FINANCIAL STABILITY REPORT

DECEMBER 2019

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LIST OF ACRONYMS

AMCON	Asset Management Corporation of Nigeria
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BDCs	Bureaux de Change
BOI	Bank of Industry
BOA	Bank of Agriculture
BRICS	Brazil, Russia, India, China, and South Africa
BVN	Bank Verification Number
CACS	Commercial Agriculture Credit Scheme
CAR	Capital Adequacy Ratio
CBN	Central Bank of Nigeria
COB	Currency Outside Banks
CRMS	Credit Risk Management System
DAX	Deutscher Aktienindex (German stock index of 30 major German companies)
DFIs	Development Finance Institutions
DMBs	Deposit Money Banks
EBAs	Eligible Bank Assets
ECB	European Central Bank
EGX CASE 30	Egypt Stock Exchange (Cairo and Alexandria Stock Exchange) 30 Stock Index
FAO	Food and Agriculture Organisation
FATF	Financial Action Task Force
FCs	Finance Companies
FGN	Federal Government of Nigeria
FMBN	Federal Mortgage Bank of Nigeria
FRACE	Financial Regulation Advisory Council of Experts
FSIs	Financial Soundness Indicators
FSR	Financial Stability Report
FSRCC	Financial Services Regulation Co-ordinating Committee
GDP	Gross Domestic Product
GSE	Ghanaian Stock Exchange
HHI	Herfindahl-Hirschman Index
ICE	Intercontinental Exchange
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
KYC	Know Your Customer
M_1	Narrow Money Supply
M_2	Broad Money Supply
M_3	M_2 plus CBN Bills held by the money holding sectors
MENA	Middle East and North African Countries
MFBs	Microfinance Banks
MICEX	Moscow Interbank Currency Exchange
MoUs	Memoranda of Understanding
MHSs	Money Holding Sectors
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 ASI	Nigerian Stock Exchange All-Share Index
NSE 20	Nairobi Stock Exchange 20-Share Index
NYMEX	New York Mercantile Exchange
OBB	Open Buy Back
OFIs	Other Financial Institutions
OPEC	Organisation of Petroleum Exporting Countries
ORB	OPEC Reference Basket
PAIF	Power and Aviation Infrastructure Fund
PENCOM	National Pension Commission of Nigeria
PFAs	Pension Fund Administrators
PFCs	Pension Fund Custodians
PMBs	Primary Mortgage Banks
PoS	Point of Sale
PSV 2020	Payments System Vision 2020
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real-Time Gross Settlement System
SANEF	Shared Agent Network Expansion Facilities
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

In 2019, the global economy grew by 2.9 per cent, indicating a slowdown from the 3.6 per cent recorded in 2018. This was attributed mainly to the trade war between the United States (US) and China, weak investment in advanced economies as well as financial vulnerabilities across emerging and developing economies. In response, many central banks implemented accommodative monetary policies to bolster output.

Inflation in advanced economies slowed down to 1.40 per cent at end-December 2019, compared with 2.00 per cent in 2018, owing to weak aggregate demand across some key economies. Global inflation was, however, projected to rise to 1.70 per cent, following the US and China's commitment to the first phase of a new trade agreement.

Output in the domestic economy increased by 2.27 per cent in 2019, compared with 1.91 per cent in the preceding year. Real gross domestic product grew by 2.55 per cent in the second half, compared with the 2.12 per cent recorded in the first half of 2019. The increased growth was attributed mainly to the enhanced flow of credit to the private sector and interventions by the Bank as well as by the fiscal authorities. Agriculture, services and the construction sectors were the main contributors to the growth of the economy. Inflationary pressures increased in the second half of 2019 as headline inflation rose to 11.98 per cent at end-December 2019 from 11.22 per cent at end-June 2019.

The Bank's contractionary monetary policy stance was moderated through interventions to encourage credit flow to the productive sectors of the economy. The interventions focused on the priority sectors, such as agriculture, manufacturing, and oil and gas, to stimulate value-chain development and conserve foreign exchange reserves.

The banking industry remained stable and resilient in the face of external and domestic challenges. The financial soundness indicators of the industry remained robust as assets and capital base indicators were above regulatory thresholds, providing confidence to businesses, investors and households.

Going forward, the Bank will continue to ensure the resilience of the economy through the adoption of appropriate policy interventions for inclusive and sustainable economic growth.

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

FOREWORD

Global growth remained subdued in the second half of 2019, reflecting the impact of the trade war between the US and China, geo-political uncertainties, and reduced investments. However, the stock markets remained resilient, reflecting confidence and the accommodative policy stance of major central banks. Growth in the economies of oil exporting countries rebounded with the increase in oil prices, driven mainly by the implementation of production cuts by OPEC+.

In the foreign exchange market, the performance of the US dollar relative to other major currencies was mixed. The British pound appreciated on the back of the Brexit deal, the euro depreciated, owing to fears of near-term recession, and the Japanese yen weakened, following under-performance of the external sector.

In Nigeria, the performance of the economy improved in the second half of 2019, driven by growth in the non-oil sector and the rise in crude oil prices. To further spur growth, the Bank sustained its interventions in critical sectors of the economy.

To ensure the safety and soundness of the banking system, the CBN continued with the enhanced supervisory regime for Domestic Systemically Important Banks. The Bank also ensured compliance with the requirements of the IFRS, Basel II/III and Code of Corporate Governance, among others, to promote financial system stability.

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

This *Report* is intended to contribute to financial stability by improving the understanding of risks in the financial environment and the Bank's response to developments in the system. It is, therefore, highly recommended to market participants, investors, the academia and the general public.

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

EXECUTIVE SUMMARY

In 2019, the global economy witnessed a slowdown in growth in all economic blocs, except Sub-Saharan Africa. The lower growth was attributed mainly to the trade war between the US and China, weak investment in advanced economies, as well as financial vulnerabilities across emerging and developing economies. In response, many central banks implemented accommodative monetary policies to spur output. Inflation in advanced economies and Sub-Saharan Africa slowed down to 1.40 and 8.4 per cent at end-December 2019 compared with 2.00 and 8.5 per cent in 2018 respectively. The decrease was due to weak aggregate demand and muted wage growth across some key economies. However, in emerging markets and developing economies, inflation rose to 5.1 per cent at end-December 2019 from 4.8 per cent in 2018.

Most global stock markets rebounded in the review period, showing resilience in the face of severe macroeconomic challenges. In the US, the performance of the market was driven by improved investors' confidence, favourable domestic economic conditions, as well as expected ease in trade tensions with China. In Europe, the stock market performance was supported by Brexit negotiations and international diversification of portfolios. However, in Africa, developments in the major Stock Exchange markets were mixed.

Output in the domestic economy increased in the second half of 2019 as real gross domestic product grew by 2.55 per cent in the second half, compared with 2.12 per cent in the first half of 2019. The performance of the economy was attributed mainly to the enhanced flow of credit to the private sector, the Bank's continued intervention in the real sector and fiscal interventions. Agriculture, services and the construction sectors were the main contributors to the growth of the economy. Inflationary pressures increased in the second half of 2019 as inflation increased to 11.98 per cent at end-December 2019 from 11.22 per cent at end-June 2019.

The Bank's contractionary monetary policy stance was moderated through interventions to encourage credit flow to the productive sectors of the economy. Broad money supply, M3, grew by 6.22 per cent at end-December 2019 relative to 4.03 per cent at end-June 2019. Net aggregate credit to the economy grew by 27.33 per cent at end-December 2019, reflecting the increase in both net claims on the Federal Government and credit to the private sector. Also, the monetary base grew by 20.75 per cent, reflecting the increase in net domestic assets.

Money market rates closed lower at the interbank market, with the overnight call and open buy back rates trading below their levels in the preceding half year. In the capital market, the Nigerian Stock Exchange All Share Index and market capitalisation decreased, reflecting bearish conditions in the market.

In the banking sector, the composite risk ratings of banks remained stable. The capital adequacy ratio of the industry declined marginally to 14.57 per cent, from 15.27 per cent in the first half of 2019. Asset quality improved, as the non-performing loan ratio declined to 6.10 per cent at end-December 2019, from 9.33 per cent at end-June 2019. Also, earnings measured by return on assets and return on equity recorded modest improvements. The payments system witnessed significant increase in the number of operators, further deepening access to electronic channels.

Overall, the projected GDP growth of 2.50 per cent in 2020 was predicated on the implementation of robust monetary and fiscal policies, improved global and domestic economic activities, and stable crude oil prices.

1 ECONOMIC AND FINANCIAL DEVELOPMENTS

1.1 Global Developments

1.1.1 Output

Global output growth decelerated to 2.9 per cent in 2019, from 3.6 per cent in 2018, owing largely to the trade war between the United States of America (US) and the People's Republic of China (China), weak investment in advanced economies, and financial vulnerabilities across emerging markets and developing economies. In response, many central banks during the review period implemented accommodative monetary policies in order to bolster output.

Output in advanced economies declined to 1.7 per cent in 2019 from 2.2 per cent in 2018. The slowdown was largely attributed to the US-China trade war and weak investment in the euro area and the United Kingdom. In the US, output declined to 2.3 per cent in 2019, compared with 2.9 per cent in 2018 and was projected to decline further to 2.0 per cent in 2020, despite the policy rate cuts by the US Federal Reserve. The downward projection was driven by rising unemployment, weak aggregate demand and spill-over effect from the US-China trade war.

In the euro area, growth decreased to 1.2 per cent in 2019, from 1.9 per cent in 2018. The decline was due to slowdown in economic activities in Germany, France and Italy. However, growth in the euro area was expected to inch up to 1.3 per cent in 2020, partly as a result of the accommodative monetary policy stance of the European Central Bank (ECB). The UK economy slowed down marginally to 1.3 per cent in 2019, from 1.4 per cent in 2018 but was projected to stabilise at 1.4 per cent in 2020, based on the expected orderly exit from the European Union. Japan's economy grew by 1.0 per cent in 2019, compared with 0.3 per cent in 2018, owing to increase in private consumption and public spending. Growth in Japan was expected to moderate to 0.7 per cent in 2020, attributed partly to the increase in the consumption tax rate.

The Emerging Markets and Developing Economies (EMDEs) faced severe economic shocks in 2019 as a result of the wider global economic slowdown. Growth in EMDEs declined to 3.7 per cent in 2019, from 4.5 per cent in 2018, but was expected to recover in 2020 to 4.4 per cent. The increase was expected to be driven by recovery in the emerging market economies and the ongoing structural reforms in China.

Growth in the Middle East and Central Asia region moderated to 0.8 percent in 2019, from 1.9 per cent in 2018, and was expected to rise to 2.9 per cent in 2020. The upward projection was based on higher government spending in non-oil sector and improved oil revenue generation in Saudi Arabia and other oil-exporting countries in the region. However, the prospects for several economies in the region remained subdued, owing to rising geopolitical tensions.

In Sub-Saharan Africa, output rose marginally to 3.3 per cent in 2019, from 3.2 per cent in 2018, and was projected to increase to 3.5 per cent in 2020. The marginal growth was attributed to the relative improvement in Nigeria's economy, which grew by 2.3 per cent and is projected to grow by 2.5 per cent in 2020 on the backdrop of expected stable oil production and favourable international oil prices. Although output in South Africa moderated to 0.4 per cent in 2019 from 0.8 per cent in 2018, reflecting the impact of workers' strikes in the mining sector, deterioration in electricity generation, and weak agricultural production, the overall economy was expected to recover to 0.8 per cent in 2020.

Table 1:1 Global Growth

Region/Country	Year		
	2018	2019	2020*
World	3.6	2.9	3.3
Advanced Economies	2.2	1.7	1.6
United States	2.9	2.3	2.0
Euro Area	1.9	1.2	1.3
Japan	0.3	1.0	0.7
United Kingdom	1.3	1.3	1.4
Canada	1.9	1.5	1.8
Emerging Market and Developing Economies	4.5	3.7	4.4
China	6.6	6.1	6.0
Middle East and Central Asia	1.9	0.8	2.8
Sub-Saharan Africa	3.2	3.3	3.5
Nigeria	1.9	2.3	2.5
South Africa	0.8	0.4	0.8

Source: IMF's World Economic Outlook, January Update, 2020
*Projections

1.1.2 Inflation

Inflation (year-on-year) in advanced economies slowed down to 1.40 per cent at end-December 2019, compared with 2.00 per cent in 2018. The decrease was due to weak aggregate demand and muted wage growth across some key economies. Inflation was, however, projected to rise to 1.70 per cent with the commitment of the US and China to the first phase of a new trade agreement.

In the US, inflation slowed down to 1.80 per cent in 2019 from 2.40 per cent in 2018, attributable to decline in the prices of services and low inflation expectations. The US Federal Reserve was expected to cut rates further in 2020 to stimulate aggregate demand. Consequently, inflation was expected to increase to 2.30 per cent in 2020.

In the euro area, inflation remained below the ECB's target of 2.00 per cent as it decreased to 1.20 per cent in 2019 from 1.80 per cent in 2018, driven by weak aggregate demand. Inflation was, however, projected to rise to 1.40 per cent in 2020, partly reflecting the continued accommodative monetary policy stance of the ECB.

Inflation in the UK declined to 1.80 per cent in 2019 from 2.50 per cent in 2018 as prices continued to moderate, driven largely by prices of clothing and footwear, food and non-alcoholic beverages.

In Japan, inflation remained at 1.00 per cent in 2019. However, it was projected to rise slightly to 1.30 per cent in 2020, owing to expected increases in food and housing prices.

In Emerging Market and Developing Economies, inflation moved upward to 5.10 per cent in 2019 from 4.80 per cent in 2018, reflecting a modest strengthening in aggregate demand in some economies. Inflation was, however, projected to decline to 4.60 per cent in 2020.

In Middle East and Central Asia, inflation declined from 9.90 per cent in 2018 to 8.2 per cent in 2019, but was projected at 9.1 per cent in 2020, owing to increases in inflation in Saudi Arabia, Iran and Pakistan.

In Sub-Saharan Africa, inflation declined to 8.40 per cent in 2019, from 8.50 per cent in 2018, and was projected to decline further to 8.00 per cent in 2020. However, inflation in Nigeria was expected to increase to 11.70 per cent in 2020, from 11.30 per cent in 2019, largely driven by food inflation and increasing fiscal deficit. Inflation in South Africa declined to 4.40 per cent in 2019, from 4.60 per cent in 2018, primarily driven by declining costs of transport, food and non-alcoholic beverages, and was projected at 5.2 per cent in 2020.

Table 1:2 Global Inflation

Region/Country	2018	2019	2020*
Advanced Economies	2.0	1.4	1.7
United States	2.4	1.8	2.3
Euro Area	1.8	1.2	1.4
Japan	1.0	1.0	1.3
United Kingdom	2.5	1.8	1.9
Emerging Markets and Developing Economies	4.8	5.1	4.6
Middle East and Central Asia	9.9	8.2	9.1
Sub-Saharan Africa	8.5	8.4	8.0
Nigeria	12.1	11.3	11.7
South Africa	4.6	4.4	5.2

Source: IMF's World Economic Outlook, October 2019
*Projections

1.1.3 Oil Prices

Oil prices in the second half of 2019 were influenced by geopolitical risks in the Middle East, optimism around the new trade deal between the US and China, and production cuts by OPEC+ countries. The recovery of oil prices continued from December 2018 with the prices of OPEC Basket, Bonny Light and UK Brent standing at US$66.28, US$70.37 and US$69.00 per barrel respectively at end-December 2019, compared with US$56.94, US$58.16 and US$56.69 per barrel at end-December 2018.

1.1.4 Food Prices

At end-December 2019, the Food and Agriculture Organisation (FAO) food price index rose to 181.70, from 161.47 index points at end-June 2019. The rise was attributed to increases in the prices of vegetable oils, sugar and dairy.

The FAO Meat Price Index rose by 9.37 per cent to 191.60 points at end-December 2019, from 175.19 index points at end-June 2019, reflecting a rise in pork prices as pre-festive demand soared against limited supply. The FAO Dairy Price index decreased marginally by 0.17 per cent to 198.9 points at end-December 2019, from 199.24 at end-June 2019. Weak global demand in butter and whole milk powder contributed to the marginal decrease in the dairy price index. The FAO Cereal Price index declined to 164.30 index points (5.15 per cent) at end-December 2019, from 173.23 index points at end-June 2019, reflecting improved supply conditions of cereals.

The FAO Vegetable Oil Price Index rose by 31.28 per cent to 164.70 index points at end-December 2019, from 125.46 index points at end-June 2019. The increase was driven by improved quotations for palm oil, soy, sunflower oil and rapeseed oil.

The FAO Sugar Price Index rose to190.30 points at end-December 2019, up by 3.81 per cent, compared with 183.31 index points at end-June 2019. The recovery in the price of sugar was driven by the rise in the price of crude oil. This led to increased ethanol production by sugarcane suppliers in Brazil, resulting in reduced sugar availability in the global market.

Table 1:3 World Food Price Index

	December 2018	June 2019	December 2019
Food Price Index	161.47	172.70	181.70
Meat	162.35	175.19	191.60
Dairy	169.98	199.24	198.90
Cereals	167.79	173.23	164.30
Vegetable Oils	125.81	125.46	164.70
Sugar	179.56	183.31	190.30

Source: Food and Agriculture Organization (FAO), January 2020

1.1.5 International Stock Markets

Most stock markets rebounded in the review period, reflecting the resilience of the global economy in the face of severe macroeconomic challenges.

North American markets rebounded with the exception of the Canadian S&P/TSX Composite which declined marginally. The US S&P 500 and the Mexican Bolsa indices strengthened by 9.80 and 0.9 per cent, to 3,230.78 and 43,541.02 at end-December 2019, respectively, from 2,941.76 and 43,161.17 at end-June 2019. The US market performance was driven by improved investors' confidence, favourable domestic economic conditions and expected ease in trade tensions with China. In South America, the Brazilian Bovespa Stock and Colombian COLCAP indices recovered significantly by 14.50 and 7.50 per cent to 115,645.30 and 1,662.42, at end-December 2019, respectively, from 100,000.97 and 1,548.98 at end-June 2019, reflecting growing investors' confidence. The Argentine Merval, however, declined by 0.30 per cent to 41,671.41 at end-December 2019 from 41,796.36 at end-June 2019 as a result of prevailing currency and debt crises.

In Europe, the British FTSE 100, the French CAC 40 and the German DAX 30 indices rallied by 1.60, 1.80 and 1.40 per cent respectively, despite sluggish economic growth. The increases were driven by monetary policy accommodation, Brexit negotiation and international diversification of portfolios.

In Asia, the Japanese Nikkei 225, the Chinese Shanghai Stock Exchange-A and the Indian BSE Sensex indices increased by 11.20, 2.40 and 4.70 per cent respectively. The Chinese index recovery was as a result of the signing of the first phase of the trade agreement with the US.

In Africa, the Nigerian NSE All-Share Index, the Egypt EGX CASE 30 and Ghanaian GSE All-Share Index decreased by 10.40, 1.00, and 5.70 per cent respectively. The declines were due to domestic macroeconomic uncertainties and the spill-over effects of US-China trade tensions. The Kenyan Nairobi NSE 20 and South African JSE All-Share Index increased by 0.80 and 2.70 per cent respectively, owing to renewed investors' confidence.

Table 1:4 Indices of Selected Stock Markets

Country	Index	31-Dec-18	30-Jun-19	31-Dec-19	Dec 31, 2018 - Dec 31, 2019 % Change	June 30 - December 31, 2019 % Change
AFRICA						
Nigeria	NSE All-Share Index	31,430.50	29,966.87	26,842.07	-14.6	-10.4
South Africa	JSE All-Share Index	52,736.86	55,572.25	57,084.10	8.2	2.7
Kenya	Nairobi NSE 20 Share index	2,833.84	2,632.48	2,654.39	-6.3	0.8
Egypt	EGX CASE 30	13,035.77	14,100.74	13,961.56	7.1	-1.0
Ghana	GSE All-Share Index	2,499.33	2,394.82	2,257.15	-9.7	-5.7

NORTH AMERICA						
US	S&P 500	2,506.85	2,941.76	3,230.78	28.9	9.8
Canada	S&P/TSX Composite	14,322.86	17,442.52	17,063.43	19.1	-2.2
Mexico	Bolsa	41,640.27	43,161.17	43,541.02	4.6	0.9
SOUTH AMERICA						
Brazil	Bovespa Stock	87,887.26	100,967.20	115,645.30	31.6	14.5
Argentina	Merval	30,292.55	41,796.36	41,671.41	37.6	-0.3
Columbia	COLCAP	1,325.93	1,548.98	1,662.42	25.4	7.3
EUROPE						
UK	FTSE 100	6,728.13	7,425.63	7,542.44	12.1	1.6
France	CAC 40	4,730.69	5,871.09	5,978.06	26.4	1.8
Germany	DAX	10,558.96	13,207.14	13,385.93	26.8	1.4
ASIA						
Japan	NIKKEI 225	20,014.77	21,275.92	23,656.62	18.2	11.2
China	Shanghai SE A	2,611.38	3,119.99	3,195.98	22.4	2.4
India	BSE Sensex	36,068.33	39,394.64	41,253.74	14.4	4.7

Source: Bloomberg

1.1.6 Foreign Exchange Markets

Developments in the foreign exchange markets were mixed during the review period. In Europe, the euro depreciated against the US dollar by 1.12 per cent, compared with the 1.14 per cent at end-June 2019. The depreciation at end-December 2019, reflected the risk of near-term recession and return to accommodative monetary policy. The Russian ruble, however, continued its appreciation against the dollar by gaining 1.98 per cent at end-December 2019; a reflection of the continued recovery in oil prices. Similarly, the British pound appreciated by 4.52 per cent on account of the Brexit deal.

In Asia, the Japanese yen depreciated marginally against the US dollar by 0.66 per cent as a result of weak external sector performance. The Chinese Renminbi depreciated against the dollar by 1.29 per cent, against the backdrop of trade tensions between the US and China and weak domestic demand. Also, the Indian Rupee depreciated by 2.31 per cent, as growth slowed in 2019, amid concerns about the health of the non-bank financial sector.

In North America, the Canadian dollar and the Mexican peso appreciated by 0.77 and 1.48 per cent respectively, after successive policy rate cuts by the US Federal Reserve. These performances reflected slightly weaker outcomes when compared with the 3.82 and 2.24 per cent appreciation respectively, at end-June 2019. In South America, the Argentine peso depreciated against the US dollar by 29.11 per cent, owing to weak macroeconomic conditions and rising risk of debt default. The currency depreciated by 11.26 per cent at end-June 2019. The Brazilian real and the Colombian peso depreciated by 4.23 and 2.28 per cent respectively, owing to weak global trade and slowdown in economic activities, in contrast to the 0.52 and 1.18 per cent appreciation, respectively recorded at end-June 2019.

In Africa, the Nigerian naira marginally depreciated against the US dollar by 0.03 per cent, at end-December 2019, following shocks from external developments, in contrast to a 0.03 per cent appreciation at end-June 2019.The Ghanaian cedi depreciated against the dollar by 4.87 and 10.05 per cent, at end-December 2019 and end-June 2019, respectively. In contrast, at end-December 2019, the South African rand, Kenyan shilling and the Egyptian pound appreciated by 0.57, 0.93 and 4.05 per cent, respectively, against the US dollar on account of increased portfolio investments. At end-June 2019, both the South African rand and the Egyptian pound strengthened against the US dollar by 1.92 and 7.37 per cent respectively, while the Kenyan shilling lost value by 0.44 per cent.

Table 1:5 Trends in Selected Currencies

	Currency	28-Jun-19	31-Dec-19	Jun 19 - Dec 19 (% App/Dep)
AFRICA				
Nigeria	Naira	306.90	307.00	-0.03
South Africa	Rand	14.08	14.00	0.57
Kenya	Shilling	102.30	101.36	0.93
Egypt	Pound	16.69	16.04	4.05
Ghana	Cedi	5.47	5.75	-4.87
NORTH AMERICA				
Canada	Dollar	1.31	1.30	0.77
Mexico	Peso	19.22	18.94	1.48
SOUTH AMERICA				
Brazil	Real	3.85	4.02	-4.23
Argentina	Peso	42.44	59.87	-29.11
Colombia	Peso	3211.86	3286.84	-2.28
EUROPE				
UK	Pound	0.78	0.75	4.52
Euro Area	Euro	0.88	0.89	-1.12
Russia	Ruble	63.23	62.00	1.98
ASIA				
Japan	Yen	107.93	108.65	-0.66
China	Renminbi	6.87	6.96	-1.29
India	Rupee	69.70	71.35	-2.31
Source: bloomberg				

1.1.7 Monetary Policy Rates

Most central banks lowered policy rates, while the others held rates constant. The US Federal Reserve cut policy rate by 25 basis points in July, September and October 2019. Similarly, the Reserve Bank of Australia, Bank of Korea, Bank Indonesia and Bank Negara Malaysia lowered rates by 25 basis points each, while the Reserve Bank of New Zealand cut its rate by 50 basis points.

In the BRICS, the Central Bank of Brazil, the Central Bank of Russian Federation, Reserve Bank of India, Peoples' Bank of China and the South African Reserve Bank reduced their policy rates in the second half of 2019 in response to the weakening global economy.

In South America, Banco de Mexico and the Central Bank of Chile reduced the policy rates by 25 basis points each. However, Banco de la Republica de Colombia held its policy rate constant at 4.25 per cent throughout 2019.

In Africa, the Central Bank of Egypt reduced the policy rate by 100 basis points in the review period in response to low inflation. However, the Central Bank of Nigeria and the Bank of Ghana held rates constant at 13.50 and 16.00 per cent respectively, in order to rein in inflation and attract portfolio inflows.

Table 1:6 Policy Rates of Selected Countries /Regions

Country/Region	Dec. 2018	Jan. 2019	Feb. 2019	Mar. 2019	Apr. 2019	May. 2019	Jun. 2019	Jul. 2019	Aug. 2019	Sep. 2019	Oct. 2019	Nov. 2019	Dec. 2019
Developed Economies													
Japan	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Euro Zone	0	0	0	0	0	0	0	0	0	0	0	0	0
UK	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
US	2.25-2.50	2.25-2.50	2.25-2.50	2.25-2.50	2.25-2.50	2.25-2.50	2.25-2.50	2.00-2.25	2.00-2.25	1.75-2.00	1.50-1.75	1.50-1.75	1.50-1.75
Canada	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
South Korea	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.50	1.50	1.25	1.25	1.25
New Zealand	1.75	1.75	1.75	1.75	1.75	1.50	1.50	1.50	1.00	1.00	1.00	1.00	1.00
Australia	1.50	1.50	1.50	1.50	1.50	1.50	1.25	1.00	1.00	1.00	0.75	0.75	0.75
ASEAN													
Indonesia	6.00	6.00	6.00	6.00	6.00	6.00	6.00	5.75	5.50	5.25	5.00	5.00	5.00
Malaysia	3.25	3.25	3.25	3.25	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
BRICS													
Brazil	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.00	6.00	6.00	5.50	5.50	4.50
Russia	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.25	7.25	7.00	6.50	6.50	6.25
India	6.25	6.25	6.5	6.5	6.5	6.5	6.5	6.5	6.25	6.25	6.00	6.00	5.75
China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.25	4.20	4.20	4.15	4.15
South Africa	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.50	6.50	6.50	6.50	6.50	6.50
Other Emerging Economics and South America													
Mexico	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	8.00	7.75	7.75	7.50	7.25
Chile	2.75	2.76	3.00	3.00	3.00	3.00	2.63	2.50	2.50	2.06	1.94	1.75	1.75
Colombia	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Africa													
Egypt	16.75	16.75	15.75	15.75	15.75	15.75	15.75	15.75	14.25	13.25	13.25	12.25	12.25
Ghana	17	17	16	16	16	16	16	16	16	16	16	16	16
Nigeria	14	14	14	13.50	13.50	13.50	13.50	13.50	13.50	13.5	13.5	13.5	13.5

Source: www.cbrates.com

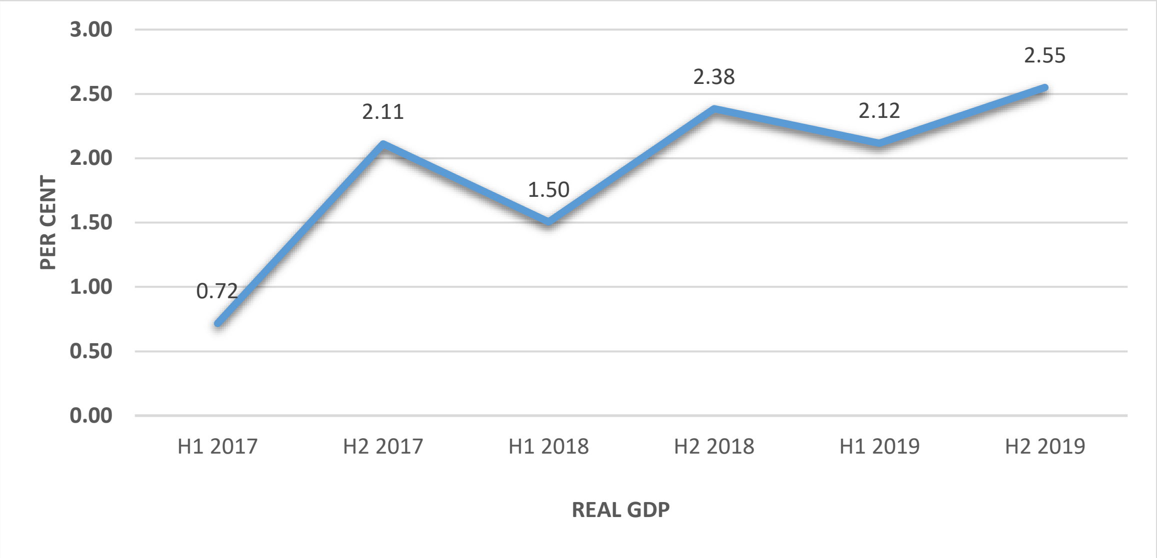
1.2 Domestic Developments

Output increased in the second half of 2019, compared with the level in the first half of 2019. The growth was attributed mainly to the enhanced flow of credit to the private sector, which increased aggregate demand in the economy. Furthermore, the Bank's continued intervention in the real sector and fiscal interventions by the Federal Government supported the growth outcome.

1.2.1 Output

Real gross domestic product (GDP) grew by 2.55 per cent in the second half, compared with the 2.12 per cent recorded in the first half of 2019.

Figure 1.1 Gross Domestic Product (Growth %)



Non-oil GDP grew by 2.26 per cent in real terms in the second half of 2019, compared with 1.64 per cent in the first half of 2019.The percentage share of the non-oil sector to the total GDP stood at 92.68 per cent, compared with 91.02 per cent in the first half of 2019.

In terms of sectoral contribution, the services sector accounted for the largest share (53.64 per cent), followed by the agricultural sector (26.09 per cent) and industry (20.27 per cent).

Table 1:7 Sectoral Contribution to Real GDP

Sector	H1 2019	H2 2019
Agriculture	22.78	26.09
Industry	23.34	20.27
Manufacturing	*9.08*	*8.74*
Construction	*4.45*	*3.44*
Services	38.32	53.64
Trade	16.47	15.23
Crude Petroleum & Natural Gas	9.02	7.32
Quarrying and Other Minerals	0.11	0.14

Agriculture and construction sectors grew by 2.31 and 1.31 per cent in the second half of 2019, compared with 1.79 and 0.67 per cent, respectively, in the first half of 2019, while the trade subsector declined from -0.25 in the first half of 2019 to -0.58 per cent in the second half of 2019.

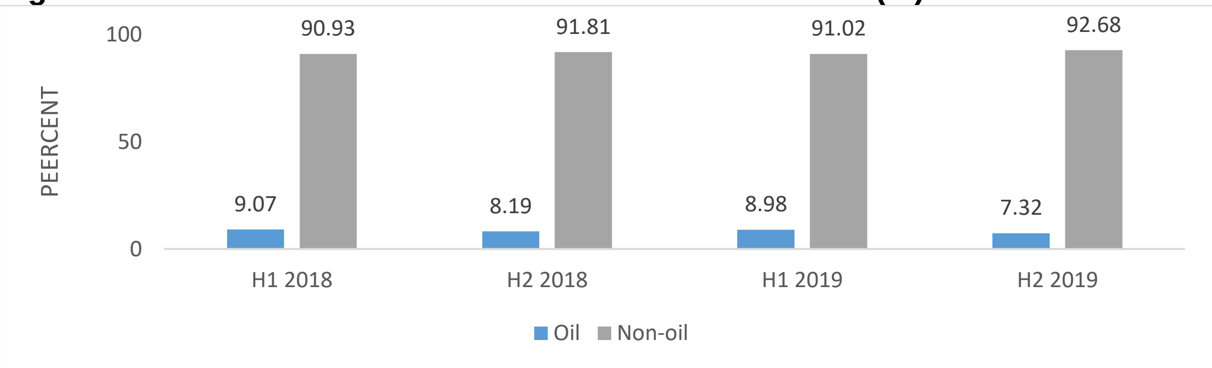
Table 1:8 Changes (per cent) in Real GDP by Sector

Sector	H1 2019	H2 2019
Agriculture	1.79	2.31
Manufacturing	-0.13	1.24
Construction	0.67	1.31
Services	1.94	2.60
Trade	-0.25	-0.58
Crude Petroleum & Natural Gas	7.17	6.36
Quarrying and Other Minerals	-3.48	-5.63

1.2.1.1 Oil Sector

Oil GDP increased by 6.36 per cent in the second half of 2019, indicating a decline of 0.91 percentage point below the growth in the first half of 2019. Consequently, the percentage share of the oil sector in real GDP fell from 8.98 per cent in the first half of 2019 to 7.32 per cent at end-December 2019.

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



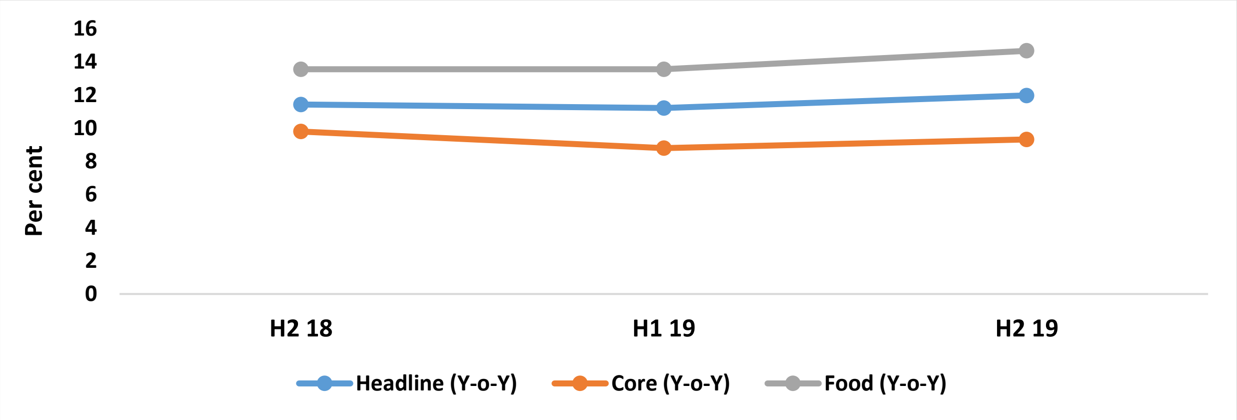
1.2.2 Inflation

The All-items Composite Consumer Price Index (CPI) stood at 307.5 at end-December 2019, compared with 289.7 in the first half of 2019 and 274.57 at end-December 2018. The index for the second half of 2019 was higher than the level in the first half of 2019 by 6.1 per cent. Consequently, the headline inflation (year-on-year), increased to 11.98 per cent at end-December 2019, from 11.22 per cent at end-June 2019. The development was attributed largely to increases in both food and non-food categories.

The 12-month-moving-average headline inflation stood at 11.40 per cent in December 2019, compared with 11.30 and 12.10 per cent in June 2019 and the corresponding half of 2018 respectively. Core inflation stood at 9.33 per cent at end-December 2019, reflecting 0.49 percentage point above the level at end-June 2019, but was 0.47 percentage point below the level in December 2018. Significant increases were recorded in the prices of food and non-alcoholic beverages, clothing and footwear, transport, health, and miscellaneous goods.

However, food inflation, which comprised farm produce and processed food, rose to 14.67 per cent at end-December 2019, from 13.56 per cent (year-on-year) at end-June 2019. Increases in the prices of processed foods and some farm produce (bread & cereal, potatoes, yam &other tubers, fish, meat, and oil & fats) resulted in the rise in the index. Imported food inflation increased to 16.04 per cent (year-on-year) at end-December 2019, from 15.75 per cent at end-June 2019. The increase in food inflation was 0.38 percentage point above the level in the corresponding period of 2018.

Figure 1.3 Inflationary Trends (Year-on-Year)



1.2.3 External Sector

1.2.3.1 Foreign Exchange Flows

Foreign exchange inflow through the CBN amounted to US$25.83 billion in the second half of 2019, a decline of 16.2 per cent from the level in the preceding half-year. The development was as a result of the fall in non-oil receipts. On the other hand, foreign exchange outflow through the CBN rose by 10.13 per cent to US$31.77 billion, compared with US$28.85 billion recorded in the first half of 2019. The increase in outflow, relative to the level in the first half of 2019, reflected the rise in third-party MDAs transfers and interbank utilization. Total foreign exchange transactions through the CBN resulted in a net outflow of US$5.94 billion in the second half of 2019, compared with the net inflow of US$1.97 billion in the preceding half-year.

Table 1:9 Foreign Exchange Flows through the CBN (US$ million)

Period	Inflow	Outflow	Net flow
H2 – 2019	25,831.30	31,769.24	(5,937.84)
H1 – 2019	30,819.73	28,846.76	1,972.97
H2 – 2018	28,734.71	33,390.29	(4,655.58)

1.2.3.2 *External Reserves*

Gross external reserves stood at US$38.09 billion at end-December 2019, from US$44.75 billion at end-June 2019, reflecting a decrease of US$6.66 billion. The external reserves position could cover 9.11 months of import of goods and services.

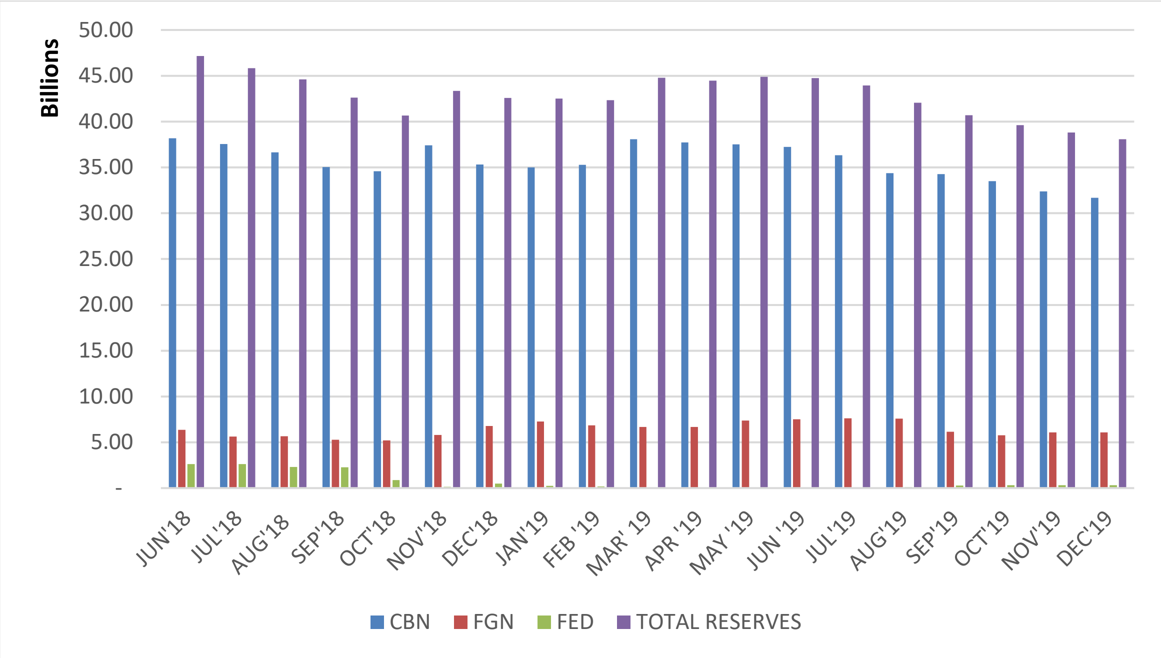
Total inflow during the period under review amounted to US$25.94 billion, compared with US$30.82 billion in the first half of 2019, reflecting decreases of US$4.88 billion or 15.83 per cent. Total outflow increased to US$32.30 billion, from US$28.85 billion in the first half of 2019, reflecting increases of US$3.45 billion or 11.96 per cent.

The breakdown showed that the CBN, FGN and the Federation accounted for US$31.67 billion, US$6.10 billion and US$0.325biillion,representing 83.14, 16.01 and 0.85 per cent respectively, at end-December 2019. In terms of the currency composition, the US dollar at US$32.50 billion constituted 85.3 per cent; special drawing rights at US$2.07 billion (5.4 per cent); Chinese Renminbi, US$3.16 billion (8.1 per cent) and "others" accounted for the balance.

Table 1:10 Structure of the Reserves

	Dec'19 US$ millions	Proportion of Reserves (Dec'19)	Jun'19 US$ millions	Proportion of Reserves (Jun'19)	% Change (Jun-Dec '19)
Federation	325	0.85	361.00	0.80	- 9.97
Federal Government	6,098.10	16.01	7,519.04	16.67	- 18.90
Central Bank of Nigeria	31,669.10	83.14	37,224.37	82.53	- 14.92
Total	38,092.20	100.00	45,104.41	100.00	- 15.55

Figure 1.4 Gross External Reserves Showing CBN, FGN & Federation Portions



1.2.4 Fiscal Operations[1]

The estimated Federal Government retained revenue of ₦2,677.54 billion in the second half of 2019 was lower than the proportionate budget estimate by 36.7 per cent. However, the retained revenue estimate rose above the level in the preceding half by 26.9 per cent.

Analysis of the retained revenue revealed that the share from Federation Account was ₦1,653.14 billion or 61.7 per cent; VAT Pool Account, ₦83.35 billion or 3.1 per cent; Federal Government Independent Revenue, ₦286.35 billion or 10.7 per cent; Share of Exchange Gain, ₦27.06 billion or 1.0 per cent; and Excess Non-oil, ₦4.91 billion or 0.2 per cent. Others (including FGN's share of Signature Bonus and revenues from Special Accounts) accounted for the balance of ₦622.73 billion or 23.3 per cent. The decline in retained revenue relative to the proportionate budget estimate was attributed largely to the drop in the share from the Federation Account.

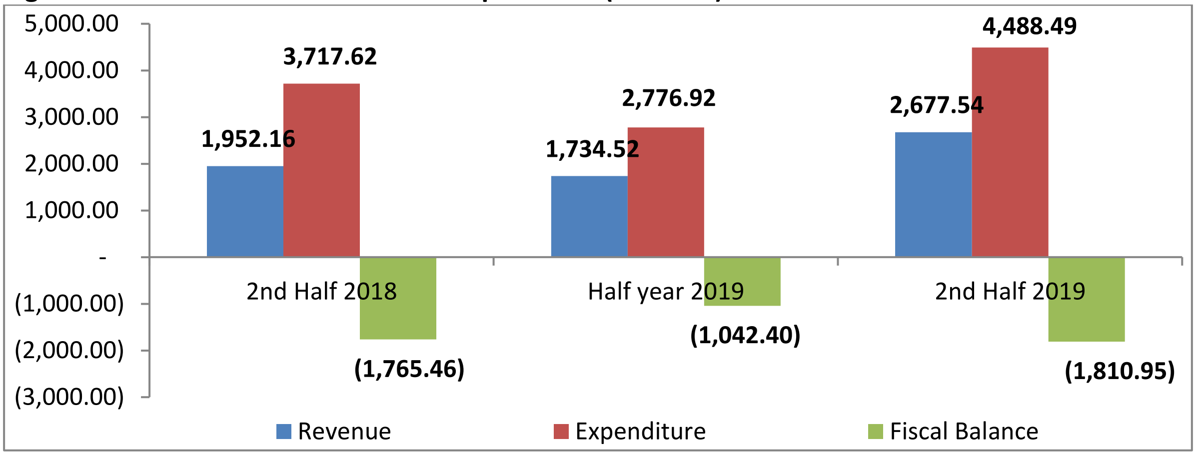
Aggregate expenditure of the Federal Government in the second half of 2019 stood at ₦4,488.49 billion, which was 13.5 per cent below the proportionate budget estimate and 8.5 per cent below the level in the preceding period. The breakdown

[1] Data from January to March, 2019 were2019were obtained from OAGF, while those for April to June were CBN staff estimates.

showed that recurrent and capital expenditures accounted for 78.1 and 16.7 per cent respectively, while transfers accounted for the balance of 5.2 per cent. Analysis of the recurrent expenditure showed that the non-debt obligations accounted for 65.7 per cent, while debt service payments accounted for the remaining 34.3 per cent.

Overall, the fiscal operations of the Federal Government in the second half of 2019 resulted in a notional deficit of ₦1,810.95 billion as against the proportionate budget deficit of ₦959.24 billion and the deficit of ₦2,792.56 billion recorded in the first half of the year. The deficit was financed, largely from domestic sources.

Figure 1.5 Federal Government Fiscal Operations (N billion)



Sources: OAGF & CBN

The domestic debt stock of the Federal Government at end-September 2019 stood at ₦13,901.55 billion, representing 3.6 per cent increase over the ₦13,412.80 billion recorded at end-June 2019. At 72.5 per cent, FGN Bonds constituted the largest share of the total domestic debt stock, while Nigerian Treasury Bills and Promissory Notes constituted 19.1 and 5.9 per cent respectively. Others were: FGN Sukuk (1.4 per cent); Nigerian Treasury Bonds (0.9 per cent); Green Bond (0.2 per cent); and FGN Savings Bond (0.1 per cent).

1.1.8 Risks from Global Economic Developments

Based on the review of global economic developments and events during the second half of 2019, the following risks were identified:

- continued sluggish global economic recovery, geopolitical and trade tensions could slow output growth and reduce capital inflows; and
- decline in crude oil prices could widen the current account deficit with adverse effects on external reserves position, exchange rate stability and fiscal balances.

2 DEVELOPMENTS IN THE FINANCIAL SYSTEM

2.1 Monetary and Credit Developments[2]

Broad money supply (M3) grew by 6.22 per cent at end-December 2019, compared with 4.03 per cent recorded at end-June 2019. This was below the indicative annualised benchmark of 16.08 per cent for 2019. The growth was mainly due to an increase of 27.3 per cent in domestic credit (net) of the banking system. Correspondingly, the increase in total monetary liabilities was driven by 13.7 and 6.0 per cent growth in other deposits and currency outside depository corporations respectively.

Narrow money (M1) increased by 0.13 per cent to N10,530.30 billion at end-December 2019, from N10,397.70 billion at end-December 2018, compared with a decrease of 0.09 per cent at end-June 2019. The increase in M1 was due to the rise in currency outside depository corporations and other deposits by 6.03 per cent and 0.21 per cent respectively.

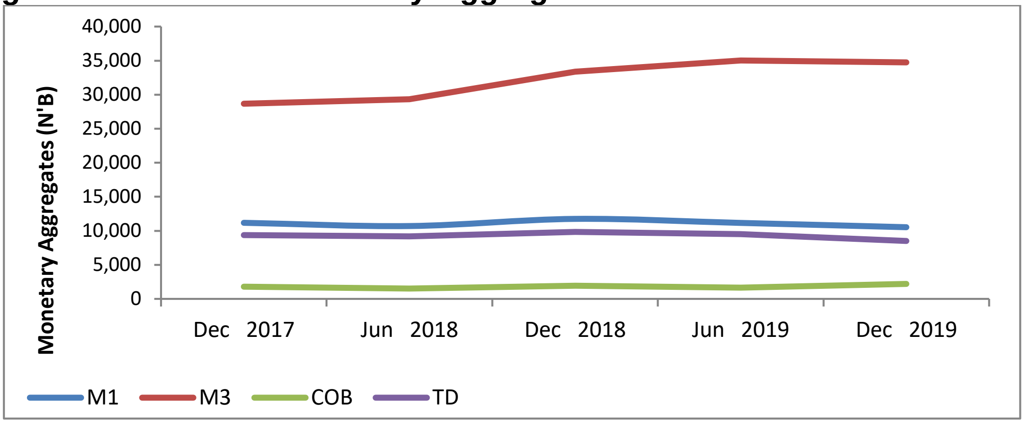
Box 1 IMF Monetary Aggregate Reporting Format

New Reporting Format Definitions

Sector	Sub-Sector
Financial corporations	**Depository Corporations**
	Central bank
	Other depository corporations
	Deposit-taking corporations except Central bank
	Money Market Funds
	Other Financial Corporations
	Non-MMF investment funds
	OFIs (except insurance corporations and pension funds)
	Financial auxiliaries
	Insurance corporations
	Pension funds
Nonfinancial corporations	**Public nonfinancial corporations**
	Private non-financial corporations
	Foreign-controlled nonfinancial corporations
General government	**Central government**
	State government
	Local government
Other Resident Sector	**Households**
	Non-Profit Institutions Serving Households
Nonresident	**Nonresidents**

2 June 2019 figures are provisional.

Figure 2.1 Trends in Monetary Aggregates

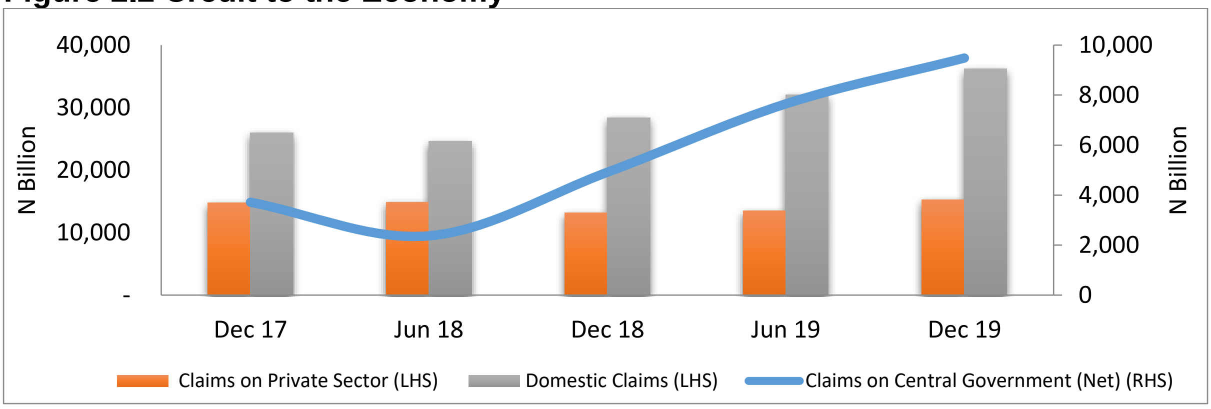


The intermediation efficiency, measured by the proportion of currency outside depository corporations to total monetary liabilities, stood at 5.80 per cent at end-December 2019, reflecting an increase of 0.90 percentage point above the level at end-June 2019. The proportion of time and savings deposits to total monetary liabilities increased by 2.4 percentage points above the level at end-June 2019.

2.1.1 Aggregate Credit to the Domestic Economy

Aggregate credit to the domestic economy (net) grew by 27.33 per cent to ₦36,182.60 billion in the second half of 2019, compared with 12.75 per cent at end-June 2019. The growth was attributed to the 92.95 per cent and 13.61 per cent increases in net claims on the Federal Government and private sector respectively. Aggregate credit to the domestic economy (net) contributed 23.9 percentage points to the overall growth of broad money at end-December 2019.

Figure 2.2 Credit to the Economy



2.1.1.1 Claims on the Federal Government

Net claims on the Federal Government stood at N9,482.86 billion at end-December 2019, showing an increase of 92.95 per cent over the level of ₦4,914.71 billion at end-December 2018. The growth was much higher than the 55.67 per cent in the first half of 2019. Net claims on the Federal Government contributed 14.0 percentage points to the growth of total monetary assets.

2.1.1.2 *Aggregate Claims on Other Sectors*

Banking system credit to Other Sectors stood at N26,699.79 billion at end-December 2019, reflecting an increase of 9.8 percentage points over the N24,387.86 billion at end-June 2019. The increase was driven mainly by 50 per cent growth in claims on the public non-financial corporations and 15 per cent increase in claims on the private sector. Claims on the private sector contributed 9.8 percentage points to the growth in total monetary assets.

Table 2:1 Growth Rates of Monetary Aggregates

% Change (Over preceding December)	Jun 17	Dec 17	Jun 18*	Dec 18*	Jun 19**	Dec 19**
Domestic Claims	1.67	-2.31	-5.22	9.48	12.75	27.33
Claims on Central Government[3] (Net)	5.47	-16.41	-36.18	32.37	55.67	92.95
Claims on Private Sector	-1.42	-1.53	-4.37	-10.65	2.13	15.58
Foreign Assets (Net)	-2.60	43.47	7.71	7.87	-16.00	-50.97
Other Items (Net)	139.68	380.91	-11.31	3.92	33.74	-36.24
Total Monetary Assets (M3)	2.97	12.28	1.25	14.90	4.03	6.22
Other Deposits	-3.46	23.10	2.63	10.86	9.34	13.68
Money Supply (M1)	-3.09	8.98	-0.27	9.68	-8.61	1.28
Currency Outside Depository Corporations	-18.82	-2.21	-14.74	7.03	-13.23	6.03
Transferable Deposits	29.96	11.94	3.09	10.29	-7.57	0.21
Monetary Liabilities (M2)	-3.30	17.09	1.48	10.39	2.28	8.80
Securities Other than Shares	29.08	-7.77	0.02	38.75	11.43	-4.63
Total Monetary Liabilities (M3)	2.97	12.28	1.25	14.90	4.03	6.22

Source: CBN
**Revised; **Provisional*

2.1.1.3 *Net Foreign Assets of the Banking System*

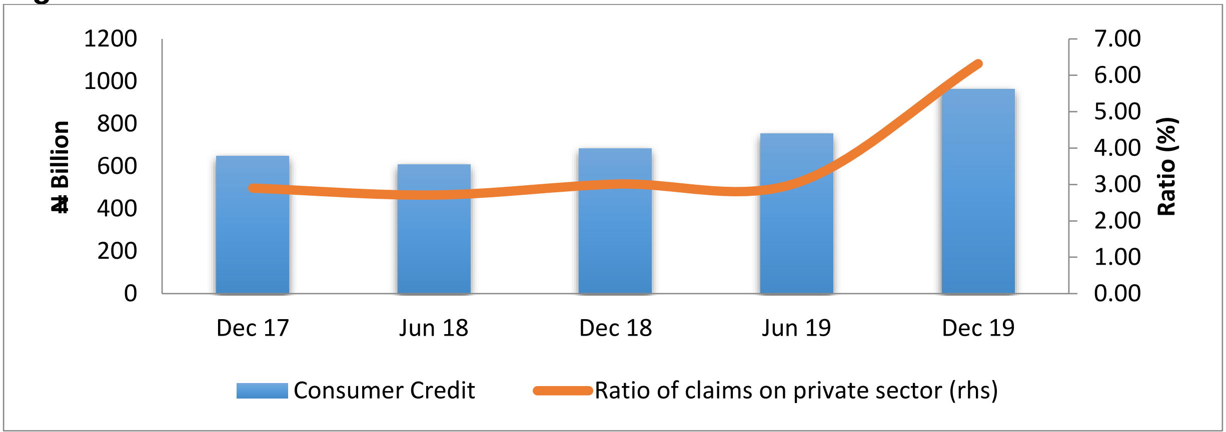
Net foreign assets of the banking system declined by 50.97 per cent to N5,806.32 billion at end-December 2019, from N11,841.70 billion at end-December 2018, reflecting a reduction in foreign assets of banks. Compared with N9,946.58 billion at end-June 2019, the rate of decline of the net foreign assets was higher at end-December 2019. Net foreign assets contributed 18.45 percentage points to the decline of M3 in the second half of 2019.

[3] Central Government is used interchangeably with Federal Government

2.1.1.4 *Consumer Credit*

Consumer credit outstanding at end-December 2019 increased by 27.00 per cent to ₦963.74 billion from ₦753.85 billion at end-June 2019. This accounted for 6.32 per cent of banks' outstanding claims on the private sector and was 3.27 percentage points higher than the level at end-June 2019.

Figure 2.3 Consumer Credit



2.1.2 Classification of Private Sector Credit

The contributions of agriculture, trade, government and services sectors to total credit increased to 4.49, 7.26, 8.96 and 37.71 per cent at end-December 2019, respectively, compared with 4.20, 6.57, 8.75 and 36.49 per cent, respectively, at end-June 2019. However, the contributions of the construction and industry sectors declined to 4.21 and 37.37 per cent from 4.39 and 39.59 per cent in the preceding half year.

Figure 2.4 Sectoral Distribution of Credit

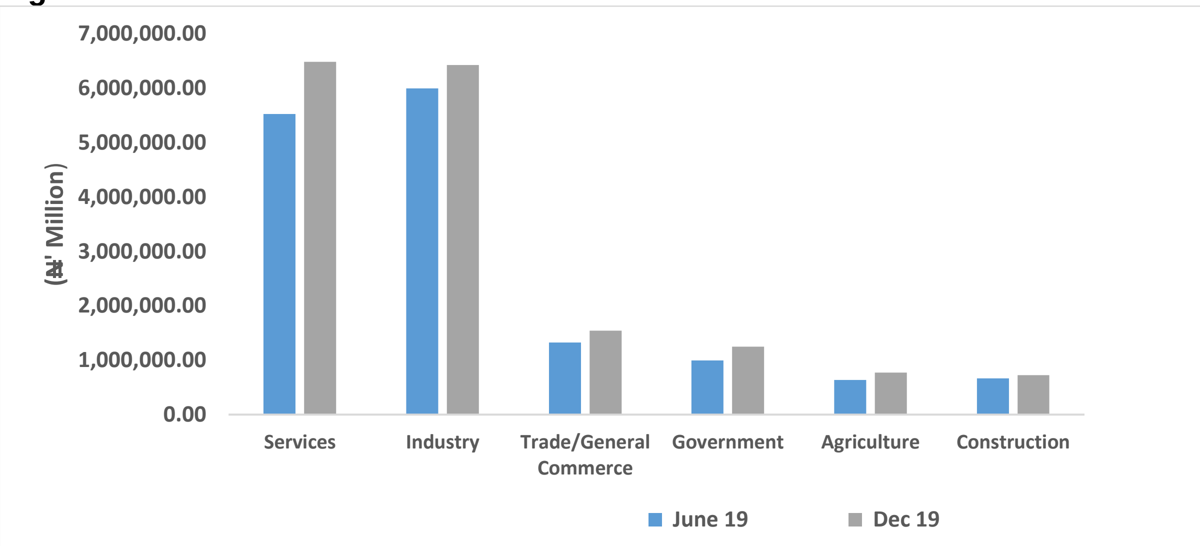


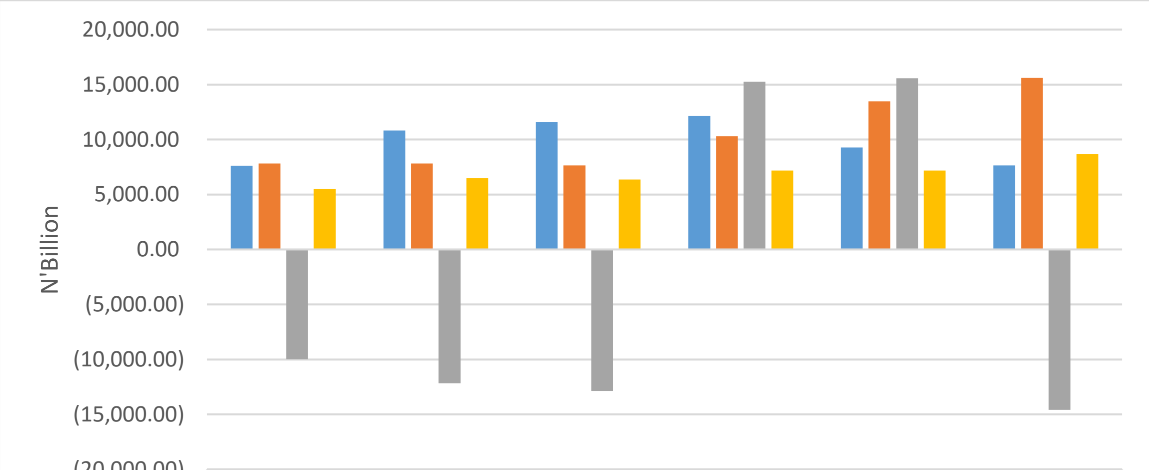
Table 2:2 Sectoral Distribution of Private Sector Credit

Figure ITEM	Jun-19 (=N='m) '(1)	Dec-19 (=N='m) '(2)	Percentage Share in Total Jun-19 '(3)	Dec-19 '(4)	% (1)&(2)
[a] Agriculture	636,075.50	772,375.40	4.20	4.49	21.43
[b] Industry	5,991,837.90	6,423,322.30	39.59	37.37	7.20
Mining & Quarrying	8,663.40	11,309.70	0.06	0.07	30.55
Manufacturing	2,318,168.60	2,622,539.80	15.32	15.26	13.13
Oil & Gas:	3,329,468.70	3,416,254.50	22.00	19.88	2.61
of which Downstream, Natural Gas and Crude Oil Refining	3,329,468.70	3,416,254.50	22.00	19.88	2.61
Power and Energy	335,537.10	373,218.30	2.22	2.17	11.23
of which IPP and Power Generation	335,537.10	373,218.30	2.22	2.17	11.23
[c] Construction	664,870.40	723,147.80	4.39	4.21	8.77
[d] Trade/General Commerce	994,182.60	1,247,374.30	6.57	7.26	25.47
[e] Government	1,323,643.20	1,539,224.70	8.75	8.96	16.29
[f] Services	5,522,249.60	6,482,321.20	36.49	37.71	17.39
Real Estate	582,960.47	604,972.90	3.85	3.52	3.78
Finance, Insurance and Capital Market	1,131,299.61	1,272,063.84	7.48	7.40	12.44
Education	60,377.00	58,378.68	0.40	0.34	(3.31)
Oil & Gas	1,061,733.82	1,162,529.01	7.02	6.76	9.49
of which Upstream and Oil & Gas Services	1,061,733.80	1,162,529.00	7.02	6.76	9.49
Power and Energy	295,457.18	298,232.96	1.95	1.74	0.94
of which Power Transmission and Distribution	295,457.18	298,232.96	1.95	1.74	0.94
Others	2,390,421.49	3,086,143.83	15.80	17.96	29.10
of which: General	1,015,494.89	1,430,065.05	6.71	8.32	40.82
Information & Communication	689,204.70	882,938.35	4.55	5.14	28.11
Transportation & Storage	317,069.43	396,198.85	2.10	2.31	24.96
TOTAL	**15,132,859.00**	**17,187,765.70**	**100.00**	**100.00**	**13.58**

2.1.3 Monetary Base

The monetary base at end-December 2019 grew by 20.75 per cent to N8,669.83 billion, compared with N7,180.01 billion at end-December 2018. The upward movement on the asset side reflected, mainly, an increase of 51.19 per cent in net domestic assets. Correspondingly, the upward movement on the liability side reflected, mainly, a 28.38 per cent increase in liabilities of other depository corporations. The growth in monetary base was higher than the position at end-June 2019. The monetary base of N8,669.83 billion, at end-December 2019 represented an increase of 20.63 per cent over the N7,187.18 billion at end-June 2019.

Figure 2.5 Monetary Base and its Components



	Jun-17	Dec-17	Jun-18	Dec-18	Jun-19	Dec-19
NFA	7,628.44	10,825.68	11,572.17	12,126.99	9,283.82	7,657.57
NDA	7,819.80	7,831.13	7,652.97	10,292.31	13,470.27	15,612.31
OIN	(9,967.92)	(12,173.00)	(12,854.56)	15,239.29	15,566.91	(14,600.05)
MB	5,480.32	6,483.80	6,360.58	7,180.01	7,187.18	8,669.83

2.1.3.1 *Currency-in–Circulation and Banks' Current Account Balances with the CBN*

The Currency-in-Circulation increased by 4.86 per cent to ₦2,442.99 billion at end-December 2019, accounting for 28.18 per cent growth in Monetary Base. Similarly, the banks' current account balances with the CBN increased by 0.21 per cent to₦8,507.26 billion at end-December 2019.

2.1.4 Maturity Structure of Bank Deposits and Credits

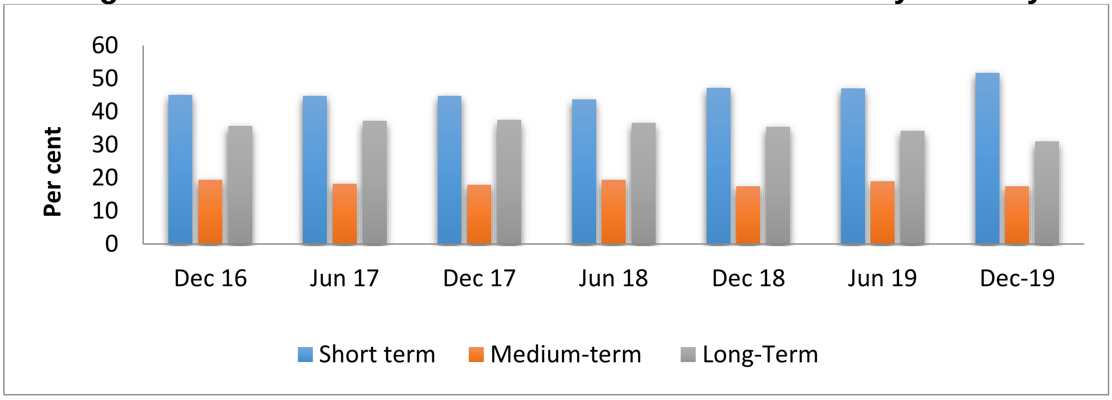
Commercial banks' outstanding credit at end-December 2019 showed that maturities for short-term credit accounted for 51.73 per cent, compared with 47.00 per cent at end-June 2019. Medium-term[4] and long-term[5] credits decreased to 17.37 and 30.90 per cent at end-December 2019, from 18.90 and 34.10 per cent respectively, at end-

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

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

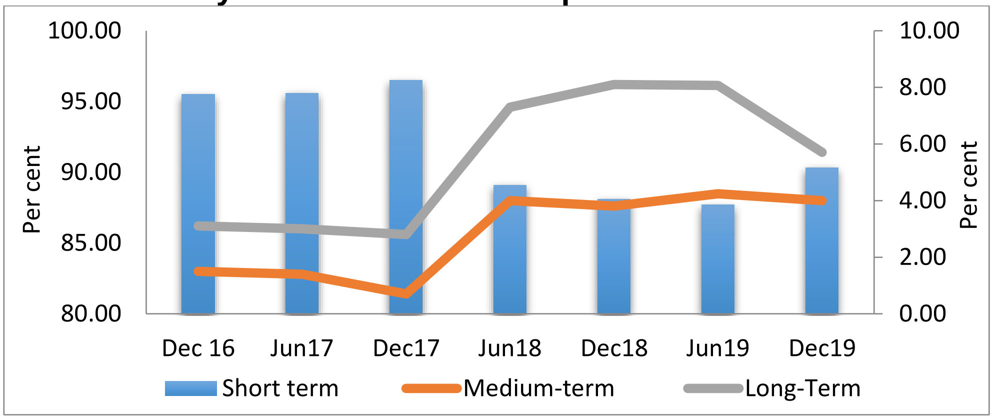
June 2019. Consequently, short-term maturities maintained dominance in the credit market.

Figure 2.6 Distribution of Bank Loans and Advances by Maturity



The analysis of deposit liabilities of banks showed that short-term deposits with tenors below one year constituted 90.32 per cent of the total (73.0 per cent had a maturity of less than 30 days), compared with 87.69 per cent at end-June 2019. Medium and long-term deposits constituted 4.0 and 5.7 per cent of total deposits at end-December 2019, compared with 4.24 and 8.07 per cent at end-June 2019 respectively.

Figure 2.7 Maturity Structure of Bank Deposits

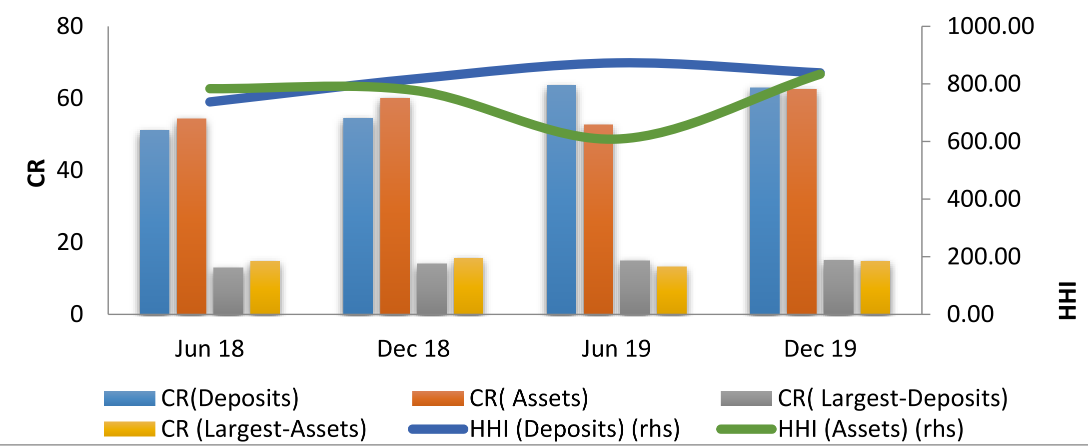


2.1.5 Market Structure of the Banking Industry

In the last half of 2019, the structure of the Nigerian banking industry remained substantially the same, with the six largest banks accounting for 62.96 per cent of total deposits and 62.59 per cent of total assets. The remaining twenty-one banks had market shares ranging from 0.02 to 5.94 per cent in deposits, and 0.08 to 5.24 per cent in assets, compared with market shares ranging between 0.10 to 4.31 per cent in deposits and 0.08 to 5.20 per cent in assets at end-June 2019 respectively. The market share of the largest bank with respect to deposits and assets stood at 14.97 and 14.71 per cent at end-December 2019, compared with 14.94 and 13.20 per cent at end-June 2019, respectively.

The Herfindhal Hirschman Indices[6] of 833.96 in deposits and 838.56 in assets at end-December 2019, compared with 664.08 and 608.64 at end-June 2019, reflected an increase in the concentration ratio.

Figure 2.8 Concentration Ratios of the Banking Industry Assets and Deposits



2.1.6 Risks to the Domestic Economy

Growth recovery remained modest and is vulnerable to:

- the increasing claims on the Federal Government, which may compound the crowding out effect on credit to the private sector, and increase pressure on domestic interest rates.
- decline volatility in crude oil prices below the budget benchmark, which may limit the effectiveness of the 2020 budget.
- weakening world aggregate demand, which may pass through to the domestic economy and dampen the tempo of economic activities.

2.2 Licensing of Financial Institutions

The number of licensed Other Financial Institutions (OFIs) stood at 6,190 at end-December 2019, compared with 5,820 at end-June 2019.The OFIs comprised seven (7) Development Finance Institutions (DFIs), 911 Microfinance Banks (MFBs), 74 Finance Companies (FCs), 34 Primary Mortgage Banks (PMBs) and 5,164 Bureaux de Change (BDCs) at end-December 2019.

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[6] HHI is a measure of the size of firms in relation to the industry and an indicator of the amount of competition among them. It is defined as the sum of the squares of the market shares of the firms within the industry.
An HHI below 0.01 (or 100) indicates a highly competitive industry.
below 0.15 (or 1,500) indicates an un-concentrated industry.
between 0.15 to 0.25 (or 1,500 to 2,500) indicates moderate concentration.
above 0.25 (above 2,500) indicates high concentration.

Table 2:3 Concentration Ratios of the Banking Industry Assets and Deposits

S/N	Type	Total Licensed Institutions as at June 30, 2019	Total Licensed Institutions as at December 31, 2019
1	Microfinance Banks	907	911
2	Bureaux De Change	4,798	5,164
3	Finance Companies	73	74
4	Development Finance Institutions	7	7
5	Primary Mortgage Banks	35	34
	Total	**5,820**	**6,190**

2.2.1 Assets and Liabilities of Other Financial Institutions

The total assets of the sub-sector, excluding the BDCs, increased by 10.11 per cent to ₦3,183.50 billion at end-December 2019, from ₦2,891.18 billion at end-June 2019. The increase was attributed largely to the injection of additional capital by the newly licensed OFIs, mobilization of additional deposits and increase in liabilities due to other banks by the institutions.

Net loans and advances increased by 12.79 per cent to ₦1,667.01 billion at end-December 2019, from ₦1,477.95 billion at end-June 2019. Also, total deposits increased by 5.33 per cent to ₦750.02 billion at end-December 2019, from ₦712.10 billion at end-June 2019, owing largely to improved deposits by PMBs and MFBs. However, shareholders' funds unimpaired by losses decreased by 1.51 per cent to ₦475.27 billion at end-December 2019, from ₦482.53 billion at end-June 2019, owing largely to increased provisioning.

2.2.2 Development Finance Institutions

The total assets of the DFIs increased by 6.96 per cent to ₦2,021.18 billion at end-December 2019 from ₦1,889.71 billion at end-June 2019. Further analysis showed that net loans and advances increased by 12.37 per cent to ₦1,092.90 billion at end-December 2019 from ₦972.56 billion at end-June 2019, owing largely to increased long-term borrowings.

Shareholders' funds decreased by 9.04 per cent to ₦271.14 billion at end-December 2019, from ₦298.08 billion at end-June 2019. Further analysis showed that the decrease in the shareholders' funds was due mainly to operational losses reported by some DFIs in the review period.

The Bank of Industry (BOI), Development Bank of Nigeria (DBN) and Federal Mortgage Bank of Nigeria (FMBN) accounted for 51.52, 23.19 and 12.97 per cent, respectively, of the total assets of the DFIs, while Nigerian Export-Import Bank (NEXIM), Nigeria Mortgage Refinancing Company (NMRC), Bank of Agriculture

(BOA) and The Infrastructure Bank (TIB) accounted for 5.72, 3.45, 2.87 and 0.28 per cent, respectively. Similarly, BOI, FMBN, DBN, NEXIM, NMRC and BOA accounted for 65.94, 15.60, 8.90, 4.32, 3.32 and 1.92 per cent of net loans and advances respectively.

2.2.3 Primary Mortgage Banks

The number of Primary Mortgage Banks (PMBs) stood at 34 (22 State and 12 National) at end-December 2019, compared with 35 (23 State and 12 National) at end-June 2019.The reduction was due to the merger of FBN Mortgages Limited and Trust Bond Mortgage Bank Plc to form First Trust Mortgage Bank Plc.

The total assets of the sub-sector decreased by 3.55 per cent to ₦432.05 billion at end-December 2019, from ₦447.93 billion at end-June 2019. The decrease was due to reduction in cash at hand by 4.32 per cent to ₦0.68 billion, in non-current assets held for sale by 7.98 per cent to ₦52.59 billion and in investment in quoted shares by 39.67 per cent to ₦9.96 billion.

The CAR for the sub-sector stood at 12.31 per cent at end-December 2019, which was above the regulatory minimum of 10 per cent. The average liquidity ratio stood at 97.01 per cent at end-December 2019, compared with 98.37 per cent at end-June 2019.

Table 2:4 Primary Mortgage Banks Financial Highlights

	End-December 2019 (₦' billion)	End-June 2019 (₦' billion)	% Change
Total assets	432.05	447.93	(3.55)
Loans and advances	238.49	228.86	4.21
Placements with banks	40.87	43.91	(6.92)
Investment in Quoted Shares	9.96	16.51	(39.67)
Deposit liabilities	143.56	150.24	(4.45)
Other liabilities	158.96	166.25	(4.38)
Shareholders' funds	53.17	55.67	(4.49)

2.2.4 Finance Companies

The number of FCs stood at 74 at end-December 2019, compared with 73 at end-June 2019. The total assets of the sub-sector increased by 71.58 per cent to ₦233.42 billion at end-December 2019, from ₦136.04 billion at end-June 2019, owing largely to increased borrowings and shareholders' funds.

Borrowings increased by 77.38 per cent to ₦153.40 billion at end-December 2019, from ₦86.48 billion at end-June 2019. Shareholders' funds increased by 59.97 per cent to ₦37.29 billion at end-December 2019, from ₦23.31 billion at end-June 2019, as a result of increases of ₦3.80 billion and ₦10.17 billion in paid-up capital and reserves, respectively. Also, net loans and advances increased by 25.32 per cent to ₦80.13 billion at end-December 2019, from ₦63.94 billion at end-June 2019.

Table 2:5 Financial Position of Finance Companies at end-December 2019

Selected Items	End-December 2019 (₦' billion)	End-June 2019 (₦' billion)	Change (₦' billion)	% Change
Total Assets	233.42	136.04	97.38	71.58
Cash in Vault	2.14	0.88	1.26	143.18
Balances with Banks	12.65	6.79	5.86	86.30
Loans and Advances	80.13	63.94	16.19	25.32
Investments	11.64	14.60	(2.96)	(20.27)
Fixed Assets	46.28	13.35	32.93	246.67
Borrowings	153.40	86.48	66.92	77.38
Shareholders' Funds	37.29	23.31	13.98	59.97
Paid-up capital	20.69	16.89	3.80	22.50
Reserves	16.60	6.43	10.17	158.16

2.2.5 Microfinance Banks

The number of MFBs was 911(comprising 10 national, 135 state and 766 unit) at end-December 2019, following the licensing of 4 new institutions, compared with a total of 907 (comprising 9 national, 136 state and 762 unit) at end-June 2019.

The total assets of MFBs increased to ₦496.85 billion at end-December 2019, from ₦417.50 billion at end-June 2019, reflecting an increase of 19.01 per cent. Net loans and advances increased by 20.17 per cent to ₦255.47 billion at end-December 2019, from ₦212.59 billion at end-June 2019.

The shareholders' funds increased by 7.77 per cent to₦113.67 billion at end-December 2019 from ₦105.47 billion at end-June 2019, owing to capital injection and accretion to reserves. Also, total deposit liabilities increased by 14.81 per cent to ₦250.17 billion at end-December 2019 from ₦217.90 billion at end-June 2019.

Table 2:6 Financial Positionof Microfinance Banks at end-December 2019

Selected Items	End-December 2019 (₦' billion)	End-June 2019 (₦' billion)	Change (₦' billion)	% Change
Total Assets	496.85	417.50	79.35	19.01
Cash in Vault	5.11	4.36	0.75	17.20
Balances with Banks	66.18	40.34	25. 84	64.06
Placements with Banks	83.93	82.04	1.89	2.30
Loans and Advances	255.47	212.59	42.88	20.17
Short-Term Investments	28.09	27.53	0.56	2.03
Fixed Assets	22.53	18.57	3.96	21.32
Deposits	250.17	217.90	32.27	14.81
Shareholder's Funds	113.67	105.47	8.20	7.77
Paid-up Capital	78.80	62.53	16.27	26.02

2.2.6 Microfinance Certification Programme

Following the certification of 360 candidates during the review period, the total number of certified candidates stood at 6,692 at end-December 2019, compared with 6,332 at end-June 2019.

2.2.7 Bank Verification Number Enrolment for MFB Customers

Customer Bank Verification Number (BVN) enrolment data submitted by 457 MFBs showed that 1,828,570 (20.59 per cent) out of 8,879,118 customers had enrolled as at end-December 2019.

2.2.8 Developments in the Bureaux de Change Sub-sector

2.2.8.1 *AML/CFT Examination*

The Bank conducted on-site risk-based AML/CFT examination of 152 BDCs during the review period. The examination reports revealed infractions of extant regulations and erring institutions were appropriately sanctioned.

2.2.8.2 Bi-Annual CBN/ABCON Meeting

The Bank held the second bi-annual meeting with ABCON in December 2019.The meeting resolved that:

- BDCs should continue using NGAAP in preparing Audited Financial Statements, pending the completion of discussions with the Financial Reporting Council (FRC) on the adoption of IFRS; and

- ABCON should develop a Code of Business Ethics for its members.

2.2.8.3 *Sensitization Workshop for BDCs*

The Bank organised a sensitization workshop for BDC operators in preparation for the Mutual Evaluation Exercise (MEE) by the Inter-Governmental Action Group Against Money Laundering (GIABA) during the review period. The MEE was conducted, and the key findings included: knowledge gap on the part of operators, insufficient customer due diligence and inadequate rendition of reports.

2.3 Financial Markets

In a bid to contain inflationary pressures and consolidate the gains from improved foreign exchange management, the Bank's monetary policy stance remained largely non-expansionary in the second half of 2019. In that regard, the Bank retained the Monetary Policy Rate (MPR) at 13.50 per cent, with the asymmetric corridor of +200 and -500 basis points around the MPR for the standing lending and deposit facilities, respectively. In the same vein, the Cash Reserve Ratio (CRR) on deposits and the liquidity ratio were retained at 22.50 and 30.00 per cent, respectively.

2.3.1 The Money Market

Activities in the money market during the review period depicted varying liquidity conditions in the banking system. Open Market Operations (OMO), Cash Reserve Requirement debits and sale of foreign exchange to authorized dealers through the wholesale and retail secondary market interventions constituted the major withdrawals from the system.

2.3.1.1 *Interest Rate Movements*

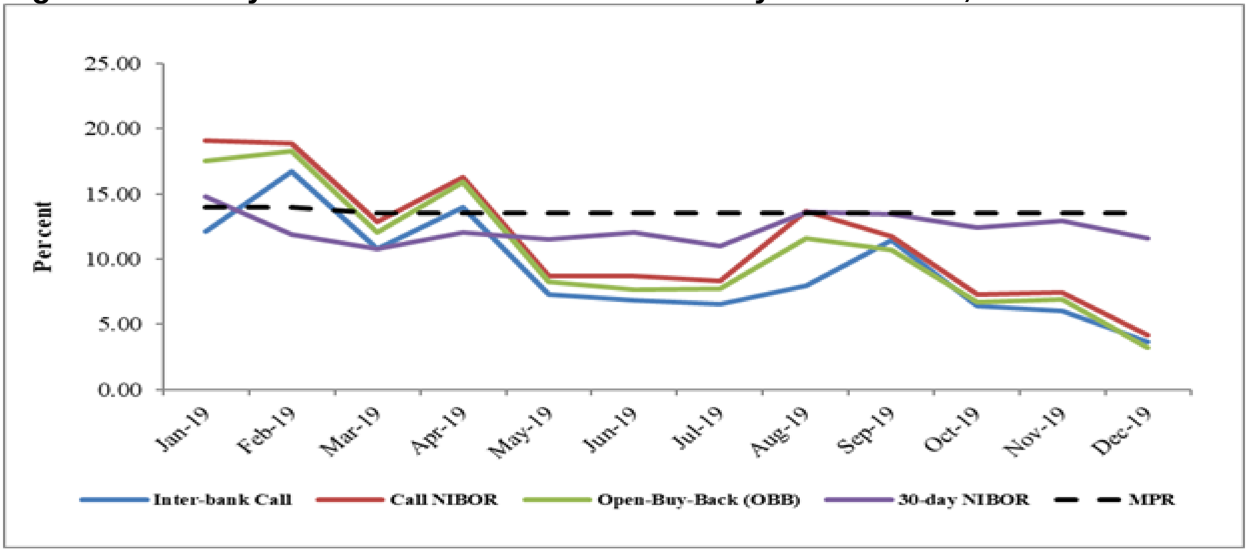
On July 1, 2019, the Open-Buyback (OBB) daily average rate opened at 8.83 per cent, compared to 17.26 per cent on January 2, 2019. The rate peaked at 44.05 and 28.17 per cent on February 2 and September 16, 2019 and thereafter declined to 4.04 and 2.38 per cent on June 28 and December 23, 2019 respectively. Furthermore, the OBB rate ranged from 4.04 - 44.05 per cent in the first half of 2019 compared to 2.38 - 28.17 per cent in the second half of 2019.

The unsecured inter-bank call weighted daily average rate opened at 10.00 per cent on July 1, 2019, compared to 20.00 per cent on January 9, 2019. The rate peaked at 23.94 and 25.00 per cent on February 5 and September 13, 2019 and thereafter declined to 4.00 and 2.00 per cent on April 01, and December 09, 2019 respectively. Furthermore, the inter-bank call rate ranged from 4.00 – 23.00 per cent in the first half of 2019, compared to 2.00 - 25.00 percent in the second half of 2019.

The monthly average OBB and inter-bank call rates closed at 3.18 and 3.72 per cent at end-December 2019, compared to 7.67 and 6.88 per cent recorded at end-June

2019 respectively, owing to higher liquidity conditions arising from fiscal activities and monetary operations of the Bank.

Figure 2.9 Money Market Rate Movements January – December, 2019



2.3.1.2 Nigerian Treasury Bills

During the review period, total subscriptions for 91, 182 and 364-day tenor Nigerian Treasury Bills (NTBs) stood at N5,455.24 billion, compared with N4,153.63 billion in the first half of 2019, indicating an increase of 31.34 per cent. Average marginal rates ranged between 4.0000 - 11.1000 per cent for the 91-day, 5.0000 - 11.9499 per cent for the 182-day and 5.4950 - 13.3000 per cent for the 364-day tenors.

The total NTBs issued and allotted for 91, 182 and 364-day tenors stood at N1,716.77 billion in the second half of 2019. This indicated an increase of 16.48 per cent, compared with the N1,473.84 billion in the preceding period.

A breakdown of the total allotment showed that commercial banks (including foreign investors) took up N1,003.05 billion or 58.43 per cent, merchant banks N33.40 billion or 1.95 per cent, while mandate and internal-funds customers (including parastatals), N680.31 billion or 39.63 per cent during the review period. Comparatively, in the first half of 2019, commercial banks (including foreign investors) took up N766.37 billion or 52.00 per cent, merchant banks N52.94 billion or 3.59 per cent, while mandate and internal-funds customers (including parastatals) N581.08 billion or 39.43 per cent. CBN-take up accounted for N73.45 billion or 4.98 per cent.

The NTBs outstanding at end-December 2019 showed that commercial banks accounted for 37.71 per cent, parastatals, 53.62 per cent and merchant banks, 0.71 per cent, while the CBN accounted for 7.97 per cent.

2.3.1.3 The Foreign Exchange Market

During the review period, the Bank sustained its foreign exchange intervention via the Retail Secondary Market Intervention Sales (SMIS) window for some critical areas, such as agriculture, airline, petroleum, raw materials and machinery. Similarly, the Bank continued its supply of foreign exchange for invisible trade transactions, such as personal and business travels, medical expenses and school fees. The SMEs, oil companies and the Investors and Exporters (I & E) windows also served to provide easy access to foreign exchange, while sales to BDC segment were sustained. Also, the Bank continued its active participation in the Naira-Settled OTC Futures Market.

The Bi-lateral Currency Swap Agreement between the Bank and the People's Bank of China was sustained through the CBN Renminbi Retail SMIS auction sales. This arrangement has helped in improving foreign exchange management since its inception in 2018.

2.3.1.4 Exchange Rate Movement

At the inter-bank segment of the foreign exchange market, the rate opened at N306.90/US$ on July 1, 2019 and closed at N307.00/US$ on December 31, 2019.

The rate at the I & E window opened at N360.57/US$ on July 1, 2019 and closed at N364.51/US$ on December 31, 2019, representing a depreciation of 1.09 per cent at the I & E segment. At the BDC segment, Naira depreciated by 0.56 per cent as it opened and closed at N360.00/US$ and N362.00/US$ respectively.

2.3.1.5 Foreign Exchange Transactions

The total foreign exchange sales by the Bank in the second half of 2019 amounted to US$13,765.44 million. A breakdown of the total showed that interbank spot sales amounted to US$2,032.38 million, invisibles US$551.20 million, I & E, US$5,491.89 million and SMEs US$832.00 million. Inter-bank forwards sales amounted to US$4,857.96 million. The sum of US$5,098.53 million forward contracts matured, while US$3,806.29 million was outstanding at end-December 2019.

In the first half of 2019, the total CBN foreign exchange sales at the inter-bank segment amounted to US$8,370.04 million, of which spot sales amounted to US$2,142.68 million and invisibles US$550.70 million. The sum of US$810.00 million was sold to support SMEs, US$212.15 million at the I & E window and US$4,654.55 million as Inter-bank forward sales.

During the review period, the notional amount of OTC FX Futures contracts executed stood at US$7,039.48 million. The sum of US$6,696.43 million matured, with the cumulative amount outstanding of US$10,667.75 million at end-December 2019. Comparatively, the notional amount of the OTC FX Futures contracts executed stood at US$8,035.40 million. The sum of US$3,483.05 million matured, with the sum of US$9,324.71 million outstanding at end-June 2019.

2.3.2 The Capital Market

2.3.2.1 *The Bond Market*

Total bonds outstanding at end-December 2019 amounted to N10,407.70 billion, comprising FGN bonds (N9,389.72 billion or 90.22%), FGN Sukuk (N200.00 billion or 1.92%) and sub-national bonds (N278.66 billion or 2.68%). Others were sub-national sukuk (N2.65 billion or 0.03%), FGN Green bonds (N25.69 billion or 0.25%), FGN savings bonds (N12.67 billion or 0.12%), and corporate bonds (N474.81 billion or 4.56%). Total bonds outstanding at end-December 2019 were 5.53 per cent higher than the N9,862.76 billion recorded at end-June 2019 (Table 2.1).

Table 2:7 Outstanding Bonds (N'Billion)

Bond Issuer	June, 2019	December,2019	% Change	Proportion of Total (June, 2019)	Proportion of Total (December, 2019)
FGN Bonds	8,840.30	9,389.72	6.21	89.62	90.22
Sub-National Bonds	384.09	278.66	(27.45)	3.89	2.68
Corporate Bonds	389.92	474.81	21.77	3.95	4.56
***FGN Savings**	10.43	12.67	21.48	0.11	0.12
Sukuk - FGN	200.00	200.00	0.00	2.03	1.92
Sukuk - Sub-National	3.83	2.65	(30.81)	0.04	0.03
Green - FGN	10.69	25.69	140.32	0.11	0.25
Green - Corporate	23.50	23.50	0.00	0.24	0.23
Total (N)	9,862.76	10,407.70		100	100

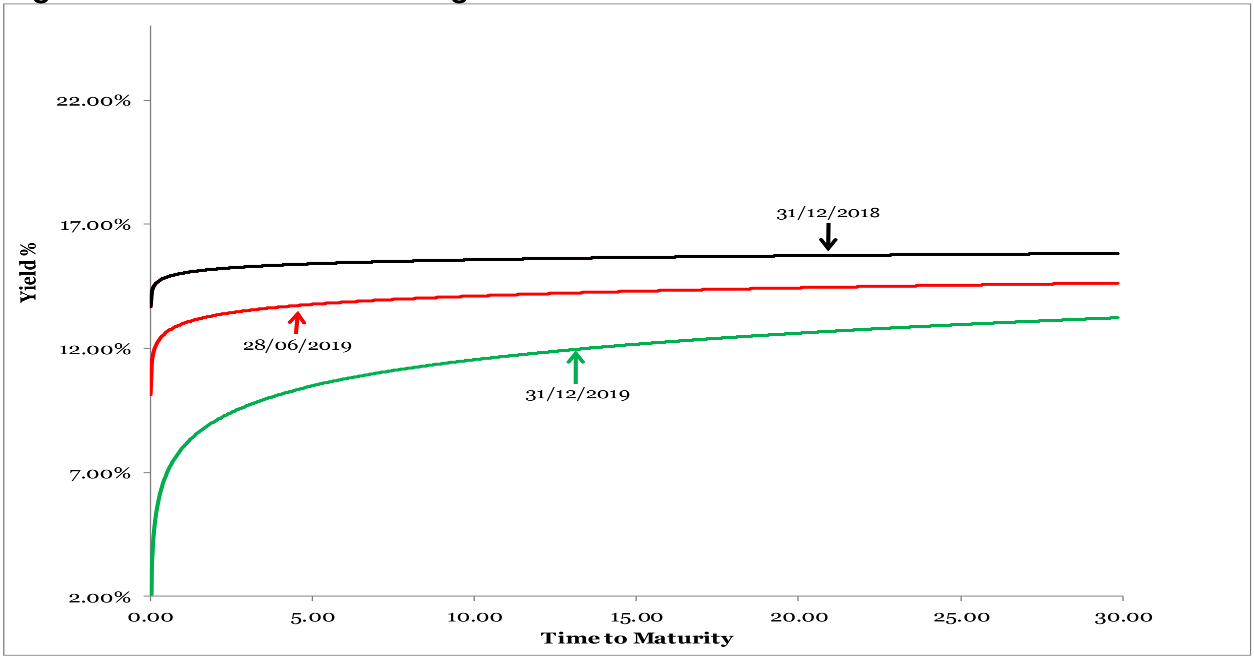
*Source: FMDQ OTC/ *CBN*

2.3.2.2 *Federal Government of Nigeria Bonds*

New issues and re-openings of FGN bonds valued ₦890.00 billion were auctioned during the review period, indicating an increase of 27.14 per cent over the ₦700.00 billion auctioned in the first half of 2019. Public subscriptions and sales increased to ₦1,353.78 billion and ₦1,035.36 billion in the second half of 2019, compared with ₦1,160.45 billion and ₦615.39 billion in the first half of 2019 respectively.

The yield curve shifted downwards when compared with the position in the preceding period, reflecting lower yields in the market. Similarly, yields were significantly lower at both ends of the curve vis-à-vis previous periods (Figure 2.9).

Figure 2.10 Yield Curve for Nigeria



Source: FMDQ-OTC Plc

2.3.2.2.1 Federal Government of Nigeria Savings Bonds

During the review period, FGN Savings Bonds (FGNSB) worth ₦3.01 billion were issued and allotted, compared with ₦2.75 billion recorded in the preceding period, indicating an increase of ₦266.73 million or 9.71 per cent. The increase was attributed to government's efforts at encouraging retail savings in the Country. The new issues were for the 2- and 3-year tenors, with coupon rates ranging 9.0910 - 11.2440 per cent and 10.0910 - 12.2440 per cent respectively. The coupon rates in the preceding period ranged from 11.2760 – 12.1250 per cent and 12.2760 - 13.1250 per cent for the 2- and 3-year tenors respectively. Consequently, the total value of FGNSB outstanding at end-December 2019 were ₦12.67 billion, compared with ₦10.43 billion at end-June 2019 (Table 2.1).

2.3.2.2.2 Green Bonds

There was no new issuance of Green Bonds during the review period. However, a total of ₦25.69 billion FGN Green Bonds were outstanding at end-December 2019. The 5- and 7-Year instruments were issued at a coupon rate of 13.4800 per cent in December, 2017 and 14.5000 per cent in June 2019. The bond was issued to finance sustainable development projects with positive impact on the environment and the economy (Table 2.1).

2.3.2.2.3 FGN Sukuk

The FGN sukuk outstanding remained at ₦200.00 billion at end-December 2019 as there was no new issue in the period under review. (Table 2.1).

2.3.2.2.4 Sub-National Bonds

During the review period, sub-national bonds worth ₦132.14 billion were outstanding. Three states' bonds worth ₦8.11 billion matured, while eleven states redeemed ₦163.84 billion. There was no new issuance.

2.3.2.3 *Corporate Bonds*

Corporate bonds worth ₦474.81billion were outstanding at end-December 2019, compared with ₦389.92 billion at end-June 2019. During the review period, corporate bonds worth ₦5.33billion were redeemed, while the sum of ₦45.00 billion was issued.

2.3.2.4 *The Equities Market*

The Nigeria Stock Exchange All Share Index (NSE- ASI) closed at 26,842.07 at end-December 2019, representing a decrease of 10.42 per cent from the 29,966.87 at end-June 2019. Market capitalization (MC) also closed lower at ₦12,958.38 billion, representing a decrease of 1.87 per cent from the ₦13,205.54 billion at the end of the preceding period.

Foreign portfolio investment (FPI) inflows in the second half of 2019 totalled ₦204.16 billion, while divestments (outflows) stood at ₦265.60 billion, reflecting a net FPI outflow of ₦61.44 billion. In comparison, inflows in the first half of 2019 amounted to ₦221.61 billion, while divestments stood at ₦250.18 billion, reflecting a net FPI outflow of ₦28.58 billion (Table 2.3).

Overall, FPI flows accounted for 55.89 per cent of total equity transactions in the period, compared to 43.47 per cent recorded in the preceding period. Domestic transactions accounted for the balance of 44.11 per cent, compared with 56.53 per cent in the preceding period (Table 2.3).

Table 2:8 Domestic and Foreign Portfolio Participation in Equities Trading

Period	Total	Foreign	% Foreign	Domestic	% Domestic	Foreign Inflow	Foreign Outflow	NSE ASI	Market Capitalization
H2 2019	840.53	469.76	55.89	370.77	44.11	204.16	265.60	26,842.07	12,958.38
H1 2019	1,087.53	472.79	43.47	614.76	56.53	221.61	250.18	29,966.87	13,205.54
H2 2018	807.14	419.39	51.96	387.75	48.04	195.80	223.59	31,430.50	11,720.72
H1 2018	1,597.25	799.71	50.07	797.54	49.93	380.65	419.06	38,278.55	13,866.42

2.3.3 Risks to Stability in the Financial Markets

- ✓ The financial markets remained vulnerable to risks from FPI outflows and oil price shocks;
- ✓ Preference for government securities by banks threatening lending to the real sector; and
- ✓ Decline in yields as a result of demand pressure from capital flow reversals.

2.4 Real Sector Interventions

The Bank continued with its intervention programmes to boost productivity in the real sector of the economy.

2.4.1 Agricultural Policy Support

2.4.1.1 *Agricultural Credit Guarantee Scheme*

In the second half of 2019, a total of 16,922 loans from 93 Participating Financial Institutions (PFIs), valued ₦2.38 billion, were guaranteed under the scheme, compared with 11,981 loans, valued ₦1.68 billion, in the first half of 2019. This indicated increases of 41.2 and 41.6 per cent in the number and value of loans guaranteed respectively.

At end-December 2019, 15,212 loans, valued ₦2.10 billion, were repaid, compared with 8,676 loans, valued at ₦1.32 billion repaid in the first half of 2019. The performance reflected increases of 75.3 and 59.0 per cent in the number and value of loans repaid respectively.

2.4.1.2 *Commercial Agriculture Credit Scheme*

The sum of ₦14.85 billion was disbursed to 9 PFIs for 12 projects in the second half of 2019, compared with ₦4.84 billion disbursed to 5 PFIs for 6 projects in the first half of 2019. A total of ₦13.04 billion from 19 banks for 135 projects was repaid in the review period, compared with ₦23.91 billion from 13 banks for 139 projects in the first half of 2019.

2.4.1.3 *Anchor Borrowers' Programme*

In the review period, the sum of ₦54.32 billion was disbursed through 6 PFIs to 348,719 smallholder farmers located in 35 states for the production of rice, tomato, cassava, cotton, maize, sorghum, soya bean and sesame. This represented increases of 103.6 and 46.5 per cent, compared with the ₦26.67 billion disbursed to 237,967 farmers, respectively, in the first half of 2019. Furthermore, a total of 404,842 hectares of land were cultivated, compared with 259,086 hectares in the preceding period. Repayments amounted to ₦17.24 billion, compared with ₦2.89 billion in the first half of 2019.

2.4.1.4 *Accelerated Agriculture Development Scheme*

The Accelerated Agriculture Development Scheme (AADS) has both public and private windows. The public window funds the provision of critical infrastructure for smallholder farmers in designated locations, while the private window provides credit facilities at a single-digit interest rate.

During the review period, disbursements under the scheme increased by ₦4.61 billion to ₦5.98 billion through 2 PFIs for 4 projects, compared with ₦1.37 billion disbursed for 1 project in the first half of 2019. The projects covered poultry, cassava, fish, maize and livestock farming.

2.4.1.5 *Paddy Aggregation Scheme*

The Bank approved the implementation of the second phase of the Paddy Aggregation Scheme (PAS II) to rice millers to enable them to purchase home-grown paddy at single digit interest rate of 5 per cent. The approved tenor for PAS II is 24 months with a bullet repayment expected at the end of the tenor.

The sum of ₦3.50 billion was released for 3 projects in the review period, compared with ₦27.70 billion released for 12 projects in the first half of 2019.

The sum of ₦2.08 billion was repaid by 1 PFI in respect of 2 projects, leaving an outstanding balance of ₦50.62 billion at end-December 2019.

2.4.1.6 *Maize Aggregation Scheme*

The Maize Aggregation Scheme is a working capital facility introduced to improve access by feed millers, poultry farmers, silo and warehouse operators, and confectionery companies to affordable credit for the purchase of home-grown maize. In the second half of 2019, the sum of ₦4.3 billion was released to 2 PFIs in respect of 3 projects under the Scheme.

2.4.1.7 *National Food Security Programme*

In continuation of efforts to support Government's Strategic Grains Reserves and promote large-scale investments in agriculture, the sum of ₦14.50 billion was disbursed through 3 PFIs for 3 projects in the review period, compared with ₦8.90 billion disbursed through 2 PFIs for 2 projects in the first half of 2019. Repayments in the review period amounted to ₦5.55 billion, compared with ₦2.60 billion in the first half of 2019.

2.4.2 Small and Medium Enterprises& Industrial Policy Support

2.4.2.1 *Micro, Small and Medium Enterprises Development Fund*

In the second half of 2019, the sum of ₦2.00 billion was disbursed through 1 PFI for 1 state government-sponsored project, compared with ₦625.55 million for 1,103 projects in the first half of 2019. Repayments during the period stood at ₦2.11 billion, compared with ₦3.63 billion in the preceding period.

2.4.2.2 *Agribusiness/ Small and Medium Enterprises Investment Scheme*

The sum of ₦10.83 billion was disbursed through 10 PFIs for 3,337 projects, compared with ₦1.29 billion for 595 projects in the first half year of 2019. The improvement in disbursements was due to increased awareness of the scheme following the establishment of NIRSAL Microfinance Bank. Repayment in the review period was ₦2.87 million, compared with ₦0.98 million in the preceding period.

2.4.3 Real Sector Policy Support

2.4.3.1 *Real Sector Support Facility*

Under the Programme, ₦6.70 billion was released through one PFI for one project, compared with ₦40.00 billion for one project in the first half of 2019. Also, ₦218.36 million was repaid in the review period, compared with ₦2.90 billion in the preceding period.

2.4.3.2 *RSSF Using Differentiated Cash Reserve Ratio*

In the second half of 2019, the sum of ₦82.50 billion was disbursed for 46 projects, compared with ₦75.55 billion for 18 projects in the first half of 2019. There was no repayment in the review period as all the loans were under moratorium.

2.4.3.3 *Textile Sector Intervention Facility*

The sum of ₦19.67 billion was disbursed to 10 projects through the Bank of Industry, the managing agent, during the period under review. The increased momentum of activities followed the signing of MOUs among uniformed parastatals, textiles companies, cotton producers and ginners, under the Textile Revival Policy of the Bank. Repayments in the review period stood at ₦3.11 billion, compared with ₦884.38 million in the preceding period.

2.4.3.4 *CBN-BOI Industrial Facility*

The facility was provided by the Bank to the BOI to enhance financing of the industrial sector through investments in value-added projects. Cumulative financing remained unchanged at ₦100.00 billion for 60 projects. There was no repayment as all facilities were still under moratorium.

2.4.3.5 *Federal Government of Nigeria Special Presidential Fertilizer Initiative*

The Special Presidential Fertilizer Initiative was established to increase fertilizer production by domestic blending plants aimed at improving availability and affordability for Nigerian farmers. The sum of ₦1.75 billion was repaid while the number of functional blending plants increased to 22 from 18.

2.4.3.6 *Small and Medium Enterprises Credit Guarantee Scheme*

There was no activity under the Scheme in the second half of 2019. Thus, cumulative guarantees issued remained unchanged at ₦4.25 billion for 88 projects.

2.4.3.7 *Creative Industry Financing Initiative*

The Creative Industry Financing Initiative (CIFI) was introduced in collaboration with the Bankers' Committee in the first half of 2019 to improve access to long-term, low-interest funds by entrepreneurs and investors in the creative industry and information technology (IT) sub-sectors.

The initiative commenced with the disbursement of the sum of ₦410.62 million through two PFIs for 12 projects in the second half of 2019. Analysis of the disbursement by project type indicated that two movie production obtained ₦135.00 million; two cinema, ₦183.62 million; seven fashion-related, ₦42.00 million; and one IT, ₦50.00 million.

2.5 Export Policy Support

2.5.1 Non-oil Export Stimulation Facility

Disbursement of ₦1.50 billion for one project was made in the second half of 2019 compared with ₦8.00 billion disbursed to two projects in the first half of 2019. The sum of ₦2.47 billion was repaid, compared with ₦1.00 billion in the preceding period.

2.5.2 Export Development Facility

During the review period, the sum of ₦9.38 billion was disbursed through NEXIM for 28 projects across agriculture, industry and services sectors. The Facility is aimed at deepening access to credit for export-oriented investments and enhancing foreign exchange earnings for the economy.

2.6 Energy Policy Support

2.6.1 Power and Airline Intervention Fund

In the second half of 2019, ₦3.76 billion was released through the BOI for two power projects, while no disbursement was made in the preceding period. One of the disbursements was for a fresh captive project to increase capacity utilisation in a manufacturing firm while the other was an additional funding to complete an on-grid project. The sum of ₦26.90 billion was repaid in respect of 68 projects, compared with ₦12.72 billion in the first half of 2019.

2.6.2 Nigerian Electricity Market Stabilisation Facility

A total amount of ₦6.1 billion was disbursed through BOI to the Nigerian Electricity Supply Industry Stabilisation Strategy Limited at end-December 2019 to refinance eligible market participants. The sum of ₦10.25 billion was repaid in the review period, compared with ₦9.36 billion in the first half of 2019.

2.6.3 Nigeria Bulk Electricity Trading Payment Assurance Facility

In the second half of 2019, ₦62.68 billion was disbursed to the Nigeria Bulk Electricity Trading Plc. through BOI to ensure payment of at least 80 per cent of the invoice amount due to power generating companies and guarantee sustainable supply of power to the national grid. This amount was lower than the ₦248.40 billion disbursed for the same purpose in the first half of 2019. All the facilities were still under moratorium.

2.7 Institutional Support and Financial Inclusion

2.7.1 National Collateral Registry

During the review period, 20 financial institutions registered on the National Collateral Registry portal. Analysis of the registered financial institutions by category of licence, showed one commercial bank, 12 microfinance banks, one finance company and six non-bank financial institutions. This compared favourably with 15 financial institutions that registered on the portal in the first half of 2019.

A total of 26,782 financing statements valued ₦125.23 billion, US$29.13 million and €0.07 million were registered in favour of 44,890 borrowers, compared with 10,580 financing statements valued ₦65.75 billion and US$12.28 million in favour of 19,228 borrowers in the preceding period. In addition, a total of 32,519 searches were conducted on the portal by financial institutions and public users.

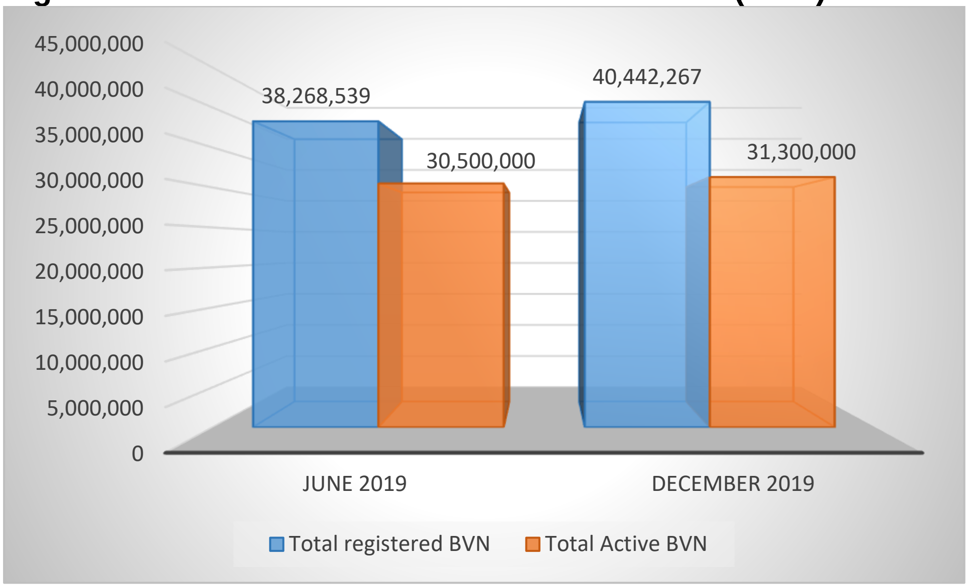
2.7.2 Shared Agent Network Expansion Facility

This is a long-term financing facility to enable licensed Super Agents and Mobile Money Operators to expand capacity and increase access points across the Country, with the goal of accelerating and deepening financial inclusion. Although there was no disbursement during the review period, utilization of previous disbursements led to the roll-out of an additional 148,652 agents in the period, bringing the cumulative number of agents across the country to 236,940. This showed an attainment of 229 agents per 100,000 adults at end-December 2019 compared with 128 agents per 100,000 adults at end-June 2019.

2.7.3 Financial Inclusion

During the review period, the number of agents on-boarded through SANEF initiative increased to 236,940 at end-December 2019, from 130,794 at end-June 2019. This showed that the Country attained 229 agents per 100,000 Adults at end-December 2019 against the end-June 2019 figure of 128 per 100,000 adults.

Figure 2.11 Bank Verification Number Statistics (2019)



2.8 Financial Literacy

The Bank carried out the following activities in the second half of 2019 towards enhancing consumer education and financial literacy.

2.8.1 World Savings Day 2019

The Bank, in collaboration with other financial sector regulators and supervisors, the Bankers' Committee and relevant stakeholders commemorated the 2019 World Savings Day (WSD) with the theme: "Savings Give Life a Lift". The Bank marked the WSD mentoring students in selected public secondary schools across the six (6) Geo-Political zones of Nigeria (Oyo, Sokoto, Bayelsa, Enugu, Niger, Gombe). Relevant information was conveyed to over 76,296 students from 611 schools across the country.

2.8.2 Pilot Test of Financial Education Curriculum

The Bank, in conjunction with the National Education Research Development Council, conducted a pilot test on its Financial Education Curriculum in Katsina State. This was done to assess students' understanding of the subject and ensure standardisation of teaching methodology by the financial literacy teachers prior to the National roll-out of the Financial Education Curriculum.

2.8.3 National Peer Group Educator Programme

In continuation of the National Peer Group Educator Programme being implemented in collaboration with the German Development Corporation(GIZ), EFInA, Federal Ministry of Youth & Sports and National Youth Service Corps (NYSC), the Bank conducted a Train-the-Trainers exercise for 113 Volunteer Corps Members (VCM) in Edo, Gombe and Jigawa States.

2.8.4 CBN Fair

The CBN Fair was held in Osogbo, Ilorin, Jos, Lafia, Kano and Dutse during the review period in order to improve financial literacy amongst Nigerians. A total of 526 people attended the Fair in Jos, while 1,537, 488, 615, 660 and 2,391 attended in Lafia, Dutse, Ilorin, Kano and Osogbo, respectively.

2.8.5 Financial Education Programme for Faith – Based Organisations

Under the pilot Targeted Financial Education programme for faith-based organizations, the Bank engaged Methodist Church, Abuja Diocese and Nasrullahi-l-Fathi Society of Nigeria (NASFAT) to train participants on financial literacy. The purpose of the training was to coach the participants to become master trainers that would in turn disseminate the knowledge acquired to other members and the public.

3 REGULATORY AND SUPERVISORY ACTIVITIES

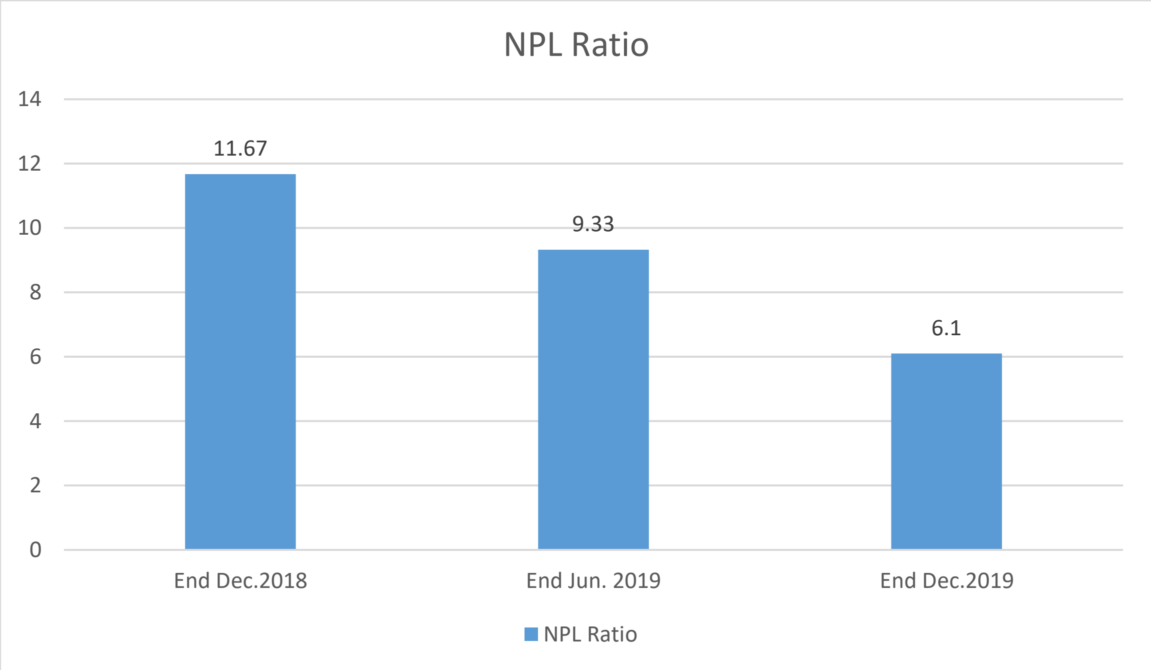
3.1 Financial Soundness Indicators

3.1.1 Asset-Based Indicators

3.1.1.1 *Non-Performing Loans to Gross Loans*

The quality of bank assets improved in the second half of 2019, as the ratio of non-performing loans (NPLs) to gross loans declined to 6.10 per cent at end-December 2019, from 9.33 per cent at end-June 2019. The improvement was largely due to efficient credit risk management by banks and regulatory actions by the Bank.

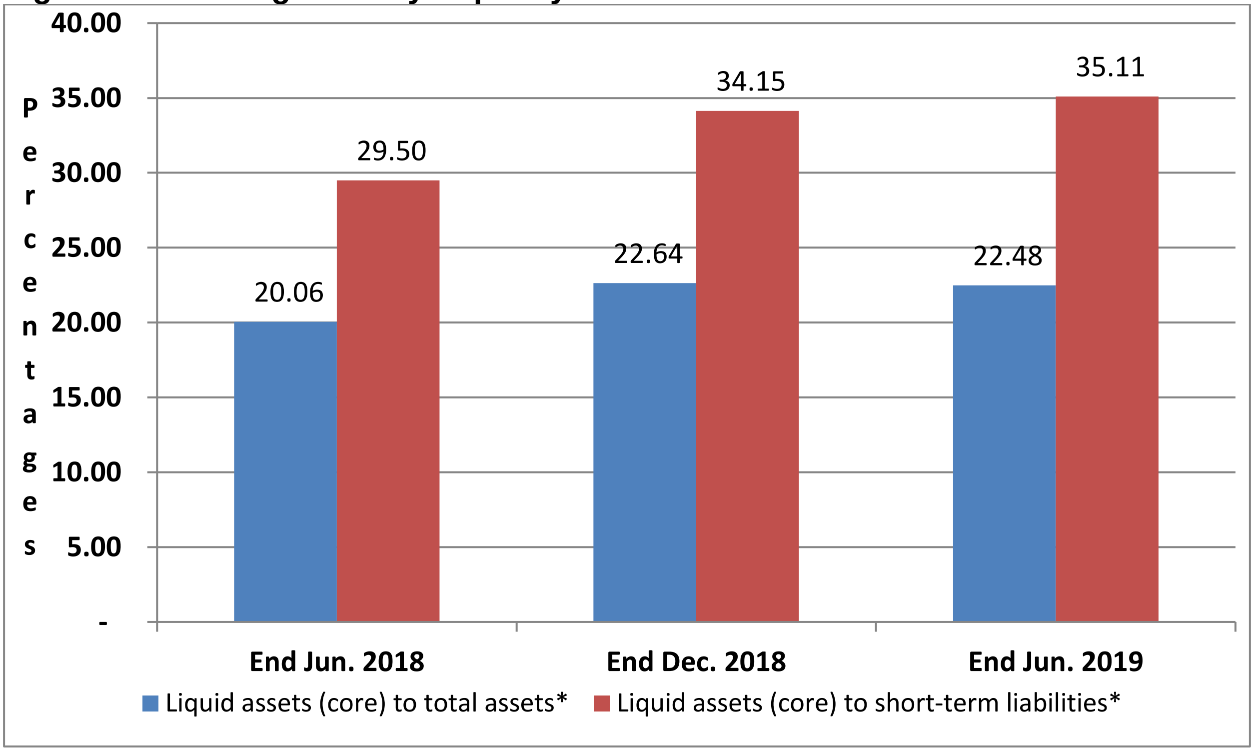
Figure 3.1 Banking Industry NPLs to Gross Loans at end-December 2019



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

The ratio of core liquid assets to total assets increased marginally by 0.51 percentage point to 22.99 per cent at end-December 2019, from 22.48 per cent recorded in the first half of 2019. Furthermore, the ratio of core liquid assets to short-term liabilities improved by 0.21 percentage point to 35.32 per cent in the review period, compared with 35.11 per cent at end-June 2019. The marginal improvements were attributed to banks' increased investment in risk-free government securities.

Figure 3.2 Banking Industry Liquidity Indicators



3.1.2 Capital-Based Indicators

The ratio of regulatory capital to risk weighted assets decreased by 0.70 percentage point to 14.57 per cent at end-December 2019, compared with 15.27 per cent at end-June 2019. Also, the ratio of Tier 1 capital to risk weighted assets decreased by 0.79 percentage point to 12.76 per cent at end-December 2019, from 13.55 per cent at end-June 2019. The decreases reflected impairments from the IFRS 9 Transitional Adjustments.

Figure 3.3 Banking Industry Capital Adequacy Indicators

The ratio of non-performing loans net of provision to capital for the industry declined further to negative 11.10 per cent at end-December 2019, from negative 3.90 per cent at end-June 2019. This was due to the loan loss provisioning under IFRS 9.

However, the Return on Assets (ROA) improved slightly by 0.05 percentage point to 2.53 per cent at end-December 2019, from 2.48 per cent recorded at end-June 2019.

3.1.3 Income and Expense Based Indicators

The ratio of interest margin to gross income decreased to 61.66 per cent during the review period, from 63.25 per cent at end-June 2019. However, the ratio of non-interest expenses to gross income increased to 64.00 per cent at end-December 2019, from 62.65 per cent recorded in the preceding half. The ratio of personnel expenses to non-interest expenses increased to 34.61 per cent at end-December 2019, from 32.76 per cent at end-June 2019.

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

Indicators	2017		2018**		2019	
	End Jun	End Dec	End Jun	End Dec	End Jun	End Dec
1. Assets Based Indicators						
Nonperforming loans to total gross loans *	15.01	14.81	12.45	11.67	9.33	6.03
Liquid assets (core) to total assets*	17.43	18.81	20.06	22.64	22.48	22.99
Liquid assets (core) to short-term liabilities*	25.81	27.18	29.50	34.15	35.11	35.32
2. Capital Based Indicators						
Regulatory capital to risk-weighted assets*	11.55	10.48	12.11	15.21	15.27	14.57
Regulatory Tier 1 capital to risk-weighted assets*	9.34	8.43	10.01	13.54	13.55	12.76
Nonperforming loans net of provisions to capital *	18.69	23.89	-2.07	0.05	-3.90	-11.10
Return on assets*	2.65	2.42	1.82	2.03	2.48	2.53
3. Income and Expense Based Indicators						
Interest margin to gross income*	57.67	61.19	59.28	67.27	63.25	61.66
Noninterest expenses to gross income*	52.03	58.22	64.07	60.90	62.65	64.00
Personnel expenses to noninterest expenses	34.51	33.44	30.48	34.19	32.76	34.61

*FSIs are computed based on IMF guidelines.

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

3.2 The Banking Industry Stress Tests

3.2.1 Solvency Stress Test

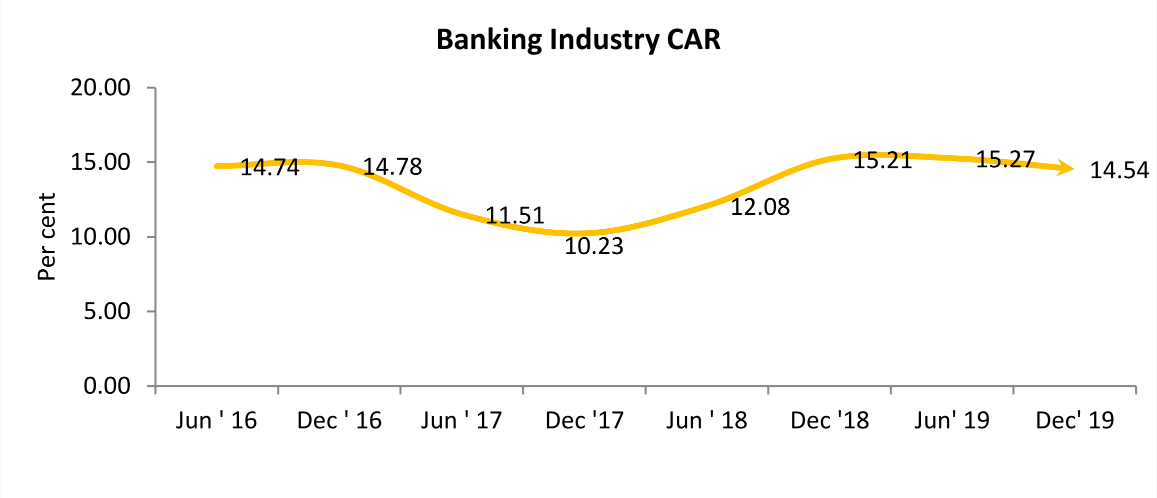
3.2.1.1 Baseline Position

The baseline CAR and NPL ratios in the period under review were 14.54 and 6.03 per cent respectively, while ROA and ROE stood at 0.28 and 3.70 per cent respectively, at end-December 2019.

Table 3:2 Banking Industry Baseline Selected Key Indicators

	CAR	LR	NPLs	ROA	ROE
Dec 2019 (%)	14.54	45.53	6.03	0.28	3.70
Jun 2019 (%)	15.27	51.68	9.33	2.53	3.52
Percentage Points Change	**(0.61)**	**(6.15)**	**(3.33)**	**(2.25)**	**0.18**

Figure 3.4 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 remained above 10 per cent. However, the industry was vulnerable to shocks "above 100 per cent increase" in NPLs as the industry CAR would fall below 10 per cent.

Table 3:3 Credit Default Shocks

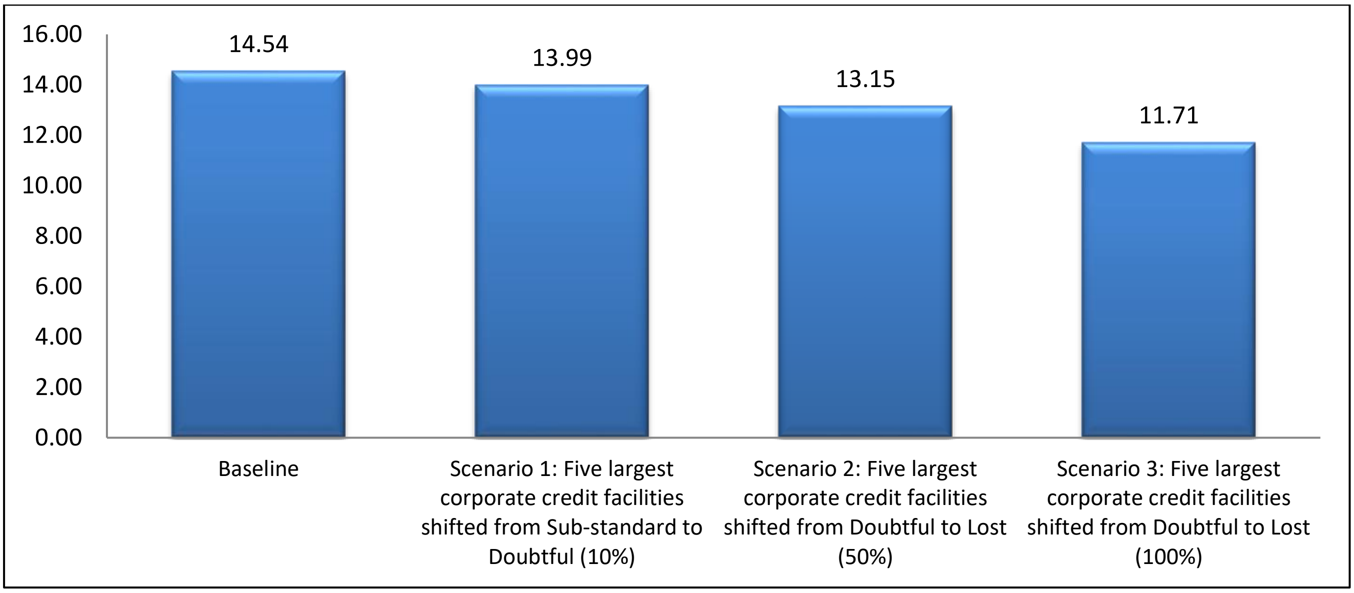
Single Factor Shocks	December 2019	June 2019
Baseline CAR	14.54	15.27
10% NPLs increase	14.11	14.82
15% NPLs increase	13.89	14.60
20% NPLs increase	13.68	14.37
30% NPLs increase	13.24	13.92
50% NPLs increase	12.35	13.01
100% NPLs increase	10.05	9.96

Similarly, the credit concentration stress test showed resilience of the banking industry as CAR remained above the 10 per cent regulatory threshold under scenarios 1, 2 and 3 in Table 3.4.

Table 3:4 Credit Concentration Risk

	Dec 2019	Jun 2019
Baseline CAR	14.54	15.27
Single Factor Credit Concentration Shocks		
Scenario 1 **Five largest corporate credit facilities shifted from pass-through[7] to sub-standard (10%)**	13.99	14.71
Scenario 2 **Five largest corporate credit facilities shifted from sub-standard to doubtful (50%)**	13.15	13.87
Scenario 3 **Five largest corporate credit facilities shifted from doubtful to lost (100%)**	11.71	12.44

Figure 3.5 Credit Concentration Risk

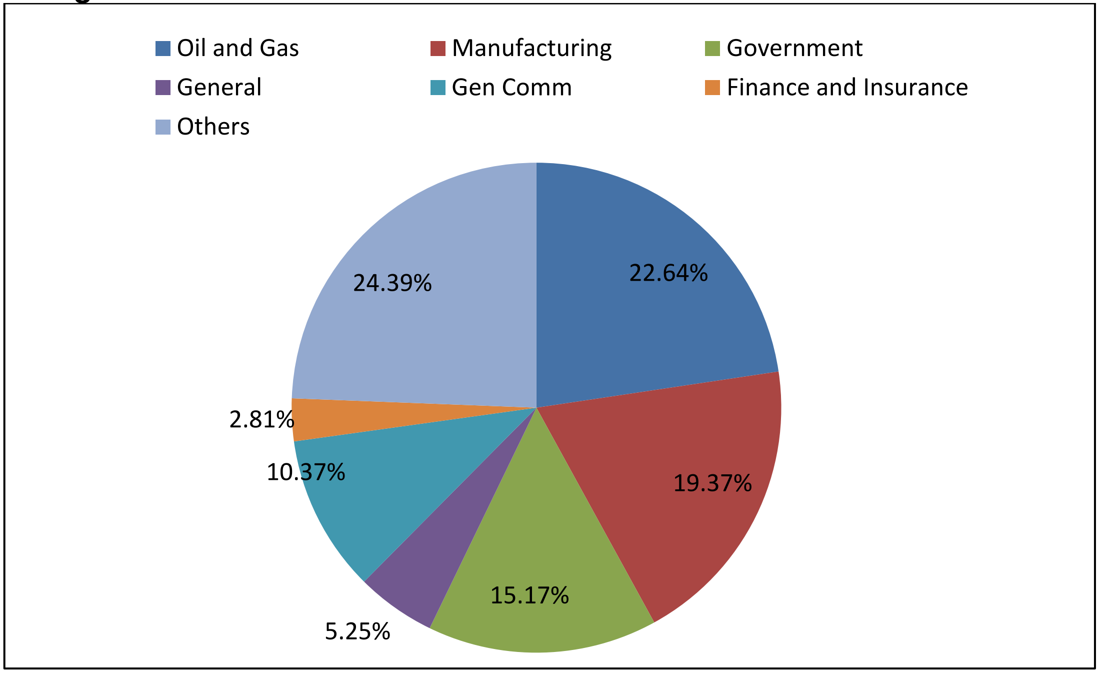


3.2.1.3 Sectoral Credit Concentration Risk

A breakdown of banking industry total credit by sector at end-December 2019 showed that the oil and gas sector accounted for 22.60 per cent; manufacturing, 19.34 per cent; government, 15.14 per cent; general, 5.30 per cent; general commerce, 10.40 per cent; finance and insurance, 2.80 per cent; and others, 24.42 per cent.

[7] Performing Loans

Figure 3.6 Sectoral Concentration of Credit



The results of the stress test showed that the banking industry withstood up to 50 per cent shock to oil and gas exposures as the post-shock CAR stood at 10.64 per cent.

Table 3:5 Stress Test on Oil and Gas Exposures

	Industry CAR (%)
Baseline CAR	14.54
30% Default on total exposure to Oil and Gas	13.84
50% Default on total exposure to Oil and Gas	10.64

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 14.54 to 12.66 per cent. However, the interest rate shocks had significant adverse impact on the ROA and ROE.

Figure 3.7 Impact of Interest Rate Shocks on CAR

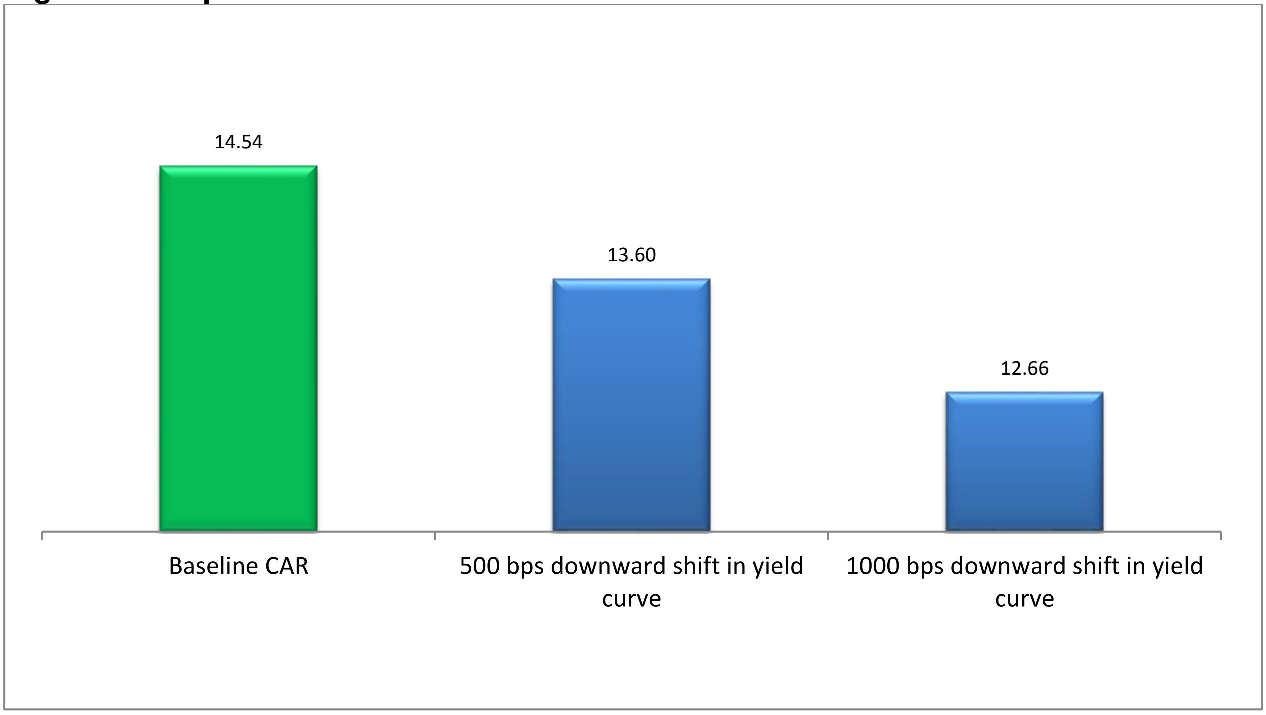


Figure 3.8 Impact of Interest Rate Shocks on ROA and ROE

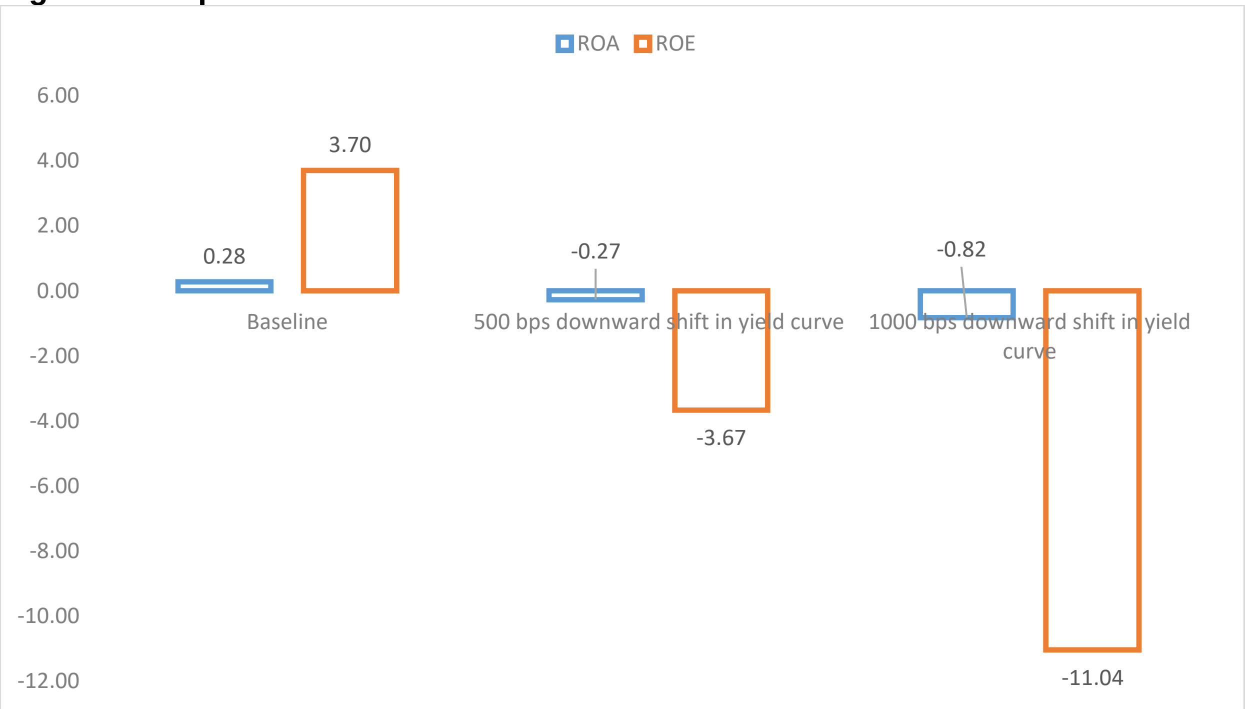


Table 3:6 Impact of Selected Shocks on CAR, ROA and ROE

	Banking Industry (%)
Baseline ROA	0.28
Baseline ROE	3.70
Impact of Downward Shift in Yield Curve Shocks on CAR	
500 bps downward shift in yield curve	13.60
1000 bps downward shift in yield curve	12.66
Impact of Downward Shift in Yield Curve Shocks on ROA	
500 bps downward shift in yield curve	-0.27
1000 bps downward shift in yield curve	-0.82
Impact of Downward Shift in Yield Curve Shocks on ROE	
500 bps downward shift in yield curve	-3.67
1000 bps downward shift in yield curve	-11.04

3.2.2 Liquidity Stress Test[8]

The stress test revealed that after a one-day run scenario, the liquidity ratio for the industry declined to 31.14 per cent from the 45.55 per cent baseline position. Similarly, under the 5-day and 30-day scenarios, the liquidity ratio declined to 12.30 and 7.55 per cent, indicating ₦2.58 trillion and ₦3.12 trillion liquidity shortfalls respectively.

[8] Liquidity stress tests were conducted at end-Dec 2019 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.

Figure 3.9 Industry Liquidity Ratios at Periods 1-5 and cumulative 30-day Shocks

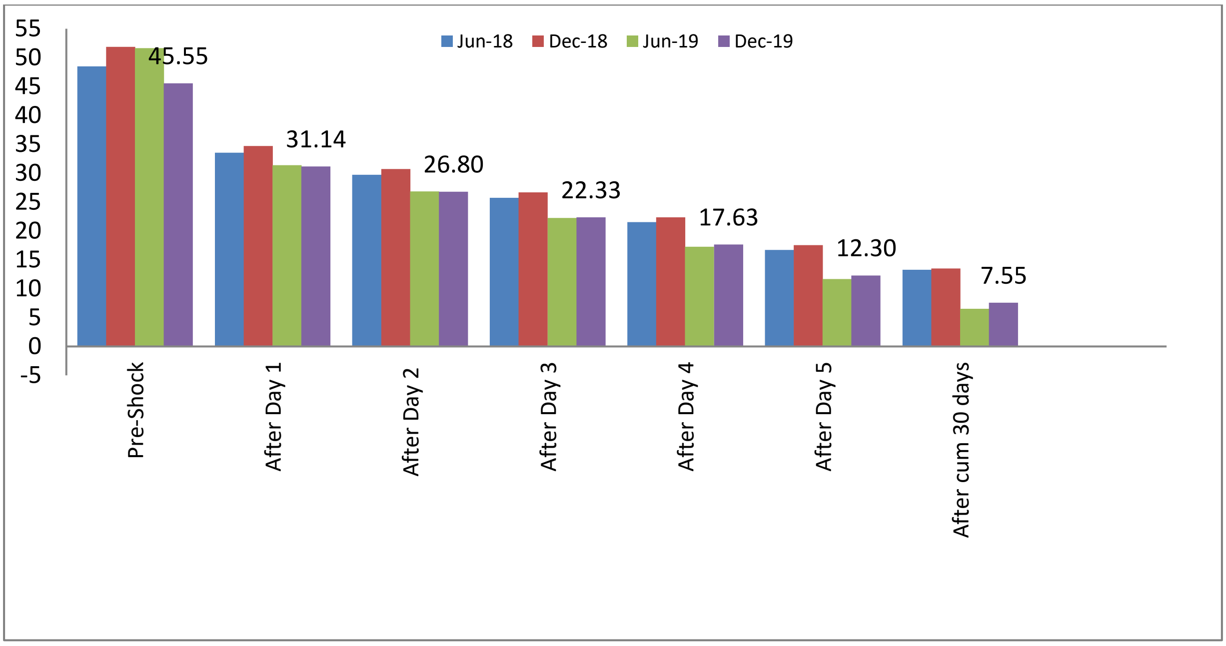


Table 3:7 Liquidity Stress Test Results (Post-Shock)

Scenario	Banks with Liquidity Ratios (LR) < 30%		Dec 2019	
	June 2019 (25 DMBs)	**Dec 2019 (26 DMBs)**	**LR (%)**	**Shortfall to 30% LR threshold (₦' billion)**
Test 1.1: Implied Cash Flow Test				Test 1.1: Implied Cash Flow Test
Day 1	12	12	31.14	Nil
Day 2	15	15	26.80	564.75
Day 3	15	16	22.33	1,264.77
Day 4	16	16	17.63	1,920.62
Day 5	16	18	12.30	2,584.95
Implied Cash Flow Test (30 Days)	18	18	7.55	3,121.38

3.2.3 Assets and Liabilities Maturity Mismatch

The industry baseline assets and liabilities maturity profile at end-December 2019 revealed that the shorter end of the market (≤90 day bucket) were adequately funded. Further analysis showed that in the ≤30 day bucket, six banks were not adequately funded, while in the 31-90 day bucket, eight banks had funding gaps. However, the cumulative industry assets and liabilities profile showed an excess of ₦4.25 trillion assets over liabilities.

Table 3:8 Maturity Profile of Assets and Liabilities at end-Dec 2019

Bucket	Liabilities	Assets	Mismatch	Cumulative Mismatch
	N Billion			
≤30days	19,229.65	12,675.77	6,553.88	6,553.88
31-90 days	3,166.20	2,903.41	262.80	6,816.68
91-180 days	1,107.91	1,986.10	(878.19)	5,938.49
181-365 days	831.49	3,911.22	(3,079.73)	2,858.76
1-3 years	1,177.66	3,483.73	(2,306.07)	552.69
>3 years	1,874.26	6,675.84	(4,801.58)	(4,248.89)
Total	27,387.17	31,636.06	(4,248.89)	

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

	Test 2A Descriptive Maturity Mismatch. (No consideration of rollover)		Test 2B Static Rollover risk Analysis. (No possibility to close liquidity gaps in other buckets)		Test 2C Dynamic Rollover risk test. (Free assets used to close liquidity gaps in other buckets)	
	₦ 'billion	No of banks with mismatch	₦ 'billion	No of banks with mismatch	₦ 'billion	No of banks with mismatch
≤30 days	9,795.79	2	5,949.86	5	(1,171.36)	5
31-90 days	3,495.46	5	(623.74)	13	(403.73)	6
91-180days	2,354.47	7	(1,099.77)	22	(242.11)	7
181-365days	152.93	15	(3,329.18)	24	(1,005.43)	9
1-3 Years	922.31	19	(2,659.37)	24	(1,212.86)	13
Above 3 years	(1,563.95)	24	(4,801.58)	25	(4,098.45)	17
Total	15,157.00		(6,563.78)		(8,133.93)	

Table 3.9 revealed that under Test 2A (Descriptive Maturity Mismatch) the banking industry was adequately funded, while under Test 2B (Static Rollover Risk Analysis) and 2C (Dynamic Rollover Risk Analysis) the industry had mismatches of ₦6.56

trillion and ₦8.13 trillion respectively. These represented increases of ₦0.4 trillion and ₦0.9 trillion under the Test 2B and Test 2C respectively, relative to end-June 2019.

3.2.4 Contagion Risk Analysis

Contagion risk analysis showed a 16.00 per cent decrease in exposure and interconnectedness through interbank placements and takings at end-December 2019, compared with the end-June 2019 position. Two banks were central in the network as they were exposed to five counterparties.

Six banks accounted for ₦463 billion or 90.00 per cent of total placements and ₦466 billion or 91.00 per cent of total takings, of which ₦409 billion or 88.00 per cent was provided by the top four placers of funds.

Figure 3.10 Network Analysis based on Interbank Exposures

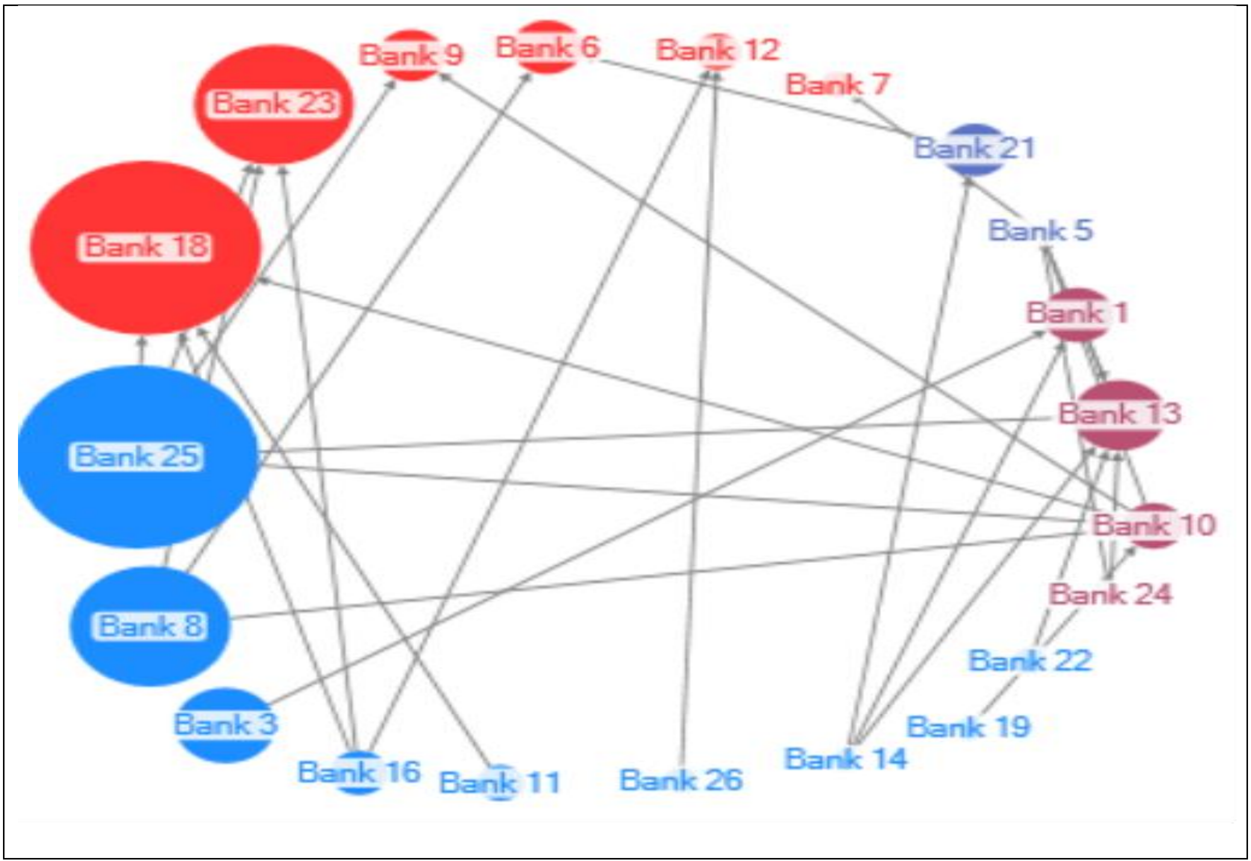
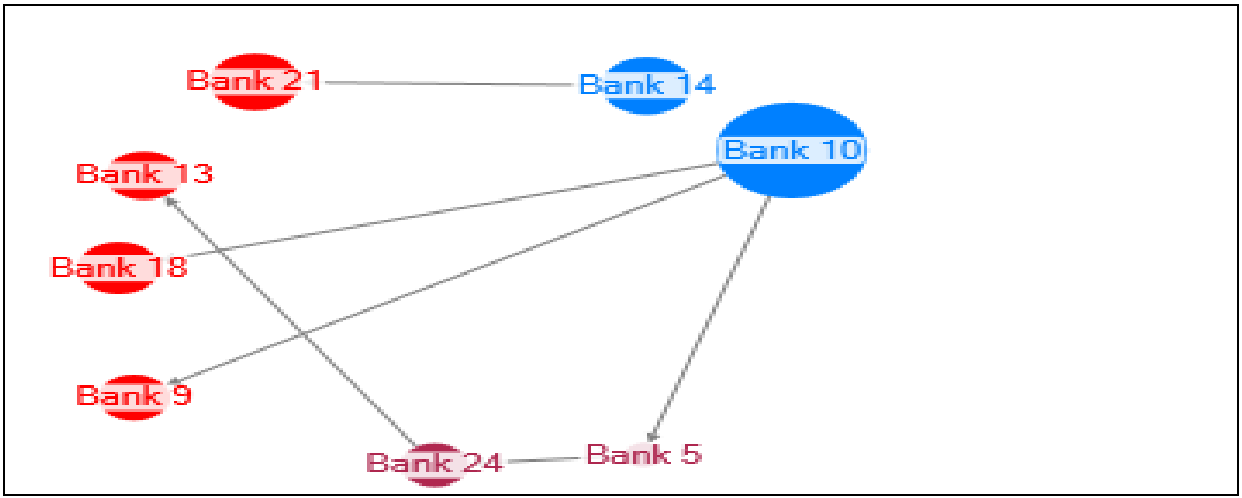


Figure 3.11 Tiered Structure of Unsecured Placements and Takings



Node colour representation
Blue = Lenders,
Deep Blue= Net Placement
Red = Borrowers
Purple= Net Takings

3.2.4.1 Unsecured Placements

The results of simulated conditional counterparty default shock from unsecured interbank loans indicated that all banks maintained CAR above 10 per cent.

Table 3:10 Result of Net Interbank Unsecured Exposures on Capital Adequacy Ratio

Lending Banks	Bank 5	Bank 10	Bank 24	Bank 14	Industry
Pre-Test CAR(%)	14.79	18.76	13.54	16.09	14.54
Post-Test CAR(%)	14.56	12.07	12.77	16.08	14.48
Placements (₦' Billion)	3.64	7.82	2.0	0.03	13.49

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

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

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

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

Table 3. 1: 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 Bank Examination

The Joint CBN/NDIC Risk Assets Examination of banks was conducted to determine the quality of bank assets and the adequacy of loan-loss provisioning. The examination of 15 banks and the three financial holding companies as at June 30, 2019 was conducted between July and August 2019, being the first tranche for the year. Similarly, the risk-based examination of 11 banks for the period ended September 30, 2019 was conducted between October and November 2019. The examination revealed that the banking industry remained resilient to emerging risks and vulnerabilities.

The risk-based examination of the specialised financial institutions, three credit bureaux and AMCON, was also conducted during the period under review. Furthermore, the Bank, in collaboration with the host supervisors, conducted the routine examination of the foreign subsidiaries of some Nigerian banks.

The Bank conducted AML/CFT risk-based examination to ensure that previous recommendations were implemented and penalties imposed based on the Administrative Sanction Regulations 2018.

3.3.2 Enhanced Supervision of Domestic Systemically Important Banks

The Domestic Systemically Important Banks (D-SIBs), in line with extant regulations, were subjected to an enhanced supervisory regime.

At end-December 2019, the D-SIBs accounted for 62.47 per cent (₦25.19 trillion) of the industry total assets of ₦40.33 trillion. Similarly, they accounted for 65.92 per cent (₦15.87 trillion) of total industry deposits of ₦24.07 trillion and 64.26 per cent (₦11.29 trillion) of the aggregate industry credits of ₦17.57 trillion.

The D-SIBs were largely compliant with capital adequacy and liquidity ratio requirements during the period under review. These stood at 17.93 and 40.37 per cent respectively, compared with 19.98 per cent and 49 per cent at end June 2019. In terms of asset quality, the non-performing loans ratio of D-SIBs improved to 5.19 per cent at end-December 2019 from 6.12 at end-June 2019, which was better than industry non-performing loans ratio of 6.03 per cent.

3.3.3 Recovery and Resolution Planning

As part of the enhanced supervision of D-SIBs, an onsite validation of their Recovery and Resolution Plans (RRP) was conducted in the second half of 2019.

The key findings from the exercise included:

1. lack of evidence of robust discussion around the development of the RRP at board level;

2. absence of robust assessment of the criticality of identified functions/services for the financial system; and

3. failure to properly integrate the RRP into the enterprise risk management framework of some banks.

Appropriate recommendations were made to the affected banks for remediation.

3.3.4 Foreign Exchange Examination

The routine onsite review of the foreign exchange operations of 27 Authorized Dealers (ADs), consisting of 23 commercial banks and four merchant banks, was conducted during the year. This was to assess compliance with extant foreign exchange rules and regulations and review the utilization of foreign exchange acquired for eligible transactions.

3.3.5 Risk-Based Cyber-Security Assessment

Banks were required to conduct self-assessment in line with the Cybersecurity Framework and Guidelines to assess their level of compliance. The reports on the maiden self-assessment revealed vulnerabilities and risks emanating from direct connections and exposures to third-party service providers, phishing, insider threats and shortage of cybersecurity man-power.

Meanwhile, the Bank established an e-portal for reporting cyber incidents and threats, with a view to promoting information sharing and preventing cyber-attacks.

Furthermore, the Bank sustained cybersecurity collaboration with banks and Payment Service Providers (PSPs) through workshops and periodic meetings with their Chief Information Security Officers (CISOs).

The report of the cybersecurity spot-check conducted by the Bank during the period revealed that banks had:

(i) strong Board of Directors and Senior Management commitment to managing cyber risks;

(ii) qualified CISOs with responsibility for managing cyber risks; and

(iii) enhanced their cybersecurity awareness programmes and incident response plans, among others.

3.3.6 Developments in Non-Interest Banking

TAJ Bank Limited commenced operations as a Non-Interest Bank (NIB) with regional authorization with two (2) branches in Abuja and Kano. Also, SunTrust Bank Limited was granted approval to operate an NIB window.

3.3.6.1 Islamic Financial Services Board Standard Implementation

The Islamic Financial Services Board (IFSB) Standards 4, 15 and 16 on Disclosure Requirements, Capital Adequacy Computation and Supervisory Review Process, respectively, were adopted for the non-interest banking segment, effective January 1, 2020. The standards for Non-Interest Financial Institutions (NIFIs) are the equivalent of the Basel II & III standards for conventional banks.

3.3.7 Asset Management Corporation of Nigeria

The carrying value of AMCON's liabilities stood at N5.71 trillion at end-December 2019, with AMCON Notes of N4.028 trillion and Loan (Debenture) of N500 billion accounting for 80 per cent of the liabilities. The carrying value of assets, net of impairment, increased to N950.16 billion at end-December 2019, from N827.59 billion at end-June 2019.

The Corporation made cash recoveries of N28.55 billion in 2019 from asset sales and repayment of facilities. The total recoveries from inception to end-December 2019 amounted to N1.032 trillion, consisting of: cash N395.95 billion; asset forfeiture N271.77 billion; shares forfeiture N134.98 billion; and clawback/repurchases N229.08 billion on defective eligible bank assets. Contributions to the Banking Sector Resolution Cost Fund by the CBN and the participating banks for the year 2019 amounted to N240.11 billion.

During the review period, the National Assembly carried out a second amendment to the AMCON Act 2010 to ascribe additional functions to AMCON, strengthen its powers to execute its mandate in obtaining value from assets acquired and increase the size of its Board. The AMCON Amendment Act 2019 was signed into law by the President on July 29, 2019.

3.3.8 Cross Border Supervision of Nigerian Banks

3.3.8.1 *Foreign Subsidiaries of Nigerian Banks*

The number of offshore subsidiaries of Nigerian banks at end-December 2019 was 60, compared with 58 at end-June 2019, following the establishment of subsidiaries in Guinea and Kenya during the review period.

The number of representative offices reduced to five in the second quarter of 2019, compared to six at end-June 2019. The number of affiliates and international branches remained at one and two respectively, thus bringing the total number of offshore entities to 68.

3.3.8.2 *Onsite Examination of Offshore Subsidiaries of Banks*

The examination of four subsidiaries was conducted in collaboration with the host supervisors in Guinea, Sierra Leone, New York and the United Kingdom in 2019.The examination revealed that two subsidiaries had composite risk rating of 'High', while two had “Moderate” risk rating. The subsidiaries were directed to take appropriate remedial actions to address the concerns.

The Framework on Cross Border Supervision was reviewed to incorporate the provisions of the Revised Basel Core Principles for Effective Banking Supervision and complement other regulations governing the operations of banks in Nigeria. Also, Guidelines for the Assessment of Country Risk were developed.

3.3.8.3 *Developments in College of Supervisors*

The Bank hosted the College of Supervisors for FBN and UBA groups to discuss issues relating to the improvement of risk management practices within the groups. The Bank also participated in the 5th Ecobank Transnational Incorporated (ETI) College of Supervisors meeting in Cote d'Ivoire, First Rand Limited College of Supervisors meeting in Pretoria, South Africa and Stanbic IBTC College of Supervisors meeting in Pretoria, South Africa. During the meetings, the Bank signed a Memorandum of Understanding (MoU) with the home regulators.

Guidelines for the establishment and operations of College of Supervisors were developed for Nigeria in line with the principles and recommendations for effective supervisory colleges issued by the Basel Committee on Banking Supervision (BCBS).

3.3.8.4 *Supervisory Collaborations*

3.3.8.4.1 Community of African Banking Supervisors

During the review period, the Bank's mandate in the Community of African Banking Supervisors (CABS) Working Group (WG) on Crisis Management and Banking Resolution was expanded to include Fintech. Consequently, the Bank developed a three-year work plan for the WG on assessing the developments in Fintech, building capacity on crisis resolution preparedness and supervision.

In collaboration with the Association of African Central Banks (AACB) Secretariat, the Bank administered questionnaires to all forty-one member countries of the AACB. The aim was to assess the adequacy of legal frameworks of member countries and compliance with the requirements of Financial Stability Board Key Attributes for Effective Resolution Regimes.

3.3.8.4.2 Technical Assistance

The Bank hosted two teams of examiners from the Bank of Uganda on AML and market risk study tours in line with the Bank's initiative to enhance the capacity of bank supervisors in Africa. In addition, it serves as a forum to provide technical assistance to other supervisors.

3.3.8.4.3 College of Supervisors of the West African Monetary Zone

The Bank attended the 32nd, 33rd, 34th and 35th meetings of the College of Supervisors of the West African Monetary Zone (CSWAMZ) to review developments in the banking systems across the Zone. The College also discussed issues on the implementation of the IFRS, Basel Accord, Integrated Regulatory Solution (IRS) and other relevant matters concerning financial system stability in the sub-region.

3.3.8.4.4 Financial Stability Board Regional Consultative Group for Sub-Saharan Africa

The Bank attended the meeting of the Financial Stability Board Regional Consultative Group for Sub-Saharan Africa in Cape Town, South Africa to discuss issues on financial vulnerabilities, FSB work plan, Cyber Risk and Financial Conglomerate Supervision.

3.3.8.4.5 Capacity building *in collaboration with AFRITAC West II*

The Bank, in conjunction with the International Monetary Fund and AFRITAC West II, organised two workshops on Basel Core Principles Self-Assessment Methodology and Cross Border Supervision during the review period. Participants at the workshop were drawn from the West African Monetary Institute (WAMI) and member states of the WAMZ.

3.3.9 Credit Risk Management System

The Bank continued the offsite Credit Risk Management System (CRMS) compliance status checks in line with the requirements of the “Regulatory Guidelines for the Operation of the Redesigned Credit Risk Management System for Commercial, Merchant and Non-Interest Banks”. The Bank also continued the phased deployment of the redesigned CRMS to OFIs. During the review period, the NDIC and AMCON were granted access to manage records of banks-in-liquidation and transferred eligible bank assets respectively.

At end- December 2019, the total number of credit facilities reported/created on the database stood at 10,694,298, reflecting a 61.41per cent increase over the end-June 2019 position of 6,625,415. The number comprised 10,083,010 individual and 611,288 corporates borrowers. The total number of facilities with outstanding balances on the database stood at 2,534,836 at end-December 2019, compared with 1,866,468 at end-June 2019, representing a 58.42per cent increase. This number was made up of 2,448,230 individuals and 86,606 corporates.

Table 3:11 Borrowers from the Banking Sector**

Description	June 2019	December 2019	Absolute Change: Increase/ (decrease)	% Change
*** Total No. of Credit/facilities reported on the CRMS:**	**6,625,415**	**10,694,298**	**4,068,883**	**61.41**
Individuals	6,061,303	10,083,010	4,021,707	66.35
Corporates	564,112	611,288	47,176	8.36
*** Total No. of Outstanding Credit facilities on the CRMS:**	**1,600,072**	**2,534,836**	**934,764**	**58.42**
Individuals	1,504,782	2,448,230	943,448	62.70
Corporates	95,290	86,606	-8,684	-9.11

** The figures include borrower(s) with multiple loans and/or credit lines.*
*** Commercial, Merchant and Non-Interest Banks only*

3.3.10 CREDIT BUREAUX

The number of Credit Bureaux remained unchanged at end-December 2019. The CBN, in conjunction with the International Finance Corporation and other industry stakeholders, commenced the process of reviewing the Credit Reporting Act 2017, to incorporate, among others, a section on the responsibilities of credit information providers.

Table 3:12 Credit Records of Private Credit Bureaux at end-December, 2019

S/N		Credit Bureau 1	Credit Bureau 2	Credit Bureau 3
1	Number of credit records	34,335,089	29,013,592	28,990,813
2	Number of subscribers	1,340	543	1,096
3	Value of Credit Facilities	N22.356 trillion	N28.589 trillion	N19.622 trillion
4	Number of borrowers	17,850,915	62,125,898	16,432,102

Table 3:13 Credit Records of Private Credit Bureaux at end-June 2019

S/N		CRC Credit Bureau	Credit Registry	First Central Credit Bureau
1	Number of credit records	34,005,061	27,010,552	27,400 ,810
2	Number of subscribers	1,310	533	1,042
3	Value of Credit Facilities	₦20.2400 trillion	₦24.554 trillion	₦17.112 trillion
4	Number of borrowers	16,850,300	51,300,844	15,926,300

3.3.11 Other Developments in the Financial System

3.3.11.1 *Automation of AML/CFT Processes*

Towards the automation of AML/CFT reporting, banks were directed to render returns on foreign currency transactions, politically exposed persons and three-tiered KYC via the AML/CFT Data Rendition, Analysis and Processing Software (ADRAPS) solution with effect from January 2, 2020.

3.3.11.2 *Mutual Evaluation Exercise by the Inter-Governmental Action Group Against Money Laundering in West Africa*

In compliance with the Financial Action Task Force (FATF) requirements, the Intergovernmental Action Group against Money Laundering in West Africa (GIABA) conducted the second round of Mutual Evaluation Exercise (MEE) for Nigeria in the second half of the year. The evaluation assessed the technical compliance and the effectiveness of the AML/CFT regimes of the Bank and the financial institutions under its purview, using accepted international standards, particularly the FATF 40 Recommendations.

3.3.11.3 *AML/CFT Cross Border Examination*

The AML/CFT cross-border examination of the subsidiaries of Nigerian banks in Kenya, Mozambique, Rwanda, Mali and Ghana was conducted to assess compliance with the Bank's AML/CFT Regulations, 2013, vis-a-vis the host countries' AML/CFT laws and regulations.

3.3.11.4 *Update On IFRS 9 Implementation*

The Bank continued with the monitoring of the implementation of IFRS 9 Standard on Financial Instruments during the review period. The joint CBN/NDIC IFRS 9 Implementation Project Team continued to pilot the process to ensure seamless and minimal disruption to financial system stability. In addition, the second IFRS 9-related Risk Asset Examination and Assessment (RAEA) was conducted for all banks.

3.3.11.5 Update on IFRS 16

The Bank continued to monitor financial institutions compliance with the requirements of IFRS 16 (Leases) which became effective from January 1, 2019.

3.3.11.5.1 Update On Basel II/III Implementation

The following draft guidelines on Basel III standards were exposed to the industry and other stakeholders:

- Liquidity Coverage Ratio;
- Liquidity Monitoring Tools;
- Liquidity Risk Management and Internal Liquidity Adequacy Assessment Process (ILAAP);
- Leverage Ratio (LeR) Requirements;

- Large Exposures;
- Regulatory Capital; and
- Revised Guidelines on Supervisory Review Process of Internal Capital Adequacy Assessment Process (ICAAP).

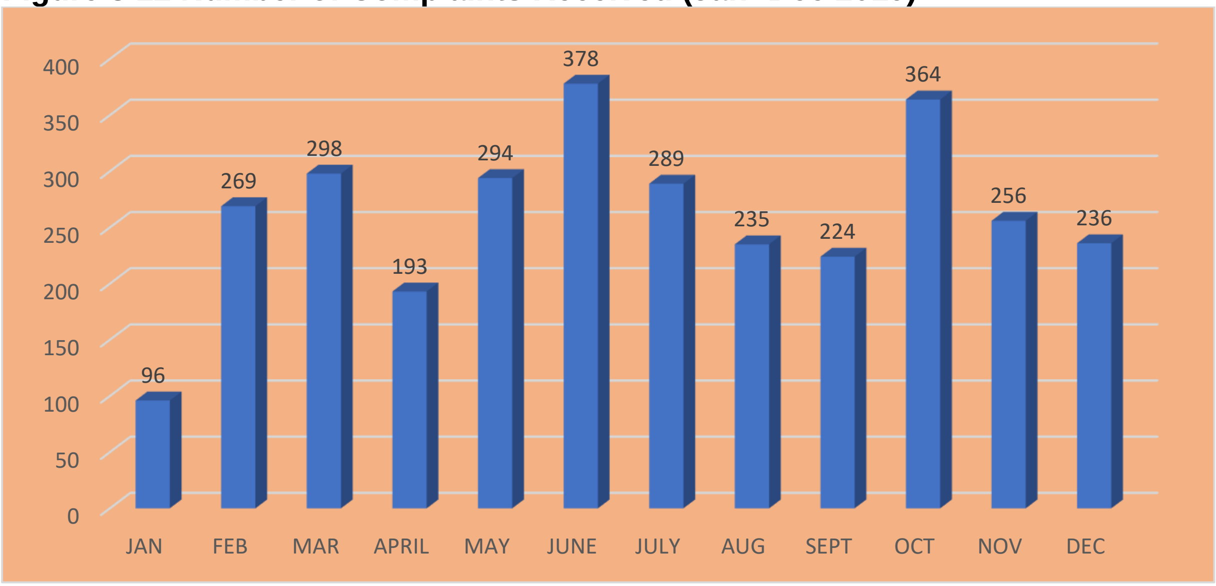
3.3.11.6 *Corporate Governance Scorecard*

During the review period, 20 banks were assessed using the Corporate Governance Scorecard to ascertain their level of compliance with the CBN Code of Corporate Governance for Banks and Discount Houses. The exercise was to ensure that sound corporate governance practices are entrenched in the banking industry. Recommendations from the scorecard assessments were communicated to the respective institutions towards improving their levels of compliance.

3.3.12 Complaints Management and Resolution

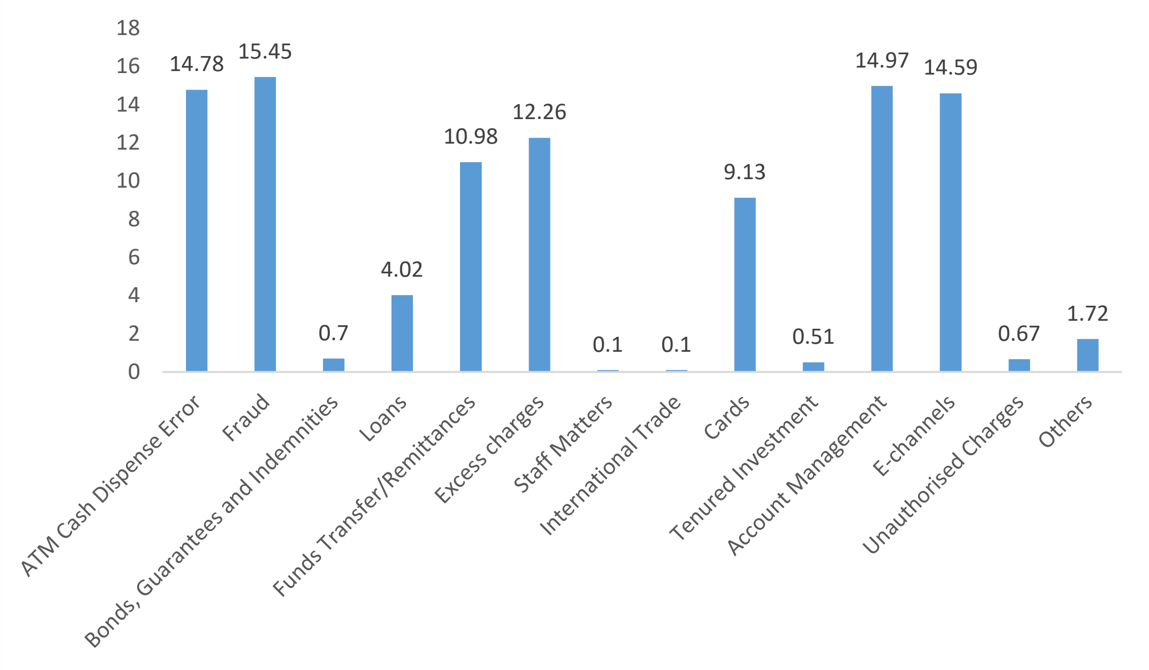
The Bank received 1,604 complaints from consumers of financial services in the period under review, reflecting an increase of 76 complaints, compared with 1,528 received in the first half of 2019. The complaints received were in respect of alleged excess/unauthorized charges, fraud, guarantees, account management, ATM dispense errors, fund transfers, among others.

Figure 3.12 Number of Complaints Received (Jan -Dec 2019)



A total of 1,236 complaints were resolved / closed during the second half of 2019, compared with 1,548 resolved / closed cases in the first half of 2019. Consequently, the total refunds by banks to customers at end-December 2019 stood at ₦1,424,854,363, compared with ₦7,229,172,501 at end-June 2019.

Figure 3.13 Distribution of Complaints Received (in Percentages) in 2019



3.3.12.1 *Consumer Protection Compliance Examination*

The Bank conducted compliance examination on some banks in line with the provisions of the Guide to Charges by Banks and Other Financial Institutions in Nigeria, 2017.The exercise covered the following areas:

1. Charges for Issuance of Hardware Token;
2. Commission/Charges on Deposits into Domiciliary Accounts;
3. Payment of Interest on Savings Accounts;
4. Foreign Currency Card Maintenance fee;
5. Interest on CBN Intervention Loans; and
6. Implementation of the new Consumer Complaints Management System.

The examination showed compliance levels of 90.91 percent for charges for issuance of hardware token, 100.0 per cent for commission/charges on deposits into domiciliary accounts, 72.73 per cent for payment of interest on savings accounts, 90.91 per cent for foreign currency card maintenance fee and 100.0 per cent for Interest on CBN intervention loans.

A review of the implementation of recommendations from previous examinations revealed a compliance level of 81.82 per cent, while resolution of outstanding complaints was 23.87 per cent.

3.3.12.2 *The Consumer Protection Regulation 2019*

The Bank issued the Consumer Protection Regulations for financial institutions regulated by the CBN in December 2019.The Regulations provide minimum standards on fair treatment of consumers, disclosure and transparency, responsible business conduct, complaints handling and redress, and sanctions regime.

4 THE PAYMENTS SYSTEM

4.1 Developments in the Payments System

4.1.1 Bank Verification Number Operations and Watch-list

Bank Verification Number remains a credible unique identifier that assists financial institutions, credit bureaux and law enforcement agencies in reducing frauds and other financial crimes in the financial system. At end–December 2019, the number of BVNs stood at 40,442,267, reflecting an increase of 5.68 per cent over the 38,268,639 recorded at end-June, 2019. The number of accounts linked with BVN was 53,351,720 out of 79,312,615 active customer accounts, while 2,189 customers' BVNs were watch-listed at end-December, 2019.

4.1.2 Examination of Payments Service Providers

The Bank sustained its oversight of licensed Payments Service Providers (PSPs) and assessed their compliance with relevant regulations during the review period. The on-site examination of 22 PSPs revealed some infractions of extant guidelines and erring institutions were appropriately sanctioned.

4.1.3 Licensing of Payments Service Providers

During the review period, 14 Payments Service Providers (PSPs) were licensed, comprising one mobile money operator, seven payment solution service providers, two switching companies and four super agents, bringing the number of PSPs to 110 at end-December 2019.

Table 4:1 Licensed Payments ServiceProviders

Licence Type	Number	
	Jun 2019	Dec 2019
Card Schemes	6	6
Mobile Money Operators	26	27
Payment Solution Service Providers	15	22
Payment Terminal Service Providers	21	21
Switching Companies	7	9
Third-Party Processors	4	4
Super Agents	5	9
Non-Bank Acquirers	5	5
Accredited Cheque Printers	7	7
Total	**96**	**110**

4.1.4 Nigeria Cheque Standards and Cheque Printers Accreditation Scheme

During the review period, the following activities were conducted:

- Accreditation of cheque personalizers based on the revised Nigeria Cheque Standards;

- Sensitisation of stakeholders;
- Development of draft QR code standards; and
- Issuance of the cheque standards sanctions grid.

The old and new cheques would be in use concurrently till end-August 2020. Thereafter, only cheques that conform with the new standards would be allowed in the clearing system.

4.1.5 Cash-less Nigeria

During the review period, the Bank re-introduced processing charges on cash deposits in six States and the FCT. In addition, the cash-less policy on deposits and withdrawals above the specified thresholds was to be extended to other states on March 31, 2020.

4.1.6 Payments System Vision 2020

The review of the Payments System Vision 2020 (PSV2020) document to incorporate QR codes, contactless payments, request to pay, cybersecurity, open banking, big data, distributed ledger technology, amongst others, commenced in the second half of 2019. In addition, the Bank, through the Payments Scheme Boards, Special Interest Working Groups and Initiative Working Groups, issued the following Circulars:

a. Regulation for the Operation of Indirect Participants in the Payments System.
b. Circular on “Pre-Authorisation of Cards in Nigeria” to enable dual messaging format for POS and sales completion of cards transactions.
c. Regulation on “Electronic Payments and Collections of Public and Private Sectors in Nigeria” to guide the end-to-end electronic payment of salaries, pensions and other remittances, suppliers and revenue collections in Nigeria.
d. Regulation on “Liberalisation of Cash Out Pricing” to remove ceilings on mobile money pricing in Nigeria.
e. Circular on “Operation of Mobile Money Wallets by Deposit Money Banks” exempting banks from seeking the licence to operate mobile money wallets.

4.2 Payments System Statistics and Trends

4.2.1 Large Value Payments

The volume of inter-bank fund transfers through the CBN Real Time Gross Settlement (RTGS) system decreased by 29,508, or 5.36 per cent to 520,735 at end-December 2019 from 550,243 at end-June 2019 owing to the increased usage of other payment channels. However, the value of transactions increased by ₦6,613.62 billion or 2.92 per cent to ₦232,889.46 billion at end-December 2019, from ₦226,275.85 billion at end-June 2019.

4.2.2 Retail Payments

4.2.2.1 *Cheque Clearing*

The volume of cheques cleared decreased to 3,858,700 at end-December 2019, from 3,953,848at end-June 2019, indicating a decline of 2.41 per cent, while the value cleared decreased by 2.65 per cent to ₦2,210.75 billion at end-December 2019, from ₦2,270.92 billion at end-June 2019.

4.2.2.2 *Electronic Transactions*

The volume of electronic transactions rose by 377,666,775 or 28.78 per cent to 1,689,770,459 at end-December 2019, from 1,312,103,684 at end-June 2019, reflecting increased usage of electronic channels. Also, the value increased by ₦11,249.88 billion or 14.45 per cent to ₦89,129.05 billion at end-December 2019, from ₦77,879.17 billion at end-June 2019.

4.2.2.2.1 Mobile Money Transactions

The volume and value of mobile money transactions increased by 160.08 per cent and 58.48 per cent or 272.49 million and ₦3,115.22 billion respectively, over the levels of 104.77 million and ₦1,965.74 billion recorded at end-June 2019. The increases were attributed to the positive impact of agent expansion network, entrance of new players and improved confidence in the efficiency of the system.

Table 4:2 Electronic Transactions

Payment Channel	Number of Terminals		Number of Transactions		% Change (Volume)	Value ₦' Billion		% Change (Value)
	Jun 2019	**Dec 2019**	Jun-2019	**Dec-2019**		Jun-2019	**Dec-2019**	
ATMs	18,913	19,129	424,619,677	**415,200,245**	-2.22%	3,238.43	**3,274.18**	1.10%
POS	166,078	186,774	187,695,159	**250,919,023**	33.68%	1,383.62	**1,821.13**	31.62%
Mobile Money	-	-	104,773,933	**272,491,275**	160.08%	1,965.74	**3,115.22**	58.48%
Internet (Web)	-	-	47,976,900	**55,520,107**	15.72%	223.90	**254.24**	13.55%
NIP			504,160,651	**641,624,578**	27.27%	49,350.18	**55,872.39**	13.22%
e-Bills Pay			616,651	**483,154**	-21.65%	281.56	**371.02**	31.77%
REMITA			21,614,846	**26,866,362**	24.30%	9,839.29	**10,885.34**	10.63%
NAPS			20,645,867	**26,665,715**	29.16%	11,596.45	**13,535.53**	16.72%
Total			**1,312,103,684**	**1,689,770,459**	**28.78%**	**77,879.17**	**89,129.05**	**14.45%**

4.3 Risks to the Payments System

Generally, the Nigerian payments system remained resilient. However, the under-listed risks existed:

- Threat of cyber-attacks on the payments system infrastructure, especially with the increase in technological innovations and digitization of financial services.

- Fraud risk arising from SIM swaps, dormant SIM and use of stolen SIM cards for USSD-mobile payments.
- Risks arising from unauthorised access and/or disclosure of confidential information.
- Threat of social engineering attacks against users of digital financial services, entailing the psychological manipulation of people into performing actions or divulging confidential information.

5 Key Risks to the Financial System

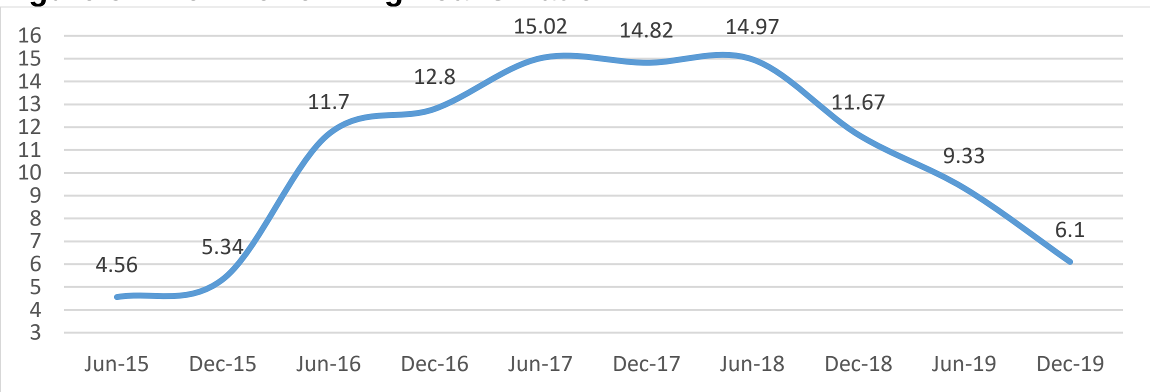
5.1 Credit Risk

Risk Rating (Medium Risk, Stable)	

Total NPLs fell to ₦1,064.1 billion at end-December 2019, from ₦1,444.57 billion at end-June 2019, while the NPL ratio declined from 9.33 per cent to 6.10per cent. The reduction in NPL ratio reflected improvement in economic conditions, which led to increased repayment by obligors, and enhanced debt recovery strategies.

The Loan-to-Deposit ratio of 65.00 per cent was prescribed for banks to boost private sector lending. This initiative positively impacted the total banking credit to other sectors which increased to ₦26,699.79 billion at end-December 2019 from ₦24,387.86 billion at end-June 2019.

Figure 5.1 Non-Performing Loans Ratio



5.2 Liquidity Risk

Risk Rating (Medium Risk, Stable)	

The average liquidity ratio of the banking industry declined to 45.55 per cent at end-December 2019, from 51.67 per cent at end-June 2019. This ratio, however, remained above the regulatory threshold of 30 per cent. The high liquidity position in the industry reflected banks' continued preference for holding liquid assets.
During the review period, the Bank restricted purchases of OMO bills to foreign investors and banks on their accounts only, thus excluding local corporates and individuals from participation, both at the primary and secondary OMO markets. Owing to the restrictions, investors shifted attention to the NTB primary market leading to increased demand for NTBs which crashed interest rates to single digits.

5.3 Market Risk

Risk Rating (Medium Risk, Trending Down)	

The weighted averages rates in the interbank market declined significantly during the review period as OBB and interbank call rates fell to 3.18 and 3.64 per cent at end-December 2019, from 7.67 and 6.88 per cent at end-June 2019 respectively, reflecting liquidity surfeit in the system. Similarly, commercial banks' average interest rate on time deposits maturing in 6 and 12 months fell to 7.48 and 9.03 percent from 10.84 and 10.57 per cent at end-December 2019. Also, the average prime lending rate fell to 30.72 from 31.04 per cent during the review period.

In the foreign exchange segment, rates remained stable, reflecting the Bank's effort at ensuring adequate liquidity in the market, as interbank and BDC rates opened at ₦306.95 /US$ and ₦360.00 /US$ on July 1, 2019 respectively and closed at ₦ /307.00/US$ and ₦362.00/ US$ on the last trading day of 2019.

The equities market remained bearish as investors' perception and preference for fixed income securities translated to a loss of 9.10 per cent, with the NSE ASI closing at 26,842.07 points at end-December 2019, compared with 29,666.87 points at end-June 2019. In the second half of the year, exchange-traded derivatives were introduced on the Nigerian bourse to broaden the options available and to support efficient implementation of risk management and investment strategies across diverse asset classes and financial instruments. Guidelines for derivatives and clearing rules were issued by the SEC and NSE in the review period.

5.4 Operational Risk

Risk Rating (High risk, trending up)	

During the review period, reported cases of fraud and forgeries in DMBs increased to 33,415 at end-December 2019, from 29,215 at end-June 2019. Similarly, the total amount involved increased to ₦195.33 billion from ₦8.35 billion at end-June 2019, while actual losses increased to ₦3.02 billion at end-December 2019, from ₦2.38 billion in the preceding half of the year. The frauds were carried out through suppression of cheques, conversion of customers' deposits, unauthorised fund transfers and fraudulent ATM withdrawals. Cyber-attacks through social engineering, business email compromise, e-skimming, identity theft, SIM swap, unauthorised card-not-present and unauthorized push payment scams continued to record increase on service providers' platforms.

To check the growing trend of cyber-crime, banks and payment service providers were directed to fully comply with the requirements of the CBN Cyber-Security Framework and Guidelines, and Framework for the Use of Unstructured

Supplementary Service Data (USSD) for Financial Services in Nigeria. Customers were also continually sensitized on safe banking practices while banks were enjoined to implement strong authentication controls, train staff on basic security awareness and carry out comprehensive infrastructure risk assessments.

Additionally, industry-wide collaboration was sustained between the Nigerian Communications Commission (NCC) and other key stakeholders to enable effective protection of the Country's information and communication infrastructure and networks.

5.5 Macroeconomic Risk

Risk Rating (Medium Risk, Stable)	

During the period under review, the Federal Government launched the Strategic Revenue Growth Initiative (SRGI) to replace the ERGP upon its expiration in 2020. The SRGI is targeted at rapidly boosting government revenue across the oil and non-oil sectors and consolidating the gains of the previous framework. In addition, the extension of the compliance date on the OPEC production cap, minimal pipeline disruptions and recovery in crude oil prices reduced the overall risk to the 2019 budget.

6 OUTLOOK

Global growth in 2020 was projected to increase to 3.30 per cent from 2.90 per cent in 2019. While growth in advanced economies was projected to decline to 1.60 per cent in 2020 from 1.70 per cent in 2019, growth in emerging markets and developing economies, and Sub-Saharan Africa was projected to increase to 4.4 and 3.50 per cent from 3.70 and3.30 per cent in 2019 respectively.

Inflation in advanced economies was projected to increase to 1.70 per cent in 2020, from 1.40 per cent in 2019. Inflation in emerging markets and developing economies, and Sub-Saharan Africa was estimated to increase to 4.60 and 8.00 per cent in 2020 from 5.10 and 8.40 per cent in 2019, respectively. Overall, it was envisaged that growth of the global economy would be shaped by increased optimism, including broad-based accommodative monetary policy, US-China trade negotiations and diminished fears of a no-deal Brexit.

The outlook for Nigeria remained positive, albeit with the threat inflationary pressures and low oil prices. Growth in Nigeria was projected to increase to 2.50 per cent in 2020 from 2.30 per cent in 2019, while inflation was projected to increase to 11.70 per cent in 2020 from 11.30 per cent at end-December 2019.

In 2019, the banking industry recorded a significant reduction in the total non-performing loans ratio, which should be sustained in 2020 through the introduction of various policy measures. Furthermore, the implementation of increased Loans-to-Deposit ratio requirement is expected to improve the intermediation role of banks to priority sectors while the Bank would sustain its development finance interventions aimed at stimulating finance to the real sector.

The general positive outlook for the domestic economy is premised on expansion of the non-oil sector, stability in foreign exchange market and a resilient financial system. The Bank would reinforce this outcome in 2020 by sustaining its collaboration with the fiscal authorities and other financial services regulators.

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