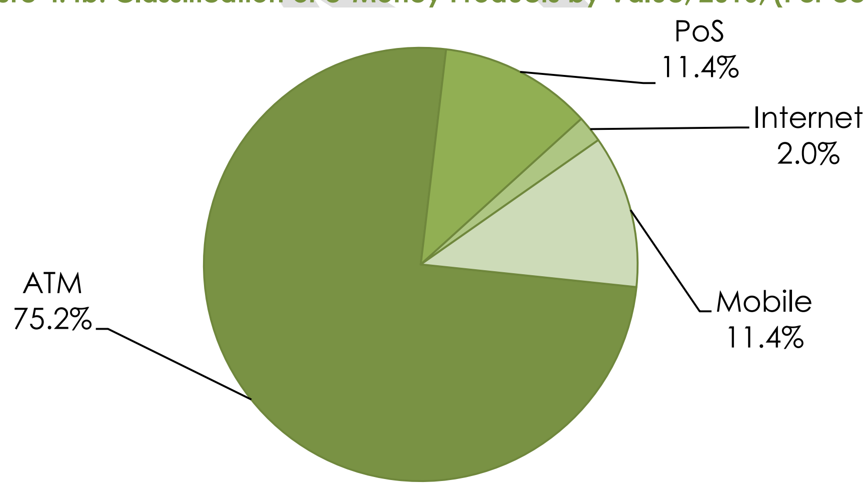
A breakdown of e-payment channels transactions for 2016 indicated that ATM remained the most patronised, accounting for 82.5 per cent, followed by PoS terminals and mobile payments with 8.9 per cent and 6.6 per cent, respectively. The web (internet) was the least patronised, accounting for 2.0 per cent of the total. In terms of value: ATM accounted for 75.2 per cent: PoS, 11.4 per cent; Mobile channels, 11.4 per cent; and web (internet), 2.0 per cent. The increase in e-payment transactions was attributed to increased consumers' confidence and awareness in the use of the e-payments channels.

Figure 4.4a: Classification of e-Money Products by Volume, 2016, (Per cent)



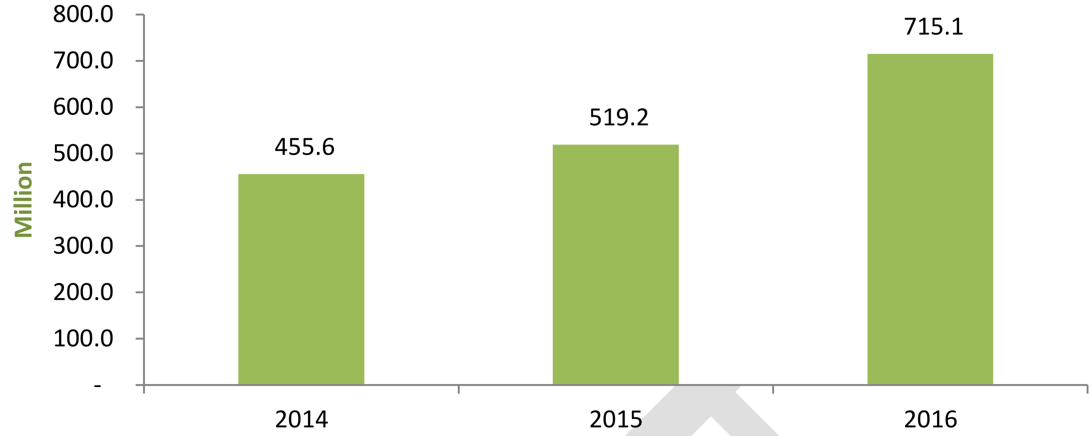
Source: CBN

Figure 4.4b: Classification of e-Money Products by Value, 2016, (Per cent)



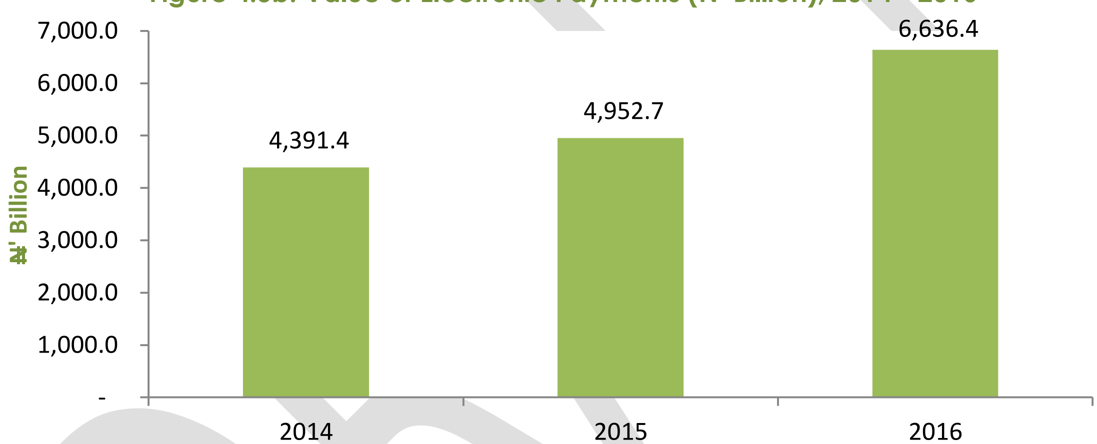
Source: CBN

Figure 4.5a: Volume of Electronic Payments (Million), 2014 - 2016



Source: CBN

Figure 4.5b: Value of Electronic Payments (₦' Billion), 2014 - 2016

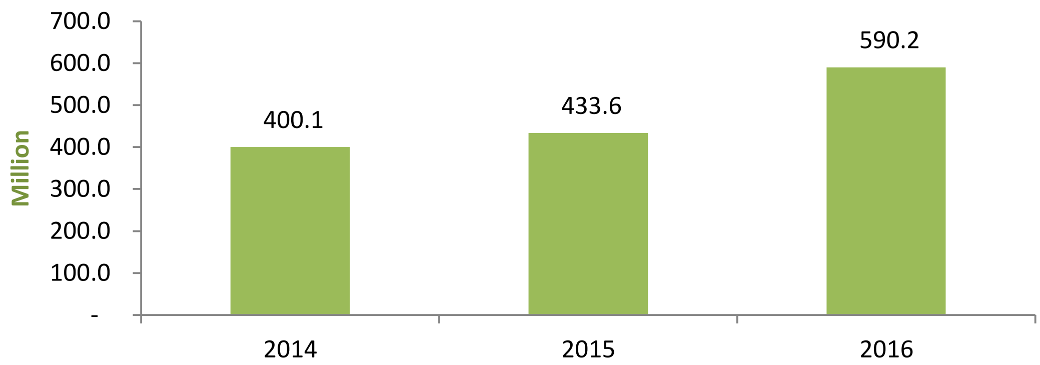


Source: CBN

4.1.4.1 Automated Teller Machine (ATM) Transactions

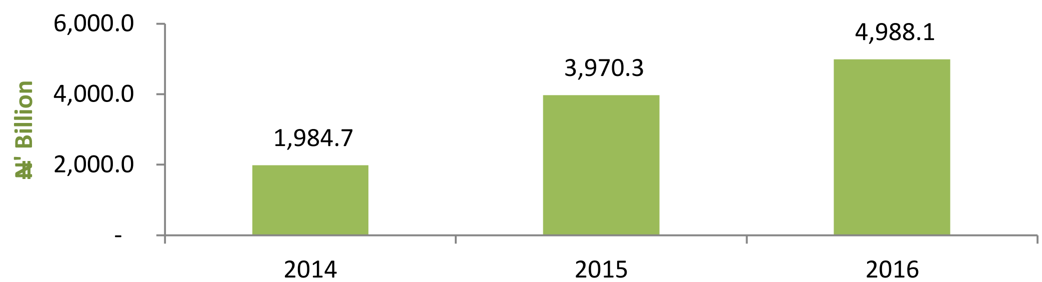
The number of ATMs deployed was 17,398 at end-December 2016, indicating 6.0 per cent increase above 16,406 recorded in 2015. Similarly, the volume and value of ATM transactions increased by 36.1 per cent and 25.6 per cent to 590.2 million and ₦4,988.1 billion, respectively, from 433.6 million and ₦3,970.30 billion in 2015.

Figure 4.6a: Volume of ATM Transactions, 2014 – 2016, (Million)



Source: CBN

Figure 4.6b: Value of ATM Transactions, 2014 – 2016, (₦' Billion)

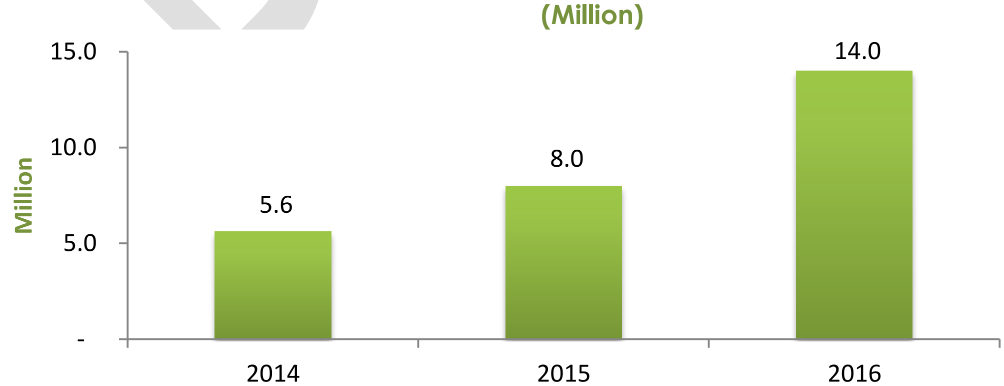


Source: CBN

4.1.4.2 Web Transactions

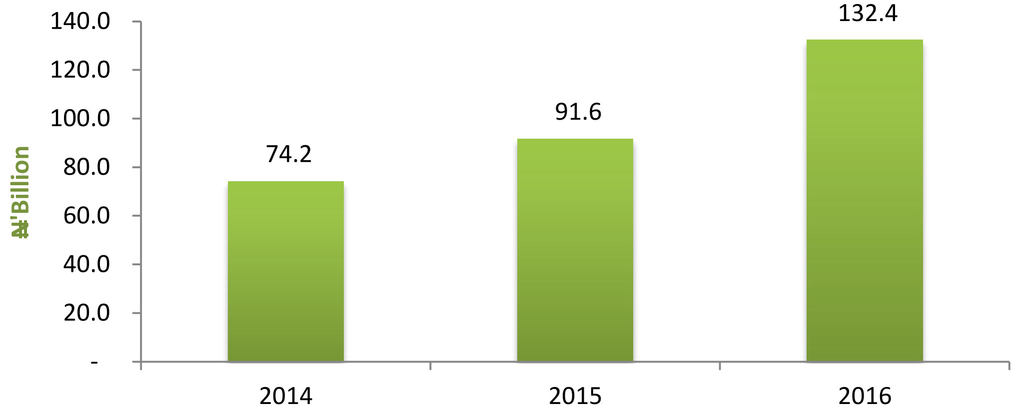
The volume and value of transactions on the web increased by 75.0 per cent and 44.5 per cent to 14.0 million and ₦132.4 billion, respectively, in 2016, compared with 8.0 million and ₦91.6 billion in 2015. The development was attributed to increased consumers' acceptance of the platform.

Figure 4.7a: Volume of Web Transactions, 2014 – 2016 (Million)



Source: CBN

Figure 4.7b: Value of Web Transactions, 2014 – 2016 (₦' Billion)

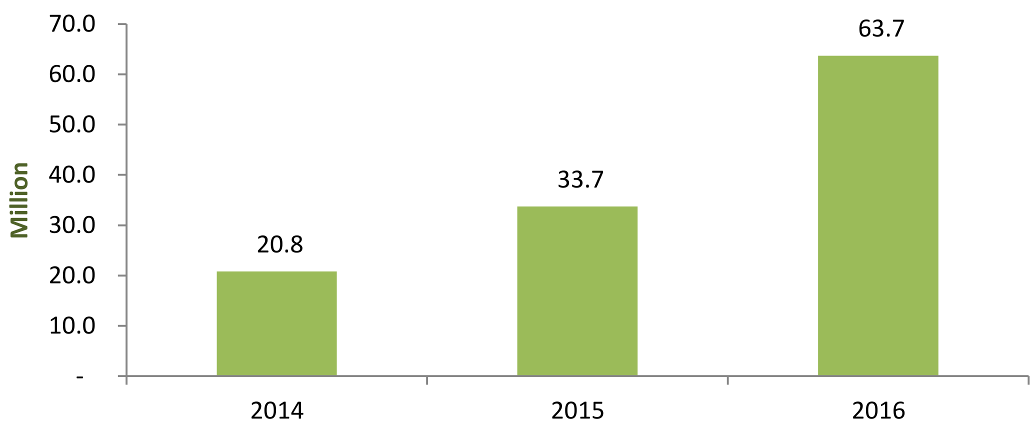


Source: CBN

4.1.4.3 Point-of-Sale (PoS) Transactions

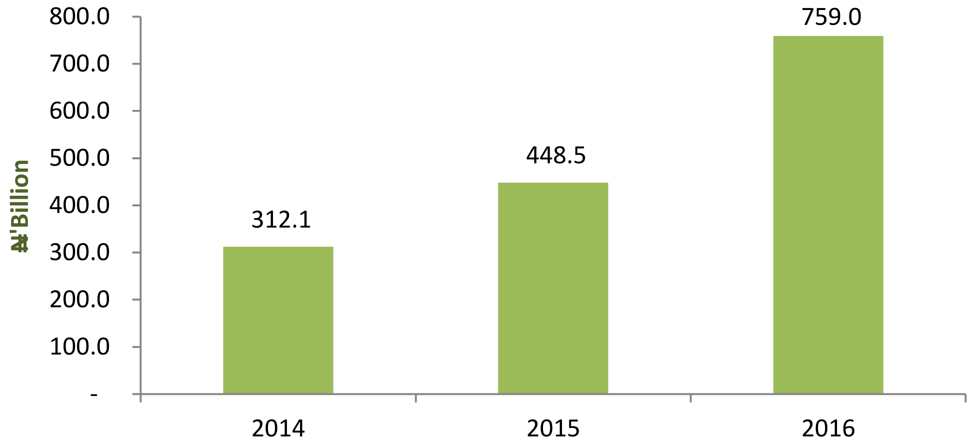
The volume and value of PoS transactions increased by 89.0 per cent and 68.2 per cent to 63.7 million and ₦759.0 billion, respectively, in 2016, compared with 33.7 million and ₦448.5 billion in 2015. The development was attributed to increased public confidence in the use of the channel.

Figure 4.8a: Volume of PoS Transactions, 2014 – 2016 (Million)



Source: CBN

Figure 4.8b: Value of PoS Transactions, 2014 – 2016 (₦' Billion)

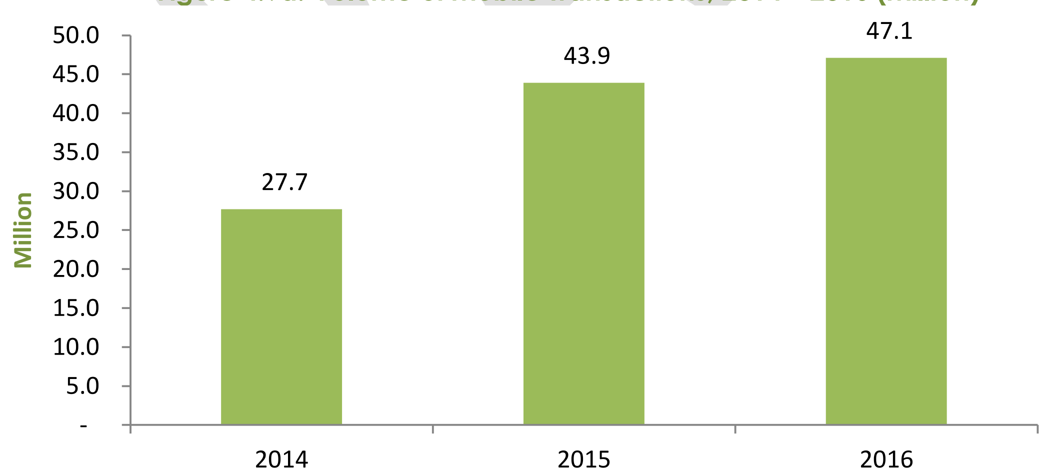


Source: CBN

4.1.4.4 Mobile Payments

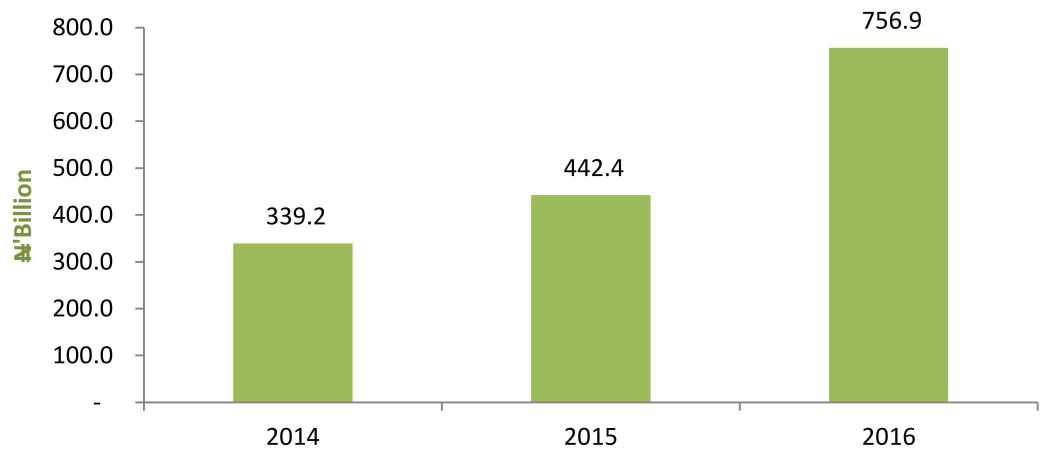
The volume and value of mobile payments increased by 7.3 per cent and 71.1 per cent to 47.1 million and ₦756.9 billion, respectively, in 2016, compared with 43.9 million and ₦442.40 billion recorded in 2015. The development in transactions reflected users' acceptance of mobile payments.

Figure 4.9a: Volume of Mobile Transactions, 2014 – 2016 (Million)



Source: CBN

Figure 4.9b: Value of Mobile Transactions, 2014 – 2016 (₦' Billion)



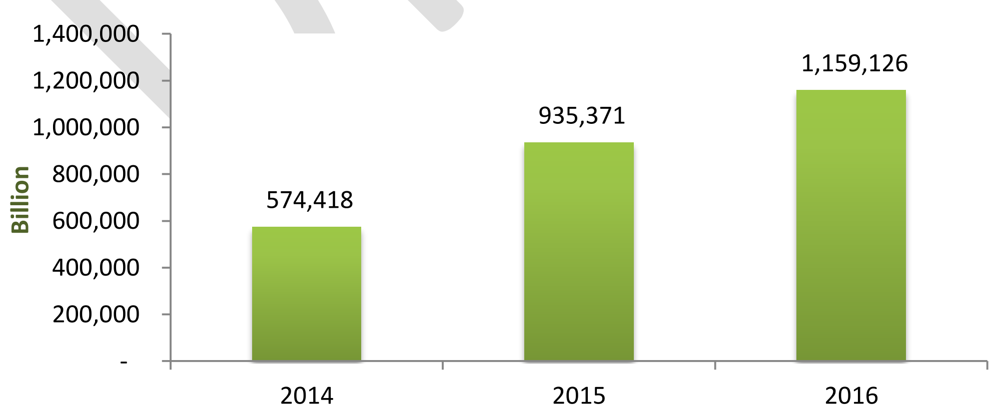
Source: CBN

4.1.5 The Wholesale Payments System

4.1.5.1 The Real Time Gross Settlement (RTGS) System

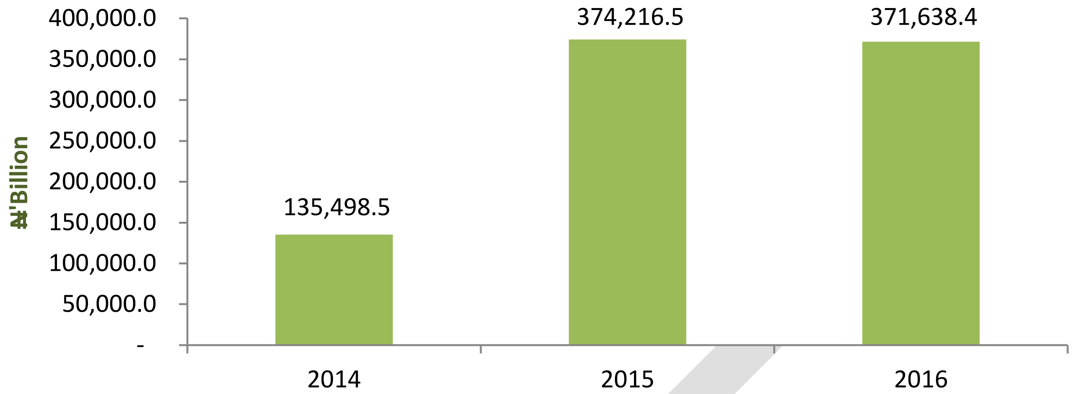
The volume of inter-bank fund transfers through the CBN Inter-bank Funds Transfer System (CIFTS) increased by 23.9 per cent to 1,159,126, above 935,371 in 2015, while the value decreased to ₦371,638.4 billion from ₦374,216.5 billion in 2015, indicating a marginal decline of 0.7 per cent. The development in volume was attributed to the use of the RTGS System for bulk upload of some retail payments of Ministries Department and Agencies (MDAs).

Figure 4.10a: Volume of RTGS Transactions, 2014 – 2016



Source: CBN

Figure 4.10b: Value of RTGS Transactions, 2014 – 2016 (₦' Billion)

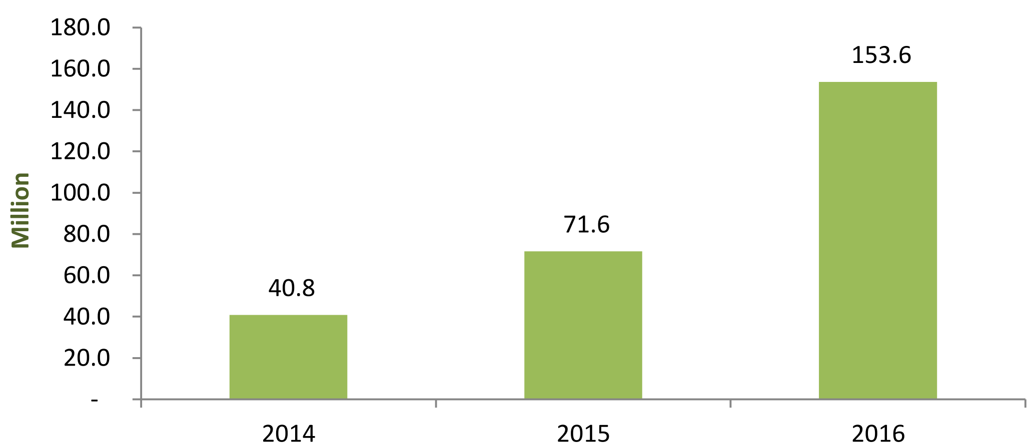


Source: CBN

4.1.5.2 NIBSS Instant Payment (NIP) Transactions

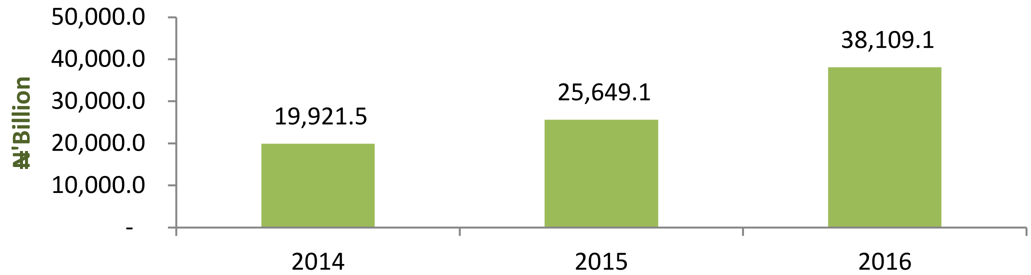
The volume and value of the NIBSS Instant Payment transactions increased significantly by 114.5 per cent and 48.6 per cent to 153.6 million and ₦38,109.1 billion, respectively, over 71.6 million and ₦25,649.1 billion, in 2015. The significant rise in the use of the channel was attributed to growing awareness and increased consumers' confidence in the scheme.

Figure 4.11a: Volume of NIP Transactions, 2014 – 2016 (Million)



Source: CBN

Figure 4.11b: Value of NIP Transactions, 2014 – 2016 (₦'Billion)

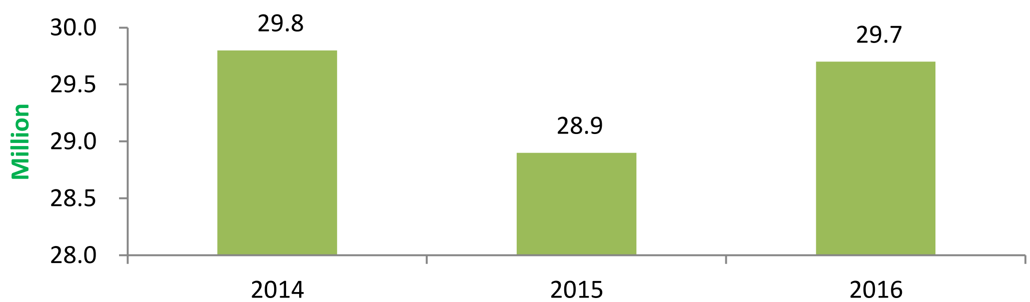


Source: CBN

4.1.5.3 The NIBSS Electronic Funds Transfer (NEFT)

The volume and value of NIBSS Electronic Fund Transfer increased by 2.8 per cnet and 11.4 per cent to 29,754,182 and ₦14,584.8 billion, respectively, in 2016, compared with 28,935,605 and ₦13,087.1 billion in 2015. The development was attributed to consumers' preference for the platform over cheques for its cost effectiveness and convenience.

Figure 4.12a: Volume of NEFT Transactions, 2014 – 2016 (Million)

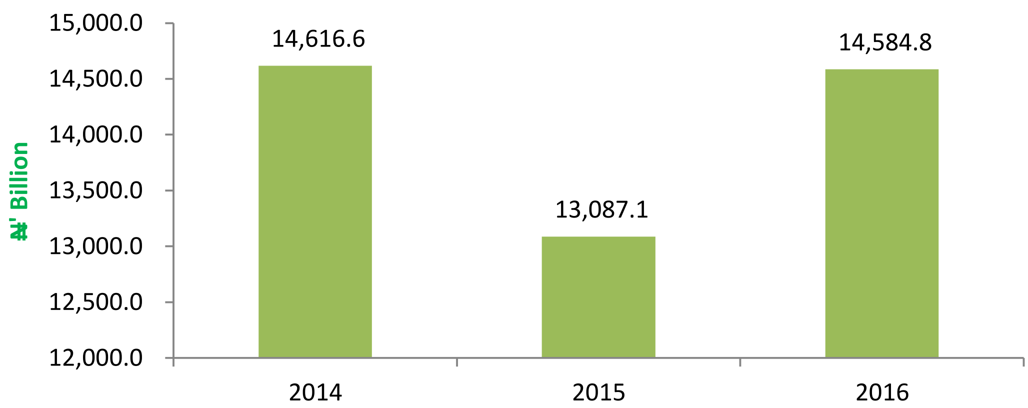


Source: CBN

4.1.5.3 Institutional Savings

Aggregate financial savings rose by ₦780.8 billion to ₦12,754.2 billion, from the level in 2015. The ratio of financial savings to GDP was 13.4 per cent, compared with 12.6 per cent in 2015. DMBs remained the dominant depository institutions in the financial system, accounting for 95.2 per cent of total financial savings, same as in the preceding year. Other savings institutions, namely, PMBs, insurance companies, pension fund custodians, the Nigerian social Insurance Trust Fund (NSITF) and microfinance banks accounted for the balance of 4.8 per cent.

Figure 4.12b: Value of NEFT Transactions, 2014 – 2016 (₦'Billion)



Source: CBN

4.2 MONETARY AND CREDIT DEVELOPMENTS

4.2.1 Reserve Money (RM)

Relative to the level at end-December 2015, reserve money grew by 0.6 per cent to ₦5,847.9 billion at end-December 2016. It was, however, below the programmed benchmark of ₦6,580.4 billion for fiscal 2016 by 11.1 per cent, reflecting the significant decline in net domestic assets of the CBN. The decline in domestic assets reflected the significant fall in net claims on the private sector. The corresponding downward movement in CBN's liabilities reflected the 12.0 per cent decline in bank reserves, which suppressed the 17.3 per cent growth in its currency component.

Table 4.1: Reserve Money (₦' Billion)

	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
Sources					
Net Foreign Assets	7,393.56	7,043.93	6,244.72	5,545.32	8,790.70
Net Domestic Assets	(1,496.16)	(1,150.06)	466.01	1,090.96	(1,854.00)
Net Claims on Gov.	(3,574.38)	(2,289.10)	(2,141.68)	(1,653.07)	409.50
Net Claims on Priv. Sect.	1,025.66	332.51	1,833.44	1,518.85	(3,895.70)
Claims on Banks	1,052.56	806.53	774.25	1,225.18	1,632.10
Other Items Net	(2,192.91)	(803.62)	(779.78)	(823.54)	(1,088.70)

Reserve Money	**3,704.48**	**5,090.24**	**5,930.95**	**5,812.74**	**5,847.90**
Uses					
Currency-in-Circulation	1,631.72	1,776.80	1,797.98	1,857.94	2,179.17
Bank Reserves	2,072.77	3,313.83	4,132.97	3,954.80	3,668.74
Reserve Money	**3,704.48**	**5,090.24**	**5,930.95**	**5,812.74**	**5,847.91**

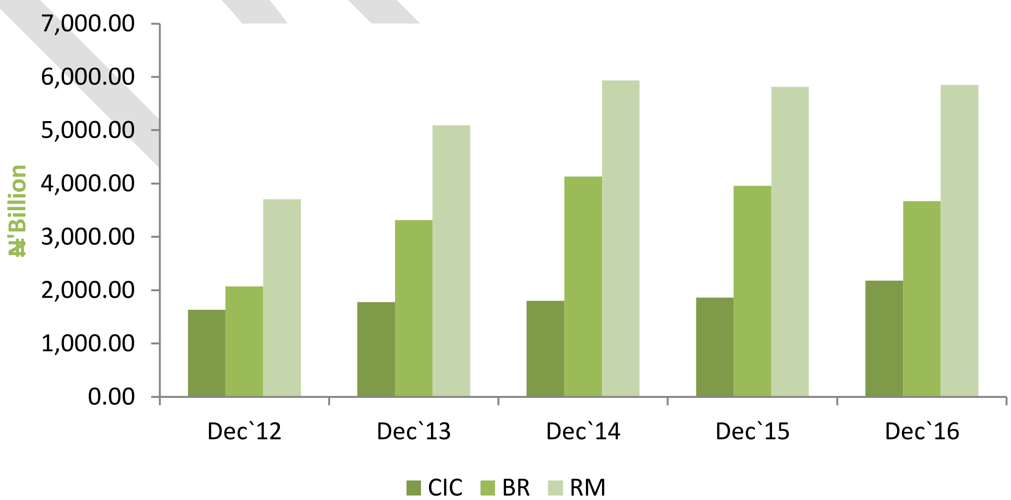
Source: CBN

Table 4.2: Reserve Money (Growth rates %)

	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
Sources					
Net Foreign Assets	26.95	(4.73)	(11.35)	(11.20)	58.52
Net Domestic Assets	(406.99)	23.13	140.52	134.11	(269.93)
Net Claims on Gov.	1.71	(35.96)	(6.44)	(22.81)	124.77
Net Claims on Priv. Sect.	(57.73)	(67.58)	451.39	(17.16)	(356.49)
Claims on Banks	32.72	(23.37)	(4.00)	58.24	33.21
Other Items Net	20.10	63.35	2.97	(5.61)	(32.20)
Reserve Money	**33.06**	**37.41**	**16.52**	**(1.99)**	**0.61**
Uses					
Currency-in-Circulation	4.19	8.87	1.21	3.34	17.29
Bank Reserves	70.18	59.87	24.72	(4.31)	(7.23)
Reserve Money	**33.06**	**37.41**	**16.52**	**(1.99)**	**0.61**

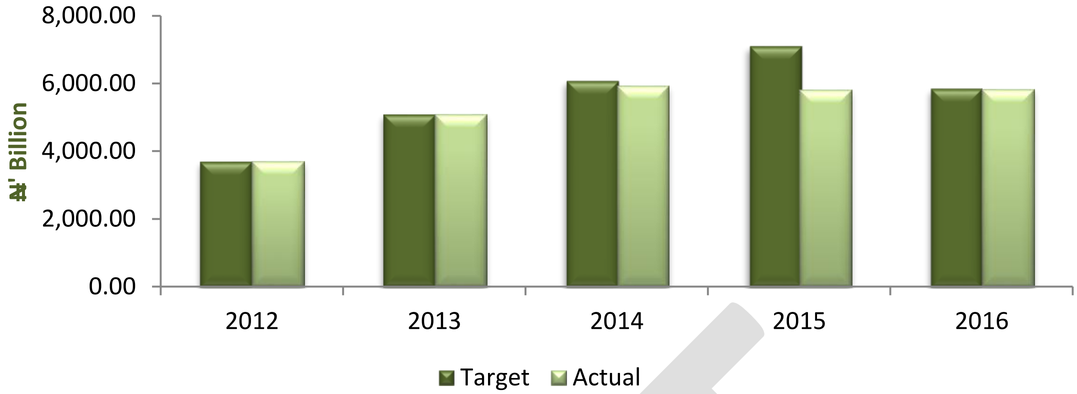
Source: CBN

Figure 4.13a: Reserve Money, 2012 - 2016



Source: CBN

Figure 4.13b: Reserve Money Targets and Outcomes, 2012 - 2016

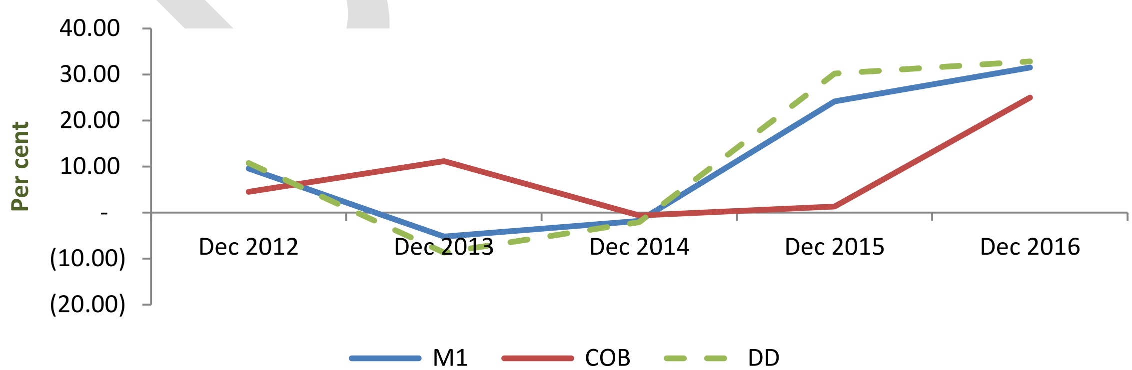


Source: CBN

4.2.2 Narrow Money (M_1)

Narrow money supply (M_1) grew by 31.5 per cent at end-December 2016, in contrast to the 24.1 per cent decline at end-December 2015. The significant growth of 32.8 per cent and 25.0 per cent in demand deposits and currency outside banks, respectively, accounted for the increase in M_1. Demand deposits and currency outside banks constituted 83.8 per cent and 16.2 per cent of narrow money supply, contributing 11.7 percentage points and 1.8 percentage points, respectively, to its growth. Uncertainties in the macroeconomic environment, inflationary pressures and low rates on term deposits accounted for the growth in demand deposits and the demand for cash.

Figure 4.14: Components of Narrow Money (M_1) (Per cent), 2012 - 2016

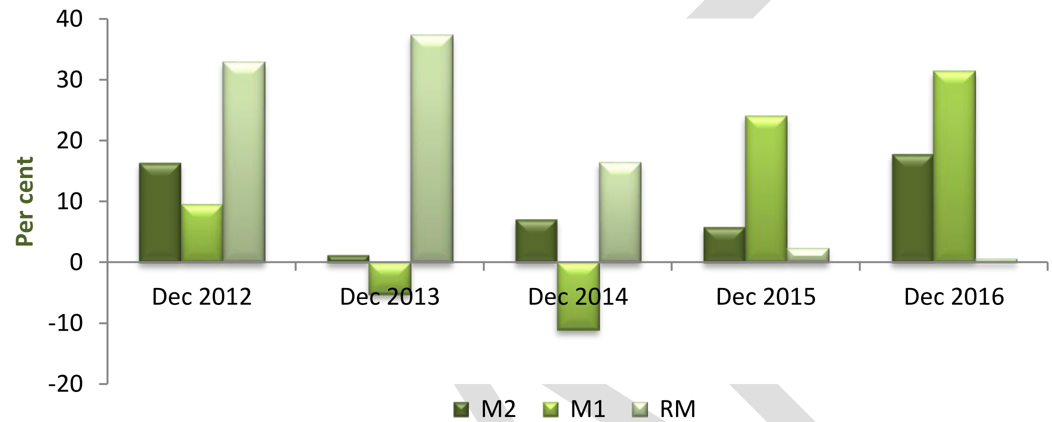


Source: CBN

4.2.3 Quasi-Money

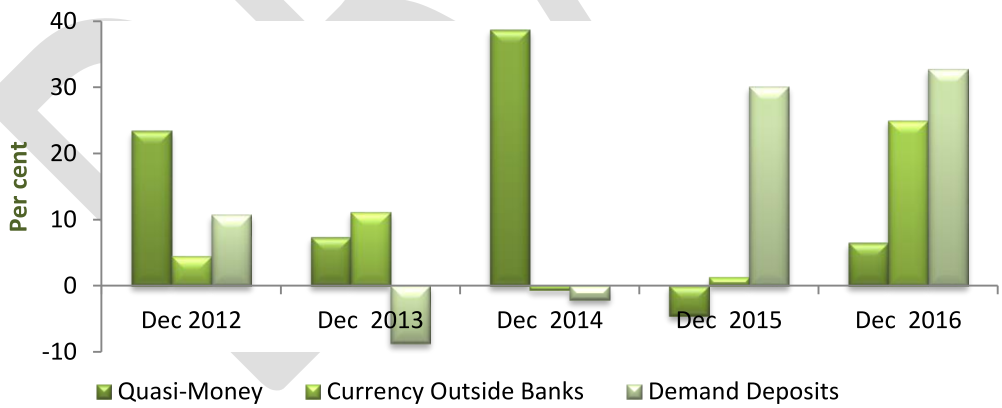
Quasi-money rose by 7.5 per cent to ₦12,320.23 billion at end-December 2016, in contrast to a decline of 4.6 per cent at end-December 2015. The development was due largely to the growth in FCD, which rose by 20.6 per cent to ₦4,580.5 billion at the end of the review period. As a proportion of Qm, FCD accounted for 37.2 per cent, while others accounted for 62.8 per cent.

Figure 4.15: Growth in Monetary Aggregates, 2012 – 2016, (Per cent)



Source: CBN

Figure 4.16: Growth in the Components of Broad Money (M_2), 2012 – 2016, (Per cent)



Source: CBN

4.2.4 Broad Money (M_2)

Broad money supply expanded at the end of 2016 despite the Bank's tight monetary policy stance. At end-December 2016, M_2 rose by 17.8 per cent, compared with the growth of 5.9 per cent at end-December 2015. The development reflected respective growth of 61.8 and 24.3 per cent in net foreign assets and domestic credit (net) of the banking system, which more than offset the 71.6 per cent decline in other assets (net). The 273.9 per cent and 210.6 per cent decline in other assets (net) of commercial banks and the CBN accounted for the fall in other assets (net) of the banking system.

4.2.5 Drivers of Growth in Broad Money

4.2.5.1 Net Foreign Assets (NFAs)

Following the adoption of a more flexible foreign exchange regime in June 2016, foreign assets of the CBN and banks increased, relative to their foreign liabilities. Consequently, net foreign assets of the banking system rose by 61.8 per cent to ₦9,149.7 billion at end-December 2016, in contrast to the decline of 18.7 per cent at the end of the corresponding period of 2015. The share of NFA in M_2 rose to 38.8 per cent from 28.2 per cent at end-December 2015. Also, its contribution to the growth in M_2 was 17.5 percentage points at end-December 2016, compared with a negative contribution of 6.9 percentage points at end-December 2015.

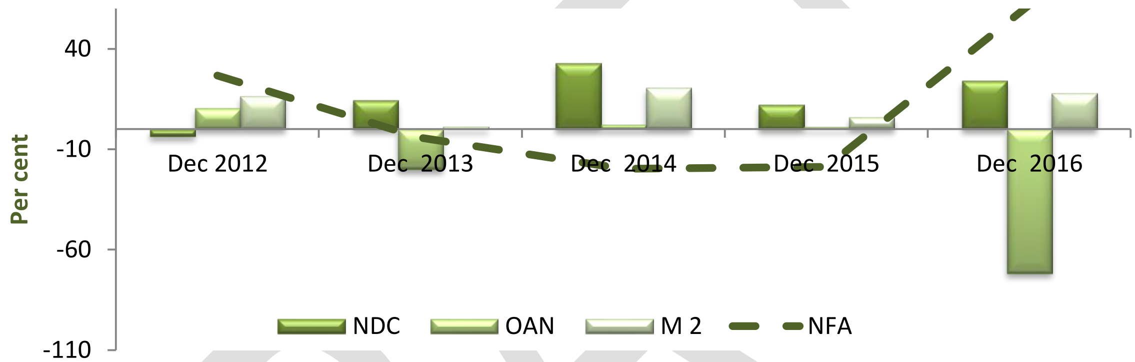
4.2.5.2 Net Domestic Credit (NDC)

Aggregate credit (net) to the domestic economy stood at ₦26,857.71 billion at end-December 2016, representing 24.3 per cent growth over the level a year ago. The growth in aggregate credit was attributed to significant increase in both net claims on the Federal Government and credit to the private sector. Consequently, NDC contributed 26.2 percentage points to the growth in M_2 at end-December 2016, compared with 12.4 percentage points at end-December 2015.

4.2.5.2.1 Net Credit to Government (NCG)

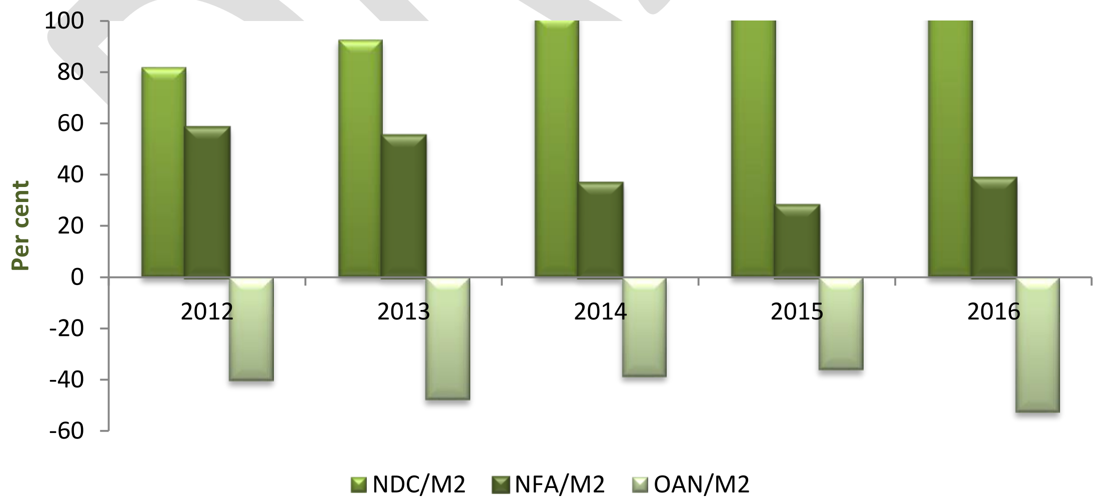
Net claims on the Federal Government increased by 68.6 per cent, compared with the growth of 151.6 per cent recorded at end-December 2015. The development reflected the growth in direct loans (75.2 per cent) and government securities, especially Treasury bills, 28.8 per cent and FGN Bonds, 30.9 per cent at the end of the review period. Claims on the Federal Government contributed 9.9 percentage points to the growth in broad money supply.

Figure 4.17: Growth in Broad Money Supply (M_2), 2012 – 2016, (per cent)



Source: CBN

Figure 4.18: Share of NFA, NDC and OAN in M_2, 2012 – 2016, (Per cent)

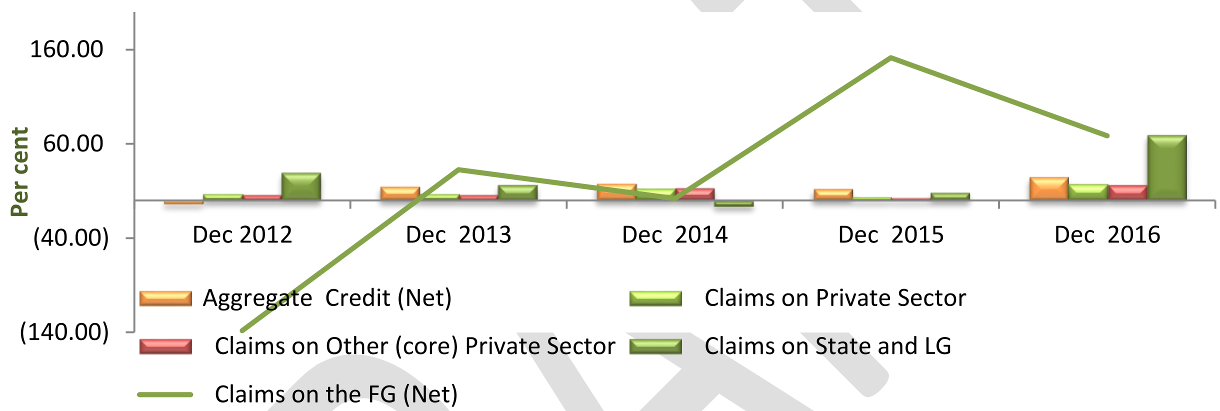


Source: CBN

4.2.5.2.2 Credit to the Private Sector (CP)

Banking system claims on the private sector (including states and local governments, and non-financial public enterprises) grew by 17.4 per cent to ₦21,982.1 billion at end-December 2016, compared with 3.3 per cent at end-December 2015. The development reflected the 69.1 per cent and 15.8 per cent growth in claims on states and local governments, and on the core private sector, respectively.

Figure 4.19: Growth in Net Domestic Credit, 2012 – 2016, (Per cent)



Source: CBN

Table 4.3 Contribution to the Growth in M2, 2012 – 2016, (Per cent)

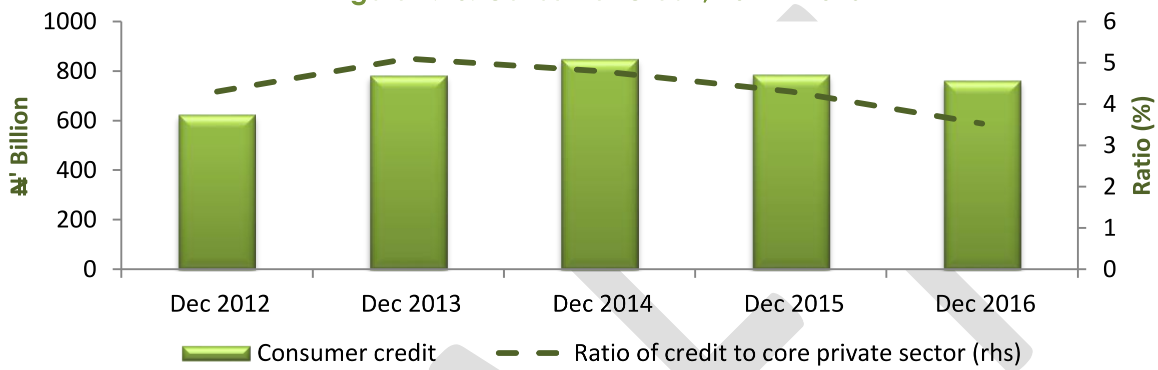
	Dec 12	Dec 13	Dec 14	Dec 15	Dec 16
Foreign Assets (Net)	14.32	(2.49)	(10.86)	(6.88)	17.5
Domestic Credit (Net)	(3.42)	11.71	30.35	12.37	26.2
Claims On Federal Govt. (Net)	(10.70)	11.71	30.35	9.22	9.9
Claims On Private Sector	7.28	6.56	12.47	3.15	16.3
Other Assets (Net)	5.49	(7.90)	1.06	0.42	(25.9)
Total Monetary Assets	16.39	1.32	20.55	5.90	17.8
Money Supply (M1)	4.88	(2.51)	(0.82)	8.81	13.5
Demand Deposits	4.46	(3.45)	(0.76)	8.71	11.7
Quasi Money	11.51	3.83	21.37	(2.91)	4.30
Total Monetary Liabilities (M2)	16.39	1.32	20.55	5.90	17.8

Source: CBN

4.2.5.2.2.1 Outstanding Consumer Credit

Outstanding consumer credit declined by 3.0 per cent to ₦762.07 billion at end-December 2016, from ₦785.53 billion a year ago. At that level, consumer credit constituted 3.5 per cent of banks' outstanding claims on the core private sector, compared with 4.3 per cent at end-December 2015.

Figure 4.20: Consumer Credit, 2012 - 2016



Source: CBN

4.2.5.3 Other Assets (Net) (OAN)

Other Assets (net) of the banking system increased by 71.6 per cent, in contrast to the decline of 2.5 per cent at end-December 2015. The development reflected significant growth in banking system's unclassified liabilities. The contribution of OAN to the growth in M_2 was negative 25.9 percentage points, in contrast to a positive contribution of 0.42 percentage point in 2015.

Table 4.4: Composition of Total Monetary Aggregates (M_2), 2012 - 2016 (Per cent)

	2012	2013	2014	2015	2016
Net Domestic credit	82.01	92.65	101.91	107.90	113.8
Claims on Federal Government (Net)	-15.85	-10.56	6.08	14.44	20.7
Credit on Private Sector	97.86	103.20	95.83	93.46	93.2
Claims on Other (core) Private Sector	93.55	98.09	92.85	90.41	88.7
Foreign Assets (Net)	**58.41**	**55.19**	**36.77**	**28.22**	**38.8**
Other Assets (Net)	**-40.42**	**-47.84**	**-38.68**	**-36.13**	**-52.6**
Total Monetary Assets	**100.0**	**100.0**	**100.0**	**100.0**	**100**
Money Supply (M_1)	**47.93**	**44.83**	**36.51**	**42.79**	**47.8**
Currency Outside Banks	8.40	9.22	7.60	7.27	7.7
Demand Deposit	39.52	35.61	28.91	35.53	40.1

Quasi Money	**52.07**	**55.17**	**63.49**	**57.21**	**52.2**
Time & Savings Deposit	52.07	55.17	63.5	56.81	51.5
Of which: Foreign Currency Deposit (FCD)	17.61	21.70	23.6	18.96	19.4
Total Monetary Liabilities (M_2)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: CBN

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

As in the preceding year, short-term maturities remained dominant in banks' credit and deposit market. Outstanding loans and advances maturing one year and earlier accounted for 46.4 per cent of the total, compared with 47.1 per cent at end-December 2015. The share of medium-term (above 1 year and less than 3 years) loans rose slightly to 20.7 per cent, from 16.9 per cent, while long-term (3 years and longer) loans fell to 32.9 per cent, compared with 36.0 per cent at end-December 2015.

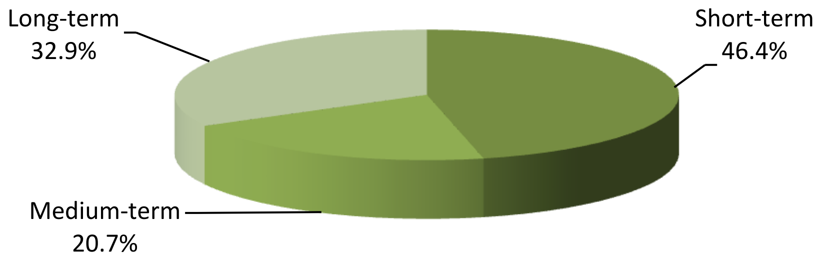
Deposit liabilities showed a similar trend, with short-term deposits constituting 95.6 per cent of the total, compared with 95.4 per cent at end-December 2015. Deposits of less than 30-day maturity constituted 75.9 per cent, while the share of medium and long-term deposits stood at 1.2 per cent and 3.2 per cent, respectively, compared with 1.8 per cent and 2.8 per cent at end-December 2015. The structure of the deposit liabilities underscores banks' preference for short-term claims on the economy.

Table 4.5: Maturity Structure of DMBs' Loans and Advances, and Deposit Liabilities, 2014 - 2016

Tenor	Loans (%)			Deposits (%)		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
0-30 days	24.6	24.4	27.3	73.69	71.7	75.9
31-90 days	12.3	8.6	6.8	13.63	15.04	11.83
91-180 days	7.0	6.9	7.2	5.5	3.87	4.38
181-365 days	5.6	7.2	5.1	3.49	4.78	3.5
Short-term	49.6	47.1	46.4	96.31	95.4	95.62
Medium-term - (above 1 year and below 3 Years)	19.5	16.9	20.7	2.69	1.83	1.23
Long-term (3 years and Above)	30.9	36.0	32.9	1.0	2.77	3.15

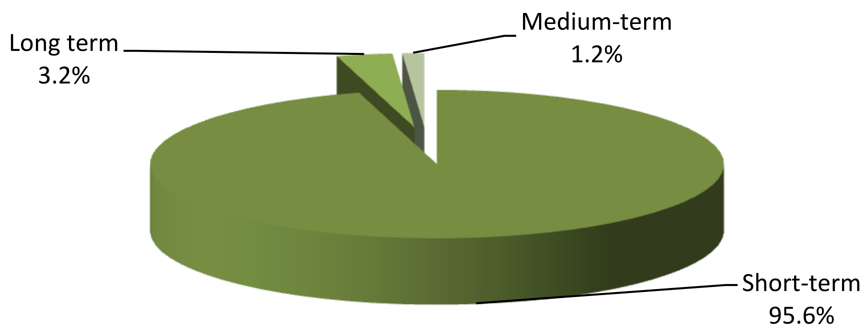
Source: CBN

Figure 4.21a: Maturity Structure of DMBs' Loans and Advances at end-December, 2016 (Per cent)



Source: CBN

Figure 4.21b: Maturity Structure of DMBs' Deposits at end-December, 2016 (Per cent)



Source: CBN

4.2.7 Sectoral Distribution of Credit

Credit to the priority sectors, such as agriculture, industry and construction, constituted 3.3 per cent, 38.8 per cent and 3.9 per cent of total banks' claims on the core private sector in 2016, compared with 3.4 per cent, 33.3 per cent and 4.1 per cent, respectively, in 2015. As in the preceding year, the services sector accounted for the largest share of 39.4 per cent of total sectoral credit utilisation in 2016, compared with 44.6 per cent in 2015. The industry sector, manufacturing, and oil & gas sub-sectors accounted for 38.8 per cent, 13.8 per cent and 22.3 per cent, respectively.

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Table 4.6: Share in Outstanding Credit to the Core Private Sector, 2015 – 2016 (per cent)

ITEM	Dec 15	Dec 16	Percentage Share in Total		% Change Between (1)&(2)
	₦'billion	₦'billion	Dec 15	Dec 16	
	1	2	3	4	
[a] Agriculture	449.31	525.95	3.4	3.3	17.1
[b] Industry	4,361.03	6,257.22	33.3	38.8	43.5
Mining & Quarrying	11.71	21.28	0.1	0.1	81.8
Manufacturing	1,736.19	2,215.74	13.3	13.8	27.6
Oil & Gas	2,272.81	3,587.90	17.4	22.3	57.9
of which Downstream, Natural Gas and Crude Oil Refining	2,272.81	3,587.90	17.4	22.3	57.9
Power and Energy	340.31	432.29	2.6	2.7	27.0
of which IPP and Power Generation	340.31	432.29	2.6	2.7	27.0
[c] Construction	531.74	631.09	4.1	3.9	18.7
[d] Trade/General Commerce	985.69	984.90	7.5	6.1	(0.1)
[e] Government	922.89	1,361.85	7.1	8.5	47.6
[f] Services	5,835.55	6,356.27	44.6	39.4	8.9
Real Estate	692.21	791.48	5.3	4.9	14.3
Finance, Insurance and Capital Market	791.38	937.42	6.0	5.8	18.5
Education	74.16	87.22	0.6	0.5	17.6
Oil & Gas	1,155.53	1,267.75	8.8	7.9	9.7
of which Upstream and Oil & Gas Services	1,155.53	1,267.75	8.8	7.9	9.7
Power and Energy	162.44	293.99	1.2	1.8	81.0
of which Power Transmission and Distribution	162.44	293.99	1.2	1.8	81.0
Others	2,959.83	2,978.41	22.6	18.5	0.6
of which: i. General	1,390.49	1,314.48	10.6	8.2	(5.5)
ii. Information & Communication	816.38	845.94	6.2	5.3	3.6
iii. Transportation & Storage	420.61	450.76	3.2	2.8	7.2
TOTAL PRIVATE SECTOR CREDIT	13,086.20	16,117.29	100.0	100.0	23.2

Source: CBN

4.2.8 Financial/Banking System Developments

Developments in financial sector were mixed in 2016. There was improvement in key indicator of financial sector development as the ratio of M_2 to GDP, at 23.2 per cent, was higher than 21.3 per cent at end-2015. The development reflected, largely, growth in banking system's assets to GDP ratio, which stood at 47.5 per cent, compared with 47.7 per cent at end-December 2015. Also, banking system's capacity to finance the economy increased slightly, with aggregate credit/GDP ratio at 26.4 per cent, compared with 23.0 per cent at end-2015. In addition, as a ratio of GDP, credit to the core private sector increased slightly to 20.6 per cent from 19.2 per cent at end-2015. Intermediation efficiency, however, deteriorated with the ratio of currency outside banks (COB) to broad money supply and COB to GDP, at 7.7 per cent and 1.8 per cent from 7.3 per cent and 1.6 per cent, respectively, at end-2015. Although aggregate savings (quasi money), increased over the level at end-December 2015, its share in GDP, at 12.13 per cent at end-2016, was slightly lower than the 12.17 per cent recorded at end-2015. Foreign currency deposits with banks, however, dominated aggregate savings and stood at 4.5 per cent as a ratio of GDP, compared with 4.0 per cent at end-2015.

Figure 4.22a: Ratio of Broad Money (M_2) and Credit to Private Sector (CPS) to GDP and Currency Outside Bank (COB) to M_2, 2012 - 2016

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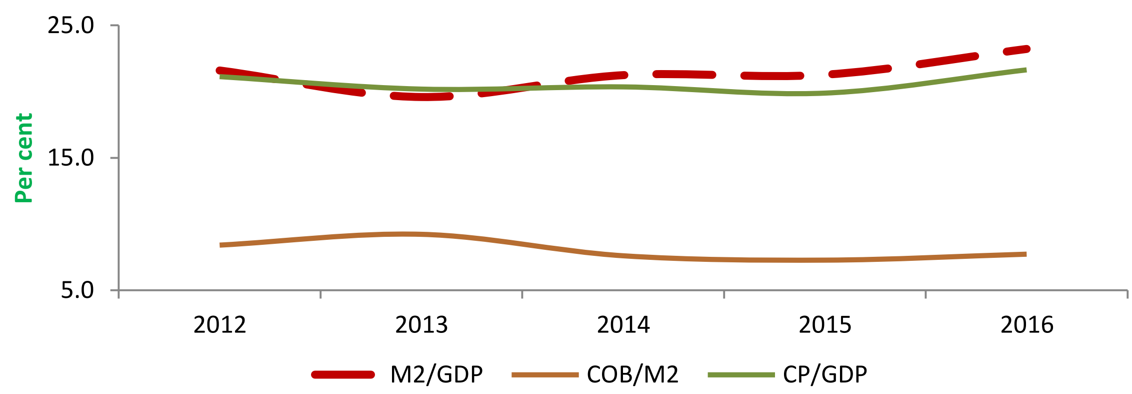
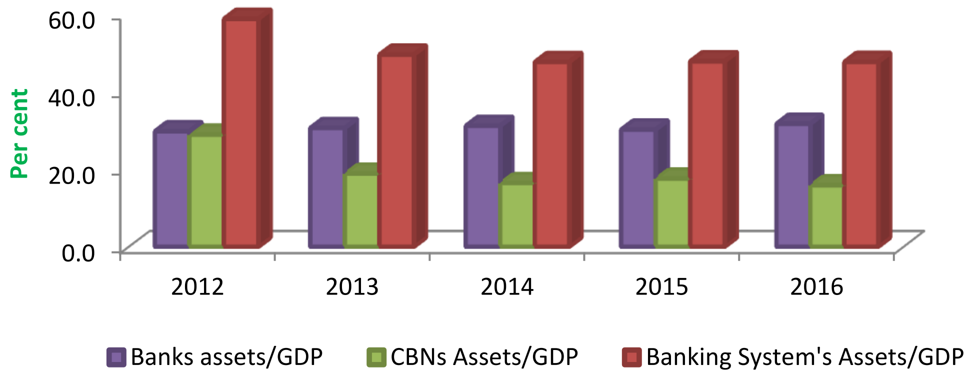


Source: CBN

Figure 4.22b: Ratio of Banking System's Total Assets to GDP, 2012 - 2016



Source: CBN

Table 4.7: Monetary Aggregates and Measures of Financial/Banking Developments, 2012 - 2016					
	2012	2013	2014	2015	2016
Aggregates (₦' billion)					
Nominal GDP	71,713.94	80,092.56	89,043.62	94,144.96	101,598.48
Narrow money (M1)	7,420.95	7,032.84	6,904.79	8,571.70	11,271.51
Broad Money (M2)	15,483.85	15,688.96	18,913.03	20,029.83	23,591.73
Quasi Money (QM)	8,062.90	8,656.12	12,008.24	11,458.13	12,320.23
Currency in circulation (CIC)	1,631.72	1,776.41	1,797.98	1,857.94	1,725.13
Currency Outside banks (COB)	1,301.16	1,446.66	1,437.40	1,456.10	1,820.42
Banks' Total Deposits	14,182.68	14,242.30	17,475.63	18,573.73	21,771.32
Credit to Private Sector (CP)	15,151.76	16,167.89	18,123.65	18,719.26	21,982.15
Credit to core Private Sector (Cp)	14,485.88	15,388.76	17,561.69	18,109.86	20,967.00
Net Credit to Government (NCG)	-2,453.56	-1,656.27	1,150.11	2,893.19	4,875.57
Net Domestic Credit (NDC)	12,698.21	14,511.63	19,273.76	21,612.45	26,857.72
Net Foreign Assets (NFA)	9,043.68	8,658.65	6,954.21	5,653.32	9,149.66
Other Assets Net (OAN)	-6,258.04	-7,481.31	-7,314.94	-7,235.94	-12,415.65
Banks' Assets	21,303.95	24,468.37	27,690.11	28,369.03	32,130.45
CBN's Assets	20,680.45	15,062.62	14,583.36	16,492.27	16,088.49
Banking System's Assets	41,984.40	39,530.99	42,273.46	44,861.30	48,218.94
Net Domestic Assets	6,440.17	7,030.31	11,958.81	14,376.51	14,442.07
Reserve Money	3,704.48	5,090.24	5,930.95	5,812.74	5,751.09
Bank Reserves	2,072.77	3,313.83	4,132.97	3,954.80	3,668.74
Monetary Ratios (per cent)					
M2/GDP	21.6	19.6	21.2	21.3	23.2
CIC/M2	10.5	11.3	9.5	9.3	7.3
COB/M2	8.4	9.2	7.6	7.3	7.7
COB/GDP	1.8	1.8	1.6	1.6	1.8
Quasi Money/M2	52.1	55.2	63.5	57.2	52.2
Quasi Money/GDP	11.2	10.8	13.5	12.2	12.1
NDC/GDP	17.7	18.1	21.6	23.0	26.4
CIC/GDP	2.3	2.2	2.0	2.0	1.7
CP/GDP	21.1	20.2	20.4	19.9	21.6
Cp (core)/GDP	20.2	19.2	19.7	19.2	20.6
Banks' assets/GDP	29.7	30.6	31.1	30.1	31.6
CBNs' Assets/GDP	28.8	18.8	16.4	17.5	15.8
Banking System's Assets/GDP	58.5	49.4	47.5	47.7	47.5

Source: CBN

4.2.9 Money Multiplier and Velocity of Money

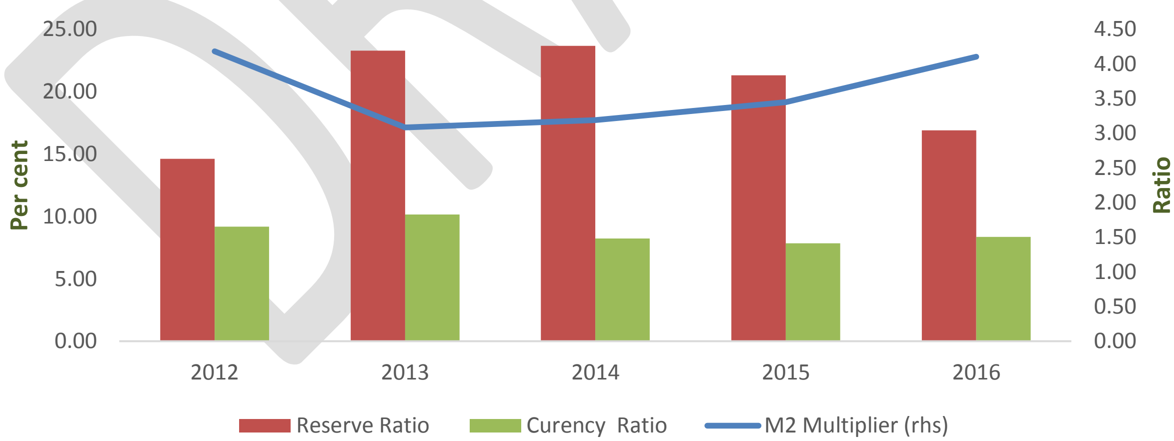
The Broad money multiplier stood at 4.10, a slight increase of 0.66 above the level in 2015. The development reflected, largely, the decline in reserve deposit ratio, arising from the tight liquidity in banks. However, the currency reserve ratio increased to 8.36 per cent from its level in 2015, due largely to the low savings deposit rates and inflation. Income velocity of broad money stood at 4.31, and represented a decline of 0.39 from its level in 2015, reflecting the general decline in economic activities during the review period. Velocity, however, was relatively stable at an average of 4.7 in the last five years.

Table 4.8: Money Multiplier and Velocity of M_2, 2012 - 2016

	2012	2013	2014	2015	2016
M_2 Velocity	4.63	5.11	4.71	4.70	4.31
M_2 Multiplier	4.18	3.08	3.19	3.45	4.10
Reserve Ratio	14.61	23.27	23.65	21.29	16.9
Currency Ratio	9.17	10.16	8.23	7.84	8.36

Source: CBN

Figure 4.23: Money Multiplier, Currency Ratio and Reserve Ratio, 2012 - 2016



Source: CBN

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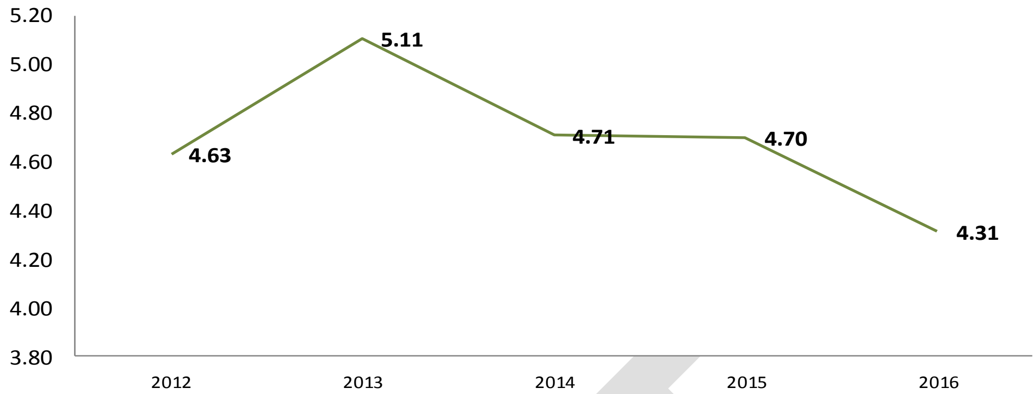
Figure 4.24: Velocity of Broad Money, 2012 - 2016



Source: CBN

4.3 OTHER FINANCIAL INSTITUTIONS

There were 4,240 Other Financial Institutions (OFIs) at end-December 2016, compared with the 3,905 institutions at end-2015. The increase was attributed to the 94 new OFIs (58 BDCs, 31 MFBs and 5 FCs), licensed during the year. The total number of OFIs comprised five (5) Development Finance Institutions (DFIs), 34 Primary Mortgage Banks (PMBs), 978 Microfinance Banks (MFBs), 75 Finance Companies (FCs), 3,147 Bureaux de Change (BDCs) and one (1) Mortgage Refinancing Company.

4.3.1 Development Finance Institutions (DFIs)

Despite the exit of the National Economic Reconstruction Fund (NERFUND) in the review year, the total assets of the remaining five (5) DFIs increased marginally by 0.2 per cent on year-on-year basis, to ₦964.2 billion, at the end of the review year. Analysis of the asset base by the institutions indicated that the Bank of Industry (BOI), the Federal Mortgage Bank of Nigeria (FMBN), the Nigerian Export-Import Bank (NEXIM), the Bank of Agriculture (BOA) and The Infrastructure Bank (TIB) accounted for 69.3 per cent, 20.2 per cent, 6.6 per cent, 3.1 per cent and 0.8 per cent, respectively. Similarly, the paid-up capital of the sub-sector increased marginally by 0.24 per cent (on year-on-year basis), to ₦230.73 billion, at end-December 2016. The net loans and advances of the institutions, however, declined by 16.8 per cent to ₦571.85 billion at end-December 2016, from ₦687.02 billion in 2015. The development reflected, mainly, the effect of increased provisioning, arising from high rates of loan default and the on-going liquidation of one (1) institution. The five (5) institutions namely, BOI, FMBN, NEXIM, BOA and TIB accounted for 74.9 per cent, 19.8 per cent, 4.6 per cent, 0.2 per cent and 0.5 per cent of the net loans and advances, respectively.

The Bi-annual Consultative Forum for the stakeholders of Development Finance Institutions (DFIs) was held in 2016 to review the financial state of DFIs and proffer solutions to challenges such as low loan recovery, poor capitalisation and untimeliness in returns rendition, poor corporate governance practices and poor risk management practices. The Forum, which was attended by participants from the six (6) DFIs, relevant Ministries, Departments and Agencies (MDAs) and the Bankers' Committee, among others, advocated for a paradigm shift in the funding model for the DFIs to enable them make meaningful economic impact. The Forum, also provided the platform to further strengthen the institutions and allow them partake and benefit from the CBN intervention programmes.

4.3.2 The Asset Management Corporation of Nigeria (AMCON)

The AMCON continued to perform its function as a multipurpose resolution/ recapitalisation vehicle empowered to purchase toxic assets from banks and inject needed capital through the issuance of appropriate securities. The net carrying value of AMCON's outstanding liabilities remained unchanged at ₦4.5 trillion at end-December 2016. The carrying value of its assets net of impairment however, fell to ₦624 billion, from ₦846.4 billion at end-June 2016, following additional impairments booked by the Corporation. The difference between AMCON's assets and liabilities was expected to be recovered from the Banking Sector Resolution Cost Trust Fund (BSRCTF), credit recoveries and asset sales by AMCON. Total collections on the BSRCTF stood at ₦175.97 billion, while total recoveries realised by AMCON in 2016 was ₦139.044 billion.

4.3.3 The Nigeria Mortgage Refinance Company (NMRC)

Total refinanced mortgages by the NMRC amounted to ₦8.0 billion at end-December 2016, compared with ₦1.7 billion in 2015 and that completely exhausted the ₦8.0 billion raised from its first bond issue. The Company was in the process of raising additional ₦2.4 billion from the next bond issue to refinance eligible mortgages of member Participating Lending Institutions (PLIs). In line with its condition for credit recourse, the Company exchanged refinanced non-performing mortgages worth ₦172.5 million for performing mortgages of ₦209.0 million involving three (3) member primary mortgage banks.

Also, the Company hosted the African Union Conference on Housing in Abuja in 2016. The objectives of the Conference were to create awareness on opportunities in the housing finance sector and proffer solutions to common challenges on affordable housing.

Further to the publishing of the expression of interest (EOI) and completion of the evaluation process, two (2) firms were selected to work with the eight (8) MFBs already pre-qualified to participate in the pilot Housing Microfinance (HMF) Scheme. The budget for the Scheme, aimed to cater for the housing needs of low income earners, was US$15 million. Similarly, the consultant engaged under the mortgage guarantee component of the Housing Microfinance Programme (HMFP) for preliminary study on the Nigerian mortgage market with a view to recommending the best institutional and operational frameworks for the Scheme commenced work in the review year. Report of the exercise is due for submission in the first half of 2017.

There were visits to seven (7) states identified as amenable to create supporting environment for affordable housing under the Technical Assistance/Capacity Building component of the Scheme. The visits afforded the states the opportunity to explore and develop appropriate strategies and law for reducing the process of land acquisition. In addition, the mass literacy campaign also commenced in the first half of 2016.

4.3.4 Microfinance Banks (MFBs)

The provisional data revealed that total assets/liabilities of MFBs fell by 5.1 per cent to ₦326.22 billion at end-December 2016, from ₦343.90 billion at end-2015. The paid-up capital and shareholders' funds also declined by 25.3 per cent and 16.3 per cent to ₦62.89 billion and ₦79.78 billion, respectively, below the levels at end-December 2015. The developments were attributed, largely, to non-rendition of returns by some MFBs.

Total investment and net loans/advances increased by 13.50 per cent and 2.50 per cent to ₦20.13 billion and ₦178.01 billion, respectively, above the levels at end-December 2015. Capital and Reserves, however, fell by 14.80 per cent, to ₦77.87 billion, below its level at end-December 2015. Similarly, deposit liabilities fell by 6.06 per cent to ₦149.80 billion Investible funds available to the sub-sector in the review year amounted to ₦91.1 billion, compared with ₦60.3 billion in 2015. The funds were sourced, mainly, from increase in long-term loans (₦36.8 billion), deposit liabilities (₦11.6 billion) and reserves (₦5.7 billion) as well as decrease in placement with other banks (₦31.7 billion). The funds were used, mainly, to increase net loans and advances (₦22.5 billion), short-term investments (₦6.7 billion) and reduce other liabilities (₦33.1 billion), takings from other banks (₦6.7 billion) and paid-up capital (₦21.3 billion).

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

Short-term credit remained dominant among microfinance banks (MFBs) in the review year, driven largely, by the structure of deposit liabilities in the sub-sector. Accordingly, short-term loans (with maturity less than one year), at end-December 2016, accounted for 88.0 per cent of the aggregate loans and advances by MFBs, indicating a 3.0 percentage points increase above 85.0 per cent recorded in the preceding year. Loans with long-term maturity (over 360 days) accounted for 12.0 per cent, compared with 15.0 per cent at end-December 2015. Similarly, analysis of the deposit structure showed that short-term deposit liabilities (less than one year maturity) remained dominant, constituting 89.8 per cent of total deposit liabilities, compared with 92.8 per cent in 2015. Deposits of long-term maturity (above 1 year) accounted for 10.2 per cent at end-December 2016, a 3.0 per cent increase over 7.2 per cent in 2015.

Table 4.9: Maturity Structure of Assets and Liabilities of Microfinance Banks (MFBs), 2015 - 2016 (Per cent)

	2015		2016	
Tenor/Period	Loans and Advances	Deposits	Loans and Advances	Deposits
0-30 days	22.3	55.3	16.0	53.0
31-60 days	9.0	9.6	6.0	7.3
61-90 days	11.4	11.3	8.5	10.9
91-180 days	22.4	8.2	16.5	8.8
181-360 days	19.8	8.4	41.0	9.8
Short-Term	**85.0**	**92.8**	**88.0**	**89.8**
Above 360 days	**15.0**	**7.2**	**12.0**	**10.2**
Total	**100.0**	**100.0**	**100**	**100**

Source: Central Bank of Nigeria

4.3.5 Finance Companies (FCs)

The total assets/liabilities of the FCs declined by 5.3 per cent to ₦121.8 billion, compared with ₦128.6 billion, recorded in the preceding year. The development was attributed, largely, to statutory returns, particularly, by the companies that failed to meet the deadline for recapitalisation to satisfy the ₦100 million regulatory minimum capital. These institutions, had therefore, stopped rendering returns in anticipation of regulatory directive to withdraw their operating licences. The FCs benefited from the regulatory-induced recapitalisation exercise, as shareholders' funds increased by 14.8 per cent to ₦21.6 billion at end-2016, from the level at end-2015.

Loans and advances, investments and fixed assets of FCs fell by 26.2 per cent, 17.6 per cent and 2.9 per cent to ₦40.6 billion, ₦15.4 billion and ₦13.9 billion, respectively, in 2016, from their levels at end-December 2015. Borrowings also declined by 5.2 per cent to ₦71.5 billion from the level at end-2015. Investible funds available to the sub-sector amounted to ₦24.5 billion, compared with ₦22.3 billion in the preceding year. The funds were sourced from increase in paid-up capital (₦1.9 billion) and reserves (₦2.3 billion), as well as reduction in investment (₦4.6 billion) and loans and advances (₦13.3 billion). The funds were used, mainly, to increase other assets (₦13.9) billion and reduce other liabilities (₦8.9 billion).

4.3.6 Primary Mortgage Banks (PMBs)

The total number of licensed PMBs declined to 34 from 35 at end-December 2015. The total assets/liabilities of the PMBs amounted to ₦383.7 billion, indicating a marginal decline of 1.6 per cent, below the end-2015 level of ₦389.7 billion. Similarly, loans and advances, deposit liabilities, paid-up capital and other liabilities declined to ₦154.5 billion, ₦115.8 billion, ₦103.4 billion and ₦68.1 billion from ₦169.0 billion, ₦121.7 billion, ₦112.4 billion and ₦75.0 billion, respectively, in 2015. Shareholders' funds also declined by 4.9 per cent to ₦132.2 billion. Balances with banks, however, increased to ₦24.8 billion over the ₦23.6 billion at end-December 2015. Investible funds available to the PMBs amounted to ₦54.0 billion, compared with ₦86.9 billion recorded at the end of the preceding year. The funds were sourced, mainly, from reduction in placement with banks (₦3.6 billion), loans and advances (₦14.5 billion) and other assets (₦12.6 billion) as well as increase in placement from banks (₦17.6 billion). The funds were utilised, mainly, to increase Investments (₦19.1 billion) and reduce paid-up capital (₦9.1 billion), deposit liabilities (₦5.9 billion) and other liabilities (₦6.9 billion).

4.3.7 Bureaux-de-Change (BDCs)

The number of licensed BDCs increased to 3,147 at end-December 2016 from 2,839 at end-December 2015, owing to the licensing of 58 new BDCs. Also included, were 249 BDCs granted approval to recapitalize, in the review period, following their earlier suspension for failure to meet the deadline for recapitalisation in 2014. One (1) BDC, was, however, delisted and placed on suspension for regulatory infractions.

4.4 MONEY MARKET DEVELOPMENTS

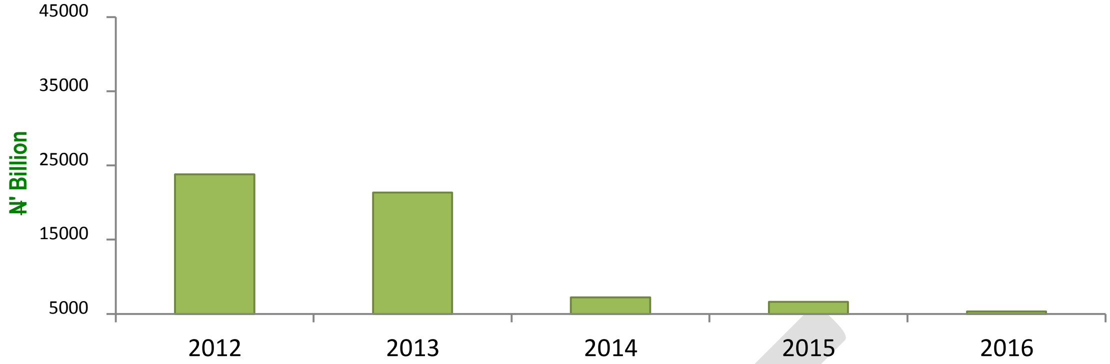
In addition to the liquidity condition in the banking system, money market activities were affected by the dwindling statutory revenue, heightened risk aversion and extensive liquidity mop-up by the CBN. Furthermore, the provision of funds for foreign transaction interventions exerted pressure on available liquidity and money market activities. The trend of activities at the discount window remained the same as in the preceding year as the request for standing lending facility (SLF) was more predominant than standing deposit facility (SDF).

4.4.1 The Inter-bank Funds Market

At the inter-bank funds market, the value of transactions declined by 19.18 per cent, to ₦5,343.22 billion, in the review year, compared with ₦6,611.40 billion in the preceding year. At the call segment, it declined by 54.96 per cent to ₦906.84 billion in 2016, compared with ₦2,013.58 billion in the preceding year. Similarly, the value of transaction at the OBB segment, declined by 6.11 per cent to ₦4,307.62 billion, from its level in 2015.

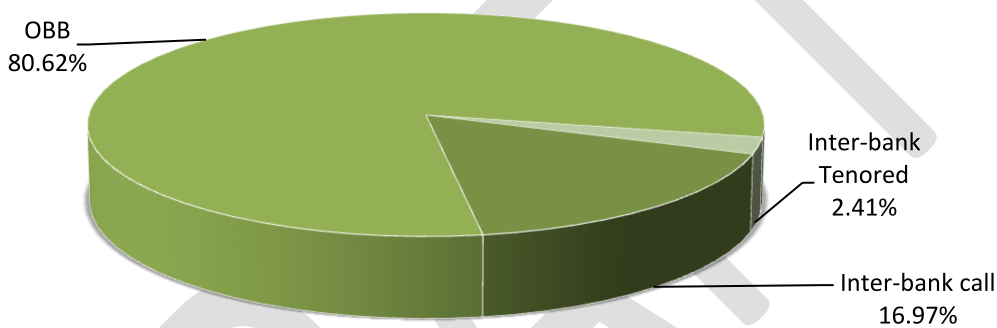
As a proportion of the total value of transactions, the OBB segment remained dominant, accounting for 80.62 per cent, compared with 69.39 per cent in 2015. This reflected waning confidence in the inter-bank fund's market. The call and tenored segments accounted from 16.97 and 2.41 per cent, respectively, compared with the respective proportions of 30.46 and 0.15 per cent in the preceding year. The development reflected largely the liquidity surfeit in the banking system.

Figure 4.25: Value of Interbank Funds Market Transactions, 2012 – 2016 (₦'biiion)



Source: CBN

Figure 4.26: Share of Interbank Funds Market Transactions, 2016 (Per cent)



Source: CBN

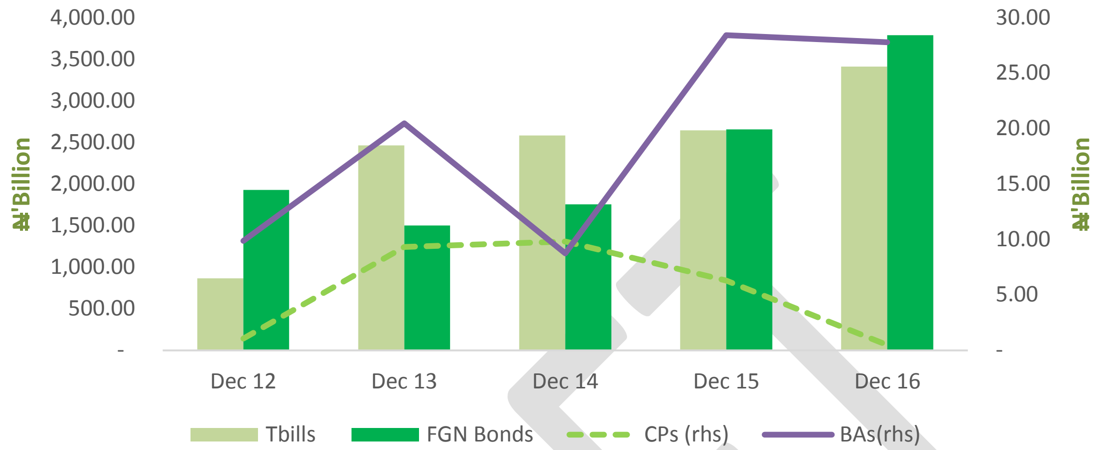
4.4.2 Money Market Assets Outstanding

Total money market assets outstanding at end-December 2016 stood at ₦7,234.42 billion, representing an increase of 35.5 per cent from ₦5,339.03 billion, at the end of 2015. The development was attributed to the 29.0 and 42.7 per cent increase in Nigerian Treasury Bills (NTBs) and FGN Bonds outstanding, respectively, due to improved market confidence and expected yield.

Government securities constituted 99.6 per cent of the total money market assets outstanding at end-December 2016.

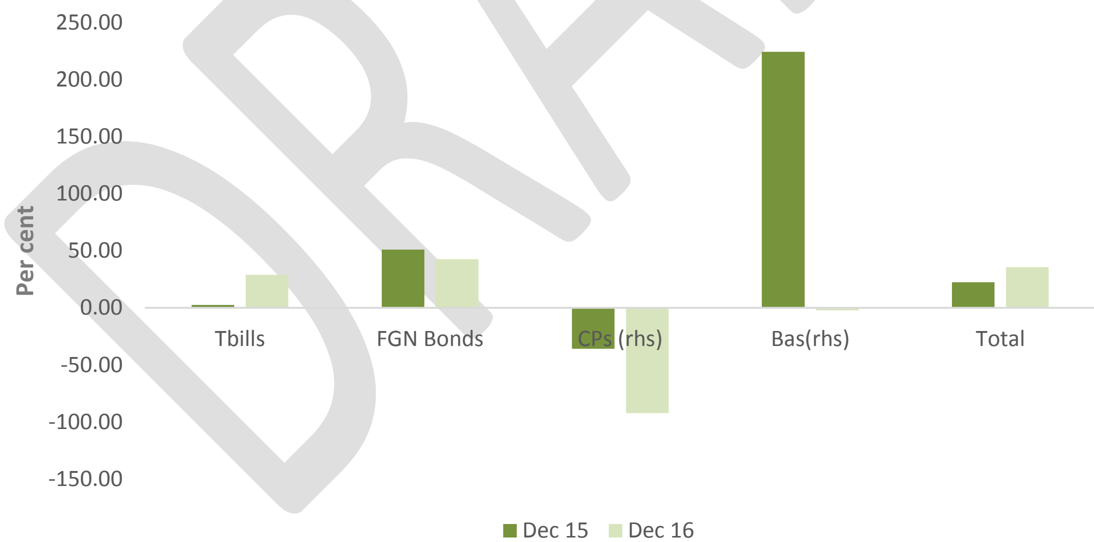
Government securities constituted over 99.6 per cent of the total money market assets outstanding, while private sector-issued securities (certificates of deposit, commercial paper and bankers' acceptances) accounted for the balance.

Figure 4.27: Money Market Assets Outstanding, 2012 – 2016 (₦' billion)



Source: CBN

Figure 4.28: Growth Rates of Money Market Assets Outstanding, 2015 and 2016 (Per cent)



Source: CBN

Table 4.10: Composition of Money Market Assets Outstanding, 2015 and 2016

	12-Dec	13-Dec	14-Dec	15-Dec	16-Dec
Treasury bills	30.84	61.7	59.27	49.59	47.2
FGN Bonds	68.77	37.55	40.31	49.76	52.41
Certificate of Deposits	0.04	0.23	0.23	0.12	0.01
Bankers Acceptances	0.35	0.51	0.2	0.53	0.38
Total	100	100	100	100	100

Source: CBN

4.4.2.1 Nigerian Treasury Bills (NTBs)

NTBs worth ₦4,555.50 billion were offered and allotted in 2016, representing a marginal increase of ₦710.18 billion or 18.47 per cent, above the 2015 level. The development was owed to the Federal Government's need to finance expansionary fiscal activities in 2016. Public subscription, however, stood at ₦8,677.69 billion, indicating a decline of ₦624.63 billion or 6.71 per cent, compared with subscription of ₦9,302.32 billion in the preceding year. The lower patronage was attributed to low yields on investment in the first half of the review period. The tenors on offer were 91-,182- and 364-day with bid rates, ranging from 3.0 per cent to 15.44 per cent, compared with the range of 3.63 per cent to 15.9 per cent in 2015.

The bid-to-cover ratios for the various tenors were 1.40, 1.95 and 2.12 for the 91-, 182- and 364-day tenors, respectively. The high (above 2.0) bid-to-cover ratio for the 364-day tenor was an indication of investors' preference for long-term maturities.

4

FINANCIAL SECTOR DEVELOPMENTS

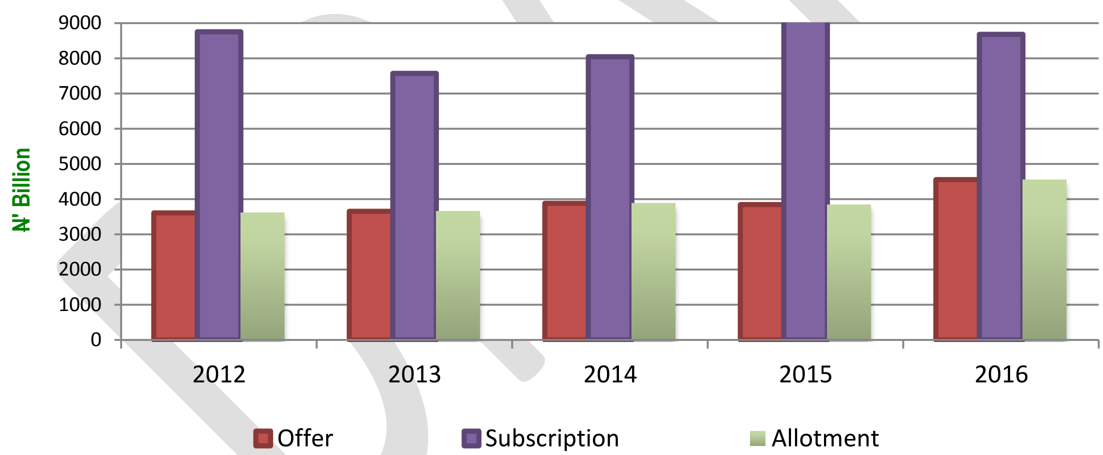
Table 4.11: NTB Issues, Subscription, Allotments and Repayments, 2012-2016 (₦'Billion)					
	2012	2013	2014	2015	2016
Offer Amount (₦'bn)	3,609.65	3,650.88	3,879.47	3,845.32	4,555.50
Total Subscription (₦'bn)	8,750.49	7,573.45	8,043.56	9,302.32	8,677.69
Allotment (₦'bn)	3,609.65	3,650.88	3,879.47	3,845.32	4,555.50
DMBs	2,373.25	1,924.07	2,213.95	2,765.62	2,633.04
Mandate and Internal Fund	1072.54	1,691.53	1,483.94	999.50	1,609.71
CBN branches/CBN take-up	163.86	0.0	181.58	80.20	312.75
Average Range of Successful Bid Rates (%)	10.50 – 7.20	7.50 –13.34	8.00 – 15.99	3.63-15.90	6.34 – 17.40
Bid-Cover Ratio[1]	2.42	2.07	2.07	2.42	1.90
Repayments	3225.89	3,192.26	1,690.05	3,875.12	3,936.12
Net Flows[2]	-383.76	-458.62	-2,189.43	29.8	-619.38

Source: CBN

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

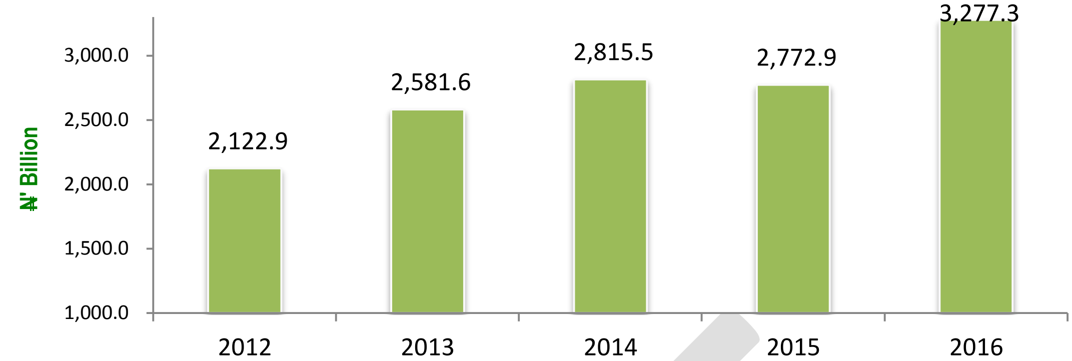
[2]Net Flow equals Repayments minus Allotments

Figure 4.29: NTB Issues, Subscriptions and Allotments, 2012 - 2016



Source: CBN

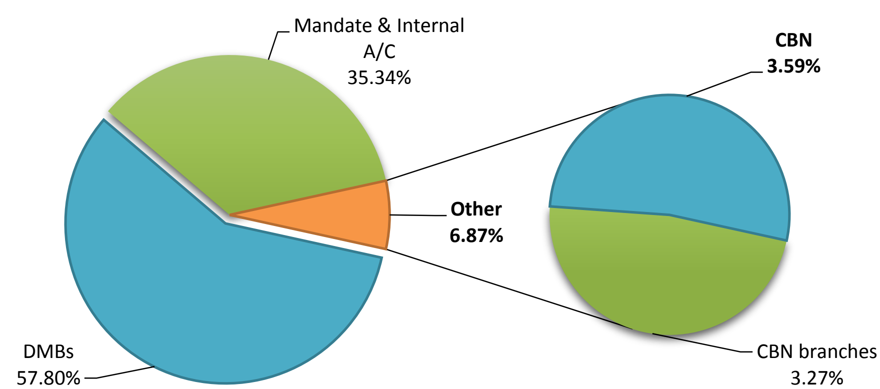
Figure 4.30: Nigerian Treasury Bills Outstanding, 2012-2016



Source: CBN

Portfolio preferences led to reduced take-up by banks and a slight increase in mandate and internal customers' participation. Consequently, analysis of the holdings structure of investments in NTBs, in the review period, indicated that banks took-up ₦2,633.04 billion, representing 57.80 per cent of total NTBs issued, as against ₦2,765.62 billion, representing 71.92 per cent of NTBs issued in the preceding year. Mandate and Internal customers take-up accounted for 35.34 per cent, compared with 25.99 per cent in 2015. The CBN, however, took the balance of 6.87 per cent in 2016.

Figure 4.31: Nigerian Treasury Bills: Breakdown of Allotments, 2016 (Per cent)



Source: CBN

The sum of ₦3,936.12 billion was repaid in the review year, resulting in a net outflow of ₦619.38 billion from the banking system, as against a net inflow of ₦29.8 billion in the preceding year. Consequently, the value of NTBs outstanding at end-December 2016 stood at ₦3,277.28 billion, representing an increase of 18.19 per cent above the level in the preceding year.

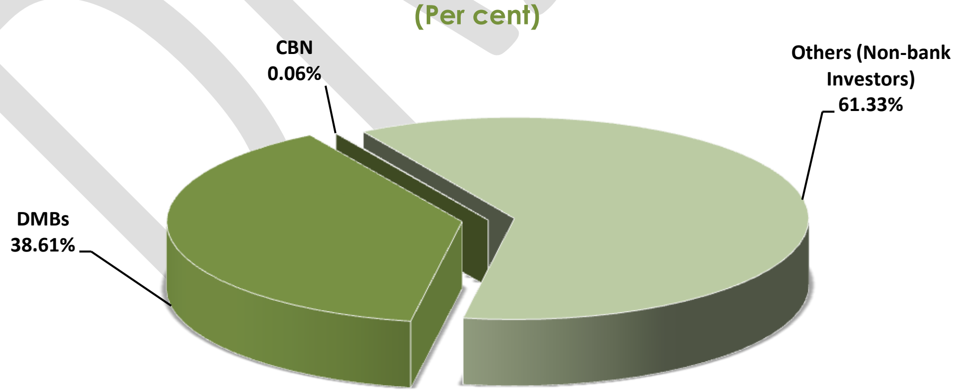
Table 4.12: Liquidity Flows, 2015 & 2016

Period	NTBs Allotted (₦bn)	NTBs repaid((₦bn)	Net flow (₦bn)
2016	4,555.50	3,936.12	-619.38
2015	3,845.32	3,875.12	29.8

Analysis of structure of holdings of the outstanding NTBs at end-December 2016 showed that banks accounted for 38.61 per cent of the total, compared with 37.75 per cent in 2015. The non-bank investors held 61.33 per cent, while the CBN held the balance of 0.06 per cent. The shift in holdings from banks to non-bank public was as a result of increased patronage by pension funds and other government agencies.

The range of average marginal rates for the period were 3.00 per cent to 20.11 per cent for the 91-day; 4.00 per cent to 23.00 per cent for the 182-day; and 6.00 per cent to 25.35 per cent for the 364-day tenors.

Figure 4.32 Nigerian Treasury Bills Outstanding: Classes of Holders, 2016 (Per cent)



Source: CBN

4.4.2.2 Commercial Paper (CP)

Commercial Paper (CP) outstanding held by banks fell by 92.20 per cent to ₦0.49 billion at end-December 2016, compared with the value of ₦6.29 billion at the end of the preceding year. Thus, CP constituted 0.003 per cent of the total value of money market assets outstanding during the review period, compared with 0.03 per cent at the end of the preceding year.

4.4.2.3 Bankers' Acceptances (BAs)

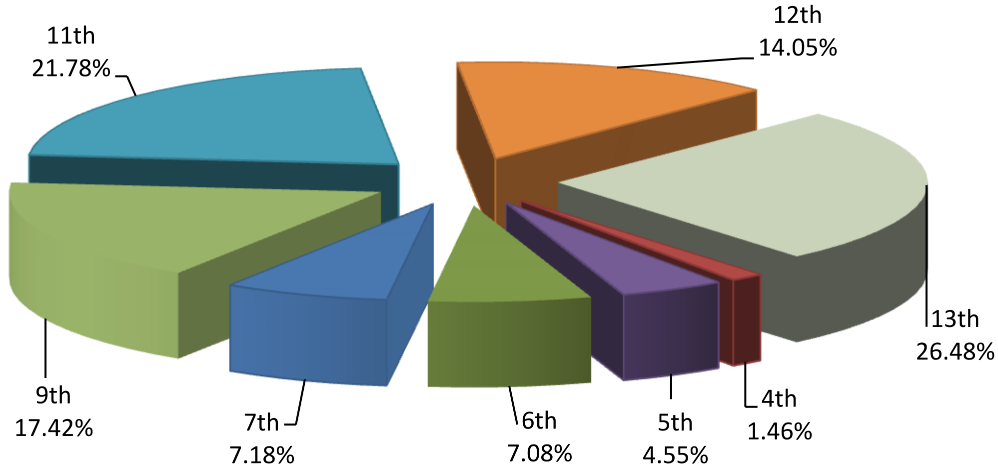
Bankers' Acceptances (BAs) held by the banks declined by 2.2 per cent to ₦27.79 billion from ₦28.42 billion at the end of the preceding year. The development was attributed to the decline in investment in BAs by the banks during the year. Consequently, BAs accounted for 0.19 per cent of the total value of money market assets outstanding, at the end of 2016, compared with 0.30 per cent at the end of the preceding year.

4.4.2.4 Federal Government of Nigeria (FGN) Bonds

New issues and re-openings of FGN Bonds series 1, 4 and 6 were auctioned in 2016. Total FGN Bonds offered for sale were worth ₦1,235.00 billion, while public subscription and sales stood at ₦2,125.73 billion and ₦1,067.77 billion, respectively. These outcomes represented respective increase of 44.75 per cent, 21.33 per cent and 35.37 per cent, above the ₦853.22 billion offered, ₦1,751.97 billion subscribed to and ₦788.72 billion sold in the preceding year. The lower sales value in comparison to the amount offered was due to speculative bids by investors, while the huge subscription was attributed to the high level of liquidity in the banking system and the attractive coupon yields.

The total value of FGN Bonds outstanding at end-December 2016 was ₦8,245.36 billion, compared with ₦6,488.56 billion at end-December 2015, indicating an increase of ₦1,756.79 billion. Of the total outstanding bonds, the 4th FGN Bonds accounted for 1.46 per cent; 5th, 4.55 per cent; 6th, 7.08 per cent; 7th, 7.18 per cent; 9th, 17.42 per cent; 11th, 21.78 per cent, 12th, 14.05 per cent, and 13th, 26.48 per cent.

Figure 4.33: Outstanding FGN Bonds, 2016 (Per cent)



Source: CBN

The structure of holdings of FGN Bonds showed that the non-bank public held 44.97 per cent, banks, 35.50 per cent and the CBN, 19.53 per cent.

Figure 4.34: FGN Bonds by Holder, 2016 (Per cent)

Source: CBN

Futher analysis showed that banks held 35.50 per cent (₦2,927.16 billion), pension funds, 17.20 per cent (₦1,418.16 billion), corporate bodies, 6.73 per cent (₦554.56 billion), and parastatals, 7.81 per cent (₦643.58 billion). The balance of 32.77 per cent (₦2,701.90 billion) was accounted for by brokers, trust funds, the CBN, insurance companies, and individuals.

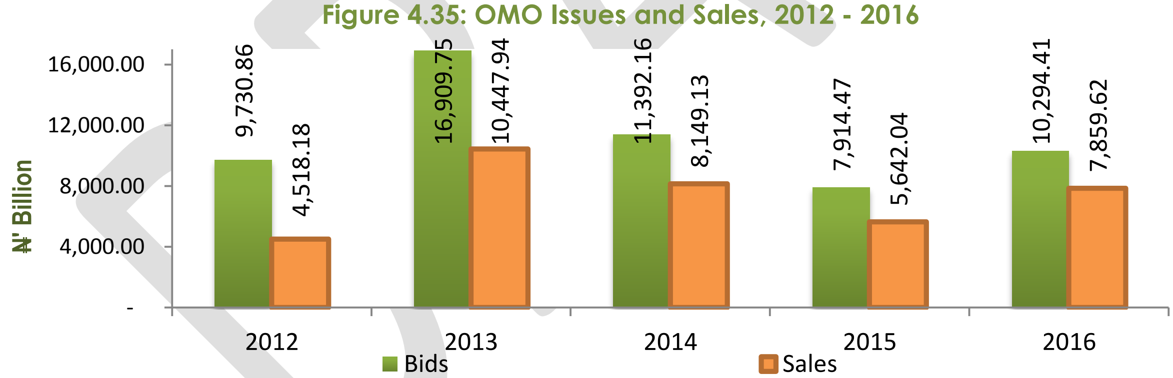
4.4.3 Open Market Operations (OMO)

Open Market Operations was the main instrument for liquidity management in 2016. The auctions were also used to boost tradable securities and increase activities in the secondary market.

4.4.3.1 OMO Auctions

OMO bills with tenors ranging from 184 to 300 days, were auctioned during the year. The total value of securities offered was ₦6,726.67 billion, while the total subscription and sales amounted to ₦10,294.41billion and ₦7,859.62 billion, respectively, compared with ₦3,270.0 billion, ₦7,914.47 billion, and ₦5,645.04 billion offered, subscribed to and sold in 2015. The increase in the sale of CBN bills during the review period was attributed, largely, to liquidity surfeit, occasioned by maturities of CBN bills and coupon payments. There were SWAP transactions with the naira equivalent warehoused through OMO sales, to stem liquidity surfeit in the banking system.

Figure 4.35: OMO Issues and Sales, 2012 - 2016



Source: CBN

4.4.3.2 CBN Promisory Notes

The Bank did not issue any promissory note in 2016, in contrast to the ₦90.89 million worth issued in 2015.

4.4.4 Discount Window Operations

4.4.4.1 CBN Standing Facilities

Banks continued to access the Standing Facilities window to meet their liquidity needs. The trend of activities at the window showed more patronage at the SLF segment than at the SDF segment in 2016. This constrasted with the trend in 2015. Applicable rates for SLF and SDF were 13.00 per cent and 4.00 per cent from January 1 to March 21, 14.00 per cent and 7.00 per cent from March 22 to July 25 and 16.00 per cent and 9.00 per cent from July 26 to December 31, 2016, respectively. The movements in rates were influenced by the adjustment in the MPR and the corridors.

4.4.4.1.1 The Standing Deposit Facility (SDF)

Activities at the SDF window was high in the first half of the year but slowed during the second half of the year. The restrictive monetary policy stance of the Bank, which was sustained with further tightening in March and July, however, moderated liquidity. In addition, the Bank's frequent interventions through OMO, helped to moderate liquidity. The average daily request for SDF from January to December 2016 was ₦76.11 billion, compared with ₦93.67 billion in the preceding year, while average interest payment during the year was ₦20.01 million, compared with ₦38.91 million in the preceding year.

4.4.4.1.2 The Standing Lending Facility (SLF)

Requests for SLF were granted to banks to enable them meet their daily liquidity needs. SLF between January and May were low as the daily average ranged between ₦1.37 billion and ₦46.53 billion. The volume requested in the latter part of the year increased considerably, ranging from ₦125.47 billion to ₦291.43 billion. Average monthly request for SLF in 2016 was ₦130.47 billion. The average monthly interest earned was ₦94.76 million. In the preceding year, the average monthly request for SLF was ₦31.32 billion, resulting in average monthly interest earned of ₦26.94 million.

4.4.4.2 Rediscounting Transactions

At the instance of a bank, CBN bills valued ₦35.36 billion with 27-188 days to maturity, was rediscounted at the rate of 16.25 per cent to 17.15 per cent. Interest that accrued to the bank was ₦1.71 billion. In the previous year, there was no rediscounting transactions.

4.5 CAPITAL MARKET DEVELOPMENTS

4.5.1 Developments in the Nigerian Capital Market

The Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE) intensified their activities aimed at ensuring effective regulation, addressing the challenges of the economic environment, and development of the Nigerian capital market. Consequently, the SEC inaugurated the Capital Market Master Plan Implemenation Council (CAMMIC). Following its inauguration, the Council initiated advocacy activities for the Plan, including visits to the Vice President, National Assembly, Ministers and other stakeholers.

To promote new listings, the Commission set up a market-wide committee to engage potential companies for listing. Following the positive signals from the extensive advocacy work by the Committee, three (3) companies were slated for listing in 2017. In the same vein, the Commission, in collaboration with other stakeholders, provided clarity on issuance process for bond and irrevocable standing payment order (ISPO). Innovative process was also developed to reduce the time for states to issue short-term bonds. Similarly, a conference was held in conjunction with the National Assembly on the legal challenges in the capital market. Consequently, three (3) committees were set up to review the major laws and produce a document that would form the concensus position on the review of the laws.

Other major activities of the Commission during the year included: week-long financial literacy activities held in Kano, Abeokuta and Port Harcourt; development of a blueprint on the National Savings Strategy (NSS) and setting-up a committee to develop minimum technology standards for all capital market functions. Finally, the Commission intensified its engagement with the fiscal authorities towards securing tax incentives to facilitate uptake of wider variety of products and promote market development.

Activities of the Nigerian Stock Exchange (NSE) in 2016 were focused on sustaining the continued execution of its overall strategy and promoting market friendly policies, and initiatives to drive economic recovery. In the area of business development, due diligence process was concluded, credible member register established and a roadmap developed for demutualisation of the Exchange. The NSE also established a Special Purpose Vehicle (SPV) for a Central Counterparty(CCP) clearing house, engaged legal and financial advisers to support launch of the CCP, and engaged extensively with key stakeholder groups to start the development of derivatives products. The Exchange also launched a pilot-fee structure for fixed income products and introduced thirteen (13) new products, as well as implemented the first market data conference in Nigeria.

In furtherance of the objectives of investor protection programme, the Exchange launched the SMART solution for effecient and effective market surveillance. Similarly, the Compliance Status Indicator (CSI) was launched to facilitate near real-time tracking of compliance status of listed companies. In addition, the Exchange introduced the Corporate Governance Rating System (CGRS) to all listed companies and played a key role in the implementation of Direct Cash Settlement (DCS) for the market. Following the successful implementation of the various initiatives, 94.0 per cent of dealing member firms achieved the NSE's Minimum Operating Standards (MOS) and 83 claims, valued at ₦27.8 million, were approved for payment in 2016.

Other initiatives/events by the NSE during the year to ensure balanced domestic/foreign investor drive were: hosting of the Building African Financial Markets (BAFM) seminar; the Nigerian Capital Market Sustainability seminar in partnership with the Global Reporting Initiative (GRI) and Ernst and Young (EY); launch of the Vetiva S&P Nigerian Sovereign Bond ETF; NSE/LSE dual listings conferences held in Lagos and London; CEO roundtable in collaboration with Bloomberg; and Nigerian Capital Market Information Security Forum.

To promote the corporate citizenship objective, the Exchange, under the auspices of the NSE Employee Volunteering Scheme and Give-Back programme, upgraded Wesley school for the hearing-impaired children and other charities across the country; held the financial literacy tour involving 151 programmes and 15,413 beneficiaries; launched the Vetiva S&P Nigeria Soverign Bond ETF; and hosted local and international stakeholder engagement events.

At end-December 2016, the number of listed securities and companies declined by 3.9 per cent and 7.6 per cent to 247 and 170, respectively. Similarly, the number of listed equities fell to 175, from 190, at end-December 2015. The number of listed bonds and Exchange Traded Funds (ETFs), however, increased to 64 and eight (8), compared with the 60 and seven (7) in the preceding year, respectively.

4.5.2 The Nigerian Stock Exchange (NSE)

The challenging economic conditions, including declining output (Gross Domestic Products), foreign exchange demand-supply imbalance and rising inflation negatively affected the performance of the capital market in 2016. To moderate the impact of the prevailing political and economic conditions, regulators in the capital market intensified market recovery policies and initiatives. Despite the notable market rally in the last month of the year, however, activities on the Exchange was characterised by apathy among local and foreign investors due to uncertainty in the economy.

Activities on the floor of the NSE reflected prevalence of bearish sentiments in 2016.

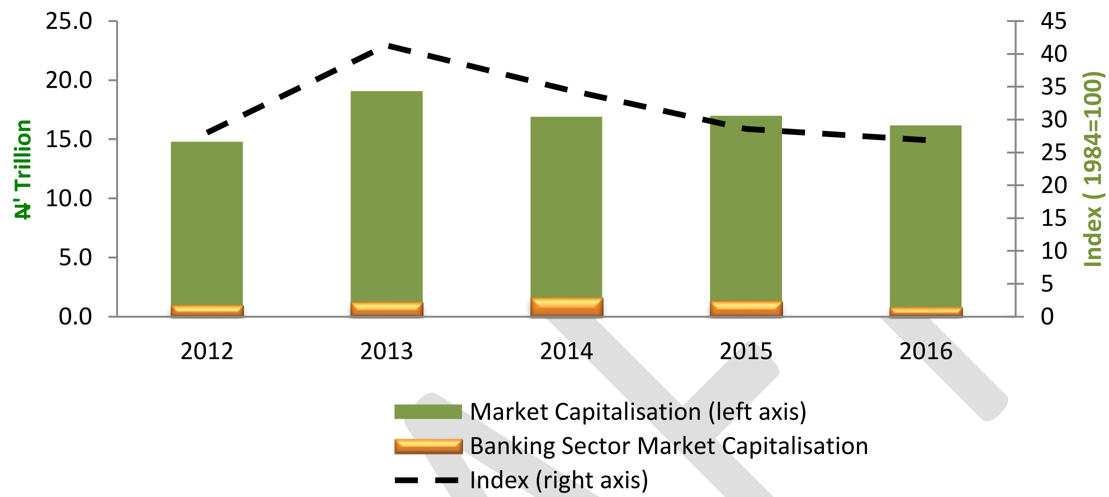
The total volume of traded securities rose by 3.2 per cent, while the value of traded securities fell significantly by 39.6 per cent at end-December 2016. Aggregate market capitalisation of the 247 listed securities (equities and debt) fell by 4.8 per cent to close at ₦16.2 trillion, compared with ₦17.0 trillion recorded at end-December 2015, reflecting the decline in the market capitalisation of both listed equities and bonds. Market capitalisation of the 174 listed equities fell by 6.1 per cent, from ₦9.9 trillion in 2015, to close at ₦9.3 trillion and constituted 57.2 per cent of the aggregate market capitalisation, compared with 58.0 per cent in 2015. The development reflected the significant loss of value across different asset classes due, largely, to sell pressure by anxious investors and continued prevalence of bearish sentiments.

The debt securities component was made up of Federal Government Bonds (₦6.1 trillion or 88.4%), sub-national and supra-national Bonds (₦541.5 billion or 7.2%) and Corporate Bonds/Debentures (₦281.9 billion or 4.3%), while Exchange Traded Funds (ETFs) accounted for the balance of ₦4.8 billion or 0.1 per cent. The impressive performance in the bond market in 2015 was sustained as bond issuance and value of bonds traded on the Exchange improved by 31.2 and 137 per cent, respectively, in the review year. Of the total value of bonds (₦163.0 billion) approved by the Commission in 2016, corporates, mainly in the building and construction sector, raised a total of ₦116.0 billion, while the Lagos State Government raised ₦47.0 billion in debt capital.

Overall, the Exchange recorded respective decline of 50.0 per cent, 30.0 per cent and 28.0 per cent in transactions by foreign, domestic institutional, and domestic retail investors, respectively, due to the effect economic recession and weak corporate performances in 2016. Accordingly, the share of foreign portfolio investors in total transactions fell to 45.0 per cent in 2016, compared with 54.0 per cent in 2015.

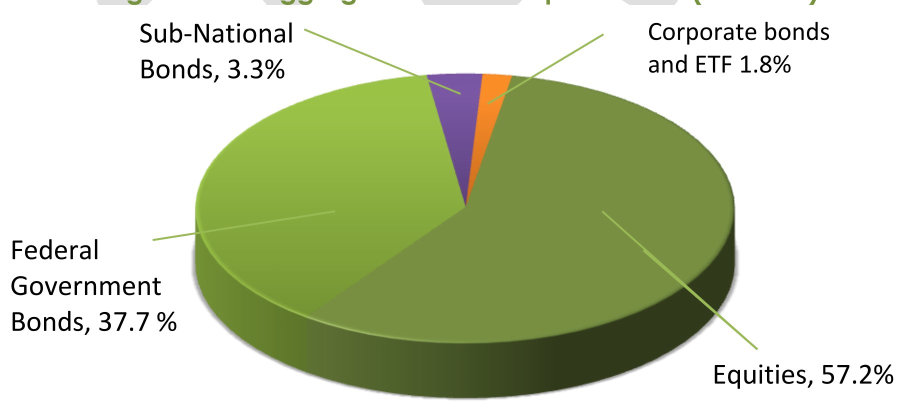
Total market capitalisation as a percentage of the nominal GDP was 16.0 per cent, compared with 18.0 per cent at end-December 2015. The ratio of the value of stocks traded to GDP stood at 0.6 per cent, compared with 1.0 per cent recorded in 2015, while the turnover value as a percentage of aggregate market capitalisation was 3.5 per cent, compared with 5.6 per cent at the end of the preceding year.

Figure 4.36: Trends in Market Capitalisation and NSE Value Index, 2012-2016



Source: NSE

Figure 4.37: Aggregate Market Capitalization (Per cent)



Source: SEC

Table 4.13: Indicators of Capital Market Developments in the Nigerian Stock Exchange (NSE), 2012 - 2016					
	2012	2013	2014	2015	2016
Number of Listed Securities	256	254	253	257	247
Volume of Stocks Traded (Turnover Volume) (Billion)	104.2	267.3	108.47	92.9	95.8
Value of Stocks Traded (Turnover Value) (Billion Naira)	809.0	2350.9	1338.6	952.8	575.7
Value of Stocks Traded/GDP (%)	1.1	2.9	1.5	1.0	0.6
Total Market Capitalisation (Billion Naira)	14,800.9	19,077.4	16,875.1	17,003.4	16,185.7
Of which: Banking Sector (Billion Naira)	2,251.3	2,939.9	2,367.0	1,888.8	1,905.7
Total Market Capitalisation/GDP (%)	20.40	23.51	19.00	18.0	16.0
Of which: Banking Sector/GDP (%)	3.1	3.62	2.7	2.0	1.9
Banking Sec. Cap./Market Cap. (%)	15.2	15.4	14.0	8.5	11.8
Annual Turnover Volume/Value of Stock (%)	12.9	11.4	8.1	9.8	16.6
Annual Turnover Value/ Total Market Capitalisation (%)	5.5	12.3	7.9	5.6	3.5
NSE Value Index (1984=100)	28,078.8	41,329.2	34,657.2	28,642.3	26,874.6
Growth (In per cent)					
Number of Listed Securities	2.4	-0.8	-0.4	1.6	-3.9
Volume of Stocks	14.9	156.5	-59.4	14.4	3.2
Value of Stocks	26.6	190.6	-43.1	-29.0	-39.6
Total Market Capitalisation	44.0	28.9	-11.5	0.8	-4.8
Of which: Banking Sector	22.4	30.6	-19.5	-20.2	0.9
Annual Turnover Value	5.7	11.4	0.0	-29.0	-39.6
NSE Value Index	35.5	47.2	-16.1	-17.4	-6.2
Share of Banks in the 20 Most Capitalised Stocks in the NSE (%)	45.0	30.0	30.0	20.9	22.5

Source: Securities and Exchange Commission

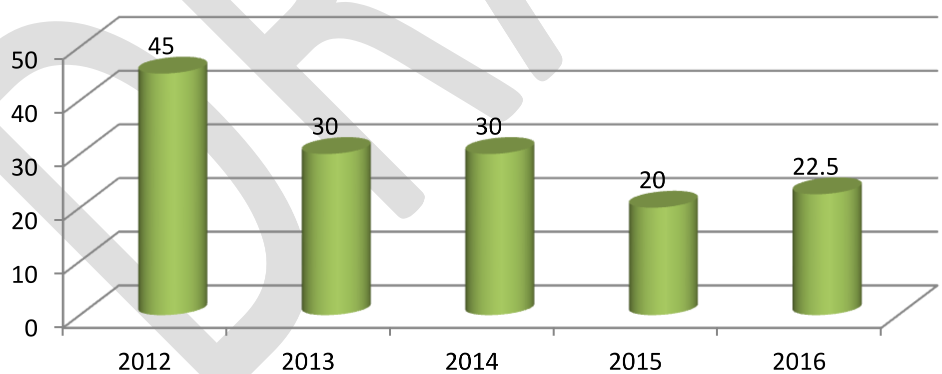
4.5.2.1 The Secondary Market

The secondary market segment of the NSE was bearish, while the bulk of the transactions remained in equities.

Developments in the Secondary segment of the Nigerian Capital Market were impacted by the economic recession in 2016, as major market indicators generally trended downward. The cumulative volume of traded securities rose by 3.2 per cent to 95.8 billion, while the value fell significantly by 39.6 per cent to ₦575.7 billion in 837,421 deals, compared with 92.8 billion and ₦950.4 billion, respectively, in 944,951 deals at end-December 2015. The average daily volume and value of traded equities were 387.9 million shares and ₦2.3 billion, compared with 375.9 billion shares and ₦3.9 billion, respectively, in 2015. The bulk of the transactions were in equities, which accounted for 99.9 per cent of the turnover volume, 99.6 per cent of total value of traded securities and 99.7 per cent of aggregate number of deals.

Transactions in the financial services sector accounted for the bulk of activities with volume of traded stocks at 81.6 billion shares (85.1 %) valued at ₦329.7 billion (57.1 %), compared with 72.3 billion shares (77.8%) valued at ₦507.2 billion (53.4%), in 2015. The Industrial Loan, Alternative Security Market (ASeM) and state bond sub-sectors were inactive during the review year. The banking sub-sector of the financial services sector remained the most active (by volume) with 53.5 million traded securities worth ₦280.4 billion, in 345,619 deals in 2016. The number of banks in the top twenty (20) most capitalised stocks in the secondary market segment of the NSE, remained unchanged, at six (6) in 2016 and accounted for 22.5 per cent of the total market capitalisation, compared with 20.0 per cent in the preceding year.

Figure 4.38: Share of Banks in the 20 Most Capitalised Stocks in the NSE, 2012 – 2016



Source: NSE

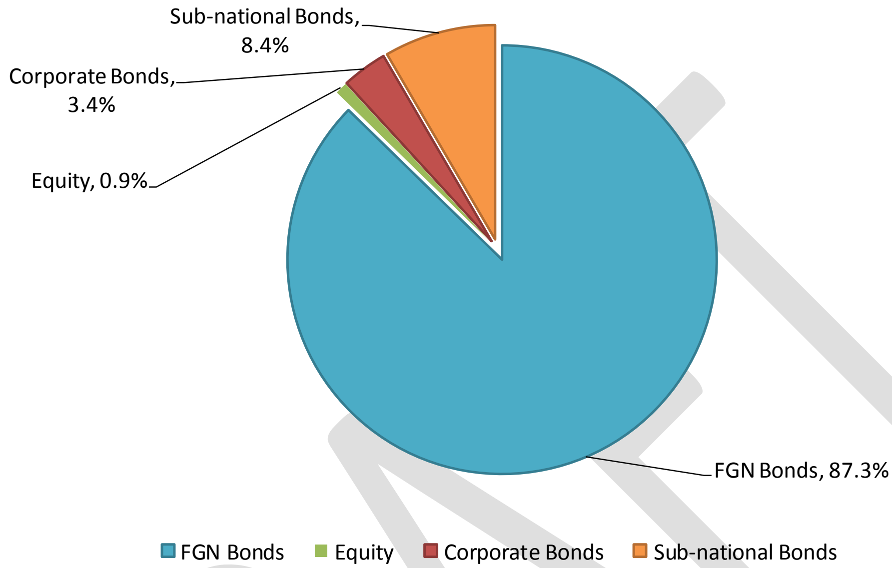
4.5.2.2 The NSE Value Index

The Nigeria capital market remained a major barometer for measuring the performance of the economy. In this regard, the prolonged economic downturn negatively impacted developments across the different asset classes on the Exchange. Thus, apart from the NSE Premium and NSE Banking Indices, which rose by 6.9 per cent and 2.2 per cent above the levels in the preceding year to 1,695.51 and 274.32, respectively, all other major and sectoral indices declined below the levels in 2015. The lead barometer of the Nigerian Stock Exchange (NSE), the NSE All-Share Index, declined by 6.2 per cent, to close at 26,874.62, compared with 28,642.25 in the preceding year, reflecting the persistent bearish sentiments in the market. Similarly, the NSE Main-Board and NSE-30 indices fell by 10.0 per cent and 7.2 per cent to close the year at 1,203.79 and 1,195.20, respectively, compared with 1,337.85 and 1,287.67 at end–December 2015. The NSE Industrial Index recorded the steepest fall at 26.4 per cent, reflecting the declining fortune of domestic manufacturing sector, due to low activities arising from shortage of foreign exchange for the importation of critical intermediate goods. The NSE Oil and Gas and NSE Insurance fell by 12.3 per cent and 11.4 per cent, relative to the levels in 2015, to close at 312.68 and 126.29, respectively. The NSE Lotus Islamic, NSE Consumer Goods, NSE ASeM and NSE Pension Indices declined by 7.9 per cent, 4.5 per cent, 1.6 per cent and 0.6 per cent, respectively, to close at 1,841.59, 712.65, 1,189.69 and 810.04, respectively. The development further reflected the capital market's link to the general economy, which remained in recession since the second quarter of the review year.

4.5.2.3 The New Issues Market

On the back of the unimpressive performance in the secondary market, the primary segment remained, largely, inactive in the review year as there was no Initial Public Offering (IPO), though one (1) new company was listed by introduction. The summary of new issues by other types of offer, in equity, with a total value of ₦10.7 billion were: five (5) private placements (₦5.1 billion); four (4) rights issue (₦3.8 billion); and one (1) offer for subscription (₦1.8 billion). Consequently, with the listing of one (1) equity and delisting of sixteen (16) equity securities, the number of listed equities declined to 175 in 2016. In the debt security category, there were 45 new bond issues, comprising, 34 FGN bond (₦1,198.7 billion), ten (10) corporate bond (₦115.9 billion) and one (1) sub-national bond (₦47.0 billion).

Figure 4.39: New Issues by Sector 2016, (Per cent)



Source: SEC

CHAPTER FIVE

FISCAL POLICY AND GOVERNMENT FINANCE

Nigeria's fiscal policy thrust in 2016 focused on stimulating and enhancing the competitiveness of the economy through infrastructural development. The budget projected ₦9,512.5 billion as federally-collected revenue (gross), consisting 25.0 and 75.0 per cent from oil and non-oil sources, respectively. Actual federally-collected revenue (gross) was ₦5,616.4 billion or 5.4 per cent of GDP, indicating a decline of 41.0 and 18.8 per cent below the 2016 budget target and the level in 2015, respectively. The development was as a result of the drop in oil revenue, arising from the decline in crude oil prices in the international market, the incessant crude oil theft, and militant attacks on oil infrastructure, which adversely affected crude oil production and export. The sum of ₦3,107.9 billion was transferred to the Federation Account, reflecting a decrease of 28.9 per cent below the level in fiscal 2015. The Excess Crude Account (ECA), however, rose slightly from US$2.45 billion at end-December 2015 to US$2.63 billion at end-December 2016, owing to the lower drawdown, arising from the boost in projected revenue to the three tiers of government from the depreciation of the exchange rate of the Naira. Consolidated expenditure of the general government was ₦9,673.4 billion, or 9.4 per cent of GDP, and aggregate revenue was ₦6,687.9 billion or 6.5 per cent of GDP. This resulted in an overall deficit of ₦2,985.5 billion or 2.9 per cent of GDP, which was financed largely from domestic sources. Federal Government-retained revenue in 2016 at ₦3,184.7 billion, fell by 7.2 per cent below the level in fiscal 2015, while aggregate expenditure at ₦5,378.0 billion, increased by 7.8 per cent above the level in 2015. Consequently, the fiscal operations of the Federal Government resulted in an overall deficit of ₦2,193.3 billion, or 2.1 per cent of GDP. Provisional data on state governments and the FCT finances indicated an overall deficit of ₦741.5 billion, or 0.7 per cent of GDP, while the local governments recorded a deficit of ₦1.3 billion or 0.001 per cent of GDP. The consolidated debt stock of the Federal Government was ₦14,537.1 billion, or 14.2 per cent of GDP, at end-December 2016, compared with ₦10,948.5 billion, or 11.5 per cent of GDP, at end-December 2015. External debt stock rose by 6.4 per cent to US$11.4 billion, following an additional disbursement of concessional loans from the multilateral institutions to finance critical infrastructure. Similarly, domestic debt grew by 25.1 per cent to ₦11,058.2 billion as a result of borrowings for the settlement of government contractual obligations and domestic bond market operations.

5.1 THE FISCAL POLICY THRUST

The 2016 Budget tagged "Budget of Change" was anchored on macroeconomic policies and growth strategies that would enhance the welfare of the citizens and reflate the economy through investment in critical infrastructure and social development. The Zero- Based Budgeting framework, which required all MDAs to carry out fresh evaluation of all projects/programmes based on the priorities of the government, was adopted. The Budget was premised on six pillars which were; economic reforms; infrastructure; social development; governance and security; environment; and states/regional development. Specifically, the objectives of the 2016 budget were:

- Ensuring a stable macroeconomic environment for real sector development;
- Investing in critical infrastructure, science, technology and innovations to enhance productivity and lower cost of doing business;
- Creating a substantial number of jobs to reduce unemployment and underemployment, especially among the youths;
- Protecting the poor and vulnerable group through special social intervention programmes;
- Broadening the tax base; and
- Building an economy that is resilient to oil price shocks through the pursuit of economic diversification.

The key assumptions of the budget were: benchmark oil price of US$38.00 per barrel; crude oil production of 2.2 million barrel per day; and exchange rate of ₦190/US$. In line with these assumptions, the budget projected a distributable revenue (net) of ₦5.72 trillion with oil revenue constituting ₦1.48 trillion or 25 per cent of the total; and non-oil revenue accounting for the balance of ₦4.22 trillion or 75 per cent. Of the distributable revenue, the Federal and sub-national governments were to receive ₦2.48 trillion and ₦3.24 trillion, respectively. Also, the Federal Government was to receive ₦1.51 trillion from independent revenue, bringing FGN retained-revenue to ₦3.99 trillion.

The budget envisaged an aggregate expenditure of ₦6.06 trillion, made up of statutory transfer, ₦351.37 billion; debt service (including provision for sinking fund), ₦1.48 trillion; non-debt recurrent expenditure, ₦2.65 trillion; and capital expenditure, ₦1.59 trillion. This was to result in an overall deficit of ₦2.2 trillion or 2.1 per cent of GDP, to be financed largely, from both external and domestic sources.

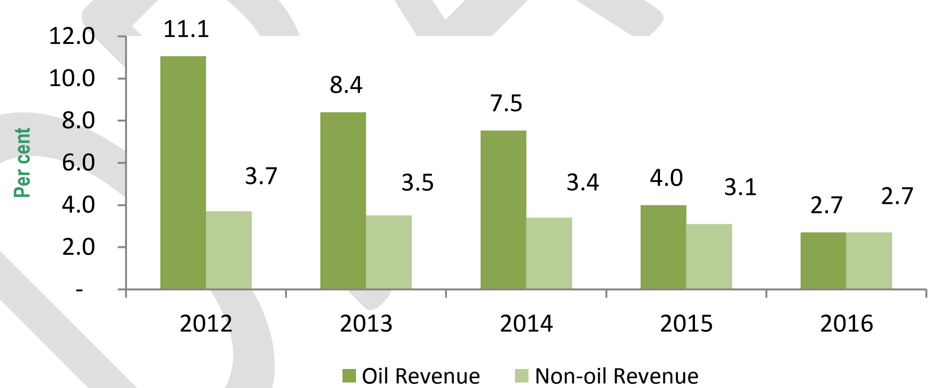
5.2 FEDERATION ACCOUNT OPERATIONS

5.2.1 Federally-collected Revenue

Total federally-collected revenue fell by 18.8 per cent to ₦5,616.4 billion in 2016 and constituted 5.4 per cent of GDP. The development was attributed to the decrease in oil and non-oil revenue, owing to low crude oil price, decline in production volume and weakened economic activities.

Total federally-collected revenue fell by 18.8 per cent to ₦5,616.4 billion in 2016 and constituted 5.4 per cent of GDP.

Figure 5.1: Oil and Non-oil Revenue (per cent of GDP), 2012 - 2016



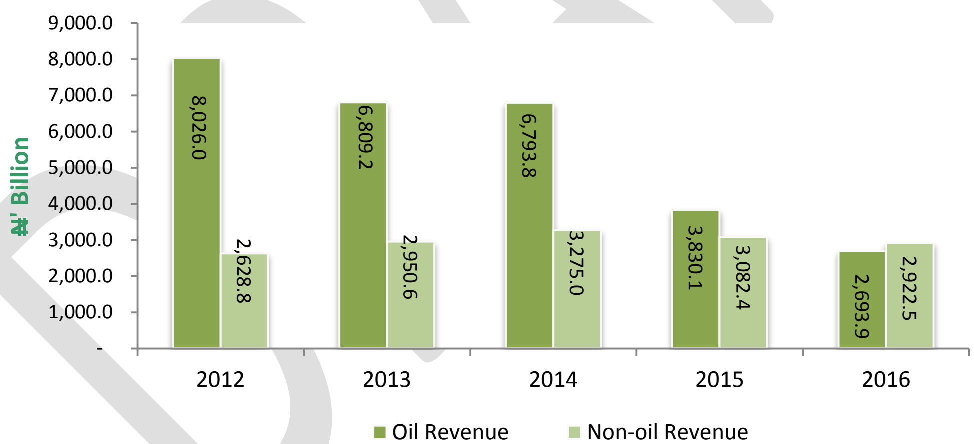
Sources: Computed, based on data from the Federal Ministry of Finance (FMF) and the Office of the Accountant General of the Federation (OAGF)

5.2.1.1 Oil Revenue

Oil revenue (gross) stood at ₦2,693.9 billion or 2.7 per cent of GDP, representing 48.0 per cent of total federally-collected revenue. This indicated a decline of 29.7 per cent below the level in 2015. A breakdown of oil revenue showed that revenue from crude oil/gas export and petroleum profit tax (PPT)/royalties fell by 56.7 and 33.1 per cent to ₦389.6 billion and ₦1,192.3 billion, respectively. The development was attributed largely to the decline in crude oil price in the international market, incessant crude oil theft and militant attacks on oil infrastructure, which adversely affected crude oil production. Specifically, the average price of crude oil remained substantially low at US$44.52 per barrel in 2016 relative to US$52.65 per barrel in 2015. Also, average crude oil production, at 1.62 million barrels per day in 2016, dipped by 35.8 per cent below the 2016 budget benchmark.

The sums of ₦704.5 billion was deducted from gross oil receipts for Joint Venture Cash (JVC) calls, ₦242.7 billion in respect of excess crude/PPT/royalty proceeds and ₦92.9 billion as "others"[4], leaving a balance of ₦1,653.8 billion for distribution to the three tiers of government.

Figure 5.2: Federation Account: Composition of Revenue (Naira Billion), 2012 – 2016



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

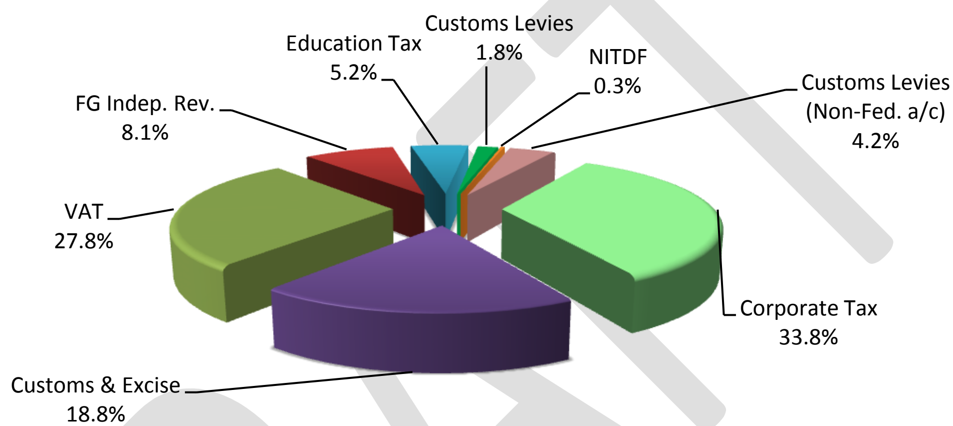
5.2.1.2 Non-oil Revenue

Non-oil revenue (gross), at ₦2,922.5 billion, or 2.7 per cent of GDP, accounted for 52.0 per cent of total revenue, indicating a 5.2 per cent decrease below the level in 2015. The fall in non-oil revenue reflected the slowdown in economic activities. A breakdown of non-oil revenue (gross) indicated that value added

[4] Include Excess Oil Revenue, NNPC Refunds and DPR cost of collection.

tax (VAT) and customs/excise duties rose by 4.1 and 0.5 per cent to ₦811.0 billion and ₦548.8 billion, respectively. This was attributed largely to the fiscal reform measures in October 2016, adopting the Import Adjustment Tax list with additional taxes on 173 tariff lines in compliance with the extant ECOWAS CET. FG Independent Revenue, "others"[5], and Corporate tax (CT), however, fell by 26.5, 16.9 and 4.0 per cent to ₦237.7 billion, ₦336.7 billion and ₦988.4 billion, respectively.

Figure 5.3: Composition of Non-oil Revenue, 2016



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

The sum of ₦115.4 billion was deducted from the non-oil revenue as cost of collection, leaving a net distributable balance of ₦2,807.1 billion.

5.2.2 Federation Account Distribution

After statutory deductions of ₦1,155.5 billion, the sum of ₦4,460.9 billion, was retained in the Federation Account, representing a decrease of 23.7 per cent below the level in 2015. Of this amount, ₦778.6 billion, ₦336.7 billion, and ₦237.7 billion were transferred to the VAT Pool Account, 'other transfers'[6], and FG Independent Revenue, respectively, leaving a net revenue of ₦3,107.9 billion for distribution. In addition, ₦405.8 billion from the Exchange Rate Differential

[5] Include Education Tax, Customs Special Levies (Federation and Non-Federation accounts), National Information Technology Development Fund (NITDF)
[6] Include the Education Tax, Customs Levies, and the National Information Technology Development Fund.

Account[7]; ₦323.6 billion from the Excess Crude/PPT Account; ₦105.5 billion as NNPC Refunds[8]; ₦9.9 billion as Solid Mineral Revenue; and ₦3.0 billion as Recovery of Understated Funds[9] were added to the federally-collected revenue (net) to raise the distributable amount to ₦3,955.7 billion.

Analysis of the distribution among the three tiers of government showed that the Federal Government (including Special Funds) received ₦1,964.6 billion; state governments, ₦957.9 billion; and local governments, ₦738.5 billion; while ₦294.6 billion was shared as 13% Derivation Fund among the oil-producing states.

5.2.3 VAT Pool Account Distribution

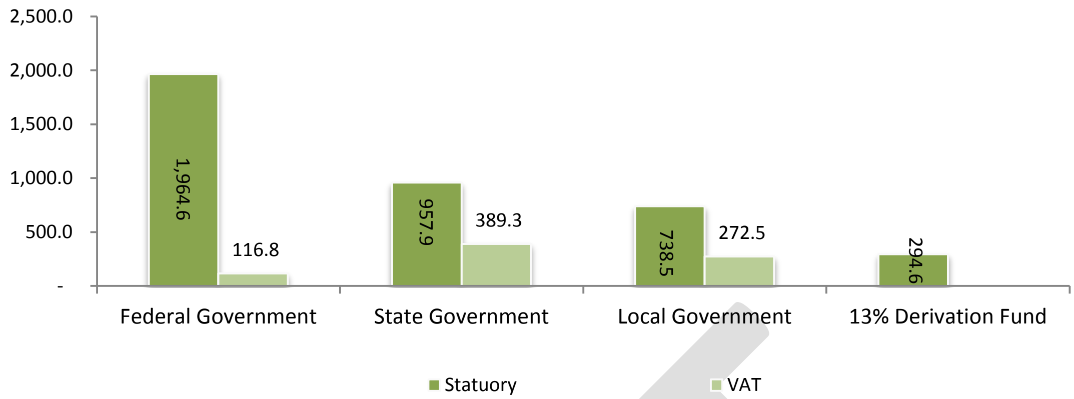
The sum of ₦778.6 billion was transferred to the VAT Pool Account, representing an increase of 4.1 per cent above the level in 2015. Analysis of the distribution among the three tiers of government showed that the Federal Government (including the FCT) received ₦116.8 billion (15%), while the state and local governments shared ₦389.3 billion (50%) and ₦272.5 billion (35%), respectively.

5.2.4 Cumulative Distribution

Cumulatively, the three tiers of government and the 13% Derivation Fund shared the sum of ₦4,734.2 billion from statutory revenue and VAT in fiscal 2016. This was below the preceding year's level of ₦5,814.0 billion and the 2016 budget target of ₦5,942.8 billion by 18.6 and 20.3 per cent, respectively.

[7] This is the difference between the budgeted and actual exchange rate and its shared as "**Exchange Gain**"
[8] Includes Additional NNPC distribution and NLNG distribution
[9] Represents "**Recovered Bank Charges**" in 2016

Figure 5.4: Cumulative Distribution of Statutory Revenue & VAT, 2016 (Naira Billion)



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

5.3 GENERAL GOVERNMENT FINANCES

5.3.1 Aggregate Revenue

Provisional data showed that at ₦6,687.9 billion or 6.5 per cent of GDP, the aggregate revenue of the general government in 2016, comprised: the Federation Account, ₦3,107.9 billion; VAT Pool Account, ₦778.6 billion; Exchange Gain, ₦405.8 billion; Excess Petroleum Profit Tax, ₦323.6 billion; NLNG 2015 Dividend, ₦29.5 billion; Solid Mineral revenue, ₦9.9 billion; and Recovered Excess Bank Charges, ₦3.0 billion. Revenue exclusive to the Federal Government consisted: Federal Government Independent Revenue, ₦237.7 billion; NNPC Refunds, ₦76.0 billion; and "Others[10]", ₦871.5 billion. In addition, revenue exclusive to the sub-national (state and local) governments included: ₦773.0 billion; ₦34.4 billion; ₦9.8 billion; ₦0.1 billion; and ₦27.1 billion from Internally-Generated Revenue, Grants, State allocations to local governments, Stabilisation, and "Others", respectively.

[10] Include privatisation proceeds

Table 5.1: Sources of Funds For The Three Tiers of Government, 2016 (Naira Billion)

SOURCE	Federal Government			State Governments			Local Governments	Grand Total
	FG's Share	FCT	Sub-Total	States	13%	Sub-Total		
Statutory Allocation	1,495.1	28.9	**1,523.9**	773.0	214.9	**987.9**	596.0	**3,107.9**
Share from Excess Petroleum Profit Tax	145.5	2.8	**148.3**	75.2	42.1	**117.3**	58.0	**323.6**
Exchange Gain	191.0	3.7	**194.7**	98.7	36.3	**135.0**	76.1	**405.8**
NNPC Refunds	74.5	1.4	**76.0**	0.0	0.0	**0.0**	0.0	**76.0**
NLNG 2015 Dividend Distribution	15.2	0.3	**15.5**	7.9	0.0	**7.9**	6.1	**29.5**
Solid Mineral Revenue Distribution	4.5	0.1	**4.5**	2.3	1.3	**3.6**	1.8	**9.9**
Recovered Excess Bank Charges	1.5	0.0	**1.6**	0.8		**0.8**	0.6	**3.0**
Share of VAT	109.0	7.8	**116.8**	389.3	0.0	**389.3**	272.5	**778.6**
FG Independent Revenue	237.7	0.0	**237.7**	0.0	0.0	**0.0**	0.0	**237.7**
Privatization Proceeds	5.9	0.0	**5.9**	0.0	0.0	**0.0**	0.0	**5.9**
Internally-Generated Revenue	0.0	10.7	**10.7**	735.7	0.0	**735.7**	36.4	**782.8**
Less State Allocation to LG	0.0	0.0	**0.0**	9.8	0.0	**9.8**	0.0	**9.8**
Net Internally-Generated Revenue	0.0	10.7	**10.7**	645.5	0.0	**725.9**	36.4	**773.0**
Grants	0.0	0.0	**0.0**	15.6	0.0	**15.6**	18.8	**34.4**
Share of Stabilization Fund	0.0	0.0	**0.0**	0.1	0.0	**0.1**	0.0	**0.1**
State Allocation to LG	0.0	0.0	**0.0**	0.0	0.0	**0.0**	9.8	**9.8**
Others 1/	865.6	0.0	**865.6**	18.9	0.0	**18.9**	8.2	**892.7**
TOTAL	**3,145.5**	**55.7**	**3,201.2**	**2,027.3**	**294.6**	**2,402.3**	**1,084.3**	**6,687.9**

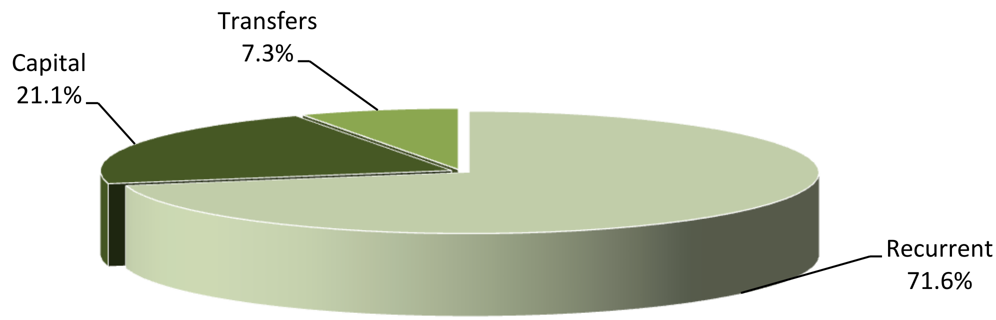
1/Includes FGN balance in Special Account, unspent balances from previous years, & receipt from TSA/e-collection pool Account.
Sources: FMF, OAGF, and CBN Sub-national Governments' *Annual Fiscal Survey*.

5.3.2 Aggregate Expenditure

At ₦9,673.4 billion, aggregate expenditure of the general government declined by 0.3 per cent from the level in 2015. This was attributed to the drop in capital expenditure, arising from the fall in revenue. As a proportion of GDP, it represented 9.4 per cent, compared with 10.2 per cent in 2015. A breakdown showed that recurrent expenditure, which stood at ₦6,920.9 billion (6.7% of GDP), accounted for 71.6 per cent of the total, while capital expenditure, ₦2,043.7 billion (2.0% of GDP) and transfers, ₦708.8 billion (0.7% of GDP); represented 21.1and 7.3 per cent of the total, respectively.

At ₦9,673.4 billion, aggregate expenditure of general government declined by 0.3 per cent from the level in 2015.

Figure 5.5: Composition of General Government Expenditure, 2016



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

5.3.3 Consolidated Fiscal Balance and Financing

The fiscal operations of general government resulted in a primary deficit of ₦1,494.4 billion (1.5 % of GDP), and an overall deficit of ₦2,985.5 billion (2.9% of GDP), compared with ₦1,032.6 billion (1.1% of GDP) and ₦2,157.7 billion (2.3% of GDP), respectively, in 2015. The overall deficit was financed, largely, with borrowing from domestic sources, especially drawn-down on special accounts and the banking system.

5.3.4 Consolidated Expenditure on Primary Welfare Sectors[11]

Consolidated general government spending on the primary welfare sector indicated that expenditure on agriculture and natural resources decreased below the level in 2015 by 8.9 per cent to ₦206.2 billion and accounted for 2.1 per cent of total expenditure. Similarly, expenditure on education and health declined by 16.2 and 27.1 per cent, to ₦915.9 billion and ₦435.9 billion, respectively, from the levels in 2015. Aggregate expenditure on the primary welfare sector amounted to ₦1,558.0 billion or 1.5 per cent of GDP, and accounted for 16.1 per cent of the aggregate expenditure of the general government.

Aggregate general government expenditure on primary welfare sectors amounted to ₦1,558.0 billion, or 1.5 per cent of GDP, and accounted for 16.1 per cent of the total.

[11] Classification for identifying poverty-reducing expenditures

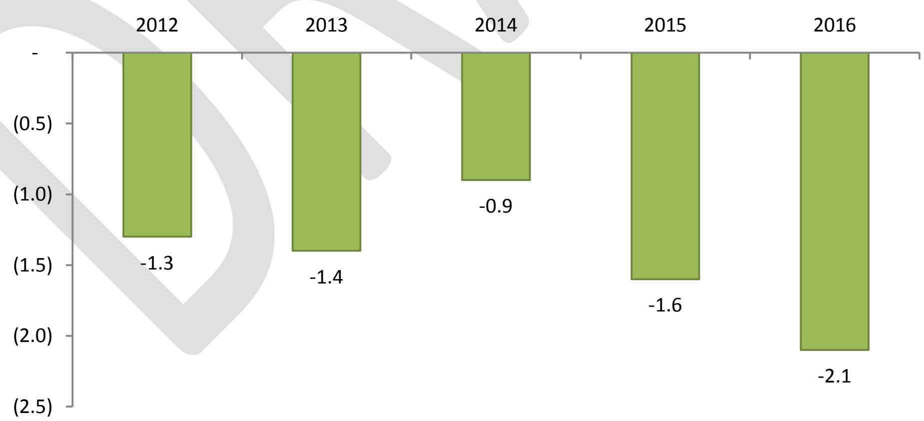
5.4 FEDERAL GOVERNMENT FINANCES

5.4.1 The Overall Fiscal Balance and Financing

The overall fiscal operations of the Federal Government resulted in a notional deficit of ₦2,193.3 billion, or 2.1 per cent of GDP, compared with the deficit of ₦1,557.8 billion, or 1.6 per cent of GDP, recorded in FY2015.

The current balance in 2016 indicated a deficit of ₦975.4 billion, or 0.9 per cent of GDP, compared with the ₦400.9 billion deficit or 0.4 per cent of GDP in the preceding fiscal year. Also, the primary balance showed a deficit of ₦767.3 billion, or 0.7 per cent of GDP, compared with a deficit of ₦497.4 billion, or 0.5 per cent of GDP in 2015. Furthermore, the overall fiscal balance of the Federal Government resulted in a deficit of ₦2,193.3 billion, or 2.1 per cent of GDP, compared with the deficit of ₦1,557.8 billion, or 1.6 per cent of GDP in fiscal 2015. The deficit was below the revised WAMZ primary convergence criterion of 3.0 per cent of GDP. It was financed mainly from domestic sources with other funds, (including draw down on special accounts) accounting for ₦1,662.6 billion or 75.8 per cent of the total financing.

Figure 5.6: Federal Government Fiscal Deficit, 2012 - 2016 (per cent of GDP)



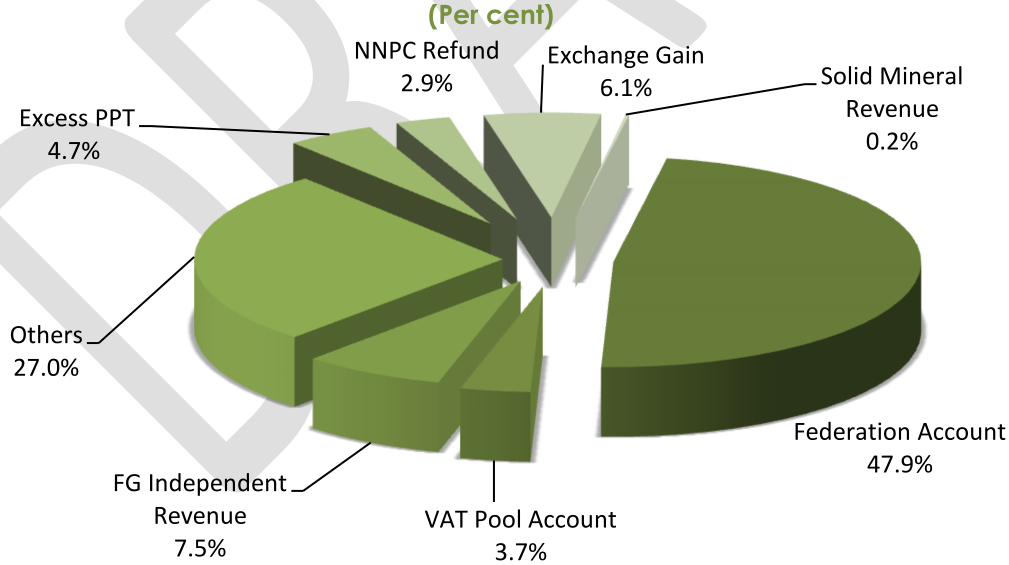
Sources: Computed, based on data from the FMF and the OAGF

5.4.2 Federal Government-retained Revenue

The Federal Government-retained revenue fell to ₦3,184.7 billion from ₦3,431.1 billion in 2015. This was attributed to the decline in the revenue from federation account due to the fall in the price of crude oil in the international market and the economic contraction in 2016. Analysis of the revenue showed that the Federation Account accounted for ₦1,524.0 billion or 47.9 per cent of the total; FG Independent Revenue, ₦237.7 billion (7.5%); and the VAT Pool Account, ₦116.8 billion (3.7%). There were also: Exchange Gain, ₦194.7 billion (6.1%); Excess Crude/Petroleum Profit Tax, ₦148.3 billion (4.7%); NNPC Refund[12], ₦91.5 billion (2.9%); Solid Mineral Revenue, (including Recovered Excess Bank Charges), ₦6.1 billion (0.2%); and 'Others' (including receipts from TSA/E-collection Pool Account)[13], ₦865.6 billion (27.0%);

The Federal Government-retained revenue decreased to ₦3,184.7 billion from ₦3,431.1 billion, in FY2015.

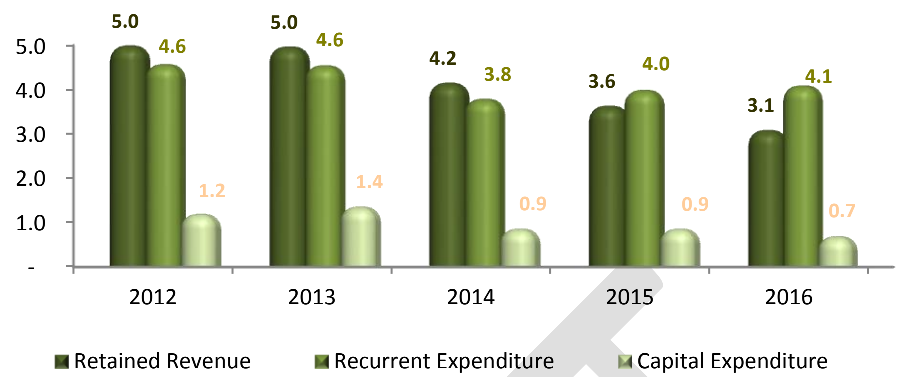
Figure 5.7: Composition of Federal Government-retained Revenue, 2016 (Per cent)



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

[12] Include Distribution of NLNG Dividend
[13] Include FGN Balance in Special Accounts and unspent balances from previous year.

Figure 5.8: Federal Government Revenue and Expenditure, 2012 - 2016 (Per cent of GDP)



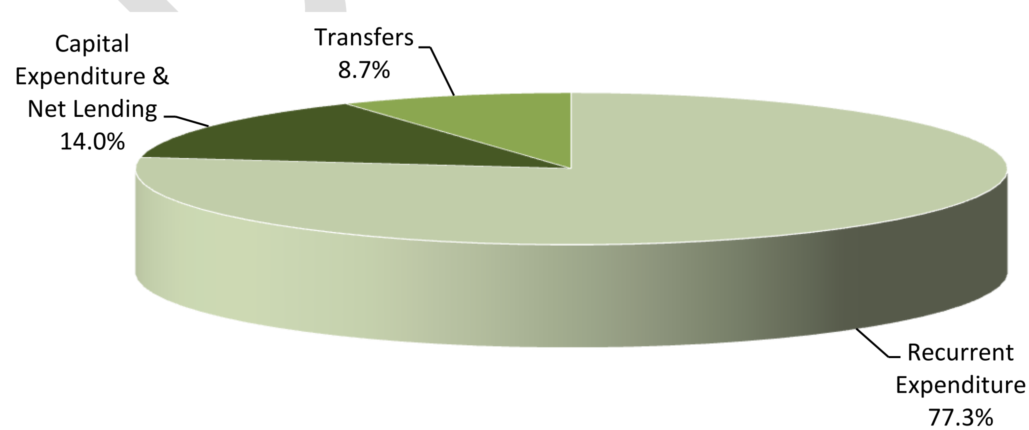
Sources: Computed, based on data from the FMF and the OAGF

5.4.3 Total Expenditure of the Federal Government

The aggregate expenditure of the Federal Government increased by 7.8 per cent to ₦5,378.0 billion in 2016. As a proportion of GDP, it remained at 5.2 per cent same as fiscal 2015. The non-debt expenditure rose above the level in 2015 by 0.6 per cent to ₦3,952.0 billion. Total debt service payments amounted to ₦1,426.0 billion, or 1.4 per cent of GDP, representing 26.5 per cent of total expenditure and 44.8 per cent of total retained revenue.

Aggregate expenditure of the Federal Government increased by 7.8 per cent to ₦5,378.0 billion in FY2016 and contributed 5.2 per cent of GDP.

Figure 5.9: Composition of Federal Government Expenditure, 2016 (Per cent)



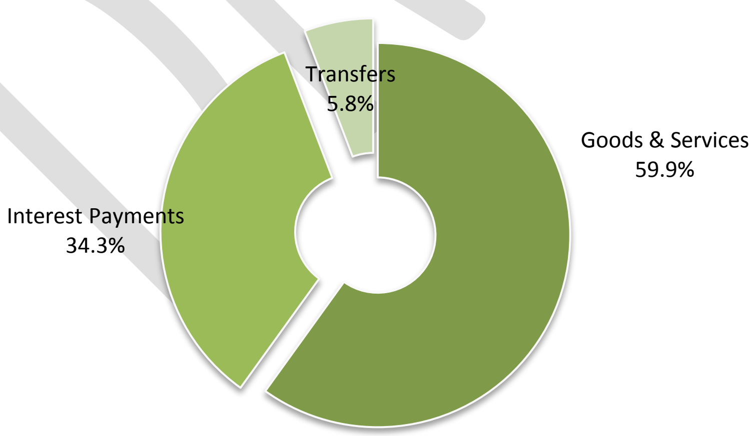
Sources: Computed, based on data from the FMF and the OAGF

5.4.3.1 Recurrent Expenditure

Recurrent expenditure at ₦4,160.1 billion or 4.1 per cent of GDP, rose by 8.6 per cent above the level in 2015 and accounted for 77.4 per cent of the total, reflecting the sizable increase in domestic interest payment. A disaggregation of recurrent expenditure showed that interest payment[14] increased by 34.5 per cent above the level in 2015 to ₦1,426.0 billion (34.3% of the total). The goods and services component, however, fell by 2.2 per cent to ₦2,493.1 billion (59.9% of the total), while transfers to the special funds (FCT, stabilisation, development of natural resources and ecological funds)and "others", including other statutory deductions, rose by 8.8 per cent to ₦241.0 billion (5.8% of the total). Analysis of the goods and services component revealed that personnel cost and pensions amounted to ₦1,874.7 billion (75.2%) and overhead cost was ₦618.4 billion (24.8%). A breakdown of interest payments indicated that ₦77.3 billion was expended on external debt and ₦1,348.6 billion on domestic debt.

Recurrent expenditure increased to 4.1 per cent of GDP, reflecting the substantial increase in domestic interest payments in FY2016.

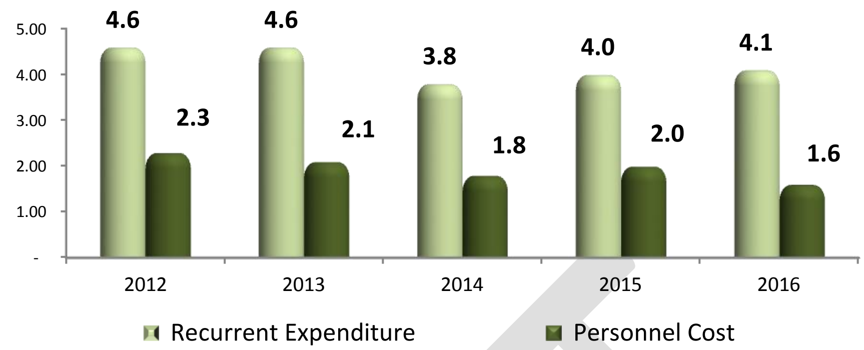
Figure 5.10: Economic Classification of FG Recurrent Expenditure, 2016, (Per cent)



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

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

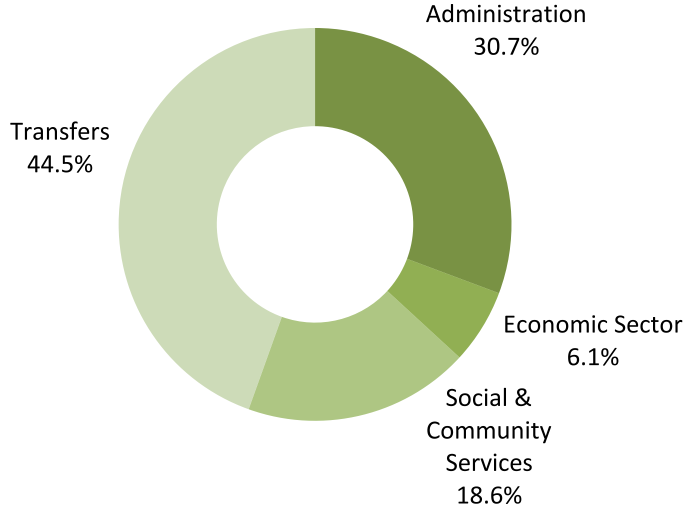
Figure 5.11: Federal Government Recurrent Expenditure & Personnel Cost, 2012 - 2016 (Per cent of GDP)



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

A functional classification of recurrent expenditure indicated that outlay on administration rose by 3.9 per cent to ₦1,227.0 billion and accounted for 30.7 per cent of the total. Expenditure on the economic sector, however, at ₦255.8 billion, fell by 7.1 per cent and constituted 6.1 per cent of the total. Within the economic sector, road and construction accounted for 38.3 per cent, while agriculture and natural resources, and transport and communications were 14.2 and 8.0 per cent of the total, respectively. In addition, expenditure on the social and community services sector declined by 4.0 per cent to ₦775.6 billion and accounted for 18.6 per cent of the total, with education and health constituting 43.7 and 25.9 per cent, respectively. Transfer payments, at ₦1,851.8 billion or 44.5 per cent of total recurrent, however, rose by 21.8 per cent above the level in 2015.

Figure 5.12: Functional Classification of Federal Government Recurrent Expenditure, 2016 (Per cent)



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

5.4.3.2 Capital Expenditure

Capital expenditure fell by 8.2 per cent below the level in 2015 to ₦751.4 billion, and constituted 14.0 per cent of total expenditure. This reflected inadequate capital releases arising from dwindled revenue challenges. As a percentage of GDP, capital expenditure stood at 0.7 per cent compared with 0.9 per cent in 2015. A functional analysis of capital expenditure showed that outlays in the economic and administration sectors were ₦309.3 billion and ₦178.0 billion, or 41.2 and 23.7 per cent of the total, respectively, compared with 42.6 and 27.7 per cent in 2015. Within the economic sector, agriculture and natural resources, and roads and construction accounted for 15.5 and 35.0 per cent of the total, respectively. Public investment in social and community services constituted ₦94.3 billion or 12.5 per cent of total capital expenditure with education and health accounting for 35.9 and 33.6 per cent of the total, respectively. As a ratio of capital spending, expenditure on education and health rose above the 3.7 per cent apiece recorded in fiscal 2015 to 4.5 and 4.2 per cent, respectively in

Capital expenditure fell by 8.2 per cent to ₦751.4 billion and accounted for 14.0 and 0.7 per cent of total expenditure and GDP, respectively.

2016. Transfer payments amounted to ₦169.9 billion or 22.6 per cent of total capital spending.

Aggregate expenditure on primary welfare sectors amounted to ₦895.8 billion, or 0.9 per cent of GDP, and constituted 16.7 per cent of total expenditure.

Analysis of total Federal Government spending on the primary welfare sector revealed that expenditure on education rose by 4.9 per cent to ₦373.1 billion relative to the level in 2015. Outlay on agriculture and natural resources, health and roads and construction, however, decreased by 27.0, 19.3 and 17.2 per cent to ₦84.1 billion, ₦232.5 billion and ₦206.1 billion, respectively, from the level in 2015. Aggregate expenditure on the primary welfare sector amounted to ₦895.8 billion, or 0.9 per cent of GDP, and constituted 16.7 per cent of total expenditure.

Figure 5.13: Federal Government's Expenditure on Key Primary Welfare Sectors, 2016 (Per cent of Total and GDP)

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

5.5 STATE GOVERNMENTS' AND FCT'S FINANCES[15]

5.5.1 The Overall Fiscal Balance and Financing

Provisional data on state governments' finances indicated a decrease in the overall deficit to ₦741.5 billion, from ₦610.1 billion in 2015.

Provisional data on state governments' finances (including the FCT) showed that, the overall deficit decreased from ₦610.1 billion

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

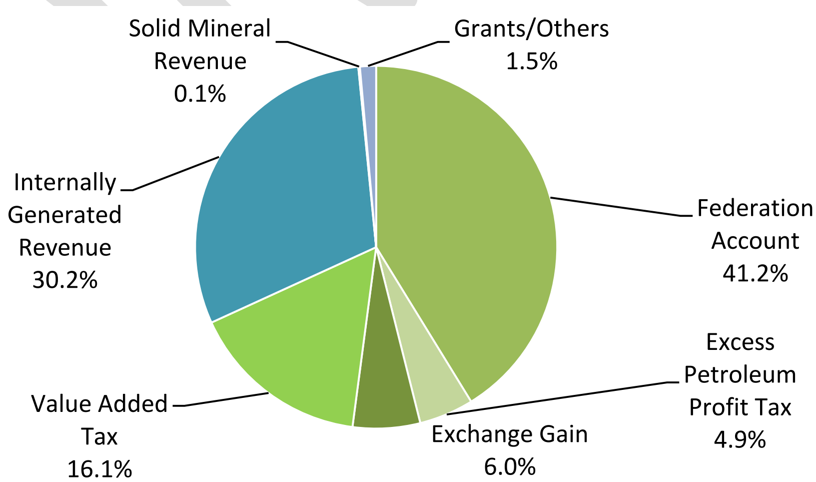
in 2015 to ₦741.5 billion in 2016. As a ratio of GDP, the deficit was 0.7 per cent, financed largely, from domestic borrowings (commercial banks loans).

5.5.2 Revenue

Total revenue of the state governments dropped by 13.7 per cent to ₦2,467.7 billion, or 2.4 per cent of GDP, compared with ₦2,859.0 billion or 3.0 per cent of GDP in 2015. Analysis of the sources of revenue showed that allocation from the Federation Account (including 13.0% Derivation Fund) was ₦1,016.9 billion, or 41.2 per cent of the total; the VAT Pool Account, ₦397.1 billion (16.1%); Exchange Gain[16] , ₦148.4 billion (6.0%); Excess Petroleum Profit Tax, ₦120.1 billion (4.9%); "Grants and Others" (including share of stabilization fund and recovered excess bank charges), ₦35.3 billion (1.4%); and Solid Mineral revenue, ₦3.5 billion (0.1%). Also included was the Internally-Generated Revenue (IGR) which constituted ₦746.3 billion (30.2% of the total), indicating a decrease of 1.2 per cent below the level in 2015.

Total revenue of the state governments dropped by 13.7 per cent to ₦2,467.7 billion, or 2.4 per cent of GDP.

Figure 5.14: State Governments' and FCT's Revenue, 2016 (Naira Billion)



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

16 Include distribution of NLNG Dividend for 2016

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Analysis of the IGR in terms of tax efforts[17] showed that Lagos State ranked highest with 71.2 per cent, followed by Ogun and Rivers states, with 50.0 and 47.2 per cent, respectively, while Borno State ranked the least with 5.8 per cent. In terms of state governments' effort at increasing internally-generated revenue[18], Kwara State topped with an improved tax effort of 25.2 per cent, from 10.4 per cent in 2015, followed by Kogi and Taraba states in the second and third positions, respectively. Overall, the consolidated internally generated revenue efforts of the state governments in 2016 rose by 3.7 percentage points to 30.2 per cent over the level in 2015.

Table 5.2: State Governments' Revenue

Item	State Governments' Revenue				Share in Overall GDP	
	2015		2016 1/		2015	2016
	Amount (₦' Billion)	Share (%)	Amount (₦' Billion)	Share (%)	%	%
Federation Account 2/	1,482.6	51.9	1,016.9	41.2	1.56	0.99
Excess Crude Revenue 3/	198.8	7.0	268.5	10.9	0.21	0.26
VAT	381.3	13.3	397.1	16.1	0.40	0.39
Internally Generated Revenue	755.8	26.4	746.3	30.2	0.79	0.73
Solid Mineral	-	-	3.5	0.1	0.00	
Non-oil excess 4/	-	-	-	-	0.00	0.00
Grants & Others 5/	40.6	1.4	35.4	1.4	0.04	0.03
Total	**2,859.1**	**100.0**	**2,467.7**	**100.0**	**3.0**	**2.4**

1/ Including FCT
2/ Include 13% Derivation Fund
3/ Include Exchange Gain and Additional fund from NNPC in 2015 as well as NLNG Distribution in 2015 and 2016
4/ Include stabilization fund and recovered excess bank charges
Sources: FMF, OAGF and Fiscal Survey of Sub-national Governments

5.5.3 Expenditure

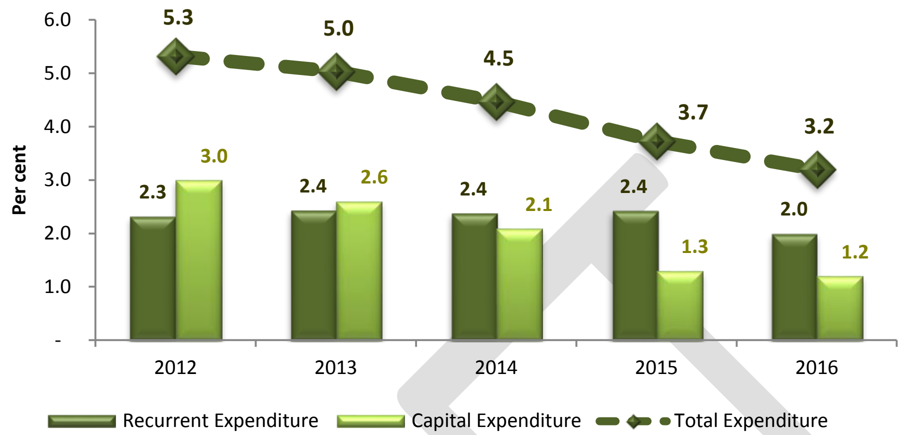
The total expenditure of the state governments dropped by 7.5 per cent to ₦3,209.2 billion, or 3.2 per cent of GDP.

Estimated total expenditure of state governments decreased by 7.5 per cent to ₦3,209.2 billion, or 3.2 per cent of GDP. A breakdown showed that, at ₦2,007.7 billion or 2.0 per cent of GDP, recurrent expenditure was 11.4 per cent below the level in 2015, and accounted for 62.6 per cent of the total. Capital expenditure at

[17] Ratio of IGR to total revenue (IGR/TR)
[18] Rate of Change in the tax effort ratio.

₦1,201.5 billion, or 1.2 per cent of GDP, was 0.03 per cent below the level in 2015 and accounted for 37.4 per cent of the total.

Figure 5.15: State Governments' Expenditure, 2012 - 2016 (per cent of GDP)



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

Analysis of spending on primary welfare sector indicated that expenditure on water supply and agriculture at ₦52.1billion and ₦91.8 billion rose by 6.5 and 5.9 per cent respectively, relative to the level in 2015. Outlay on education, however, fell by 17.7 per cent from ₦196.6 billion in 2015 to ₦161.8 billion and accounted for 37.4 per cent of the total. Also, expenditure on health and housing fell by 56.1 and 58.6, per cent to ₦106.6 billion and ₦20.6 billion, respectively, relative to the level in 2015. Overall, aggregate expenditure on primary welfare sector amounted to ₦432.9 billion, or 0.4 per cent of GDP, and accounted for 13.5 per cent of total expenditure.

Aggregate expenditure on primary welfare sectors amounted to ₦432.9 billion, or 0.4 per cent of GDP, and accounted for 13.5 per cent of total expenditure.

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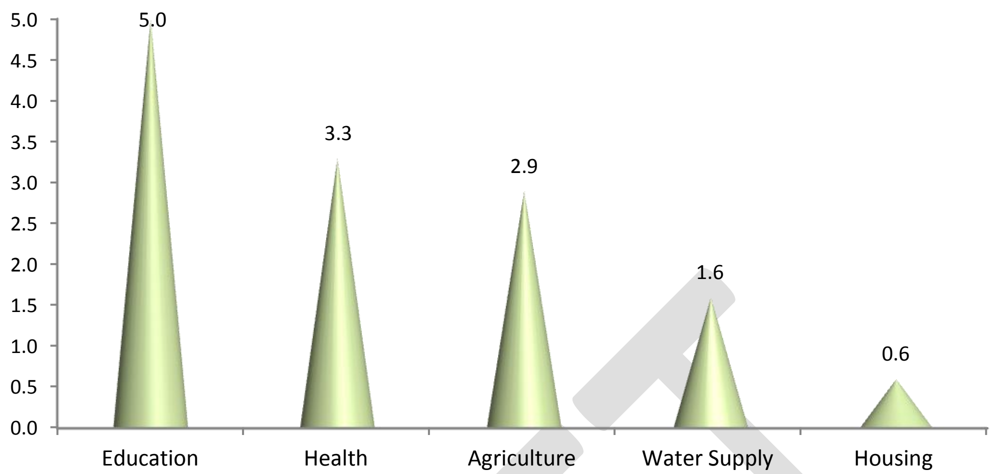
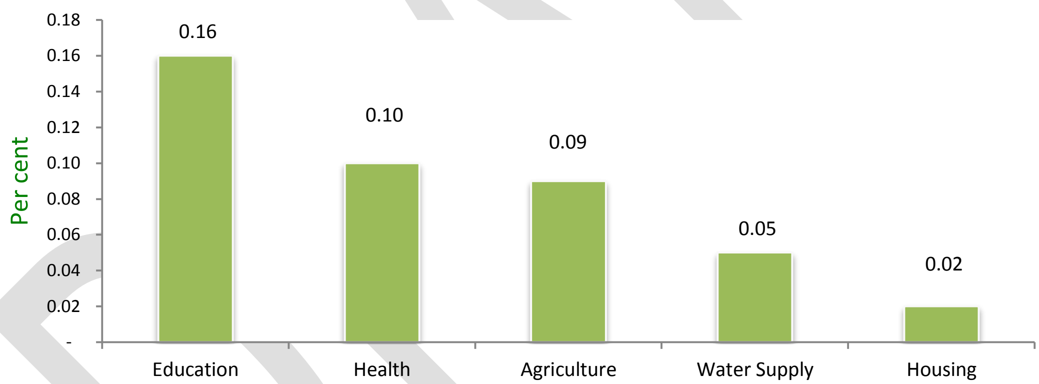
Figure 5.16: State Governments' Expenditure in Key Primary Welfare Sectors, 2016 (Per cent of Total Expenditure)



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

Figure 5.17: State Governments' Expenditure in Key Primary Welfare Sectors, 2016 (Per cent of GDP)



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

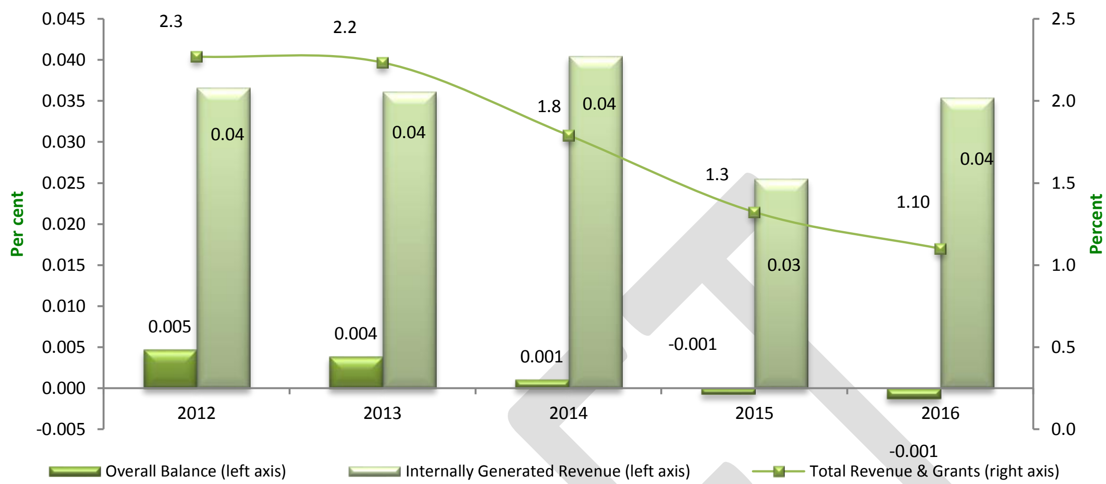
5.6 LOCAL GOVERNMENTS' FINANCES

5.6.1 The Overall Fiscal Balance and Financing

Provisional data on local governments' fiscal operations indicated a deficit of ₦1.3 billion or 0.001 per cent of GDP.

Provisional data on local governments' fiscal operations indicated a deficit of ₦1.3 billion, compared with the deficit of ₦0.7 billion in 2015. This was financed largely from domestic borrowings (commercial bank loans).

Figure 5.18: Local Governments' Revenue & Overall Balance, 2012 - 2016 (Per cent of GDP)



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

5.6.2 Revenue

The estimated total revenue of local governments, at ₦1,083.5 billion or 1.1 per cent of GDP, represented a decrease of 13.0 per cent below the level in 2015. The revenue comprised allocations from the Federation Account, ₦596.0 billion (55.0% of the total); and the VAT Pool Account, ₦272.5 billion (25.1%). Others included: Exchange Gain, ₦76.1 billion (7.0%); Excess Petroleum Profit Tax, ₦58.0 billion (5.4%); Grants/others, ₦18.8 billion (1.6%); State allocation, ₦9.8 billion (0.9%); NLNG Dividend; ₦6.1 billion (0.6%); Solid Mineral revenue, ₦1.8 billion (0.2%); while 'Others' amounted to ₦8.2 billion (0.8%). In addition, IGR accounted for ₦36.4 billion (3.4%), indicating a 51.4 per cent increase above the level in 2015. Analysis of the cumulative local governments' IGR on a state basis showed that Lagos State ranked highest with 14.1 per cent of the total, while Kwara State ranked the least with 0.1 per cent of the total.

The total revenue of local governments was estimated at ₦1,083.5 billion, indicating a decrease of 13.0 per cent.

Table 5.3: Local Governments' Revenue

Item	Local Governments' Revenue				Share in Overall GDP	
	2015		2016		2015	2016
	Amount (₦' Billion)	Share (%)	Amount (₦' Billion)	Share (%)	%	%
Federation Account	822.9	66.1	596.0	55.0	0.9	0.6
Excess Crude	2.8	0.2	58.0	5.4	0.0	0.1
Exchange Gain	44.2	3.5	76.1	7.0	0.0	0.1
VAT	261.6	21.0	272.5	25.1	0.3	0.3
Solid Mineral Revenue	0.0	0.0	1.8	0.2	0.0	0.002
NNPC Refund to LGs/NLNG Dividend Dividends	2.6	0.2	6.1	0.6	0.0	0.01
Internally Generated Revenue	24.0	1.9	36.4	3.4	0.03	0.04
State Allocation	6.9	0.6	9.8	0.9	0.01	0.01
Grants and Others 1/	5.3	0.4	18.8	1.6	0.02	0.02
Others 2/	75.3	6.0	8.2	0.8	0.1	0.01
Total	*1245.6*	*100.0*	*1083.5*	*100.0*	*1.3*	1.1

1/Include other non-statutory allocations

2/1Include distributed from recovered excess bank charges in 2016

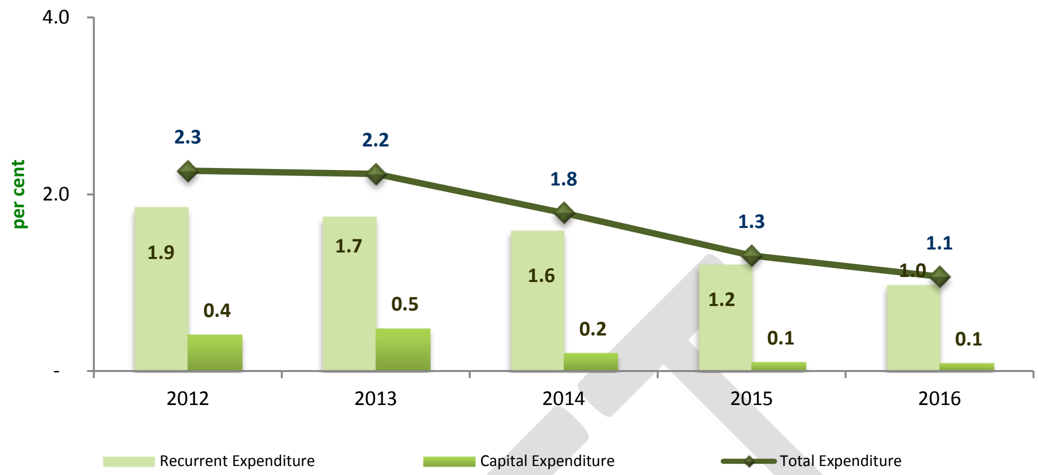
Sources: FMF, OAGF, and CBN Staff Estimates

5.6.3 Expenditure

At ₦1,084.8 billion, estimated total expenditure of local governments was below the level in 2015 by 13.0 per cent and represented 1.1 per cent of GDP. A breakdown indicated that recurrent outlay was ₦994.0 billion or 91.6 per cent of the total, while capital expenditure amounted to ₦90.8 billion or 8.4 per cent of the total.

The expenditure of the local governments was 13.0 per cent lower than the level in 2015 and represented 1.1 per cent of the GDP.

Figure 5.19: Local Governments' Expenditure, 2012 - 2016 (per cent of GDP)



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

A breakdown of the recurrent expenditure showed that personnel cost was ₦788.7 billion (79.3 % of the total), while overheads and consolidated fund charges/others amounted to ₦115.7 billion (11.6%) and ₦89.7 billion, (9.1%), respectively. A disaggregation of capital expenditure by functions revealed that the share of administration was ₦40.7 billion (44.9%), social and community services, ₦36.8 billion (40.5%); economic services, ₦12.0 billion (13.2%); and transfers, ₦1.3 billion (1.4%).

Aggregate expenditure on the primary welfare sector decreased by 17.5 per cent below the level in 2015 and accounted for 39.1 per cent of total expenditure.

Analysis of spending on primary welfare sector showed that expenditure on water supply, health, education, and agriculture fell by 67.9, 47.0, 15.8, and 6.9 per cent, respectively, to ₦2.9 billion, ₦21.9 billion, ₦381.0 billion, and ₦7.5 billion relative to the level in 2015. Expenditure on housing, however, increased by 231.4 per cent to ₦11.3 billion. Overall, at ₦424.6 billion or 0.4 per cent of GDP, aggregate expenditure on the primary welfare sectors decreased by 17.5 per cent below the level in 2015, and accounted for 39.1 per cent of total expenditure.

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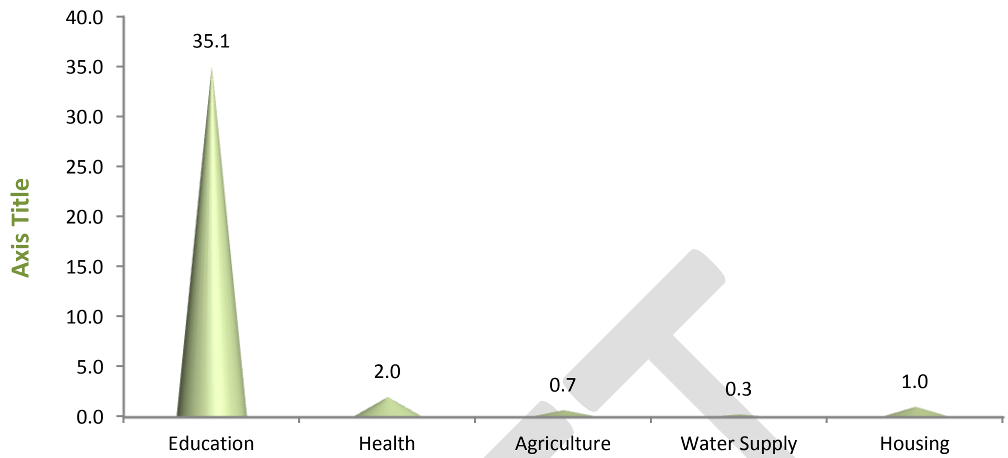
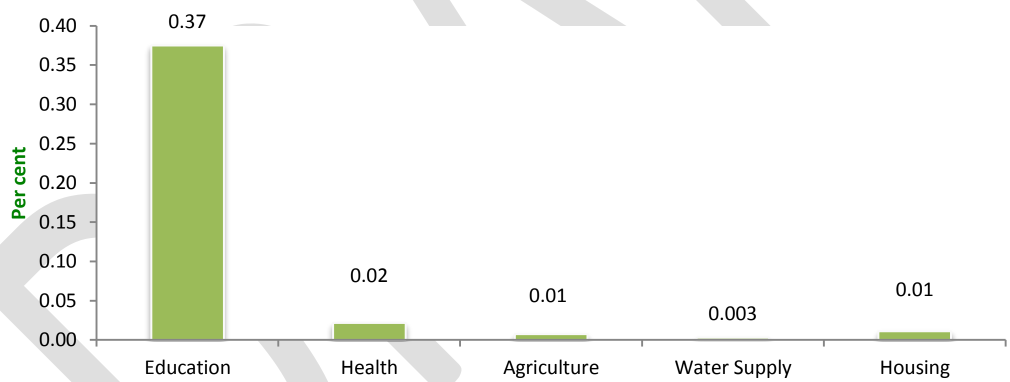
Figure 5.20: Local Governments' Expenditure on Primary Welfare Sector, 2016 (Per cent of Total Expenditure)



Sources: Computed, based on Staff Estimates

Figure 5.21: Local Governments' Expenditure in the Primary Welfare Sectors, 2016 (Per cent of GDP)

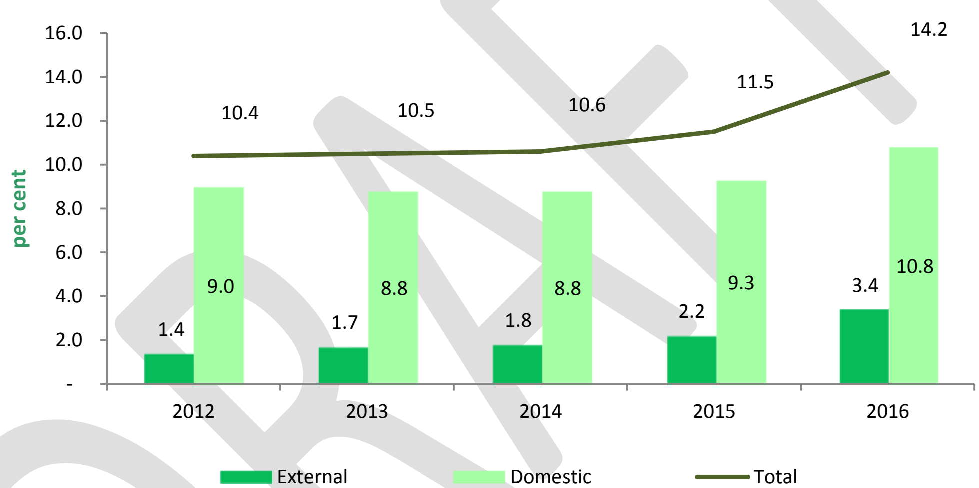


Sources: Computed, based on Staff Estimates

5.7 CONSOLIDATED FEDERAL GOVERNMENT DEBT

The consolidated Federal Government debt stock, at end-December 2016, was ₦14,537.1 billion, or 14.2 per cent of GDP, compared with ₦10,948.5 billion or 11.5 per cent of GDP in 2015. The increase reflected the additional disbursement of multilateral loans to finance infrastructure and the settlement of contractual obligations with domestic loans. Analysis of the debt stock showed that the domestic component constituted 76.1 per cent, while external debt accounted for 23.9 per cent of the total.

Figure 5.22: Consolidated Public Debt Stock, 2012 - 2016 (Per cent of GDP)



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

5.7.1 Domestic Debt

The stock of Federal Government domestic debt outstanding at end-December 2016 stood at ₦11,058.2 billion, representing an increase of 25.1 per cent over the level in 2015.

The stock of Federal Government domestic debt at end-December 2016 was ₦11,058.2 billion, representing an increase of 25.1 per cent over the level in 2015. The development reflected the substantial increase in FGN Bonds and Treasury Bills to bridge the FGN financing gap and facilitate domestic bond market operations. As a result, FGN Bonds and Treasury Bills increased by 30.2 and 18.2 per cent to ₦7,564.9

5

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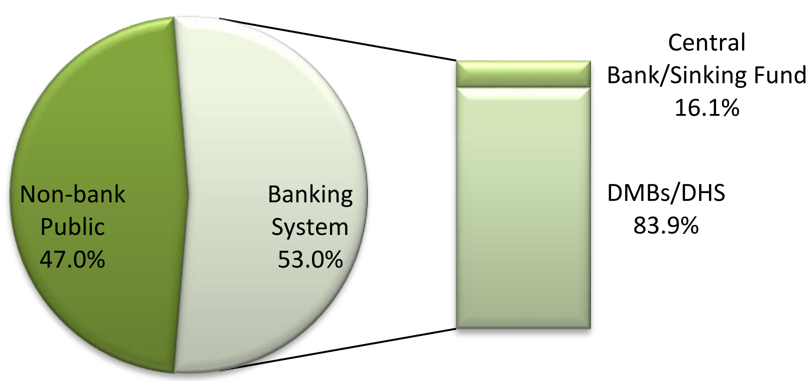
billion and ₦3,277.3 billion, respectively, above the level in 2015. The banking system remained the dominant holder of outstanding domestic debt stock with ₦5,857.6 billion or 53.0 per cent, while the non-bank public accounted for the balance of ₦5,200.6 billion or 47.0 per cent. This indicated that the holdings of non-bank public increased by 15.2 per cent above the level in 2015, while that of the banking system also rose by 35.5 per cent. A disaggregation of the banking system holdings showed that the banks and discount house (DH) held 83.9 per cent and the balance of 16.1 per cent was held by the CBN and the Sinking Fund.

Analysis of the maturity structure of domestic debt showed that instruments with tenors of one (1) year and below accounted for ₦3,806.3 billion, or 34.4 per cent, followed by instruments of 3 - 5 years, which amounted to ₦3,430.2 billion or 31.0 per cent; tenors of 5 - 10 years was ₦3,413.5 billion, or 30.9 per cent; and tenors of over ten (10) years was valued at ₦408.2 billion, or 3.7 per cent.

Figure 5.23: Composition of Domestic Debt Stock by Holder, 2016



Source: Computed, based on data from the DMO

5.7.2 External Debt

At US$11.4 billion, Nigeria's external debt at end-December 2016 grew by 6.4 per cent or 3.4 per cent of GDP over the level at end-December 2015. The rise reflected the disbursement of additional multilateral loans, principally IDA loans, amounting to US$0.4 billion. Consequently, the stock of IDA debt rose from US$6.3 billion in 2015 to US$6.7 billion and accounted for 58.5 per cent of total external debt stock. Of the external debt outstanding, debt to multilateral institutions, at US$8.0 billion, accounted for 70.0 per cent, while bilateral and Eurobond, at US$1.9 billion and US$1.5 billion, accounted for 16.8 and 13.2 per cent, respectively.

5.7.3 Debt Service Payments

Total debt service payments[19] stood at ₦1,318.3 billion, or 4.4 per cent of GDP, indicating an increase of 21.7 per cent above the level in 2015. A disaggregation showed that external debt was ₦89.5 billion (US$0.4 billion) or 6.8 per cent of the total and domestic debt accounted for ₦1,228.8 billion or 93.2 per cent. The external debt service consisted of amortisation[20] of 33.0 per cent, and interest payments of 67.0 per cent. A breakdown of domestic debt service indicated that amortisation accounted for 2.0 per cent and interest payment was 98.0 per cent of the total.

[19] Represents actual debt service payments by the Debt Management Office which may differ from the figures in the Federal Government finances table that indicates contributions to the external creditors' fund.
[20] Principal Repayment.

CHAPTER SIX

REAL SECTOR DEVELOPMENTS

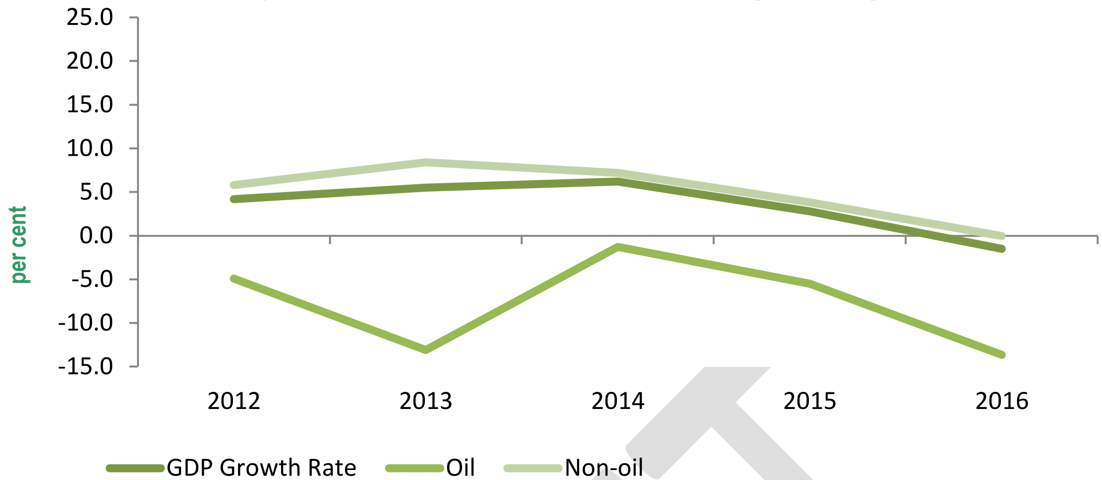
The economy was under pressure in 2016. Real sector activities were significantly constrained by low crude oil production and price shocks, foreign exchange shortages and energy deficit, among others. Consequently, the economy contracted, as provisional data indicated that real Gross Domestic Product (GDP), measured at 2010 constant basic prices, declined by 1.5 per cent, in contrast to 2.8 per cent growth in 2015. Oil and non-oil sector output declined by 13.7 and 0.2 per cent, respectively. Agriculture grew by 4.1 per cent, while industry, construction, trade, and services fell by 9.0, 6.0, 0.2 and 1.2 per cent, respectively. The year-on-year headline inflation remained above the benchmark single-digit rate from February to December 2016. The development was attributed largely to the effect of the naira exchange rate depreciation pass-through to the domestic prices, occasioned by the structural rigidities that pervaded the economy.

6.1 DOMESTIC OUTPUT

Provisional data from the National Bureau of Statistics (NBS) showed that Gross Domestic Product (GDP), measured at 2010 constant basic prices, was ₦68.7 trillion at end-December 2016. This indicated a contraction of 1.5 per cent, against the growth of 2.8 per cent in 2015. Of the 1.5 per cent decline in the review period, agriculture contributed a positive growth of 1.0 percentage point. The relative contribution of industry was -1.7 percentage points, of which the oil sector contributed -1.3 percentage points. Construction, trade and services had relative contributions of -0.2, 0.04 and -0.4 percentage points, respectively. The contraction in economic activities was attributed to the negative impact of low global crude oil prices on public sector investment and disruptions in oil production due to the militancy in the Niger-Delta region, foreign currency shortages, energy deficit and other structural constraints in the economy.

The Gross Domestic Product (GDP), measured at 2010 constant basic prices was ₦68.7 trillion in 2016, indicating a decline of 1.5 per cent, compared with the growth of 2.8 per cent in 2015.

Figure 6.1 GDP Growth Rate, 2012-2016, (per cent)



Source: National Bureau of Statistics (NBS)

Table 6.1: Sectoral Contributions to Growth Rates of GDP at 2010 Constant Basic Prices (percentage points)

Activity Sector	2012	2013	2014	2015	2016
1. Agriculture	**1.6**	**0.7**	**1.0**	**0.9**	**1.0**
Crop Production	1.6	0.5	0.9	0.7	0.9
2. Industry	**0.3**	**-0.02**	**1.23**	**-0.7**	**-1.7**
Crude Petroleum	-0.7	-1.8	-0.2	-0.6	-1.3
3. Construction	**0.3**	**0.5**	**0.5**	**0.2**	**-0.2**
4. Trade	**0.4**	**1.1**	**1.0**	**0.9**	**0.0**
5. Services	**1.7**	**3.2**	**2.6**	**1.6**	**-0.4**
Information & Communications	0.3	0.9	0.8	0.7	0.2
TOTAL (GDP)	**4.2**	**5.5**	**6.2**	**2.8**	**-1.5**
NON-OIL (GDP)	**5.8**	**8.4**	**7.2**	**3.8**	**-0.2**

Source: NBS

Table 6.2: Sectoral Growth Rates of GDP at 2010 Constant Basic Prices (Per cent)					
Activity Sector	**2012**	**2013**	**2014**	**2015**	**2016**
1. Agriculture	**6.7**	**2.9**	**4.3**	**3.7**	**4.1**
Crop Production	7.5	2.5	4.1	3.5	4.3
Livestock	-2.7	6.0	5.4	6.0	2.9
Forestry	2.6	5.6	4.6	3.7	2.6
Fishing	7.8	9.0	6.7	5.9	-0.7
2. Industry	**1.2**	**-0.1**	**6.0**	**-3.4**	**-9.0**
Crude Petroleum	-5.0	-13.1	-1.3	-5.5	-13.7
Solid Minerals	19.7	16.5	14.9	7.7	-14.6
Manufacturing	13.5	21.8	14.7	-1.5	-4.3
3. Construction	**9.4**	**14.2**	**13.0**	**4.4**	**-6.0**
4. Trade	**2.2**	**6.6**	**5.9**	**5.1**	**-0.2**
5. Services	**5.0**	**9.4**	**7.1**	**4.5**	**-1.2**
Transport	-3.4	3.8	4.4	4.5	0.4
Information & Communications	3.1	8.2	7.0	2.0	2.0
Utilities	13.0	18.8	-3.3	-4.0	-8.7
Accomodation & Food services	15.9	73.9	18.3	2.3	-5.3
Finance & Insurance	21.0	8.6	8.1	7.1	-4.5
Real Estate	5.7	12.0	5.1	2.1	-6.9
Human Health & Social Services	4.3	9.6	10.5	2.5	-1.8
TOTAL (GDP)	**4.2**	**5.5**	**6.2**	**2.8**	**-1.5**
NON-OIL (GDP)	**5.8**	**8.4**	**7.2**	**3.8**	**-0.2**

Source: NBS

Non-oil sector output contracted by 0.2 per cent, in contrast to 3.8 per cent growth in 2015. The contraction was attributed to the fall in some industrial and services sub-sectors, which declined in varying degrees in 2016. The poor performance in the sector was attributed to the persistent shortages in foreign currency supply which exacerbated the cost and availability of input needed for industrial production, amid energy shortages and other structural deficiencies. Similarly, construction, trade and services declined by 6.0, 0.2 and 1.2 per cent respectively. The agricultural sector, however, recorded a growth of 4.1 per cent during the year. The increase in agricultural output was attributed, mainly, to growth in the crop production sub-sector which was boosted by improved security in the North Eastern part of the country, the favourable weather condition, and effective implementation of the various initiatives of the Central Bank of Nigeria, including the Anchor Borrowers' Programme (ABP). The Programme aimed at creating economic linkages between small holder farmers and large scale processors to increase agricultural output, reduce importation and increase foreign exchange through export.

Figure 6.2: Sectoral Shares in GDP, 2012 - 2016

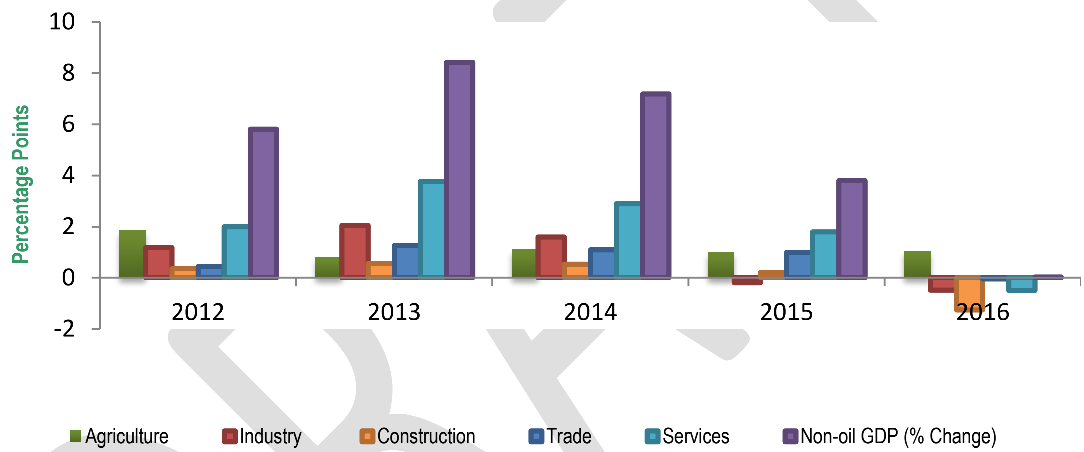
Source: NBS

Figure 6.3: Growth Rate of Major Sectors of Non-oil GDP, 2012 – 2016 (Per cent)

Source: NBS

Classification according to sectoral contributions to overall gross domestic product showed that the services sector accounted for the highest share, at 36.9 per cent of total real GDP in 2016. Within the services sub-sector, information and communications; real estate; professional, Other services; finance and insurance; public administration; education and transport accounted for 11.6, 7.2, 3.7, 3.3, 3.0, 2.3, 2.2 and 1.2 per cent of total GDP, respectively. Agriculture, trade, industry and construction contributed 24.4, 17.2, 17.8 and 3.7 per cent, respectively, during the review year.

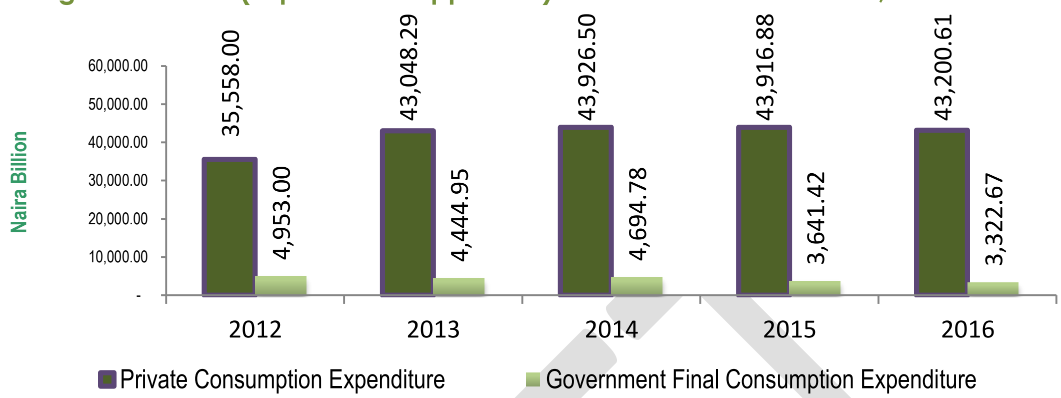
Figure 6.4: Contributions to Growth Rate of Non-oil GDP, 2012 – 2016 (Per cent)



Source: NBS

At ₦68,705.3 billion in 2016, data from the National Bureau of Statistics revealed that real domestic demand, at 2010 purchasers' price (GDP by Expenditure), declined by 1.5 per cent relative to ₦69,780.7 billion in 2015. Private consumption and government final consumption expenditure were ₦43,200.61 billion and ₦3,322.67 billion, respectively, compared with ₦43,916.88 billion and ₦3,641.42 billion, in 2015. Government final consumption expenditure fell by 8.8 per cent, while private consumption also declined by 0.02 per cent in 2016. Net export was ₦11,147.01 billion in 2016, representing a decline of 1.1 per cent below the level of ₦11,272.66 billion in 2015. Real investment (gross fixed capital formation) was ₦10,502.00 billion in the period under review, representing an increase of 0.7 per cent over the level of ₦10,432.23 billion in the preceding year.

Figure 6.5: GDP (Expenditure Approach) at 2010 Purchasers' Price, 2012 - 2016



Source: NBS

6.2 AGRICULTURE

6.2.1 Agricultural Policy and Institutional Support

The Federal Government continued to promote policies aimed at enhancing the contribution of the agricultural sector to national economic development in 2016. To this effect, the Agricultural Promotion Policy (APP) (or the Green Alternative) was launched to reduce food import and shore up foreign exchange earnings from agricultural export in the near to medium term. The policy was expected to eliminate identified constraints to agriculture such as low mechanisation, access to land and finance, and farm implements. The APP would be privately driven, while the government provides the enabling environment. The Efficiency Team (committee to ensure effective implementation) was inaugurated.

Also, to improve the competitiveness of the sector, the Federal Government initiated the process of attaining the globally accepted good agricultural practice (GAP) which would ensure zero reject for produce. Towards this end, the government inaugurated the Inter-Ministerial Committee on the validation of the country's strategy for a single quality control management system/plan for zero reject for agricultural commodities. The Federal Government in addition, launched a smart phone application 'Wetin App' to disseminate weather information to farmers, especially around the Niger and Benue rivers to forestall wanton damage to agricultural produce and hence insulate farmers from income losses.

To ensure self-sufficiency in the production of select staples, the government launched the ₦20 billion Anchor Borrowers' Programme (ABP) to assist farmers of selected staples across the country. The Programme was designed to create economic linkages between farmers and processors, ramp up the output of rice and wheat, and bridge the gap between domestic production and consumption. The pilot phase of the Programme commenced in Kebbi state with 70,871 registered farmers.

Similarly, the Federal Government launched the ₦10 billion Women in Agriculture Environment Impact Fund. This was intended to encourage farmers to pay attention to environmental concerns in agricultural production. The Fund would encourage women to increase participation in agriculture, generate employment and facilitate exchange of ideas in environmentally friendly agriculture.

To elicit private sector participation in the agricultural sector, the Federal Government signed a number of memoranda of understanding (MoUs) in the year under review. As regards the dairy sub-sector, the MoU with Arla Foods was aimed at boosting the quality and volume of production of dairy. Two hundred (200) farmers were targeted to be trained in the first year of implementation. The MoU with L&Z Integrated Farms also focused on the dairy sub-sector, and would facilitate the formation of herdsmen co-operatives, adding value to their businesses and enhancing the collection of raw milk for processing.

In the oil palm sub-sector, the Nigeria Institute for Oil palm Research (NIFOR) signed an MoU with PZ Wilmer to improve oil palm. The MoU was aimed at sharing knowledge with NIFOR and transmitting same unto other farmers. The outcome was expected to help grow the market share of the country in the international oil palm market. With respect to mechanisation, the Federal Government inaugurated the Committee for the implementation of the MoU with participating State Governments and the China-Africa Machinery Corporation – CAMACO on Agricultural Mechanisation System – AMS. The Programme, which had Zamfara, Adamawa, Jigawa, Ebonyi, Katsina, Niger, Taraba and Sokoto as participating states, was intended to increase Nigeria's stock of tractors and improve on mechanisation through the supply of tractors to be assembled in Nigeria. Farmers would also be availed credit facilities that would enable them use tractors with payment plan spanning 7 to 8 years.

In the rice sub-sector, the government also commenced the distribution of 500 threshers to farmers from 12 rice-producing states of Ebonyi, Enugu, Katsina, Sokoto, Kebbi, Jigawa, Kano, Kaduna, Niger, Kogi, Benue and Taraba. The threshers were provided at 60 per cent discount rate to farmers who would be required to pay 20 per cent of the cost within 18 months, while the state governments would bear 20 per cent of the cost.

Also, the 'Farm for Life Scheme' of the Federal Government commenced in 2016 with the setting aside of 5,000 hectares of farmland from the Federal Capital Development Authority's (FCDA's) 15,000 hectares of farmland for youths and women. The Scheme targeted 3,000 youths and women and would be replicated in other states of the Federation.

6.2.2 Agricultural Production

Agricultural output recorded modest growth in 2016. At 130.9 (2010=100), the provisional aggregate index of agricultural production rose by 4.6 per cent, compared with 3.5 per cent in 2015. The renewed government's effort to strengthen domestic production with emphasis on key crops, the favourable weather condition across the country and the sustained implementation of the initiatives under the New Agricultural Policy (Green Alternative) were the main drivers of growth in the sector. The growth was, however, below the national sector target of 8.0 per cent.

6.2.2.1 Crop Production

The estimated output of crop production grew by 4.9 per cent in the period under review, compared with 3.3 per cent recorded in the preceding year. Staples and 'other crops' increased by 4.4 and 6.4 per cent, respectively, compared with 3.2 and 2.9 per cent, in the corresponding period of 2015. Further analysis showed that, wheat, maize, palm oil, rice, cassava, soya beans, and cocoa output grew by 5.5, 4.4, 3.8, 3.7, 3.7, 3.2 and 3.2 per cent, respectively. The development was attributed, largely, to government resolve to diversify the economy towards agriculture. Other factors that spurred growth were the high acceptance rate of improved variety of seedlings and interventions from some International agro-based organisations.

Table 6.3: Growth in Major Crop Production (per cent)

Crop	2015	2016	Crop	2015	2016
Wheat	2.4	5.5	Plantain	4.4	21.5
Sorghum	4.1	2.1	Potatoes	4.5	3.2
Rice	4.0	3.7	Yam	3.8	1.6
Maize	1.4	4.4	Cassava	3.9	3.7
Millet	0.7	0.6	Rubber	3.1	21.4
Soya -Bean	3.2	3.2	Palm Oil	4.0	3.8
Beans	4.3	2.2	Cocoa	3.3	3.2

Source: CBN Staff estimates, based on NBS data

6.2.2.2 Livestock

Livestock production grew by 0.8 per cent in 2016, lower than the 5.5 per cent growth in the preceding year. Further analysis showed that poultry and beef production grew by 0.3 per cent apiece, compared with 7.0 and 5.4 per cent, respectively in 2015. The output of milk, eggs, mutton, and goat meat, rose by 3.9, 1.9, 0.4, and 0.3 per cent, respectively.

6.2.2.3 Fishery

Fishery production recorded a negative growth of 0.3 per cent below its level in 2015 to 1,042.05 tonnes in 2016. The output of the fishery sub-sector, though close to the estimated national annual demand of 1.5 million tonnes declined in 2016, compared with the growth of 5.6 per cent in 2015. Further analysis showed that fish farming catches from artisanal coastal/brackish waters, artisanal inland rivers/lakes, and industrial (trawling) coastal fish and shrimps recorded decline of 1.8, 2.8 and 7.2 per cent, respectively, in contrast to the respective growth rates of 8.1, 8.2, and 7.8 per cent in the preceding year. The negative growth was attributed to decreased activities and investment by the private sector.

6.2.2.4 Forestry

Forestry production grew by 2.1 per cent to 214.5 million cubic metres in 2016, compared with 2.2 per cent in 2015. The development was attributed to the increased demand for wood products and the on-going reform by the Federal Ministry of Environment to strengthen the activities of afforestation by encouraging the continued supply of improved breeder seedlings to replace the harvested tree stocks.

6.2.3 Agricultural Prices

The prices of Nigeria's agricultural export commodities increased in 2016, relative to the level in 2015. Out of the six commodities monitored, five namely: copra, palm oil, cotton, soya beans and coffee recorded price increase of 33.5, 13.2, 5.4, 4.3 and 2.5 per cent, respectively. The price increase of the commodities was due, largely, to strong demand from Europe. The price of cocoa, however, decreased by 7.8 per cent, due largely, to strong supply from West Africa as a result of favourable weather conditions, and the high inventory levels in Europe. Overall, the aggregate agricultural index, in US dollar terms, stood at 90.0 (2010=100), representing a decrease of 5.6 per cent below the level in 2015.

In naira terms, the all-commodities price index increased by 20.1 per cent to 150.5 (2010=100) in 2016 relative to the level in 2015 due to exchange rate depreciation. Further analysis showed that, all prices monitored namely: cocoa, coffee, soya beans, cotton, palm oil and copra increased by 16.9, 36.0, 36.0, 37.2, 48.8, and 74.5 per cent, respectively. The prices of cocoa, soya beans and cotton increased due, largely, to the stronger United States dollar against the currencies of producing countries in West Africa, while that of palm oil, coffee and copra rose due, largely, to strong demand.

The average prices of selected domestic cash crops rose in 2016, relative to the level in 2015. The price increase ranged from 1.3 per cent for palm kernel to 14.9 per cent for coffee. The increase in prices was attributed, largely, to the effect of exchange rate pass-through, which induced high cost of farm input.

6.3 INDUSTRY

6.3.1 Industrial Policy and Institutional Support

In 2016, the government put in place several policies and programmes to boost industrial activities, stimulate growth and diversify the economy away from oil. Thus, the Federal Government, through the Ministry of Power, Works & Housing entered into a partnership with the North South Power Company Ltd. to develop existing dams for power generation. Specifically, the partnership was targeted at building powerhouses and installation of electro-mechanical components to generate 30 megawatt (MW) from the Gurara 1 Dam Hydropower Plant in Kaduna, 10MW from the Tiga Dam Hydro Power plant in Kano and 10MW from the Oyan Dam Hydro Power plant in Ogun State. Others included the installation of electro-mechanical components in the 8MW Challawa dam Hydro Power plant in Kano, and the 6MW Ikire Dam Hydro Power plant in Oyo State.

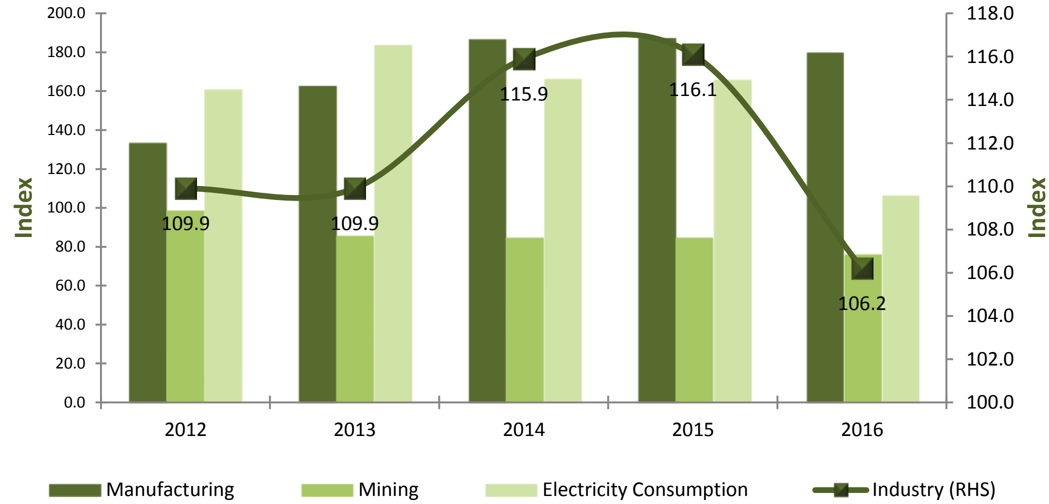
To ensure seamless integration of national electricity networks in the Economic Community of West African States (ECOWAS) and facilitate access to economic energy resources by all member-states, the West Africa Power Pool (WAPP), a specialised institution of the ECOWAS and the African Development Bank, signed a grant agreement worth US$1,992,721 for funding the Nigeria-Benin Interconnector Reinforcement Project. The Grant would be for financing the construction of 330KV double circuit high voltage transmission line from Erukan (Nigeria) to Sakete (Benin) to ensure reliable electricity supply within the sub-region at an affordable cost. The realisation of the 330KV WAPP Nigeria–Benin project would facilitate optimal power exchanges and trading between the member states. It would also ensure a robust transmission link from Côte d'Ivoire to Nigeria through Prestea, Aboadze, Volta in Ghana, Lomé in Togo, and Sakete in Benin Republic.

To resuscitate the textile manufacturing sector, the Kwara State government secured a US$56.0 million investment from the Chinese government for the establishment of a textile industrial park. The Park was expected to create 3,000 jobs after completion. It included a ₦1.0 billion counterpart funding and 400 hectares of land as well as infrastructure support by the government.

6.3.2 Industrial Production

The industrial production index at 106.2 (2010=100), fell by 8.5 per cent in 2016 below the level in 2015. The sector's dismal performance during the period was due to decline in the activities in manufacturing and electricity sub-sectors. The decline in growth was attributed to distortions in the economy caused by removal of subsidy on premium motor spirit (PMS), depreciation in the value of naira to dollar and continued foreign exchange shortage, and inflation pressure which dampened business confidence and activities in the sector. The indices of the electricity, mining and manufacturing sub-sector fell by 21.7, 12.3 and 7.5 per cent, respectively.

Figure 6.6: Index of Industrial Production, 2012 – 2016 (2010=100)

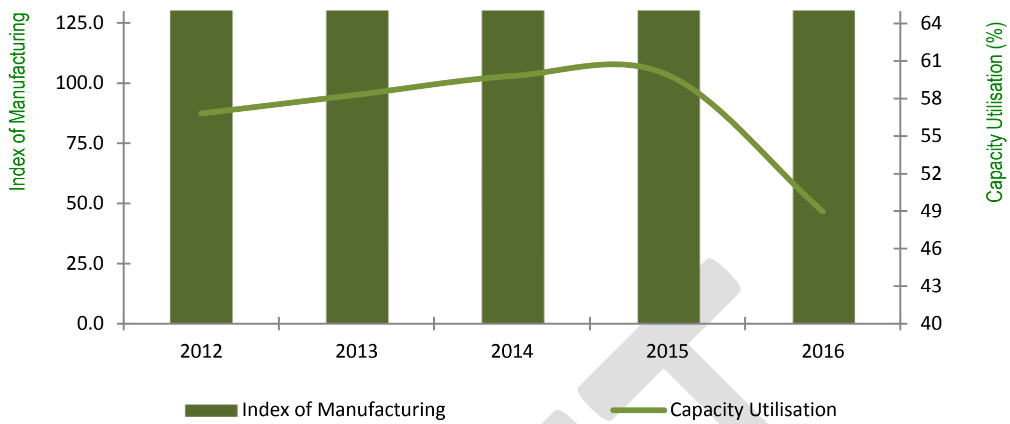


Source: CBN

6.3.2.1 Manufacturing

At 180.0 (2010=100), the index of manufacturing production indicated a decline of 3.9 per cent, compared with the level in 2015. Similarly, the average manufacturing capacity utilisation in 2016 fell by 10.9 percentage points to 49.0 per cent. The development was attributed to economic recession which had weakened effective demand since the second quarter of 2016. This development, coupled with the deprecation of naira, made imported input more expensive, and resulted in slowdown in the sector.

Figure 6.7: Index of Manufacturing Production and Capacity Utilisation, 2012 - 2016

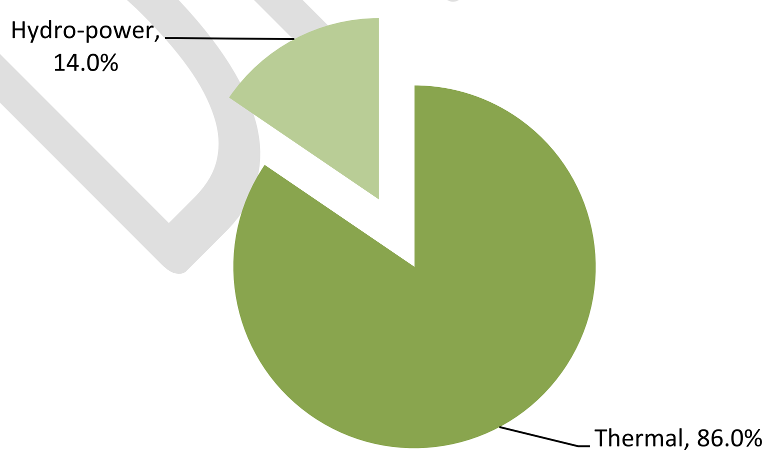


Source: CBN

6.3.2.2 Electricity Generation

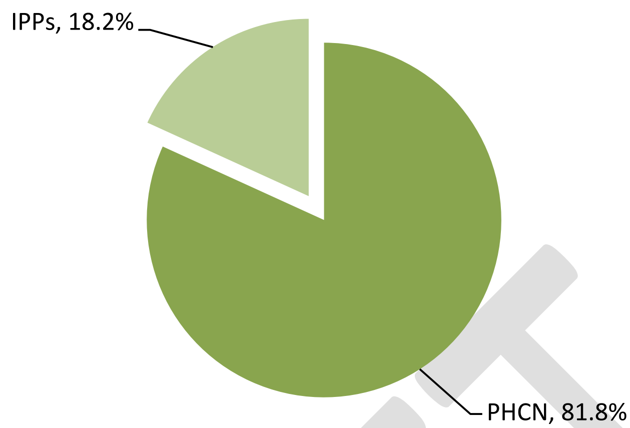
Total installed electricity generation capacity, stood at 13,584 MW in 2016, the same level as at 2015. A disaggregation of the installed capacity showed that thermal power and hydro-power accounted for 86.0 and 14.0 per cent, respectively. Analysis by holding showed that the Gencos had 81.8 per cent, while the Independent Power Plants (IPPs) accounted for the balance.

Figure 6.8: Nigeria's Power System: Composition in 2016 by Source (Per cent)



Sources: The Ministry of Power and the Presidential Task Force on Power (The Presidency)

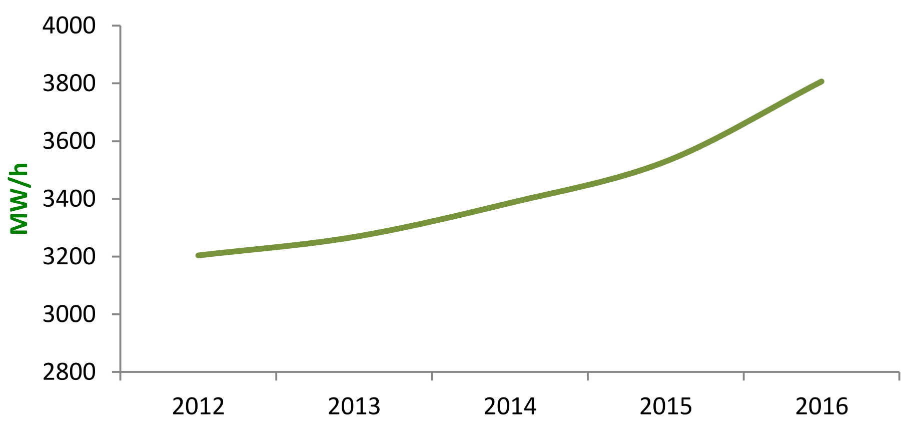
Figure 6.9: Nigeria's Power System: Composition in 2016 by Holding (Per cent)



Sources: The Ministry of Power and the Presidential Task Force on Power (The Presidency)

The estimated average electricity generation in 2016, at 3,806.7MW/h, showed an increase of 7.8 per cent over the level attained in the preceding year. The increase in power generation was attributed to improved gas supply to the thermal plants and increased in the generation from the Jebba and Shiroro hydro stations.

Figure 6.10: Electricity Power Generation, 2012 – 2016



Source: CBN

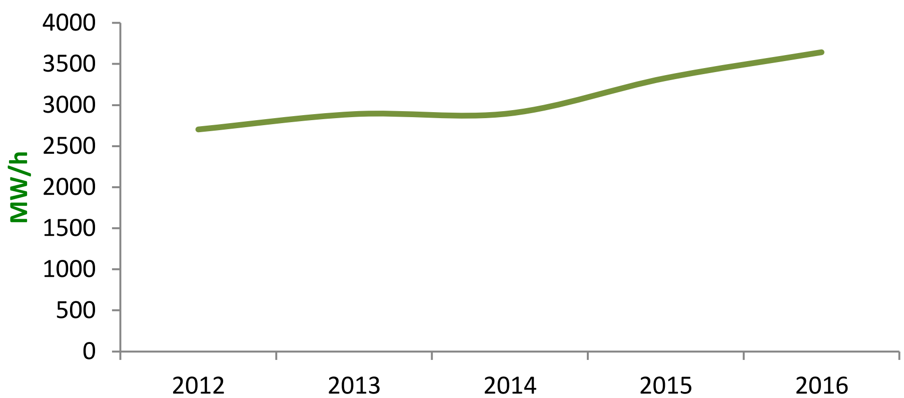
6.3.2.3 Energy Consumption

The estimated index of energy consumption for 2016 stood at 50.6 (2010=100), representing a fall of 1.0 per cent below the level in 2015. In absolute terms, estimated aggregate energy consumed in 2016 was 84,182.53 million tonnes of coal equivalent (tce), compared with 100,696.53 million tce in the preceding year. The decline in energy consumption during the review period was attributed to decrease in the consumption of all gas and petroleum products due to deregulation in the downstream sector.

6.3.2.3.1 Electricity Consumption

The estimated average electricity consumption stood at 3,643.0 MW/h in 2016, showing an increase of 9.4 per cent above the level in the preceding year. The development was attributed to improvement in generation capacity and transmission, as well as in distribution infrastructure. Energy loss during transmission due to system breakdown was 4.3 per cent, compared with 5.7 per cent in 2015.

Figure 6.11: Electricity Consumption, 2012 - 2016



Source: CBN

6.3.2.3.2 Hydro-power Consumption

Estimated hydro-power consumption, at 3,019,337.7 tce, fell by 8.6 per cent, below the level in 2015. The development was attributed to the declined generation from the hydro-power plants, with electricity generated falling by 4.0 per cent at the Shiroro power plants.

6.3.3 The Extractive Industry

6.3.3.1 Oil & Gas

In 2016, the implementation of the Federal Government 7 Big Wins policy programme resulted in the following key successes:

- Introduction of price modulation framework for downstream petroleum; products pricing to encourage responsiveness to market dynamics;
- Elimination of subsidy payments for petroleum products;
- Liberalisation of the downstream sector to allow market forces determine product price;
- Commencement of policy reforms for gas monetization, flare out and infrastructure development to fast track power supply and economic diversification;
- China Investor Roadshow held in June 2016 with over US$80 billion worth of MOUs signed and awaiting investment;
- Partial resuscitation of Port Harcourt, Warri and Kaduna Refineries with improved crude oil supply to the refineries;
- Repairs of Escravos/Warri and Bonny/Port Harcourt crude oil pipelines as well as the resuscitation of supply of products from Atlas, Cove-Mosimi-Ibadan-Ilorin products pipelines after a six-year lull;
- Ongoing negotiations with the Niger Delta militants which led to two cease-fire agreements;
- Handing-over of Hydrocarbon Pollution Remediation Project (HYPREP) to the Ministry of Environment for implementation; and
- Nigeria improved its international outlook in the oil and gas space by entering bilateral cooperation with Qatar, Iran and Saudi Arabia to deepen oil sector benefits. Improved cooperation and its attendant

benefits also became more apparent when the government secured the appointment of a Nigerian, Mohammed Sanusi Barkindo as Secretary General of OPEC.

The development in the oil and gas sub-sector was influenced largely by a number of factors. First, changes in oil price continued to dampen investment in the sector. Also, with the US assuming its role as the new swing producer, effort by OPEC producers at raising crude oil prices had been largely unsuccessful. Other developments such as sabotage of crude oil installations in the Niger Delta, resulting in a significant drop in crude oil export and fall in oil revenue, depreciation of the naira and loss of the US market, continued to exert pressure on the industry. Consequently, the government withdrew subsidy on the Premium Motor Spirit (PMS) in June 2016, placing a pump price ceiling of ₦145 per litre, from ₦97 per litre.

a. Crude Oil Production, Refinery Utilisation, Petroleum Products and Prices

i. Crude Oil Production

Nigeria's aggregate crude oil production, including condensates and natural gas liquids, averaged 1.62 million barrels per day (mbd), or 592.92 million barrels (mb) in 2016, compared with 2.12 mbd or 773.80 mb in the preceding year. The decrease in crude oil production was due, largely, to the continued sabotage of oil pipelines in the Niger Delta region. Aggregate export of crude oil was estimated at 1.17 mbd or 428.22 mb, compared with 1.67 mbd or 609.55 mb in the preceding year.

ii. Refinery Utilisation

The estimated average capacity utilisation of the country's three (3) refineries stood at 15.4 per cent in 2016 from 12.5 per cent in 2015. A breakdown showed that the average capacity utilisation of the Kaduna Refining and Petrochemical Company (KRPC), the Warri Refining and Petrochemical Company (WRPC), and the Port Harcourt Refining Company (PHRC) was 17.0, 11.9, and 17.2 per cent, respectively.

Aggregate production of petroleum products from the refineries was estimated at 2.6 million tonnes in 2016, compared with 1.5 million metric tonnes recorded in 2015. The increase in output was attributed to the improvement in capacity utilisation, as a result of the Turn-Around-Maintenance aimed at improving the efficiency of all the refineries in Nigeria. Analysis of products by refinery showed that the WRPC produced 0.62 million tonnes, while the PHRC and the KRPC produced 1.79 and 0.29 million tonnes, respectively. Of the total, PMS accounted for the largest share at 35.7 per cent, while the shares of fuel oil, Automotive Gas Oil (AGO), Dual Purpose Kerosene (DPK), Liquefied Petroleum Gas (LPG), and fuel and losses were 25.7, 15.3, 13.4, 5.0 and 4.7 per cent, respectively.

iii. Petroleum Products Consumption

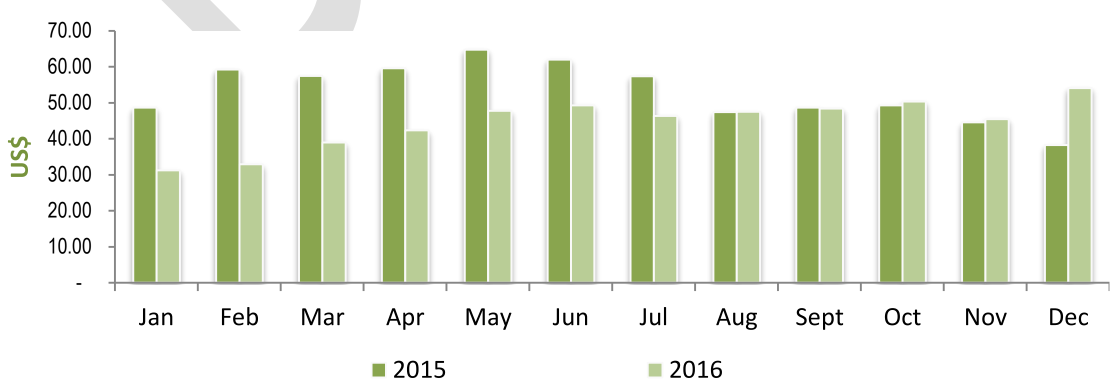
The volume of petroleum products consumed in 2016 was estimated at 5.15 billion litres. This represented an increase of 8.2 per cent, compared with 4.76 billion litres in 2015. A breakdown by product showed that PMS had the highest consumption, with 4.33 billion litres (91.1%); HKK, 0.22 billion litres (4.7%); AGO, 0.13 billion litres (2.9%); and LPFO and 'Others', 0.07 billion litres (1.2%).

iv. Prices

The average spot price of Nigeria's reference crude, the Bonny Light (37^{0}API), was US$48.82 per barrel in 2016, compared with the preceding year's average of US$53.1 per barrel, a decline of 8.0 per cent. The West Texas Intermediate (WTI) recorded an average price of US$43.25 per barrel in 2016, representing a decrease of 11.9 per cent, relative to the levels in the preceding year. Also, the UK Brent and Forcados crude prices decreased to US$43.31 and US$43.99 per barrel, respectively, relative to the levels in the preceding year. The average price of the OPEC basket of 13 crude streams also fell by 17.7 per cent to US$40.76 per barrel in 2016. The decline was due to several factors, which included: the existing oversupply situation in the oil market amidst dwindling global economic conditions; and stronger US dollars which discouraged demand by major oil-importing nations. Others were: increased production by Iran despite OPEC's proclamation of production cut compliance and upward revisions to oil demand growth.

A trend analysis indicated that average crude oil prices, which opened at US$31.21 per barrel in January 2016, rose to US$38.92 per barrel in March and further to US$49.30 per barrel in June 2016. It, however, declined to US$46.33 per barrel in July before rising to US$50.35 per barrel in October 2016, peaking at US$54.10 per barrel in December 2016.

Figure 6.12: Bonny Light Monthly Prices in 2015 and 2016 (US$)



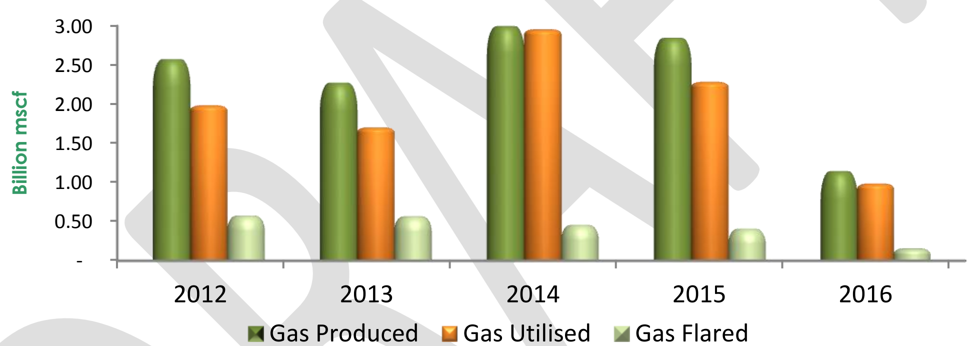
Source: REUTERS

(b) Gas

i. Gas Production and Utilisation

The total estimated volume of gas produced in 2016 was 1,147.20 million standard cubic feet (mscf), representing an increase of 17.1 per cent above the level in 2015. Of the total gas produced, 86.3 per cent was utilised, while 13.7 per cent was flared. Of the volume utilised, 39.6 per cent was sold to industries, including power, cement and steel companies; and 28.3 per cent was re-injected. Gas sold to the Nigeria Liquefied Natural Gas (NLNG) Company, gas utilised as fuel, and that converted to natural gas liquid accounted for 21.8, 8.5, and 1.8 per cent, respectively.

Figure 6.13: Gas Production and Utilisation, 2012 – 2016 (Billion mscf)



Source: NNPC

BOX 2: The Seven (7) Big Wins-Short and Medium Term Priorities to Grow the Nigeria's Oil & Gas Industry 2015- 2019

As part of the Government strategy to reposition the oil industry, ramp up production, reduce costs, foster efficiency, improve transparency and attract investments in the oil and gas value chain, the Ministry of Petroleum Resources launched an initiative named: "The 7 Big Wins- Short and Medium Term Priorities to Grow the Nigeria's Oil & Gas Industry 2015- 2019". The Initiative is aimed at developing a stable and enabling oil and gas landscape with improved transparency, efficiency, stable investment climate, and a well-protected environment. The new Reform programme is expected to provide huge investment opportunities in infrastructure development, oil and gas facilities, operations, and maintenance across the oil and gas value chain.

The Seven (7) key focus areas are:

- **Policy and Regulation**: Reviewing of old and moribund policies, gazetting new policies and entrenching robust fiscal instruments and regulations with key attention to the passage of the Petroleum Industry Reform Bill.
- **Business Environment and Investment Drive**: Providing a workable plan which would ensure that adequate infrastructure is put in place to ramp up National crude oil production to a target of about 2.8 million barrels per day while contributing positively in the area of gas to power by boosting gas production to 10 bscfd by 2019.
- **Gas Revolution**: Gas revolution through new infrastructure and gas terms that would encourage the roll out of a national blueprint to backbone gas pipeline and processing infrastructure that would enable flexibility in supply delivery and providing a viable source of income for the country.
- **Refineries and Local Production Capacity**: Upgrading of the nation's refineries and increasing local production capacity with the objective of reducing importation of petroleum products in the country by 60 per cent in 2018, and by 2019 become a net exporter of petroleum products and value added petrochemicals.
- **Niger Delta and Security**: Improving security and ensuring environmental safety in the oil producing areas of Nigeria to increase the National crude oil production, attract the much needed investment and infrastructural development in the region as well as safeguard the environment.
- **Transparency and Efficiency**: Restructuring and revamping of the Parastatals by instituting transparency and efficiency at all levels of operations to drive profitability and accountability.
- **Stakeholder Management and International Coordination**: Deploying a potent communication strategy and building and maintaining robust relationships with relevant stakeholders within and outside the petroleum producing communities.

6.3.3.2 Solid Minerals

(a) Institutional Support for the Sector

Government's efforts to strengthen the solid minerals sub-sector for improved performance were intensified in 2016. The Federal Executive Council approved the "Roadmap for the Growth and Development of the Nigerian Mining Sector". The Roadmap is expected to pave the way for the sustainable turnaround and growth of the mining and metals sector over the short, medium and long term.

The Federal Government, through the Ministry of Mines and Steel Development, secured a US$150 million (₦45.7 billion) support from the World Bank for the Mineral Sector Support for Economic Diversification (MSSED or MinDiver) programme. The Support included the provision of technical assistance for the restructuring and operationalisation of the Solid Minerals Development Mining Investment Fund, which would make finance available to Artisanal and Small-Scale Mining (ASM) operators through development finance, micro-finance and leasing institutions." It is expected that the Support would resuscitate projects like tin ore, iron ore, coal, gold and lead-zinc among others."

The Federal Government constructed ten (10) Prototype Mineral Buying Centres across the country for specific strategic industrial minerals. The Centres were to enable ASM Cooperatives and operators receive fair premium for their labour. This was in line with the renewed determination of the Federal Government to strengthen collaborative efforts with State governments in natural resource governance. The Centres were, also, being ceded to state governments.

(b) Solid Minerals Production

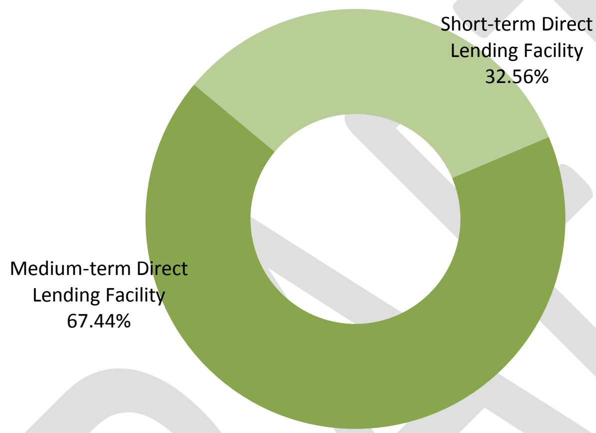
Aggregate production of solid minerals decreased in 2016 relative to the level in the preceding year. Provisional data showed that aggregate output fell from 42.5 million tonnes in 2015 to 41.4 million tonnes in 2016, a decrease of 2.6 per cent. The development was attributed to the fall in production of some principal minerals, especially coal, barite, gypsum, laterite and granite aggregates.

6.3.4 Industrial Financing

6.3.4.1 The Nigeria Export-Import Bank (NEXIM)

The total funding support provided to the non-oil export sector, under various facilities of NEXIM in 2016, was ₦2.66 billion for 32 projects, compared with ₦6.77 billion disbursed in 2015 for 64 projects. A breakdown of the disbursement by facility showed that 32.6 per cent and 67.4 per cent, respectively, were disbursed for short-term and medium-term lending facilities, respectively.

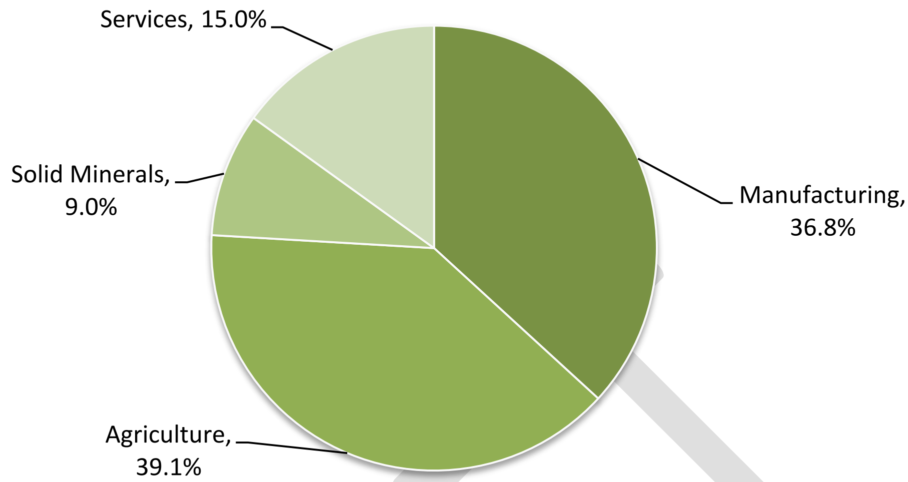
Figure 6.14: Summary of NEXIM Disbursements by Facility, 2016 (per cent)



Source: NEXIM

A sectoral analysis of disbursements showed that the agricultural sector received ₦1.04 billion, representing 39.1 per cent of total. This was followed by the manufacturing sector, with ₦0.98 billion or 36.8 per cent; services, ₦0.40 billion, or 15.0 per cent; and solid minerals, ₦0.24 billion, or 9.0 per cent of the total. The facilities disbursed by NEXIM were expected to support over 1,278 direct jobs, in addition to many indirect jobs, and to generate about US$1.18 million in foreign exchange earnings, annually.

Figure 6.15: Summary of NEXIM Disbursements by Sector, 2016 (per cent)



Source: NEXIM

6.3.4.2 The Bank of Industry

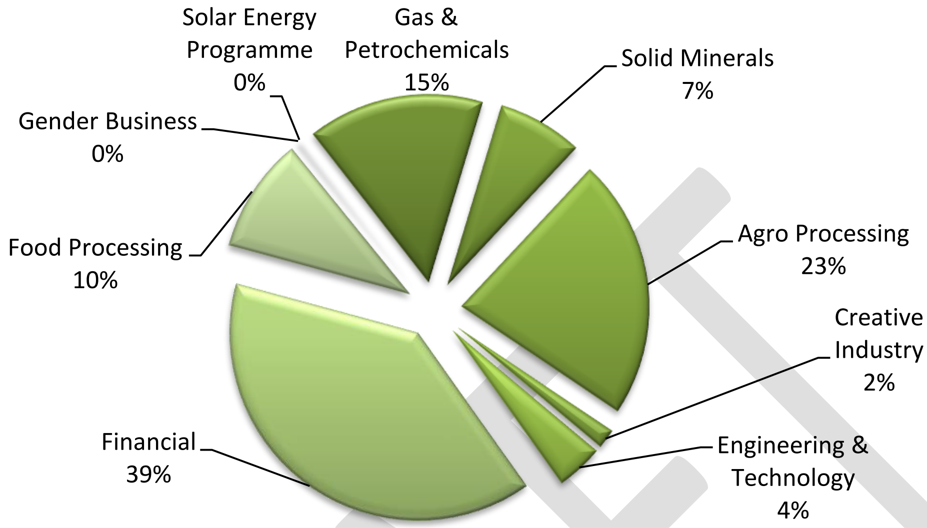
The total credit disbursed to the industrial sector under the Bank's various facilities in 2016 declined by 21.4 per cent, to ₦65.9billion, compared with ₦83.9 billion in 2015.

A sectoral analysis of the disbursements showed that the financial sector received ₦25.7 billion, representing 39.0 per cent of the total. This was followed by: the agro-processing sub-sector, ₦14.8 billion, or 22.5 per cent; gas and petrochemicals, ₦10.0 billion, or 15.2 per cent; solid minerals ₦4.8 billion, or 7.3 per cent; engineering and technology ₦2.7 billion, or 4.1 per cent; and creative industry ₦1.1 billion, or 1.7 per cent of the total. Three new sectors that received disbursements in the period included: food processing ₦6.5 billion, or 9.9 per cent of the total; gender business ₦0.1 billion, or 0.2 per cent; and solar energy programme ₦0.08 billion, or 0.1 per cent of the total.

Of the total, large enterprises received ₦57.7 billion, representing 87.6 per cent, while small and medium enterprises got ₦8.2 billion, representing 12.4 per cent.

The highest value of ₦16.9 billion was disbursed to Lagos State, while the lowest share of ₦0.003 billion went to Borno State.

Figure 6.16: Summary of BOI Disbursements by Sector, 2016 (per cent)



Source: BOI

6.4 TRANSPORT AND COMMUNICATIONS

6.4.1 Aviation Services

6.4.1.1 Policy and Airport Developments

The operating environment for airline operators was improved through the approval for the commencement of a Special Secondary Market Intervention Retail Sales (SMIS) Intervention by the Central Bank of Nigeria. The intervention was dedicated to the clearance of the backlog of matured foreign exchange obligations through forwards settlements in the Inter Bank foreign Exchange Market.

The operating environment for airline operations was strengthened through the approval for the commencement of a Special Secondary Market Intervention Retail Sales by the Central Bank of Nigeria.

Nigerian Civil Aviation Authourity (NCAA) commenced the full implementation of the certification of all aviation security personnel screeners in the nation's airports during the year. This was to ensure that all staff responsible for screening passengers and cargoes into aircrafts were certified in line with the provision of the International Civil Aviation Authority (ICAO) Certification System and the requirements of National Civil Aviation Security Training Programme (NCASTP).

To establish and sustain world class standards in both infrastructural development and service delivery in the country's airports, the Federal Government commenced the process of concession of the Lagos, Abuja, Kano and Port-Harcourt Airports. Consequently, the government inaugurated the Project Steering and Project Delivery Committees. The Committees were charged with the responsibility of providing general direction and steering the course of Public Private Partnership (PPP) and project concession in the aviation sector.

6.4.1.2 Domestic Operations

A total of 10,971,608 passengers were airlifted by domestic airlines in 2016. This represented a 6.5 per cent decline from the 10,299,951 passengers airlifted in 2015. Total aircraft movement for 2016 was 210,560, a 1.9 per cent decline from the 206,593 recorded in 2015.

6.4.1.3 International Operations

The number of passengers airlifted by airlines on international routes in 2016 decreased by 2.0 per cent to 4,260,989, compared with 4,349,137 recorded in 2015. Aircraft movement reduced by 3.5 per cent to 43,406 in the review period, compared with 44,964 recorded in 2015.

Cargo movement at designated airports increased by 3.2 per cent to 195.23 million kg, compared with the 189.09 million kg recorded in 2015. Mail movement, also increased by 0.23 per cent to 7.37 million kg in 2016, compared with 7.35 million kg recorded in 2015.

6

REAL SECTOR DEVELOPMENTS

6.4.2 Railway Services

The legal environment guiding the operations of the railway industry was strengthened with the passage of the Nigerian Railway Corporation Act, 1955 repeal and re-enactment Bill, 2016. The Bill, among others, would boost Public Private Partnerships in the sector and creates a distinct role for the regulator and operators in the sub-sector.

Effort to increase outreach of the train services across various parts of the country received a boost with the commencement of the Abuja-Kaduna standard gauge (fast speed) train service with an executive coach, 3 standard coaches and a baggage van. In addition, the Nigerian Railway Corporation commenced the Minna-Kaduna Intercity Mass Transit Train service and flagged off the Port-Harcourt-Aba and the Port-Harcourt - Kano – Port-Harcourt train service.

The process for the engagement of the Private Sector Partners by the Transaction Advisers of the Nigeria Railway Corporation for the execution of three (3) Public Private Partnership initiatives (PPP) reached an advanced stage during the review period. The activities to be executed by the initiative included the remodeling and redevelopment of major railway stations to incorporate modern commercial outlets; supply and utilisation of coaches and wagons. Others were: provision of warehousing; loading & unloading facilities and logistics; as well as railway landed property development. This was carried out in the following stations: Iddo Terminal; Ebute Metta, Ilorin; Kaduna Junction; Kano; Enugu; Port Harcourt; Jos; and Gombe.

Legal environment guiding the operations of the railway industry was strengthened with the passage of the Nigerian Railway Corporation Act, 1955 Repeal and Re-enactment Bill, 2016.

A total of 3,153,436 passengers and 119.842 tonnes of freight were moved by the NRC, relative to 2,581,046 and 161,696, respectively, in 2015.

6.4.3 Maritime Services

Effort to reform the maritime industry received a boost with the unveiling of the Medium Term Strategic Growth Plan by the Nigerian Maritime Administration and Safety Agency (NIMASA). The Strategy was built on five pillars, which included: survey, inspection and certification programme; environment; security, search and rescue transformation programme; capacity building; and promotional initiatives.

To revive the operations of Terminals in the country, the Federal Government approved the designation of the Lilypond Command at Tin Can Island Port II to boost cargo volume into the terminal.

The Federal Government commissioned the Command Control Communication and Intelligence System (CCCIS) to provide business intelligence for the movement of vessels and cargoes, as well as provide improved and secured communication within the nation's waterways. The System comprised the: Maritime Operational Center (MOC), for the monitoring of vessels; Network Operations Center (NOC), for support services; and Infrastructure data base for data storage services. There were, also, long and short range video surveillance monitoring facilities and other software applications. The deployment of the system would improve the capacity of the Nigerian Ports Authority to monitor the movement of vessels within the six (6) major seaports of Port-Harcourt, Tin Can, Apapa, Calabar, Onne and Warri and four (4) Districts.

Also, to curb piracy in the nation's waterways, the Nigerian Navy inaugurated a maritime mass surveillance system called the Falcon Eye. The System with a range of about 35 nautical miles from the coast, uses a number of electro-optic systems and cameras operated from a command center to detect human and vessel and offshore movements.

Cargo throughput stood at 70,819,092 tonnes in 2016, compared with 77,266,175 tonnes recorded in 2015, representing a 8.34 per cent decrease. A total of 4,370 ocean going vessels with gross registered tonnage (GRT) of 133,473,544 berthed at Nigerian ports, compared with 5,014 vessels with GRT of 141,250,703 recorded in 2015. This represented a 12.8 and 5.5 per cent decline in the number of vessels and GRT, respectively.

6.4.4 Communications

The Federal Government launched the pilot phase of the digital transmission project in Jos, Plateau State on April 30, 2016 to enable Nigeria transit from analogue to digital television. The Project was extended to Abuja in December 2016. The switchover to Digital Terrestrial Television (DTT) became necessary for Nigeria as a signatory to the International Broadcast Union Agreement tagged: "Geneva 2006", which mandated all countries to switchover to avoid signal interference from other countries. The switchover would enable television viewers in Jos access to 15 free-to-air channels, against the 4 channels accessible prior to the launch, while viewers in Abuja would have access to 30 free-to-air channels with bouquet of programmes on local, national and international contents. Sale of the Set-Top Boxes, the device for receiving digital signal had commenced and was being sold to viewers at a subsidised rate of ₦1,500 per box. The Federal Government effort to extend the digitalisation process to all States in the country before the June 17, 2017 deadline set by the World International Telecommunication Union Council for transiting from analogue to digital television broadcasting in West African countries was on-going.

Digital mobile lines continued to drive growth in the communications sector in 2016

The NCC issued a directive to Mobile Network Operators (MNOs) to dedicate the short code "2442" on their networks for use by subscribers to opt-in to the "Do Not Disturb" database, restricting unsolicited messages (Voice and SMS) on their Mobile Station International Subscriber Directory Number (MSISDN), including the use of web based platforms as opt-out measures. Following the issuance of the directive, a compliance monitoring exercise was carried out from July 20 – 21 and August 2 – 3, 2016, to ensure due compliance and implementation. The Commission also mandated all service providers to communicate to the consumers, the service options available and educate them on how to restrict or fully stop receiving unsolicited messages. The Commission urged consumers to take advantage of the initiative as it was designed to protect their rights.

The digital mobile lines continued to drive growth in the communications sector in 2016.

Table 6.4: The Nigerian Telecommunications Market Statistics, 2012 – 2016

	2012	2013	2014	2015	2016
No. of Active Fixed Wired/Wireless Lines ('000)	406.0	361.0	183.0	187.2	154.5
No. of Active Digital Mobile Lines (million)	112.78	127.25	138.95	150.8	154.3
No. of National Carriers	2	2	2	2	2
No. of Operating ISPs	99	99	99	99	99
No. of Active Licensed Fixed Line Operators	25	24	24	24	24
Number of Licensed Mobile Operators	8	8	8	8	8
Teledensity	80.85	91.15	99.38	107.87	110.38

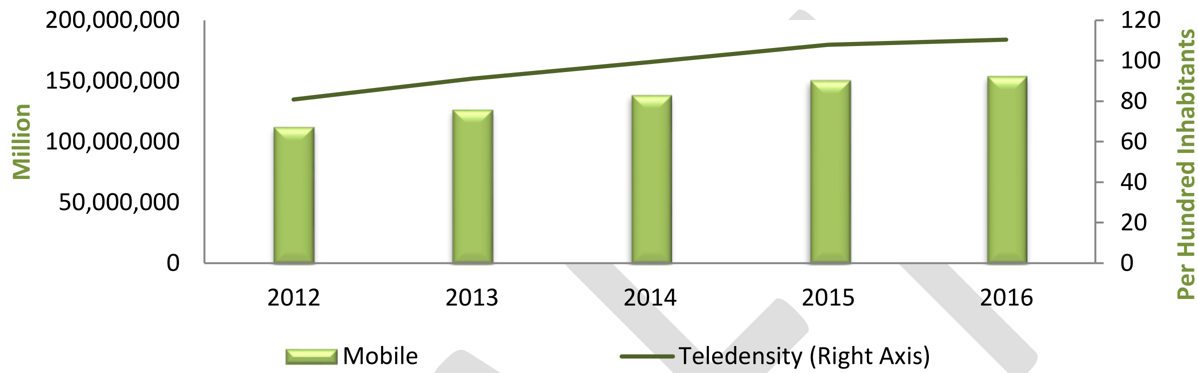
Source: Nigerian Communications Commission (NCC)

The combined active subscriber base of the telecommunications sub-sector at end-December 2016, was 154,529,780 (154,513 fixed wired/wireless, 154,342,168 mobile lines and 33,099 Voice over Internet Protocol), compared with 151,017,244 active lines at end-December 2015. As a result, teledensity increased to 110.38 lines in 2016, from 107.87 lines per 100 inhabitants in 2015, over the International Telecommunications Union (ITU) minimum standard of 1:100 threshold. Data obtained from the Nigerian Communications Commission (NCC) indicated that the wireless Global System for Mobile (GSM) communication segment of the telecoms sector accounted for 154.1 million lines, representing 99.7 per cent of the total 154.5 million connected lines at end-December 2016. The increase in the number of GSM users was largely as a result of consumers' preference for the system. The Code Division Multiple Access

(CDMA) segment, however, declined from 2.1 million at the end of the preceding year to 217,566 active lines at end-December 2016.

According to the NBS, the sector grew by 2.0 per cent same as in the preceding year and accounted for 0.2 per cent of GDP in 2016.

Figure 6.17: Trends of Mobile Lines and Teledensity, 2012 – 2016



Source: NCC

6.5 CONSUMER PRICES

In 2016, the year-on-year headline inflation remained above the benchmark single-digit rate from February to December. Data obtained from the NBS indicated that the all-items composite Consumer Price Index (CPI) stood at 213.6 (November 2009=100) at end-December 2016, compared with 180.2 at end-December 2015, representing a year-on-year headline inflation of 18.6 per cent at end-December 2016. This also represented an increase of 9.0 percentage points above the level at end-December 2015.

In 2016, the year-on-year headline inflation rose above the benchmarked single digit rate from 11.4 per cent at end-February to 18.6 per cent at end-December.

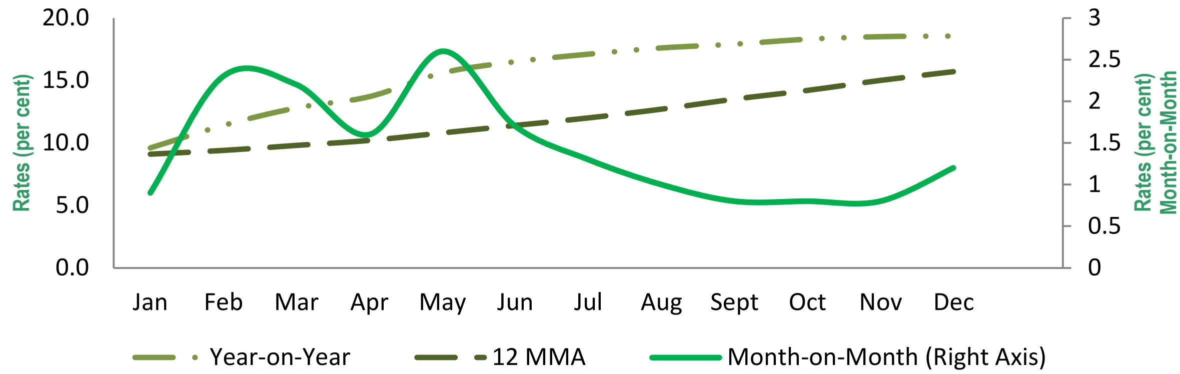
A trend analysis showed that inflation rate increased significantly from 9.6 per cent at end-January to 12.8 at end-March, 16.5 at end-June, 17.9 at end-September and 18.6 per cent at end-December 2016. The inflationary pressure was attributed, largely, to a number of monetary and structural factors, including re-pricing of the PMS products as well as a strong pass-through of naira exchange rate depreciation to domestic prices. Others included increased spending due to seasonal factors such as fuel scarcity, hoarding of petroleum products, Christmas and New Year festivities.

The 12-month moving average headline inflation was 15.7 per cent at end-December 2016, compared with 9.0 per cent at end-December 2015.

Core inflation (all-items, less farm produce) also increased steadily from 8.8 per cent at end-January to 12.2 per cent at end-March, 16.2 per cent at end-June, 17.7 per cent at end-September and 18.1 per cent at end-December 2016. The development was attributed, largely, to the negative impact of the continued exchange rate pass through to domestic prices and the effect of the increase in electricity tariff on households and businesses. The major contributors to core inflation in the review period were: housing; water; electricity; gas and other fuels; clothing and footwear; household equipment and maintenance; education; and transport.

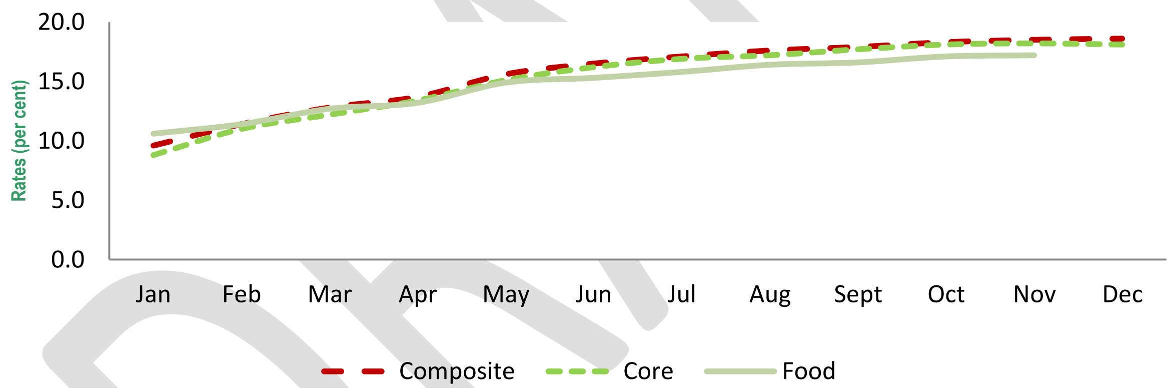
Similarly, food inflation rose from 10.6 per cent at end-January to 12.7 per cent at end-March, 15.3 per cent at end-June, and 16.6 per cent at end-September and 17.4 per cent at end-December 2016. The development was attributed largely to the rise in transportation cost due to fuel scarcity and the subsequent increase in PMS pump price, as well as shortages in the supply of food items resulting from the negative impact of exchange rate depreciation on food import. The largest contributors to food inflation in the year under review were farm produce (vegetables; yam, potatoes, and other tubers; rice; sorghum; and maize), and processed food (fish & sea food; meat; oil & fats; garri and yam flour).

Figure 6.18: Trends in Inflation, 2016
(Year-on-year, 12-Month Moving Average and Month-on-Month)



Source: NBS

Figure 6.19: Trends in Inflation, 2016
(Composite, Core and Food)



Source: NBS

Further analysis indicated that the urban headline inflation rate (year-on-year) increased significantly to 20.1 per cent at end-December 2016, from 9.7 per cent at end-December 2015. Urban core and urban food inflation also increased significantly to 19.6 and 17.6 per cent at end-December 2016, from 8.9 and 11.1 per cent at end-December 2015, respectively.

Similarly, rural inflation (year-on-year) increased significantly to 17.2 per cent at end-December 2016, from 9.3 per cent at end-December 2015. Rural core and rural food inflation also increased to 16.8 and 17.1 per cent at end-December 2016, from 8.6 and 10.1 per cent at end-December 2015, respectively.

Table 6.5: Annual Headline Inflation Rates (Year-on-Year) (Per cent)

	2012	2013	2014	2015	2016
January	12.6	9.0	8.0	8.2	9.6
February	11.9	9.5	7.7	8.4	11.4
March	12.1	8.6	7.8	8.5	12.8
April	12.9	9.1	7.9	8.7	13.7
May	12.7	9.0	8.0	9.0	15.6
June	12.9	8.4	8.2	9.2	16.5
July	12.8	8.7	8.3	9.2	17.1
August	11.7	8.2	8.5	9.3	17.6
September	11.3	8.0	8.3	9.4	17.9
October	11.7	7.8	8.1	9.3	18.3
November	12.3	7.9	7.9	9.4	18.5
December	12.0	8.0	8.0	9.6	18.6
Average	***12.2***	***8.5***	***8.1***	***9.0***	***15.6***

Source: NBS

6.6 UNEMPLOYMENT

The labour force population increased from 76.9 million at end-December 2015 to 80.7 million at end-December 2016, representing an increase of 4.9 per cent. During the review period, the proportion of unemployed in the labour force, increased to 13.9 per cent at end-December 2015, compared with 10.4 per cent at end-December 2015.

Table 6.6: Labour Statistics, 2012 - 2016

	2012	2013	2014	2015	2016
Total Population (Million)	168.8	173.6	178.5	183.6	189.5
Labour Force	69,105,775	71,105,800	72,931,608	76,957,923	80,669,196 *
Unemployment Rate (%)	10.6	10.0	7.8	10.4	13.9 *

Source: NBS

6.7 THE SOCIAL SECTOR

6.7.1 Education

During the review period, the Federal Government approved provisional licences for the establishment of eight (8) new private universities in the country following a recommendation by the National Universities Commission (NUC). The universities were: Anchor University, Ayobo, Lagos; Arthur Jarvis University, Akpabuyo, Calabar; Clifford University, Owerrinta, Abia; Coal City University, Enugu. Others were Crown-Hill University, Eiyenkorin, Kwara; Dominican University, Ibadan; Kola Daisi University, Ibadan; and Legacy University, Okija, Anambra. This brought the total number of universities in the country to 151.

During the year under review, the Federal Government approved provisional licences for the establishment of eight new private universities in the country. This brought the total number of universities in the country to 151.

The Federal Government launched the Energising Education Programme Initiative (EEPI) during the review period. It was a collaborative effort of the Federal Ministry of Education and Federal Ministry of Power, Works and Housing to ensure self-sufficiency in power to federal universities in the country.

The Government, in conjunction with the German Energy Partnership Project flagged off the independent power supply initiative to all the 40 federal universities in the country with the ground-breaking ceremony of a 10-Mega Watts Solar Power Plant at the University of Ibadan. The Project would be realised through the utilisation of off-grid Independent Power Plants (IPPs) which falls under the Public Private Partnership (PPP) initiative.

6.7.2 Health

In 2016, the Nigerian health sector was challenged by the outbreak of Lassa fever (LF) across some states. The affected states included Bauchi, Nassarawa, Niger, Taraba, Kano, Rivers, Edo, Plateau, Gombe and Oyo. There were a total number of 81 reported cases with a mortality rate of 43.0 per cent. To mitigate further outbreak, the government procured and distributed Ribavirin anti-viral drug for immediate treatment and created a strategic stock for the future.

During the period under review, the Nigerian health sector experienced a challenge with the eruption of Lassa fever while The African Union (AU) approved the establishment of Africa's Centre for Disease Control (in Nigeria.

The African Union (AU) approved the establishment of Africa's Centre for Disease Control (Africa-CDC) in Nigeria. The Centre would serve as one of the five collaborative regional centres for Africa-CDC. Nigeria was nominated to host one of the region's CDC after AU experts appraised the effectiveness of the Nigerian government in managing the ebola scourge in 2014, as well as the outbreak of Lassa fever.

6.7.3 Housing and Urban Development

The housing sector received a boost during the review period with the Federal Government inauguration of a ₦13 billion Mortgage Refinancing Scheme for Federal civil servants. The Scheme was a collaboration coordinated by the Office of the Head of Service of the Federation, Federal Government Staff Housing Loans Board, Federal Integrated Staff Housing Programme and the Nigeria Mortgage Refinance Company Plc.

The Federal Government launched a US$1 billion clean-up and restoration programme in Ogoniland in the Niger Delta region.

6.7.4 Environment

The Federal Government launched a US$1 billion clean-up and restoration programme in Ogoniland in the Niger Delta region. The Programme, which is expected to last for about thirty (30)years, is an outcome of the Report on Environmental Assessment of Ogoni land conducted by the United Nations Environmental Programme (UNEP) between 2009 and 2011. The Report recommended the deployment of modern technology to clean-up contaminated land and water, improve environmental monitoring and regulation. The Report also recommended the institutionalisation of a collaborative action among the government, the Ogoni people and the oil industry to sustain the benefits of the clean-up.

To drive its implementation, the Government constituted the Governing Council and Board of Trustees of Hydrocarbon Pollution Restoration Project (HYPREP) and amended the Official Gazette that established the project to reflect a new governance framework on the project.

As an indication of the commitment of the country to reverse the negative effects of climate change, President Muhammadu Buhari signed the Paris Agreement on Climate Change during the year. This expressed the commitment of the country to reduce Green House gas emissions unconditionally by 20.0 per cent and conditionally by 45.0 per cent. The Agreement was expected to be enforced 30 days after 55 countries deposit their instruments of ratification, acceptance or accession with the Secretary General of the United Nations.

Effort to improve access to water supply in the country received a boost with the completion of the Galma Multipurpose Dam in Kaduna State. Apart from the irrigation component, the Dam, with a reservoir capacity of about 186 million cubic meters of water would generate 2.2 megawatts of electricity, supply water to 2.2 million people and provide job opportunities for about 1.1 million people living within the surrounding areas.

6.7.5 Social Intervention Programmes

The government provided ₦500 billion for social intervention programmes in the 2016 budget. The programmes has four components: The home-grown school feeding programme targeted at 5.5 million primary 1 to 3 school pupils across the country; Job creation programme for 500,000 university graduates to be trained as teachers, agricultural and health workers; conditional Cash Transfer, CCT, of ₦5, 000 monthly for the period of two years-mainly targeted at the poor and vulnerable group; and the Enterprise Promotion Programme to be handled by the Bank of Industry (BOI). During the review period, the Federal Government had released ₦25 billion or 5.0 per cent of the ₦500 billion earmarked for the social intervention programmes.

6.7.6 Activities of National Emergency Management Agency (NEMA)

During the review period, 1, 934, 765 Internally Displaced Persons (IDPs) were living in the formal and satellite camps as a result of the insurgency in the North Eastern States of Borno, Yobe, Taraba, Gombe, Bauchi and Adamawa States. However, about 29,581 Nigerians who fled to the Republic of Niger and Cameroun as a result of insurgent activities voluntarily returned during the review period.

CHAPTER SEVEN

EXTERNAL SECTOR DEVELOPMENTS

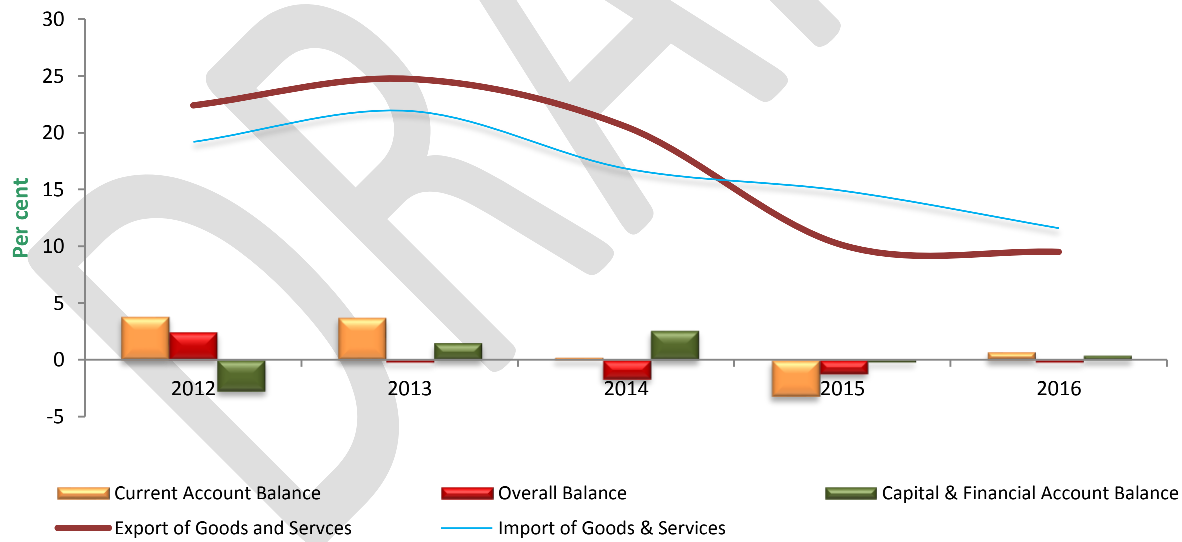
The pressure in the external sector was moderate in 2016 with a marginal overall balance of payments deficit of 0.2 per cent of GDP in 2016, compared with 1.2 per cent of GDP in 2015. The improved development was due largely to sustained reforms in the foreign exchange market, which curtailed spurious demand for foreign exchange, and the introduction of a more flexible exchange rate regime. Consequently, the current account recorded a surplus of 0.7 per cent of GDP against to a deficit of 3.2 per cent of GDP in 2015. The Capital and financial account recorded a net financial liability of ₦417.19 billion or 0.4 per cent of GDP that showed renewed confidence in the Nigerian economy by foreign investors. The stock of external reserves at end-December was US$26.99 billion and could sufficiently finance 9.2 months of current import. This was higher than the three (3) months international benchmark and the West African Monetary Zone (WAMZ) convergence criterion. The external debt, though, increased by 6.4 per cent to US$11.41 billion or 3.4 per cent of GDP, remained within sustainable threshold of 40.0 per cent of GDP. The average exchange rate of the naira to the US dollars depreciated from ₦197/US$ to ₦280/US$ on June 20, 2016 and further depreciated to ₦304.50/US$ in December 2016. Overall, the naira exchange rate averaged ₦253.19/US$ in 2016, compared with ₦196.49/US$ in 2015.

7.1 BALANCE OF PAYMENTS

7.1.1 Major Developments

Provisional data on Nigeria's balance of payments position was promising despite the challenging global economic and domestic political developments, which included the Brexit referendum in the United Kingdom, elections in the United States of America and the anticipated policy stance of the new administration with its attendant global spillover effect. The overall balance of payments deficit narrowed to 0.2 per cent of GDP compared with 1.2 per cent in 2015. The current account recorded a surplus of 0.7 per cent of GDP as against a deficit of 3.2 per cent of GDP in 2015. The surplus in the current account was driven, largely, by lower import bills, reduced out-payments in respect of services, and repatriation of income and dividends by non-resident investors. The capital and financial account recorded a net financial liability of 0.4 per cent of GDP, in contrast with a net financial asset of 0.2 per cent of GDP recorded in 2015. The development reflected sustained confidence in the economy by non-resident investors. The stock of external reserves at end-December 2016 was US$26.99 billion and could finance 9.2 months of current import, while the stock of external debt though increased by 5.1 per cent to US$11.41 billion or 3.4 per cent of GDP remained within a sustainable threshold of 40.0 per cent of GDP. The average naira exchange rate depreciated to ₦253.49/US$1 in 2016, compared with ₦195.52/US$1 in 2015. The international investment position (IIP) recorded a net liability of US$56.79 billion, an increase of 26.8 per cent above the level in the preceding period.

Figure 7.1: Balance of Payments, 2012-2016 (Per cent of GDP)



Source: CBN

Table 7.1: Summary of Balance of Payments (BOP) Statement 1/

	₦' billion					US$' billion				
	2012	2013	2014	2015 /2	2016 /3	2012	2013	2014	2015 /2	2016/3
CURRENT ACCOUNT	**2,736.45**	**2,996.63**	**142,57**	**(3,033.48)**	**687.82**	**17.52**	**19.21**	**0.91**	**(15.44)**	**2.72**
Goods	**6,172.47**	**6,634.11**	**3,302.99**	**(1,266.75)**	**(135.46)**	**39.51**	**42.52**	**21.00**	**(6.45)**	**(0.54)**
Exports (fob)	15,139.45	15,262.82	12,989.82	9,016.32	8,769.32	96.90	97.82	82.60	45.89	34.70
Imports (fob)	(8,966.98)	(8,628.71)	(9,686.83)	(10,283.07)	(8,904.77)	(57.40)	(55.30)	(61.59)	(52.33)	(35.24)
Services(net)	**(3,392.67)**	**(3,052.90)**	**(3,595.57)**	**(3,232.72)**	**(2,025.22)**	**(21.72)**	**(19.57)**	**(22.86)**	**(16.45)**	**(8.01)**
Credit	378.04	376.94	313.18	620.90	945.98	2.42	2.42	1.99	3.16	3.74
Debit	(3,770.71)	(3,429.84)	(3,908.75)	(3,853.63)	(2,971.20)	(24.14)	(21.98)	(24.85)	(19.61)	(11.76)
Income(net)	**(3,478.45)**	**(4,014.68)**	**(3,013.61)**	**(2,496.90)**	**(2,177.29)**	**(22.26)**	**(25.73)**	**(19.16)**	**(12.71)**	**(8.62)**
Credit	150.65	138.57	256.83	182.88	316.05	0.96	0.89	1.63	0.93	1.25
Debit	(3,629.10)	(4,153.25)	(3,270.44)	(2,679.79)	(2,493.34)	(23.23)	(26.62)	(20.80)	(13.64)	(9.87)
Current transfers(net)	**3,435.09**	**3,430.10**	**3,448.77**	**3,962.89**	**5,025.79**	**21.99**	**21.98**	**21.93**	**20.17**	**19.89**
Credit	3,511.07	3,543.80	3,585.87	4,345.76	5,291.99	22.47	22.71	22.80	22.12	20.94
Debit	(75.98)	(113.70)	(137.09)	(382.86)	(266.21)	(0.49)	(0.73)	(0.87)	(1.95)	(1.05)
CAPITAL AND FINANCIAL ACCOUNT	**(1,949.20)**	**1,209.07**	**1,932.25**	**(201.97)**	**417.19**	**(12.48)**	**7.75**	**12.29**	**(1.03)**	**1.65**
Financial account(net)	**(1,949.20)**	**1,209.07**	**1,932.25**	**(201.97)**	417.19	**(12.48)**	**7.75**	**12.29**	**(1.03)**	**1.65**
Assets	**(5,877.25)**	**(2,161.74)**	**(951.02)**	**(1,506.06)**	**(904.40)**	**(37.62)**	**(13.85)**	**(6.05)**	**(7.66)**	**(3.58)**
Direct investment (Abroad)	(240.99)	(193.09)	(253.88)	(282.00)	(329.77)	(1.54)	(1.24)	(1.61)	(1.44)	(1.31)
Portfolio investment	(325.93)	(506.58)	(542.45)	(329.41)	(44.83)	(2.09)	(3.25)	(3.45)	(1.68)	(0.18)
Other investment	(3,562.42)	(1,616.25)	(1,484.01)	(2,044.78)	(777.63)	(22.80)	(10.36)	(9.44)	(10.41)	(3.08)
Reserve Assets	(1,747.90)	154.18	1,329.32	1,150.13	247.84	(11.19)	0.99	8.45	5.85	0.98
Liabilities	**3,928.05**	**3,370.81**	**2,883.27**	**1,304.09**	**1,321.58**	**25.14**	**21.60**	**18.33**	**6.64**	**5.23**
Direct Investment in reporting economy	1,113.51	875.10	738.20	602.08	1,124.15	7.13	5.61	4.69	3.06	4.45
Portfolio Investment	2,687.23	2,130.18	832.39	498.13	477.00	17.20	13.65	5.29	2.54	1.89
Other investment liabilities	127.31	365.52	1,312.68	203.89	(279.56)	0.81	2.34	8.35	1.04	(1.11)
NET ERRORS AND OMISSIONS	**(787.25)**	**(4,205.70)**	**(2,074.82)**	**3,235.46**	**(1,105.01)**	**(5.04)**	**(26.95)**	**(13.19)**	**16.47**	**(4.37)**
Memorandum Items:										
Current Account Balance as % of G.D.P	3.77	3.70	0.16	(3.19)	0.67	3.77	3.70	0.16	(3.19)	0.67
Capital and Financial Account Balance as % of G.D.P	(2.68)	1.49	2.14	(0.21)	0.41	(2.68)	1.49	2.41	(0.21)	0.41
Overall Balance as % of G.D.P	2.41	(0.19)	(1.47)	(1.21)	(0.24)	2.41	(0.19)	(1.47)	(1.21)	(0.24)
External Reserves - Stock (US $ million)	43,830.54	42,847.31	34,241.54	28,284.82	26,990.58	43,830.54	42,847.31	34,241.54	28,284.82	26,990.58
Number of Months of Import Equivalent	9.16	9.30	6.67	6.49	9.19	9.16	9.30	6.67	6.49	9.19
External Debt Stock (US$ million)	6,527.07	8,821.90	9,711.45	10,718.43	11,406.28	6,527.07	8,821.90	9,711.45	10,718.43	11,406.28
Effective Central Exchange Rate (₦/$)	156.23	156.03	157.27	196.49	252.69	156.23	156.03	157.27	196.49	252.69
Average Exchange Rate (₦/$)	157.50	157.31	158.55	195.52	253.49	157.50	157.31	158.55	195.52	253.49
End-Period Exchange Rate (₦/$)	157.33	157.26	169.68	197.00	305.00	156.05	155.98	169.68	197.00	305.00

1/ The conversion for BOP Purposes was based on the mid-point or the effective central exchange rate.

2/ Revised
3/ Provisional
Source: Central Bank of Nigeria

7.2 THE CURRENT ACCOUNT

In 2016, the current account rebounded to a surplus of ₦687.82 billion or 0.7 per cent of GDP from a deficit of ₦3,033.48 billion, or 3.2 per cent of GDP in 2015. The development was attributed to lower import bills (goods and services), reduced repatriation of income and dividends by non-resident investors as well as sustained inflow of remittances. The deficit in the goods account significantly narrowed by 89.3 per cent from ₦1,266.75 billion, 1.3 per cent of GDP in 2015 to ₦135.46 billion or 0.1 per cent of GDP in 2016, due, largely, to the decline in import occasioned by foreign exchange scarcity and retention of the ban on importation of 41 items from being funded through the interbank window. The deficit in the services account also narrowed by 37.4 per cent from ₦3,232.72 billion or 3.4 per cent of GDP in 2015 to ₦2,025.22 billion equivalent to 2.0 per cent of GDP. Similarly, income account deficit shrank by 12.8 per cent to ₦2,177.29 billion (2.1% of GDP) from ₦2,496.90 billion (2.6% of GDP) in 2015. The surplus in the current transfers account, however, increased by 26.8 per cent to ₦5,025.79 billion representing 4.9 per cent of GDP from ₦3,962.89 billion or 4.2 per cent of GDP in 2015, influenced largely by remittance inflow from Nigerians in the diaspora.

In 2016, the current account rebounded to a surplus of ₦687.82 billion or 0.7 per cent of GDP from a deficit of ₦3,033.48 billion or 3.2 per cent of GDP in 2015.

7.2.1 The Goods Account

The deficit in the goods account narrowed by 89.3 per cent to ₦135.46 billion, equivalent to 0.1 per cent of GDP in 2016, from ₦1,266.75 billion or 1.3 per cent of GDP in 2015. Aggregate export and import both declined by 2.7 and 13.4 per cent to ₦8,769.32 billion and ₦8,904.77 billion, respectively, in 2016 from ₦9,016.32 billion and ₦10,283.07 billion in 2015. The decline in export was attributed to the fall in both reference crude oil price and production to an average of US$44.53 per barrel and 1.65 mbpd from an average of US$53.08 per barrel and 1.91 mbpd, respectively, in 2015. The decline in import was attributed to many factors, including foreign exchange scarcity and weakened aggregate domestic demand as well as the effect of sustained drive to diversifying the economy.

A disaggregation of export receipts showed the continued dominance of crude oil and gas export, which accounted for 92.3 per cent of total export receipt, while non-oil export accounted for the balance. Further analysis showed a decline across all components of export. Crude oil export, at 6.7 per cent of GDP, declined by 2.0 per cent from ₦7,056.08 billion in 2015 to ₦6,912.72 billion in 2016. Similarly, gas export declined by 8.0 per cent to ₦1,180.68 billion or 1.2 per cent of GDP, while non-oil export declined to ₦675.91 billion, representing 0.7 per cent of GDP. Analysis of aggregate import adjusted for balance of payments indicated that the value of crude oil import increased by 35.5 per cent to ₦2,261.68 billion from ₦1,669.14 billion in 2015. Non-oil import component, however, declined by 22.9 per cent, to ₦6,643.09 billion below the level in 2015. Further analysis of the components during the review period showed that non-oil import, at 6.5 per cent of GDP, remained dominant and accounted for 74.6 per cent of the total, while oil import, representing 2.2 per cent of GDP, accounted for the balance.

Figure 7.2: Value of Import, Export and Trade Balance, 2012 – 2016, (₦' million)

Source: CBN

7.2.1.1 Import (c&f)

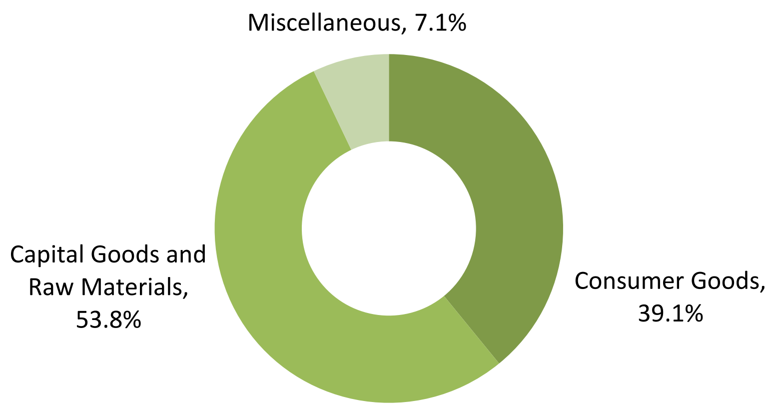
In naira terms, aggregate import unadjusted for balance of payments, decreased by 14.4 per cent to ₦9,480.37 billion from the ₦11,076.07 billion in 2015 due to the exclusion of funding the importation of 41 items from the interbank foreign exchange at the Nigerian foreign exchange market. Consequently, non-oil import decreased by 24.1 per cent to ₦7,095.95 billion in the review period from ₦9,350.84 billion in 2015, while oil sector import increased significantly by 5.4 per cent to ₦2,384.41 billion in 2016, due largely to low domestic refining capacity.

Analysis of aggregate import based on the returns from commercial banks on foreign exchange utilisation, showed a decline across all major economic sectors. Industrial sector import, which accounted for 34.4 per cent of the total import, declined by 25.1 per cent, compared with the value recorded in 2015. Similarly, import of manufactured goods and food products declined by 28.4 and 47.5 per cent, and accounted for 16.3 and 10.4 per cent of the total, respectively. Oil sector import accounted for 33.8 per cent, while transportation, agricultural and mineral sectors import accounted for 3.1, 1.5 and 0.5 per cent, respectively.

(a) Import by End-User

Disaggregation of import by broad economic category showed the dominance of capital goods and raw materials import with a value of ₦5,102.49 billion or 53.8 per cent of the total, an increase of 12.5 per cent compared with the level in 2015. The consumer goods category, which constituted 39.1 per cent of the total, rose by 52.2 per cent to ₦3,704.59 billion in 2016, while miscellaneous import, at ₦10.47 billion, accounted for the balance. A further breakdown revealed that under the capital goods and raw material category, importation of machinery and equipment valued at ₦4,688.97 billion, accounted for 49.5 per cent of the total, while raw materials, mainly industrial chemicals, represented 4.4 per cent. In the consumer goods category, durable goods dominated, with a value of ₦3,380.65 billion or 35.7 per cent of the total, while non-durable goods, at ₦323.94 billion, was 3.4 per cent. Miscellaneous goods accounted for the balance.

Figure 7.3: Import by Major Groups, 2016, (Per cent)



Source: CBN

(b) Import by Harmonised System (HS) Classification

Analysis of import by the Harmonised System (HS) classification showed that mineral products (mainly petroleum products) valued at ₦2,570.83 billion accounted for the largest share or 27.1 per cent of the total import. This was followed by machinery and mechanical appliances at ₦2,068.38 billion or 21.8 per cent of the total import. Products of chemical, ₦736.19 billion (7.8%); vehicles, aircraft, vessels and associated transport equipment collectively accounted for 7.2 per cent or ₦683.67 billion; and base metals, ₦482.32 billion (5.1%). Others included: plastics and rubber, ₦463.29 billion (4.9%); prepared foodstuff, ₦461.41 billion (4.9%); vegetable products, ₦413.61 billion (4.4%) and; live animals and animal products, ₦269.71 billion (2.8%). In addition, wood pulp and articles of stone collectively valued at ₦240.49 billion (2.5%); textile and textile article; and optical and precision medical equipment valued at ₦114.74 billion and ₦115.17 and, respectively, constituted 1.2 per cent each.

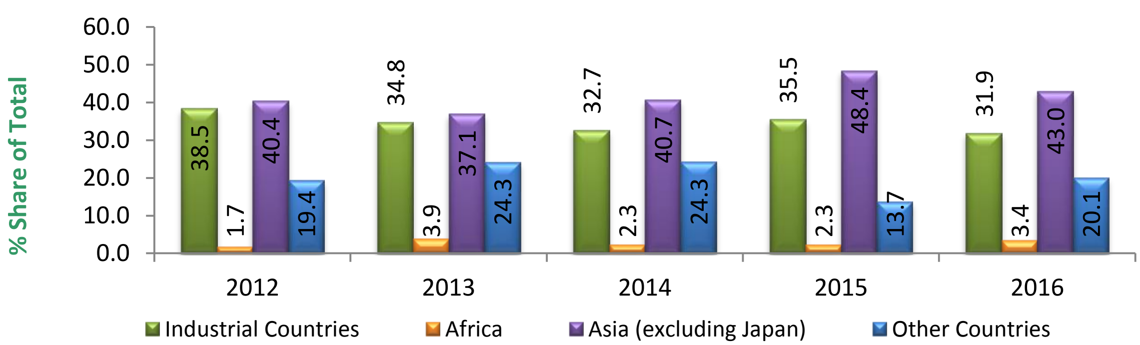
Informal trade and other BOP adjusted imports; and miscellaneous manufactured articles accounted for 7.0 and 0.7 per cent, respectively, while "Others" accounted for the remaining.

(c) Non-oil Import by Country of Origin

The direction of non-oil import to Nigeria by country showed that China was the highest by 28.5 per cent of the total; followed by USA and India, with 10.0 and 7.4 per cent, respectively. Non-oil imports, from the United Kingdom was 4.8 per cent, Germany (3.8%); The Netherlands (3.3%) and Brazil (3.1%).

Analysis of import by group showed that, the share of industrial countries declined during the review period to 31.9 per cent from 32.8 per cent in the preceding period; Asia (excluding Japan) increased from 43.0 per cent of total in 2015 to 44.5 per cent in the review period. The share of import from "Other countries" as a group declined to 20.1 per cent from 20.6 per cent in 2015, while African countries' contribution to the total declined to 3.4 per cent from 3.6 per cent of the total in 2015.

Figure 7.4: Non-oil Import by Country of Origin, 2012-2016
(Percentage share of total)



Source: CBN

7.2.1.2 Exports (fob)

Aggregate merchandise export, at ₦8,769.32 billion (8.5 % of GDP), declined by 2.7 per cent from ₦9,016.32 billion in 2015 . This was due to lower crude oil price and production from an average of US$53.08 per barrel and 1.91 mbpd, respectively, in 2015, to US$44.53 and 1.65 mbpd, in 2016. Consequently, the value of crude oil export declined by 2.0 per cent to ₦6,912.72 billion or 6.7 per cent of GDP in the review period from ₦7,056.08 billion (7.4% of GDP) in 2015. Gas export, at 1.2 per cent of GDP, also declined by 8.0 per cent from ₦1, 283.48 billion or 1.4 per cent of GDP in 2015 to ₦1,180.68 billion in 2016. Similarly, non-oil export, at ₦675.91 billion equivalent to 0.7 per cent of GDP, declined marginally by 0.1 per cent from the ₦676.77 billion in the preceding year. Despite crude oil price and production shocks, the commodity remained dominant and accounted for 78.8 per cent of total export, while gas export constituted 13.5 per cent of the total. The contribution of non-oil component to total export remained dismal at 7.7 per cent.

[a] Direction of Oil Export

Provisional data on the direction of Nigeria's crude oil export showed that Europe maintained the top position as the major regional importer followed by Asia and the Far East, the Americas, and Africa. By country of destination, India remained the largest importer of Nigeria's crude oil, followed by USA, Spain, the Netherlands, and South Africa. Further analysis revealed that crude oil exports of 225.12 billion barrels valued at ₦2,413.61 billion to Europe accounted for 34.9 per cent of the total. Within the group, Spain maintained the top position with a share of 8.8 per cent followed by the Netherlands (7.9%), France (6.0%), the United Kingdom (5.1%), Italy (2.5%) and Sweden, (2.1%).

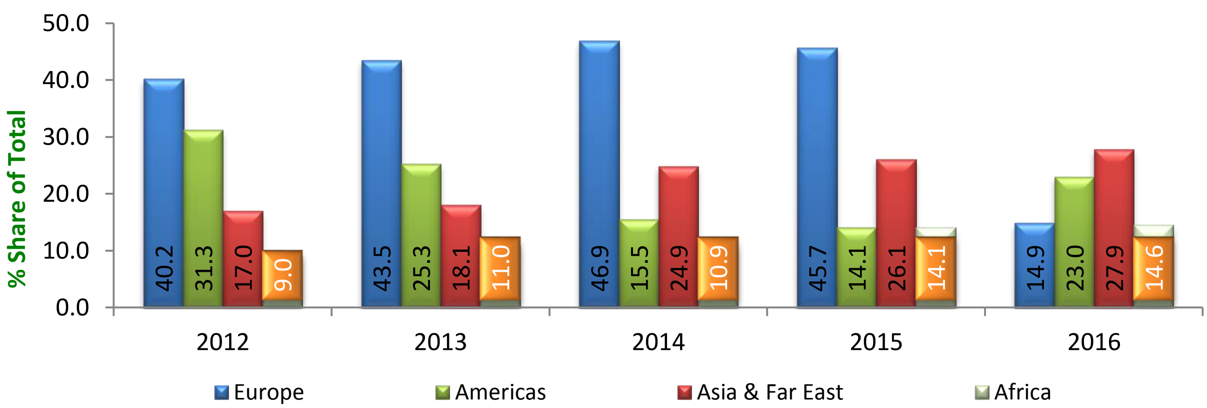
Crude oil export to Asia and the far East increased both in value and percentage share in total export from ₦1,891.53 billion and 26.8 per cent of the total in 2015, to ₦1,927.45 billion and 27.9 per cent of the total in the review period. However, in terms of volume, crude oil export declined from 206.87 million barrels in 2015 to 179.77 million barrels in 2016. India remained a dominant buyer in this region and accounted for 20.7 per cent of the total crude oil export. Indonesia, Singapore, China, and Malaysia accounted for 4.6, 1.1, 1.0, and 0.4 per cent, respectively.

Importation of crude oil by the Americas increased by 65.1 per cent from ₦944.49 billion or 13.4 per cent of total in the preceding period, to ₦1,559.31 billion or 22.6 per cent of the total in 2016. By volume, it increased substantially from 103.29 million barrels in the preceding period to 145.44 billion barrels in the review period. Within the group, crude oil export to the United States of America accounted for 14.6 per cent, followed by Canada with 3.6 per cent; Brazil, 2.7 per cent; Uruguay, 0.7 per cent; and Argentina, 0.6 per cent. Other countries in the group accounted for the balance.

The share of crude oil export to African countries increased from ₦1,003.13 billion or 14.1 per cent in 2015, to ₦1,006.52 billion or 14.6 per cent in the review period. However, in terms of volume, it declined to 93.88 million barrels in the review period from 109.71 million barrels in 2015. Within this group, South Africa contributed the highest a share of 6.7 per cent, followed by Côte d'Ivoire, 2.6 per cent; Senegal, 1.6 per cent; and Cameroun, 1.6 per cent; while others accounted for the balance.

Exports to Australia (Oceania) accounted for 0.1 per cent of the total, with the total value and volume of ₦5.84 billion and 544.73 million barrels, respectively, during the review period.

Figure 7.5: Direction of Crude Oil Exports, 2012 - 2016



Source: CBN

[b] Non-oil Export

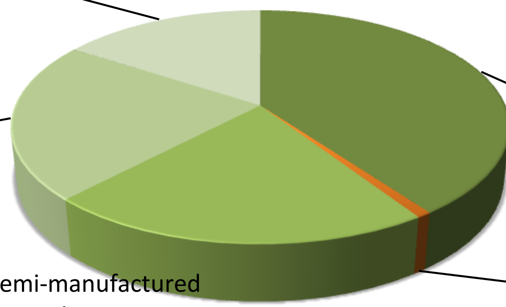
Non-oil export at ₦675.91 billion equivalent to 0.7 per cent of GDP, declined marginally by 0.1 per cent from the ₦676.77 billion in 2015. The development was due to non-competitiveness of the exports occasioned by high cost of production.

A breakdown of non-oil export by product showed that agricultural produce category valued at ₦270.56 billion accounted for the highest share of 40.0 per cent of the total. Within the category, export of cocoa beans, accounted for 19.3 per cent; followed by sesame seeds, 8.6 per cent; fish and crustaceans, 4.7 per cent; rubber, 2.9 per cent; cashew nuts, 2.6 per cent; and other agricultural produce accounted for the balance.

Manufactured goods category at ₦149.50 billion, accounted for 22.1 per cent of total non-oil export during the review period out of which export of tobacco stood at 9.5 per cent in the sub-sector. Other manufactured products accounted for 4.6 per cent; beer/beverages (1.6 %); plastics (1.4 %); soap and detergent (1.3 %), insecticide accounted for 1.0 per cent, while "others" accounted for the remaining.

The semi-manufactured products sub-category, at ₦143.72 billion, constituted 21.3 per cent, compared with ₦155.38 billion or 23.0 per cent in 2015. Within the category, export of cocoa products recorded the highest performance of 5.2 per cent, followed by leather and processed skin (3.8 %), aluminum (2.6%) and lead (1.8%). Others within the sub-sector accounted for the balance. Other export sub-category, at ₦106.99 billion, accounted for 15.8 per cent, of which urea and electricity recorded 5.1 and 4.3 per cent, of the total, respectively.

Figure 7.6: Non-oil Export by Product, 2016, (Per cent)



Source: CBN

[c] Non-oil Export to the ECOWAS Sub-Region

Non-oil export to the ECOWAS sub-region improved by 5.7 per cent to US$281.0 million, compared with US$265.8 million in 2015. Among member countries, export to Ghana remained high at US$113.31 million or 40.3 per cent of the total. This was followed by Côté d'Ivoire at US$61.95 million (22.0%), Niger US$44.61million (15.9 %) and Togo with US$21.38 million (7.6%). Export to Guinea was US$ 13.40 million (4.8%), Republic of Benin US$9.52 million (3.4 %) and others accounted for the balance. The dominant export to the sub-region remained tobacco; plastics; rubber; plastic footwear; soap and detergents; and polybags.

[d] Activities of the Top 100 Non-oil Exporters

Receipts from top 100 non-oil exporters continued to decline in 2016. The value decreased by 36.3 per cent to US$0.91 billion compared with the US$1.43 billion recorded in 2015. The development was attributed to the scarcity of foreign exchange that constrained the importation of raw materials for the production of non-oil exportables, inability of some Nigerian agricultural and manufactured products to meet the international export standards and lack of full declaration of non - oil export proceeds by exporters. British American Tobacco (BAT) Nigeria Limited was ranked first in 2016 with earnings of US$145.48 million, which accounted for 16.0 per cent of the total. The Company exported cigarettes to

Liberia, Guinea, Ghana, Cameroun, Cote' d'voire and Niger. Olam Nigeria Limited was ranked 2nd with earnings of US$110.89 million or 12.2 per cent of the total. The Company exported sesame seed and cocoa beans to India, The Netherlands, Poland, Syria, the United Kingdom, Singapore, Turkey, Jordan and Japan.

Indorama Eleme Fertilizer & Chemicals Limited and Atlantic Shrimpers Limited were ranked 3rd and 4th with export receipts valued at US$69.81million and US$38.40 million, respectively. The Indorama exported granular urea in bulk to Uruguay, Brazil and Argentina, while Atlantic Shrimpers Limited exported sea frozen shrimps and crabs to The Netherlands, China (Taiwan), United States of America and Vietnam.

Olatunde International Limited, Nestle Nigeria Plc, Plantation Industry Limited and Vakorede Nigeria Limited were ranked 25th, 26th, 28th and 40th from export earnings of US$8.17 million; US$8.13 million; US$7.81 million and US$4.93 million realised from the export of cocoa beans, maggi cubes, cocoa butter, cashew nuts and pigeon peas, respectively. Olatunde International Limited exported to The Netherlands, Germany and Indonesia; Nestle Nigeria Plc exports were to Ghana, USA, Spain, Mali, Niger and Guinea; Plantation Industry Limited to The Netherlands, Germany, France and Spain; and Vakorede Nigeria Limited exported to China, Vietnam and India. Banarly (Nigeria) Limited, in the 50th position, exported frozen shrimps and crab claws/clusters valued at US$3.56 million to Belgium, Portugal and Spain.

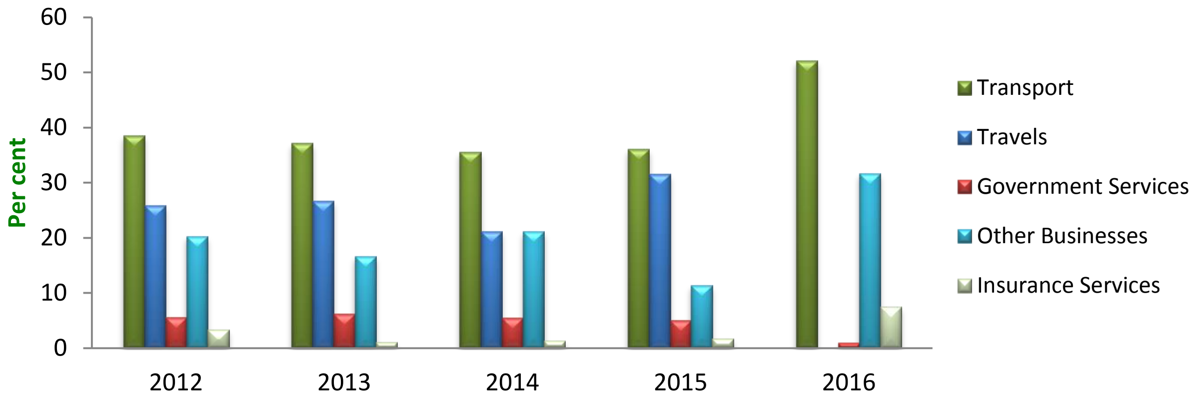
Among the last 20 exporters on the list, Bnot Harel Nigeria Limited earned US$0.98 million through the export of soya bean meal to Ghana. In the 86th, 90th and 95th positions were Khamsusi Nigeria Limited, JOF Nigeria Limited and Orbit Agro Exports Limited with earnings of US$0.9 million, US$0.86 million, and US$0.79 million from the export of cement, cocoa butter and raw cashew nuts to Niger, The Netherlands and India, respectively. Notore Chemical Industries Plc, which earned US$0.71 million from the export of granular urea in bulk and refrigerated anthdous ammonia in bulk to Brazil, Israel and Morocco, was placed 100th on the list.

7.2.2 The Services Account

The deficit in the services account narrowed significantly by 37.4 per cent to ₦2,025.22 billion (2.0 % of GDP) from ₦3,232.72 billion (3.4 % of GDP) in 2015. The development was due, mainly, to reduction in payments for freight charges; personal and business travels, and communication services. Payments in respect of all components of services declined by 22.9 per cent, below the level recorded in the preceding period. Further breakdown showed that out-payment in respect of transportation services declined during the review period, owing to 25.7 per cent decrease in respect of payments on freight charges. The surplus in "other" transportation services sub-account increased by 37.5 per cent to ₦303.80 billion in 2016 above ₦220.93 billion in 2015. Payments in respect of travel services, however, declined significantly by 75.2 per cent to ₦272.68 billion from ₦1,101.35 billion in 2015 due, largely, to reduction in business travels and surplus recorded in the personal travel sub-account. Financial, communications and government services out-payments declined by 57.7, 64.6 and 59.9 per cent, to ₦93.05 billion, ₦49.95 billion and ₦104.46 billion, respectively, in 2016, from ₦219.89 billion, ₦140.99 billion and ₦260.65 billion in 2015. In contrast, payment in respect of other business services increased by 74.6 per cent to ₦672.19 billion in 2016 above ₦384.96 billion in 2015.

In terms of the contribution to the net balance, transportation services constituted 53.2 per cent, while other business services accounted for 32.4 per cent. Insurance services; royalties and licence fees; computer& information services; and financial services, represented 7.7, 3.2, 1.9 and 1.5, per cent, respectively. Other services accounted for the balance.

Figure 7.7: Percentage Share of Major Invisible Services, 2012-2016



Source: CBN

Table: 7.2 Share of Major Invisible Transactions in Net Deficit (Per cent), 2012 – 2016					
Items	2012	2013	2014	2015	2016
Transportation	38.6	37.2	35.6	36.1	52.1
Travel	25.9	26.7	21.2	31.6	0.1
Insurance Services	3.4	3.5	1.4	1.8	7.5
Communication Services	1.7	2.6	3.7	3.9	1.0
Construction Services	0.5	0.4	0.3	0.3	0.0
Financial Services	1.9	3.6	5.5	5.3	1.5
Computer and Information Services	0.8	1.7	3.1	2.1	1.8
Royalties and License Fees	1.2	1.3	1.1	1.5	3.1
Government Services	5.6	6.2	5.5	5.1	1.0
Personal, Cultural & Recreational Services	0.3	0.1	1.4	1.0	0.2
Other Business Services	20.3	16.7	21.2	11.4	31.7
Total	**100**	**100**	**100**	**100**	**100**

Source: CBN

7.2.3 The Income Account

The deficit in income account narrowed to ₦2,177.29 billion or 2.1 per cent of GDP, from ₦2,496.90 billion in 2015, indicating a decline of 12.8 per cent. The development was due, largely, to lower deficit recorded in the investment income sub-account, which declined by 12.4 per cent to ₦2,222.71 billion from ₦2,537.13 billion in 2015, due to the reduction in repatriation of dividends and distributed branch profits by non-resident investors. Out-payment in respect of dividends and distributed branch profits to non-resident investors declined by 14.1 per cent to ₦1,687.90 billion in 2016 from ₦1,965.85 billion in 2015, attributed to lower profits declared by most domestic companies occasioned by the economic recession in the country. In contrast, interest payments on portfolio investments increased by 18.2 per cent from ₦104.47 billion in 2015 to ₦123.43 billion in the review period due to increased investment in portfolio long-term debt securities. The "Other" investment income sub-account driven largely by interest earnings on external reserves recorded a surplus of ₦6.84 billion in 2016 as against a deficit of ₦42.97 billion in the preceding year.

7.2.4 Current Transfers

The current transfers account sustained a surplus position due to the steady inflow of workers remittances during the review period. In naira terms, the surplus in the current transfers account increased by 26.8 per cent to ₦5,025.79 billion equivalent to 4.9 per cent of GDP, due to exchange rate depreciation in the review period. Consequently, all the components of the account recorded increased nominal values. For instance, general government transfers recorded a higher net surplus of ₦353.60 billion in 2016, compared with ₦299.02 billion in the preceding period, while the surplus in the "Other" sectors sub-account, driven mainly by workers remittances, increased by 27.5 per cent to ₦4,672.19 billion in 2016 from ₦3,663.87 billion in 2015. In dollar terms, however, the surplus declined by 1.4 per cent to US$19.89 billion in the review period from US$20.17 billion in the preceding period, as a result of the 4.5 per cent drop in the inflow of workers' remittances occasioned by the challenging global economic environment.

Table 7.3: Current Transfers (Naira Billion), 2014 – 2016

	2014	2015	2016
INFLOW (credit)			
1.General government (Grants, ODA, Technical Assistance & Gifts)	295.1	382.6	355.5
2. Other sector account remittances and other transfers in kind	3,290.8	4,017.1	4,936.5
OUTFLOW (debit)			
1.General government (Payments to International Organizations & other payments)	8.3	29.6	1.9
2. Other sector account remittances and other transfers	128.9	353.3	264.3
NET CURRENT TRANSFERS	**3,448.8**	**3,962.9**	**5,025.8**

Source: CBN

7.3 THE CAPITAL AND FINANCIAL ACCOUNT

Transactions in the capital and financial account resulted in a net financial liability of ₦417.19 billion or 0.4 per cent of GDP as against a net financial asset of ₦201.97 billion in the preceding period. A disaggregation of the account revealed that total financial assets, representing financial outflow, declined significantly by 40.0 per cent to ₦904.40 billion or 0.9 per cent of GDP from ₦1,506.06 billion in 2015, due, mainly, to the reduction in other investment assets and drawdown on external reserves in the review period. Aggregate financial liabilities, representing foreign financial inflow, increased by 1.3 per cent to ₦1,321.58 billion equivalent to 1.3 per cent of GDP above ₦1,304.09 billion in 2015, due largely to increased inflow of foreign direct investment.

Further breakdown of aggregate financial assets, showed that direct investment abroad increased by 16.9 per cent to ₦329.77 billion (0.3% of GDP) in the review period, from ₦282.00 billion in 2015 reflecting largely increased presence of Nigerian banks in the sub-region and increased outward investment by Dangote group of companies in the continent. Portfolio investment assets, however, dropped significantly from ₦329.41 billion in 2015, to ₦44.83 billion, indicating a decline of 86.4 per cent, due to domestic economic crunch which dampened the investment appetite of resident investors. Other investment assets, mainly in form of trade credit, and currency deposits declined by 62.0 per cent from ₦2,044.78 billion in 2015, to ₦777.63 billion, or 0.8 per cent of GDP in 2016 as a result of the drawdown on currency and deposits by the general government, deposit money banks and the private sector. In terms of percentage share of the total financial assets, other investment accounted for 67.5 per cent of the total; FDI, 28.6 per cent; and portfolio investment assets constituted the balance.

A breakdown of foreign financial liabilities showed that foreign direct investment inflow, at 1.1 per cent of GDP, increased significantly by 86.7 per cent to ₦1,124.15 billion and accounted for 70.2 per cent of aggregate external financial liabilities. The development was as a result of injection of fresh equity capital into Nigerian companies to the tune of ₦714.16 billion and the effect of exchange rate depreciation. Retained investment earnings, though declined by 2.5 per cent, remained substantial at ₦409.76 billion.

Inspite of the higher returns on investment following the upward adjustment of the monetary policy rate, portfolio investment declined by 4.2 per cent from ₦498.13 billion in 2015, to ₦477.00 billion equivalent to 0.6 per cent of GDP and represented 29.8 per cent of total capital flow. Debt securities, mainly in form of government bonds, constituted 82.8 per cent of total portfolio inflow, while equity securities accounted for the balance. The Greenspan-Guidotti measure of external reserve adequacy, measured by the ratio of portfolio investment to external reserves remained adequate at 171.6 per cent from 133.9 per cent in 2015. This was above the benchmark of 100.0 per cent of short term debt cover.

Other investment liabilities driven largely by loans, witnessed repayment of ₦279.56 billion during the review period. General government drawings on fresh loan obligations increased from ₦218.90 billion in 2015, to ₦815.44 billion in 2016, while banks and the private sector made loan repayments of ₦183.98 billion and ₦389.31 billion, respectively, during the review period. In addition, drawdown on currency deposits by non-residents with the Nigerian banks was ₦485.09 billion as against currency placement of ₦146.58 billion in 2015.

External reserves at end-December 2016 stood at US$26.99 billion, showing a decline of US$1.30 billion, or 4.6 per cent, compared with the position at end-December 2015. The decrease was due largely, to the contraction in oil- related revenues among others. The current level of external reserves could finance 9.2 months of current import (goods only) or 6.9 months of current import of goods and services.

The stock of external debt at US$11.41 billion, increased by 6.4 per cent above the US$10.72 billion at end- December 2015, due to newly contracted debt from bilateral and multilateral sources. Multilateral debt mainly from the World Bank and the African Development Bank constituted 70.0 per cent of total external debt stock, while loans from bilateral sources principally from China Exim Bank accounted for 16.8 per cent of the total. Commercial loans in form of Eurobonds accounted for the remaining 13.2 per cent. At 3.4 per cent of GDP, public sector external debt remained within the sustainable threshold of 40.0 per cent of GDP, indicating a low level risk of debt distress for the country.

7.4 CAPITAL IMPORTATION

7.4.1 Capital Importation by Nature of Investment

Analysis of the returns from the commercial banks on new investment inflow showed that fresh capital injected into the economy stood at US$5.12 billion in 2016, compared with US$9.79 billion in 2015 and indicated a decline of 47.7 per cent. Disaggregation of capital imported by nature of investment showed that other investment, mainly, in the form of loans dominated total inflow, accounted for 44.2 per cent with a cumulative value of US$2.27 billion in the review period. Portfolio investment inflow driven largely by equity and bonds was US$1.81 billion, representing 35.4 per cent of the total, while foreign direct investment, at US$1.04 billion, accounted for the balance of 20.4 per cent.

Further breakdown showed that other investment inflow that comprised of currency deposits; trade credit; and other claims was US$2.24 billion. Portfolio investment equity capital amounted to US$0.86 billion, while bonds and money market instruments inflow were US$0.40 billion and US$0.56 billion, respectively. FDI inflow consisting of equity capital was US$1.04 billion and other capital US$0.09 billion.

Table 7.4: New Capital Inflow (US$' Thousand)

NATURE OF CAPITAL	2012	2013	2014	2015	2016
Foreign Direct Investment – Equity	1,979,333.15	1,646,108.03	2,292,466.24	1,469,093.22	1,043,142.77
Foreign Direct Investment - Other capital	67,858.63	30,065.76	13,028.87	4,210.41	874.84
Portfolio Investment – Equity	11,655,835.94	16,865,724.28	11,448,160.95	4,691,540.41	859,053.63
Portfolio Investment – Bonds	585,178.97	1,209,437.74	2,451,604.64	827,143.95	395,899.96
Portfolio Investment - Money Market Instruments	1,172,769.97	1,065,039.37	1,025,018.42	571,955.25	557,917.86
Other Investments - Trade Credits	44,537.43	-	22,030.04	-	160.00
Other Investments - Loans	1,134,124.00	2,237,431.06	1,428,567.75	1,685,965.41	2,240,109.67
Other Investments - Currency Deposits	30,034.93	4,208.98	-	8,102.66	27.52
Other Investments - Other Claims	20,833.06	530,771.34	2,120,050.04	527,581.10	26,940.82
TOTAL	**16,690,560.07**	**23,588,786.56**	**20,800,926.95**	**9,785,592.41**	**5,124,127.07**

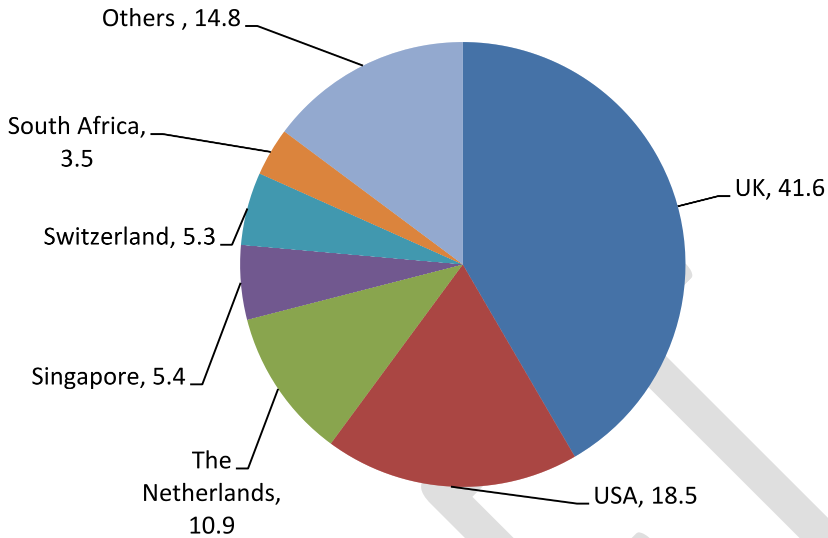
Source: CBN

7.4.2 Capital Importation by Country of Origin

A breakdown of capital importation by country of origin showed that the United Kingdom accounted for 41.6 per cent of the total inflow (US$2.13 billion), followed by the United States of America, 18.5 per cent (US$0.95 billion), The Netherlands, 10.9 per cent (US$0.52 billion), Singapore, 5.4 per cent (US$0.28 billion), and Switzerland, 5.3 per cent (US$0.27 billion). Inflow from South Africa accounted for 3.5 per cent (US$0.18 billion), while other countries accounted for the balance.

Figure 7.8: Capital Importation by Country of Origin, 2016

(Per cent)

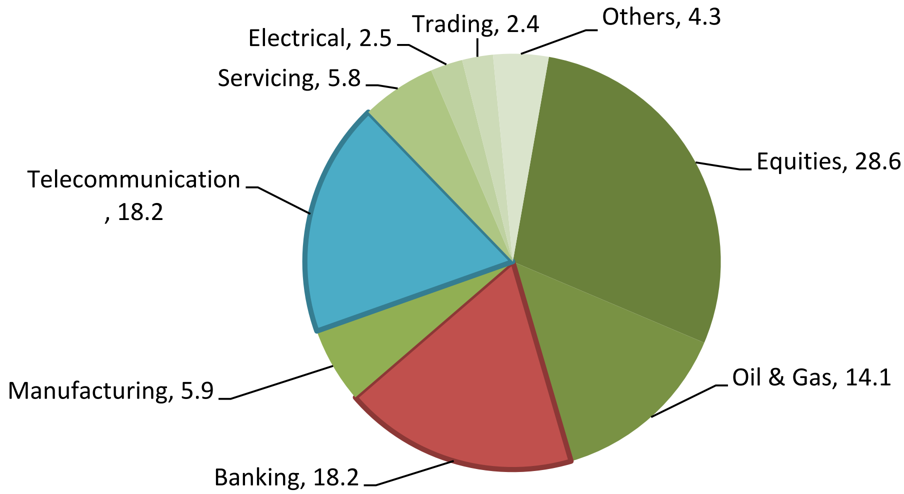


Source: CBN

7.4.3 Capital Importation by Sector

Analysis of imported capital to various economic sectors indicated that the bulk of the inflow was into the capital market for the purchase of shares valued at US$1.47 billion or 28.6 cent of the total. Inflow into the banking and telecommunications sectors each amounted to US$0.93 billion and accounted for 18.2 per cent, of the total. Inflow in the oil and gas sector accounted for 14.1 per cent (US$0.72 billion), while production/manufacturing, servicing, electrical and trading sectors received US$0.30 billion, US$0.29 billion, US$0.13 billion and US$0.12 billion, and constituted 5.9, 5.8, 2.5 and 2.4 per cent of the total, respectively. Inflow to other sectors accounted for the balance.

Figure 7.9: Capital Importation by Sector, 2016
(Per cent)

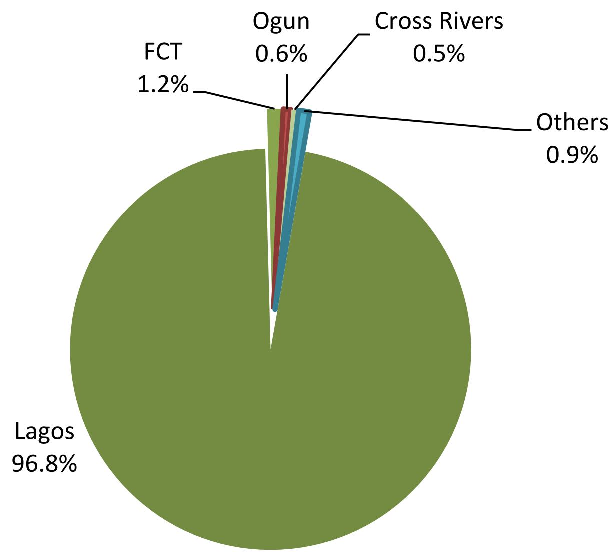


Source: CBN

7.4.4 Capital Importation by Destination

In terms of the destination of capital imported into the economy during the review period, Lagos state received the highest inflow, accounting for 96.8 per cent of the total, followed by the Federal Capital Territory (FCT) with 1.2 per cent. Ogun State, 0.6 per cent, while, inflow to Cross River State constituted 0.5 per cent, of the total. Other states accounted for the balance.

Figure 7.10: Capital Importation by Destination States, 2016 (Per cent)



Source: CBN

Table 7.5: Capital Importation: Country and Sector Inflows (US$ Million)

Country	2013	2014	2015	2016	Sector	2013	2014	2015	2016
United Kingdom	12,981	10,953	3,913	2,132	Banking	701	964	964	933
United States	4,965	3,742	2,477	946	Shares	17,443	13,808	5,780	1466
South Africa	472	278	261	177	Financing	2,380	2,726	866	95
Mauritius	733	496	557	129	Telecommunications	977	998	944	931
The Netherlands	263	566	1,152	517	Prod./Manufacturing	620	944	433	303
Singapore	-	-	-	276	Services	648	569	201	299
Switzerland	836	155	119	272	Breweries	38	-	9	54
Luxembourg	73	78	48	139	Oil and Gas	205	208	32	720
Belgium	-	-	-	79	Trading	283	394	175	125
France	-	-	-	77	Construction	55	56	28	32
Sweden	9	63	32	70	Electrical	-	-	-	125
China	117	86	11	17	Transport	-	2	10	5
United Arab Emirates (U.A.E)	44	321	62	51	Agriculture	-	-	-	22
Others	2,737	3,867	1,071	803	Others	210	120	342	287
TOTAL	**23,588**	**20,800**	**9,786**	**5,124**	**TOTAL**	**23,588**	**20,800**	**9,786**	**5,124**

Source: CBN

7.5 THE INTERNATIONAL INVESTMENT POSITION (IIP)

Provisional data on Nigeria's International Investment Position (IIP) showed a net liability of US$56.79 billion, an increase of 26.8 per cent above the level in the preceding period, indicating higher claims by non-resident investors on the economy.

The stock of financial assets declined by 3.8 per cent to US$138.34 billion in 2016 compared with US$143.80 billion in 2015. Further breakdown revealed that the stock of foreign direct and portfolio investments assets increased by 11.2 and 0.7 per cent to US$13.00 billion and US$25.19 billion, respectively. The IIP showed that investment in portfolio equity and debt securities increased by 0.7 and 1.0 per cent to US$21.75 billion and US$3.44 billion, respectively. On the other hand, other investment assets declined by 7.2 per cent to US$73.16 billion, due largely to the decline in all the components during the review period. The stock of trade credits declined by 24.4 per cent from US$5.66 billion in 2015 to US$4.28 billion in 2016, while loans declined by 11.5 per cent from US$13.89 billion in 2015 to US$12.28 billion in the review period. The stock of currency deposits also declined by 4.5 per cent to US$56.60 billion, compared with US$59.27 billion in

2015. As percentage share of the total, the stock of other investment assets dominated total assets, constituting 52.9 per cent; reserve assets accounted for 19.5 per cent; portfolio investment, 18.2 per cent, and FDI accounted for the balance.

Total financial liabilities increased to US$195.12 billion above US$188.58 billion in 2015. A breakdown of which showed that FDI increased by 5.0 per cent to US$94.18 billion; and FDI equity capital and reinvested earnings increased by 5.1 per cent to US$92.31 billion above US$87.87 billion in 2015. Furthermore, the stock of portfolio investments increased by 3.1 per cent to US$63.88 billion, out of which portfolio equity was US$27.61 billion, while debt securities was US$36.2 billion. "Other" investment liabilities which included loans and foreign currency deposits was US$37.06 billion in the review period.

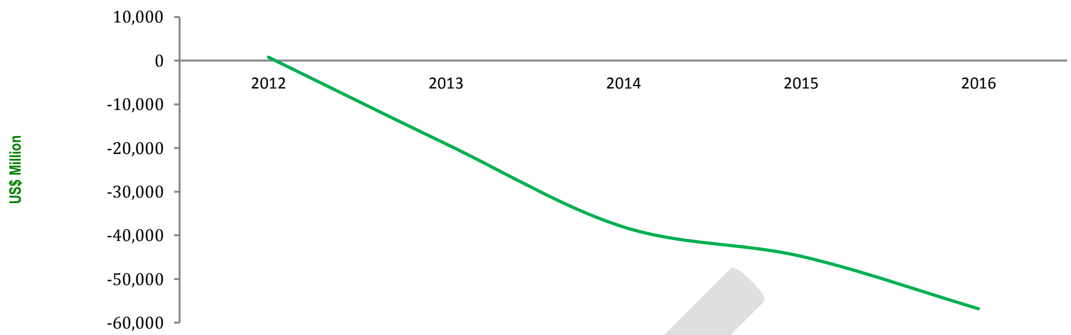
In 2016, the stock of FDI dominated total financial liabilities, accounting for 48.3 per cent of the total, followed by portfolio investment with a share of 32.7 per cent and other investment liabilities accounted for the balance.

Table 7.6: International Investment Position (IIP), 2012-2016, (US$' Million)

Type of Asset/Liability	2012	2013	2014 /1	2015 /1	2016 /2
Net international investment position of Nigeria	**(23,420.99)**	**(30,886.48)**	**(51,366.34)**	**(61,101.65)**	**(62,430.54)**
Assets	**113,442.78**	**129,678.14**	**126,826.14**	**127,443.72**	**131,476.98**
Direct investment abroad	**7,407.15**	**8,644.65**	**10,258.94**	**11,694.15**	**12,998.39**
Portfolio investment abroad	**16,637.23**	**19,883.84**	**23,332.99**	**25,009.48**	**25,246.04**
Equities	14,908.17	17,505.46	20,264.78	21,605.98	21,795.22
Debt Securities	1,729.06	2,378.38	3,068.21	3,403.51	3,450.82
Other foreign assets	**56,758.62**	**57,319.23**	**58,992.67**	**62,455.27**	**66,241.97**
Trade Credits	80.47	102.92	129.81	68.83	4,971.20
Loans	2,647.60	2,949.95	3,836.82	3,118.98	3,576.43
Currency and Deposits	54,030.56	54,266.36	55,026.03	59,267.46	57,694.34
Reserve Assets	**32639.78**	**43,830.42**	**34,241.54**	**28,284.82**	**26,990.58**
Liabilities	**136,863.77**	**160,564.62**	**178,192.48**	**188,545.37**	**193,907.52**
Direct investment	**76,368.94**	**81,977.41**	**86,671.23**	**89,735.40**	**93,942.58**
Portfolio investment	**40,510.07**	**54,162.23**	**59,454.99**	**61,990.19**	**64,130.49**
Equities	21,138.89	26,716.30	27,761.26	27,284.64	27,484.41
Debt Securities	19,371.18	27,445.92	31,693.73	34,705.55	36,646.08
Other Investment Liabilities	**19,984.75**	**24,424.99**	**32,066.25**	**36,819.78**	**35,834.45**
Trade Credits	-	-	-	-	-
Loans	13,130.94	16,709.52	20,743.02	24,750.54	23,653.25
Currency and Deposits	6,853.81	7,715.47	11,323.23	12,069.24	12,181.20

1/ Revised
2/ Provisional
Source: CBN

Figure 7.11: Net International Investment Position (IIP), 2012 - 2016 (US$' Million)



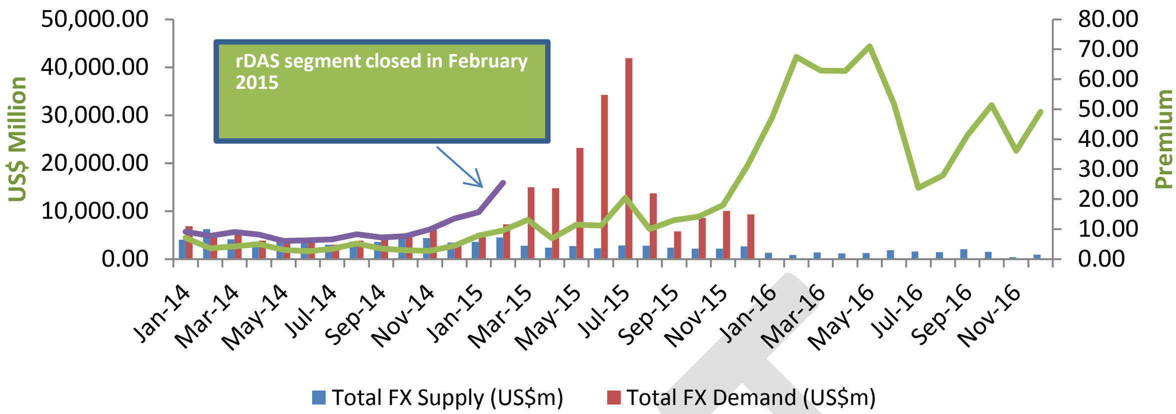
Source: CBN

7.6 EXCHANGE RATE MOVEMENTS

The exchange rate of the naira to the US dollar at the interbank segment of the foreign exchange market was stable at ₦197.00/US$ from the beginning of the review period until June 2016 when the new flexible exchange rate regime was introduced. In addition, the rDAS segment which was closed in February 2015 remained shut during the review period. At the BDC segment, demand pressure and speculative activities led to the continuous increase in the average rate of the naira to the US dollar, hence widening of the premium between the two segments of the market.

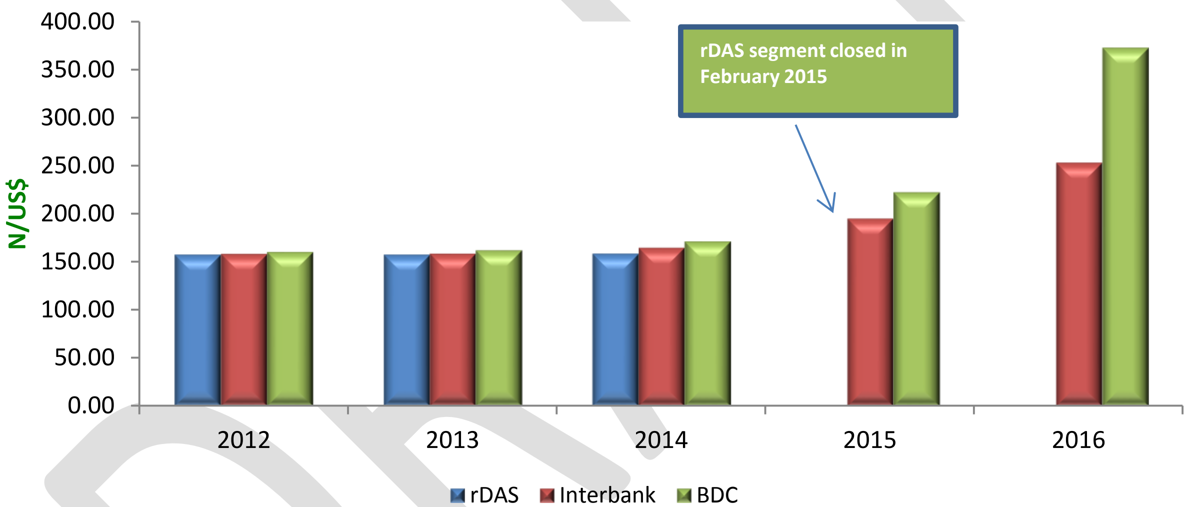
Following the developments, the CBN on June 20, 2016, adopted a market driven flexible exchange rate regime. The annualized average exchange rate of the naira to the US dollar at the interbank and BDC segments in 2016 however depreciated by 22.9 and 40.2 per cent to ₦253.49/US$ and ₦372.86/US$, relative to the rates in 2015. Thus, the premium between the annual average interbank/BDC rates in 2016 closed at 47.1 per cent, exceeding the internationally accepted benchmark of 5.0 per cent.

Figure 7.12: Demand and Supply of Foreign Exchange, Interbank/BDC Rate Premium and rDAS/BDC Rate Premium, 2014-2016



Source: CBN

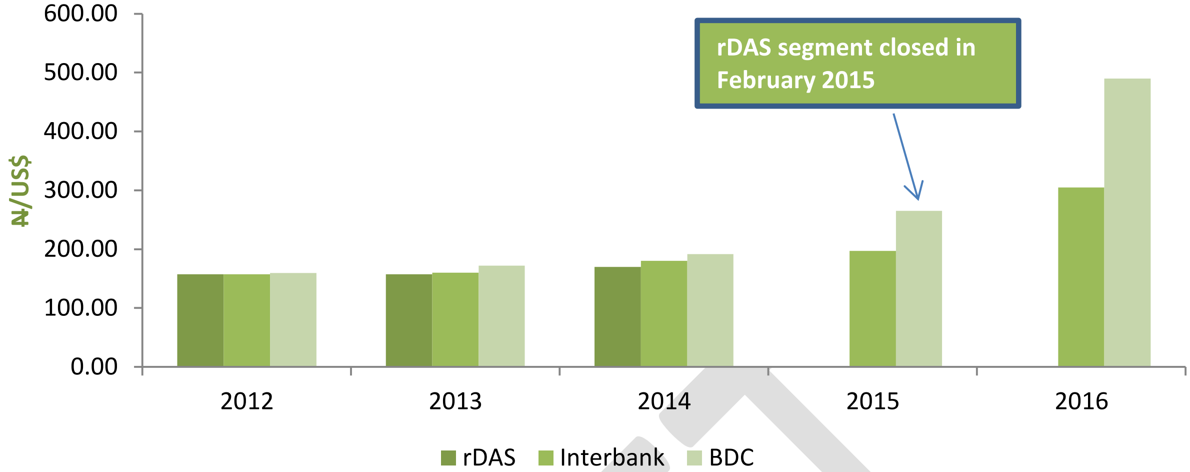
Figure 7.13: Average Yearly Exchange Rate of the Naira per US Dollar, 2012 - 2016



Source: CBN

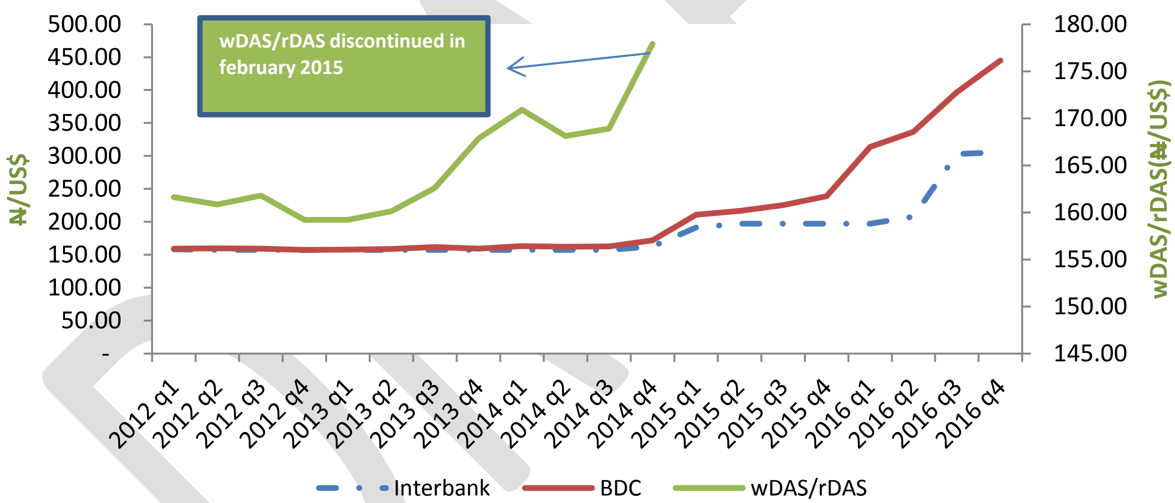
The end-period exchange rate of the naira to the US dollar at the interbank segment depreciated from ₦197.00/US$ in 2015 to ₦305.00/US$ in 2016. At the BDC segment, the naira depreciated year-on-year by 45.5 per cent and closed at an end-period rate of ₦490.00/US$, at end-December 2016. The end-period premium between the inter-bank and the BDC rates was 60.5 per cent relative to 35.5 per cent in 2015.

Figure 7.14: End-period Exchange Rate of the Naira per US Dollar, 2012 - 2016



Source: CBN

Figure 7.15: Quarterly Average Exchange Rate of the Naira vis-à-vis US Dollar, 2012 - 2016

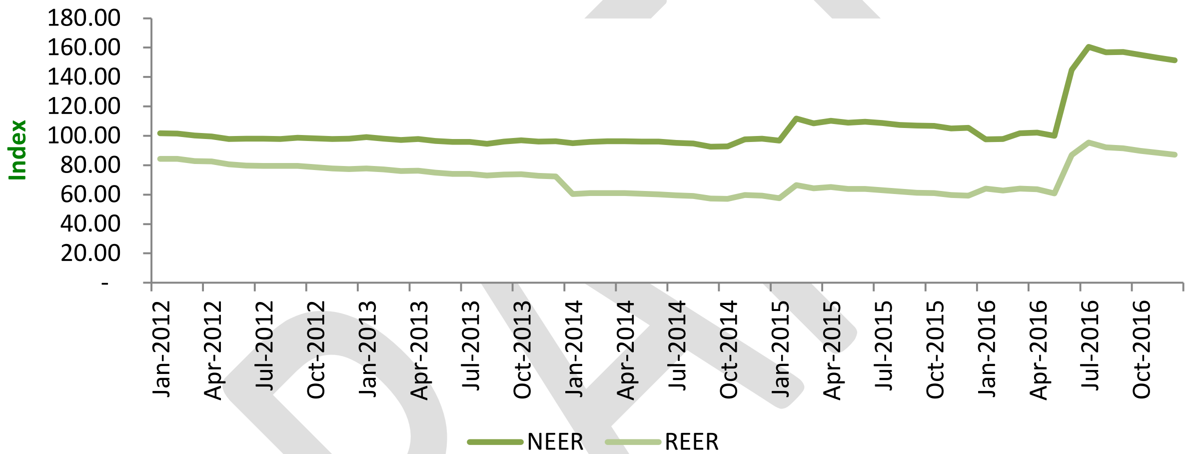


Source: CBN

7.7 THE NOMINAL AND REAL EFFECTIVE EXCHANGE RATES

The average 13-currency nominal effective exchange rate (NEER) index rose by 28.7 per cent to 131.30 above the level in 2015, while the average 13-currency real effective exchange rate (REER) index increased by 11.1 per cent to 78.69 above the level in 2015. In real terms, the increase in REER implied higher inflation in the domestic economy. The REER index opened at 63.98 in January 2016, and closed 34.6 per cent lower in December 2016.

Figure 7.16: Nominal and Real Effective Exchange Rate Indices, 2012 - 2016



Source: CBN

Table 7.7: Nominal and Real Effective Exchange Rate Indices (November 2009=100)

	2015		2016		Percentage Change	
	Monthly Index	Annual Average Index	Monthly Index	Annual Average Index	Monthly Index	Annual Average Index
NEER	98.98	102.00	150.94	131.30	52.50	28.73
REER	66.70	70.83	86.13	78.69	29.13	11.10

Source: CBN

CHAPTER EIGHT

INTERNATIONAL AND REGIONAL INSTITUTIONS

The Spring and Annual Meetings of the Bretton Woods Institutions were concerned about the prolonged weakness in global economic recovery amid increasing levels of inequality, and encouraged countries suffering persistent decline in their terms of trade to implement structural reforms, as well as fiscal and monetary policies. The Group of Twenty-Four Developing Countries (G24) renewed their call on the IMF, the World Bank Group (WBG), and global financial regulators to strengthen work towards addressing the decline of correspondent banking relationships (CBRs) to reduce financial exclusion. The African Caucus Meeting of the International Monetary Fund (IMF) and World Bank Group urged the Bretton Woods institutions to fulfill their commitments to diversify the representation of the African continent in their key decision entities. At the continental level, the Association of African Central Banks (AACB) Bureau Meeting advised the African Caucus to follow-up on the allocation of additional seat to Africa within the IMF reform framework. The Annual Meeting of the African Development Bank Group pledged the Bank's continued focus on infrastructure, regional economic integration, private sector development, governance and accountability, skills and technology and gender issues. At the sub-regional level, The 32nd Meeting of the WAMZ Committee of Governors urged member states to further strengthen fiscal consolidation by addressing tax administration inefficiencies, broadening revenue base, rationalising expenditure and restructuring their debts.

8.1 THE INTERNATIONAL MONETARY SYSTEM

8.1.1 Official Visit of the Managing Director of the International Monetary Fund (IMF)

The International Monetary Fund (IMF) delegation led by the Managing Director (MD), Christine Lagarde, paid an official visit to Abuja, Nigeria from January 4 – 7, 2016. The objective of the visit was to strengthen the Fund's partnership and cooperation with Nigeria. During the Visit, the delegation met with the President of the Federal Republic of Nigeria, Muhammadu Buhari (GCFR), the leadership of the National Assembly, the Federal Government's Economic Management Team, Fiscal and Monetary Authorities, Bankers' Committee, Private Sector Stakeholders and Women Leaders. Discussions during the visit centered on issues and challenges confronting the economy, such as the impact of low commodity prices, foreign exchange policy as well as the need to diversify the Nigerian economy. The MD pledged the IMF's support through policy advice and capacity building.

At the end of the Visit, recommendations were made towards improving the competitiveness of the Nigerian economy. They included the need to:

- improve on the provision of critical infrastructure, especially power, transportation, and housing;
- broaden the country's revenue base, to create additional fiscal space to offset the impact of lower oil prices; and
- promote prudence in borrowing, public spending, and provision of fuel subsidy with a view to safeguarding priority social sectors and vulnerable groups.

These actions would require a package of measures involving business-friendly monetary and exchange rate policy, and prudent fiscal policy, as well as the implementation of structural reforms.

8.1.2 The World Bank/IMF Spring Meetings and the Group of Twenty-Four Developing Countries (G24)

The 2016 Spring Meetings of the Board of Governors of the World Bank Group (WBG) and the International Monetary Fund (IMF) were held in Washington D. C., USA from April 11 – 18, 2016. The Nigerian delegation was led by the Honourable Minister of Finance, Mrs. Kemi Adeosun and assisted by the Governor, Central Bank of Nigeria, Mr. Godwin Emefiele, (CON). The sideline Meetings of the International Monetary and Finance Committee (IMFC) of the IMF, the Ministers' of the Inter-Governmental Group of 24 and the Development Committee of the World Bank were also held.

The G-24 Ministers:

- Noted that the recovery of the global economy remained modest, with greater downside risks. Growth in advanced economies remained sluggish, while it moderated in emerging market and developing economies (EMDEs), which still accounted for the bulk of global growth;
- Observed that the sharp decline in commodity prices did not lead to positive developments globally, as the G-24 countries continued to face weaker global demand, tighter financial conditions, volatile capital flows, and heightened security challenges;
- Pledged to manage their policy space to achieve higher, more balanced and inclusive growth. They also agreed to continue to strengthen fiscal and structural reforms and financial systems, based on country-specific priorities, to diversify their economies and enhance growth prospects, promote employment, competition, and productivity while implementing macroeconomic and social policies to address inequality and alleviate poverty; and
- Welcomed the enforcement of the 2010 Quota and Governance Reforms of the IMF which has made some progress in shifting the distribution of quota shares to EMDEs, although some concerns still remained. They, therefore, called for the full implementation of the 2010 governance reforms, including those on Board representation.

The IMFC noted:

- That the IMF had a key role to play in supporting a stronger policy response by member-countries. With regard to policy advice and surveillance, the IMFC supported effort to deepen analysis of the impact of macro-critical structural reforms, including the new initiative to increase the efficiency of infrastructure investment, and on principles to guide prioritization; and

- Supported the work to identify country-specific priorities for fiscal policy, based on a careful assessment of fiscal positions, consistent with debt sustainability to improve the efficacy of policy mix for strong, balanced, and sustainable growth;

The Development Committee:

- Observed that fragility and conflict had displaced millions of people, significantly impacting on both origin and host countries.
- Called on the WBG and IMF to take action in partnership with humanitarian and other stakeholders to mitigate the vulnerabilities of forcibly displaced persons; and
- Urged the international community to take action in supporting these vulnerable populations.

8.1.3 2016 Annual Meetings of the Board of Governors of the World Bank Group and the International Monetary Fund (IMF)

The 2016 Annual Meetings of the Board of Governors of the World Bank Group (WBG) and the International Monetary Fund (IMF) held in Washington D. C., USA from October 3 – 9, 2016. The Nigerian delegation was led by the Honourable Minister of Finance, Mrs. Kemi Adeosun and assisted by the Governor, Central Bank of Nigeria, Mr. Godwin Emefiele (CON).

The Ministers of the Inter-Governmental Group of 24, the International Monetary and Finance Committee (IMFC) and the Development Committee also held their respective sideline meetings.

The G-24 Ministers:

- Expressed concern over the prolonged slowdown in the global recovery and increasing levels of inequality. They noted that global demand was weak and the growth outlook in advanced economies (AEs) remained subdued. The growth prospects of emerging market and developing economies (EMDEs) were improving, but varied greatly across countries, with some commodity exporters experiencing a sharp slowdown;
- Renewed their call on the IMF, the World Bank Group (WBG), and global financial regulators to strengthen their work toward finding concrete solutions to address the decline of correspondent banking relationships (CBRs) to avoid further financial exclusion; and
- Expressed concern over the adverse effects of illicit financial flows in their countries and called for concerted effort of the IMF and the WBG in combating illicit financial flows, including through the Stolen Assets Recovery Initiative (StAR).

The IMFC:

- Reinforced their commitment to strong, sustainable, inclusive, job-rich, and more balanced growth;
- Pledged to use structural reforms, fiscal and monetary policies, both individually and collectively, and encouraged countries suffering persistent decline in their terms of trade to proceed with their policy adjustment;
- Reiterated that strong domestic policies and effective IMF surveillance remained the cornerstone of crisis prevention; and
- Welcomed the recent work on further strengthening the global financial safety net, and called on the IMF to intensify cooperation with regional financing arrangements, including through the joint test-run between the IMF and the Chiang Mai Initiative.

8.1.4 The African Caucus Meeting of the International Monetary Fund (IMF) and World Bank Group

The 2016 Meeting of the African Governors of the IMF and World Bank was held at Palais des Congres, Cotonou, Benin Republic from August 4 - 5, 2016. The theme of the meeting was "*Scaling Up Bretton Woods Institutions Support to Address Shocks, Robust Growth and Enhance Transformation in Africa*". There were four sub-themes namely: *Strengthening Policies, Institutions and International Cooperation for Efficient Domestic Revenue Mobilisation*; *Tackling Tax Avoidance and Illicit Financial Flows*; *Addressing Africa's Capacity Gaps to Accelerate Structural Transformation;* and *Leveraging Financing for Climate Smart Development*.

The Meeting was chaired by His Excellency Abdoulaye BIO TCHANE, Beninese Minister of State for Planning and Development, Chairman of the African Caucus, and discussed issues relevant to the African continent for the Bretton Woods Institutions to focus on.

The African Governors:

- Agreed that the implementation of development policies in the continent proved to be more challenging due to declining commodity prices, tighter financial conditions and the multiplicity of non-economic shocks, mostly security issues (terrorism) and climate change;
- Recognised that to address these shocks, it was necessary to promote diversity, inclusive growth, and strengthen the regional economies;
- Undertook to continue further work on more transparent governance while implementing development policies to preserve and strengthen the progress made by African economies over the past decade;

- Called on the Bretton Woods institutions to support the structural transformation of African economies, including massive investment at concessional rates in key sectors. To this end, they recommended a new approach and instruments adaptable to the real needs of the continent as well as a more flexible debt management framework. Furthermore, they called for a solid International Development Assistance (IDA) 18 reconstitution;

- Sought for customised technical assistance to reinforce capacity building from the Bretton Woods institutions. This, they believe, would make African economies more resilient to external shocks, given that public development support should be a leverage to increase the domestic potential of their countries; and
- Called on the Bretton Woods institutions to fulfill their commitments to diversify the representation of the African continent in their key decision entities.

8.2 REGIONAL INSTITUTIONS

8.2.1 The Association of African Central Banks (AACB) Bureau Meeting

The Bureau of the Association of African Central Banks (AACB) held its 1st Ordinary Meeting in 2016 at the Headquarters of the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), Dakar, Senegal from March 1 - 3, 2016. The Meeting, attended by all the members of the Bureau and the African Union Commission (AUC), was chaired by Mr. Lucas Abaga Nchama, Governor of the Banque des Etats de l'Afrique Centrale (BEAC) and Chairman of the AACB.

The Meeting:

- Directed the AACB Secretariat to submit the project proposal aimed at enhancing information exchange and collaboration on cross-border banking to the relevant AACB technical groups for comments and onward submission to the Financial Sector Reform and Strengthening Initiative (FIRST) of the World Bank; and

- Advised the African Caucus to follow-up on the allocation of additional seat to Africa within the IMF reform framework.

8.2.2 Joint Annual Meetings of the African Union Specialised Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration and the ECA Conference of African Ministers of Finance, Planning and Economic Development.

The 9th Joint Annual Meetings of the African Union Specialised Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration and the Economic Commission for Africa Conference of African Ministers of Finance, Planning and Economic Development, with the theme "Towards an Integrated and Coherent Approach to Implementation, Monitoring and Evaluation of Agenda 2063 and the Sustainable Development Goals (SDGs)" was held in Addis Ababa, Ethiopia from March 31 to April 5, 2016.

The Meeting:

- Reiterated commitment to the Addis Ababa Action Agenda to establish an infrastructure platform aimed at coordinating investments in infrastructure; developing a technology facilitation mechanism to support innovation, science and technology; strengthening international cooperation on tax matters to stem the tide of illicit financial outflows; and improving capacities for domestic resource mobilisation;
- Recognized the key role of regional integration in the implementation of Agenda 2063 and the 2030 Agenda for Sustainable Development. The Meeting called on the United Nations to sustain its support for Africa's transformative agenda by aligning itself with, and supporting the priorities of the African Union, in particular Africa's aspirations for a continental free trade agreement; regional integration and trade, industrialisation and the related goals of Agenda 2063. Others were: the Programme for

Infrastructure Development in Africa; the Comprehensive Africa Agriculture Development Programme; the Science, Technology and Innovation Strategy for Africa; and the Action Plan for the Accelerated Industrial Development of Africa;

- Encouraged institutions to develop a common platform to follow-up review progress on Agenda 2063 and the 2030 Agenda, such as the African Regional Forum for Sustainable Development; and
- Emphasised the promotion of peace and security and combating of terrorism which were critical for Africa to achieve the desired development.

8.2.3 The African Development Bank Group (AfDBG) Annual Meetings

The 51st Annual Meeting of the African Development Bank (AfDB) and the 42nd Meeting of the Board of Governors of the African Development Fund (ADF) were held in Lusaka, Zambia from May 23 – 27, 2016. The Meetings considered critical African economic and development issues, election of new executive directors and the approval of policies, strategies and the Group's 2015 audited accounts and operations programme.

The Governors discussed the Bank's external auditors Report and the financial statement ending December 31, 2015, and noted the good financial results despite the difficult global environment. The Meeting commended the exceptional and innovative leadership of the Bank's eighth elected President, Akinwumi Adesina, for his accomplishments since assuming office in September 2015.

The Meetings hosted more than 4,000 participants and some 6,000 virtual attendees, comprising Heads of State and Governments and their delegations, Governors, Alternate Governors, members of the Board of Directors, delegates, business leaders, and representatives of the private sector, civil society organisations, the media, observers, and other Stakeholders. Prominent attendees at the year's Annual Meetings included: host President Edgar Lungu and his Vice-President, Inonge Wina; and Presidents Idriss Deby of Chad, Paul Kagame of Rwanda, Uhuru Kenyatta of Kenya as well as Vice-President of Nigeria, Yemi Osinbajo.

There were high-level events on key thematic development concerns of importance to Africa, including: energy, nutrition, climate change, ICT for a smart Africa, jobs for the youth as well as affirmative action for women in Africa. Others included: regional integration, water and sanitation, green growth, South-South cooperation and preparations for the UN climate talks (COP22) in Marrakech, Morocco.

The Governors:

- Endorsed the High 5 priorities (High 5s), including Light up and power Africa , Feed Africa, Industrialise Africa, Integrate Africa, and Improve the quality of life for the people of Africa, and expressed satisfaction with the progress made towards operationalisation. They were particularly impressed with the recent approval of the Bank Group Strategies for the New Deal on Energy for Africa and the Jobs for Youth in Africa and called for speedy implementation; and
- Urged the AfDBG to continue its operational focus on infrastructure, regional economic integration, private sector development, governance and accountability, skills and technology, gender issues as associated strategies and initiatives were focused on inclusive and green growth.

8.2.4 The 39th Ordinary Meeting of the Assembly of Governors of the Association of African Central Banks (AACB)

The 39th Ordinary Meeting of the Assembly of Governors of the Association of African Central Banks (AACB) was held at the Central Bank of Nigeria (CBN), Abuja, Nigeria on August 19, 2016. The Meeting, attended by twenty-seven Central Banks and the African Union Commission (AUC), was preceded by a symposium on August 18, 2016 themed: "Unwinding Unconventional Monetary Policies: Implications for Monetary Policy and Financial Stability in Africa". The symposium was declared open by His Excellency Muhammadu Buhari, President of the Federal Republic of Nigeria.

The Governors:

- Considered the progress report on the implementation of the African Monetary Cooperation Programme (AMCP) in 2015, and noted the difficulties of member countries in fulfilling AMCP's primary criteria, due to the negative impacts of the international environment. Consequently, they encouraged the sub-regions to intensify effort in implementing structural reforms aimed at diversifying the economies, improving business environment, and promoting intra-regional trade to enhance the resilience of African countries to external shocks;
- Directed the AACB Secretariat to take necessary steps for the development of the Community of African Banking Supervisors (CABS) 2017-2019 Work Plan, which should take into consideration the findings of the survey on the training needs assessment for central banks relating to banking supervision & regulation. The Governors noted the handing-over of the CABS chairmanship to the Central Bank of Nigeria;
- Discussed Africa's representation in IMF governance, and agreed that the need for a third seat for Africa at the IMF Board should be raised and supported by the AACB Chairpersons. They stressed that effort should be made to continuously include the matter on the agenda of bilateral and multilateral meetings;
- Decided that the theme for the year 2017 Symposium is: "Monetary integration prospects in Africa: lessons from the experience of the European monetary and financial integration". They also selected the theme: "Credible communication strategies of central banks in the framework of monetary policy

and financial stability" for the year 2017 AACB Continental Seminar. The Governors urged the West African Sub-region to provide the name of a central bank of the Sub-region that will host the event; and

- Elected Mr. Godwin I. EMEFIELE, Governor of Central Bank of Nigeria, as Chairperson of AACB for the period 2016-2017. The Southern African sub-region was enjoined to select and communicate the name of a Governor from the sub-region for the position of Vice-Chairperson of the Association. The Governor, Bank of Ghana, was selected as the chairperson of the West African Sub-region.

8.2.5 The Continental Seminar of the Association of African Central Banks

The 2016 continental seminar of the Association of African Central Banks (AACB) with the theme "Financial Stability: New Challenges for Central Banks", was held in Cairo, Egypt, from May 9 - 11, 2016. Two papers and eight country experiences relating to financial stability were presented at the plenary.

The Seminar:

- Recommended the need for central banks and other regulatory authorities to strengthen prudential regulations and oversight and within the financial system in line with emerging developments;
- Encouraged regulators to develop robust framework for the continuous improvement of capacities and skills for the detection of early warning signals and the development of early warning indicators for the financial sector;
- Encouraged member-central banks to harmonise their regulatory and supervisory framework as well as accounting standards through convergence to internationally accepted standards and practices to safeguard financial stability in the context of expanding cross-border banking activities;

- Highlighted the need for member-central banks to develop MoUs to incorporate crisis resolution of cross-border entities consistent with national laws;
- Recommended clear specification of the authorities in charge of the financial stability function with regards to institutional and regulatory frameworks for safeguarding financial stability in Africa; and
- Stressed the importance of capacity building and availability of high quality data to enable central banks conduct macro-prudential surveillance using Financial Soundness Indicators (FSIs), early warning indicators, stress testing results, analysis of macro-financial linkages; policies for the mitigation of potential vulnerabilities, crisis preparedness, coordination and strategies for crisis management and resolutions.

8.3 SUB-REGIONAL INSTITUTIONS

8.3.1 2015 End-of-Year Statutory Meetings of the West African Monetary Zone (WAMZ)

The 2015 End-of-Year Statutory Meetings of the West African Monetary Zone (WAMZ), West African Monetary Agency (WAMA) and the West African Institute for Financial and Economic Management (WAIFEM) were held at the Kempinski Hotel, Accra, Ghana from January 8 – 15, 2016. The Technical Committee Meetings took place from January 8 – 13, 2016, followed by the Committee of Governors meeting on January 14, 2016 and the meeting of the convergence council on January 15, 2016. The meetings had in attendance representatives from member-central banks in ECOWAS, the ECOWAS Commission, Ministries of Finance, ECOWAS Bank for Investment and Development (EBID) and other observers.

8.3.2 The 32nd Meeting of the WAMZ Committee of Governors

The 32nd Meeting of the Committee of Governors of Central Banks of the WAMZ was held on January 14, 2016 at the Kempinski Hotel, Accra, Ghana. The Meeting was chaired by Dr. Henry A. K. Wampah, Governor, Bank of Ghana and Chairman, Committee of Governors (COG) of the WAMZ who took over from Mr. Godwin I. Emefiele, Governor, Central Bank of Nigeria. The Report of the 38th Meeting of the Technical Committee formed the basis of the COG deliberations. The COG adopted the Report on macroeconomic developments and convergence in the WAMZ as at the end of June, 2015 and urged member-states to:

- Redouble effort to ensure the attainment of the minimum level of convergence criteria required for the establishment of ECOWAS monetary union by 2020;
- Address the infrastructure gaps by providing adequate funding for electricity, energy, road and railways. In this regard, member-states were enjoined to explore sustainable funding options such as the issuance of infrastructure bonds and PPP arrangements;
- Further strengthen fiscal consolidation by addressing tax administration inefficiencies, broadening revenue base, rationalising expenditure and restructuring maturity profiles of debts; and
- Provide monthly data on key indicators to enable WAMI regularly update the analysis of macroeconomic developments in the Zone.

In addition the COG:

- Urged member-states that were yet to commence the implementation of the CET to do so as soon as possible;
- Endorsed the adoption of the end-period inflation for the assessment of macroeconomic convergence in view of its appropriateness in the formulation of monetary policy;

- Urged member-states to address the challenges of restrictions on access to foreign exchange for stock market transactions and lack of settlement mechanism in the region to facilitate the capital market integration process;
- Noted the progress in the implementation of the WAMZ payments system project and the extension of the closing date to December 31, 2016;
- Noted the Report on the 7th Forum of the WAMZ Trade Ministers and urged member-states to implement the recommendations of the Forum to promote deeper trade integration in the Zone and the wider ECOWAS region;
- Directed WAMI to finalise the study on the transformation of the Institute into a commission and to circulate the Report in advance for review and consideration at the next statutory meetings;
- Approved the re-appointment of the External Auditors, PricewaterhouseCoopers for the audit of the 2015 financial statements of WAMI;
- Approved the WAMI work programme and budget for 2016 in the sum of US$6,911,301.59;
- Directed WAMI to finalise the paper on "The Development of Regional Banking Crisis Resolution Framework" for consideration and adoption by member-states at the next statutory meetings and incorporate provisions on regional banking crisis resolution in the draft model Banking Act; and
- Directed WAMI to refer the issue of compliance with the United States Foreign Account Tax Compliance Act (FATCA) to ECOWAS Commission to adopt a regional approach to the matter.

8.3.3 The 30th Board of Governors Meeting of the West African Institute for Financial and Economic Management (WAIFEM)

The 30th Board of Governors Meeting of the West African Institute for Financial and Economic Management (WAIFEM) was held at the Kempinski Hotel in

Accra, Ghana on January 14, 2016. The Meeting was preceded by the 33rd Meeting of the Technical Committee held on January 10, 2016. The Meeting was chaired by Dr. Henry A. K. Wampah, Governor, Bank of Ghana and Chairman, Board of Governors of WAIFEM. The Report of the Technical Committee formed the basis of the deliberations.

The Meeting:

- Adopted the draft minutes of the 29th Meeting of the Board of Governors;
- Adopted the draft minutes of the Extra-ordinary Meeting of the Board of Governors;
- Noted the progress report of the Director General;
- Approved the Draft Revised Budget for the Year 2016 in the sum of US$5.51 million, representing a 3.4 per cent increase over the 2015 budget;
- Noted the Progress Report on the Implementation of WAIFEM's Strategic Plan; and
- Noted the Status Report on WAIFEM as an ECOWAS Training Institute.

8.3.4 The 47th Meeting of Committee of Governors of ECOWAS Member Central Banks

The 47th Meeting of the Committee of Governors of ECOWAS member-central banks was held at the Kempinski Hotel, Accra, Ghana on January 14, 2016. The Meeting was preceded by the 28th Meeting of the Technical Committee held from January 8 - 9, 2016. The Meeting was chaired by Dr. (Mrs.) Sarah O. Alade, Deputy Governor, Economic Policy, Central Bank of Nigeria, following the election of Nigeria as the Chairman, Committee of Governors of Central Banks of ECOWAS member-states. The COG meeting reviewed and discussed the Report of the 28th Meeting of the Technical Committee.

The COG:

- Noted that the tenure of the current Director General of WAMA would end on May 31, 2016;
- Directed that going forward, the Director General should officially inform the Committee of Governors, at least one year before the tenure ends to allow for adequate arrangements to recruit a successor;
- Directed WAMA to ensure that vacant positions at the Institute are identified and distributed to member countries on the principle of equity and geographical representation of the respective member-states;
- Urged the Sierra Leonean Authorities to provide the Agency with more befitting accommodation, with primary considerations placed on the security and image of the Agency ;
- Endorsed the recommendations of the Report on the ECOWAS Monetary Cooperation Programme for the First Half of 2015;
- Noted the Report on the Status of Harmonisation of Monetary Policy Framework in the ECOWAS;
- Noted the Report on the Status of Harmonisation of Exchange Rate Policies in the ECOWAS;
- Noted the study on Excess Liquidity and the Effectiveness of Monetary Policy Transmission Mechanism in the ECOWAS Countries;
- Approved the recommendations of the Technical Committee on the study on Analysis of Regulatory and Supervisory Framework of the Financial Systems in the ECOWAS;
- Approved the Report of the ECOWAS Payments and Settlement System (EPSS) Project Steering Committee;
- Approved the 2016 WAMA Work Programme;

- Maintained the age limit of 18 years for educational allowance of dependants of staff;
- Approved the Financial Statements of WAMA for the year 2014 and that WAMA should provide for impairment on Cape Verde's outstanding contribution in subsequent years;
- Approved the revised 2016 budget of WAUA 2,779,690, representing an increase of 5.0 per cent over the previous year; and
- Approved the extension of WAMA Statutory Technical Committee meetings from two to three days due to the volume of documents for consideration.

8.3.5 The 35th Meeting of the Convergence Council of Ministers and Governors of Central Banks of the WAMZ

The 35th Meeting of the Convergence Council of Ministers and Governors of Central Banks of the WAMZ was held at the Movernpick Hotel, Accra, Ghana on January 15, 2016 to consider the Report of the 32nd Meeting of the Committee of Governors of Central Banks of the WAMZ. The Council of WAMZ was chaired by Mr. Seth Terkper, the Honourable Minister of State for Finance, Ghana and Chairman of the Council of the WAMZ. The Governor, Bank of Ghana, Dr. Henry A. K. Wampah, presented the report of the meeting of the Committee of Governors of the WAMZ to the Council of Ministers to consider and approve.

The Council deliberated and approved all the recommendations of the Committee of Governors of the WAMZ as contained in the COG Report.

8.3.6 2016 Mid-Year Statutory Meetings of the West African Monetary Agency (WAMA), West African Monetary Zone (WAMZ), and the West African Institute for Financial and Economic Management (WAIFEM)

8.3.6.1 The 29th Ordinary Meeting of the Economic and Monetary Affairs Committee and the Operations and Administration Committee of WAMA

The 29th Ordinary Meeting of the Economic and Monetary Affairs Committee and the Administration Committee of WAMA was held at the Riviera Royale Hotel, Conakry, Guinea from July 29 - 30, 2016. The Technical Committee deliberated on critical issues bordering on the ECOWAS Monetary Cooperation Programme (EMCP) and other administrative issues of WAMA.

The Technical Committee recommended that WAMA should:

- Adhere to the statutory provisions on contributions to WAMA's budget;
- Present a position paper at the next statutory meeting on an appropriate mechanism to be used to avoid fluctuations in staff remuneration on account of exchange rate variations;
- Request for labour statistics to be included in the template for Multilateral Surveillance Mission; and
- Undertake a study on the impact of the expected exit of the United Kingdom from the European Union on ECOWAS economies and lessons to be drawn in the context of process of regional integration.

Member states were urged to:

- Take all necessary measures to contain the budget deficit within the prescribed convergence limit, especially through:
- Increasing tax revenue by expanding the tax base, strengthening control procedures and limiting exemptions; and

- Enhancing the effectiveness and efficiency of public investment to increase their impact on growth.
- Strengthen debt policies and debt sustainability analysis aimed at curbing the growth in public debt;
- Step up efforts to improve energy supply, and develop infrastructure aimed at extending the value chain (deepening capacity for raw material processing whilst scaling down the current dependence on raw material exports);
- Improve the business climate through relevant policy reforms and consolidation of on-going efforts aimed at solving the socio-political disturbances and insecurity in the region;
- Minimise the impact of external shocks by adding value to export products;
- Strengthen health systems to improve resilience of member countries facing emerging health crises;
- Increase domestic production in agricultural and manufacturing sectors to reduce import dependence and diversify exports; and
- Improve macroeconomic management in the region and enhance coordination between monetary and fiscal policies.

8.3.6.2 The 34th Technical Committee Meeting of WAIFEM

The Meeting of the 34th Technical Committee of WAIFEM was held at the Riviera Royale Hotel, Conakry, Guinea on July 31, 2016. The Meeting deliberated on developments in WAIFEM for the period January – June 2016 under the Chairmanship of Mr. A. Richard Dorley, Senior Advisor for Multilateral Relations, Central Bank of Liberia. The Technical Committee recommended the following for the approval of the Board of Governors:

- Draft Minutes of the 30th meeting of the Board of Governors;
- Progress Report of the Director General;
- Draft Training Programme for the Year 2017;
- Draft Audit Report for the Year Ended December 31, 2015;
- Procurement of a Utility Vehicle for the Institute;
- Study on the Structure and Composition of the Labour Market in The Gambia;
- Draft Annual Report and Statement of Accounts for the Year ended December 31, 2015; and
- Updated Financial Regulations and Manual of Accounting Procedures.

8.3.6.3 The 33rd Meeting of the Committee of Governors of WAMZ

The 33rd Meeting of the Committee of Governors of the West African Monetary Zone (WAMZ) was held on August 4, 2016. The Report of the 39th Meeting of the Technical Committee of the WAMZ formed the basis of the deliberations. The Meeting was chaired by Dr. Louncenу Nabé, Governor of the Central Bank of Guinea. The Chair of the Technical Committee, Dr. Joakim Lama, who is the Director of Research at the Ministry of Finance in Guinea, presented the Report of the Technical Committee. After deliberations on the report of the Technical Committee, the COG made the following recommendations to the Convergence Council for approval, to:

- Adopt the Report on macroeconomic developments and convergence in the WAMZ at end-December 2015;

- Direct WAMI to carry out further analysis on country experiences, with a view to articulating a common framework on the use of pension funds for infrastructural development;

- Direct WAMI to undertake a study to construct a regional integration index, as an additional tool for assessing convergence and integration in the WAMZ;

- Direct WAMI to finalise and publish the paper on "External Debt and Economic Growth in the WAMZ";

- Urge WAMI to seek funding to facilitate the interlinkages of the Payments System among Member States;

- Mandate WAMI to explore additional sources of funding for capacity building of WAMI staff and officials of Member States;

- Note the study report on the establishment of the WAMZ Commission and to consider and approve that WAMI be transformed into a Commission with the mandate to carry out expanded competencies under the leadership of the Authority of Heads of State and Government of the WAMZ, to deepen regional cooperation, development and integration in the Zone;

- Direct WAMI to prepare an implementation framework detailing the cost implications and strategic plan for the actualisation of the WAMZ Commission and submit the report at the next WAMZ Statutory Meetings; and

- Direct WAMI to examine the Memorandum of Understanding between the European Union (EU), UEMOA and the ECOWAS Commission on the Regional Integration Programme (RIP) and assess implications for the WAMZ Programme.

8.3.6.4 The 48th Meeting of the Committee of Governors of ECOWAS Central Banks

The 48th Ordinary Meeting of the Committee of Governors of Central Banks of ECOWAS Member States was held at the Riviera Royale Hotel, Conakry, Guinea on August 4, 2016. The Chairman of the Technical Committee, Mr. Moses K. Tule of the Central Bank of Nigeria, presented the report of the 29th Meeting of the Technical Committee, which formed the basis for the deliberations of the Committee of Governors.

After deliberations, the COG approved the report of the Technical Committee and made the following recommendations:

Member Countries were urged to:

- Take all necessary measures to contain the budget deficits within the prescribed convergence limit, especially by: Increasing tax revenue by expanding the tax base, strengthening control procedures and limiting exemptions; and enhancing the effectiveness and efficiency of public investment to increase impact on growth;
- Step up efforts to improve energy supply, and develop infrastructure aimed at extending the value chain (deepening capacity for raw material processing whilst scaling down the current dependence on raw material exports);
- Minimise the impact of external shocks by adding value to export products;
- Increase domestic production in agricultural and manufacturing sectors to reduce import dependence and diversify the exports; and
- Improve macroeconomic management in the region;

WAMA should:

- Include labour statistics in the template for Multilateral Surveillance mission; and
- Undertake a study on the impact of the expected exit of the United Kingdom from the European Union on ECOWAS economies as well as draw lessons for the process of regional integration.

8.3.6.5 The 31st Meeting of the Board of Governors of WAIFEM

The 31st Meeting of the Board of Governors of WAIFEM was held at the Riviera Royale Hotel Conakry, Guinea on August 4, 2016. The report of the 34th Meeting of the Technical Committee formed the basis of deliberations.

The Board approved the:

- Draft Minutes of the 30th meeting of the Board of Governors;
- Progress Report of the Director General;
- Draft Training Programme for 2017;
- Draft Audit Report for the Year Ended December 31, 2015;
- Study on the Structure and Composition of the Labour Market in The Gambia;
- Draft Annual Report and Statement of Accounts for the Year ended December 31, 2015; and
- Revised Financial Regulations and Manual of Accounting Procedures.

8.3.6.6 The 36th Meeting of the Convergence Council of the WAMZ

The 36th Meeting of the Convergence Council of Ministers and Governors of Central Banks of the West African Monetary Zone (WAMZ) was held in Conakry, Guinea on August 5, 2016, to deliberate on the status of implementation of the WAMZ Work Programme. The Report of the 33rd Meeting of the Committee of Governors of the WAMZ formed the basis of the deliberations, and was presented by the Chairman, Dr. Lounceny Nabé, Governor, Central Bank of the Republic of Guinea.

8.3.6.7 The Report of the West African Monetary Zone (WAMZ) 8th Trade Ministers' Forum, Monrovia, Liberia, November 2 – 4, 2016.

The West African Monetary Zone (WAMZ) 8th Trade Ministers' Forum was held at the Boulevard Palace Hotel, Monrovia, Liberia from November 2 to 4, 2016. The meeting was convened by the West African Monetary Institute (WAMI) with the theme "*Opportunities for Development Through Regional Trade Integration*". The objective of the meeting was to create a platform for member countries to share experiences on cross-border trade issues and peer review the status of implementation of ECOWAS trade integration commitments with a view to achieving WAMZ trade integration goals.

The Meeting was attended by representatives from the Gambia, Ghana, Liberia, Sierra- Leone, Nigeria, and Guinea; and representatives from the West African Monetary Institute, ECOWAS Commission, and African Export-Import Bank (AFREXIMBANK).

The four presentations made at the meeting were: the WAMZ Trade Integration Report; WAMZ Trade Integration Index; Benefits of ECOWAS Trade Liberalisation Scheme (ETLS); and a Proposal for Survey on Cross-Border Informal Trade in the WAMZ.

The WAMZ Trade Integration Report showed that growth slowed in the WAMZ in the review period and all the Member States of the WAMZ posted declines in trade within the zone. The Report also revealed that WAMZ index score on compliance with ECOWAS trade-related protocols stood at 64.9 points in 2015, and WAMZ composite trade integration index stood at 47.14 points in 2015, compared with 40.81 in 2014, indicating an improvement of 6.33 points.

The WAMZ Trade Integration Index revealed that the WAMZ countries trade with the rest of the world more than they trade among themselves, with WTII score of 47.14 points in 2015 which was unsatisfactory. WAMZ Compliance Index score of 64.94 points, however, showed a fairly satisfactory implementation in 2015, and that all the countries except one scored above 50.0 points, suggesting high level of commitment to the integration goals.

The Integration Index study, among others:

- Recommended that WAMI should play an advocacy role in ensuring regional infrastructural development;
- Urged a unified approach to infrastructure development, especially among the contiguous countries; and
- Placed emphasis on developing good roads, and since all the WAMZ Member States were coastal countries, their various governments should be encouraged to develop their sea ports to facilitate trade.

The presentation on Benefits of ECOWAS Trade Liberalisation Scheme (ETLS) detailed the benefits of ETLS in terms of its imperativeness to regional integration, protection of economic operators, strengthening intra-regional trade, a warranty to economic union, and employment generation.

- The Proposal for Survey on Cross-Border Informal Trade in the WAMZ was based on the observation that while the WAMZ Member States capture formal trade through Automated System of Customs Data (ASYCUDA) and other platforms, informal cross border trade was not captured. Non-recording of ICBT transactions results in understating balance of payments, intra-regional trade flows and national accounts.