FINANCIAL STABILITY REPORT

JUNE 2019

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LIST OF ACRONYMS

AMCON	Asset Management Corporation of Nigeria
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BDCs	Bureaux de Change
BOI BOA	Bank of Industry Bank of Agriculture
BRICS	Brazil, Russia, India, China, and South Africa
BVN	Bank Verification Number
CACS	Commercial Agriculture Credit Scheme
CAR	Capital Adequacy Ratio
CBN	Central Bank of Nigeria
COB	Currency Outside Banks
CRMS	Credit Risk Management System
DAX	Deutscher Aktienindex (German stock index of 30 major German companies)
DFIs	Development Finance Institutions
DMBs	Deposit Money Banks
EBAs	Eligible Bank Assets
ECB	European Central Bank
EGX CASE 30	Egypt Stock Exchange (Cairo and Alexandria Stock Exchange) 30 Stock Index
FAO	Food and Agriculture Organisation
FATF	Financial Action Task Force
FCs	Finance Companies
FGN	Federal Government of Nigeria
FMBN	Federal Mortgage Bank of Nigeria
FRACE	Financial Regulation Advisory Council of Experts
FSIs	Financial Soundness Indicators
FSR	Financial Stability Report
FSRCC	Financial Services Regulation Co-ordinating Committee
GDP	Gross Domestic Product
GSE	Ghanaian Stock Exchange
HHI	Herfindahl-Hirschman Index
ICE	Intercontinental Exchange
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
KYC	Know Your Customer
M_1	Narrow Money Supply
M_2	Broad Money Supply
M_3	M_2 plus CBN Bills held by the money holding sectors
MENA	Middle East and North African Countries

MFBs	Microfinance Banks
MICEX	Moscow Interbank Currency Exchange
MoUs	Memoranda of Understanding
MHSs	Money Holding Sectors
MPR	Monetary Policy Rate
NBS	National Bureau of Statistics
NCR	National Collateral Registry
NDC	Net Domestic Credit
NDIC NEXIM	Nigeria Deposit Insurance Corporation Nigerian Export-Import Bank
NIBSS	Nigerian Inter-bank Settlement System
NMRC	Nigeria Mortgage Re-finance Company Plc
NPLs	Non-Performing Loans
NSE ASI	Nigerian Stock Exchange All-Share Index
NSE 20	Nairobi Stock Exchange 20-Share Index
NYMEX	New York Mercantile Exchange
OBB	Open Buy Back
OFIs	Other Financial Institutions
OPEC	Organisation of Petroleum Exporting Countries
ORB	OPEC Reference Basket
PAIF	Power and Aviation Infrastructure Fund
PENCOM	National Pension Commission of Nigeria
PFAs	Pension Fund Administrators
PFCs	Pension Fund Custodians
PMBs	Primary Mortgage Banks
PoS	Point of Sale
PSV 2020	Payments System Vision 2020
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real-Time Gross Settlement System
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

Global output remained subdued in the first half of 2019 against the backdrop of slowdown in inflation in advance economies, intensified trade tensions and prolonged uncertainty on Brexit. Consequently, global growth was expected to slow down to 3.2 per cent in 2019, from 3.6 per cent in 2018.

In Nigeria, although growth momentum slowed in the first half of 2019 compared with the second half of 2018, it remained on a positive trajectory, owing largely to monetary and fiscal policy initiatives. The implementation of the Federal Government Economic Recovery and Growth Plan (ERGP) strategy, supported by CBN interventions in the real sector, contributed significantly to the growth and stability in the economy.

The Bank signalled an accommodative monetary policy stance in the first half of 2019 in order to increase credit flow and further stimulate growth in the economy. Inflation moderated marginally downwards to 11.22 per cent in the first half of 2019, from 11.44 per cent in the second half of 2018. The sustained stability in the foreign exchange market further bolstered economic growth.

The banking sector remained stable and resilient in the face of both external and domestic challenges. The financial soundness indicators of the industry remained robust as liquidity and capital adequacy ratios were above regulatory thresholds. Major improvements in the payments system facilitated credit growth to MSMEs and access to financial services, leading to successes in the financial inclusion objectives.

The Bank will continue to intensify efforts at ensuring inclusive growth, sustainable development and creation of employment opportunities to meet the demands of the teeming population. It will also sustain its collaboration with the fiscal authorities towards achieving these common goals.

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

FOREWORD

Weakness in global economic activities reflected headwinds from the US – China trade disputes, Brexit uncertainties and geopolitical tensions in the Gulf region. These contributed to a decline in business confidence, tightness in the financial markets and weakened growth across major world economies. However, global capital markets showed signs of recovery in the first half of 2019.

In the foreign exchange market, the US dollar appreciated against other major currencies, owing largely to increase in the US policy rate. In oil exporting countries, relative stability in oil prices led to a rebound in economic growth in most of the economies, particularly, Bonny Light reference crude trended upwards from US$63.59 at end-January 2019 to US$66.74 at end-June 2019.

In Nigeria, recovery in real GDP growth rate slowed marginally. However, growth remained positive at 2.02 per cent, attributed mainly to expansion in the manufacturing and services sub-sectors. To further spur growth, the Bank adopted an accommodative monetary policy stance by reducing its policy rate by 50 basis points to 13.50 per cent, to encourage credit flow to critical sectors of the economy.

In continuation of the efforts to ensure the safety and soundness of the banking system, the CBN extended the adoption of the IFRS 9 to Other Financial Institutions and increased capital requirements to strengthen the capacity of the sector. It also sustained the monitoring of compliance with the requirements of IFRS 9 and Basel II and III, and the supervision of banks in order to manage systemic risks and ensure sound corporate governance practices.

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

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

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

EXECUTIVE SUMMARY

Global growth remained subdued in the first half of 2019, owing to trade tensions between the US and China, prolonged uncertainties surrounding Brexit, weak investments and rising geopolitical issues. As a result of these developments, global growth was expected to decline to 3.2 per cent in 2019, from 3.6 per cent in 2018. Inflation trended below the target of 2.00 per cent in major advanced economies, arising from the decrease in energy costs and weak aggregate demand. However, in the emerging market and developing economies, inflation was expected to rise slightly in 2019, a development attributed to moderate increase in aggregate demand and pass-through effect of currency depreciations.

International stock market performance in the first half of 2019 was generally positive as most markets showed signs of recovery. The foreign exchange market witnessed appreciation of major currencies against the US dollar. The weakening of the US dollar was driven by subdued global growth, declining long-term yields and the ongoing trade tensions between the US and China. Monetary policy rates for most central banks were kept relatively stable during the review period.

The domestic economy continued its gradual recovery, though GDP growth slowed to 2.02 per cent in the first half of 2019. The growth was due largely to the sustained rally of activities in the services and agricultural sectors. Inflationary pressures eased marginally in the first half of 2019 as headline inflation (year-on-year) decreased to 11.22 per cent in June 2019, from 11.44 per cent at end-December 2018. External reserves increased by US$2.15 billion in the first half of 2019, to US$44.75 billion, while rates remained stable in the foreign exchange market.

The Bank eased its monetary policy stance to promote growth by encouraging greater credit flow to the productive sectors of the economy, particularly the critical sectors in order to stimulate value chain development and conserve foreign exchange reserves. Broad money supply, M3, grew by 4.97 per cent at end-June 2019 relative to 16.36 at end-December 2018. Net aggregate credit to the economy grew by 17.26 per cent at end-June 2019, reflecting the increases in both net claims on the Federal Government and credit to the private sector. Reserve money also grew by 13.35 per cent, reflecting the increase in net domestic assets.

The short-term money market rates trended mostly below the policy rate in the first half of 2019. Money market rates closed lower at the interbank market with the overnight call and open buy back rates trading below their levels in the preceding half year. In the capital market, the Nigerian Stock Exchange All Share Index decreased, reflecting bearish conditions in the market, while market capitalization increased, owing to the listing of a telecommunications company.

In the banking sector, there were improvements in the composite risk ratings of banks. The capital adequacy ratio of the industry increased to 15.27 per cent, from 15.21 per cent in the second half of 2018, reflecting improvement in the capital cover for bank exposures. Similarly, the industry non-performing loan ratio improved to 9.33 per cent at end-June 2019, from 11.67 per cent at end-December 2018. Also, the industry return on assets (ROA) and return on equity (ROE) recorded moderate improvements. The usage of electronic payment channels increased significantly, reflecting public confidence in the payments system.

Overall, the economy is expected to continue on its growth recovery path amidst sustained stability in the financial system.

1 ECONOMIC AND FINANCIAL DEVELOPMENTS

1.1 Global Developments

1.1.1 Output

Global growth was projected to decline to 3.2 per cent in 2019 from 3.6 per cent in 2018, as the headwinds confronting the global economy continued amid increased uncertainties and financial vulnerabilities. The downgrade was attributed to trade tensions between the United States and China, Brexit uncertainties, weak investments across advanced and emerging economies, sluggish global trade and rising geo-political tensions.

Output growth in advanced economies was projected to decline to 1.9 per cent in 2019 from 2.2 per cent in 2018, reflecting decline in fiscal stimulus in the United States and escalating trade tension between the US and China. In the United States, growth was downgraded to 2.6 per cent in 2019 from 2.9 per cent in 2018. The downward projection reflected the impact of lower fiscal spending, weak investment and softened domestic demand, as well as sluggish export. In the United Kingdom, output growth was estimated at 1.3 per cent in 2019, down marginally from 1.4 per cent in 2018. The modest projection was driven by increased household expenditure supported by the government pre-Brexit inventory accumulation and stockpiling. Conversely, growth in Japan was expected to increase slightly to 0.9 per cent in 2019, from 0.8 per cent in 2018, reflecting increase in net exports and a rebound in household consumption and business spending.

In the euro area, growth was projected to decline to 1.3 per cent in 2019 from 1.9 per cent in 2018, owing to Brexit uncertainties, weak fiscal outlook, low private consumption and industrial output, as well as subdued external demand.

In the emerging market and developing economies, growth was expected to decline to 4.1 per cent in 2019 from 4.5 per cent in 2018, owing, largely, to the continued slowdown in the Chinese economy. Output growth in China was projected to slow down to 6.2 per cent in 2019, from 6.6 per cent in 2018, driven by the negative effects of escalating trade tension with the US and weak external demand.

Growth in the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) region was downgraded to 1.0 per cent in 2019, from 1.6 per cent in 2018 reflecting, largely, the subdued growth in Saudi Arabia, macroeconomic adjustment challenges in Pakistan, increased tension between the US and Iran, as well as continued conflicts in Syria and Yemen.

In sub-Saharan Africa, output growth was expected to increase to 3.4 per cent in 2019, from 3.1 per cent in 2018, owing to improved investment in some economies of the region. Growth in Nigeria was projected to increase to 2.3 per cent in 2019 from 1.9

per cent in 2018, reflecting recovery in oil production and prices, increased agricultural output and growth in other non-oil sectors. However, growth in South Africa was projected to decline to 0.7 per cent in 2019 from 0.8 per cent in 2018, reflecting weak agricultural production and negative effects of power outages on manufacturing and mining.

Table 1:1 Global Growth

Region/Country	Year-on- Year		
Year	2017	2018	2019*
World	3.8	3.6	3.2
Advanced Economies	2.4	2.2	1.9
United States	2.2	2.9	2.6
Euro Area	2.4	1.9	1.3
Japan	1.9	0.8	0.9
United Kingdom	1.8	1.4	1.3
Canada	3.0	1.9	1.5
Emerging Markets and Developing Economies	4.8	4.5	4.1
China	6.8	6.6	6.2
MENAP	2.1	1.6	1.0
Sub-Saharan Africa	2.9	3.1	3.4
Nigeria	0.8	1.9	2.3
South Africa	1.4	0.8	0.7

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

1.1.2 Inflation

Generally, inflation in advanced economies was expected to soften below target in 2019, thereby reinforcing the need for central banks to return to monetary accommodation in the near to medium term.

In the United States, inflation was expected to decline to 2.0 per cent in 2019, from 2.4 per cent in 2018, reflecting the decrease in commodity prices, tepid wage growth and global economic slowdown. In the euro area and the United Kingdom, inflation was projected to decline to 1.3 and 1.8 per cent in 2019 from 1.8 and 2.5 per cent in 2018, respectively, driven by the decrease in energy costs, transport, housing and utility prices. However, inflation was expected to inch up to 1.1 per cent from 1.0 per cent in Japan, owing to continuous government stimulus. Overall, in the advanced economies, inflation was projected at 1.6 per cent in 2019 from 2.0 per cent in 2018.

In the emerging markets and developing economies, inflation was expected to rise marginally to 4.9 per cent in 2019 from 4.8 per cent in 2018, indicating moderate increase in aggregate demand. This also reflected the increase in value-added tax rate in Russia, continued high food prices in India and currency depreciation in some economies.

In the MENAP region, inflation was expected to decline to 9.7 per cent in 2019 from 10.4 per cent in 2018, reflecting the moderation in the prices of food, tobacco, beverages, fruits, vegetables and overall economic slowdown.

In sub-Saharan Africa, inflation was projected at 8.1 per cent in 2019, down from 8.5 per cent in 2018. In Nigeria, inflation was projected to decrease to 11.7 per cent in 2019 from 12.1 per cent in 2018, owing to the expected decrease in the prices of food, housing and utilities. However, in South Africa, inflation was expected to increase to 5.0 per cent in 2019 from 4.6 per cent in 2018, reflecting the rising prices of food and utilities.

Table 1:2 Global Inflation

Region/Country	2017	2018	2019*
Advanced Economies	1.7	2.0	1.6
United States	2.1	2.4	2.0
Euro Area	1.5	1.8	1.3
Japan	0.5	1.0	1.1
United Kingdom	2.7	2.5	1.8
Emerging Markets and Developing Economies	4.3	4.8	4.9
MENAP	6.4	10.4	9.7
Sub-Saharan Africa	11.0	8.5	8.1
Nigeria	16.5	12.1	11.7
South Africa	5.3	4.6	5.0

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

1.1.3 Oil Prices

The recovery in oil prices continued in the first half of 2019, reflecting partly the extension of the production ceiling period by OPEC and some non-OPEC members as well as geopolitical tension in the Gulf region. Accordingly, the prices of OPEC reference Basket, Bonny Light and UK Brent increased by 10.9, 14.75 and 15.82 per cent, to US$63.2pb, US$66.74pb and US$65.66pb in June 2019 from US$56.94pb, US$58.16pb and US$56.69pb in December 2018, respectively. Similarly, West Texas Intermediate (WTI) increased by 3.19 per cent to US$43.35pb in June 2019 from US$42.01pb in December 2018.

Table 1:3 Oil Prices (US$ per barrel)

Commodities	2017	2018	2019
	Dec	Dec	Jun
OPEC Basket	62.06	56.94	63.20
Bonny Light	65.40	58.16	66.74
UK Brent	64.85	56.69	65.66

Source: OPEC and Reuters

1.1.4 Food Prices

In June 2019, the Food and Agriculture Organization (FAO) Food Price Index stood at 172.70 points, compared with 161.47 points in December 2018. This was driven, largely, by increases in the prices of dairy, meat and cereals.

The FAO Meat Price Index averaged 175.19 points in June 2019, an increase of 12.8 index points or 7.88 per cent from 162.35 points in December 2018, driven by the increases in bovine, ovine and poultry meat prices. The FAO Dairy Price index averaged 199.24 points in June 2019, reflecting an increase of 29.2 index points or 17.2 per cent above 169.98 points in December 2018, owing to a general increase in price quotations for all categories of dairy.

The FAO Cereal Index rose by about 5.4 points or 3.2 per cent to 173.23 points in June 2019, compared with 167.79 points in December 2018, occasioned by increase in the price of maize as export supplies from the US declined considerably.

The FAO Vegetable Oil Price Index averaged 125.46 points in June 2019, indicating a decrease of 0.3 point or 0.23 per cent from 125.81 points in December 2018, owing to weak demand for palm oil, soy, sunflower and rapeseed oil.

The FAO Sugar Price Index averaged 183.31 points in June 2019, up by 3.7 points or 2.06 per cent, compared with 179.56 points in December 2018. The increase was attributed to the appreciation of the Brazilian real against the U.S. dollar.

Despite the increase in global food prices in the review period, prices were projected to decline by 2.9 per cent at end-December 2019, compared with a decline of 0.6 per cent in 2018, owing to weak emerging market currencies, slower economic activities and excess supply of agricultural commodities.

Table 1:4 World Food Price Index

	June 2018	December 2018	June 2019
Food Price Index	172.73	161.47	172.70
Meat	166.55	162.35	175.19
Dairy	213.19	169.98	199.24
Cereals	166.83	167.79	173.23
Vegetable Oils	146.07	125.81	125.46
Sugar	177.40	179.56	183.31

Source: FAO July 2019

1.1.5 International Stock Markets

Global stock market performance during the first half of 2019 was generally positive as most markets showed signs of recovery. The medley of monetary accommodation in the euro area, softening yields in the US and UK, moderately weak demand in Japan, modest volatility in oil prices, Brexit uncertainties and increasing trade tensions between the US and China characterised developments in the international capital markets in the period under review.

In North America, the United States S&P 500, Canadian S&P/TSX Composite and Mexican Bolsa indices increased by 17.3, 14.4 and 3.7 per cent, respectively. The increase in the S&P 500 was driven by strong economic performance and increased investor confidence. In Europe, the United Kingdom FTSE 100, France CAC 40 and Germany DAX indices increased by 10.4, 17.1 and 17.4 per cent, respectively. The increase in the FTSE 100 index reflected the resilience of the UK economy, despite Brexit uncertainties.

In Asia, Japan's Nikkei 225, China's Shanghai Stock Exchange-A and India's BSE Sensex indices increased by 6.3, 19.5 and 9.2 per cent, respectively. The strong Chinese stock market performance was due to investors' confidence in the on-going trade negotiations between the US and China. In South America, the Brazilian Bovespa, Argentine Merval and Colombian COLCAP indices increased by 13.8, 38.0 and 16.8 per cent, respectively. The increase in the Brazilian Bovespa was driven by improved oil and sugar prices.

In Africa, the South African JSE All-Share and Egyptian EGX CASE 30 indices increased by 10.4 and 8.2 per cent, respectively. The improved performance of these stock markets reflected anticipated slowdown in the pace of US Federal Reserve's monetary policy normalization, thus reducing capital reversals. However, the Nigerian NSE All-Share, Kenyan Nairobi NSE 20 and Ghanaian GSE All-Share indices decreased by 4.7, 7.1 and 4.2 per cent, respectively. The declines in Nigeria and Ghana reflected preference for investments in fixed incomes over equities.

Table 1:5 Indices of Selected Stock Markets

Country	Index	29-Jun-18	31-Dec-18	28-Jun-19	Jun 29, 2018-Jun 28, 2019 % Change	Dec 31, 2018-Jun 28, 2019 % Change
AFRICA						
Nigeria	NSE All-Share Index	38,278.55	31,430.50	29,966.87	-21.71	-4.66
South Africa	JSE All-Share Index	57,610.98	52,736.86	58,203.84	1.03	10.37
Kenya	Nairobi NSE 20 Share index	3,285.73	2,833.84	2,633.32	-19.86	-7.08
Egypt	EGX CASE 30	16,348.55	13,035.77	14,100.74	-13.75	8.17
Ghana	GSE All-Share Index	2,878.66	2,499.33	2,394.82	-16.81	-4.18
NORTH AMERICA						
US	S&P 500	2,718.36	2,506.85	2,941.76	8.22	17.35
Canada	S&P/TSX Composite	16,277.73	14,322.86	16,382.20	0.64	14.38
Mexico	Bolsa	47,663.20	41,640.27	43,161.17	-9.45	3.65
SOUTH AMERICA						
Brazil	Bovespa Stock	72,762.51	87,887.26	100,000.97	37.43	13.78
Argentina	Merval	26,037.01	30,292.55	41,796.36	60.53	37.98
Columbia	COLCAP	1,577.01	1,325.93	1,548.98	-1.78	16.82
EUROPE						
UK	FTSE 100	7,636.93	6,728.13	7,425.63	-2.77	10.37
France	CAC 40	5,323.33	4,730.69	5,538.97	4.05	17.09
Germany	DAX	12,306.00	10,558.96	12,398.80	0.75	17.42
ASIA						
Japan	NIKKEI 225	22,304.51	20,014.77	21,275.92	-4.61	6.30
China	Shanghai SE A	2,982.00	2,611.38	3,119.99	4.63	19.48
India	BSE Sensex	35,423.48	36,068.33	39,394.64	11.21	9.22

Source: Bloomberg

1.1.6 Foreign Exchange Market

Developments in the global foreign exchange markets were mixed in the first half of 2019. In North America, the Mexican peso and the Canadian dollar appreciated by 3.82 and 2.24 per cent, respectively. The appreciation of the Canadian dollar and Mexican peso reflected improved investments and exports. In South America, the Brazilian real appreciated by 0.52 per cent, partly driven by gradual recovery in oil price. However, the Argentine peso depreciated by 11.26 per cent due to financial and macroeconomic imbalances.

In Europe, major currencies depreciated during the review period. The GBP and Euro depreciated by 0.50 and 1.14 per cent, owing largely to uncertainties surrounding Brexit. However, the Russian ruble appreciated by 10.26 per cent, driven largely by improved oil prices.

In Asia, the Japanese yen, Chinese renminbi and Indian rupee appreciated by 1.63, 0.15 and 0.10 per cent, respectively. The appreciation of the yen was due largely to the marginal growth in the Japanese economy, which attracted more investors.

In Africa, the Nigerian naira, South African rand and the Egyptian pound appreciated by 0.03, 1.92 and 7.37 per cent, respectively. The modest appreciation of the naira against the dollar in the review period was due to relative stability in the oil market. The rand appreciated as a result of increasing investors' confidence. Conversely, the Kenyan shilling and Ghanaian cedi depreciated by 0.44 and 10.05 per cent, respectively. The depreciation of the cedi reflected the weak macroeconomic conditions and gradual loss of investors' confidence.

Table 1:6 Trends of Selected Currencies

Country/Region	Currency	29-Jun-18	31-Dec-18	28-Jun-19	Dec' 18 - Jun '19 % (YTD) App/Dep	Y-on-Y % App/Dep
AFRICA						
Nigeria	Naira	305.75	307.00	306.9	0.03	-0.37
South Africa	Rand	13.73	14.35	14.08	1.92	-2.49
Kenya	Shilling	101.01	101.85	102.3	-0.44	-1.26
Egypt	Pound	17.92	17.92	16.69	7.37	7.37
Ghana	Cedi	4.73	4.92	5.47	-10.05	-13.53
NORTH AMERICA						
Canada	Dollar	1.31	1.36	1.31	3.82	0.00
Mexico	Peso	19.91	19.65	19.22	2.24	3.59
SOUTH MERICA						
Brazil	Real	3.88	3.87	3.85	0.52	0.78
Argentina	Peso	28.93	37.66	42.44	-11.26	-31.83
Colombia	Peso	2930.50	3249.75	3211.86	1.18	-8.76
EUROPE						
UK	Pound	0.76	0.78	0.7839	-0.50	-3.05
Euro Area	Euro	0.86	0.87	0.88	-1.14	-2.27
Russia	Ruble	62.74	69.72	63.23	10.26	-0.77
ASIA						
Japan	Yen	110.76	109.69	107.93	1.63	2.62
China	Yuan	6.62	6.88	6.87	0.15	-3.64
India	Rupee	68.47	69.77	69.7	0.10	-1.76
Source: Bloomberg						
YoY= Year on Year, YtD = Year to Date						

1.1.7 Monetary Policy Rates

In the developed economies, the Reserve Bank of Australia and the Reserve Bank of New Zealand reduced their policy rates by 25 basis points from 1.75 and 1.50 to 1.50 and 1.25 per cent, respectively. The European Central Bank (ECB) maintained its policy rate at zero per cent. In the ASEAN region, Bank Negara Malaysia reduced its policy rate by 25 basis points to 3.00 per cent. However, Bank Indonesia maintained its policy rate at 6.00 per cent.

In the BRICS, the Central Bank of Brazil, Peoples' Bank of China and the Reserve Bank of South Africa held their rates constant at 6.50, 4.35 and 6.75 per cent, respectively, while the Reserve Bank of India and Bank of Russia reduced their rates by 25 basis points to 5.75 and 7.50 per cent, respectively.

In other emerging economies, Banco de Mexico and Banco de la Republica de Colombia held their policy rates at 8.25 and 4.25 per cent, respectively. However, the Central Bank of Chile reduced its policy rate by 50 basis points to 2.50 per cent in June 2019.

In Africa, the Central Bank of Nigeria reduced its policy rate by 50 basis points to 13.5 per cent, while the Central Bank of Egypt and Bank of Ghana held their rates at 15.75 and 16.00 per cent, respectively.

Table 1. 1: Policy Rates of Selected Countries and Regions

Country	June 2018	July 2018	August 2018	Sept. 2018	Oct. 2018	Nov. 2018	Dec. 2018	Jan. 2019	Feb. 2019	Mar. 2019	Apr. 2019	May. 2019	June 2019
Developed Economies													
Japan	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Euro Zone	0	0	0	0	0	0	0	0	0	0	0	0	0
UK	0.5	0.5	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
US	1.75-2.00	175-2.00	1.75-2.00	2.00-2.25	2.00-2.25	2.00-2.25	2.25-2.50	2.25-2.50	2.25-2.50	2.25-2.50	2.25-2.50	2.25-2.50	2.25-2.50
Canada	1.25	1.50	1.50	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
South Korea	1.50	1.50	1.50	1.50	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
New Zealand	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.50	1.50
Australia	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.25
ASEAN													
Indonesia	5.25	5.25	5.5	5.75	5.75	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3..25	3.25	3.25	3.25	3.00	3.00
BRICS													
Brazil	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Russia	7.25	7.25	7.25	7.5	7.5	7.5	7.75	7.75	7.75	7.75	7.75	7.75	7.50
India	6.25	6.25	6.5	6.5	6.5	6.5	6.5	6.5	6.25	6.25	6.00	6.00	5.75
China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
South Africa	6.5	6.5	6.5	6.5	6.5	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75

Other Emerging Economics and South America													
Mexico	7.50	7.75	7.75	7.75	7.75	7.75	8.00	8.25	8.25	8.25	8.25	8.25	8.25
Chile	2.50	2.50	2.50	2.50	2.75	2.75	2.75	3.00	3.00	3.00	3.00	3.00	2.50
Colombia	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Africa													
Egypt	16.75	16.75	16.75	16.75	16.75	16.75	16.75	16.75	15.75	15.75	15.75	15.75	15.75
Ghana	17	17	17	17	17	17	17	17	16	16	16	16	16
Nigeria	14	14	14	14	14	14	14	14	14	13.5	13.5	13.5	13.5

Source: www.cbrates.com

1.1.8 Potential Risks from the Global Economic Developments

i. Trade disputes between the US and China could impact negatively on global output growth.

ii. The expected slowdown in China's growth could lead to decline in commodity demand and prices.

iii. Uncertainties over asset prices in financial markets could trigger deterioration in market sentiment and worsen market conditions.

iv. Downward volatility in oil prices could pose major threats to projected revenue inflows in oil producing nations.

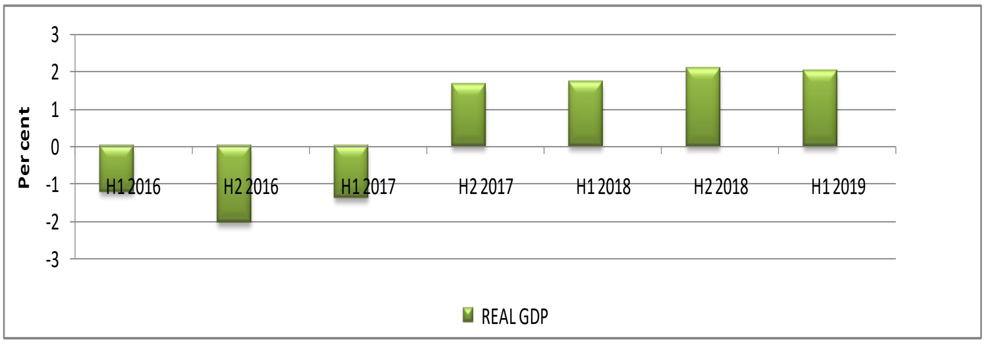
1.2 Domestic Developments

In the first half of 2019, the domestic economy was affected by the slow growth in the global economy, geopolitical tensions in the Gulf region, the US – China trade dispute and Brexit uncertainties, among others. However, there were exchange rate stability, moderation in inflation and modest improvement in crude oil prices during the review period. Accordingly, the Bank loosened its monetary policy stance to promote growth through encouraging credit flow to the productive sectors of the economy.

1.2.1 Output

Output growth slowed in the first half of 2019, compared with the level in the second half of 2018. Real gross domestic product (GDP) grew by 2.01 per cent in the first half, down from the 2.10 per cent recorded in the second half of 2018.

Figure 1.1 Gross Domestic Product by Sectors (N billion)



Non-oil GDP grew by 2.05 per cent in real terms in the first half of 2019, compared with 2.52 per cent growth in the second half of the 2018. The percentage share of the non-oil sector to the total GDP stood at 90.98 per cent, compared with 91.81 per cent recorded in the second half of the 2018. With respect to sectoral contribution in real terms, the services sector accounted for the largest share (38.32%), followed by the agricultural sector (22.36%), industry (18.57%), trade (16.47%) and construction (4.27%).

Table 1:7 Sectoral Contribution to Real GDP

Sub-sector	H2 2018	H1 2019
Agriculture	27.66	22.36
Manufacturing	8.85	9.44
Construction	3.25	4.27
Services	35.73	38.32
Trade	16.16	16.47
Crude Petroleum & Natural Gas	8.19	9.02
Solid Minerals	0.16	0.11

Agricultural and construction sub-sectors grew by 2.45 per cent and 1.83 per cent in the first half of 2019, compared with 2.17 and 1.36 per cent, respectively, in the second half of 2018, while the other subsectors had slower growth rates in the first half of 2019, compared with the second half of 2018.

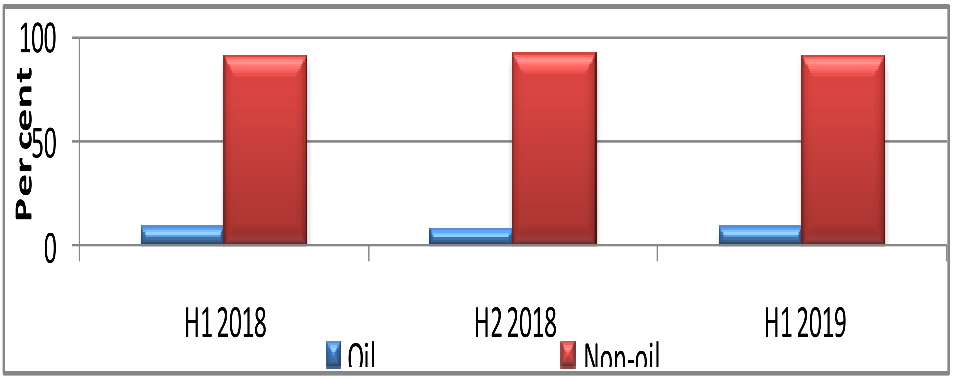
Table 1:8 Changes (per cent) in Real GDP by Sector

Sub-sector	H2 2018	H1 2019
Agriculture	2.17	2.45
Manufacturing	2.14	0.35
Construction	1.36	1.83
Services	3.66	3.04
Trade	1.00	0.30
Crude Petroleum & Natural Gas	(2.34)	1.71
Solid Minerals	10.80	1.59

1.2.2 Oil Sector

Oil GDP increased by 1.71 per cent in the first half of 2019, in contrast to a decline of 2.34 per cent in the second half of 2018. Consequently, the percentage share of the oil sector in real GDP increased by 0.83 percentage point to 9.02 per cent, compared with the 8.19 per cent recorded in the second half of 2018.

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



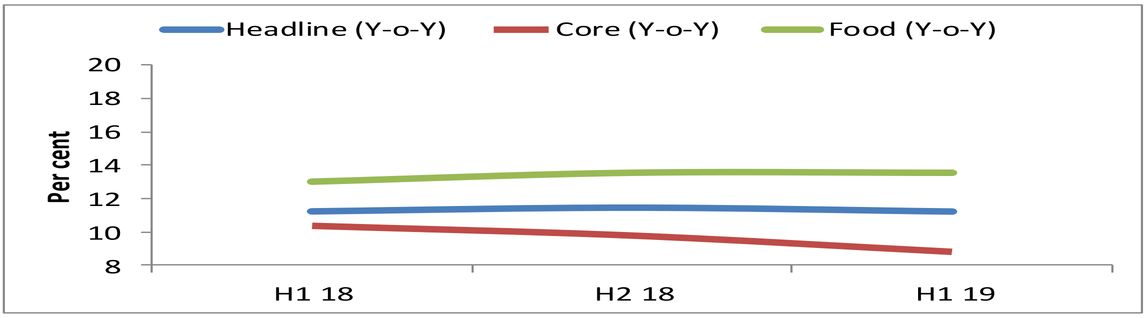
1.2.3 Inflation

The all-items composite Consumer Price Index (CPI) stood at 289.69 at end-June 2019, compared with 274.57 and 260.47 at end-December 2018 and end-June 2018, respectively. The index for the first half of 2019 was higher than the levels in the second half of 2018 and the corresponding half of 2018 by 5.51 and 11.22 per cent, respectively. Consequently, the headline inflation (year-on-year), declined to 11.22 per cent at end-June 2019 from 11.44 per cent in December 2018.

The twelve-month moving average inflation stood at 11.30 per cent in June 2019, compared with 12.10 and 14.37 per cent in December 2018 and the corresponding half of 2018, respectively. In June 2019, core inflation fell by 0.93 and 1.55 percentage points to 8.84 per cent below its respective levels of 9.77 and 10.39 per cent in December 2018 and June 2018. Significant increases were recorded in the prices of alcoholic beverages and tobacco, clothing and footwear, transport, health, recreation and culture, education and miscellaneous goods.

However, food inflation, which comprised farm produce and processed food, rose to 13.56 per cent (year-on-year) at end-June 2019, same as in the preceding half year. Increase in the prices of processed foods and some farm produce (yam, potatoes, and other tubers) resulted in the rise in the index. Imported food inflation at end-June 2019 increased slightly to 15.75 per cent (year-on-year), compared to 15.66 per cent in December 2018.

Figure 1.3 Inflationary Trend (Year-on-Year)



1.2.4 External Sector

1.2.4.1 Foreign Exchange Flows

Total foreign exchange inflow to the CBN amounted to US$30.82[1] billion in the first half of 2019, an increase of 7.26 per cent above the level in the preceding half-year. Total outflow from the Bank was US$28.85 billion in the first half of 2019, a decrease of 13.61 per cent from the level in the preceding half-year. Foreign exchange transactions through the CBN resulted in a net inflow of US$1.97 billion in the first half of 2019, compared with the net inflow of US$4.66 billion in the preceding half-year.

[1] Provisional

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

Period	Inflow	Outflow	Net flow
H1 - 2019	30,819.73	28,846.76	1,972.97
H2 - 2018	28,734.71	33,390.29	4,655.58
H1 - 2018	30,511.65	22,942.31	7,569.34
Source: CBN			

1.2.4.2 External Reserves

Nigeria's gross external reserves stood at US$44.75 billion at end-June 2019, indicating an increase of US$2.15 billion or 5.05 per cent above the US$42.60 billion recorded at end-December 2018. The external reserves position could cover 11.7 months of import of goods and services, higher than the IMF and WAMZ convergence requirement.

The ownership structure of the external reserves indicated that the CBN, FGN and the Federation holdings were US$37.22 billion, US$7.52 billion and US$3.61 million and accounted for 83.19, 16.80 and 0.01 per cent of the total, respectively, at end-June 2019. In terms of the currency composition of external reserves, the US dollar at US$40.14 billion, constituted 89.72 per cent of the total; special drawing rights, US$2.08 billion 4.66 per cent; Chinese renminbi, US$2.07 billion 4.62 per cent; and "others", accounted for the balance.

Table 1:10 Ownership Structure of the Reserves

Ownership	Jun'19 US$ millions	Dec'18 US$ millions	% Change
Federation	3.61	484.94	- 99.26
Federal Government	7,519.04	6,786.56	10.79
Central Bank of Nigeria	37,224.37	35,323.34	5.38
Total	44,747.02	42,594.84	5.05

Figure 1.4 Movement of Gross Reserves Showing CBN, FGN & Federation Portions

1.2.5 Potential Risks to the External Reserves from Global developments

1. Market Risk: US-China trade tension could weaken the demand for crude oil, lead to lower prices and reduce accretion to external reserves.
2. Credit Risk: Major central banks have attributed their easing policy/forward guidance to slowing growth in the global economy. If the slow growth persists, it could increase the risk of default.
3. Operational Risk: There is the potential for block chain technology to disrupt some financial operations globally. These operations include custody, payment, settlement, among others. Apart from technology requirements (hardware and software), such disruptions could lead to heightened cyber risk that would require the acquisition of new knowledge and skills by personnel involved in the management of foreign reserves.

1.2.6 Fiscal Operations[2]

The estimated Federal Government retained revenue for the first half of 2019 stood at ₦1,734.40 billion, lower than the half-year budget by 54.07 per cent, and receipts in the preceding half of 2018 by 7.67 per cent. The fall in retained revenue relative to the half- year proportional budget was attributed, mainly, to the decline in Federal Government Independent Revenue. A breakdown of the retained revenue showed that the share of the Federal Government from the Federation Account was ₦1,425.32 billion (82.17%); VAT Pool Account, ₦85.98 billion (4.96%); Federal Government

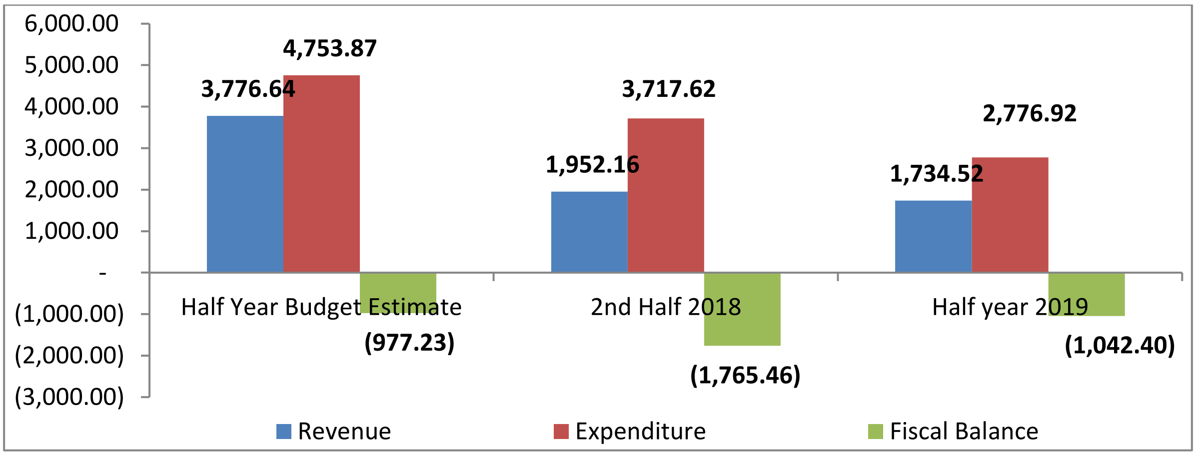
[2] Data from January to March, 2019 were obtained from OAGF, while those for April to June were CBN staff estimates.

Independent Revenue, ₦178.65 billion (10.30%); Excess Non-oil, ₦6.40 billion (0.37%); Exchange Gain, ₦1.85 billion (0.11%), and Excess oil revenue, ₦36.33 billion (2.09%).

Federal Government expenditure in the first half of 2019 at ₦2,776.92 billion, was lower than the half-year proportional budget by 16.83 per cent and the level recorded in the preceding half by 41.6 per cent. The expenditure profile of the Federal Government comprised recurrent expenditure (68.04%); capital expenditure (27.69%); and transfers (4.27%). A breakdown of the recurrent expenditure indicated that non-debt obligations accounted for 55.17 per cent, while debt service payments and transfers accounted for 44.83 per cent.

The fiscal operations of the Federal Government resulted in an estimated overall deficit of ₦1,042.52 billion for the first half of 2019, compared with the deficit of ₦1,765.40 billion in the second-half of 2018. The deficit was financed through domestic sources, including the issuance of government securities.

Figure 1.5 Federal Government Fiscal Operations (N billion)



Source: OAGF & CBN

The consolidated domestic debt stock of the Federal Government at end-June 2019 was ₦13,412.80 billion, reflected an increase of 7.79 per cent over the ₦12,443.13 billion recorded at end-December 2018. The FGN Bonds accounted for 70.76 per cent, Treasury Bills 19.44 per cent, FGN Sukuk and Green Bond 1.68 per cent of the total domestic debt stock, while others (FGN Special Bonds, Savings Bonds and Nigeria Treasury Bonds) accounted for the remaining 7.66 per cent.

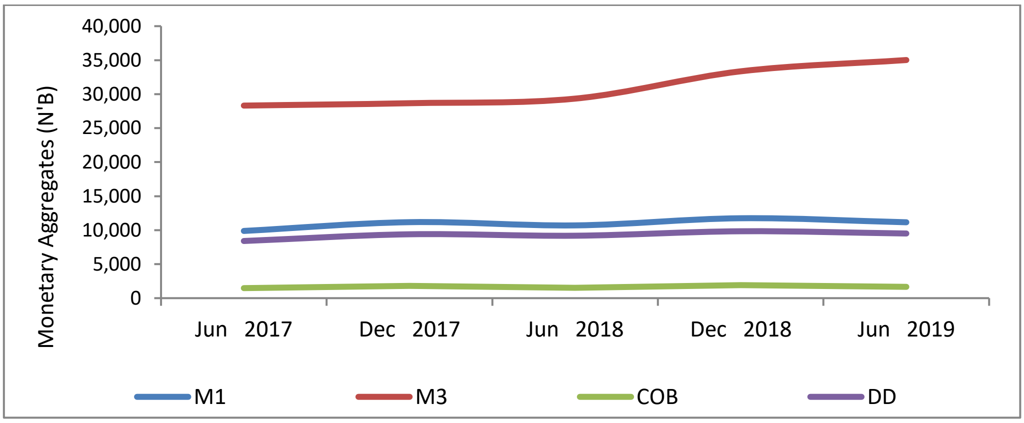
2 DEVELOPMENTS IN THE FINANCIAL SYSTEM

2.1 Monetary and Credit Developments[3]

Broad money supply (M3) grew by 4.97 per cent at end-June 2019, compared with 16.36 and 2.35 per cent at end-December 2018 and end-June 2018, respectively. The growth in broad money stock at an annualised rate of 9.94 per cent was below the indicative benchmark of 16.08 per cent for 2019. The growths was due to 0.4 and 17.26 per cent increase in net foreign assets and domestic credit (net) of the banking system, respectively. Correspondingly, the increase in total monetary liabilities was driven by 9.25 per cent growth in quasi-money.

Narrow money (M1) fell by 5.05 per cent to ₦11,159.12 billion at end-June 2019, as against an increase of 5.16 per cent at end-December 2018. The fall was due to decrease in currency outside banks and demand deposits by 13.7 and 3.4 per cent, respectively.

Figure 2.1 Trend in Monetary Aggregates



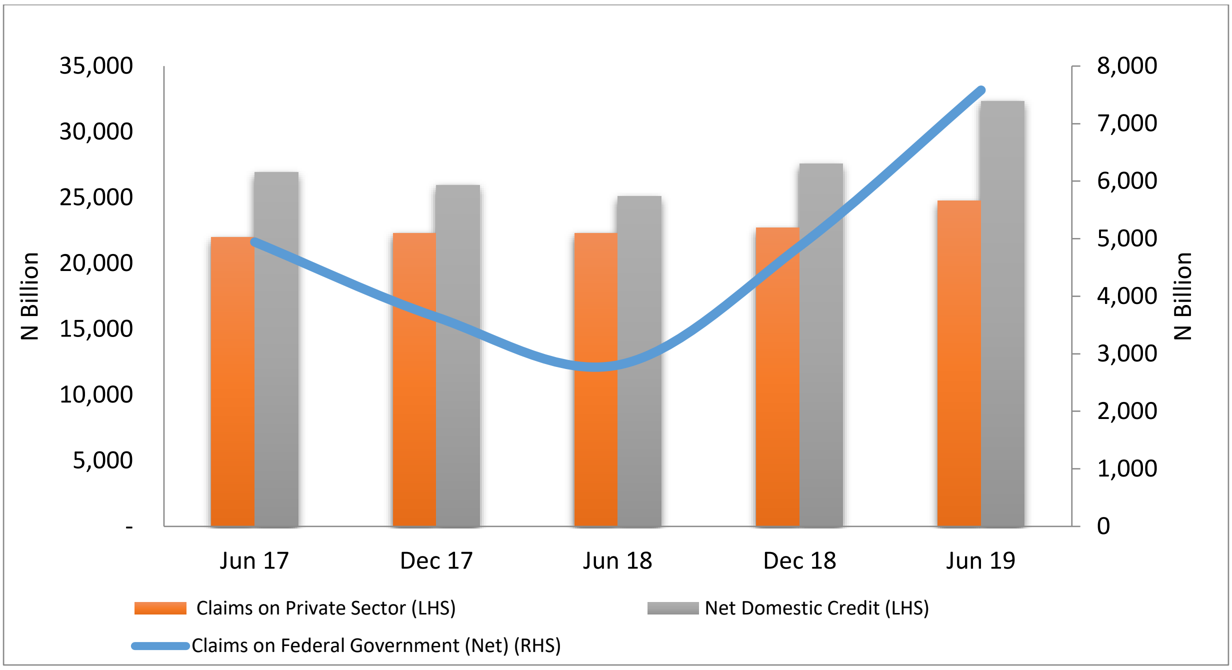
The intermediation efficiency measured by the proportion of currency outside banks (COB) to total monetary liabilities stood at 5.92 per cent at end-June 2019, reflecting an increase of 0.19 percentage point above the level at end-December 2018. The proportion of time and savings deposits to total monetary liabilities increased by 14.08 percentage points above the level at end-December 2018.

2.1.1 Aggregate Credit to the Domestic Economy

Aggregate credit to the domestic economy (net) grew by 17.26 per cent to ₦32,332.63 billion at end-June 2019, com with 6.34 per cent at end-December 2018. The growth in aggregate credit was attributed to the 55.80 and 9.00 per cent increases in net claims on the Federal Government and claims on the private sector, respectively. Consequently, aggregate credit to the domestic economy (net) contributed 16.60 percentage points to the growth in broad money at end-June 2019.

[3] June 2019 figures are provisional.

Figure 2.2 Credit to the Economy



2.1.1.1 Claims on the Federal Government

Net claims on the Federal Government stood at ₦7,581.49 billion at end-June 2019, showing a 55.80 per cent increase over the level of ₦4,866.09 billion recorded at end-December 2018, attributable to the growth in holdings of government securities by the public. Net claims on the Federal Government contributed 9.47 percentage points to the growth of total monetary assets.

2.1.1.2 Aggregate Claims on the Private Sector

Banking system credit to the private sector stood at ₦24,751.13 billion at end-June 2019, reflecting a 9.00 per cent increase over the ₦22,708.23 billion recorded at end-December 2018. The increase was due to the 1.98 and 0.57 per cent growth in claims on the core[4] private sector and state and local governments, respectively. Claims on the private sector accounted for 1.5 percentage points to the growth of total monetary assets.

[4]Excludes the state & local governments and non-financial public enterprises.

Table 2:1 Growth Rates of Monetary Aggregates

% Change (Over preceding December)	Dec 16	Jun 17	Dec 17 revised	Jun 18 revised	Dec 18 provisional	Jun 19 provisional
Domestic Credit (Net)	23.30	1.02	-3.46	-3.25	6.34	17.26
Claims on Federal Government (Net)	61.37	5.91	-25.36	-22.92	33.72	55.80
Claims on Private Sector	17.42	-0.02	1.40	-0.04	1.87	9.00
Foreign Assets (Net)	61.85	-7.45	69.63	18.15	18.54	0.40
Other Assets (Net)	-71.51	-10.51	-70.29	-10.17	1.31	-25.15
Total Monetary Assets (M_3)	31.23	-0.64	0.59	2.35	16.36	4.97
Quasi-Money	7.52	-4.30	5.23	8.85	18.13	9.25
Money Supply (M1)	29.12	-10.70	-0.85	-4.25	5.16	-5.05
Currency Outside Banks	25.02	-18.86	-2.07	-14.74	7.31	-13.69
Demand Deposits	29.96	-9.09	-0.62	-2.25	4.76	-3.37
Monetary Liabilities (M2)	16.77	-7.33	2.33	2.79	12.13	3.04
CBN bills held by money holding sectors	190.71	29.09	-7.76	0.02	38.90	13.29
Total Monetary Liabilities (M3)	31.23	-0.64	0.59	2.35	16.36	4.97

Source: CBN

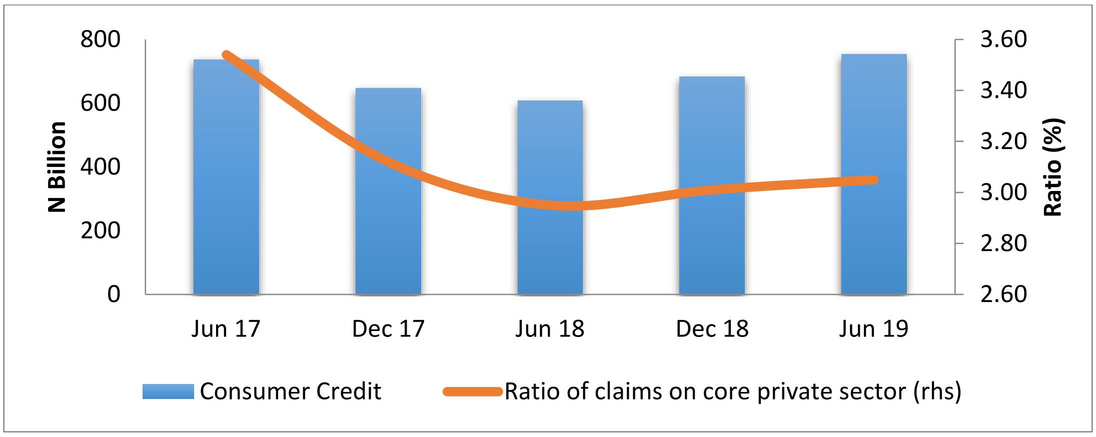
2.1.1.3 Foreign Assets (net) of the Banking System

Net foreign assets of the banking system rose by 0.40 per cent to ₦18,471.24 billion at end-June 2019, from ₦18,397.82 billion at end-December 2018, reflecting the growth in foreign assets of the banks. Its contribution to the growth of M3 was 0.26 percentage point at end-June 2019.

2.1.1.4 Consumer Credit

Outstanding consumer credit increased by 13.08 per cent to ₦753.85 billion at end-June 2019, from ₦683.36 billion at end-December 2018. Consumer credit constituted 3.05 per cent of banks' outstanding claims on the core private sector and was 0.04 percentage point higher than the level at end-December 2018.

Figure 2.3 Consumer Credit



2.1.2 Classification of Private Sector Credit

The contribution of agriculture, education, construction and services sub-sectors to total credit increased to 4.20, 0.40, 4.39 and 36.49 per cent in the first half of 2019, respectively, compared with 4.03, 0.38, 4.06 and 34.80 per cent in the preceding half year. However, trade/general commerce and real estate sub-sectors declined to 6.57 and 10.56 per cent from 7.11 and 11.82 per cent in the preceding half year, respectively.

Figure 2.4 Sectoral Distribution of Credit

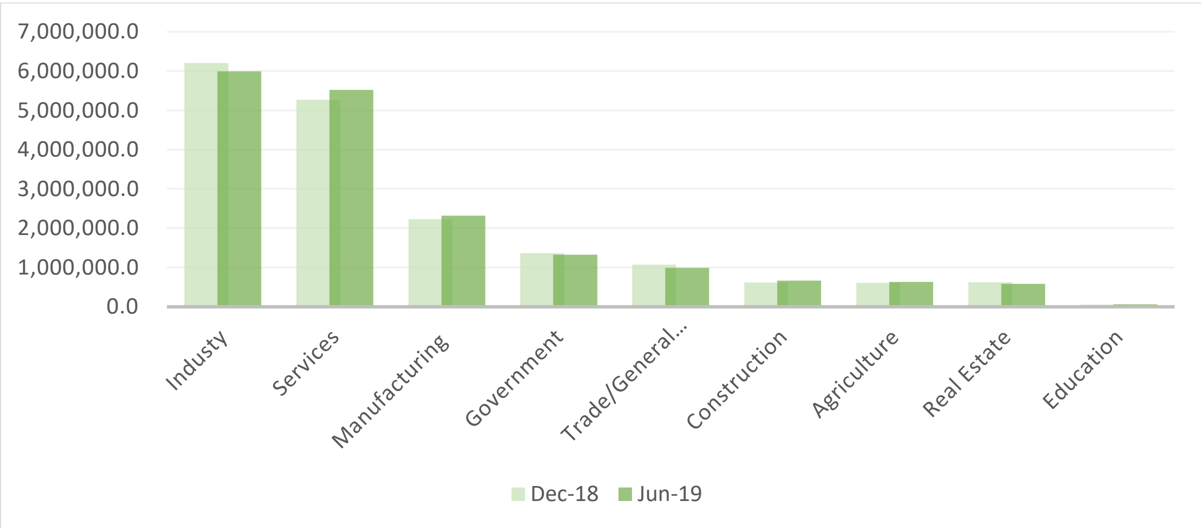


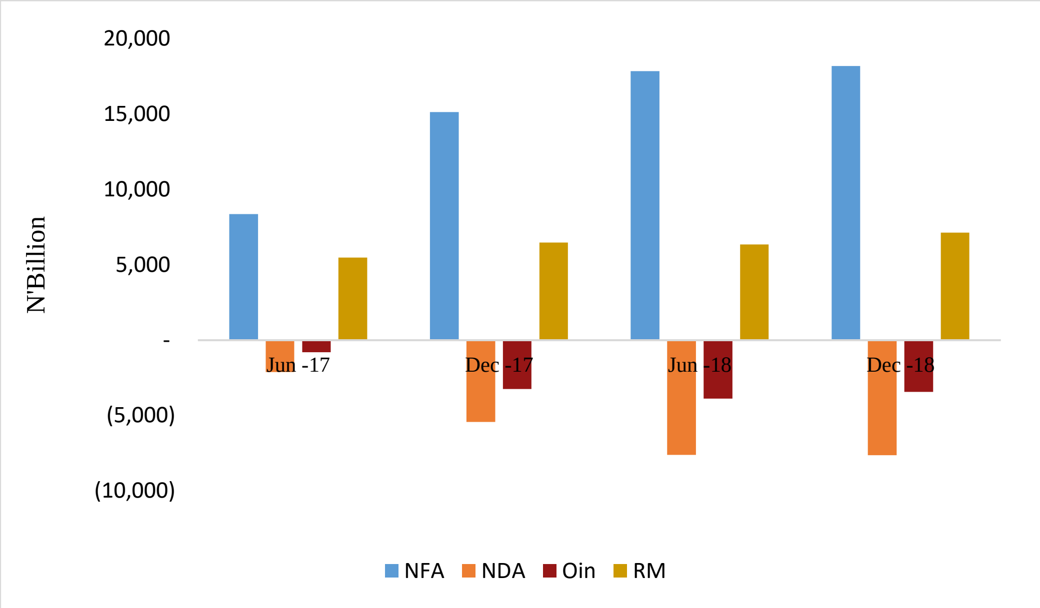
Table 2:2 Sectoral Distribution of Private Sector Credit

ITEM	Dec-18	Jun-19	Percentage Share in Total		%
	(=N='m)	(=N='m)	Dec-18	Jun-19	(1)&(2)
	(1)	'(2)	'(3)	(4)	
[a] Agriculture	610,149.7	636,075.5	4.0	4.2	4.2
[b] Industry	6,203,191.7	5,991,837.9	41.0	39.6	(3.4)
Mining & Quarrying	20,691.1	8,663.4	0.3	0.1	
Manufacturing	2,230,154.7	2,318,168.6	36.0	38.7	
Oil & Gas	3,548,970.8	3,329,468.7	57.2	55.6	
of which DownStream, Natural Gas and Crude Oil Refining	3,548,970.8	3,329,468.7			
Power and Energy	403,375.3	335,537.1	6.5	5.6	
of which IPP and Power Generation	403,375.3	335,537.1			
[c] Construction	614,514.3	664,870.4	4.1	4.4	8.2
[d] Trade/General Commerce	1,076,724.1	994,182.6	7.1	6.6	(7.7)
[e] Government	1,362,578.4	1,323,643.2	9.0	8.7	(2.9)
[f] Services	5,267,044.6	5,522,249.6	34.8	36.5	4.8
Real Estate	622,776.16	582,960.47	11.8	10.6	
Finance, Insurance and Capital Market	1,106,419.03	1,131,299.61	21.0	20.5	
Education	57,253.29	60,377.00	1.1	1.1	
Oil & Gas	1,096,546.06	1,061,733.82	20.8	19.2	
of which Upstream and Oil & Gas Services	1,096,546.1	1,061,733.8			
Power and Energy	309,117.02	295,457.18	5.9	5.4	(4.4)
of which Power Transmission and Distribution	309,117.02	295,457.18			
Others	2,074,933.03	2,390,421.49	39.4	43.3	
of which: i. General	899,854.41	1,015,494.89	0.43	0.42	
ii. Information & Communication	545,498.52	689,204.70	0.26	0.29	
iii. Transportation & Storage	289,852.05	317,069.43	0.14	0.13	
TOTAL	**15,134,202.9**	**15,132,859.0**	**100.0**	**100.0**	**(0.0)**

2.1.3 Reserve Money

Reserve money at end-June 2019 grew by 13.35 per cent to ₦8,088.46 billion, compared with ₦7,135.73 billion at end-December 2018. The upward movement on the asset side reflected increases of 2.3 and 15.6 per cent in net foreign assets and net domestic assets, respectively. Correspondingly, the upward movement on the liability side reflected the 26.39 per cent increase in bank reserves.

Figure 2.5 Reserve Money and its Components



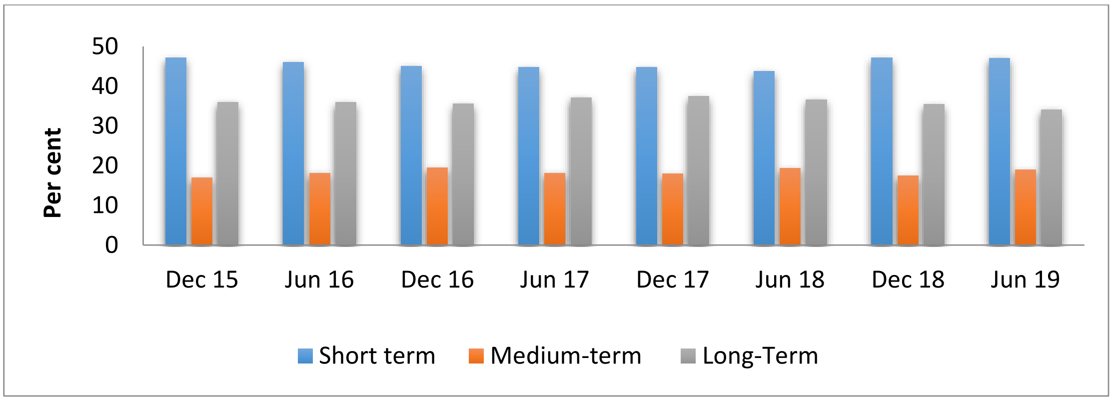
2.1.3.1 Currency-in–Circulation and Bank Deposits with the CBN

Currency-in-circulation accounted for 24.90 per cent of reserve money and fell by 13.55 per cent to ₦2,014.07 billion at end-June 2019, while bank deposits with the CBN increased by 26.39 per cent to ₦4,806.71 billion in the same period.

2.1.4 Maturity Structure of Bank Deposits and Credits

Commercial banks' outstanding credit at end-June 2019 showed that maturities for short-term credit accounted for 47.00 per cent, compared with 47.14 per cent in the preceding half year. Medium-term[5] credit increased to 18.9 per cent at the end of the first half of 2019, while long-term[6] credit fell to 34.1 per cent. Thus, short-term maturities maintained dominance in the credit market.

Figure 2.6 Distribution of Bank Loans and Advances by Maturity

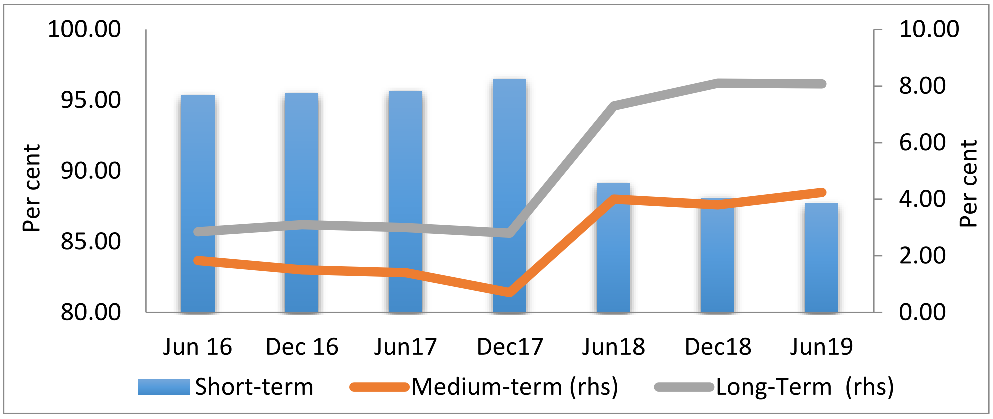


[5] Medium term implies maturities ≥1yr and < 3yrs.

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

The analysis of deposit liabilities of banks showed that short-term deposits with tenors below one year constituted 87.69 per cent of the total (69.20 per cent had a maturity of less than 30 days), compared with 88.06 per cent at end-December 2018. Medium and long-term deposits constituted 4.24 and 8.07 per cent of total deposits at end-June 2019, compared with 3.83 and 8.11 per cent at end-December 2018, respectively.

Figure 2.7 Maturity Structure of Bank Deposits



2.1.5 Market Structure of the Banking Industry

The structure of the Nigerian banking industry in the first half of 2019 showed that the concentration ratios of the six largest banks stood at 63.6 per cent in terms of deposits and 52.6 per cent in assets. The remaining twenty banks had market shares ranging from 0.10 per cent to 4.31 per cent, in deposits, and 0.08 per cent to 4.22 per cent in assets, compared with market shares ranging between 0.08 to 5.2 per cent in deposits and 0.1 to 5.1 per cent in assets in December 2018, respectively.

However, there was no dominance of a single bank as the market share of the largest bank with respect to deposits and assets stood at 14.94 and 13.20 per cent at end-June 2019, compared with 13.54 and 14.35 per cent at end-December 2018, respectively. This was supported by the Herfindhal Hirschman Indices[7] (HHI) of 664.08 in deposits and 608.64 in assets, compared with 719.10 and 763.85 at end-December 2018.

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

Figure 2.8 Concentration Ratios of the Banking Industry Assets and Deposits

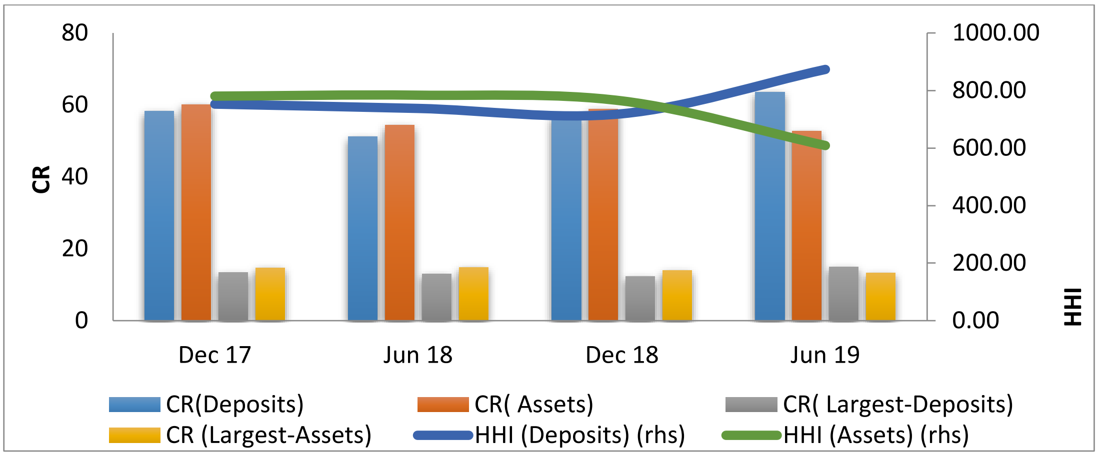


Table 2:3 Competition in the Nigerian Banking Industry

	Jun 2018	Dec 2018	Jun 2019
CR(Deposits)	57.7	57.06	63.6
CR(Largest-Deposits)	12.5	12.34	14.94
CR(Assets)	63.7	58.87	52.64
CR (Largest-Assets)	14.5	13.93	13.20
HHI (Deposits)	846.1	719.10	664.1
HHI (Assets)	732.7	763.85	608.6

Potential Risks to the Domestic Economy

Growth recovery remained modest and is vulnerable to:

- Decline in government revenue, which could adversely impact government's ability to meet its obligations;
- Low accretion to external reserves, which could have adverse implications for the foreign exchange market; and
- Negative volatility in oil prices, which could threaten banks' exposure to the oil and gas sector.

2.2 Licensing of Banks and Other Financial Institutions

The number of banks and other financial institutions (OFIs) licensed during the review period were one (1) Commercial Bank, one (1) Financial Holding Companies, 7 Microfinance Banks (MFBs), 4 Finance Companies (FCs) and 306 Bureaux De Change (BDCs). Consequently, there were 28 banks, four (4) Financial Holding Companies and 5,820 Other Financial Institutions (OFIs) at end-June 2019, compared with 27 banks, three (3) Financial Holding Companies and 5,503 OFIs respectively, at end-December 2018.

Table 2:4 Licensed Financial Institutions

S/N	Type	Total Licensed Institutions as at December 2018	Newly-Licensed Jan – Jun 2019	Total Number of licensed institutions as at June 2019
1	Microfinance Banks	900	7	907
2	Bureaux De Change	4,492	306	4,798
3	Finance Companies	69	4	73
4	Commercial Banks	22	1	23
5	Merchant Banks	5	Nil	5
6	Specialized Banks	Nil	Nil	Nil
7	Development Finance Institutions	7	Nil	7
8	Primary Mortgage Banks	35	Nil	35
9	Holding Companies	3	1	4

2.2.1 Assets and Liabilities of Other Financial Institutions

The total assets of the sub-sector decreased by 3.33 per cent to N2,891.18 billion at end-June 2019, from N2,990.82 billion at end-December 2018. This was due to reductions in cash and short-term funds, total assets of DFIs and FCs (following the revocation of the operating licences of 22 FCs in 2018).

Net loans and advances increased by 9.52 per cent to N1,477.95 billion at end-June 2019, from N1,349.42 billion at end-December 2018. Total deposits also increased by 14.12 per cent to N712.10 billion at end-June 2019, from N623.98 billion at end-December 2018 owing, largely, to improved deposits for mortgages. However, shareholders' funds unimpaired by losses decreased by 10.43 per cent to N482.53 billion at end-June 2019, from N538.73 billion at end-December 2018, occasioned by increased provisioning.

2.2.2 Development Finance Institutions

The total assets of the seven (7) DFIs decreased by 2.56 per cent to ₦1,889.71 billion at end-June 2019 from ₦1,939.29 billion at end-December 2018, owing largely to the reduction in their placements with banks, while net loans and advances increased by 5.89 per cent to ₦972.56 billion at end-June 2019 from ₦918.47 billion at end-December 2018.

The paid-up capital remained at ₦238.78 billion, while the shareholders' funds increased by 18.62 per cent to ₦298.08 billion at end-June 2019, from ₦248.88 billion at end-December 2018. The increase was due mainly to the accretion to reserves reported by Bank of Industry (BOI), Development Bank of Nigeria (DBN) and Nigeria Mortgage Refinancing Company (NMRC).

The Federal Mortgage Bank of Nigeria (FMBN), BOI and DBN accounted for 13.15, 56.55 and 15.93 per cent of the total assets of the DFIs, while NEXIM, BOA, NMRC and TIB accounted for 6.13, 4.19, 3.75 and 0.30 per cent, respectively. The breakdown of net loans and advances is as follows: BOI, 66.22 per cent; FMBN, 16.32 per cent; DBN 5.41 per cent; NEXIM, 4.85 per cent; BOA, 3.69 per cent; and NMRC, 3.87 per cent.

2.2.3 Primary Mortgage Banks

The number of PMBs at end-June 2019 stood at 35, comprising 12 national and 23 state PMBs. The total assets of the sub-sector decreased by 0.88 per cent to ₦447.93 billion at end-June 2019 from ₦451.95 billion at end-December 2018. The decrease was due to reduction in cash at hand by 62.0 per cent to ₦0.71 billion, balances with banks by 8.33 per cent to ₦10.76 billion, non-current assets held for sale by 8.0 per cent to ₦57.15 billion and investment in quoted shares by 13.29 per cent to ₦16.51 billion.

The CAR for the sub-sector stood at 40.99 per cent at end-June 2019, which was above the regulatory minimum of 10 per cent. The sub-sector liquidity ratio stood at 98.37 per cent at end-June 2019, compared with 49.99 per cent at end-December 2018.

Table 2:5 Primary Mortgage Bank Financial Highlights

	End-June 2019[8] (₦' billion)	End-December 2018 (₦' billion)	% Change
Total assets	447.93	451.95	(0.88)
Loans and advances	228.86	229.60	(0.32)
Placements with banks	43.91	41.03	7.00
Investment in Quoted Shares	16.51	19.04	(13.29)
Deposit liabilities	150.24	140.43	6.98
Other liabilities	166.25	154.92	7.31
Shareholders' funds	55.67	82.99	32.91

[8] Provisional

2.2.3.1 Other Developments

To deepen the mortgage market, PMBs were encouraged to transfer portions of their credit risks to the mortgage guarantee company. Consequently, the following adjustments are allowable in the computation of CAR:

(i) Reduction of risk weight on guaranteed legal mortgages from 100 to 50 per cent; and

(ii) Reduction of risk weight and Loan-to-Value (LTV) on non-guaranteed legal mortgages from 100 to 75 per cent, and 80 to 70 per cent, respectively.

2.2.4 Finance Companies

The number of FCs stood at 73 at end-June 2019, compared to 69 at end-December 2018, owing to the licensing of four (4) new institutions.

The total assets of the sub-sector decreased by 28.41 per cent to ₦136.04 billion at end-June 2019, down from ₦174.69 billion at end-December 2018, arising largely from the revocation of the operating licences of 22 FCs in the preceding period. Borrowings decreased by 20.05 per cent to ₦86.48 billion at end-June 2019, from ₦103.82 billion at end-December 2018. Shareholders' funds also decreased by 25.48 per cent to ₦23.31 billion at end-June 2019, from ₦29.25 billion at end-December 2018. However, loans and advances increased by 16.86 per cent to ₦63.94 billion at end-June 2019, from ₦53.16 billion at end-December 2018.

Table 2:6 Financial Position of Finance Companies at end-June 2019

	End-June 2019[9] (₦' billion)	End-Dec 2018 (₦' billion)	Change (₦' billion)	% Change
Total Assets	136.04	174.69	-38.6)	-22.12
Cash in Vault	0.88	4.71	-3.83	-81.32
Balances with Banks	6.79	6.59	0.2.0	3.03
Loans and Advances	63.94	53.16	10.78	20.28
Investments	14.60	13.0	1.6	12.31
Fixed Assets	13.35	49.01	-35.66	-72.76
Borrowings	86.48	103.82	-17.34	-16.70
Shareholders' Funds	23.31	29.25	-5.94	-20.31
Paid-up capital	16.89	16.43	0.46	2.80
Reserves	6.43	12.82	10.78	20.28

[9] Provisional

2.2.5 Microfinance Banks

The total number of MFBs was 907, comprising 9 national, 136 state and 762 unit at end-June 2019, compared with a total of 900 at end- December 2018, following the licensing of 7 new institutions.

The total assets of the MFBs declined marginally to ₦417.50 billion at end-June 2019, from ₦421.95 billion at end-December 2018, reflecting a decrease of 1.05 per cent. Net loans and advances decreased by 3.78 per cent to ₦212.59 billion at end-June 2019, from ₦220.95 billion at end-December 2018.

The shareholders' funds increased by 8.03 per cent to ₦105.47 billion at end-June 2019, from ₦97.63 billion at end-December 2018, due to capital injection and accretion to reserves. Similarly, total deposit liabilities increased by 2.18 per cent to ₦217.90 billion at end-June 2019, from ₦213.25 billion at end-December 2018.

2.2.5.1 Review of Capital Requirements for Microfinance Bank

The Bank reviewed the capital requirements for MFBs in a bid to reposition them to drive economic development and financial inclusion of the middle and lower social economic strata. The new minimum capital requirements are as follows:

Urban (Tier 1 Unit) MFBs – N200 million;
Rural (Tier 2 Unit) MFBs – N50 million;
State MFBs – N1 billion; and
National MFBs – N5 billion.
The institutions were required to comply on or before April 2021.

2.2.5.2 Microfinance Certification Programme

The total number of certified candidates stood at 6,332 at end-June 2019, compared with 5,790 at end-December 2018, following the certification of 542 candidates during the review period.

2.2.6 Bank Verification Number Enrolment for OFIs

Data captured at end-June 2019 indicated that 453 out of 906 MFBs had submitted their Bank Verification Number (BVN) enrolment data, showing that out of a total of 8,866,443 active customers, 1,756,950 (19.82%) customers had enrolled for the BVN.

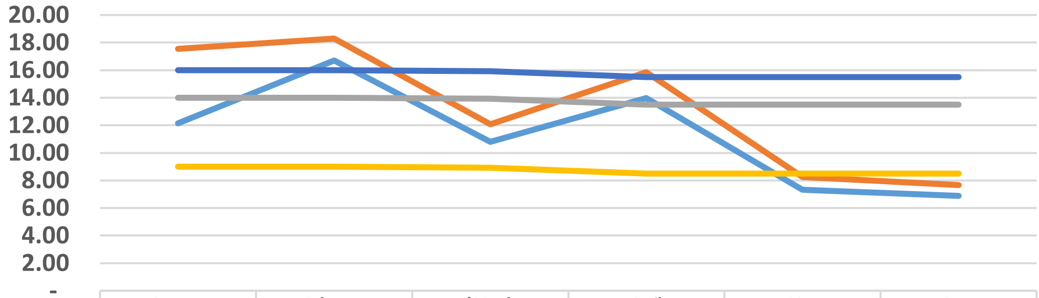
2.3 Financial Markets

The Bank signalled an accommodative monetary policy stance in the first half of 2019 to encourage financial intermediation to the real sector to enhance economic growth, following the reduction of the Monetary Policy Rate (MPR) to 13.50 per cent, from 14.00 per cent. However, the asymmetric corridor of +200/-500 basis points around the MPR was maintained. Similarly, the Cash Reserve Requirement (CRR) on deposits and the Liquidity Ratio were retained at 22.50 per cent and 30.00 per cent, respectively.

2.3.1 The Money Market

During the review period, the conduct of Open Market Operations (OMO) and sale of foreign exchange to authorized dealers through wholesale and retail secondary market interventions constituted the major withdrawals of liquidity from the system, while fiscal allocations and maturing government securities were the major sources of injection. Furthermore, interest rates varied in tandem with the liquidity conditions in the banking system. Thus, the weighted daily average open-buy-back (OBB) rates opened at 19.21 per cent on January 2, 2019, and closed at 4.04 per cent at end June 2019. The unsecured inter-bank call weighted daily average rates opened at 20.00 per cent on January 9, 2019 and closed at 4.64 per cent at end June, 2019. The range of rates, however, was between 3.00 and 35.00 per cent for the inter-bank call, and between 1.50 and 60.00 per cent for the OBB, in the review period.

Figure 2.9 Money Market Rate Movements, January – June 2019



	January	February	*March	April	May	June
Inter-Bank Call (%)	12.14	16.71	10.80	13.98	7.31	6.88
Open-Buy-Back (OBB) (%)	17.54	18.29	12.07	15.87	8.25	7.67
MPR (%)	14.00	14.00	13.93	13.50	13.50	13.50
SDF	9.00	9.00	8.93	8.50	8.50	8.50
SLF	16.00	16.00	15.93	15.50	15.50	15.50

Inter-Bank Call (%) Open-Buy-Back (OBB) (%) MPR (%) SDF SLF

***MPR** was adjusted March 27th, 2019, hence the changes in average MPR, SDF & SLF for the month of March*

2.3.1.1 Nigerian Treasury Bills

Nigerian Treasury Bills (NTBs) for 91-, 182- and 364-day tenors totalling ₦1,473.84 billion were issued and allotted in the first half of 2019. The total value of NTBs decreased by ₦215.18 billion or 12.74 per cent, from ₦1,689.02 billion in the preceding period. The decrease was attributed to the redemption of matured NTBs in line with government's debt management strategy.

Total subscriptions for NTBs increased to ₦4,153.63 billion during the first half of 2019, indicating an increase of ₦1,016.8 billion or 32.42 per cent above the ₦3,136.83 billion recorded in the second half of 2018. The increased subscription was as a result of high level of liquidity in the system and the general preference for government securities.

Average marginal rates for the issues ranged from 9.6000 – 11.0000 per cent for the 91-day, 11.8900 - 13.5000 per cent for the 182-day and 12.0200 – 15.0000 per cent for the 364-day tenors, respectively.

A breakdown of allotments indicated that: commercial banks accounted for N766.37 billion or 52.00 per cent; merchant banks, N52.94 billion or 3.59 per cent; CBN mandate and internal-fund customers, N581.08 billion or 39.43 per cent; and CBN bridge financing, N73.45 billion or 4.98 per cent. In the second half of 2018, commercial banks took up N843.41 billion or 49.93 per cent; merchant banks, N30.05 billion or 1.78 per cent; and CBN mandate and internal-fund customers, N815.57 billion or 48.29 per cent.

Analysis of the outstanding NTBs of N2,651.51 billion at end-June 2019 showed that: commercial banks accounted for 41.69 per cent; parastatals, 45.51 per cent; merchant banks, 0.81 per cent; and CBN, 11.99 per cent.

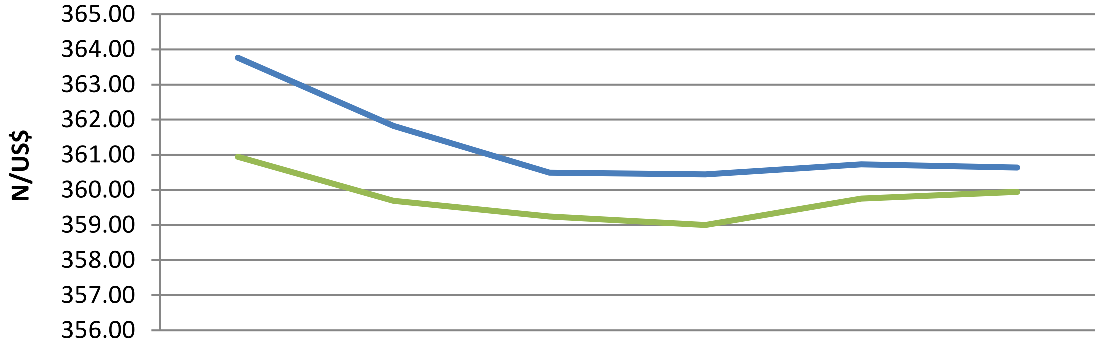
2.3.2 The Foreign Exchange Market

During the review period, the Bank sustained its foreign exchange intervention in critical areas, such as airline, petroleum, raw materials, machinery and eligible invisible transactions. The SMEs and Investors and Exporters (I&E) windows provided additional access to foreign exchange. Similarly, foreign exchange interventions through the BDCs and in the Naira-Settled OTC Futures Market were sustained to stabilise the exchange rate.

At the inter-bank segment of the foreign exchange market, daily rates opened at N306.95/US$ on January 2, 2019 and closed at N306.90/US$ on June 28, 2019, while rates opened at N305.75/US$ on July 2, 2018 and closed at N307.00/US$ on December 31, 2018. At the I & E window, rates opened at N364.41/US$ on January 2, 2019 and closed at N360.74/US$ on June 28, 2019, reflecting an appreciation of 1.01 per cent, compared with N361.40/US$ on July 2, 2018 and N364.00/US$ on December 31, 2018. At the BDC segment, rates opened on January 2, 2019 and closed on June 28, 2019 at N360.75/US$ and N360.00/US$, respectively.

Under the Bi-lateral Currency Swap Agreement with the Peoples Bank of China (PBoC), 13 auctions, valued CNY512.43 million, were conducted during the review period, compared with 12, valued at CNY669.66 million, in the second half of 2018.

Figure 2.10 BDC and I & E Exchange Rates, January – June 2019



	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
I & E window	363.76	361.82	360.49	360.44	360.73	360.64
BDC	360.94	359.69	359.24	359.00	359.75	359.94

2.3.2.1 Foreign Exchange Spot, Forwards and OTC Futures Transactions

The total foreign exchange sales by the Bank in the first half of 2019 were US$ 8,287.52 million. The sales were through the following windows: interbank spot, US$2,142.63 million; invisibles trade transactions, US$550.70 million; I&E, US$212.11 million; inter-bank forwards, US$4,572.03 million; and SMEs, US$810.00 million. Inter-bank forwards maturity amounted to US$4,979.46 million, while US$2,552.01 million remained outstanding at end-June 2019.

Comparatively, in the second half of 2018, the total CBN foreign exchange sales, at the inter-bank segment were US$16,168.52 million, comprising: spot, US$1,898.34 million; invisibles, US$812.70 million; SMEs, US$678.50 million; I&E, US$7,035.56 million; and inter-bank forwards, US$5,743.42 million.

The notional amount of the OTC FX Futures contracts was US$8,035.39 million in the first half of 2019. The sum of US$3,483.04 million matured, while US$9,324.70 million remained outstanding at end-June 2019. Comparatively, the notional amount of the OTC FX Futures contracts was US$3,911.47 million in the second half of 2018. The sum of US$3,508.81 million matured, while US$4,772.35 million remained outstanding at end-December 2018.

2.3.3 The Capital Market

During the review period, the capital market continued to provide long-term funds for economic growth. The activities in the market were mainly influenced by the listing of new issues at both the equity and debt market segments.

2.3.3.1 The Bond Market

The total value of bonds outstanding at end-June 2019 ₦9,818.15 billion, comprising: FGN bonds, ₦8,840.30 billion or 90.04 per cent; FGN sukuk, ₦200.00 billion or 2.04

per cent; sub-national bonds, ₦384.09 billion or 3.91 per cent; sub-national sukuk, ₦3.83 billion or 0.04 per cent; and corporate bonds, ₦389.92 billion or 3.97 per cent. The value of total bonds outstanding was 6.69 per cent higher than ₦9,202.46 billion at end-December 2018, reflecting increased claims on the government.

Table 2:7 Outstanding Bonds (N Billions)

Bond Issuer	December 2018	June 2019	% Change	Proportion of Total (December 2018)	Proportion of Total (June 2019)
FGN	8,256.57	8,840.30	7.07	89.72	90.04
FGN Sukuk	200.00	200.00	-	2.17	2.04
Sub-National	389.59	384.09	(1.41)	4.23	3.91
Sub-National Sukuk	4.94	3.83	(22.35)	0.05	0.04
Agency	-		-	-	-
Corporate	351.36	389.92	10.97	3.82	3.97
Total	9,202.46	9,818.15	6.69	100.00	100.00

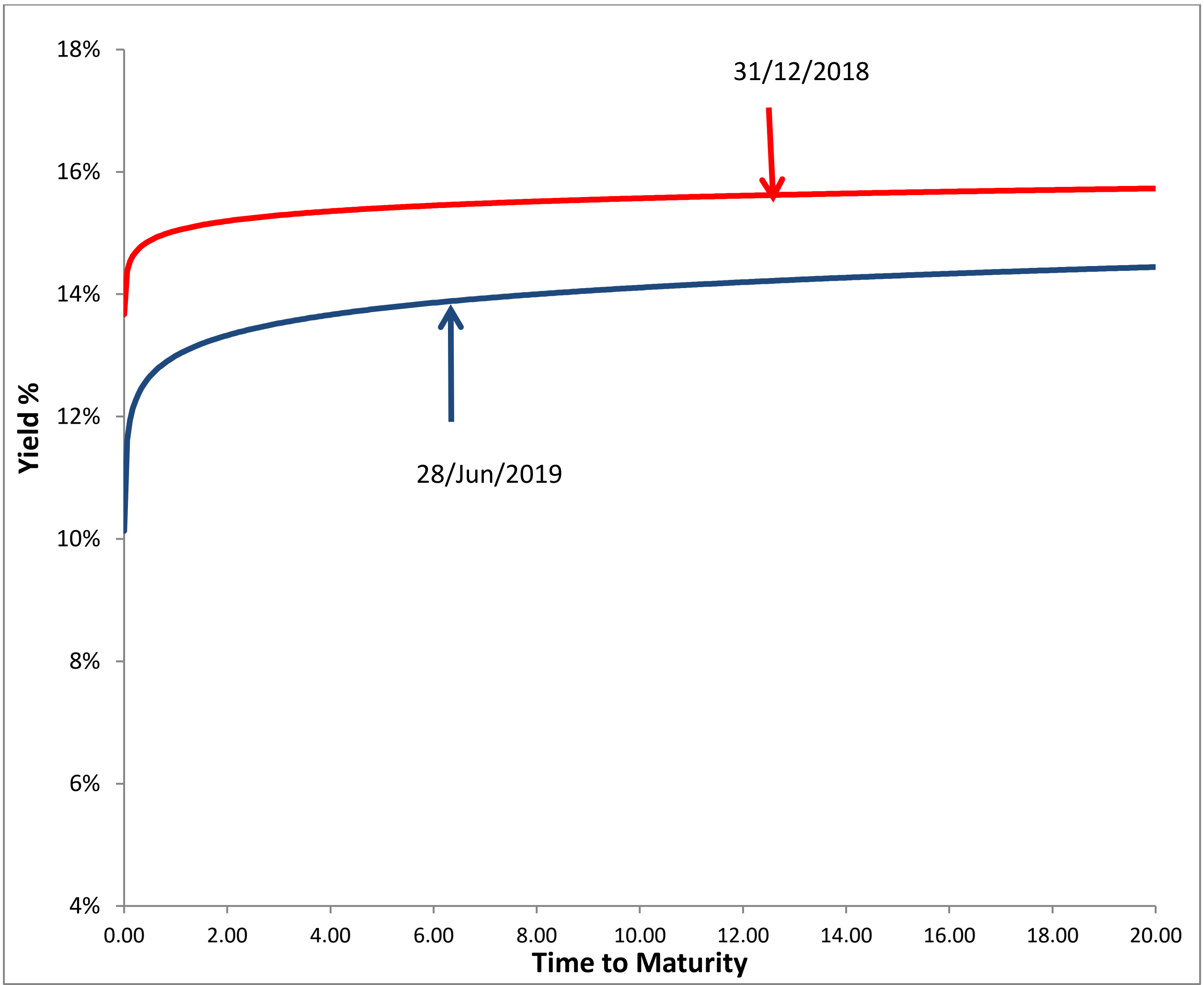
Source: FMDQ OTC

2.3.3.1.1 Federal Government of Nigeria Bonds

New bond issues and re-openings increased by 22.8 per cent to ₦700.00 billion from ₦570.00 billion in the second half of 2018. Public subscriptions and sales increased to N1,160.45 billion and N615.39 billion in the first half of 2019, from N676.61 billion and N336.69 billion in the second half of 2018, respectively. The increases in issues and allotment were attributed to government's preference for longer-tenored domestic debt.

The yield on FGN bonds decreased at both the short and long ends of the curve, compared with the preceding period, reflecting investors' expectations of lower inflation rates.

Figure 2.11 Yield Curve for Nigeria



Source: FMDQ-OTC Plc

2.3.3.1.2 Federal Government of Nigeria Savings Bonds

FGN Savings Bonds (FGNSB) worth N2.75 billion were issued and allotted during the review period. The issues were for two and three-year tenors with coupon rates ranging between 11.2760 - 12.1250 per cent and 12.2760 - 13.1250 per cent, respectively. Comparatively, N2.23 billion worth of bonds were issued in the preceding period, with coupon rates ranging from 10.4830 - 12.4020 per cent and 11.4830 - 13.4020 per cent for the two- and three-year tenors, respectively. The increase of N0.52 billion in FGNSB issues reflected the government's efforts to further encourage retail savings in the Country. With FGNSB worth N3.067 billion maturing during the review period, the total value of FGNSB outstanding at end-June 2019 was N10.43 billion compared to N10.75 billion at end-December 2018.

2.3.3.1.3 Federal Government of Nigeria Green Bonds

During the review period, a 7-year bond worth N15.00 billion with a coupon rate of 14.5000 per cent was issued to finance projects, with envisaged positive impact on the environment and the economy. An FGN Green Bond valued N25.69 billion was outstanding as at end-June 2019.

2.3.3.1.4 Federal Government of Nigeria Sukuk

The FGN sukuk outstanding remained at N200.00 billion at end-June 2019 as there was no new issue in the period under review.

2.3.3.1.5 Sub-National Bonds

In the review period, sub-national bond worth ₦6.84 billion issued by one state government was listed, while a total of ₦384.09 billion, including ₦3.83 billion sukuk by one state government, was outstanding. Two states fully redeemed bonds valued ₦6.6 billion, while eight states partially redeemed bonds valued ₦8.03 billion.

As at end-December 2018, sub-national bonds worth ₦394.53 billion, including ₦4.94 billion sukuk issued by one state government, were outstanding. Two states fully redeemed bonds valued ₦7.51 billion, eleven states partially redeemed ₦16.29 billion, while one state partially redeemed ₦1.02 billion worth of sukuk.

2.3.3.1.6 Corporate Bond

Seven bonds worth N69.52 billion issued by four companies were listed, while three bonds worth N27.19 billion were fully redeemed during the review period, compared with eight bonds worth N88.09 billion newly listed and three bonds worth N35.76 billion fully redeemed in the preceding period. The sum of N389.92 billion was outstanding at end-June, 2019 against 20 listed companies, compared with N351.36 billion bonds issued by 31 listed corporate entities at end-December 2018.

Table 2:8 Newly Listed and Re-opened Corporate Bonds

Issuer	Listing Date	Description	Outstanding Value (₦' Billion)
Mixta Real Estate Plc	12-Oct-18	16.50 Mixta Iia 12-Oct-2023	2.96
Mixta Real Estate Plc	12-Oct-18	17.75 Mixta Iib 12-Oct-2023	2.32
Stanbic IBTC	17-Dec-18	15.75 Stanbic I 5-Dec-2023	30.00
Cerpac Receivables Funding SPV Plc	29-Jan-18	18.25 Cerpac-SPV 15-Jan-2025	4.17
Cerpac Receivables Funding SPV Plc	07-May-18	15.25 Cerpac- SPV I 7-May-2025	10.91
Cerpac Receivables Funding SPV Plc	11-Jul-18	15.50 Cerpac- SPV Ii 15-Jul-2025	1.49
Wema Funding SPV Plc	12-Oct-18	16.50 Wema Funding Spv Ii 12-Oct-2025	17.68
Total			**69.52**

Source: FMDQ OTC

2.3.3.2 The Equities Market

The All Share Index opened at 31,070.06 in January 2019 and closed at 29,966.87 in June 2019, reflecting a decrease of 1,103.19 points or 3.55 per cent. On the contrary, the market capitalization (MC) of equities increased by N1.62 trillion or 13.98 per cent, from N11.59 trillion in January to N13.21 trillion at end-June 2019. The increase in the MC was due to the listing of a blue chip company on the Exchange.

The ASI opened at 38,221.71 in the second half of 2018, and closed at 31,430.50 at end-June 2019, indicating a decrease of 6,791.21 points or 17.77 per cent. Similarly, the MC of equities decreased by N1.86 trillion or 13.70 per cent, from N13.58 trillion in July 2018 to N11.72 trillion at end-December 2018.

Foreign Portfolio Investment (FPI) inflows in the first half of 2019 totalled ₦177.32 billion, while divestments (outflows) stood at ₦198.74 billion, reflecting a net outflow of ₦21.42 billion. The net outflow was largely attributed to investors' perceived risks in the market. In comparison, inflows in the second half of 2018 amounted to ₦195.80 billion, while divestments stood at ₦223.59 billion, reflecting a net outflow of ₦27.79 billion.

Overall, FPI flows accounted for 47.58 per cent of total equity transactions in the period, compared with 51.96 per cent in the preceding period. Domestic transactions accounted for the balance of 52.42 per cent in the equity market, as against 48.04 per cent in the preceding period.

Table 2:9 Domestic and Foreign Portfolio Participation in Equities Trading

Period	Total	Foreign	% Foreign	Domestic	% Domestic	Foreign Inflow	Foreign Outflow	NSE ASI	Market Capitalization
H1 2019	790.31	376.05	47.58	414.25	52.42	177.32	198.74	29,966.87	13,205.54
H2 2018	807.14	419.39	51.96	387.75	48.04	195.80	223.59	31,430.50	11,720.72
H1 2018	1,597.25	799.71	50.07	797.54	49.93	380.65	419.06	38,278.55	13,866.42
H2 2017	1,607.64	777.33	48.35	830.31	51.65	556.28	221.05	33,243.19	13,609.47

2.3.4 Potential Risks to Financial Stability arising from the Equities Market

1. Declining yields at the sovereign primary markets could result in foreign portfolio outflows.

2. Persistent foreign portfolio outflow could impact negatively on exchange rate stability.

3. Persistent bearish equity market conditions could adversely affect investors' confidence.

2.4 Real Sector Interventions

To increase credit flows to strategic sectors of the economy, stimulate value chain development, generate more employment opportunities, conserve foreign exchange and increase financial inclusion, the Bank sustained its intervention schemes in the real sector.

2.4.1 Commercial Agriculture Credit Scheme

The Bank disbursed ₦4.84 billion to five (5) banks for six (6) projects under the Scheme in the first half of 2019, compared with ₦40.36 billion to fifteen (15) banks for twenty-four (24) projects in the second half of 2018. A total sum of ₦608.13 billion had been disbursed for 588 projects from inception to end-June 2019. Of this amount, ₦329.27 billion (54.1%) was disbursed to state government-sponsored projects and ₦278.86 billion (45.9%) to the private sector.

Repayments during the first half of 2019 stood at ₦23.91 billion in respect of 139 projects, compared with ₦32.22 billion repaid in respect of 272 projects in the second half of 2018. This brought cumulative repayment as at end-June 2019 to ₦349.99 billion.

2.4.2 Paddy Aggregation Scheme

The sum of ₦35.20 billion was disbursed to seven (7) banks for 12 projects in the first half of 2019, compared with ₦5.0 billion to one (1) bank for a project in the second half of 2018. This brought total disbursement to ₦88.83 billion for 25 projects at end-June 2019.

The sum of ₦1.5 billion was repaid in the review period, compared with ₦18.63 billion in the second half of 2018. The cumulative amount repaid since inception to end-June 2019 was ₦34.63 billion.

2.4.3 Anchor Borrowers' Programme

In the first half of 2019, ₦26.67 billion was disbursed to 237,967 smallholder farmers, compared with ₦82.59 billion to 490,481 farmers in the second half of 2018, representing a decrease of 67.7 per cent in amount and 51.5 per cent in the number of farmers. The agricultural activities financed included cassava, cotton, maize, rice, soya bean, tomato, wheat, poultry, cattle rearing and fish farming.

From inception of the Programme up to end-June 2019, a total sum of ₦201.97 billion had been disbursed, through 19 Participating Financial Institutions (PFIs) to 255 private and 14 state government anchors involving 1,140,854 farmers.

The amount repaid during the review period was ₦2.89 billion, reflecting a decrease of 14.8 per cent, from ₦3.39 billion recorded in the second half of 2018. The cumulative repayment from inception to end-June 2019 was N14.68 billion.

2.4.4 Accelerated Agriculture Development Scheme

The Scheme was launched in 2018 as an off-shoot of the Anchor Borrowers Programme (ABP) and commenced operations in the first half of 2019, with ₦1.37 billion disbursed to a state government-owned poultry project.

2.5 Micro, Small and Medium Enterprises Development Fund

In the first half of 2019, ₦625.55 million was disbursed for 1,103 projects, compared with ₦1.61 billion for 1,091 projects in the second half of 2018. Total repayments during the review period amounted to ₦3.63 billion.

Total disbursement at end-June 2019 was ₦85.70 billion for 216,989 projects, comprising state governments, ₦58.22 billion or 67.9 per cent and MSMEs (the private sector), ₦27.46 billion or 32.1 per cent. Cumulative repayment stood at ₦30.19 billion at end-June 2019.

Table 2:10 Summary of MSMEDF Disbursements and Repayments

Activity	From inception to Dec. 31, 2018 (₦' billion)	Jan – June 2019 (₦' billion)	Cumulative as at June 2019 (₦' billion)
Disbursements to MSMEs	27.47	0.01	27.47
Disbursements to State Governments	57.61	0.62	58.23
Total Disbursement	**85.08**	**0.63**	**85.70**
Repayments Received	**26.57**	**3.63**	**30.19**

2.5.1 Agri-business/ Small and Medium Enterprises Investment Scheme

In the first half of 2019, ₦1.29 billion was disbursed to 595 projects, compared with ₦0.34 billion to 162 projects in the second half of 2018. Aggregate disbursement from inception to end-June 2019 was ₦1.74 billion for 1,111 projects. Repayment in the review period was ₦0.981 million.

2.5.2 Creative Industry Financing Initiative

The Initiative was introduced during the review period as a window under the AGSMEIS to improve access to long-term, low-interest financing by entrepreneurs and investors in the areas of fashion, movie and music production, distribution, software development and information technology.

2.5.3 Youth Entrepreneurship Development Programme

There was no disbursement in the review period. However, disbursement to date stood at N173.42 million for 67 projects. The sum of ₦20.65 million was repaid in the review period, compared with ₦5.27 million in the second half of 2018, bringing the cumulative repayment at end-June 2019 to ₦32.94 million.

2.6 Real Sector Support Facility

During the review period, ₦40.00 billion was disbursed for a project, compared with ₦38.09 billion for four (4) projects in the second half of 2018. Cumulatively, ₦157.51 billion had been disbursed to twenty-four (24) projects at end-June 2019. The sum of ₦2.90 billion was repaid in the review period compared with ₦4.95 billion in the second half of 2018, bringing total repayment to ₦11.81 billion at end-June 2019.

2.6.1 Differentiated Cash Reserve Ratio Window of Real Sector Support Facility

In the first half of 2019, eighteen projects were financed with ₦75.55 billion, compared with ₦6.15 billion disbursed to 4 projects in the second half of 2018, bringing aggregate disbursement to ₦81.71 billion for 22 projects at end-June 2019.

2.6.2 Small and Medium Enterprises Restructuring and Refinancing Facility

Total amount disbursed under the SMERRF[10] was ₦300.1 billion for 604 projects. In the review period, repayments amounted to ₦12.60 billion, bringing cumulative repayments to ₦132.16 billion at end-June 2019.

2.6.3 Textile Sector Intervention Facility

In the first half of 2019, no disbursement was made, compared with ₦10.29 billion disbursed for two (2) projects in the second half of 2018. Cumulatively, the sum of ₦55.76 billion had been disbursed for 33 projects at end-June 2019. The sum of ₦884.38 million was repaid in respect of six (6) projects, bringing total amount repaid to ₦3.11 billion at end-June 2019.

2.6.4 Power and Airline Intervention Fund

A total of ₦301.37 billion had been disbursed at end-June 2019 for 71 projects, comprising 47 power projects amounting to ₦180.61 billion or 59.9 per cent and 24 airline projects totalling ₦120.76 billion or 40.1 per cent.

The sum of ₦12.72 billion was repaid in the first half of 2019, compared with ₦13.35 billion in the second half of 2018, bringing aggregate repayment to ₦158.25 billion at end-June 2019.

Table 2:11 PAIF Disbursements and Repayments

S/N	Type	No. of Projects	Amount (₦' billion)	%	Repayments (₦' billion)
1	Airline	24	120.76	40.1	76.30
2	Power	47	180.61	59.9	81.95
	Total	**71**	**301.37**	**100.00**	**158.25**

Source: CBN

2.6.5 Nigeria Electricity Market Stabilization Facility

A total amount of ₦183.09 billion had been disbursed to the Nigerian Electricity Supply Industry Stabilisation Strategy Limited at end-June 2019 to refinance 37 eligible market participants. The sum of ₦9.36 billion was repaid in the review period, bringing total repayment to ₦39.82 billion.

2.6.6 Nigeria Bulk Electricity Trading Payment Assurance Facility

The sum of ₦98.12 billion was disbursed in the review period, compared with ₦290.04 billion disbursed in the second half of 2018. Total disbursement at end-June 2019 stood at ₦623.88 billion.

[10] The SMERRF was discontinued in 2014

2.6.7 CBN-BOI Industrial Facility

During the period under review, the Bank disbursed N50.00 billion through the Bank of Industry (BOI) to 30 projects, bringing the total disbursement to ₦100.00 billion for 60 projects at end-June, 2019.

2.6.8 National Food Security Programme

The sum of ₦8.90 billion was disbursed to two (2) projects in the first half of 2019, compared with N4.60 billion to three (3) projects in the second half of 2018. Cumulative disbursement at end-June 2019 stood at ₦53.49 billion to 11 projects. Repayments in the review period stood at ₦2.60 billion, bringing the total to ₦5.39 billion at end-June 2019.

2.6.9 Presidential Fertilizer Initiative

A sum of ₦35.00 billion was disbursed to five (5) projects at end-June 2019 through the Nigeria Sovereign Investment Authority.

2.6.10 Non-oil Export Stimulation Facility

In the first half of 2019, ₦8.00 billion was disbursed to two (2) projects, compared with ₦6.45 billion to two (2) projects in the second half of 2018. Aggregate disbursement at end-June 2019 was ₦33.49 billion. The sum of ₦1.00 billion was repaid in the review period, bringing total repayment to ₦6.04 billion.

2.7 Credit Guarantee Schemes

2.7.1 The Agricultural Credit Guarantee Scheme

In the first half of 2019, a total of 11,981 loans valued ₦1.68 billion were guaranteed under the ACGS, compared with 20,192 loans valued ₦2.62 billion in the second half of 2018. The total number of loans guaranteed since inception to end-June 2019 was 1,143,781, valued at ₦115.93 billion.

A breakdown of the loans guaranteed revealed that food crops accounted for 8,183 or 68.3 per cent; livestock, 1,171 or 9.8 per cent; mixed crops, 702 or 5.9 per cent; cash crops, 1,213 or 10.1 per cent; fisheries, 444 or 3.7 per cent; and ‘others’, 268 or 2.2 per cent. A breakdown of the value of the loans guaranteed revealed that individuals accounted for ₦1.58 billion or 93.7 per cent; informal groups, ₦98.82 million or 5.9 per cent; and companies, ₦7.00 million or 0.4 per cent.

During the review period, a total of 8,676 loans valued ₦1.32 billion were fully repaid, compared with 12,395 loans valued ₦2.43 billion in the second half of 2018. The cumulative repayment at end-June 2019 was ₦88.27 billion for 897,944 loans.

Furthermore, a default claim valued at ₦0.047 million was settled in the review period, compared with none in the second half of 2018. The cumulative number of settled default claims at end-June 2019 stood at 17,758, valued at ₦652.64 million.

2.7.2 Interest Drawback Programme

In the first half of 2019, a total of 5,760 rebate claims valued ₦87.64 million were settled, compared with 7,968 rebate claims valued ₦107.13 million in the second half of 2018, a decrease of 27.71 per cent and 18.19 per cent in volume and value, respectively. The number of IDP rebate claims settled were 357,300, valued at ₦3.19 billion at end-June 2019.

2.7.3 Commodity Champions Initiative

During the review period, the Commodity Champions Initiative (CCI) was launched to stimulate and deepen the financing of selected commodities along the various value chains. These commodities include cotton, oil palm, tomato, maize, rice, poultry, cassava, fish and livestock (cattle).

Working Groups were set up for each commodity, led by a Commodity Champion, to develop and implement work plans to increase production of the commodity. The work plan include the conduct of gap analysis to identify current and market requirements, as well as engage key commodity stakeholders which include seed/breed developers, farmers, processors, importers, input suppliers, towards achieving the goals of the initiatives.

2.8 Financial Inclusion

The “ownership” indicators under the Payments and Savings in the banking sector recorded significant improvement. The total number of savings accounts in banks at end-June 2019 stood at 98.48 million, an increase of 7.6 per cent above the level in the second half of 2018. During the review period, a total of 2.1 million new bank accounts were opened.

2.8.1 National Collateral Registry

The National Collateral Registry (NCR) in the first half of 2019 enrolled 15 institutions, comprising seven (7) MFBs, seven (7) non-bank financial institutions and one (1) DFI. The total number of financial institutions registered increased to 643, comprising 21 commercial banks, 558 MFBs, four (4) merchant banks, five (5) DFIs, 19 non-bank financial institutions, 35 finance companies, and one (1) non-interest bank.

The NCR also registered 10,580 financing statements valued ₦65.75 billion and US$12.28 million, compared with 9,421 financing statements valued ₦604.57 billion, US$1.11 billion and €22,949.36 registered in the second half of 2018. Furthermore, 63 financial institutions registered financing statements in movable assets, used by

19,228 borrowers as collaterals, compared with 62 financial institutions that registered financing statements in respect of 27,295 borrowers in the second half of 2018.

Cumulatively, 50,365 financing statements valued at ₦1.29 trillion, US$1.16 billion and €6.08 million in respect of 177,144 borrowers had been registered by 100 financial institutions. An analysis of the borrowers showed that: individuals accounted for 17,275 or 89.8 per cent; large businesses, 58 or 0.3 per cent; medium businesses, 232 or 1.2 per cent; small businesses, 494 or 2.6 per cent; and micro businesses, 1,169 or 6.1 per cent.

Table 2:12 Summary of Financing Statements on the NCR as at end-June 2019

Borrower Type	Number of borrowers		Number of financing statements		Currency	Value of financing statements (₦' million)	
	Jan - Jun 2019	Cumulative	Jan - Jun 2019	Cumulative		Jan - Jun 2019	Cumulative
Individual	17,275	167,031	9,930	44,100	₦	19,890.48	149,990.11
					US$	0	0.64
					€	0	0
Large Business	58	769	49	742	₦	23,589.22	883,890.94
					US$	7.28	1,147.18
					€	0	6.06
Medium Business	232	2,434	216	2,389	₦	20,747.48	232,285.44
					US$	5.00	8.41
					€	0	0
Micro Business	1,169	4,612	118	1,184	₦	289.96	5,972.73
					US$	0	0
					€	0	0
Small Business	494	2,298	267	1,950	₦	1,230.56	21,132.92
					US$	0	0.12
					€	0	0.02
Total	**19,228**	**177,144**	**10,580**	**50,365**	**₦**	**65,747.70**	**1,293,272.13**
					US$	**12.28**	**1,156.35**
					€	**0**	**6.08**

Source: NCR

2.8.2 Financial Literacy

In furtherance of efforts to enhance financial literacy, the Bank carried out the following activities:

a. In conjunction with other financial sector regulators and other stakeholders, organized a National Financial Literacy Stakeholders' Conference with the theme "**Implementing Financial Literacy and Consumer Protection to Advance Financial Inclusion in Nigeria"**. Policy documents presented at the conference included the: Revised National Financial Inclusion Strategy; Consumer Protection Framework; Nigeria Financial Education Strategy and the National Financial Literacy Framework;

b. Commemorated the 2019 Global Money Week with the theme "**Learn, Earn and Save"**. Financial awareness campaign activities including Global Money Walk and School Mentoring Programmes were held in six (6) states with a total of 103,759 students participating;

c. Conducted sensitization campaigns through the "CBN Fair" in two (2) states;

d. Launched the maiden edition of its Consumer Protection Newsletter; and

e. Joined the International Financial Consumer Protection Organisation (FinCoNet) and participated at its Seminar and Open Meeting in Paris.

2.9 Potential Risks in the Real Sector

I. Participating Financial Institutions (PFIs) are exposed to credit risks arising from defaults occasioned by side selling by small-holder farmers, smuggling and non-payment of bills by consumers.
II. Adverse weather conditions may pose major risks to the performance of projects and result in low output and likelihood of default.
III. Inadequate data may impede effective monitoring thereby exposing the Bank to operational risks.
IV. Operational bottlenecks in the disbursement of funds by PFIs may negatively impact the efficiency of the schemes.

3 REGULATORY AND SUPERVISORY ACTIVITIES

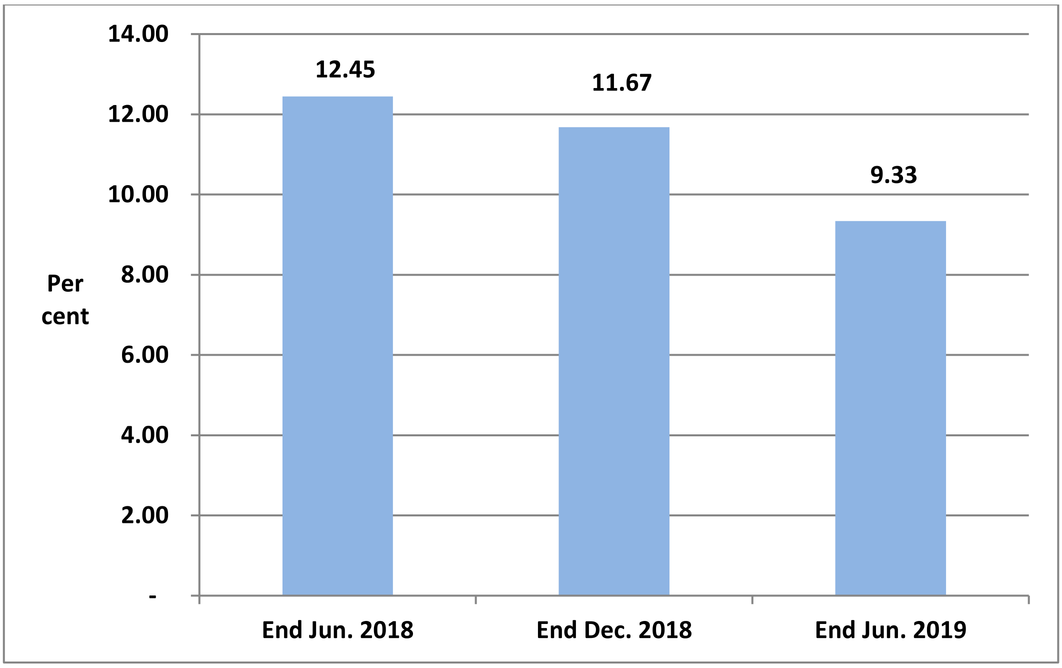
3.1 Financial Soundness Indicators

3.1.1 Asset-Based Indicators

3.1.1.1 Non-Performing Loans to Gross Loans

The quality of banks assets improved in the first half of 2019 as the ratio of non-performing loans (NPLs) to gross loans decreased by 2.34 percentage points to 9.33 per cent at end-June 2019 from its level at end-December 2018. The reduction in NPLs was attributed to improvement in economic activities and the write-off of NPLs by some banks.

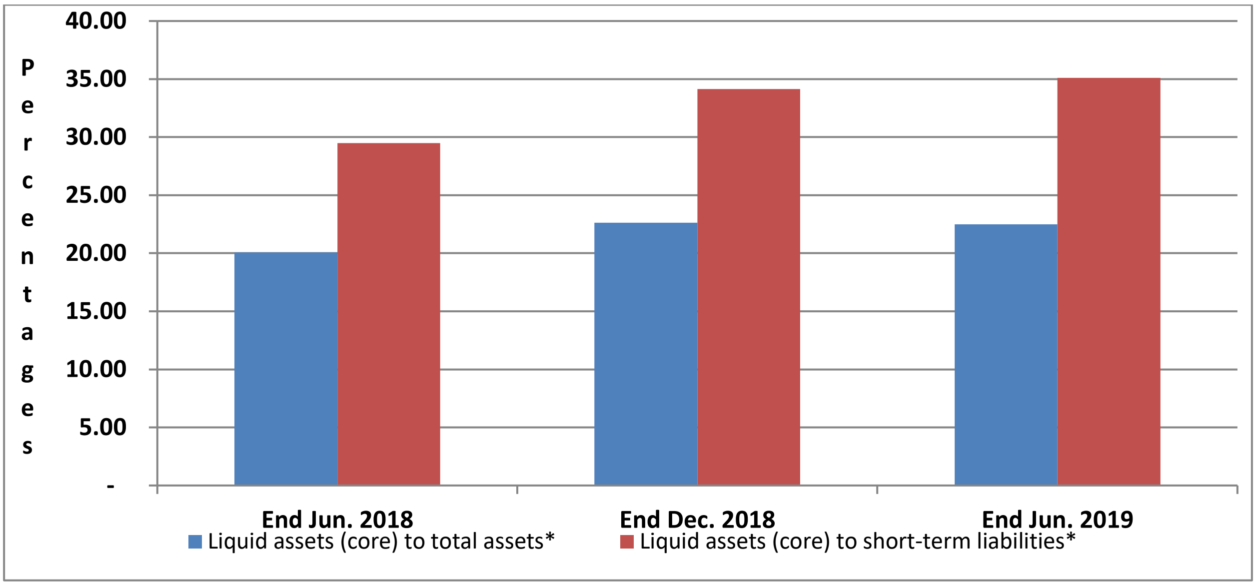
Figure 3.1 Banking Industry NPLs to Gross Loans at end-June 2019



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

The ratio of core liquid assets to total assets decreased marginally by 0.15 percentage point to 22.48 per cent at end-June 2019 from 22.64 per cent in the second half of 2018. However, the ratio of core liquid assets to short-term liabilities improved by 0.96 percentage points to 35.11 per cent at end-June 2019, from 34.15 per cent at end-December 2018. The marginal improvement was attributed to banks' increased appetite for risk-free government securities.

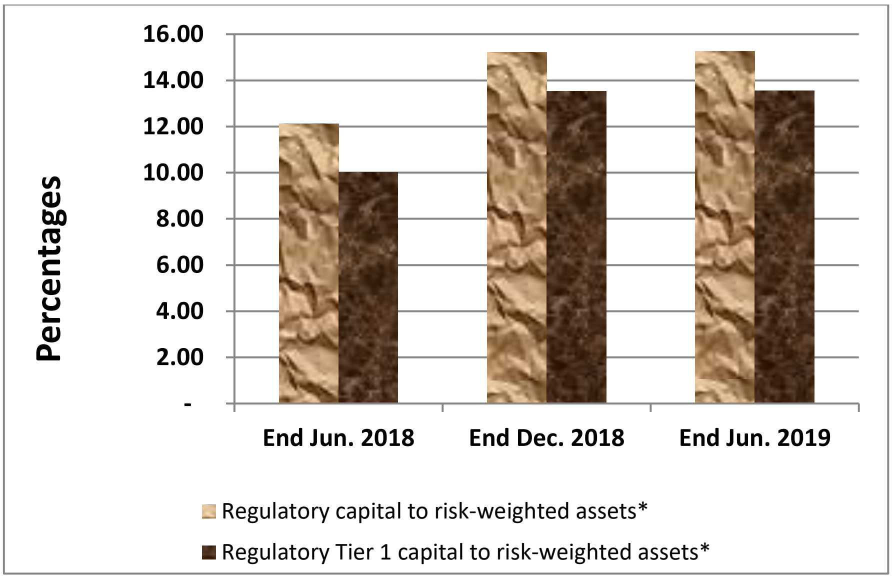
Figure 3.2 Banking Industry Liquidity Indicators



3.1.2 Capital-Based Indicators

The ratio of regulatory capital to risk weighted assets increased slightly by 0.06 percentage point to 15.27 per cent at end-June 2019 compared to 15.21 per cent at end-December 2018. Similarly, the ratio of Tier 1 capital to risk weighted assets increased by 0.01 percentage point to 13.55 per cent at end-June 2019, from 13.54 per cent at end-December 2018. The improvement reflected efforts by banks to build additional capital buffers.

Figure 3.3 Banking Industry Capital Adequacy Indicators



The ratio of non-performing loans net of provisions to capital for the industry declined to negative 3.90 per cent at end-June 2019, from 0.05 per cent at end-December 2018.

This was due to the application of the Expected Credit Loss (ECL) model under the IFRS 9 framework.

Return on assets (ROA) improved by 0.50 percentage point to 2.53 per cent at end-June 2019 from 2.03 per cent at end-December 2018.

3.1.3 Income and Expense Based Indicators

The ratio of interest margin to gross income decreased to 62.99 per cent during the review period from 67.27 per cent at end-December 2018. However, the ratio of non-interest expenses to gross income increased to 65.44 per cent at end-June 2019, from 60.90 per cent in the preceding half. The ratio of personnel expenses to non-interest expenses decreased to 33.47 per cent at end-June 2019, from 34.19 per cent at end-December 2018.

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

Indicators	2016		2017		2018**		2019
	End Jun	End Dec	End Jun	End Dec	End Jun	End Dec	End Jun
1. Assets Based Indicators							
Nonperforming loans to total gross loans *	10.70	12.80	15.01	14.81	12.45	11.67	9.33
Liquid assets (core) to total assets*	14.00	16.20	17.43	18.81	20.06	22.64	22.48
Liquid assets (core) to short-term liabilities*	21.60	24.50	25.81	27.18	29.50	34.15	35.11
2. Capital Based Indicators							
Regulatory capital to risk-weighted assets*	14.70	14.80	11.55	10.48	12.11	15.21	15.27
Regulatory Tier 1 capital to risk-weighted assets*	15.60	16.30	9.34	8.43	10.01	13.54	13.55
Nonperforming loans net of provisions to capital *	23.60	29.00	18.69	23.89	-2.07	0.05	-3.90
Return on assets*	2.32	1.29	2.65	2.42	1.82	2.03	2.53
3. Income and Expense Based Indicators							
Interest margin to gross income*	61.40	67.60	57.67	61.19	59.28	67.27	62.99
Noninterest expenses to gross income*	54.60	62.80	52.03	58.22	64.07	60.90	65.44
Personnel expenses to noninterest expenses	41.20	36.10	34.51	33.44	30.48	34.19	33.47

Note: **FSIs are computed based on IMF guidelines.*

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

3.2 The Banking Industry Stress Tests

3.2.1 Solvency Stress Test

3.2.1.1 Baseline Position

The baseline CAR and NPL ratios in the period under review were 15.27 and 9.33 per cent, respectively, while ROA and ROE stood at 2.53 and 3.52 per cent, respectively, at end-June 2019.

Table 3:2 Banking Industry Baseline Selected Key Indicators

	CAR	LR	NPLs	ROA	ROE
June 2019 (%)	15.27	51.68	9.33	2.53	3.52
December 2018 (%)	15.21	51.87	11.67	2.03	2.44
Percentage Points Change	**0.06**	**(0.19)**	**(2.34)**	**0.50**	**1.08**

Figure 3.4 Baseline (Pre-shock) CARs (per cent)

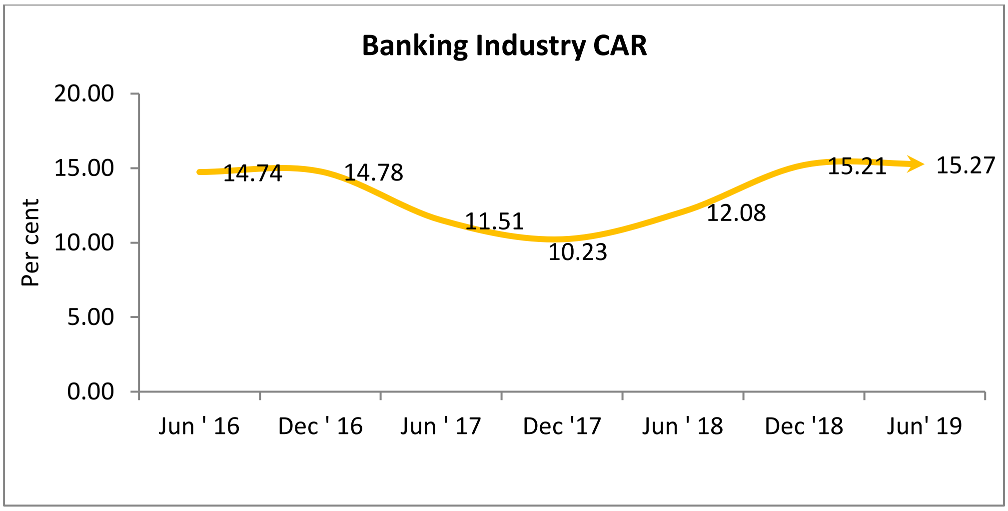
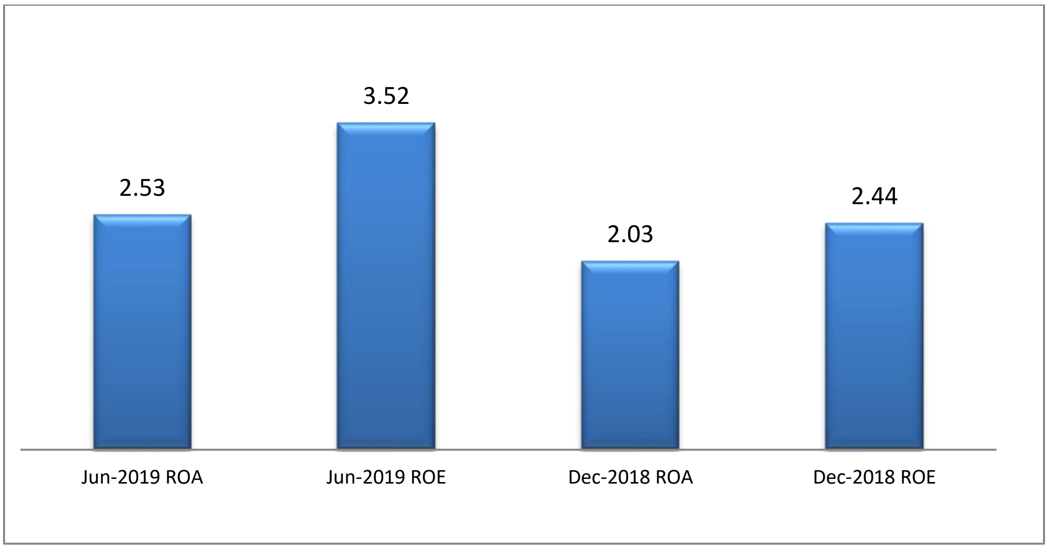


Figure 3.5 Baseline (Pre-shock) ROA and ROE (per cent)



3.2.1.2 Credit Risk

The stress test revealed that the banking industry could withstand a shock of "up to 100 per cent increase" in the industry NPLs as the CAR remained above 10.00 per cent.

Table 3:3 Credit Default Shocks

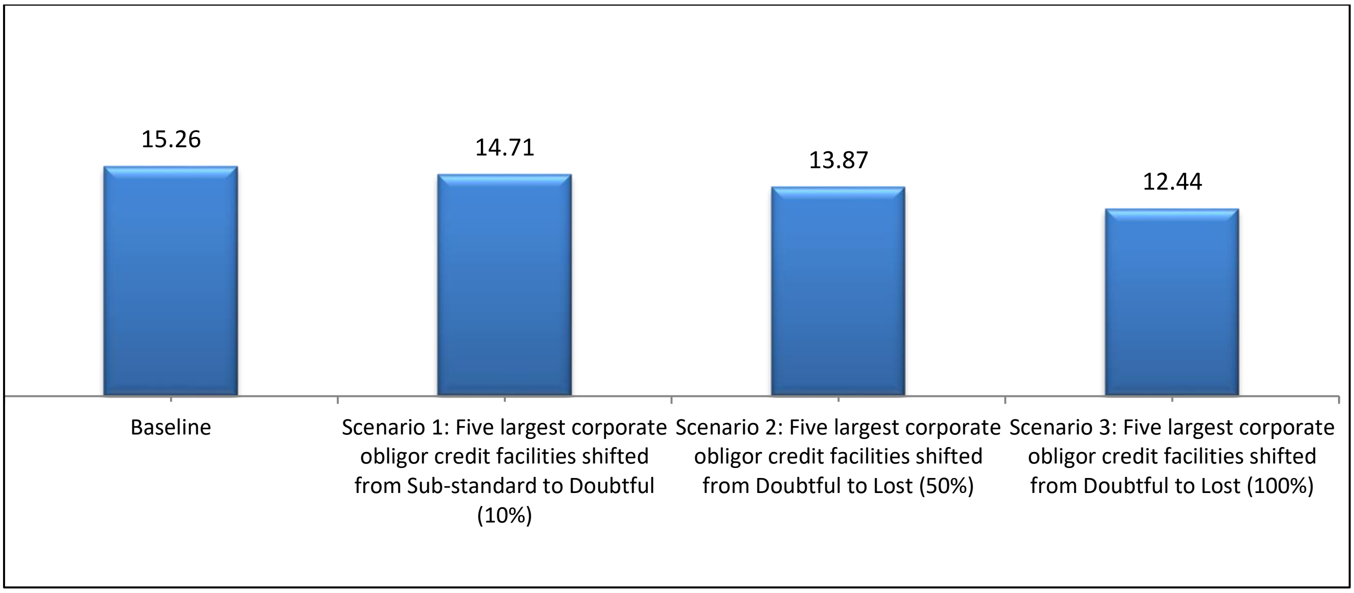
Single Factor Shocks	Post-Shock CAR	
	June 2019	December 2018
Baseline CAR	15.27	15.26
10% NPLs increase	14.82	14.46
15% NPLs increase	14.60	14.22
20% NPLs increase	14.37	13.98
30% NPLs increase	13.92	13.50
50% NPLs increase	13.01	12.51
75% NPLs increase	12.85	11.26
100% NPLs increase	10.65	9.96

Similarly, the credit concentration stress test showed that the banking industry CAR remained above the 10.00 per cent regulatory threshold under scenarios 1, 2 and 3 in Table 3.4. The results showed an improvement in the banking industry resilience when compared with the position at end-December 2018.

Table 3:4 Credit Concentration Risk

	Post-Shock	
	Jun 2019	**Dec 2018**
Baseline CAR	15.27	
Single Factor Credit Concentration Shocks	**Solvency Ratio Post-Shocks**	
Scenario 1 **Five largest corporate obligors' credit facilities shifted from pass-through to sub-standard (10%)**	14.71	12.38
Scenario 2 **Five largest corporate obligor credit facilities shifted from sub-standard to doubtful (50%)**	13.87	7.67
Scenario 3 **Five largest corporate obligor credit facilities shifted from doubtful to lost (100%)**	12.44	-1.42

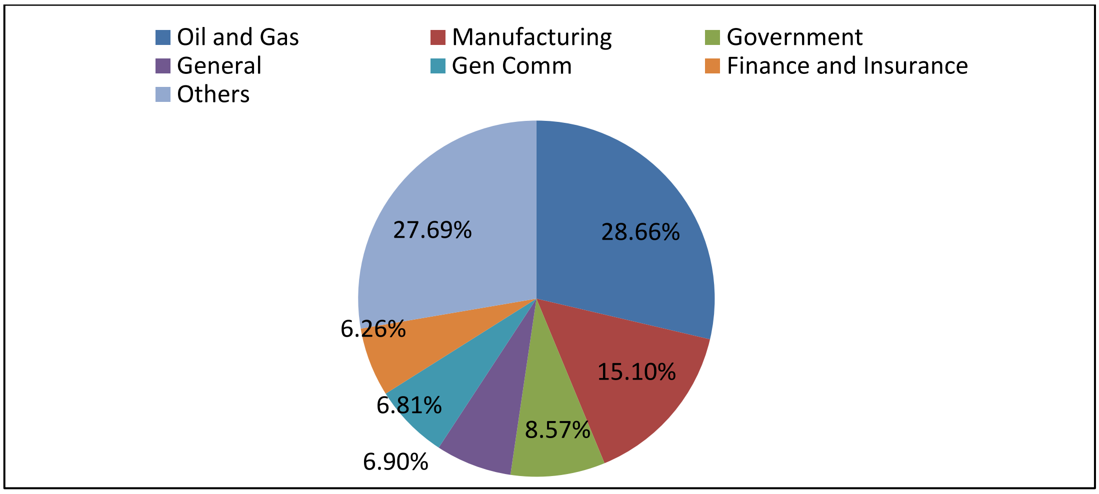
Figure 3.6 Credit Concentration Risk



3.2.1.3 Sectoral Credit Concentration Risk

A breakdown of banking industry total credit by sector at end-June 2019, showed that the oil and gas sector accounted for 28.66 per cent; manufacturing, 15.09 per cent; government, 8.57 per cent; general, 6.90 per cent; general commerce, 6.81 per cent; finance and insurance, 6.26 per cent; and others, 27.69 per cent.

Figure 3.7 Sectoral Concentration of Credit



The results of the stress test showed that the banking industry could withstand up to 50.00 per cent shock to the oil and gas sector exposure as the post-shock CAR stood at 10.64 per cent.

Table 3:5 Oil and Gas Sector Default Stress Test

	Industry CAR (%)
Baseline CAR	15.27
30% Default on total exposure to Oil and Gas	14.55
50% Default on total exposure to Oil and Gas	10.64

3.2.1.4 Interest Rate Risk

The results of the stress test on the net position of interest sensitive instruments showed that the banking industry would maintain a stable solvency position to interest rate shock of "up to 1000 basis points downward shift in yield curve" as the post-shock CAR declined from 15.26 to 13.79 per cent. However, the ROA and ROE will decline to negative 0.56 and negative 7.37, respectively.

Figure 3.8 Impact of Interest Rate Shocks on CAR

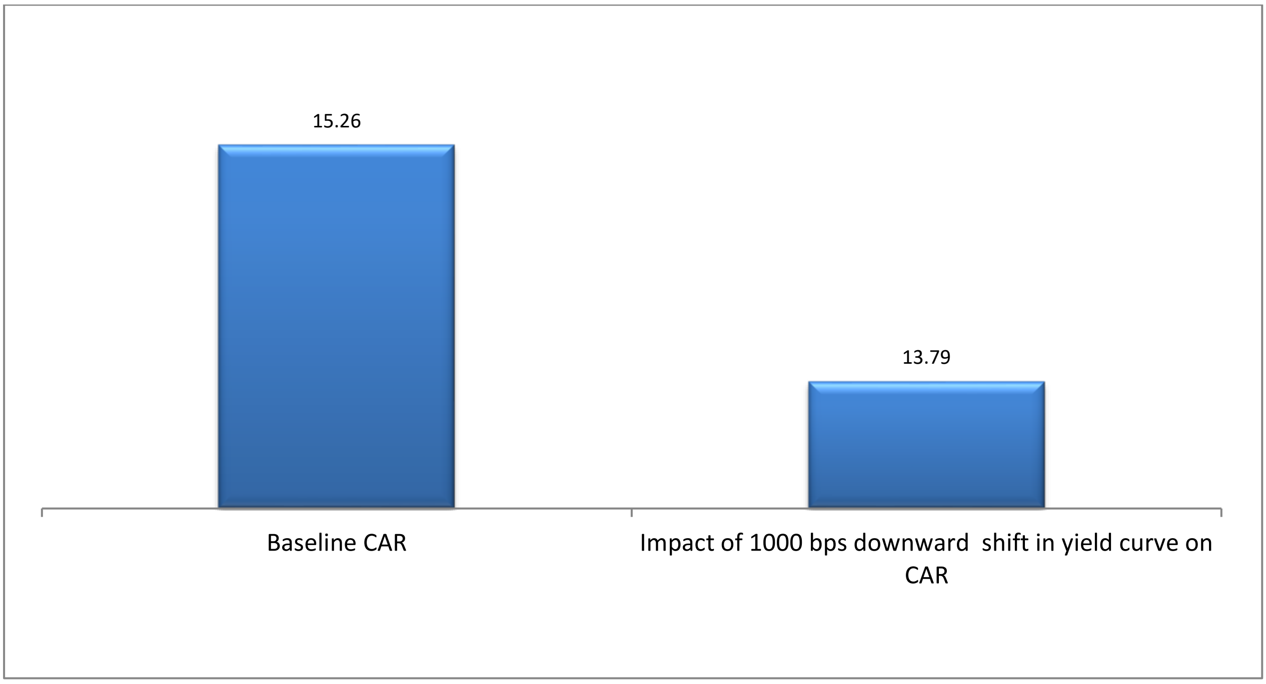


Figure 3.9 Impact of Interest Rate Shocks on ROA and ROE

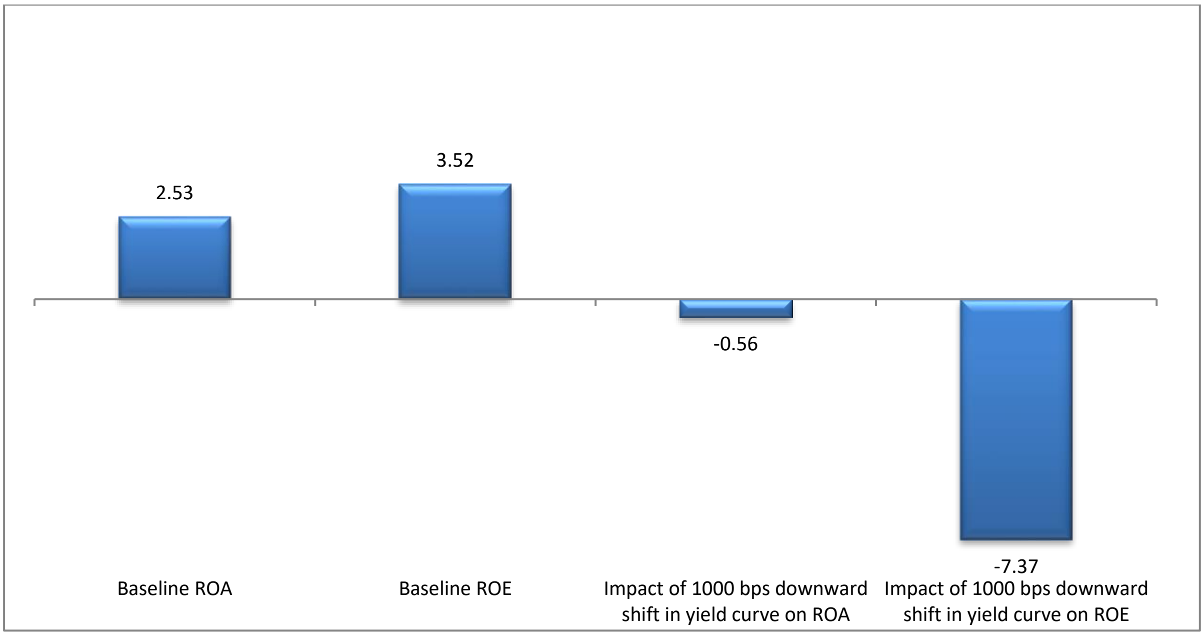


Table 3:6 Impact of Selected Shocks on CAR, ROA and ROE

	Banking Industry (%)
Baseline ROA	2.53
Baseline ROE	3.52
Impact of Downward Shift in Yield Curve Shocks on CAR	
500 bps downward shift in yield curve	14.52
1000 bps downward shift in yield curve	13.70
Impact of Downward Shift in Yield Curve Shocks on ROA	
500 bps downward shift in yield curve	-0.15
1000 bps downward shift in yield curve	-0.56
Impact of Downward Shift in Yield Curve Shocks on ROE	
500 bps downward shift in yield curve	-1.92
1000 bps downward shift in yield curve	-7.37

3.2.2 Liquidity Stress Test[11]

The stress test result revealed that after a one-day run scenario, the liquidity ratio for the industry would decline to 31.37 per cent from the 51.67 per cent baseline position. Similarly, under the 5-day and 30-day scenarios, the liquidity ratio for the industry would decline to 11.69 and 6.55 per cent, indicating ₦2.29 trillion and ₦2.78 trillion liquidity shortfalls, respectively.

[11] Liquidity stress tests were conducted at end-June 2019 using the Implied Cash Flow Analysis (ICFA) and Maturity Mismatch/Rollover Risk approaches to assess the resilience of individual banks and the banking industry to liquidity and funding shocks.

Figure 3.10 Industry Liquidity Ratios at Periods 1-5 and cumulative 30-day Shocks

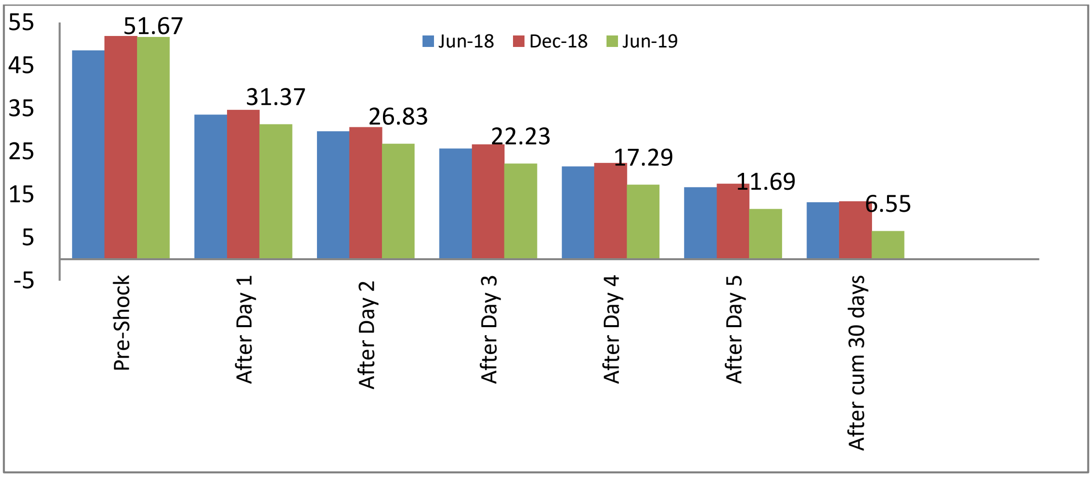


Table 3:7 Liquidity Stress Test Results (Post-Shock)

Scenario	Banks with Liquidity Ratios (LR) < 30%		June 2019	
	December 2018 (26 DMBs)	June 2019 (25 DMBs)	LR (%)	Shortfall to 30% LR threshold (₦' billion)
Test 1.1: Implied Cash Flow Test				Test 1.1: Implied Cash Flow Test
Day 1	12	12	31.37	Nil
Day 2	13	15	26.83	478
Day 3	15	15	22.23	1,103
Day 4	16	16	17.29	1,697
Day 5	16	16	11.69	2,295
Implied Cash Flow Test (30 Days)	16	18	6.55	2,779

3.2.3 Maturity Mismatch

The industry baseline assets and liabilities maturity profile at end-June 2019, revealed that the shorter end of the market (≤90 day buckets) were adequately funded. In the ≤30 day bucket, seven banks were not adequately funded, while in the 31-90 day bucket, eight banks had funding gaps. However, the cumulative position for the industry showed an excess of ₦4.1 trillion assets over liabilities.

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

Bucket	Liabilities	Assets	Mismatch	Cumulative
	N Billion			
≤30 days	17,027.99	11,656.65	5,371.33	5,371.33
31-90 days	3,097.60	2,032.21	1,065.39	6,436.72
91-180 days	1,049.80	2,268.56	(1,218.76)	5,217.97
181-365 days	574.74	3,292.07	(2,717.33)	2,500.64
1-3 years	1,193.16	3,263.80	(2,070.64)	430.00
>3 years	2,358.55	6,917.95	(4,559.40)	(4,129.40)
Total	25,301.85	29,431.25	(4,129.40)	

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	8,448.98	5	5,043.38	7	(399.15)	7
31-90 days	4,129.10	5	198.06	13	(200.89)	7
91-180days	1,844.95	9	(1,428.72)	23	(248.16)	8
181-365days	346.38	13	(2,889.75)	24	(1,278.43)	11
1-3 Years	989.84	19	(2,428.59)	24	(1,451.92)	15
Above 3 years	(1,484.97)	24	(4,559.40)	25	(3,674.67)	18
Total	**14,274.28**		**(6,065.01)**		**(7,253.22)**	

Table 3.9 revealed that under test 2A (Descriptive Maturity Mismatch) the banking industry was adequately funded, while under Test 2B (Static Rollover Risk Analysis) and 2C (Dynamic Rollover Risk test) the industry had mismatches of ₦6.1 trillion and ₦7.3 trillion, respectively. These represented a decrease of N0.2 trillion under the Test 2B and an increase of N0.2 trillion under Test 2C, relative to end-December 2018 tests.

3.2.4 Contagion Risk Analysis

Contagion risk analysis showed a 99 per cent increase in exposure and interconnectedness through interbank placements and takings, compared with the end-December 2018 position. Three banks were central on the network as they were exposed to seven or more counterparties. Six banks accounted for N521 billion or 85 per cent of total placements and N488 billion or 80 per cent of total takings of which N362 billion or 74 per cent was provided by the top four placers of funds.

Figure 3.11 Network Analysis based on Interbank Exposures

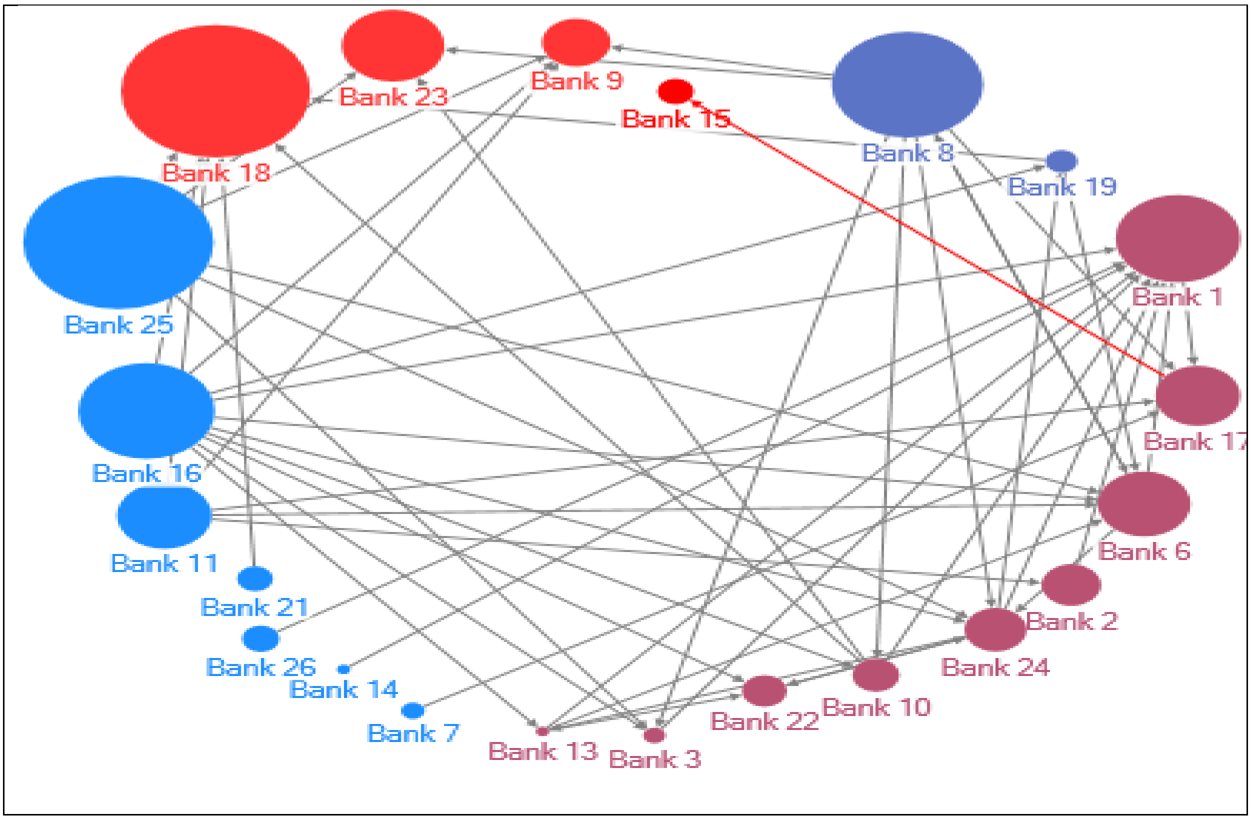
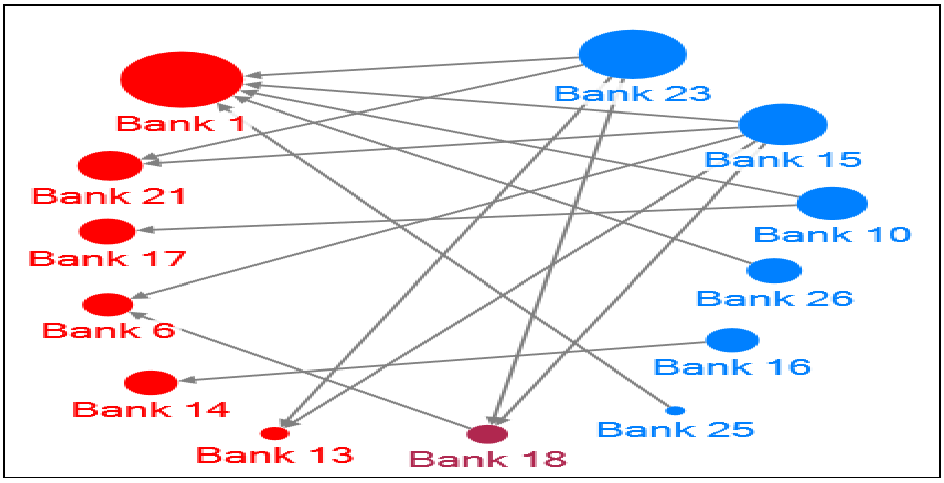


Figure 3.12 Tiered Structure of Unsecured Placements and Takings[12]



3.2.4.1 Unsecured Placements

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

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

Lending Banks	Bank 10	Bank 15	Bank 16	Bank 18	Bank 23	Bank 25	Bank 26	Industry
Pre-Test CAR(%)	19.78	3.16	21.20	13.87	15.45	10.38	91.82	15.26
Post-Test CAR(%)	10.27	0.60	20.40	13.50	2.44	9.88	57.23	14.89
Placements (₦' Billion)	12.67	20.19	7.22	2.89	29.58	0.18	7.68	80.42

[12] *Note: Node colour representation (The sizes of the nodes represent the quantum of the exposures)*

Box 1: Liquidity Stress Test Assumptions

Implied Cash Flow Analysis

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

The Maturity Mismatch/Rollover Risk

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

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

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

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

Table 3. 1: Percentage of Assets Unencumbered after Fire Sales

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

3.3 Supervision of Banks

3.3.1 Bank Examination

A target examination was carried out in the first half of 2019 to determine the quality of assets and adequacy of loan loss provisions of banks as part of the process for the approval of their 2018 annual audited financial statements.

3.3.2 Foreign Exchange Examination

During the review period, the Bank conducted foreign exchange examination and ad-hoc reviews/spot checks on the foreign exchange activities of Authorized Dealers (Commercial and Merchant Banks) to ensure compliance with extant foreign exchange rules and regulations.

3.3.3 Anti- Money Laundering/Counter Financing of Terrorism and Corporate Governance

During the review period, AML/CFT pilot examination was conducted on three (3) banks, using the Offsite Risk Assessment Methodology (ORAM) tool. The pilot exercise was to guide examiners on the use of the risk-based approach (RBA) for AML/CFT examination. Thereafter, the Bank conducted the maiden Risk–Based AML/CFT examination for all the banks in line with GIABA and FATF mutual evaluation standards.

The Bank also participated in the Technical Plenary session in Conakry, Guinea, and FATF Plenary in France. Discussions at both meetings centred on AML/CFT issues and strategies to curb emerging trends.

To strengthen domestic collaboration with financial institutions under the purview of the Bank, bi-monthly meetings of the Association of Chief Compliance Officers of Banks in Nigeria (ACCOBIN) was held to discuss issues of mutual interest.

The Bank also conducted the first quarter Corporate Governance Scorecard Assessment on twelve banks to:

- determine the level of compliance with the CBN Code of Corporate Governance;
- ascertain the adequacy of disclosure and transparency in the industry; and
- evaluate performance and accountability towards creating long-term shareholder value.

3.3.4 Risk Based Cyber Security Framework

The Bank issued a risk based cyber-security Framework, specifying the minimum requirements in governance and oversight, risk management, operational resilience, self-assessment and reporting. Under the reporting requirements of the Framework, effective January 1, 2019, banks were required to render returns on cyber threat intelligence, cybersecurity incident and annual self-assessment.

3.3.5 CROSS-BORDER SUPERVISION

3.3.5.1 Foreign Subsidiaries of Nigerian Banks

The number of offshore subsidiaries of Nigerian banks remained 58 at end-June 2019. The number of representative offices, reduced to five (5) in the first half of 2019, from six (6) as at end-December 2018, following the approval granted for the closure of a representative office. The number of affiliates and international branches remained one (1) and two (2) respectively, thus bringing the total number of offshore entities to 66.

3.3.6 Onsite Examination of Offshore Subsidiaries of Banks

The Bank and the host supervisor jointly examined two (2) offshore banking subsidiaries in the first half of 2019. The examination revealed that one of the subsidiaries had a composite risk rating of 'High' and was directed to take appropriate actions to address the regulatory concerns.

3.3.6.1 College of Supervisors

During the review period, the Bank participated in the annual meeting of the College of Supervisors for First Rand Ltd, which was held in South Africa. In addition, the FBN College of Supervisors was inaugurated.

3.3.6.2 Supervisory Collaborations

i. Community of African Banking Supervisors

a) The Association of African Central Banks (AACB) Secretariat was mandated to liaise with the World Bank for technical support on the minimum legal and regulatory requirements in member states to improve their banking crisis management and resolution regimes.

b) The Bank participated in the Community of African Banking Supervisors (CABS) Working Groups Meeting on Cross Border Supervision in South Africa and the Annual Conference of the CABS held in Egypt, to maintain and enhance information sharing amongst African banks supervisors.

ii. Technical Assistance

The Bank hosted Examiners from the Bank of Uganda on an AML attachment programme in line with its initiative to build capacity of regional bank supervisors on AML regulations and supervisions.

iii. College of Supervisors of the West African Monetary Zone

The Bank participated in the 32nd and 33rd meetings of the College of Supervisors of the West African Monetary Zone (CSWAMZ) during the review period. Members reviewed developments in the banking system across the zone, including implementation of IFRS 9, Basel I, II and III, as well as Integrated Regulatory Solution (IRS).

3.3.7 Supervision of Domestic Systemically Important Banks

The number of Domestic Systemically Important Banks (D-SIBs) decreased to six, following the merger of two of the banks in the review period. The D-SIBs accounted for 63.49 per cent of the industry total asset of ₦38.04 trillion. Similarly, the banks accounted for 62.39 per cent of total industry deposits of ₦34.53 trillion and 66.65 per cent of the aggregate industry loans of ₦14.83 trillion at end-June.

The D-SIBs were largely compliant with capital adequacy and liquidity ratio requirements during the period under review. The CAR for the D-SIBs stood at 19.98 per cent, while the liquidity ratio stood at 49 per cent, compared with the regulatory requirement of 16 and 30 per cent, respectively. In terms of asset quality, the non-performing loans ratio of D-SIBs improved to 6.21 per cent at end-June 2019 from 9.82 per cent in the preceding period.

3.3.8 Asset Management Corporation of Nigeria

The examination of the Asset Management Corporation of Nigeria (AMCON) during the review period revealed that its liabilities stood at N5.43 trillion, comprising: AMCON Notes, N4.028 trillion; Debenture, N500 billion; and Others, N898.45 billion. The net assets increased to N827.59 billion at end-June 2019, from N769.87 billion at end-December 2018.

AMCON's liabilities of N5.43 trillion are expected to be redeemed through credit recoveries, asset sales and Banking Sector Resolution Cost Fund (BSRCF). The total amount in the BSRCF stood at N240.11 billion at end-June 2019. During the review period, the Corporation made cash recovery of N24.35 billion, while total recoveries from inception were N999.69 billion, comprising cash of N377.65 billion, asset forfeiture of N393.12 billion and clawback/repurchases of N228.92 billion.

3.4 Supervision of Other Financial Institutions

The Bank conducted routine and special examinations of 437 OFIs during the period under review. The exercise covered RBS examination of 7 DFIs, Income Audit of nine (9) PMBs and two (2) FCs, Target Examination of 345 MFBs and 12 BDCs, RBS and Income Audit of 12 MFBs, as well as, AML/CFT examination using the Risk-Based Approach for 29 MFBs and 23 PMBs.

3.4.1 Examination of Bureaux De Change

The Bank conducted special examination of 12 BDCs in the review period. The exercise revealed breaches relating to wholesale transactions, record-keeping, documentation and rendition of AML/CFT returns.

3.4.2 Finance Companies

A special examination of two (2) FCs was conducted to ascertain their compliance with IFRS 9 on classification and measurement of financial instruments. The exercise facilitated the issuance of "No Objection" for the publication of the financial statements of the two institutions for the year ended December 31, 2018.

During the review period, the result of the examination of 53 FCs conducted in the preceding period revealed high NPLs, inadequate collateral and poor corporate governance practices. The institutions have been notified of the supervisory concerns.

3.4.3 Primary Mortgage Banks

The examination of 32 PMBs during the period under review revealed that liquidity ratios were above the 20% regulatory minimum. However, there were high credit concentration ratios and impairment charges.

3.4.4 Microfinance Banks

The Bank carried out examination of 386 MFBs during the review period, comprising 29 on AML/CFT, 345 special and routine examinations of 12 institutions designated as Systemically Important Other Financial Institutions (SIOFIs).

The analysis of the 12 SIOFIs showed that 5, 4 and 3 MFBs had Composite Risk Ratings (CRR) of "Moderate", "Above Average" and "High", respectively.

3.4.5 Development Finance Institutions

The examination of the seven (7) DFIs[13] revealed that the Composite Risk Ratings of the institutions were: "High" (4), "Above Average" (1), "Moderate" (1), and "Low" (1).

3.5 Financial Services Regulation Coordinating Committee

3.5.1 National Road Map on Sustainable Finance

The FSRCC Secretariat, in collaboration with the Harmonization and Coordination Sub-Committee, assessed the progress made by the CBN, NSE and Corporate Affairs Commission (CAC) on the implementation status of the national road map on sustainable finance.

3.5.2 Financial System Stability Dashboard

The Financial System Stability Dashboard was presented at the 63rd meeting of the FSRCC to have a holistic view of the financial system stability. The dashboard revealed mild vulnerabilities in some sectors of the financial system.

3.5.3 Illegal Fund Managers

The Legal and Enforcement Sub-Committee of the FSRCC set up a Technical Working Group (TWG) to develop a framework on the prosecution of Illegal Fund Managers

[13] The RBS examinations of BOA and NMRC were conducted in 2018 and the ratings were adopted in this analysis on the DFIs.

(IFMs). Meanwhile, the FSRCC sustained its efforts in the campaign against IFMs/'Wonder Banks' through newspaper adverts, radio jingles and TV programme.

3.6 Other Developments in the Financial System

3.6.1 IFRS Implementation

3.6.1.1 FRS 9 Examination

(A) The maiden Risk Assets Examination on the first sets of full-year IFRS 9 based financial reports at December 31, 2018 covered the following areas, among others:

- The basis of bank impairment charges for the top facilities;
- Consistency between prudential classifications and IFRS 9 loan staging criteria;
- Consistency in the prudential classification between on- and off-balance sheet exposures to same customers; and
- Validation of reasonability of the Credit Conversion Factors (CCF) applied by banks and consistency with the Basel CCF standard.

(B) As experienced in most other jurisdictions, the assessment of the validity of the IFRS 9 Expected Credit Loss (ECL) models revealed prevalent use of expert judgment and some difficulty in the interpretation of the requirements of the standard.

3.6.1.2 IFRS 16

The IFRS 16 replaced IAS 17 and became effective in January 2019. The standard specifies the rules for recognition, measurement, presentation and disclosure of leases. Banks were expected to:

- identify and categorize classes/types of lease contracts at December 31, 2018.
- estimate the Right-of-use assets for all leased assets.

The transition adjustment would result in a reclassification between Assets of Prepaid Rent to Right-of-Use Assets.

3.6.2 UPDATE ON BASEL II/III IMPLEMENTATION

The guidelines for Credit Concentration Risk, Interest Rate Risk in the Banking Book, Business & Strategy Risk, Reputation Risk and Stress Testing have been concluded and were issued in March 2019.

3.6.3 Payment Service Banks

The Bank issued Guidelines for Licensing and Regulation of Payment Service Banks in Nigeria. The Payment Service Banks (PSBs) were expected to leverage mobile and digital channels to enhance financial inclusion and stimulate economic activities at the grassroots.

3.6.4 Complaints Management and Resolution

The Bank received 1,528 complaints from consumers of financial services in the period under review, a decrease of 84 or 5.21 per cent, from the 1,612 received in the second half of 2018. Of the total number of complaints, 1,476 or 96.60 per cent were against banks, while 52 complaints or 3.40 per cent were against OFIs. The complaints received were in respect of excess/unauthorized charges, fraud, guarantees, account management, ATM dispense errors and fund transfers.

A total of 1,548 complaints were resolved or closed in the first half of 2019, compared with 1,496 resolved or closed in the second half of 2018, representing an increase of 3.48 per cent. Total amounts in dispute were ₦8.71 billion and US$0.32 million, while the sums of ₦7.23 billion and US$0.32 million were refunded to customers.

3.7 Potential Risks to Regulatory and Supervisory Activities

- The adoption of ECL models to meet IFRS 9 requirements may pose model risks;
- Dearth of expertise in IFRS 9 poses risks to the level of compliance by financial institutions;
- Cross-border vulnerabilities may pose threats to Nigerian banks with foreign subsidiaries/affiliates;
- Heightened cyber security risks may impact negatively on regulatory oversight;
- Increased activities of illegal funds managers/Ponzi schemes threatens confidence in the financial system; and
- Inadequate disclosures and data credibility pose major risks to regulatory oversight.

3.8 Credit Risk Management System

3.8.1 CBN Credit Risk Management System

The total number of credit facilities in the CRMS database stood at 6,625,415, an increase of 33.23 per cent, over the 4,973,036 recorded at end-December 2018. Total number of facilities with outstanding balance stood at 1,600,072 at end-June 2019, compared with 1,079,141 at end-December 2018, representing a 48.27 per cent increase. The increase in the number of credits recorded was largely due to the back-filing of credits and creation of new loans.

Table 3:11 Borrowers from the Banking Sector**

Description	December 2018	June 2019	Absolute Change: Increase/ (decrease)	% Change
*** Total No. of Credit facilities reported on the CRMS:**	4,973,036	6,625,415	1,652,379	33.23
Individuals	4,450,372	6,061,303	1,610,931	36.20
Non-Individuals	522,664	564,112	41,448	7.93
*** Total No. of Outstanding Credit facilities on the CRMS:**	1,079,141	1,600,072	520,931	48.27
Individuals	1,004,363	1,504,782	500,419	49.82
Non-Individuals	74,778	95,290	20,512	27.43

** The figures include borrower(s) with multiple loans and/or credit lines.*

*** Commercial, Merchant and Non-Interest Banks only*

3.8.2 Private Credit Bureaux

During the review period, the total number of credit record and value stood at 100,288,398 and ₦97.10, while the number of subscribers and borrowers stood at 54,430,609 and 2,822.

S/N		CRC Credit Bureau	CR Services	First Central Credit Bureau
1	Number of credit records	27,250,484	50,378,709	22,659,205
2	Number of subscribers	1,274	526	1,022
3	Value of Credit Facilities	₦25.045 trillion	₦44.660 trillion	₦27.399 trillion
4	Number of borrowers	15,602,511	23,826,705	15,001,393

*** Source –Obtained from the June Monthly Reports of the Credit Bureaux.**

4 THE PAYMENTS SYSTEM

4.1 Developments in the Payments System

4.1.1 Bank Verification Number Operations and Watch-list

During the review period, the number of BVN enrolments stood at 38,268,639, an increase of 5.80 per cent over the 36,170,176 recorded at end-December, 2018. The number of accounts linked to BVNs were 51,394,802 out of 72,937,140 active customer accounts, while the number of watch-listed BVNs stood at 1,724 at end-June 2019. The BVN has remained a veritable tool for financial institutions, credit bureaux and law enforcement agencies in combating frauds and other financial crimes in the financial system.

4.1.2 Nigeria Electronic Fraud Forum

During the review period, the Forum secured approval for the establishment of the Payments System Security and Risk Management Centre (PSSRMC) to further facilitate efforts to curb cyber security threats in the Nigerian payments system.

4.1.3 Examination of Payments System Participants

The examination of licensed Payment Service Providers (PSPs) was conducted to ascertain their compliance with guidelines and frameworks. The examination revealed a number of infractions, for which appropriate recommendations were made and appropriate sanctions were imposed.

4.1.4 Licensing of Payments System Participants

During the review period, seven (7) licences were issued comprising one (1) mobile money operator, two (2) payment solution service providers, two (2) payment terminal service providers and two (2) super agents. The new issues increased the number of licensed PSPs to 96 at end-June 2019.

Table 4:1 Licensed Payments System Participants

Licence –Type	Number	
	Dec 2018	Jun 2019
Card Schemes	6	6
Mobile Money Operators	25	26
Payment Solution Service Providers	13	15
Payment Terminal Service Providers	19	21
Transaction Switching Companies	7	7
Third Party Processors	4	4
Super Agents	3	5
Non-Bank Acquirers	5	5
Accredited Cheque Printers	7	7
Total	**89**	**96**

4.1.5 Revised Nigeria Cheque Standards and Cheque Printers Accreditation Scheme

The Bank commenced the implementation of the revised Nigeria Cheque Standards and Nigeria Cheque Printers Accreditation Scheme during the review period. A parallel run of the old and new cheques was scheduled to be undertaken from September 1, 2019 to August 31, 2020.

4.2 Payments System Statistics and Trends

4.2.1 Large Value Payments

The volume of inter-bank fund transfers through the CBN Real Time Gross Settlement (RTGS) system decreased by 9,074 or 1.62 per cent to 550,243 at end-June 2019, from 559,317 at end-December 2018. However, the value increased by N22,063.85 billion or 10.8 per cent to N226,275.85 billion at end-June 2019 from N204,212 billion at end-December 2018.

4.2.2 Retail Payments

4.2.2.1 Cheque Clearing

The volume and value of cheques cleared decreased from 4,274,922 and N2,439.37 billion at end-December 2018 to 3,416,537 and N2,270.92 billion at end-June 2019, reflecting decreases of 20.08 per cent and 6.91 per cent, respectively. The decline in cheque transactions reflected customers' increased preference for electronic payments.

4.2.2.2 Electronic Transactions

The volume of electronic transactions rose by 182,872,207 or 17.41 per cent to 1,233,043,503 at end-June 2019, from 1,050,171,296 at end-December 2018, reflecting increased usage of electronic channels. However, the value decreased by ₦9,398.25 billion or 14.01 per cent to ₦67,080.10 billion at end-June 2019, from ₦76,478.35 billion at end-December 2018.

Table 4:2 Electronic Transactions

Payment Channel	Number of Terminals		Number of Transactions		% Change (Volume)	Value ₦' Billion		% Change (Value)
	Dec 2018	June 2019	Dec-18	Jun-19		Dec-18	Jun-19	
ATMs	18,615	18,913	445,730,493	424,619,677	-4.74%	3,307.97	3,238.43	-2.10%
POS	144,461	166,078	175,097,483	187,695,159	7.19%	1,364.75	1,383.62	1.38%
Mobile	-	-	51,144	25,713,752	-49.72%	1,091.02	564.92	-48.22%
Internet (Web)	-	-	31,347,398	47,976,900	53.05%	290.60	223.90	-22.95%
NIP			354,715,485	504,160,651	42.13%	43,530.03	49,350.18	13.37%
e-Bills Pay			539,920	616,651	14.21%	243.56	281.56	15.60%
REMITA			24,161,282	21,614,846	-10.54%	9,176.93	9,839.29	7.22%
NAPS			18,528,091	20,645,867	11.43%	8,075.24	11,596.45	43.61%
Total			**1,050,171,296**	**1,233,043,503**	**17.41%**	**67,080.10**	**76,478.35**	**14.01%**

4.3 Potential Risks in the Payments System

Generally, the payments system remained resilient. However, there were potential risks to the payments system, including the following:

- Exposure to electronic fraud, including SIM swap, dormant SIM and use of stolen SIM card for USSD/mobile payments could threaten penetration of mobile payments;
- Threat of cyber-attacks; and
- Threat of social engineering, which could negatively impact consumer confidence and undermine the attainment of the Bank's financial inclusion targets.

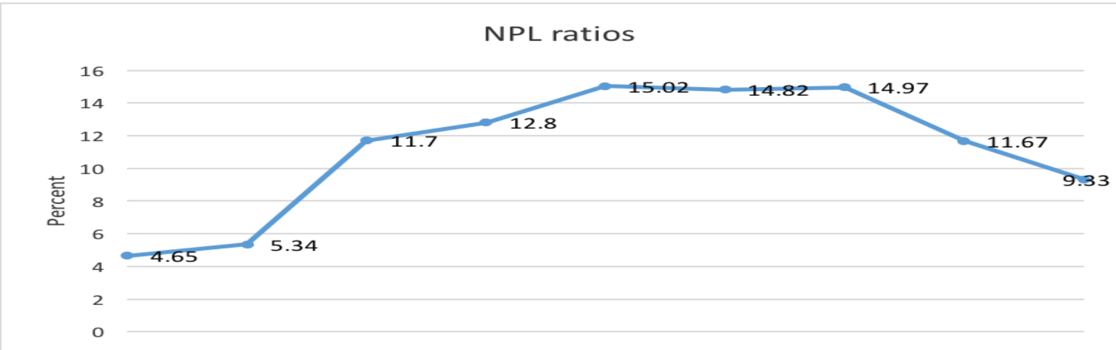
5 Key Risks to the Financial System

5.1 Credit Risk

Risk Rating (High Risk, Trending downwards)	

During the review period, exposure to the oil and gas sector constituted the largest component of credit at ₦3,329.47 billion, compared with ₦ 3,548.97 billion at end-December 2018. Total NPLs declined to ₦1,444.57 billion at end June 2019, from ₦1,792.48 billion at end-December 2018, reflecting a reduction in the NPL ratio from 11.67 per cent to 9.33 per cent. The reduction in NPLs reflected improvement in economic conditions leading to increased repayment by obligors, loan write-offs and aggressive debt recovery strategies.

Figure 5.1 Non-Performing Loans Ratio



5.2 Liquidity Risk

Risk Rating (Medium Risk, Stable)	

The average liquidity ratio of the banking industry declined slightly to 51.67 per cent at end-June 2019, from 51.70 per cent at end-December 2018. This ratio, however, remained significantly above the regulatory threshold of 30 per cent. The liquidity position in the industry reflected the banks' preference for holding liquid assets.

5.3 Market Risk

Risk Rating (Medium Risk, Trending Down)	

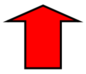
The rates in the interbank market declined significantly during the review period, as Interbank Call and OBB rates fell from 15.00 and 19.71 per cent in January 2019 to 8.38 and 8.71 per cent, respectively, in June 2019, reflecting liquidity surfeit. Similarly, savings rate fell to 3.93 per cent from 4.07 per cent at end-December 2018, while the maximum lending rate rose from 30.48 to 31.04 per cent during the review period.

In the foreign exchange segment, rates remained stable, reflecting the Bank's effort at ensuring liquidity and depth in the market.

The equities market remained bearish as investors' perception and preference for fixed income securities translated to a loss of 5.61 per cent in the capital market, with the NSE ASI closing at 29,666.87 points at end-June 2019, compared with 31,430.50 points at end-December 2018. In addition, a 30-year FGN Bond valued N20 billion was issued to generate long term funds for infrastructure and manage government finances. To enable wider portfolio diversification and facilitate the inflow of foreign investment, five (5) FGN Eurobonds were listed.

The review of the Federal Government's borrowing strategy in favour of external over domestic sources reduced the country's cost of debt financing. The extension of the compliance date on the OPEC production cap, minimal pipeline disruptions and recovery in crude oil prices reduced the overall risk to the 2019 budget.

5.4 Operational Risk

Risk Rating (High risk, trending up)	

During the review period, reported cases of fraud and forgeries in DMBs rose to 29,215 from 25,029 at end-December 2018. The total amount involved fell to ₦8.35 billion at end-June 2019, from ₦18.94 billion at end-December 2018, while actual losses increased to ₦2.38 billion from ₦2.21 billion. The frauds included suppression of cheques, conversion of customers' deposits, unauthorised fund transfers, and fraudulent ATM withdrawals. ATM and mobile channels continued to record the highest incidence of fraud. To stem the trend, customers were continually sensitized on safe banking practices and banks were also enjoined to implement strong authentication controls and carry out comprehensive infrastructure risk assessments.

Cyber-attacks were recorded on service providers' platforms, compromising customers' data and privacy as well as other financial information. Similarly, social engineering, identity theft, SIM swap, unauthorised card-not-present and unauthorized push payment scams persisted. In a bid to check the growing trend of cyber crime, banks and payment service providers were directed to fully comply with the requirements of the CBN Cyber-Security Framework and Guidelines, which came into effect on January 1, 2019.

5.5 Macroeconomic Risk

Risk Rating (High Risk, Trending down)	↓

During the review period, the Federal Government's sustained efforts at implementing the Economic Recovery and Growth Plan (ERGP). This continued to yield positive results, evidenced by reduction in inflation rate, moderate growth in the non-oil sector and increased tax income.

The global shift from fossil fuels to alternative energy sources, disruptions to crude oil facilities in the Niger Delta region and inadequate credit to the private sector pose threat to achieving the CBN growth forecast of 2.3 per cent for 2019.

Similarly, the persistent high levels of liquidity and energy prices constituted major threat to the downward trend in inflation.

6 OUTLOOK

Global growth in 2019 is projected to decline to 3.2 per cent from 3.6 per cent in 2018, while inflation in advanced economies is projected to decline to 1.6 per cent from 2.0 per cent in 2018. In emerging economies, growth is projected to decline to 4.1 per cent from 4.5 per cent in 2018, while in sub-Sahara Africa, growth is projected to inch up to 3.4 per cent from 3.1 per cent in 2018. Inflation, in emerging markets and developing economies is projected to increase to 4.9 per cent from 4.8 per cent in 2018, while inflation in sub-Sahara Africa is expected to decline to 8.1 per cent from 8.5 per cent in 2018 (IMF, World Economic Outlook). Global outlook was shaped by major global uncertainties, including trade disputes, Brexit and geopolitical tensions.

Growth in Nigeria is projected to increase to 2.27 per cent in 2019 from 1.93 per cent in 2018, while inflation (year-on-year) is projected to decline to 11.37 [14]per cent in 2019 from 11.44 per cent at end-December 2018. The positive outlook for Nigeria was shaped by the expected stability in oil prices and improved domestic output growth from expansion in the non-oil sub-sector.

The banking industry is projected to record improved performance as new policy measures are geared towards capital enhancement and sound corporate governance. Furthermore, the various intervention schemes of the Bank are expected to enhance performance in the banking sector.

The general outlook for both the global and domestic economies remained threatened by trade and market uncertainties, variability in oil prices and domestic security challenges. Consequently, the Bank will pursue appropriate measures to mitigate the expected vulnerabilities and reinforce financial system stability.

[14] Staff Estimate

ACKNOWLEDGEMENTS

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