FINANCIAL STABILITY REPORT

JUNE 2020

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

GDP	Gross Domestic Product
GSE	Ghanaian Stock Exchange
HHI	Herfindahl-Hirschman Index
ICE	Intercontinental Exchange
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
KYC	Know Your Customer
M_1	Narrow Money Supply
M_2	Broad Money Supply
M_3	M_2 plus CBN Bills held by the money holding sectors
MENA	Middle East and North African Countries
MFBs	Microfinance Banks
MICEX	Moscow Interbank Currency Exchange
MoUs	Memoranda of Understanding
MHSs	Money Holding Sectors
MPR	Monetary Policy Rate
NBS	National Bureau of Statistics
NCR	National Collateral Registry
NDC	Net Domestic Credit
NDIC	Nigeria Deposit Insurance Corporation
NEXIM	Nigerian Export-Import Bank
NIBSS	Nigerian Inter-bank Settlement System
NMRC	Nigeria Mortgage Re-finance Company Plc
NPLs	Non-Performing Loans
NSE ASI	Nigerian Stock Exchange All-Share Index
NSE 20	Nairobi Stock Exchange 20-Share Index
NYMEX	New York Mercantile Exchange
OBB	Open Buy Back
OFIs	Other Financial Institutions
ODCs	Other Depository Corporations

OPEC	Organisation of Petroleum Exporting Countries
ORB	OPEC Reference Basket
PAIF	Power and Aviation Infrastructure Fund
PENCOM	National Pension Commission of Nigeria
PFAs	Pension Fund Administrators
PFCs	Pension Fund Custodians
PMBs	Primary Mortgage Banks
PoS	Point of Sale
PSV 2020	Payments System Vision 2020
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real-Time Gross Settlement System
S&P/TSX	Standards and Poor's Composite Index of the Toronto Stock Exchange
SEC	Securities and Exchange Commission
SMEs	Small and Medium Enterprises
WAMZ	West African Monetary Zone
WEO	World Economic Outlook
WTI	West Texas Intermediate

GOVERNOR'S STATEMENT

In the review period, the global economy was affected by the rapid spread of the novel coronavirus (Covid-19), prompting the World Health Organization to declare Covid-19 a global pandemic. To reduce the spread of the virus, most countries imposed temporary lockdowns on economic activities, leaving only essential services, leading to an unprecedented decline in global economic output. The tripartite effects of the pandemic on public health, the financial and the economic sectors created enormous challenges for public policy, including macroeconomic management. In response, extraordinary policies were initiated to manage the human, economic and social consequences of the pandemic.

Global output was estimated to contract by 4.9 per cent in 2020, as the global economy underwent a deep and synchronized contraction in the first half of 2020. Also, global inflation was estimated at 0.4 per cent in 2020, as households and businesses faced heightened uncertainty which delayed consumption and investment, thereby exacerbating the ensuing economic downturn and slowing recovery.

In a bid to contain the spread of the Covid-19, the Federal Government of Nigeria imposed lockdown restrictions which led to the disruption of most economic activities and weak performance of key macroeconomic variables. Consequently, output contracted by 2.18 per cent, during the review period, in contrast to an expansion of 2.42 per cent in the preceding half-year.

Headline inflation increased to 12.56 per cent, compared with 11.98 per cent at end-December 2019, driven largely by the persistent increase in the prices of food items, caused by disruptions to supply chains following the restriction of movements.

The Bank responded swiftly to the adverse impact of the pandemic through a suite of policy measures, including interventions and stimulus packages to businesses and households. These were aimed at stabilising the financial markets and ensuring adequate credit flow to critical sectors.

The banking industry was supported through the institution of monetary and regulatory policies that were aimed at strengthening the operational resilience of banks in the face of the disruptive business environment. Consequently, the financial soundness indicators of the industry remained stable, as assets and capital base indicators remained above the regulatory thresholds, providing confidence to businesses, investors and households.

Notwithstanding the prevailing domestic and global uncertainties, the Bank is optimistic that the easing of the lockdown and the gradual resumption of economic activities supported by broad-based monetary and fiscal policy measures would continue to strengthen financial system resilience.

Godwin I. Emefiele, CON

Governor, Central Bank of Nigeria

FOREWORD

In the first half of 2020, weak global growth persisted, largely reflecting the monumental shocks from the adverse impact of the Covid-19 pandemic. Consequently, global output was projected to contract by 4.9 per cent in 2020, although it is expected to rebound in 2021, growing by 5.4 per cent. The growth optimism is based on the unprecedented fiscal, monetary and regulatory responses to mitigate the effects of the pandemic on households and firms, reinforced by positive news on vaccine development and increasing worldwide deployment.

Similarly, major stock markets experienced bearish performance, owing to the combined adverse effects of the pandemic, US-China trade war, geo-political uncertainties and rising debts which depressed investors' confidence. Furthermore, oil prices declined significantly, arising from crude oil surplus and massive sell-offs in the global oil market.

In the foreign exchange market, most currencies depreciated against the US dollar. However, the Japanese yen appreciated marginally against the US dollar as a result of strong export demand.

In Nigeria, the lockdown measures introduced to contain the spread of Covid-19 disrupted economic activities. In response, the Monetary Policy Committee (MPC) took several decisions to ease financial conditions to support growth as well as sustained development finance interventions in critical sectors of the economy.

To ensure the safety and soundness of the banking system, banks were required to highlight effects of Covid-19 on their operations and measures taken to mitigate them. Furthermore, the Bank continued with the enhanced supervisory regime for Domestic Systemically Important Banks to sustain financial system stability.

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

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

Aishah N. Ahmad, CFA

Deputy Governor, Financial System Stability

EXECUTIVE SUMMARY

Global output was projected to contract by 4.9 per cent in 2020, from the 2.9 per cent achieved in 2019, largely owing to the adverse effect of the Covid-19 pandemic. Global inflation trended downward, owing mainly to weaker aggregate demand and lower commodity prices.

In the review period, the international stock markets were generally bearish, influenced majorly by the adverse effects of the Covid-19 pandemic, trade tensions between the United States and China and growing public and private sector debts. In the foreign exchange markets, major currencies depreciated against the US dollar, with the exception of the Japanese yen, which appreciated during the review period. In response to the headwinds generated by the Covid-19 pandemic, most central banks reduced their policy rates, among other measures.

The impact of the Covid-19 pandemic on global financial markets, institutions, and its dampening effect on crude oil prices slowed down economic activities and lowered revenue accruable to governments and businesses, thereby heightening risks to financial stability.

In Nigeria, the gross domestic product contracted by 2.18 per cent in the first half of 2020, largely attributed to disruption of economic activities arising from the lockdown measures implemented to contain the spread of Covid-19. Inflationary pressures edged up in the first half of 2020 as headline inflation increased to 12.56 per cent at end-June 2020, from 11.98 per cent at end-December 2019. External reserves declined by US$2.31 billion in the first half of 2020 to US$35.78 billion, while in the foreign exchange market, the naira opened at N307.00/US$ and closed at N361.00/US$ during the review period.

The Bank introduced initiatives to ameliorate the impact of Covid-19 on the economy and foster growth. The initiatives included: the N1.0 trillion credit facility for the manufacturing sector; the N50.0 billion Targeted Credit Facility for households and micro, small and medium enterprises; the N100.0 billion credit facility for pharmaceutical companies; and moratorium and reduction in interest rate from 9.0 to 5.0 per cent on all CBN-related intervention programmes. Also, the Monetary Policy Committee at its May 2020 meeting reduced the monetary policy rate by 100 basis points from 13.5 to 12.5 per cent.

Broad money supply, M3, grew by 2.63 per cent at end-June 2020, relative to the level at end-December 2019. Aggregate credit to the economy increased by 4.74 per cent, owing to the growth in claims on the private sector. Money market rates traded above their levels in the preceding half year, while short-term maturities remained dominant in the credit market. Capital market performance was bearish as the All Share Index and Market Capitalization decreased, owing largely to the effects of the Covid-19 pandemic.

The banking industry solvency showed improvements with the Capital Adequacy Ratio rising to 14.96 per cent from 14.57 per cent in the second half of 2019. The industry

Liquidity Ratio at 40.79 per cent was significantly above the prudential minimum of 30 per cent during the review period.

The economic outlook remains cautiously optimistic, given the various policy measures in containing the effects of the pandemic and sustaining financial sector resilience.

1 ECONOMIC AND FINANCIAL DEVELOPMENTS

1.1 Global Developments

The global economy witnessed a monumental shock in 2020 with the outbreak of the coronavirus infection in Wuhan, China in the last quarter of 2019 and its global unravelling. The virus, termed Covid-19, swiftly diffused worldwide, prompting the World Health Organization (WHO) to declare the outbreak a pandemic in March 2020.

The pandemic initially manifested as a health crisis, but later triggered an economic crisis, owing largely to containment measures put in place by various governments. This led to intensification of existing vulnerabilities caused by the US-China trade war and Brexit uncertainties, among others.

1.1.1 Output

Global output was projected to contract by 4.9 per cent in 2020 but was expected to rebound in 2021, growing by 5.4 per cent. The global growth optimism was driven by the expected return to growth in advanced economies as a result of the unprecedented fiscal, monetary and regulatory responses to mitigate the ravaging effects of the Covid-19 pandemic on households and firms.

In Advanced Economies, output was projected to contract by 8.0 per cent in 2020 and recover to 4.8 per cent in 2021. Economic activity during the first half of the year declined, owing to the imposition of lockdowns across countries. As the fear of contagion continued, the prevailing situation suggested a modest recovery in the second half of 2020. Nevertheless, growth in the United States was expected to rebound to 4.5 per cent in 2021, from the contraction of 8.0 per cent in 2020, reflecting the anticipated return to normal economic activities. Similarly, Japan's economy was projected to grow by 2.4 per cent in 2021, in contrast to a decline of 5.8 per cent in 2020.

Growth in the Euro area was projected to contract by 10.2 per cent in 2020, reflecting a substantial decline from the 1.3 per cent growth recorded in 2019. Specifically, Germany, France, Italy and the United Kingdom were expected to contract by 7.8, 12.5, 12.8 and 10.2 per cent respectively, in 2020. However, growth in the Euro area was projected to rebound to 6.0 per cent in 2021.

In the Emerging Market and Developing Economies, growth was expected to contract by 3.0 per cent in 2020, before rebounding to 5.9 per cent in 2021, largely reflecting China's early resumption of economic activities in the first half of 2020. Consequently, China's economy was anticipated to grow at 1.0 per cent in 2020 and accelerate to 8.2 per cent in 2021, building on the gains achieved in the first half of 2020. India's economy was projected to contract by 4.5 per cent in 2020, before recovering to 6.0 per cent in 2021.

In the Middle East and Central Asia region, growth was projected to contract by 4.7 per cent in 2020, and rebound to 3.3 per cent in 2021.The contraction in 2020 was attributed largely to disruptions caused by the pandemic, particularly the significant decline in oil prices, which impacted major oil exporters in the region. Consequently, Saudi Arabia's growth was expected to contract by 6.8 per cent in 2020, and recover marginally in 2021.

In Sub-Saharan Africa, growth was projected to contract by 3.2 per cent in 2020, while a rebound of 3.4 per cent was expected in 2021. The projected pick-up was predicated on the assumption of improved economic activities of the region's major trading partners. Nigeria's growth was estimated to contract by 5.4 per cent in 2020 before rebounding to 2.6 per cent in 2021. Similarly, South Africa's output was projected to contract by 8.0 per cent in 2020 before recovering to 3.5 per cent in 2021.

TABLE 1:1 GLOBAL GROWTH

Region/Country	Year			
	2018	2019	2020*	2021*
World	3.6	2.9	-4.9	5.4
Advanced Economies	2.2	1.7	-8.0	4.8
United States	2.9	2.3	-8.0	4.5
Euro Area	1.9	1.2	-10.2	6.0
Japan	0.3	1.0	-5.8	2.4
United Kingdom	1.3	1.3	-10.2	6.3
Canada	1.9	1.5	-8.4	4.9
Emerging Market and Developing Economies	4.5	3.7	-3.0	5.9
China	6.6	6.1	1.0	8.2
Middle East and Central Asia	1.9	0.8	-4.7	3.3
India	6.1	4.2	-4.5	6.0
Saudi Arabia	2.4	0.3	-6.8	3.1
Sub-Saharan Africa	3.2	3.3	-3.2	3.4
Nigeria	1.9	2.3	-5.4	2.6
South Africa	0.8	0.4	-8.0	3.5

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

1.1.2 Inflation

Inflation in advanced economies was projected to remain subdued at 0.5 per cent in 2020, from 1.4 per cent in 2019. The downward pressure on prices was due to weaker aggregate demand and lower commodity prices.

In the United States, inflation was expected to decline to 0.6 per cent in 2020, from 1.8 per cent in 2019, reflecting a fall in commodity prices and weak global economic activity. In the United Kingdom, inflation was projected to decline to 1.2 per cent in 2020, from the 1.8 per cent in 2019, driven by the effect of lower oil prices reflected in energy, transport, housing and utility prices. Similarly, Japan's inflation was expected to moderate to 0.2 per cent in 2020, from 0.5 per cent in 2019.

In the Emerging Market and Developing Economies, inflation was projected to decrease to 4.6 per cent in 2020, from 5.0 per cent in 2019, owing largely to a decline in utilities, food and transportation prices. In South Africa, inflation was estimated at 2.4 per cent in 2020, a decline from 4.1 per cent in 2019, while India's inflation was projected to decline to 3.3 per cent in 2020 from 4.5 per cent in 2019.

In the Middle East and North Africa (MENA) region, a decrease in inflation from 9.0 per cent in 2019 to 8.2 per cent in 2020 was projected, owing to declining prices of food, beverages, fruits and vegetables.

Inflation in Sub-Saharan Africa was projected at 9.3 per cent in 2020, an increase above the 8.4 per cent recorded in 2019. In Nigeria, inflation was expected to increase to 13.4 per cent in 2020, above the 11.4 per cent recorded in 2019, owing to the rising prices of food, housing, transportation and utilities. Similarly, Ghana's inflation was projected to increase to 9.7 per cent in 2020 above the 7.2 per cent recorded in 2019.

TABLE 1:2 GLOBAL INFLATION

Region/Country	2018	2019	2020*	2021*
Advanced Economies	2.0	1.4	0.5	1.5
United States	2.4	1.8	0.6	2.2
Euro Area	1.8	1.2	0.2	1.0
Japan	1.0	0.5	0.2	0.4
United Kingdom	2.5	1.8	1.2	1.5
Emerging Markets and Developing Economies	4.8	5.0	4.6	4.5
India	3.4	4.5	3.3	3.6
MENA	11.0	9.0	8.2	9.1
Sub-Saharan Africa	8.3	8.4	9.3	7.6
Nigeria	12.1	11.4	13.4	12.4
South Africa	4.6	4.1	2.4	3.2
Ghana	9.8	7.2	9.7	8.5

Source: IMF World Economic Outlook April 2020 ** Projections*

1.1.3 Oil Prices

Oil prices in the first half of 2020 recorded severe decline owing to unprecedented oil demand shocks arising from the adverse effects of the Covid-19 pandemic.

Furthermore, significant crude oil surplus and massive selloffs in the global oil markets contributed in dampening crude oil prices.

Consequently, the OPEC Reference Basket (ORB) value declined by 42.33 per cent to $38.22 per barrel at end-June 2020, from $66.28 per barrel at end-December 2019. Similarly, Bonny Light and UK Brent prices fell to $40.23 per barrel and $40.45 per barrel at end-June 2020, from $70.37 per barrel and $69.00 per barrel at end-December 2019, respectively.

1.1.4 Food Prices

The Food and Agriculture Organization (FAO) Food Price Index fell by 7.9 points to 93.1 points at end-June 2020, from 101.0 points at end-December 2019, indicating a downward pressure on the prices of major food-related commodities, attributed to the adverse impact of the Covid-19 pandemic.

The FAO Cereal Price Index decreased by 0.5 point to 96.7 points at end-June 2020, from 97.2 points at end-December 2019, following improved production of wheat and weak demand in rice, sorghum and maize.

The FAO Vegetable Oil Price Index averaged 86.6 points in June 2020, reflecting a decrease of 14.9 points from the level at end-December 2019, attributed to a decrease in the quotations for soy and sunflower.

The FAO Dairy Price Index decreased by 5.2 points, from 103.5 points at end-December 2019 to 98.3 points at end-June 2020. The FAO Meat Price Index averaged 94.8 points at end-June 2020, indicating a decline of 11.07 points relative to the December 2019 figure. This decline was attributed to higher supply as a result of increased number of exporting countries.

The FAO Sugar Price Index declined to 74.9 points at end-June 2020, from 83.0 points at end-December 2019. This was due largely to a surge in supply from Brazil in the face of weak global demand.

TABLE 1:3 WORLD FOOD PRICE INDEX1

	2018	2019	December 2019[2]	June 2020
Food Price Index	95.90	95.00	101.00	93.10
Meat	94.90	100.00	106.60	94.80
Dairy	107.30	102.80	103.50	98.30
Cereals	100.60	96.40	97.20	96.70
Vegetable Oils	87.80	83.30	101.50	86.60
Sugar	77.40	78.60	83.00	74.90

Source: Food and Agriculture Organization (FAO), June 2020 Update

1.1.5 International Stock Markets

Major stock markets experienced bearish performance, owing to the adverse effects of the Covid-19 pandemic which slowed down economic activities. Other factors included: trade tensions between the United States and China; growing private and public sector debt in advanced and emerging market economies; and indications of recession in some economies.

In North America, the United States S&P 500, the Canadian S&P/TSX Composite and the Mexican Bolsa indices decreased by 4.4, 11.1 and 14.1 per cent respectively, during the review period. In South America, the Brazilian Bovespa Stock, Argentine Merval and Colombian COLCAP indices also decreased by 15.8, 2.8 and 31.7 per cent respectively.

In Europe, the FTSE 100, France CAC 40 and the German DAX indices decreased by 14.9, 15.0 and 5.7 per cent respectively, during the review period.
In Asia, Japan's Nikkei 225, Shanghai Stock Exchange-A and Indian BSE Sensex indices decreased by 4.0, 2.5 and 14.3 per cent respectively, during the period.

In Africa, Nigeria's NSE All-Share, South African JSE All-Share, Kenyan Nairobi NSE 20, Egypt Stock Market (EGX 30) and Ghanaian GSE All-Share indices declined by

[1] Effective June 2020, the price coverage of the FFPI has been expanded and its base period revised to averages for the years 2014-2016.

15.1, 3.5, 24.9, 23.8, and 14.1 per cent respectively, during the review period (Table 1.4).

TABLE 1:4 SELECTED INTERNATIONAL STOCK MARKET INDICES

Selected International Stock Market Indices as at June 30, 2020						
Country	**Index**	**31-Dec-19**	**31-Jan-20**	**30-Jun-20**	**Dec 31, 2019 - June 30, 2020**	**Jan 31, 2020 - June 30, 2020**
					% Change	**% Change**
AFRICA						
Nigeria	NSE All-Share Index	26,842.07	28,843.53	24,479.22	-8.8	-15.1
South Africa	JSE All-Share Index	57,084.10	56,079.54	54,093.40	-5.2	-3.5
Kenya	Nairobi NSE 20 Share index	2,654.39	2,600.41	1,952.26	-26.5	-24.9
Egypt	EGX CASE 30	13,961.56	14,127.66	10,764.59	-22.9	-23.8
Ghana	GSE All-Share Index	2,257.15	2,212.21	1,899.90	-15.8	-14.1
NORTH AMERICA						
US	S&P 500	3,230.78	3,225.52	3,083.01	-4.6	-4.4
Canada	S&P/TSX Composite	17,063.43	17,318.49	15,389.72	-9.8	-11.1
Mexico	Bolsa	43,541.02	44,108.31	37,871.09	-13	-14.1
SOUTH AMERICA						
Brazil	Bovespa Stock	115,645.30	113,760.60	95,735.40	-17.2	-15.8
Argentina	Merval	41,671.41	40,105.04	38,972.80	-6.5	-2.8
Columbia	COLCAP	1,662.42	1,623.83	1,108.90	-33.3	-31.7
EUROPE						
UK	FTSE 100	7,542.44	7,286.01	6,200.89	-17.8	-14.9
France	CAC 40	5,978.06	5,806.34	4,935.99	-17.4	-15
Germany	DAX	13,385.93	12,981.97	12,246.62	-8.5	-5.7
ASIA						
Japan	NIKKEI 225	23,656.62	23,205.18	22,288.14	-5.8	-4
China	Shanghai SE A	3,195.98	3,209.76	3,128.46	-2.1	-2.5
India	BSE Sensex	41,253.74	40,723.49	34,915.80	-15.4	-14.3

1.1.6 Foreign Exchange Markets

During the review period, most currencies depreciated against the US dollar.
In Europe, the euro, pound sterling and Russian ruble depreciated against the US dollar by 0.04, 6.89 and 10.39 per cent respectively, owing to adverse effects of the Covid-19 pandemic.

In Asia, the Japanese yen appreciated marginally against the US dollar by 1.63 per cent as a result of strong export demand. Conversely, the Chinese renminbi depreciated against the dollar by 1.67 per cent, while the Indian rupee depreciated by 5.76 per cent, as growth slowed in the first half of 2020 following weak domestic demand.

In North America, the Canadian dollar and the Mexican peso depreciated by 16.61 and 4.73 per cent respectively. In South America, the Argentine peso, Colombia peso and the Brazilian real depreciated against the US dollar by 14.66, 11.94 and 25.03 per cent respectively, towing to weak global trade and economic activities.

In Africa, the Nigerian naira depreciated against the US dollar by 14.96 per cent at end-June 2020. The Ghanaian cedi, Egyptian pound, Kenyan shilling and the South African rand depreciated against the dollar by 0.70, 0.74, 4.83 and 18.58 per cent respectively, in the same period, following external shocks associated largely with the Covid-19 pandemic.

TABLE 1:5 TRENDS IN SELECTED CURRENCIES

Exchange Rates of Selected Countries (Value in local currency to US$)				
	Currency	**31-Dec-19**	**30-Jun-20**	**Dec 19 - Jun 20**
AFRICA				App/(Dep)%
Nigeria	Naira	307.00	361.00	(14.96)
South Africa	Rand	14.00	17.19	(18.58)
Kenya	Shilling	101.36	106.50	(4.83)
Egypt	Pound	16.04	16.16	(0.74)
Ghana	Cedi	5.75	5.79	(0.70)
NORTH AMERICA				
Canada	Dollar	1.30	1.36	(4.73)
Mexico	Peso	18.94	22.71	(16.61)
SOUTH AMERICA				
Brazil	Real	4.02	5.36	(25.03)
Argentina	Peso	59.87	70.15	(14.66)
Colombia	Peso	3286.84	3732.61	(11.94)
EUROPE				
UK	Pound	0.75	0.81	(6.89)
Euro Area	Euro	0.89	0.89	(0.04)
Russia	Ruble	62.00	69.19	(10.39)
ASIA				
Japan	Yen	108.65	106.91	1.63
China	Yuan	6.96	7.08	(1.67)
India	Rupee	71.35	75.64	(5.67)

Source: Bloomberg

1.1.7 Monetary Policy Rates

In response to the headwinds generated by the Covid-19 pandemic, most monetary authorities across the globe reduced their policy rates during the review period. Argentina and Ghana reduced their policy rates by 2.00 and 1.50 percentage points respectively, while Nigeria and Mauritius reduced their policy rates by 1.00 percentage point each. Furthermore, the advanced economies recorded a modest cut in their policy rates, ranging from 0.05 in the Euro zone to 1.00 percentage point in the US. However, in Sweden, the Riksbank increased its policy rate by 25 basis points.

The policy response of the monetary authorities was aimed at limiting the amplification of the pandemic-induced shocks in order to avert a deeper contraction in output as well as reduce vulnerabilities in the financial system.

TABLE 1:6 COMPARATIVE INTEREST RATES OF SELECTED COUNTRIES

Country	Previous rate	Current rate	Date last changed
Botswana	4.75	4.25	Apr 30, 2020
Ghana	16	14.5	Mar 18, 2020
Kenya	7.25	7	Apr 29, 2020
Mauritius	2.85	1.85	Apr 16, 2020
South Africa	3.75	3.5	July 23, 2020
Nigeria	13.5	12.5	May 28, 2020
Australia	0.5	0.25	Mar 19, 2020
Canada	0.75	0.25	Mar 27, 2020
Euro zone	0.05	0	Mar 10. 2016
Hungary	0.75	0.6	Jul 21, 2020
Iceland	1.75	1	May 20, 2020
Japan	0	-0.1	Jan 29, 2016
South Korea	0.75	0.5	May 28, 2020
Mexico	5	4.5	Aug 13, 2020
New Zealand	1	0.25	Mar 16, 2020

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Country	Previous rate	Current rate	Date last changed
Norway	0.25	0	May 07, 2020
Poland	0.5	0.1	May 28, 2020
Sweden	-0.25	0	Dec 19, 2019
Turkey	8.75	8.25	May 21, 2020
United States	1.00 - 1.25	0.00 - 0.25	Mar 15, 2020
United Kingdom	0.25	0.1	Mar 19, 2020
Switzerland	-0.25	-0.75	Jan 15, 2015
China	4.05	3.85	Apr 20, 2020
Indonesia	4.25	4	Jul 16, 2020
Russia	4.5	4.25	Jul 24, 2020
Brazil	2.25	2	Aug 05, 2020

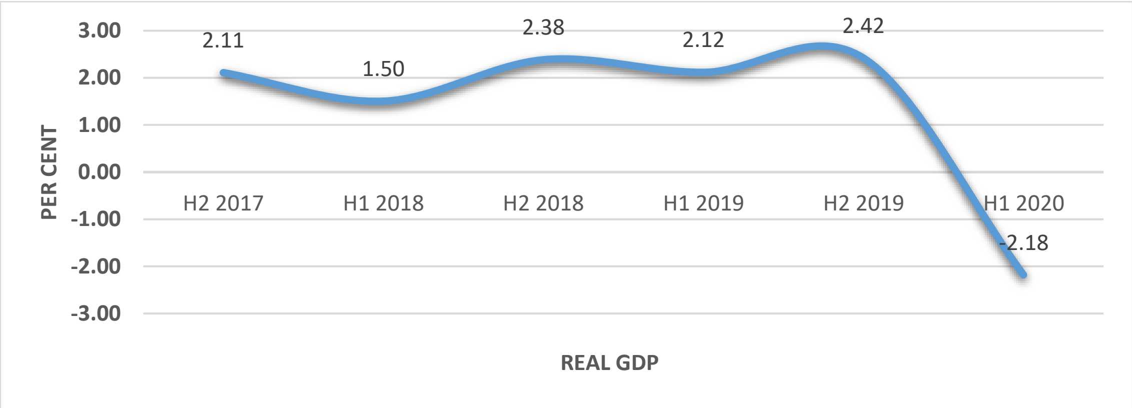
1.2 Domestic Developments

The Covid-19 pandemic resulted in a lockdown by the Federal Government from March 30 to May 3, 2020, to contain the spread of the virus. This led to disruption of economic activities and general slowdown in the performance of key macroeconomic variables.

1.2.1 Output

Domestic output contracted by 2.18 per cent in the first half of 2020, in contrast to the growth of 2.42 per cent in the second half of 2019.

FIGURE 1.1 GROSS DOMESTIC PRODUCT (GROWTH %)

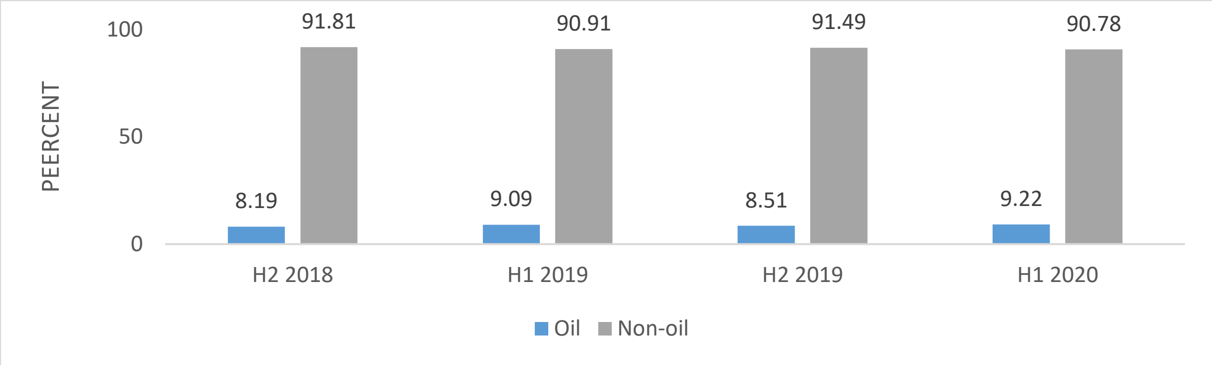


Source: National Bureau of Statistics

1.2.1.1 Oil Sector

The oil sector performed poorly on account of weak global and domestic demand, and low crude oil prices, arising from the impact of the Covid-19 pandemic. Hence, oil GDP declined to negative 0.80 per cent in the first half of 2020, from 6.43 per cent in the second half of 2019. However, the percentage share of the oil sector in real GDP rose to 9.22 per cent in the first half of 2020, compared with 8.51 per cent in the second half of 2019.

FIGURE 1.2 SHARES OF OIL AND NON-OIL SECTORS IN REAL GDP (%)



Source: National Bureau of Statistics

The non-oil GDP contracted by 2.31 per cent in real terms in the first half of 2020, in contrast to the growth of 2.06 per cent in the second half of 2019. The percentage share of the non-oil sector to total GDP declined to 90.78 per cent, from 91.02 per cent in the first half of 2019.

TABLE 1:7 SECTORAL CONTRIBUTION TO REAL GDP

-Sector	H1 2019	H2 2019	H1 2020
Agriculture	22.34	27.62	23.27
Industry	23.45	21.19	22.78
Services	54.21	51.18	53.95

Source: National Bureau of Statistics

In terms of sectoral contribution, the services sector accounted for the largest share (53.95 per cent), followed by agriculture (23.27 per cent) and industry (22.78 per cent).

Agriculture sector grew at a slower pace by 1.88 per cent in the first half of 2020, compared with 2.30 per cent in the second half of 2019. Despite the effect of the pandemic and other challenges, growth was achieved, hinged on the multiplier effects of the various intervention programmes of the Bank and exclusion of the sector from some of the lockdown measures. On the other hand, the Industry and Services sectors declined by 4.97 and 2.64 per cent in the first half of 2020, from their respective levels of 2.98 and 2.26 per cent in the second half of 2019. The declines in these sectors were attributed especially to the restrictions on domestic and international movements.

TABLE 1:8 CHANGES (PER CENT) IN REAL GDP BY SECTOR

Sector	H1 2019	H2 2019	H1 2020
Agriculture	2.45	2.30	1.88
Industry	1.63	2.98	(4.97)
Services	2.17	2.26	(2.64)

Source: National Bureau of Statistics

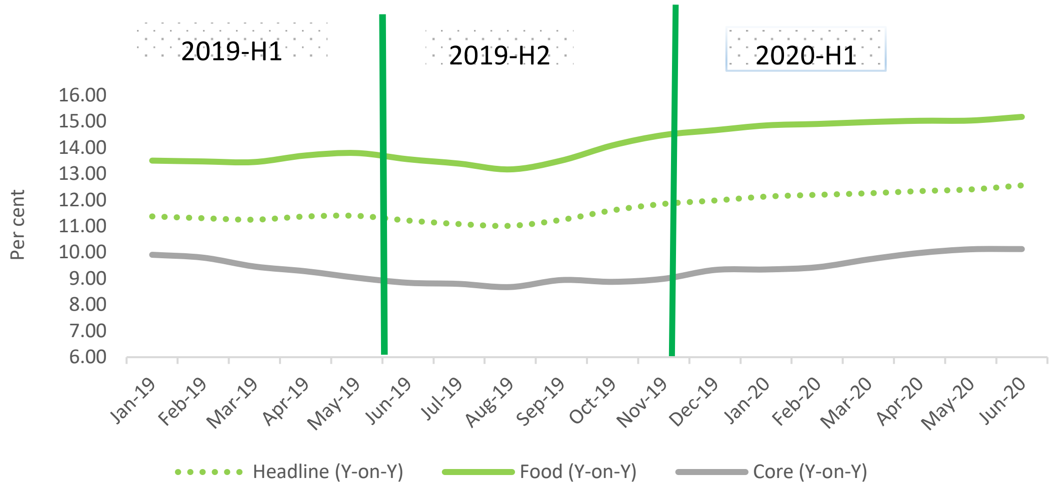
1.2.2 Inflation

Headline inflation (year-on-year), increased to 12.56 per cent at end-June 2020, from 11.98 per cent at end-December 2019, driven largely by the persistent rise in food prices, VAT increase and the continued implementation of the land border protection measures. The All-items Consumer Price Index (CPI) stood at 326.1 in the first half of 2020, compared with 307.5 in the second half of 2019, reflecting a 6.05 per cent increase.

The 12-month-moving-average headline inflation stood at 11.90 per cent in the first half of 2020, compared with 11.40 per cent in the preceding half year. Core inflation stood at 10.13 per cent at end-June 2020, representing a 0.80 percentage point increase over the level at end-December 2019. Significant increases were recorded in the prices of food and non-alcoholic beverages, transport, health, and miscellaneous goods.

Food inflation (year-on-year), which comprised farm produce and processed food, rose to 15.18 per cent at end-June 2020, compared with 14.67 per cent at end-December 2019. The increase in food inflation by 0.51 percentage point above the level in the preceding half year was due largely to the rise in imported food prices and some farm produce (bread & cereal, potatoes, yam & other tubers, fish, meat, and oil & fats). Imported food inflation increased to 16.31 per cent at end-June 2020, compared with 16.04 per cent at end-December 2019.

FIGURE 1.3 INFLATIONARY TREND (YEAR-ON-YEAR)



1.2.2.1 External Reserves

Gross external reserves stood at US$35.78 billion at end-June 2020, a decrease of US$2.48 billion or 6.45 per cent from US$38.26 billion at end-December 2019. Total inflow decreased by US$0.99 billion or 3.83 per cent from US$25.83 billion at end-December 2019 to US$24.84 billion at end-June 2020. Similarly, total outflow decreased by US$4.45 billion or 14 per cent, from US$31.77 billion at end-December 2019 to US$27.32 billion at end-June 2020.

The CBN, FGN and Federation components of the reserves stood at 84.31, 15.49 and 0.20 per cent respectively. The US$ dominated the reserve currency composition with 82.02 per cent, while 11.15 per cent was held in renminbi, 5.78 per cent in SDR, and 1.05 per cent in other currencies at end-June 2020.

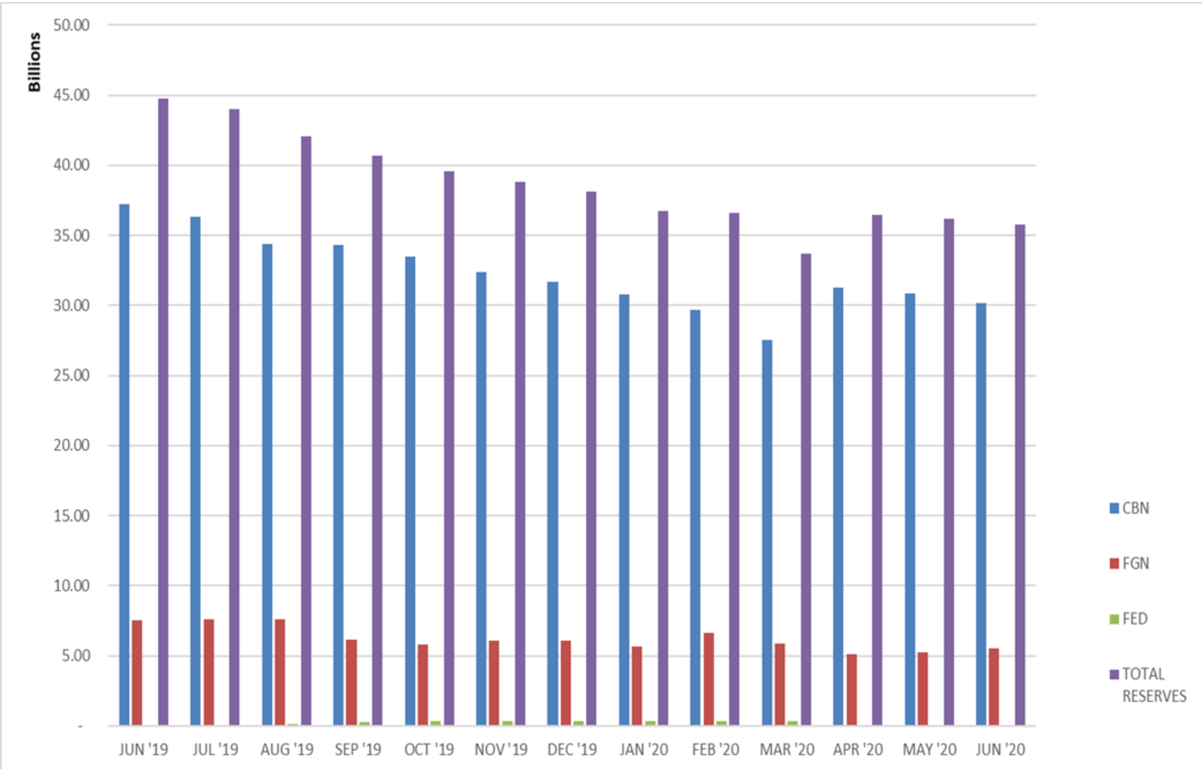
TABLE 1:9 FOREIGN EXCHANGE FLOWS THROUGH THE CBN (US$ MILLION)

Period	Inflow	Outflow	Net flow
H1 – 2020	24,840.24	27,324.79	(2,484.55)
H2 – 2019	25,831.30	31,769.24	(5,937.84)
H1 – 2019	30,819.73	28,846.76	1,972.97

TABLE 1:10 STRUCTURE OF THE RESERVES

	Jun'20 US$ millions	Dec'19 US$ millions	% Change
Federation	72.52	325	- 77.69
Federal Government	5,543.07	6,098.10	- 9.10
Central Bank of Nigeria	30,157.76	31,669.10	- 4.77
Total	35,773.35	38,092.20	- 6.09

FIGURE 1.4 GROSS EXTERNAL RESERVES SHOWING CBN, FGN & FEDERATION PORTIONS



1.2.3 Fiscal Operations[3]

Government revenue declined in the first half of 2020, owing to the effects of the Covid-19 pandemic. Consequently, provisional Federal Government retained revenue stood at ₦1,924.47 billion, reflecting a decrease of 34.0 per cent below its budget benchmark. The decline was attributed largely to the significant drop of 54.5 per cent in the share from the FGN Independent Revenue and 8.2 per cent in the Statutory Federation Account allocation components of FGN retained revenue.

Further analysis of the FGN retained revenue revealed that: Federation Account contributed ₦1,308.82 billion or 68.0 per cent; VAT Pool Account, ₦88.97 billion or 4.6 per cent; Federal Government Independent Revenue, ₦98.40 billion or 5.1 per cent;

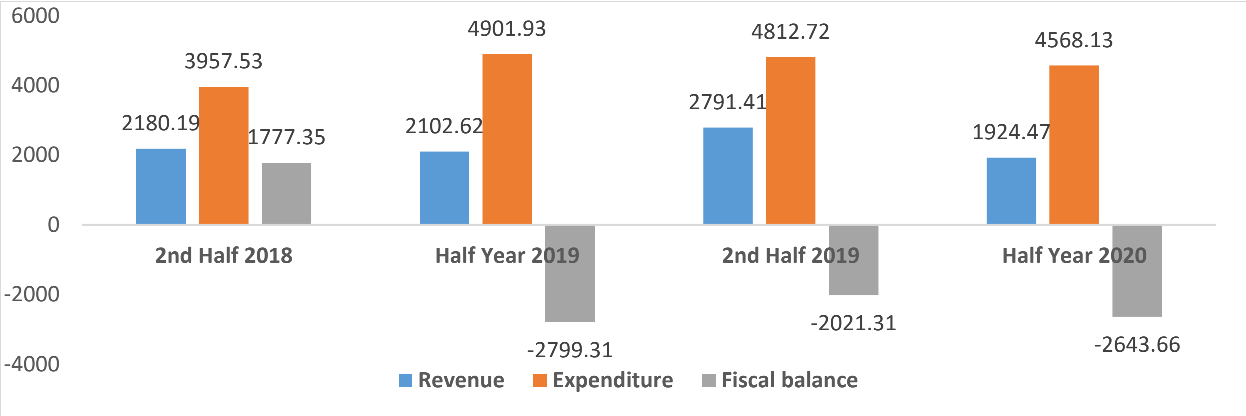
[3] Data from January to March 2020 were obtained from OAGF, while those for April to June were CBN staff estimates.

Share of Exchange Gain, ₦63.96 billion or 3.3 per cent; Excess Oil, ₦54.77 billion or 2.9 per cent; and Excess Non-oil, ₦5.55 billion or 0.3 per cent. Others (including FGN's share of Signature Bonus and revenues from Special Accounts) accounted for the balance of ₦304.02 billion or 15.8 per cent.

Government expenditure in the first half of 2020 stood at ₦4,568.13 billion, which was 6.8 per cent below the proportionate budget estimate, but was 1.8 per cent above the level recorded in the preceding period. The increased expenditure relative to the level in the preceding half year could be attributed to the accommodation of additional spending for the purpose of strengthening the healthcare system and mitigating the impact of the Covid-19 pandemic on the economy. The breakdown showed that recurrent and capital expenditure accounted for 84.1 and 9.7 per cent respectively, while transfers accounted for the balance of 6.2 per cent.

Overall, the fiscal operations of the Federal Government in the first half of 2020 resulted in a notional deficit of ₦2,643.66 billion, as against the budget benchmark of ₦2,487.77 billion. The deficit was financed, largely from domestic sources.

FIGURE 1.5 FEDERAL GOVERNMENT FISCAL OPERATIONS (N BILLION)



Source: OAGF & CBN Staff Estimate

The domestic debt stock of the Federal Government at end-June 2020 stood at ₦15,455.69 billion, reflecting a 3.6 per cent increase over the ₦14,272.64 billion at end-December 2019. At 72.7 per cent, FGN Bonds constituted the largest share of the total domestic debt stock, while Nigerian Treasury Bills and Promissory Notes constituted 17.9 and 6.2 per cent respectively. Others were: FGN Sukuk (2.4 per cent); Nigerian Treasury Bond (0.7 per cent); Green Bond (0.2 per cent); and FGN Savings Bond (0.1 per cent).

The adverse effect of the Covid-19 pandemic continued to spread across jurisdictions, including Nigeria affecting economic activities and heightening financial vulnerabilities and risks through various channels. The Covid-19 pandemic and other events continue to impact the global economy, financial institutions, markets and jurisdictions, including Nigeria as crude oil prices slumped at the international markets and millions of businesses households remained under total or partial lockdown.

These developments resulted in slowed economic activities, low government revenues, loss of revenues by businesses and households, and thereby heightened risks to financial stability.

Notwithstanding the above development, the Nigeria banking system remain relatively stable and resilient during the review period and the Central Bank of Nigeria remains committed to its mandate of maintaining the safety, soundness and stability of the system. However, the lockdown measures that were put in place to curtail the spread of the virus posed challenges to the economy and the resilience of the banking industry. The CBN introduced various mitigating policy measures to address these challenges. See Box1:

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

- Extension of one-year moratorium on all principal repayments on CBN intervention facilities;
- Reduction of interest rate from 9.0 per cent to 5.0 per cent on applicable CBN intervention facilities;
- Regulatory forbearances to the banking sector, allowing banks leave to consider **temporary and time-limited restructuring** of the tenor and loan terms for businesses and households most affected by the Covid-19 pandemic;
- Approval of a 12-month extension of the timeframe for MFBs to meet the new minimum regulatory capital requirements for the various classes of MFB licenses;
- Suspension of the sale of foreign currency to Bureaux-De-Change Operators;
- N1.0 trillion credit facility for the manufacturing sector;
- The N50.0 billion Targeted Credit Facility stimulus package disbursed through NIRSAL MFB to support households and MSMEs that are affected by the coronavirus pandemic; and
- N100.0 billion credit facility for the pharmaceutical companies.

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

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

Under the guidelines, 41.28 per cent of the industry's credit had been restructured at end-June 2020. The Oil and Gas, Manufacturing, General Commerce and Other sectors accounted for 17.44, 4.77, 3.07 and 16 per cent respectively of the total restructured facilities.

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

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

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

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

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

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

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

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

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

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

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

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

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

12. Internal approvals should be obtained before presentation to the CBN for approval. Where this is not practicable, banks will ensure that the necessary internal approvals are in place within 30 days of receipt of such regulatory approval.

13. Only facilities secured with acceptable collaterals are eligible for forbearance under this Guideline. Acceptable collateral includes the following:
    a. Cash;
    b. Treasury bills and government securities e.g bonds;
    c. Quoted equities and other traded securities;
    d. Bank guarantees and Receivables of blue-chip companies
    e. Residential legal mortgage
    f. Commercial legal mortgage
    g. All assets debentures & Negative Pledge; and
    h. Movable assets.

2 DEVELOPMENTS IN THE FINANCIAL SYSTEM

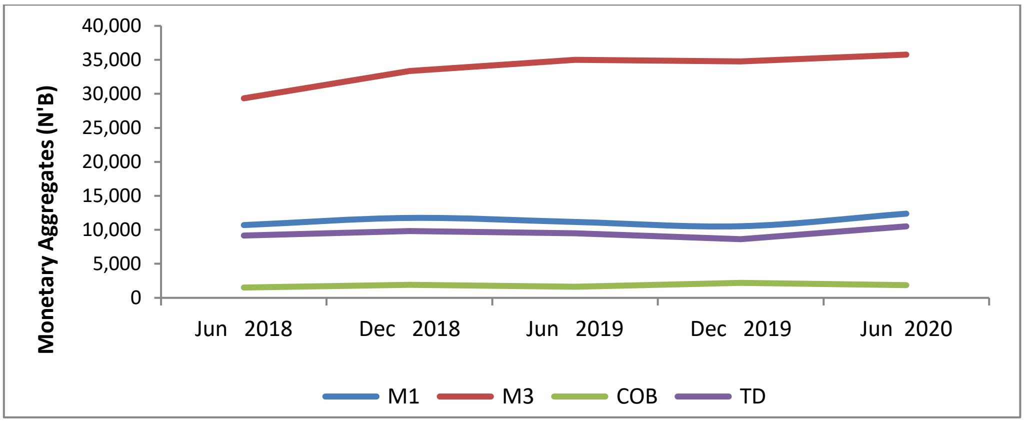
2.1 Monetary and Credit Developments

The effects of the Covid-19 pandemic on the economy were unprecedented and severe, posing major challenges to monetary policy in the first half of 2020. In response, the Monetary Policy Committee (MPC), in March and May 2020, took major decisions to ease financial conditions to boost output. However, broad money supply (M3) grew modestly by 2.63 per cent at end-June 2020, compared with 6.2 per cent at end-December 2019.

The modest expansion in broad money supply reflected the significant decline in liabilities to non-residents in the face of the Covid-19 pandemic uncertainties, resulting in a 40.64 per cent rise in net foreign assets. Domestic claims grew by 4.74 per cent, compared with 29.04 per cent at end-December 2019. The sluggish growth in domestic claims was due largely to the 11.88 per cent decline in net claims on the Federal Government. Correspondingly, the increase in total monetary liabilities was due to the 21.88 per cent and 10.88 per cent surge in transferable deposits and 'other deposits' of the Depository Corporations (DCs) respectively.

Narrow money (M1) increased by 16.27 per cent to ₦12,381.37 billion at end-June 2020, compared with ₦10,648.47 billion at end-December 2019. The significant growth of narrow money stock emanated from the uncertainties surrounding the Covid-19 pandemic which increased money demand for precautionary and transactionary purposes.

FIGURE 2.1 TREND IN MONETARY AGGREGATES



Source: CBN

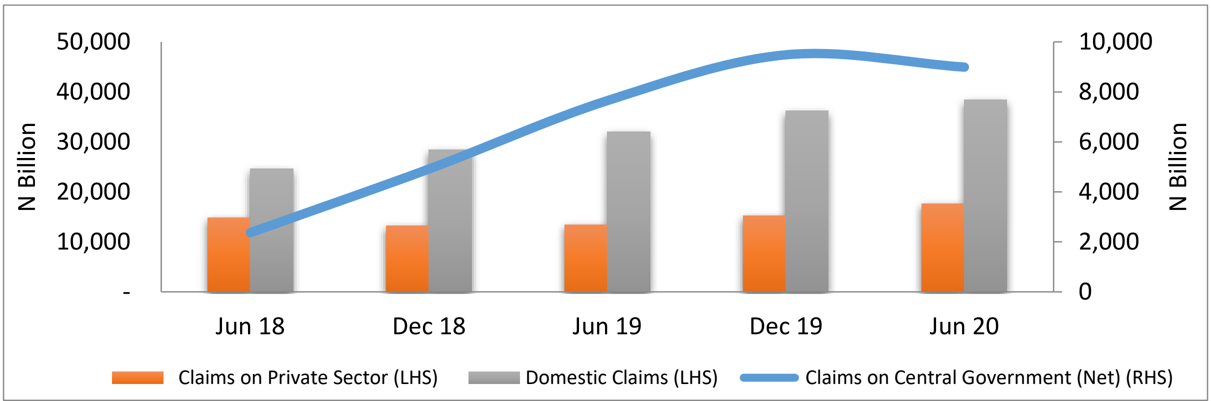
2.1.1 Net Foreign Assets

Net foreign assets of the banking system increased by 40.64 per cent to ₦8,360.08 billion at end-June 2020, compared with ₦5,944.46 billion at end-December 2019, reflecting a decline in liabilities to non-residents. This showed a contribution of 6.93 percentage points to the growth in broad money supply in the first half of 2020.

2.1.2 Aggregate Credit to the Domestic Economy

Domestic claims grew by 4.74 per cent to ₦38,453.94 billion at end-June 2020, compared with 29.04 per cent at end-December 2019. The growth was attributed solely to the 11.04 per cent increase in claims on 'other sectors' as net claims on the Central Government declined by 11.88 per cent. Aggregate credit to the domestic economy contributed 4.99 percentage points to the overall growth of broad money at end-June 2020.

FIGURE 2.2 CREDIT TO THE ECONOMY



Source: CBN

2.1.3 Claims on the Central Government

Net claims on the Central Government stood at ₦8,898.42 billion at end-June 2020, showing a decline of 11.88 per cent below the level of ₦10,098.14 billion at end-December 2019. The decline was due largely to reduction in holdings of Government treasury bills. Accordingly, the contribution of net claims on Central Government to the growth of total monetary assets was negative 3.44 percentage points, in contrast to the positive contribution of 15.83 percentage points at end-December 2019.

2.1.4 Aggregate Claims on Other Sectors

Banking system credit to Other Sectors stood at ₦29,555.61 billion at end-June 2020, reflecting an increase of 11.04 per cent over the ₦26,616.74 billion at end-December 2019. The increase was driven mainly by 21.89 per cent growth in claims on Other financial corporations and 8.46 per cent increase in claims on the private sector. Consequently, the contribution of claims on other sectors to the growth of total monetary assets was 8.43 percentage points, compared with 9.41 percentage points at end-December 2019.

TABLE 2:1 GROWTH RATES OF MONETARY AGGREGATES

% Change (Over preceding December)	Jun 18	Dec 18	Jun 19	Dec 19*	Jun 20*
Domestic Claims	-5.22	9.48	14.23	29.04	4.74
Claims on Central Government[4] (Net)	-36.18	32.37	56.94	105.38	-11.88
Claims on Other Sectors	-4.37	-10.65	5.31	13.09	11.04
Foreign Assets (Net)	7.71	7.87	-16.07	-49.79	40.64
Other Items (Net)	-11.31	3.92	28.62	-38.23	137.02
Money Supply (M1)	-0.27	9.68	-8.11	2.37	16.27
Currency Outside Depository Corporations	-14.74	7.03	-14.33	6.04	-7.63
Transferable Deposits	3.09	10.29	-6.71	1.54	21.88
Other Deposits	2.63	10.86	11.38	13.56	10.88
Monetary Liabilities (M2)	1.48	10.39	3.72	9.16	12.87
Securities Other than Shares	0.02	38.75	11.43	-4.95	-46.85
Total Monetary Liabilities (M3)	1.25	14.90	5.20	6.45	2.63

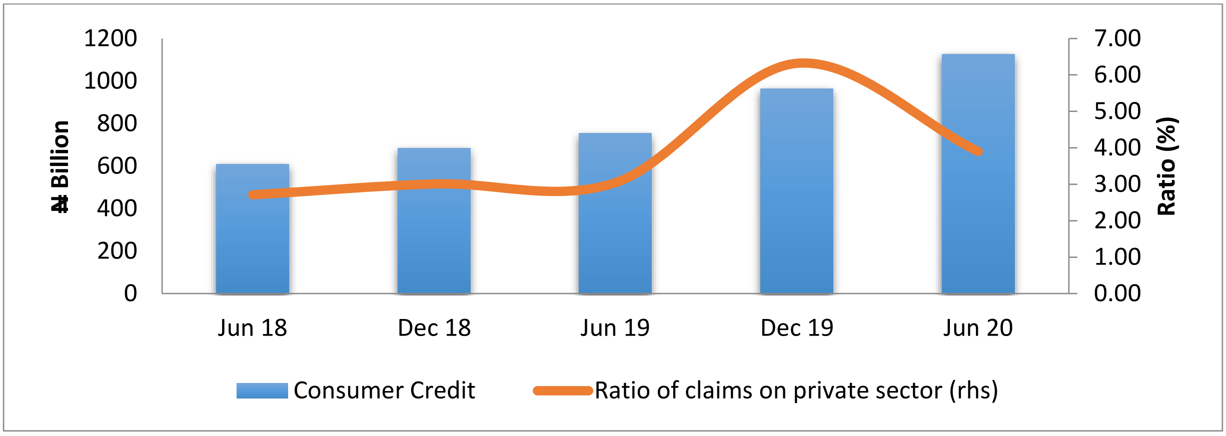
Source: CBN*Revised

2.1.5 Consumer Credit

Consumer credit grew by 17.0 per cent to ₦1,127.10 billion at end-June 2020, compared with ₦963.74 billion at end-December 2019. Consumer loans constituted 3.9 per cent of total credit to other sectors in the first half of 2020, compared with 6.32 per cent at the end of the preceding half of 2019. The increase in consumer credit was attributed to the enhanced compliance with the Loan to Deposit Ratio (LDR) policy in the review period.

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

FIGURE 2.3 CONSUMER CREDIT



Source: *CBN*

2.1.6 Classification of Private Sector Credit

Private sector credit, at ₦18,817.90 billion in the first half of 2020, increased by 7.56 per cent, compared with the level at the preceding half year. Industry and Services sectors accounted for the largest shares of the total credit, with 37.7 and 38.4 per cent respectively, compared with 37.3 and 37.9 per cent in the second half of 2019.

Agriculture and Construction sectors accounted for 4.8 and 4.6 per cent respectively at end-June 2020, compared with 4.6 and 4.1 per cent in the preceding half year. The Government sector accounted for 8.0 per cent at end-June 2020, lower than the 8.8 per cent recorded in the second half of 2019, reflecting the general decline in net claims on the Central Government by the Other Depository Corporations (ODCs).

TABLE 2:2 SECTORAL DISTRIBUTION OF PRIVATE SECTOR CREDIT

ITEM	Dec-19	Jun-20	Share in Total %		Change %
	(=N='m)	(=N='m)	Dec-19	Jun-20	
[1] SECTOR	1	2	3	4	(1) & (2)
[a] Agriculture	**811,585.88**	**903,704.06**	**4.6**	**4.8**	**11.35**
[b] Industry	**6,524,868.83**	**7,092,819.20**	**37.3**	**37.7**	**8.7**
Mining & Quarrying	11,309.67	11,955.59	0.2	0.2	
Manufacturing	2,695,021.47	3,069,483.89	41.3	43.3	
Oil & Gas	3,445,088.58	3,615,525.27	52.8	51	
of which Downstream, Natural Gas and Crude Oil Refining	3,445,088.58	3,615,525.27			
Power and Energy	373,449.11	395,854.45	5.7	5.6	
of which IPP and Power Generation	373,449.11	395,854.45			
[c] Construction	**723,692.87**	**859,160.05**	**4.1**	**4.6**	**18.72**
[d] Trade/General Commerce	**1,260,485.47**	**1,232,414.51**	**7.2**	**6.5**	**-2.23**
[e] Government	**1,544,724.57**	**1,503,193.51**	**8.8**	**8**	**-2.69**
[f] Services	**6,630,550.34**	**7,226,612.09**	**37.9**	**38.4**	**8.99**
Real Estate	612,341.02	666,728.44	9.2	9.2	
Finance, Insurance and Capital Market	1,326,473.07	1,369,870.23	20	19	
Education	58,378.68	68,519.14	0.9	0.9	
Oil & Gas	1,189,709.78	1,327,961.05	17.9	18.4	
of which Upstream and Oil & Gas Services	1,189,709.78	1,327,961.05			
Power and Energy	298,349.32	317,079.21	4.5	4.4	6.28
of which Power Transmission and Distribution	298,349.32	317,079.21			
Others	3,145,298.46	3,476,454.02	47.4	48.1	
of which:	1,457,119.52	1,644,834.51	0.46	0.47	
i. General					
ii. Information & Communication	903,642.29	955,679.29	0.29	0.27	
iii. Transportation & Storage	404,121.38	467,516.65	0.13	0.13	
TOTAL CREDIT	**17,495,907.94**	**18,817,903.42**	**100**	**100**	**7.56**

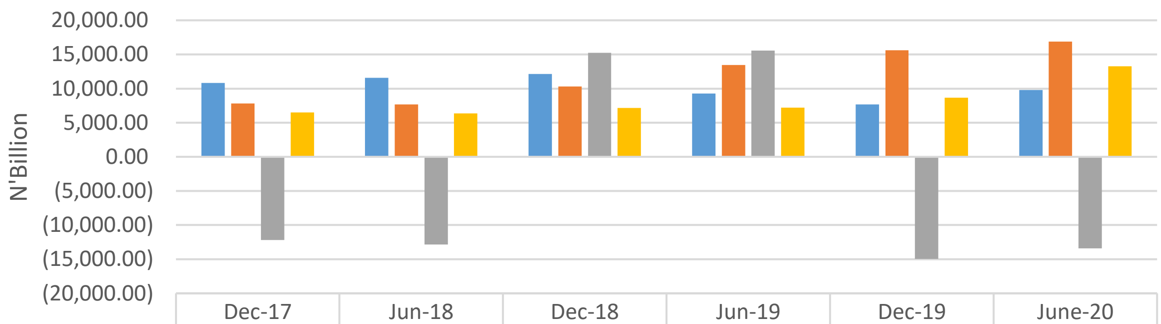
Source: CBN

2.1.7 Monetary Base

Liquidity injections in the banking system, arising from policy response to the Covid-19 pandemic in the review period led to significant increase in the ODCs' deposits with the Bank. Liabilities to ODCs at end-June 2020 grew by 75.45 per cent to ₦10,944.55 billion, compared with ₦ 6,237.97 billion at end-December 2019, which more than offset the decline of 5.82 per cent in Currency-in-circulation (CIC).

The liquidity injections led to a 52.58 per cent growth in the monetary base at end-June 2020, compared with 20.90 per cent at end-December 2019. Correspondingly, the upward movement on the asset side reflected the increases in both foreign and domestic assets (net) of the CBN. Growth in net foreign assets was due to the decline in liabilities to non-residents relative to assets, while the growth in net domestic claims was accounted for mainly by the claims on other sectors of the economy.

FIGURE 2.4 MONETARY BASE AND ITS COMPONENTS

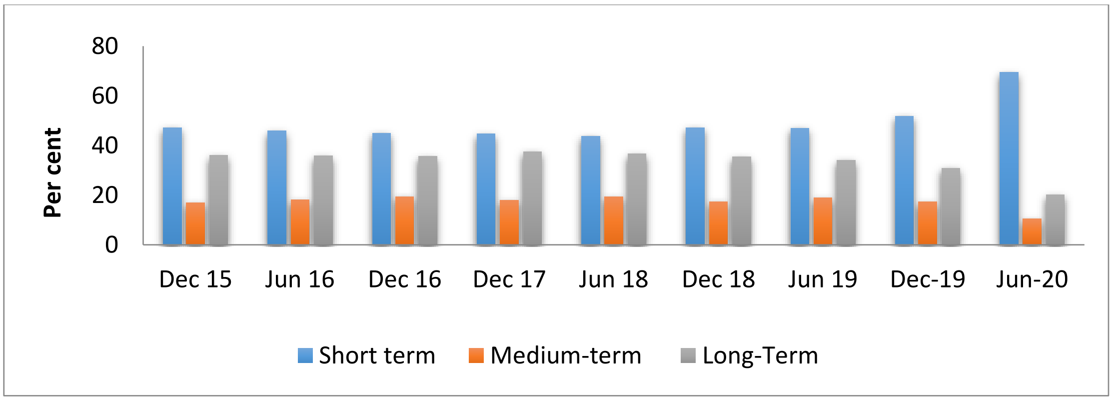


	Dec-17	Jun-18	Dec-18	Jun-19	Dec-19	June-20
NFA	10,825.68	11,572.17	12,126.99	9,283.82	7,657.57	9,777.21
NDA	7,831.13	7,652.97	10,292.31	13,470.27	15,612.31	16,893.28
OIN	(12,173.00)	(12,854.56)	15,239.29	15,566.91	(14,964.09)	(13,425.10)
MB	6,483.80	6,360.58	7,180.01	7,187.18	8,680.96	13,245.38

2.1.8 Maturity Structure of Bank Deposits and Credits

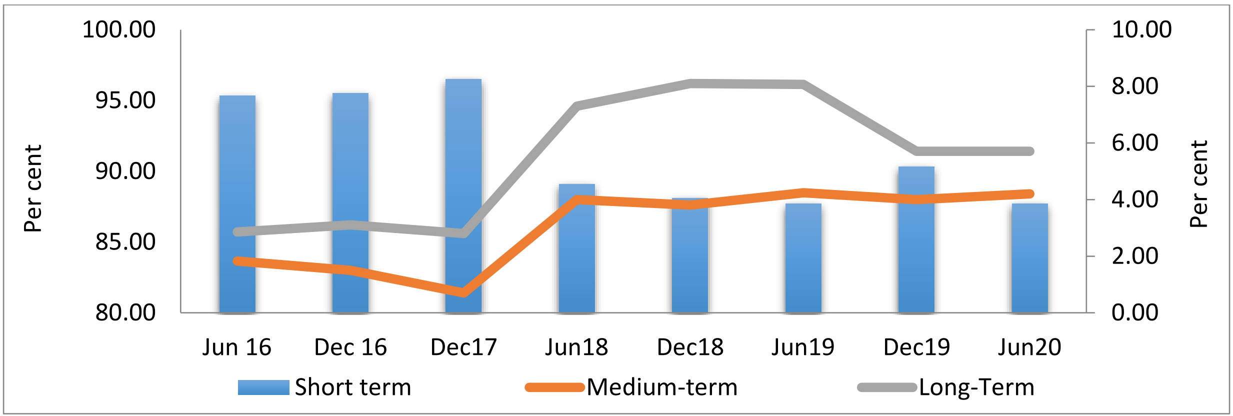
Commercial banks' credits maturing within one year accounted for 69.4 per cent of the total bank credit at end-June 2020, compared with 51.73 per cent at end-December 2019. The medium-term and long-term maturities stood at 10.4 and 20.2 per cent respectively, compared with 17.37 and 30.90 per cent at end-December 2019, indicating the dominance of short-term maturities in the credit market.

FIGURE 2.5 DISTRIBUTION OF BANK LOANS AND ADVANCES BY MATURITY



The analysis of banks' deposit liabilities showed that short-term deposits (of less than one-year maturity) constituted 87.7 per cent of the total (73.0 per cent had a maturity of less than 30 days), compared with 90.32 per cent at end-December 2019. Further analysis showed that the medium and long-term deposits accounted for 4.2 and 8.1 per cent of total deposits at end-June 2020, compared with 4.0 and 5.7 per cent at end-December 2019, respectively. The preponderance of short-term liabilities remains a major constraint to holding long-term assets by Depository Corporations.

FIGURE 2.6 MATURITY STRUCTURE OF BANK DEPOSITS



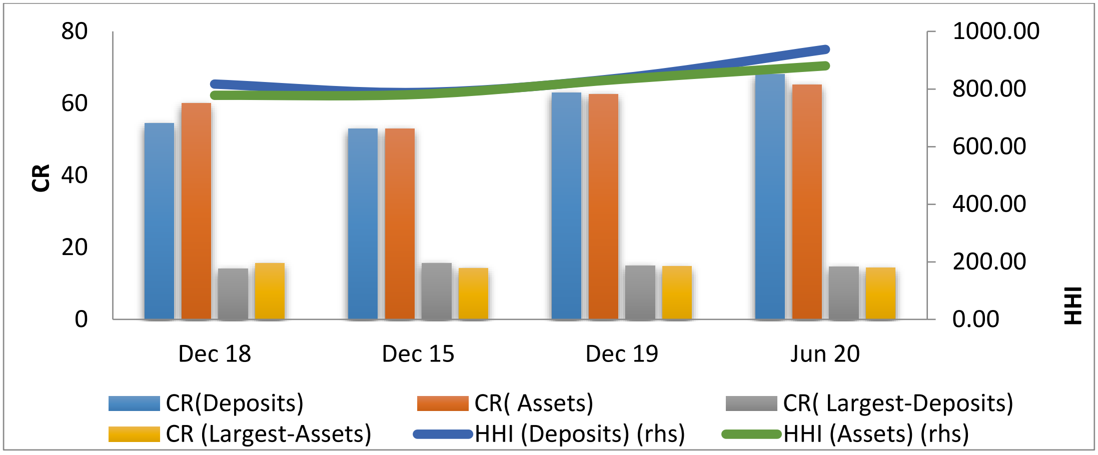
Source: *CBN*

2.1.9 Market Structure of the Banking Industry

The structure of the Nigerian banking industry showed that the largest bank's share of deposits and assets stood at 14.6 and 14.3 per cent at end-June 2020, compared with 14.94 and 13.20 per cent at end-December 2019, respectively. Six banks accounted for 68.1 and 65.2 per cent of total deposits and assets respectively. The market shares of the remaining twenty-one banks ranged from 0.1 to 5.1 per cent in deposits and 0.1 to 5.2 per cent in assets, compared with 0.02 to 5.94 per cent and 0.08 to 5.24 per cent respectively, in the preceding period.

The Herfindahl-Hirschman Indices on a scale of 100 to 10,000 stood at 937.38 in deposits and 880.47 in assets at end-June 2020, compared with 833.96 and 838.56, respectively, in the first half of 2019, indicating an increase in concentration ratio in the review period.

FIGURE 2.7 CONCENTRATION RATIOS OF THE BANKING INDUSTRY ASSETS AND DEPOSITS



2.2 Other Financial Institutions

There were 6,333 Other Financial Institutions (OFIs) at end-June 2020, compared with 6,190 institutions at end-December 2019, an increase of 143 OFIs. This was due to the licensing of 136 Bureaux de Change (BDCs), six (6) Finance Companies (FCs) and one (1) Microfinance Bank (MFB). There were seven (7) Development Finance Institutions (DFIs), 912 Microfinance Banks (MFBs), 80 Finance Companies (FCs), 34 Primary Mortgage Banks and 5,300 Bureaux De Change (BDCs) at end-June 2020.

TABLE 2:3 LICENSED OTHER FINANCIAL INSTITUTIONS

S/N	Type	December 31, 2019	June 30, 2020
1	Microfinance Banks	911	912
2	Bureaux De Change	5,164	5,300
3	Finance Companies	74	80
4	Development Finance Institutions	7	7
5	Primary Mortgage Banks	34	34
	Total	**6,190**	**6,333**

Total assets[5] of the OFIs increased by 19.4 per cent to ₦3,802.58 billion at end-June 2020, compared with ₦3,183.50 billion at end-December 2019. This was attributed largely to increased placements and investments.

[5] excluding the BDCs

Placements with banks increased by 43.3 per cent to ₦585.11 billion at end-June 2020, compared with ₦408.18 billion at end-December 2019, while investments increased by 55.6 per cent to ₦904.13 billion. Similarly, shareholders' funds increased by 23.21 per cent to ₦585.58 billion at end-June 2020, compared with ₦475.27 billion at end-December 2019. Borrowings also increased by 44.76 per cent from ₦1,211.65 billion at end-December 2019 to ₦1,753.98 billion at end-June 2020.The increase was largely accounted for by the DFIs borrowings which increased by ₦428.55 billion or 41.75 percent to ₦1,455.11 billion at end-June 2020, from ₦1,026.56 billion at end-December 2019.

2.2.1 Development Finance Institutions

Total assets/liabilities of the seven (7) DFIs increased by 22.3 per cent, to ₦2,471.00 billion at end-June 2020, compared with ₦2,021.18 billion, at end-December 2019, owing, largely, to increases in reserves, deposits, borrowings and long-term liabilities, as well as increases in investments and other assets by the institutions. The paid-up capital of the institutions, however, remained unchanged at ₦238.78 billion. Investments, other assets and fixed assets increased by 537.68 per cent, 66.90 per cent and 10.08 per cent respectively, while the net loans and advances decreased by 4.10 per cent to ₦1,130.89 billion at end-June 2020, from ₦1,179.28 billion at end-December 2019.

The shareholders' funds also increased by 22.3 per cent to ₦364.10 billion at end-June 2020, from ₦297.82 billion at end-December 2019. The increase was due mainly to the accretion in reserves reported by the Bank of Industry (BOI), Development Bank of Nigeria (DBN), and Nigeria Mortgage Refinance Company (NMRC).

The Bank of Industry, DBN and Federal Mortgage Bank of Nigeria (FMBN) accounted for 57.01, 19.29 and 14.63 per cent of the total assets of DFIs, while Nigeria Export Import Bank (NEXIM), NMRC, Bank of Agriculture (BOA) and The Infrastructure Bank (TIB) accounted for 4.36, 3.02, 1.47 and 0.22 per cent, respectively. The BOI, FMBN, DBN, NEXIM, NMRC and BOA accounted for 64.12, 21.29, 7.33, 5.37, 1.56, and 0.32 per cent of the total net loans and advances respectively.

2.2.2 Primary Mortgage Banks

The number of licensed PMBs at end-June 2020 remained unchanged, comprising 12 National and 22 State PMBs. The total assets/liabilities of the PMBs increased marginally by 1.0 per cent to ₦436.29 billion at end-June 2020, compared with ₦432.05 billion at end-December 2019.

Shareholders' funds fell by 12.3 per cent to ₦46.65 billion at end-June 2020, compared with ₦53.17 billion at end-December 2019. However, loans and advances increased to ₦240.45 billion, compared with ₦238.49 billion at end-December 2019. Similarly, placements with banks increased to ₦46.94 billion at end-June 2020, compared with ₦40.87 billion at end-December 2019. Non-current assets held for sale decreased to ₦50.02 billion at end-June 2020, compared with ₦52.59 billion at end-December 2019.

Investible funds available to the PMBs amounted to ₦21.04 billion, sourced mainly from increased other liabilities, deposits, and reduction in non-current assets held for sale. The funds were invested in placements with banks and quoted shares.

TABLE 2:4 PRIMARY MORTGAGE BANKS FINANCIAL HIGHLIGHTS

	End-December 2019 (₦' billion)	End-June 2020 (₦' billion)	% Change
Total assets	432.05	436.29	0.98
Loans and advances	238.49	240.45	0.82
Placements with banks	40.87	46.94	14.85
Investment in Quoted Shares	9.96	12.49	25.40
Deposit liabilities	143.56	147.98	3.08
Other liabilities	158.96	206.16	29.69
Shareholders' funds	53.17	46.65	(16.02)

2.2.3 Finance Companies

Total assets/liabilities of FCs increased by 9.9 per cent to ₦256.62 billion at end-June 2020, compared with ₦233.42 billion at end-December 2019. The increase was attributed, largely, to injection of capital by some institutions, accretion to reserves and increased borrowings. Similarly, loans and advances increased by 16.6 per cent to ₦93.44 billion at end-June 2020, compared with ₦80.13 billion at end-December 2019. Investments declined by 9.2 per cent to ₦10.57 billion at end-June 2020, from ₦11.64 billion at end-December 2019, owing to disposal of investment holdings by the institutions. Shareholders' funds, increased by 17.7 per cent to ₦43.88 billion at end-June 2020, compared with ₦37.29 billion at end-December 2019. This was as a result of injection of additional capital and increase in ploughed-back profit in the review period.

Investible funds available to the FCs in the review period amounted to ₦29.76 billion, compared with ₦65.40 billion at end-December 2019. The funds were sourced, mainly from borrowings (₦16.85 billion), reserves (₦5.21 billion) and paid-up capital (₦1.38 billion). The funds were utilised, mainly, to increase loans and advances (₦13.32 billion), bank balances (₦5.31 billion) placements with banks (₦2.41 billion) and fixed assets (₦4.40 billion).

TABLE 2:5 FINANCIAL POSITION OF FINANCE COMPANIES AT END-JUNE 2020

	End-Dec 2019 (₦' billion)	End-June 2020 (₦' billion)	Change (₦' billion)	% Change
Total Assets	233.42	256.62	23.20	9.94
Cash in Vault	2.15	4.78	2.63	122.33
Balances with Banks	12.21	17.96	5.75	47.09
Loans and Advances	80.13	93.44	13.31	16.61
Investments	11.64	10.57	-1.07	(9.19)
Fixed Assets	46.28	50.67	4.39	9.49
Borrowings	153.40	170.25	16.85	10.98
Shareholder's Funds	37.29	43.88	6.59	17.67
Paid-up capital	20.69	22.07	1.38	6.67
Reserves	16.60	21.81	5.21	31.39

2.2.4 Microfinance Banks

The number of MFBs stood at 912 at end-June 2020, compared with 911 at end-December 2019, comprising 10 National, 135 State and 767 Unit MFBs, compared with 10 National, 135 State and 766 Unit MFBs at end-December 2019.

Total assets/liabilities of MFBs was ₦638.67 billion at end-June 2020, compared with ₦496.85 billion at end-December 2019. The paid-up capital and shareholders' funds increased by 2.65 per cent and 5.20 per cent to ₦80.89 billion and ₦130.95 billion at end-June 2020, compared with ₦78.80 billion and ₦113.67 billion at end-December 2019, respectively. This was attributed, mainly, to capital injection and accretion to reserves from ploughed-back profits.

Similarly, net loans and advances increased by 28.5 per cent to ₦328.18 billion at end-June 2020, compared with ₦255.47 billion at end-December 2019. Deposit liabilities rose by 13.3 per cent to ₦283.14 billion at end-June 2020, compared with ₦250.00 billion at end-December 2019. Reserves also increased by 3.6 per cent, to ₦50.06 billion at end-June 2020, compared with ₦34.87 billion at end-December 2019.

Overall, the average capital adequacy ratio (CAR) of the sub-sector fell to 23.02 per cent at end-June 2020, compared with 24.6 per cent at end-December 2019. However, the average portfolio-at-risk (PAR) decreased to 24.33 per cent at end-June 2020, compared with 51.7 per cent at end-December 2019, owing largely to regulatory forbearance for the restructuring of credit facilities for institutions impacted by the

Covid-19 pandemic. Average liquidity ratio of MFBs rose to 125.4 per cent at end-June 2020, compared with 121.2 per cent at end-December 2019. At that level, liquidity ratio at end-June 2020 was 105.4 percentage points above the stipulated minimum ratio of 20.0 per cent.

Investible funds available to the sub-sector in the review period amounted to ₦160.04 billion, compared with ₦75.70 billion at end-December 2019. The funds were sourced mainly from increase in deposits, long-term loans, reserves, other liabilities, paid-up capital, and reduction in short-term investments. The funds were used to increase net loans and advances, bank placements, bank balances, other assets and reduced takings from other banks.

TABLE 2:6 FINANCIAL POSITION OF MICROFINANCE BANKS

	End-December 2019 (₦' billion)	End-June 2020 (₦' billion)	Change (₦' billion)	% Change
Total Assets	496.85	638.70	141.85	28.55
Cash in Vault	5.11	6.08	0.97	18.98
Balances with Banks	66.18	84.41	18.23	27.55
Placements with Banks	84.31	135.13	50.82	60.28
Loans and Advances	255.47	328.18	72.71	28.46
Short Term Investments	28.09	18.93	-9.16	(32.61)
Fixed Assets	22.53	23.51	0.98	4.35
Deposits	250.17	283.14	32.97	13.17
Shareholders' Funds	113.67	130.95	99.72	87.73
Paid-up capital	78.80	80.89	2.09	2.65
Reserves	34.87	50.06	15.19	43.56

2.2.4.1 Maturity Structure of Loans & Advances and Deposit Liabilities

Short-term credit remained dominant with MFBs in the review period, driven largely, by the short-term structure of deposits mobilized by the institutions. Accordingly, at end-June 2020, short-term loans (with maturities of less than one year), accounted for 71.6 per cent of the aggregate loans and advances, a 9.8 percentage points decrease from 81.4 per cent recorded at end-December 2019. Loans with long-term maturities (over 360 days) accounted for 28.4 per cent of the total, compared with 18.6 per cent at end-December 2019.

Similarly, analysis of the deposits structure showed that short-term deposit liabilities (less than one-year maturities) remained dominant, constituting 79.4 per cent of total deposit liabilities, a 4.6 percentage points decline below 84.0 per cent recorded at end-December 2019. Deposits with long-term maturities (above 1 year) increased by 4.6 percentage points, accounting for 20.6 per cent of total deposit liabilities at end-June 2020, compared with 16.0 per cent at end-December 2019.

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

Tenor/Period	December 2019		June 2020	
	Loans and Advances	Deposits	Loans and Advances	Deposits
0-30 Days	20.8	35.2	16.6	32.5
31-60 Days	10.6	11.5	5.1	9. 0
61-90 Days	9.4	11.3	6.5	11.6
91-180 Days	19.0	15.3	15.7	16.2
181-360 Days	21.6	10.7	27.7	10.1
Total Short-Term	**81.4**	**84.0**	**71.6**	**79.4**
Above 360 Days	18. 6	16.0	28.4	20.6
Total	**100.0**	**100.0**	**100.0**	**100.0**

2.2.4.2 New Capital Regime for MFBs

In consideration of the impact of the Covid-19 pandemic, the Bank revised the earlier deadlines of April 2020 and April 2021 for the recapitalization of MFBs as stated below:

1. **Tier 2 Unit MFB**: These are institutions located in the rural, under-banked and unbanked areas and are now required to have a minimum capital of ₦35 million by April 30, 2021 and ₦50 million by April 30, 2022.
2. **Tier 1 Unit MFBs:** These are institutions located in urban areas and in state capitals and are now required to have a minimum capital of ₦100 million by April 30, 2021, and ₦200 million by April 30, 2022.
3. **State MFBs –** These institutions are now required to have a minimum capital of ₦500 million by April 30, 2021, and ₦1 billion by April 30, 2022.
4. **National MFBs –** These institutions are now required to have a minimum capital of ₦3.5 billion by April 30, 2021, and ₦5 billion by April 30, 2022.

2.3 Financial Markets

Activities in the financial markets were influenced largely by the impact of the Covid-19 pandemic on the economy. The decline in crude oil prices, low accretion to reserves, and foreign portfolio capital reversals led to increased demand pressure at the foreign exchange market. In the capital market, investors' apprehension over the low level of economic activities also took its toll on equities as the market was bearish.

During the period, the Bank maintained its accommodative policy stance in order to boost credit flow to critical sectors of the economy and support growth recovery by reducing the Monetary Policy Rate (MPR) to 12.50 from 13.50 per cent in May 2020. . In addition, the Bank maintained the asymmetric corridor of +200/-500 basis points for Standing Lending Facility (SLF) and Standing Deposit Facility (SDF), and the Cash Reserve Requirement (CRR) and Liquidity Ratio (LR) at 27.50 and 30.00 per cent respectively. Furthermore, the exchange rate was adjusted to N361/US$ from N307/US$ and sales of foreign exchange to BDCs was suspended.

2.3.1 The Money Market

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

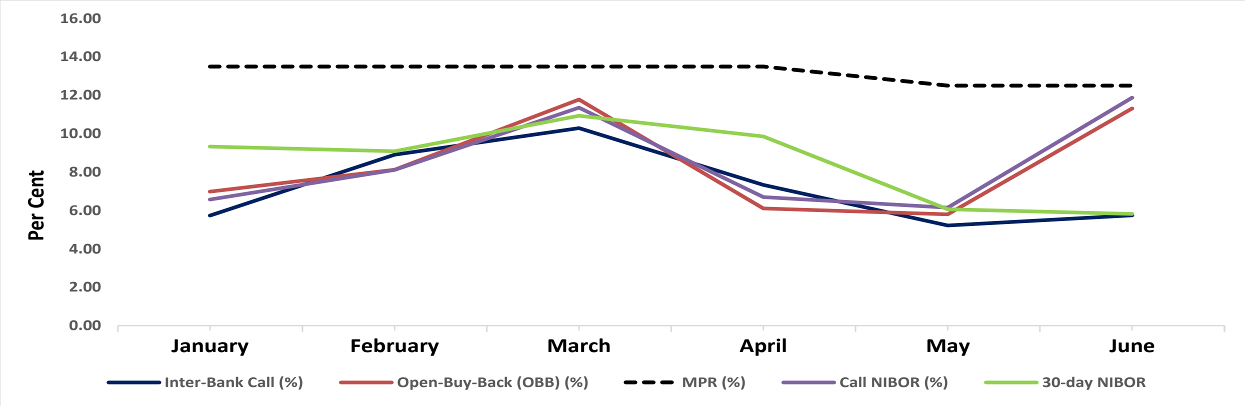
On January 2, 2020, the open-buy-back (OBB) daily average rate opened at 1.77 per cent, compared with 8.83 per cent on July 1, 2019. The unsecured inter-bank call daily weighted average rate opened at 2.18 per cent on January 6, 2020, compared to 10.00 per cent on July 1, 2019. The OBB rates peaked at 25.14 per cent on April 24, 2020, while the unsecured interbank rate peaked at 18.00 per cent on March 16, 2020 and thereafter, the OBB moderated to 2.75 per cent on April 30, 2020, while the unsecured interbank rates moderated to 4.00 per cent on March 25, 2020.

The OBB and unsecured interbank rates declined to 2.34 and 3.00 per cent towards the end of the review period, on June 3, 2020 and June 4, 2020 respectively. The rates, in some instances, traded significantly above or below the MPR corridor, reflecting liquidity conditions during the period (Figure 2.7).

Furthermore, the OBB rate ranged between 1.77 to 25.14 per cent, while the inter-bank call rate ranged between 2.00 to 18.00 per cent, during the review period, compared with 2.38 to 28.17 per cent and 2.00 to 25.00 per cent respectively, in the second half of 2019.

The monthly average OBB and inter-bank call rates closed at 11.31 and 5.75 per cent at end-June 2020, compared with 3.18 and 3.72 per cent recorded at end-December 2019, owing to lower liquidity conditions occasioned by reduced fiscal activities, and monetary operations of the Bank.

FIGURE 2.8 AVERAGE MONEY MARKET RATES MOVEMENTS JANUARY – JUNE 2020



2.3.1.1 Nigerian Treasury Bills

During the review period, total subscriptions for 91-, 182- and 364- day tenor Nigerian Treasury Bills (NTBs) stood at ₦2,904.16 billion, compared with ₦5,455.24 billion, in the second half of 2019, indicating a decrease of ₦2,551.08 billion or 46.76 per cent. Average marginal rates ranged between 1.0000 - 14.0000 per cent, 1.9400 - 12.0000 per cent and 2.8000 - 15.4875 per cent for the 91-, 182- and 364- day tenors respectively.

The total NTBs issued and allotted for 91-, 182- and 364-day tenors stood at ₦1,515.68 billion in the first half of 2020. This indicated a decrease of ₦201.09 billion or 11.71 per cent, compared with ₦1,716.77 billion recorded in the preceding period. The decrease was attributed to the fall in NTB rates.

A breakdown of the total allotment indicated that commercial banks (including foreign investors) took up ₦978.37 billion or 64.55 per cent, merchant banks ₦38.88 billion or 2.57 per cent, while mandate and internal funds customers of the Bank took up ₦498.44 billion or 32.89 per cent during the review period. Comparatively, in the second half of 2019, commercial banks (including foreign investors) took up ₦1,003.05 billion (58.43 per cent), mandate and internal funds customers took up ₦680.31 billion (39.63 per cent), while merchant banks accounted for ₦33.40 billion (1.95 per cent).

An analysis of the outstanding NTBs at end-June 2020 showed that commercial banks accounted for 21.08 per cent, parastatals 44.67 per cent and merchant banks 33.73 per cent, while mandate and internal funds customers accounted for 0.51 per cent.

2.3.1.2 The Foreign Exchange Market

During the review period, the Bank sustained its various foreign exchange interventions via the Retail Secondary Market Intervention Sales (SMIS) window for critical sectors, such as agriculture, airline, petroleum, raw materials and machinery. Similarly, the Bank continued its supply for invisible trade transactions, such as personal and business travels, medical bills and school fees. The Small and Medium

Enterprises (SMEs), oil companies and the Investors & Exporters' (I&E) windows also served to provide easy access to foreign exchange. However, sales to the BDC segment were suspended on March 27, 2020, owing to Covid-19 global lockdown.

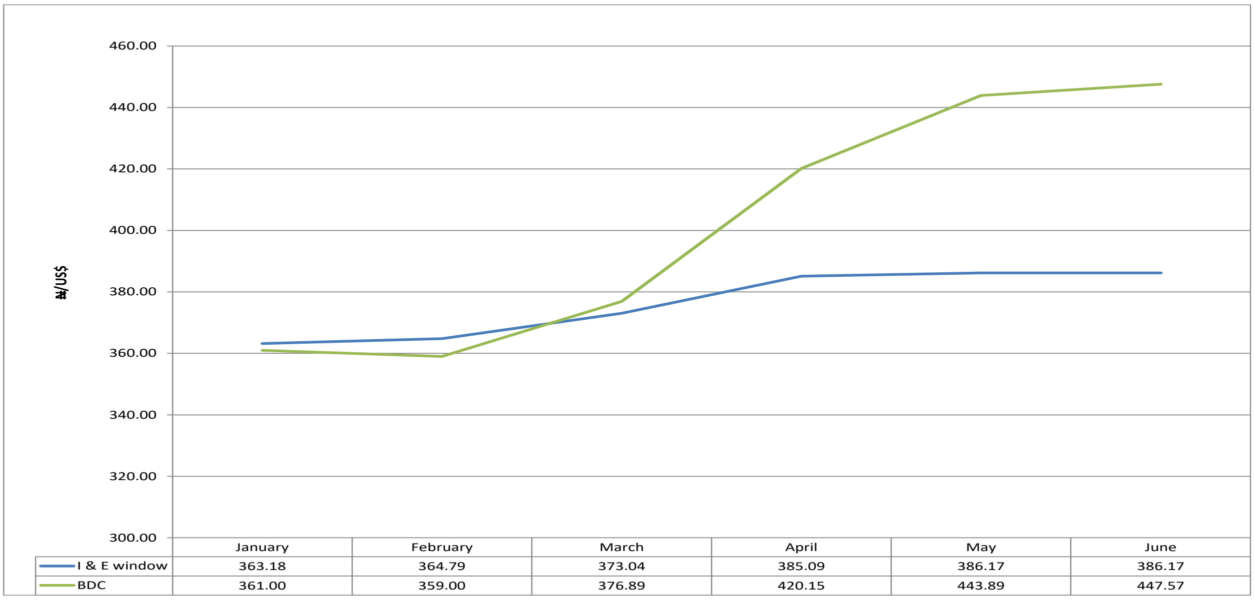
The Bank also continued its active participation at the Naira-Settled OTC Futures Market, and sustained the Bi-lateral Currency Swap Agreement with the People's Bank of China (PBoC) through the CBN renminbi Retail SMIS auctions.

2.3.1.3 Exchange Rate Movements at the Interbank, Investors' & Exporters' Window and BDC Segment

At the inter-bank segment of the foreign exchange market, the rate opened at N307.00/US$ on January 1, 2020 and closed at N361.00/US$ on June 30, 2020. The depreciation was due to market response to liquidity conditions arising from the adverse effects of the Covid-19 pandemic.

The rate at the I&E window opened at N364.79 /US$ on January 1, 2020 and closed at N386.50/US$ on June 30, 2020, reflecting a depreciation of 5.62 per cent. At the BDC segment, the exchange rate opened at N362.00/US$ on January 1, 2020 and closed at N455.00/US$ on, June 30, 2020, indicating a depreciation of 20.44 per cent (Figure 2.8).

FIGURE 2.9 AVERAGE BDC AND I & E RATES, JANUARY – JUNE 2020



2.3.1.4 Foreign Exchange Spot, Forwards and OTC FX Futures Transactions

The total foreign exchange sales by the Bank in the first half of 2020 were US$10,308.01 million. A breakdown of the total sales indicated that interbank spot sales amounted to US$1,198.48 million, invisibles US$312.00 million, I&E window US$5,056.55 million and SMEs US$570.00 million. Inter-bank forwards sales amounted to US$3,170.97 million. The sum of US$5,425.30 million forward contracts matured, while US$2,504.62 million was outstanding at end-June 2020. Furthermore, the Bank purchased US$2,210.63 million, resulting in net sales of US$8,097.37 million.

In the preceding period, the total CBN foreign exchange sales at the inter-bank segment amounted to US$15,212.14 million, of which spot sales accounted for US$2,106.03 million and invisibles US$572.40 million. The sum of US$864.00 million was sold to support SMEs for small scale importation, US$5,491.90 million was sold at the I&E window, and US$6,177.81 million as inter-bank forward sales. In addition, the Bank purchased US$1,480.81 million, resulting in net sales of US$13,731.33 million.

The notional amount of the OTC FX Futures contracts executed stood at US$14,332.53 million. Also, the sum of US$10,832.64 million matured during the review period, while US$13,167.65 million was outstanding at end-June 2020.

In the second half of 2019, the notional amount of the OTC FX Futures contracts executed amounted to US$7,039.48 million, while the sum of US$6,696.43 million matured.

2.3.2 The Capital Market

The Nigerian Stock Exchange (NSE) All Share Index (ASI) and Market Capitalization (MC) both reflected weak performance during the first half of 2020, compared with the preceding period of 2019, owing to the effects of the Covid-19 pandemic.

2.3.2.1 The Bond Market

Total bonds outstanding at end-June 2020 stood at N11,350.66 billion, comprising FGN Bonds (N10,091.87 billion or 88.91%), FGN Sukuk (N200 billion or 1.76%), sub-national bonds (N378.99 billion or 3.34%), sub-national Sukuk (N1.37 billion or 0.012%), FGN Green Bonds (N25.69 billion or 0.23%) and corporate bonds (N616.26 billion or 5.43%). The figure of total bonds outstanding at end-June 2020 was 9.19 per cent higher than the N10, 395.02 billion recorded at end-December 2019 (Table 2.3).

2.3.2.2 FGN Savings Bonds

FGN Savings Bonds (FGNSB) worth ₦2.27 billion were allotted during the review period, compared with ₦3.01 billion at end-December 2019, indicating a decrease of ₦0.74 billion or 24.58 per cent. The decrease was attributed to fewer savings bonds issued by the government. The new issues were for 2 and 3 years and the coupon rates ranged from 4.131 to 7.144 per cent and 5.131 to 8.144 per cent respectively. The coupon rates in the preceding period were much higher, ranging from 9.09 to 11.24 per cent and 10.09 to 12.24 per cent for the respective tenors. Consequently, total value of FGNSB outstanding at end-June 2020 was ₦12.99 billion, compared with N12.67 billion at end-December 2019 (Table 2.3).

TABLE 2:8 OUTSTANDING BONDS (N' BILLION)

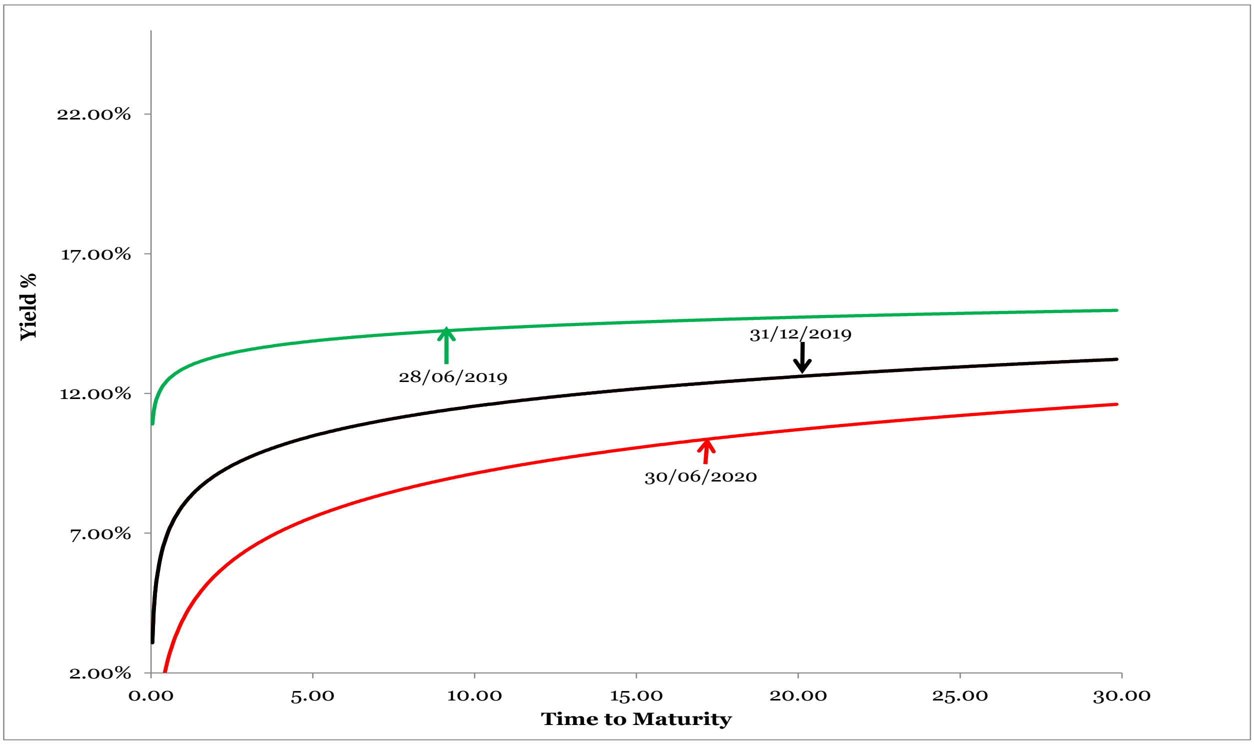
Bond Type	December 2019	June 2020	% Change	Proportion of Total (December 2019)	Proportion of Total (June 2020)
FGN Bonds	9,389.72	10,091.87	7.48	90.22	88.91
Sub-National Bonds	278.66	378.99	36	2.68	3.34
Corporate Bonds	474.81	616.26	29.79	4.56	5.43
Sukuk – FGN	200.00	200.00	0.00	1.92	1.76
Sukuk - Sub-National	2.65	1.37	(48.30)	0.03	0.01
Green Bonds – FGN	25.69	25.69	0.00	0.25	0.23
Green Bonds-Corporate	23.50	23.50	0.00	0.23	0.21
FGN Savings Bonds	12.67	12.984	2.48	0.12	0.11
Total (₦)	10,407.7	11,350.66		100	100

Source: FMDQ OTC

For the FGN Bonds, new issues and re-openings of N615.00 billion were auctioned during the review period, indicating a decrease of 30.90 per cent over the N890.00 billion auctioned in the second half of 2019. Public subscriptions and sales increased to N2,449.97 billion and N1,308.58 billion in the first half of 2020, compared with N1,353.78 billion and N1,035.36 billion in the second half respectively. The higher allotment reflected government's continued reliance on domestic borrowings to finance the budget deficit.

The yield curve shifted downwards when compared with the preceding period, depicting higher demand. (Figure 2.9).

FIGURE 2.10 YIELD CURVE FOR NIGERIA



Source: FMDQ-OTC Plc

2.3.2.3 Green Bonds

A total of N25.69 billion FGN Green bonds was outstanding at end- June 2020, comprising 5- and 7-year instruments issued at coupon rates of 13.4800 per cent in December 2017 and 14.5000 per cent in June 2019. The Green bonds were issued to finance sustainable development projects with positive impact on the environment and the economy (Table 2.3).

2.3.2.4 FGN Sukuk

A total of N162.56 billion was issued during the review period. Consequently, N362.56 billion remained outstanding at end-June 2020. The proceeds were targeted at the construction and rehabilitation of sections of key economic roads across the six geopolitical zones (Table 2.3).

2.3.2.5 Sub-National Bonds

Sub-national bonds worth N115.11 billion were issued by two states during the review period. In addition, twelve states redeemed bonds amounting to N14.78 billion. Consequently, total outstanding bonds stood at N378.99 billion at end-June 2020, compared with N278.66 billion at end-December 2019.

2.3.2.6 Corporate Bonds

Corporate bonds worth N149.50 billion were issued within the review period, compared with N45.00 billion issued in the preceding period. In addition, corporate bonds worth N8.05 billion were redeemed. Consequently, bonds worth N616.26 billion remained outstanding at end-June 2020, compared with N474.81 billion at end-December 2019.

2.3.2.7 The Equities Market

The Nigeria Stock Exchange (NSE) All Share Index (ASI) closed at 24,479.22 at end-June 2020, indicating a decrease of 8.80 per cent from the 26,842.07 recorded at end-December 2019. Market capitalization also closed lower at N12,769.81 billion, reflecting a decrease of 1.46 per cent from the N12,958.38 billion recorded at the end of the preceding period.

Foreign portfolio investment (FPI) inflows in the first half of 2020 totalled N129.95 billion, while divestments (outflows) stood at N266.68 billion, reflecting a net FPI outflow of N136.73 billion. In comparison, inflows in the second half of 2019 amounted to N204.16 billion, while divestments stood at N265.60 billion, reflecting a net FPI outflow of N61.44 billion (Table 2.4).

Overall, FPI flows accounted for 39.52 per cent of total equity transactions in the period, compared to 55.89 per cent recorded in the preceding period. Domestic transactions accounted for the balance of 60.48 per cent in the equities market, compared with 44.11 per cent in the preceding period (Table 2.4).

The All Share Index (ASI) opened at 26,867.79 and closed at 24,479.22, reflecting a decrease of 2,388.57 points or 8.89 per cent. Similarly, the Market Capitalisation (MC) of equities decreased by N0.20 trillion or 1.54 per cent, to N12.77 trillion at end-June 2020, from N12.97 trillion on January 2, 2020. In the second half of 2019, the ASI opened at 29,614.61 on July 1, 2019 and closed at 26,842.07 on December 31, 2019, indicating a decrease of 2,772.54 points or 9.36 per cent. The equities market capitalisation also decreased by N0.09 trillion or 0.69 per cent, from N13.05 trillion on July 1, 2019 to N12.96 trillion on December 31, 2019.

TABLE 2:9 DOMESTIC AND FOREIGN PORTFOLIO PARTICIPATION IN EQUITIES TRADING

Period	Total	Foreign N'Billion	% Foreign	Domestic N'Billion	% Domestic	Foreign Inflow N'Billion	Foreign Outflow	NSE ASI	Market Capitalization
H1 2020	1,003.57	396.63	39.52	606.93	60.48	129.95	266.68	24,479.22	12,769.81
H2 2019	840.53	469.76	55.89	370.77	44.11	204.16	265.60	26,842.07	12,958.38
H1 2019	1,087.53	471.79	43.38	614.76	56.53	221.61	250.18	29,966.87	13,205.54
H2 2018	807.14	419.39	51.96	387.75	48.04	195.80	223.59	31,430.50	11,720.72

2.4 Real Sector Interventions

The Bank sustained its intervention programmes and schemes with the broad objectives of increasing access to finance, boosting productivity in the real sector of the economy and employment generation. During the period under review, the Bank took further intervention measures in response to the Covid-19 pandemic. These measures included various interventions and stimulus packages to cushion the adverse effects of the pandemic on businesses and households, as well as enable the healthcare sector to meet the potential increase in demand for healthcare products and services.

In addition, the Bank developed frameworks for the implementation of the non-interest window for eleven (11) development finance programmes and schemes during the review period.

2.4.1 Agricultural Policy Support

2.4.1.1 Agricultural Credit Guarantee Scheme

In the first half of 2020, a total of 9,641 loans valued ₦1.48 billion were guaranteed, compared with 16,922 loans, valued ₦2.38 billion in the second half of 2019. Also, 6,089 loans valued ₦1.35 billion were repaid, while 15,212 loans valued ₦2.10 billion in the second half of 2019.

2.4.1.2 Commercial Agriculture Credit Scheme

The sum of ₦27.09 billion was disbursed to 15 projects in the first half of 2020, showing an increase of 82.42 per cent, compared with ₦14.85 billion to 12 projects in the second half of 2019. Similarly, a total of ₦29.04 billion was repaid by 264 projects in the review period, reflecting an increase of 122.70 per cent above the ₦13.04 billion repaid by 135 projects in the second half of 2019.

2.4.1.3 Anchor Borrowers' Programme

In the review period, ₦149.01 billion was disbursed to 810,583 small-holder farmers across the country to produce rice, maize, cassava, cotton, ginger, fish, onion, cocoa, soya beans and sesame. This development indicated an increase of 174.32 per cent above the ₦54.32 billion, and 32.44 per cent increases recorded in the number of beneficiaries, compared with 348,719 farmers in the preceding period.

Furthermore, a total of 1,095,891 hectares of land were cultivated, compared with 404,842 hectares in the second half of 2019. Repayments under the Programme amounted to ₦124.90 billion in the review period, compared with ₦17.24 billion in the preceding period.

2.4.1.4 Accelerated Agriculture Development Scheme

Under the Scheme, the sum of ₦6.00 billion was disbursed to four (4) state government-sponsored projects in the review period, compared with the ₦5.98 billion disbursed to four (4) projects in the second half of 2019. The agricultural commodities produced by the projects included rice, poultry, cassava, fish, maize and soya beans.

2.4.1.5 Paddy Aggregation Scheme

The sum of ₦3.20 billion was released to three (3) projects in the review period, compared with the ₦3.50 billion released to 12 projects in the second half of 2019. The financing enabled small and medium-scale rice millers to procure paddy for all-year round rice production.

There was no repayment during the first half of 2020, compared with the sum of ₦2.08 billion repaid by two (2) projects in the preceding period.

2.4.1.6 Maize Aggregation Scheme

The Scheme serves as a working capital facility to improve access to credit by feed millers, poultry farmers, confectionery companies, silo and warehouse operators, for the purchase of home-grown maize. The sum of ₦1.50 billion was released for 3 projects in the first half of 2020, compared to the ₦4.3 billion released to 3 projects in the second half of 2019.

2.4.1.7 National Food Security Programme

The sum of ₦9.00 billion was disbursed to two (2) projects in the review period, compared with ₦14.50 billion for three (3) projects in the second half of 2019. Repayments in the review period was amounted to ₦2.85 billion, compared with the ₦5.55 billion repaid in the preceding period.

2.4.2 Small and Medium Enterprises & Industrial Policy Support

2.4.2.1 Micro, Small and Medium Enterprises Development Fund

There was no disbursement in the first half of 2020, compared with the ₦2.0 billion disbursed to one (1) project in the second half of 2019. Repayments during the review period amounted to ₦4.97 billion, reflecting 135.55 per cent increase, over the total; amount repaid in the second half of 2019.

2.4.2.2 Agribusiness/ Small and Medium Enterprises Investment Scheme

In the review period, ₦26.62 billion was disbursed to 6,727 projects, compared with the ₦10.83 billion released to 3,337 projects in the second half of 2019. Disbursements under the Scheme were made to beneficiaries through NIRSAL Microfinance Bank Limited. Repayments in the review period amounted to ₦27.16 million, compared with the ₦2.87 million recorded in the preceding half year.

2.4.3 Real Sector Policy Support

2.4.3.1 Real Sector Support Facility

There was no disbursement in the review period, compared with the ₦6.70 billion released for one (1) project in the second half of 2019. The sum of ₦4.56 billion was repaid in the review period, compared with the sum of ₦218.36 million repaid in the preceding period.

2.4.3.2 RSSF Using Differentiated Cash Reserve Requirements

In the period under review, the sum of ₦137.49 billion was released to 59 projects, compared with the ₦82.50 billion disbursed to 46 projects in the second half of 2019, showing an increase of 66.65 and 28.26 per cent respectively. The sum of ₦11.65 billion was repaid in the first half of 2020, while there was no repayment in the preceding period, as all the loans were under moratorium.

2.4.3.3 CBN-BOI Industrial Facility

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

2.4.3.4 Federal Government of Nigeria Special Presidential Fertilizer Initiative

There was no disbursement under this initiative in the first half of 2020. However, the sum of ₦3.50 billion was repaid during the review period, compared with ₦1.75 billion repaid in the preceding period.

2.4.4 Small and Medium Enterprises Credit Guarantee Scheme

There was no activity under the above Scheme in the first half of 2020 while cumulative guarantees issued remained at ₦4.25 billion for 88 projects.

2.4.4.1 Creative Industry Financing Initiative

In the first half of 2020, the sum of ₦1.10 billion was disbursed to 160 projects, compared with ₦410.62 million in the second half of 2019. There was no repayment as all facilities were under moratorium.

2.4.4.2 Targeted Credit Facility

The Targeted Credit Facility (TCF) was introduced in the first half of 2020 to cushion the impacts of the Covid-19 pandemic on households and businesses in Nigeria, and is managed by NIRSAL Microfinance Bank Limited. During the period under review, the sum of ₦44.28 billion was disbursed to 70,953 beneficiaries.

2.4.4.3 Healthcare Sector Intervention Fund

The Intervention was introduced to strengthen the sector's capacity to meet potential increase in demand for healthcare products and services, by providing affordable credit to indigenous pharmaceutical companies and other healthcare value chain participants. Under the Facility, the sum of ₦20.96 billion was disbursed to 15 projects in the first half of 2020.

2.4.4.4 Covid-19 Intervention Facility for the Manufacturing Sector

The Intervention was introduced during the review period as a stimulus policy measure under the Bank's Real Sector Support Facility (RSSF) to strengthen the manufacturing sector, by providing finance to boost local manufacturing, as well as to support mass employment and job retention in the country. In the period under review, the sum of ₦77.41 billion was released to 42 projects.

2.4.4.5 Shared Agent Network Expansion Facility

This is a long-term financing facility designed to enable licensed super agents and Mobile Money Operators (MMOs) to expand capacity and increase access points across the country. There was no disbursement in the first half of 2020; However, the number of agents increased to 334,940, bringing the number of agents to 323 per 100,000 adults in the review period, compared with 229 agents per 100,000 adults at end-December 2019.

2.5 Export Policy Support

2.5.1 Non-oil Export Stimulation Facility

The sum of ₦9.00 billion was released to two (2) projects in the first half of 2020, compared with ₦1.50 billion disbursed to one (1) project in the second half of 2019. The sum of ₦2.85 billion was repaid in the first half 2020, compared with ₦2.47 billion in the preceding period.

2.5.2 Export Development Facility

During the review period, no disbursement was made, compared with the sum of ₦9.38 billion disbursed to 28 projects in the second half of 2019.

2.6 Energy Policy Support

2.6.1 Power and Airline Intervention Fund

In the second half of 2020, the sum of ₦2.99 billion was released through the BOI for two (2) power projects, compared with ₦3.76 billion released in the preceding period. The sum of ₦6.51 billion was repaid, compared with ₦26.90 billion in the second half of 2019.

2.6.2 Nigerian Electricity Market Stabilisation Facility

The sum of ₦10.73 billion was repaid in the review period, compared with ₦10.25 billion in the second half of 2019. No disbursement was made during the review period.

2.6.3 Nigeria Bulk Electricity Trading – Payment Assurance Facility

In the first half of 2020, the sum of ₦85.42 billion was disbursed to the Nigeria Bulk Electricity Trading Plc (NBET) through the Bank of Industry (BOI). This was to ensure the payment of at least 80 per cent of the invoice amount due to power generating companies to guarantee sustainable supply of power to the national grid. The above amount was higher than the ₦62.88 billion disbursed for the same purpose in the second half of 2019.

2.7 Institutional Support and Financial Inclusion

2.7.1 National Collateral Registry

During the review period, there was increased lending against movable assets offered as collateral by individuals and MSME borrowers.

A total of 59 financial institutions registered 20,282 financing statements valued ₦263.91 billion, US$163.79 million and €4.78 million, in respect of 26,870 borrowers, compared with 26,782 financing statements valued ₦125.23 billion, US$29.13 million and €0.07 million registered in favour of 44,890 borrowers in the second half of 2019.

In addition, a total of 25,968 searches were conducted on the portal by financial institutions and public users during the review period.

TABLE 2:10 : NUMBER AND VALUE OF FINANCING STATEMENTS ON THE NATIONAL COLLATERAL REGISTRY FROM JANUARY TO JUNE 2020

Debtor Type	Number of Financing Statements	Number of Borrowers	Currency	Value of Financing Statements
Individual	19,012	25,440	NGN	67,417,599,781.15
			USD	424,500.00
Large Business	202	237	NGN	181,168,870,364.73
			USD	136,329,845.51
Medium Business	472	575	NGN	10,017,393,366.42
			USD	25,436,737.89
			EUR	4,731,411.61
Micro Business	109	113	NGN	593,831,242.80
			USD	28,004.00
Small Business	487	505	NGN	4,714,948,052.96
			USD	1,576,057.03
			EUR	46,480.00
Total	**20,282**	**26,870**	**NGN**	**263,912,642,808.06**
			USD	**163,795,144.43**
			EUR	**4,777,891.61**

A breakdown of the figures of activities during the review period showed that 43 financial institutions registered a total of 9,185 financing statements in respect of 10,032 women-owned enterprises, representing 45.3 per cent and 37.3 per cent respectively, of the total number of financing statements and borrowers.

From inception to end-June 2020, a total of 121 financial institutions had registered 97,428 financing statements valued at ₦1,739.2 billion, US$1.3 billion and €0.01 billion. An analysis of the figures indicated that 86 financial institutions registered 36,406 financing statements (37.4 per cent), valued at ₦1.3 billion and US$0.006 billion, in respect of women-owned enterprises.

TABLE 2.10: NUMBER AND VALUE OF FINANCING STATEMENTS REGISTERED IN RESPECT

TABLE 2:11 NUMBER AND VALUE OF FINANCING STATEMENTS REGISTERED IN RESPECT OF WOMEN AND WOMEN-OWNED BUSINESSES ON THE NATIONAL COLLATERAL REGISTRY FROM JANUARY TO JUNE 2020

Debtor Type	Number of Financing Statements	Number of Borrowers	Currency	Value of Financing Statements
Individual	9,019	9,807	NGN	19,594,082,651.66
			USD	150,000.00
Large Business	12	19	NGN	237,807,505.26
Medium Business	87	133	NGN	843,915,049.17
			USD	135,000.00
Micro Business	19	19	NGN	110,064,683.08
Small Business	48	54	NGN	198,528,505.10
Total	**9,185**	**10,032**	**NGN**	**20,984,398,394.27**
			USD	**285,000.00**

2.8 Financial Inclusion

2.8.1 National Financial Inclusion Governing Committee Meetings

The National Financial Inclusion Strategy (NFIS) Implementation Committee met during the review period. Discussions at the meeting focused on multi-sector responses to Covid-19 pandemic, EFInA impact survey of Covid-19 on financial inclusion, digital solutions for government social interventions, financial inclusion of vulnerable segments and financial literacy and enlightenment.

2.8.2 Other Financial Inclusion Activities

During the review period, a draft Framework for advancing women's financial inclusion in Nigeria was exposed to stakeholders.

In addition, the Quarterly Household Survey on Financial Inclusion was conducted with the following key outcomes:

A. Product Indicators:

i. The proportion of adults who had access to e-Payment products increased to 40.4 per cent at end-June 2020, from 39.5 per cent at end-December 2019.

ii. Savings increased to 41.2 per cent at end-June 2020, from 39.5 per cent at end-December 2019.

iii. The proportion of adults who had credit products decreased to 5.1 per cent at end-June 2020, from 6.2 per cent at end-December 2019.

iv. Insurance and Pension indicators decreased to 1.0 per cent and 8.6 per cent at end-June 2020, from 2.0 per cent and 8.7 per cent at end December 2019, respectively.

B. Channel Indicators

i. The number of Agents serving 100,000 adults increased to 323 at end-June 2020, from 229 at end-December 2019.

ii. The number of commercial bank branches serving 100,000 adults decreased marginally to 4.5 at end-June 2020, from 5.25 at end-December 2019.

iii. The number of MFB branches serving 100,000 adults increased to 2.8 at end-June 2020, from 2.06 at end-December 2019.

iv. The number of ATMs serving 100,000 adults increased to 18.2 at end-June 2020, from 16.92 at end-December 2019.

v. The number of POS and Agents per 100,000 adults also increased to 202 and 322 at end-June 2020, from 180.4 and 228 at end-December 2019, respectively.

TABLE 2:12 FINANCIAL INCLUSION PRODUCTS INDICATORS

Definition of Indicators		Baseline 2010	Actual 2017	Actual 2018	Actual 2019	Actual 06/2020	Target 2020	Gap to 12/2020	Trend 2018-2019	Status (missed or achieved)	Target 2020
Payments	% of adult population who have a payment product with a formal financial institution*	22%	31.3%	36.2%	39.5% (40.7m)	40.4% (42.2m)	70.0% (73.2m)	30%	↑	●	70%
Savings	% of adult population having a savings product with a formal financial institution*	24%	31.3%	36.2%	39.5% (40.7m)	41.2% (43.1m)	60.0% (62.8m)	19%	↑	●	60%
Credit	% of adult population having borrowed or paid back a loan through a regulated financial institution over the last 12 months	2%	5.4%	5.5%	6.2% (6.3m)	5.1% (5.3m)	40.0% (41.8m)	35%	↓	●	40%
Insurance	% of adult population covered by a regulated insurance policy	1%	1.1%	2.0%	2.0% (2.01m)	1.0% (0.92m)	40.0% (41.8m)	39%	↓	●	40%
Pension	% of adult population registered with a regulated pension scheme	5%	8.4%	8.5%	8.7% (8.9m)	8.6% (9.01m)	40.0% (41.8m)	21.4%	↔	●	40%

*Definition of proxy indicator: % of adult population who have the BVN

3 REGULATORY AND SUPERVISORY ACTIVITIES

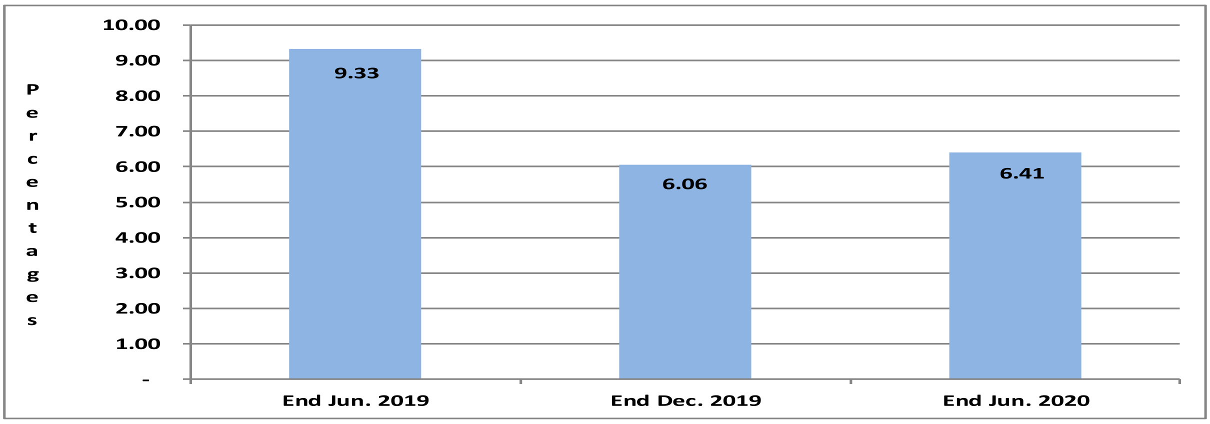
3.1 Financial Soundness Indicators

3.1.1 Asset-Based Indicators

3.1.1.1 Non-Performing Loans to Gross Loans

The quality of banks' assets deteriorated marginally in the first half of 2020, as the ratio of non-performing loans (NPLs) to gross loans increased to 6.41 per cent at end-June 2020, from 6.06 per cent at end-December 2019. The decline was largely due to the impact of the lockdown occasioned by the Covid-19 pandemic on businesses.

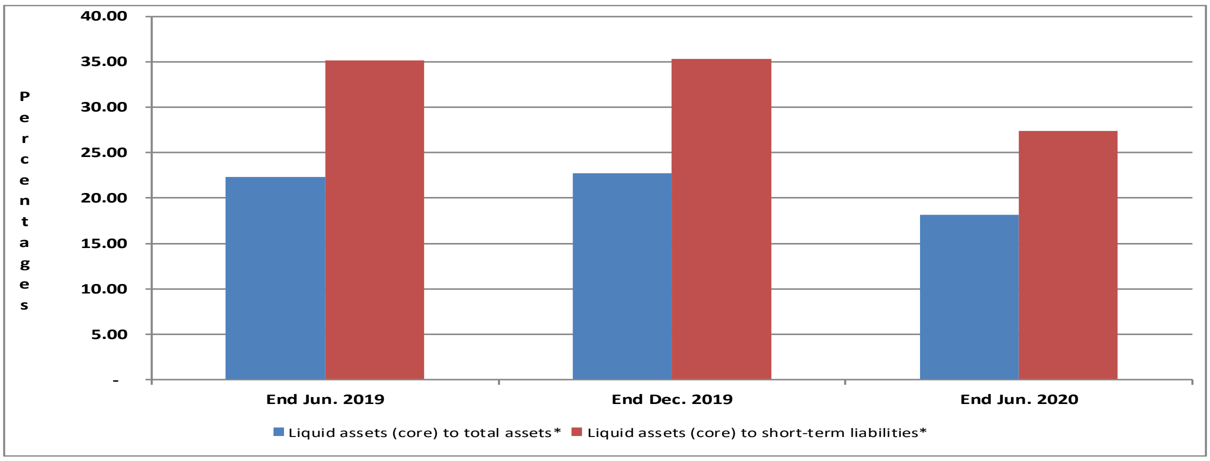
FIGURE 3.1 BANKING INDUSTRY NPLS TO GROSS LOANS



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

The ratio of core liquid assets to total assets decreased by 4.58 percentage points to 18.19 per cent at end-June 2020, from 22.77 per cent in the second half of 2019. Similarly, the ratio of core liquid assets to short-term liabilities declined by 7.93 percentage points to 27.39 per cent in the review period, compared with 35.32 per cent at end-December 2019. The decrease was attributed to banks' aversion to government securities owing to their low yields and compliance with the loan-to-deposit ratio policy of the Bank.

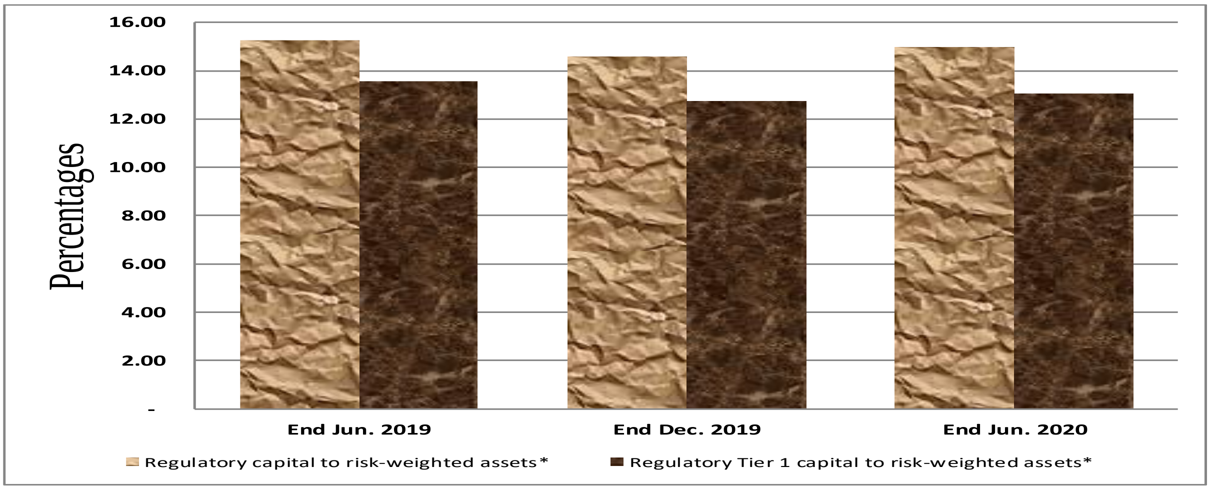
FIGURE 3.2 BANKING INDUSTRY LIQUIDITY INDICATORS



3.1.2 Capital-Based Indicators

The ratio of regulatory capital to risk-weighted assets increased by 0.39 percentage point to 14.96 per cent at end-June 2020, compared with 14.57 per cent at end-December 2019. Similarly, the ratio of Tier 1 capital to risk-weighted assets increased by 0.28 percentage point to 13.04 per cent at end-June 2020, from 12.76 per cent at end-December 2019. The increases reflected the capitalization of retained earnings by banks.

FIGURE 3.3 BANKING INDUSTRY CAPITAL ADEQUACY INDICATORS



The ratio of non-performing loans net of provisions to capital for the industry declined to 2.03 per cent at end-June 2020, from 8.70 per cent at end-December 2019. This was due to increased capital buffers from the monetization of 2019 financial year earnings. However, the Return on Assets (ROA) remained at 2.51 per cent during the review period.

3.1.3 Income and Expense Based Indicators

The ratio of interest margin to gross income decreased to 59.05 per cent during the review period, from 61.66 per cent at end-December 2019. Similarly, the ratio of non-interest expenses to gross income decreased to 58.74 per cent at end-June 2020, from 64.00 per cent recorded in the preceding half. The ratio of personnel expenses to non-interest expenses also declined to 31.25 per cent at end-June 2020, from 34.61 per cent at end-December 2019.

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

Indicators	2018**		2019**		2020
	End Jun	End Dec	End Jun	End Dec	End Jun
1. Assets Based Indicators					
Nonperforming loans to total gross loans *	12.45	11.67	9.33	6.06	6.41
Liquid assets (core) to total assets*	19.89	22.50	22.29	22.77	18.19
Liquid assets (core) to short-term liabilities*	29.50	34.15	35.11	35.32	27.39
2. Capital Based Indicators					
Regulatory capital to risk-weighted assets*	12.11	15.21	15.27	14.57	14.96
Regulatory Tier 1 capital to risk-weighted assets*	10.01	13.54	13.55	12.76	13.04
Nonperforming loans net of provisions to capital *	26.09	26.75	13.23	8.70	6.67
Return on assets*	1.80	2.01	2.51	2.51	2.51
3. Income and Expense Based Indicators					
Interest margin to gross income*	63.94	63.93	63.25	61.66	59.05
Noninterest expenses to gross income*	64.26	66.04	62.65	64.00	58.74
Personnel expenses to noninterest expenses	31.50	32.09	32.76	34.61	31.25

**FSIs are computed based on IMF guidelines.*
***Some indicators for 2018 and 2019 are revised*

3.2 The Banking Industry Stress Tests

3.2.1 Solvency Stress Test

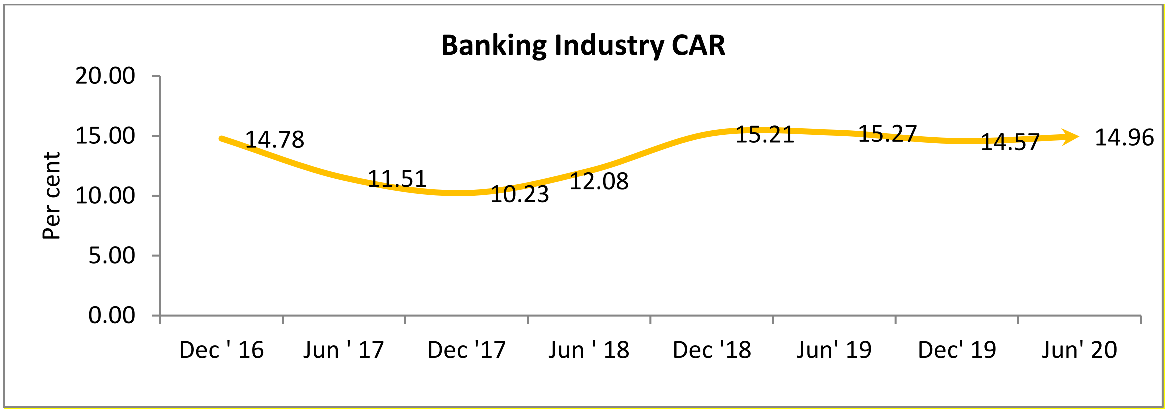
3.2.1.1 Baseline Position

The baseline CAR and NPL ratios in the period under review were 14.96 and 6.41 per cent respectively, while ROA and ROE stood at 0.94 and 14.37 per cent respectively, at end-June 2020.

TABLE 3:2 BANKING INDUSTRY BASELINE SELECTED KEY INDICATORS

	CAR	LR	NPLs	ROA	ROE
Jun 2020 (%)	14.96	40.79	6.49	0.94	14.37
Dec 2019 (%)	14.57	45.53	6.03	2.51	3.70
Per centage Points Change	**0.39**	**(8.49)**	**1.46**	**0.66**	**10.67**

FIGURE 3.4 BANKING INDUSTRY CAR (PER CENT)



3.2.1.2 Credit Risk

The stress test revealed that the banking industry could withstand a shock of "up to 100 per cent increase" in the industry NPLs as the CAR remained above 10 per cent. However, the industry was vulnerable to shocks "above 100 per cent increase" in NPLs as the industry CAR would fall below 10 per cent.

TABLE 3:3 CREDIT DEFAULT SHOCKS

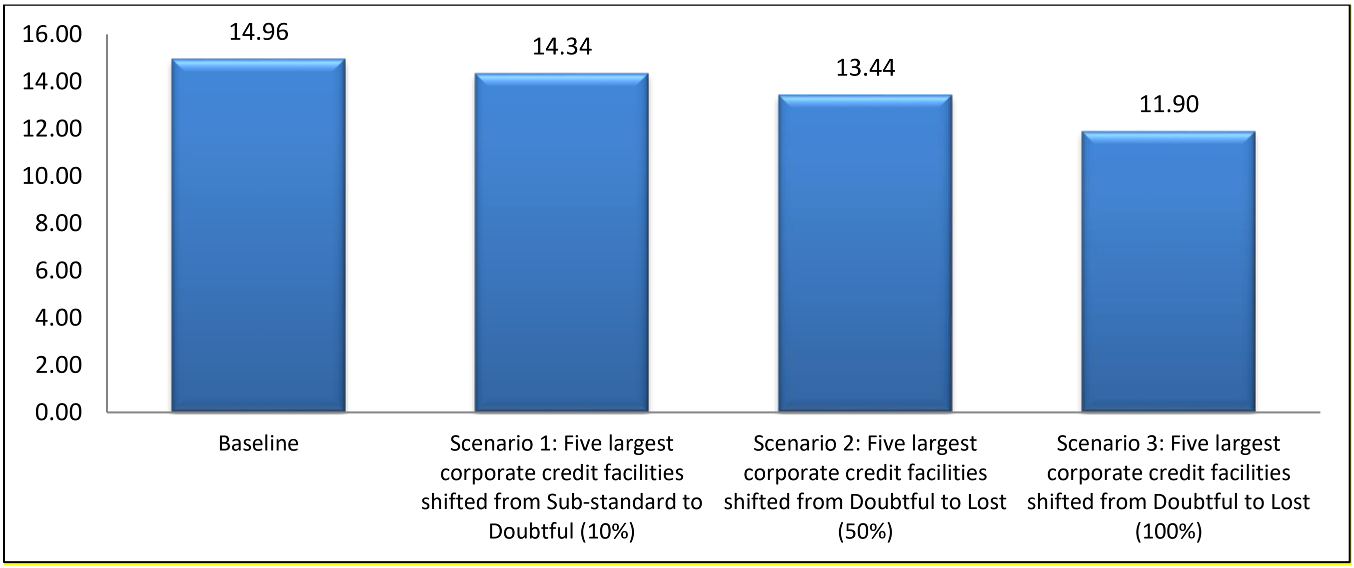
Single Factor Shocks	June 2020	December 2019
Baseline CAR	14.96	14.57
10% NPLs increase	14.53	14.11
15% NPLs increase	14.32	13.89
20% NPLs increase	14.12	13.68
30% NPLs increase	13.71	13.24
50% NPLs increase	12.88	12.35
100% NPLs increase	10.72	10.05

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

TABLE 3:4 CREDIT CONCENTRATION RISK

	Jun 2020	Dec 2019
Baseline CAR	14.96	14.57
Single Factor Credit Concentration Shocks		
Scenario 1 **Five largest corporate credit facilities shifted from pass-through[6] to sub-standard (10%)**	14.34	13.99
Scenario 2 **Five largest corporate credit facilities shifted from sub-standard to doubtful (50%)**	13.44	13.15
Scenario 3 **Five largest corporate credit facilities shifted from doubtful to lost (100%)**	11.90	11.71

FIGURE 3.5 CREDIT CONCENTRATION RISK

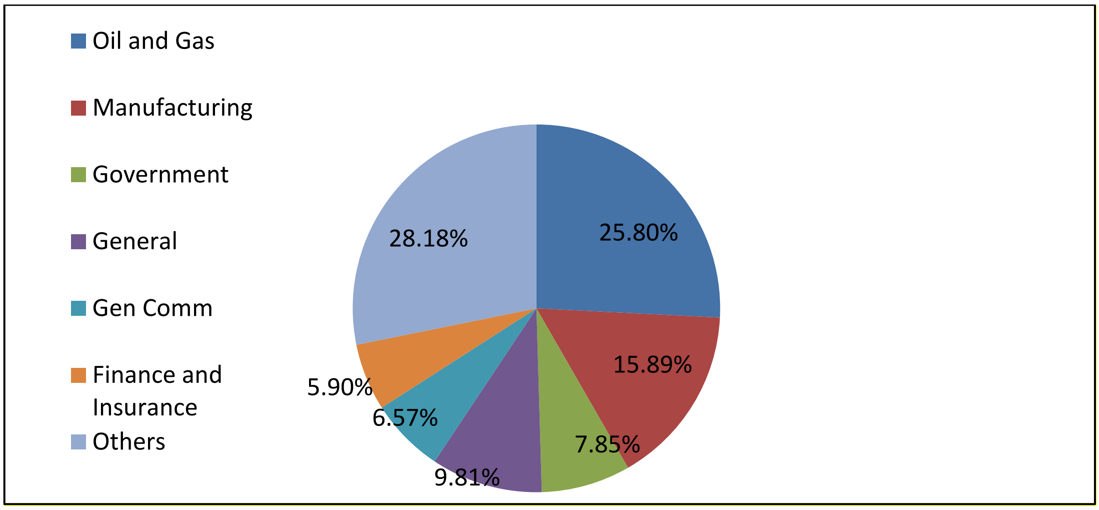


3.2.1.3 Sectoral Credit Concentration Risk

A breakdown of banking industry total credit by sector at end-June 2020 showed that the oil and gas sector accounted for 25.80; manufacturing, 15.89; government, 7.85; general, 9.81; general commerce, 6.57; finance and insurance, 5.90; and others, 28.18 per cent.

[6] Performing Loans

FIGURE 3.6 SECTORAL CONCENTRATION OF CREDIT



The results of the stress test showed that the banking industry withstood up to 50 per cent shock to oil and gas exposures as the post-shock CAR stood at 10.31 per cent.

TABLE 3:5 STRESS TEST ON OIL AND GAS EXPOSURES

	Industry CAR (%)
Baseline CAR	14.96
30% Default on total exposure to Oil and Gas	14.22
50% Default on total exposure to Oil and Gas	10.31

3.2.1.4 Interest Rate Risk

The stress test on the net interest-sensitive instruments showed that the industry maintained a stable solvency position to interest rate shock of "up to 1000 basis points downward shift in yield curve" as the post-shock CAR declined marginally from 14.96 to 13.16 per cent. However, the interest rate shocks had significant adverse impacts on the ROA and ROE.

FIGURE 3.7 IMPACT OF INTEREST RATE SHOCKS ON CAR

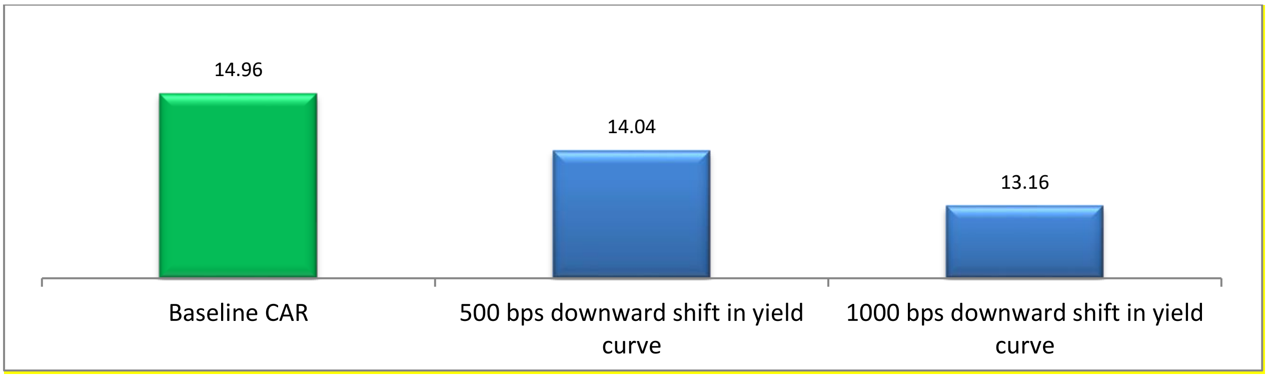


FIGURE 3.8 IMPACT OF INTEREST RATE SHOCKS ON ROA AND ROE

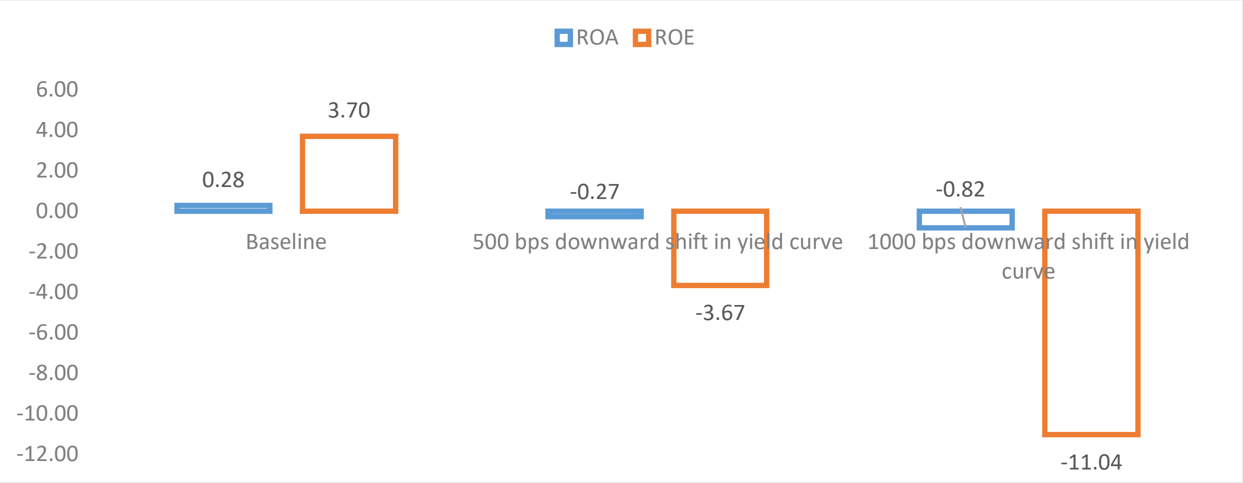


TABLE 3:6 IMPACT OF SELECTED SHOCKS ON CAR, ROA AND ROE

	Banking Industry (%)
Baseline ROA	0.94
Baseline ROE	14.37
Impact of Downward Shift in Yield Curve Shocks on CAR	
500 bps downward shift in yield curve	14.04
1000 bps downward shift in yield curve	13.16
Impact of Downward Shift in Yield Curve Shocks on ROA	
500 bps downward shift in yield curve	0.50
1000 bps downward shift in yield curve	0.05
Impact of Downward Shift in Yield Curve Shocks on ROE	
500 bps downward shift in yield curve	7.57
1000 bps downward shift in yield curve	0.77

3.2.2 Liquidity Stress Test[7]

The stress test results revealed that after a one-day run scenario, the liquidity ratio for the industry declined to 30.72 per cent from the 40.79 per cent baseline position. Similarly, under the 5-day and 30-day scenarios, the liquidity ratio for the industry declined to 12.44 and 7.57 per cent, indicating ₦ 3.08 trillion and ₦ 3.74 trillion liquidity shortfalls, respectively. However, net liquidity risk is low as banks have high liquidity buffers in the form of cash reserve requirement (CRR) with the CBN. In the review period, the banking industry CRR stood at ₦10.45 trillion, representing an increase of 100.10 per cent from ₦ 5.22 trillion at end-December 2019.

[7] Liquidity stress tests were conducted at end-June 2020 using the Implied Cash Flow Analysis (ICFA) and Maturity Mismatch/Rollover Risk approaches to assess the resilience of individual banks and the banking industry to liquidity and funding shocks.

FIGURE 3.9 : INDUSTRY LIQUIDITY RATIOS AT PERIODS 1-5 AND CUMULATIVE 30-DAY SHOCKS

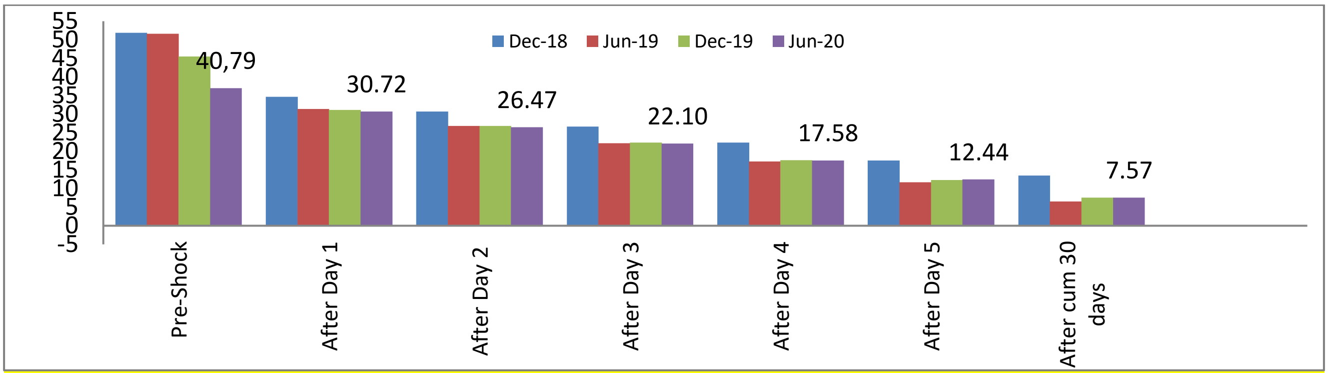


TABLE 3:7 LIQUIDITY STRESS TEST RESULTS (POST-SHOCK)

Scenario	Banks with Liquidity Ratios (LR) < 30%		June 2020	
	Dec 2019 (26 DMBs)	June 2020 (27 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	11	30.72	Nil
Day 2	15	13	26.47	734.85
Day 3	16	17	22.10	1,554.91
Day 4	16	19	17.58	2,310.33
Day 5	18	19	12.44	3,080.94
Implied Cash Flow Test (30 Days)	18	22	7.57	3,738.70

3.2.3 Maturity Mismatch

The industry baseline assets and liabilities maturity profile at end-June 2020, revealed that the shorter end of the market (≤90 day bucket) were adequately funded. In the ≤30-day bucket, seven banks were not adequately funded, while in the 31-90 day bucket, nine banks had funding gaps. However, the cumulative position for the industry showed an excess of ₦4.23 trillion assets over liabilities.

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

Bucket	Liabilities	Assets	Mismatch	Cumulative Mismatch
	N Billion			
≤30 days	23,001.85	17,524.03	5,477.82	5,477.82
31-90 days	3,097.13	1,764.05	1,333.08	6,810.90
91-180 days	1,735.36	3,116.62	(1,381.25)	5,429.65
181-365 days	768.46	2,836.20	(2,067.74)	3,361.91
1-3 years	1,325.36	3,802.17	(2,476.81)	885.10
>3 years	2,234.76	7,350.72	(5,115.97)	(4,230.87)
Total	32,162.92	36,393.79	(4,230.87)	

TABLE 3:9 TEST RESULTS FOR SYSTEM-WIDE MATURITY MISMATCH

	Test 2A Descriptive Maturity Mismatch. (No consideration of rollover)		Test 2B Static Rollover risk Analysis. (No possibility to close liquidity gaps in other buckets)		Test 2C Dynamic Rollover risk test. (Free assets used to close liquidity gaps in other buckets)	
	₦ 'billion	No of banks with mismatch	₦ 'billion	No of banks with mismatch	₦ 'billion	No of banks with mismatch
≤30 days	9,294.99	3	4,694.62	10	(2,228.34)	10
31-90 days	5,150.25	3	465.88	16	(141.74)	10
91-180days	2,435.91	9	(1,728.33)	24	(691.72)	11
181-365days	1,749.43	11	(2,298.28)	25	(963.15)	11
1-3 Years	1,340.35	14	(2,874.42)	25	(1,090.45)	12
Above 3 years	(1,298.80)	22	(5,115.97)	25	(4,150.98)	18
Total	18,672.13		(6,856.49)		(9,266.38)	

Table 3.9 shows 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 ₦6.86 trillion and ₦9.27 trillion, respectively. These indicated increases of ₦0.3 trillion and ₦1.14 trillion

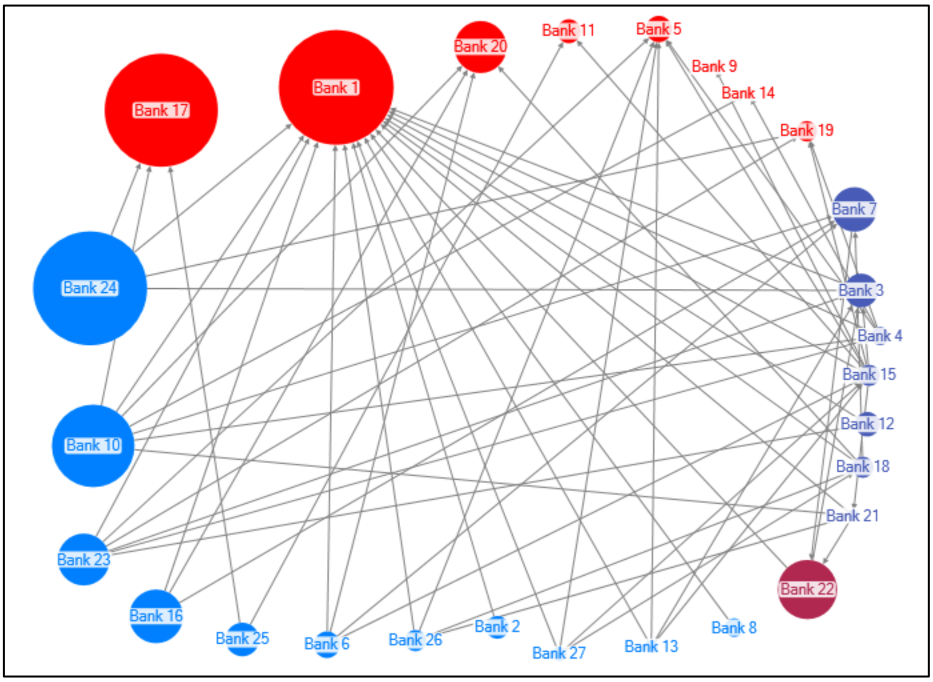
under Test 2B and Test 2C, respectively, relative to the findings at end-December 2019 tests.

3.2.4 Contagion Risk Analysis

Contagion risk analysis showed a 76 per cent increase in exposures and interconnectedness through interbank placements and takings, compared with the end-December 2019 position. Two banks were central on the network with a combined exposure of 65 percent of total interbank takings.

Six banks accounted for N713.00 billion or 79 per cent of total placements and N820.00 billion or 91 per cent of total takings of which N584.00 billion or 65.00 per cent was provided by the top four placers of funds.

FIGURE 3.10 NETWORK ANALYSIS BASED ON INTERBANK EXPOSURES



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

BOX 3: LIQUIDITY STRESS TEST ASSUMPTIONS

Implied Cash Flow Analysis

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

The Maturity Mismatch/Rollover Risk

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

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

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

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

TABLE 3. 1: PERCENTAGE OF ASSETS UNENCUMBERED AFTER FIRE SALES

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

3.3 Supervision of Banks

3.3.1 Bank Examination

The CBN and the Nigeria Deposit Insurance Corporation (NDIC) conducted the Joint Risk Asset Assessment (Target) Examination of 26 banks in February 2020. The examination focused on appraising the quality of the risk assets, determining the adequacy of loan-loss provisions and ascertaining the reasonableness of banks' income and expenses. The report showed that banks' earnings improved as a result of higher volume of transactions and reduction in impairment charges, among others, when compared to 2019 results. There were also recoveries on previous delinquent loans and write-off of fully classified loans. These improvements enhanced the capital adequacy and other prudential ratios in the industry.

3.3.2 Enhanced Supervision of Domestic Systemically Important Banks

The Domestic Systemically Important Banks (D-SIBs) were routinely subjected to enhanced supervision in view of the significant impact the distress or failure of any of the institutions could have on the financial system.

All banks were assessed during the review period, using the indicator-based measurement approach, to determine the banks that satisfied the essential criteria for classification as D-SIBs. The D-SIBs accounted for 57.95% (₦25.76 trillion) of the industry total assets of ₦44.45 trillion. Similarly, they also accounted for 61.30% (₦16.26 trillion) of total industry deposits of ₦26.53 trillion and 58.71% (₦10.89 trillion) of the aggregate industry credit of ₦18.56 trillion.

3.3.3 Asset Management Corporation of Nigeria

During the period under review, cash recoveries from asset sales and credit repayments, stood at ₦18.86 billion while asset and shares forfeiture stood at ₦7.83 billion. The total recoveries from inception to June 30, 2020 amounted to ₦1.05 trillion, comprising cash of ₦413.57 billion, asset forfeiture of ₦274.26 billion, shares forfeiture of N135.60 billion and claw-back/repurchases of ₦229.08 billion on defective Eligible Bank Assets.

The carrying value of AMCON's liabilities stood at ₦5.87 trillion at end-June 2020, with the AMCON Notes of N4.03 trillion and Loan (Debenture) of ₦500 billion accounting for 77 per cent of the liabilities.

The carrying value of the Corporation's assets net of impairment increased marginally to ₦1.01 trillion at end-June 2020, from ₦0.95 trillion at end-December 2019, representing 17.29 per cent of the liabilities.

Contributions to the Banking Sector Resolution Cost Fund by the stakeholders in the review period stood at ₦276.48 billion.

3.3.4 Cross Border Supervision of Nigerian Banks

3.3.4.1 Foreign Subsidiaries of Nigerian Banks

The number of offshore subsidiaries of Nigerian banks at end-June 2020 remained at 60. However, the number of representative offices reduced to four (4) at end-June 2020, from five (5) at end-December 2019, owing to the closure of a representative office. The number of affiliates and international branches remained one (1) and two (2) respectively, bringing the total number of offshore entities to 67.

3.3.4.2 Onsite Examination of Offshore Subsidiaries of Banks

In order to enhance the supervision of cross border entities, the Framework on Cross Border Supervision was revised to capture the requirements of the Revised Basel Core Principles for Effective Banking Supervision.

During the period, banks were required to highlight the impact of Covid-19 on their subsidiaries and the measures taken to mitigate them. In addition, the Guidelines for Supervisory College in line with the principles and recommendations set out by the Basel Committee on Banking Supervision and Guidelines for the Assessment of Country Risk were developed.

3.3.4.3 Supervisory Collaborations

3.3.4.3.1 Community of African Banking Supervisors

During the review period, the following activities were carried out:

a) A three-year (2020-2022) work plan was developed to assess Fintech activities in the region, provide a framework for crisis management and banking resolution, as well as build capacity;
b) The work plan of the Community of African Banking Supervisors (CABS) for 2020-2022 was approved by the Association of African Central Banks (AACB); and
c) A questionnaire for the survey of Fintech penetration and regulation in Africa was administered to all members of the AACB.

3.3.4.3.2 Technical Assistance

The Bank, during the review period, hosted a team of examiners from the National Bank of Rwanda on a study tour in line with the CBN's initiative to build the capacity of Bank Supervisors in AML controls and harmonize practices in jurisdictions where Nigerian banks operate.

3.3.4.3.3 College of Supervisors of the West African Monetary Zone

The Bank participated in the 36th meeting of the College of Supervisors of the West African Monetary Zone (CSWAMZ) in Sierra Leone. The meeting reviewed developments in the banking system across the Zone, including status of the implementations of IFRS, Basel standards and Integrated Regulatory Solution (IRS).

3.3.5 Credit Risk Management System

The CBN Credit Risk Management System (CRMS) database continued to serve as a veritable source of credit information in the banking industry.

At end-June 2020, the total number of credit facilities on the CRMS database stood at 14,509,251, comprising 13,846,282 individual and 662,969 non-individual borrowers, reflecting an increase of 35.67 per cent. The total number of facilities with outstanding balances stood at 1,987,529, comprising 1,893,452 individuals and 94,077 non-individuals at end-June 2020, indicating a decline of 21.59 per cent from the 2,534,836 recorded at end-December 2019.

The strict enforcement of the CBN Regulatory Guidelines on CRMS has led to enhanced compliance by banks as reflected in the improved credit records.

TABLE 3:10 CREDIT RISK MANAGEMENT SYSTEM

Borrowers from the Banking Sector (Commercial, Merchant and Non-Interest Banks)				
Description	**December 2019**	**June 2020**	**Absolute Change: Increase/ (decrease)**	**% Change**
Total No. of Credit/facilities reported on the CRMS:	**10,694,298**	**14,509,251**	**3,814,953**	**35.67**
Individuals	10,083,010	13,846,282	3,763,272	37.32
Non-Individuals	611,288	662,969	51,681	8.45
Total No. of Outstanding Credit facilities on the CRMS:	**2,534,836**	**1,987,529**	**(547,307)**	**-21.59**
Individuals	2,448,230	1,893,452	(554,778)	-22.66
Non-Individuals	86,606	94,077	7,471	8.63

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

3.3.6 Credit Bureaux

The capital base of the three (3) bureaux remained above the regulatory minimum during the period. The bureaux recorded growth in value of credit facilities and number of subscribers at end-June 2020, above the levels recorded at end-December 2019, indicating credit growth in the economy within the period (Table 3.13).

TABLE 3:11 CREDIT BUREAUX RECORDS

		CRC Credit Bureau		CreditRegistry		First Central Credit Bureau	
		As at June 30, 2020	As at Dec 31, 2019	As at June 30, 2020	As at Dec 31, 2019	As at June 30, 2020	As at Dec 31, 2019
1	Number of credit records	37,799,913	34,335,089	61,851,855	62,125,898	31,259,430	28,990,813
2	Number of subscribers	1,400	1,340	585	543	1,126	1,096
3	Value of Credit Facilities	N37.256 trillion	₦22.356 trillion	₦29.615 trillion	₦28.589 trillion	₦27.163 trillion	₦19.622 trillion
4	Number of borrowers	18,889,269	17,850,915	32,619,265	29,013,592	17,497,998	16,432,102

3.3.7 Other Developments in the Financial System

3.3.7.1 Nigeria Sustainable Banking Principles

In line with the Nigeria Sustainable Banking Principles (NSBP), the Bank reviewed reports on implementation progress and engaged banks to improve on gaps and build employee capacity.

3.3.7.2 Nigeria's Mutual Evaluation Exercise by the Inter-Governmental Action Group Against Money Laundering in West Africa

The Inter-governmental Action Group against Money Laundering in West Africa (GIABA) visited the country as a follow up to the 2019 Mutual Evaluation Exercise (MEE). This was part of efforts to sustain Nigeria's status with the Financial Action Task Force (FATF).

3.3.7.3 AML/CFT Cross Border Examination

During the review period, AML/CFT cross-border examination of a Nigerian bank subsidiary in Uganda was conducted to assess compliance with the Bank's AML/CFT Regulations, 2013, vis-a-vis the host country's AML/CFT laws and regulations.

3.3.7.4 Automation of AML/CFT Processes - Data Rendition, Validation, Data Warehouse and Analysis

Following the implementation of AML/CFT Data Rendition and Processing System (ADRAPS), banks commenced rendition of Foreign Currency Reports (FCR), Politically-Exposed Persons (PEP) reports and three-tiered KYC returns via ADRAPS in January 2020.

3.3.7.4.1 IFRS and Basel Standards Implementation

The Bank sustained the monitoring of the implementation of IFRS 9 and 16 on Financial Instruments, as well as the Basel II & III standards during the review period.

3.3.7.4.2 Corporate Governance Scorecard

During the review period, scorecard assessments were conducted on twenty (20) banks to ascertain their level of compliance with the CBN Code of Corporate Governance for Banks and Guidelines for Whistleblowing.

The results of the assessments were as follows: fifteen (15) banks were rated “Acceptable”, four (4) “Need Improvement”, and one (1) “Weak”. In general, the banks largely complied with the Code.

3.3.8 Complaints Management and Resolution

During the period under review, the Bank received 2,053 complaints from consumers of financial services, an increase of 449 or 28 per cent over the 1,604 received in the second half of 2019. Of this number, 2,011 complaints or 98 per cent were against Deposit Money Banks while 42 or 2 per cent were against Other Financial Institutions.

The increase was due to the closure of bank branches to customers, as a result of the Covid-19 pandemic lockdown, necessitating the lodging of formal complaints that would otherwise have been resolved at banks’ counters, with the Bank.

The complaints received were in various categories such as excess/unauthorized charges, frauds, guarantees, account management, ATM dispense errors, funds transfers, amongst others, with electronic products-related complaints recording the highest number.

A total of 2,201 complaints were resolved or closed in the period under review, compared with 1,236 resolved or closed in the second half of 2019, showing an increase of 965 or 78.07 per cent. The increase in the number of resolved cases was attributed to efforts made by the Bank to enforce compliance.

Total claims during the review period amounted to N13.78 billion and $US28,804.69 while the sums of N2.83 billion and $US9,187.27 were refunded by financial institutions to customers.

FIGURE 3.11 NUMBER OF COMPLAINTS RECEIVED (JAN - JUN 2020)

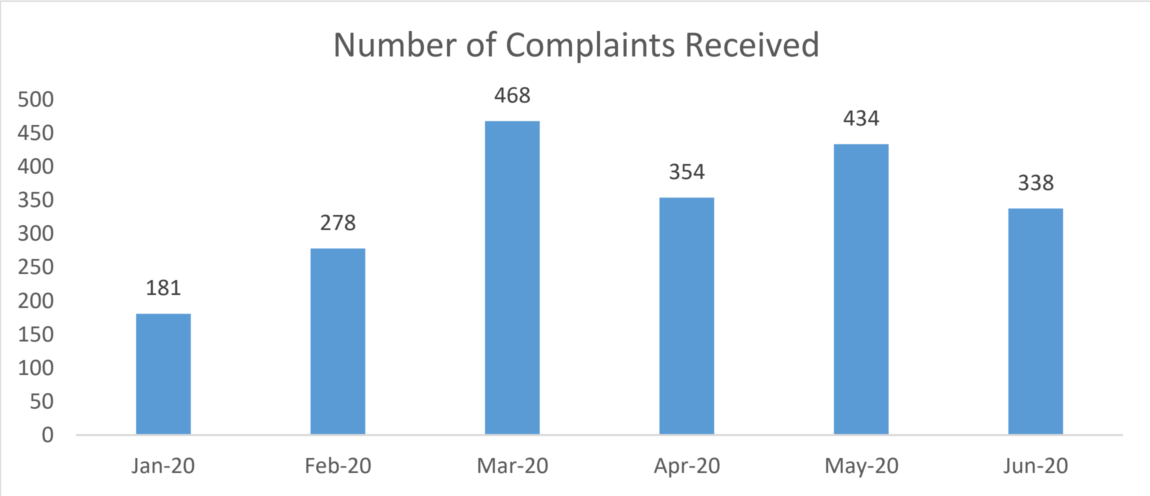
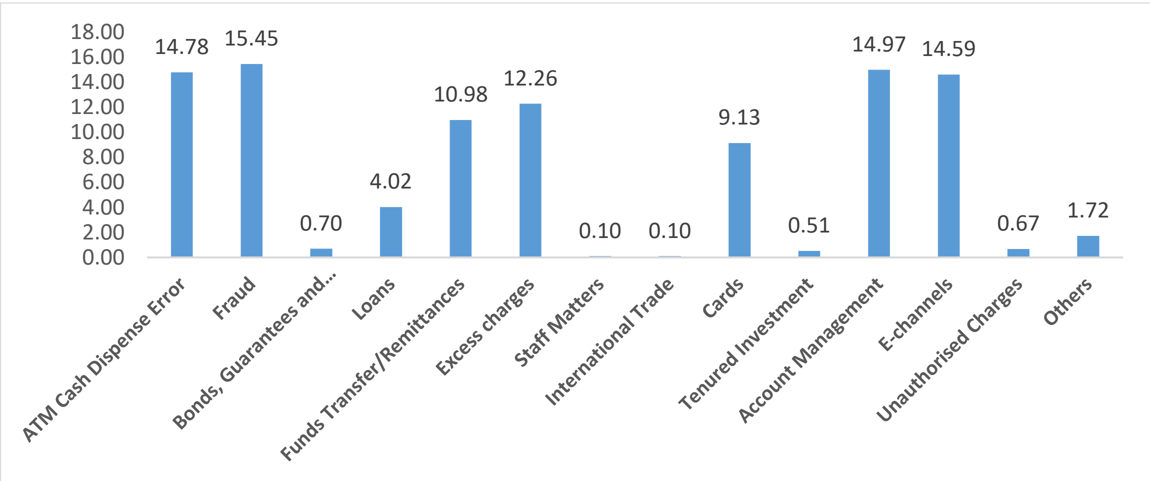
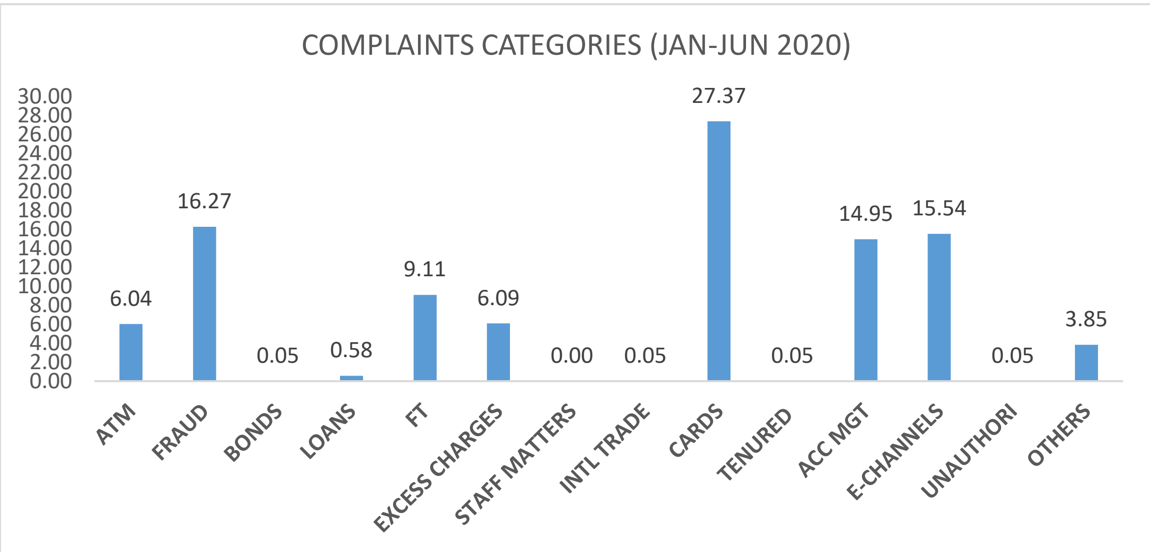


FIGURE 3.12 DISTRIBUTION OF COMPLAINTS RECEIVED (IN PERCENTAGES) IN FIRST HALF OF 2020





3.3.9 Implementation of the National Peer Group Educators Programme

The National Peer Group Educators Programme, a training-of-trainers initiative implemented by the Bank, was designed to leverage the NYSC scheme to drive financial education, using the Volunteer Corp Members (VCMs) to conduct financial literacy sessions for adult Nigerians. A training-of-trainers programme which was expected to onboard over 13,000 VCMs was rolled out across the country in March 2020.

3.3.10 Financial Literacy E-Learning Platform

The Bank in collaboration with relevant stakeholders developed a financial literacy e-learning portal, sabiMONI.org.ng, to digitalize the implementation of financial education programme and improve financial literacy in Nigeria.

3.3.11 Financial Literacy Campaigns Through Digital Media Channels

During the period under review, the campaign on financial literacy and consumer education was sustained with more emphasis on the use of digital media channels. Specifically, issues relating to cybercrime, consumer rights and responsibilities, as well as the process of lodging complaints were emphasised.

3.3.12 Implementation of the Consumer Protection Regulation

Following the issuance of the Consumer Protection Regulations (CPR) in December 2019, a workshop was conducted in February 2020 to sensitize regulators, DMBs, consultants, organised consumer groups and professional bodies on the provisions of the CPR.

3.4 Supervision of Other Financial Institutions

The Bank examined 262 OFIs at end-June 2020, compared with 1,021 at end-December 2019. The exercise involved the risk-based examination of seven (7) DFIs and 40 MFBs. It also entailed the AML/CFT RBS examination of 124 BDCs, 33 MFBs and 18 PMBs, as well as the target examination of 40 MFBs.

3.4.1 Bureaux de Change

The overall Money Laundering/Terrorism Financing (ML/TF) Risk Assessment of the institutions were “Above Average” for 49 BDCs and “High” for 65. Appropriate recommendations were made to address the observed lapses.

3.4.2 Microfinance Banks

The examination of 40 MFBs, using the RBS methodology, determined that the capital rating for 18 MFBs was “Acceptable”, 20 “Needs Improvement”, and two (2), “Weak”. The earnings rating for eight (8) institutions was “Acceptable”, 21 “Needs Improvement” and 11 was “Weak”. The composite risk rating for one (1) MFB was “Moderate”, 17 “Above Average”, and 22 “High”.

The target examination of another 40 MFBs revealed that 17 MFBs had voluntarily ceased operation, with their licences being recommended for revocation; while 23 MFBs were given deadlines to address challenges observed in their IT operations.

3.4.3 Development Finance Institutions

The examination of the seven (7) DFIs, using the RBS methodology, revealed that the Composite Risk Rating of the four (4) institutions was:" High"; one (1) was "Moderate"; one (1) was "Above Average"; and (one) 1 was "Low". Further analysis revealed that four (4) DFIs met the minimum regulatory capital requirement, while the sub-sector's average NPL ratio stood at 28.11 per cent.

In compliance with the Prudential Standards, Guidelines and Rating System for African Development Banks and Finance Institutions, four (4) of the institutions were rated "Satisfactory", while three (3) were "Marginal".

4 THE PAYMENTS SYSTEM

4.1 Developments in the Payments System

The Bank continued to implement policies and introduce initiatives with a view to improving the safety and efficiency of the Nigerian Payments System.

4.1.1 Bank Verification Number Operations and Watch-list

At end–June 2020, BVNs count stood at 43.9 million, reflecting an increase of 8.64 per cent over the 40.44 million BVNs recorded at end-December 2019. The number of accounts linked with BVNs was 53.7 million out of 79.7 million active customer accounts while the number of watch-listed BVNs stood at 2,670 at end-June 2020.

4.1.2 Nigeria Electronic Fraud Forum

The activities of the Nigeria electronic Fraud Forum were hampered by the Covid-19 pandemic during the review period. However, the Forum used digital platforms to raise awareness on measures to reduce the incidence and impact of fraud on both customers and operators.

4.1.3 Supervision of Payments System Participants

During the review period, the Bank conducted an assessment of 37 payments service providers and the BVN regulatory compliance of 11 banks and NIBSS, with a view to ensuring compliance with extant regulations. The exceptions and observations were communicated to the affected institutions for implementation.

4.1.4 Licensing of Payments System Participants

During the review period, five (5) new licences were issued to one (1) mobile money operator, one (1) payment solution service provider, one (1) payment terminal service provider and two (2) super agents, which increased the number of licensed PSPs to 123 at end-June 2020.

TABLE 4:1 LICENSED PAYMENTS SYSTEM PARTICIPANTS

Licence –Type	Number	
	Dec. 2019	June 2020
Card Schemes	6	6
Mobile Money Operators	30	31
Payment Solution Service Providers	24	25
Payment Terminal Service Providers	21	22
Transaction Switching Companies	9	9
Third Party Processors	5	5
Super Agents	10	12
Non-Bank Acquirers	6	6
Accredited Cheque Printers	7	7
Total	**118**	**123**

4.1.5 Revised Nigeria Cheque Standards and Cheque Printers Accreditation Scheme

In continuation of the implementation of the revised Nigeria Cheque Standards and Nigeria Cheque Printers Accreditation Scheme, three cheque personalizers were accredited. However, the implementation of the revised Standards was delayed, owing to the Covid-9 pandemic. Consequently, the implementation date of the new Standards was extended from September 1, 2020 to January 1, 2021, with the parallel run of the old and new cheques extended to end-December 2020.

4.1.6 Payments System Vision 2020

The Bank through the Payments Scheme Boards, Special Interest Working Groups and Initiative Working Groups:

i. Issued the "Nigerian Payments System Risk and Information Security Management Framework" to establish standards for the management of risks in the payments system; and
ii. Implemented changes on the RTGS System configuration to accommodate the following:
   a. all schemes/instruments in each of the 4 settlement sessions,

      even spacing of the four (4) settlement sessions with the cut-off time for sessions 1, 2, 3 & 4, amended to 9am, 12 noon, 3pm and 6pm respectively; and

   b. extension of system cut-off time for external users from 4:30pm to 6:30pm.

In addition, the Bank issued a circular reducing the chargeback period for ATM, POS and web transactions to improve customer confidence in the payments system.

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 80,174 or 15.40 per cent to 440,561 at end-June 2020, from the 520,735 recorded at end-December 2019. However, the value increased by N1,842.45 billion or 0.79 per cent to N234,731.91 billion, at end-June 2020, from the N232,889.46 billion achieved at end-December 2019. The decrease in volume was attributed to the disruption of economic activities during the period.

4.2.2 Retail Payments

4.2.2.1 Cheque Clearing

The volume and value of cheques cleared decreased to 2,435,898 and N1,610.45 billion at end-June 2020, from the 3,858,700 and N2,210.75 billion recorded at end-December 2019 respectively. These changes reflected decreases of 36.87 and 27.15

per cent, in volume and value respectively. The sharp decreases were due to temporary suspension of cheque clearing from March 30, 2020 to April 27, 2020, following the Covid-19 pandemic.

4.2.2.2 Electronic Transactions

The volume of electronic transactions rose by 2,761.31 million or 163.41 per cent to 4,451.08 million at end-June 2020, from 1,689.77 million at end-December 2019, reflecting increased usage of electronic channels. Also, the value of transactions increased by N241,744.17 billion or 271.23 per cent to N330,873.22 billion at end-June 2020, from N89,129.05 billion at end-December 2019. The significant increase was due to inclusion of data from USSD, Mobile App, Direct Debit, Automated Clearing House and Intra-bank payments during the review period.

TABLE 4:2 ELECTRONIC TRANSACTIONS

Payment Channel	Number of Terminals		Number of Transactions		% Change in Volume	Value ₦' Billion		% Change (Value)
	Dec 2019	Jun 2020	Dec-2019	Jun-2020		Dec-2019	Jun-2020	
ATMs	19,129	19,043	415,200,245	928,932,320	123.73	3,274.18	8,600.10	162.66
POS	186,774	211,415	250,919,023	278,277,995	10.90	1,821.13	2,003.23	10.00
Mobile Money	-	-	272,491,275	315,714,994	15.86	3,115.22	5,146.80	65.21
Online Transfers (Internet/Web)	-	-	751,159,916	2,452,894,927	226.55	80,918.52	171,197.08	111.57
Mobile App				173,493,162			13,525.59	
USSD				202,857,969			2069.93	
Direct Debit				1,194,030			1,301.08	
ACH				97,718,282			127,029.41	
Total			1,689,770,459	4,451,083,679		89,129.05	330,873.22	

5 Key Risks to the Financial System

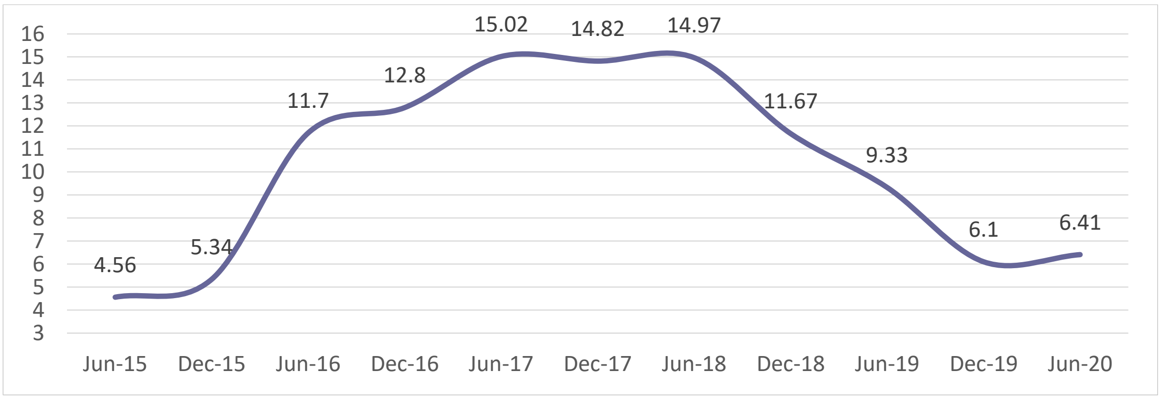
5.1 Credit Risk

Risk Rating (Medium Risk, Trending up)	

Total NPLs increased to ₦1,212.3 billion at end-June 2020, from ₦1,064.1 billion at end-December 2019; similarly the NPL ratio rose from 6.10 to 6.41 per cent. The rise in NPL ratio reflected the disruptions in economic activities of households and businesses during the review period, which led to increased non-repayment by obligors.

To address challenges in the credit market, the Bank introduced stimulus packages targeted at businesses and households, granted eligible financial institutions forbearance to restructure credit facilities in specific sectors that were adversely affected by the Covid-19 pandemic and reduced interest rates on applicable CBN intervention facilities (see box 1).

FIGURE 5.1 NON-PERFORMING LOANS RATIO



5.2 Liquidity Risk

Risk Rating (Medium Risk, Stable)	

The average liquidity ratio of the banking industry declined to 40.79 per cent at end-June 2020, from 45.55 per cent at end-December 2019. This ratio, however, remained above the regulatory threshold of 30 per cent, reflecting banks' continued preference for holding liquid assets.

5.3 Market Risk

Risk Rating (Medium Risk, Trending Up)	

The weighted average of OBB and interbank call rates increased to 11.31 and 5.75 per cent at end-June 2020, from 3.18 and 3.72 per cent at end-December 2019, respectively, reflecting banks' preference to hold cash in view of Covid-19 uncertainties. Conversely, average savings rate declined to 3.78 from 3.89 per cent during the same period, a situation which has the potential to discourage savings.

During the review period, foreign exchange rates were adjusted following the adverse impact of the Covid-19 pandemic. In order to mitigate the volatility in the exchange rate market, the Bank adjusted the interbank rate and temporarily suspended foreign exchange sales to BDCs.

In the equities market, the NSE ASI closed at 24,479.22 points at end-June, 2020, from 26,842.07 points at end-December 2019, despite recording a dip to as low as 18,384.18 points on March 13, 2020. Market activity reflected increased sell-off by international investors but was moderated by renewed participation by domestic investors.

Overall, market risk was expected to trend upwards in the second half of 2020 because of the lingering impact of the Covid-19 pandemic, oil price shocks and FPI reversals.

5.4 Operational Risk

Risk Rating (High Risk, Trending up)	

During the review period, reported cases of fraud and forgeries in DMBs increased to 44,948 at end-June 2020, from 33,415 at end-December 2019 and actual losses were ₦1.05 billion at end-June 2020. Frauds were carried out through suppression of cheques, conversion of customers' deposits, unauthorised fund transfers and ATM withdrawals.

The increased use of electronic channels for the conduct of transactions following the Covid-19 pandemic precipitated a rise in cyber-attacks. To address this risk, banks and payment service providers were directed to ensure full compliance with the requirements of the CBN Cyber-Security Framework and Guidelines, and the Framework for the use of Unstructured Supplementary Service Data (USSD) for Financial Services in Nigeria. In addition, advisories were issued on Advanced Persistent Threats; Malware/Ransomware Attacks; North Korea Malware and Threat to Financial Service Sector; Threatened Shutdown of Nigerian Banks by Powerful Greek Army; and Third-party risks.

Furthermore, during the review period, customers were continually sensitized on the need to employ safe banking practices while banks were advised to reinforce their

Disaster Recovery and Business Continuity plans, carry out comprehensive infrastructure risk assessments and train staff on security awareness.

In the second half of 2020, the risk of attacks on payments system infrastructure and social engineering was projected to remain elevated as digitized financial services were rapidly adopted.

5.5 Macroeconomic Risk

Risk Rating (High Risk, Stable)	

During the period under review, macroeconomic risk was largely driven by the Covid-19 pandemic lockdown measures and investor apprehension. Other risks to the domestic economy included: threat to fiscal sustainability resulting from dwindling revenues; inflationary pressures; increased domestic borrowing by the Federal Government and the disruption to global and domestic supply chains.

To mitigate the impact of the pandemic, the government responded through the following measures:

- Establishment of a ₦500 billion Covid-9 Crisis Intervention fund to upgrade health facilities and fund special public works programme to create employment;
- Value-Added-Tax exemptions for basic food, pharmaceutical and medical items;
- Direct distribution of food and cash to the most vulnerable groups in the society;
- Interest holidays for targeted groups; and the
- Securing a US$3.4 billion emergency financial assistance from the International Monetary Fund.

The combined monetary and fiscal policy measures are expected to moderate the adverse impacts of the Covid-19 pandemic and facilitate economic growth in the second half of the year. However, while a rebound in economic activities is expected with the gradual reopening of the economy, significant domestic and global macroeconomic risks remain.

6 OUTLOOK

Global growth in 2020 was anticipated to contract by 4.9 per cent in view of the lingering effects of the Covid-19 pandemic. However, a rebound of 5.4 per cent in 2021 was expected, largely from the combined fiscal and monetary responses to mitigate the impact of the pandemic. Growth optimism for 2021 is reinforced by positive news on the recent vaccine rollout and increasing world-wide deployment.

Growth in advanced economies was projected at -8.0 per cent in 2020 but was expected to recover by 4.8 per cent in 2021. Similarly, growth in the EMDEs and SSA regions was estimated to contract by 3.0 and 3.2 per cent respectively, in 2020, with anticipated recovery of 5.9 and 3.4 per cent respectively, in 2021. Nigeria's growth, projected to contract by 5.4 per cent in 2020, was also expected to recover to 2.6 per cent in 2021.

Inflation in advanced economies was projected to decline to 0.5 per cent in 2020 and rise to 1.5 per cent in 2021, owing to the projected increase in consumption expenditure as the ravaging effects of the Covid-19 pandemic diminished. However, inflation in EMDE and SSA regions projected at 4.6 and 9.3 per cent in 2020, was expected to moderate to 4.5 and 7.6 per cent in 2021 respectively.

The projected growth for the economy remained subdued, given declining government revenue, FPI reversals and other macroeconomic uncertainties. However, the combined impact of accommodative monetary and fiscal policies as well as the gradual re-opening of the economy is expected to enable a rebound in economic activities.

To enhance the efficiency and safety of the Nigerian Payments System, a framework for next generation payments architecture is being developed. In addition, the Bank would intensify collaboration with the Nigerian Communication Commission (NCC) to fast-track the adoption of mobile payments in Nigeria.

In conclusion, the Bank will continue to strengthen its regulatory and supervisory oversight to enhance the resilience of the banking industry.

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