CHAPTER 4

THE FINANCIAL SECTOR

The Nigerian financial sector grew stronger in 2007 as indicated by the various performance measures in all the segments. The depth of the financial sector increased, as broad money supply to nominal GDP ratio rose to 21.1 per cent from 19.8 per cent at the end of 2006. The banking sector also showed stronger capacity to finance real sector activities with substantial credit flow to the core private sector as Cp/GDP ratio increased from 13.0 to 21.7 per cent at end-2007. In addition, the increased use of the various electronic money products reflected the shift away from cash transactions and, thus, an improvement in the efficiency of funds intermediation. Consequently, the ratio of currency outside banks to broad money supply fell further to 15.2 per cent from 18.8 per cent at end-2006. The money market was further deepened with the introduction of the ten-year government bond, while liquidity was enhanced through the trading of the bonds in secondary market using the two-way quote system. Thus, the ratio of money market assets outstanding to GDP at end-2007 rose to 9.9 per cent, from 8.8 per cent at end-2006. The performance of the capital market improved substantially as the ratio of market capitalisation to GDP increased to 58.2 per cent from 27.6 per cent in 2006.

The outcome of monetary policy actions of the Bank was modest in 2007 as broad money supply grew by 30.9 per cent compared with 30.6 per cent at end-2006 and the target of 24.1 per cent for the fiscal year. The reserve money target at end-June 2007 exit point of the PSI was met, although the end-year indicative target was missed. The Nigerian Risk-Free Yield curve incorporating treasury bills and bonds at the short and long benchmarks, respectively, was launched in 2007. The yield curve remained normal throughout the year. Also, with the appointment of nineteen (19) primary money market dealers, secondary market activities in FGN bonds commenced.

At end-December, 2007, the Nigerian financial system comprised the CBN, the Nigerian Deposit Insurance Corporation (NDIC), the Securities and Exchange Commission (SEC), the National Insurance Commission (NAICOM), the National Pension Commission (PENCOM), 24 deposit money banks (DMBs), 5 discount houses (DHs), 709 microfinance banks (MFBs), 112 finance companies (FCs), 703 bureaux-de-change (BDCs), 1 Stock Exchange, 1 Commodity Exchange, 93 primary mortgage institutions (PMIs), 5 development finance institutions (DFIs) and 77 Insurance companies.

4.1 INSTITUTIONAL DEVELOPMENTS

4.1.1 Growth and Structural Changes

The number of deposit money banks (DMBs) in the industry dropped to twenty-four (24) from twenty-five (25) to twenty-four (24) at end-December 2007, following the merger of Stanbic Bank and IBTC Chartered Bank. Also, there was no new application for banking licence. The number of banks’ branches, however, grew from 3,468 in 2006 to 4,579, representing an increase of 32.0 per cent.
The Nigerian Deposit Insurance Corporation (NDIC) intensified efforts in the resolution of the fourteen (14) failed banks whose operating licences were revoked by the CBN in January 2006. The Corporation obtained final court orders to wind-up eleven (11) banks and a provisional court order to wind up one (1) bank. The cases of the remaining two (2) banks were still pending in court. The policy of assets cherry-picking under the Purchase & Assumption (P&A) model of bank liquidation continued in 2007, as the NDIC invited the healthy banks to assume the private sector deposit liabilities of the banks for which it had obtained final court orders for their liquidation. At end-December 2007, total private sector deposits of the 14 banks in liquidation expected to be assumed was ₦89.99 billion, out of which 80.8 per cent had been assumed, while 53.2 per cent had been paid out.

In 2007, the NDIC extended deposit insurance cover to the PMIs. Also, Oceanic Bank Plc and Guaranty Trust Bank Plc acquired one (1) PMI each, bringing the number of PMIs with DMB controlling interest to eleven (11). Five (5) PMIs were granted approval to restructure their capital base, while one (1) PMI undertook a rights issue in the capital market.

A total of 603 community banks (CBs) converted to MFBs during the year, bringing to 607 the number of CBs that met the requirement for conversion before 31st December, 2007. Of the 607 converted CBs, 528 were given provisional approvals, while 79 obtained final licences. In addition, seventy-six (76) new applications for fresh MFB licences were received, bringing the total number of applications from new investors since the MFB policy was launched on 15th December, 2005 to 122. Out of the total applications received, 40 final licences and 62 approvals-in-principle (AIPs) were granted, while the remaining 20 applications were still undergoing processing. As a means of ensuring the stability of the MFB subsector, efforts at setting up a certification programme for the training of supervisors, directors and operators in the subsector were intensified.
At end-December, 2007, the Nigerian financial system comprised the CBN, the Nigerian Deposit Insurance Corporation (NDIC), the Securities and Exchange Commission (SEC), the National Insurance Commission (NAICOM), the National Pension Commission (PENCOM), 24 Deposit Money Banks (DMBs), 5 Discount Houses (DHs), 709 Microfinance Banks (MFBs), 112 Finance Companies (FCs), 703 Bureaux-de-Change (BDCs), 1 Stock Exchange, 1 Commodity Exchange, 93 Primary Mortgage Institutions (PMIs), 5 Development Finance Institutions (DFIs) and 77 Insurance companies.

4.1.2 Fraud and Forgery
The number of reported cases of attempted or successful fraud and/or forgery in the banking industry rose in 2007. There were a total of 1,553 reported cases of attempted fraud and forgery involving N8.8 billion, US$591,487.8, €35,390.76 and £12,410.00, compared with 1,193 reported cases involving N4.6 billion, US$1.8 million and £14,399.74 in 2006. Out of this number, 825 cases resulted in losses to the banks amounting to N2.7 billion, US$238,621.50, €390 and £12,410.00, compared with 612 cases involving N4.6 billion, US$1,753,024.06 and £14,399.74 in 2006.

4.1.3 Public Complaints Desk
The ethics and professionalism sub-committee of the Bankers’ Committee handled complaints among banks, as well as between banks and their customers. As in the preceding years, most of the complaints comprised; excess charges by banks, manipulation and fraudulent practices on customers’ accounts, conversion of invested funds, irregular clearing of customers’ cheques and non-refund of wrong debit to customers’ accounts, among others.

4.1.4 Cheque Clearing
The reform of the payments system continued to produce salutary outcomes in 2007. The volume and value of cheques cleared in the system rose substantially by 33.3 and 70.5 per cent to 19.9 million and N28.1 trillion from 14.9 million and N16.4 trillion in 2006. The astronomical increase in the value of cheques cleared reflected a shift to the use of non-cash transactions by the public. As in the previous years, Lagos as the commercial hub of Nigeria dominated other clearing centres in volume and value of transactions (44.6 and 41.2 per cent respectively). Ibadan accounted for 19.6 and 17.0 per cent in volume and value, displacing Abuja to the third position.
4.1.5 Inter-bank Funds Transfer (IFT)

Inter-bank transfers through the CBN Inter-bank Funds Transfer System (CIFTS) recorded substantial growth of 56.0 and 121.9 per cent in the volume and value of transactions to 143,854 and N29.1 trillion, respectively. The development reflected the participants’ confidence in the use of CIFTS and Temenos.
Internet Banking (TIB) as well as the effect of the CBN policy of non-payment of interest on standing deposit facility, which encouraged banks and discount houses to place funds among themselves. Further analysis of transactions showed that third party transfers accounted for 53.5 per cent while inter-bank market transfers accounted for 41.6 per cent in volume terms. The CBN debit transfer accounted for the balance. In value terms, however, the share of inter-bank market transfers was 65.7 per cent, while the CBN debit and third party transfers accounted for 23.6 and 10.7 per cent, respectively.

4.1.6 Use of e-Money Products

The market frontier for electronic payments in Nigeria continued to expand in 2007 as evident in the growth in all its segments. New products such as naira credit cards and V-pay debit cards, were introduced to the market, while connectivity of point-of-sale (POS) terminals via GPRS increased. In terms of market share, the ATM transaction remained dominant, followed by Internet, POS and mobile segments.

<table>
<thead>
<tr>
<th>Table 4.2: Market Share in e-Payment Market in 2006 and 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>e-Payment Segment</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>ATM</td>
</tr>
<tr>
<td>Web (Internet)</td>
</tr>
<tr>
<td>POS</td>
</tr>
<tr>
<td>Mobile</td>
</tr>
</tbody>
</table>

The volume and value of ATM transactions rose by 30.0 and 108.0 per cent to 15.7 million and N131.6 billion, respectively. The performance of the ATM segment was due to the increase in the number of ATMs deployed by the banks as well as the upgrade of Quickcash brand of ATM machines to accept all cards issued by Nigerian banks irrespective of the switching platform.

The volume and value of foreign currency denominated card transactions stood at 233,175 and US$63.56 million, up by 75.8 and 82.8 per cent, respectively, above the levels in 2006. At 421,946 and N6.44 billion, the POS segment recorded impressive growth in volume and value terms with increases of 493.4 and 1,151.9 per cent, over the levels in the preceding year. The development was attributable to increased connectivity of sales terminal, wider public acceptance of debit cards, increased number of merchants and the phasing out of Valucard (an off-line card) and the introduction of V-pay which is an on-line card. Also, the internet based transactions increased to 903,067 and N10.6 billion showing an increase of 306.4 and 261.1 per cent in volume and value terms, respectively, over the levels in 2006. The growth was due to the increased number of financial institutions offering internet banking and the growing number of merchants accepting payments through the web sites.
4.1.7 Institutional Savings
Aggregate financial savings rose by ₦1,082.0 billion or 57.9 per cent to ₦2,949.8 billion at end-December 2007, compared with ₦1,867.8 billion at the end of the preceding year. The proportion of income also improved as the ratio of financial savings to GDP stood at 12.9 per cent, compared with 10.1 per cent in 2006. The DMBs maintained their dominance as the major depository institutions within the financial sector, accounting for 76.0 per cent of the total financial savings, compared with 94.0 per cent in the preceding year. Other savings institutions including the PMIs, Life Insurance Funds, the Pension Funds, the Nigerian Social Insurance Trust Fund and Community/Microfinance Banks held the balance of 24.0 per cent.

4.2 MONETARY AND CREDIT DEVELOPMENTS
4.2.1 Reserve Money
The CBN sustained proactive monetary management in 2007. Notwithstanding, the operating target of monetary policy, the reserve money (RM), at ₦1,195.3 billion was 18.7 per cent above the indicative target of ₦1,007.0 billion at end-December 2007. The development was attributable to the growth in currency in
circulation (CIC), driven by the seasonal demand for currency during the last quarter of the year, as well as the increase in bank reserves.

The currency component of RM, relative to the end-December 2006 level, fell by 6.7, 8.3 and 7.3 per cent in the first, second and third quarters of 2007, respectively, but rose sharply by 23.3 per cent at the end of the fourth quarter. Similarly, over the end-2006 level, DMBs’ reserve balances at the CBN increased by 19.9 per cent to N234.5 billion in December 2007, reflecting largely, the non-payment of interest on DMBs’ overnight deposits with the CBN, effective October 2007.
4.2.2 Narrow Money (M₁)
Narrow money supply (M₁), grew by 32.4 per cent at end-December 2007, compared with 12.2 per cent at end-December 2006. The growth was driven largely by demand deposits, which grew by 47.2 per cent while the currency component rose by 5.8 per cent. As a proportion of M₁, currency outside banks (COB) was 28.5 per cent, compared with 35.7 per cent at end-December 2006. The lower ratio in 2007 reflected a shift to other means of payment for transactions, an evidence of improved intermediation. The ratio of COB to nominal GDP fell marginally to 3.2 per cent at end-December 2007 from 3.7 per cent at end-December 2006.

4.2.3 Broad Money (M₂)
The growth in broad money supply (M₂) remained high when compared with the outcome at the end of the previous year. At ₦4, 811,961.9 billion, M₂ grew by 30.9 per cent at end-2007, compared with 30.6 per cent at the end of the preceding year. The growth in M₂ at the end of the year was higher than the indicative target growth of 24.1 per cent for the fiscal year. The growth in M₂ was driven by the substantial growth in both M₁ (32.4 per cent) and quasi-money (29.3 per cent).
The analysis of the composition of total monetary liabilities ($M_2$) showed that it was fairly distributed between the highly liquid $M_1$ and semi-liquid quasi-money, but skewed towards the former. The skewness reflected the need for liquidity for financing increased economic activities. However, the shift away from physical currency holding to demand deposit continued in 2007 as COB was 15.2 per cent of $M_2$, down from 18.8 per cent in 2006. Also, foreign currency deposit remained an important component of $M_2$ at 9.7 per cent although down by 1.0 percentage point relative to 2006.

### Table 4.3: Composition of Total Monetary Liabilities ($M_2$) (percent)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Money Supply ($M_1$)</strong></td>
<td>52.7</td>
<td>53.2</td>
</tr>
<tr>
<td>Currency outside banks</td>
<td>18.8</td>
<td>15.2</td>
</tr>
<tr>
<td>Demand Deposit</td>
<td>33.9</td>
<td>38.1</td>
</tr>
<tr>
<td><strong>Quasi Money</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time &amp; Savings Deposit</td>
<td>36.5</td>
<td>37.0</td>
</tr>
<tr>
<td>Foreign Currency Deposit (FCD)</td>
<td>10.8</td>
<td>9.7</td>
</tr>
<tr>
<td><strong>Total Monetary Liabilities ($M_2$)</strong></td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Factors Influencing Broad Money Growth**

**4.2.3.1 Net Foreign Assets (NFAs)**

The growth in total monetary assets in 2007 was partly accounted for by the significant increase in the net foreign assets (NFAs) of the banking system. The NFAs rose by 18.5 per cent over its level at end-December 2006, owing to the favourable crude oil prices in the international market. NFA contributed 31.2 per cent to the growth in $M_2$ in 2007.

**4.2.3.2 Net Domestic Credit (NDC)**

Net credit to the domestic economy grew by 193.5 per cent in contrast to the decline of 67.4 per cent at end-December 2006. The development reflected the significant increase in credit to the private sector.
However, net credit to government declined following the substantial improvement in earnings from crude oil exports, which boosted government deposits. The NDC contributed 37.8 per cent to the growth in $M_2$ in 2007.

### 4.2.3.3 Credit to the Government (CG)

Net credit to the Federal Government fell by 60.5 per cent, compared with the target of negative 54.9 per cent for fiscal 2007 and the decline of 692.1 per cent recorded at end-December, 2006. The development was as a result of increased Federal Government deposit with the banking system thus, making the Federal Government a net creditor to the banking system in 2007.

### 4.2.3.4 Credit to the Private Sector (CP)

Banking system credit to the private sector (including state and local governments and non-financial public enterprises) grew by 96.8 per cent, overshooting the target of 30.0 per cent for the fiscal year by a wide margin. The increase in CP more than offset the decline in net credit to government and resulted in the overall increase in NDC. Credit to the core private sector\(^1\) grew by 98.7 per cent in 2007.

---

\(^1\) Credit to the private sector less credit to state and local governments and non-financial public enterprises
4.2.3.5 Other Assets (Net) (OAN)

Other assets (net) of the banking system fell by 49.2 per cent as against an increase of 8.6 per cent at end-2006. The fall in OAN moderated the growth in M2. The contribution of OAN to the growth in M2 was -38.1 per cent.

Table 4.4: Contribution to the Growth in M2 (%)

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Foreign Assets (NFA)</td>
<td>61.8</td>
<td>74.9</td>
<td>31.2</td>
</tr>
<tr>
<td>Net Domestic Credit (NDC)</td>
<td>13.0</td>
<td>-55.4</td>
<td>37.8</td>
</tr>
<tr>
<td>Other Assets (net) (OAN)</td>
<td>-50.4</td>
<td>11.1</td>
<td>-38.1</td>
</tr>
<tr>
<td>M2</td>
<td>24.4</td>
<td>30.6</td>
<td>30.9</td>
</tr>
</tbody>
</table>

4.2.4 Sectoral Distribution of Credit

Credit to the core private sector by the DMBs grew by 98.7 per cent. Of the outstanding credit to the core private sector, the priority sector accounted for 24.8 per cent while the “other” (non-priority) sector accounted for the balance of 75.2 per cent. Specifically, outstanding credit to agriculture, solid minerals, exports and manufacturing stood at 3.1, 10.2, 1.4 and 10.1 per cent, respectively. Credit flows to the core private sector in 2007 amounted to N2,289.2 billion. Of this amount 17.3 per cent went to the priority sector while 82.7 per cent went to the non-priority sector. Further analysis showed that credit flows to the specific sectors in 2007 were as follows; agriculture (4.4%), solid minerals (10.5%), exports (0.6%) and manufacturing (1.8%). The development reflected DMBs preference for the non-priority sector.

Table 4.5: Credit to the Core Private Sector in 2007

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share in Outstanding (%)</th>
<th>Share in flows (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priority Sector</td>
<td>24.8</td>
<td>17.3</td>
</tr>
<tr>
<td>Agriculture</td>
<td>3.1</td>
<td>4.4</td>
</tr>
<tr>
<td>Solid Minerals</td>
<td>10.2</td>
<td>10.5</td>
</tr>
<tr>
<td>Exports</td>
<td>1.4</td>
<td>0.6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10.1</td>
<td>1.8</td>
</tr>
<tr>
<td>Unclassified</td>
<td>75.2</td>
<td>82.7</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.2.5 Financial/Banking System Ratios

Nigeria’s financial sector continued to improve in both depth and breadth in 2007. The depth of the financial sector, as measured by the ratio of M₂ to GDP stood at 21.1 per cent at end-December, 2007, indicating a slight improvement when compared with the 19.8 per cent at end-December, 2006. Thus, the banking system’s capacity to provide liquidity for the exchange of goods and services increased relative to the preceding year. Bank financing of the economy, measured by the ratio of banking system credit to the core private sector (CP) to GDP increased significantly to 21.7 per cent at end-December 2007, from 13.5 per cent at end-December, 2006. In addition, financial institutions have become more efficient as the intermediation ratio (currency outside banks to broad money supply) declined further at end-December 2007 to 15.2 per cent from 18.8 per cent at end-December, 2006. The development reflected partly the impact of the increased use of electronic and other forms of payments, particularly ATM and other card products.
The banking system grew more robust in 2007 as its size in relation to the economy increased. The ratio of the total assets of the banking system to the GDP at end-2007 was 82.3 per cent compared with 71.7 per cent at end-2006. Of this, the ratio of the CBN assets to GDP increased slightly from 33.5 per cent in 2006 to 38.0 per cent in 2007. Also, the ratio of DMBs’ assets to nominal GDP increased significantly from 34.5 per cent at end-December, 2006 to 44.2 per cent at end-December, 2007. The DMBs total deposit liabilities as a ratio of nominal GDP also rose to 17.6 per cent in 2007, up from 15.4 per cent in 2006, an evidence of enhanced financial sector development.
4.2.6 Money Multiplier

The broad money multiplier at end-December, 2007 rose to 4.4, compared with the 3.8 at end-December, 2006. The development was attributable to the fall in both the currency and reserve ratios. The currency-deposit ratio fell to 18.2 per cent at end-December, 2007 from 24.2 per cent at end-December, 2006, owing to the significant increase in total deposit liabilities of the DMBs, arising partly from the increased use of electronic money which sucked in currency outside banks. Also, reserve-to-deposit ratio declined from 3.1 per cent at end-December, 2006 to 2.3 per cent at end-December, 2007 owing largely to the impact of the new monetary policy implementation framework on banks’ excess reserve balances.

<table>
<thead>
<tr>
<th>Table 4.6: Money Multiplier and Velocity of M2</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency Ratio</td>
<td>30.8</td>
<td>27.6</td>
<td>27.6</td>
<td>24.2</td>
<td>18.2</td>
</tr>
<tr>
<td>Reserve Ratio</td>
<td>12.0</td>
<td>10.3</td>
<td>5.6</td>
<td>3.1</td>
<td>2.3</td>
</tr>
<tr>
<td>M2 Multiplier</td>
<td>2.7</td>
<td>2.9</td>
<td>3.2</td>
<td>3.8</td>
<td>4.4</td>
</tr>
<tr>
<td>Income Velocity of M2</td>
<td>5.3</td>
<td>5.5</td>
<td>6.0</td>
<td>5.1</td>
<td>4.7</td>
</tr>
</tbody>
</table>

The income velocity of broad money declined further in 2007. The M2 income velocity, which stood at 5.1 at end-2006, fell to 4.7 at end-December, 2007. This development reflected the effects of financial deepening in the economy.

![Figure 4.19: Money Multiplier, Currency Ratio and Reserve Ratio](image)

![Figure 4.20: The Velocity of Money](image)
4.3 OTHER FINANCIAL INSTITUTIONS

4.3.1 Development Finance Institutions (DFIs)

Four out of the five DFIs, namely, Bank of Industry (BOI), Federal Mortgage Bank of Nigeria (FMBN), Nigerian Export Import Bank (NEXIM), and Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB) rendered returns to the Bank during the year. Aggregate assets of the four DFIs indicated an increase of 17.0 per cent over the level in the preceding year. Further analysis of the asset base of the four institutions indicated that NACRDB accounted for the highest share of 31.9 per cent followed by FMBN, NEXIM and BOI with shares of 29.9, 24.4 and 13.8 per cent of the total, respectively. Cumulative loan disbursements by the four DFIs increased by 38.0 per cent to ₦57.5 billion. The composition of the loan disbursements indicated that NACRDB, FMBN, BOI and NEXIM accounted for ₦20.4 billion (35.0 per cent), ₦15.3 billion (27.0 per cent), ₦13.9 billion (24.0 per cent) and ₦8.0 billion (14.0 per cent), respectively. The analysis of the portfolio assets of the four DFIs indicated a general deterioration in quality with the exception of BOI. The total capitalisation of the four DFIs was ₦21.8 billion, same as in 2006, owing to the loss of one of the DFI’s headquarters building. The combined paid-up share capital of BOI and NEXIM, however, increased by ₦8.8 billion to ₦15.5 billion in 2007, through additional capital injection by both the Federal Ministry of Finance and the CBN.

4.3.2 Microfinance Banks (MFBs)

The total assets/liabilities of all CBs (80 per cent of which converted to MFBs) rose by 37.0 per cent to ₦75.6 billion. The paid-up capital increased by 35.0 per cent to ₦11.2 billion, while the shareholders’ funds increased by 70.0 per cent to ₦21.8 billion. Investible fund available to the subsector was ₦20.8 billion in 2007. The funds were sourced mainly from an increase in paid-up capital of ₦2.9 billion, reserves ₦2.1 billion, deposits ₦7.2 billion and other liabilities ₦4.1 billion, among others, and were used mainly in increasing other assets (₦4.5 billion), loans and advances (₦6.4 billion), placements with other banks ₦5.0 billion, among others.

4.3.3 Discount Houses

The analysis of the activities of the five discount houses indicated improved performance in 2007. Total assets/liabilities of the discount houses rose by 59.9 per cent to ₦298.3 billion, while total funds sourced amounted to ₦68.6 billion, compared with ₦91.9 billion in 2006. The funds were sourced mainly from a reduction in claims on Federal Government (₦29.1 billion) and money-at-call (₦18.3 billion), among others. The funds were utilised primarily for the extension of credit to non-bank customers (₦44.9 billion) and placements with banks (₦21.9 billion). Discount houses’ investments in Federal Government securities of
less than 91 days maturity amounted to ₦115.4 billion as at end-December, 2007, representing 44.6 per cent of their total deposit liabilities. This was 15.4 percentage points below the prescribed minimum of 60.0 per cent for fiscal 2007.

4.3.4 Finance Companies (FCs)
The existence check carried out on the subsector by the CBN showed that out of the 112 licensed FCs, only 76 were active as at end-December, 2007. The total assets/liabilities of the FCs increased to ₦65.8 billion, representing a growth rate of 21.2 per cent. Loans and advances increased by 12.0 per cent to ₦26.7 billion. Placements with other FCs increased by 23.1 per cent to ₦11.5 billion. Total borrowings increased by 15.3 per cent to ₦39.9 billion, while the shareholders’ funds rose by 30.3 per cent to ₦14.9 billion. Investible funds that accrued to the subsector stood at ₦12.6 billion in 2007. The funds were sourced exclusively from increase in borrowings (₦5.3 billion), other liabilities (₦2.7 billion) and reserves (₦3.1 billion), amongst others. The funds were used essentially to increase investments (₦4.0 billion), loans and advances (₦2.9 billion) and placement with other FCs (₦2.2 billion).

4.3.5 Primary Mortgage Institutions (PMIs)
The total number of licensed PMIs stood at 93 as at end-December, 2007. Out of this number, only 80 PMIs were confirmed to be active in terms of timely rendition of returns to the CBN. The total assets of the PMIs, which stood at ₦114.4 billion at end-December 2006, rose by 164.3 per cent to ₦302.3 billion. The increase was attributable largely to the growth in the balance sheet size of the PMIs that were acquired by DMBs arising from capital injection. Investible funds available to the PMIs totalled ₦188.5 billion. The funds were sourced mainly from increases in paid-up capital (₦15.4 billion), reserves (₦9.0 billion), deposits (₦81.7 billion) and other liabilities (₦60.8 billion). The funds were utilised in the acquisition of other assets (₦63.8 billion) and placements/bank balances (₦113.8 billion), among others.

4.3.6 Bureaux-de-Change (BDC)
Following the liberalisation of the operations of the BDC subsector in 2006, two hundred and seventy-nine (279) fresh applications for licences were received in 2007, compared with one hundred and ninety six (196) in 2006, thus bringing the total number of applications to 475 as at end-December 2007. Out of this number, 135 final licences and 80 Approvals-in-Principle (AIPs) were granted, while 64 others were at various stages of processing. Also, 72 previously inactive BDCs were resuscitated during the year through restructuring and recapitalisation, bringing the number of BDCs in operation to 703 at end-December 2007, compared with 352 in 2006.
4.4 MONEY MARKET DEVELOPMENTS

The money market further deepened in 2007 with the introduction of the ten-year FGN bond (which is now traded in the secondary market), and the vigorous implementation of monetary policy boosted the performance of the market. Government remained the dominant player in the Nigerian money market, as treasury securities constituted 78.3 per cent of money market assets outstanding as at end-December, 2007. Private sector securities (certificates of deposits, commercial papers and bankers’ acceptances) accounted for 21.7 per cent. FGN bonds dominated the money market instruments both in terms of share in total assets outstanding and share in treasury securities. The depth of the money market as measured by the ratio of value of money market assets outstanding to GDP increased by 1.0 percentage point to 9.8 per cent at end 2007, reflecting the effect of the issuance of the 4th FGN Bonds. However, the size of this ratio compared with the ratio of credit to core private sector to GDP – 21.6 per cent, showed that short-term credit remained a prominent feature of financial markets in Nigeria. The size of private sector securities to GDP at 3.9 per cent was relatively small.

Table 4.7: Composition of Money Market Assets Outstanding in 2007

<table>
<thead>
<tr>
<th>Asset</th>
<th>Share in Total (%) in 2006</th>
<th>Share in Total (%) in 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury Bills</td>
<td>43.1</td>
<td>25.6</td>
</tr>
<tr>
<td>Treasury Certificates</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Development stocks</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Certificate of Deposit</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Commercial papers</td>
<td>12.6</td>
<td>17.8</td>
</tr>
<tr>
<td>Bankers’ Acceptances</td>
<td>4.8</td>
<td>3.9</td>
</tr>
<tr>
<td>FGN Bonds</td>
<td>39.5</td>
<td>52.7</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

4.4.1 Inter-bank Funds Market

The performance of the inter-bank funds market (inter-bank placements and securities trading) improved remarkably in 2007. The value of transactions increased by 59.3 per cent to N19,020.5 billion. The development reflected increased transactions at the open-buy-back segment, influenced by occasional liquidity squeeze and the periodic call up of NNPC funds prior to Federation Account Allocation Committee (FAAC) meetings for statutory allocation to the three tiers of government.
In volume terms, transactions at the inter-bank funds market rose by 8.9 per cent to 33,475 deals in 2007, reflecting the huge volume of transactions at the open-buy-back segment. The open-buy-back segment accounted for 68.3 per cent of the total value of transactions, while call placements accounted for the balance. At the inter-bank call placement segment, the value of transactions rose substantially by 83.9 per cent to ₦6,967.8 billion. At the open-buy-back segment, investments also shot up to ₦12,052.8 billion, from ₦8,151.2 billion in 2006.

4.4.2 Money Market Assets Outstanding

The value of the total money market assets outstanding as at end-December 2007, increased by 38.1 per cent to ₦2,250.1 billion. The development was traceable to the increase in the value of commercial papers (CPs) and FGN bonds outstanding.
4.4.2.1 Nigerian Treasury Bills (NTBs)

A total of ₦1,304.0 billion NTBs was issued in 2007, compared with ₦1,509.1 billion in 2006, showing a decline of 13.6 per cent. The decline in the issue amount reflected the restructuring of NTBs into FGN bonds with a view to lengthening the maturity structure of the domestic debt. Public subscription and allotment of the securities stood at ₦3,141.0 billion and ₦1,281.4 billion, respectively, compared with the ₦2,485.0 billion and ₦1,445.3 billion, in 2006. The increase in subscription was attributed to investors’ preference for long tenored bills that attracted high or yields, as well as patronage by foreign investors.

A breakdown of the allotment showed that the banks had a total of ₦587.3 billion, mandate and internal fund customers, ₦556.3 billion; Discount Houses, ₦133.8; and Brokers, ₦1.772 billion; compared with ₦771.6 billion, ₦643.2 billion, ₦24.5 billion and ₦6.0 billion, respectively, in the previous year.
Patronage remained appreciable owing to the combined effects of the varying levels of repayments and roll-overs and the smoothening of issue amounts. Mature NTBs worth ₦1,438.0 billion were repaid, bringing the total outstanding treasury securities to ₦574.9 billion at end-December 2007, compared with ₦701.4 billion as at end-December 2006.
The efforts to deepen the money market and lower government’s exposure to short-term interest rate risks, led to the sustained issuance of the one-year tenored NTBs. This development engendered improved yield curve of the NTBs and provided opportunity for financial institutions to effectively manage their liquidity and market-related risks. Moreover, it resulted in increased foreign investment in the 364-day NTBs.

4.4.2.2 Commercial Papers (CPs)
As a supplement to bank credit to the private sector investments, CPs recorded an upward trend as holdings by DMBs rose by N196.2 billion to N400.8 billion at end-December 2007, compared with an increase of N10.0 billion at end-December, 2006. Thus, CPs constituted 17.8 per cent of the total value of money market assets outstanding as at end-December 2007, compared with 12.6 per cent at the end of the preceding year.

4.4.2.3 Bankers’ Acceptances (BAs)
Deposit money banks and discount houses investments in BAs rose by 11.6 per cent to N87.6 billion at end-December 2007. The rise reflected increased investments by DMBs and discount houses. However, the share of BAs in the total money market assets outstanding fell by 0.9 percentage point to 3.9 per cent at end-2007.

4.4.2.4 Development Stocks (DS)
Development stocks outstanding at end-December 2007 fell by 83.9 per cent to N0.6 billion. The decrease was accounted for by the redemption of the 10.75 per cent FRN 21 DS that matured during the year. Of the amount outstanding at end-December 2007, the CBN held a total of N0.14 billion, compared with N0.10 billion in the preceding year. Holdings on the account of sinking funds stood at N0.38 billion, down from N0.46 billion in the preceding year. Holdings by the other institutions were down to N0.06 billion from N0.15 billion in the preceding year.

![Figure 4.28: Development Stock: Class of Holders](image-url)
4.4.2.5 FGN Bonds

The Federal Government’s efforts to restructure its domestic debt profile and to develop a virile bonds market, continued in 2007 as the Debt Management Office (DMO) in collaboration with the CBN issued the 4th Federal Government of Nigeria (FGN) Bonds series, with tenors of three (3), five (5), seven (7) and ten (10) years. The issues attracted impressive subscription and patronage from foreign investors, indicating improved confidence in the Nigerian economy. The CBN acted as the issuing house and registrar to all the series. The total issue of all the series was ₦603.7 billion, indicating an increase of ₦304.2 billion over the ₦280.6 billion issued in 2006. The higher issue frequency (twice monthly since July 2007 by the DMO) as well as the increase in Contractors’ Bonds accounted for the substantial increase. Public subscription for the bonds was ₦1,083.5 billion, representing an over-subscription of ₦498.7 billion or 85.3 per cent.

Out of the total sale of ₦592.0 billion, 37.8 per cent was for the three-year tenor, 22.1 per cent was for the five-year, 19.8 per cent was for the seven-year while the balance of 20.3 per cent was for the ten-year tenor. Special bonds of five-year tenor worth ₦11.6 billion were also issued during the year to settle outstanding local contractors’ debt. The coupon rates for all the issues in 2007 ranged from 7.0 to 13.5 per cent, compared with 10.98 to 16.00 per cent in 2006. The downward trend in the coupon rate reflected the effect of the adjustment in the MPR.
The total outstanding FGN Bonds rose from ₦643.9 billion as at end-December 2006 to ₦1,186.2 billion at end-December, 2007. Of this amount, 1.42 per cent was for the 1st FGN Bond series, 9.86 per cent was for the 2nd FGN bond, 23.82 per cent for the 3rd FGN bond series, 49.99 per cent for the 4th FGN bond, while the balance of 14.9 per cent was for the special FGN bond issued to settle outstanding local contractors’ debt and pension arrears.

Within the year, total foreign investment in the instrument amounted to ₦34.76 billion, compared with ₦51.91 billion in 2006. The bonds were actively traded at the Nigerian Stock Exchange (NSE) and banks’ holdings were admitted in the computation of their liquidity ratios. To further deepen the bonds market, the DMO appointed additional five (5) primary market dealers bringing the total number to 19 at end-December 2007, comprising the five (5) discount houses and fourteen (14) DMBs.

4.4.3 Open Market Operations (OMO)
Open market operations (OMO) remained the major tool for liquidity management in 2007. In order to enhance the efficiency of the money market, OMO was conducted on a two-way quote platform among the Money Market Dealers (MMDs) on Reuters trading system; while the normal auctions and tenored reverse repo were continued on the Temenos Internet Banking (TIB). The pilot run of trading amongst MMDs commenced in June 2007. At the two-way quote trading, the Bank bought and sold NTBs in the market in a bid to moderate rates at the auctions. Similarly, the multiple tenors offered, ranged from 7 to 157 days and were structured to synchronise maturity with that in the primary market, in order to enhance the tradability of the instruments.

Total subscription and sales of the intervention securities were ₦627.4 billion and ₦3,736.3 billion, respectively, compared with ₦2,270.20 billion and ₦1,808.4 billion in 2006. The breakdown of sales in 2007 showed that regular auctions accounted for ₦1,600.2 billion, the two-way quote trading system
N1,383.1 billion, while the reverse repurchases accounted for N753.1 billion. The substantial increase in sales at the open market was attributable to the underwriting of the unsubscribed portion of the bills by the MMDs in line with the operational guidelines for money market dealership in Nigeria; the introduction of over the counter (OTC) two-way quote trading system in government securities; and the aggressive liquidity mop-up during the year in order to meet the reserve money target under the PSI. Others were the market driven rates that prevailed at the two-way quote trading platform and the additional securities issued at the 182-day primary auction specifically for liquidity management.

![Figure 4.32: OMO Issues and Sales](image)

4.4.4 Discount Window Operations

4.4.4.1 Repurchase Agreement

Repurchase agreement complemented other liquidity management instruments employed during the year. However, with the introduction of the standing lending and deposit facilities in December, 2006, repurchase agreements were scarcely patronized due to the similarities in the features of both in providing overnight funds. Tenored reverse repo resumed in June 2007 in order to combat the persisting excess liquidity in the system. Total reverse repurchase transactions amounted to N753.1 billion, compared with N10,301.8 billion in 2006. NTBs of 7- and 14-day tenors were used for the transactions. The tenors and rates, which initially ranged from 7- to 14-days and 6.00 to 6.30 per cent, respectively, were reviewed to between 4- and 28-days and 5.7558 to 5.7675 per cent, in September, 2007 in order to broaden the available tenors and harmonize the rates with the prevailing deposit facility rate. With the upward review of the MPR in December, 2007, the reverse repo rates were also adjusted by twenty basis points to range from 5.9558 to 5.9675 per cent.

4.4.4.2 Bills Rediscounting

Bills rediscounted in 2007 amounted to N81.4 billion, down by 68.8 per cent from the value in 2006. The development reflected the widespread between the treasury bills and the rediscount rates which was considered unattractive by market players.
4.4.4.3 Open Buy-Back (OBB)
Transactions in the OBB segment increased in 2007. The value of on-line transactions in OBB rose to N19,527.1 billion, 76.1 per cent above the level in the preceding year. The development reflected market players’ confidence in the on-line trading system.

4.4.4.4 CBN Standing Facilities
The CBN standing facility which became operational in December 2006 was retained. Thus, as monetary policy was reviewed regularly during the year, the changes in MPR and the allowable interest rate corridor had direct impact on the standing lending and deposit facilities. All participants (deposit money banks and discount houses) in the CBN Inter-bank Funds Transfer System (CIFTS), otherwise known as the Real Time Gross Settlement (RTGS) System, had access to the facilities.

4.4.4.4.1 Deposit Facility
The cumulative deposits made as at end-December 2007 amounted to N16,836.8 billion on which the CBN paid interest of N4.49 billion compared with N82.4 billion in 2006, given that it operated for a short period at the inception. One discount house did not access the facility in the review period.

4.4.4.4.2 Lending Facility
The cumulative amount lent during the year was N3,430.7 billion and the interest charged stood at N1,615.2 million, compared with N1,350.5 billion and interest charges of N804.3 million, in 2006.

4.4.4.4.3 Overnight Sweep
This involved the investment of DMBs balances at the CBN on overnight basis. A total sum of N4,598.4 billion was invested as at 14th May, 2007 when the facility was suspended. The interest paid by the Bank while the remuneration lasted was N17.2 million on N4,355.6 billion at 0.01 per cent, while the balance of N0.24 billion was not remunerated.

4.4.4.5 Over-the-Counter Transaction (OTC) in NTBs
In order to deepen the treasury bills market, over-the-counter transaction in the instrument was introduced in June 2007. The operation was consummated at the Nigerian Stock Exchange with final settlement at the CBN. The total value of transactions settled under the 2-way quote was N1,256.1 billion.
4.5 CAPITAL MARKET DEVELOPMENTS

4.5.1 The Nigerian Stock Exchange

Activities on the floor of the Nigerian Stock Exchange (NSE) in 2007 indicated substantial improvement. The aggregate volume and value, as well as the total number of deals in the primary and secondary segments of the market rose significantly. Aggregate market capitalization of the 310 listed securities increased by 159.6 per cent to close at ₦13.3 trillion, compared with ₦5.1 trillion recorded in the preceding year. The bulk of the transactions were in equities, which accounted for ₦2.1 trillion or 99.9 per cent of the turnover value, compared with 99.6 per cent recorded in 2006. Transactions in the industrial loans subsector amounted to ₦2.9 billion, representing 0.1 per cent of the total. Also, the market capitalisation of the 212 listed equities accounted for ₦10.3 trillion or 77.5 per cent of the total market capitalization. The development was attributable to the price appreciations of equities consequent upon macroeconomic stability and improved corporate results, as well as the recapitalisation programme of the insurance subsector.

There were many supplementary issues in the banking subsector, while the insurance sub-sector listed some scheme shares arising from the mergers and acquisitions elicited by the industry consolidation. The banking subsector accounted for 48.4 per cent of the market capitalisation as at the end of the year. The major capital market development indicators showed significant improvement. Market capitalisation as a percentage of GDP rose from 27.6 per cent to 58.2 per cent in 2007. The ratio of the value of stocks traded to GDP stood at 9.2 per cent in 2007, compared with 2.5 per cent in 2006, while the turnover value as a percentage of market capitalisation was 15.8 per cent, compared with 9.2 per cent in 2006. The annual turnover value (measured as the ratio of the total value of stocks traded to the total value of stocks listed on the domestic market) rose by 343.7 per cent, compared with 78.9 per cent in 2006. Seventeen (17) additional stocks were listed on the exchange during the period under review, compared with twelve (12) in 2006.

![Figure 4.33: Trends in Market Capitalization and NSE Value Index](image)
### Table 4.8: Indicators of Capital Market Development (NSE)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Listed Securities</th>
<th>Volume of Stocks Traded (Turnover Volume) (Billion)</th>
<th>Value of Stocks Traded (Turnover Value) (Billion Naira)</th>
<th>Value of Stocks/GDP (%)</th>
<th>Market Capitalisation (Billion Naira)</th>
<th>Of which: Banking Sector (Billion Naira)</th>
<th>Market Capitalisation/GDP (%)</th>
<th>Of which: Banking Sector/GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>265</td>
<td>13.3</td>
<td>120.4</td>
<td>1.2</td>
<td>1324.9</td>
<td>354.1</td>
<td>13.1</td>
<td>13.1</td>
</tr>
<tr>
<td>2004</td>
<td>277</td>
<td>19.2</td>
<td>225.8</td>
<td>1.9</td>
<td>1925.9</td>
<td>662.7</td>
<td>16.5</td>
<td>5.7</td>
</tr>
<tr>
<td>2005</td>
<td>288</td>
<td>26.7</td>
<td>262.9</td>
<td>1.8</td>
<td>2900.1</td>
<td>1212.1</td>
<td>19.5</td>
<td>8.1</td>
</tr>
<tr>
<td>2006</td>
<td>288</td>
<td>36.5</td>
<td>470.3</td>
<td>2.5</td>
<td>5120.9</td>
<td>2142.7</td>
<td>27.6</td>
<td>11.5</td>
</tr>
<tr>
<td>2007</td>
<td>310</td>
<td>138.1</td>
<td>2100.0</td>
<td>9.2</td>
<td>13294.6</td>
<td>6432.2</td>
<td>58.2</td>
<td>28.2</td>
</tr>
</tbody>
</table>

*Source: Nigerian Stock Exchange (NSE)*

#### 4.5.1.1 The Secondary Market

The secondary market segment of the Nigerian Stock Exchange (NSE) recorded a significant increase in activity. The performance of the market was enhanced by the improved awareness of the opportunities in the stock market, operating results of some quoted companies, available large float, particularly in the banking and insurance sectors, following the conclusion of the recapitalisation exercise in these sectors, sustained inflow of pension funds as well as the low rates of return on deposits in the money market. Improvement in the macroeconomic environment in the country also attracted foreign investors into the market and, thus, increased the level of activity.

Total turnover was 138.1 billion shares, an increase of 276.3 per cent over the 36.5 billion shares recorded in 2006. The year closed with a market turnover of ₦2.1 trillion or an increase of 346.6 per cent over the preceding year's level. The banking subsector accounted for 65.0 per cent of the 20 most capitalised stock on the exchange. Following the sustained confidence in the Nigerian economy, foreign portfolio investment...
worth ₦200.0 billion, representing 9.6 per cent of the aggregate market turnover was recorded in 2007, compared with N35 billion in 2006.

4.5.1.2 NSE Value Index
The NSE All-Share Index rose significantly by 74.7 per cent to close at 57,990.22, compared with 33,358.30 at the end of the preceding year, reflecting the improvement in share prices of the highly capitalised stocks on the exchange.

4.5.1.3 New Issues Market
There was improved activity in the primary market, reflecting the increased recourse to the stock market by companies and governments. Also, some mergers and acquisitions were concluded through the facility of the exchange. The exchange approved 65 applications for both new issues and mergers/acquisitions valued at ₦2.4 trillion, compared with 69 applications valued at ₦1.7 trillion in 2006. The banking sector accounted for 66.3 per cent of the new issues approved in 2007, with 19 applications valued at ₦1.6 trillion, while non-bank corporate issues accounted for 12.2 per cent with 39 applications valued at ₦294.1 billion. The FGN Bonds issue amounted to ₦520.0 billion and accounted for 21.5 per cent of the total.

![Figure 4.34: Share of Banks in the 20 Most Capitalized Stocks in the NSE](image)

![Figure 4.35: New Issues by Sectors](image)
Further analysis of new issues showed that the sum of N719.9 billion was raised through initial public offers (IPOs) and supplementary issues; N168.1 billion through rights issues; and N520.0 billion through bonds issue, including the FGN bonds issue. Other issues accounted for the balance. Approvals in the banking sector to raise fresh funds through public offer stood at N697.9 billion, while rights offer amounted to N152.8 billion in 2007.

![Figure 4.36: New Issues by Type](image)

The number of securities listed on the exchange increased to 310 from 293 in 2006 as 32 new securities were listed, while 16 others were de-listed during the year. Also, one new subsector (Airline Services) was created on the daily official list, thus raising the number of subsectors in the equity sector to 32.
In an effort to strengthen and reposition the Nigerian Capital Market to cope with global competition, the Securities and Exchange Commission (SEC) approved a new minimum capital base for all capital market operators in the country. Specifically, the policy was aimed at ensuring that only well capitalised and properly structured organisations operate in the capital market. In that regard, the minimum paid-up capital for issuing houses was increased from N150.0 million to N2.0 billion; brokers/dealers, N70.0 million to N1.0 billion; clearing and settlement agencies, N500.0 million to N1.0 billion; and Registrars, N50.0 million to N500.0 million. Underwriters were required to raise their minimum capital base from N100.0 million to N2.0 billion; Fund/Portfolio Managers, N20.0 million to N500.0 million, while corporate sub-brokers were to have a minimum capital base of N50.0 million.

Operators not affected by the upward review included stock/commodities exchanges, capital trade points, commodities' brokers, venture capital managers and individual investment advisers. Others are consultants (individual and corporate), rating agencies, corporate investment advisers and trustees. The exemption was aimed at encouraging a smooth take off of these relatively new areas of capital market operations in Nigeria. Existing operators were given up to 31st December, 2008 by the Securities and Exchange Commission (SEC) to comply with the new capital requirements either through capital increases or mergers/acquisitions.

The reduction in all capital market fees for both primary and secondary market transactions by 40.0 per cent was approved. The reduction in cost was the culmination of industry-wide efforts at ensuring that the domestic capital market was made more competitive to attract both local and foreign investments into the country. Consequently, average equities transaction cost in the primary market was reduced from 6.92 per cent to 4.32 per cent, while transaction cost on bonds was reduced from 7.03 per cent to 4.79 per cent. For the secondary market, equities transaction cost on the buy side was reduced from 4.07 per cent to 2.36 per cent, while the sell side was 2.65 per cent, down from 4.12 per cent. The new fee regime came into effect on 24th April, 2007.

Other approvals during the period included 80.0 per cent mandatory underwriting for public offers; and a code of conduct for shareholders’ associations in Nigeria. This was to engender professionalism among underwriters as well as ensure that only viable products are brought to the market.

In another development, Afprint Nigeria Plc was reclassified from Textiles subsector to Agriculture/Agro-Allied subsector due to changes that occurred in the company, while the Managed Funds subsector was renamed “Other Financial Institutions” to permit the listing of more companies providing ancillary financial services within the group. In keeping with the trend in the global securities market, the NSE in 2007 commenced the process of demutualisation with the setting up of a Committee of Council to design a blueprint for its implementation. Similarly, the Exchange embarked on the automation of most of its trading floors. On cross-border listing, the exchange facilitated a landmark transaction that led to the successful issuance of a Global Depository Receipt (GDR) by Guaranty Trust Bank Plc on the London Stock Exchange, thereby expanding the financing options for listed companies, while the modalities for the proposed integration of the markets in West Africa were worked out with a view to enabling the participating countries to exploit the economy of scale inherent in an integrated West African Stock Market. The exchange introduced the Third-Tier Market with the objective of assisting indigenous small and medium enterprises to access the stock market for financing. In the same vein, to give more Nigerians access to the market, a new automated trading floor of the exchange was commissioned in Uyo, Akwa-Ibom State in 2007.
4.6 Future Outlook of the Financial System in 2008

With the launching of the two-way quote in the money market, the appointment of money-market dealers (MMD) in 2007 and subsequent introduction of intra-day facility in the money market, it is expected that trading among market operators would be enhanced and, thereby, make money market rate move around the Bank’s policy rate as well as reduce the margin. Also, the commencement of two-way quote in inter-bank funds market would provide a proper benchmark for interest rate in the inter-bank funds trading.

Sustained macroeconomic stability in 2008 would enhance the level of economic activity, thus making most of the firms to increase their levels of operations and, thereby, raise more funds from the capital market. Further, the launching of the Investors Protection Fund by the NSE, migration of bonds trading from OTC to the exchange as well as the stepping up of the privatisation programme of the government, which could make most of the Parastatals to raise funds from the capital market, would further boost the system.

Overall, the future of the financial system in 2008 looks bright, especially as the full-fledged risk-based supervision will come into effect to safeguard the banking industry and, thereby, enhance the effectiveness of monetary policy conduct. However, the post-consolidation challenges of the sector remained daunting and would require pragmatic approach on the part of the Bank.