FINANCIAL STABILITY REPORT

DECEMBER 2020

Content

LIST OF FIGURES

LIST OF TABLES

LIST OF BOXES

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)
DCs	Depository Corporations
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
ODCs	Other Depository Corporations
OPEC	Organisation of Petroleum Exporting Countries
ORB	OPEC Reference Basket
PAIF	Power and Aviation Infrastructure Fund
PENCOM	National Pension Commission of Nigeria
PFAs	Pension Fund Administrators
PFCs	Pension Fund Custodians
PMBs	Primary Mortgage Banks

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

GOVERNOR'S STATEMENT

This edition of the Financial Stability Report highlights developments in the financial system in the second half of 2020, amidst the Covid-19 challenges. During the review period, downside risks to economic growth and financial stability continued to dominate the global economic outlook and activities. Other factors that impacted the global economy included sustained trade restrictions among key global economies, lingering Brexit-related and country-specific issues. Consequently, the IMF estimated that global output contracted by 3.5 per cent in 2020, in contrast to the growth of 2.9 per cent in 2019.

Similarly, output in 2020 contracted by 5.8, 4.3 and 3.3 per cent in the USA, Euro Area and emerging markets, respectively. Also, economies in Sub-Saharan Africa (SSA) continued to be affected by headwinds and low commodity prices. Inflation in the region increased, reflecting supply disruptions, weakening currencies, poor infrastructure and high inflation expectations.

In Nigeria, output recorded a negative growth of 1.7 per cent in the review period, although an improved performance from the negative growth of 2.18 per cent in the first half of 2020. Generally, credit to the private sector grew during the period, bolstering the prospects for positive economic growth in the near term. The Bank will continue to encourage lending to the priority sectors of the economy and provide incentives for lending to SMEs and households, while sustaining the intervention programmes and schemes.

Demand pressure and supply constraints remained key challenges in the foreign exchange market. However, the Bank continued to ease access to foreign exchange through its interventions to stabilise the exchange rate.

Although the banking system continued to face challenges occasioned by decline in domestic output and external shocks, it remained resilient. The Bank will sustain its supervisory and surveillance activities with a view to promoting a sound, stable and safe banking system.

Godwin I. Emefiele, CON

Governor, Central Bank of Nigeria

FOREWORD

Global output contracted by 3.5 per cent in 2020, owing largely to the shocks caused by the Covid-19 pandemic, in contrast to a modest expansion of 2.9 per cent in 2019. There is, however, optimism of a rebound to 6.0[1] per cent in 2021, premised on continued fiscal and monetary responses to mitigate the effects of the pandemic on households and businesses. Also, the development and distribution of vaccines would provide greater confidence of an uptick in global economic activities.

Despite the recovery in major stock markets and increased oil prices, geopolitical unrest and rising global debt portfolios created uncertainties, which further dampened investors' confidence.

In Nigeria, the lockdown measures put in place to curtail the spread of the Covid-19 pandemic disrupted economic activities. In response, the Bank maintained its expansionary monetary policy stance and intervened in targeted sectors to ease financial and economic conditions.

The financial soundness indicators for the review period revealed that despite vulnerabilities, banks generally remained within regulatory requirements. To further ensure banking industry safety and soundness, banks were granted forbearance to restructure credits to sectors significantly impacted by the adverse effects of the Covid-19 pandemic. The task of restoring economic growth and maintaining the health of the banking sector remains a policy priority towards preserving the stability of the financial system.

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

In conclusion, this Financial Stability Report provides insights on financial conditions, risks and vulnerabilities as well as the Bank's initiatives towards ensuring a safe and sound financial system that supports sustainable economic growth and development.

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

[1] IMF World Economic Outlook Report March 2021

EXECUTIVE SUMMARY

Global macroeconomic activities remained challenged in the second half of 2020, amidst the adverse impact of the Covid-19 pandemic, resulting in output contraction of 3.5 per cent in contrast to the 2.9 per cent expansion recorded in 2019. Though the massive and rapid roll out of both fiscal and monetary policy responses helped to ease financial conditions and support recovery, the possible buildup of financial vulnerabilities posed a risk to financial stability. Furthermore, the dampening effects of the pandemic on commodity prices and fiscal revenue earnings as well as rising debt profiles have tightened the fiscal space, with implications for government spending. Global consumer prices remained subdued, especially across most advanced economies, owing to the negative output gap, induced by the Covid-19 pandemic. However, global stock markets recorded overall bullish performance, bolstered by the positive news of the successful development of the Covid-19 vaccines.

On the domestic front, the Nigerian economy slipped into recession in the third quarter of 2020. However, sustained fiscal and monetary policy responses targeted at the severely affected sectors led to a marginal recovery at the end of the fourth quarter. Amidst the fragile economic conditions that characterised the second half of 2020, the Bank also implemented some policy measures that strengthened the resilience of the banking system.

In response to the adverse impact of the Covid-19 pandemic on the financial system, the Bank strengthened its regulatory surveillance of the banking system to ensure financial stability. In addition, the Bank commenced the implementation of the Global Standing Instructions (GSI) policy and directed banks to highlight the effects of the Covid-19 pandemic on their operations and measures taken to mitigate them. Furthermore, banks were granted regulatory forbearance to restructure credit facilities for eligible businesses and households.

In general, the banking system remained safe and sound during the review period as reflected in the improved Financial Soundness Indicators (FSIs). Asset quality improved as the ratio of Non-Performing Loans (NPLs) to gross loans declined in the second half of 2020 by 0.39 percentage point, compared with the level at end-June 2020. Similarly, return on assets (ROA) increased by 0.83 percentage point, while the CAR of the banking industry improved by 0.09 percentage point and remained above the regulatory requirement. Contagion risk analysis indicated a decrease of 22.60 per cent in exposure and interconnectedness during the review period.

The Credit Risk Management System (CRMS) database continued to serve as a veritable source of credit information in the banking industry. The period under review witnessed increased credit records, an indication of enhanced compliance by banks. The Bank also sustained its intervention in the foreign exchange market to stabilise the exchange rate.

Further liquidity injections were made through the Agri/Business Small and Medium Enterprise Investment Scheme, Anchor Borrowers' Programme and Targeted Credit

Facility, amongst others, to eligible household and businesses to stimulate credit flow, especially to the critically impacted sectors of the economy.

The Bank continued to sustain its risk mitigation strategies to ensure the stability of the banking system. Although the sector remained exposed to credit concentration and default risks, there were no significant systemic threats. Key risks in the banking system included the likelihood of cyber-attack on the payment system infrastructure, especially with the increased digitalisation of financial services, threat of social engineering, price volatility arising from external shocks, exchange rate fluctuations and heightened security challenges. In general, the economic outlook remained cautiously optimistic, given the various policy measures taken towards containing the effects of the pandemic and sustaining financial sector resilience.

1 ECONOMIC AND FINANCIAL DEVELOPMENTS

1.1 Global Developments

1.1.1 Output

Global macroeconomic conditions remained fragile in 2020 on account of the multiple waves of Covid-19 pandemic which led to the imposition of lockdowns across several countries to curb the spread of the virus. This development caused significant contraction in global economic activities. Other factors that contributed to the contraction included heightened trade restrictions among key world economies and lingering Brexit-related and country-specific issues. Consequently, global output contracted by 3.5 per cent in 2020, in contrast to a modest expansion of 2.9 per cent in 2019.

In the advanced economies, output contracted by 4.5 per cent in 2020, in contrast to the growth rate of 1.6 per cent in 2019. The huge contraction was due mainly to larger-than-expected downturn in the United States of America (USA), which recorded a contraction of 5.8 per cent in contrast to a growth rate of 1.7 per cent in 2019. The poor outturn in the USA reflected a massive freeze in investment owing to the pandemic-induced disruption in both the supply and demand sides of the economy.

In the Euro area, output shrank by 4.3 per cent in 2020, in contrast to an expansion of 2.2 per cent in 2019, as a result of weak business sentiment occasioned by the prolonged lockdown. Similarly, output in emerging market and developing economies contracted by 3.3 per cent in 2020, against a growth of 3.7 per cent in 2019.

In Asia, output contracted by 0.7 per cent in 2020, in contrast to a growth rate of 5.7 per cent in 2019. Similarly, output in sub-Saharan Africa contracted by 3.0 per cent in 2020, which was a sharp contrast to a growth of 3.2 per cent in 2019. The weakness in economic activities was due largely to low oil prices, civil strife and dwindling financial inflows.

In Nigeria, the economy shrank by 1.92 per cent[2] in 2020, in contrast to a growth of 2.27 per cent in 2019. The contraction was due mainly to the adverse effects of the Covid-19 Pandemic, insecurity, rising inflation, subdued external demand and low commodity prices.

[2] Source: National Bureau of Statistics

TABLE 1:1 GLOBAL GROWTH

Region/Country	2016	2017	2018	2019	2020
World	3.3	3.8	3.5	2.8	-3.5
Advanced Economies	1.8	2.5	2.2	1.6	-4.9
United States	1.7	2.3	3	2.2	-3.4
Japan	0.5	2.2	0.3	0.3	-5.1
Germany	2.2	2.6	1.3	0.6	-5.4
France	1.1	2.3	1.8	1.5	-9
Italy	1.3	1.7	0.8	0.3	-9.2
United Kingdom	1.9	1.9	1.3	1.4	-10
Euro Area	1.9	2.6	1.8	1.3	-7.2
Other Advanced Economies	2.2	2.8	2.3	1.8	-2.5
Regional Groups					
Emerging & Developing Europe	1.9	4.1	3.3	2.2	-2.8
China	6.8	6.9	6.7	6	2.3
Russia	0.2	1.8	2.5	1.3	-3.6
Latin America and the Caribbean	-0.6	1.4	1.1	0.2	-7.4
Middle East & Central Asia	4.5	2.6	2.1	1.4	-3.2
Sub-Saharan Africa	1.5	3.1	3.3	3.2	-2.6
South Africa	0.3	0.7	1.1	0.2	-8
Nigeria[3]	-1.73	1.92	2.38	2.27	-1.92

Source: IMF's World Economic Outlook, December 2020 Update

In general, the rate of global output contraction in the second half of 2020 moderated considerably, owing to the unprecedented policy support provided by public authorities and progress recorded in the development of vaccines for Covid-19. The expansionary policy stance of governments in the second half of 2020 focused largely on reviving severely affected households and firms. Among the large fiscal packages introduced within the review period were the European long-term stimulus package of Euro 1.8 trillion; the Japanese fresh stimulus package of Yen 73.6 trillion and the US relief package of USD 2.3 trillion relief package.

1.1.2 Inflation

Global consumer prices remained subdued in 2020, owing to the negative output gap that following the Covid-19 pandemic. The decline in prices cut across major economies to varying degrees.

In most advanced economies, consumer price inflation was below central banks' targets, on account of weak aggregate demand. In the United States, inflation moderated owing largely to a sharp drop in core personal consumption expenditure.

[3] Source: National Bureau of Statistics

Inflation in the Euro area fell, following largely from the impact of the Covid-19 pandemic, as well as reductions in energy prices and value-added tax in the second half of the year. In the UK, inflation declined on account of the weakness in aggregate demand, especially in the hospitality, aviation and entertainment sectors.

The movements in consumer prices were mixed in emerging market and developing economies in 2020, with some moderation recorded in a few countries and an uptick in others. In China, inflation remained flat at 2.9 per cent in 2020, as the high base effect and subdued demand countered the upward pressure from disruption in economic activities.

In Sub-Saharan Africa, average inflation accelerated to 10.6 per cent in 2020 from 8.5 per cent in 2019. In addition to the effects of the supply disruption, other factors that stoked the price level during the period included weakening currencies, poor infrastructural conditions, heightened security challenges and high inflation expectations.

TABLE 1:2 GLOBAL INFLATION

	2016	2017	2018	2019	2020
Region/Country					
Advanced Economies	0.8	1.5	2	1.4	0.8
United States	1.3	1.8	2.5	1.8	1.5
Euro Area	0.2	2	1.5	1.2	0.4
Japan	-0.1	0.1	1.1	0.5	-0.1
United Kingdom	0.6	2.8	2.7	1.8	0.8
Emerging Markets & Developing Economies	4.3	4.5	4.6	6.6	5.2
China	2	1.6	2.1	2.9	2.9
Russia	7	3.7	2.9	4.5	3.2
Middle East & Central Asia	5.7	6.9	9.5	7.8	9.3
Sub-Saharan African	11.4	10.8	9.5	8.5	10.6

Source: IMF World Economic Outlook January 2021

1.1.3 Oil Prices

Crude oil prices rallied in the second half of 2020, reflecting the news of substantial progress recorded in the development of Covid-19 vaccines. The OPEC Reference Basket (ORB) increased to US$49.17 at end-December 2020 from US$37.05 at end-June 2020 but fell by US$14.15 per barrel or 22.34 per cent below the level at end-December 2019.

The price of Bonny Light increased to US$40.21 at end-December 2020, from US$31.35 at end-June 2020, but on yearly basis declined by US$12.61 or 23.87 per cent from the level at end-December 2019. Similarly, Brent increased to US$51.22

from US$ 41.64 during the review period, decline by US$13.06 or 20.32 per cent compared to the level at end-December 2019.

The West Texas Intermediate (WTI) increased to US$47.04 at end-December 2020, from US$38.31 at end-June 2020, but declined by US$9.95 or 17.46 per cent as against the level at end-December 2019.

TABLE 1:3 PRICES OF CRUDE OIL

	a	b	c	c-b	c-a		
	19-Dec	20-Jun	20-Dec	Abs-Change	Abs-Change	%Change	%Change (y-o-y)
OPEC References	63.32	37.05	49.17	12.12	-14.15	32.71	-22.35
Brent Crude	64.28	41.64	51.22	9.58	-13.06	23.01	-20.32
WTI	56.99	38.31	47.04	8.73	-9.95	22.79	-17.46
Bonny Light	52.82	31.35	40.21	8.86	-12.61	28.26	-23.87

1.1.4 Food Prices

The FAO[4] Food Price Index (FFPI) increased by 16.54 per cent to an average of 108.5 at end-December 2020, from 93.1 at end-June 2020, owing mainly to the significant increases in the prices of oil, sugar and cereal.

The FAO Dairy Price Index increased by 13.39 per cent to an average of 109.2 points at end-December 2020, from 96.3 points at end-June 2020. The increase was as a result of growth in global import demand and a surge in retail sales in Europe.

The FAO Vegetable Oils Price Index averaged 131.1 points at end-December 2020, as against 86.6 points at end-June 2020, reflecting an increase of 51.38 per cent owing, mainly, to contractions in global inventory and subdued export.

The FAO Meat Price Index stood at 94.8 points at end-December 2020, the same as the level at end-June 2020. This was due to China's decision to ban imports of pork from Germany in response to the detection of African swine fever (ASF) among wild boars coupled with subdued international import demand.

The FAO Cereal Price Index averaged 115.9 points at end-December 2020, reflecting an increase of 22.17 per cent from 96.7 points at end-June 2020. The increase was attributed to the rise in demand for sorghum, feed barley and maize in the face of tightened outlook for supplies.

Similarly, the FAO Sugar Price Index averaged 87.1 points at end-December 2020, indicating an increase of 14.08 per cent from the 74.9 points recorded at end-June 2020, owing to poor yield.

[4] Food and Agriculture Organisation

TABLE 1:4 WORLD FOOD PRICE INDEX

	FAO Food Prices					
	Food	Meat	Dairy	Cereal	Veg.Oil	Sugar
2019	95	100	102.8	96.4	83.3	78.6
2020	98	95.5	101.8	102.7	99.4	79.5
Mar	95.1	99.4	101.5	97.7	85.5	73.9
April	92.4	96.9	95.8	99.3	81.2	63.2
May	91	95.4	94.4	97.5	77.8	67.8
June	93.1	94.8	96.3	96.7	86.6	74.9
July	93.9	92.2	101.8	96.9	93.2	76
August	95.8	92.2	102.1	99	96.7	81.1
September	97.9	91.5	102.3	104	104.6	79
October	101.2	91.8	104.5	111.6	106.4	84.7
November	105.5	93.3	105.4	114.4	121.9	87.5
December	108.5	94.8	109.2	115.9	131.1	87.1

Source: Food and Agriculture Organization (FAO), April 2021 Update

1.1.5 International Stock Markets

The performance of global stock markets was generally bullish in the second half of 2020, suggesting a renewal of confidence following the adverse impact of Covid-19 in the first half of the year. The unprecedented supportive fiscal and monetary policy measures undertaken in various climes played a key role in reigniting market confidence and investors sentiment during the period.

TABLE 1:5 SELECTED INTERNATIONAL STOCK MARKET INDICES

Selected International Stock Market Indices as at December 31, 2020						
Country	**Index**	**31-Dec-19**	**30-Jun-20**	**31-Dec-20**	**Dec 31, 2019 - Dec 31, 2020 % Change**	**June 30, 2020 - Dec 31, 2020 % Change**
AFRICA						
Nigeria	NSE All-Share Index	26,842.07	24,479.22	40,270.72	50.0	64.5
South Africa	JSE All-Share Index	57,084.10	54,093.40	59,408.68	4.1	9.8
Kenya	Nairobi NSE 20 Share index	2,654.39	1,952.26	1,868.39	-29.6	-4.3
Egypt	EGX CASE 30	13,961.56	10,764.59	10,845.26	-22.3	0.7
Ghana	GSE All-Share Index	2,257.15	1,899.90	1,939.14	-14.1	2.1
NORTH AMERICA						
US	S&P 500	3,230.78	3,083.01	3,756.07	16.3	21.8
Canada	S&P/TSX Composite	17,063.43	15,389.72	17,433.36	2.2	13.3
Mexico	Bolsa	43,541.02	37,871.09	44,066.88	1.2	16.4
SOUTH AMERICA						
Brazil	Bovespa Stock	115,645.30	95,735.40	119,017.20	2.9	24.3
Argentina	Merval	41,671.41	38,972.80	51,226.49	22.9	31.4
Columbia	COLCAP	1,662.42	1,108.90	1,437.89	-13.5	29.7
EUROPE						
UK	FTSE 100	7,542.44	6,200.89	6,460.52	-14.3	4.2
France	CAC 40	5,978.06	4,935.99	5,551.41	-7.1	12.5
Germany	DAX	13,385.93	12,246.62	13,718.78	2.5	12.0
ASIA						
Japan	NIKKEI 225	23,656.62	22,288.14	27,444.17	16.0	23.1
China	Shanghai SE A	3,195.98	3,128.46	3,640.46	13.9	16.4
India	BSE Sensex	41,253.74	34,915.80	47,905.84	16.1	37.2

1.1.6 Foreign Exchange Markets

Most major currencies appreciated against the US dollar in the second half of 2020, reflecting a rebound in economic activities. However, a few currencies, mainly in Africa and Europe, witnessed depreciation against the US dollar during the period. This was due largely to the second wave of the pandemic, which hit South America, Europe and Africa in the fourth quarter of 2020, leading to the imposition of restrictions and lockdowns by governments and the crippling of economies.

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

Table 2b: Exchange Rates of Selected Countries (Value in local currency units to US$)						
	Currency	**29-Dec-18**	**31-Dec-19**	**31-Dec-20**	**% Change (29 Dec 18/ 31 Dec 19)**	**% Change (31 Dec 19 / 31 Dec 20)**
AFRICA		**A**	**b**	**C**	**YTY %**	**YTY %**
Nigeria	Naira	307.00	307.00	381.00	0.00	-19.42
South Africa	Rand	14.38	14.00	14.58	2.71	-3.98
Kenya	Shilling	101.85	101.36	107.28	0.48	-5.52
Egypt	Pound	17.93	16.04	15.72	11.78	2.04
Ghana	Cedi	4.92	5.75	5.86	-14.43	-1.88
NORTH AMERICA						
Canada	Dollar	1.36	1.30	1.27	4.62	2.36
Mexico	Peso	19.63	18.94	19.78	3.64	-4.25
SOUTH AMERICA						
Brazil	Real	3.88	4.02	5.15	-3.48	-21.94
Argentina	Peso	37.67	59.87	84.70	-37.08	-29.32
Colombia	Peso	3253.00	3286.84	3402.50	-1.03	-3.40
EUROPE						
UK	Pound	0.78	0.75	1.36	4.00	-44.85
Euro Area	Euro	0.87	0.89	1.23	-2.25	-27.64
Russia	Ruble	69.64	62.00	73.49	12.32	-15.63
ASIA						
Japan	Yen	110.02	108.65	102.99	1.26	5.50
China	Renminbi	6.88	6.96	6.46	-1.15	7.74
India	Rupee	69.77	71.35	73.02	-2.21	-2.29

Source: Bloomberg

1.1.7 Monetary Policy Stance

Monetary policy maintained an expansionary stance across major central banks in 2020. This was driven by the need to respond to the contraction in economic activities that resulted largely from supply chain disruptions associated with the Covid-19 pandemic.

In advanced economies, most central banks retained their policy rates throughout the second half of 2020. Bank of Japan, Bank of England, the US Federal Reserve, Bank of Canada, Reserve Bank of New Zealand, and Reserve Bank of Australia maintained policy rates at -1.00, 0.10, 0.13, 1.75, 1.00, and 0.25 per cent, respectively during the review period. However, Bank of South Korea reduced its policy rate by 50 basis points to 0.75 per cent during the review period.

In Asia, both the Bank Negara Malaysia and the Bank of Indonesia cut their policy rates twice during the second half of the year. In the BRICS, the Central Bank of Brazil, the Bank of Russia, the Reserve Bank of India, the Peoples' Bank of China and South African Reserve Bank kept rates unchanged during the review period, at 4.00, 4.25, 4.00, 2.20, and 3.50 per cent, respectively.

In other emerging market economies, Bank of Mexico and Banco Central de Colombia reduced their policy rates in the second half of 2020. In Africa, the Central Bank of Nigeria reduced its rate by 100 basis point to 11.50 per cent, while Bank of Ghana and Central Bank of Kenya retained their policy rates at 14.50 and 7.00 per cent, respectively, during the review period.

TABLE 1:7 COMPARATIVE POLICY RATES OF SELECTED COUNTRIES

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Developed economies												
Japan	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Europe	-	-	-	-	-	-	-	-	-	-	-	-
UK	0.75	0.75	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
US	1.63	1.63	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13
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
South Korea	1.25	1.25	1.25	1.25	1.25	1.25	0.75	0.75	0.75	0.75	0.75	0.75
New Zealand	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Australia	0.75	0.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Asia:												
Indonesia	5.00	4.75	4.50	4.50	4.50	4.25	4.00	4.00	4.00	4.00	3.75	3.75
Malaysia	3.00	2.75	2.75	2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75
BRICS:												
Brazil	4.50	4.25	3.75	3.75	3.00	2.25	2.25	2.00	2.00	2.00	2.00	2.00
Russia	6.25	6.00	6.00	5.50	4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.25
India	5.15	5.15	4.40	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
China	2.40	2.40	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20

South Africa	6.25	6.25	5.25	4.25	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50
Other Emerging Economies & South America:												
Mexico	7.25	7.25	7.00	6.50	6.50	5.50	5.00	5.00	4.50	4.25	4.25	4.25
Chile	1.75	1.75	1.00	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Colombia	4.25	4.25	4.25	3.75	3.25	2.75	2.50	2.25	2.00	1.75	1.75	1.75
Africa:												
Egypt	7.20	5.30	5.10	5.90	4.70	5.60	4.20	3.40	3.70	4.50	5.70	5.40
Ghana	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50
Nigeria	13.50	13.50	13.50	13.50	12.50	12.50	12.50	12.50	11.50	11.50	11.50	11.50
Kenya	8.25	8.25	7.25	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00

Source: Cbrates.Com; Trading Economics

In addition to the use of policy rates, most central banks intensified their interventions in the economy through large asset purchases, liquidity expansion and macro-prudential policies to improve access to credit and boost economic activities.

These measures eased financial conditions globally but significantly expanded central bank balance sheets. Furthermore, although the eased financial conditions are expected to promote growth in the short-to-medium term, there are growing concerns over the possible unintended consequences, such as build-up of vulnerabilities, with adverse implications on financial stability.

1.1.8 Potential Risks from the Global Economic Developments

The prevailing global economic developments, arising largely from Covid-19 pandemic and measures to curtail its spread, could pose threats to financial and economic conditions in the medium term. Some of the likely implications are articulated below:

i. The current economic recovery is fragile and vulnerable to setbacks.

ii. Sustaining the accommodative monetary policy stance constitutes an upside risk to inflation in the near to medium term. This would eventually hurt growth as well as the long-term stability of the financial sector.

iii. Continuous loose stance of monetary policy may put downward pressure on returns from money market instruments, shifting investors' preference to equity markets. The response of the markets, therefore, could trigger an asset bubble in the equity market while the subsequent market correction could lead to instability in the financial system.

iv. Credit risk may arise from the trade-off between sustained short-term policy support to growth and measures aimed at mitigating near-term macro-financial vulnerabilities.

v. With most fiscal authorities facing challenges in revenue mobilisation, the need to provide stimuli may increase public sector borrowing requirements, and invariably worsen the debt profiles of many countries, particularly the Emerging and Developing Economies. This could negatively affect the risk premium on debt instruments and ultimately the yield curve, creating threats to the stability of the financial markets.

vi. The rising FAO world food price index on account of Covid-19 induced supply disruptions may trigger current account imbalances in most food-importing countries including Nigeria. The net effect of such a development would be a slowdown in accretion to external reserves, constraining the Bank's capacity to stabilizing exchange rates.

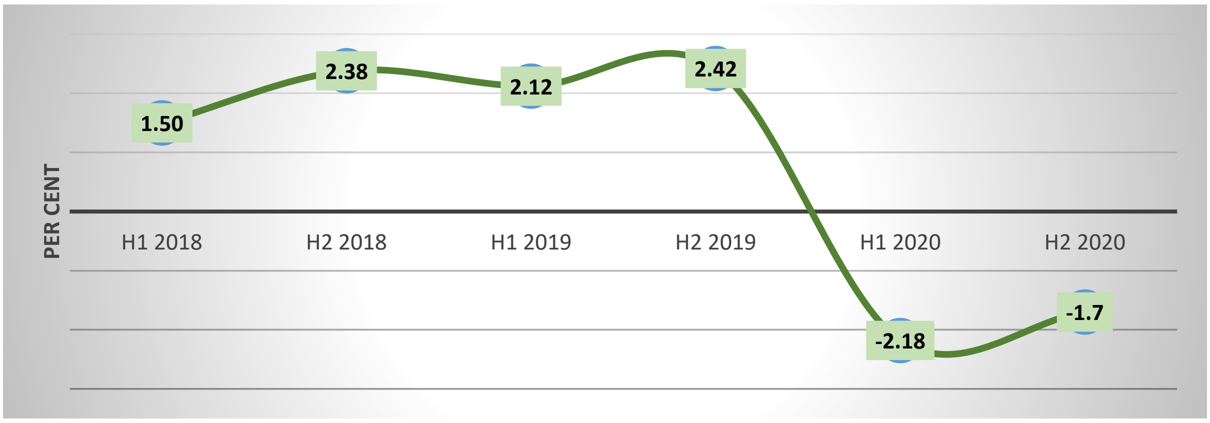
vii. The renewed rally of the stock markets in the advanced economies on account of the various monetary stimuli could reduce the incentives for capital inflows to Emerging and Developing economies thereby posing challenges to the stability of the financial sector.

1.2 Domestic Macroeconomic Developments

1.2.1 Output Growth

Domestic economic activities picked up in the second half of 2020, following the phased easing of Covid-19 restrictions coupled with the various intervention measures put in place by the monetary and fiscal authorities. The implementation of the Nigeria Economic Sustainability Plan (NESP) together with the adoption of a more accommodative monetary policy stance by the Bank, stimulated aggregate demand and steered the economy towards recovery. Although the domestic economy contracted by 1.70 per cent in the second half of 2020, the outcome reflected an improved performance, compared with the 2.18 per cent decline in the first half. The increased economic activities enhanced investors' confidence in the financial market as evidenced by the improved performance of the capital market.

FIGURE 1.1 GROSS DOMESTIC PRODUCT (GROWTH %)



Source: National Bureau of Statistics

The contraction in non-oil GDP eased by 0.33 per cent in the second half of 2020, a modest recovery, compared with the 2.31 per cent decline in the first half of 2020. The recovery was driven by the Agriculture and Services sectors. Oil sector GDP contracted by 16.48 per cent to ₦2,702.91 billion in the second half of 2020 from ₦3,010.29 billion in the first half of 2020. This was due to weak global demand and low crude oil prices, arising from the impact of the Covid-19 pandemic.

On a sectoral basis, agriculture, industry and services contributed 0.66, -1.42 and -0.94 percentage points, respectively, to the growth in real GDP. During the review period, agriculture showed a relatively improved performance, while services recovered moderately, driven by the ICT sub-sector. However, the industry sector continued to be adversely affected by the COVID-19 restrictions (Table 1.1).

TABLE 1:8 RELATIVE CONTRIBUTION TO REAL GDP

Sector	H2 2019	H1 2020	H2 2020
Agriculture	0.64	0.42	0.66
Crop Production	0.62	0.37	0.63
Industry	0.63	-1.17	-1.42
Services	1.16	-1.43	-0.94
ICT	9.12	11.59	14.77
GDP Growth	2.42	-2.18	-1.70

Source: National Bureau of Statistics

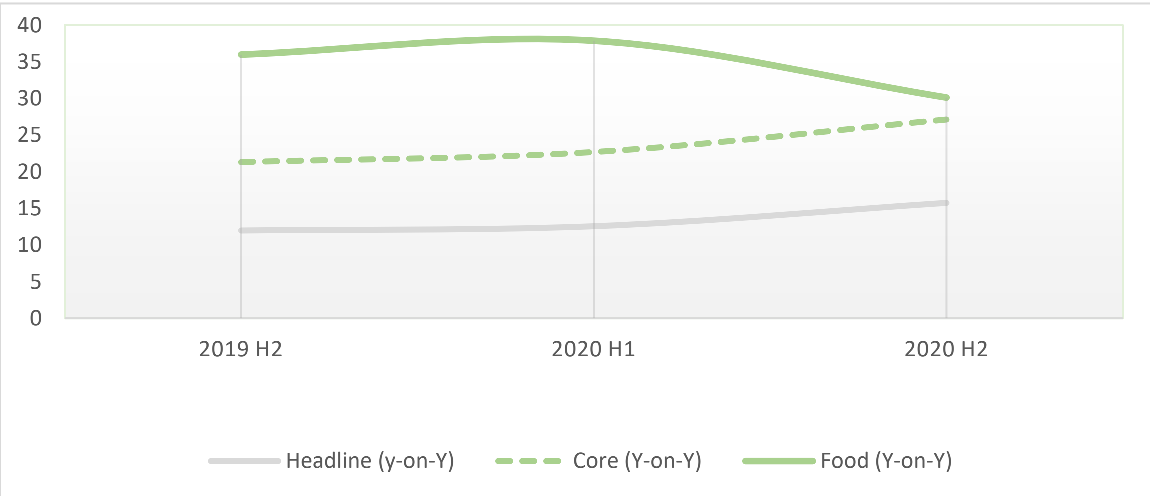
1.2.2 Inflation

Inflationary pressures persisted in the second half of 2020 driven, mainly, by supply disruptions arising from COVID-19 pandemic containment measures, floods in some food-growing regions, increased cost of transportation and exchange rate pass-through effect on domestic prices.

Headline inflation[5] increased to 15.75 per cent at end-December 2020, from 12.56 per cent at end-June 2020. The 12-month-moving-average headline inflation stood at 13.25 per cent in the second half of 2020, compared with 11.90 per cent in the first half of 2020.

Core inflation stood at 11.37 per cent at end-December 2020, reflecting a 1.24 percentage point increase over the level at end-June 2020, owing to increases in the prices of transportation, health and miscellaneous goods. Year-on-year food[6] inflation increased to 19.56 per cent at end-December 2020, from 15.18 per cent at end-June 2020. The increase was due largely to the rise in prices of imported food and some farm produce.

FIGURE 1.2 INFLATIONARY TREND (YEAR-ON-YEAR)



Source: National Bureau of Statistics

1.2.3 Fiscal Operations[7]

The provisional Federal Government retained revenue, at ₦2,045.69 billion in the second half of 2020, reflected a shortfall of 42.62 per cent, compared with the half-year budget benchmark of ₦2,917.50 billion. Aggregate expenditure, at ₦5,405.27 billion during the review period was below the budget benchmark, reflecting the

[5] year-on-year

[6] comprised farm produce and processed food

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

adjustment made to the budget, owing to the effects of the pandemic. Consequently, the fiscal operations of the Federal Government resulted in a notional deficit of ₦3,253.49 billion.

The gap between receipts and expenditure was bridged majorly through domestic borrowings. The total domestic debt stock at end-December 2020 was ₦16,023.89 billion, reflecting an increase of ₦568.19 billion or 3.68 per cent, above the level of ₦15,455.70 billion at end-June 2020. The increase was mainly from FGN Bonds and additional FGN promissory notes.

FIGURE 1.3 FEDERAL GOVERNMENT DOMESTIC DEBT STOCK

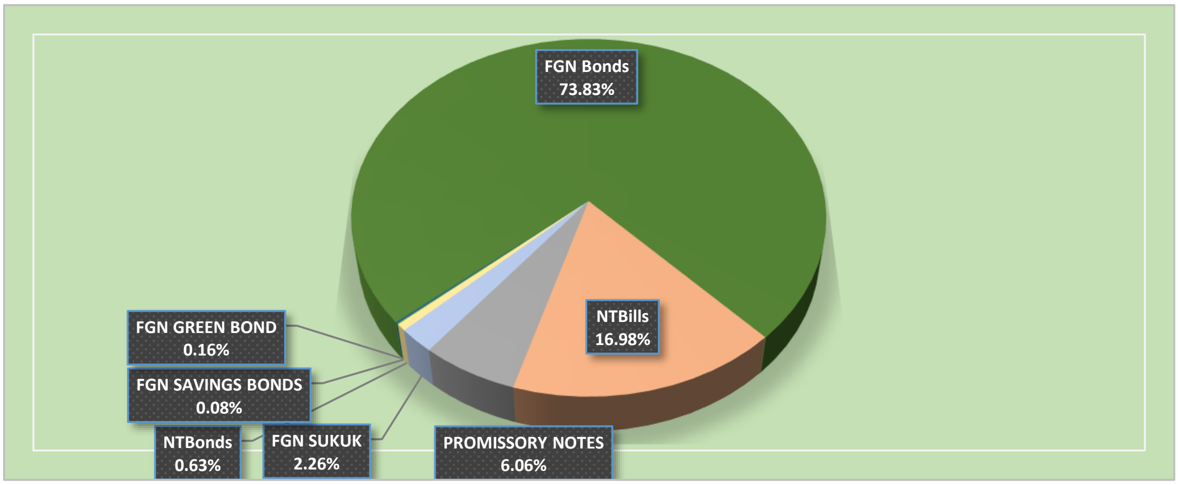
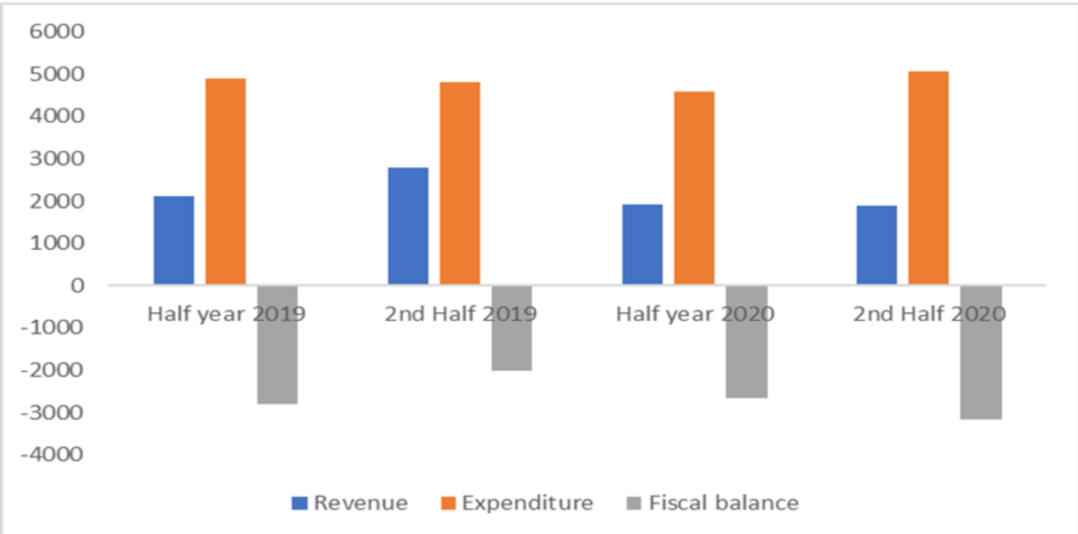


FIGURE 1.4 FEDERAL GOVERNMENT FISCAL OPERATIONS (N BILLION)



Source: OAGF & CBN Staff Estimate

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

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

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

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

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

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

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

1. All obligors operating in sectors of the economy in which businesses and cash flows have been adversely impacted by the Covid-19 pandemic shall be eligible. These include but are not limited to oil and gas, agriculture, manufacturing, transport, education, healthcare, general (consumer and retail), real estate/construction and entertainment and tourism.

2. The CBN may consider other sectors outside of those identified above for grant of the regulatory forbearance on an exceptional basis.

3. All facilities classified LOST as at December 2019 shall NOT be eligible.

4. All expired facilities pending renewal by banks as at January 31, 2020 shall NOT be eligible.

5. Restructuring requests may be initiated by either the bank or the customer. However, where the requests are initiated by the bank on behalf of the customer, the bank must obtain the customer's written acceptance of the terms of the restructured facility within one month of CBN approval. This document shall be subject to review by examiners during onsite visits. Customers are permitted to continue to service their obligations under existing terms and conditions where they choose to do so.

6. Moratorium shall be available for principal and/or interest.

7. The maximum period of moratorium in respect of any restructured facility shall not exceed 12 months, expiring 31st March 2021.

8. Moratorium period for loans under General Commerce, Oil and Gas (downstream) and General (personal and retail) sectors shall NOT exceed 6 months subject to the condition in 7 above.

9. No restructuring fee shall be charged on any facility being restructured under this Guideline.

10. The restructuring of payments 9principal and/or interest) under this Guideline, shall not qualify as a default for the purposes of supervisory reporting.

11. The regulatory approval of the restructuring shall be on the condition that the terms may be reviewed should economic conditions improve.

12. Internal approvals should be obtained before presentation to the CBN for approval. Where this is not practicable, banks will ensure that the necessary

internal approvals are in place within 30 days of receipt of such regulatory approval.

13. Only facilities secured with acceptable collaterals are eligible for forbearance under this Guideline. Acceptable collaterals includes the following:

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

1.2.3.1 External Reserves

Gross external reserves stood at US$36.48 billion at end-December 2020, reflecting an increase of US$0.70 billion or 1.97 per cent, compared with US$35.78 billion at end-June 2020. The currency composition showed that 81.47 per cent of the external reserves was held in US dollars, 11.62 per cent in Chinese Renminbi, 5.82 per cent in IMF SDR and 1.09 per cent in other currencies.

The external reserves recorded an inflow of US$15.15 billion during the second half of 2020, compared to US$24.84 billion in the first half of the year. The decrease of US$9.69 billion or 39.0 per cent was largely due to the decline in receipts from crude oil sales and oil-related taxes.

Total outflow in the review period decreased to US$14.92 billion, from the US$27.32 billion recorded in the first half of 2020. The outflow during the period was largely in respect of market interventions, public sector uses and debt servicing.

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

Period	Inflow	Outflow	Net flow
H2 – 2020	15,149.80	14,917.55	232.25
H1 – 2020	24,840.24	27,324.80	(2,484.56)
H2 – 2019	25,935.09	32,300.85	(6,365.76)

Source: Central Bank of Nigeria

1.2.3.2 Potential Risks to the External Reserves

1. The magnitude of asset purchase programmes by major central banks, such as ECB's Pandemic Emergency Purchase Programme and Fed's purchase of U.S. Treasuries and agency mortgage-backed securities, may result in significant asset price bubble. The inevitable process of asset price correction would then lead to volatility in financial markets and a decrease in the value of assets held as part of the external reserves.
2. The low yield environment in advanced economies would negatively impact the rate of return on new investments from the external reserves.
3. The prolonged expansionary fiscal and monetary policies by major economies could result in inflationary pressure which may dampen global economic recovery, decrease demand for commodities and ultimately affect accretion to the external reserves.
4. The slow rollout of the Covid-19 vaccines amidst fears of the mutation of the virus, cautious private consumption expenditure, sluggish growth in labour participation rates and controlled investment expenditure by businesses would lead to subdued global demand. This would result in lower commodity prices and negatively affect accretion to the external reserves.
5. Any rise in geopolitical tensions between the US and China would dampen prospects for global growth which could ultimately affect commodity prices, specifically crude oil.

2 DEVELOPMENTS IN THE FINANCIAL SYSTEM

2.1 Monetary and Credit Developments

Monetary policy remained accommodative during the review period, driven, largely, by the need to improve credit flow to key sectors that would stimulate growth in the economy. The monetary base grew by 50.94 per cent to ₦13,103.1 billion at end-December 2020, from₦8,680.95 billion at end-December 2019.

Broad money supply (M3) stood at ₦38,673.64 billion at end-December 2020, reflecting a growth rate of 10.84 per cent. The development was due to the 40.20 per cent rise in net foreign assets (NFA), following a significant decline in liabilities to non-residents and the growth in claims by the banking system. Claims on the domestic economy grew by 15.91 per cent, compared with 4.74 per cent at end-June 2020. This reflected the 22.84 per cent increase in net claims on the Central Government, and the 13.27 per cent growth in claims on other sectors.

TABLE 2:1 GROWTH RATES OF MONETARY AGGREGATES

% Change (Over preceding December)	Dec 18	Jun 19	Dec 19	Jun 20	Dec 20
Foreign Assets (Net)	7.84	-16.07	-49.79	40.64	23.44
Domestic Claims	9.48	14.23	29.04	4.74	15.91
Claims on Central Government[8] (Net)	32.42	56.94	105.38	-11.88	22.84
Claims on Other Sectors	5.81	5.31	13.09	11.04	13.27
Other Items (Net)	3.72	28.62	-38.23	137.02	69.30
Narrow Money Supply (M1)	9.73	-8.11	2.37	16.27	50.04
Currency Outside Depository Corporations	6.99	-14.33	6.04	-7.63	23.38
Transferable Deposits	10.36	-6.71	1.54	21.88	56.29
Other Deposits	10.98	11.38	13.56	10.88	19.19
Monetary Liabilities (M2)	10.49	3.72	9.16	12.87	30.57
Securities Other than Shares	38.75	11.43	-4.95	-46.85	-84.56
Total Monetary Liabilities (M3)	14.98	5.20	6.45	2.63	10.84

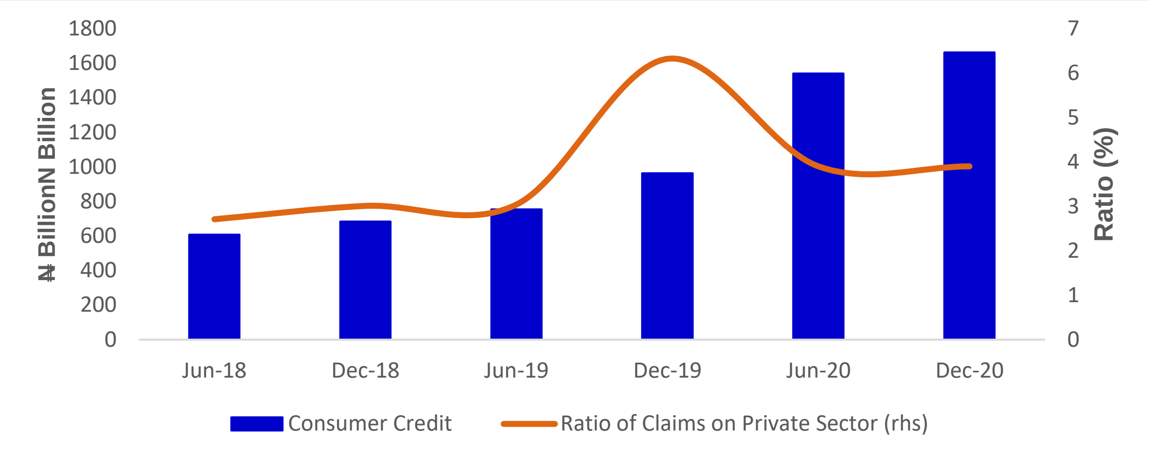
Correspondingly, the increase in total monetary liabilities was due to the 56.29 per cent and 19.19 per cent increase in transferable and 'other' deposits of the Depository Corporations (DCs), respectively. Narrow money (M1) grew by 50.04 per cent to ₦15,976.62 billion at end-December 2020, from ₦12,381.37 billion at end-June 2020. The significant growth in narrow money stock emanated from the uncertainties surrounding the COVID-19 pandemic, which increased money demand for precautionary and transactionary purposes.

2.1.1 Consumer Credit

The rise in consumer credit in the review period reflected the continued impact of the Loan to Deposit Ratio policy of the Bank. Consumer credit grew by 8.90 per cent to ₦1,663.07 billion at end-December 2020, from the level of ₦1,540.00 billion at end-June 2020. Consumer loans constituted 5.52 per cent of total credit to other sectors in the second half of 2020, compared with 5.21 per cent at end-June 2020.

[8] Central Government in this context refers to the Federal Government of Nigeria.

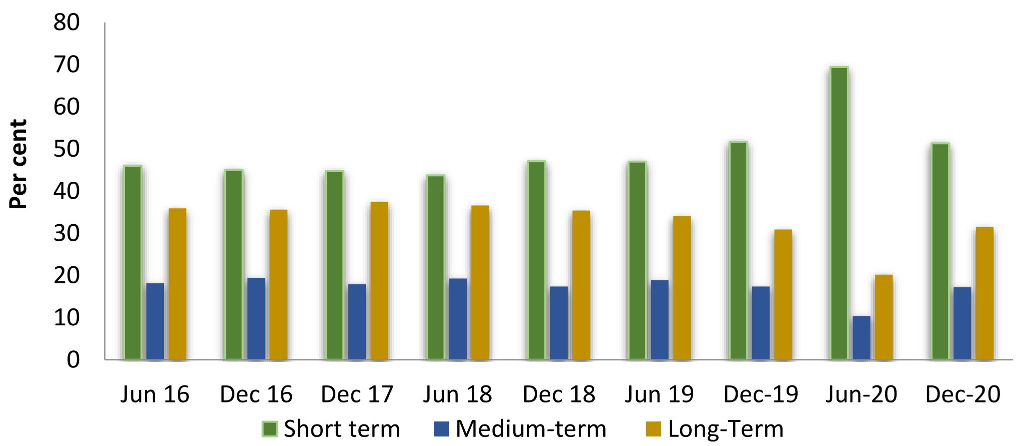
FIGURE 2.1 CONSUMER CREDIT



2.1.2 Maturity Structure of Bank Deposits and Credits

The structure of Other Depository Corporations' (ODCs') outstanding loans and advances showed banks' preference for short-term maturities. ODCs' credit maturing within one year accounted for 51.3 per cent, compared with 69.4 per cent at end-June 2020. The medium-term and long-term maturities stood at 17.2 and 31.5 per cent, respectively, compared with 10.4 and 20.2 per cent at end-June 2020, indicating the dominance of short-term maturities in the credit market.

FIGURE 2.2 DISTRIBUTION OF BANK LOANS AND ADVANCES BY MATURITY

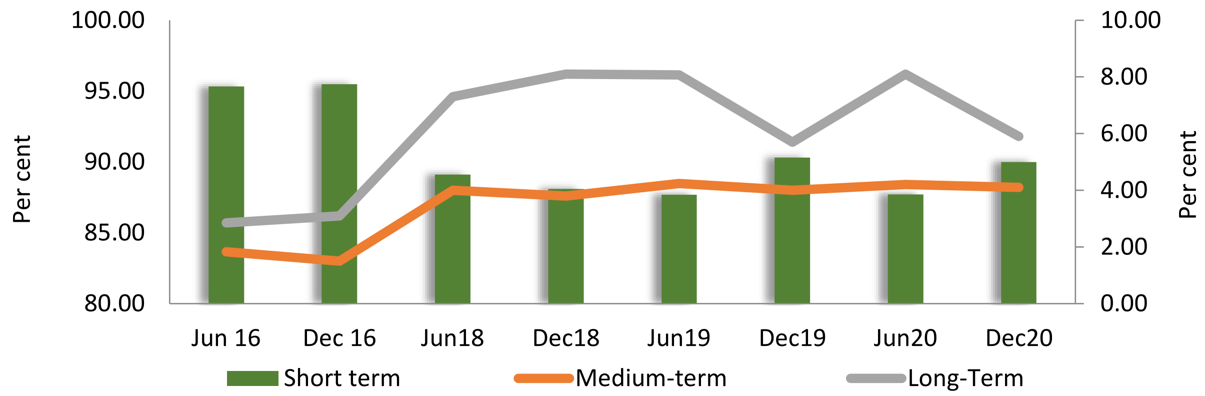


The analysis of banks' deposit liabilities showed that short-term deposits[9] constituted 90.0 per cent of the total (75.2 per cent had a maturity of less than 30 days), compared

[9] of less than one-year maturity

with 87.7 per cent at end-June 2020. Further analysis showed that the medium and long-term deposits accounted for 4.1 and 5.9 per cent of total deposits at end-December 2020, compared with 4.2 and 8.1 per cent at end-June 2020, respectively. The preponderance of short-term liabilities remained a major constraint to holding long-term assets by banks.

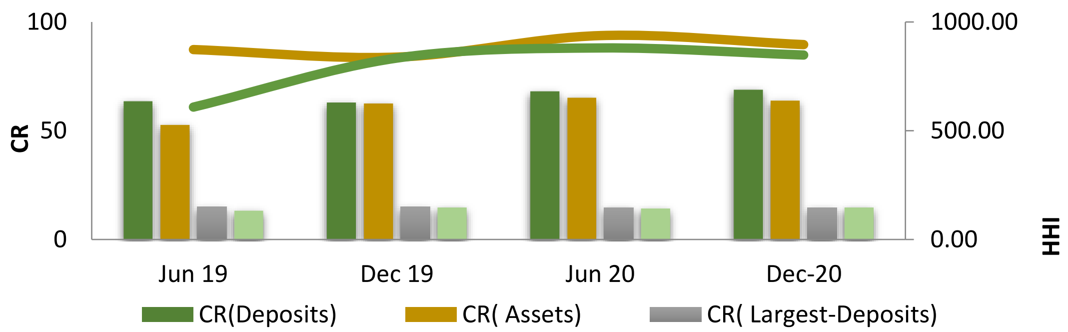
FIGURE 2.3 MATURITY STRUCTURE OF BANK DEPOSITS



2.1.3 Market Structure of the Banking Industry

During the review period, six banks accounted for 66.8 and 63.9 per cent of total deposits and assets, respectively. There was no dominance of a single bank, as the share of all the banks ranged from 0.05 to 14.5 per cent in deposits and 0.01 to 14.7 per cent in assets in the review period. This was confirmed by the Herfindahl-Hirschman Indices (HHI)[10] of 895.98 in deposits and 848.04 in assets at end-December 2020.

FIGURE 2.4 CONCENTRATION RATIOS OF THE BANKING INDUSTRY ASSETS AND DEPOSITS



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

2.2 Other Financial Institutions

There were 6,532 licensed Other Financial Institutions (OFIs) at end-December 2020, compared with the 6,333 institutions at end-June 2020, reflecting an increase of 199 OFIs. The change in the number of OFIs was due to the licensing of 230 BDCs, 4 MFBs and 7 FCs, and the revocation of operating licences of 42 MFBs.

At end-December 2020, the OFIs comprised seven (7) Development Financial Institutions (DFIs), 874 Microfinance Banks (MFBs), 87 Finance Companies (FCs), 34 Primary Mortgage Banks (PMBs) and 5,530 Bureaux De Change (BDCs).

TABLE 2:2 LICENSED OTHER FINANCIAL INSTITUTIONS

S/N	Type	Total Licensed Institutions as at December 31, 2020	Total Licensed Institutions as at June 30, 2020
1	Microfinance Banks	874	912
2	Bureaux De Change	5,530	5,300
3	Finance Companies	87	80
4	Development Finance Institutions	7	7
5	Primary Mortgage Banks	34	34
	Total	**6,532**	**6,333**

The total assets of the sub-sector, excluding the BDCs, increased by 24.88 per cent to ₦4,748.76 billion at end-December 2020, from ₦3,802.58 billion at end-June 2020, while net loans and advances increased by 20.10 per cent to ₦2,153.43 billion at end-December 2020, from ₦1,792.96 billion at end-June 2020. Total deposits/borrowings also increased by 17.32 per cent to ₦2,057.74 billion at end-December 2020, from ₦1,753.99 billion at end-June 2020.

The increase in total assets in the sub-sector was attributed largely to injection of additional capital by the newly licensed OFIs, additional deposits and inclusion of the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) on-lending facilities from the CBN as on-balance sheet item. The increase in borrowings was largely attributed to on-lending facilities obtained by DFIs.

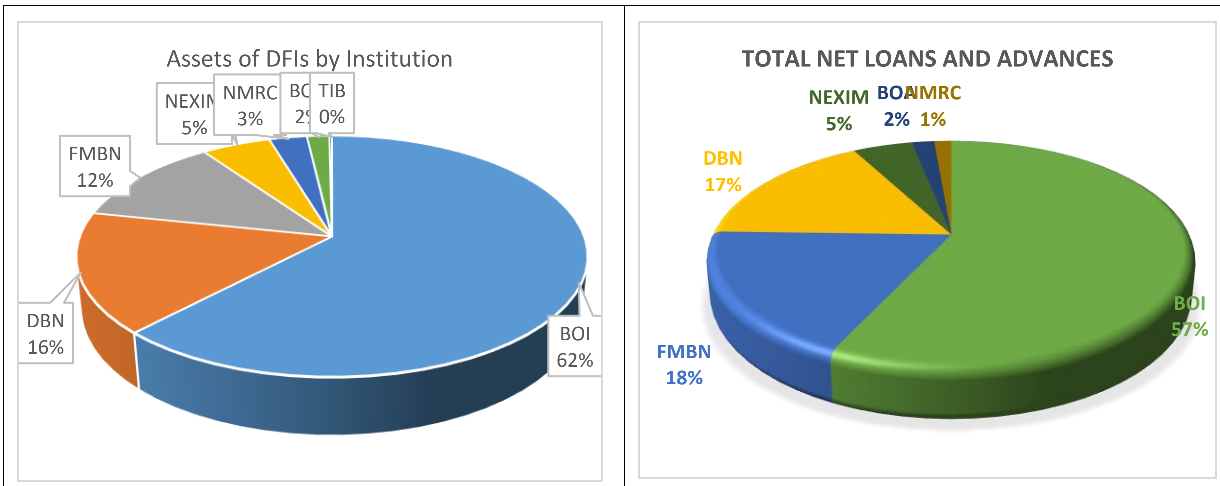
2.2.1 Development Finance Institutions

The total assets of the seven (7) DFIs increased by 23.21 per cent to ₦3,044.48 billion at end-December 2020, from the ₦2,471.00 billion achieved at end-June 2020. The increase was due largely to 25.18 per cent, 44.37 per cent, 13.52 per cent 29.80 per cent increases in cash and bank balances, placements, loans and advances, and investments by the institutions, respectively. Similarly, DFIs' borrowings increased by 27.63 per cent to ₦1,857.09 billion at end-December 2020, from the level of ₦1,455.11 billion recorded at end-June 2020.

The paid-up capital of the institutions, however, remained unchanged at ₦238.78 billion, while the shareholders' funds increased by 1.78 per cent to ₦370.58 billion at end-December 2020 from ₦364.10 billion at end-June 2020, owing to accretions to reserves.

The Bank of Industry (BOI), Development Bank of Nigeria (DBN) and Federal Mortgage Bank of Nigeria (FMBN) accounted for 62.11, 16.18 and 11.95 per cent of the total assets of the DFIs, while NEXIM, NMRC, Bank of Agriculture (BOA), and The Infrastructure Bank (TIB) accounted for 5.11, 2.79, 1.66 and 0.19 per cent, respectively. The BOI, FMBN, DBN, NEXIM, BOA and NMRC accounted for 57.06, 18.40, 16.69, 4.74, 1.77 and 1.35 per cent of the total net loans and advances, respectively.

FIGURE 2.5 ASSETS OF DEVELOPMENT FINANCIAL INSTITUTIONS



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

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

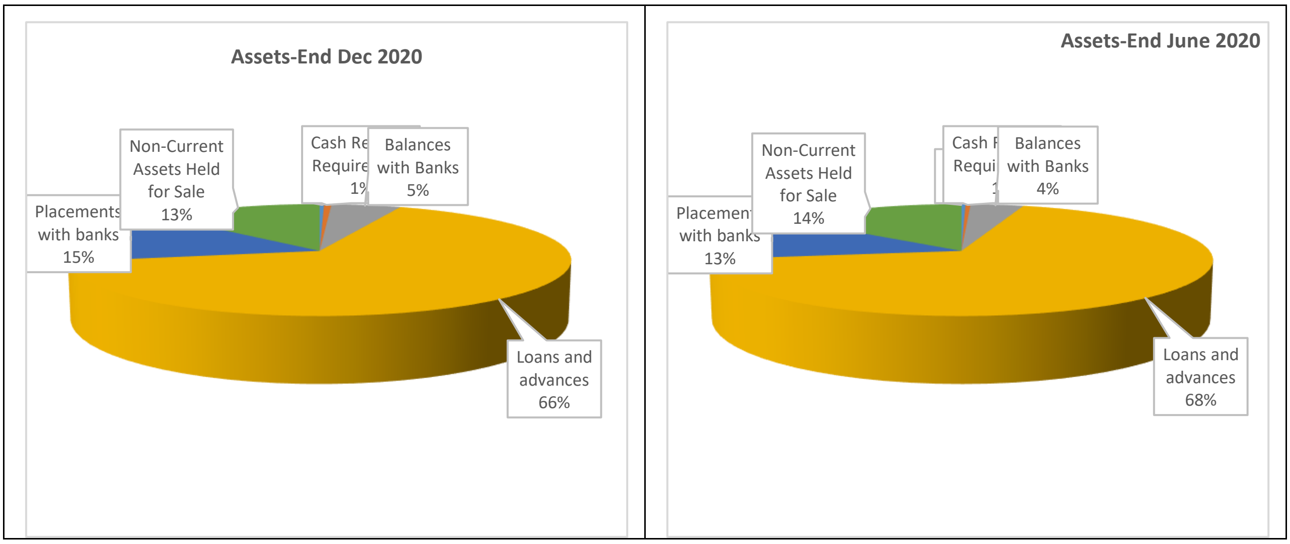
2.2.2 The Nigeria Mortgage Refinance Company

The total assets of the NMRC stood at ₦84.98 billion at end-December 2020, compared with ₦74.71 billion at end-June 2020. The development was due, largely, to increase in placements and investments. Refinanced mortgages, however, decreased by ₦0.32 billion to ₦17.35 billion at end-December 2020, from the level of ₦17.67 billion at end-June 2020, reflecting a decrease in the creation of additional mortgages and early liquidation of mortgages. The adjusted capital of ₦16.70 billion was higher than the minimum capital requirement of ₦5.0 billion for the company. Similarly, the company's capital adequacy ratio (CAR) was well above both the regulatory minimum of 10.00 per cent and its internal benchmark of 15 per cent.

2.2.3 Primary Mortgage Banks

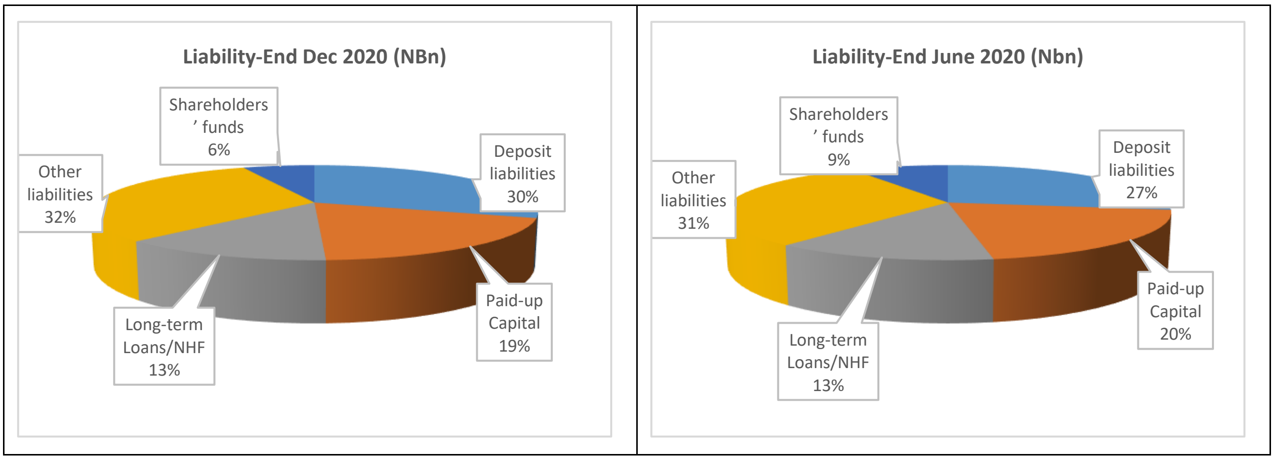
The total assets of the PMBs increased by 5.74 per cent to ₦461.34 billion at end-December 2020, compared with ₦436.29 billion at end-June 2020, owing largely to increases in cash holdings (₦1.27 billion), cash reserve requirements (₦2.10 billion), balances with banks (₦19.69 billion) and placements with banks (₦57.91 billion) at end-December 2020.

FIGURE 2.6 ASSETS OF PRIMARY MORTGAGE BANKS



Similarly, deposit liabilities, paid-up capital, long term loans/NHF and other liabilities of PMBs increased to ₦170.82 billion, ₦108.32 billion, ₦72.17 billion and ₦178.44 billion at end-December 2020 from ₦147.98 billion, ₦107.20 billion, ₦71.41 billion and ₦165.68 billion, at end-June 2020, respectively. However, their total reserves declined by 19.36 per cent to negative ₦72.27 billion at end-December 2020 from negative ₦60.55 billion at end-June 2020. This was due to additional losses of ₦11.72 billion recorded in the second half of 2020.

FIGURE 2.7 LIABILITY STRUCTURE OF PRIMARY MORTGAGE BANKS



Investible funds stood at N45.40 billion, sourced mainly from deposits (N22.84 billion), other liabilities (N12.75 billion) and disposal of non-current assets held for sale (N2.30 billion) and quoted shares (N5.26 billion). The funds were utilised majorly for placements with banks and for loans and advances.

FIGURE 2.8 SOURCES OF INVESTIBLE FUNDS OF PRIMARY MORTGAGE BANK

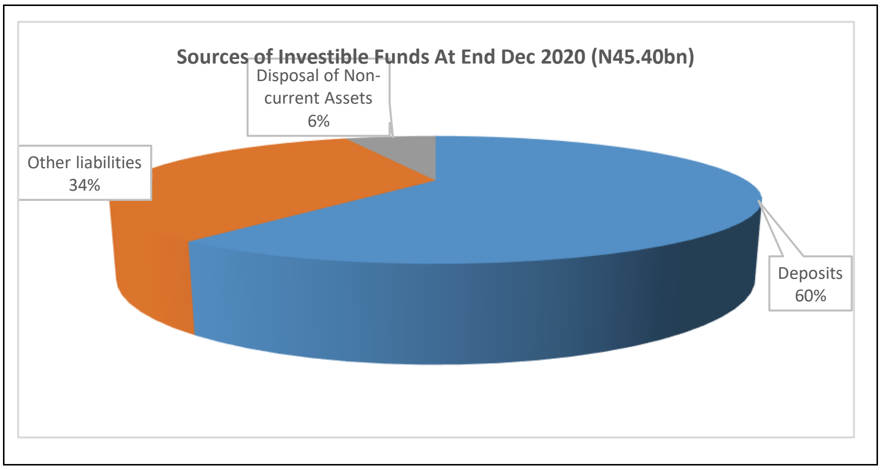


TABLE 2:3 PRIMARY MORTGAGE BANKS FINANCIAL HIGHLIGHTS

	End-December 2020 (₦' billion)	End-June 2020 (₦' billion)	% Change
Total assets	461.34	436.29	5.74
Cash	1.27	1.07	18.32
Cash Reserve Requirement	2.10	1.37	53.54
Balances with Banks	19.69	14.10	39.62
Loans and advances	248.09	240.45	3.18
Placements with banks	57.91	46.94	23.38
Non-Current Assets Held for Sale	47.72	50.02	(4.60)
Deposit liabilities	170.82	147.98	15.44
Other liabilities	178.44	165.68	7.70
Shareholders' funds	36.05	46.65	(22.72)

The sub-sector CAR stood at 11.49 per cent at end-December 2020, compared with 13.39 per cent at end-June 2020. The decline was due largely to impairment occasioned by the impact of the Covid-19 pandemic. However, it remained above the regulatory requirement of 10 per cent.

The liquidity ratio of the sub-sector stood at 48.16 per cent at end-December 2020, compared with 44.0 per cent at end-June 2020. The rise in liquidity ratio was due largely to the slowdown in the creation of mortgage assets.

2.2.3.1 Other Developments in the Mortgage Sector

Key developments in the mortgage sector during the review period were as follows:

- The NMRC issued series 3 of its Fixed Rate Bonds and raised N10 billion from the capital market out of its N140 billion Medium Term Note Fund (MTNF). The total amount raised from inception in 2015 to date stood at N29 billion. The MTNF is to refinance, with recourse, qualified mortgages of Mortgage Lending Originators.
- Emergence of Mortgage Warehouse Funding Limited (MWFL) to deepen the evolving secondary mortgage market and to improve housing affordability.
- On-boarding of mortgage banks' customers on the Bank Verification Number (BVN) platform.
- Increased advocacy for the adoption of the Model Mortgage & Foreclosure Law (MMFL) by all States of the Federation as well as the pursuit of land title and administration reforms led to the passing of the law by some states such as Lagos, Nasarawa, Kaduna, Ekiti and Ogun. Other 10 states were at various stages of passing the law.

2.2.4 Finance Companies

Total assets of the sub-sector increased by 34.14 per cent to ₦313.11 billion at end-December 2020, from ₦256.62 billion at end-June 2020. This was attributed largely to capital from 7 additional FCs licensed and borrowings. The newly-licensed FCs resulted in a 12.71 per cent increase in total capital to ₦24.88 billion at end-December 2020 from ₦22.07 billion at end-June 2020. Borrowings by the FCs rose by 17.85 per cent to ₦200.64 billion at end-December 2020 from ₦170.25 billion at end-June 2020.

Balances with banks increased by 45.85 per cent to ₦26.20 billion at end-December 2020 from ₦17.96 billion at end-June 2020. Net loans and advances rose by 21.52 per cent to ₦113.55 billion at end-December 2020 from ₦93.44 billion at end-June 2020. Also, placements increased by 45.85 per cent to ₦44.29 billion at end-December 2020 from ₦30.37 billion at end-June 2020.

FIGURE 2.9 ASSETS OF FINANCE COMPANIES

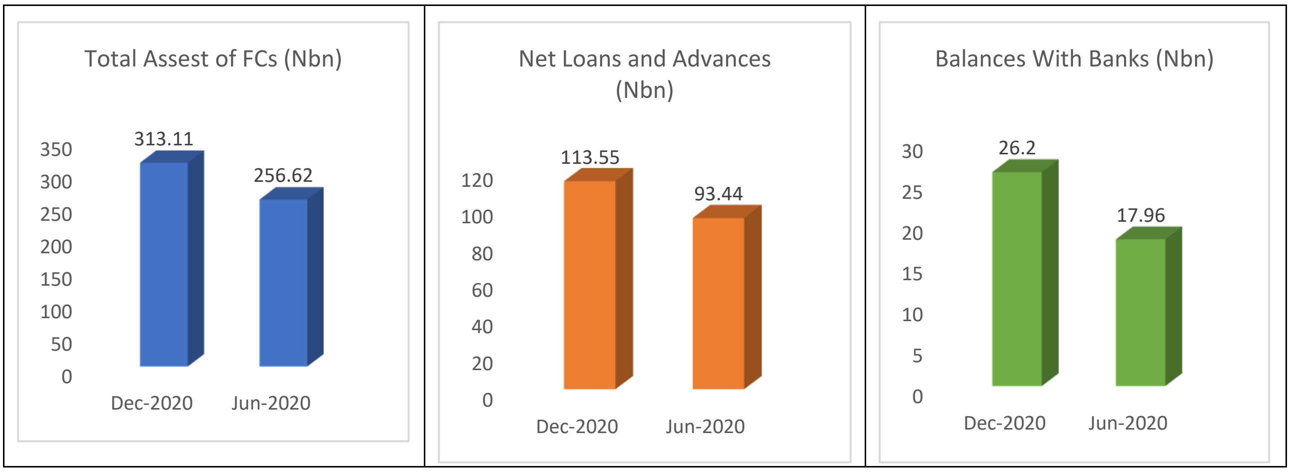
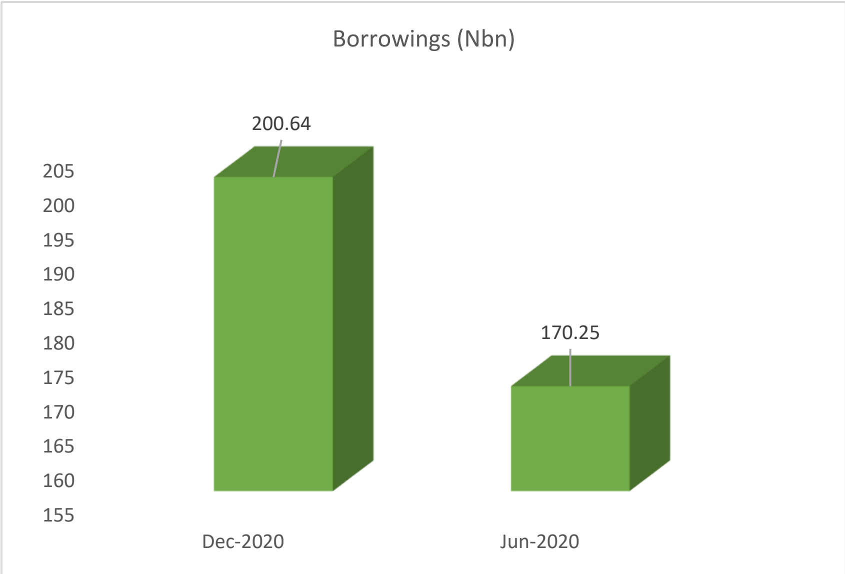


FIGURE 2.10 BORROWINGS OF FINANCE COMPANIES



Investible funds at end-December 2020 amounted to ₦81.41 billion. The funds were sourced mainly from borrowings (₦47.24 billion), paid-up capital (₦4.19 billion) and other liabilities (₦27.35 billion). The funds were utilized mainly to increase loans and advances, placements with banks, bank balances and fixed assets.

TABLE 2:4 FINANCIAL POSITION OF FINANCE COMPANIES AT END-DECEMBER 2020

	End-December 2020 (₦' billion)	End-June 2020 (₦' billion)	Change (₦' billion)	% Change
Total Assets	313.11	256.62	56.49	22.01
Cash in Vault	2.41	4.78	(2.36)	(49.45)
Balances with Banks	26.20	17.96	8.24	45.85
Loans and Advances	113.55	93.44	20.11	21.52
Investments	11.36	10.57	0.79	7.45
Placements	44.29	30.37	13.92	45.85
Borrowings	200.64	170.25	30.39	17.85
Paid up capital	24.88	22.07	2.80	12.71
Reserves	18.94	21.81	(2.87)	(13.14)

2.2.5 Microfinance Banks

The total assets of the MFBs[11] at end-December 2020 stood at ₦929.83 billion, compared with ₦638.67 billion at end-June 2020, reflecting an increase of 45.59 per cent which was due largely to the on-lending facilities granted to NIRSAL MFB as well as implementation of the new capital regime for MFBs. The net loans and advances, which constituted 54.63 per cent of total asset, increased by 54.78 per cent to ₦507.95 billion at end-December 2020, from ₦328.18 billion at end-June 2020.

The shareholders' funds declined by 0.19 per cent to ₦130.71 billion at end-December 2020 from ₦130.95 billion, owing largely to losses incurred from the effect of the Covid-19 Pandemic. However, deposit liabilities increased by 29.58 per cent to ₦366.90 billion at end-December 2020 from ₦283.14 billion at end-June 2020.

Investible funds available to the sub-sector in the review period amounted to ₦296.72 billion, compared with ₦160.04 billion at end-June 2020. The funds were mainly proceeds from long-term borrowings (₦169.40 billion), deposits (₦83.76 billion), other liabilities (₦22.76 billion) and paid-up capital (₦3.88 billion). The funds were mostly

[11] 10 National, 134 State, and 730 Unit

deployed to loans and advances (₦179.77 billion), bank placements (₦77.21 billion), bank balances (₦23.61 billion) and other assets (₦10.45 billion).

TABLE 2:5 FINANCIAL POSITION OF MICROFINANCE BANKS

	End-December 2020 (₦' billion)	End-June 2020 (₦' billion)	Change (₦' billion)	% Change
Total Assets	929.83	638.7	291.13	45.58
Cash in Vault	4.95	6.08	-1.13	-18.62
Balances with Banks	108.02	84.41	23.61	27.97
Placements with Banks	212.34	135.13	77.21	57.13
Loans and Advances	507.95	328.18	179.77	54.78
Short Term Investments	18.94	18.93	0.01	0.03
Fixed Assets	25.07	23.51	1.56	6.65
Deposits	366.90	283.14	83.76	29.58
Long Term Borrowings	298.03	128.62	169.41	131.71
Shareholders' Funds	130.71	130.95	-0.24	-0.18
Paid up capital	84.78	80.89	3.89	4.80
Reserves	45.93	50.06	-4.13	-8.24

2.2.5.1 Maturity Structure of Loans & Advances and Deposit Liabilities

Short-term credit constituted a greater proportion of the loans and advances of the MFB sub-sector in the second half of the year. At end-December 2020, short-term loans accounted for 53.54 per cent of the aggregate loans and advances, compared with 71.60 per cent at end-June 2020. Loans with maturities of over 360 days accounted for 46.46 per cent compared with 28.40 per cent at end-June 2020. Similarly, the deposit structure remained largely short-term, as deposits of less than one (1) year maturity accounted for 71.28 per cent, compared with 76.40 per cent recorded at end-June 2020. On the other hand, deposits of over one (1) year maturity accounted for 28.72 per cent, compared with 23.60 per cent at end-June 2020.

TABLE 2:6 MATURITY STRUCTURE OF LOANS & ADVANCES AND DEPOSIT LIABILITIES

Tenor/Period	Jun-2020		Dec-20	
	Loans and Advances	Loans and Advances	Loans and Advances	Deposits
0-30 Days	16.60	16.60	10.22	30.05
31-60 Days	5.10	5.10	3.24	8.21
61-90 Days	6.50	6.50	4.72	9.59
91-180 Days	15.70	15.70	14.97	14.88
181-360 Days	27.70	27.70	20.39	8.56
Short-Term	**71.60**	**71.60**	**53.54**	**71.28**
Above 360 Days	28.40	28.40	46.46	28.72
Total	**100.00**	**100.00**	**100.00**	**100.00**

Source: Central Bank of Nigeria

2.2.5.2 Microfinance Certification Programme

In line with the requirements of the revised guidelines for MFBs on capacity building, a total of 410 candidates completed the Level II Microfinance Certification Programme (MCP) administered by the Chartered Institute of Bankers of Nigeria (CIBN), resulting in a total of 7,102 certified microfinance bankers at end-December 2020, compared with 6,692 at end-June 2020.

2.2.5.3 Other Developments

During the review period, the Bank met with the National Association of Microfinance Banks and it was resolved that all MFBs shall:

- Comply with the revised phased recapitalisation deadlines of April 2021 and April 2022 for the first phase and final phase, respectively, of the new capital requirements for different tiers of MFBs.
- Implement the 10-year maximum tenure for External Auditors as enshrined in the Code of Corporate Governance for Microfinance Banks in Nigeria.
- Enrol on the CRMS to qualify for inclusion on the GSI platform; and
- Implement Basel 2 accord to complement IFRS towards enhancing transparency, capital cost reduction, effective capital and liquidity management

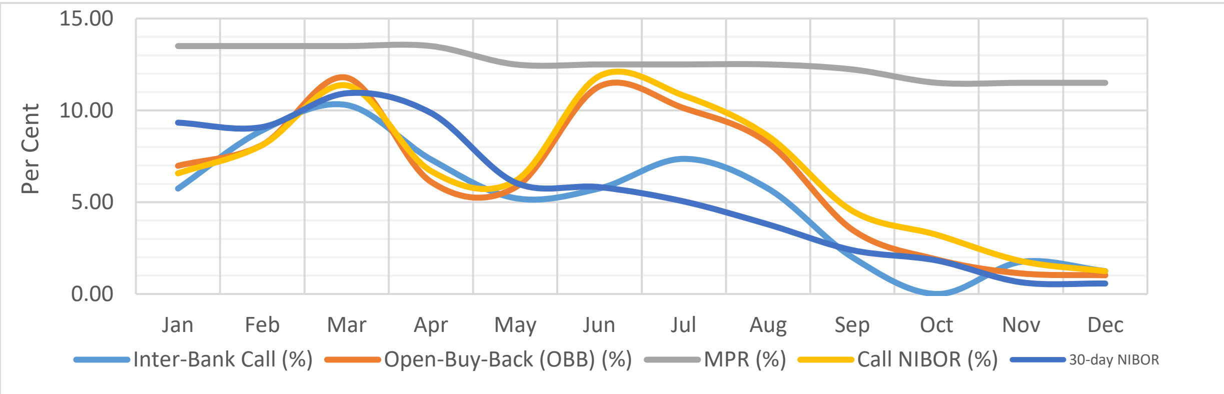
2.3 Financial Markets

The domestic financial market indicators were relatively stable in the review period amidst the prospects of global economic recovery, following increased accessibility of Covid-19 vaccines. With the financial markets still being largely impacted by the Covid-19 pandemic, the Bank continued to put in place appropriate policy measures to stabilise them.

2.3.1 The Money Market

The banking system maintained adequate level of liquidity to keep rates stable in the second half of 2020. The open-buy-back (OBB) and unsecured inter-bank call weighted daily average rates opened at 12.68 and 11.80 per cent, respectively, on July 1, 2020. Large inflows from maturing bills as well as fiscal operations increased liquidity in the market. Consequently, monthly weighted average OBB and the interbank call rates trended downward, closing at 1.02 and 1.25 per cent, respectively, at end-December 2020, compared with 11.31 and 5.75 per cent, respectively, at end-June 2020. The monthly average OBB rates ranged from 1.02 to 11.78 per cent while interbank call rates ranged from 1.25 to 10.29 per cent.

FIGURE 2.11 AVERAGE MONEY MARKET RATE MOVEMENTS JANUARY – DECEMBER 2020



2.3.1.1 Nigerian Treasury Bills

The Nigerian Treasury Bills (NTBs) of 91-, 182- and 364-day tenors totaling ₦1,867.46 billion were issued and allotted in the second half of 2020, reflecting an increase of ₦351.77 billion or 23.21 per cent, over the level of ₦1,515.68 billion recorded in the preceding period. The increase was attributed to high appetite for NTBs.

Total subscriptions for the 91-, 182- and 364- day tenored NTBs stood at ₦5,027.61 billion, compared with ₦2,904.16 billion, in the first half of 2020, indicating an increase of ₦2,123.45 billion or 73.12 per cent. Average marginal rates ranged between 0.0100 - 1.7890 per cent, 0.1500 - 1.9100 per cent and 0.1500 - 3.4000 per cent for the 91-, 182-and 364- day tenors, respectively. Comparatively, in the first half of 2020, average marginal rates ranged between 1.0000 - 14.0000 per cent, 1.9400 - 12.0000 per cent and 2.8000 - 15.4875 per cent for the 91- , 182- and 364- day tenors, respectively. The decline in rates was attributable to high demand, driven by the prevailing liquidity conditions in the system.

A breakdown of total NTB allotment indicated that commercial banks (including foreign investors) took up ₦1,340.25 billion or 71.77 per cent, merchant banks ₦56.00 billion or 0.03 per cent, while mandate and internal funds customers ₦406.14 billion or 21.75 per cent during the review period. Comparatively, in the first half of 2020, commercial banks (including foreign investors) took up ₦978.37 billion or 64.55 per cent, merchant banks ₦38.88 billion or 2.57 per cent, while mandate and internal funds customers accounted for ₦498.44 billion or 32.89 per cent.

An analysis of the NTBs outstanding at end-Dec 2020, showed that commercial banks accounted for 38.94 per cent, parastatals 26.56 per cent and merchant banks 0.73 per cent, while the mandate and internal funds customers accounted for 33.77 per cent.

2.3.2 The Foreign Exchange Market

During the review period, the Bank sustained its various foreign exchange interventions via the Retail Secondary Market Intervention Sales (SMIS) window for agriculture, airline, petroleum, raw materials and machinery transactions, e.t.c. Similarly, the Bank continued to meet the demand for invisible trade transactions, such as personal and business travel allowances, medical bills, and school fees. The SMEs, oil companies and the Investors & Exporters (I&E) windows also provided access to foreign exchange, while sales to the BDC segment was reinstated. The Bank continued its active participation in the Naira-Settled OTC Futures Market.

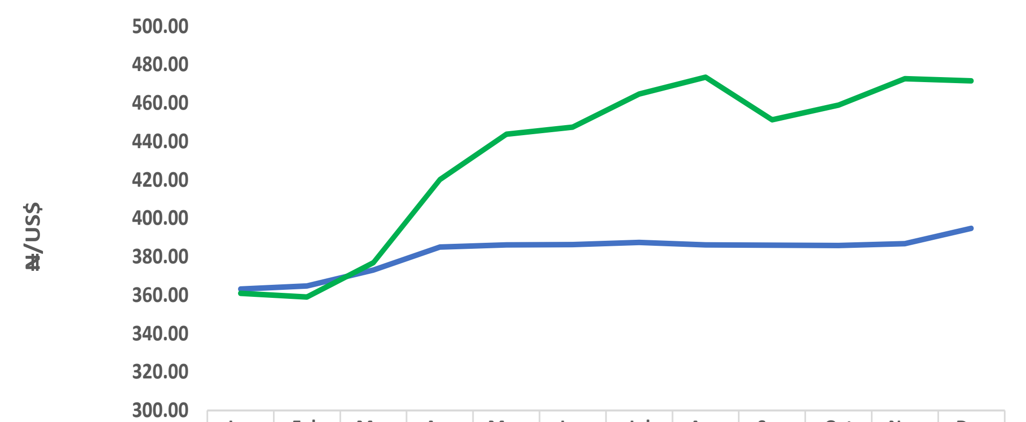
Furthermore, the Bi-lateral Currency Swap Agreement between the CBN and the People's Bank of China (PBoC-CBN) was sustained through the CBN Renminbi Retail SMIS auctions. A total of 13 auctions were conducted with Renminbi worth CNY723.05 million sold in the review period, compared with CNY294.09 million in the preceding period. This brought the total sold from inception to CNY2,469.46 million at end-December 2020.

2.3.2.1 Exchange Rate Movements at the Interbank, Investors & Exporters' Window and BDC Segments

At the I & E inter-bank segment of the foreign exchange market, the rate opened at ₦361.00/US$ on July 1, 2020 and closed at ₦381.00/US$ on December 31, 2020, representing a depreciation of 5.25 per cent. Comparatively, in the first half of 2020, the rate opened at ₦307.00/US$ on January 1, 2020 and closed at ₦361.00/US$ on June 30, 2020. The movement in rates was in response to liquidity conditions in the foreign exchange market.

The rate at the I & E window opened at N386.50 /US$ on July 1, 2020 and closed at ₦410.25/US$ on December 31, 2020, reflecting a depreciation of 5.80 per cent. In the BDC segment, the exchange rate opened and closed at ₦455.00/US$ and N465.00/US$, respectively, indicating a depreciation of 2.15 per cent (Figure 2.2) which was as a result of demand pressures.

FIGURE 2.12 BDC AND I & E RATES, JANUARY – DECEMBER 2020



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
I & E window	363.18	364.79	373.04	385.09	386.17	386.39	387.54	386.27	386.02	385.91	386.91	394.84
BDC	361.00	359.00	376.89	420.15	443.89	447.57	464.71	473.48	451.28	458.95	472.74	471.62

2.3.2.2 Foreign Exchange Spot, Forwards and OTC FX Futures Transactions

The total foreign exchange sales by the Bank in the second half of 2020 declined to US$7,202.27 million from US$10,308.01 million in the first half. A breakdown of the total indicated that interbank spot sales amounted to US$583.95 million, invisibles US$262.60 million, I&E window US$2,935.67 million and SMEs US$611.26 million. Inter-bank forward sales amounted to US$2,808.79 million. Forwards contracts valued US$3,352.86 million matured, while US$3,226.37 million was outstanding at end-December 2020. Furthermore, the Bank purchased US$1,248.39 million, resulting in net sales of US$5,953.88 million.

In the preceding period, the total CBN foreign exchange sales, at the inter-bank segment was US$10,308.01 million, of which spot sales amounted to US$1,198.48 million and invisibles US$312.00 million. The sum of US$570.00 million was sold to support SMEs for small-scale importation, US$5,056.55 sold at the I & E window, and US$3,170.97 million as inter-bank forward sales. Conversely, the Bank purchased US$2,210.63 million, resulting in net sales of US$8,097.37 million.

TABLE 2:7 : FOREIGN EXCHANGE SALES AND PURCHASES AT THE INTERBANK SEGMENT

FOREIGN EXCHANGE SALES AND PURCHASES AT THE INTERBANK SEGMENT				
FX Transactions	**End-Jun 20**		**End-Dec 20**	
	Sales	**Purchases**	**Sales**	**Purchases**
	(₦ million)	**(₦ million)**	**(₦ million)**	**(₦ million)**
Spot	1,198.48		583.95	
Invisibles	312.00		262.60	
SME	570.00		611.26	
I&E	5,056.55		2,935.67	
Forwards	3,170.97		2,808.79	
Purchases		2,210.63		1,248.39
Total	**10,308.00**	**2,210.63**	**7,202.27**	**1,248.39**

The notional amount of the OTC FX Futures contracts executed stood at US$4,549.44 million in the review period, compared with US$10,832.64 in the first half. Also, the sum of US$9,623.43 million matured during the review period, while US$8,093.66 million was outstanding at end-December 2020.

2.3.3 The Capital Market

The Nigerian Stock Exchange (NSE) All Share Index (ASI) and Market Capitalization (MC) reflected improved performances in the second half of 2020, compared with the first half, owing to asset switching resulting from unattractive yields in the money market. Similarly, Bond market performance improved in the review period.

2.3.3.1 The Equities Market

The Nigeria Stock Exchange ASI closed at 40,270.72 at end-December 2020, indicating an increase of 64.51 per cent above the 24,479.22 recorded at end-June 2020. Similarly, Market Capitalisation (MC) closed higher at N21,056.08 billion, reflecting an increase of 64.89 per cent from N12,769.81 billion at end-June 2020.

Foreign portfolio investment (FPI) inflows in the second half of 2020 totaled N117.32 billion, while divestments (outflows) stood at N215.25 billion, reflecting a net FPI outflow of N97.93 billion. In comparison, inflows in the first half of 2020 amounted to N129.95 billion, while divestments stood at N266.68 billion, reflecting a net FPI outflow of N136.73 billion (Table 2.4)

A breakdown of the total equity transactions during the review period shows that FPI flows accounted for 28.56 per cent compared with 39.52 per cent in the preceding period. Domestic transactions accounted for 71.44 per cent, compared with 60.48 per cent in the preceding period (Table 2.4).

TABLE 2:8 DOMESTIC AND FOREIGN PORTFOLIO PARTICIPATION IN EQUITIES TRADING

Period	Total	Foreign ₦' Billion	% Foreign	Domestic ₦'Billion	% Domestic	Foreign Inflow ₦'Billion	Foreign Outflow ₦'Billion	NSE ASI	Market Capitalization
H2 2020	1,164.58	332.57	28.56	832.01	71.44	117.32	215.25	40,270.72	21,056.08
H1 2020	1,003.57	396.63	39.52	606.93	60.48	129.95	266.68	24,479.22	12,769.81
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	471.79	43.38	614.76	56.53	221.61	250.18	29,966.87	13,205.54

2.3.3.2 The Bond Market

Total bonds outstanding at end-December 2020 stood at ₦13,071.28 billion compared with ₦11,350.66 billion at end-June 2020. See breakdown below (Table 2.9).

2.3.3.3 FGN Savings Bonds

FGN Savings Bonds (FGNSB) worth ₦1.36 billion were fully subscribed at end-December 2020, indicating a decrease of ₦0.91 billion or 40.09 per cent from the level of ₦2.27 billion at end-June 2020. The new issues were for 2- and 3- years and the coupon rate applied ranged from 1.320 - 3.610 per cent and 1.820 - 4.610 per cent, respectively, compared with 4.131 - 7.144 per cent and 5.131 - 8.144 per cent for the respective tenors in the preceding period. Consequently, total value of FGNSB outstanding at end-|December 2020 stood at ₦12.29 billion, compared with ₦12.98 billion at end-June 2020 (Table 2.1).

TABLE 2:9 OUTSTANDING BONDS (₦' BILLION)

Bond Issuer	June, 2020	Dec, 2020	% Change	Proportion of Total (June, 2020)	Proportion of Total (Dec, 2020)
FGN Bonds	10,091.87	11,830.26	17.23	88.91	90.51
Sub-National Bonds	378.99	272.33	-28.14	3.34	2.08
Corporate Bonds	616.26	543.28	-11.84	5.43	4.16
Sukuk – FGN	362.56	362.56	81.28	1.76	2.77
Sukuk - Sub-National	1.37	1.37	0.00	0.01	0.01
Green – FGN	25.69	25.69	0.00	0.23	0.20
Green - Corporate	23.5	23.5	0.00	0.21	0.18
FGN Savings Bond	12.98	12.29	-5.32	0.11	0.09
Total (₦)	11,350.66	13,071.28	15.16	100.00	100.00

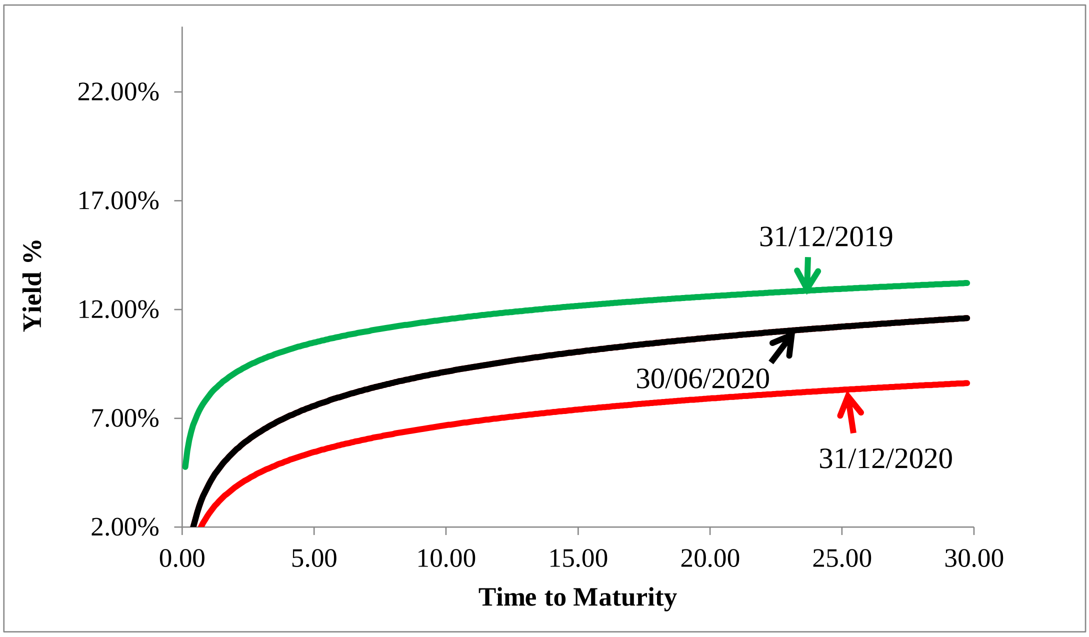
Source: FMDQ OTC

2.3.3.4 FGN Bonds

New issues and re-openings of the FGN Bonds valued ₦595.00 billion were auctioned during the review period, indicating a decrease of 3.25 per cent compared with ₦615.00 billion auctioned in the preceding period. Public subscriptions and sales decreased to ₦1,627.28 billion and ₦570.82 billion in the second half of 2020, from ₦2,449.97 billion and ₦1,308.58 billion in the first half of 2020, respectively.

The yield curve shifted further downward when compared with the position in the preceding review period and the corresponding period of 2019. This development depicts significantly lower yields at both ends of the curve, reflecting investors' apathy. (Figure 2.12).

FIGURE 2.13 YIELD CURVE FOR NIGERIA



Source: FMDQ-OTC Plc

2.3.3.5 Corporate Bonds

Corporate bonds worth ₦10.00 billion were issued within the review period, compared with ₦149.50 billion issued in the preceding period, while bonds worth ₦82.98 billion were redeemed. Consequently, bonds valued ₦543.28 billion remained outstanding at end-December 2020, compared with ₦616.26 billion at end-June 2020.

2.3.4 Potential Risks to Stability from the developments in the Financial Market

- ✓ The financial market is vulnerable to oil price-induced FPI outflows which may lead to price volatility.

- ✓ Further depreciation of the naira exchange rate may have adverse inflationary consequences.
- ✓ Continued decline in yields in the domestic financial market may create disincentive for savings and engender capital flow reversals.

2.4 Real Sector Interventions

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

2.4.1 Agricultural Policy Support

2.4.1.1 Agricultural Credit Guarantee Scheme

In the second half of 2020, a total of 20,626 loans, valued ₦2.83 billion, were guaranteed under the Scheme, compared with 9,641 loans, valued ₦1.48 billion, in the first half of 2020, indicating increases of 113.9 and 91.22 per cent in the number and value of loans guaranteed, respectively. Also, 11,319 loans, valued ₦1.690 billion, were repaid, compared with 8,867 loans, valued ₦1.35 billion in the first half of 2020. These outcomes reflected increases of 27.65 and 25.19 per cent in the number and value of loans repaid, respectively.

2.4.1.2 Commercial Agriculture Credit Scheme

The sum of ₦35.34 billion was disbursed to 25 projects in the second half of 2020, reflecting increases of 30.0 per cent in value and 66.67 per cent in number of projects, from the levels of ₦27.09 billion to 15 projects recorded in the first half of 2020. A total of ₦25.97 billion was repaid by 132 projects in the review period, reflecting a decrease of 10.57 per cent from the repayment of ₦29.04 billion by 264 projects in the first half of 2020.

2.4.1.3 Anchor Borrowers' Programme

In the review period, ₦68.99 billion was disbursed to 204,796 smallholder farmers cultivating 605,279 hectares, compared with ₦149.64 billion to 705,097 smallholder farmers cultivating 863,933 hectares at end-June 2020. Repayments under the Programme amounted to ₦36.80 billion in the review period, compared with ₦41.09 billion in the preceding period.

2.4.1.4 Accelerated Agriculture Development Scheme

The sum of ₦2.94 billion was disbursed to two (2) projects in the review period, compared with ₦6.00 billion to four (4) projects in the first half of 2020. The projects covered rice, poultry, cassava, fish, maize, livestock and soybeans.

2.4.1.5 Paddy Aggregation Scheme

The sum of ₦0.50 billion was disbursed to one (1) project in the review period, compared with ₦3.20 billion to three (3) projects in the first half of 2020. The financing enabled small and medium-scale rice millers to procure paddy for all-year round rice production. A total of ₦51.81 billion was repaid during the review period by nineteen (19) integrated rice millers.

2.4.1.6 Maize Aggregation Scheme

The sum of ₦0.20 billion was disbursed for one (1) project, compared with ₦1.50 billion to three (3) projects in the first half of 2020. As at end-December 2020, all the facilities were under moratorium.

2.4.1.7 National Food Security Programme

There was no disbursement during the review period, compared with ₦9.00 billion disbursed for two (2) projects in the first half of 2020. Repayment in the review period was ₦2.36 billion, compared with ₦2.85 billion repaid in the preceding half year.

2.4.2 Small and Medium Enterprises & Industrial Policy Support

2.4.2.1 Micro, Small and Medium Enterprises Development Fund

In view of the contribution of the MSME to job creation, financial inclusion and poverty reduction, the threshold for the Micro, Small and Medium Enterprises Development Fund (MSMEDF) was increased from ₦200.00 billion to ₦1.00 trillion in 2020.

Repayments during the review period amounted to ₦1.68 billion, compared with ₦1.85 billion in the first half of 2020.

2.4.2.2 Agribusiness/ Small and Medium Enterprises Investment Scheme

In the review period, ₦62.70 billion was disbursed to 15,724 projects, compared with ₦26.62 billion to 6,727 projects in the first half of 2020.

Repayment in the review period was ₦102.89 million, compared with ₦21.15 million in the preceding half.

2.4.2.3 Small and Medium Enterprises Credit Guarantee Scheme

In the review period, cumulative guarantees remained unchanged at ₦4.25 billion for 88 projects.

2.4.2.4 Creative Industry Financing Initiative

In the second half of 2020, the sum of ₦1.64 billion was disbursed for 151 projects, compared with ₦392.62 million in the first half of 2020. The sum of ₦33.14 million was repaid in the review period, compared with ₦82.04 million in the first half.

2.4.2.5 Targeted Credit Facility

During the period under review, the sum of ₦134.68 billion was disbursed for 319,051 projects, compared with ₦44.28 billion for 70,953 projects in the preceding half. As at end-December 2020, all the facilities were under moratorium.

2.4.2.6 Nigeria Youth Investment Fund

The Fund was introduced in the second half of 2020, in collaboration with the Federal Ministry of Youth and Sports Development, as a built-in strategy to respond to the youth unemployment challenge in Nigeria. The take-off capital of ₦12.5 billion was set aside by the Bank with NIRSAL MFB as the managing agent. During the period under review, the sum of ₦191.70 million was disbursed to 293 projects.

2.4.3 Real Sector Policy Support

2.4.3.1 Real Sector Support Facility

There was no disbursement under this facility in the review period, compared with ₦6.70 billion disbursed for one (1) project in the first half of 2020. The sum of ₦5.57 billion was repaid in the review period, compared with ₦4.56 billion in the preceding period.

2.4.3.2 RSSF - Differentiated Cash Reserve Requirement

In the period under review, the sum of ₦167.03 billion was disbursed for 41 projects, compared with ₦60.07 billion released to 17 projects in the first half of 2020, indicating an increase of 178.33 per cent. The sum of ₦28.35 billion was repaid in the second half of 2020, compared with ₦11.65 billion in the first half of the year, reflecting an increase of 143.35 per cent.

2.4.3.3 Covid-19 Intervention for the Manufacturing Sector

In the second half of 2020, the sum of ₦152.57 billion was disbursed for 26 projects, compared with ₦77.41 billion for 42 projects in the first half of 2020, implying an increase of 97.09 per cent. At end-December 2020, all the facilities were under moratorium. However, the sum of ₦10 billion that was not utilised was recalled.

2.4.3.4 Healthcare Sector Intervention Facility

In the period under review, the sum of ₦50.68 billion was disbursed for 56 projects, compared with ₦20.96 billion for 15 projects in the first half of 2020, indicating an increase of 141.79 per cent. The sum of ₦3.39 billion was repaid in the second half of 2020, compared with no repayments in first half of 2020.

2.4.3.5 Healthcare Sector Research and Development Intervention (Grant) Scheme

The Healthcare Sector Research and Development Intervention (Grant) Scheme was introduced in the review period to trigger research and development (R&D) in the production of indigenous drugs and vaccines against Covid-19 and other infectious diseases. 286 proposals uploaded to the portal were still under review by the Body of Experts (BOE) in the second half of 2020.

2.4.3.6 Textile Sector Intervention Facility

During the review period, the sum of ₦4.00 billion was disbursed for 2 projects, compared with no disbursement in the first half. The sum of ₦9.00 billion was repaid, compared with ₦3.11 billion in the preceding period.

2.4.3.7 CBN-BOI Industrial Facility

The third tranche of ₦100.00 billion was disbursed to the Bank of Industry in the review period, resulting in a cumulative disbursement of ₦200.00 billion for 60 projects (first and second tranches). At end-December 2020, all the facilities were under moratorium.

2.4.3.8 Presidential Fertilizer Initiative

The sum of ₦3.0 billion was repaid within the period, compared with ₦3.5 billion in the preceding period.

2.4.3.9 Solar Connection Facility

The Solar Connection Facility (SCF) was introduced in the review period to expand affordable and clean off-grid energy to households and businesses; enhance national energy sufficiency; and address the energy distribution and transmission dependencies in Nigeria. The Bank approved the sum of ₦7.0 billion in respect of a single project for the procurement and installation of 100,000 solar home systems across the country.

2.4.3.10 Intervention Facility for the National Gas Expansion Programme

The Intervention Facility for the National Gas Expansion Programme (IFNGEP) was introduced during the review period to stimulate investment in the gas value chain.

2.4.3.11 Family Homes Finance Initiative

The initiative was introduced to fast track the construction of 300,000 homes in the 36 states of the Federation and the Federal Capital Territory, create up to 1.5 million jobs in 5 years, boost local manufacturing and improve the quality of life of 900,000 adults and children.

2.5 Export Policy Support

2.5.1 Non-oil Export Stimulation Facility

Under this Facility, the sum of ₦2.00 billion was disbursed for a single project in the second half of 2020, compared with ₦10.50 billion for three (3) projects in the first half. The sum of ₦0.76 billion was repaid in the review period, compared with ₦2.85 billion in the preceding period.

2.5.1.1 Export Development Facility

During the review period, the Bank invested an additional sum of ₦50.00 billion in debentures issued by Nigerian Export-Import Bank (NEXIM) to support export-oriented enterprises, bringing the total to ₦100.00 billion. There was no disbursement made during the review period, compared with ₦18.12 billion for 29 projects in the first half of 2020.

2.6 Energy Policy Support

2.6.1.1 Power and Airline Intervention Fund

In the second half of 2020, the sum of ₦3.03 billion was disbursed through the BOI for a single power project, compared with ₦2.99 billion for 2 projects in the preceding period. The sum of ₦22.01 billion was repaid in respect of 69 projects, compared with ₦6.51 billion for 2 projects in the first half of 2020.

2.6.1.2 Nigerian Electricity Market Stabilisation Facility

There were no disbursements during both the review period and the first half year. However, the sum of ₦11.249 billion was repaid in the review period, compared with ₦10.73 billion in the first half year.

2.6.1.3 Nigeria Bulk Electricity Trading – Payment Assurance Facility

In the second half of 2020, the sum of ₦85.58 billion was disbursed to the Nigeria Bulk Electricity Trading Plc. (NBET) through the Bank of Industry (BOI), compared with ₦85.42 billion disbursed in the first half.

2.6.1.4 National Mass Metering Programme

The National Mass Metering Programme was introduced in the review period to increase metering rate, thus eliminating estimated billing and strengthening the meter value chain. The Bank approved the sum of ₦59.28 billion from the ₦200.00 billion seed capital to finance the installation of 1 million meters. The sum of ₦14.35 billion was disbursed to eight (8) Meter Asset Providers (MAPs) through eight (8) distribution companies. All the facilities are still under moratorium.

2.7 Institutional Support and Financial Inclusion

2.7.1 National Collateral Registry

A total of 55 financial institutions registered 27,689 financing statements valued ₦228.55 billion, US$82.60 million and £27,352 in respect of 40,932 borrowers, compared with 20,282 financing statements valued ₦263.91 billion, US$163.79 million and €4.78 million registered in favour of 26,870 borrowers in the first half of 2020. In addition, a total of 30,414 searches were conducted on the portal by financial institutions and public users during the review period compared with 25,968 in the first half 2020.

TABLE 2:10 NUMBER AND VALUE OF FINANCING STATEMENTS ON THE NATIONAL COLLATERAL REGISTRY PORTAL FROM JULY 1ST TO DECEMBER 31ST, 2020

Debtor Type	Number of Financing Statements	Number of Borrowers	Currency	Value of Financing Statements
Individual	25,264	38,274	NGN (billion)	55.30
			USD (billion	0.60
Large Business	344	401	NGN (billion)	133.20
			USD (billion)	0.48
Medium Business	1,043	1,135	NGN (billion)	23,08
			USD (billion)	0.33
			GBP (billion)	0.03
Micro Business	144	151	NGN (billion)	0.57
			USD (billion)	0.03
Small Business	894	971	NGN (billion)	16.40
			USD (billion)	0.05
Total	**27,689**	**40,932**	**NGN** (billion)	**228.55**
			USD (billion)	**0.83**
			GBP (billion)	**0.03**

TABLE 2:11 NUMBER AND VALUE OF FINANCING STATEMENTS REGISTERED IN RESPECT OF WOMEN AND WOMEN-OWNED BUSINESSES ON THE NATIONAL COLLATERAL REGISTRY PORTAL FROM JULY 1ST TO DECEMBER 31ST, 2020

Debtor Type	Number of Financing Statements	Number of Women-owned Enterprises	Currency	Value of Financing Statements
Individual	11,395	13,035	NGN (billion)	19.07
Large Business	21	29	NGN (billion)	1.23
Medium Business	189	215	NGN (billion)	1.92
			USD (billion)	0.01
Micro Business	14	16	NGN (billion)	0.04
Small Business	107	125	NGN (billion)	0.78
Total	**11,726**	**13,420**	NGN (billion)	**23,04**
			USD (billion)	**0.01**

A total of 11,726 financing statements in respect of 13,420 women-owned enterprises, were registered by 46 financial institutions in the review period. These outcomes represented 42.35 per cent and 32.79 per cent, respectively, of the number of financing statements and number of borrowers.

From inception to end-December 2020, a total of 129 financial institutions had registered 125,117 financing statements valued ₦1,967.75 billion, US$1.43 billion, €0.11 billion and £0.03 billion. An analysis of this figure indicated that 92 financial institutions registered 48,136 financing statements (38.5 per cent), valued ₦126.47 billion and US$0.06 billion, in respect of women-owned enterprises.

2.7.2 Financial Inclusion

In the period under review, a number of bank branches were closed to customers as a result of the Covid-19 containment measures. Banks, however, continued to render services through alternative channels, such as ATM, PoS, Agent locations and mobile Apps. Following the gradual reopening of the economy, bank branches and other financial service touch points began to offer ‘over-the-counter’ (OTC) services to customers.

A total of 3,445,413 new BVNs were issued between July and December 2020, out of which 1,810,465 were female.

During the review period, a total of 192,160 Agents were on-boarded, compared with 100,900 in the preceding period, bringing the total to 530,000 under the Shared Agent Network Expansion Facility (SANEF) at end-December 2020. In terms of access points per capita, 500 Agents served 100,000 adults in the second half of year 2020, compared with 322 Agents per 100,000 adults in the preceding period. Other alternative channels, such as ATM points, mobile agents and PoS devices, contributed significantly to the number of access points.

2.8 Impact of Intervention

The Bank's intervention programmes and schemes provided credit to the real sector to support economic growth. The interventions contributed to the creation of jobs within the focus sector, sustained households' wealth through improvement in income.

They also improved the intermediation capacity of banks through on-lending, reduced the level of NPLs and cushioned the consequences of Covid-19 pandemic on businesses and households through low-cost financing.

3 REGULATORY AND SUPERVISORY ACTIVITIES

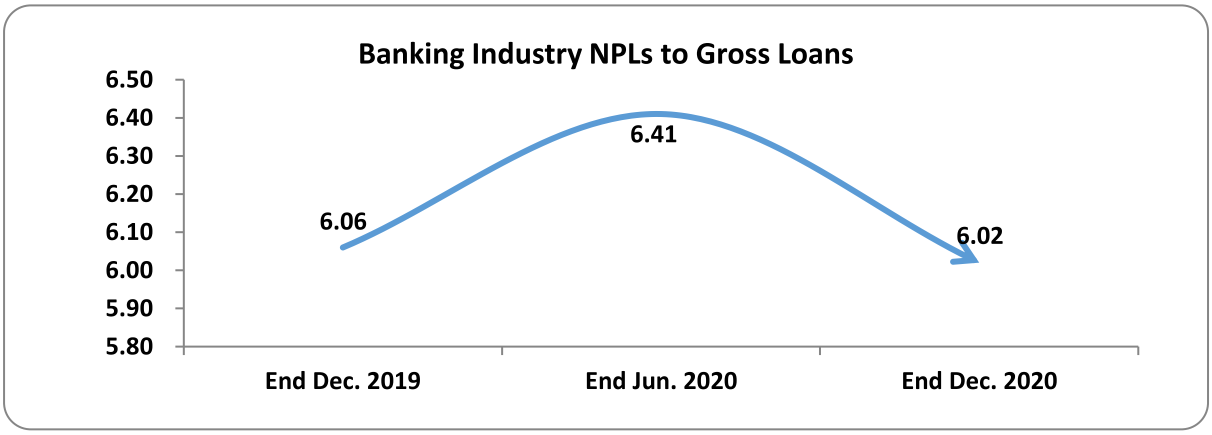
3.1 Financial Soundness Indicators

3.1.1 Asset-Based Indicators

3.1.1.1 Non-Performing Loans to Gross Loans

The Bank sustained the forbearance measures and implemented the Global Standing Instruction (GSI) policy in addition to other regulatory measures. Consequently, the ratio of non-performing loans (NPLs) to gross loans decreased to 6.02 per cent at end-December 2020 from 6.41 per cent at end-June 2020.

FIGURE 3.1 BANKING INDUSTRY NPLS TO GROSS LOANS

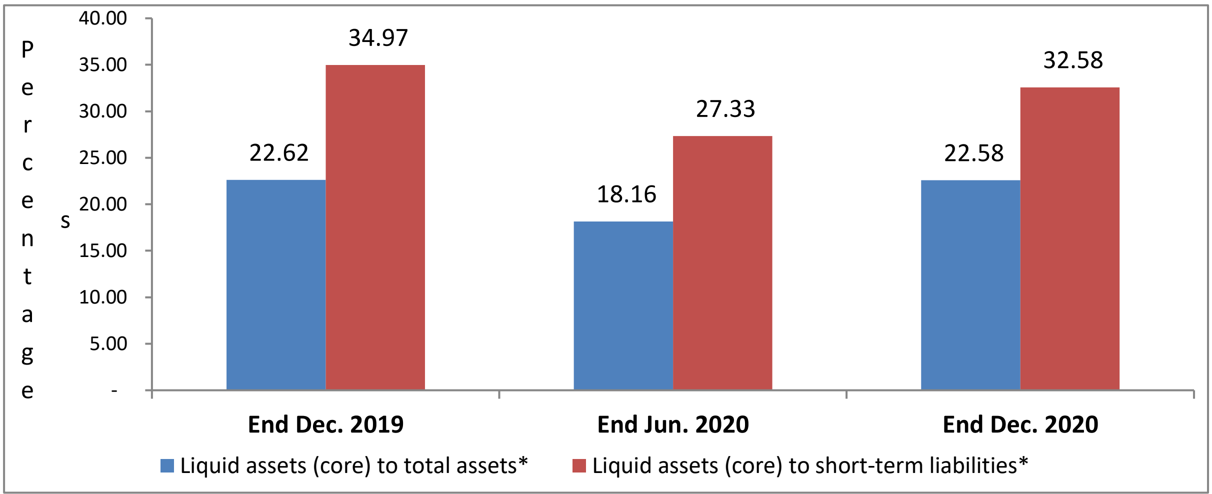


3.1.1.2 Core Liquid Assets to Total Assets and Short-term Liabilities

Banking system liquidity improved within the review period as the ratio of core liquid assets to total assets increased by 4.42 percentage points to 22.58 per cent from 18.16

per cent recorded in the first half of 2020. Furthermore, the ratio of core liquid assets to short-term liabilities improved by 5.25 percentage points to 32.58 per cent in the review period, compared with 27.33 per cent at end-June 2020. This was attributed to increase in the holdings of Federal government securities and CBN Special Bills. Thus, the improved liquidity indicators reflected the banks' ability to meet their short-term obligations thereby enhancing the safety and soundness of the banking system.

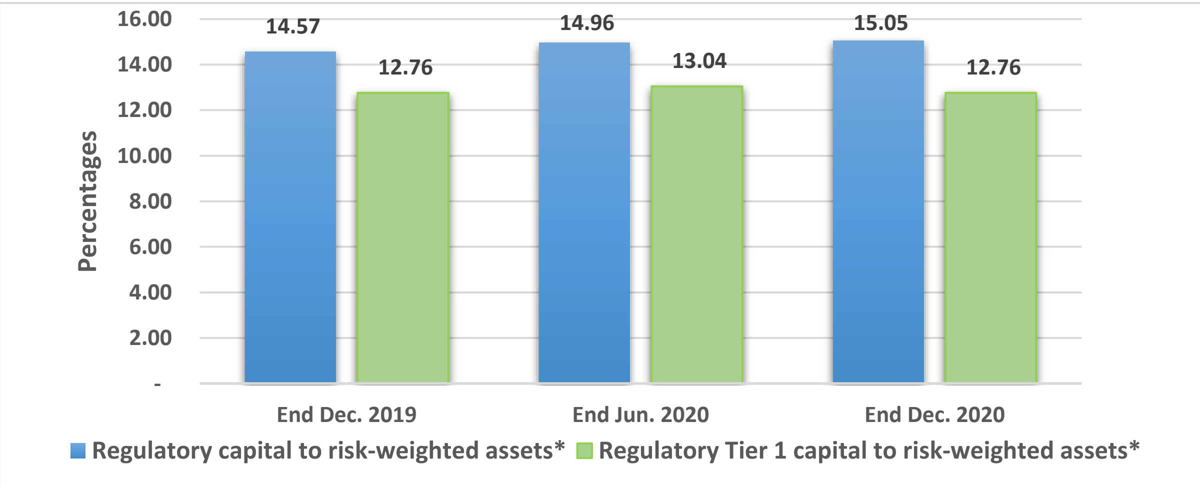
FIGURE 3.2 BANKING INDUSTRY LIQUIDITY INDICATORS



3.1.2 Capital-Based Indicators

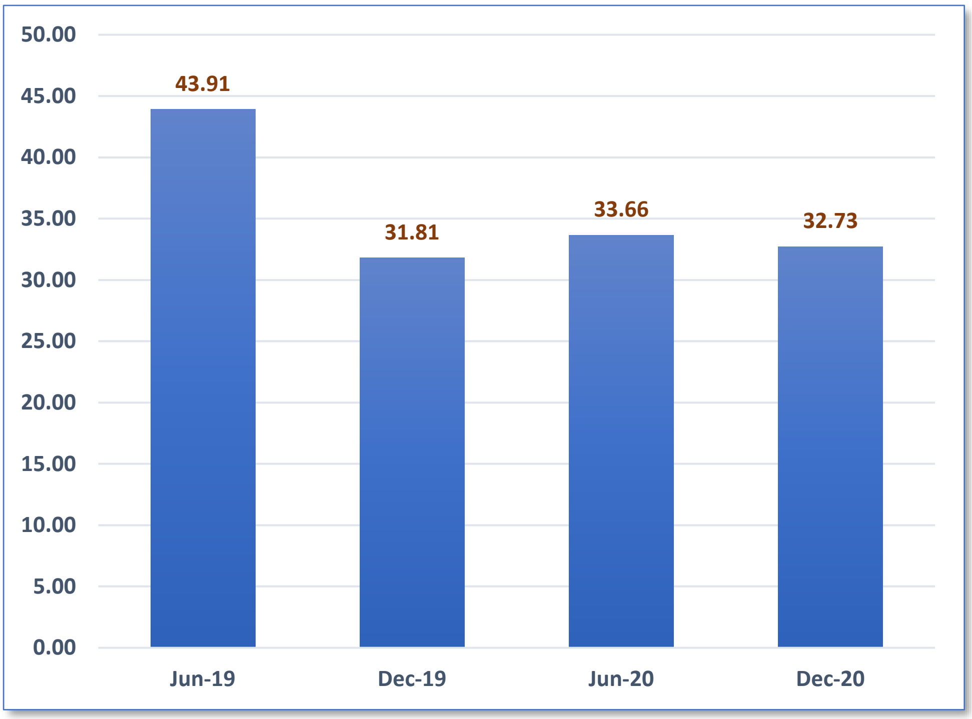
The solvency of the banking industry improved as the regulatory capital to risk-weighted assets increased marginally from 14.96 per cent in June-2020 to 15.05 per cent at end-December 2020. Although the regulatory tier-1 capital to risk-weighted assets declined marginally to 12.76 per cent at end-December 2020, from 13.04 per cent in June 2020, the ratio remained above the regulatory threshold of 10 per cent. Similarly, the Return on Assets (ROA) increased by 0.83 per cent during the review period, indicating banks' improved efficiency in using their assets.

FIGURE 3.3 BANKING INDUSTRY CAPITAL ADEQUACY INDICATORS



The resilience of the banking system improved as the ratio of non-performing loans net of provisions to capital for the industry declined marginally to 32.73 per cent at end-December 2020 from 33.66 per cent at end-June 2020. The decline was due to the capitalization of a portion of the 2019 financial year earnings.

FIGURE 3.4 NON-PERFORMING LOANS NET OF PROVISIONS TO CAPITAL RATIO



3.1.3 Income and Expense Based Indicators

The ratio of interest margin to gross income decreased to 52.72 per cent during the review period from 59.05 per cent at end-June 2020. However, the ratio of non-interest expenses to gross income increased to 62.63 per cent at end-December 2020 from 58.74 per cent in the preceding half.

The ratio of personnel expenses to non-interest expenses declined to 30.66 per cent at end-December 2020 from 31.25 per cent at end-June 2020.

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

Indicators	2018**	2019**		2020**	
	End Dec	End Jun	End Dec	End Jun	End Dec
1. Assets Based Indicators					
Nonperforming loans to total gross loans *	11.67	9.33	6.06	6.41	6.02
Liquid assets (core) to total assets*	22.10	22.16	22.62	18.16	22.58
Liquid assets (core) to short-term liabilities*	33.22	34.78	34.97	27.33	32.58
2. Capital Based Indicators					
Regulatory capital to risk-weighted assets*	15.21	15.27	14.57	14.96	15.05
Regulatory Tier 1 capital to risk-weighted assets*	13.54	13.55	12.76	13.04	12.76
Nonperforming loans net of provisions to capital *	56.20	43.91	31.81	33.66	32.73
Return on assets*	1.99	2.48	2.48	2.50	3.33
3. Income and Expense Based Indicators					
Interest margin to gross income*	63.93	63.25	61.66	59.05	52.72
Noninterest expenses to gross income*	66.04	62.65	64.00	58.74	62.63
Personnel expenses to noninterest expenses	32.09	32.76	34.61	31.25	30.66

**FSIs are computed based on IMF guidelines.*

***Some indicators in 2018, 2019 and End-June 2020 are revised*

3.2 The Banking Industry Stress Tests

3.2.1 Solvency Stress Test

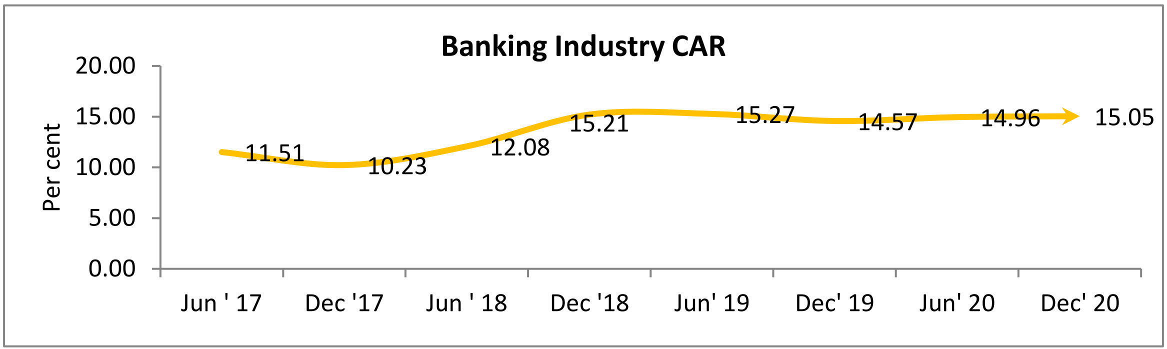
3.2.1.1 Baseline Position

The baseline NPL ratio and CAR in the period under review were 6.02 and 15.05 per cent respectively, while ROA and ROE stood at 3.33 and 14.37 per cent, respectively, at end-December 2020.

TABLE 3:2 BANKING INDUSTRY BASELINE SELECTED KEY INDICATORS

	CAR	LR	NPLs	ROA	ROE
Dec 2020 (%)	15.05	32.58	6.02	3.33	3.73
Jun 2020 (%)	14.96	27.33	6.41	2.50	14.37
Percentage Points Change	0.09	5.25	-0.39	0.83	-10.64

FIGURE 3.5 BANKING INDUSTRY CAR (PER CENT)



3.2.1.2 Credit Risk

The banking industry remained resilient to general credit risk shock of “less than 100 per cent increase” in NPLs. However, there was a marginal reduction in the resilience compared with June 2020 level, as depicted in the decline of CAR from 10.72 to 9.60 per cent (Table 3.3).

TABLE 3:3 CREDIT DEFAULT SHOCKS

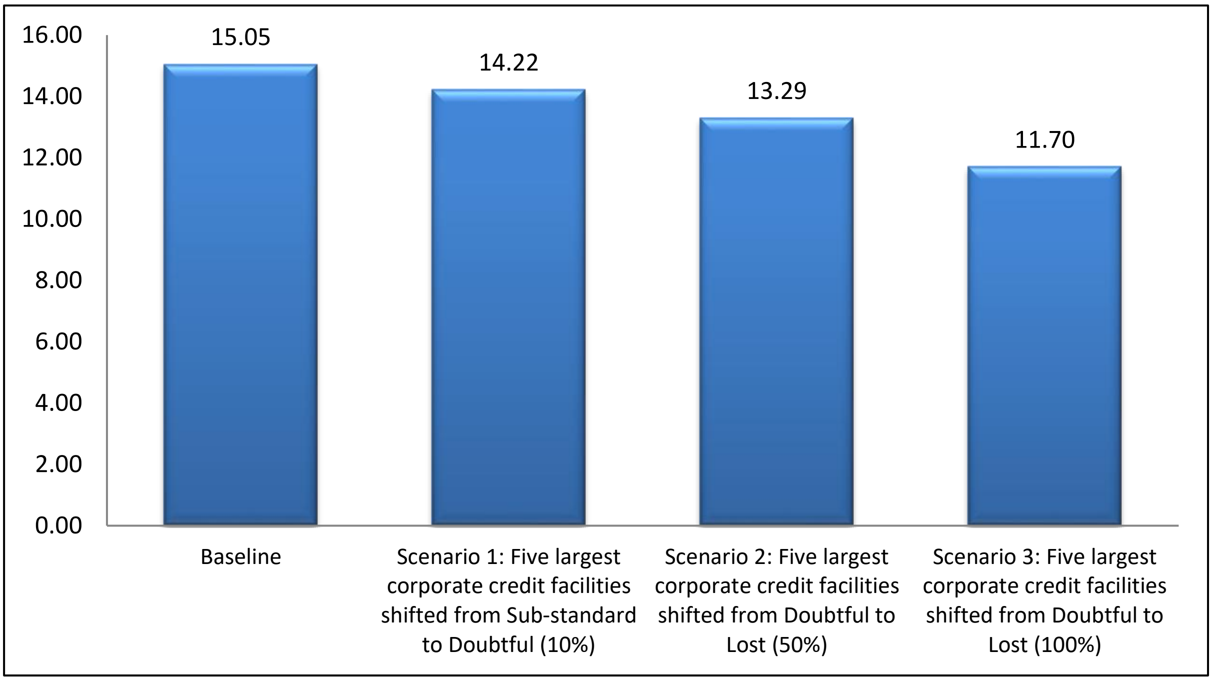
Single Factor Shocks	December 2020	June 2020
Baseline CAR	15.05	14.96
10% NPLs increase	14.33	14.53
15% NPLs increase	14.08	43.32
20% NPLs increase	13.83	14.12
30% NPLs increase	13.32	13.71
50% NPLs increase	12.29	12.88
100% NPLs increase	9.60	10.72

Similarly, the credit concentration stress test showed that the banking industry was resilient to shocks under scenarios 1, 2 and 3 as the CAR remained above the 10 per cent regulatory threshold (Table 3.4).

TABLE 3:4 CREDIT CONCENTRATION RISK

	Dec 2020	Jun 2020
Baseline CAR	14.83	14.93
Single Factor Credit Concentration Shocks		
Scenario 1 **Five largest corporate credit facilities shifted from pass-through[12]to sub-standard (10%)**	14.22	14.34
Scenario 2 **Five largest corporate credit facilities shifted from sub-standard to doubtful (50%)**	13.29	13.44
Scenario 3 **Five largest corporate credit facilities shifted from doubtful to lost (100%)**	11.70	11.90

FIGURE 3.6 CREDIT CONCENTRATION RISK

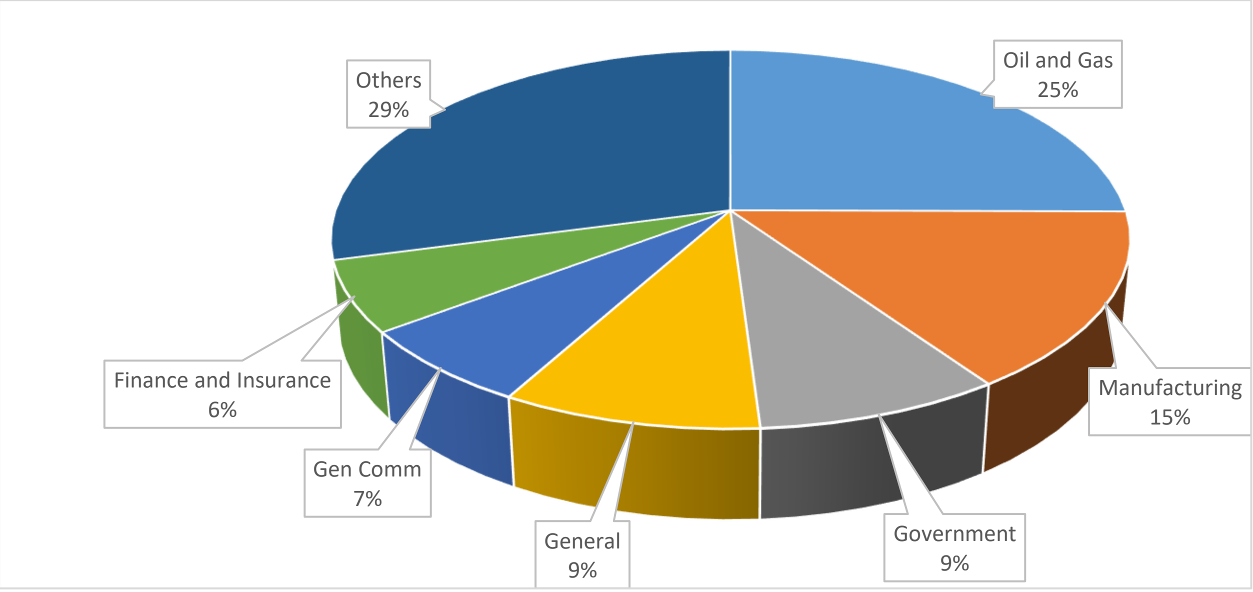


3.2.1.3 Sectoral Credit Concentration Risk

A breakdown of banking industry credit by sectors at end-December 2020 showed that the oil & gas, manufacturing, government, general, finance & insurance, general commerce and others accounted for 25.10, 15.23, 8.64, 9.10, 6.06, 6.69 and 29.18 per cent, respectively.

[12] Performing Loans

FIGURE 3.7 SECTORAL CONCENTRATION OF CREDIT



The results of the stress test showed that the banking industry could withstand up to 50 per cent shock on defaults in oil and gas exposures as the post-shock CAR would be 10.12 per cent.

TABLE 3:5 STRESS TEST ON OIL AND GAS EXPOSURES

	Industry CAR (%)
Baseline CAR	14.83
30% Default on total exposure to Oil and Gas	14.11
50% Default on total exposure to Oil and Gas	10.12

3.2.1.4 Interest Rate Risk

The stress test on the net position of interest-sensitive instruments showed that the industry maintained a stable solvency position to interest rate shock of “up to 1000 basis points downward shift in yield curve” as the post-shock CAR declined from 14.93 to 13.16 per cent. However, the interest rate shocks had significant adverse impact on the ROA and ROE.

FIGURE 3.8 IMPACT OF INTEREST RATE SHOCKS ON CAR

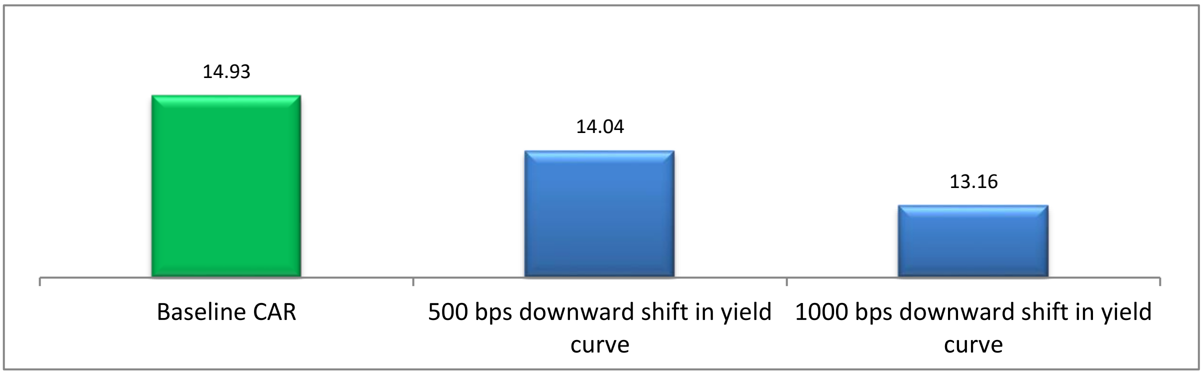


FIGURE 3.9 IMPACT OF INTEREST RATE SHOCKS ON ROA AND ROE

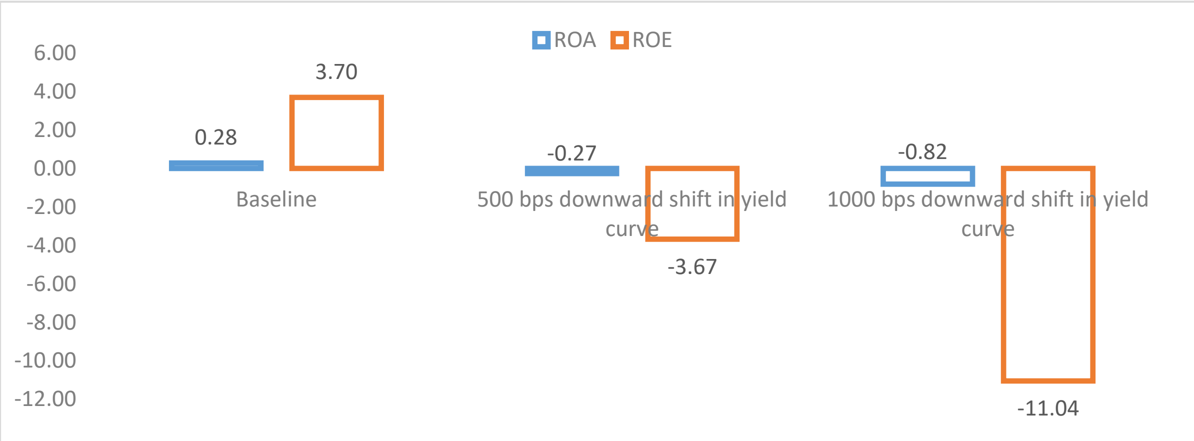


TABLE 3:6 IMPACT OF SELECTED SHOCKS ON CAR, ROA AND ROE

	Banking Industry (%)
Baseline ROA	0.23
Baseline ROE	3.73
Impact of Downward Shift in Yield Curve Shocks on CAR	
500 bps downward shift in yield curve	14.04
1000 bps downward shift in yield curve	13.16
Impact of Downward Shift in Yield Curve Shocks on ROA	
500 bps downward shift in yield curve	0.50
1000 bps downward shift in yield curve	0.05
Impact of Downward Shift in Yield Curve Shocks on ROE	
500 bps downward shift in yield curve	7.57
1000 bps downward shift in yield curve	0.77

3.2.2 Liquidity Stress Test[13]

The stress test result revealed that after a one-day run scenario, the liquidity ratio for the industry declined to 35.20 per cent from the 44.36 per cent baseline position. Similarly, under the 5-day and 30-day scenarios, the liquidity ratio for the industry declined to 19.03 and 15.06 per cent, indicating N2.26 trillion and N2.91 trillion liquidity shortfalls, respectively at end-December 2020.

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

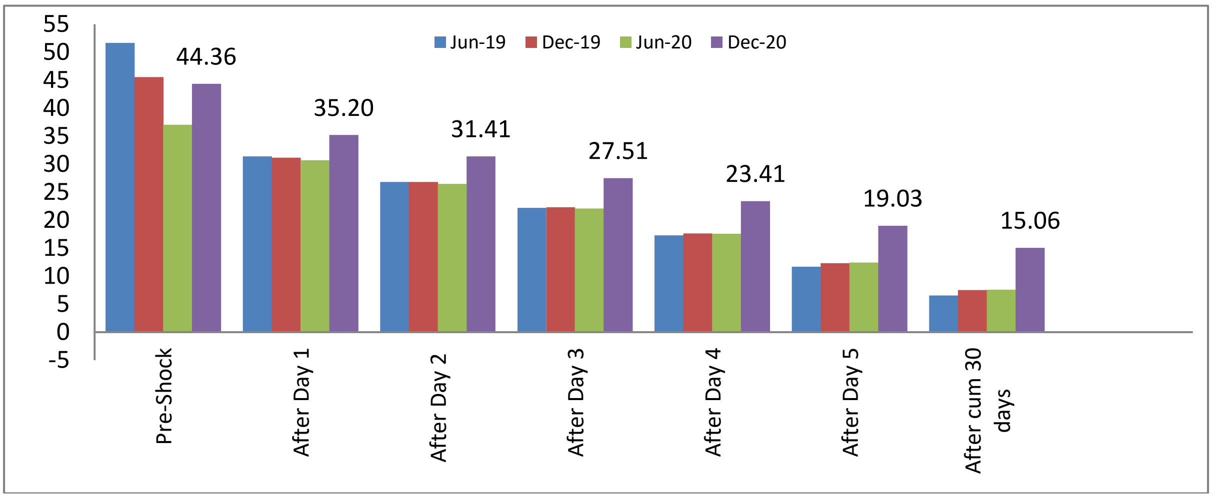


TABLE 3:7 LIQUIDITY STRESS TEST RESULTS (POST-SHOCK)

Scenario	Banks with Liquidity Ratios (LR) < 30%		Dec 2020	
	June 2020 (27 CMBs)	Dec 2020 (27 CMBs)	LR (%)	Shortfall to 30% LR threshold (₦' billion)
Test 1.1: Implied Cash Flow Test				Test 1.1: Implied Cash Flow Test
Day 1	11	7	35.20	Nil
Day 2	13	12	31.41	Nil
Day 3	17	13	27.51	569.80
Day 4	19	15	23.41	1,432.28
Day 5	19	16	19.03	2,261.13
Implied Cash Flow Test (30 Days)	22	18	15.06	2,914.55

[13] Liquidity stress tests were conducted at end-Dec 2020 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.

3.2.3 Maturity Mismatch

The cumulative position of the industry showed an excess of N2.30 trillion assets over liabilities. The industry baseline assets and liabilities maturity profile at end-December 2020, revealed that the shorter end of the market (≤90 day bucket) were adequately funded. However, five banks and seven banks were not adequately funded in the ≤30-day and 31-90 day buckets, respectively.

TABLE 3:8 MATURITY PROFILE OF ASSETS AND LIABILITIES AT END-DECEMBER 2020

Bucket	Liabilities	Assets	Mismatch	Cumulative Mismatch
	N Billion			
≤30 days	26,162.59	12,917.04	13,245.54	13,245.54
31-90 days	3,616.91	2,856.11	760.80	14,006.34
91-180 days	1,255.81	1,964.63	(708.81)	13,297.53
181-365 days	818.88	4,365.13	(3,546.25)	9,751.29
1-3 years	1,502.51	3,983.97	(2,481.46)	7,269.82
>3 years	2,529.21	12,102.27	(9,573.06)	(2,303.24)
Total	35,885.91	38,189.14	(2,303.24)	

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	17,415.37	2	12,182.85	4	(927.40)	4
31-90 days	4,930.63	4	(251.94)	15	(435.73)	6
91-180days	3,461.02	6	(959.97)	21	(31.67)	6
181-365days	623.58	10	(3,791.91)	24	(1,343.71)	9
1-3 Years	1,688.36	14	(2,932.21)	25	(944.73)	11
Above 3 years	(5,403.23)	22	(9,573.06)	25	(4,086.74)	18
Total	22,715.72		(5,326.24)		(7,769.98)	

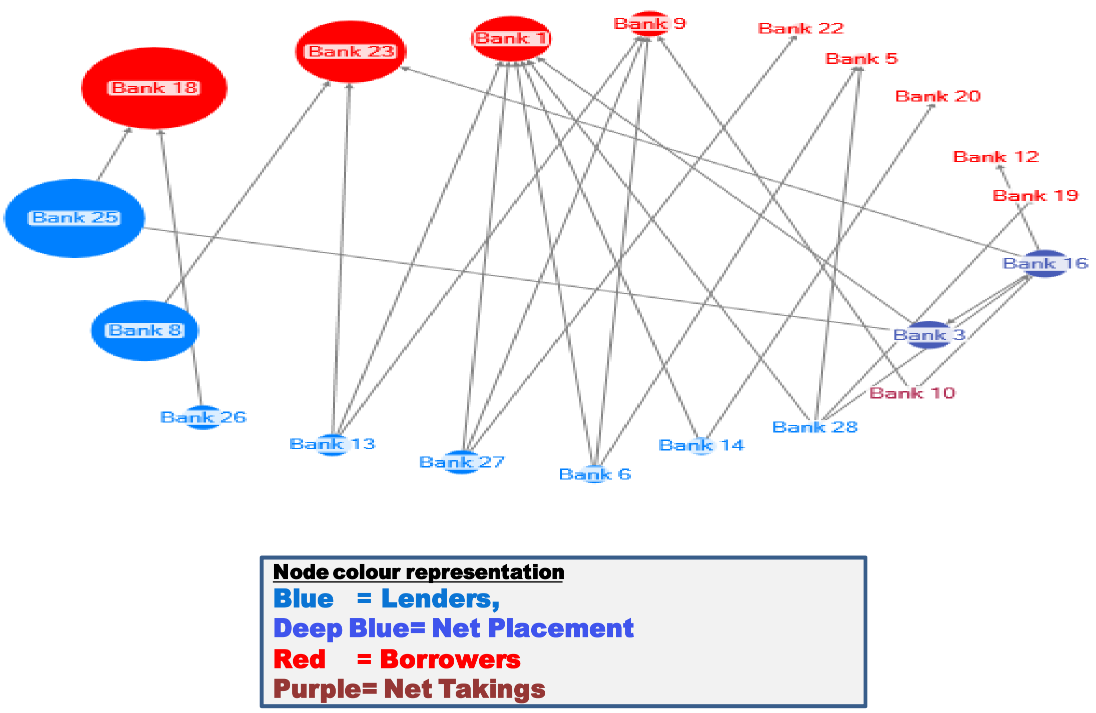
Test 2A revealed that the banking industry was adequately funded, while under 2B and 2C the industry had mismatch of ₦5.33 trillion and ₦7.77 trillion, respectively. These represented decrease of ₦1.53 trillion and N1.50 trillion under the Test 2B and Test 2C, respectively, relative to end-June 2020 tests (Table 3.9).

3.2.4 Contagion Risk Analysis

Contagion risk measured by the volume of interbank placements and takings and the number of institutions in the market, showed a 56.03 per cent decrease, compared with the end-June 2020 position. Three banks were central on the network as their combined exposures accounted for 77 per cent of total interbank takings.

A breakdown of placements showed that six banks accounted for 90.96 per cent (N360.52bn) of total placements. Similarly, six banks accounted for 96.40 per cent (N382.08bn) of total takings.

FIGURE 3.11 NETWORK ANALYSIS BASED ON INTERBANK EXPOSURES



BOX 2: LIQUIDITY STRESS TEST ASSUMPTIONS

Implied Cash Flow Analysis

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

The Maturity Mismatch/Rollover Risk

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

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

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

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

TABLE 3:10 : PERCENTAGE OF ASSETS UNENCUMBERED AFTER FIRE SALES

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

3.3 Supervision of Banks

3.3.1 Supervisory/ Surveillance Activities

During the review period, the Bank continued with its supervisory and surveillance activities with the aim of ensuring the safety and soundness of banks and the stability of the financial system.

3.3.1.1 Examination

The Risk Based Examination of thirteen (13) banks with Composite Risk Rating (CRR) of “High” and “Above Average” and two (2) financial holding companies was conducted jointly with the NDIC in the review period. Monitoring and follow-up exercises were also undertaken to ensure compliance of banks with the recommendations in the examination reports with a view to reviewing their CRR accordingly.

3.3.1.2 Foreign Exchange Examination

Foreign exchange examination of twenty-two (22) commercial banks and four (4) merchant banks was conducted in the review period. This was to ensure compliance with extant regulations and the utilisation of foreign exchange acquired for eligible transactions.

The examination revealed instances of the following infractions among others:

1. Utilisation of cash deposits in excess of USD10,000 for telegraphic transfers.
2. Usage of Domiciliary account balances to fund importation of goods without processing Form M.
3. Utilisation of foreign exchange in excess of the quarterly allowable limit of U$20,000 by small scale importers.
4. Non-compliance with net open position limits (NOPL) and currency trading positions.

Appropriate regulatory measures, including financial sanctions, were imposed on the banks.

3.3.2 Supervision of Domestic Systemically Important Banks

The five Domestic Systemically Important Banks (D-SIBs) at end-December 2020, accounted for 58.16 per cent or ₦29.65 trillion of the industry total assets of ₦50.99 trillion. The D-SIBs also accounted for ₦19.78 trillion of total industry deposits of ₦32.32 trillion, representing 61.20 per cent and 57.66 per cent or ₦10.12 trillion of the aggregate industry credits of ₦17.55 trillion.

The five D-SIBs submitted their Recovery and Resolution Plans (RRPs) for the period under review in compliance with the D-SIB Supervisory Framework. The submissions largely complied with the provisions of the Guideline for “Minimum Content for Recovery Plans and Requirements for Resolution Planning” issued in November 2016.

3.3.3 Asset Management Corporation of Nigeria

The Asset Management Corporation of Nigeria (AMCON) recovered the sum of ₦99.89 billion, representing 99 per cent of its 2020 target (₦100.96 billion), majorly from the sale of forfeited assets (₦36.94 billion) and repayment by obligors (₦49.43 billion).

The Corporation has achieved a total recovery of ₦854.36 billion to date, comprising cash recovery of ₦440.01 billion, sale of forfeited assets of ₦274.51 billion and sale of forfeited shares of ₦139.84 billion.

The carrying value of AMCON’s liabilities stood at ₦5.67 trillion as at December 31, 2020, with AMCON Notes of ₦4.03 trillion and Loan (Debenture) of ₦500 billion accounting for 71.10 per cent of the liabilities. The carrying value of the Corporation’s assets net of impairment stood at ₦964.27 billion at end-December 2020. The assets represented 17.25 per cent of the liabilities. The difference would be covered by the Banking Sector Resolution Cost Fund (BSRCF).

In year 2020, the total contributions collected in the BSRCF witnessed a significant increase owing to the redemption of outstanding contributions by some participating banks. Consequently, the total contributions to the BSRCF at end-December 2020 stood at N303.15 billion, an increase of N58.05 billion or 23%, compared with N245.1 billion at end-December 2019.

3.3.4 Cross Border Supervision of Nigerian Banks

3.3.4.1 Foreign Subsidiaries of Nigerian Banks

The number of offshore subsidiaries and representative offices of Nigerian banks remained 58 and four (4), respectively.

The number of affiliates and international branches remained two (2) and three (3), respectively, bringing the total number of offshore entities to 67.

3.3.4.2 Onsite Examination of Offshore Subsidiaries of Banks

During the review period, there was no onsite examination owing to the Covid-19 pandemic. However, banks continued to highlight the impact of the pandemic on their subsidiaries and measures taken to address them in their monthly returns.

3.3.4.3 Supervisory Collaborations

Supervisory engagements were held during the review period to address regulatory concerns, with emphasis on risk management practices, corporate governance, emerging cross border issues and information sharing and with a view to ensuring financial stability within the region.

3.3.4.3.1 College of Supervisors

During the review period, the Bank hosted two inaugural College of Supervisors meetings for Access Bank on August 10 and 11, 2020, and Guaranty Trust Bank on August 12, 2020. The meetings discussed issues of regulatory concern about the banks, particularly the enhancement of their risk management practices.

Similarly, the Bank participated in the College of Supervisors meeting convened for Standard Chartered Bank by the Prudential Regulations Authority (PRA) of the United Kingdom on July 09, 2020 and the 6th College of Supervisors meeting for Ecobank Transnational Incorporated (ETI) convened on October 29-30, 2020.

Also, the 37th College of Supervisors of the West African Monetary Zone (CSWAMZ) meeting was held on August 31 and September 3, 2020 with discussions focused on addressing the impact of the Covid–19 pandemic on the region.

3.3.4.3.2 Community of African Banking Supervisors

The Community of African Banking Supervisors Working Group on Crisis Management, Banking Resolution and FinTech organized a training programme on FinTech regulations and supervision for its members from December 7-11, 2020. The programme focused on building supervisors' knowledge and skills on the key concepts and trends in FinTech operations. The training covered risk management in FinTech operations and the application of SupTech and RegTech in Fintech supervision, among others.

3.3.5 Credit Risk Management System

The Redesigned Credit Risk Management System (CRMS) database, a veritable source of credit information in the banking industry, continued to grow and gain acceptance during the period.

The total number of credit facilities on the database increased by 7,106,824 or 48.98 per cent to 21,616,075 at end-December 2020, from 14,509,251 at end-June 2020. This incremental end-December 2020 figure comprised 20,887,088 individual and 728,987 non-individual borrowers. Similarly, the total number of facilities with outstanding balances increased by 98.48 per cent to 3,944,882 at end-December 2020, from 1,987,529 at end-June 2020. The increase comprised 3,830,870 individuals and 114,012 non-individuals.

TABLE 3:11 CREDIT RISK MANAGEMENT SYSTEM

Borrowers from the Banking Sector (Commercial, Merchant and Non-Interest Banks)				
Description	**June 2020**	**December 2020**	**Absolute Change: Increase/ (decrease)**	**% Change**
*** Total No. of Credit/facilities reported on the CRMS:**	**14,509,251**	**21,616,075**	**7,106,824**	**48.98**
Individuals	13,846,282	20,887,088	7,040,806	50.85
Non-Individuals	662,969	728,987	66,018	9.96
*** Total No. of Outstanding Credit facilities on the CRMS:**	**1,987,529**	**3,944,882**	**1,957,353**	**98.48**
Individuals	1,893,452	3,830,870	1,937,418	102.32
Non-Individuals	94,077	114,012	19,935	21.19

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

3.3.6 CREDIT BUREAUX

During the review period, the capital base of the three (3) bureaux remained above the regulatory minimum of ₦500 million. Also, a steady growth in credit records, number of borrowers and value of credits was observed in all the credit bureaux, indicating compliance with regulations by credit providers (Table 3.13).

TABLE 3:12 CREDIT BUREAUX RECORDS

		CRC Credit Bureau		CreditRegistry		First Central Credit Bureau	
		As at December 31, 2020	As at June 30, 2020	As at Dec 31, 2020	As at June 30, 2020	As at December 31, 2020	As at June 30, 2020
1	Number of credit records	45,106,433	37,799,913	38,633,564	33,139,617	37,469,045	31,259,430
2	Number of subscribers	1,463	1,400	616	585	1,159	1,126
3	Value of Credit Facilities	N30.117 Trillion	N27.100 Trillion	₦28.974 trillion	₦29.615 trillion	N27.699 Trillion	₦27.163 Trillion
4	Number of borrowers	21,008,956	18,889,269	13,553,876	12,779,675	15,985,435	17,497,998

3.3.7 Non-Interest Banks

Total assets of the seven (7) Non-Interest (Islamic) banking financial institutions (NIFIs) comprising two banks, three MFBs and two windows was N351 billion, representing less than 1 per cent of total banking industry assets.

A total of five (5) examinations were carried out on four (4) NIFIs during the review period: three (3) routine RBS examinations, one (1) Risk Asset Assessment Examination (RAAE) and one (1) maiden examination.

3.4 Supervision of Other Financial Institutions

The Bank conducted onsite examination of 190 OFIs, comprising 114 BDCs and 76 MFBs at end-December 2020 compared with 262 at end-June 2020.

3.4.1 Bureaux de Change

The Bank conducted on-site risk-based AML/CFT examination of 114 BDCs during the review period. The examination reports revealed infractions of extant regulations and erring institutions were appropriately sanctioned.

3.4.2 Microfinance Banks

There was no routine examination of MFBs, owing largely to the effect of the Covid-19 Pandemic. However, special examination was carried out on 76 MFBs having critical regulatory issues during the review period. The examination revealed that 34 MFBs were active while 42 MFBs had ceased operations. The operating licences of the 42 MFBs were subsequently revoked by the Bank for regulatory infractions such as unauthorized closure and failure to render monthly returns for more than six (6) months.

3.5 Other Developments in the Financial System

3.5.1 Anti-Money Laundering and Combating the Financing of Terrorism

In order to sustain Nigeria's ranking with the Financial Action Task Force (FATF), and in compliance with the FATF requirements, the Inter-governmental Action Group against Money Laundering in West Africa (GIABA) assessors conducted a follow-up assessment on the exceptions raised during the Mutual Evaluation Exercise held in 2019.

Furthermore, the Bank's meeting with the Association of Bureaux De Change Operators of Nigeria (ABCON) on AML/CFT compliance issues and on GIABA Mutual Evaluation Exercise (MEE), resolved that all BDCs shall:

- Implement AML/CFT controls and ensure comprehensive customer due diligence;
- Conduct AML/CFT trainings for stakeholders periodically; and
- Improve on AML/CFT returns rendition to the CBN and Nigerian Financial Intelligence Unit (NFIU).

In compliance with the foreign exchange regulations, a total of 593,892 transactions were reviewed, with 88 accounts identified with issues relating to structured deposits, unexplained large inflows and transfers, and unrelated party transactions. Appropriate regulatory measures were taken accordingly.

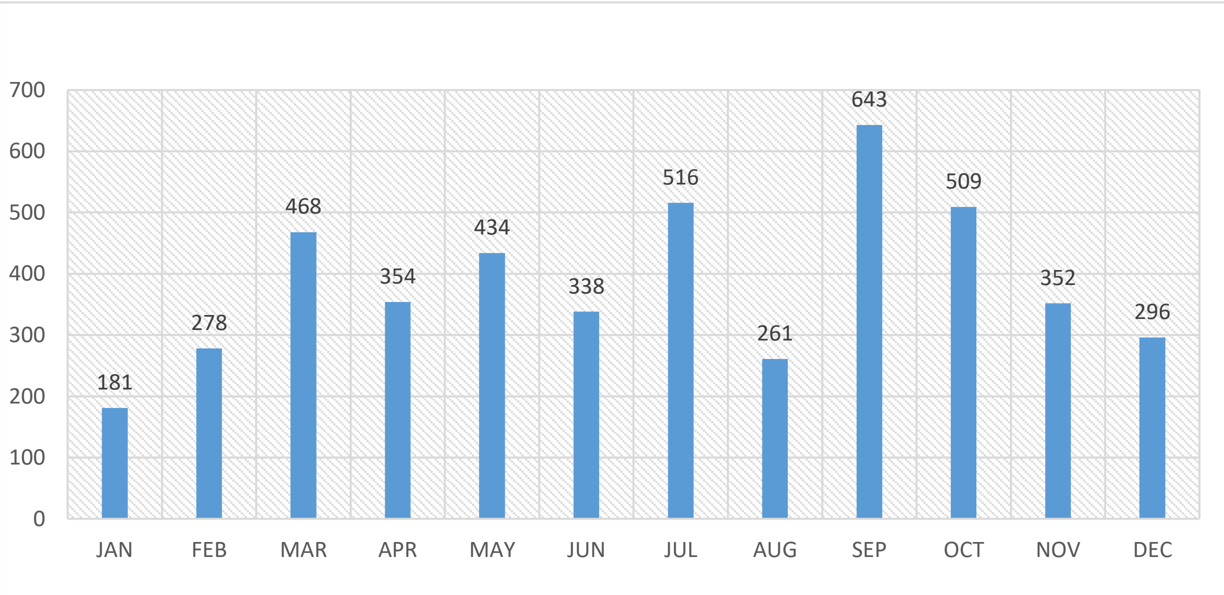
3.5.2 Corporate Governance Scorecard

Scorecard assessments were conducted on eight (8) banks in the second half of the year, to ascertain their level of compliance with the CBN Code of Corporate Governance for Banks and Discount Houses.

3.6 Complaints Management and Resolution

During the period under review, the Bank received 2,577 complaints from consumers of financial services, an increase of 524 or 25.52 per cent over the 2,053 received in the first half of 2020. The breakdown showed that 2,491 complaints or 96.67 per cent were against Deposit Money Banks while 86 complaints or 3.33 per cent were against Other Financial Institutions. The rise in complaints was attributed to challenges associated with increased adoption of electronic channels for banking transactions owing to lockdown restrictions as well as increased awareness of consumers of financial services.

FIGURE 3.12 NUMBER OF COMPLAINTS RECEIVED (JAN - DEC 2020)



The complaints were related to excess/unauthorized charges, fraud, guarantees, account management, ATM dispense errors and funds transfer. Complaints relating to electronic products constituted the highest number.

FIGURE 3.13 CATEGORIES (%) OF COMPLAINTS RECEIVED (JUL - DEC 2020)

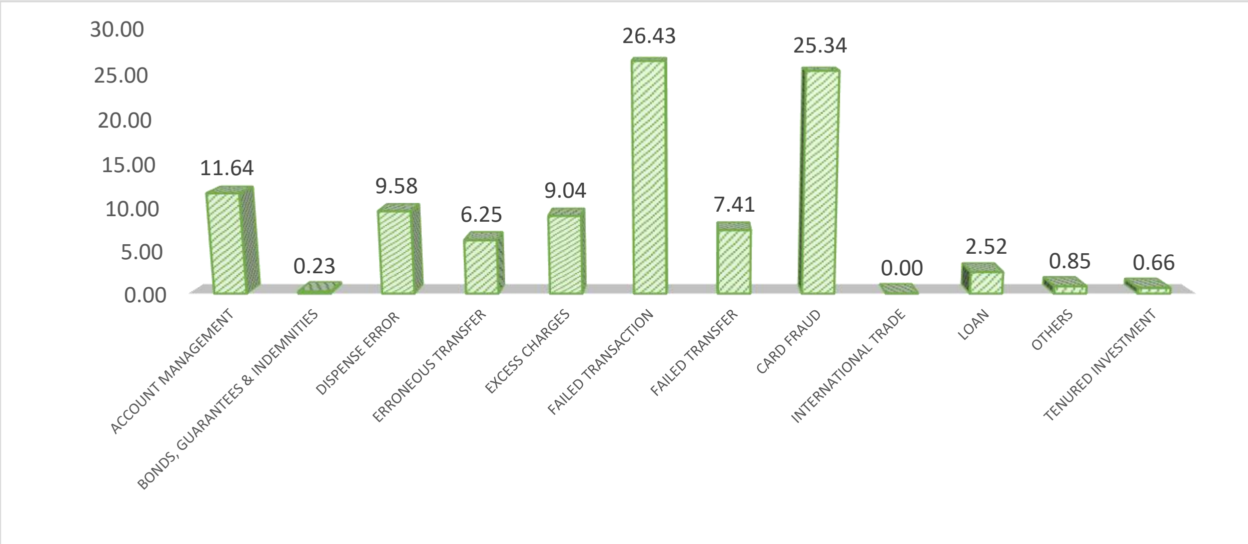
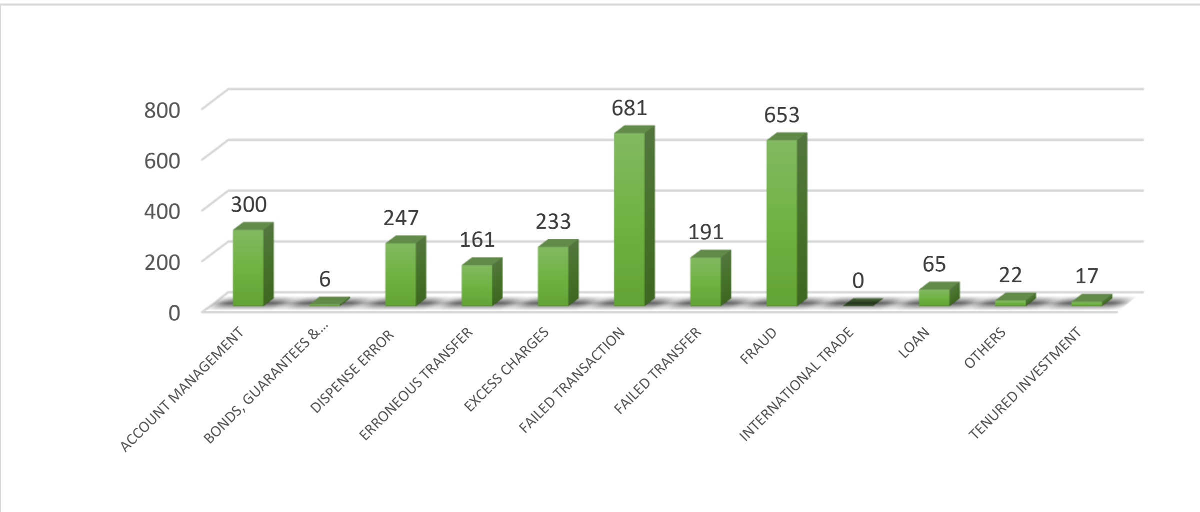
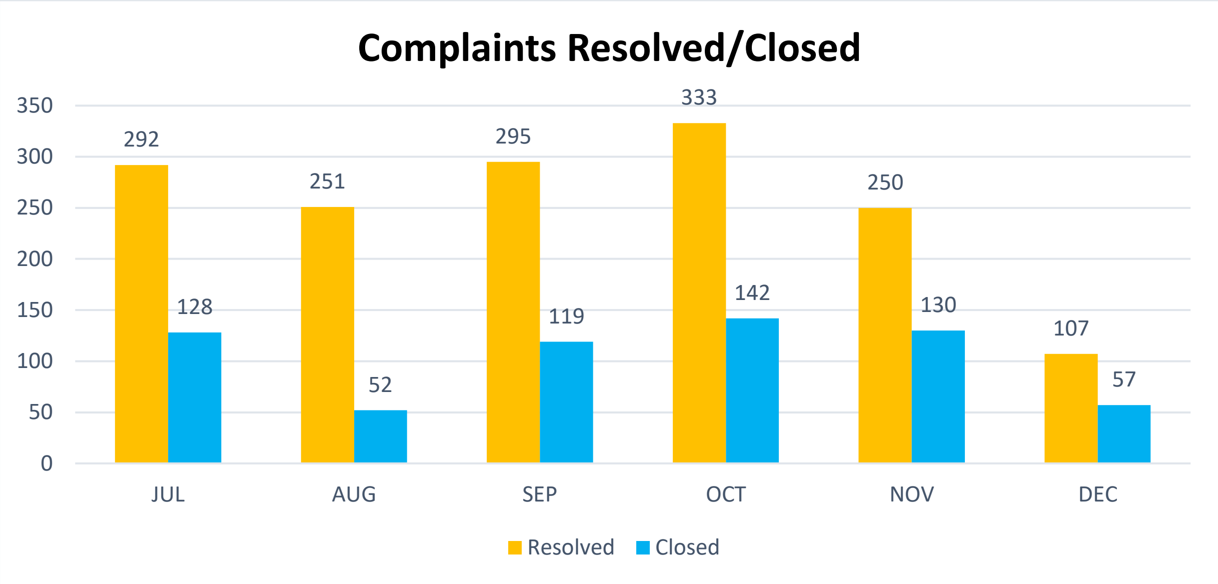


FIGURE 3.14 CATEGORIES OF COMPLAINTS RECEIVED (JUL - DEC 2020)



During the review period 1,528 complaints were resolved while 628 were closed, making a total of 2,156 resolved/closed. This outcome reflected a marginal decrease of 45 or 2.04 per cent, compared with the total of 2,201 in the first half of 2020.

FIGURE 3.15 DISTRIBUTION OF COMPLAINTS RESOLVED/CLOSED



Total claims made by complainants during the review period amounted to ₦31.52 billion while the sum of ₦839.93 million was refunded by financial institutions to customers.

4 THE PAYMENTS SYSTEM

4.1 Developments in the Payments System

The Bank continued to implement policies and introduce initiatives with a view to promoting financial system stability through an improved payments system.

4.1.1 Bank Verification Number Operations and Watch-list

The Bank Verification Number (BVN) remained a credible unique identifier for customers across the banking system, facilitating effective implementation of the Know Your Customer (KYC) policy. At end–December 2020, the BVN count stood at 45,809,213, reflecting an increase of 7.62 per cent over the 42,320,351 BVNs recorded at end-June 2020. The number of accounts linked with BVN was 97,364,819 out of 114.77 million active customer accounts while the number of watch-listed BVNs[14] stood at 10,800 at end-December 2020.

[14] Watch-list is a database of bank customers identified by their BVNs, who have been involved in confirmed fraudulent activities.

4.1.2 Licensing of Payments System Participants

During the period under review, eight (8) new licences were issued comprising one (1) Payment Solution Service Provider and seven (7) Super Agents. However, eight licences were revoked, comprising four (4) Payment Terminal Service Providers, three (3) Mobile Money Operators and one (1) Switching Company. In addition, Bank-led Mobile Money Operators no longer require licences and are not included in the count of licensed PSPs. Consequently, the number of licensed PSPs decreased to 112 at end-December 2020 (Table 4.1).

TABLE 4:1 LICENSED PAYMENTS SYSTEM PARTICIPANTS

Licence –Type	Number	
	June 2020	Dec 2020
Card Schemes	6	6
Mobile Money Operators	31	17
Payment Solution Service Providers	25	26
Payment Terminal Service Providers	22	18
Transaction Switching Companies	9	8
Third Party Processors	5	5
Super Agents	12	19
Non-Bank Acquirers	6	6
Accredited Cheque Printers	7	7
Total[15]	**123**	**112**

4.1.3 Nigeria Cheque Standards and Cheque Printers Accreditation Scheme

The Bank extended the implementation of the final phase of the Nigeria Cheque Standard Version 2.0 to April 1, 2021 due to the impact of Covid-19 pandemic on the project. The implementation is expected to enhance the safety and efficiency of cheque clearing system.

4.1.4 Other Payments System Developments

The Bank streamlined payments system licensing into four categories, namely: Switching and Processing; Mobile Money Operations; Payment Solution Services; and Regulatory Sandbox during the review period.

[15] Fourteen Bank-led Mobile Money Operators were excluded from end-December 2020 figure.

Furthermore, the Bank in line with its commitment to promote a strong and credible payments system as well as deepen the financial system, issued the Framework for Regulatory Sandbox operations, Framework for Quick Response (QR) Code payment in Nigeria and Regulatory Framework for Open Banking in Nigeria to guide and standardize the industry operations.

4.2 Payments System Statistics and Trends

4.2.1 Large Value Payments

The volume and value of inter-bank fund transfers through the CBN Real Time Gross Settlement (RTGS) system increased to 148,707 and N36,195.11 billion at end-December 2020, from 137,425 and N35,177.75 billion at end-June 2020, respectively. The increases of 8.21 and 2.89 per cent, in volume and value, respectively, were attributed largely to the entrance of a new participant and the opening up of economic activities following the gradual relaxation of lockdown measures.

4.2.2 Retail Payments

4.2.2.1 Cheque Clearing

The volume of cheques cleared increased to 10,555,943 in the second half of 2020 from 9,467,610, in the first half, reflecting a11.50 per cent increase, while the value increased to N8,044.35 billion from N7,373.55 billion, indicating a 9.50 per cent increase. The increases were due to the resumption of clearing activities.

4.2.2.2 Electronic Transactions

The volume and value of electronic transactions increased by 44.13 and 32.65 per cent to 6,436,148,824 and N 438,934.17 billion during the review period. The surge in the adoption and usage of electronic payment channels for banking transactions was due to Covid-19 pandemic containment measures and increased public confidence in the banking system.

TABLE 4:2 ELECTRONIC TRANSACTIONS

Payment Channel	Number of Active Terminals		Number of Transactions		% Change Volume	Value ₦' Billion		% Change Value
	Jun 2020	Dec 2020	Jan– Jun 2020	Jul-Dec2020	Increase/ (decrease)	Jan–Jun 2020	Jul-Dec 2020	Increase/ (decrease)
ATMs	19,043	18,810	**928,932,320**	**985,288,099**	6.06	**8,600.10**	**9,599.55**	11.62
POS	211,415	298,271	**278,277,995**	**377,470,353**	35.64	**2,003.23**	**2,723.85**	35.97
Mobile Money	-	-	**329,840,532**	**439,398,157**	33.21	**5,146.80**	**9,830.74**	91
Online Transfers (Internet/ Web)	-	-	**2,452,894,927**	**4,027,609,146**	64.19	**171,197.08**	**221,142.31**	29.17
Mobile App			**173,493,162**	**237,959,764**	37.15	**13,525.59**	**18,875.26**	39.55
USSD			**202,857,969**	**279,478,069**	37.77	**2,069.93**	**2,963.45**	43.16
Direct Debit			**1,194,030**	**1,776,565**	48.78	**1,301.08**	**1,133.30**	-12.89
ACH/ NEFT			**97,718,282**	**87,168,671**	-10.79	**127,029.41**	**172,665.71**	35.92
Total			**4,465,209,217**	**6,436,148,824**	**44.13**	**330,873.22**	**438,934.17**	**32.65**

4.2.3 Risks in the Payments System

Generally, the Nigerian payments system remained safe despite heightened cyber-attacks arising from an increase in the number of vulnerable users, digitalization of financial services, and telecommuting. Some of the policy measures put in place to mitigate cyber-attacks included:

1. Establishment of an industry Cybersecurity Fusion Centre, including Malware Information Sharing Platform (MISP).
2. Strengthened BVN framework to re-inforce KYC regulation.
3. Quarterly industry engagement at Nigerian Electronic Fraud Forum (NeFF) to discuss fraud trends, emerging risks and mitigations.
4. Enhanced regulatory oversight and enforcement of compliance with security standards and best practices by licensed payment service providers.

5 Key Risks to the Financial System

5.1 Credit Risk

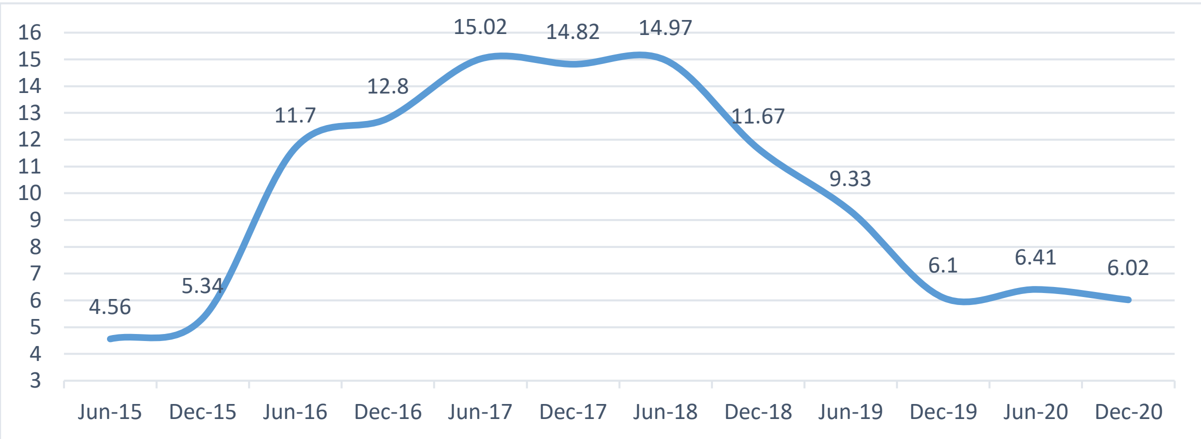
Risk Rating (Medium Risk, Trending downwards)	

The effects of the Covid-19 pandemic lingered in the second half of 2020, with attendant disruptions in businesses and households. However, the impact was subdued by the Bank's sustained stimulus packages for priority sectors of the economy.

The decline in Non-Performing Loans (NPLs) ratio from 6.41 per cent to 6.02 per cent, reflected increased repayment by obligors and implementation of forbearance measures. To enhance loan repayment in the banking industry and further reduce NPL ratio, the Bank introduced the Global Standing Instruction policy.

Overall, the effect of the pandemic continued to pose additional threat to the performance of risk assets. However, it is envisaged that the effective implementation of the policy measures would continue to moderate the trend of credit risk downward.

FIGURE 5.1 NON-PERFORMING LOANS RATIO



5.2 Liquidity Risk

Risk Rating (Low Risk, Stable)	

The average liquidity ratio of the banking industry increased by 3.81 percentage points to 44.6 per cent at end-December 2020 from 40.79 per cent at end-June 2020. This ratio was above the regulatory threshold of 30 per cent. Consequently, the industry liquidity risk is expected to remain low and stable.

5.3 Market Risk

Risk Rating (Medium Risk, Trending Up)	

The weighted average of OBB and interbank call rates at 1.09 and 1.25 per cent at end-December 2020, fell sharply from 10.85 and 5.75 per cent at end-June 2020, respectively, reflecting increased liquidity of the banking system. Similarly, average savings rate fell to 2.04 per cent from 3.78 per cent during the same period, further discouraging savings and reducing total funds available to the industry from customer deposits. Maximum lending rate declined marginally to 28.31 per cent at end-December 2020, from 28.66 per cent at end-June 2020. The large spread between the maximum lending and savings rates reflected banking sector inefficiency, reducing the flow of credit to areas of most productive use.

The foreign exchange market was negatively impacted during the period, following the adverse impact of the Covid-19 pandemic on the global economy and consequently on the accretion to reserves. In order to check the activities of speculators and enhance rate convergence in the market, the Bank adjusted the interbank rate.

In the capital market, the FGN Bond segment continued to witness suppressed yields across tenors, propelled mainly by higher levels of system liquidity. The equity market showed improved performance as the NSE ASI closed at 40,270.72 at end-December 2020, from 24,479.22 points at end-June, 2020, owing mainly to asset switching by investors. Though the market witnessed increased sell-off by international investors up until November 2020, this was moderated by renewed participation by domestic investors at the end of the year.

Overall, market risk is expected to trend upwards in 2021 as the foreign exchange market remains exposed to oil price shocks and FPI reversals. Additionally, increased public debt alongside dwindling revenue, exposes the country to further downgrade in credit ratings, which would increase borrowing costs and lower investor confidence. Furthermore, the combined effect of a spike in interest rate and volatility in exchange rate could severely put pressure on the asset quality of the banking system which could be a precursor of systemic risk.

However, it is expected that these effects would be moderated by the gradual reopening of the global economy, favourable crude oil prices, and the effective distribution of Covid-19 vaccines.

5.4 Operational Risk

Risk Rating (High Risk, Trending up)	⬆

During the review period, reported cases of fraud and forgeries in DMBs increased to 120,948 at end-December 2020 from 44,948 at end-June 2020. Consequently, actual losses rose to ₦4.32 billion from N1.05 billion at end-June 2020. Frauds were carried out through suppression of cheques, conversion of customers' deposits, unauthorised fund transfers and ATM withdrawals.

The increased adoption of electronic channels for transactions following the Covid-19 pandemic precipitated a rise in cyber-crime as ransomware attacks increased by 485 per cent in 2020 compared to 2019. Additionally, the restructuring of banks' operations following the implementation of Covid-19 protocols, strained service delivery to customers owing to reduced work hours, phased branch reopening as well as the adoption of telecommuting policies which exposed banks to information security risk vulnerabilities. Heightened security risks resulting from civil unrest and increased attacks on bank branches and bullion vans were identified as threats during the period.

To mitigate the risks, banks and payment service providers were directed to ensure full compliance with the requirements of the CBN cyber-security framework and guidelines, and the regulatory framework for the use of Unstructured Supplementary Service Data (USSD) for financial services in Nigeria. Banks were also required to reinforce their Disaster Recovery and Business Continuity plans, carry out comprehensive infrastructure risk assessments and adequately train staff. In this connection, Chief Information Security Officers were trained by the Bank on cyber threat intelligence while customers were sensitized on the need to continually employ safe banking practices.

Overall, in 2020, cybersecurity risk remained elevated alongside the risk of attacks on payments system infrastructure as the rapid adoption of digitalized financial services continued.

5.5 Macroeconomic Risk

Risk Rating (High Risk, Stable)	⬌

During the period under review, macroeconomic risk was largely driven by the effects of the Covid-19 pandemic lockdown measures, fiscal sustainability issues arising from dwindling revenue, inflationary pressures and investor apprehension. Despite these, the combined monetary and fiscal policy measures implemented in the preceding half of 2020 facilitated a modest level of recovery in the second half of 2020. The implementation of the Nigeria Economic Sustainability Plan supported recovery and bolstered output.

Prolonged expansionary fiscal and monetary policies by major economies could result in inflationary pressures while another wave of the Covid-19 pandemic might reverse the fragile growth in demand. The combined effect of such adverse developments would dampen global economic recovery, decrease demand for commodities and consequently reduce accretion to the external reserves.

In 2021, relatively low oil prices and Covid-19 related disruptions might slow down the rate of recovery while the envisaged full deregulation of the petroleum sector and increased electricity tariffs would exert pressure on inflation. Additionally, increased Federal Government deficits might crowd out credit to the private sector, with adverse implications for growth.

However, all things considered, it is projected that the combined effects of fiscal and monetary policy measures, gradual reopening of the economy as well as the development and distribution of Covid-19 vaccines would consolidate domestic economic growth in 2021.

6 OUTLOOK

Although uncertainties in crude oil prices, capped production volumes and the lingering effects of Covid-19 pandemic impacted output, the Nigerian economy recorded marginal recovery during the period under review. This was attributed to the coordinated efforts of the fiscal and monetary authorities in the implementation of the Economic Recovery and Growth Plan (ERGP) and the provision of credit to businesses and households, particularly those severely affected by the economic disruptions associated with the pandemic.

The financial system recorded improvements in the financial soundness indicators in the second half of 2020. This will be sustained in the coming years through the enhanced supervision and monitoring of financial institutions. Furthermore, the implementation of robust enterprise risk management frameworks, strengthened information technology infrastructure and reinforcement of cyber security in banks and payment service providers would boost the resilience of the banking industry.

The payments system space experienced a high level of activity during the review period, precipitated by the rapid adoption and usage of digital financial services. The implementation of the Payments System Vision 2025 would facilitate a more robust payment architecture to increase the efficiency and safety of the Nigerian Payments System.

The Bank would continue to deploy appropriate policy options to facilitate growth while ensuring financial system stability in the medium to long term.

ACKNOWLEDGEMENTS

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