FINANCIAL STABILITY REPORT

JUNE 2021

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LIST OF ACRONYMS

AMCON	Asset Management Corporation of Nigeria
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BDCs	Bureaux de Change
BOA	Bank of Agriculture
BOI	Bank of Industry
BRICS	Brazil, Russia, India, China, and South Africa
BVN	Bank Verification Number
CACS	Commercial Agriculture Credit Scheme
CAR	Capital Adequacy Ratio
CBN	Central Bank of Nigeria
COB	Currency Outside Banks
CRMS	Credit Risk Management System
DAX	Deutscher Aktienindex (German stock index of 30 major German companies)
DCs	Depository Corporations
DFIs	Development Finance Institutions
DMBs	Deposit Money Banks
DVP	Delivery Versus Payment
EBAs	Eligible Bank Assets
ECB	European Central Bank
EGX CASE 30	Egypt Stock Exchange (Cairo and Alexandria Stock Exchange) 30 Stock Index
FAO	Food and Agriculture Organisation
FATF	Financial Action Task Force
FCs	Finance Companies
FGN	Federal Government of Nigeria
FMBN	Federal Mortgage Bank of Nigeria
FRACE	Financial Regulation Advisory Council of Experts
FSIs	Financial Soundness Indicators
FSR	Financial Stability Report
FSRCC	Financial Services Regulation Co-ordinating Committee
GDP	Gross Domestic Product
GSE	Ghanaian Stock Exchange
HHI	Herfindahl-Hirschman Index

ICE	Intercontinental Exchange
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
KYC	Know Your Customer
M1	Narrow Money Supply
M2	Broad Money Supply
M3	M2 plus CBN Bills held by the money holding sectors
MENA	Middle East and North African Countries
MFBs	Microfinance Banks
MSMEs	Micro, Small and Medium Enterprises
MHSs	Money Holding Sectors
MICEX	Moscow Interbank Currency Exchange
MoUs	Memoranda of Understanding
MPR	Monetary Policy Rate
NBS	National Bureau of Statistics
NCR	National Collateral Registry
NDC	Net Domestic Credit
NDIC	Nigeria Deposit Insurance Corporation
NEXIM	Nigerian Export-Import Bank
NIBSS	Nigerian Inter-bank Settlement System
NMRC	Nigeria Mortgage Re-finance Company Plc
NPLs	Non-Performing Loans
NSE 20	Nairobi Stock Exchange 20-Share Index
NSE ASI	Nigerian Stock Exchange All-Share Index
NYMEX	New York Mercantile Exchange
OBB	Open Buy Back
ODCs	Other Depository Corporations
OFIs	Other Financial Institutions
OPEC	Organisation of Petroleum Exporting Countries
ORB	OPEC Reference Basket
PAIF	Power and Aviation Infrastructure Fund
PENCOM	National Pension Commission of Nigeria
PFAs	Pension Fund Administrators
PFCs	Pension Fund Custodians
PMBs	Primary Mortgage Banks

PoS	Point of Sale
PSV 2020	Payments System Vision 2020
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real-Time Gross Settlement System
S&P/TSX	Standards and Poor's Composite Index of the Toronto Stock Exchange
SEC	Securities and Exchange Commission
SMEs	Small and Medium Enterprises
WAMZ	West African Monetary Zone
WEO	World Economic Outlook
WTI	West Texas Intermediate

GOVERNOR'S STATEMENT

This edition of the Financial Stability Report highlights developments in the financial system in the first half of 2021, amidst the lingering effects of the COVID-19 pandemic. During the review period, downside risks to economic growth and financial stability shaped global economic outlook and activities. Global output was projected by the IMF to grow by 6.0 per cent in 2021, in contrast to the contraction of 3.2 per cent in 2020. The growth is expected to be moderated by in most Emerging Markets and Developing Economies (EMDEs) by slower-than-expected rollout of vaccines, elevated inflation induced by high food prices and tight financial conditions.

Output in 2021 was projected to expand by 7.0, 4.6 and 6.3 per cent in the USA, Euro Area and EMDEs, respectively. Similarly, economies in Sub-Saharan Africa (SSA) were expected to expand on the back of gradual progress in the distribution and administration of COVID-19 vaccines and other regulatory interventions.

In Nigeria, output was projected to grow by 2.5 per cent in 2021, indicating an improved performance from negative 1.8 per cent in 2020. The growth prospect was premised on the anticipated improvement in vaccine deployments, targeted policy support, a resilient financial system and increased investors' confidence. Generally, credit to the private sector grew during the period, reflecting the effort of the Bank through its various interventions towards reviving the economy. The intervention programmes focused on supporting priority sectors of the economy affected by the COVID-19 pandemic. The Bank's development finance interventions increased credit flow to the real sector, while the foreign exchange intervention eased pressure in the market.

However, the lingering security challenges may slow-down economic activities, heighten food insecurity and weaken investors' confidence.

Notwithstanding the security challenges, the banking system remained resilient, as reflected in the financial soundness indicators. The Bank will continue to sustain its supervisory and surveillance activities with a view to promoting a sound, stable and safe banking system in Nigeria.

Godwin I. Emefiele, CON

Governor, Central Bank of Nigeria

FOREWORD

The global sustenance of fiscal and monetary responses to the COVID-19 Pandemic and the massive roll out of vaccines planned for the second half of 2021, is expected to mitigate the adverse effects of the pandemic on households and businesses. These responses are expected to spur global growth in 2021 and 2022. However, rising global debts could dampen investors' confidence. Nigeria recorded improved economic activities following the easing of COVID-19 containment measures supported by the Bank's accommodative monetary policy stance and sustained interventions in targeted sectors.

The financial soundness indicators of the banking industry remained above prudential requirements with the results of the stress test further demonstrating the resilience and soundness of the system.

This edition of the Financial Stability Report is divided into six sections. The first section examines global and domestic trends. Section two discusses financial system developments, while the third highlights key stability issues as well as regulatory and supervisory activities. Section four discusses key developments in the payments system, while sections five and six focus on key risks and the outlook for financial stability.

This Financial Stability Report provides insights to the financial conditions, risks and vulnerabilities as well as the Bank's continuous efforts at promoting a safe and resilient financial system that supports sustainable economic growth and development.

The public is assured of the Bank's commitment at ensuring a healthy banking system that supports sustainable, economic development and inclusive growth.

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

EXECUTIVE SUMMARY

Global economic activity rebounded in the first half of 2021, due largely to the improved vaccination coverage, sustained policy support, and a favourable financial environment. Accordingly, global output was projected to rebound by 6.00 per cent in 2021 and moderate to 4.90 per cent in 2022, with uneven and limited access to vaccines, the emergence of new variants of the virus identified as growth inhibitors.

Global consumer prices trended upward in most economies during the review period, owing mainly to supply side constraints and increases in the prices of commodities such as food, energy and inputs. These contributed to the mixed performance in the global stock markets despite the improved market sentiments.

On the domestic front, economic activities continued their gradual recovery following improvement in the administration of COVID-19 vaccines, sustained fiscal and monetary policy support as well as the resilient operation of the financial system.

The Gross Domestic Product, grew by 5.10 per cent in the second quarter of 2021, was constrained by the spread of the mutating strains of the virus, exchange rate pressure as well as structural rigidities.

Inflationary pressures, driven largely by supply side constraints, exchange rate pass-through and high prices of food and energy persisted in the review period. Appropriate measures, including sustained monetary operations and foreign exchange interventions, were implemented to moderate prices in the near-to-medium term.

Several supervisory measures including the introduction of virtual bank examination, consolidated supervision, and sustained implementation of the Global Standing Instruction (GSI) policy to mitigate credit risk were implemented by the Bank to promote the soundness and stability of the banking system.

The measures adopted by the Bank have continued to improve the quality of banks' assets, as evidenced by the improved Financial Soundness Indicators (FSIs). The ratio of non-performing loans (NPLs) to gross loans decreased to 5.70 per cent, at end-June 2021, from 6.02 per cent at end-December 2020. Similarly, the CAR of the banking industry increased by 0.04 percentage point to 15.46 per cent, at end-June 2021, from 14.83 per cent, at end-December 2020. In addition, the CAR of all the D-SIBs remained above the minimum regulatory requirement of 15 per cent.

The Credit Risk Management System (CRMS) database, a veritable source of credit information in the banking industry, showed that the total number of credit facilities on the database increased by 21.63 per cent during the review period, compared with the preceding period.

During the review period, households and businesses that were adversely impacted by the COVID-19 pandemic benefitted from the Bank's development finance interventions through the Anchor Borrowers' Programme, Agri/Business Small and Medium Enterprise Investment Scheme, Healthcare Sector Intervention Facility and Targeted Credit Facility, amongst others.

The key risks to financial system stability during the review period included, cyber-risk from increased use of digital financial services; operational risk from security threats to the financial system; macroeconomic risk from fragile growth, elevated inflation and exchange rate pressures. Consequently, the Bank implemented proactive measures to mitigate the identified risks.

The overall economic outlook remained cautiously optimistic, given the robust policy measures adopted by the Bank towards mitigating the adverse impact of the pandemic and enhancing the resilience of the financial system.

1 ECONOMIC AND FINANCIAL DEVELOPMENTS

1.1 Global Developments

1.1.1 Output

Global economic activity regained momentum in the first half of 2021, due largely to the improved pace of vaccine roll out and sustained policy support by various governments. However, economic recovery was largely divergent across countries, reflecting uneven distribution and access to COVID-19 vaccines. Most emerging markets and developing economies (EMDEs) recorded slow recovery resulting from limited access to vaccines, alongside surges in the number of infections traceable to new virus mutations and the associated containment measures.

Global output was projected to rebound by 6.00 per cent in 2021 and moderate to 4.90 per cent in 2022. The strong growth optimism was premised on the anticipated additional fiscal support in some large economies as well as, the planned massive roll out of vaccines in the second half of 2021.

In advanced economies, output was expected to grow by 5.6 per cent in 2021 and moderate to 4.4 per cent in 2022. The improved pace of vaccination, especially for the vulnerable groups in the first half of 2021, has boosted contact-intensive economic activities, leading to a pickup in aggregate demand. Output in the United States was projected to grow by 7.0 per cent in 2021, and moderate to 4.9 per cent in 2022, owing not only to the above development but also to the positive impact of the anticipated legislation that would boost spending in infrastructure and social safety programmes in the second half of 2021.

Japan's economy was also expected to rebound by 2.8 per cent in 2021 and increase to 3.0 per cent in 2022, as vaccinations proceed rapidly, leading to a full re-opening of the economy. Similar gains in momentum are expected in the UK and Canada, which could lead to improved growth later in the year, with a likely spill-over to 2022.

Output in the Euro Area was projected to grow by 4.6 per cent in 2021, and moderate to 4.3 per cent in 2022. This development was due to the slow pace of recovery as well as the surge in infections in most of the European countries.

Growth in EMDEs was expected to rebound by 6.3 and 5.2 per cent in 2021 and 2022 respectively. Apart from China, which has an effective public investment plan and adequate containment measures, most other countries within the EMDEs would be affected by vaccine procurement challenges, which may precipitate further lockdowns in 2021 and 2022.

In the Middle East and Central Asia, growth was expected to expand by 4.0 per cent in 2021 and moderate to 3.7 per cent in 2022. This would majorly be driven by envisaged improvement in economic activities in some countries within the region, but partially offset by subdued oil production in Saudi Arabia.

Growth in Sub-Saharan Africa was projected to expand by 3.4 per cent in 2021, with a further increase to 4.1 per cent in 2022. The expected pick-up was premised on the programmed rapid progress in vaccine distribution, alongside sustained support for private sector investment.

In Nigeria, output was projected to grow by 2.5 per cent in 2021 and further by 2.6 per cent in 2022, driven largely by expected increase in vaccine deployments and targeted policy support. Similarly, South Africa's output is expected to grow by 4.0 per cent in 2021 and moderate to 2.2 per cent in 2022.

TABLE 1:1 GLOBAL GROWTH

Region/Country	Year			
	2019	**2020**	**2021***	**2022***
World	2.8	-3.2	6.0	4.9
Advanced Economies	1.6	-4.6	5.6	4.4
United States	2.2	-3.5	7.0	4.9
Euro Area	1.3	-6.5	4.6	4.3
Japan	0.0	-4.7	2.8	3.0
United Kingdom	1.4	-9.8	7.0	4.8
Canada	1.9	-5.3	6.3	4.5
Emerging Markets and Developing Economies	3.7	-2.1	6.3	5.2
China	6.0	2.3	8.1	5.7
Middle East and Central Asia	1.4	-2.6	4.0	3.7
India	4.0	-7.3	9.5	8.5
Saudi Arabia	0.3	-4.1	2.4	4.8
Sub-Saharan Africa	3.2	-1.8	3.4	4.1
Nigeria	2.2	-1.8	2.5	2.6
South Africa	0.2	-7.0	4.0	2.2

Source: IMF's World Economic Outlook, July Update, 2021

*Projections

1.1.2 Global Inflation

Most economies across the globe experienced inflationary pressures during the review period, owing largely to high prices of food, energy and inputs. Inflation rate in the United States rose to 5.4 per cent at end-June 2021, from 1.5 per cent at end-December 2020, reaching a new high since August 2008. This development was attributable to supply side constraints and considerable increase in commodity prices. In Japan, inflation rate rose by 0.2 per cent year-on-year in June 2021, from negative 0.1 per cent in December 2020. In the United Kingdom, inflation rate trended upward to 2.5 per cent in June 2021, from 0.8 per cent in December 2020, largely on account of increases in the costs of cars, motor oil and clothing. However, inflation rate in the Euro Area trended downward to 1.2 per cent in June 2021, from 1.4 per cent in 2020 in line with the preliminary estimate.

In EMDEs, inflation rate fell to 4.3 per cent at end-June 2021, from 4.9 per cent at end-December 2020. This development was driven largely by China's inflation which dropped sharply to 1.1 per cent in the review period from 2.9 per cent at end-December 2020, mainly on account of government's recent release of base metals stockpiles and stringent measures against speculation.

Inflation in Sub-Saharan Africa dropped to 7.2 per cent at end-June 2021, from 8.7 per cent at end-December 2020. In Nigeria, inflation rate rose to 17.75 per cent at end-June 2021, from 15.8 per cent at end-December 2020, owing mainly to rising prices of food, housing, transportation and utilities. Also, South Africa's inflation rose to 4.9 per cent in June 2021, from 3.1 per cent at end-December 2020.

TABLE 1:2 GLOBAL INFLATION

	2016	2017	2018	2019	2020	2021
Region/Country						
Advanced Economies	0.8	1.5	2	0.6	1.6	1.6
United States	1.3	1.8	2.5	1.8	1.5	5.4
Euro Area	0.2	2	1.5	0.2	1.4	1.2
Japan	-0.1	0.1	1.1	0.5	-0.1	0.2
United Kingdom	0.6	2.8	2.7	1.8	0.8	2.5
Emerging Markets & Developing Economies	4.3	4.5	4.6	5.0	4.9	4.3
China	2	1.6	2.1	2.9	2.9	1.1
Russia	7	3.7	2.9	4.5	3.2	6.5
Middle East & Central Asia	5.7	6.9	9.5	10.1	11.1	7.2
Sub-Saharan African	11.4	10.8	9.5	11.1	8.7	7.2
Nigeria	18.6	15.4	11.4	12.0	15.8	17.8
South Africa	6.8	4.7	4.5	4.0	3.1	4.9

Source: IMF's World Economic Outlook, July 2021

1.1.3 Oil Prices

Crude oil prices rallied in the first half of 2021. This was mainly driven by a rapid roll-out of COVID-19 vaccines and increased refinery demand, amidst substantial production cut by OPEC+[1] members.

Consequently, the OPEC Reference Basket (ORB) value rose by 46.21 per cent to US$71.89 per barrel at end-June 2021, from US$49.17 per barrel at end-December 2020. Similarly, Bonny Light and UK Brent prices increased to US$75.23 and US$73.41 per barrel at end-June 2021, from US$40.21 and US$51.22 per barrel at end-December 2020, respectively.

[1] OPEC and non-OPEC members

TABLE 1:3 PRICES OF CRUDE OIL (US$)

	Dec -19 a	Dec - 20 b	Jun - 21 c	Abs-Change b-a	Abs-change c-b	%Change (y-o-y)	%Change (y-t-d)
OPEC References	63.32	49.17	71.89	-14.15	22.72	-22.35	46.20
Brent Crude	64.28	51.22	73.41	-13.06	22.21	-20.32	43.32
WTI	56.99	47.04	71.35	-9.95	24.31	-17.46	51.67
Bonny Light	52.82	40.21	75.23	-12.61	35.02	-23.87	87.09

1.1.4 International Stock Markets

Major global stock markets showed mixed performance during the review period. The massive rollout of COVID-19 vaccines as well as broad policy support in most jurisdictions improved market sentiments. However, weak macroeconomic fundamentals weighed heavily on some stock markets.

In North America, the United States S&P 500, Canadian S&P/TSX Composite and Mexico's Bolsa indices increased by 14.8, 15.7 and 14.1 per cent respectively, during the review period.

In Europe, the FTSE 100, France CAC 40, and the German DAX indices increased by 10.1, 18.1 and 13.6 per cent respectively, during the review period.

In Asia, Japan's Nikkei 225, Shanghai Stock Exchange-A, and Indian BSE Sensex indices increased by 4.6, 3.3 and 9.2 per cent respectively.

In Africa, the South African JSE All-Share, Kenyan NSE 20 and Ghanaian GSE All-Share indices increased by 12.2, 3.2 and 36.8 per cent respectively. Conversely, the Nigerian NGX All-Share and Egyptian EGX Case 30 indices declined by 5.9 and 5.4 per cent respectively, during the review period. (See the table below).

TABLE 1:4 SELECTED INTERNATIONAL STOCK MARKET INDICES

Selected International Stock Market Indices as at June 30, 2021						
Country	**Index**	**30-Jun-20**	**31-Dec-20**	**30-Jun-21**	**Jun 30, 2020 - Jun 30, 2021 % Change**	**Dec 31, 2020 - Jun 30, 2021 % Change**
	NORTH AMERICA					
US	S&P 500	3,083.01	3,756.07	4,310.47	39.8	14.8
Canada	S&P/TSX Composite	15,389.72	17,433.36	20,165.58	31.0	15.7
Mexico	Bolsa	37,871.09	44,066.88	50,289.75	32.8	14.1
	EUROPE					
UK	FTSE 100	6,200.89	6,460.52	7,114.22	14.7	10.1
France	CAC 40	4,935.99	5,551.41	6,555.14	32.8	18.1
Germany	DAX	12,246.62	13,718.78	15,583.24	27.2	13.6
ASIA						
Japan	NIKKEI 225	22,288.14	27,444.17	28,707.04	28.8	4.6
China	Shanghai SE A	3,128.46	3,640.46	3,761.68	20.2	3.3
India	BSE Sensex	34,915.80	47,905.84	52,318.60	49.8	9.2
	AFRICA					
Nigeria	NGX All-Share Index	24,479.22	40,270.72	37,907.28	54.9	-5.9
South Africa	JSE All-Share Index	54,093.40	59,408.68	66,634.38	23.2	12.2
Kenya	Nairobi NSE 20 Share index	1,952.26	1,868.39	1,927.53	-1.3	3.2
Egypt	EGX CASE 30	10,764.59	10,845.26	10,256.62	-4.7	-5.4
Ghana	GSE All-Share Index	1,899.90	1,939.14	2,652.21	39.6	36.8

Source: Bloomberg

1.1.5 Foreign Exchange Markets

Currencies of most countries depreciated against the US dollar during the review period. In Asia, the Japanese yen, Chinese renminbi, and Indian rupee depreciated by 7.07, 0.43 and 1.70 per cent respectively. The development was largely attributed to the effects of the latest waves of the COVID-19 pandemic which adversely impacted the exports of those countries.

The Euro depreciated against the US dollar by 2.49 per cent owing to the lingering effects of the COVID-19 pandemic. The pound sterling appreciated by 1.23 per cent to the US Dollar, due to improved vaccine rollout and the partial re-opening of the British economy. Similarly, the Russian ruble appreciated by 1.21 per cent owing to relatively strong economic performance during the lockdown.

In Africa, the Nigerian naira marginally depreciated against the US dollar by 0.11 per cent at end-June 2021, following increased forex pressures and external shocks. The Ghanaian cedi depreciated against the dollar by 0.37 per cent while the South African rand, the Kenyan shilling and Egyptian pound appreciated by 2.87, 1.23 and 0.42 per cent respectively.

TABLE 1:5 TRENDS IN SELECTED CURRENCIES

Exchange Rates of Selected Countries (Value in currency units to US$)				
Regions/Countries	Currency	31-Dec-20	30-Jun-21	Dec 20- Jun 21 % App/(Dep)
AFRICA				
Nigeria	Naira	381.00	403.80	-5.65
South Africa	Rand	14.69	14.29	2.87
Kenya	Shilling	109.24	107.91	1.23
Egypt	Pound	15.74	15.67	0.42
Ghana	Cedi	5.87	5.89	-0.37
NORTH AMERICA				
Canada	Dollar	1.27	1.24	2.64
Mexico	Peso	19.91	19.94	-0.11
EUROPE				
UK	Pound	0.73	0.72	1.23
Euro Area	Euro	0.82	0.84	-2.94
Russia	Ruble	74.04	73.15	1.21
ASIA				
Japan	Yen	103.25	111.11	-7.07
China	Yuan	6.43	6.46	-0.43
India	Rupee	73.07	74.33	-1.70

Source: Bloomberg

1.1.6 Monetary Policy Rates

Monetary policy rates in most central banks were relatively stable during the first half of 2021, reflecting the need to allow for complete transmission of adjustments to the policy rates in the wake of COVID-19 pandemic. In the developed economies, such as Japan, United States, United Kingdom and New Zealand, the policy rates remained unchanged at -0.1, 0.25, 0.1, and 0.25 per cent, respectively.

In the Asian region, the Bank of Indonesia reduced the policy rate by 0.25 basis point to 3.5 per cent occasioned by forecast of low inflation and the need to maintain the stability of the rupiah exchange rate. The Bank of Malaysia on the other hand maintained its rates at 1.75 per cent.

In the BRICS, India, China and South Africa retained the policy rates at 4.00, 3.85 and 3.50 per cent respectively. However, both the Central Bank of Brazil and the Bank of Russia shifted to a tightening mode during the review period in response to inflation concerns. The Central Bank of Brazil progressively increased the policy rate from 2.00 to 4.25 per cent between January and June 2021, while the Bank of Russia gradually increased the rate from 4.25 to 5.50 per cent between February and June 2021.

In the EMDEs, Chile and Columbia maintained rates at 0.5 and 1.75 per cent respectively, while Mexico's Central Bank reduced its policy rate from 4.25 per cent in January to 4.00 per cent in February but increased the rate to 4.25 per cent in June in synch with inflationary expectations.

In Africa, the Bank of Egypt retained its policy rate 8.25 per cent as it continued to maintain its inflation target of 7 per cent, plus or minus 2 percentage points. Despite intensified inflationary pressures, the Central Bank of Nigeria maintained its policy rate of 11.5 per cent in order to stimulate growth. The Bank of Ghana maintained its policy rate at 14.5 from January to March 2021, but reduced it by 100 basis points to 13.5 per cent in April. The reduction was occasioned by a drop in inflation to 7.8 per cent and the need to support economic growth.

TABLE 1:6 EXCHANGE RATES OF SELECTED COUNTRIES (VALUE IN LOCAL CURRENCY UNITS TO US$)

	First Half 2021					
Country/Region	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
	Developed Economies					
Japan	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Europe	0	0	0	0	0	0
UK	0.1	0.1	0.1	0.1	0.1	0.1
U.S	0.25	0.25	0.25	0.25	0.25	0.25
Canada	0.25	0.25	0.25	0.25	0.25	0.25
South Korea	0.5	0.5	0.5	0.5	0.5	0.5
New Zealand	0.25	0.25	0.25	0.25	0.25	0.25
Australia	0.1	0.1	0.1	0.1	0.1	0.1
	Asia					
Indonesia	3.75	3.5	3.5	3.5	3.5	3.5
Malaysia	1.75	1.75	1.75	1.75	1.75	1.75
	BRICS					
Brazil	2	2	2.75	2.75	3.5	4.25
Russia	4.25	4.25	4.5	5	5	5.5
India	4	4	4	4	4	4
China	3.85	3.85	3.85	3.85	3.85	3.85
South Africa	3.5	3.5	3.5	3.5	3.5	3.5
	Other Emerging Economies					
Mexico	4.25	4	4	4	4	4.25
Chile	0.5	0.5	0.5	0.5	0.5	0.5
Columbia	1.75	1.75	1.75	1.75	1.75	1.75
Africa						
Egypt	8.25	8.25	8.25	8.25	8.25	8.25
Ghana	14.5	14.5	14.5	13.5	13.5	13.5
Nigeria	11.5	11.5	11.5	11.5	11.5	11.5

source: www.tradingeconomies.com www.cbrates.com

TABLE 1:7 COMPARATIVE INTEREST RATES

	Country	Current rate	Previous rate	Date last changed
Selected African countries				
OECD	Botswana	3.75	3.75	June 17, 2021
	Ghana	13.5	14.50	May 31, 2021
	Kenya	7.00	7.00	April 29, 2020
	Mauritius	1.85	1.85	April 16, 2020
	South Africa	3.50	3.75	Jul 23, 2020
	Nigeria	11.50	11.50	Sep 22, 2020
	Australia	0.1	0.1	Nov 3, 2020
	Canada	0.25	0.25	March 27, 2020
	Euro zone	0.00	0.00	March 10. 2016
	Hungary	0.9	0.60	June 22, 2021
	Iceland	1.00	0.75	May 19, 2021
	Japan	-0.10	-0.10	Jan 29, 2016
	South Korea	0.50	0.5	May 28, 2020
	Mexico	4.25	4.00	June 24, 2021
	New Zealand	0.25	0.25	Mar 16, 2020
	Norway	0.00	0.00	May 07, 2020
	Poland	0.10	0.10	May 28, 2020
	Sweden	0.00	0.00	Dec 19, 2019
	Turkey	19.0	19.0	March 18, 2021
	United states	0.00-0.25	0.00-0.25	Mar 15, 2020
	United Kingdom	0.1	0.1	Mar 19, 2020
	Switzerland	-0.75	-0.75	Jan 15, 2015
Non-OECD	China	3.85	3.85	Apr 20, 2020
	Indonesia	3.5	3.5	Feb 18, 2021
	Russia	5.5	5.00	June 11,, 2021
	Brazil	4.25	3.5	June 16, 202
	India	4.00	4.00	May 22, 2020
	Argentina	38.00	38.00	Mar 05, 2020
	Kazakhstan	9.00	9.00	Jul 20, 2020
	United Arab Emirates	1.50	1.50	Mar 3, 2020

Source: Cbrates.Com; Trading Economics

1.1.7 Potential Risks from the Global Economic Developments

The lingering impact of the COVID-19 pandemic on global economic recovery and its debilitating effects on the financial markets continues to pose a risk to financial stability. Some of the likely implications of these risks are:

I. Fragile Growth. The uncertain duration of the pandemic accentuated by the emergence of new mutating strains of the virus and the associated impact on the economy continues to manifest in fragile macroeconomic growth.

II. Uneven Economic Recovery. The uneven distribution and access to COVID-19 vaccines largely tilted in favour of advanced economies, resulting in divergent economic recovery could slow growth, especially in most emerging markets and developing economies (EMDEs).

III. Inflationary Pressure. The persistent accommodative monetary policy stance in support of growth may elevate inflation in the near to medium terms, with long term consequences for financial system stability and the general economy.

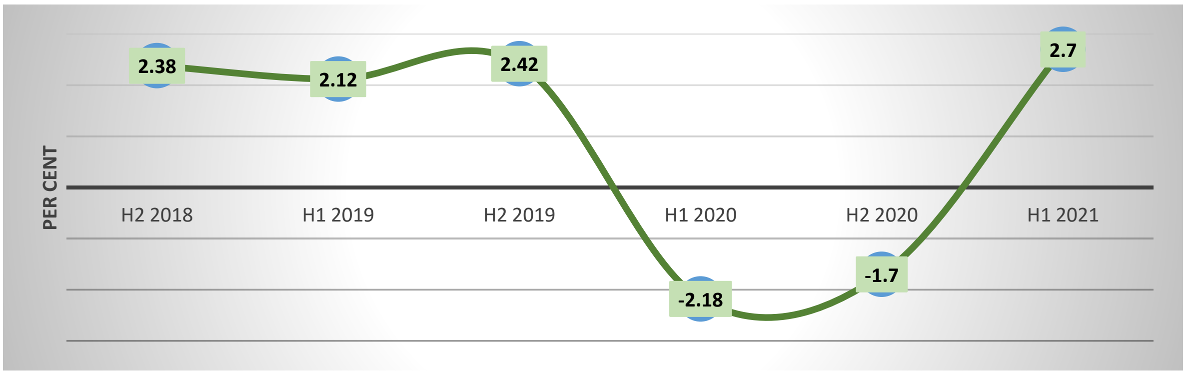
IV. Capital Flow Challenges. The observed uptick in inflation, mainly driven by high food prices, could trigger the tightening of financial conditions and slow down projected growth. Also, monetary policy normalisation in some advanced economies could induce capital outflow from some EMDEs, with adverse implications for growth and stability.

1.2 Domestic Macroeconomic Developments

1.2.1 Output Growth

There was a gradual recovery in economic activities, following rapid improvement in the administration of COVID-19 vaccines and policy support from the fiscal and monetary authorities. However, shocks arising from the spread of mutating strains of the virus, exchange rate pressures as well as structural rigidities, reduced the growth potential in the first half of 2021. However, output grew by 2.70 per cent in the first half of 2021, reflecting improved economic activities and increased investors' confidence in the economy. These factors were reinforced by the accommodative stance of monetary policy that boosted credit to the real sector.

FIGURE 1.1 GROSS DOMESTIC PRODUCT (GROWTH %)



Source: National Bureau of Statistics

The growth in GDP was due largely to the improved performance of the non-oil sector, which grew by 3.70 per cent in the first half of 2021, in contrast to a 1.7 per cent decline in the second half of 2020. The recovery was driven, mainly, by the Agriculture and Services sectors. The performance of the Oil sector GDP also improved following increases in oil prices and production.

TABLE 1:8 RELATIVE CONTRIBUTION TO REAL GDP

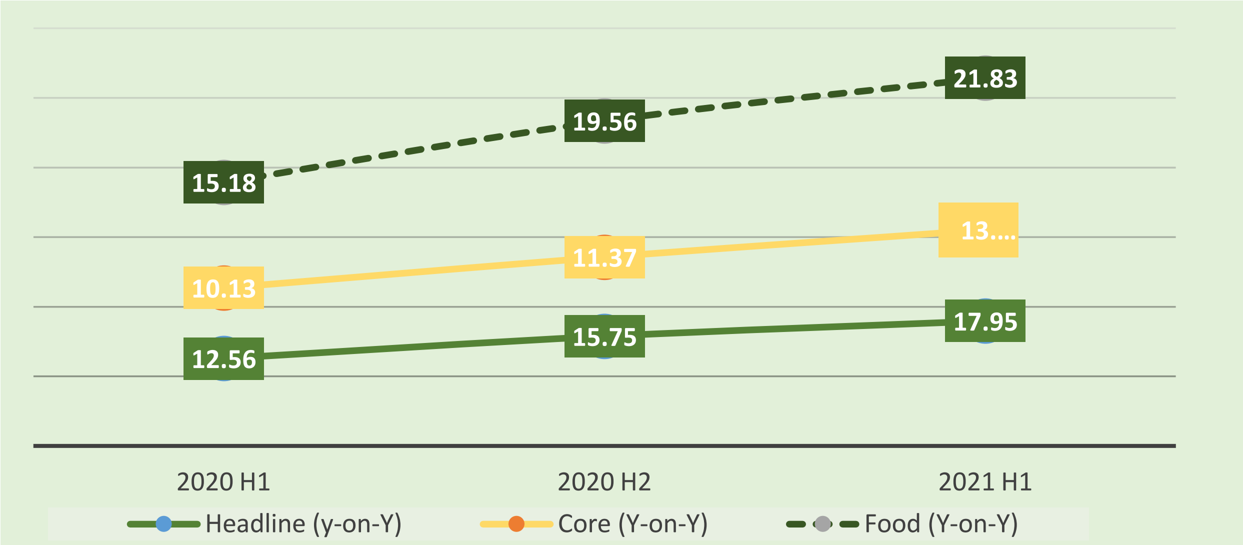
Sector	H1 2020	H2 2020	H1 2021
Agriculture	0.42	0.66	0.41
Crop Production	0.37	0.63	0.38
Industry	-1.17	-1.42	-0.02
Services	-1.43	-0.94	2.31
ICT	0.12	0.15	0.95
GDP Growth	-2.18	-1.70	2.70
Source: National Bureau of Statistics			

On a sectoral basis, Agriculture and Services contributed 0.41 and 2.31 percentage points respectively, to the growth in real GDP. The Industry sector, however, pulled the growth in GDP as it contributed negative 0.02 percentage point. The performance of the Agriculture sector moderated relatively, owing to the decline in crop production, following heightened security challenges in the food-producing regions, while Services sector recovered moderately, driven by the ICT sub-sectors (Table 2.1). Despite the improved performance of the economy, the onset of the Delta variant of the COVID-19 infections, lingering insecurity challenges and high domestic prices posed downside risks for economic growth.

1.2.2 Inflation

Inflationary pressure persisted in the review period due largely to the improvement in economic activities. At end-June 2021, headline inflation rose by 2.00 percentage points to 17.75 per cent compared with 15.75 per cent at end-December 2020, driven largely by food inflation. The 12-month-moving-average headline inflation stood at 15.93 per cent at end-June 2021, compared with 13.25 per cent at end-December 2020. Food inflation (year-on-year) increased by 2.27 percentage points to 21.83 per cent, compared with 19.56 per cent at end-December 2020. The upward trend in inflation was attributed to soaring food prices as a result of high transportation cost, security challenges and seasonal shortages that occurred during the planting season. Core inflation rose to 13.09 per cent in the review period, compared with 11.37 per cent recorded in the preceding period. The increase in core inflation (year-on-year) was attributed to high exchange rate pass-through to domestic prices and supply-chain challenges (Figure 1.2).

FIGURE 1.2 INFLATIONARY TREND (YEAR-ON-YEAR



1.2.3 Fiscal Operations[2]

Provisional data on Federal Government Retained Revenue, at ₦2,044.74 billion in the first half of 2021, was below the budget benchmark by 48.8 per cent due to a significant drop in revenue from Others[3]. This, however, represented an increase of 5.0 per cent relative to the receipts in the corresponding period of 2020, owing to the improvement in FGN Independent Revenue and VAT. Aggregate expenditure, at ₦6,614.79 billion, in the first half of 2021 was below the benchmark by 2.6 per cent but above the level in the corresponding period of 2020 by 41.3 per cent. The increase in total expenditure was as a result of the rise in interest payments on the government's obligations.

Consequently, the fiscal operations of the Federal Government resulted in overall deficit of ₦4,570.05 billion, which was 63.2 per cent above the budget benchmark of ₦2,800.81 billion, and 67.1 per cent above the level in the first half of 2020. The high deficit reflected the Government's policy stance of sustaining economic growth, ensuring the completion of ongoing critical infrastructure projects and cushioned the impact of the pandemic on the economy. The deficit was financed from both domestic and external sources.

The consolidated debt stock of the Federal Government at end-March 2021 stood at ₦28,984.30 billion, comprising 57.6 and 42.4 per cent domestic and external debt respectively. The debt stock at end-March 2021 indicated an increase of 3.4 per cent over the level at end-June 2020; and at 36.8 per cent of GDP, was below the Medium-

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[2] Data from July to September 2020 were obtained from OAGF, while those for October to December 2020 were CBN staff estimates.

[3] Includes Transfers from Special Levies Accounts, FGN's share of Signature Bonus, Domestic Recoveries, Stamp Duty, Grants and Donor Funding and Share of NLNG Dividend.

Term Debt Strategy (MTDS) threshold of 40.0 per cent of GDP. The threshold was reviewed in order to accommodate new borrowings to fund Budget Deficits and other expenditure obligations of the Government.

FIGURE 1.3 FEDERAL GOVERNMENT DOMESTIC DEBT STOCK

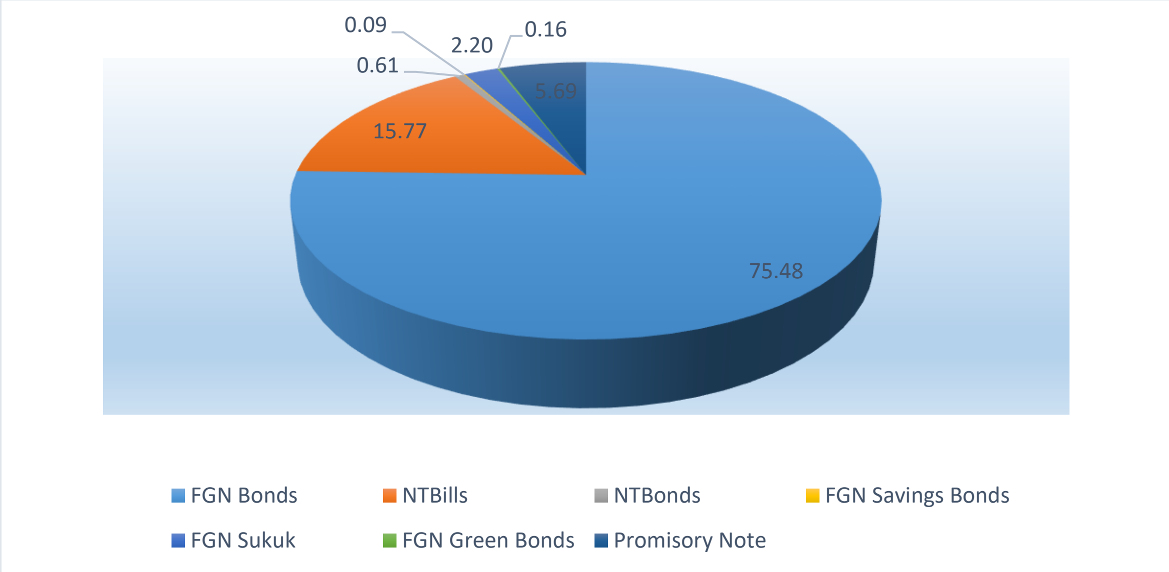
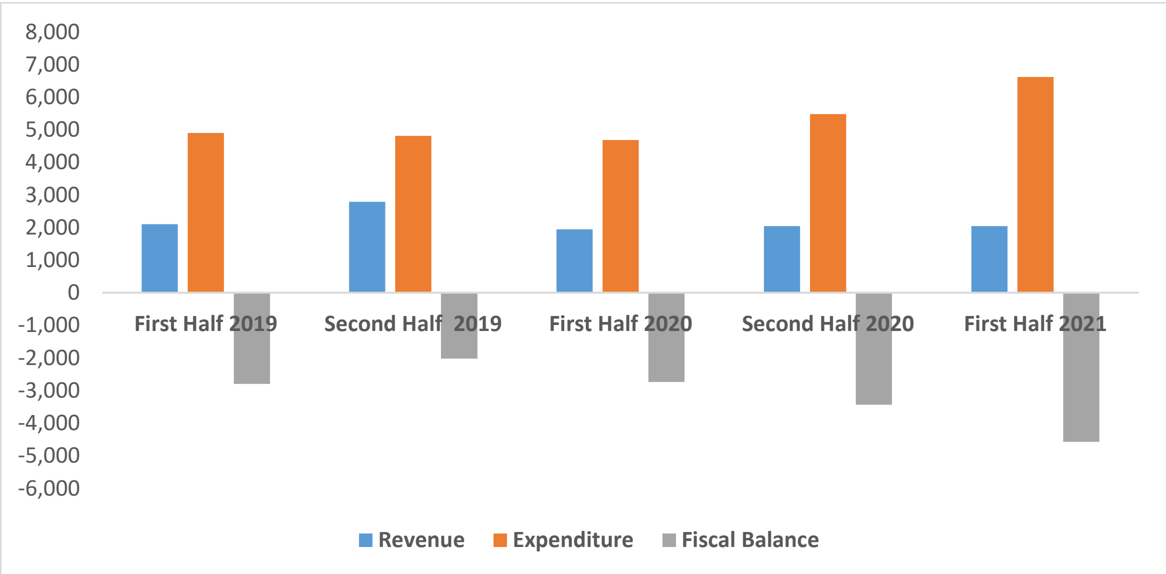


FIGURE 1.4 FEDERAL GOVERNMENT FISCAL OPERATIONS (N BILLION)



BOX 1: CBN CONTINUED WITH THE COUNTER-MEASURES TO MITIGATE THE COVID-19 PANDEMIC

- Extension of one-year moratorium on all principal repayments on CBN intervention facilities.
- Reduction of interest rate from 9.0 per cent to 5.0 per cent on applicable CBN intervention facilities
- Regulatory forbearances to the banking sector, allowing banks leave to consider **temporary and time-limited restructuring** of the tenor and loan terms for businesses and households most affected by the Covid-19 pandemic;
- Approval of a 12-month extension of the timeframe for MFBs to meet the new minimum regulatory capital requirements for the various classes of MFB licences;
- Suspension of the sale of foreign currency to Bureaux-De-Change Operators as part of the lockdown measures;
- ₦1.0 trillion credit facility for the manufacturing sector;
- The ₦50.0 billion Targeted Credit Facility stimulus package disbursed through NIRSAL MFB to support households and MSMEs that were affected by the coronavirus pandemic; and
- ₦100.0 billion credit facility for the pharmaceutical companies.

The CBN provided guidelines to the banking industry in March and May 2020 for the restructuring of credit facilities impacted by the Covid-19 pandemic. The criteria for credits to be restructured were that the facilities should have secured acceptable collateral and be for sectors in which businesses and cashflows had been adversely impacted by the pandemic. The guidelines also required that banks do not charge restructuring fees and excluded facilities categorized as lost or expired facilities pending renewal.

Furthermore, the guidelines limited the moratorium on principal payments to 12 months whilst rescheduled payments did not qualify as defaults for the purposes of supervisory reporting. Moratorium period for loans under General Commerce, Oil and Gas (downstream) and General (personal and retail) sectors was limited to 6 months.

Under the guidelines, 28.18 per cent of the industry's credit had been restructured at end-December 2020. The Oil and Gas, Manufacturing, General Commerce and Other sectors accounted for 42.31, 14.55, 5.37 and 37.77 per cent, respectively, of the total restructured facilities.

The CBN will continue to monitor bank NPLs closely against the regulatory maximum of 5 per cent to forestall spikes in NPLs. The sustained implementation of the Global Standing Instruction in the banking industry would enhance repayments and recoveries in the industry.

BOX 2: ELIGIBILITY CRITERIA FOR CONSIDERING BANKS' REQUEST FOR REGULATORY FORBEARANCE ON A CREDIT IMPACTED BY COVID-19 PANDEMIC

1. All obligors operating in sectors of the economy in which businesses and cash flows have been adversely impacted by the Covid-19 pandemic shall be eligible. These include but are not limited to oil and gas, agriculture, manufacturing, transport, education, healthcare, general (consumer and retail), real estate/construction and entertainment and tourism.
2. The CBN may consider other sectors outside of those identified above for grant of the regulatory forbearance on an exceptional basis.
3. All facilities classified LOST as at December 2019 shall NOT be eligible.
4. All expired facilities pending renewal by banks as at January 31, 2020 shall NOT be eligible.
5. Restructuring requests may be initiated by either the bank or the customer. However, where the requests are initiated by the bank on behalf of the customer, the bank must obtain the customer's written acceptance of the terms of the restructured facility within one month of CBN approval. This document shall be subject to review by examiners during onsite visits. Customers are permitted to continue to service their obligations under existing terms and conditions where they choose to do so.
6. Moratorium shall be available for principal and/or interest.
7. The maximum period of moratorium in respect of any restructured facility shall not exceed 12 months, expiring 31st March 2021.
8. Moratorium period for loans under General Commerce, Oil and Gas (downstream) and General (personal and retail) sectors shall NOT exceed 6 months subject to the condition in 7 above.
9. No restructuring fee shall be charged on any facility being restructured under this Guideline.
10. The restructuring of payments principal and/or interest) under this Guideline shall not qualify as a default for the purposes of supervisory reporting.
11. The regulatory approval of the restructuring shall be on the condition that the terms may be reviewed should economic conditions improve.
12. Internal approvals should be obtained before presentation to the CBN for approval. Where this is not practicable, banks will ensure that the necessary internal approvals are in place within 30 days of receipt of such regulatory approval.
13. Only facilities secured with acceptable collaterals are eligible for forbearance under this Guideline. Acceptable collaterals includes:

    a. Cash
    b. Treasury bills and government securities, e.g. bonds;

c. Quoted equities and other traded securities;
d. Bank guarantees and Receivables of blue-chip companies
e. Residential legal mortgage;
f. Commercial legal mortgage;
g. All assets debentures & Negative Pledge; and
h. Movable assets.

1.2.4 External Reserves

Gross external reserves at end-June 2021 stood at US$32.99 billion, compared with US$36.48 billion at end-December 2020. A breakdown of the external reserves indicated that the CBN, FGN and Federation holdings were 86.15, 13.67 and 0.18 per cent respectively. Further analysis showed that 79.59 per cent of the reserves was held in US dollars, 12.83 per cent in renminbi, 6.31 per cent in SDRs and 1.27 per cent in other currencies at end-June 2021.

Total inflow to the external reserves was US$14.06 billion in the first half of 2021, compared with US$15.15 billion in the second half of 2020, reflecting a decrease of US$1.09 billion or 7.19 per cent. Total outflow increased by US$2.73 billion or 18.30 per cent to US$17.65 billion, compared with US$14.92 billion in the second half of 2020.

FIGURE 1.5 EXTERNAL RESERVE POSITION

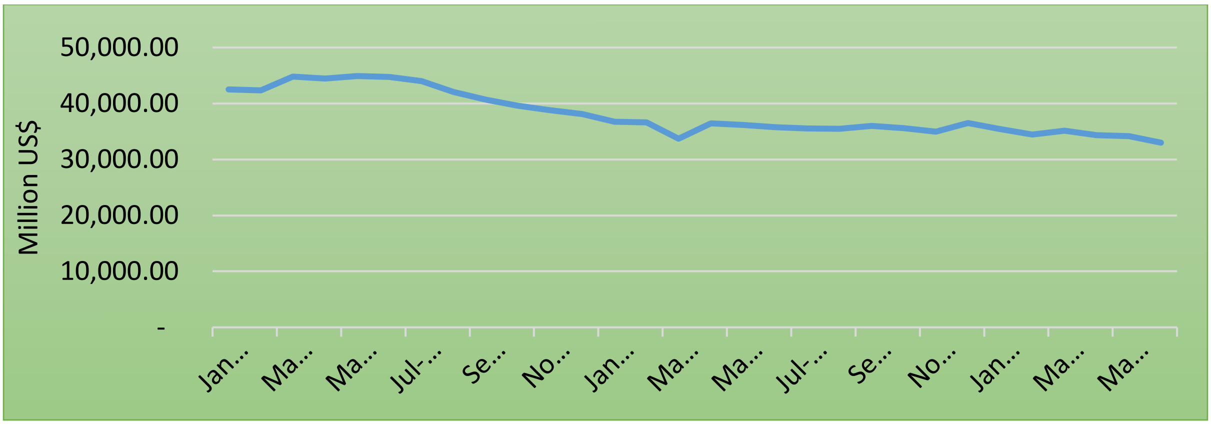


TABLE 1:9 FOREIGN EXCHANGE FLOWS THROUGH THE CBN (US$ MILLION)

Period	Inflow	Outflow	Net flow
H1 – 2021	14,060.38	17,646.13	(3,585.75)
H2 – 2020	15,149.77	14,917.55	232.22
H1 – 2020	24,840.24	27,324.80	(2,484.55)

1.2.5 Risks to the External Reserves

Downside risks to the external reserves include:

1. The tightening of monetary policy stance following normalisation and build-up in global debt would lead to lower asset values and have a negative impact on external reserves.
2. The lingering and mutating COVID-19 variants, particularly in Japan and India, could weaken the current growth trajectory and decrease demand for crude oil. This could lead to lower oil prices decrease in accretion to the external reserves.

2 DEVELOPMENTS IN THE FINANCIAL SYSTEM

2.1 Monetary and Credit Developments

Broad money supply (M3) grew by 2.02 per cent (annualised to 4.04 per cent) to ₦39,406.65 billion at end-June 2021. This was driven by the growth of 4.30 per cent in Domestic Claims (DC), which more than offset the 3.65 per cent decline in net foreign assets (NFA). The increase in DC was attributed to the credit disbursement to the private sector to ameliorate the adverse effects of the pandemic.

The increase in total monetary liabilities was due to the 4.67 per cent and 2.13 per cent increase in 'Other' deposits and transferable deposits of the Depository Corporations (DCs) respectively. 'Other' deposits (2.63 percentage points) and transferable deposits (0.74 percentage point) were the main contributors to M3 growth. Narrow money (M1) grew by 0.25 per cent to ₦16,016.75 billion at end-June 2021, above ₦15,976.62 billion at end-December 2020. The marginal growth in M1 stock was due to increased usage of electronic channels, reflecting improved confidence in the banking system.

TABLE 2:1 GROWTH RATES OF MONETARY AGGREGATES

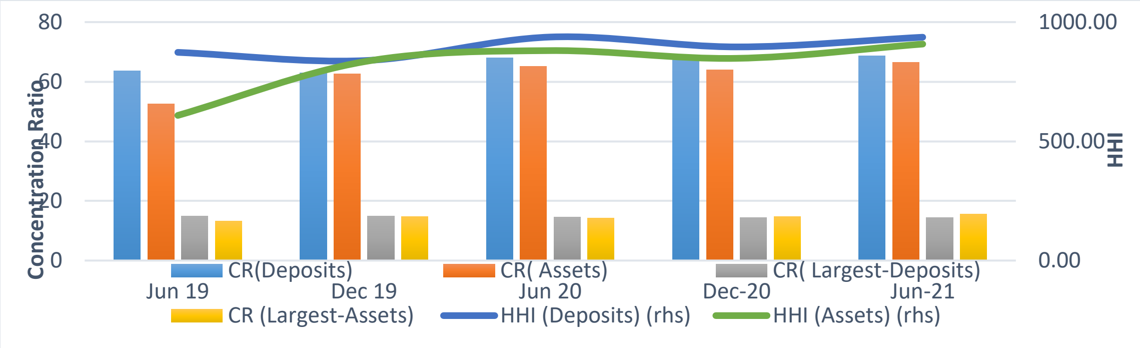
% Change (Over preceding December)	Dec 19	Jun 20	Dec 20	Jun 21
Foreign Assets (Net)	-49.79	40.64	23.44	-3.65
Domestic Claims	29.04	4.74	15.91	4.30
Claims on Central Government (Net)	105.38	-11.88	22.84	-5.30
Claims on Other Sectors	13.09	11.04	13.27	8.25
Other Items (Net)	-38.23	137.02	69.30	38.85
Currency Outside Depository Corporations	6.04	-7.63	23.38	-9.90
Transferable Deposits	1.54	21.88	56.29	2.13
Narrow Money Supply (M1)	2.37	16.27	50.04	0.25
Other Deposits	13.56	10.88	19.19	4.67
Monetary Liabilities (M2)	9.16	12.87	30.57	2.80
Securities Other than Shares	-4.95	-46.85	-84.56	-29.80
Total Monetary Liabilities (M3)	6.45	2.63	10.84	2.02

2.1.1 Market Structure of the Banking Industry

During the review period, six banks accounted for 68.8 and 66.4 per cent of total deposits and assets respectively. There was no dominance of any bank, as the share of individual banks ranged from 0.10 to 14.5 per cent in deposits and 0.30 to 15.6 per cent in assets in the review period. This was further confirmed by the Herfindahl Hirschman Indices (HHI)[4] of 936.66 for deposits and 907.93 for assets at end-June 2021.

[4] on a scale of 100 to 10,000

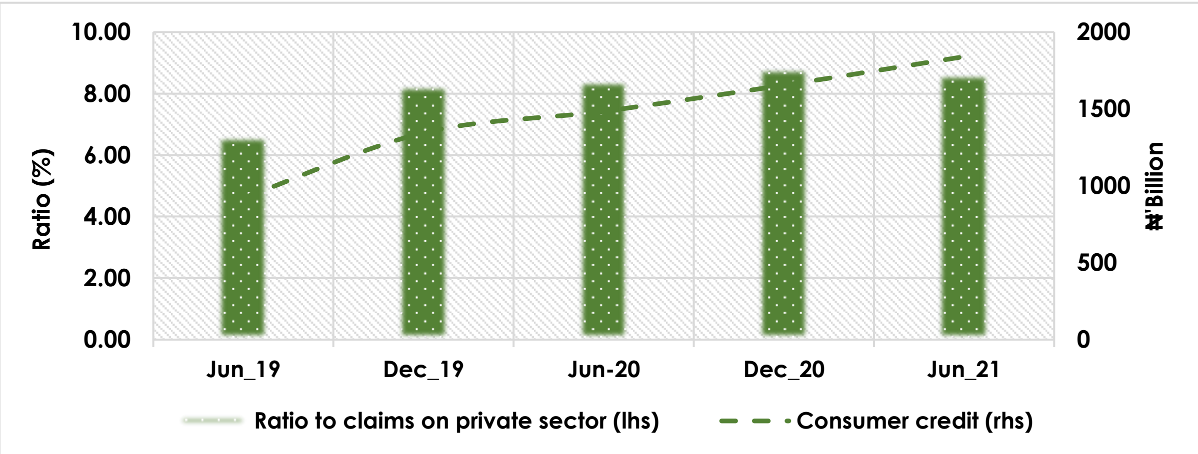
FIGURE 2.1 CONCENTRATION RATIOS OF THE BANKING INDUSTRY ASSETS AND DEPOSITS



2.1.2 Consumer Credit

Consumer credit grew by 11.2 per cent to ₦1,840.24 billion at end-June 2021, compared with ₦1,655.21 billion at end-December 2020, following sustained implementation of the Loan-to-Deposit Ratio (LDR) policy and other interventions by the Bank. The increase in consumer credit accounted for the rise in private sector credit to an all-time high of ₦21,266.82 billion at the end of the review period.

FIGURE 2.2 CONSUMER CREDIT



2.1.3 Sectoral Distribution of Credit

Credit utilisation by private the sector of the economy grew by 7.5 per cent to N21,895.31 billion at end-June 2021, over its level at end-December 2020. A breakdown showed that Industry and Services sectors remained dominant, as their shares in total credit stood at 37.3 and 36.8 per cent, at end-June 2021, compared with 37.2 and 37.6 per cent at end-December 2020 respectively.

Agriculture and Construction sectors were the least recipients, accounting for 5.3 and 5.0 per cent respectively, at end-June 2021, compared with their respective levels of 5.2 and 4.7 per cent at end-December 2020 (Table 2:2).

TABLE 2:2 SECTORAL ALLOCATION OF CREDIT (%)

	Jun-20	Dec-20	Jun-21
Agriculture	**4.8**	**5.2**	**5.3**
Industry	**37.7**	**37.2**	**37.3**
Construction	**4.6**	**4.7**	**5.0**
Trade/General Commerce	**6.5**	**6.6**	**6.3**
Government	**8.0**	**8.7**	**9.3**
Services	**38.4**	**37.6**	**36.8**

2.2 Other Financial Institutions

There were 6,620 OFIs[5] at end-June 2021, comprising seven (7) Development Finance Institutions (DFIs), 875 Microfinance Banks (MFBs), 91 Finance Companies (FCs), 34 Primary Mortgage Banks (PMBs) and 5,613 Bureaux-de-change (BDCs), compared with 6,532 OFIs at end-December 2020. The difference followed the licensing of two (2) Microfinance Banks (MFBs), four (4) Finance Companies (FCs) and 83 Bureaux de Change (BDCs), and conversion of one (1) National MFB to a Commercial Bank with regional authorisation. The increased number of licensed OFIs recorded during the review period enhanced access to credit by MSMEs and promoted inclusive growth.

TABLE 2:3 Licensed Other Financial Institutions

S/N	Type	Total Licensed Institutions as at Jun 30, 2021	Total Licensed Institutions as at Dec 31, 2020
1	Microfinance Banks	875	874
2	Bureaux De Change	5,613	5,530
3	Finance Companies	91	87
4	Development Finance Institutions	7	7
5	Primary Mortgage Banks	34	34
	Total	**6,620**	**6,532**

The total assets of the OFIs (excluding the BDCs) increased by 9.00 per cent to ₦5,176.36 billion at end-June 2021, compared with ₦4,748.76 billion at end-December 2020. This was attributed mainly to increase in net loans and advances, and cash and bank balances. Further analysis revealed that net loans and advances increased by

[5] Other Financial Institutions (OFIs)

17.60 per cent to ₦2,532.38 billion at end-June 2021, from ₦2,153.43 billion at end-December 2020, while cash and bank balances increased by 59.16 per cent to ₦303.24 billion at end-June 2021, from ₦190.52 billion at end-December 2020. The significant increase in cash and bank balances was attributed to capital injection in compliance with the new capital regime for MFBs. However, placements with banks and investments declined by 4.23 and 3.89 per cent to ₦816.38 billion and ₦1,114.39 billion respectively, at end-June 2021, from ₦852.56 billion and ₦1,159.48 billion at end-December 2020.

Long-term liabilities increased by 46.01 per cent to ₦596.02 billion at end-June 2021, from ₦408.19 billion at end-December 2020, while other liabilities increased by 26.07 per cent to ₦875.45 billion at end-June 2021, compared with ₦694.44 billion at end-December 2020. Also, shareholders' funds increased by 12.02 per cent to ₦651.04 billion at end-June 2021, compared with ₦581.16 billion at end-December 2020. The increase in shareholders' funds was due largely to accretion to consolidated reserves of DFIs and FCs, and capital injection by the MFBs.

2.2.1 Development Finance Institutions

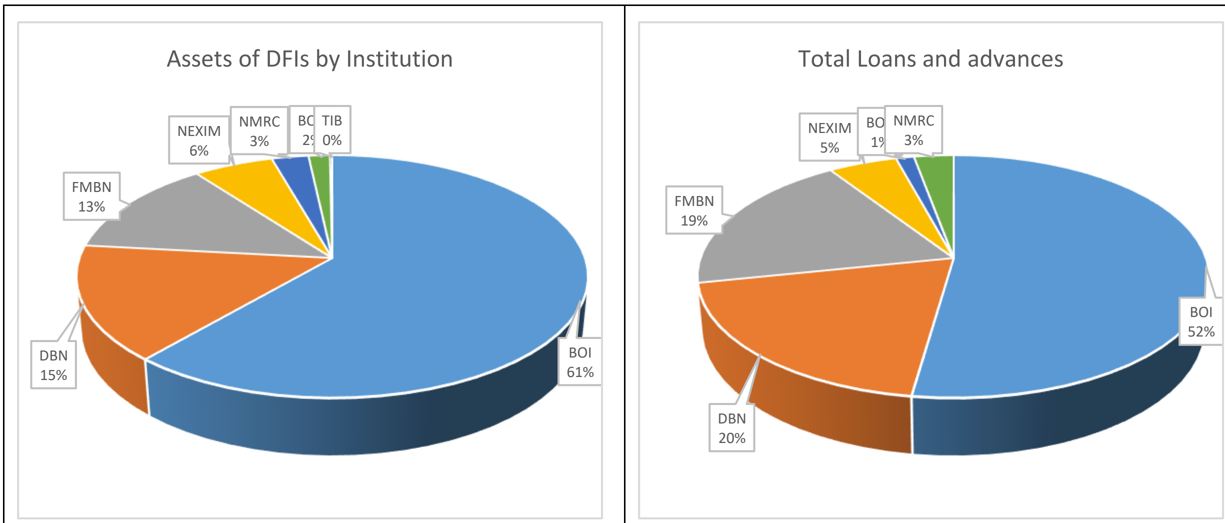
Total assets of the seven DFIs[6] increased by 2.41 per cent to ₦3,117.74 billion at end-June 2021, compared with ₦3,044.48 billion at end-December 2020. The analysis of the total assets showed that cash and bank balances and net loans and advances increased by ₦46.113 billion or 178.20 per cent and ₦102.116 billion or 7.95 per cent respectively. Conversely, investment and placement with banks declined by ₦59.651billion or 5.62 per cent and ₦11.272 billion or 2.1 per cent respectively.

A disaggregation of the total assets by institution, indicated that BOI, DBN, FMBN, NEXIM, NMRC, BOA and TIB accounted for 61.34, 15.38, 13.01, 5.85, 2.69, 1.56 and 0.17 per cent respectively. Furthermore, BOI, DBN, FMBN, NEXIM, BOA and NMRC accounted for 52.26, 19.48, 19.03, 5.02, 2.89 and 1.32 per cent, of total net loans and advances respectively.

Shareholders' funds increased by 13.95 per cent to ₦422.26 billion at end-June 2021, compared with ₦370.58 billion at end-December 2020 due to accretion to reserves by BOI, DBN and NMRC. Long-term liabilities also increased by 40.96 per cent to ₦50.94 billion at end-June 2021, compared with ₦36.14 billion at end-December 2020.

[6] Bank of Industry (BOI), Development Bank of Nigeria (DBN), Federal Mortgage Bank of Nigeria (FMBN), Nigeria Export-Import Bank (NEXIM), Nigeria Mortgage Refinance Company (NMRC), Bank of Agriculture (BOA) and The Infrastructure Bank (TIB)

FIGURE 2.3 DFIs TOTAL ASSETS, AND LOANS AND ADVANCES



Bank of Industry (BOI), Development Bank of Nigeria (DBN), Federal Mortgage Bank of Nigeria (FMBN), Nigeria Export Import Bank (NEXIM)

Nigeria Mortgage Refinance Company (NMRC), Bank of Agriculture (BOA), The Infrastructure Bank (TIB)

2.2.2 Primary Mortgage Banks

The number of Primary Mortgage Banks (PMBs) at end-June 2021 remained 34, comprising 22 State and 12 National PMBs. The total assets of the sub-sector increased by 8.66 per cent to ₦501.30 billion at end-June 2021, from ₦461.34 billion at end-December 2020. A breakdown of total assets showed that placements with banks and short-term investments increased by 21.48 and 58.36 per cent to ₦70.35 billion and ₦11.50 billion respectively, at end-June 2021, compared with ₦57.91 billion and ₦7.26 billion at end-December 2020. Similarly, loans and advances and other assets increased by 6.71 and 21.83 per cent to ₦264.74 billion and ₦60.56 billion respectively, at end-June 2021, compared with ₦248.09 billion and ₦49.71 billion at end-December 2020. Non-current assets held for sale, however, decreased by 8.55 per cent to ₦43.64 billion at end-June 2021, from ₦47.72 billion at end-December 2020.

Shareholders' funds increased by 2.42 per cent to ₦36.92 billion at end-June 2021, compared with ₦36.05 billion at end-December 2020. This was due largely to capital injection and improvement in reserves. Capital and reserves increased by 0.37 and 0.65 per cent respectively, to ₦108.72 billion and negative ₦71.80 billion at end-June 2021, compared with ₦108.32 billion and negative ₦72.27 billion at end-December 2020. Also, Deposit Liabilities, Due to Other Banks, Long-term Loans and Other Liabilities increased to ₦182.87 billion, ₦14.39 billion, ₦76.97 billion and ₦190.16 billion at end-June 2021, from ₦170.82 billion, ₦3.86 billion, ₦72.17 billion and ₦178.44 billion respectively, at end-December 2020. (Table 2:4)

Loanable funds available to the sub-sector at end-June 2021 amounted to ₦45.27 billion. The funds were mainly from Deposits, ₦12.05 billion; Due to Other Banks,

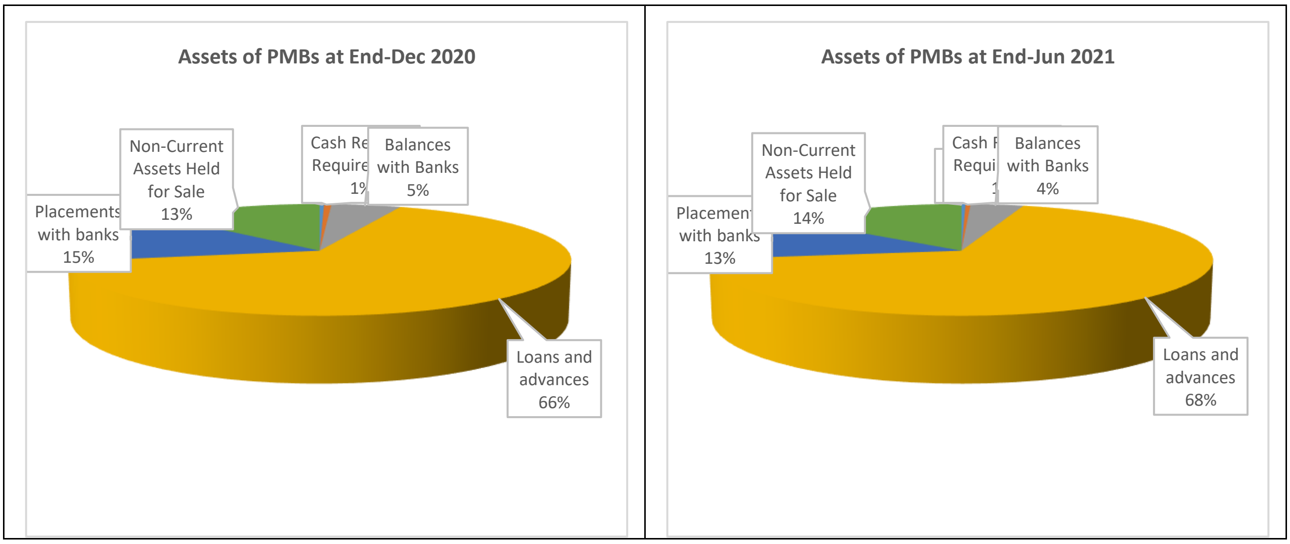
₦10.52 billion; Other Liabilities, ₦4.79 billion; and Long-term Loans/NHF[7], ₦11.72 billion: as well as decrease in non-current assets held for sale, ₦4.08 billion. The funds were utilised mainly for Loans and Advances, ₦16.64 billion; Placements with banks, ₦12.44 billion; Other Assets, ₦10.85 billion; and Short-term investments, ₦4.24 billion.

TABLE 2:4 PMB FINANCIAL HIGHLIGHTS AT END-JUNE 2021

	End-June 2021 (₦' billion)	End-December 2020 (₦' billion)	% Change
Total assets	501.30	461.34	8.66
Balances with Other Banks	19.80	19.69	0.55
Loans and Advances	264.74	248.09	6.71
Placements with banks	70.35	57.91	21.48
Other Assets	60.56	49.71	21.83
Short-term Investment	11.50	7.26	58.36
Deposit liabilities	180.87	170.82	7.06
Other liabilities	190.16	178.44	6.57
Long-term Loans/NHF	76.97	72.17	6.64
Shareholders' Funds	36.92	36.05	2.42

The Capital Adequacy Ratio (CAR) of the sub-sector stood at 11.29 per cent at end-June 2021, compared with 11.49 per cent at end-December 2020. Although, above the regulatory threshold of 10.00 per cent, the decline was due, largely, to increase in risk weighted assets. The average liquidity and non-performing loan ratios of the sub-sector stood at 48.31 and 48.91 per cent respectively, at end-June 2021, compared with 48.16 and 48.94 per cent at end-December 2020.

FIGURE 2.4 ASSETS OF PRIMARY MORTGAGE BANKS



[7] National Housing Fund

FIGURE 2.5 LIABILITY STRUCTURE OF PRIMARY MORTGAGE BANKS

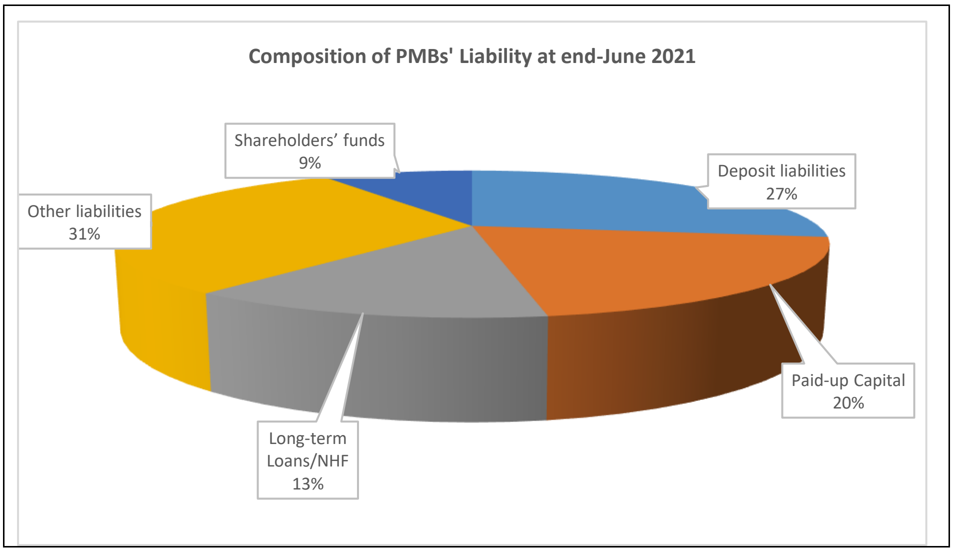
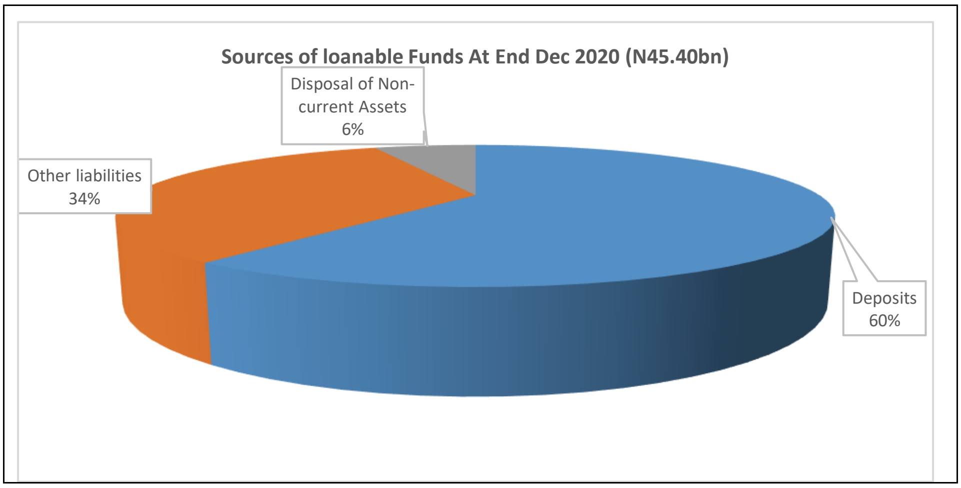


FIGURE 2.6 SOURCES OF LOANABLE FUNDS OF PRIMARY MORTGAGE BANK



2.2.3 Finance Companies

The number of FCs increased to 91 at end-June 2021, compared with 87 at end-December 2020, following the licensing of four (4) new institutions. Total assets of the sub-sector increased by 6.49 per cent to ₦333.43 billion at end-June 2021, compared with ₦313.11 billion at end-December 2020. This was due, largely, to an increase in investments by 76.41 per cent to ₦20.04 billion at end-June 2021 from ₦11.36 billion at end-December 2020. Also, net Loans and Advances increased by 25.66 per cent to ₦142.69 billion at end-June 2021, from ₦113.55 billion at end-December 2020, reflecting improved economic activities.

Shareholders' funds increased by 8.91 per cent to ₦47.72 billion at end-June 2021, compared with ₦43.82 billion at end-December 2020. Borrowings also increased by

10.16 per cent to ₦221.03 billion at end-June 2021, from ₦200.64 billion at end-December 2020. Other Liabilities, however, decreased by 8.01 per cent to ₦61.44 billion at end-June 2021, compared with ₦66.80 billion at end-December 2020.

TABLE 2:5 FINANCIAL POSITION OF FINANCE COMPANIES AT END-JUNE 2021

	End-June 2021 (₦' billion)	End-Dec 2020 (₦' billion)	Change (₦' billion)	% Change
Total Assets	333.43	313.11	20.32	6.19
Cash in Vault	2.00	2.41	(0.41)	(17.13)
Balances with Banks	22.20	26.20	(4.01)	(15.29)
Net Loans and Advances	142.69	113.55	29.14	25.66
Investments	20.04	11.36	8.68	76.41
Placements	37.76	44.29	-6.53	-14.74
Fixed Assets	49.18	62.37	-13.18	-21.14
Borrowings	221.03	200.64	20.39	10.13
Shareholders' Funds	47.72	43.82	3.90	8.91
Paid-up capital	27.72	24.88	2.84	11.40
Reserves	20.01	18.94	1.07	5.63

FIGURE 2.7 ASSETS OF FINANCE COMPANIES

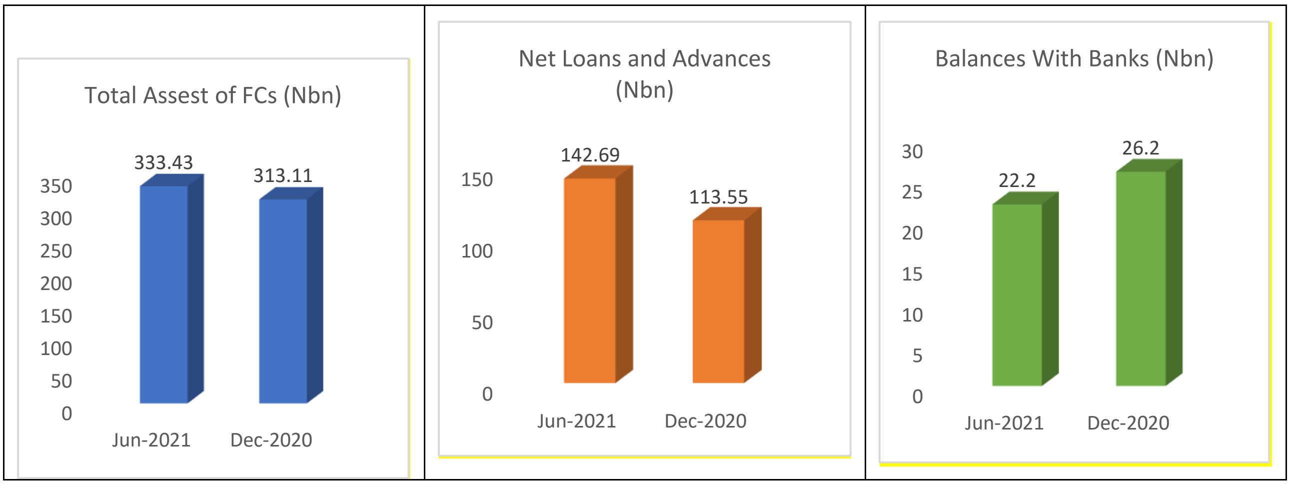
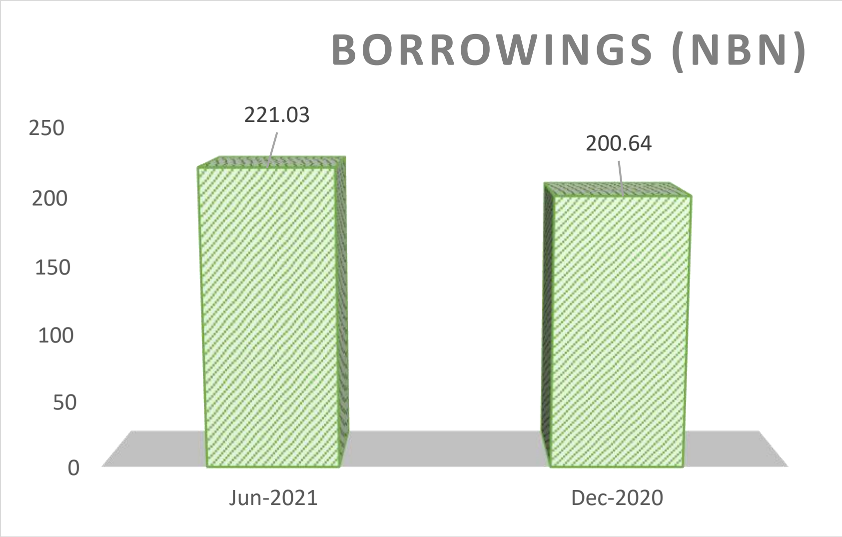


FIGURE 2.8 BORROWINGS OF FINANCE COMPANIES



2.2.4 Microfinance Banks

At end-June 2021, the number of MFBs stood at 875 compared, with 874 at end-December 2020, comprising nine (9) National, 132 State, and 734 Units, compared with 10 National, 134 State, and 730 Units at end-December 2020. The increase was due to the licensing of two (2) new MFBs and conversion of one National MFB to a commercial bank with regional authorisation during the review period.

Total assets at end-June 2021 stood at ₦1,223.89 billion, compared with ₦929.83 billion at end-December 2020, reflecting an increase of 31.63 per cent. This was due, largely, to the increase in net Loans and Advances and Balances with banks by 45.49 and 59.05 per cent respectively, to ₦739.00 billion and ₦171.81 billion at end-June 2021, compared with ₦507.95 billion and ₦108.02 billion at end-December 2020. Conversely, Placements with banks declined by 14.52 per cent to ₦181.51 billion at end-June 2021, from ₦212.34 billion at end-December 2020.

Shareholders' funds increased by 10.27 per cent to ₦144.14 billion at end-June 2021, compared with ₦130.71 billion at end-December 2020, consequent upon the injection of capital and accretion to reserves. Long-term Loans/On-lending also increased by 55.98 per cent to ₦464.87 billion at end-June 2021 from ₦298.03 billion at end-December 2020. Similarly, Other Liabilities increased by 109.65 per cent to ₦230.63 billion at end-June 2021, compared with ₦110.01 billion at end-December 2020.

TABLE 2:6 HIGHLIGHTS OF FINANCIAL POSITION OF MFBS AT END-JUNE 2021

	End-Jun 2021	End-Dec 2020	Change	% Change
	(₦' billion)	(₦' billion)	(₦' billion)	
Total Assets	1,223.89	929.83	294.06	31.62
Balances with Banks	171.81	108.02	63.79	59.06
Placements with Banks	181.51	212.34	(30.83)	(14.52)
Net Loans and Advances	739.00	507.95	231.05	45.49
Other Assets	62.75	47.6	15.15	31.83
Paid-up Capital	93.29	84.78	8.51	10.03
Reserves	50.85	45.93	4.92	10.72
Shareholders' Funds	144.14	130.71	13.43	10.27
Deposits	367.97	366.9	1.07	0.29
Long Term Loans/On-Lending	464.87	298.03	166.84	55.98
Other Liabilities	230.63	110.01	120.62	109.64

Loanable funds available to the sub-sector at end-June 2021 amounted to ₦332.78 billion. The funds were mainly from Long-term borrowing, ₦166.84 billion; Other Labilities, ₦120.62 billion; Paid-up Capital, ₦8.51 billion; and decrease in placement with banks, ₦30.82 billion. The funds were utilised mainly to increase Loans and Advances, ₦231.05 billion; Other Assets, ₦15.15 billion; and Balances with banks, ₦63.79 billion.

The capital adequacy ratio, liquidity ratio and portfolio-at-risk of the sub-sector were 15.8, 105.5 and 6.6 per cent respectively, at end-June 2021. Further review indicated that 558 MFBs met the minimum capital adequacy ratio of 10 per cent, 644 met the minimum liquidity ratio of 20.0 per cent, while 201 MFBs operated within the maximum portfolio-at-risk of 5 per cent.

2.2.4.1 Capacity Building Programme

As part of the capacity building efforts, 301 staff of MFBs were certified by the Chartered Institute of Bankers of Nigeria (CIBN), on completion of the Microfinance Certification Programme during the review period. Consequently, the total number of certified staff increased to 7,403 at end-June 2021, from 7,102 at end-December 2020.

A workshop was also organized by the Bank for External Auditors with a view to enhancing the quality of audited financial statements.

2.2.4.2 New Capital Regime for Microfinance Banks

In line with the Circular on Review of Minimum Capital Requirements for MFBs in Nigeria dated April 2020, a total of 221[8] MFBs had met the first phase milestone of April 2021, while the second phase will be due in April 2022.

2.2.4.3 Maturity Structure of Loans and Advances and Deposit Liabilities

Short-term loans with maturity periods of less than 360 accounted for ₦319.316 billion or 43 per cent of total loans at end-June 2021, while the short term deposits of the same tenor accounted for ₦294.835 billion or 80 per cent of the total deposit liabilities at end-June 2021. Short-term loans therefore provided a cover of 108.30 per cent for the short-term deposits at end-June 2021. On the other hand, long term loans with maturity periods of over 360 days accounted for ₦419.683 billion or 57 per cent of total loans, at end-June 2021 while, the long-term deposits with tenors of 360 days and above accounted for ₦73.131 billion or 20 per cent of total deposit liabilities, at end-June 2021. Long term loans provided a cover of 573.88 per cent for the long-term deposits of the same maturity. Though the deposit structure remained largely short-term, as deposits of less than one (1) year maturity accounted for 80 per cent of total deposits at end-June 2021, total loans provided adequate cover for the deposit liabilities of different tenors, as well as adequate buffer to mitigate any potential impact of the mismatch that might result in liquidity crisis.

TABLE 2:7 MATURITY STRUCTURE OF LOANS AND ADVANCES AND DEPOSIT LIABILITIES OF MFBS

	End-Jun 2021		End-Dec 2020	
Tenor/Period	Loans and Advances	Deposits	Loans and Advances	Deposits
	(₦' 000)	**(₦' 000)**	**(₦' 000)**	**(₦' 000)**
0-30 Days	81,019,457	115,454,918	51,912,591	110,253,093
31-60 Days	29,158,501	36,971,457	16,457,612	30,122,393
61-90 Days	34,626,417	41,261,293	23,975,287	35,185,596
91-180 Days	94,143,656	60,740,426	76,040,263	54,594,543
181-360 Days	80,368,190	40,406,686	103,571,206	31,406,538
Short-Term	**319,316,221**	**294,834,780**	**271,956,958**	**261,562,164**
Above 360 Days	419,683,235	73,130,701	235,994,029	105,336,649
Total	**738,999,456**	**367,965,481**	**507,950,987**	**366,898,813**

2.2.5 Bureaux De Change

The number of BDCs stood at 5,613 at end-June 2021, compared with 5,530 at end-December 2020, indicating an increase of 83 occasioned by the licensing of new

[8] 7 National, 14 State, 49 Tier 1 Unit and 151 Tier 2 Unit

institutions during the review period. The increase was to expand access to foreign exchange at the retail market. There was a nationwide training on AML/CFT, returns rendition and audited financial statements in four zones namely Lagos, Kano, Abuja and Delta for BDCs.

2.3 Financial Markets

The Nigerian financial market remained resilient in the first half of 2021, despite the impact of the COVID-19 pandemic and structural challenges. The increased rollout of the COVID-19 vaccine coupled with sustained fiscal and monetary policy support boosted economic activities and improved investors' confidence.

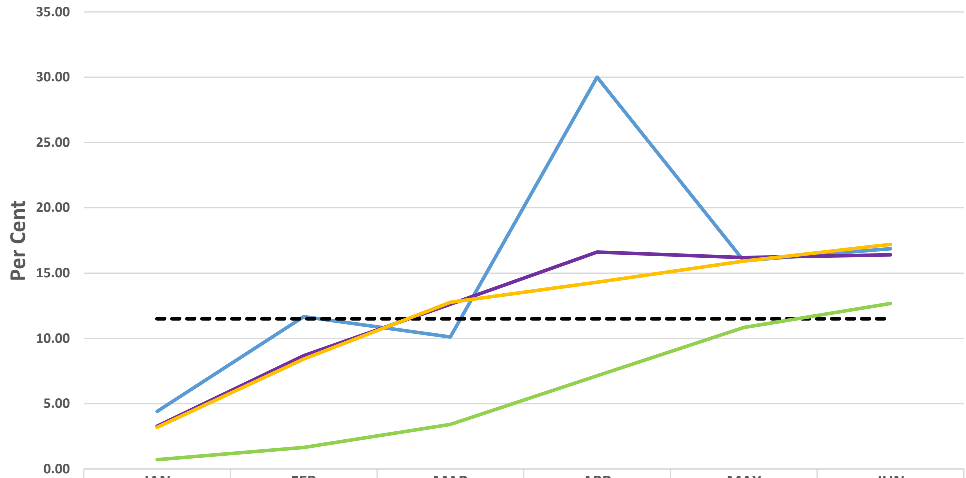
2.3.1 The Money Market

The Bank maintained its accommodative monetary stance evident in the decision of the Monetary Policy Committee (MPC) to hold the Monetary Policy Rate (MPR) at 11.50 per cent, with an asymmetric corridor of +100/-700 basis points for Standing Lending Facility (SLF) and Standing Deposit Facility (SDF). Also, Cash Reserve Ratio (CRR) and Liquidity Ratio (LR) were maintained at 27.50 and 30.00 per cent, respectively.

During the review period, Open Market Operations (OMO), Cash Reserve Requirement (CRR) debits and sale of foreign exchange constituted major withdrawals from the system. The open-buy-back (OBB) and unsecured interbank call weighted daily average opened at 0.63 and 3.00 per cent respectively. The rates peaked at 32.91 and 30.00 per cent for OBB and unsecured interbank call on April 30, 2021. The decrease in banking system liquidity followed CRR debits and sale of foreign exchange. The rates, thereafter, moderated to 14.00 on June 7, 2021 for unsecured interbank calls, and 12.06 per cent on June 30, 2021, for OBB (Figure 2.1).

The monthly average OBB and inter-bank call rates closed at 16.39 and 16.87 per cent at end-June 2021, compared with 1.02 and 1.25 per cent, respectively
at end-December 2020, owing to tight liquidity conditions in the market occasioned by periodic government securities auctions and other monetary policy operations. The OBB rates ranged between 0.36 and 32.91 per cent, while the inter-bank call rates ranged between 2.00 and 30.00 per cent, compared with 0.37 and 23.49 per cent and 1.00 and 18.00 per cent, respectively, in the second half of 2020 (Figure 2.9Figure 2.9).

FIGURE 2.9 AVERAGE MONEY MARKET RATES MOVEMENTS JAN – JUN 2021



	JAN	FEB	MAR	APR	MAY	JUN
Inter-Bank Call (%)	4.40	11.65	10.10	30.00	15.95	16.87
Open-Buy-Back (OBB) (%)	3.28	8.67	12.61	16.61	16.18	16.39
MPR (%)	11.50	11.50	11.50	11.50	11.50	11.50
Call NIBOR (%)	3.18	8.42	12.75	14.30	15.91	17.20
30-day NIBOR	0.71	1.65	3.40	7.14	10.84	12.68

Inter-Bank Call (%) Open-Buy-Back (OBB) (%) MPR (%) Call NIBOR (%) 30-day NIBOR

2.3.1.1 Nigerian Treasury Bills

Nigerian Treasury Bills (NTBs) of 91-, 182-, and 364- day maturities, totaling ₦1,665.62 billion, were issued and allotted during the first half of 2021. This reflected a decrease of ₦201.84 billion or 10.81 per cent, compared with ₦1,867.46 billion in the second half of 2020. Similarly, total subscription was ₦3,101.23 billion, reflecting a decrease of ₦1,926.38 billion or 38.32 per cent, compared with ₦5,027.61 billion in the second half of 2020.

The holding structure of NTBs allotted during the review period indicated that commercial banks (including foreign investors) held ₦1,254.39 billion or 75.31 per cent, while mandate and internal fund customers took up the balance of ₦411.23 billion or 24.69 per cent. In the preceding period, commercial banks (including foreign investors) held ₦1,340.25 billion or 71.77 per cent, merchant banks ₦56.00 billion or 3.00 per cent, while mandate and internal fund customers held ₦471.20 billion or 25.23 per cent.

The total stock of NTBs outstanding at end-June 2021 stood at ₦2.99 trillion. The holding structure indicated that commercial banks accounted for 53.95 per cent, mandate customers (22.76 per cent) and merchant banks (0.48 per cent), while CBN held the balance of 22.81 per cent. The range of average marginal rates for the period were 0.5000 – 2.5000 per cent for the 91-day, 1.0000 – 3.5000 per cent for 182- day and 1.5000 - 9.7500 per cent for the 364-day tenors.

2.3.2 Developments in Interest Rates

In the first half of 2021, the average prime lending and maximum lending rates fell by 0.99 and 0.32 percentage point to 11.28 and 28.60 per cent, respectively, compared with 12.27 and 28.92 per cent, in the second half of 2020. Average term-deposit rate rose by 0.05 percentage point to 4.11 per cent, narrowing the spread between the average term-deposit and average maximum lending rates. The volume of transactions for the prime lending rate rose by 9.0 per cent to 120,151.20 in the first half of 2021, from 110,224.40 in the second half of 2020, while the volume of transaction at the maximum lending rate fell by 11.2 per cent to 1,676.85 in the review period, from 1,889.34 in the second half of 2020. The decrease in lending rates reflected the impact of the accommodative monetary policy stance during the review period.

2.3.3 The Foreign Exchange Market

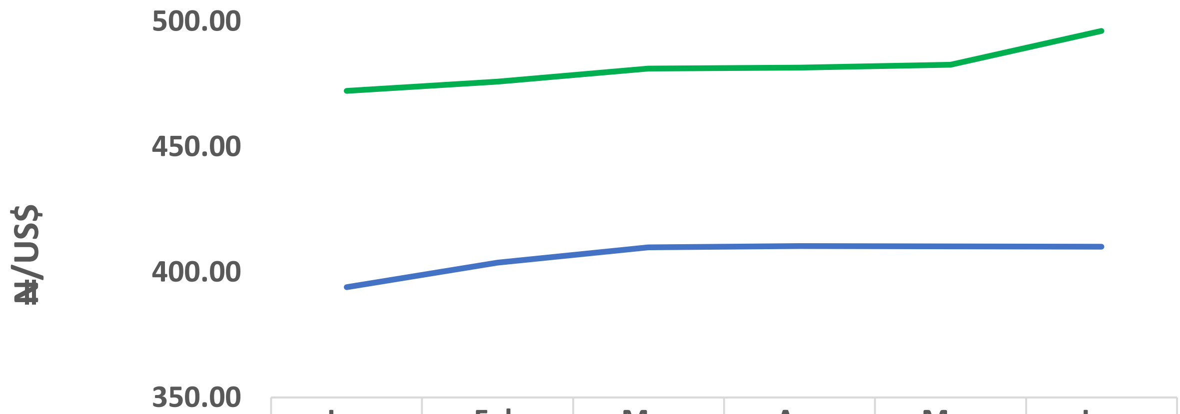
During the review period, the Bank sustained its various foreign exchange interventions in the retail Secondary Market Intervention Sales (SMIS) window for agriculture, airline, petroleum, raw materials and machinery transactions. Also, the Bank increased its sales of foreign exchange for invisible transactions, such as personal and business travels, medicals and school fees. The SMEs, oil companies and the Investors & Exporters (I&E) windows, also widened access to foreign exchange, while the sales to the BDC segment was sustained. In addition, the Bank readjusted the interbank rates on May 14, 2021, to reflect developments in the market in a bid to ensure convergence of rates. The Bank also continued its participation in the Naira-Settled OTC Futures Market.

Meanwhile, in order to improve liquidity in the foreign exchange market and conserve the external reserves, the Bank renewed the Bilateral Currency Swap Agreement with the People's Bank of China, following its expiration in April 2021. A total of 11 auctions were conducted and CNY1,217.09 million was sold in the review period, compared with CNY723.05 million sold in the preceding period. A total of CNY3,849.43 million had been sold from inception to end-June 2021.

2.3.3.1 Exchange Rate Movements

The rate at the I&E window opened at ₦394.30/US$ on January 4, 2021 and closed at ₦410.15/US$ on June 30, 2021, reflecting a 3.86 per cent depreciation. At the BDC segment, the exchange rate opened and closed at ₦468.00/US$ and ₦495.00/US$ on January 1 and June 30, 2021 respectively, indicating a 5.45 per cent depreciation (Figure 2.10).

FIGURE 2.10 BDC AND I & E RATES JAN – JUN 2021



	Jan	Feb	Mar	Apr	May	Jun
I & E window	394.03	403.80	409.85	410.36	410.29	410.12
BDC	472.40	476.05	481.22	481.60	482.72	496.19

2.3.3.2 Spot, Forwards and OTC FX Futures Transactions

The total foreign exchange sales by the Bank in the first half of 2021 were US$5,831.01 million, compared with US$7,202.27 million in the second half of 2020, reflecting a decrease of 19.04 per cent. A breakdown indicated that retail spot sales amounted to US$435.03 million; invisible trade sales, US$336.49 million; I&E window, US$1,375.00 million; SMEs, US$734.36 million; and Retail forward sales, US$2,950.13 million. Forward contracts, amounting to US$4,235.79 million, matured, while US$2,815.95 million was outstanding at end-June 2021. Furthermore, the Bank purchased US$815.46 million, resulting in net sales of US$5,015.55 million.

TABLE 2:8 FOREIGN EXCHANGE SALES AND PURCHASES AT THE INTERBANK SEGMENT

FX Transactions	End-Dec 20	End-Jun 21
	($ million)	**($ million)**
Spot	583.95	435.03
Invisibles	262.60	336.49
SME	611.26	734.36
I&E	2,935.67	1,375.00
Forwards	2,808.79	2,950.13
Total Sales	**7,202.27**	**5831.01**
Purchases	1,248.39	815.46

The notional amount of OTC FX Futures contracts executed, matured and outstanding during the review period stood at US$3,145.09 million, US$6,987.38 million and US$4,251.38 million respectively, compared with US$4,251.38 million, US$4,549.44 million and US$9,623.43 million, at end-December 2020.

2.3.4 The Capital Market

The Federal Government sustained the implementation of the 2021 Budget, especially on infrastructure funding relating to power, roads and railway. Furthermore, policies on ease of doing business as well as sustained implementation of the finance act had positive impact on the financial market.

The Nigerian stock market recorded a bearish performance in the first half of 2021, resulting mainly from profit-taking and asset switching due to attractive fixed income yields and other alternative investment options offering higher interest rates, thereby dampening the appetite for stocks.

2.3.4.1 The Equities Market

The Nigerian Exchange Limited (NGX) All Share Index (ASI) closed at 37,907.28 at end-June 2021, reflecting a decrease of 5.87 per cent, compared with 40,270.72 at end-December 2020. Similarly, the Market capitalisation (MC) closed at ₦19,760.39 billion, indicating a decrease of 6.15 per cent, compared with ₦21,056.08 billion at the end of the preceding period.

Foreign portfolio investment (FPI) inflows totaled ₦105.24 billion, while divestments (outflows) stood at ₦116.72 billion, reflecting a net outflow of ₦11.48 billion in the first half of 2021. In comparison, inflows in the second half of 2020 amounted to ₦117.32 billion, while divestments stood at ₦215.25 billion, reflecting a net outflow of ₦97.93 billion. The considerable volume of net outflow in the preceding half year could be attributed to investors' apathy occasioned by COVID-19 induced uncertainties (Table 2:9)

Foreign Portfolio Flows accounted for 21.46 per cent of total equity transactions in the review period, which was lower than the 28.56 per cent recorded in the preceding period. Domestic transactions accounted for the balance of 78.54 per cent in the equity market, compared with 71.44 per cent in the preceding period (Table 2:9).

TABLE 2:9 OUTSTANDING BONDS (₦'BILLION)

Type	End-Dec 2020	End-Jun 2021	% Change	Proportion of Total End-Dec 2020	Proportion of Total End-Jun 2021
FGN Bonds	11,830.26	13,245.27	11.96	90.51	90.78
Sub-National Bonds	272.33	203.74	(25.19)	2.08	1.40
Corporate Bonds	543.28	714.77	31.57	4.16	4.90
Sukuk - FGN	362.56	362.56	0	2.77	2.48
Sukuk-Sub-National	1.37	0.00	100	0.01	0.00
Green - FGN	25.69	25.69	0	0.20	0.18
Green – Corporate	23.50	23.50	0	0.18	0.16
FGN Savings Bonds	12.29	15.54	26.44	0.09	0.11
Total (N)	**13,071.28**	**14,591.07**		**100**	**100**

Source: DMO and FMDQ OTC

2.4.4 Potential Risks to Stability from the developments in the Financial Markets

1. Higher inflation expectations amidst exchange rate depreciation.
2. Increase in household and corporate debts as a fall-out of pandemic-related risks.
3. Vulnerabilities arising from capital flow reversals and oil price shocks.

2.4 Real Sector Interventions

During the review period, the Bank sustained its intervention programmes and schemes in the real sector, with emphasis on households and businesses affected by the economic disruptions associated with the COVID-19 pandemic lockdown measures.

2.4.1 Agricultural Policy Support

2.4.1.1 Agricultural Credit Guarantee Scheme

In the first half of 2021, a total of 9,719 loans, valued ₦2.17 billion were guaranteed under the scheme compared, with 10,626 loans, valued ₦2.84 billion in the second half of 2020. These developments indicated a decrease of 8.54 and 23.59 per cent respectively, in the number and value of loans guaranteed. Also, 17,742 loans valued ₦1.75 billion were repaid, compared with 14,097 loans valued at ₦2.25 billion in the second half of 2020. These changes reflected an increase of 25.86 per cent in number and decrease of 22.22 per cent in value of loans repaid.

2.4.1.2 Commercial Agriculture Credit Scheme

Under the Scheme, ₦16.25 billion was disbursed in the first half of 2021, implying a decrease of 54.02 per cent, compared with ₦35.34 billion in the second half of 2020. On the other hand, a total of ₦20.01 billion was repaid in the review period, showing a decrease of 22.95 per cent compared with ₦25.97 billion in the second half of 2020.

2.4.1.3 Anchor Borrowers' Programme

In the first half of 2021, the sum of ₦179.35 billion was disbursed to 1,008,457 smallholder farmers for the production of rice, maize, cassava, cotton, ginger, fish, onion, cocoa, soya beans and sesame, compared with ₦67.24 billion and 204,796 farmers in the preceding period. Furthermore, a total of 1,061,892 hectares of land were cultivated, compared with 605,279 hectares in the second half of 2020, reflecting an increase of 75.44 per cent. Repayments under the Programme amounted to ₦15.47 billion in the review period, compared with ₦19.28 billion in the preceding period, a decrease of 19.76 per cent.

2.4.1.4 Accelerated Agriculture Development Scheme

The sum of ₦1.50 billion was disbursed in the first half of 2021, compared with ₦2.94 billion in the second half of 2020. There was no repayment in the two periods as the projects were under moratorium. The projects financed with the disbursement included cassava and rice.

2.4.1.5 Paddy Aggregation Scheme

The sum of ₦4.17 billion was released for a project in the review period, compared with ₦0.50 billion released for a project in the second half of 2020. The financing enabled small and medium-scale rice millers to procure paddy for all-year round rice production. There was no repayment during the review period due to moratorium granted compared with ₦51.81 billion repaid in the second half of 2020.

2.4.1.6 Maize Aggregation Scheme

The sum of ₦0.35 billion was released for two (2) projects in the first half of 2021, compared with ₦0.20 billion released for one (1) project in the second half of 2020 under the scheme. There was no repayment as all facilities were under moratorium.

2.4.1.7 National Food Security Programme

In the review period, the sum of ₦45.99 billion was disbursed for 11 projects, compared with zero disbursement in the preceding period. Repayments totaled ₦12.84 billion at end-June 2021, compared with ₦2.36 billion at end-December 2020, indicating a 444.07 per cent increase.

2.4.2 Small and Medium Enterprises & Industrial Policy Support

2.4.2.1 Micro, Small and Medium Enterprises Development Fund

In view of the important contribution of the MSMEs to job creation, financial inclusion and poverty reduction, the seed fund for the Micro, Small and Medium Enterprises Development Fund (MSMEDF) was increased from ₦200.00 billion to ₦1.00 trillion in 2020. The sum of ₦50.00 million was disbursed during the first half of 2021, compared with zero disbursement in second half of 2020. Repayments during the review period stood at ₦2.91 billion, compared with ₦1.68 billion in the second half of 2020, reflecting an increase of 73.21 per cent.

2.4.2.2 Agribusiness/Small and Medium Enterprises Investment Scheme

In the review period, ₦9.79 billion was disbursed for 1,067 projects, compared with ₦62.70 billion for 15,724 projects in the first half of 2021. These changes indicated decreases of 84.39 and 93.21 per cent in value and number of projects, compared with the second half of 2020. Repayments in the review period amounted to ₦20.91 million, compared with ₦102.89 million in the second half of 2020.

2.4.2.3 Small and Medium Enterprises Credit Guarantee Scheme

During the review period, there was no activity under this scheme which was created to guarantee credit to small and medium scale enterprises by participating financial institutions. However, cumulative guarantees stood at ₦4.25 billion for 88 projects.

2.4.2.4 Creative Industry Financing Initiative

In the first half of 2021, the sum of ₦70 million was disbursed for 21 projects, compared with ₦1.64 billion for 151 projects in the second half of 2020. This reflected a decrease of 95.73 per cent compared, with the preceding period. The sum of ₦62.89 million was repaid in the first half of 2021, compared with ₦33.14 million in the second half of 2020.

2.4.2.5 Targeted Credit Facility

During the period under review, the sum of ₦144.93 billion was disbursed for 323,654 projects compared with ₦134.68 billion for 319,051 projects during the second half of 2020. These changes reflected increases of 7.61 and 1.44 per cent in value and number of projects respectively. There was no repayment as all the facilities were under moratorium.

2.4.2.6 Nigeria Youth Investment Fund

The Fund was introduced in the second half of 2020, in collaboration with the Federal Ministry of Youth and Sports Development, as a built-in strategy in response to youth unemployment challenges in Nigeria. During the period under review, the sum of ₦2.81 billion was disbursed, compared with ₦191.70 million in the second half of the 2020. There were no repayments as the facilities were under moratorium.

2.4.3 Real Sector Policy Support

2.4.3.1 Real Sector Support Facility

The sum of ₦6.36 billion was repaid in the review period, compared with ₦5.57 billion in the preceding period. There was no disbursement in the periods under review.

2.4.3.2 RSSF - Differentiated Cash Reserve Requirement

The sum of ₦164.81 billion was disbursed for 32 projects in the first half of 2021, compared with ₦167.03 billion for 41 projects in the second half of 2020, reflecting decreases of 1.33 per cent and 21.95 per cent in terms of total amount disbursed and the number of projects funded, respectively. The sum of ₦7.12 billion was repaid in the first half of 2021, compared with ₦28.35 billion in the preceding period, indicating a decrease of 74.89 per cent.

2.4.3.3 COVID-19 Intervention for the Manufacturing Sector

In the review period, the sum of ₦35.03 billion was disbursed for 16 projects, compared with ₦152.57 billion for 26 projects in the second half of 2020, indicating decreases of 77.04 per cent. All the facilities were still under moratorium.

2.4.3.4 Healthcare Sector Intervention Facility

The sum of ₦25.16 billion was disbursed for 23 projects in the first half of 2021, compared with ₦50.68 billion for 56 projects in the second half of the 2020. These represented a decrease of 50.37 and 58.93 per cent in value and number of projects, respectively, during the period under review; the sum of ₦5.93 billion was repaid for 3 projects in the first half of 2021, compared with ₦3.39 billion in the second half of 2020.

2.4.3.5 Healthcare Sector Research and Development Intervention (Grant) Scheme

The scheme was introduced in March 2020, and the sum of ₦145.40 million was disbursed for five (5) projects in the first half of 2021 to support Research and Development in the Healthcare Sector. This was to encourage the development and production of indigenous drugs and vaccines against COVID-19 and other infectious diseases.

2.4.3.6 Textile Sector Intervention Facility

In the review period, the sum of ₦0.39 billion was disbursed for one (1) project, compared with ₦4.00 billion for two (2) projects in the second half of 2020. This represented a decrease of 90.25 per cent in the period under review. The cumulative disbursement stood at ₦91.65 billion.

2.4.3.7 CBN-BOI Industrial Facility

This intervention was introduced to support the industrial sector. In the first half of 2021, there was no disbursement compared with ₦200.00 billion disbursed, through BOI, for 60 projects in the second half of 2020.

2.4.3.8 Presidential Fertilizer Initiative

This initiative was designed to resuscitate Nigeria's moribund fertilizer plants to boost food production towards achieving food security, shore up domestic manufacturing capacity and reduce fertilizer importation to conserve foreign exchange. Although there was no disbursement during the review period, the sum of ₦3.0 billion was repaid, compared with ₦3.5 billion in the second half of 2020.

2.4.3.9 Solar Connection Facility

The Solar Connection Facility was introduced to provide affordable and clean off-grid energy to a larger share of households and businesses; enhance national energy sufficiency; and address the energy distribution and transmission challenges in Nigeria. The sum of ₦7.0 billion was disbursed in the first half of 2021, for the procurement and installation of 100,000 solar home systems across the country.

2.4.3.10 Intervention Facility for the National Gas Expansion Programme

This facility was introduced to support the production of Compressed Natural Gas and Liquefied Petroleum Gas as well as stimulate investments in the gas value chain. The sum of ₦15.20 billion was disbursed in the first half of 2021.

2.4.3.11 Shared Agent Network Expansion Facility

The long-term facility was designed to enable licensed super agents and Mobile Money Operators (MMOs) to expand capacity and increase access points across the country. A sum of ₦500 million was disbursed for one (1) project and ₦401.28 million was repaid in the first half of 2021. There was no disbursement and repayment in the second half of 2020.

In the first half of 2021, agent acquisition was 215,617, compared with the target of 100,000, representing 116% performance. In addition, total agent roll-out stood at 776,661, while 858,964 accounts/wallets were opened at Agent locations.

2.5 Export Policy Support

2.5.1 Non-oil Export Stimulation Facility

The sum of ₦59.09 billion was released for 14 projects in the first half of 2021, compared with ₦2.00 billion for two (2) projects in the second half of 2020. The significant increase was to support local companies to enhance their capacities and take advantage of the opportunities presented by the Africa Continental Free Trade Agreement (AfCFTA). The sum of ₦11.98 billion was repaid, compared with ₦0.76 billion in the preceding period.

2.5.2 Export Development Facility

The Facility was established to improve exporters access to concessionary finance to expand and diversify the non-oil export basket. Total disbursement under the project stood at ₦100.00 billion. However, there was no disbursement or repayment in the first half of 2021, compared with ₦50.00 billion disbursed in the second half of 2020.

2.6 Energy Policy Support

2.6.1 Power and Airline Intervention Fund

In the review period, the sum of ₦0.89 billion was disbursed, compared with ₦3.03 billion in the preceding period. This represented a decrease of 70.62 per cent, compared with the second half of 2020. The sum of ₦20.20 billion was repaid in the first half of 2021, compared with ₦22.01 billion in the second half of 2020.

2.6.2 Nigerian Electricity Market Stabilisation Facility

Nigerian Electricity Market Stabilisation Facility (Phase 2) was introduced in January 2021 to provide liquidity support to the DisCos[9], to enable them to meet their financial obligations to the upstream market participants (NBET[10] and TCN[11]). Under this phase, in the first half of 2021, the sum of ₦120.29 billion was disbursed under a 24 months moratorium.

Under Phase 1, the sum of ₦189.19 billion was disbursed for 11 projects, compared with zero disbursement in the preceding period. In the first half of 2021, the sum of ₦11.91 billion was repaid, compared with ₦10.78 billion in the second half of 2020.

2.6.3 Nigeria Bulk Electricity Trading – Payment Assurance Facility

During the review period, the sum of ₦88.99 billion was disbursed to NBET Plc, through the BOI, compared with ₦85.58 billion in the second half of 2020, representing an increase of 3.98 per cent.

[9] Distribution companies (DisCos)

[10] Nigeria Bulk Electricity Trading (NBET)

[11] Transmission Company of Nigeria (TCN)

2.6.4 National Mass Metering Programme

In the first half of 2021, the sum of ₦21.69 billion was disbursed, compared with ₦14.35 billion in the second half of 2020, reflecting an increase of 50.87 per cent. All the facilities were under moratorium.

2.7 Institutional Support and Financial Inclusion

2.7.1 National Collateral Registry

The performance indicators of the National Collateral Registry (NCR) trended upwards, indicating increased lending against movable assets offered as collateral by individuals and MSME borrowers in the review period.

A total of 36 financial institutions registered 33,423 financing statements valued at ₦6.23 trillion and US$155.54 million in respect of 34,268 borrowers, compared with 27,689 financing statements valued at ₦228.55 billion, US$82.60 million and £27,350.00 registered in favour of 40,932 borrowers in the second half of 2020. In addition, a total of 43,386 searches were conducted at end-June 2021, compared with 30,414 searches at end-December 2020, reflecting an increase of 42.65 per cent.

TABLE 2:10 NUMBER AND VALUE OF FINANCING STATEMENTS ON THE NATIONAL COLLATERAL REGISTRY PORTAL FROM JAN 1ST TO JUN 30TH, 2021

Debtor Type	Number of Financing Statements	Number of Borrowers	Currency	Value of Financing Statements
Individual	31,594	32,111	NGN	68,153,651,468.48
			USD	13,500,000.00
Large Business	143	216	NGN	6,125,981,425,135.45
			USD	138,524,987.18
Medium Business	806	933	NGN	28,076,392,093.76
			USD	3,511,709.68
Micro Business	135	162	NGN	1,718,782,499.23
Small Business	745	846	NGN	7,728,844,038.05
Total	**33,423**	**34,268**	**NGN**	**6,231,659,095,234.97**
			USD	**155,536,696.86**

Further analysis showed that 30 financial institutions registered a total of 16,419 financing statements in respect of 16,663 women-owned enterprises, representing 49.09 and 48.62 per cent respectively, of the number of financing statements and the number of borrowers.

TABLE 2:11 NUMBER AND VALUE OF FINANCING STATEMENTS REGISTERED IN RESPECT OF WOMEN AND WOMEN-OWNED BUSINESSES ON THE NATIONAL COLLATERAL REGISTRY PORTAL FROM JAN 1ST TO JUN 30TH, 2021

Debtor Type	Number of Financing Statements	Number of Women-owned Enterprises	Currency	Value of Financing Statements
Individual	16,097	16,274	NGN	13,986,585,453.61
Large Business	10	20	NGN	241,019,332.18
			USD	3,800,000.00
Medium Business	163	191	NGN	1,986,240,040.45
			USD	124,064.68
Micro Business	16	22	NGN	528,376,144.30
Small Business	133	156	NGN	778,533,910.38
Total	**16,419**	**16,663**	**NGN**	**17,520,754,880.92**
			USD	**3,924,064.68**

From inception to end-June 2021, a total of 130 financial institutions had registered 158,540 financing statements valued ₦8,208.70 billion, US$1.59 billion, €0.11 billion and £27,352.00. An analysis of these figures showed that 64,556 financing statements (40.70 per cent), valued at ₦167.94 billion and US$0.04 billion were registered in respect of women-owned enterprises by 93 financial institutions.

2.7.2 Financial Inclusion

In the review period, banks continued to render services through channels such as ATM, POS, Agent locations and mobile Apps.

Using the Bank Verification Number (BVN) count to estimate the number of new entrants into the banking system, a total of 2,932,844 new BVNs were issued in the review period, f which, 1,344,117 were female, compared with 3,445,413 of which 1,810,465 were female in the preceding period. This brought the total number of BVNs issued to individuals to 48,719,908 from inception.

At end-June 2021, under the Shared Agent Network Expansion Facility (SANEF), a total of 776,661 Agents were registered, of which 215,617 were on-boarded between January and June 2021, compared with 192,160 in the preceding period. This increased on-boarding has resulted in improved access points per capita, as 500 Agents served 100,000 adults in the first half of 2021, compared with 323 Agents per 100,000 adults in the second half of 2020. Furthermore, a total of 858,964 accounts/wallets were opened at agent locations in the first half of 2021.

However, the number of DMB branches serving 100,000 adults decreased marginally to 4.22 at end-June 2021, compared to 4.50 per cent at end-December 2020. Similarly, the number of MFB branches serving 100,000 adults decreased to 1.61 at end-June 2021 from 2.8 per cent at end-December 2020.

2.8 Summary and Outlook for Development finance Interventions

Overall, the Bank's development finance interventions continued to support sectors of the economy adversely affected by the COVID-19 pandemic to ensure seamless flow of credit to the economy. The interventions improved liquidity in the system, created and retained jobs, sustained households' income and consumption, and supported economic recovery. The Bank will continue to provide appropriate support to sectors of the economy in line with its developmental objectives.

3 REGULATORY AND SUPERVISORY ACTIVITIES

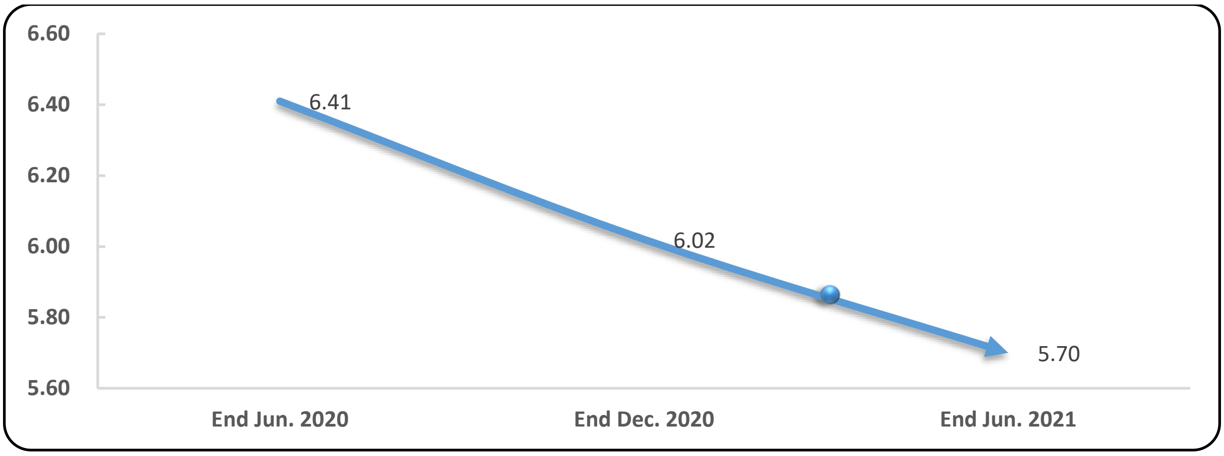
3.1 3.1 Financial Soundness Indicators

3.1.1 3.1.1 Asset-Based Indicators

3.1.1.1 3.1.1.1 Non-Performing Loans to Gross Loans

The Bank sustained its regulatory measures with positive impact on the quality of banks' assets in the period under review. The ratio of non-performing loans (NPLs) to gross loans decreased to 5.70 per cent at end-June 2021, from 6.02 per cent at end-December 2020.

FIGURE 3.1 BANKING INDUSTRY NPLS TO GROSS LOANS

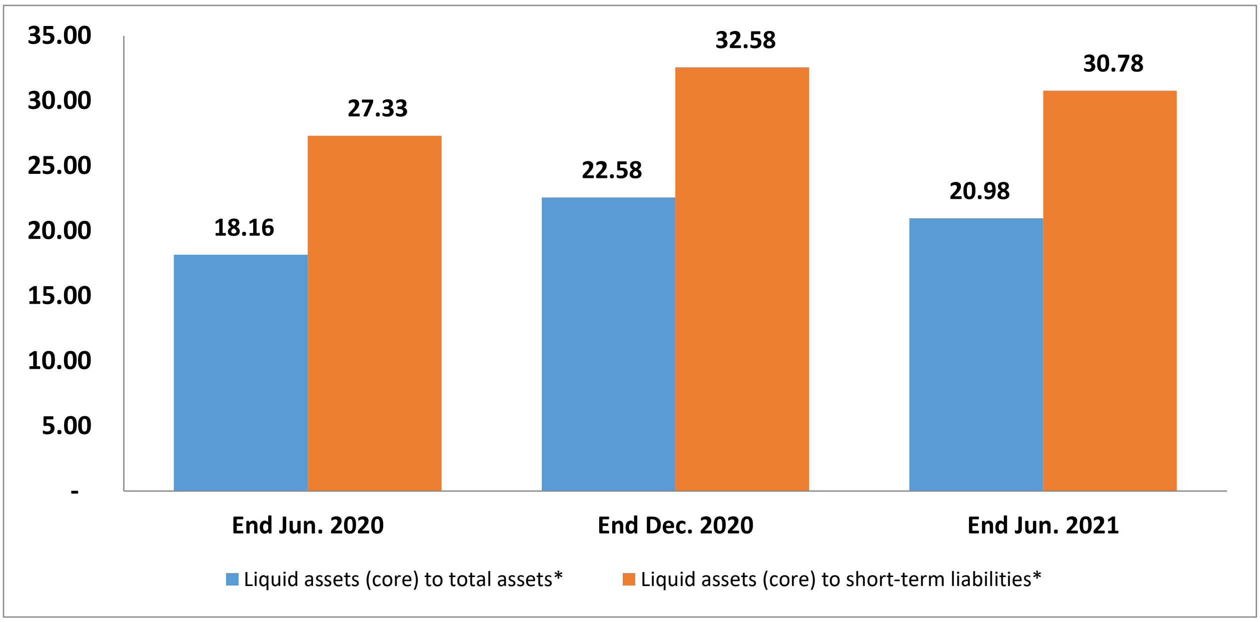


3.1.1.2 3.1.1.2 Core Liquid Assets to Total Assets and Short-term Liabilities

The ratio of core liquid assets to total assets decreased by 1.60 percentage points to 20.98, from 22.58 per cent in the second half of 2020. Similarly, the ratio of core liquid assets to short-term liabilities declined by 1.80 percentage points to 30.78 per cent in the review period, compared with 32.58 per cent at end-December 2020. This was due largely, to the sustained implementation of the LDR[12] policy which encouraged lending to the real sector and households.

[12] Loan-to-Deposit Ratio (LDR)

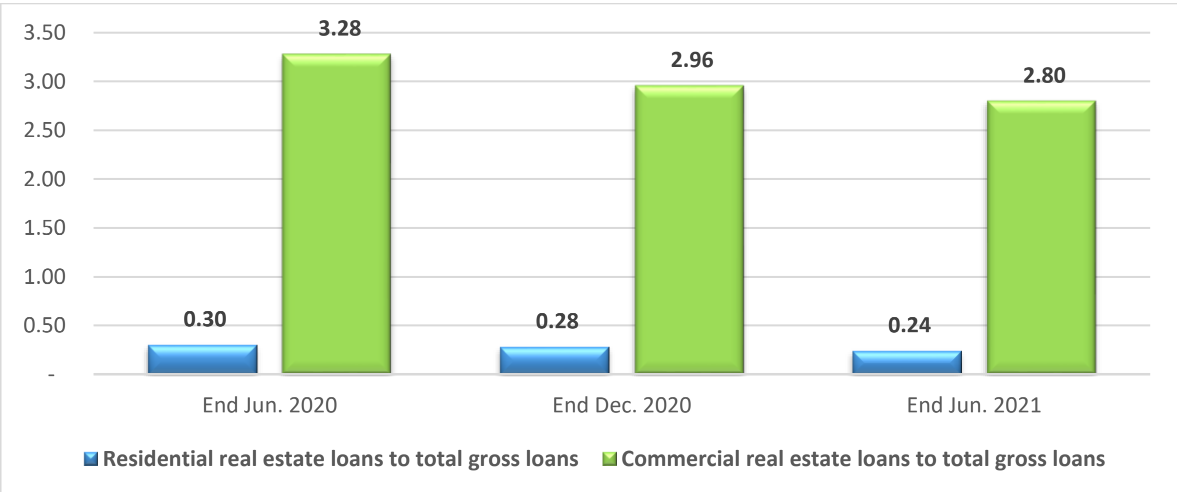
FIGURE 3.2 BANKING INDUSTRY LIQUIDITY INDICATORS



3.1.1.3 Banking System Real Estate Loans Indicators

The indicators of banks' exposure to the real estate market decreased during the review period. In this regard, the ratio of residential real estate loans to total gross loans decreased by 0.04 percentage point to 0.24, from 0.28 per cent in the second half of 2020. Also, the ratio of commercial real estate loans to total gross loans declined by 0.16 percentage point to 2.80 per cent in the review period, compared with 2.96 per cent at end-December 2020.

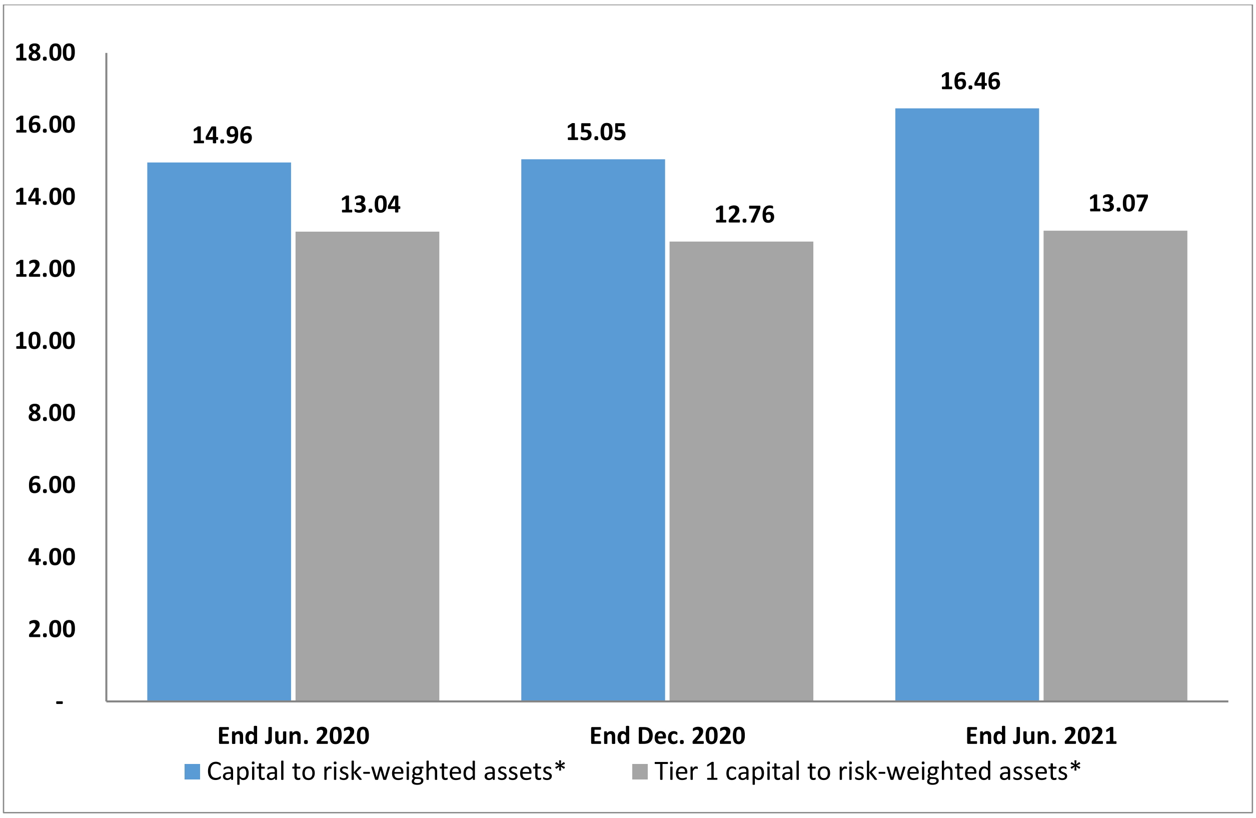
FIGURE 3.3 BANKING INDUSTRY REAL ESTATE INDICATORS



3.1.2 Capital-Based Indicators

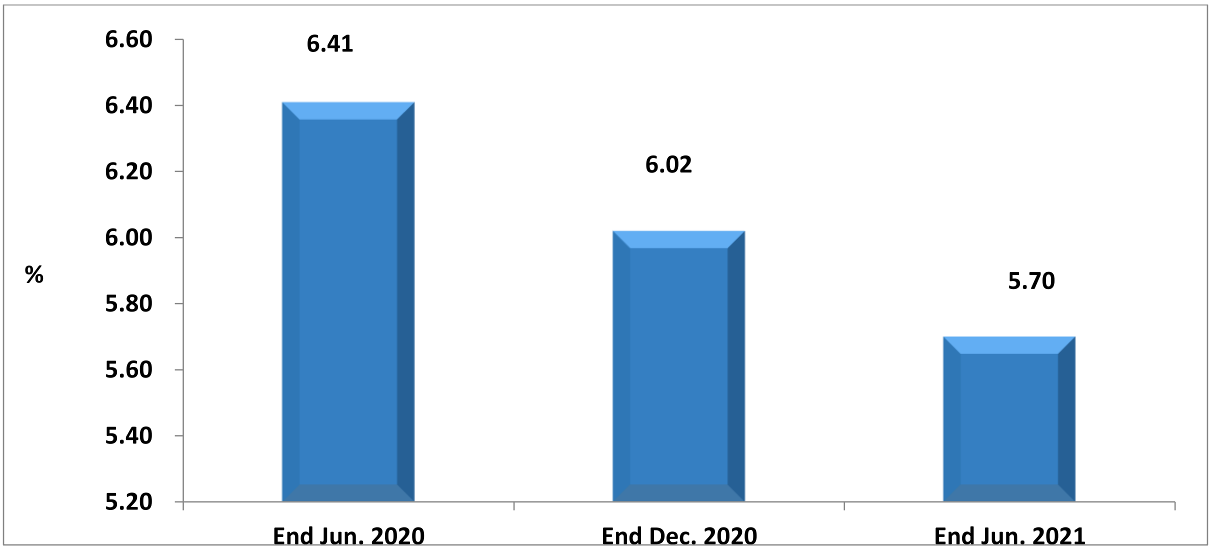
The solvency of the banking industry improved as the regulatory capital to risk-weighted assets increased to 16.46 per cent at end-June 2021, from 15.05 per cent at end-December 2020. Similarly, the regulatory tier-1 capital to risk-weighted assets increased to 13.07 per cent at end-June 2021, from 12.76 per cent at end-December 2020. The ratios were well above the regulatory thresholds.

FIGURE 3.4 BANKING INDUSTRY CAPITAL ADEQUACY INDICATORS



The soundness of the banking system improved as the ratio of non-performing loans net of provisions to capital for the industry declined to 30.42 at end-June 2021, from 32.73 per cent at end-December 2020. The improvement was due largely, to the capitalisation of a portion of the 2020 financial year earnings.

FIGURE 3.5 NON-PERFORMING LOANS NET OF PROVISION TO CAPITAL RATIO



3.1.3 Income and Expense Based Indicators

The ratio of interest margin to gross income increased to 58.71 per cent during the review period, from 56.43 per cent at end-December 2020. However, the ratio of non-interest expenses to gross income increased to 72.57 per cent at end-June 2021, from 61.59 per cent in the preceding half.

The ratio of personnel expenses to non-interest expenses declined to 28.09 per cent at end-June 2021, from 29.37 per cent at end-December 2020.

TABLE 3:1 SELECTED FINANCIAL SOUNDNESS INDICATORS OF THE NIGERIAN BANKING INDUSTRY

Indicators	2019		2020		2021
	End Jun	End Dec	End Jun	End Dec	End Jun
1. Assets Based Indicators					
Nonperforming loans to total gross loans *	9.33	6.06	6.41	6.02	5.70
Liquid assets (core) to total assets*	22.16	22.62	18.16	22.58	20.98
Liquid assets (core) to short-term liabilities*	34.78	34.97	27.33	32.58	30.78
Residential real estate loans to total gross loans	0.27	0.26	0.30	0.28	0.24
Commercial real estate loans to total gross loans	3.50	3.19	3.28	2.96	2.80
2. Capital Based Indicators					
Regulatory capital to risk-weighted assets*	15.27	14.57	14.96	15.05	16.46
Regulatory Tier 1 capital to risk-weighted assets*	13.55	12.76	13.04	12.76	13.07
Nonperforming loans net of provisions to capital *	43.91	31.81	33.66	32.73	30.42
Return on assets*	2.48	2.48	2.50	2.17	1.21
3. Income and Expense Based Indicators					
Interest margin to gross income*	62.99	61.01	56.79	56.43	58.71
Noninterest expenses to gross income*	65.44	64.69	55.26	61.59	72.57
Personnel expenses to noninterest expenses	33.47	33.95	32.68	29.37	28.09

**FSIs are computed based on IMF-FSI Manual.*

3.2 The Banking Industry Stress Tests

3.2.1 Solvency Stress Test

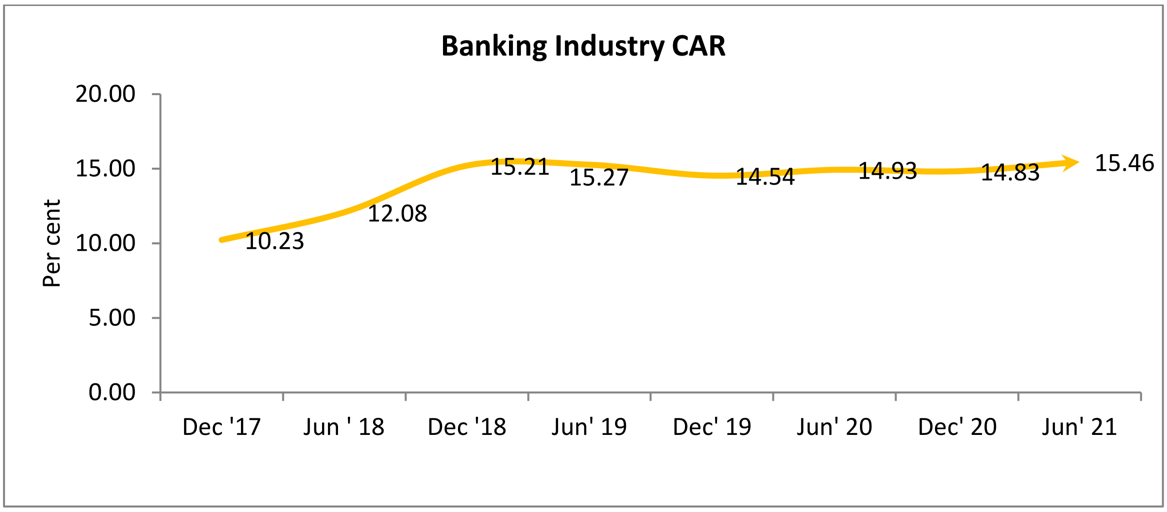
3.2.1.1 Baseline Position

The baseline CAR, LR and NPL ratios in the period under review were 15.46, 41.30 and 5.70 per cent respectively, while ROA and ROE stood at 1.21 and 39.14 per cent respectively, at end-June 2021.

TABLE 3:2 BANKING INDUSTRY BASELINE SELECTED KEY INDICATORS

	CAR	LR	NPLs	ROA	ROE
Jun 2021 (%)	15.46	41.30	5.70	1.21	14.27
Dec 2020 (%)	14.83	44.36	7.28	3.42	39.14
Percentage Points Change	**0.63**	**(3.06)**	**(1.58)**	**(2.21)**	**(24.87)**

FIGURE 3.6 BANKING INDUSTRY CAR (PER CENT)



3.2.1.2 Credit Risk

The stress test revealed that the banking industry could withstand a shock of "up to 100 per cent increase" in the industry NPLs, as the CAR was above the regulatory requirement of 10 per cent as at end-June 2021.

TABLE 3:3 CREDIT DEFAULT SHOCKS

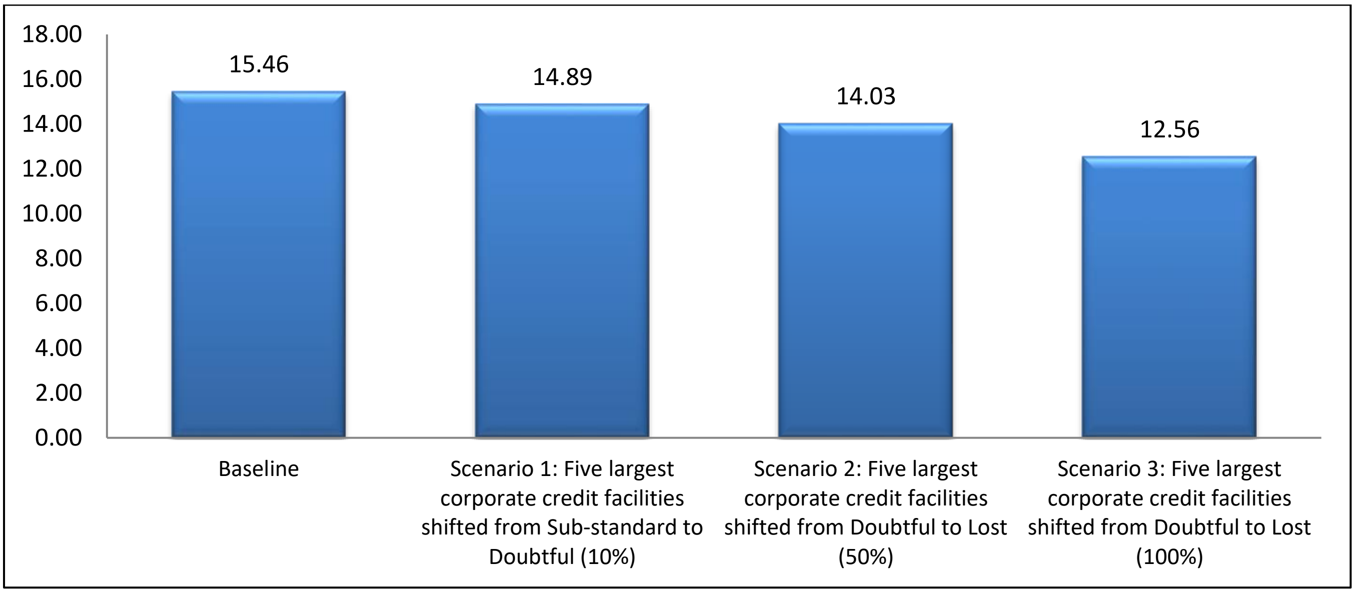
Single Factor Shocks	Jun 2021	Dec 2020
Baseline CAR	15.46	14.83
10% NPLs increase	15.06	14.33
15% NPLs increase	14.87	14.08
20% NPLs increase	14.67	13.83
30% NPLs increase	14.27	13.32
50% NPLs increase	13.45	12.29
100% NPLs increase	11.35	9.60

The banking industry showed resilience to credit concentration risk as the CAR remained above the 10.0 per cent regulatory threshold under stress test scenarios 1, 2 and 3 (Table 3:4)

TABLE 3:4 CREDIT CONCENTRATION RISK

	Jun 2021	Dec 2020
Baseline CAR	15.46	14.83
Single Factor Credit Concentration Shocks		
Scenario 1 **Five largest corporate credit facilities shifted from pass-through[13] to sub-standard (10%)**	14.89	14.22
Scenario 2 **Five largest corporate credit facilities shifted from sub-standard to doubtful (50%)**	14.03	13.29
Scenario 3 **Five largest corporate credit facilities shifted from doubtful to lost (100%)**	12.56	11.70

FIGURE 3.7 CREDIT CONCENTRATION RISK



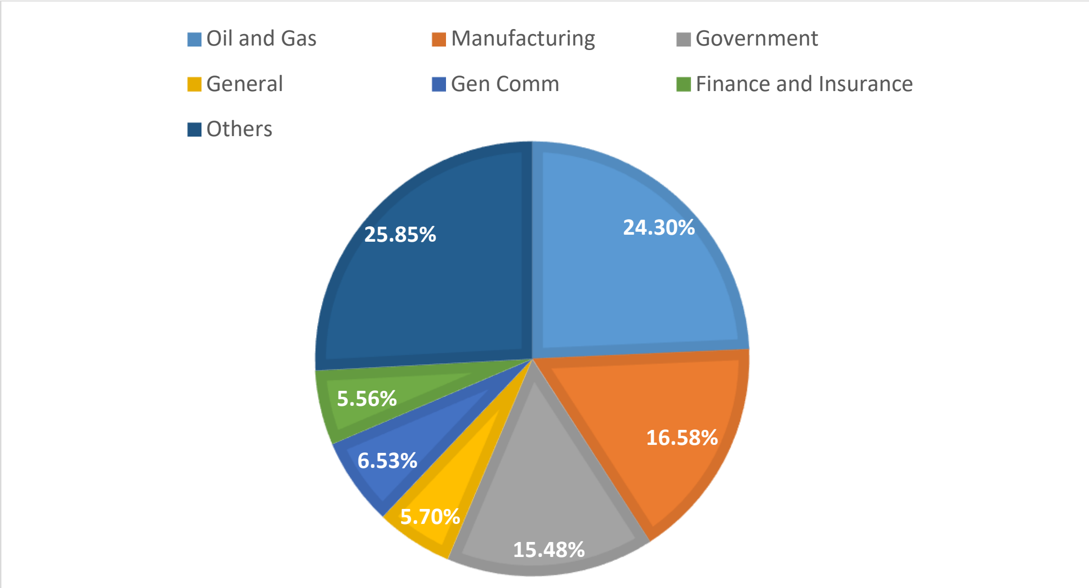
3.2.1.3 Sectoral Credit Concentration Risk

A breakdown of banking industry total credit by sector at end-June 2021 showed that the Oil and Gas sector accounted for 24.30; Manufacturing, 16.58; Government, 15.48;

[13] Performing Loans

General, 5.70; General Commerce, 6.53; Finance and Insurance, 5.56; and Others, 25.85 per cent.

FIGURE 3.8 SECTORAL CONCENTRATION OF CREDIT



The results of the stress test showed that the banking industry withstood up to 50.0 per cent shock to oil and gas exposures as the post-shock CAR stood at 10.12 per cent.

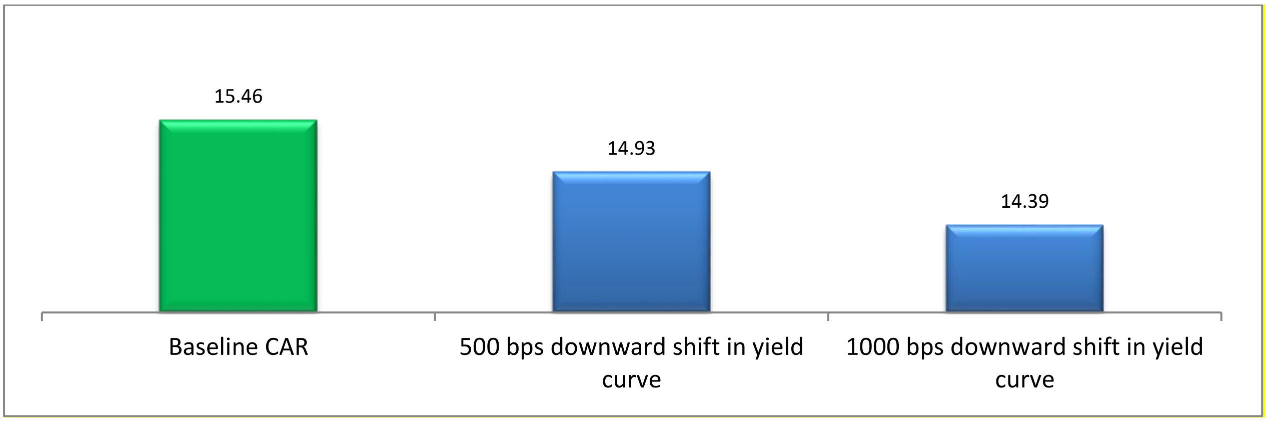
TABLE 3:5 STRESS TEST ON OIL AND GAS EXPOSURES

	Industry CAR (%)
Baseline CAR	15.46
30% Default on total exposure to Oil and Gas	14.77
50% Default on total exposure to Oil and Gas	10.12

3.2.1.4 Interest Rate Risk

The stress test on the net position of interest-sensitive instruments showed that the industry maintained a stable solvency position to interest rate shock of "up to 1000 basis points downward shift in yield curve" as the post-shock CAR declined from 15.46 to 14.39 per cent.

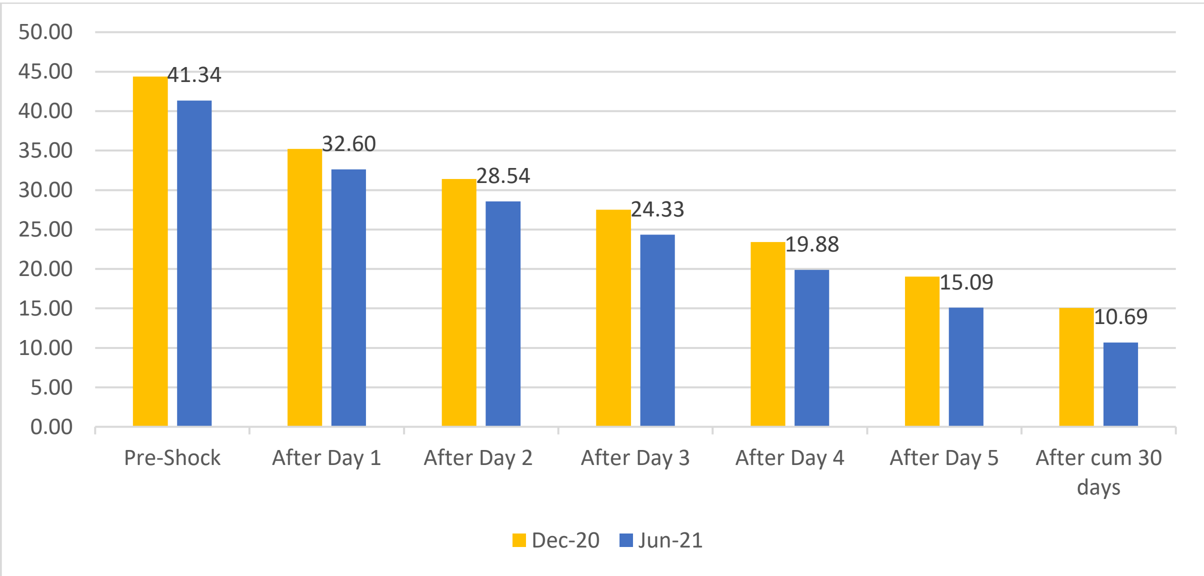
FIGURE 3.9 IMPACT OF INTEREST RATE SHOCKS ON CAR



3.2.2 Liquidity Stress Test[14]

The stress test result revealed that after a one-day run scenario, the liquidity ratio for the industry declined to 32.60 per cent, from the 41.34 per cent baseline position. Similarly, under the 5-day and 30-day scenarios, the liquidity ratio for the industry declined to 15.09 and 10.69 per cent, indicating ₦3.12 trillion and ₦ 3.82 trillion liquidity shortfalls, respectively.

FIGURE 3.10: INDUSTRY LIQUIDITY RATIOS AT PERIODS 1-5 AND CUMULATIVE 30-DAY SHOCKS



[14] Liquidity stress tests were conducted at end-Jun 2021 using the Implied Cash Flow Analysis (ICFA) and Maturity Mismatch/Rollover Risk approaches to assess the resilience of individual banks and the banking industry to liquidity and funding shocks.

TABLE 3:6 LIQUIDITY STRESS TEST RESULTS (POST-SHOCK)

Scenario	Banks with Liquidity Ratios (LR) < 30%		June 2021	
	Dec 2020 (27 DMBs)	June 2021 (28 DMBs)	LR (%)	Shortfall to 30% LR threshold (₦' billion)
Test 1.1: Implied Cash Flow Test				
Day 1	7	11	32.60	Nil
Day 2	12	15	28.54	360.23
Day 3	13	16	24.33	1,325.70
Day 4	15	17	19.88	2,242.12
Day 5	16	19	15.09	3,122.37
Implied Cash Flow Test (30 Days)	18	19	10.69	3,816.54

3.2.3 Maturity Mismatch

The industry baseline assets and liabilities maturity profile at end-June 2021 showed an excess of ₦2.35 trillion assets over liabilities. Further analysis revealed that only the short-end of the market (≤90 day bucket) was adequately funded. However, four and six banks were not adequately funded in the ≤30-day and 31-90 day buckets respectively.

TABLE 3:7 MATURITY PROFILE OF ASSETS AND LIABILITIES AT END-JUNE 2021

Bucket	Liabilities	Assets	Mismatch	Cumulative Mismatch
	N Billion			
≤30 days	26,478.62	17,660.17	8,818.45	8,818.45
31-90 days	3,539.33	3,451.01	88.32	8,906.77
91-180 days	1,382.55	2,269.87	(887.32)	8,019.45
181-365 days	740.78	2,916.93	(2,176.16)	5,843.29
1-3 years	1,513.14	4,263.35	(2,750.21)	3,093.08
>3 years	2,997.32	8,436.33	(5,439.00)	(2,345.92)
Total	36,651.74	38,997.66		

TABLE 3:8 TEST RESULTS FOR SYSTEM-WIDE MATURITY MISMATCH

	Test 2A Descriptive Maturity Mismatch. (No consideration of rollover)		Test 2B Static Rollover risk Analysis. (No possibility to close liquidity gaps in other buckets)		Test 2C Dynamic Rollover risk test. (Free assets used to close liquidity gaps in other buckets)	
	₦ 'billion	No of banks with mismatch	₦ 'billion		₦ 'billion	No of banks with mismatch
≤30 days	13,201.12	4	7,905.40	≤30 days	13,201.12	4
31-90 days	4,470.29	6	-902.69	31-90 days	4,470.29	6
91-180days	3,494.65	9	-1,163.83	91-180days	3,494.65	9
181-365days	2,205.81	10	-2,398.39	181-365days	2,205.81	10
1-3 Years	1,631.76	15	-3,204.15	1-3 Years	1,631.76	15
Above 3 years	-1,057.03	23	-5,439.00	Above 3 years	-1,057.03	23
Total	23,946.61		-5,202.67	Total	23,946.61	

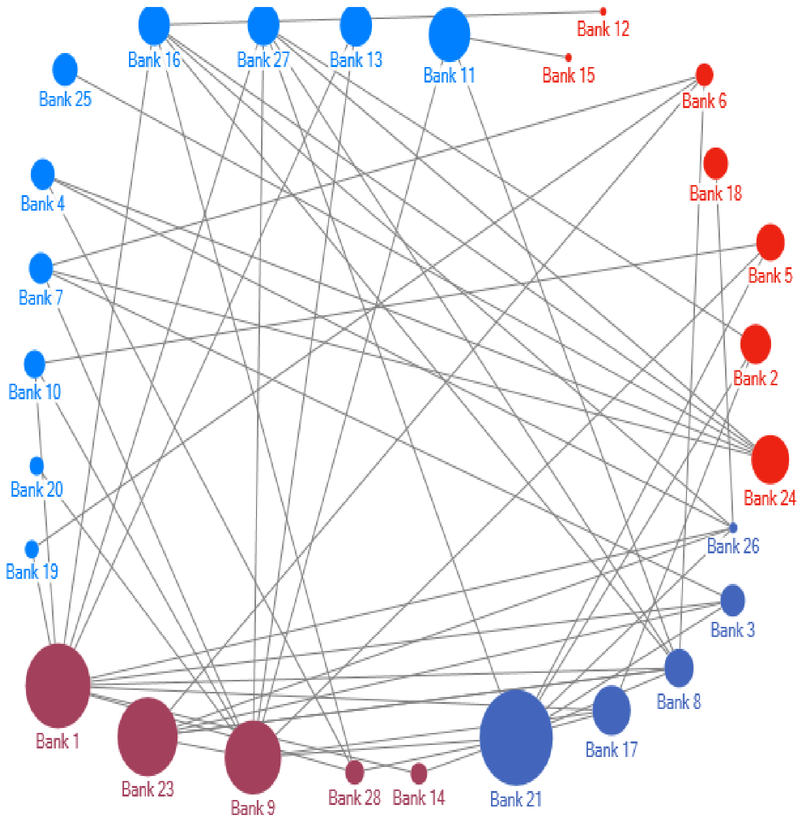
Table 3.9 revealed that under Test 2A the banking industry was adequately funded, while under Test 2B (Static Rollover Risk Analysis) and 2C (Dynamic Rollover Risk test) the industry had mismatches of ₦5.20 trillion and ₦7.67 trillion, respectively. These indicated decreases of ₦0.13 trillion and ₦ 0.1 trillion under the Test 2B and Test 2C respectively, relative to end-December 2020 tests.

3.2.4 Contagion Risk Analysis

The contagion risk analysis depicted an increase in exposure and interconnectedness through interbank placements and takings. The total exposure increased by 28.02 per cent to ₦550.64 billion at end-June 2021, from ₦396.34 billion at end-December 2020.

Further analysis revealed that six banks accounted for ₦378.16 billion or 68.68 per cent of total placements, while six banks also accounted for ₦433.88 billion or 78.80 per cent of total takings. The result of the analysis of interbank placements and takings revealed that it was within the safety corridor of the interbank market operations and there was no threat to the financial system stability.

FIGURE 3.11 NETWORK ANALYSIS BASED ON INTERBANK EXPOSURES



Node colour representation

Blue = Placement only

Deep Blue= Net Placement

Red = Takings only

Purple = Net Takings

BOX 2: LIQUIDITY STRESS TEST ASSUMPTIONS

Implied Cash Flow Analysis

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

The Maturity Mismatch/Rollover Risk

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

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

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

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

TABLE 3:9 PERCENTAGE OF ASSETS UNENCUMBERED AFTER FIRE SALES

Item No	***Assets***	***% Unencumbered***
1.	*Cash and cash equivalents*	*100*
2.	*Current account with CBN*	*100*
3.	*Government bonds, treasury bills and other assets with 0% risk-weighting*	*66.5*
4.	*Certificates of deposit held*	*66.5*
5.	*Other short-term investments*	*49*
6.	*Collateralized placements and money at call*	*49*
7.	*CRR*	*100*

3.3 Supervision of Banks

3.3.1 Supervisory/ Surveillance Activities

In the first half of 2021, the Bank sustained its oversight of the banking system with a view to promoting the safety, soundness, and stability of the financial system amidst vulnerabilities occasioned by the pandemic.

3.3.2 Examination

The Joint CBN and NDIC Risk Assets Assessment Examination of 30 banks, comprising 22 commercial, six (6) merchant and two (2) non-interest banks, was carried out during the review period. This was to review their risk assets and the adequacy of loan loss provisions in preparation for the approval of their respective audited financial statements for the year-ended December 31, 2020.

Also, the AML/CFT examination of the 30 banks covering the period April 1, 2020 to May 31, 2021 was carried out, using the On-site Risk Assessment Methodology (ORAM) tool, which was developed in-house, based on the IMF offsite risk assessment tool. The examination involved the assessments of the ML/TF risks in the operations of the banks and a review of the effectiveness of the mitigants in place to address the risks.

Major findings of the AML/CFT examination included:

- **Delivery channels**: A marked increase in the use of e-delivery channels was observed across the banks as more customers resorted to the use of those channels following the outbreak of Covid-19. This development exposed the banks to heightened risks of fraud, money laundering and cyber-attacks. Consequently, banks were required to put in place adequate control measures to mitigate the risks.

- **Compliance function**: Some banks failed to conduct the mandatory annual compliance test required under Regulation 42 of the CBN AML & CFT Regulation 2013 (as amended) to test the effectiveness of the compliance function.

- **Know Your Customer/Customer Due Diligence:** Some banks were in breach of Regulation 14 (1) of the CBN AML & CFT Regulation 2013 (as amended) on the documentation requirements for account opening in the on-boarding of new customers as they failed to carry out Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD) for High-Risk Customers.

- **Suspicious Transaction Reporting:** Failure to update the Transaction Monitoring software to reflect the parameters for emerging risks was observed in some institutions, leading to the non-identification and/or reporting of some suspicious transactions to the NFIU.

- **Politically Exposed Persons (PEPs)**: Some banks neglected to carry out Enhanced Due Diligence on PEPs, leading to inadequate monitoring of transactions on their accounts.

Appropriate recommendations to address the observed inadequacies and sanctions were imposed in line with extant laws and regulations.

3.3.3 Foreign Exchange Examination

The routine foreign exchange examination of 26 Authorized Dealers (ADs), comprising 22 commercial and four (4) merchant banks, was conducted during the review period. The examination, which covered the period April 1, 2020 to March 31, 2021, was aimed at measuring compliance with extant foreign exchange regulations and the utilization of foreign exchange acquired for eligible transactions.

Significant findings included the utilisation of cash deposits in excess of USD10,000 for telegraphic transfers, transfer of funds from domiciliary accounts to third parties without stating the purpose of the transfer, use of domiciliary account balances to fund the importation of goods without Form M registration and utilisation of foreign exchange by small import customers in excess of the quarterly permissible limit of U$20,000.

Others were non-compliance with the Net Open Position Limit (NOPL), breach of Foreign Currency Trading Position, non-repatriation of export proceeds, importation of prohibited items with Form Q and non-utilisation of autonomous/interbank funds within the deadline of 72 hours of receipt. Appropriate regulatory actions have been taken to address the observed infractions.

3.3.4 Non-Interest Banks

The total assets of Non-Interest banks (NIBs) stood at ₦319.84 billion at end-June 2021, representing 0.6 per cent of total banking industry assets, while their total deposits and total credits at ₦238.43 billion and ₦142.51 billion, represented 0.7 per cent and 0.65 per cent of the industry totals respectively.

In the first half of 2021, a non-interest bank with regional authorisation was licensed, bringing the total number of non-interest financial institutions (NIFIs) to eight (8), comprising three (3) banks, three (3) MFBs and two (2) non-interest windows.

3.3.5 Supervision of Domestic Systemically Important Banks

During the review period, the Bank sustained its oversight of the five (5) Domestic Systemically Important Banks (D-SIBs) to ensure the safety and soundness of the financial system. At end-June 2021, the D-SIBs accounted for ₦31.16 trillion or 58.45 per cent of industry total assets of ₦53.32 trillion; ₦20.60 trillion or 61.29 per cent of total deposits of ₦33.61trillion; and ₦12.45 trillion or 56.49 per cent of the industry credits of ₦22.04 trillion. All the D-SIBs complied with the minimum capital adequacy and liquidity ratio requirements of 15 per cent and 30 per cent respectively.

3.3.6 Asset Management Corporation of Nigeria

The target examination of the Asset Management Corporation of Nigeria (AMCON) was conducted during the review period. The exercise focused on the collateral register of AMCON’s Eligible Bank Asset (EBA) portfolio, recoveries, disposal of assets and the financial condition of the Corporation. The examination revealed that the Corporation recovered a total of ₦69.20 billion in cash, compared with its half-year target of ₦44.26 billion and annual target of ₦111.01 billion. The recovery represented 166.06 per cent of the half-year target or 53.28 per cent of the target for the whole year.

The carrying value of AMCON’s liabilities stood at ₦5.81 trillion at end-June 2021, with AMCON Notes outstanding balance of ₦3.97 trillion and Loan (Debenture) of ₦500 billion accounting for 76.94 per cent of the liabilities. The Notes are due to mature on December 27, 2023 while the Loan is due for redemption on December 30, 2022. The carrying value of the Corporation's assets stood at ₦986.055 billion at end-June 2021. The assets represented 16.97 per cent of the liabilities arising from deferred income and Payables from participating institutions.

The operations of the Banking Sector Resolution Cost Fund (BSRCF) were suspended in the review period following the expiration of the ten-year tenor of the BSRCF at end-December 2020, as stipulated in Section 61 (b) of the AMCON Amendment Act 2015. Consequently, the BSRCF had a nil balance at end-June 2021. However, in line with the provisions of the Act, a Bill for the extension of the tenor of the BSRCF by five years has been submitted to the National Assembly for its consideration and approval.

3.3.7 Cross Border Supervision of Nigerian Banks

3.3.7.1 Foreign Subsidiaries of Nigerian Banks

The number of offshore banking subsidiaries of Nigerian banks was 67 at end-June 2021, same as the position at end-December 2020. There was, however, changes in the number of representative offices from four (4) to three (3) following the grant of a "no objection" to United Bank of Africa to transform its representative office in the United Arab Emirates (UAE) to a branch.

3.3.7.2 Onsite Examination of Offshore Subsidiaries of Banks

The limitations enforced by the pandemic on international travels affected the conduct of on-site examination of the offshore subsidiaries of Nigerian banks during the review period. The Bank, however, introduced measures to ensure that the operations of the subsidiaries continued to be properly monitored. In this regard, banks were required to highlight in their monthly returns the impact of COVID-19 on their subsidiaries and the measures taken to mitigate them. Also, the Bank pioneered a remote risk based supervision (R-RBS) examination system, which was utilised in the examination of offshore banking subsidiaries of a bank. The major goal of the exercise was to achieve the consolidated supervision of all the components of the Group, despite the challenges imposed by the pandemic.

3.3.8 Credit Risk Management System

The total number of credit facilities on the CRMS database stood at 26,292,020, comprising 25,102,910 individual and 810,292 non-individual borrowers at end-June 2021, reflecting an increase of 21.63 per cent, compared with 21,616,075 at end-December 2020. The total number of facilities with outstanding balances stood at 5,233,014, comprising 5,102,910 individuals and 130,104 non-individuals at end-June 2021, indicating a significant increase of 32.65 per cent from 3,944,882 at end-December 2020.

The strict enforcement of the CBN Regulatory Guidelines on CRMS has led to enhanced compliance by banks as signified by improved credit records (Table 3:10)

TABLE 3:10 CREDIT RISK MANAGEMENT SYSTEM

Borrowers from the Banking Sector (Commercial, Merchant and Non-Interest Banks)				
Description	**December 2020**	**June 2021**	**Absolute Change: Increase/ (decrease)**	**% Change**
* Total No. of Credit/facilities reported on the CRMS:	**21,616,075**	**26,292,020**	**4,675,945**	**21.63**
Individuals	20,887,088	25,102,910	4,215,822	20.18
Non-Individuals	728,987	810,292	81,305	11.15
* Total No. of Outstanding Credit facilities on the CRMS:	**3,944,882**	**5,233,014**	**1,288,132**	**32.65**
Individuals	3,830,870	5,102,910	1,272,040	33.20
Non-Individuals	114,012	130,104	16,092	14.11

* The figures include borrowers with multiple loans and/or credit lines

3.3.9 Credit Bureaux

The routine examination of the three (3) credit bureaux conducted during the review period revealed that their capital remained above the regulatory minimum of ₦500 million. Their subscriber base witnessed significant expansion following the sign-on of unconventional [15] credit providers. Similarly, the credit records of the bureaux

[15] These include; mobile network operators, courier companies, Asset Management companies, Brokerage firms, Cooperative societies, Insurance Companies, Non-Governmental Institutions, etc.

experienced a steady growth, consistent with credit expansion in the economy (Table 3.13).

TABLE 3:11 CREDIT BUREAUX RECORDS

S/N	Parameters	CRC Credit Bureau		CreditRegistry		First Central Credit Bureau	
		As at June 30, 2021	As at December 31, 2020	As at June 30, 2021	As at December 31, 2020	As at June 30, 2021	As at December 31, 2020
1	Number of credit records	52,866,509	45,106,433	44,514,456	38,633,564	45,391,801	37,469,045
2	Number of subscribers	1,535	1,463	646	616	1,242	1,159
3	Value of Credit Facilities	N32.99 Trillion	N30.117 Trillion	₦31.124 trillion	₦28.974 trillion	N28.274	N27.699 Trillion
4	Number of Data Subjects	23,470,947	21,008,956	16,486,223	13,553,876	17,499,141	15,985,435
5	Capital Base (₦'M)	2,245.24	2,245.24	820.62	820.62	986.26	986.26

3.4 Supervision of Other Financial Institutions

3.4.1 Examination of Other Financial Institutions

On-site examination was restricted to 258 OFIs because of second and third waves of COVID-19 during the period under review. The exercise covered Risk-Based Supervision (RBS) of 152 BDCs and 25 Systemically Important Other Financial Institutions (SIOFIs), comprising 13 MFBs, 8 PMBs and 4 FCs as well as special examination of 61 MFBs on “Watch List”, 12 PMBs and 8 FCs with critical regulatory issues.

The RBS examination of the 13 systemically important MFBs revealed that the composite risk ratings of four MFBs were “Moderate”, seven “Above Average” and two

High". The composite risk ratings of the eight PMBs were one "Low", three "Moderate", two "Above Average" and two "High" while those of the four FCs were one "Low", one "Above Average" and two "High".

The outcome of the RBS examination of the BDCs revealed the composite risk ratings of Low (1), Moderate (4), Above Average (78) and High (63). Appropriate regulatory measures were taken to address the observed deficiencies.

The "existence" check conducted on the 61 MFBs on "Watch List" to assess their capital levels, in line with the final re-capitalisation deadline of April 2022, revealed that 12 MFBs were in operation, 33 had closed shop, 11 were inactive and 5 were undergoing restructuring. The average capital adequacy ratio, liquidity ratio and portfolio-at-risk of the 12 MFBs in operation were negative 50.7, 161.9 and 74.0 per cent respectively. Four of the MFBs met the minimum capital adequacy ratio of 10%, nine met the minimum liquidity ratio of 20%, while one MFB operated within the maximum Portfolio-At-Risk of 5%.

The Target Examination of the 12 PMBs revealed that 11 were in operation while one was undergoing restructuring. The adjusted capital and capital adequacy ratios of the 11 PMBs were below the minimum regulatory requirements while four met the minimum liquidity ratio of 20%. Similarly, the Target Examination of the eight FCs revealed that two were "Sound", one "Technically Insolvent", two inactive while three were engaged in non-permissible activities. Consequently, appropriate regulatory measures have been taken.

TABLE 3:12 EXAMINATION OF SYSTEMICALLY IMPORTANT OTHER FINANCIAL INSTITUTIONS

OFIs	Composite Risk Rating (CRR)	NPL	Earnings Rating	Capital Rating	Prudential and Soundness Analysis
Primary Mortgage Banks	1 = Low 3 = Moderate 2 = Above Average 2 =High	Average NPL Ratio of 77.9 per cent was above the regulatory maximum of 30 per cent.	1 = Acceptable 4 = Acceptable 3 = Needs Improvement	3 = Strong 3 = Acceptable 2 = Needs Improvement	Average CAR and liquidity ratio of 55.7 per cent and 129.5 per cent, respectively are above the regulatory minimum of 10 and 20 per cent.
Finance Companies	1 = Low 1= Above Average 2 = High	Average NPL of 17.7 per cent was above the regulatory maximum 10 per cent.	1 = Strong 1 = Needs Improvement 2 = Weak	1 = Strong 2 = Acceptable 1 = Weak	Average CAR of 19.4 per cent was above the 12.5 per cent regulatory requirement.

Microfinance Banks	4 = Moderate 7=Above Average 2 = High	Average PAR was 25.9%, above the regulatory maximum of 5%	5 = Acceptable 6 = Needs Improvement 2 = Weak	5 = Strong 5 = Acceptable 2 = Needs Improvement 1 = Weak	Average CAR and liquidity ratio were 27.6 and 57.4 per cent, respectively. These were above the regulatory minimum benchmarks of 10 and 20 per cent.

3.5 Other Developments in the Financial System

3.5.1 AML/CFT & Corporate Governance

3.5.1.1 Automation of AML/CFT Processes

To improve the AML/CFT regime, banks commenced the rendition of Foreign Currency Report (FTRs), Politically Exposed Persons (PEP) report and Three-tiered KYC returns via the AML/CFT Data Rendition and Processing System (ADRAPS) during the review period.

3.5.1.2 Corporate Governance Scorecard

Scorecard assessments were conducted on eight (8) banks to ascertain their level of compliance with the CBN Code of Corporate Governance for Banks and Discount Houses during the review period. The exercise was to assess and ensure that sound corporate governance practices were entrenched in the banking industry. The result of the assessment revealed that of the eight (8) banks, five (5) were rated “Acceptable”; two (2), “Needs Improvement”; and one (1), “Weak”.

3.5.1.3 Guidelines on Shared Services Arrangements

To ensure cost efficiency, leverage on existing expertise and maintain consistency throughout the group, the Bank issued Guidelines for Shared Services Arrangements for Banks and Other Financial Institutions during the review period. The regulation covers general principles, approved services, governance, transfer pricing and regulatory reporting for holding companies, among others.

3.5.1.4 Enrolment of Other Financial Institutions on the Credit Risk Management System and the Global Standing Instruction Platform

To improve repayment culture, reduce incidences of default in the banking industry and widen the credit information base, the Bank commenced the enrolment of OFIs on the Credit Risk Management System and GSI platforms to extend the coverage of the two applications to all regulated financial institutions under the Bank’s purview.

3.6 Complaints Management and Resolution

In pursuance of the Bank’s mandate of promoting a sound financial system in Nigeria, the Complaints Management Division of the CPD provides and ensures an effective redress mechanism for resolution of complaints by consumers against financial institutions. In that regard, the complaints management and resolution statistics for the review period showed a good degree of improvement in its performance compared to the previous review period. The division had 1,215 outstanding complaints at end-December 2020, indicating a decrease of 14.81 per cent, compared with 1,035 at end-June 2021 and received 1,973 fresh complaints from financial services consumers, compared with 2,577 fresh complaints in the second half of 2020, indicating a decrease of 23.44 per cent. The complaints were related mainly to excess and unauthorised charges, frauds, account management, ATM dispense errors and funds transfers. A further breakdown showed that 1,930 complaints or 97.82 per cent were against banks, while 43 or 2.18 per cent were against Other Financial Institutions.

In the review period, total claims in local and foreign currencies amounted to ₦16.84 billion and US$102,553.17, compared with ₦31.52 billion only in the second half of 2020. Financial institutions were directed to refund the sum of ₦8.43 billion and US$53,805.62 to customers, compared with ₦839.93 million only in the second half of 2020.

FIGURE 3.12 NUMBER OF COMPLAINTS (JAN - JUN 2021)

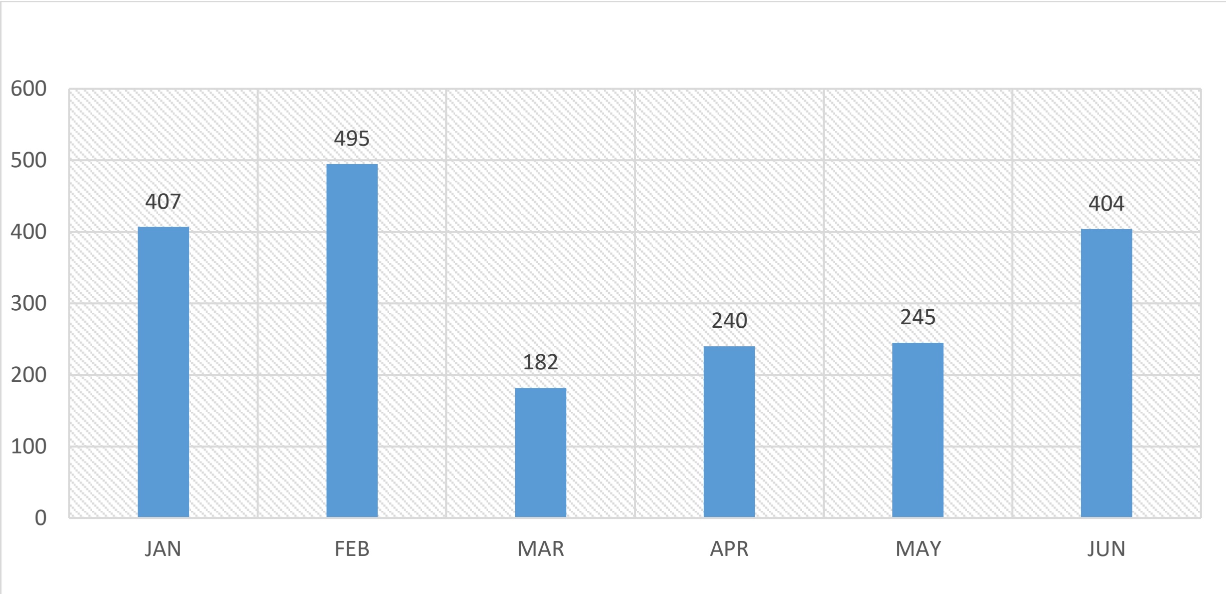
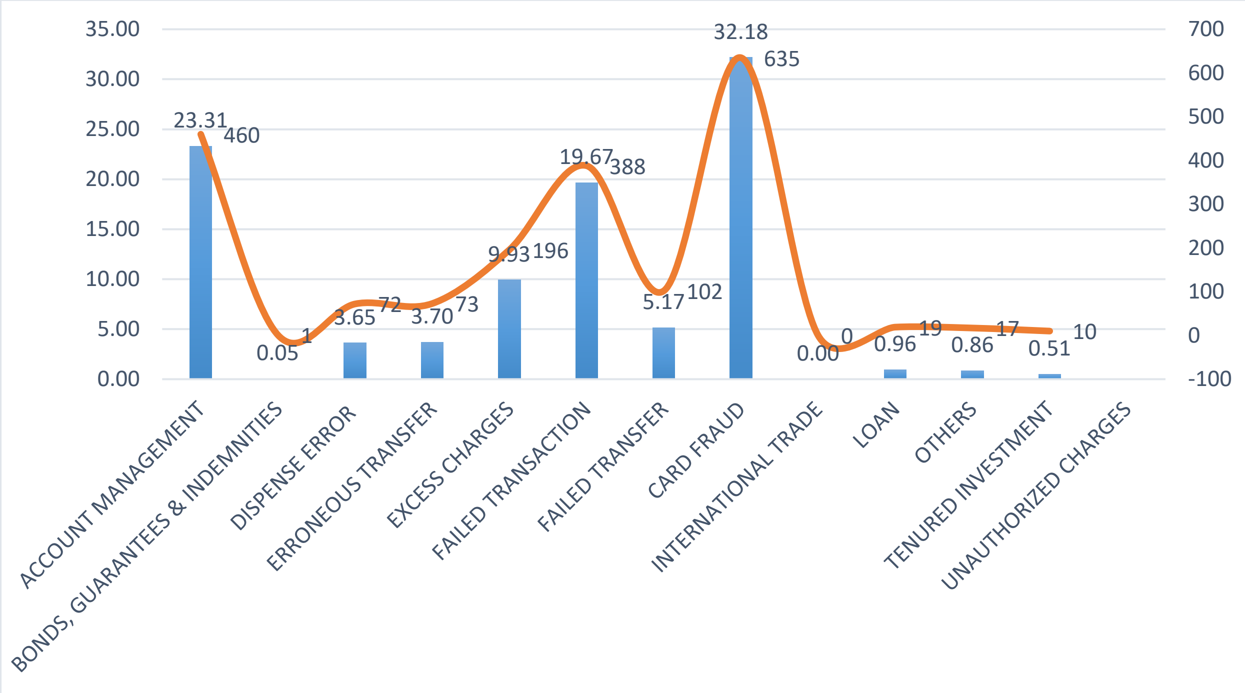
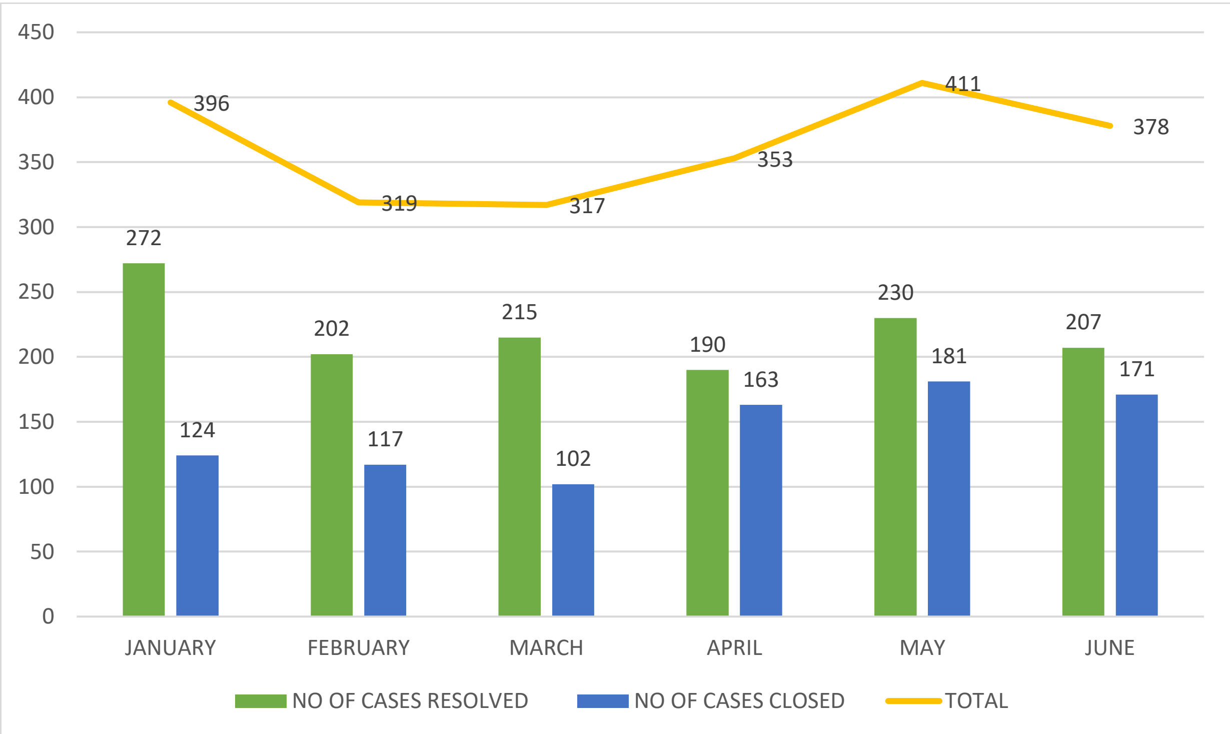


FIGURE 3.13 NUMBER AND PERCENTAGE OF COMPLAINTS BY CATEGORY (JAN – JUN 2021)



The number of complaints resolved and closed marginally increased in the review period by 0.60 per cent to 2,169, compared with 2,156 in the second half of 2020. A total of 1,317 were resolved and 852 were closed (Figure 3.14).

FIGURE 3.14 DISTRIBUTION OF COMPLAINTS RESOLVED AND CLOSED



4 THE PAYMENTS SYSTEM

4.1 Developments in the Payments System

The Bank continued to implement policies and initiatives aimed at improving the safety and efficiency of the Payments System.

4.1.1 Bank Verification Number Operations and Watch-list

The BVN[16] remained a credible tool that assists financial institutions and law enforcement agencies, amongst others, in reducing frauds and other financial crimes in the financial system. At end–June 2021, BVNs count stood at 48.71 million, reflecting an increase of 6.33 per cent, compared with 45.80 million at end-December 2020. The number of accounts linked with BVNs was 105.96 million while the number of watch-listed BVNs stood at 12,425 at end-June 2021.

4.1.2 Categorisation of Payments System Participants

The Bank issued a new licensing framework which offers greater clarity for new and existing market participants, given the significant evolution and innovation in the Nigerian Payments System. The framework streamlines Payments System Participants (PSPs) according to permissible activities into four broad categories: Switching and Processing, Mobile Money Operations (MMOs), Payment Solution Services (PSSs), and Regulatory Sandbox. The framework does not permit an entity to hold licenses across the different categories except under a holding company structure. Also, only MMOs are permitted to hold customer funds. The new licensing regime is effective July 1, 2021.

[16] Bank Verification Number

TABLE 4:1 CATEGORIES OF PAYMENTS SYSTEM PARTICIPANTS

S/N	Category	Permissible activities	Minimum Shareholders' Funds
1	Mobile Money Operators	E-Money issuing, Agent recruitment and management, wallet creation and management, pool account management	N2bn
2	Switching and Processing	Switching, Card Processing, Transaction clearing and Settlement Agents services, Non-Bank Merchant Acquirers, Third Party Processors, Merchant Acquiring and settlements service, Settlement agents' services	N2bn
3	Payments Solution Services (PSS)	Payment processing gateway and portals, Payment solution/application development, Merchant Service aggregation, and collections. POS Terminal deployment and services, POS Terminal ownership, PTAD, Merchant/agent training and support Agent recruitment and management	N250m
4	Regulatory Sandbox*	Testing of products and services in a controlled environment	Not Applicable

***This category does not require an operational licence**

The table below depicts the number and various licence types of the Payments System Participants during the review period. The total number of licensed institutions decreased from 123 at end-December 2020 to 112 at end-June 2021, following the revocation of the licences of seven (7) PSPs and the decision to allow DMBs operate Mobile Money Wallets without MMO licence.

TABLE 4:2 PAYMENTS SYSTEM PARTICIPANTS

License –Type	Number	
	End-December 2020	**End-June 2021**
Card Schemes	6	6
Mobile Money Operators	31	17
Payment Solution Service Providers	25	26
Payment Terminal Service Providers	22	17
Transaction Switching Companies	9	8
Third Party Processors	5	5
Super Agents	12	19
Non-Bank Acquirers	6	6
Accredited Cheque Printers	7	8
Total	**123**	**112**

4.1.3 Examination of Payments System Participants

During the review period, examination of 20 PSPs[17] was conducted based on the volume and value of transactions carried out and combination of licenses held. The outcome of the exercise revealed the urgent need for the:

i. Expansion of payment infrastructure.
ii. Strengthening of cyber-resilience.
iii. Stringent implementation of IT and data security measures, and
iv. Strengthening of KYC requirements.

As part of the ongoing licence renewal process of PSPs, the assessment of 17 PSPs was carried out during the review period.

4.1.4 Open Banking

The Bank issued the Regulatory Framework on Open Banking in Nigeria on February 17, 2021. The framework regulates open banking practices and enables the provision

[17] Payment System Participants (PSPs)

of innovative and customer-centric financial services, by leveraging the Application Programming Interface (API) standards across the Banking Industry.

4.1.5 Regulatory Sandbox

In view of increasing consumer appetite for payment solutions and emerging disruptive technology in the financial services space, the Bank issued the Framework for Regulatory Sandbox Operations in Nigeria in January 2021 to ensure new, more flexible ways of engaging with the industry. The Regulatory Sandbox is a formal process for firms to conduct live tests of innovative products, services, delivery channels, or business models in a controlled environment, with regulatory oversight. The implementation of the framework will promote effective competition, financial innovation, improve customer experience, and encourage financial inclusion.

4.1.6 Nigeria Cheque Standards and Cheque Printers Accreditation Scheme

The revised Nigeria Cheque Standards (NCS), and Nigeria Cheque Printers Accreditation Scheme (NICPAS) were fully implemented with effect from April 1, 2021, with only cheques that conform with the new standard permissible in the clearing system. The implementation of the NCS is to enhance the safety and efficiency of cheque clearing system with the introduction of Quick Response (QR) code on cheques, amongst other features.

The Bank accredited one cheque printer, bringing the total number of accredited cheque printers to eight (8) during the review period.

4.1.7 Central Counterparty

As part of efforts to deepen the Nigerian financial markets, the Securities and Exchange Commission (SEC) for the first time approved the establishment of two central counterparties (CCP): NG Clearing Limited, and FMDQ Clear (a subsidiary of FMDQ Group). The emergence of the CCPs would enhance achievement of delivery versus payment (DVP), mitigate gridlock and counterparty risks, and engender efficient service delivery and healthy competition.

4.2 Payments System Statistics and Trends

4.2.1 Large Value Payments

The volume and value of inter-bank fund transfers through the Real Time Gross Settlement (RTGS) System decreased to 141,592 and ₦35,695.95 billion at end-June 2021, from 148,707 and ₦36,195.11 billion at end-December 2020, reflecting decreases of 4.78 and 1.38 per cent, respectively.

4.2.2 SWIFT Customer Security Programme

The Bank continued to implement the following measures to minimize risks associated with SWIFT operations:

- Daily Validation Report (DVR) to highlight large transactions, detect unusual transaction flow and identify new counter parties. This report is done daily, usually 24 hours after transaction day. This process is carried out to check for discrepancies in transactions by confirming that the amounts routed are same with the amounts that were credited to the beneficiary accounts. Discrepancies are rare; however, when they occur, the originating office is notified to reconcile and update their records as required.
- Creation of a secure zone for SWIFT operators to separate SWIFT environment from the general IT environment.
- Screening of all outgoing messages in line with SWIFT sanction screening tool.

4.2.3 Retail Payments

4.2.3.1 Cheque Clearing

The volume and value of cheques cleared decreased to 2,253,064 and ₦1,596.82 billion, in the first half of 2021 from 2,489,348 and ₦1,660.38 billion in the second half of 2020, representing a decrease of 9.49 and 3.83 per cent, respectively. The decreases were due to customers' growing preference for alternative payment channels.

4.2.3.2 Electronic Transactions

The volume and value of electronic transactions decreased by 32.20 and 57.16 per cent to 4,363,843,350 and ₦188,022.11 billion during the review period, compared with 6,436,148,824 and ₦438,934.17 billion at end-December 2020. The decrease reflects the seasonality in economic activities.

TABLE 4:3 ELECTRONIC TRANSACTIONS

Payment Channel	Number of Active Terminals		Number of Transactions		% Change Volume	Value ₦' Billion		% Change Value
	Dec 2020	**Jun 2021**	**Jul-Dec 2020**	**Jan-Jun 2021**	Increase/ (decrease)	**Jul-Dec 2020**	**Jan-Jun 2021**	Increase/ (decrease)
ATMs	18,810	29,337	985,288,099	640,462,258	(34.9975)	9,599.55	7,897.51	(17.7304)
POS	459,285	638,983	377,470,353	1,067,587,946	182.8270	2,723.85	9,448.38	246.876
Mobile Money	N/A -	-	439,398,157	433,031,724	(1.4489)	9,830.74	5,225.34	(46.8469)
Online Transfers (Internet/Web)	N/A-	-	4,027,609,146	1,628,664,089	(59.5625)	221,142.31	132,163.64	(40.2359)
Mobile App			237,959,764	324,973,078	36.5664	18,875.26	20,253.57	7.3022
USSD			279,478,069	247,967,645	(11.2747)	2,963.45	2,457.30	(17.0798)
Direct Debit			1,776,565	313,612	(82.3473)	1,133.30	8.42	(99.257)
ACH/ NEFT			87,168,671	20,842,998	(76.0889)	172,665.71	10,567.95	(93.8795)
Total			**6,436,148,824**	**4,363,843,350**	**(32.1979)**	**438,934.17**	**188,022.11**	**(57.1639)**

4.3 Risks in the Payments System

The Nigerian payments system remained safe and resilient despite heightened cyber threats from increased number of users, digitalization of financial services, and telecommuting. To assist operators mitigate the threats, the Bank issued two frameworks; the Nigerian Payments System, Risk and Information Security Management Framework, and Risk-Based Cyber-Security Framework and Guidelines for Deposit Money Banks and Payment Service Providers. The frameworks help to ensure that systems which inherently create interdependencies among financial institutions do not create systemic risks and provide a risk-based approach to managing cybersecurity risk.

5 KEY RISKS TO THE FINANCIAL SYSTEM

5.1 Credit Risk

Risk Rating (Medium Risk, Trending downwards)	

Credit risks abated during the review period due to the effects of Global Standing Instruction (GSI), increased repayment by obligors, and other policy measures such as regulatory forbearances by the Bank. Consequently, Industry Non-Performing Loans (NPLs) ratio declined to 5.70 per cent at end-June 2021, compared with 6.02 per cent at end-December 2020.

Credit risks are expected to remain moderate and on a downward trajectory. However, the lingering effects of the Covid-19 pandemic and uncertainties in sectors with high proportions of industry credits such as Oil and Gas continue to pose risks to the financial system.

5.2 Liquidity Risk

Risk Rating (Low Risk, Stable)	

The banking industry is robust and resilient to short-term liquidity shocks as the average industry liquidity ratio remained above the regulatory threshold of 30.00 per cent. Industry liquidity risk is expected to remain low and stable. Nonetheless, rollover risk and asset-liability mismatches continue to pose funding risks.

5.3 Market Risk

Risk Rating (Medium Risk, Trending Up)	

The weighted average OBB rate increased significantly by 15.37 percentage points to 16.39 per cent at end-June 2021, compared with 1.02 per cent at end-December 2020. Similarly, interbank call rates increased by 15.62 percentage points to 16.87 per cent at end-June 2021, compared with 1.25 per cent at end-December 2020, reflecting tighter liquidity within the banking system.

Average savings rate declined by 0.23 percentage point to 1.81 per cent at end-June 2021, compared to 2.04 per cent at end-December 2020. Maximum lending rate increased by 0.74 percentage point to 29.05 per cent at end-June 2021, compared to 28.31 per cent at end-December 2020. The widening spread between the deposit rate and the maximum lending rate reflects the high cost of intermediation in the banking sector.

Exchange rate pressures persisted during the period under review, resulting from demand pressures and supply constraints in the FX market. This was exacerbated by the risks to the external reserves, including the buildup in external borrowing, and the impact of the mutating Covid-19 variants on oil demand.

In the debt market, there was an upward shift in the yield curve, indicative of increased investor confidence. However, the equity market witnessed a 6.15 per cent decline in market capitalisation, reflecting the heightened uncertainties induced by the resurgence of Covid-19.

Overall, market risk is expected to maintain an upward trend in 2021, given the persisting pressures on interest rates, exchange rates and inflation, as well as the likelihood of FPI reversals.

5.4 Operational Risk

Risk Rating (High Risk, Trending up)	

During the review period, operational risks faced by financial institutions were largely related to rising incidents of fraud and forgeries, increased insider threats and third-party risks, as well as security challenges across the country. Industry reports indicated that the top three Fraud and Forgeries vectors, based on incident count, were ATM, Web, and Internet Banking, while the top three, based on volume, were Internet Banking, Mobile and ATM respectively.

Operational risks are expected to remain high with an upward trend for the rest of 2021. However, with the implementation of robust incident response, disaster recovery, business continuity plans, and information sharing networks amongst institutions, the industry is well positioned to mitigate these risks.

5.5 Cybersecurity Risk

Risk Rating (High Risk, Trending up)	

During the period under review, there was a significant increase in the number of cybersecurity incidents, some of which included: social engineering, especially for the vulnerable segment of users; unauthorised access to confidential information; ransomware attacks; heightened insider threats and third party risks; threat of cyber-attack on payments system infrastructure; and Web based fraud.

Cyber-threats are expected to remain high, with an upward trend, in 2021, in line with global trend.

5.6 Macroeconomic Risk

Risk Rating (High Risk, Downward)	

Macroeconomic risks remained high, but with a downward trend driven largely by the gradual resumption of economic activities in the country. However, slower-than-anticipated rollout of vaccines, virus mutations could dampen outlook. Also, fiscal sustainability issues arising from dwindling revenue, increasing debt profile remained major threat to macroeconomic stability. The crystallization of downside risks and the consequent decrease in the level of the reserves would exert pressure on the exchange rate, leading to higher inflation as imports become more expensive. Despite these, the modest recovery in output coupled with low inflationary pressure in the review period is expected to moderate macroeconomic risk.

6 OUTLOOK

The outlook for the Nigerian economy in the near-term is optimistic on account of the rebound in economic activities and base effect, although uncertainties remain. The expansion in output is expected to be buoyed by supply chain improvements, increased credit delivery, rising crude oil revenue and the rebound in output of some sectors significantly impacted by the pandemic.

The monetary and fiscal interventions in the real sector, especially in Agriculture, are expected to improve the supply chain and moderate inflationary pressure in the near-term. However, risks to the outlook include pressure on exchange rate, heightening insecurity and hikes in Premium Motor Spirit (PMS) price, among others.

Accretion to external reserves is expected to improve in the near-term as oil export and capital inflow increase, although downside risks persist. Furthermore, the Bank's policy on diaspora remittances and over-invoicing, as well as improved receipts from Petroleum Profit Tax (PPT) and the Petroleum Industry Act are expected to buoy reserves accretion.

The Bank would continue to enhance its regulatory tools as well as evolve appropriate policies measures towards ensuring the soundness and stability of the banking. Also, with the gradual return to normal economic activities, it is expected that the financial soundness indicators of the banking industry would continue to remain positive.

The Bank would sustain its proactive supervisory approach, through regular stress testing exercise and application of the Early Warning System tools to assess risk and vulnerabilities in the banking system.

The overall economic outlook remained cautiously optimistic, given the proactive policy measures adopted by the Bank towards mitigating the adverse impact of the pandemic and enhancing the resilience of the financial system.

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18	H. Abdullahi	Banking Services Department
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