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CBN ECONOMIC REPORT

2021
Half Year

Central Bank of Nigeria

2021 Half Year Economic Report

Central Bank of Nigeria
Corporate Head Office
33 Tafawa Balewa Way
Central Business District
P.M.B. 0187
Garki, Abuja

Website: www.cbn.gov.ng

Contact Centre
Tel: +234 (0) 700 225 5226

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GOVERNANCE FRAMEWORK

Members of the Committee of Governors

1	Godwin I. Emefiele, CON	-	*Governor (Chairman)*
2	Aisha N. Ahmad	-	*Deputy Governor (Financial System Stability)*
3	Edward L. Adamu	-	*Deputy Governor (Corporate Services)*
4	Folashodun A. Shonubi	-	*Deputy Governor (Operations)*
5	Kingsley I. Obiora	-	*Deputy Governor (Economic Policy)*
	Alice Karau	-	*Secretary to the Board*

Members of the Monetary Policy Committee (MPC) as at 30 June 2021

1	Godwin I. Emefiele, CON	*Governor (Chairman)*
2	Aisha N. Ahmad	*Deputy Governor (Financial System Stability)*
3	Edward L. Adamu	*Deputy Governor (Corporate Services)*
4	Folashodun A. Shonubi	*Deputy Governor (Operations)*
5	Kingsley I. Obiora	*Deputy Governor (Economic Policy)*
6	Mike I. Obadan	*Member*
7	Adeola F. Adenikinju	*Member*
8	Robert C. Asogwa	*Member*
9	Aliyu R. Sanusi	*Member*
10	Ahmed Aliyu	*Member*
	Hassan Mahmud	*Secretary*

List of Departmental Directors as at 30 June 2021

1	Samuel C. Okojere	-	*Banking Services*
2	Haruna B. Mustafa	-	*Banking Supervision*
3	Aisha B. Abubakar	-	*Capacity Development*
4	Alice Karau	-	*Corporate Secretariat*
5	Ahmed B. Umar	-	*Currency Operations*
6	Philip Y. Yusuf	-	*Development Finance*
7	Benjamin A. Fakunle	-	*Finance*
8	Angela A. Sere-Ejembi	-	*Financial Markets*
9	Kevin N. Amugo	-	*Financial Policy and Regulation*
10	Jeremiah Abue	-	*Governors*
11	Umma A. Dutse	-	*Human Resources*
12	Rakiya S. Mohammed	-	*Information Technology*
13	Lydia I. Alfa	-	*Internal Audit*
14	Sirajuddin K. Salam-Alada	-	*Legal Services*
15	Hassan Mahamud	-	*Monetary Policy*
16	Abubakar A. Kure	-	*NIRSAL Microfinance Bank*
17	Nkiru E. Asiegbu	-	*Other Financial Institutions Supervision*
18	Musa I. Jimoh	-	*Payments System Management*
19	Arinze A. Stanley	-	*Procurement and Support Services*
20	Michael A. Adebiyi	-	*Research*
21	Abba Salihi	-	*Reserve Management*
22	Folakemi J. Fatogbe	-	*Risk Management*
23	Oluwakemi O. Osa-Odigie	-	*Security Services*
24	Mohammed M. Tumala	-	*Statistics*
25	Clement O. Buari	-	*Strategy Management*
26	Ozoemena S. Nnaji	-	*Trade and Exchange*
27	Olorunsola E. Olowofeso	-	*West African Monetary Institute*

List of Branch Controllers/Currency Officers as at 30 June 2021

1	Christopher O. Adayi	-	*Abakaliki*
2	Wahab Oseni	-	*Abeokuta*
3	Ibeawuchi F. Amagwu	-	*Abuja*
4	Wasiu A. Omotoso	-	*Ado-Ekiti*
5	Fatai A. Yusuf	-	*Akure*
6	Patricia N. Ukwu	-	*Asaba*
7	Benedicth I.C. Maduagwu.	-	*Awka*
8	Haladu A. Idris	-	*Bauchi*
9	Renner D. Jumbo	-	*Benin*
10	Mannir D. Abdullahi	-	*Birnin-Kebbi*
11	Glory U. Iniunam	-	*Calabar*
12	Gana A. Abdulkadir	-	*Damaturu*
13	Sa'adatu A. Ibrahim	-	*Dutse*
14	Chiedozie E. Okonjo	-	*Enugu*
15	Shehu A. Goringo	-	*Gombe*
16	Babangida Jino	-	*Gusau*
17	Olufolake M. Ogundero	-	*Ibadan*
18	Babatunde A. Amao	-	*Ilorin*
19	Idirisa D. Maina	-	*Jalingo*
20	Yusuf B. Duniya	-	*Jos*
21	Ahmed M. Wali	-	*Kaduna*
22	Abdulkadir I. Ali	-	*Kano*
23	Dahiru. N. Usman	-	*Katsina*
24	Samson Isuwa	-	*Lafia*
25	Atise J. Ekhator	-	*Lagos*
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27	Tijani K. Lawan	-	*Maiduguri*
28	John O. Itaha	-	*Makurdi*
29	Mas'ud T. Ibrahim	-	*Minna*
30	Ajuma D. Madojemu	-	*Osogbo*
31	Chuks G. Okeke	-	*Owerri*
32	Oyoburuoma B. Oruwari	-	*Port Harcourt*
33	Yusuf B. Wali	-	*Sokoto*
34	Onyeka M. Ogbu	-	*Umuahia*
35	Itohan M. Ogbomon-Paul	-	*Uyo*
36	Francis E. Asuquo	-	*Yenagoa*
37	Satu J. Jatau	-	*Yola*

CONTENTS

EXECUTIVE SUMMARY

The Global Economy: The global economy recovered modestly in the first half of 2021, driven, largely, by sustained fiscal stimulus, supportive monetary policy and a gradual easing of COVID-19 restrictions, following a progressive rollout of COVID-19 vaccines. The development was reflected in the IMF's output forecasts of 6.0 per cent for the global economy in 2021, as against the 3.2 per cent contraction recorded in 2020. Purchasing Managers' Index (PMI) in most countries was largely above the 50-points threshold due to increased manufacturing activities. However, reintroduced restrictions in some economies amid rising cases of the Delta variant of the COVID-19, and rising input costs could hurt the economic recovery. Inflationary pressures in both advanced and emerging economies remained elevated due to weak global supply chains. Despite heightening inflationary pressures, most central banks and fiscal authorities maintained an accommodative policy stance to support the fragile recovery.

The Real Economy: Domestic output rebounded in the first half of 2021, following the re-start of business activities in many of our trading partner economies, the implementation of various stimulus packages by fiscal and monetary authorities, and the roll-out of COVID-19 vaccines that helped to restore confidence and boost business activities. Domestic growth was driven by the non-oil sector, even as the oil sector contracted further relative to end-December 2020. In general, domestic output grew by 2.70 per cent in the first half of 2021, compared with a 2.18 per cent contraction in the corresponding period of 2020.

Inflationary pressure heightened in the domestic economy, during the first half of 2021. Headline inflation rose to 17.75 per cent at the end-June 2021, compared with 12.56 per cent at end-June 2020. The development was attributed mainly to a disruption in the food supply chain arising from the security challenges, and an increase in the cost of transportation/logistics.

Domestic crude oil production declined due to persisting supply constraints. At an average daily production of 1.7 million barrels per day (mbpd) or 262.8 million barrels (mb), Nigeria's crude oil output in the first half of 2021 declined by 22.6 per cent, compared with the corresponding half of 2020. In the first half of 2021, crude oil prices rose due to the increase in crude oil demand, occasioned by the gradual normalisation of the economies in most countries of the world. The average spot price of Nigeria's reference crude, the Bonny Light, was US$64.81 per barrel, (pb), an increase of 59.6 per cent, compared with US$40.60 pb in the corresponding period of 2020.

The Bank sustained its development finance interventions to the real sector to boost economic recovery, improve access to credit and enhance job creation. The Bank extended the interest rate concession and moratorium on all interventions to February 28, 2022, as part of policy measures to mitigate the effect of the COVID-19 pandemic on businesses and households.

Fiscal Developments: Federation revenue improved moderately due to a rebound in economic activities. Total Federation revenue in the first half of 2021 was 8.3 per cent above the level in the corresponding period of 2020, driven by enhanced non-oil revenue. However, at ₦5,050.10 billion (6.4 per cent of GDP), it was 18.7 per cent below the benchmark, due to lower-

than-expected receipts of crude oil and gas export proceeds.

Despite the rise in crude oil prices and sustained increase in global demand, oil revenue in the first half of 2021, at ₦2,100.40 billion (about 2.7 per cent of GDP), accounted for 42.0 per cent of total revenue and was below the benchmark by 30.8 per cent due to low crude oil production. Similarly, non-oil revenue at ₦2,949.69 billion (3.7 per cent of GDP) in the first half of 2021 was 5.2 per cent below the budget benchmark, owing to the decline in Education Tax and the Independent Revenue of the Federal Government. The consolidated debt stock of the Federal Government, at end-June 2021, was ₦31,342.68 billion. This represents an increase of 16.9 per cent over the level at end-June 2020. Given the debt-GDP-ratio thresholds stipulated by the 2020-2023 MTDS at (40.0 per cent), WB/IMF (55.0 per cent) and ECOWAS (70.0 per cent), the FGN's debt-to-GDP at 19.8 per cent, remained below adequate

Financial Developments: The financial sector remained resilient during the first half of 2021, as the key financial soundness indicators were within regulatory thresholds. The banking industry solvency and liquidity positions under mild-to-moderate scenarios of sustained economic contraction remained robust but, was vulnerable in a severe scenario of sustained economic contraction. During the review period, the CBN continued to ease credit conditions and support critical sectors of the economy. Growth in monetary aggregates remained, largely, below indicative targets for 2021. Broad money supply (M3) grew by 2.1 per cent to ₦39,406.65 billion at end-June 2021, due to an increase in domestic claims, compared with 2.6 per cent growth at end-June 2020.

Liquidity levels in the financial sector were influenced by monetary and fiscal operations, including the effects of Cash Reserve Requirement (CRR), foreign exchange settlement interventions, and CBN Bills maturity. Average interbank money market rates in the first half of 2021 were higher than their levels in the corresponding period of 2020, following liquidity constraints in the banking system.

The Nigerian Stock Exchange (NSE) was demutualised to the Nigerian Exchange Group (NGX) to enhance access to capital for strategic development. Activities on the Nigerian equities market were bullish in the first half of 2021, as the NGX All Share Index (ASI) and aggregate market capitalisation rose relative to their levels at the end-June 2020. This was due to positive sentiments by investors, amid increased buy-interest in blue-chip stocks.

During the review period, new initiatives were introduced to enhance the payments system, maximise the opportunities created by the pandemic, and support monetary policy transmission through the banking system. These include issuing the frameworks for Regulatory Sandbox Operations, as well as Open Banking, and Quick Response (QR) Code payments.

External Sector Developments: The external account was fragile in the first half of 2021 with an overall balance of payments deficit of US$3.49 billion or 1.8 per cent of GDP. This was occasioned by higher services import bills, rising external debt, and exchange rate pressure. The current account deficit narrowed significantly by 68.2 per cent in the first half of 2021, compared with the *corresponding period of 2020, driven largely by lower trade deficit and higher remittances inflow. The financial account recorded net incurrence of financial liabilities of US$3.94 billion or 2.0 per cent of GDP, compared with US$4.63 billion in the corresponding half of 2020. The development was due, largely, to improvement in foreign capital inflow. The International Investment Position (IIP) recorded a higher net liability due to increased portfolio accumulation and other investment liabilities.*

Gross external reserves at end-June 2021 stood at US$32.99 billion, compared with US$35.78 billion at end-June 2020. This could finance about 8 months of import (goods only) or about 6 months of import (goods and services), which exceeded the international adequacy standard of 3.0 months.

With the adoption of the Nigerian Autonomous Foreign Exchange (NAFEX) as the official exchange rate in May 2021, the end-period exchange rate of the naira to the US dollar at the interbank, and I&E window were N403.80/US$, and N411.50/US$, respectively, at the end-June 2021, compared with N361.00/US$ and N386.50/US$, respectively at end-June 2020.

Outlook: Global economic outlook for the rest of 2021 indicate optimism on account of the projected increase in the pace of COVID-19 vaccination and the effect of fiscal and monetary accommodation. Similarly, the economic outlook for Nigeria remained positive, as growth momentum is expected to be sustained throughout 2021, owing to the continued progress in the containment of the COVID-19 pandemic, improvement in crude oil prices, sustained monetary policy support, and continued fiscal impetus.

With the global crude oil price projected at around $75pb in the second half of 2021, the outlook for the external sector continued to brighten, as both the external reserves and portfolio investment are expected to improve in the short-to-medium term. However, the speculation-induced demand pressure in the foreign exchange market, rising import bills, and external debt servicing constitute potential headwinds to reserves accretion in the near term.

With the stable and sustained recovery in crude oil prices and continued implementation of FGN's Strategic Revenue Growth Initiative (SRGI), prospects for the fiscal sector is expected to improve in the rest of the year. However, it could be dampened by the continued rise in debt service obligations, and lingering insecurity challenges. The financial sector is expected to remain resilient as accommodative monetary policy stance, regulatory forbearance, and the Global Standing Instruction (GSI), continue to strengthen risk management practices and support the financial sector.

1.0 CBN MANDATE AND STRATEGY

Established by the CBN Act 1958
(as amended)
Commenced operation 1 July 1959

Vision

- Be the model central bank delivering price and financial system stability and promoting sustainable economic development.

1. Become the model central bank
2. Deliver price stability conducive to economic growth
3. Achieve safe, stable, and sound financial system
4. Deliver credible, reliable, and efficient payments system
5. Promote sustainable finance and inclusive economic growth

Mission

- To be proactive in providing a stable framework for the economic development of Nigeria, through the effective, efficient and transparent implementation of monetray and exchnage rate policies, and management of the financial sector.

Mandate
(CBN Act 2007)

- Ensure monetary and price stability
- Issue legal tender currency in Nigeria
- Maintain external reserves to safeguard the international value of the legal tender currency
- Promote a sound financial system in Nigeria
- Act as Banker and provide economic and financial advice to the Federal Government.

CBN Strategic Priorities (2019 – 2024): 5-Point Agenda

Preserving macroeconomic and financial stability

Promote inclusive growth and private sector investment by leveraging on monetary tools to maintain a low inflation environment while trying to seek exchange rate stability

Foster the Development of a Robust Payments System

Drive the cashless initiative across the country to enhance efficiency and propel the financial inclusion drive

Improve Access to Credit

Improve consumer spending and investment by MSMEs through affordable and adequate credit

Grow our External Reserves

Conserve the utilization of reserves for critical raw materials and imports that are not produced locally

Diversify the Economy through intervention programmes

Boost productivity growth in both the agricultural and manufacturing sectors through end-to-end value chain credit intervention programmes

Section Two

2.0 THE GLOBAL ECONOMY

Global economic dynamics and the evolution of events shaped domestic economies around the world.

- Global Output Growth
- Global Inflation
- Global Financial Markets
- Central Banks’ Responses
- Fiscal Measures

2.1 GLOBAL OUTPUT GROWTH

The global economy rebounded in the first half of 2021, driven largely, by sustained fiscal injections, accommodative monetary policies, and the gradual easing of COVID-19 restrictions, following a progressive rollout of vaccines. Notable progress in vaccination and the resultant easing of lockdown measures across the globe, coupled with several fiscal and monetary interventions, spurred economic activities. However, growth was largely divergent across countries and regions, due to unequal access to vaccines, the volume of interventions, and pre-existing structural rigidities. The optimism around global recovery in 2021 was reflected in the IMF's output and trade volume forecasts of 6.0 per cent and 9.7 per cent, respectively, against contractions of 3.2 per cent and 8.3 per cent in 2020.

Table 1: Growth and Inflation in Selected Countries

Country	Growth			Inflation					
	2020	2021f	2022f	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21
Global	-3.2	6.0	4.9						
Advanced Economies	-4.6	5.6	4.4						
United States	-3.5	-7.0	4.9	1.4	1.7	2.6	4.2	5.0	5.4
United Kingdom	-9.8	7.0	4.8	0.7	0.4	0.7	1.5	2.1	2.5
Japan	-4.7	2.8	3.0	-0.7	-0.5	-0.4	-1.1	-0.8	-0.5
Germany	-4.8	3.6	4.1	1.0	1.3	1.7	2.0	2.5	2.3
Italy	-8.9	4.9	4.2	0.4	0.6	0.8	1.1	1.3	1.3
Emerging Market & Developing Economies	-2.1	6.3	5.2						
Russia	-3.0	4.4	3.1	5.19	5.67	5.79	5.53	6.02	6.5
China	2.3	8.1	5.7	-0.3	-0.2	0.4	0.9	1.3	1.1
India	-7.3	9.5	8.5	4.06	5.03	5.52	4.23	6.3	6.26
Sub-Saharan Africa	-1.8	3.4	4.1						
South Africa	-7.0	4.0	2.2	3.2	2.9	3.2	4.4	5.2	4.9
Nigeria	1.8	2.5	2.6	16.47	17.33	18.17	18.12	17.93	17.75

Source: IMF WEO, July 2021 and Trading Economics, 'f' indicates projections.

Advanced Economies (AEs)

Growth in advanced economies was robust due, largely, to significant improvement in consumer demand and sustained policy interventions. Output in AEs was projected to expand by 5.6 per cent in 2021, against a contraction of 4.6 per cent in 2020. The growth projections for the region are further reflected in their impressive PMI numbers year-to-date. The PMI numbers were largely above the 50 index-points threshold in most countries as manufacturing activities increased. Specifically, the US, Italy, and Germany led the group with PMIs of 60 and above. The significant boost to the PMIs reflected the surge in consumer and business confidence, following the fiscal stimulus and monetary accommodation, paired with the faster pace of COVID-19 vaccination in the region.

Table 2: Selected Countries' PMIs

	2020 H1	2020 H2	2021 H1
United States	*46.0*	*54.0*	*60.3*
United Kingdom	*45.5*	*55.2*	*59.8*
China	*48.8*	*53.4*	*51.4*
India	*44.5*	*54.4*	*54.2*
Germany	*42.4*	*55.7*	*63.3*
Italy	*43.7*	*52.7*	*60.0*
Japan	*43.2*	*47.9*	*52.2*
South Africa	*48.0*	*56.2*	*51.0*

Source: IHS Markit

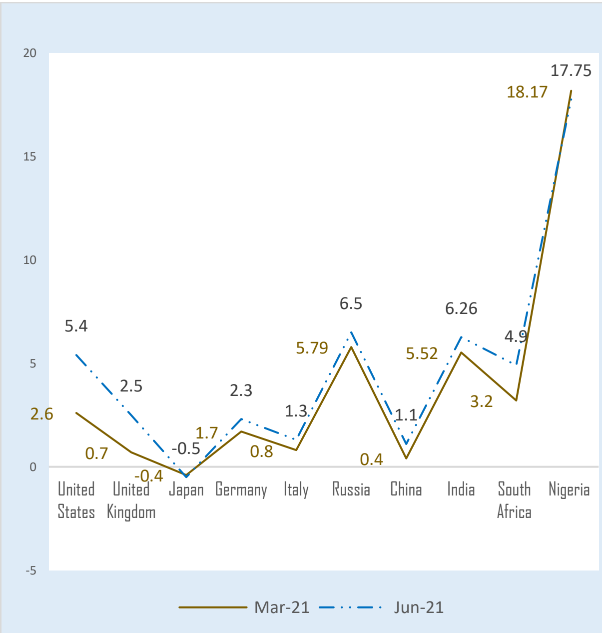
Emerging Market and Developing Economies (EMDEs)

Economic growth among EMDEs showed a gradual recovery, driven by improved commodity prices and sustained fiscal and monetary policy support. The economic recovery was uneven within the region due to a resurgence of the pandemic, particularly in emerging Asia. The growth forecasts for Latin America and the Caribbean and the Middle East and Central Asia were revised upward, to 5.8 per cent and 4.0 per cent, respectively, reflecting improved trade and financial conditions. However, growth forecasts for China and India were downgraded on account of a renewed pandemic wave. Accordingly, the PMIs of China and India fell by 3. 7 per cent and 0.4 per cent, respectively, in the same period. Likewise, in sub-Saharan Africa, South African PMI decreased by 9.3 per cent, while in Nigeria, it contracted by 3.1 per cent.

2.2 GLOBAL INFLATION

Inflationary pressures remained elevated in both advanced and emerging economies. Despite the reopening of most economies, weak global supply chains, alongside rising demand, following various fiscal and monetary injections, fueled increases in food, energy, and input prices across the globe. Consequently, the inflation rate in the USA rose to 5.4 per cent in June 2021, above the 1.4 per cent in January 2021. Similar trajectories were observed in the UK, Germany, Italy, Russia, India, and South Africa. Although most monetary authorities held off policy tightening, as they viewed hikes in inflation as transitory, the resurgence in the rate of COVID-19 infections poses further upside risks to global inflation.

Figure 1: Inflation Rates in Selected Countries (per cent)



Source: Trading Economics Website

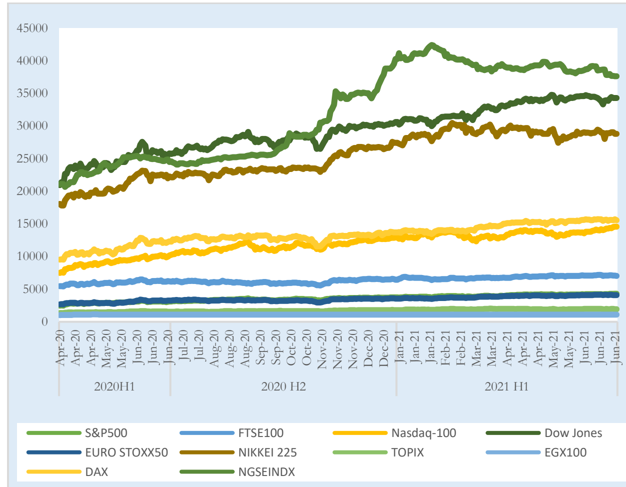
2.3 GLOBAL FINANCIAL MARKETS

Global Financial Conditions

The global financial conditions remained resilient as both equity and bond markets recorded high performance. Major equity indices were bullish in the first half of 2021, reflecting improved economic conditions, optimism around vaccine rollouts, accommodative monetary policy, and fiscal stimulus measures, which combined to lift investors' sentiments. Investors' concern over cost-push inflationary pressures was evident in increased volatility in all the markets. Nonetheless, most segments of the market, maintained momentum and generally closed higher than the corresponding period.

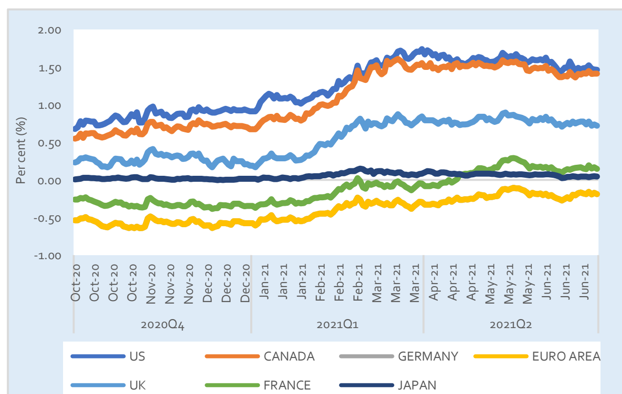
Yields on government bonds witnessed record highs in the review period. However, bond rates have been trading in a narrow zone due to the uncertainties surrounding inflation and subsequent monetary policy reactions. Inflation expectations had risen, leading to a fall in actual yields.

Figure 2: Key Global Stock Indices



Source: Bloomberg

Figure 3: Ten-year Government Bond Yields for Selected Countries



Source: Bloomberg

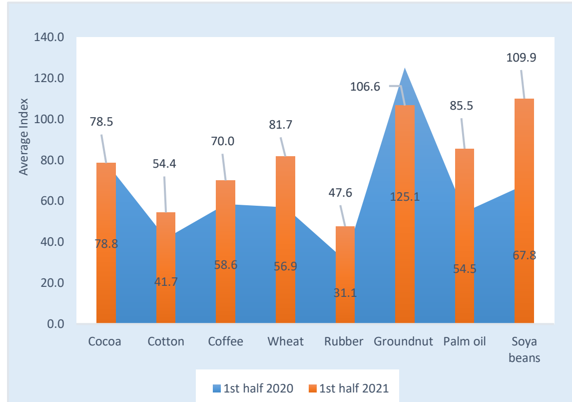
2.4 GLOBAL COMMODITY PRICES

The average prices of most commodities monitored at the international market rose due to supply cuts, arising from inclement weather conditions in the producing regions. The index of the commodities monitored (cocoa, cotton, coffee, wheat, rubber, groundnut, oil palm, and soybeans) rose to 79.3 index points in the first half of 2021. This was 23.3 per cent higher than the 64.3 index points recorded in the corresponding period of 2020. However, the prices of cocoa and groundnut fell by 0.5 per cent and 14.8 per cent, respectively, during the review period.

An analysis of commodity prices indicates that the average price of wheat rose by 43.6 per cent to 81.7 index points, compared with the average of 56.9 index points in the corresponding period of 2020. The increase in the price of wheat resulted from the substitution effect, as consumers switched to wheat from the more expensive maize at the international market.

The price indices for soybean and oil palm increased, averaging 109.9 index points and 85.5 index points, during the review period, compared with 67.8 index points and 54.5 index points, respectively, in the corresponding period of 2020. The increase in the price of soybean was due largely, to sustained demand from China. Similarly, the price of oil palm rose following low production in Southeast Asian countries, arising from pandemic-induced labour shortages.

Figure 4: Average Index of Selected Export Commodities



Source: Staff Computation based on data from Index Mundi

Expectations of low supply from producing regions, coupled with disruptions in trade flows, triggered increases in the price of coffee. The average price index rose by 19.5 per cent to 70.0 index points, from 58.6 index points in the corresponding period of 2020.

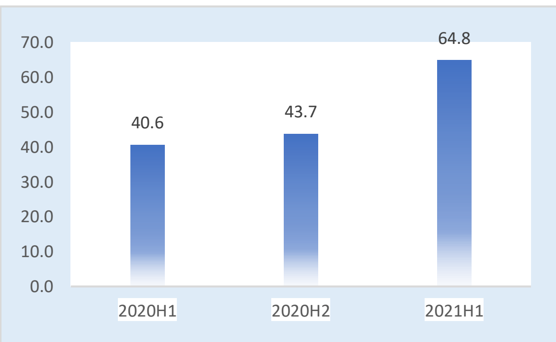
Rubber and cotton also recorded price increases at 47.7 index points and 54.4 index points, respectively, compared with 31.1 index points and 41.7 index points for the same period in 2020. The recovery of the global auto sector and the relaxation of the COVID-19 containment measures improved the demand for rubber. The increase in the price of cotton was influenced majorly by lower supplies following reduced acreage in the USA, India, and Pakistan.

The international price of cocoa and groundnut, especially in North America and Southeast Asia, declined in the first half of 2021, due to a glut from the producing regions. The price of cocoa fell by 0.5 per cent to 78.5 index points, from the 78.8 index points in the first half of 2020, driven by lower demand for chocolates and related treats. Similarly, the price of groundnut declined by 14.8 per cent to 106.6 index points, from the 125.1 index points in the same period of 2020, due to increased supply from the USA, Brazil, and China.

Crude Oil Prices

Crude oil prices rose in the first half of 2021, on the back of the rebound in global crude oil demand. The rebound in demand was due to the gradual return of the global economy to normalcy amid the easing of the COVID-19 lockdown measures. In addition, the mass rollout of vaccines boosted business and investor confidence, thus contributing to the price rally. Consequently, the average spot price of Nigeria's reference crude, the Bonny Light, increased by 59.6 per cent to US$64.81 per barrel (pb), compared with US$40.60 pb in the first half of 2020.

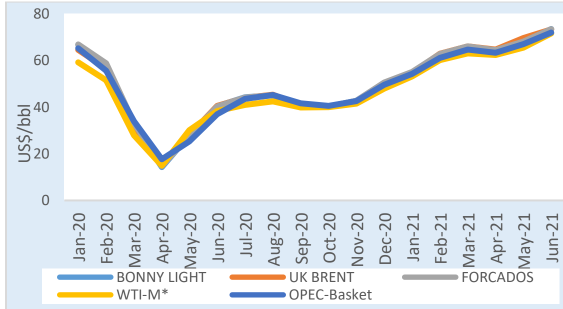
Figure 5: Average Price of Bonny Light (US$ per barrel)



Source: Refinitiv Eikon (Thomson Reuters)

The prices of other monitored crude streams, such as Brent, Forcados, the West Texas Intermediate (WTI), and the OPEC Reference Basket also rose by 63.0 per cent, 59.1 per cent, 71.0 per cent and 62.6 per cent to US$65.14pb, US$64.97pb, US$62.79pb and US$63.74pb, respectively, relative to their levels in the first half of 2020.

Figure 6: Average Monthly Crude Oil Prices, 2020-2021 (US$ per barrel)



Source: Refinitiv Eikon (Thomson Reuters)

Global Crude Oil Supply and Demand

Crude oil supply was lower than its demand due to supply cuts in compliance with the OPEC+ agreement. Total world crude oil supply averaged 93.76 mbpd, a decline of 2.87 per cent, relative to the level in the first half of 2020. The decline reflected the decrease in aggregate OPEC supply.

Aggregate crude oil supply, including natural gas liquids (NGLs) and condensates by OPEC, averaged 30.57 mbpd in the first half of 2021. This represents a decline of 4.82 per cent, relative to the level in the first half of 2020. The fall in aggregate OPEC supply was driven, mainly, by the 6.22 per cent decrease in its crude oil portion to 25.29 mbpd, in compliance with the OPEC+ production cut agreement. The remaining portion of OPEC supply, NGLs, and condensates, was 5.26 mbpd.

On the other hand, world crude oil demand averaged 95.67 mbpd, compared with 85.83 mbpd in the first half of 2020, indicating an increase of 11.7 per cent. Organisation for Economic Co-operation and Development (OECD) countries' demand was 43.08 mbpd (41.2 per cent of the total world demand), while non-OECD countries accounted for the balance. The increase in world crude oil demand was driven by continued re-opening of economies across the world, improving market sentiment on economic recovery in the US and Europe, and growing optimism of stronger oil demand by the US, China, and western Europe. Nonetheless, the demand was moderated by the deteriorating COVID-19 situation in some Asian countries, including India.

2.5 CENTRAL BANKS' RESPONSE

Most central banks maintained an accommodative monetary policy stance despite heightened inflationary pressures. The extraordinary policy measures adopted by most monetary authorities to contain the adverse impact of the pandemic in 2020 were sustained to enhance the supply of credit to households and businesses and spur economic recovery. The accommodative stance generally contributed to inflationary pressures, which the monetary authorities considered transitory. Consequently, the central banks of most advanced economies sustained a near-zero interest rate policy, although rates generally remained unchanged in most central banks in the EMDEs.

Table 3: Monetary Policy Rates of Selected Central Banks

Country	2020Q1	2020Q2	2021Q1	2021Q2
United States	1.1	0.3	0.3	0.3
United Kingdom	0.4	0.1	0.1	0.1
Japan	-0.1	-0.1	-0.1	-0.1
Canada	1.0	0.3	0.3	0.3
Euro Area	0.0	0.0	0.0	0.0
China	2.3	2.3	2.0	2.0
India	4.8	4.0	4.0	4.0
Mexico	6.8	5.8	4.0	4.3
Turkey	10.6	8.4	18.0	19.0
South Africa	5.8	4.0	3.5	3.5
Nigeria	13.5	12.5	11.5	11.5

Source: Various Central Bank Websites

2.6 FISCAL MEASURES

Fiscal policy remained largely expansionary as governments continued to support fragile recoveries. Several governments in advanced economies sustained well-targeted fiscal support to vulnerable households and firms since the onset of the pandemic. These include fiscal reliefs to households and firms through transfers, wage subsidies, and liquidity support. During the review period, the USA government sought legislative approval for a US$1.9 trillion coronavirus relief package to support households, unemployed, children, veterans, and small businesses, among others, to enhance living standards and position its economy on the path of sustainable growth.

Section Three

3.0 MACROECONOMIC PERFORMANCE

Enabled by policy support, the domestic economy benefitted from global economic recovery in the first half of 2021.

- Monetary Policy
- Real Economy
- Fiscal Policy
- Financial Sector Developments
- Payments System Management
- External Sector Developments

3.1 MONETARY POLICY

Primary Objective of Monetary Policy

Price Stability

Headline inflation of 6-9%

Monetary Policy Environment

Priorities of Monetary Policy

- Ensure price stability
- Strengthen financial market fundamentals
- Encourage credit flow to the real sector

Major Economic Development

- Persistence of COVID-19 risk and weak global supply chains
- Heightened currency speculation
- Elevated global inflation
- Insecurity-induced inflationary pressure

Instruments of MP

In the pursuit of its statutory mandate, the Bank during the review period, deployed an array of monetary policy instruments.

- The CBN Bill remained the major instrument of monetary policy, complemented by:
- Cash Reserve Ratio (CRR)
- Standing Facilities operations
- Interventions in the foreign exchange market.

Implications

- Persistence of macroeconomic risk
- Pressure on the exchange rate
- Declining but double-digit inflation figure
- Heightened investors' sentiment

Monetary Policy Decisions

January 25 and 26, 2021	• Retained the MPR at 11.50 per cent; • Retain the CRR at 27.5 per cent; • Retained the LR at 30.0 per cent; and • Retained the asymmetric corridor at +100/– 700 basis points around the MPR.
March 22 and 23, 2021	• Retained the MPR at 11.50 per cent; • Retain the CRR at 27.5 per cent; • Retained the LR at 30.0 per cent; and • Retained the asymmetric corridor at +100/– 700 basis points around the MPR.
May 24 and 25, 2021	• Retained the MPR at 11.50 per cent; • Retain the CRR at 27.5 per cent; • Retained the LR at 30.0 per cent; and • Retained the asymmetric corridor at +100/– 700 basis points around the MPR.

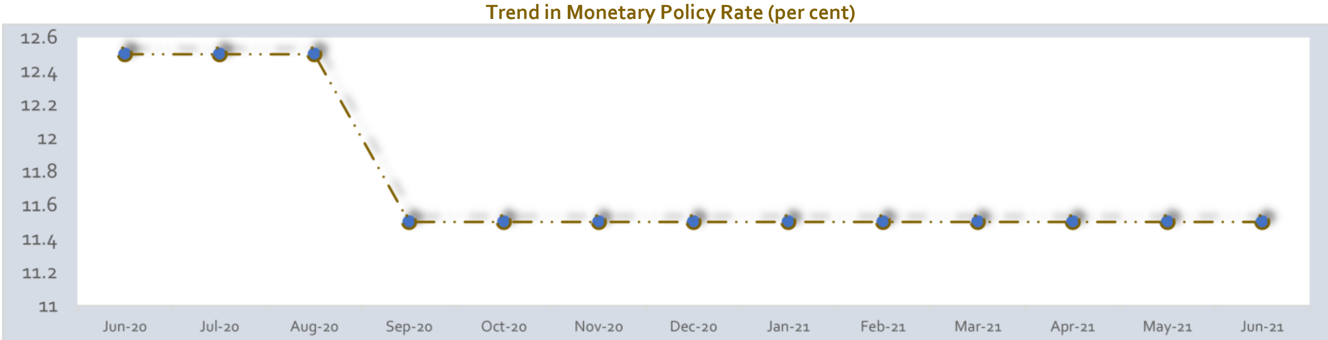
Liquidity Management

The Monetary Policy Committee maintained its accommodative policy stance, as the economic recovery continued, despite uncertainties. Open Market Operations (OMO) remained the Bank's major policy tool for liquidity management, complemented by reserve requirements, standing facilities and other discount window operations. The MPR was retained at 11.50 per cent with an asymmetric corridor of +100/-700 basis points for the standing lending facility (SLF) and the standing deposit facility (SDF), respectively. The Cash Reserve Ratio (CRR) and Liquidity Ratio (LR) were also retained at 27.5 per cent and 30.0 per cent, respectively, throughout the review period.

Exchange Rate Policy

- The bank re-adjusted the exchange rate towards unifying rates in all segments of the market, while enhancing price discovery
- Sustained intervention in the foreign exchange market and retention of the I&E window to attract autonomous inflow of foreign exchange to stabilise the domestic currency.

Trend in Monetary Policy Rate (per cent)

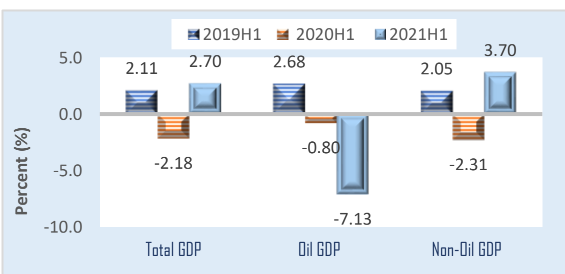


3.2 THE REAL ECONOMY

a. Domestic Output

Domestic output rebounded in the first half of 2021, following various stimulus packages by the fiscal and monetary authorities. Domestic output grew by 2.70 per cent in the first half of 2021, in contrast to a 2.18 per cent contraction in the first half of 2020. The growth was buoyed by the gradual re-opening of global economies, following the roll-out of the COVID-19 vaccines, and the timeous stimulus packages by the fiscal and monetary authorities within the domestic economy. The development was felt mostly in the Services sector (especially domestic trade-related activities), as the sector was the major driver of the growth outcome in the first half of the year. However, the Industry sector (especially Crude Petroleum and Natural Gas) weighed down on growth during the period.

Figure 7: GDP Growth Rate (Half Year) (per cent)



Source: National Bureau of Statistics (NBS)

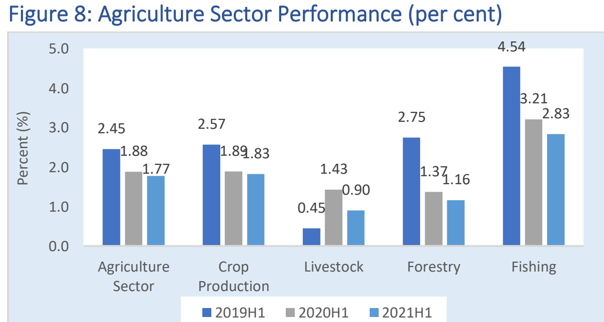
The non-oil sector led the overall output performance with a growth of 3.70 per cent, as against a contraction of 2.31 per cent in the first half of 2020. The improvement was due mainly to the pick-up in economic activities, the reopening of the land borders in December 2020, and the impact of various economic interventions.

However, the oil sector contracted further by 7.13 per cent, from 0.80 per cent in the first half of 2020. The development emanated from the decrease in crude oil production and weakened demand for oil from countries such as India, Brazil, and part of the United States, with the resurgence of the COVID-19 pandemic.

b. Sectoral Performance
Agriculture

Despite persisting security and other structural challenges, the agricultural sector grew. albeit slower than the first half of 2020. The sector's growth slowed to 1.77 per cent, compared with 1.88 per cent in the first half of 2020. Nevertheless, the sector contributed 0.41 per cent to the overall output growth. The performance was engendered by increased production and improvement in supply chains, on account of the gradual return of the economy to normalcy, following the roll-out of COVID-19 vaccines. Growth was also supported by the impact of the various Federal Government and CBN direct interventions in the sector, aimed to ease the pandemic's negative effects. Consequently, crop production, livestock, forestry, and fishery sub-sectors grew by 1.83 per cent, 0.90 per cent, 1.16 per cent and 2.83 per cent, respectively.

Figure 8: Agriculture Sector Performance (per cent)



Source: National Bureau of Statistics (NBS)

Industry

Performance of industry, though lower than the pre-pandemic level, improved as the sector's contraction narrowed significantly because of the uptick in manufacturing activities. The contraction in the sector narrowed to 0.08 per cent in the first half of 2021, indicating an improvement, relative to the contraction of 4.97 per cent in the first half of 2020. The positive development was driven, mainly, by the improved performance of the manufacturing sub-sector, which grew by 3.44 per cent during the period. The reopening of the land borders also contributed to improved manufacturing output performance. Rising prices of imported goods led to a higher demand for locally manufactured substitutes. Similarly, construction; water supply, sewage, and waste management; and electricity, gas, steam, and air conditioner subsectors grew by 2.40 per cent, 16.92 per cent, and 56.58 per cent, respectively.

However, the industry sector was weakened by a 6.98 per cent contraction in the mining and quarrying sub-sector, following weak performance in the oil and gas sub-sector, due to supply constraints. Solid minerals sub-sector also contracted, after the revocation of some mining licences by Nigeria's Mining Cadastre Office (MCO), on account of non-payment of outstanding annual service fees. This was exacerbated by Federal Government ban on mining activities in Zamfara State, as well as the persisting security challenges that deterred the activities of artisanal miners.

Table 4: Industry Sector Performance (per cent)

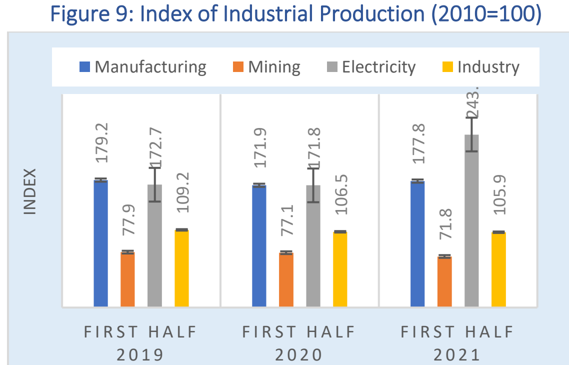
Growth Rates	2019H1	2020H1	2021H1
Industry Sector	1.63	-4.97	-0.08
Mining and Quarrying	2.67	-1.04	-6.98
Manufacturing	0.35	-4.07	3.44
Electricity, Gas, Steam & Air conditioner	2.78	-2.78	56.58
Water supply, sewage, waste Management.	9.51	3.16	16.92
Construction	1.83	-15.99	2.40

Source: National Bureau of Statistics (NBS)

The index of industrial production reflected the contraction in the sector's output as it declined by 0.6 index point to 105.9 index points (2010=100), compared with 106.5 index points in the first half of 2020. Mining production index also fell 4.5 per cent to 71.8 index points (2010=100), compared with 77.1 index points in the first half of 2020.

Conversely, the manufacturing production index increased by 3.4 per cent to 177.8 index points (2010=100), compared with 171.9 index points in the first half of 2020. Manufacturing capacity utilisation rose by 8.3 percentage points to 53.5 per cent, compared with 45.2 per cent in the first half of 2020.

Figure 9: Index of Industrial Production (2010=100)



Source: Staff computation based on data from NBS and MAN

The energy sector recorded improved performance, reflecting the sustained efforts of the government. Increased fiscal investment in off-grid electricity solutions such as mini-grids and solar home systems to rural and underserved communities ontributed to the gains in the sector. The National Mass Metering Programmes (NMMP), aimed at ensuring appropriate billing of electricity consumers, further enhanced the performance of the electricity distribution companies (DISCOs).

During the review period, average electricity generation, at 4,202.64 MW/h, increased by 16.4 per cent, compared with 3,611.2 MW/h in the first half of 2020. Average electricity consumption, at 3,672.10 MW/h, increased by 9.3 per cent, compared with the level in the first half of 2020.

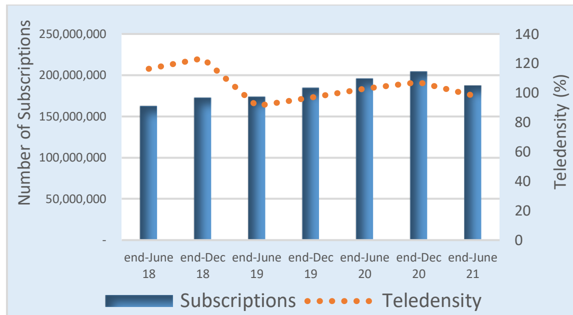
Services

The reopening of land borders and the relaxation of COVID-19 restrictions improved activities in the services sector. The services sector grew by 4.27 per cent in the first half of 2021, as against a contraction of 2.64 per cent in the first half of 2020. The increase was driven mainly by the trade sub-sector, with a growth of 8.97 per cent, following the reopening of land borders in December 2020 and further relaxation of COVID-19 restrictions.

The Information and Communications Technology (ICT) subsector was the next highest contributor to GDP growth. However, its growth slowed to 5.97 per cent in the review period, compared with 11.59 per cent in the first half of 2020.

The slower pace of the ICT subsector was attributed to the reduction in demand for telecom services, following the gradual return of the economy to normalcy. In addition, the initial ban on new sim card registration, following the implementation of the Revised National Digital Identity Policy for SIM Card Registration Policy contributed to the decline in demand for telecom services. Consequently, the number of active telephone subscribers declined by 4.60 per cent to 187,611,501 from 196,242,456 in the first half of 2020. Similarly, teledensity declined to 98.28 per one hundred inhabitants, compared with 102.81 per one hundred inhabitants in the first half of 2020.

Figure 10: Active Telephony Subscriptions and Teledensity



Source: Nigerian Communications Commission (NCC)

The transportation and storage subsector grew by 6.30 per cent in the first half of 2021, as against the contraction of 20.47 per cent in first half of 2020. The growth was driven by sharp increase in the volume of passengers and cargo transported across different transport modes in the first half of the year. More specifically, the volume of domestic-bound passengers airlifted in the first half of 2021, increased by 6.23 per cent, compared with 2.15 million passengers, airlifted in the first half of 2020. The volume of foreign-bound passengers rose marginally by 0.01 per cent during the period above the 0.89 million passengers airlifted in the first half of 2020 The number of passengers using rail transport services rose by 31.5 per cent, in the first half of 2021 over the 0.76 million conveyed in the first half of 2020. The increase in rail transport patronage was due to the increased number of rail terminals and economic activities. However, activities in marine transport moderated, compared with the first half of 2020, as the number of ocean-going vessels that berthed at the nation's ports reduced to 2,005 from 2,030, a year earlier. This led to a 37 per cent decline in the volume of cargoes discharged and loaded at the ports during the period, from 63,055,165 metric tons recorded in the first half of 2020.

Table 5: Services Sector Performance (per cent)

Growth Rates	2019H1	2020H1	2021H1
Services Sector	2.17	-2.64	4.27
Trade	0.30	-9.64	8.97
Accommodation and Food Services	3.69	-16.80	-2.85
Transportation and Storage	14.08	-20.47	6.30
Information and Communication	9.23	11.59	5.97
Arts, Entertainment & Recreation	4.29	-3.01	-0.17
Financial and Insurance	-4.97	19.63	-1.47
Real Estate	-1.72	-14.11	2.79
Professional, Scientific & Technical Serv.	1.46	-8.08	-1.43
Administrative and Support Services	1.73	-2.15	2.02
Public Administration	-8.64	-2.88	-1.34
Education	0.54	-10.83	-3.50
Human Health & Social Services	0.50	1.49	4.79
Other Services	2.44	-5.98	-1.54

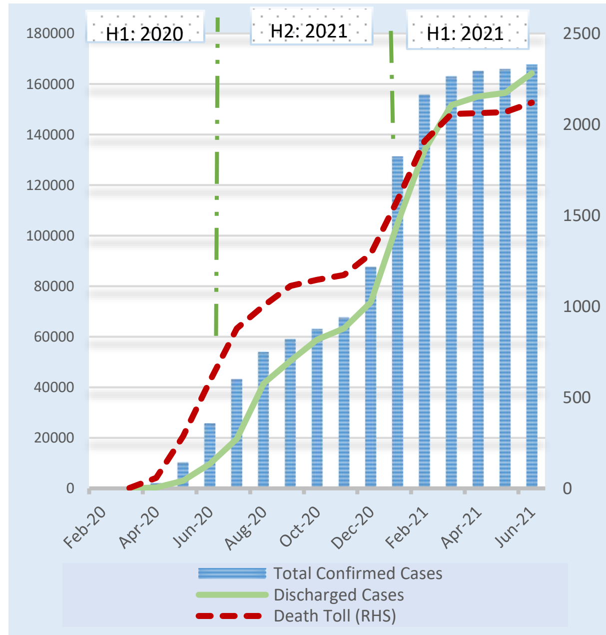
Source: National Bureau of Statistics (NBS)

Health

COVID-19 Incidence Report

*There was moderation in the number of active cases, due, mainly, to increased recovery rates and discharges, following improved capacity of the health system to deal with the COVID-19 pandemic, even as the cumulative number of confirmed cases and death toll rose. I*n the period under review, the rate of active cases declined substantially by 91.8 per cent to 1,254 cases in, compared with 15,358 cases in the first half of 2020. This was due to the higher cumulative number of discharged cases of 90,531 persons vis-à-vis 9,746 persons in the first half of 2020.

Figure 11: COVID-19 Statistics



Source: National Centre for Disease Control (NCDC)

However, the total number of confirmed cases during the first half of the year increased by 211.4 per cent to 80,011 incidences, compared with the 25,694 incidences recorded in the first half of 2020. Mortality rose by 40.8 per cent to 831 in the half of the year, compared to the 590 in the first half of 2020.

Box 1: Policy Support and Developments in the Real Sector in the first half of 2021		
	Sector	Developments
1.	Industrial Sector	• The World Bank approved a US$500.00 million facility to improve access to electricity and expand the metering network of power distributors; • The Federal Government approved ₦35.00 billion for the building of a power station for the Nigerian Export Processing Zone Authority (NEPZA) in Cross River State; • Africa Export Import Bank (AFREXIM) and the Nigerian Export Import Bank (NEXIM) signed a Memorandum of Understanding (MoU) to establish a US$50.00 million fund to stimulate local production; • The Federal Government approved the revised National Policy Framework on Micro, Small and Medium Enterprises (MSMEs) to resolve challenges faced by the sub-sector; • The Federal Government approved the National Quality Policy to stop the rejection of Nigerian exports; and • Bank of Industry (BoI) secured a US$1.00 billion syndicate loan to support Micro, Small and Medium Enterprises (MSMEs) in the country.
2.	ICT	• The Federal Government approved the construction of the first National Information and Communications Technology (ICT) Park to accommodate the National ICT Exhibition Centre and, Museum for ICT and postal services, to showcase technology-related innovations by Nigerians; and • The Federal Government commenced the implementation of the Revised National Digital Identity Policy for SIM card Registration to deepen national identity management and improve security.
3.	Transport	• The Federal Government disbursed the aviation bailout fund of ₦5 billion among air carriers and operators; • The 157-kilometre Lagos-Ibadan standard gauge railway project commenced full commercial activities, while the construction of the 37 km Lagos Rail Mass Transit Red Line was flagged off; • The US$3.20 billion rehabilitation and reconstruction projects of the Port Harcourt-Maiduguri Eastern Railway project, the Bonny Deep Sea Port and the Railway Industrial Park, Port Harcourt were launched; • The Federal Government awarded a contract for the sum of US$1.96 billion for the 283.750 km cross-border Kano-Katsina-Jibia-Maradi and Kano-Dutse rail project; • The Federal Government approved CBN's proposal for the establishment of The Infrastructure Company (InfraCo) with an initial seed capital of ₦1.00 trillion; • The Federal Government, under the first phase of the Highway Development and Management Initiative (HDMI), approved the concession of 12 Federal Highways to private companies to improve facilities and operations, while maximising the revenue generating potential of the routes; and • US$60.00 million was received by the Lekki Port LFTZ Enterprise Limited, for the construction of the Lekki Deep Sea Port, as first installment of the US$629.00 million loan facility agreement with the China Development Bank, signed in 2019.
4.	Health	• The first batch of the AstraZeneca/Oxford vaccines was received from Serum Institute of India (SII) under the COVAX facility. The first batch included 3.92 million doses of the vaccine out of the 16 million doses allocated to the country.
5.	Education	• Approval was given for the establishment of University of Technology in Jigawa and Akwa Ibom States and University of Health Sciences in Bauchi and Osun States; • The Federal Government approved a take-off grant of ₦1 billion to establish the Aviation and Aerospace University in Abuja; and • The National Universities Commission (NUC) granted provisional licence to 20 new private universities.
6.	Employment Generation	• The Special Public Works Programme (SPWP) was launched to engage 774,000 itinerant and low-skilled young Nigerians; • A total of ₦2.04 billion was disbursed to 7,057 beneficiaries at end-May 2021, under the Nigeria Youth Investment Fund (NYIF).

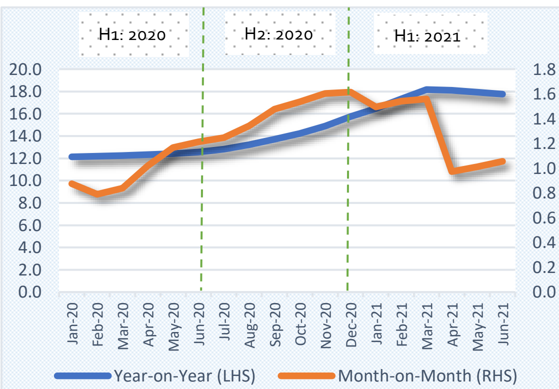
Policy Support and Developments in the Real Sector **in the first half of 2021** (Cont'd)		
	Sector	Developments
7.	Oil & Gas Sector	• The Department of Petroleum Resources (DPR) awarded provisional tenders to develop 57 of its marginal oilfields, to increase local participation in the oil sector; • The Federal Government launched the Nigerian Upstream Cost Optimisation Programme (NUCOP) aimed at ensuring value for upstream expenses; • The Nigerian National Petroleum Corporation (NNPC) extended its Direct Sale Direct Purchase (DSDP) contracts with 15 private companies up to June 2021 to help secure refined products for domestic consumption; • The Federal Executive Council (FEC) approved the sum of US$1.50 billion for the rehabilitation of the Port Harcourt refinery; • The NNPC, with its Production Sharing Contract (PSC) partners, executed agreements to renew the Oil Mining Lease (OML) 118 for another 20 years; • The ANOH Gas Processing Company (AGPC), which is an incorporated Joint Venture between Seplat and the Nigerian Gas Company (NGC), secured a US$260.00 million loan to fund the completion of its 300mmscfd capacity plant located on OML 53 in Imo State; and • The Federal Government inaugurated the Rungas composite cylinder manufacturing plant in Alaro city, Epe, Lagos State, to boost local production of LPG cylinders.
8.	Solid Minerals	• Nigeria's Mining Cadastre Office (MCO) revoked over 2,000 mining licenses over the non-payment of yearly service fees by the affected miners; and • The Federal Government and Bank of Industry (BOI) instituted a fund to provide loans to artisanal and small-scale miners of a minimum amount of ₦10.00 million at a 5.0 per cent interest rate.
9.	Crop Production	• The Federal Government distributed agricultural inputs to over 10,000 smallholder women farmers in the North Central region and the Federal Capital Territory (FCT); • The Nigeria Sovereign Investment Authority (NSIA), under the Presidential Fertiliser Initiative, partnered with OCP Africa Fertiliser Limited and the Akwa Ibom State Government to construct a US$1.40 billion ammonium plant which will produce 750,000 tons of ammonia and 1 million tons of phosphate fertiliser annually; • The Dangote Fertiliser company commenced operations and is expected to add about 3 million metric tonnes of Urea to the market, as well as earn the country about US$12.00 billion in foreign exchange; • The Agro-Processing, Productivity Enhancement, and Livelihood Improvement Support (APPEALS) Project in Kano State-supported over 20,000 farmers with training, equipment, and financial grants to engage in poultry, rice, wheat, and tomato farming; • The Federal Government granted the National Agricultural Land Development Authority (NALDA) approval to recruit and train 30,000 graduates of agriculture and related sciences to handle soil testing and other responsibilities in the Agency; and • AFEX Commodities Exchange Limited announced its first warehouse receipt-backed commercial paper, transferrable from commodities to financial assets and listed under the borrower's portfolio on the AFEX trading platform.
10.	Fisheries	• The Federal Government approved 39 licences for the importation of fish in the first half of 2021.
11.	Livestock	• The Federal Government approved the augmentation of ₦665 million contract earlier awarded to procure poultry equipment for displaced poultry farmers in Borno, Yobe, Plateau, and the Zamfara States; • The Federal Government commenced a pilot project of the National Livestock Transformation Plan (NLTP) in Nasarawa State. The project had 30 pastoralist households, with ranches equipped with the necessary facilities to support livestock production; • Seven states have set out 19 grazing reserves for the implementation of the NLTP with a total land size of approximately 400,000 hectares; • The US Mission partnered with Ikun Dairy Farm in Ekiti State to improve milk production in the country, with a target production of 10,000 litres of milk daily; • The Federal Government activated the Avian Influenza Outbreak Emergency Operation Centre (EOC), carried out sensitin to various • The Lagos State Government carried out two-week decontamination of the 26 major poultry markets as well as set up surveillance

c. Price Developments

Inflation

Inflationary pressure persisted during the first half of 2021, owing largely to a rise in food prices. Headline inflation (year-on-year) rose to 17.75 per cent at end-June 2021, higher than the 15.75 per cent at end-June 2020. The rise was attributed to faster growth in food prices, following the lingering impact of security challenges that disrupted the food supply chain.

Figure 12: Headline Inflation (y-on-y, m-on-m, per cent)

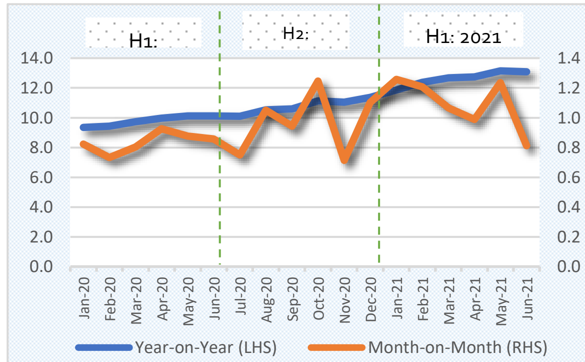


Source: National Bureau of Statistics (NBS)

i. Core Inflation

Core inflation (all-items less farm produce) continued to trend upward, to 13.09 per cent at end-June 2021, compared with 10.13 per cent at end-June 2020. The persistent rise in core inflation was, attributed largely, to the increase in the cost of transportation/logistics and heightened security challenges across the country.

Figure 13: Core Inflation (y-on-y, m-on-m, per cent)

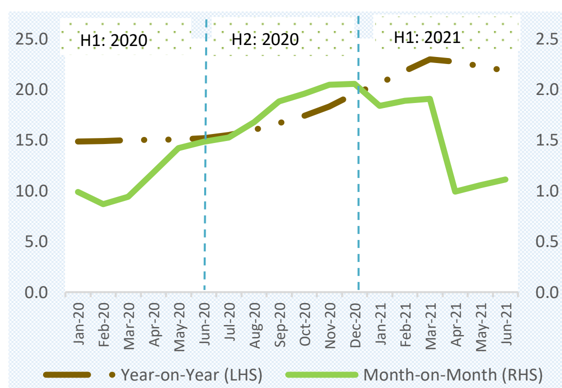


Source: National Bureau of Statistics (NBS)

ii. Food Inflation

Rising food prices remained the major driver of headline inflation in the first half of 2021. Although the pace of increase in food prices moderated during the period, food inflation rose to 21.83 per cent in the first half of 2021, compared with 15.18 per cent in the first half of 2020. The development was attributed to the disruption in the food supply chain, arising from security challenges and floods across the farming belts.

Figure 14: Food Inflation (y-on-y, m-on-m, per cent)



Source: National Bureau of Statistics (NBS)

Box 2
Selected Average Food Prices, *First Half 2021*

A survey of selected food prices by the National Bureau of Statistics (NBS) during the first half of the year revealed increases in prices, with the highest increases recorded in garri- white (54.9 per cent), maize - yellow (49.3 per cent), maize - white (46.9 per cent) and garri - yellow (44.1 per cent). Other commodities recorded increases ranging from 6.1 per cent for sweet potatoes to 40.2 per cent for imported beans (brown).

FOOD ITEM		2020H1	2021H1	% Change	FOOD ITEM		2020H1	2021H1	% Change
	Unit	1	2	(1) & (2)		Unit	1	2	(1) & (2)
Agric. eggs	1kg	462.6	530.3	14.6	Palm oil: 1 bottle, specify bottle	1kg	461.3	584.8	26.8
Beans brown,sold loose	"	279	391.2	40.2	Rice agric sold loose	"	384.6	445.2	15.8
Beans: white black eye. sold loose	"	254.5	365.6	43.6	Rice local sold loose	"	336.8	397.5	18
Gari white,sold loose	"	180.8	280	54.9	Rice Medium Grained	"	385.1	443.4	15.1
Gari yellow,sold loose	"	206.1	297.1	44.1	Rice imported high quality sold loose	"	458.5	546	19.1
Groundnut oil: 1 bottle, specify bottle	"	591.7	689.7	16.6	Sweet potato	"	152.1	161.4	6.1
Irish potato	"	301.3	325.7	8.1	Tomato	"	264	290.4	10
Maize grain white sold loose	"	160.3	235.4	46.9	Vegetable oil: 1bottle, specify bottle	"	540.4	677.1	25.3
Maize grain yellow sold loose	"	161.7	241.4	49.3	Wheat flour: prepacked	2kg	685.5	773.8	12.9
Onion bulb	"	229.3	309.6	35	Yam Tuber	1kg	217.7	255.4	17.3

Source: National Bureau of Statistics

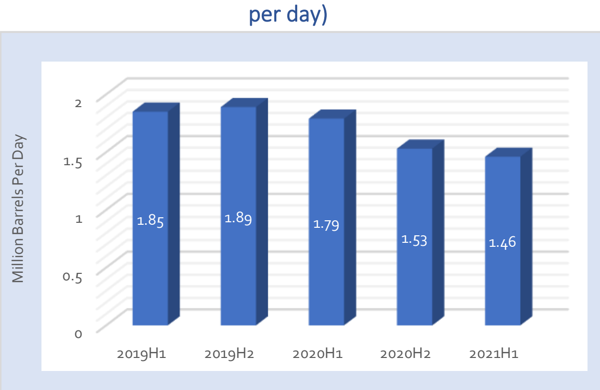
Domestic Crude Oil Production, Refinery Operations, and Petroleum Products Consumption

Crude Oil Production

Domestic crude oil production declined in the first half of 2021 due to supply disruptions. At an average daily production of 1.46 million barrels per day (mbpd) or 262.8 million barrels (mb), Nigeria's crude oil output in the first half of 2021 declined by 22.6 per cent, compared with the level in the first half of 2020.

Several factors accounted for the decline, including the fire outbreak at one of the country's major export terminals, force majeure placed on the Qua Iboe crude stream, shift to a later date of shipments of the Brass crude stream, and pipeline vandalism. In addition, leakages in the Nembe Creek Trunk line in May 2021 and the scheduled maintenance of the Trans Ramos and Bonga pipelines, forced several shut-ins.

Figure 15: Average Crude Oil Production (Million barrels per day)



Source: Refinitiv Eikon (Thomson Reuters)

Refinery Operations

Due to aging infrastructure, the three state-owned refineries in Nigeria, with a combined capacity of 445,000 barrels per day (bpd), were shut down, during the review period. Output from the Walter Smith Refinery and Niger Delta Petroleum Resources modular refineries, which were operational, was inadequate to boost the consolidated capacity utilisation rate and meet domestic demand.

Table 6: Status of Operation of Refineries in Nigeria

S/No.	Plants	Capacity (bpd)	Status
1	Port Harcourt Refining Company (PHRC)	210,000	Under rehabilitation
2	Kaduna Refining and Petrochemical Company (KRPC)	110,000	Under rehabilitation
3	(Warri Refining and Petrochemical Company (WRPC)	125,000	Under rehabilitation
4	Walter Smith Refinery	5,000	Operational
5	Niger Delta Petroleum Resources	1,000	Operational
6	Dangote Refinery	650,000	Under construction

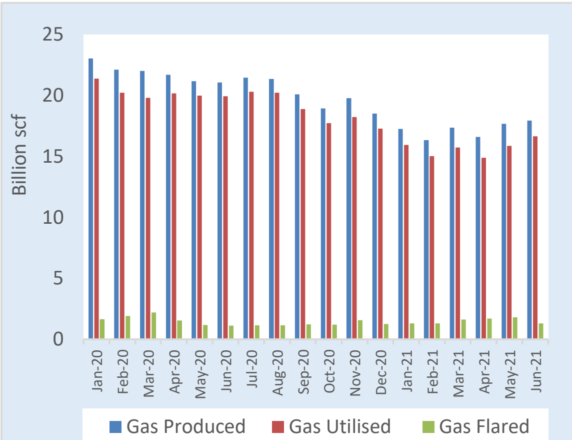
Source: Fitch Solutions

Gas

Gas Production and Utilisation

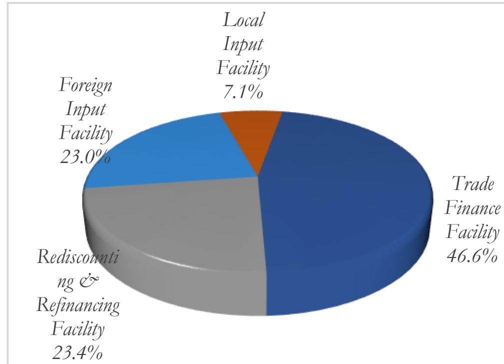
The estimated total volume of gas produced in the first half of 2021 declined by 21.4 per cent to 1,032,278 million standard cubic feet (mscf) compared with 1,312,430 mscf in the first half of 2020. Of the total gas produced, 91.0 per cent (941, 908 mscf) was utilised, while the remaining 9.0 per cent was lost through gas flaring. Of the utilised gas, 5.7 per cent was expended as fuel gas; 4.3 per cent, 1.8 per cent, 10.9 per cent, and 43.8 per cent were sold for the Escravos Gas-to-Liquid project (EGTL), NGL/LPG, domestic use, and NLNG, respectively. Gas re-injected accounted for 33.5 per cent gas utilised.

Figure 16: Gas Production, Utilisation and Flared, 2020-2021 (Billion scf)



Source: NNPC Monthly Oil Reports

Figure 17: Summary of NEXIM BANK Disbursements by Facility, First Half of 2021 (per cent)



Source: Nigeria Export Import Bank

d. Development Finance

Various development finance interventions to the real sector were sustained to drive job creation, economic recovery, and household welfare.

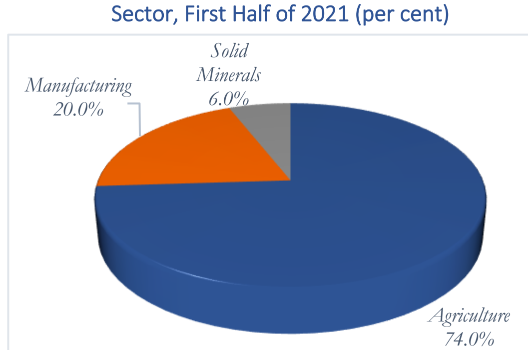
i. The Nigeria Export-Import (NEXIM) Bank

Total credit provided to the non-oil export sector under the various lending facilities of the NEXIM Bank in the first half of 2021 for 23 projects was ₦24.06 billion, compared with ₦18.1 billion in respect of 23 projects in the first half of 2020. The increased disbursement was attributed to new products, such as the Small and Medium Enterprises Export Facility (SMEEF), the Women and Youth Export Facility (WAYEF), and an uptick in economic activities.

The breakdown of the disbursement by facility showed that Trade Finance, Rediscounting and Refinancing, Foreign Input and Local Input Facilities accounted for 46.5 per cent, 23.4 per cent, 23.0 per cent and 7.1 per cent, respectively.

The sectoral analysis of disbursements showed that the agricultural sector received ₦17.74 billion (74.0 per cent), followed by the manufacturing sector with ₦4.82 billion (20.0 per cent) and solid minerals, ₦1.5 billion (6.0 per cent).

Figure 18: Summary of NEXIM BANK Disbursements by Sector, First Half of 2021 (per cent)



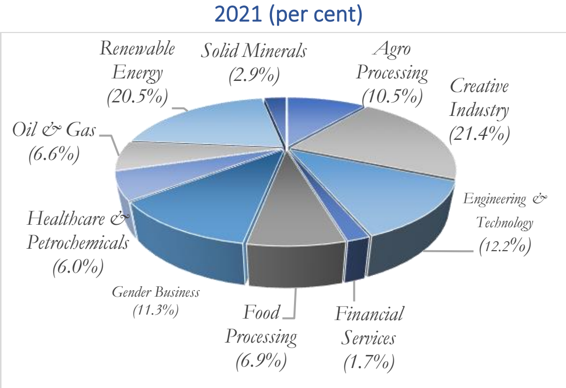
Source: Nigeria Export-Import Bank

ii. The Bank of Industry (BoI)

Total credit disbursed by the BoI to the industrial sector in the first half of 2021 fell by 15.7 per cent to ₦77.0 billion, from ₦91.4 billion in the first half of 2020. This was attributed to a higher number of ineligible applications. Large enterprises received ₦67.1 billion from the disbursements, representing 87.1 per cent of total disbursements, while small and medium enterprises received ₦9.9 billion (12.9 per cent).

A sectoral analysis of the disbursements shows that: the creative industry received ₦16.5 billion (21.4 per cent); renewable energy, ₦15.8 billion (20.5 per cent); engineering and technology, ₦9.4 billion (12.2 per cent); gender business, ₦8.7 billion (11.3 per cent); and, agro-processing, ₦8.1 billion (10.5 per cent). Others include food processing, ₦5.3 billion (6.9 per cent); oil and gas sector, ₦5.1 billion (6.6 per cent); and, healthcare and petrochemicals sector, ₦4.6 billion (6.0 per cent). Furthermore, solid minerals and financial services received ₦2.2 billion (2.9 per cent) and ₦1.3 billion (1.7 per cent), respectively.

Figure 19: Summary of BoI Disbursements by Sector, First Half of 2021 (per cent)



Source: Bank of Industry

e. CBN Interventions

The CBN sustained its intervention programmes with a view to promoting access to credit, job creation and economic growth. As part of its policy measures to cushion the effects of the COVID-19 pandemic on businesses, households and financial institutions, the Bank extended the interest rate concession and moratorium on its interventions to February 28, 2022.

The Bank also reviewed its guidelines for the implementation of the Anchor Borrowers' Programme (ABP) with the objectives of enhancing participation, improving repayments, and contributing significantly to national food output. In the first half of 2021, the Programme disbursed ₦179.30 billion to 1,008,457 smallholder farmers, compared with ₦149.01 billion disbursed to 810,583 smallholder farmers in the first half of 2020. The increase in ABP activities was due to renewed focus on large-scale anchors to improve the Programme's potential for job creation and welfare enhancement. Cumulatively, the ABP has, since it's inception, financed 3.56 million farmers cultivating about 4.25 million hectares of 21 agricultural commodities, contributing an annual estimate of up to 2.5 million metric tonnes of rice paddy, 1.13 million metric tonnes of maize, and 1.41 million metric tonnes of cassava to the national output. During the period, repayment was ₦47.49 billion, compared with ₦124.90 billion in the first half of 2020.

The Bank also sustained its interventions in the manufacturing sector through two programmes, namely COVID-19 Intervention for Manufacturing Sector (CIMS) and Real Sector Support Facility – Differentiated Cash Reserve Requirement (RSSF-DCRR). The CIMS and RSSF-DCRR supported 16 and 32 greenfield projects, respectively, valued at ₦35.99 billion and ₦199.69 billion, compared with 42 and 59 projects, valued at ₦77.41 billion and ₦137.49 billion, respectively, in the first half of 2020. Repayment under RSSF-DCRR was ₦41.97 billion, compared with ₦11.65 billion in the first half of 2020.

The Healthcare Sector Intervention Facility (HSIF) financed 23 projects, valued at ₦25.16 billion, in the first half of 2021, compared with ₦20.96 billion for 15 projects in the first half of 2020. The intervention led to increased hospital bed spaces, improved healthcare delivery, and supported the acquisition of over 45 Magnetic Resonance Imaging (MRI) machines and 36 Computed Tomography (CT) scanners.

The Bank also supported businesses and households adversely affected by the COVID-19 pandemic, as it disbursed ₦144.93 billion to 323,634 beneficiaries, compared with 70,953 beneficiaries in the first half of 2020. Cumulatively, the Targeted Credit Facility (TCF) has supported 641,134 beneficiaries, comprising 539,446 households and 101,688 SMEs, since its inception in 2020.

The Bank's National Mass Metering Programme (NMMP) continued to support the energy sector by procuring 393,702 electricity meters nationwide in the first half of 2021. Cumulatively, the Programme has financed the procurement of 657,562 electricity meters since its inception in October 2020. Similarly, the Solar Connection Facility (SCF) financed the installation of 100,000 solar home systems (SHS) in rural areas across the country.

Table 7: Disbursements on Interventions in the First Halves of 2020 and 2021

	H1-2020			H1-2021		
	Disbursements		Repayments	Disbursements		Repayments
	Amount (₦ Billion)	Beneficiaries	Amount (₦ Billion)	Amount (₦ Billion)	Beneficiaries	Amount (₦ Billion)
Agricultural Credit Guarantee Scheme (ACGS)	*1.48*	*9,641loans guaranteed*	*1.35*	*2.17*	*9,719 loans guaranteed*	*1.75*
Commercial Agricultural Credit Scheme (CACS)	*27.09*	*15 projects*	*29.04*	*16.25*	*11 projects*	*20.01*
Anchor Borrowers' Programme	*149.01*	*810,583 farmers*	*124.90*	*179.30*	*1,008,457 farmers*	*47.49*
Accelerated Agriculture Development Scheme (AADS)	*6.00*	*4 State government-sponsored projects*	*N/A*	*1.50*	*1 State government-sponsored projects*	*N/A*
Maize Aggregation Scheme (MAS)	*1.50*	*3 Projects*	*N/A*	*0.35*	*2 Projects*	*N/A*
Paddy Aggregation Scheme (PAS)	*3.20*	*3 Projects*	*Nil*	*4.17*	*1 Project*	*Nil*
Presidential Fertilizer Initiative (PFI)	*Nil*	*Nil*	*3.50*	*Nil*	*Nil*	*2.50*
National Food Security Programme (NFSP)	*9.00*	*2 Projects*	*2.85*	*Nil*	*Nil*	*8.31*
Real Sector Support Facility Using Differentiated Cash Reserve Ratio (RSSF-DCRR)	*137.49*	*59 Projects*	*11.65*	*199.69*	*32 Projects*	*41.97*
COVID-19 Intervention for Manufacturing Sector (CIMS)	77.41	*42 Projects*	*N/A*	35.99	*16 Projects*	*N/A*
Non-oil Export Stimulation Facility (NESF)	*9.00*	*2 Projects*	*2.85*	*Nil*	*Nil*	*0.58*
Micro, Small and Medium Enterprises Development Fund (MSMEDF)	*Nil*	*Nil*	*4.97*	*0.05*	*1 beneficiary*	*2.91*
Agribusiness/Small and Medium Enterprises Investment Scheme (AGSMEIS)	*26.62*	*6,727 beneficiaries*	*0.03*	*9.79*	*1,067 beneficiaries*	*0.135*
Creative Industry Financing Initiative (CIFI)	*1.10*	*160 beneficiaries*	*N/A*	*0.07*	*21 beneficiaries*	*0.013*
Targeted Credit Facility (TCF)	*44.28*	*70,953 beneficiaries*	*N/A*	*144.93*	*323,654 beneficiaries*	*N/A*
Nigeria Youth Investment Fund (NYIF)	*Nil*	*Nil*	*Nil*	*2.81*	*6,763 beneficiaries*	*N/A*
Healthcare Sector Intervention Fund (HSIF)	*20.96*	*15 Projects*	*N/A*	*25.16*	*23 Projects*	*N/A*
Healthcare Sector Research Intervention (Grant) Scheme (HSRDIS)	*Nil*	*Nil*	*Nil*	*0.15*	*5 beneficiaries*	*N/A*
National Mass Metering Programme (NMMP)	*Nil*	*Nil*	*Nil*	*36.04*	*393,702 Meters*	*N/A*
Nigeria Electricity Market Stabilization Facility (NEMSF)	*Nil*	*Nil*	*10.73*	*120.29*	*7 DisCos*	*5.91*
Nigeria Bulk Electricity Trading – Payment Assurance Facility (NBET-PAF	*85.42*	*1 Project*	*N/A*	*88.99*	*1 Project*	*N/A*
Solar Connection Facility (SCF)	*Nil*	*Nil*	*Nil*	*7.00*	*100,000 SHS*	*N/A*
Intervention Facility for Nigeria Gas Expansion Programme (IFNGEP)	*Nil*	*Nil*	*Nil*	*15.20*	*2 Projects*	*N/A*

Source: Central Bank of Nigeria
Note: Facilities granted under these interventions were still under moratorium
N/A means Not Available

3.3 FISCAL DEVELOPMENTS

Fiscal Policy Framework 2021-2023

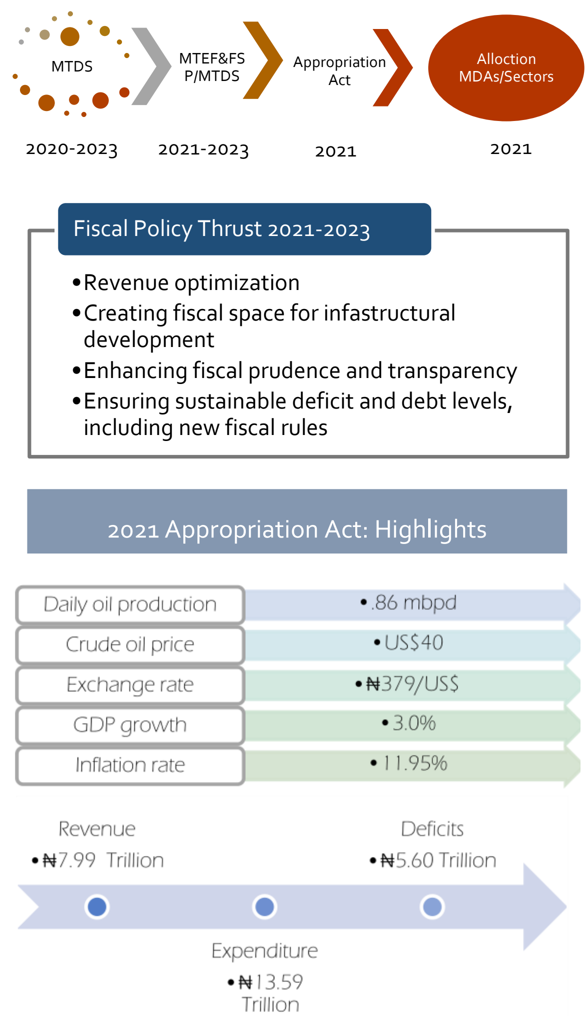
Fiscal policy in the review period was anchored on the 2021 Appropriation Act, the Medium-Term Expenditure Framework and Fiscal Strategy Papers, 2021-2023 (MTEF/FSP 2021-2023), and the Medium-Term Debt Strategy 2020-2023 (MTDS 2020-2023). These frameworks are linked to the Economic Recovery and Growth Plan (ERGP) and the National Economic Sustainability Plan 2020 (NESP 2020), which prioritizes: macroeconomic stability, food security, energy sufficiency, industrialisation, infrastructural development, enhancement of government revenue, reduction of non-essential spending, job creation, and mitigating the immediate impact of COVID-19, among other objectives.

3.3.1 Federation Account Operations

a. Federation Revenue

Government revenue mobilization drive was underpinned by the Finance Act 2020, derived from the Strategic Revenue Growth Initiatives (SRGI[1]). The strategy rests on the expectation that oil prices remain around the $40 per barrel benchmark and that domestic crude oil production stays within the 1.86 mbpd targets envisaged in the 2021 FGN budget. Other revenue enhancement measures in the period include leveraging technology and automation, service-wide implementation to the Integrated Payroll and Personnel Information System (IPPIS), strengthening independent revenue monitoring, and planned elimination of costly subsidies (petrol and electricity).

Figure 20: Fiscal policy frameworks for FY2021



Source: Based on the MTEF/FSP 2021-2023 data

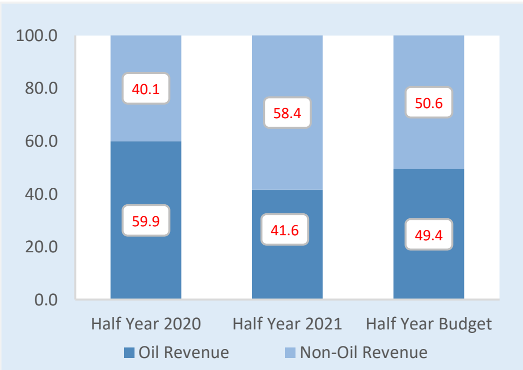
Revenue outcomes in the first half of 2021 improved, relative to 2020; signaling gradual build-up of economic activities, as COVID-19 restrictions were lifted. At ₦5,050.10 billion (or 6.4 per cent of GDP), provisional gross federally collected revenue[2] rose by 8.3 per cent, above the level in the of first half 2020, but 18.7 per cent lower than the benchmark. Although it remained

[1] The SRGI focuses on accelerating revenue mobilization without hurting private investment or job creation.

[2] Earnings lodged in the Federation Account by virtue of Section 161 of the Federal Republic of Nigeria Constitution 1999 as amended.

below the proportionate target, higher revenue performance in the period, reflected the gradual easing of economic activity.

Figure 21: Structure of Federation Revenue (per cent)



Source: Office of Accountant General of the Federation (OAGF) and FMFB&NP.

Revenue growth, relative to 2020, was driven by non-oil revenue sources, which accounted for 58.4 per cent of total federation earnings, while oil revenue sources constituted the balance of 41.6 per cent. This compares with the ratio of 49.4:50.6 (non-oil to oil) revenue composition envisaged in the 2021 budget.

The dominance of non-oil revenue reflected early gains of revenue diversification efforts of the government, driven by the Strategic Revenue Growth Initiatives (SRGI); while the contribution of oil was, particularly, lowered by the high cost of petrol subsidy and low domestic crude oil output.

Table 8: Federally Collected Revenue and Distribution (₦ Billion)

	Half Year-20	Half Year-21	2021 Budget
Federation Revenue (Gross)	4,662.50	5,050.10	6,148.29
Oil	**2,793.84**	**2,100.40**	**3,035.56**
Crude Oil & Gas Exports	234.13	18.84	315.02
PPT & Royalties	1,628.63	1,403.59	1,661.27
Domestic Crude Oil/Gas Sales	873.45	618.75	505.71
Others	57.63	59.22	553.55
Non-oil	**1,868.66**	**2,949.69**	**3,112.73**
Corporate Tax	569.06	779.44	748.26
Customs & Excise Duties	418.19	544.59	566.26
Value-Added Tax (VAT)	637.75	1,025.54	919.17
Independent Revenue of Fed. Govt.	98.40	519.78	530.95
*Others**	145.28	80.34	348.08
Total Deductions/Transfers*	**1,099.55**	**1,181.81**	**684.02**
Federally Collected Rev (Net) *Less Deductions & Transfers***	2,722.72	2,363.39	3,676.88
Plus:			
Additional Revenue	**252.59**	**125.30**	**338.51**
Excess Oil Revenue	103.97	0.00	0.00
Excess Non-Oil Revenue	11.68	99.02	338.51
Exchange Gain	136.94	26.28	0.00
Total Distributed Balance	**3,568.42**	**3,442.45**	**4,866.91**
Federal Government	1,522.06	1,348.73	2,078.80
State Governments	1,023.43	1,088.41	1,415.37
Local Governments	767.98	805.28	1,060.98
13% Derivation	254.95	200.03	311.76

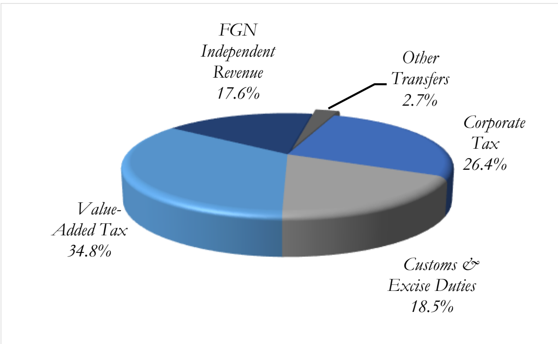
Source: Fed. Min. of Finance Budget and National Planning (FMFB&NP)

i. Drivers of Federally Collected Revenue

a. Non-oil Revenue

Gradual recovery in the domestic economy, stirred by the relaxation of COVID-19 containment measures, manifested in higher non-oil revenue outcomes. Non-oil revenue at ₦2,949.69 billion (3.7 per cent of GDP) rose by 57.9 per cent, relative to half year 2020. The improvement reflected a pickup in economic activity and the continued implementation of the Finance Acts (2019 and 2020), which raised revenue, particularly from corporate taxes and value-added tax, by 37.0 per cent and 60.8 per cent, respectively. Despite the increase in non-oil receipts, it fell short of the proportionate target by 5.2 per cent.

Figure 22: Composition of Non-Oil Revenue (per cent)

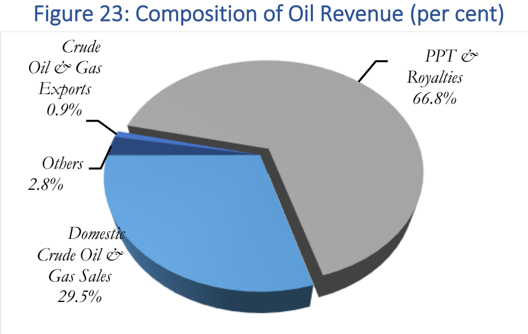


Sources: OAGF and FMFB&NP

b. Oil Revenue

Amidst sustained rise in crude oil prices during the review period, oil receipts were lower, relative to the first half of 2020 and the projection for 2021, due to supply cut agreement. At ₦2,100.40 billion (or 2.7 per cent of GDP), oil revenue was 24.8 per cent and 30.8 per cent, lower than receipts in the first half of 2020 and the 2021 appropriation benchmark. This development was associated with the reduction in Nigeria's production quota, from 1.8 mbpd to 1.46 mbpd, in compliance with the OPEC+ supply cut agreement.

Figure 23: Composition of Oil Revenue (per cent)



Sources: OAGF and FMFB&NP

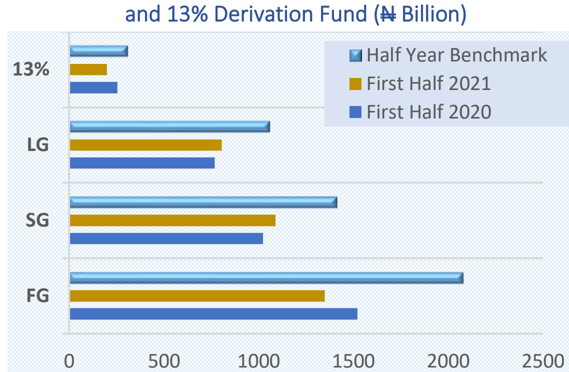
ii. Deductions

From the gross revenue of ₦5,050.10 billion realised in the first half of 2021, statutory deductions from oil and non-oil revenue sources at ₦737.33 million and ₦444.48 million, respectively, left a balance of ₦3,442.45 billion for allocation to the three tiers of government.

iii. Allocations to the three tiers of government

Gross allocation to the three tiers of government fell by 13.2 per cent, due largely, to lower revenue outcomes relative to the first half of 2020. Disbursement was also 29.3 per cent short of the target in the 2021 Appropriation Act. The shortfall in allocation, compounded by low independent revenue out comes, at the central and subnational levels, exacerbated fiscal pressure in the review period.

Figure 24: Distribution to the Three Tiers of Government and 13% Derivation Fund (₦ Billion)



Sources: OAGF and Federal Ministry of Finance, Budget &National Planning

b. Tax Revenue Assessment

Further evaluation of the structure of the federation revenue in the period shows that oil and non-oil taxes jointly accounted for 75.6 per cent of federally collected revenue (gross), while the balance constituted revenue from crude oil and gas sales and other non-tax related revenue sources (including independent revenue sources of the FGN). Further disaggregation indicates that income tax (dominated by petroleum profit tax) was the major contributor to tax revenue, accounting for 43.2 per cent; consumption tax, 20.3 per cent; international trade taxes and other taxes, 12.1 per cent.

In terms of tax-to-GDP ratio, Nigeria recorded 4.8 per cent, compared with the average of 16.5 per cent in some 30 African countries[3]. The low ratio underscores the burgeoning tax expenditure[4] (TE) as a major drainer of tax revenue. Estimated losses to tax expenditure were put at ₦1.18 trillion, ₦3.10 trillion ₦347.0 billion; ₦64.0 billion, for CIT, VAT, customs duties and imports VAT[5], respectively

The introduction of policy reforms, such as the inclusion of a section on 'tax expenditure statement' in the 2021-2023 MTEF/FSP and performance management framework, through the Finance Act 2020, that limits Government-Owned Enterprises (GOEs) spending to 50 per cent of what they generate, are likely to enhance collection and operational efficiencies of the GOEs.

3.3.2 Fiscal Operations of the Federal Government

a. FGN Retained Revenue

Despite declines in statutory receipts from the Federation Account, the retained revenue of the FGN increased in the review period, on the back of significant improvement in its independent revenue sources. Provisional data on FGN retained revenue at ₦2,303.58 billion (2.9 per cent of GDP), exceeded receipts in the first half of 2020 by 18.3 per cent. The positive outcome indicated early payoffs from ongoing fiscal reforms (encapsulated in the Finance Acts, 2019 and 2020), reflected in significant increases in receipts from FGN independent revenue and VAT. Regardless of the stronger revenue outcome in half-year 2021, the negative impact of COVID-19 induced shocks still weighed heavily on fiscal policy, as FGN revenue was 42.3 per cent below its projection.

Table 9: Federal Government Retained Revenue (₦ Billion)

	Half Year 2020	Half Year 2021	Budget
FGN Retained Revenue	1,947.08	2,303.58	3,993.21
Federation Account	*1,308.82*	*1,141.86*	*1,772.75*
VAT Pool Account	*88.97*	*143.06*	*127.73*
FGN Independent Revenue	*151.38*	*519.78*	*530.95*
Excess Oil Revenue	*54.77*	*0.00*	*0.00*
Excess Non-Oil	*63.96*	*51.62*	*0.00*
Exchange Gain	*5.55*	*12.19*	*178.33*
*Others**	*273.64*	*435.07*	*1,383.46*

Source: OAGF and FMFB&NP
Note*: Includes Transfers from Special Levies Accounts, FGN's share of Signature Bonus, Domestic Recoveries, Stamp Duty, Grants and Donor Funding and Share of NLNG Dividend.

b. Federal Government Expenditure

Aggregate expenditure rose, amidst persisting revenue shortfalls, as the government grappled with new and unfolding COVID-19-induced expenditure exigencies, in addition to rising interest payments obligations. At ₦6,632.05 billion (or 8.4 per cent of GDP), provisional aggregate expenditure of the FGN exceeded the level in the first half of 2020 by 40.6 per cent. The increase reflected new and rising spending priorities to cushion the effect of the pandemic on the economy. Despite the exigencies of COVID-19, a partial[6] analysis suggests relative expansion in the fiscal space, as non-discretionary expenditure fell to 60.6 per cent (of total expenditure), compared with 69.3 per cent in the first half of 2020.

[3] Revenue Statistics in Africa OECD 2020.
[4] Tax revenue foregone, arising from government's issuance of tax waivers or concessions to economic agents.
[5] 2021 Second Quarter and Half Year Budget Implementation Report, Budget Office of the Federation.
[6] A partial analysis that beams exclusively on the expenditure side, and particularly the composition of government spending.

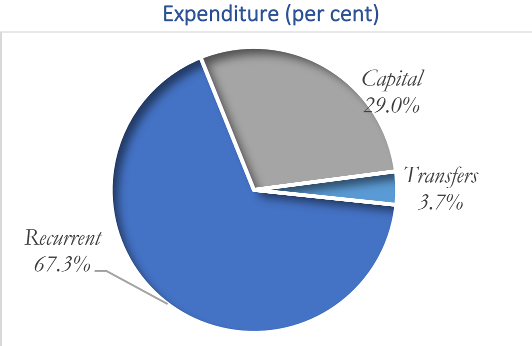
Dynamism in non-discretionary expenditure was largely driven by debt service obligations, which accounted for 50.2 per cent of non-discretionary spending in half year 2021, and increased by 28.0 per cent, relative to the half year 2020. On the other hand, capital expenditure dictated the level of discretionary expenditure, constituting 73.7 per cent of its total and jumping 155.2 per cent over the level in the 2020 half-year.

Table 10: Federal Government Expenditure (₦ Billion)

	Half Year 2020	Half Year 2021	Half Year Benchmark
Aggregate Expenditure	**4,716.36**	**6,632.05**	**6,794.01**
Recurrent	**3,991.37**	**4,460.36**	**4,483.18**
of which:			
Personnel Cost	1,426.56	1,616.94	1,686.17
Pension and Gratuities	180.23	178.66	252.10
Overhead Cost	725.14	438.45	882.72
Interest Payments	1,578.66	2,020.17	1,662.19
Domestic	*1,326.90*	*1,523.02*	*1,191.75*
External	*251.76*	*497.15*	*470.45*
Special Funds	80.79	206.14	-
Capital Expenditure	**444.75**	**1,923.43**	**2,062.57**
Transfers	**280.24**	**248.26**	**248.26**

Source: CBN Staff Estimate

Figure 25: Composition of Federal Government Expenditure (per cent)



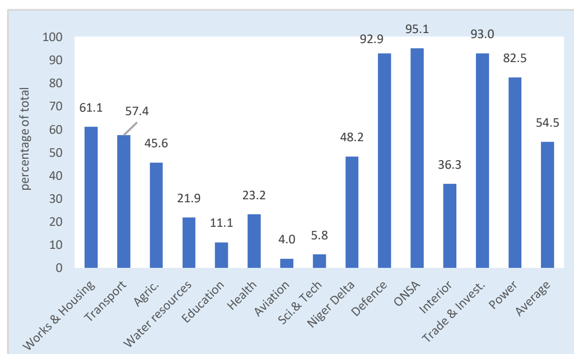
Source: OAGF

Further analysis reveals that non-debt expenditure constituted 36.8 per cent of total expenditure; while debt service accounted for 30.5 per cent and 45.3 per cent of total expenditure and recurrent expenditure of the FGN, respectively.

Of the total, recurrent expenditure, which comprises non-debt expenditure and interest payments, at ₦4,460.36 billion (or 5.6 per cent of GDP), accounted for 67.3 per cent of total expenditure, while capital expenditure and transfers were 29.0 per cent (or 2.4 per cent of GDP) and 3.7 per cent (or 0.3 per cent of GDP) , respectively.

Regarding the utilization of capital budget releases to MDAs, the Office of the National Security Adviser (ONSA), Defence, Trade and Investment, and Power ranked highest, while Aviation, Science and Technology, and Education ranked least (Figure 26). On average, 54.5 per cent of capital releases in the 2021 half-year was utilized.

Figure 26: Capital Budget Utilization by MDAs as at June 31, 2021

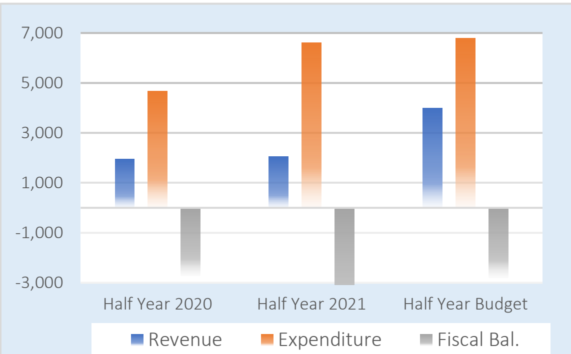


Sources: OAGF and BOF, 2021

c. Federal Government Fiscal Balance

The combination of low revenue performance and elevated expenditure levels culminated in the deterioration of the fiscal balance in the first half of 2021. The provisional overall deficit of the FGN at ₦4,328.47 billion (or 5.5 per cent of GDP) expanded by 56.3 per cent and 54.5 per cent, relative to the 2020 half-year and the budgeted level, respectively. This reflected persisting revenue challenge, elevated spending on COVID-19 mitigation, and the development of critical infrastructure, among others. The deficit was financed from both domestic and external sources.

Figure 27: Federal Government Fiscal Operations (₦ Billion)



Source: OAGF and Federal Ministry of Finance, Budget &National Planning

Table 11: Fiscal Balance Half Year 2021 (₦ Billion)

	Half Year		
	2020	2021*	Benchmark
Retained revenue	1,947.08	2,0303.58	3,993.21
Aggregate expenditure	4,716.36	6,632.05	6,794.01
Primary balance	-1,190.62	-2,308.30	-1,138.62
Overall balance	-2,769.28	-4,328.47	-2,800.81
Deficit-to-GDP (%)	-4.0	-5.5	-3.60

Source: CBN Staff Estimates from available data
Note: * 2021 Figures are provisional

Table 12: Economic Classification of Government Expenditure
Half Year 2021

	Expenditure (₦'billion)	*Percentage share*			
		Administration	Economic services	Social and Comm. services	Transfers
Recurrent	4,460.36	25.1	6.8	14.2	53.9
Capital	1,923.43	38.5	41.1	15.9	4.5
Transfers	248.26	-	-	-	-

Source: Staff Estimate

d. Public Debt Strategy and Sustainability

a. *Total Public Debt*

Following new borrowings from domestic and external sources, majorly for the financing of infrastructural development and legacy liabilities, public debt position increased.

Total public debt outstanding, constituting Federal and State governments' debt, at end-June 2021, stood at ₦35,465.01 billion or 22.4 per cent of GDP and represented an increase of 14.4 per cent above the level at end-June 2020. The increase was attributed to new borrowings, contracted to fund part of the 2021 Appropriation Act, and settle inherited arrears of FGN debts to State governments, oil marketing companies, exporters, and local contractors. Of the total outstanding debt, the Federal Government owed 83.1 per cent (including FGN-guaranteed states' external debt), while States accounted for the balance of 16.9 per cent. Given that the FGN guarantees the external borrowing by States in line with section 47 (3) of the Fiscal Responsibility Act 2007, the latter's share of external debt (13.6 per cent) was a contingent liability to the FGN.

Table 13: Total Public Debt (₦ Billion)

Type	1st Half 2019	1st Half 2020	1st Half 2021
External Debt	**8,322.63**	**11,362.24**	**13,710.88**
Of which:			
FGN	7,012.87	9,824.28	11,845.63
States & FCT	1,309.76	1,538.06	1,865.24
Domestic Debt	**17,379.02**	**19,645.40**	**21,754.13**
Of Which:			
FGN	13,412.80	15,455.70	17,631.80
States & FCT	3,966.22	4,189.70	4,122.32
Total	**25,701.65**	**31,007.74**	**35,465.01**

Note: End- June 2021 External debt comprises of both FGN, States and F.C.T as stated on the website of the DMO.
Source: DMO

i. Federal Government Debt

- ### Debt Strategy

FGN debt strategy in the period was underscored by the 2020-2023 Medium-Term Debt Management Strategy (MTDS), which replaced the 2016-2019 MTDS and stipulated the borrowing limits, optimal debt portfolio mix, and cost-risk tradeoffs that would ensure debt sustainability.

Table 14: Revised MTDS Targets

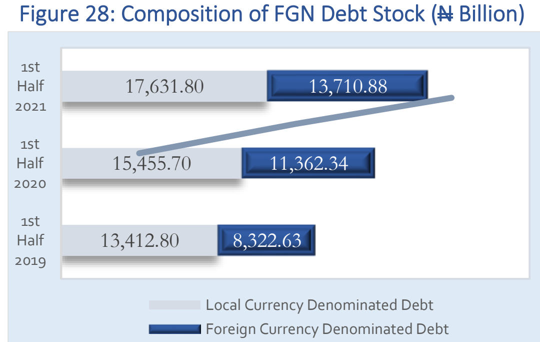
Indicator	Targets 2016-2019	Targets 2020-2023
Fiscal Sustainability: Total Public Debt as % of GDP	Max. 25%	Max. 40%
Portfolio Composition:		
Domestic: External Debt Mix	Max.60:Min.40	Max.70:Min.30
Refinancing Risk: Average Tenor of Debt Portfolio	Min. 10 years	Min. 10 years
Long-Term: Short-Term Domestic Debt Mix	Min.75:Max.25	Min.75:Max.25

Source: 2020-2023 MTDS

- ### Debt Stock and Composition

The consolidated debt stock of the Federal Government, at the end-June 2021, was ₦31,342.68 billion. This represents an increase of 16.9 per cent over the level at the end-June 2020. Given the debt-GDP ratio thresholds of the 2020-2023 MTDS (40.0 per cent); WB/IMF (55.0 per cent) and ECOWAS (70.0 per cent), the FGN's debt-to-GDP ratio at 19.8 per cent, remained decent.

Figure 28: Composition of FGN Debt Stock (₦ Billion)



Source: Debt Management Office

In terms of composition, domestic debt was 56.3 per cent of the total commitment, while external debt accounted for the balance of 43.7 per cent.

Further disaggregation indicated that 17.0 per cent of the total domestic debt was held in short-term Nigerian Treasury Bills (NTBs) of between 91-day and 364-day tenors, while the balance 83.0 per cent was held in medium- and long-term instruments.

Foreign financing comprised loans from Multilateral (54.9 per cent of total external debt stock), Commercial (31.9 per cent), and Bilateral sources (12.7 per cent). Compared with external debt composition, in the first half of 2020, the FGN prioritised Multilateral and Bilateral loans ahead of Commercial financing. This was influenced, largely, by its preference for concessional loans with longer-term moratorium.

Figure 29: Breakdown of External Debt Stock, 2017H1–2021H1 (US$ Billion)

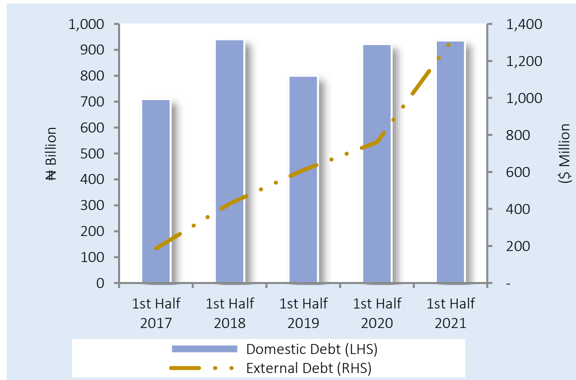
Source: Debt Management Office (DMO)

- ## Debt Service

At ₦1,431.67 billion, total debt service rose by 19.8 per cent, relative to the first half of 2020. The sum of ₦935.46 billion was paid out to domestic creditors, while external creditors received ₦496.21 billion.

As a ratio of revenue and non-debt expenditure, debt service constituted 62.1 per cent and 58.7 per cent, respectively, reflecting a northward trend from 61.4 per cent and 49.5 per cent, respectively, in the half the of 2020. At 1.8 per cent of GDP, the rising debt-service commitment constrains government's capacity to address more critical development priorities.

Figure 30: Breakdown of Total Debt Service, First Half 2017 – First Half 2021 (₦ Billion and $ Million Respectively)



Source: DMO

3.3.4 Sub-National Government Fiscal Analysis

a. State Governments and FCT Finances

i. Revenue

Despite reductions in federation inflow, statutory receipts by states increased marginally in the first half of 2021. This was due to improvements in non-oil revenue components that guarantee higher statutory allocation to the subnational units relative to the FGN. At ₦1,288.44 billion, state governments' gross revenues from statutory sources exceeded the level in the first half of 2020 by 0.8 per cent. The increase was attributed to an appreciable improvement in VAT receipts, resulting from the uptick in economic activities and sustained implementation of the Finance Acts.

Considering subsisting liabilities, which amounted to a deduction of ₦156.29 billion[7] from states' Federation Account receipts, a net

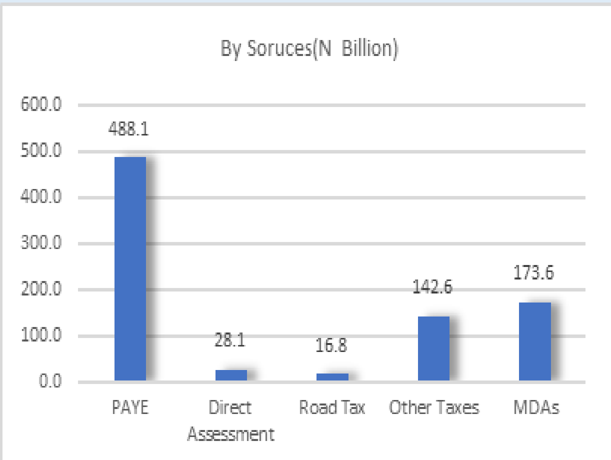
[7] These arise from state governments' contractual obligations, including their contribution to external debt service fund, payments for fertilizer, State Agricultural Project, National Fadama Project and the National Agricultural Technology Support Programme.

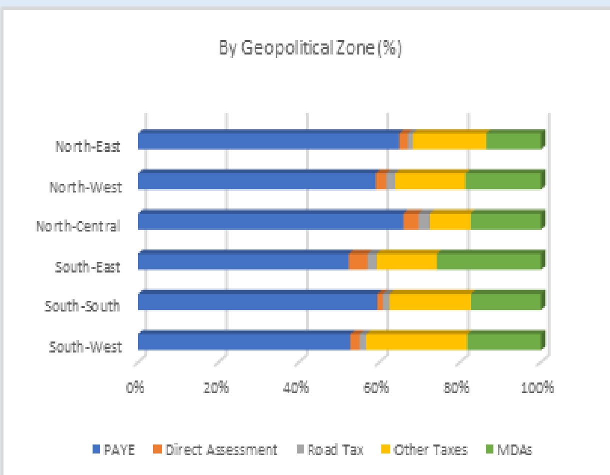
balance of ₦1,132.15 billion was distributed to the states in the review period. This was 8.2 per cent above the level in the corresponding period of 2020. A breakdown shows the sources of states' statutory revenue in the period to include: Federation Account, ₦618.73 billion (54.7 per cent); VAT Pool Account, ₦476.87 billion (42.1 per cent); Non-oil Excess ₦27.21 billion (2.4 per cent); and Exchange Gain, ₦9.33 billion (0.8 per cent).

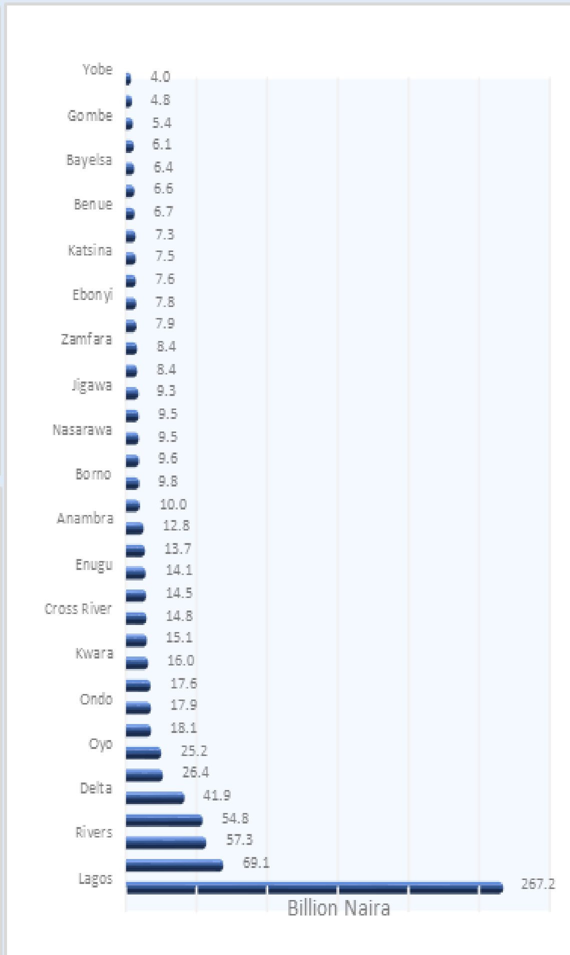
Box 3:

Internally Generated Revenue by States in the First Half of 2021

According to data from the National Bureau of Statistics (NBS), total internally generated revenue of the 36 states and the FCT amounted to N849.12 billion in the first half of 2021, indicating a 13.2 per cent growth. Lagos, FCT and Rivers led the park, with 31.47 per cent, 8.13 per cent and 6.75 per cent of the total IGR, respectively; while Taraba, Niger and Yobe, recorded the least collections at 0.47 per cent, 0.56 per cent and 0.64 per cent of total IGR, respectively. In terms of sources, PAYE contributed the highest (57.48 per cent), distantly followed by remittances by MDAs (20.44 per cent).

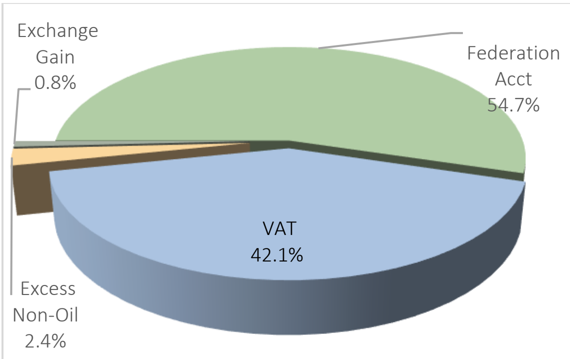






Source: Staff compilation using NBS data

Figure 31: Composition of State Governments and FCT's Revenue First Half 2021 (per cent)



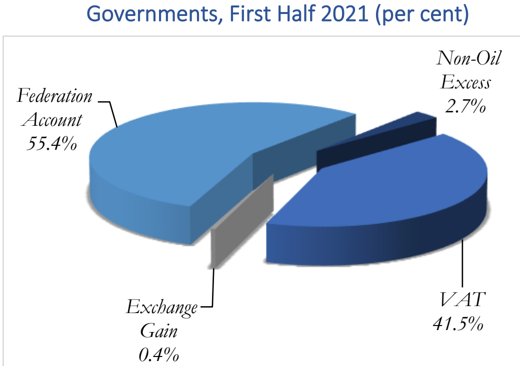
Sources: OAGF & Federal Ministry of Finance, Budget &National Planning

b. Local Government Finances

The revenue profiles of local governments were enhanced by improvements in the Federation and VAT receipts. Total allocations to the 774 local governments from the Federation Account in the first half of 2021 was ₦805.28 billion. This was 4.9 per cent higher than the level in the first half of 2020 and 24.1 per cent lower than the budget target.

Receipts from the Federation Account, at ₦446.51 billion, accounted for 55.4 per cent; VAT, ₦333.81 billion (41.5 per cent); non-oil excess revenue, ₦21.42 billion (2.7 per cent); and exchange gain, ₦3.53 billion (0.4 per cent).

Figure 32: Composition of Statutory Allocations to Local Governments, First Half 2021 (per cent)



Sources: OAGF and Federal Ministry of Finance, Budget &National Planning

The marginal increase in local governments' statutory receipts was attributed to the gradual but sustained upturn in economic activities.

Table 15: Subnational Government Revenue (₦ Billion)

	First Half 2020	First Half 2021	Half Year Benchmark
State Governments	1,023.43	1,088.41	1,415.37
Local Governments	767.98	805.28	1, 060.98
13% Derivation	254.95	200.03	311.76

State Government Allocations

	State	Allocation (₦ Billion)	% of Total
Top 3	Lagos	101.24	7.9
	Delta	93.49	7.3
	Rivers	71.74	5.5
Bottom 3	Ekiti	23.99	1.9
	Kwara	23.79	1.8
	Nassarawa	23.70	1.8

Local Government Allocations

	State	Allocation (₦ Billion)	% of Total
Top 3	Lagos	61.85	7.7
	Kano	44.4	5.5
	Oyo	32.5	4.0
Bottom 3	Ebonyi	12.69	1.6
	Gombe	11.46	1.4
	Bayelsa	9.46	1.2

Source: Staff compilation from OAGF & FMFB&NP

3.4 FINANCIAL DEVELOPMENTS

a. Monetary and Credit Developments

To accelerate growth recovery, the Bank maintained an accommodative monetary policy stance in the review period. The development engendered improved money and capital markets, enhanced capital inflows, increased financial intermediation, and improved financial sector soundness.

Broad Money Supply

Growth in money supply was driven by claims on the domestic economy, but remained below indicative targets for 2021, due to the contraction in net foreign assets. Broad money supply (M3) grew by 2.1 per cent to ₦39,406.65 billion at end-June 2021, compared with 2.6 per cent at end-June 2020. On annualised basis, the growth in M3 stood at 4.2 per cent, which was below the provisional growth target of 10.0 per cent for 2021.

Domestic claims grew by 3.8 per cent to ₦44,385.56 billion at the end-June 2021, due, wholly, to the increase in claims on 'Other Sectors, reflecting the unwavering extension of funds to the private sector to boost economic growth. Domestic claims contributed 4.7 percentage points to the growth in M3.

Claims on "Other Sectors" rose by 8.3 per cent to ₦32,638.18 billion, compared with 11.0 per cent at the end-June 2020. The growth was due to the 3.6 per cent, 31.5 per cent and 13.6 per cent growth in claims on State and Local governments, Public Non-Financial Corporations, and Private sectors, respectively. Consequently, the contribution of claims on 'Other Sectors' to the growth of total monetary assets was 6.4 percentage points, reflecting the Bank's effort at stimulating growth in the private sector.

Net claims on the central government contracted by 7.1 per cent, owing to an increase in central government deposit liabilities. This led to a 16.2 per cent increase in the liabilities to central government.

Table 16: Growth in Monetary Assets and Liabilities (per cent)

	Jun 17	Jun 18	Jun 19	Jun 20	Jun 21
Net Foreign Asset	-9.18	7.71	-16.07	40.64	-0.62
Net Domestic Asset	**1.89**	**-2.8**	**17.24**	**-5.18**	**2.73**
Domestic Claims	**1.25**	**-5.22**	**14.23**	**4.74**	**3.75**
Net claims on Government	6.76	36.18	56.94	-11.88	-7.14
Claims on Other Sectors	0.14	-0.06	5.31	11.04	8.25
Other financial corporations	-2.3	7.22	7.55	21.89	-4.56
State and local government	19.3	5.62	1.06	-3.07	3.57
Public nonfinancial corporations	-1.22	72.89	0.99	-8.66	31.54
Private sector	-0.14	-4.37	4.81	8.46	13.64
Broad money Liabilities	**-1.2**	**1.25**	**5.2**	**2.63**	**2.09**
Currency outside depository corporations	-18.82	-14.74	-14.33	-7.63	-9.91
Transferable deposits	-1.76	3.09	-6.71	21.88	2.2
Other deposits	-9.22	2.63	11.38	10.88	4.76
Securities other than shares	29.08	0.02	11.43	-46.85	-29.79

Source: Central Bank of Nigeria

The growth in monetary liabilities was driven by a 2.2 per cent and 4.8 per cent increases in transferable deposits and 'other' deposits of the Depository Corporations (DCs), respectively. The development reflected investors' preference for higher yield on investments and the use of alternative payment channels, over cash transactions. The growth in narrow money stock (0.3 per cent) was sluggish, owing to the significant fall in currency outside depository corporations (-9.9 per cent).

Reserve Money

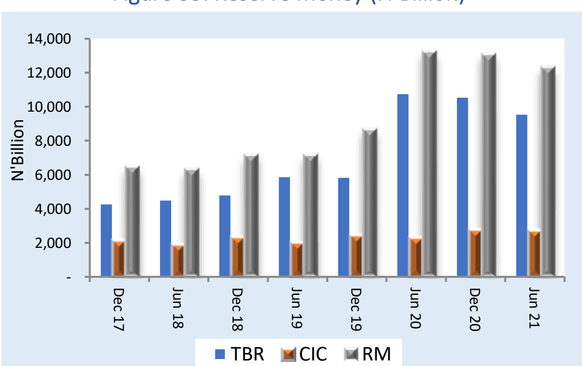
Reserve money declined by 5.9 per cent to ₦12,333.79 billion at end-June 2021. The decline in reserve money was driven, largely, by the 5.9 per cent fall in liabilities to ODCs

Table 17: Reserve Money (₦ Billion)

	Jun-17	Jun-18	Jun-19	Jun-20	Jun-21
Reserve Money	**5,480.3**	**6,360.6**	**7,187.2**	**13,245.4**	**12,333.8**
Currency in Circulation	1,873.5	1,900.7	2,014.1	2,300.8	2,741.3
Liabilities to ODCs	3,606.8	4,459.9	5,173.1	10,944.6	9,592.5

Source: Central Bank of Nigeria

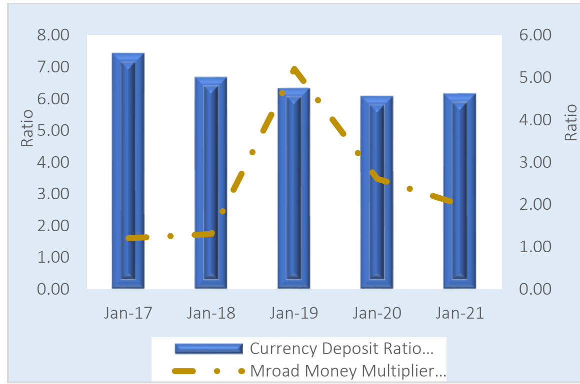
Figure 33: Reserve Money (₦ Billion)



Source: Central Bank of Nigeria

Broad money multiplier stood at 2.0 at end -June 2021, down from 2.6 at end-June 2020, reflecting the high currency ratio of 6.12, compared with 6.08 in the first half of 2020.

Figure 34: Currency-Reserve Deposit Ratio and Broad Money Multiplier



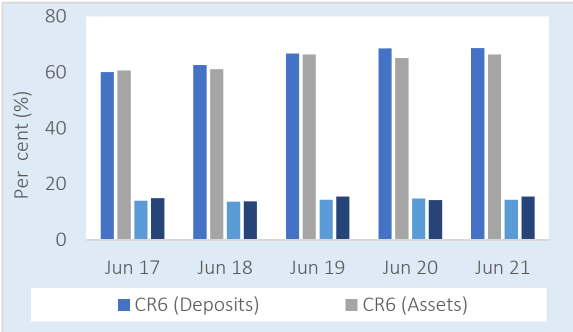
Source: Central Bank of Nigeria

Market Structure of the Banking Industry

The Nigerian banking industry remained competitive, but oligopolistic, as six banks accounted for over 60 per cent of deposits and assets during the first half of 2021. *Industry* competitiveness was gleaned from the Herfindhal-Hirschman indices [8] of 936.66 in deposits and 907.93 in assets, compared with 942.44 and 880.47, respectively, in the first half of 2020. The share of the largest bank in deposits and assets was 14.5 per cent and 15.6 per cent, respectively, absence of a dominant single bank, although the concentration ratio of six banks (CR6) stood at 68.8 in deposits and 66.4 in assets. The percentage shares of the remaining sixteen banks ranged from 0.1 per cent to 4.5 per cent in deposits and 0.3 per cent to 4.6 per cent in assets. Trend analysis of the HHI indicates rising competition on deposit mobilization over the past 5 years, even as asset contestation dipped slightly, at the height of the COVID-19 pandemic in 2020

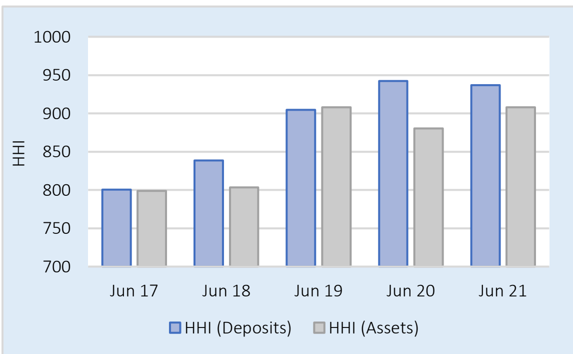
[8] The Herfindahl-Hirschman Index (HHI) is a concentration measure. A HHI close to 100 is considered a competitive industry, while a HHI close to 10,000 is highly concentrated.

Figure 35: Market Concentration Ratios of Banks (Assets and Deposits)



Source: Central Bank of Nigeria

Figure 36: Measures of Competition in Banks: Herfindahl-Hirschman Index

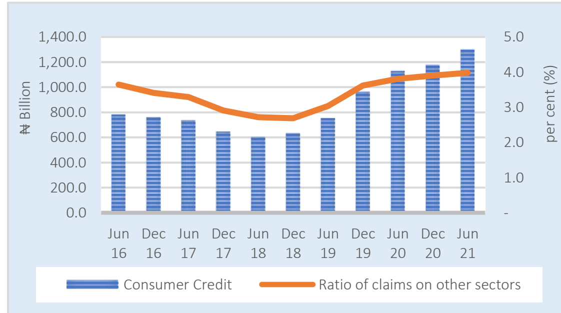


Source: Central Bank of Nigeria

Consumer Credit

Consumer credit continued to increase, reflecting a sustained implementation of the LDR policy and regulatory forbearance granted to banks to boost household consumption and strengthen economic activities. Consumer credit rose by 10.6 per cent, to ₦1,299.44 billion at end-June 2021, compared with ₦1,175.38 billion in the first half of 2020, showing a persistent trend since June 2018. Consumer loans constituted 4.0 per cent of total credit to other sectors, in the first half of 2021, compared with 3.8 per cent at the end of first half of 2020.

Figure 37: Consumer Credit (Levels and as a share of Claims on Other Sectors)



Source: Central Bank of Nigeria

b. Financial Soundness

The financial sector remained resilient during the review period, as key financial soundness indicators were within the regulatory requirement. The banking system remained safe and sound, as the industry capital adequacy ratio was above the regulatory minimum of 15.0 per cent for banks with international authorisation and 10.0 per cent for banks with either national or regional authorisation. The industry capital adequacy ratio (CAR) increased to 15.5 per cent at end-June 2021, following a marginal increase in qualifying capital.

The industry liquidity ratio was 41.3 per cent in the first half of 2021, compared with 37.0 per cent at the end-June 2020. The development emanated largely from special bills issued to banks to boost their liquidity position. All commercial, merchant, and non-interest banks, except three commercial banks, met the minimum regulatory liquidity ratio of 30.0 per cent, 20.0 per cent and 10.0 per cent, respectively, in the first half of 2021.

The asset quality of the banking industry, measured by the ratio of non-performing loans to total loans (NPL ratio), though slightly above the 5.0 regulatory maximum, improved to 5.7 per cent from 6.4 per cent at end-June 2020. This was due to sustained recoveries, write-offs, higher provisioning, disposals of pledged collaterals, and improvement in economic activities. Loan loss provision stood at 98.5 per cent at the end-June 2021, compared with 93.8 per cent in the first half of 2020.

c. Other Financial Institutions

Following new licenses and upgrade of existing institutions, the number of OFIs increased, and further strengthened financial penetration. The number of Other Financial Institutions (OFIs) rose to 6,620 at the end-June 2021, compared with the 6,333 institutions at end-June 2020, reflecting an increase of 287 OFIs, following a mix of new licenses, revocation, and upgrade. A total of 330 new OFIs were licensed (313 Bureaux de Change, 11 Finance Companies and 6 Microfinance Banks (MFB), while the Bank revoked the operating licences of 42 MFBs. The operating license of one National MFB was upgraded to a Regional Bank.

Total assets of OFIs, excluding the BDCs, rose by 36.1 per cent to ₦5,176.36 billion at end-June 2021, compared with ₦3,802.58 billion at end-June 2020. Similarly, net loans and advances rose by 41.2 per cent to ₦2,532.38 billion at the end-June 2021, compared with ₦1,792.96 billion in the first half of 2020. Cash and bank balances and placements increased by 101.6 per cent and 39.5 per cent to ₦303.24 billion and ₦816.38 billion at the end-June 2021, compared with ₦150.45 billion and ₦585.11 billion, respectively, at end-June 2020. The increase in total assets was attributed, largely, to the rise in borrowing, other liabilities, and long-term liabilities.

Long-term liabilities and other liabilities increased by 160.9 per cent and 75.1 per cent to ₦596.02 billion and ₦875.45 billion at the end-June 2021, respectively, compared with ₦228.49 billion and ₦499.99 billion at the end-June 2020. The increase resulted from the re-classification of the NIRSAL Microfinance on-lending facilities from the CBN, hitherto recognized as off-balance sheet, in the balance sheet. Similarly, borrowings rose by 22.3 per cent to ₦1,988.25 billion at the end-June 2021, compared with ₦1,625.37 billion at end-June 2020. Shareholders' funds increased by 11.2 per cent to ₦651.04 billion at the end-June 2021, compared with ₦585.58 billion in the first half of 2020. The increase in shareholders' funds was due, largely, to the accretion to reserves by DFI, FC, and MFB sub-sectors.

Table 18: Other Financial Institutions Consolidated Balance Sheet (₦ Billion)

Asset	Jun-20	Jun-21
Cash & Bank Balances	150.45	303.24
Placements	585.11	816.38
Investments	923.07	1,114.39
Net Loans & Advances	1792.96	2,532.38
Other Assets	197.36	248.73
Fixed Assets	153.63	161.24
Total Assets	3,802.58	5,176.36
Financed By:		
Share Capital	448.95	468.51
Reserves	136.63	182.54
Shareholders' funds	585.58	651.04
Deposits	844.22	1,034.85
Borrowings	1,625.37	1,988.25
Due to Other Banks	18.93	30.76
Other Liabilities	499.99	875.45
Long-term Liabilities	228.49	596.02
Total Capital & Liabilities	3,802.58	5,176.36

Source: Central Bank of Nigeria

Development Finance Institutions

The assets of the development finance institutions increased due largely to improved investments. The total assets of the seven development finance institutions (DFI)[9] increased by 26.2 per cent to ₦3,117.74 billion, from ₦2,471.00 billion at end-June 2020. Net loans and advances, and placements increased by 22.6 per cent and 41.4 per cent to ₦1,385.95 billion and ₦526.75 billion, respectively, from N1,130.89 billion and ₦372.68 billion in the corresponding period of 2020.

Similarly, investments rose by 22.5 per cent to ₦1,002.36 billion, from ₦818.16 billion in the corresponding period of 2020, following the pick-up in economic activities. Borrowings and other liabilities increased by 21.5 per cent and 90.7 per cent to ₦1,767.22 billion and ₦393.22 billion, respectively, from ₦1,455.11 billion and ₦206.16 billion at the end-June 2020. Similarly, long-term liabilities increased by 89.7 per cent to ₦50.94 billion from ₦26.86 billion at end-June 2020.

Shareholders' funds increased by 16.0 per cent to ₦422.26 billion, from ₦364.10 billion at end-June 2020. The increase was due, mainly, to the growth in reserves by BOI, DBN, and NMRC. A disaggregation of the total assets by institution indicated that BOI, DBN, FMBN, NEXIM, NMRC, BOA, and TIB accounted for 61.3 per cent, 15.4 per cent, 13.0 per cent, 5.9 per cent, 2.7 per cent, 1.6 per cent and 0.2 per cent, respectively. The BOI, DBN, FMBN, NEXIM, BOA and NMRC accounted for 52.3 per cent, 19.5 per cent, 19.0 per cent, 5.0 per cent, 2.9 per cent, and 1.3 per cent, of total net loans and advances, respectively.

Table 19: Development Finance Institutions Consolidated Balance Sheet

Assets	Jun-20	Jun-21
Cash & Bank Balances	20.67	71.99
Placements	372.68	526.75
Investments	818.16	1002.36
Loans & Advances	1,130.89	1,385.95
Other Assets	69.25	65.86
Fixed Assets	59.34	64.83
Total Assets	2471.00	3117.74
Financed By:	*0.00*	*0.00*
Paid-Up Capital	238.78	238.78
Reserves	125.31	183.48
Shareholders' Funds	364.10	422.26
Deposits	413.11	484.01
Borrowings	1,455.11	1,767.22
Due to Other Banks	5.66	0.09
Other Liabilities	206.16	393.22
Long-Term Liabilities	26.86	50.94
Total Capital & Liabilities	2,471.00	3,117.74

Source: Central Bank of Nigeria

Microfinance Banks

Assets of MFBs increased due, to the rise in net loans and advances. The number of licensed MFBs stood at 875 at end-June 2021, compared with 912 MFBs at end-June 2020, following the licensing of six new MFBs, conversion of one National MFB to a regional commercial bank, and revocation of 42 MFB licenses. The 875 licensed MFBs comprised nine National MFBs, 132 State MFBs, and 734 Unit MFBs at end-June 2021.

Total assets of the MFBs rose by 91.6 per cent to ₦1,223.89 billion, from ₦638.67 billion at end-June 2020. Net loans and advances and balances with banks increased by 125.2 per cent and 103.5 per cent, to ₦739.00 billion and ₦171.81 billion, respectively, from ₦328.18 billion and ₦84.41 billion at the end-June 2020. The increase was

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

due to the rise in long-term loans/on-lending facilities, takings from Banks and deposits, and reclassification of CBN on-lending facilities to NIRSAL Microfinance into their balance sheet. Similarly, placements with banks increased by 34.3 per cent to ₦181.51 billion, from ₦135.13 billion at end-June 2020.

Shareholders' funds increased by 10.1 per cent to ₦144.14 billion, above ₦130.95 billion at end-June 2020 due, mainly, to capital injection and accretion to reserves. Deposit liabilities rose by 30.0 per cent to ₦367.97 billion, from ₦283.14 billion at end-June 2020. Long-term loans/on-lending also increased by 261.4 per cent to ₦464.87 billion, from ₦128.62 billion at end-June 2020. Similarly, other liabilities increased by 164.3 per cent to ₦230.63 billion, from ₦87.25 billion in the corresponding period of 2020. The development was attributed to the CBN intervention funds channeled to the sub-sector through NIRSAL MFB as palliatives to cushion the effect of the COVID-19 pandemic on businesses and households.

Investible funds available to the sub-sector in the review period amounted to ₦585.22 billion, compared with ₦160.04 billion at end-June 2020. The funds were sourced mainly from an increase in long-term loans (₦336.25 billion), other liabilities (₦143.38 billion), and deposits (₦84.83 billion). The funds were, mainly, for loans and advances (₦410.82 billion), placements (₦46.39 billion), and balances with banks (₦87.40 billion).

Table 20: Microfinance Banks Consolidated Balance Sheet

Asset	Jun-20	Jun-21
Cash	6.08	12.42
Balances with Banks	84.41	171.81
Placement with Banks	135.13	181.51
Short Term Investments	18.93	22.55
Long Term Investments	5.26	6.08
Net Loans and Advances	328.18	739.00
Other Assets	37.15	62.75
Fixed Assets	*23.51*	*27.75*
Total Assets	638.67	1,223.89
Financed By		
Paid-Up Capital	80.89	93.29
Reserves	50.06	50.85
Shareholders' Funds	130.95	144.14
Deposits	283.14	367.97
Takings from Other Banks	8.71	16.28
Long Term Loans/On-Lending	128.62	464.87
Other Liabilities	87.25	230.63
Total Liabilities	638.67	1,223.89

Source: Central Bank of Nigeria

Finance Companies

The assets of Finance companies increased, due to the retention of profit, increase in borrowings, and injection of capital. The number of FCs in operation increased to 91, at the end of June 2021, compared with 80 at the end of June 2020. This was occasioned by licensing of 11 new institutions during the review period to deepen financial intermediation and stimulate economic growth.

Total assets of FCs increased by 29.9 per cent to ₦333.43 billion, from ₦256.62 billion at end-June 2020. Similarly, loans and advances increased by 52.7 per cent to ₦142.69 billion, from ₦93.44 billion at end-June 2020. Investments and other assets increased by 89.6 per cent and 22.0 per cent, respectively, to ₦20.04 billion and ₦59.56 billion, from ₦10.57 billion and ₦48.84 billion at end-June 2020. However, cash decreased by 58.1 per cent to ₦2.00 billion, from ₦4.78 billion at end-June 2020.

Total liabilities increased, due to the growth in shareholders' funds, borrowings, and other liabilities. Shareholders' funds increased by 8.8 per cent, to ₦47.72 billion at end-June 2021, compared with ₦43.88 billion in the corresponding period of 2020. The development was as a result of the injection of additional capital in the review period. Borrowings increased by 29.8 per cent, to ₦221.03 billion at end-June 2021, compared with ₦170.25 billion at end-June 2020. Similarly, other liabilities increased by 50.3 per cent, to ₦61.44 billion at end-June 2021, compared with ₦40.89 billion at end-June 2020.

Investible funds available to the sub-sector in the review period amounted to ₦82.87 billion, compared with ₦29.76 billion at end-June 2020, signifying improvement in financial activities. The funds were mainly from borrowings (₦50.78 billion), paid-up capital (₦5.64 billion), (proceeds from new share issued), and other liabilities (₦20.55 billion). The funds were utilised, to increase loans and advances (₦49.25 billion), investment (₦9.47 billion), and other assets (₦10.72 billion)

Table 21: Finance Companies Consolidated Balance Sheet

Assets	Jun-20	Jun-21
Cash	4.78	2.00
Balances with Banks	17.96	22.20
Placements	30.37	37.76
Investments	10.57	20.04
Net Loans and Advances	93.44	142.69
Other Assets	48.84	59.56
Fixed Assets	50.67	49.18
Total	256.62	333.43
Financed By:		
Paid-Up Capital	22.07	27.72
Reserves	21.81	20.01
Shareholders' Funds	43.88	47.72
Long Term Loans Liabilities	1.60	3.23
Total Borrowings	170.25	221.03
Other Liabilities	40.89	61.44
Total	256.62	333.43

Source: Central Bank of Nigeria

Primary Mortgage Banks

The number of primary mortgage banks remains unchanged. However, the total assets increased, owing, largely, to the growth in net loans and advances. There were 34 licensed operating PMBs, comprising 12 national and 22 state PMBs, which was the same as at end-June 2020. Total assets of the PMBs increased by 14.9 per cent, to ₦501.30 billion, from ₦436.29 billion at end-June 2020. Net loans and advances increased by 10.1 per cent, to ₦264.74 billion, from ₦240.45 billion at end-June 2020.

Placements and balances with banks rose by 49.9 per cent and 40.4 per cent, to ₦70.35 billion and ₦19.80 billion, respectively, at end-June 2021, from ₦46.94 billion and ₦14.10 billion at end-June 2020. However, investment in quoted shares and investment/non-current assets held for sale decreased by 34.2 per cent and 12.8 per cent, to ₦8.22 billion and ₦43.64 billion, respectively, from ₦12.49 billion and ₦50.20 billion in the corresponding period of 2020.

Shareholders' funds declined by 20.9 per cent, to ₦36.92 billion, from ₦46.65 billion at end-June 2020. This was due, largely, to increase in non-performing loans, occasioned by lull in economic activities, following the COVID-19 pandemic. However, deposits and other liabilities increased by 23.6 per cent and 14.8 per cent, respectively, to ₦182.87 billion and ₦190.16 billion, above ₦147.98 billion and ₦165.68 billion at end-June 2020.

Investible funds available to the sub-sector amounted to ₦87.55 billion, compared with ₦21.04 billion at end-June 2020. The funds were sourced mainly from an increase in deposits (₦34.90 billion); due to other banks (₦9.82 billion), other liabilities (₦24.47 billion), and a decline in investment/non-current assets held for sale (₦6.39 billion). The funds were utilised, mainly for loans and advances (₦24.29 billion), placement with banks (₦23.42 billion), and other assets (₦18.44 billion).

Table 22: Primary Mortgage Banks Consolidated Balance Sheet

Assets	Jun-20	Jun-21
Cash	1.07	1.09
Cash Reserve Requirement	1.37	1.93
Balances with Banks	14.10	19.80
Placement with Banks	46.94	70.35
Investments/Non-Current Held For Sale	50.02	43.64
Short Term Investments	7.62	11.50
Investment in Quoted Shares	12.49	8.22
Loans and Advances	240.45	264.74
Other Assets	42.11	60.56
Fixed Assets	20.10	19.48
Total	436.29	501.30
Financed By:		
Paid-Up Capital	107.20	108.72
Reserves	(60.55)	(71.80)
Shareholders' Funds	46.65	36.92
Deposits	147.98	182.87
Due to Other Banks	4.57	14.39
Long-Term Loans/NHF	71.41	76.97
Other Liabilities	165.68	190.16
Total	436.29	501.30

Source: Central Bank of Nigeria

Bureau-De-Change

The number of licensed BDCs stood at 5,613 as at end-June 2021, compared with 5,300 at end-June 2020. The rise was occasioned by the licensing of 313 new institutions in the review period. The increase in the review period was aimed at deepening the retail segment of the foreign exchange market.

Examination of Other Financial Institutions

The Bank conducted a routine and special examination of 258 OFIs in the first half of 2021 to ensure compliance with extant regulations. The exercise covered Risk-Based Supervision (RBS) of 152 BDCs and 25 Systemically Important Other Financial Institutions (SIOFIs), comprising 13 MFBs, 8 PMBs and 4 FCs. Other OFIs examined included the special examination of 61 MFBs on "Watch List", 12 PMBs and 8 FCs with critical regulatory issues to ensure compliance with the extant regulations.

The scope of the RBS examination of the 152 BDCs covered a review of corporate governance practices, sources of foreign exchange and its utilisation, rendition of returns, adequacy of documents for foreign exchange transactions, and compliance with relevant regulations. Six of the BDCs were not physically present at their registered addresses, hence, not examined. Money Laundering and Financing of Terrorism (ML/FT) risks were evaluated in line with the GIABA assessment requirements. The result of the Composite Risk Rating (CRR) of the 146 BDCs showed one "Low," 4 "Moderate," 78 "Above Average," and 63 "High." Also, the examination revealed some infractions of extant regulations and erring institutions were appropriately sanctioned.

Existence checks were conducted on the 61 MFBs on "Watch List" to assess their capital levels, in line with the final re-capitalisation deadline of April 2022. The exercise revealed that 12 MFBs were in operation, 33 had shut down, 11 were inactive, and 5 were undergoing restructuring. The average CAR, LR, and portfolio-at-risk (PAR) of the 12 MFBs contracted by 50.7 per cent, 161.9 per cent and 74.0 per cent, respectively. 4 of the MFBs met the minimum capital adequacy ratio of 10.0 per cent, 9 met the minimum liquidity ratio of 20.0 per cent, while one MFB operated within the maximum PAR of 5.0 per cent.

Similarly, the Target Examination of the 12 PMBs revealed that 11 PMBs were in operation while one was undergoing restructuring. The adjusted capital and capital adequacy ratios of the 11 PMBs were below the minimum regulatory requirements, while 4 met the minimum liquidity ratio of 20.0 per cent. Similarly, the Target Examination of the 8 FCs revealed that 2 FCs were "Sound," one "Technically Insolvent", 2 inactive, while 3 could not be rated as they were not carrying out finance business. Consequently, the 3 institutions were advised to apply for a Payment Services Bank (PSB) license.

Supervisory Letters were issued to the erring institutions, with regulatory directives to inject additional capital, effect sound corporate governance, ensure compliance with extant laws and regulations, and implement all recommendations.

Highlights of the RBS examination reports of the SIOFIs are indicated in Table 23.

Table 23: RBS Examination Reports of the Systemically Important Other Financial Institutions

OFIs	Composite Risk Rating (CRR)	NPL	Earnings Rating	Capital Rating	Prudential and Soundness Analysis
Primary Mortgage Banks	1 = Low 3 = Moderate 2 = Above Average 2 =High	The average NPL Ratio of 77.9 per cent was above the regulatory maximum of 30 per cent.	1 = Strong 4 = Acceptable 3 = Needs Improvement	3 = Strong 3 = Acceptable 2 = Needs Improvement	Average CAR and liquidity ratio of 55.7 per cent and 129.5 per cent, respectively and above the regulatory minimum of 10 and 20 per cent
Finance Companies	1 = Low 1= Above Average 2 = High	The average NPL of 17.7 per cent was above the regulatory maximum of 10 per cent.	1 = Strong 1 = Needs Improvement 2 = Weak	1 = Strong 2 = Acceptable 1 = Weak	The average CAR was 19.4 per cent was above the 12.5 per cent regulatory requirement.
Microfinance Banks	4 = Moderate 7 = Above Average 2 = High	Average PAR was 25.9%, above the regulatory maximum of 5%	5 = Acceptable 6 = Needs Improvement 2 = Weak	5 = Strong 5 = Acceptable 2 = Needs Improvement 1 = Weak	The average CAR and liquidity ratio were 27.6 and 57.4 per cent, respectively. These were above the regulatory minimum benchmarks of 10 and 20 per cent.

Source: Central Bank of Nigeria

d. Financial Markets

The accommodative monetary policy stance aimed at supporting macroeconomic recovery led to improved performance in the money and capital markets in the first half of 2021. However, the liquidity condition in the banking system was relatively tight, resulting in high interest rates.

i. Money Market Developments

Liquidity levels in the review period were influenced by the effects of Cash Reserve Ratio (CRR), settlement for foreign exchange interventions, CBN Bills repayments, and fiscal activities. Conversely, the sale of CBN bills moderated the banking system's liquidity levels, and significantly impacted money market rates.

Interest Rate Developments

Money market rates trended upwards in the first half of 2021, following liquidity constraints in the banking system. The weighted average inter-bank call and the OBB rates stood at 14.83 per cent and 12.32 per cent, respectively, compared with 7.21 per cent and 8.35 per cent in the first half of 2020. Further investigation shows that the spike in rates in April 2021 was due to liquidity squeeze, arising from CRR and naira debits for foreign exchange transactions.

Table 24: Money Market Rates, Weighted Average (per cent)

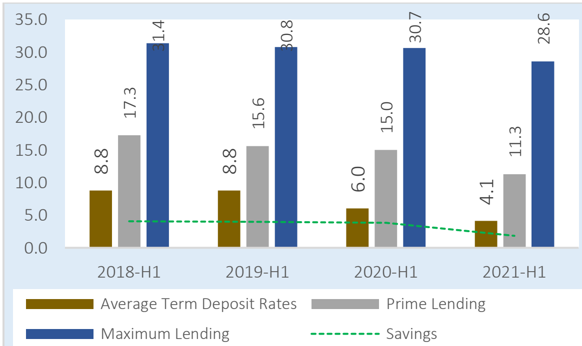
	MPR	Call Rate	OBB Rate
Jan-21	11.5	4.4	3.3
Feb-21	11.5	11.7	8.7
Mar-21	11.5	10.1	12.6
Apr-21	11.5	30.0	16.8
May-21	11.5	16.0	16.2
Jun-21	11.5	16.9	16.4
2021H1	11.5	14.83	12.32
2020H1	13.17	7.21	8.35

Source: Central Bank of Nigeria

Deposit and Lending Rates

Trends in lending rates reflected the accommodative stance of monetary policy, with the average MPR at 11.50 per cent in the first half of 2021, compared with 13.17 per cent in the first half of 2020. Consequently, the prime and maximum lending rates fell by 3.72 percentage points and 2.06 percentage points to 11.28 per cent and 28.60 per cent, respectively, in the first half of 2021, from their levels in the first half of 2020.

Figure 38: DMBs Deposits and Lending Rates (per cent)



Source: Central Bank of Nigeria

Deposit rates also mirrored the trend in lending rates as the average term deposit rates fell by 1.93 percentage points to 4.11 per cent below the level in the first half of 2020. Consequently, the spread between the average term deposit and maximum lending rates widened by 0.18 percentage points, to 26.44 per cent.

Open Market Operations

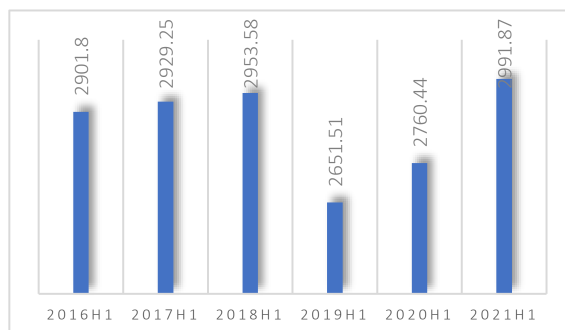
Open Market Operation (OMO) remained the main tool for liquidity management, boosting tradable securities and deepening secondary market activities. CBN Bills offered at the open market amounted to ₦7,456.08 billion, with total public subscription and sales at ₦11,257.90 billion and ₦7,339.34 billion, respectively, compared with ₦6,387.76 billion, ₦8,567.22 billion, and ₦6,453.88 billion, issued, subscribed to, and sold, respectively, in the first half of 2020.

Primary Market Activities

The total value of the Nigerian Treasury Bills (NTBs) issued and allotted amounted to ₦1,665.62 billion apiece, indicating an increase of ₦149.94 billion or 9.9 per cent, above the level in the first half of 2020. The total value of public subscriptions stood at ₦3,101.23 billion, compared with ₦2,904.16 billion in the first half of 2020. The increase in public subscription was ascribed to higher yields, following the government's restructuring of the domestic debt favoring longer tenor instruments. The successful bid rates were lower in the review period, at 1.50 per cent (±1.00), for the 91-day; 2.25 per cent (±1.25) for the 182-day; and 5.63 per cent (±4.12) for the 364-day tenors. These compare with 2.65 per cent (±0.85) for the 91-day, 3.47 per cent (±1.43) for the 182-day, and, 5.15 per cent (±1.39) for the 364-day tenors, in the first half of 2020. The lower yields reflected increased demand for securities, arising from the uptick in economic activities.

Of the total NTBs allotted, banks, including foreign investors, took up ₦1,254.40 billion or 73.59 per cent, Mandate and Internal fund customers (including CBN Branches) accounted for ₦411.23 billion or 24.13 per cent, while merchant banks held ₦38.88 billion or 2.28 per cent.

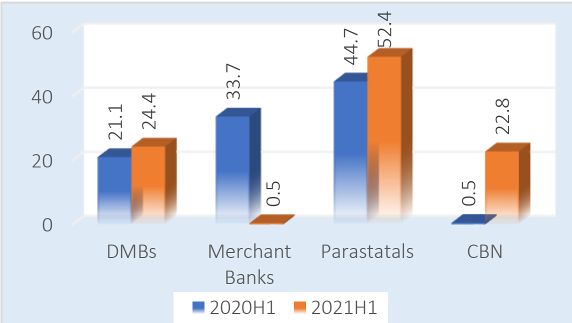
Figure 39: Nigeria Treasury Bills Outstanding (₦ Billion)



Source: Central Bank of Nigeria

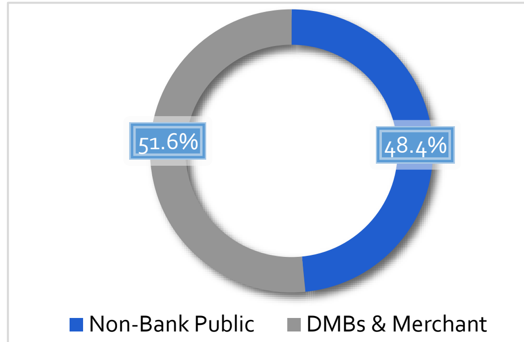
The value of NTBs outstanding stood at ₦2,991.87 billion at end-June 2021, representing an increase of 8.4 per cent, compared with its value in the first half of 2020. Of the total, the share of DMBs increased to 24.3 per cent, compared with 21.1 per cent in the first half of 2020. Mandate (parastatals) and Internal Funds customers took up 52.4 per cent, while merchant banks and CBN accounted for 0.5 per cent and 22.8 per cent, respectively.

Figure 40: Holdings of Outstanding NTBs (per cent)



Source: Central Bank of Nigeria

Figure 41: FGN Bonds Holders (End-June 2021, per cent)



Source: Central Bank of Nigeria

Federal Government of Nigeria Bonds

FGN Bonds, valued at ₦900.00 billion, were offered to the public, while subscription and sale stood at ₦1,726.40 billion and ₦1,415.00 billion, respectively. The amount offered covered new issues and re-openings of FGN Bonds. In the first half of 2020, FGN Bonds issues, subscriptions, and allotment amounted to ₦615.00 billion, ₦2,449.97 billion, and ₦1,308.58 billion, respectively. The increase in offer and allotment was attributed to the restructuring of domestic debt favoring longer tenor instruments to reduce the burden of domestic debt service.

Consequently, the total value of FGN Bonds outstanding at end-June 2021 stood at ₦13,659.66 billion, compared with ₦11,673.84 billion at end-June 2020, indicating an increase of ₦1,985.82 billion or 17.2 per cent. The structure of holdings showed that ₦6,892.36 billion, or 50.5 per cent, was held by commercial banks, ₦6,620.66 billion, or 48.4 per cent, was held by non-bank public, while merchant banks held the balance of N146.64 billion, or 1.1 per cent.

Discount Window Operations

The total request for repurchase transactions increased in the first half of 2021, due to the preference for tenured funds over the overnight facility. The total request for repurchase (repo) transaction rose significantly by 863.7 per cent, to ₦6,370.40 billion in the first half of 2021, compared with ₦661.03 billion in the first half of 2020. Applicable interest rates in the review period were 16.5 per cent (±0.50) for the 4 to 90-day tenors, from January to April 13, 2021, and 14.5 per cent (±0.50) from April 14 to June 30, 2021. Accordingly, the total interest earned on the repo was ₦53.83 billion, compared with ₦10.75 billion earned in the first half of 2020. The high level of demand for repo underscored the tight liquidity condition in the market.

Standing Facilities

The patronage of Other Depository Corporations at the Standing Lending Facility window increased in the first half of 2021 due to tight liquidity conditions in the banking system. The ODCs increased their patronage of the Bank's Standing Lending Facility (SLF) window to square up their positions in the first half of 2021. The average daily request for SLF was ₦83.68 billion in 109 business days, out of which, Intraday Liquidity Facility conversion was ₦28.73 billion. The average daily interest earned was ₦0.05

billion. Comparatively, in the first half of 2020, the average daily request for SLF was ₦34.05 billion in 95 business days, out of which ILF conversion was ₦12.11 billion, while the average daily interest income was ₦0.02 billion. The higher recourse to the window in the first half of 2021 reflected tight liquidity conditions in the banking system.

Patronage at the Standing Deposit Facility (SDF) window declined to an average daily amount of ₦15.11 billion for the 120 business days in the first half of 2021, from ₦25.14 billion for the 123 business days in the corresponding period of 2020. The decline in SDF was driven, largely, by tight liquidity conditions, amid the search for alternative money market investments. Consequently, average daily interest payments on the deposits declined to ₦2.38 million in the review period, from ₦9.61 million in the corresponding period of 2020.

Following a more accommodative policy stance relative to the first half of 2020, applicable rates for the SLF and SDF, anchored on the MPR, were 12.50 per cent and 4.50 per cent from January to June 2021. At that level, it was an ease from the first half of 2020 where the applicable rates were higher at 14.50 per cent and 7.50 per cent for the SLF and SDF, respectively.

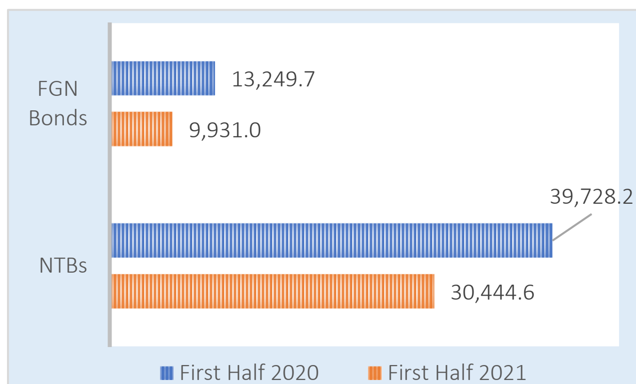
Inter-bank Transactions

Activity at the inter-bank call segment of the market was relatively low in the first half of 2021, with more patronage at the collateralised market segment. During the period under review, the total value of transactions at the interbank funds market stood at ₦26,076.17 billion. This represented a decline of 10.1 per cent, compared with the ₦29,005.76 billion recorded in the corresponding period of 2020. Further analysis shows more patronage of the Open-buy-back (OBB), which is attributed, largely, to the low-risk appetite by market participants for non-collateralized lending. Accordingly, transactions at the OBB segment, at ₦25,861.77 billion, accounted for 99.2 per cent, while the non-collateralized inter-bank call took up the balance of ₦214.40 billion or 0.8 per cent.

OTC Transactions in NTBs and FGN Bonds

OTC transactions in NTBs and FGN Bonds declined in the first half of 2021 as investors' patronage waned. OTC transactions in NTBs amounted to ₦30,444.57 billion in the first half of 2021, indicating a decline of ₦9,283.67 billion or 23.37 per cent below the ₦39,728.24 billion recorded in the first half of 2020. Generally, the declining trend in OTC transactions was attributed to tapered patronage by foreign and institutional investors. Similarly, transactions in FGN Bonds amounted to ₦9,931.19 billion, indicating a decline of ₦3,318.48 billion or 25.1 per cent below the level of ₦13,249.67 billion in the first half of 2020.

Figure 42: OTC Transactions (₦ billion)



Source: Central Bank of Nigeria

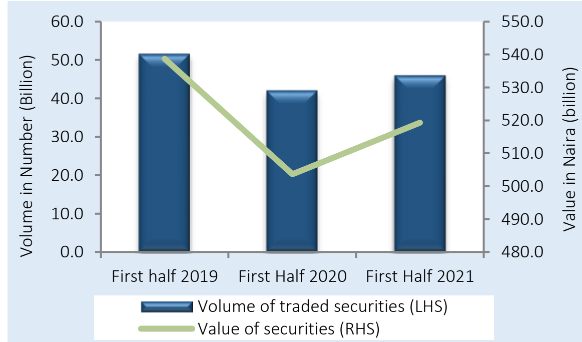
ii. Developments in Capital Market

Activities on the Nigerian equities market were bullish in the first half of 2021, as the NGX All-Share Index and aggregate market capitalisation rose relative to the levels at end-June 2020. The improved market performance was due to the rebound in global crude oil prices and bargain-hunting activities by investors who sought to take advantage of undervalued stocks. Furthermore, there was a new listing of 10.0 million units of 12.0 per cent Fixed Rate Series 1 Subordinated Unsecured Bonds in the debt segment of the market during the first half of 2021.

The aggregate volume and value of traded securities rose by 9.6 per cent and 3.1 per cent, respectively, to 45.98 billion shares and ₦519.25 billion, in 555,042 deals at the end-June 2021, compared with 41.96 billion shares, valued at ₦503.63 billion and traded in 569,144 deals in the first half of 2020. The equities sub-sector maintained its dominance in the market, accounting for 99.9 per cent and 98.1 per cent of the aggregate volume and value of transactions, respectively, while the debt and Exchange Traded Fund (ETF) segments accounted for the balance.

Sectoral analysis of the market indicates that the financial services sector (measured by the volume of transactions), remained the most active, accounting for 29.80 billion shares (64.8 per cent), valued at ₦244.11 billion (50.5 per cent), in 296,513 deals (53.4 per cent). Comparatively, the sector accounted for 32.59 billion shares (77.7 per cent), valued at ₦302.13 billion (61.2 per cent) in 339,396 deals (59.6 per cent) in the first half of 2020.

Figure 43: Volume and Value of Transactions at the NSE



Source: Securities and Exchange Commission (SEC)/Nigerian Exchange Group (NGX) Limited

Box 4

New Developments in the Capital Market

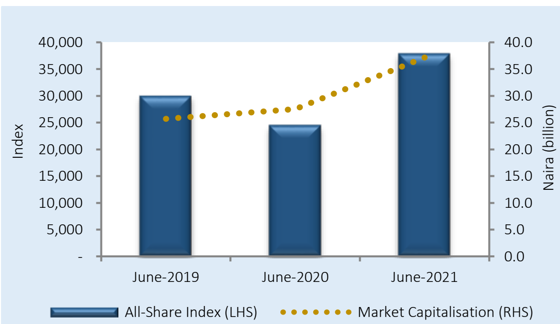
To enhance transparency and global competitiveness, improve corporate governance, and access to capital to fund strategic developments, the Nigeria Stock Exchange (NSE) was demutualised to the Nigerian Exchange Group (NGX). The NGX has three operating subsidiaries, namely: Nigerian Exchange Limited (NGX Limited), the operating exchange; NGX Regulation Limited (NGX REGCO), the independent regulation company; and NGX Real Estate Limited (NGX RELCO), the real estate company. The three entities were duly registered at the Corporate Affairs Commission (CAC).

As the global economy continued to grapple with a surge in the COVID-19 Delta variant infections, coupled with uncertainty in the economic outlook, the share of portfolio investments fell in the first half of 2021. Analysis of investors' activities in the market showed that domestic investors' total value outperformed transactions executed by foreign investors by 57 percentage points. Domestic and foreign investors' participation constituted 78.5 per cent and 21.5 per cent of the total transactions, respectively, in the first half of 2021, compared with 60.5 per cent and 39.5 per cent in the first half of 2020.

NGX All-Share Index

The All-Share Index improved in the first half of 2021, due to positive investors' sentiment amid increased buy-interest in blue-chip stocks. The NGX All-Share Index stood at 37,907.28 at end-June 2021, indicating an increase of 54.9 per cent, compared with 24,479.22 at end-June 2020.

Figure 44: All-Share Index and Market Capitalisation



Source: Securities and Exchange Commission (SEC) and Nigerian Exchange Group (NGX) Limited

Market Capitalisation

Market capitalisation increased as a result of bargain hunting and price gains in blue-chip stocks. The aggregate market capitalisation of the 295 listed securities closed at ₦37.16 trillion in the first half of 2021, indicating an increase of 35.3 per cent, compared with the first half of 2020. The rise reflected an increase in the value of securities across different asset classes (equities, debt, and ETF). Listed equities accounted for 52.5 per cent of the aggregate market capitalisation, while the debt and ETF components accounted for the balance of 47.5 per cent.

The market capitalisation of the 155 listed equities rose by 54.7 per cent to ₦19.77 trillion at the end-June 2021, compared with the level at end-June 2020. The top 20 most capitalised companies on the Exchange accounted for 92.6 per cent (₦18.31 trillion) of the total equity capitalisation and 49.3 per cent of the aggregate market capitalisation.

The number of banks that made the list of the top 20 most capitalised companies declined to seven in the first half of 2021, from eight in the first half of 2020, accounting for ₦3.12 trillion or 15.8 per cent of the total equity market capitalisation, compared with 18.5 per cent in the first half of 2020.

iv. Institutional Savings

Aggregate financial savings rose by 13.7 per cent, to ₦23,044.50 billion, from ₦20,259.34 billion at end-June 2020. The increase reflected the accumulation of capital stock for investment to spur higher output growth. Further analysis on financial savings showed that banks (commercial, merchant, and non-interest banks) remained the dominant depository institutions in the financial system, accounting for 93.7 per cent of total financial savings, compared with 92.9 per cent in the first half of 2020. Other institutions, comprising PMBs, MFBs, life insurance companies, pension fund custodians, and the Nigerian Social Insurance Trust Fund (NSITF), accounted for the balance of 6.3 per cent.

e. Developments on Financial Stability and Macro-Prudential Policy

The Bank continued to proactively deploy macro-prudential and other early warning tools to mitigate risks and vulnerability, and ensure financial system stability.

- *Solvency Stress Tests and Liquidity Simulations*

*The banking industry's solvency and liquidity positions generally remained robust in the review period. In addition, t*he banking industry's solvency and liquidity positions under mild to moderate scenarios of sustained economic contraction remained robust, but vulnerable under a severe scenario of sustained economic contraction.

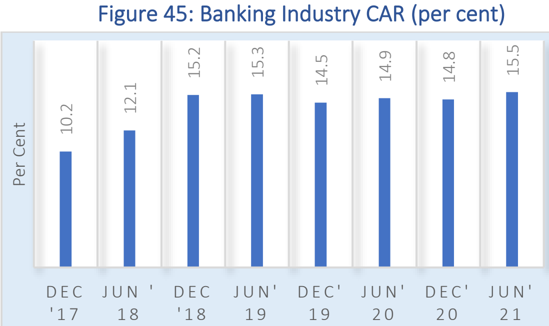
Table 25: Banking Industry Baseline Selected Key Indicators

	CAR	LR	NPLs	ROA	ROE
Jun 2021 (%)	15.46	41.3	5.7	1.21	14.27
Dec 2020 (%)	14.83	44.36	7.28	3.42	39.14
Percentage point(s) Change	0.63	-3.06	-1.58	-2.21	-24.87
Benchmarks (%)	10.0 - 15.0	30	5	-	-

Source: Central Bank of Nigeria

The baseline CAR, LR, and NPL ratios in the review period were 15.5 per cent, 41.3 per cent, and 5.7 per cent, respectively, while ROA and ROE stood at 1.2 per cent and 14.3 per cent, respectively. Thus, the CAR and LR out did the regulatory requirements, while the NPL was marginally above its maximum threshold.

Figure 45: Banking Industry CAR (per cent)



Source: Central Bank of Nigeria

Credit Risk

The stress test revealed that the banking industry could withstand a shock of "up to 100.0 per cent increase" in the industry NPLs, as the CAR remained above the regulatory requirement of 10.0 per cent at the end-June 2021.

Table 26: Impact of Credit Default Shocks on Banking Industry CAR (per cent)

Single Factor Shocks	End-Dec 2020	End-June 2021
Baseline CAR	14.83	15.46
Post-Shock CAR		
10% NPLs increase	14.33	15.06
15% NPLs increase	14.08	14.87
20% NPLs increase	13.83	14.67
30% NPLs increase	13.32	14.27
50% NPLs increase	12.29	13.45
100% NPLs increase	9.6	11.35

Source: Central Bank of Nigeria

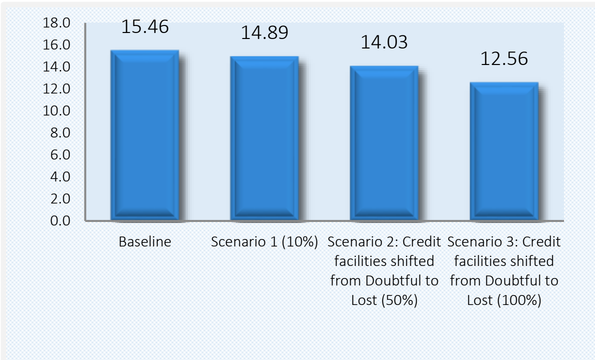
Similarly, the credit concentration stress test showed the resilience of the banking industry as CAR remained above the 10.0 per cent regulatory threshold under scenarios 1, 2, and 3.

Table 27: Impact of Credit Concentration Risk on Banking Industry CAR (per cent)

	Dec-20	Jun-21
Baseline CAR	**14.83**	**15.46**
Single Factor Credit Concentration Shocks		
Scenario 1 Five largest corporate credit facilities shifted from pass-through to sub-standard (10%)	14.22	14.89
Scenario 2 Five largest corporate credit facilities shifted from sub-standard to doubtful (50%)	13.29	14.03
Scenario 3 Five largest corporate credit facilities shifted from doubtful to lost (100%)	11.7	12.56

Source: Central Bank of Nigeria

Figure 46: Credit Concentration Risk (per cent)

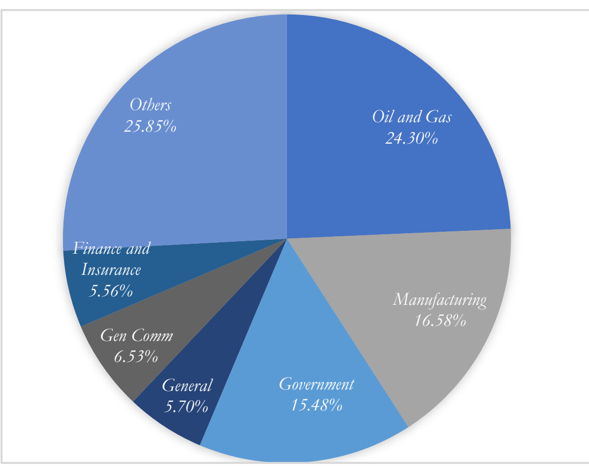


Source: Central Bank of Nigeria

Sector Credit Concentration Risk

A breakdown of the banking industry total credit by sector at end-June 2021 showed that oil and gas sector accounted for 24.3 per cent; manufacturing, 16.6 per cent; government, 15.5 per cent; general, 5.7 per cent; general commerce, 6.5 per cent; finance and insurance, 5.6 per cent; and others, 25.85 per cent.

Figure 47: Sectoral Concentration of Credit (per cent)



Source: Central Bank of Nigeria

The stress test results showed that the banking industry could withstand a shock of up to 50.0 per cent in exposure to oil and gas, as the post-shock CAR stood at 10.1 per cent.

Table 28: Stress Test on Oil and Gas Exposures

	Industry CAR (%)
Baseline CAR	15.46
30% Default on total exposure to Oil and Gas	14.77
50% Default on total exposure to Oil and Gas	11

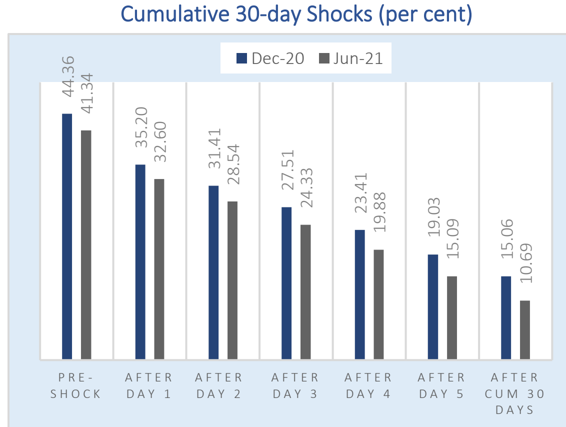
Source: Central Bank of Nigeria

Liquidity Stress Test:

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

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

Figure 48: Industry Liquidity Ratios at Periods 1-5 and Cumulative 30-day Shocks (per cent)



Source: Central Bank of Nigeria

Table 29: Liquidity Stress Test Results (Post-shock)

Scenario	Banks with Liquidity Ratios (LR) < 30%		Jun-21	
	Dec-20	Jun-21	LR (%)	Shortfall to 30% LR threshold
	(27 DMBs)	(28 DMBs)		(₦' billion)
Test 1: Implied Cash Flow Test				
Day 1	7	11	32.6	Nil
Day 2	12	15	28.54	360.23
Day 3	13	16	24.33	1,325.70
Day 4	15	17	19.88	2,242.12
Day 5	16	19	15.09	3,122.37
Implied Cash Flow Test (30 Days)	18	19	10.69	3,816.54

Source: Central Bank of Nigeria

Maturity Mismatch

Other depository corporations (ODCs)'s credit maturing within one year accounted for 51.3 per cent of total deposit. The medium-term and long-term maturities stood at 17.0 per cent and 31.7 per cent, respectively. Similarly, short-term deposits (of less than one-year maturity) at the end of the first half of 2021 constituted 89.8 per cent of total deposit. Further analysis showed that the medium- and long-term deposits constituted 4.0 per cent and 6.2 per cent, respectively. Thus, the mismatch between short-term liabilities and long-term assets remained a major constraint to ODCs.

The industry baseline assets and liabilities maturity profile at end-June 2021 revealed that the shorter end of the market (≤90-day bucket) were adequately funded. On a bank-by-bank basis, eight banks were not adequately funded. However, the cumulative position for the industry showed an excess of ₦2.35 trillion assets over liabilities.

Analysis of Test 2A (Descriptive Maturity Mismatch) showed that the banking industry was adequately funded, while under Test 2B (Static Rollover Risk Analysis) and 2C (Dynamic Rollover Risk test), the industry had mismatches of ₦5.20 trillion and ₦7.67 trillion, respectively. These represented a decrease of ₦0.13 trillion and ₦0.1 trillion under the Test 2B and Test 2C, respectively, relative to the end-December 2020 test.

Table 30: Maturity Profile of Assets and Liabilities, End-June 2021

Bucket	Liabilities	Assets	Mismatch	Cumulative Mismatch
≤30 days	26,478.62	7,660.17	8,818.45	8,818.45
31-90 days	3,539.33	3,451.01	88.32	8,906.77
91-180 days	1,382.55	2,269.87	-887.32	8,019.45
181-365 days	740.78	2,916.93	-2,176.16	5,843.29
1-3 years	1,513.14	4,263.35	-2,750.21	3,093.08
>3 years	2,997.32	8,436.33	-5,439.00	-2,345.92
Total	36,651.74	8,997.66		

Source: Central Bank of Nigeria

Table 31: Test Results for System-Wide Maturity Mismatch

	Test 2A[1]		Test 2B[2]		Test 2C[3]	
	₦' bn	No of banks with mismatch	₦' bn	No of banks with mismatch	₦' bn	No of banks with mismatch
≤30 days	13,201.12	4	7,905.40	9	-1,063.66	9
31-90 days	4,470.29	6	-902.69	15	-340.11	10
91-180days	3,494.65	9	-1,163.83	20	-198.4	11
181-365days	2,205.81	10	-2,398.39	24	-1,085.94	12
1-3 Years	1,631.76	15	-3,204.15	26	-874.28	14
Above 3 years	-1,057.03	23	-5,439.00	26	-4,103.29	18
Total	23,946.61		-5,202.67		-7,665.68	

Source: Central Bank of Nigeria
10[1] Note: Test 2A: Descriptive Maturity Mismatch with no consideration for rollover.
11[2] Test 2B: Static Rollover Risk Analysis with no closing of liquidity gaps in other buckets.

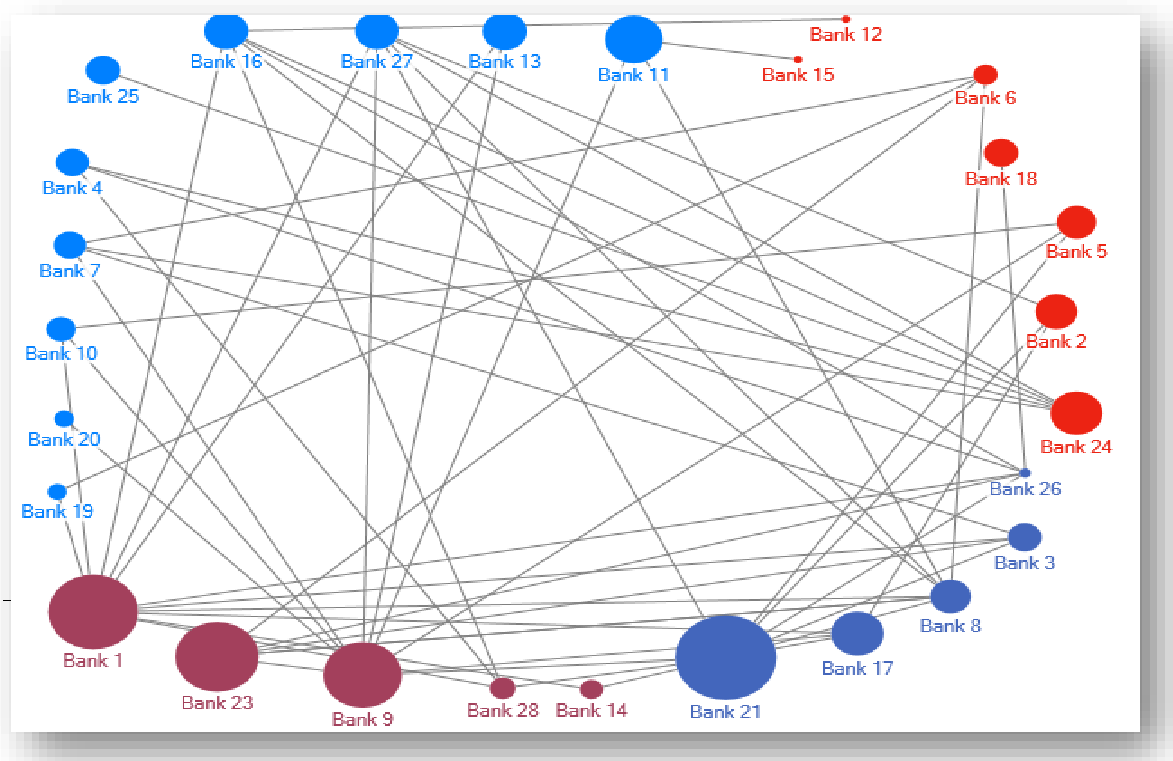
Gggg 12[3] Test 2C: Dynamic Rollover Risk Test with use of liquid assets to close liquidity gaps in other buckets.

Contagion Risk Analysis

Contagion risk analysis indicated an increase in exposure and interconnectedness (via interbank placement and takings). The total exposure increased by ₦154.30 billion, representing 28.02 per cent, from ₦396.34 billion in December 2020, to ₦550.64 billion in June 2021.

Six banks accounted for 68.7 per cent (₦378.16 billion) of total placements and 78.8 per cent (₦433.88 billion) of total takings. Of this, the top four placers of funds provided 60.9 per cent (₦264.03 billion).

Figure 49: Network Analysis based on Interbank Exposures



Source: Central Bank of Nigeria
Note: Blue = Lenders
Deep blue = Net placement
Red = Borrowers

Box 5: Liquidity Stress Test Assumptions

Implied Cash Flow Analysis

The Implied Cash Flow Analysis (ICFA) assesses 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 and long-term funding, respectively, over a 5-day period and a cumulative average outflow of 22.0 per cent, 11.0 per cent and 1.5 per cent of total deposits, short-term and long-term funding, respectively, on a 30-day balance. It also assumed that the assets would remain unencumbered after a fire sale.

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

- *The Maturity Mismatch/Rollover Risk*

This assesses 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:

- *Test 2a: Descriptive Maturity Mismatch assumed that the baseline mismatch remained, but 5.0 per cent of total deposits would be made available from the CBN and the intra-group.*
- *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, 5.0 per cent of the total deposits would still be available from the CBN and the intra-group; and*
- *Test 2c: Dynamic Rollover Risk made the same assumption as in 2b, but with the option of closing the liquidity gap from other buckets.*

Credit Risk Management System (CRMS)

The CBN continued to ensure that banks fully complied with the redesigned Credit Risk Management System (CRMS) [13] ***to strengthen credit administration in Nigeria.*** At end-June 2021, the total number of credit facilities on the CRMS was 22,802,647.00, representing a 13.3 per cent decline over the end-June 2020 position of 25,913,202. The number comprised 22,174,082.00 individuals and 628,565.00 non-individuals.

Table 32: Record on Credit Risk Management System

Description	Jun-20	Jun-21
* Total No. of Credit/facilities reported on the CRMS:	25,913,202	22,802,647
Individuals	*25,102,910*	*22,174,082*
Non-Individuals	*810,292*	*628,565*

Source: Central Bank of Nigeria
Note: The figures include borrower(s) with multiple loans and/or credit lines

Private Credit Bureaux

The number of private licensed credit bureaux (PCBs) at end-June 2021 remained at three. The industry continued to record remarkable momentum through increased awareness and support from stakeholders. At end-June 2021, the average number of uniquely identified credit records in PCBs database was 47.59 million, representing 12.2 per cent increase over the 42.40 million at end-December 2020. The development was attributed, mainly, to the wider coverage of the credit reporting system, which included all credit providers (who were hitherto not captured by the credit reporting system) as required by the provisions of the Credit Reporting Act, 2017.

[13] The CRMS is a regulatory tool designed to capture credit records and mitigate credit risk in the banking system

e. Compliance Developments and Consumer Protection

Financial Sector Surveillance

The Bank sustained its supervisory activities in the first half of 2021, to promote public confidence in the Nigerian banking system. The Bank maintained the risk-based supervision (RBS) approach as the pivot of its supervisory framework. Activities of the Bank in this regard included a regular off-site appraisal of banks' and OFIs periodic returns and on-site assessments (routine monitoring and special investigations), among others. The Bank relied on the provisions of the CBN Act (2007), Banks and Other Financial Institutions Act (BOFIA) (2020, as amended), and other policy guidelines in performing these functions.

Banks' Compliance with the Code of Corporate Governance

To ensure compliance with the CBN Code of Corporate Governance for Banks and Discount Houses and Guidelines for Whistle Blowing in the Nigerian Banking Industry, the Bank continued its oversight of the corporate governance regime in Nigerian banks in the review period. Scorecard assessments were conducted on eight banks to ascertain their level of compliance with the CBN Code of Corporate Governance for Banks and Discount Houses, and reports were issued in June 2021. The objectives of the exercise were to monitor, assess and ensure that sound corporate governance practices were entrenched in the banking industry.

The result of the assessment revealed that, five banks were rated 'Acceptable', two were rated 'Needs Improvement'; and 1 was rated 'Weak'. It was also observed that all banks made adequate efforts to implement the recommendations from the scorecard assessments before the financial year. The CBN also issued Notices of Regulatory Breach to defaulting banks for failure or late rendition of statutory returns as specified in the Code.

Financial Crimes Surveillance/Anti- Money Laundering/Combating the Financing of Terrorism (AML/CFT)

The Bank strengthened its collaboration and cooperation with both domestic and international stakeholders, in compliance with FATF Recommendations 2 and 40, dealing with National cooperation and coordination and other forms of international cooperation, respectively, to effectively address the security challenges in the country, especially the growing acts of terrorism. In this regard, the Bank continually directed financial institutions to increase surveillance and report all transactions involving designated individuals or terrorist organisations as global terrorists under the United Nations Security Council Resolutions.

During the review period, the Bank intensified collaboration with domestic and international stakeholders, namely; Inter-Governmental Action Group against Money Laundering in West Africa (GIABA); Financial Action Task Force (FATF); Association of Chief Compliance Officers of Banks in Nigeria (ACCOBIN); and Regulators in the Financial Sector and Law Enforcement Agencies, including the Nigeria Financial Intelligence Unit (NFIU). The interaction provided plaforms for sharing information, ideas, and experiences with stakeholders.

Further to the CBN directive on the status and reporting line of Chief Compliance Officers, banks were given a dispensation to operate a cluster structure in recognition of the challenges of having a dedicated compliance officer at each branch. Consequently, spot checks were conducted at various branches to ensure that banks were implementing the approved CBN cluster structures. Banks were, after that, advised to correct the observed exceptions.

Consumer Protection

To sustain confidence in the financial system, the Bank continued with the implementation of measures to protect the rights and privileges of consumers of financial services. In the first half of 2021, the Bank received 1,973 complaints from consumers of financial services, compared with 2,051 complaints in the first half of 2020, representing a decrease of 3.8 per cent. These complaints comprised fraud, 634 (32.1 per cent); electronic/cards, 633 (32.0 per cent); and excess charges, 195 (9.9 per cent). Other complaints included, mainly, issues of Account Management and 'Others.'

A total of 2,169 complaints, including those outstanding from 2020, were resolved and closed, compared with 1,519 in the first half of 2020. Total claims in local currency and foreign currencies amounted to ₦16.57 billion and US$102,553.17, respectively, compared with ₦4.58 billion and US$151,647.82, respectively, in the first half of 2020. The sum of ₦8.43 billion and US$53,805.62 was refunded, compared with ₦2.67 billion and US$144,176.68 in the first half of 2020.

Financial Literacy

In the review period, the Bank, in collaboration with the German Agency for International Development (GIZ)[14] and Shared Agent Network Expansion Facilities (SANEF), continued with the implementation process of the Financial Literacy e-learning Portal. The Project is aimed at deploying a digital national e-Learning platform to provide a knowledge base, to support financial education trainers and facilitators to grow financial literacy in Nigeria. The CBN, in collaboration with its partners, would develop a communication and awareness implementation plan for the onboard initiative to launch the SabiMONI Financial Literacy e-Learning Portal.

The 2021 Global Money Week (GMW) was celebrated globally from March 22 to 28, 2021, with the theme ***"Take Care of Yourself, Take Care of***

[14] Deutsche Gesellschaft Fur Internationale Zusammenarbeit

Your Money". The Bank advised and engaged various stakeholders who had roles to promote financial literacy among children and youths.

Nigeria Sustainable Banking Principles (NSBP)

The CBN continued to monitor the implementation of the Nigeria Sustainable Banking Principles (NSBP) at the individual bank and industry levels, to resolve implementation challenges through the provision of appropriate interventions.

The CBN received semi-annual reports from banks at end-December 2020, in line with the reporting template issued to the industry. The reports were reviewed to assess reporting banks' implementation progress of the NSBP, including the adequacy of the Environmental & Social risk (E&S) policies and other areas that required improvement. In that regard, banks perceived to be sluggish with the prescribed requirements were advised to address gaps in their respective environmental and social policies and procedures. They were also to improve capacity building for their employees. In general, based on the reports rendered by the banks, the industry recorded considerable progress in the implementation of the Principles in the first half of the year.

The Asset Management Corporation of Nigeria

The annual target examination of the Asset Management Corporation of Nigeria (AMCON) was conducted virtually on 31 May 2021. The scope of the examination was limited to the review of the Collateral Register of AMCON's Eligible Bank Asset (EBA) portfolio, recoveries made on EBAs, asset disposal processes, and the assessment of the financial position of the Corporation, as at 31 May 2021. A notable observation made by the Examination Team was the Corporation's achievement in meeting its recovery budget at the date of the examination through an aggressive assets' sale drive and enforcement on EBAs. As at end-May 2021, the Corporation had recovered N59.15 billion, compared with the budget of N35.62 billion, and annual target of N111.01 billion. This represented 166.1 per cent of the semi-annual budget and 53.3 per cent of the annual budget.

The Corporation had so far recovered a total of ₦894.466.00 billion, made up of cash recovery of ₦474.074 billion, asset and shares forfeiture of ₦420.392 billion.

The net carrying value of AMCON's liabilities stood at ₦5.81 trillion at end-June, 2021. The AMCON Notes had an outstanding balance of ₦3.97 trillion and the loan (debenture) of ₦500.00 billion, accounting for 76.9 per cent of the liabilities. The Notes are due to mature on December 27, 2023, and the ₦500.0 billion loan falls due for redemption on 30 December 2022. Feasible alternatives to avert the crystallisation of these obligations were being considered by AMCON. The carrying value of the Corporation's assets, net of impairment, was ₦986.1 billion at the end-June 2021, representing 17.0 per cent of the liabilities.

The operations of the Banking Sector Resolution Cost Fund (BSRCF) were suspended at the beginning of 2021, due to the expiration of its ten-year tenor at end-December 2020, as stipulated in Section 61 (b) of the AMCON Amendment Act 2015. However, the referenced section, 61(B) provides for an extension of the tenor by a maximum of five years by the National Assembly. Consequently, a Bill for a third amendment of the AMCON Act 2010 to extend the tenor of the BSRCF by five years was pending at the National Assembly as of June 30, 2021. The BSRCF, therefore, had a zero balance at the end-June 2021.

3.5 PAYMENTS SYSTEM MANAGEMENT

The Bank continued to strengthen the payments system infrastructure to aid financial transactions and support economic activities. During the review period, new payments system initiatives were introduced to maximise the opportunities presented by the COVID-19 pandemic and support monetary policy transmission mechanisms through the banking system.

3.5.1 Payments system policies

The CBN continued to play the roles of overseer, operator, and catalyst through its policies and initiatives. As an overseer, it guided and regulated the payments ecosystem by formulating and implementing new policies and standards to enhance safety and guarantee stability of the payments system. As an operator, the Bank provided critical payments infrastructure; and, as a catalyst, facilitated interoperability of the system to ensure seamless payments and settlement of financial.

a. Payments System Infrastructure

To enhance the resilience of payments system infrastructure and expand electronic payments options, the CBN monitored operators' compliance with the regulation on chargeback period for ATMs, PoS, and internet (web) transactions and the guidelines for the operations of electronic payment channels. This aims at promoting the integrity of payments infrastructure.

Increased onboarding of bank customers into the BVN platform was sustained during the review period. At end-June 2021, the number of bank customers with registered BVN increased by 6.4 per cent to 48.71 million, compared with 45.8 million at end-December 2020. A total of 106.0 million bank accounts were linked with BVN at end-June 2021. Furthermore, watch listed BVN was 12,425 during the review period. The increased number of bank customers with registered BVN was attributed to a surge in customers enrolment following the March 31, 2021, announced deadline.

b. Promoting interoperability

The Bank issued the framework for Quick Response (QR) Code Payments in Nigeria to promote the increased adoption of electronic payments and foster innovation in the payments system. The framework provides regulatory guidance, stipulates acceptable QR Code standards, roles and responsibilities of participants, and risk management principles. The code is used to present, capture and transmit payments information across payments infrastructure. The technology enables the mobile channel to facilitate payments. It is a well-rounded apparatus to bolster electronic payments for micro, small and medium enterprises (MSMEs).

c. Guiding and regulating

During the review period, the Bank issued the regulatory frameworks for Sandbox Operations and Open Banking, conducted an assessment of Payment Service Providers (PSPs) and continued implementing the Nigeria Cheque Standards (NCS) and Nigeria Cheque Printers Accreditation Scheme (NICPAS).

i. *Assessment of Payment Service Providers*

A new license categorisation regime was introduced in the review period, streamlining payments system licensing to permissible activities in four broad categories: Switching and

Processing, Mobile Money Operations (MMOs)[15], Payment Solution Services (PSSs), and Regulatory Sandbox. In the new license categorisation regime, transaction switching companies, third-party processors, and non-bank acquirers operated as 'Switching and Processing Companies.' The routine compliance assessment of 20 PSPs, and license renewal assessment of 17 PSPs were conducted during the review period. As such, the number of participants with operating licenses in the different segments of the payments system increased to 99 at end-June 2021, from 97 at the end-December 2020.

Table 33: Licensed Payments System Participants

License -Type	Number		
	Jun-2020	Dec. 2020	Jun-2021
Card Schemes	6	6	6
Mobile Money Operators**	28	16	16
Payment Solution Service Providers	26	26	26
Payment Terminal Service Providers	22	16	16
Transaction Switching Companies	9	7	7
Third Party Processors	5	5	5
Non-Bank Acquirers	6	6	6
Super Agents	9	12	12
Accredited Cheque Printers	3	3	5
Total	114	97	99

Source: Central Bank of Nigeria
Note: **The Bank had stopped the licensing of banks to undertake the Mobile Money Business; they only require a No-Objection from the Central Bank. Hence, the data shown is for Non-Bank Licensed Mobile Money Operators.

i. Framework for Regulatory Sandbox Operations

Regulatory Sandbox enables firms to conduct live tests of new, innovative products, services, delivery channels, or business models in a controlled and regulated environment, with regulatory oversight, subject to appropriate conditions and safeguards. The framework defines the establishment, rules, and operations of a Regulatory Sandbox for the Nigerian payments system to promote effective competition, embrace new technology, encourage financial inclusion and improve customer experience, to engender public confidence in the financial system.

ii. Regulatory Framework for Open Banking

To drive innovation, broaden the range of financial products and services, as well as deepen financial inclusion, the CBN issued Regulatory Framework for Open Banking. The framework outlines principles for data sharing across the banking and payments ecosystem by stipulating data and Application Programming Interface (API) access requirements, principles of API, technical design, and information security specifications.

iii. Implementation of the Nigeria Cheque Standards and Nigeria Cheque Printers Accreditation Scheme Version 2.0

Following the successful completion of accreditation exercises for five Cheque Printers (CPs) in the review period, four existing licenses were renewed, and a new license was issued. In compliance with the stipulations of the Nigeria Cheque Standards (NCS) and Nigeria Cheque Printers Accreditation Scheme (NICPAS) Version 2.0 for the accreditation of all Cheque Management Centres of banks, the Bank accredited seven Cheque Management Centres (CMCs) to carry out personalisation of cheques. The Bank also approved the automation of the accreditation process for Cheque Printers and Personalisers in line with the NCS/NICPAS 2.0

[15] Only MMOs are permitted to hold customer funds

cheque standards. The automation would enhance greater operational productivity and effectiveness; reduce turnaround time for processing requests/applications; and realign the steps to optimise the flow of information between processing officers and applicants.

Furthermore, the extension granted for the parallel run of the old and new cheques, due to the COVID-19 Pandemic, ended on 31 March 2021. Consequently, full enforcement of the NCS and NICPAS Version 2.0 commenced on April 1, 2021, using only the new cheques in the clearing system. The key features of the new cheque included a QR Code for faster verification of cheque details, expiry date of printed cheque booklet, and clear zone at the back of the cheque. This has also supported the revised standards on Nigeria Uniform Bank Account Number (NUBAN) for banks and other financial institutions (OFIs) for the efficient operation of electronic funds transfer and cheque clearing operations by deposit money banks (DMBs) and OFIs.

3.5.2 Trends in the Payments system

Transactions in the payments system during the first half of 2021 decreased, compared with the corresponding period of 2020. The volume of e-payments declined by 4.9 per cent, to 3,931.5 million, from 4,135.8 million in the corresponding period of 2020, and the value also declined by 15.6 per cent, to ₦472,980.48 billion, from ₦560,459.11 billion, in the first half of 2020. This was attributed to the ease of lockdown that permitted bank customers to physically visit their bank branches for some financial services.

However, there was a significant increase in the volume of transactions at the financial touchpoints of the Mobile Money Operators (MMOs) by 31.3 per cent, to 433.0 million, from 329.8 million, in the first half of 2020, and marginally grew in value by 1.3 per cent, to 5,225.30 billion, from 5,157.00 billion in the corresponding period of 2020.

Similarly, the number of ATMs and PoS terminals increased by 56.0 per cent and 39.1 per cent, to 29,337 and 638,983, from 18,810 and 459,285, respectively, in the corresponding period of 2020. The leap in the number of ATMs was attributed to improvement in reporting activities occasioned by the introduction of unique identifiers for ATMs. The number of participating merchants in PoS operations rose by 12.0 per cent, to 125,856 in the first half of 2021, from 112,334 in the corresponding period of 2020.

a. Retail Payments System

Transactions in retail e-payments decreased in volume and value in the first half of 2021, due to the easing of lockdown measures. The number of transactions on e-payment channels decreased by 4.9 per cent, to 3,930.9 million, from 4,135.4 million in the first half of 2020. Similarly, the corresponding value of the transactions declined significantly, by 43.9 per cent, to ₦182,796.8 billion, from ₦325,727.2 billion in the corresponding period of 2020.

A breakdown of the volume of retail transactions showed that ATM, internet, NEFT and direct debit transactions decreased by 31.0 per cent, 33.6 per cent, 78.7 per cent, and 75.0 per cent to 640.5 million, 1,628.7 million, 20.8 million, and 0.3 million, respectively, from their levels in the corresponding period of 2020. However, transactions on PoS, USSD, and Mobile App increased by 283.6 per cent, 22.2 per cent, and 87.3 per cent, to 1,067.6 million, 248.0 million, and 325.0 million transactions, respectively, compared with the first half of 2020.

Table 34: Volume and Value of Electronic Payments

Payment Channels	Number of Terminals		Volume of Transactions (Million)			Value of Transactions ₦' Triillion		
	Jun-20	Jun-21	Jun-20 1/	Dec-21	Jun-20	Jun-20 1/	Dec-20	Jun-21
ATMs	18,810	29,337	928.9	985.3	640.5	8.6	9.6	7.9
POS	459,285	638,983	278.3	377.5	1067.6	2.0	2.7	9.4
Internet (Web)	-	-	2452.9	4027.6	1628.7	171.2	221.1	132.2
RTGS	-	-	0.4	0.4	0.6	234.7	204.3	290.2
NEFT	-	-	97.7	87.2	20.8	127.0	172.7	10.6
USSD	-	-	202.9	279.5	248.0	2.1	3.0	2.5
Mobile App	-	-	173.5	238.0	325.0	13.5	18.9	20.3
Direct Debit	-	-	1.2	1.8	0.3	1.3	1.1	0.0
Total e-Payment	-	-	**4135.8**	**5997.3**	**3931.5**	**560.5**	**633.4**	**473.0**
Cheque	-	-	*9.5*	*10.6*	*6.3*	*7.4*	*8.0*	*4.8*
MMOs	-	-	*329.8*	*439.4*	*433.0*	*5.2*	*9.8*	*5.2*

Source: *Central Bank of Nigeria*

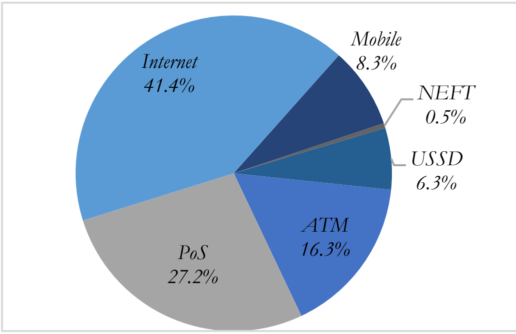
Note: *Internet/Web includes NIP, e-Bills Pay and Central Pay, while m-Cash is USSD transaction.*

1/ Figures were revised

Similarly, the value of retail transactions decreased by 8.2 per cent, 22.8 per cent, 91.7 per cent and 99.4 per cent, to ₦7,897.50 billion, ₦132,163.60 billion, ₦10,568.00 billion, and ₦8.40 billion, in the first half of 2021 for ATMs, internet, NEFT and direct debit, respectively, compared with their levels in the corresponding period of 2020. However, the value of transactions on PoS, USSD and Mobile App recorded, increases by 371.7 per cent, 18.7 per cent and 49.7 per cent, to ₦9,448.40 billion, ₦2,457.30 billion and ₦20,253.60 billion, respectively, in the first half of 2021, compared with their levels in the first half of 2020. The upward trajectory in the volume and value of transactions on PoS, USSD, and Mobile App reflected increased confidence in the usage of the channels, with a beneficial knock-on effect on financial inclusion.

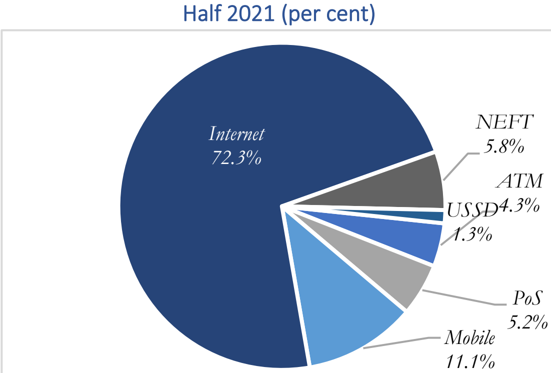
Analysis of the components of the e-payments channels shows that the share of internet (web) channel dominated all other channels, accounting for 41.4 per cent and 72.3 per cent of the volume and value, respectively. The number of transactions on ATMs, PoS, NEFT, USSD, and Mobile App payment channels, accounted for 16.3 per cent, 27.2 per cent, 0.5 per cent, 6.3 per cent, and 8.3 per cent, respectively. In value terms, it accounted for 4.3 per cent, 5.2 per cent, 5.8 per cent, 1.3 per cent and 11.1 per cent, respectively, in the review period.

Figure 50: Composition of e-Payments Transactions by Volume, First Half 2021 (per cent)



Source: Central Bank of Nigeria

Figure 51: Share of e-Payments Transactions by Value, First Half 2021 (per cent)



Source: Central Bank of Nigeria

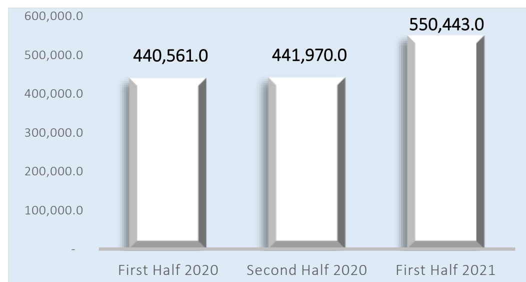
Cheque Transactions

Cheque transactions decreased in volume and value in the review period, attributed to a general shift in preference towards electronic payment channels. The volume decreased by 33.2 per cent, to 6.3 million from 9.5 million in the corresponding period of 2020, and the value decreased by 34.7 per cent, to ₦4,817.58 billion, from ₦7,373.55 billion in the corresponding period of 2020.

3.5.2.2 Wholesale Payments System

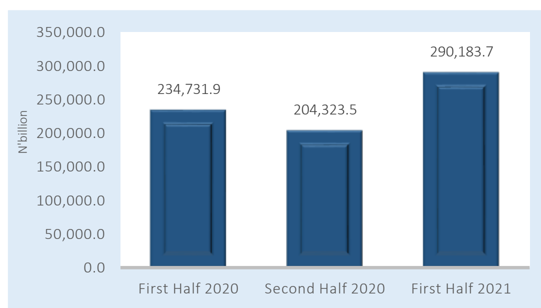
Transactions in the wholesale payments (Real Time Gross Settlement (RTGS)) system increased the volume and value of activities in the first half of 2021. The volume of inter-bank fund transfers through the CBN RTGS System increased by 50.0 per cent, to 0.6 million, compared with 0.4 million, in the first half of 2020. Similarly, the value of transactions increased by 23.6 per cent, to ₦290,183.68 billion, compared with ₦234,731.91 billion in the corresponding period of 2020. The increase in volume and value of transactions was attributed to the rise in the number of big-ticket inter-bank transactions on the RTGS, following the uptick in economic activities, as recovery continued from the impact of the COVID-19 pandemic during the corresponding period of 2020.

Figure 52: Volume of Inter-bank RTGS Transactions



Source: Central Bank of Nigeria

Figure 53: Value of Inter-bank RTGS Transactions (₦ Billion)



Source: Central Bank of Nigeria

3.6 EXTERNAL SECTOR DEVELOPMENTS

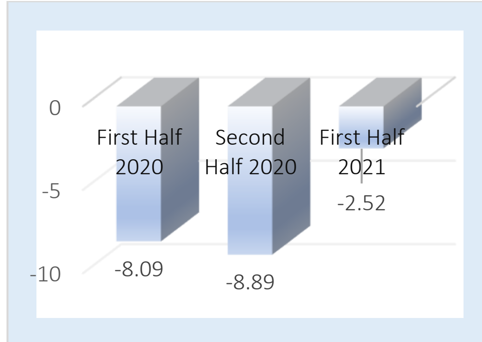
The external account weakened further, in the first half of 2021, with an overall balance of payments deficit of 1.8 per cent of GDP, relative to 1.1 per cent in the first half of 2020. This was occasioned by rising external debt and foreign exchange market pressure. However, the improvement in international crude oil prices, which resulted in higher export earnings, and the moderation in the demand for import of goods and services, narrowed the current account deficit to 1.3 per cent of GDP during the review period. The financial account recorded net incurrence of financial liability, as competitive yields in the domestic financial market improved capital inflow in the first half of 2021.

External reserves position at end-June 2021 stood at US$32.99 billion and could finance 8.3 months of import (goods only) or 5.9 months of import (goods and services), above the international benchmark of 3.0 months. Continued excess demand pressure in the foreign exchange market, owing largely to supply shortages, led to the depreciation of the naira.
At US$33.47 billion or 8.5 per cent of GDP at end-June 2021, public sector external debt remained within the threshold of 40.0 per cent of GDP. This was supported by the robust external debt management policies of the country.

i. Current and Capital Account Developments

Improvement in trade and higher inflow of transfers narrowed the deficit in the current account during the first half of 2021. The current account deficit, at US$2.52 billion (1.3 per cent of GDP) narrowed significantly by 68.2 per cent, compared with US$8.09 billion in the first half of 2020. The development was driven by increased export earnings, lower import bills and higher remittances inflow.

Figure 54: Current and Capital Account Balance (US$ 'Billion)



Source: Central Bank of Nigeria

Trade

At US$3.59 billion (1.8 per cent of GDP), the trade deficit in the goods account declined significantly by 29.7 per cent, relative to US$5.11 billion in the first half of 2020.

Export Performance

Sequel to the rebound in global demand and improved commodity prices, export receipts increased in the first half of 2021. Export earnings grew to US$20.52 billion (10.3 per cent of GDP), compared with US$19.55 billion in the first half of 2020. The increase in export earnings was due largely, to rising global demand as business activities picked, following the relaxation of COVID-19 related restrictions in some counties.

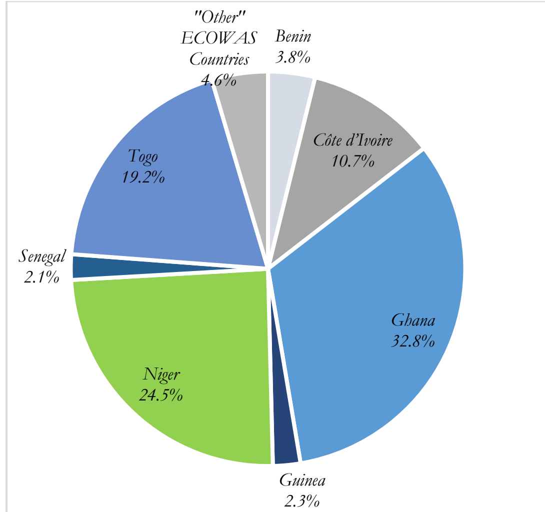
Crude oil export, at US$14.99 billion (7.6 per cent of GDP) in the first half of 2021, increased by 8.8 per cent, compared with US$13.79 billion in the first half of 2020. Gas export receipts grew to US$2.71 billion, from US$2.56 billion in the first half of 2020, indicating an increase of 5.9 per cent. The development was due to the increase in propane LPG export. In terms of share, crude oil and gas component remained dominant, contributing 87.1 per cent to total export, with crude oil accounting for 73.8 per cent and gas, 13.3 per cent.

Non-oil export receipts, at US$2.62 billion (12.9 per cent of total export), fell below the US$3.20 billion recorded in the first half of 2020, reflecting the lingering effect of the supply chain disruption caused by the COVID-19 pandemic. A breakdown of non-oil export revealed that agricultural, other products, semi-manufactured, manufactured, and mineral products accounted for 59.2 per cent, 15.6 per cent, 13.1 per cent, 8.5 per cent and 3.7 per cent of total non-oil export, respectively. Cashew nuts, cocoa beans, and sesame seeds were the main non-oil export commodities, while the major export destinations included Vietnam, China, The Netherlands, Japan, Belgium, and Malaysia.

Export to ECOWAS Sub-Region

Despite the partial reopening of the Nigerian borders, domestic export to the ECOWAS sub-region was hampered by the adverse effects of the COVID-19 pandemic. Nigeria's non-oil export to the ECOWAS sub-region dropped to US$104.61 million in the first half of 2021, from US$111.86 million in the first half of 2020, reflecting the persistent effects of the COVID-19 pandemic on trade within the sub-region. A breakdown showed that Nigeria's export to Ghana, at US$34.27 million, constituted 32.8 per cent of the total, followed by Niger with US$25.59 million (24.5 per cent); Togo, US$20.08 million (19.2 per cent); and Côte d'Ivoire, US$11.16 million (10.7 per cent). Export to the Republic of Benin was US$4.02 million (3.8 per cent); Guinea, US$2.36 million (2.3 per cent); and Senegal, US$2.18 million (2.1 per cent). Other countries accounted for the balance of 4.6 per cent of total export. The dominant export commodities were instant noodles, detergents, tobacco, plastics, dairy products, soybean meal, and carbonated soft drinks.

Figure 55: Export to ECOWAS Sub-Regions (per cent)



Source: Central Bank of Nigeria

Foreign Exchange Earnings by Top 100 Non-oil Exporters

Receipts by the top 100 non-oil exporters increased due to improved global economic activities and higher commodity prices. At US$1,338.75 million, receipts from the top 100 non-oil exporters, increased by 43.1 per cent, compared with US$935.83 million in the first half of 2020, and accounted for 51.2 per cent of total non-oil export receipts. Analysis showed that Olam Nigeria Limited topped the list with US$141.29 million or 10.6 per cent of the total, from the export of cocoa beans to Malaysia. Starlink Global and Ideal Limited was second, with earnings of US$135.03 million (10.1 per cent) from the export of cocoa beans, cashew nuts, and sesame seeds to Turkey and China. Indorama Eleme Fertilizer and Chemicals Limited followed with US$81.89 million (6.1 per cent) from the export of urea, fertilizers, and agronomy services to Turkey and China.

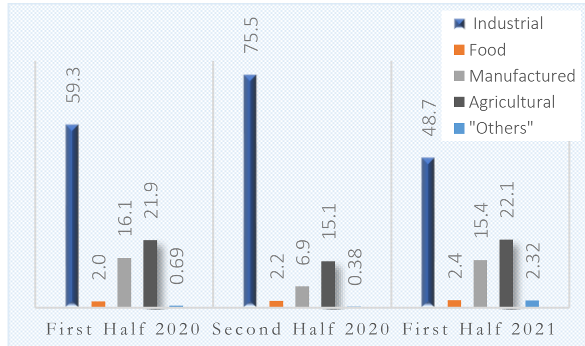
Olatunde International Limited was fourth, with the export of cocoa beans to Belgium valued at US$54.02 million (4.4 per cent). British-American Tobacco Nigeria Limited ranked fifth, with earnings of US$48.83 million (3.6 per cent), from cigarettes export to Ghana, Cameroon, and Cote d'Ivoire. In the sixth position was WACOT Limited, with export earnings of US$48.59 million (3.5 per cent) from the export of cotton products to The Netherlands and the United States.

CHI Limited, RISU Nigeria Limited, African Steel Mills Nigeria Limited, and Rijay Agro Limited ranked 96th, 97th, 98th, and 99th positions, with export earnings of US$1.92 million, US$1.89 million, US$1.80 million, and US$1.79 million, respectively. They exported fruit juice and dairy products, dried hibiscus flower, steel, and agricultural products to West Africa, the United States, Brazil, Spain and The Netherlands, respectively. Famousa Agro Limited was 100th, with US$1.78 million, from the export of agricultural products to West African countries.

Non-Oil Receipts through Banks

Proceeds of non-oil export through the banks was US$2.16 billion in the review period, representing 82.4 per cent of total non-oil export receipts. A breakdown of the proceeds showed that industrial products export accounted for 57.4 per cent of total receipts, followed by agricultural products with a share of 22.9 per cent of the total. Proceeds from manufactured products accounted for 15.8 per cent; mineral products, 2.0 per cent; and food products, 1.4 per cent.

Figure 56: Non-Oil Export Receipts by Banks (per cent)



Source: Central Bank of Nigeria

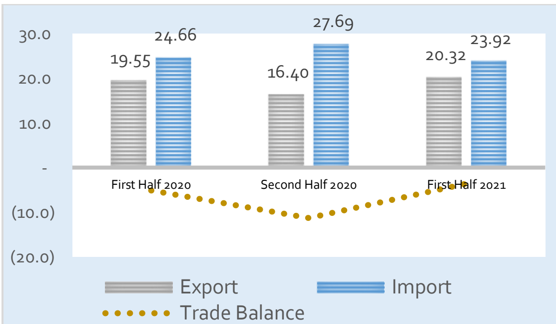
Merchandise Import

Merchandise import moderated in the first half of 2021, reflecting the permeating effects of the pandemic on some sectors of the economy. Aggregate merchandise import declined to US$23.92 billion (12.1 per cent of GDP), compared with US$24.66 billion in the first half of 2020, indicating a decline of 3.0 per cent. Analysis showed that importation of non-oil products decreased to US$17.85 billion (9.1 per cent of GDP), compared with US$20.75 billion in the first half of 2020. However, petroleum products import grew significantly by 55.3 per cent to US$6.06 billion (3.1 per cent of GDP), compared with the level in the first half of 2020. The development resulted from higher importation of premium motor spirit and automotive gas oil, following the gradual return to normalcy after the COVID-19 lockdown restrictions.

In terms of composition, non-oil import continued to dominate merchandise import with a share of 74.6 per cent of total import, while oil accounted for 25.4 per cent of the total.

A breakdown of merchandise imports by broad economic categories indicated that the industrial sector accounted for the largest share of 50.6 per cent, followed by food and beverages, with 14.5 per cent. Fuel and lubricants was 14.2 per cent; transport equipment and parts, 10.2 per cent; consumer goods, 9.2 per cent; and others, 0.8 per cent.

Figure 57: Export, Import and Trade Balance (US$ Billion)



Source: Central Bank of Nigeria

Services

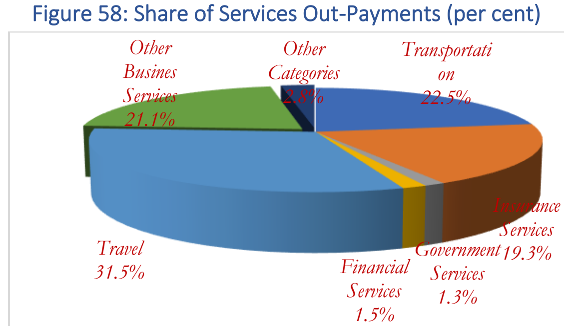
Despite the restart of businesses across the world, the demand for services remained subdued, and below the pre-pandemic level. Thus, the deficit in the services account narrowed by 27.4 per cent to US$7.61 billion (3.9 per cent of GDP), compared with US$10.48 billion in the first half of 2020.

A breakdown shows that, payments for import services reduced by 22.1 per cent to US$9.68 billion in the review period, relative to the US$12.42 billion in the first half of 2020. Analysis of payments for services revealed that expenses on travels declined by 17.1 per cent to US$3.05 billion in the first half of 2021, representing 31.5 per cent of total payments, compared with US$3.67 billion in the first half of 2020. The development was due to the lower spending on education and health-related travels, which fell by 10.2 per cent and 22.8 per cent, respectively, on account of emerging restrictions in some economies, amid rising cases of COVID-19 infections. Payment for other business services, which accounted for 21.1 per cent of the total, also declined significantly by 59.3 per cent to US$2.05 billion in the first half of 2021, relative to US$5.03 billion in the first half of 2020. The development was attributed to lower payment for professional and management consulting, technical, trade-related, and other services.

Payments for transport services also declined by 22.0 per cent to US$2.18 billion, relative to US$2.79 billion in the first half of 2020, due to reduced payment for passenger fares and freight charges (on account of subdued merchandise import). Similarly, payment for computer and information services declined by 19.9 per cent to US$0.11 billion, compared with US$0.14 billion in the first half of 2020.

In contrast, payments for insurance services increased significantly to US$1.87 billion, compared with US$0.39 billion in the first half of 2020. Out-payment for government services increased by 3.2 per cent to US$0.13 billion, relative to US$0.12 billion in the first half of 2020. Payment in respect of financial services also increased by 11.1 per cent to US$0.14 billion, relative to US$0.12 billion in the corresponding period of 2020.

Figure 58: Share of Services Out-Payments (per cent)

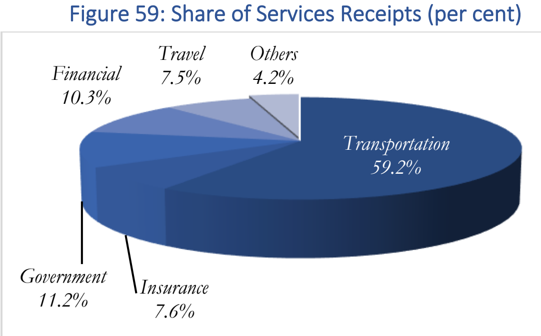


Source: Central Bank of Nigeria

Receipts from services export increased by 6.6 per cent to US$2.07 billion, compared with US$1.94 billion in the first half of 2020. Of the total receipts, 59.2 per cent was in respect of transportation, which grew by 20.3 per cent to US$1.23 billion during the review period, compared with US$1.02 billion in the first half of 2020. The increase was due to higher receipts from freight services (mainly sea transportation) and other transportation services. Similarly, receipts from government services rose by 1.4 per cent, to US$0.23 billion (11.2 per cent), relative to US$0.22 billion in the first half of 2020.

On the other hand, receipts from travels decreased by 10.1 per cent to US$0.16 billion (7.5 per cent), from the US$0.17 billion in the first half of 2020, due to lower inflow from other personal travels (tourism related). Receipts from insurance, mainly non-life, fell to US$0.16 billion or 7.6 per cent of the total, from US$0.18 billion in the first half of 2020. Financial services receipts also declined by 6.4 per cent to US$0.21 billion (10.3 per cent), from US$0.23 billion in the first half of 2020.

Figure 59: Share of Services Receipts (per cent)



Source: Central Bank of Nigeria

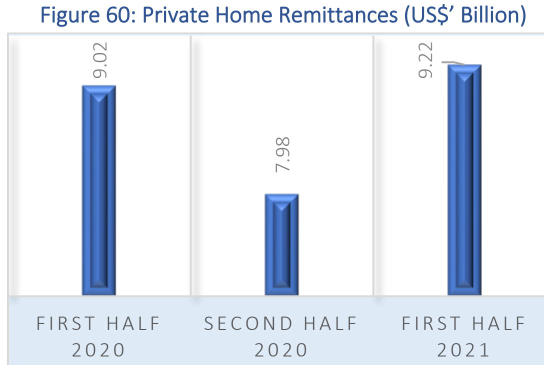
Primary Income

Outward repatriation of income by foreign investors, as most companies declared dividends, resulted in a higher deficit in the primary income account. The deficit in the primary income account, at US$3.74 billion, widened by 23.3 per cent, relative to US$3.04 billion in the first half of 2020. Investment income, comprising dividends and profits, increased by 23.7 per cent, compared with the first half of 2020. The compensation of employees sub-account recorded a higher surplus position of US$0.10 billion, compared with US$0.07 billion in the same period in 2020.

Secondary Income

The rebound in global economic activities positively impacted remittances inflow, which improved the surplus in the secondary income account. The secondary income account recorded a higher surplus of US$12.42 billion or 6.3 per cent of GDP in the review period, compared with US$10.54 billion in the first half of 2020. Remittances by Nigerian migrant workers abroad, which constituted 72.2 per cent of total inflow, rose to US$9.22 billion, compared with US$9.02 billion in the first half of 2020. This was on the back of the Bank's policies on enhancing remittances inflow, particularly the "Naira 4 Dollar" Scheme. General government transfers also increased significantly to US$4.45 billion in the first half of 2021, compared with US$1.76 billion in the first half of 2020. The increase reflected a higher inflow of grants from foreign partners and international organisations to cushion the effect of COVID-19 and insecurity challenges in the country.

Figure 60: Private Home Remittances (US$' Billion)



Source: Central Bank of Nigeria

ii. Financial Account Developments

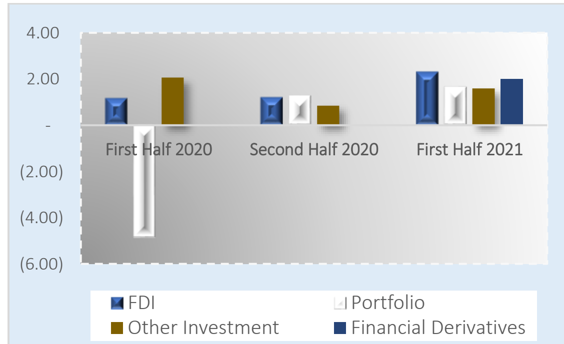
A net borrowing position was recorded in the review period, mainly because of higher incurrence of liabilities, driven by renewed investors' confidence and competitive yields, coupled with the need to bridge the infrastructural gap to spur economic recovery. The financial account recorded net incurrence of liabilities of US$3.94 billion or 2.0 per cent of GDP, compared with US$4.63 billion in the first of 2020. This was due, largely, to improvement in foreign capital inflow.

Net Incurrence of Liabilities

The renewed investors' confidence in the economy resulted in an increased inflow of foreign capital in the review period. Aggregate foreign liabilities improved to US$7.55 billion, in contrast to a reversal of US$1.62 billion recorded in the first half of 2020. A breakdown shows that the inflow of FDI significantly increased in the first half of 2021 to US$2.30 billion, compared with US$1.17 billion in the first half of 2020.

Portfolio investment inflow, comprising equity and debt securities, improved to US$1.65 billion, against a reversal of US$4.85 billion in the first half of 2020. The development was buoyed by the attractive yields on domestic money market instruments, as short-term debt securities rose to US$2.47 billion, vis-a-vis a reversal of US$2.96 billion in the first half of 2020. In addition, the Bank undertook a currency swap deal with Goldman Sachs International Bank worth US$2.00 billion. "Other" investment at US$1.59 billion was lower than US$2.06 billion in the first half of 2020, on account of lower drawings of loans by the general government.

Figure 61: Foreign Capital Inflow (US$ Billion)



Source: Central Bank of Nigeria

Net Acquisition of Asset

Aggregate financial assets worth US$3.61 billion was acquired against disposal of US$6.26 billion in the first half of 2020. The development was due largely to increased foreign currency holdings by the private sector, trade credits, and inflow through bilateral currency swaps. Further analysis shows that the acquisition of direct investment assets by residents improved to US$0.49 billion, in contrast to divestment of US$1.14 billion in the first half of 2020.

Portfolio investment assets amounted to US$0.03 billion, which was lower than the US$0.60 billion in the first half of 2020 due to the risk averseness of resident investors. The "other" investment asset sub-account recorded acquisition of US$4.57 billion, as against disposal of US$2.87 billion in the first half of 2020. This was driven largely, by increased trade credits and holdings of foreign currency by the private sector.

Reserve assets depleted by US$3.49 billion in the review period, relative to US$2.31 billion drawdowns in the first half of 2020, due, majorly, to the Bank's intervention in the foreign exchange market to stabilise the naira and for financing balance of payments needs.

Capital Importation

Renewed confidence in the domestic financial market, occasioned by competitive yields on fixed-income securities, improved inflow of foreign capital into the economy. Aggregate new capital imported into the economy as reported by banks amounted to US$2.81 billion, compared with US$2.53 billion in the second half of 2020. The growth followed the increased purchase of money market instruments, driven largely by improved yields. Disaggregation by sectors shows that banking accounted for 35.6 per cent of the total, while investment in shares (FDI and Portfolio equity) accounted for 32.0 per cent. Financing, production/manufacturing, agriculture, oil and gas, trading, and telecommunications constituted 12.3 per cent, 8.9 per cent, 3.4 per cent, 2.4 per cent apiece and 2.0 per cent, respectively, while other sectors accounted for the balance.

Classification by type of investment reveals that portfolio investment continued to dominate, constituting 54.4 per cent of total investment, followed by other investments, with 36.9 per cent, and FDI inflow accounting for the remaining 8.7 per cent.

Analysis by country of origin shows that the United Kingdom was the dominant source of inflow, accounting for 47.4 per cent of the total, followed by the United Arab Emirates and the Republic of South Africa, with 10.1 per cent and 9.4 per cent, respectively. Singapore, The Netherlands and the United States accounted for 8.3 per cent, 5.2 per cent and 4.2 per cent, respectively, while "other" countries accounted for the balance. By destination of capital, Lagos state received the largest share of US$2.39 billion or 85.0 per cent, while the FCT, Abuja, recorded an inflow of US$0.41 billion, representing 14.7 per cent of the total.

Capital Outflow

Capital outflow declined in the first half of 2021 due to lower repatriation of capital and loan repayment. Aggregate capital outflow amounted to US$2.75 billion in the first half of 2021, compared with US$9.76 billion in the first half of 2020. A breakdown shows that capital repatriation accounted for 56.3 per cent, followed by loans, with 28.9 per cent. Dividends payment to non-resident investors accounted for 14.1 per cent of the total, while "other" outflow accounted for the balance.

Outflow by sector shows that: financing accounted for 38.6 per cent, banking, 16.3 per cent and production/manufacturing, 13.8 per cent. Telecommunications, trading, and oil and gas accounted for 12.9 per cent, 6.2 per cent and 5.8 per cent, respectively. "Other" sectors accounted for the balance.

External Debt

Nigeria's external debt increased, owing to additional disbursements from multilateral and bilateral sources. Nigeria's public external debt increased by 6.3 per cent to US$33.47 billion, from US$31.48 billion at end-June 2020. The increase was due to the additional disbursements from multilateral and bilateral sources. The external debt-to-GDP ratio of 8.5 per cent at the end-June 2021 was within the sustainable threshold of 40.0 per cent of GDP.

Further analysis shows that loans from multilateral sources, mainly the World Bank, International Monetary Fund, and African Development Bank Groups, increased to US$18.37 billion, constituting 54.9 per cent of the total, from US$16.36 billion or 52.0 per cent at end-June 2020. Debt from commercial sources in the forms of Euro and Diaspora bonds was US$10.67 billion

(31.9 per cent), compared with US$11.17 billion (35.5 per cent), at the end-June 2020. This indicates a decline of 4.5 per cent, due to the redemption of Eurobonds in January 2021. Loans from bilateral sources stood at US$4.25 billion (12.7 per cent), compared with US$3.95 billion or 12.5 per cent at the end of June 2020, while promissory notes accounted for the balance.

International Investment Position (IIP)

Increased portfolio accumulation and other investment liabilities resulted in a higher net liability position in Nigeria's International Investment Position (IIP). A higher net financial liability of US$64.08 billion was recorded at end-June 2021, compared with US$57.37 billion, at end-June 2020. The stock of financial assets grew by 6.8 per cent, to US$105.00 billion at end-June 2021, compared with US$98.29 billion, at end-June 2020. This was, due to increases in the stock of FDI, portfolio, and other investment assets, indicating higher claims by Nigerian investors on the rest of the world.

Further analysis reveals that the stock of FDI increased by 14.2 per cent, to US$6.84 billion, at end-June 2021, compared with US$5.99 billion, at end-June 2020. Other investment assets also rose to US$61.19 billion, compared with US$54.55 billion at end-June 2020, indicating an increase of 12.2 per cent. In contrast, the stock of reserve assets fell by 7.8 per cent, to US$32.99 billion, relative to US$35.78 billion, at end-June 2020. Portfolio investment also declined, marginally, by 0.3 per cent, to US$1.96 billion, relative to US$1.97 billion at end-June 2020.

The stock of financial liabilities, representing foreign investors' claims on the economy, increased by 8.6 per cent, to US$169.08 billion at end of June 2021, compared with US$155.67 billion at end-June 2020. The development reflected an increase in the stock of money market instruments held by foreign investors, bilateral currency swaps, and higher loan liabilities of banks and the general government. Thus, the stock of portfolio investment increased by 10.5 per cent, to US$29.48 billion, while that of other investment liabilities rose by 11.0 per cent, to US$47.88 billion at end-June 2021. FDI liabilities also increased by 4.6 per cent, to US$89.72 billion at end-June 2021, compared with US$85.80 billion, at end-June 2020. The stock of financial derivatives stood at US$2.00 billion at the end-June 2021, due to bilateral currency swap transactions. The increased stock of financial liabilities reflected the improved domestic investment climate.

International Reserves

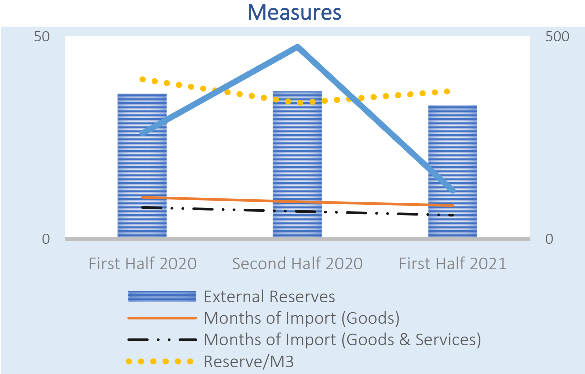
Gross external reserves at end-June 2021 stood at US$32.99 billion, compared with US$35.78 billion at end-June 2020, indicating a decline of 7.8 per cent, due largely, to the Bank’s intervention in the foreign exchange market.

A breakdown of external reserves by ownership shows that the CBN maintained its dominance, with a share of 86.2 per cent, followed by the Federal Government with 13.7 per cent, while the Federation accounted for the balance of 0.2 per cent. However, the CBN portion of the reserves fell, due largely, to the Bank's intervention at the foreign exchange market. The FGN portion also declined as a result of third-party and external debt service payments.

In terms of currency composition, the US dollar, at US$26.26 billion, constituted 79.6 per cent of the total, Chinese yuan, US$4.23 billion (12.8 per cent); special drawing rights, US$2.08 billion (6.3 per cent); while other currencies accounted for the balance of 1.3 per cent.

An assessment of external reserves adequacy based on the traditional measures showed that at end-June 2021, external reserves could finance 5.9 months of import of goods and services or 8.3 months of goods only, higher than the 3.0 months international benchmark. The ratio of external reserves to short-term liabilities is 19.7 percentage points above the benchmark of 100.0 per cent short-term debt cover based on the Greenspan-Guidotti measure of external reserves adequacy. In terms of external reserves to money supply (M3), the ratio, at 34.3 per cent, indicates that the level of reserves was adequately above the international benchmark of 20.0 per cent.

Figure 62: External Reserves Stock and Reserve Adequacy Measures



Source: Central Bank of Nigeria

iii. External Asset Management Programme and Income from Reserves Management

The net asset value of fixed income portfolio managed by the six external asset managers increased by 1.1 per cent, to US$7.46 billion, at end-June 2021, compared with US$7.38 billion at end-June 2020. As at the end of June 2021, the absolute return from the portfolio amounted to US$1.1 billion, from inception. The operations of reserves asset management yielded an aggregate return of US$0.45 billion in the first half of 2021. This indicated a shortfall of 62.0 per cent, relative to the budgeted income for the same period. The income earned was also lower than earnings in the first half of 2020 by 87.2 per cent.

Foreign Exchange Flows

Foreign exchange receipts declined owing, largely, to lower crude oil production, despite the sustained recovery in crude oil prices at the international market. Aggregate inflow to the economy fell by 26.4 per cent, to US$44.27 billion in the first half of 2021, relative to US$60.13 billion in the first half of 2020. The development was driven, largely, by the decline in crude oil-related receipts. A breakdown shows that inflow through autonomous sources and the CBN accounted for 68.2 per cent and 31.8 per cent, respectively.

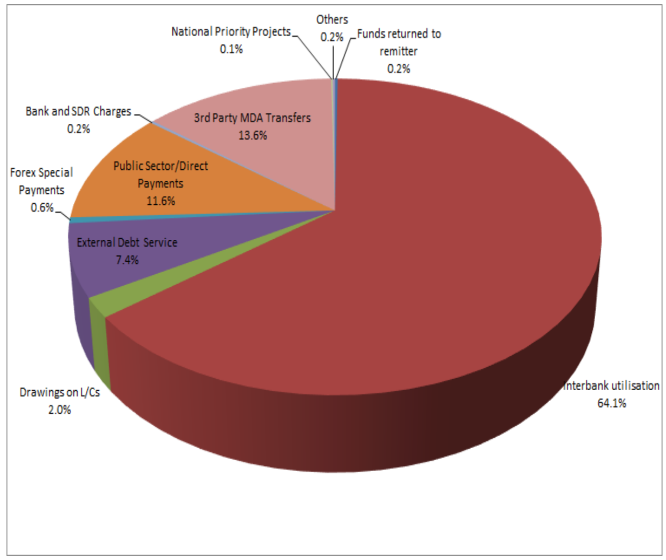
Inflow through autonomous sources declined by 14.4 per cent to US$30.21 billion, from US$35.29 billion in the first half of 2020. A disaggregation showed that non-oil export receipts by banks increased by 44.8 per cent, to US$1.97 billion, compared with the US$1.36 billion in the first half of 2020. Invisible purchases, on the other hand, declined to US$28.23 billion, from US$33.92 billion, in the first half of 2020, indicating a decline of 16.8 per cent. The development was on account of a reduction in total over-the-counter (OTC) purchases. Of the total invisible purchases, ordinary domiciliary accounts increased to US$10.65 billion, relative to US$9.48 billion in the first half of 2020, while purchases, at US$17.57 billion, indicated a 28.1 per cent decline, relative to US$24.43 billion in the same period in 2020. The decline in OTC purchases was driven by a lower inflow of other OTC purchases.

Foreign exchange inflow through the CBN declined by 43.4 per cent, to US$14.06 billion, from US$24.84 billion in the first half of 2020. The development was due, majorly, to the 50.5 per cent decline in crude oil receipts, to US$3.28 billion, compared with the level in the first half of 2020, due to the force majeure on Qua Iboe crude stream, fire incident in one of the major export terminals and pipeline vandalism. Similarly, non-oil receipts decreased by 40.8 per cent to US$10.78 billion, compared with US$18.22 billion in the first half of 2020. This was driven, mainly, by the 55.4 per cent and 52.7 per cent fall in proceeds from foreign exchange purchases, and Treasury Single Account (TSA) and Third-Party receipts to US$1.13 billion and US$1.69 billion, respectively, in the review period. Further analysis reveals that interbank swaps and other official receipts increased by 107.3 per cent and 72.2 per cent to US$4.52 billion and US$2.40 billion, respectively.

Aggregate foreign exchange outflow from the economy, at US$19.05 billion, declined by 34.6 per cent, relative to the level in the first half of 2020. A breakdown showed that outflow through autonomous sources fell by 21.1 per cent to US$1.41 billion, compared with the level in the first half of 2020, as a result of higher payment for invisible services.

Similarly, outflow through the CBN decreased by 35.4 per cent to US$17.65 billion, relative to the level in the first half of 2020, owing, largely, to lower intervention in the foreign exchange market. Disaggregation shows that interbank utilisation, decreased by 37.8 per cent to US$11.31 billion or 64.1 per cent of the Bank's outflow, compared with the first half of 2020, driven by reduced sales to BDCs, I&E, Secondary Market Intervention Scheme (SMIS), and wholesale forwards transactions. In addition, drawings on L/Cs and public sector payments declined by 3.0 per cent and 59.9 per cent to US$0.35 billion and US$2.04 billion, respectively.

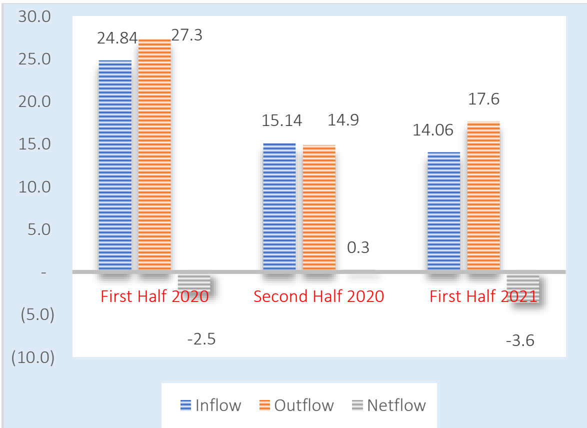
Figure 63: Foreign Exchange Disbursements through the CBN (per cent)



Source: Central Bank of Nigeria

Overall, foreign exchange flow through the economy resulted in a lower net inflow, driven by the increased outflow from the CBN, which outweighed inflow from autonomous sources. A net inflow of US$25.22 billion was recorded through the economy, compared with US$31.02 billion in the first half of 2020. A net inflow of US$28.81 billion was recorded through autonomous sources, compared with US$33.51 billion in the first half of 2020. The CBN recorded a higher net outflow of US$3.59 billion in the first half of 2021, compared with US$2.48 billion in the first half of 2020.

Figure 64: Foreign Exchange Flows through the CBN (US$ Billion)



Source: Central Bank of Nigeria

b. Foreign Exchange Market and Management

The gradual recovery of domestic economic activities from the COVID-19 containment measures resulted in higher demand pressure in the foreign exchange market. Consequently, the Bank implemented some policies and programmes to support interventions in the foreign exchange market, boost liquidity, and ensure exchange rate stability. These policies focused majorly on enhancing diaspora remittances inflow and exchange rate unification.

To promote transparency and encourage diaspora remittances inflow, the Bank, on 22 January 2021, issued a circular that permits only licensed IMTOs to facilitate remittances transfer into Nigeria. In addition, all diaspora remittances must be paid to the beneficiaries in foreign currency.

The "Naira 4 Dollar" scheme, an incentive offered to diaspora remittances recipients, took effect on 8 March 2021. The Scheme, which pays ₦5 for every US$1 remitted, was scheduled to end on 8 May 2021, but was extended indefinitely to consolidate its success.

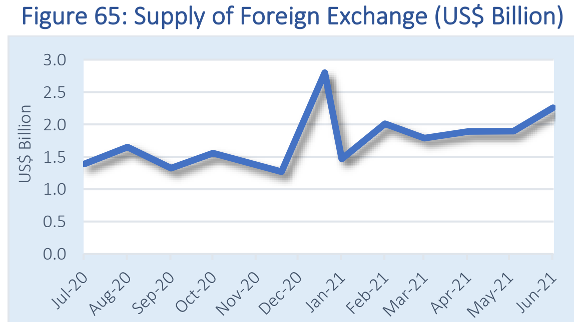
The Bank also adopted the NAFEX (also called I&E) rate as the official exchange rate on 24 May 2021, to further unify the rates at different market segments. To meet foreign exchange demand, the Bank, on 7 June 2021, increased foreign exchange allocations to banks for invisible services (PTA, BTA, tuition fees, and medical payments), SME transactions, and repatriation of capital.

i. Foreign Exchange Sales

CBN sustained its interventions in the foreign exchange market to further boost liquidity and ensure stability. However, the total foreign exchange supplied to authorised dealers by the Bank declined by 37.8 per cent, below the level in the first half of 2020.

A breakdown reveals that inter-bank sales increased to US$0.70 billion, compared with US$0.38 billion in the first half of 2020. Sales to BDCs at US$2.77 billion in the review period, was lower than the US$3.63 billion in the first half of 2020. Foreign exchange sales to SMEs increased by 31.0 per cent to US$0.75 billion, above the level in the first half of 2020. However, sales under the SMIS and to the I&E window declined by 2.6 per cent and 70.4 per cent to US$3.08 billion and US$1.84 billion, respectively, compared with the levels in the first half of 2020.

Figure 65: Supply of Foreign Exchange (US$ Billion)



Source: Central Bank of Nigeria

ii. Forwards and Swaps Transactions

In the first half of 2021, wholesale forward sales declined to US$0.10 billion, compared with US$2.24 billion in the corresponding half of 2020. Matured swaps transactions increased to US$2.08 billion, compared with US$1.95 billion in the first half of 2020.

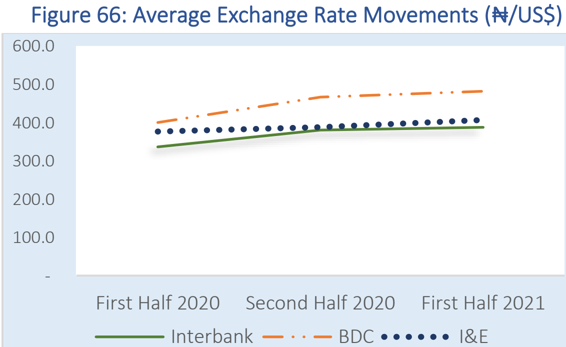
Exchange Rate Movements

The exchange rate of the naira to the US dollar depreciated in all segments of the foreign exchange market due to increased demand and the adoption of the NAFEX as the official exchange rate in May 2021.

Spot Exchange Rate

The average exchange rate of the naira to the US dollar at the inter-bank and BDC segments depreciated by 13.2 per cent and 17.0 per cent to ₦387.50/US$ and ₦481.70/US$, respectively, relative to the values in the first half of 2020. The development was due to rising demand pressure, owing to further easing of travel restrictions across the globe. Similarly, at the I&E window, the average exchange rate depreciated by 7.4 per cent to ₦406.67/US$, relative to the level in the first half of 2020. This was attributed to the increased demand by investors and exporters to meet trade obligations.

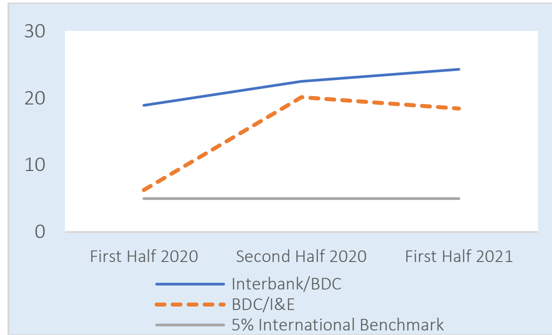
Figure 66: Average Exchange Rate Movements (₦/US$)



Source: Central Bank of Nigeria

Consequently, the premium between the average I&E and the BDC rates widened to 18.5 per cent in the first half of 2021, compared with 6.3 per cent in the first half of 2020.

Figure 67: Foreign Exchange (N/US$) Premium (per cent)



Source: Central Bank of Nigeria

The exchange rate of the naira to the US dollar at the I&E window, closed at ₦411.50/US$, relative to ₦386.50/US$, at end-June 2020. Similarly, at the BDC segment, the naira depreciated to ₦495.00/US$, compared with ₦455.00/US$ at end-June 2020.

Cross Rates

The average exchange rate of the naira against the British pound and the euro depreciated by 21.4 per cent and 20.8 per cent, respectively. The naira also depreciated by 13.7 per cent against the Japanese yen, compared with the level in the first half of 2020. At the regional level, the naira depreciated against the CFA francs and WAUA by 28.3 per cent and 28.7 per cent, respectively, relative to their values in the first half of 2020.

Emerging Market Currencies

Currencies of most emerging market countries firmed against the US dollar as their rates reached multi-year highs, reflecting ongoing policy adjustments by their central banks. The South African rand, Chinese RMB, and Russian ruble appreciated by 12.7 per cent, 5.0 per cent, and 0.5 per cent, respectively, against the US dollar. The appreciation of the rand indicated a 28-month high against the US dollar due to soaring commodity prices.

Table 35: EMEs Exchange Rates/US$

Period	*Chinese RMB*	*Nigerian naira*	*South African rand*	*Russian ruble*
2020H1	*6.91*	*336.4*	*14.29*	*66.64*
2020H2	*6.8*	*380.37*	*16.38*	*74.69*
2021H1	*6.47*	*387.5*	*14.54*	*74.33*

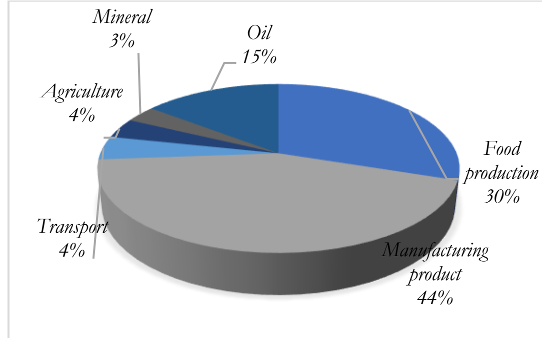
Source: Central Bank of Nigeria

Sectoral Utilisation of Foreign Exchange

Aggregate utilisation of foreign exchange by sectors decreased, due majorly to moderation in merchandise imports. Foreign exchange utilised by major economic sectors declined to US$10.05 billion, relative to US$17.70 billion in the first half of 2020. Analysis shows that US$5.72 billion or 56.9 per cent of the foreign exchange was utilised for visible imports. This was 0.7 per cent lower than US$5.76 billion in the first half of 2020.

Further analysis indicates that, of the visible imports, utilisation by the industrial sector, at US$2.27 billion, decreased by 7.8 per cent, compared with the level in the first half of 2020. Similarly, utilisation by the oil and transport sectors declined by 34.8 per cent and 44.5 per cent, to US$0.50 billion and US$0.16 billion, compared with their respective levels in the first half of 2020. The amount utilised for manufactured goods, food products, agricultural and mineral sectors increased by 23.5 per cent, 21.5 per cent, 42.1 per cent, and 53.2 per cent to US$1.51 billion, US$1.04 billion, US$0.13 billion, and US$0.11 billion, respectively, compared with their levels in the first half of 2020.

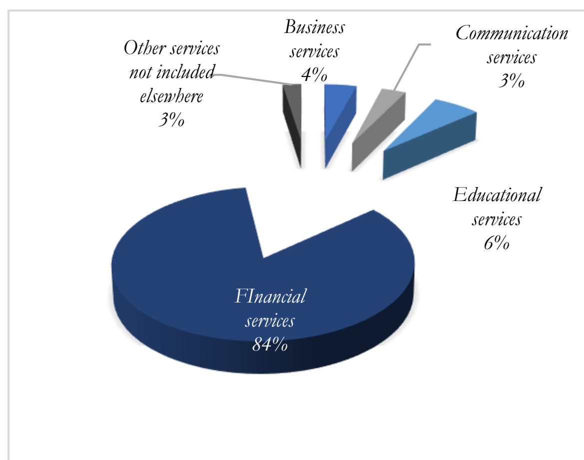
Figure 68: Sectoral Utilisation of Foreign Exchange (Visible)



Source: Central Bank of Nigeria

Invisible transactions, at US$4.32 billion or 43.0 per cent of the total, declined by 31.5 per cent, relative to US$11.94 billion, in the corresponding period of 2020. A breakdown showed that the amount utilised for communication, educational and health related services increased significantly to US$0.13 billion, US$0.26 billion and US$0.01 billion, respectively, from the levels in the first half of 2020. The amount utilised for business, and financial services declined by 26.3 per cent and 68.6 per cent to US$0.18 billion and US$3.57 billion, respectively, relative to their levels in the first half of 2020.

Figure 69: Sectoral Utilisation of Foreign Exchange (Invisibles)

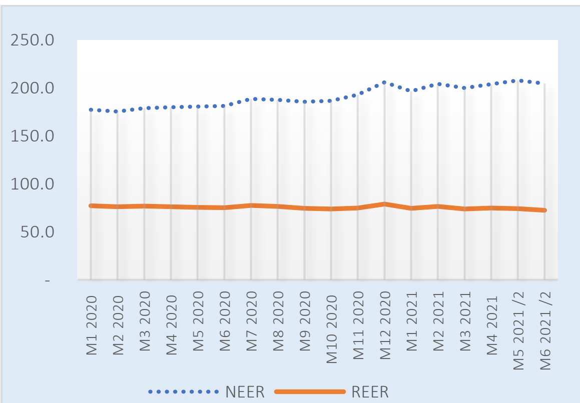


Source: Central Bank of Nigeria

Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) Indices

The average 13-currency NEER index (November 2009=100) in the review period was 204.70 index points, indicating a decline of 0.8 per cent, relative to the level in the first half of 2020. The average REER index (November 2009=100), which measures external competitiveness, was 72.52 points, representing a decline of 9.6 per cent, compared with the level in the first half of 2020. The indices suggested a depreciation against the major trading partners, which could denote improved competitiveness.

Figure 70: NEER and REER



Source: Central Bank of Nigeria

Section Four

4.0 OUTLOOK

The short-to medium-term outlook of the Nigerian economy is fragile but improving, drawing on dynamics in the global and domestic economies, market sentiments and forecasts.

- Outlook
  - Global Economy
  - Real Domestic Economy
  - Fiscal Policy
  - Financial Sector, and
  - External Economy

4.1 GLOBAL ECONOMIC OUTLOOK

Output: The global economic outlook for the rest of 2021 remains largely optimistic on the back of the expected increase in the pace of COVID-19 vaccination and the likely positive effects of continued fiscal and monetary policy support. Global output was projected to grow by 6.0 per cent in 2021 and 4.9 per cent in 2022, owing to the rebound in major economies.

In the advanced economies, output is projected to grow by 5.6 per cent in 2021 and 4.4 per cent in 2022, as against the 4.6 per cent contraction in 2020, reflecting a rebound in economic activities. In the US, the output is projected to grow by 6.4 per cent in 2021, as against a contraction of 3.5 per cent in 2020, following significant fiscal accommodation. The Euro Area and the UK economies are also projected to grow by 4.4 per cent and 5.3 per cent in 2021, vis-à-vis contractions of 6.6 per cent and 9.9 per cent in 2020, respectively.

In emerging markets and developing economies (EMDEs), growth is projected at 6.3 per cent in 2021 and 5.2 per cent in 2022, as against the contraction of 2.1 per cent in 2020. The growth would be driven by strong external demand and higher commodity prices. The outlook for the region remains optimistic, though downside risks, such as the possibility of a new wave of COVID-19 pandemic and rising debt level, remain.

In East Asia, the recovery is expected to be strong due to a substantial rebound in China, which is projected to grow by 8.1 percent in 2021. India is projected to grow by 9.5 per cent, as against a contraction of 7.3 per cent in 2020, when the country witnessed the largest outbreak of the COVID-19 virus, underlying supply disruptions of major food staples such as onions. In the Middle East and Central Asia, the pace of growth in 2021 is projected to be 4.0 per cent in contrast to a contraction of 2.6 per cent in 2020.

The outlook for Sub-Saharan Africa is positive, with growth projected at 3.4 per cent in 2021, as against a contraction of 1.8 per cent in 2020. The projection for the region reflects improved prospects for the region's leading economies. Nigeria's economy is set to grow by 2.5 per cent in 2021 from a contraction of 1.8 per cent in 2020. The South African economy was projected to grow by 4.0 per cent in 2021 as against a contraction of 7.0 per cent in 2020.

Consumer Prices: Global inflation is expected to be subdued in 2021, on the back of positive labour market conditions occasioned by recoveries in global output and commodity prices. Nevertheless, the IMF projections indicate that developments in consumer prices across regions would be mixed.

In advanced economies, prices are generally projected to rise faster, reflecting the impact of fiscal stimuli, monetary accommodation and improvement in economic activities. In the United States, inflation is projected to increase to 2.3 per cent in 2021, from 1.2 per cent in 2020. In the Euro Area, inflation is projected to increase by 1.4 per cent in 2021, from 0.3 per cent in 2020, owing to the general increase in energy prices and the second-round effects of earlier COVID-19-related fiscal expansion. In the United Kingdom, inflation is also expected to increase to 1.5 per cent in 2021, compared with 0.9 per cent in 2020. Similarly, Japan's consumer prices are projected to increase marginally by 0.1 per cent in 2021, relative to -0.2 per cent in 2020.

Consumer inflation is expected to decline in emerging markets and developing economies. In Asia, inflation is projected to decline to 2.0 per cent in 2021, from 2.5 per cent recorded in 2020.

Notably, inflation in China is also expected to decrease to 1.2 per cent in 2021, compared with 2.4 per cent in 2020.

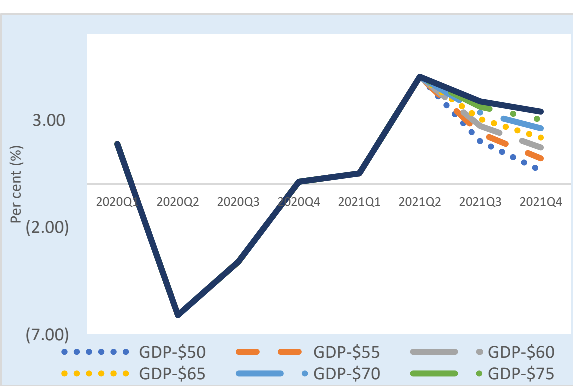
In Sub-Saharan Africa, consumer prices growth rate is projected to decline to 9.8 per cent in 2021, from 10.8 per cent in 2020, as effects of rising commodity prices and COVID-19-related currency depreciations wane. However, consumer prices in the region's leading economies are projected to rise. Specifically, inflation in Nigeria and South Africa are expected to rise in 2021.

4.2 DOMESTIC ECONOMIC OUTLOOK

The outlook for the Nigerian economy remains optimistic, as growth is expected to be sustained for the rest of 2021. Real output is projected to grow significantly in 2021 Q4, dependent on continued progress in the containment of the COVID-19 pandemic, improvement in crude oil prices, and sustained monetary and fiscal policy support.

Risks to the outlook include the resurgence of COVID-19 infections, lingering security challenges, oil price volatility, weakened disposable income, structural rigidities, and rising costs.

Figure 71: Economic Growth (Actual and Projections)

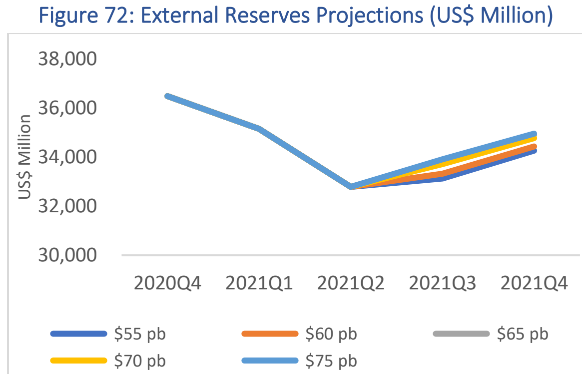


Source: National Bureau of Statistics (NBS) and CBN Staff Estimates

Domestic inflation remains elevated but is expected to moderate further in the second half of 2021. The moderation would largely be driven by the reduction in food prices due, to increased agricultural output and supply chain improvements. However, prevailing security challenges are likely to pose significant tailwinds to inflation.

The outlook for the external sector is positive, hinged on higher commodity prices, foreign capital, and remittance inflows. Consequently, both the external reserves and portfolio investment are expected to improve in the short- to medium-term. A narrower deficit is expected following an enhancement in the current account. Factors responsible for the development are: sustained improvement in crude oil prices, steady domestic and global economic recovery, sustained inflow of foreign capital, and enhanced inflow of remittances, supported by the Bank's 'Naira 4 Dollar Scheme'. Furthermore, the signing into law, of the Petroleum Industry Bill (PIB) and the Train 7 gas expansion programme are expected to attract foreign investors into the downstream oil sector, boost export earnings and sustain the accretion to external reserves, thereby improving external sector viability.

Figure 72: External Reserves Projections (US$ Million)



Source: CBN Database and Staff Estimates
Note: 'pb' means per barrel

The expected higher FPI inflow is premised on relatively attractive returns, particularly, on fixed income securities. In addition, the demand management policies of the Bank, coupled with enhanced inflow, is expected to stabilise the foreign exchange market.

Figure 73: Foreign Portfolio Investment

Source: CBN Database and Staff Estimates
Note: 'pb' means per barrel

Notwithstanding, the subsisting security challenges in the country, rising external debt, and the continuous spread of the COVID-19 Delta variant across the globe, could undermine domestic outlook.

The outlook for the fiscal sector remains optimistic for the second half of the year. The positive outlook draws on the prospect of a sustained rise in global crude oil prices and improvement in domestic crude oil production, following increasing recovery in global oil demand, cessation of OPEC+'s supply cut and relative peace in the oil-producing regions of Nigeria. While the liquidity position of the government, as evidenced by the elevated debt service-revenue ratio, was a concern in the first half of 2021, the continued implementation of the FGN's Strategic Revenue Growth Initiatives (SRGI), is expected to further diversify government revenue sources, and bolster non-oil revenue outcomes, and improve fiscal space. Regardless, COVID-19 uncertainty and the continued security challenges threaten the performance of the 2021 FGN and subnational budgets.

The financial sector is expected to remain sound, safe, and stable for the rest of the year. The Bank's regulatory and prudential measures, particularly credit intervention schemes, channeled towards growth-enhancing sectors and regulatory forbearance policies, are expected to drive credit delivery, and ensure the continued soundness of the financial system in the second half of the year. Furthermore, the Global Standing Instruction (GSI) policy is expected to strengthen banks' risk management practices and support financial sector resilience. Credit concentration to risky sectors and moral hazard, because of regulatory forbearance, are risks to this outlook.

Section Five

5.0 ADDITIONAL INFORMATION

An addendum of supporting activities and engagements of the Bank, in the review period is presented here.

- International Meetings
  - Regional
  - Non-Regional

5.1 REGIONAL MEETINGS

i. African Union (AU):

Meeting of the African Continental Free Trade Area (AfCFTA)

The Meeting of the African Continental Free Trade Area (AfCFTA) took place virtually on 1 January 2021. The Secretary-General of the AfCFTA, H.E. Wamkele Mene, noted that 54 out of the 55 member countries of the African Union signed the AfCFTA Agreement, 33 countries ratified the Agreement, while over 40 countries submitted their respective tariff offers. He further stated that the implementation of the AfCFTA Agreement was expected to be an instrument for Africa's development, given the opportunities it would provide for Small and Medium Enterprises (SMEs) to access new markets.

Peace and Security Council Meeting of the AU

The Peace and Security Council (PSC) of the African Union (AU) held its 973rd meeting virtually on 18 January 2021 and considered the Report of the Multinational Joint Task Force (MNJTF) against Boko Haram. The Peace and Security Council:

- commended the efforts made by the MNJTF, the Republic of Benin, and Lake Chad Basin Countries (LCBC), namely: Cameroon, Chad, Niger and Nigeria, in the fight against the Boko Haram terrorist group. It noted the significant debilitating capability of the terrorist group;
- strongly condemned the continued attacks and abuses committed by the Boko Haram terrorist group, which had resulted in a rising number of internally displaced persons and destruction of infrastructure in the region;
- expressed concerns over the continued use of Unmanned Aerial Vehicles (UAVs) within the MNJTF Area of Operation by Boko Haram in its reconnaissance operations. Consequently, the PSC requested that the Commission on the MNJTF, in collaboration with LCBC and the Republic of Benin, should engage with relevant stakeholders to explore more effective options of responding to the threat, as well as curtail any forms of political, military, and financial support to the Boko Haram terrorist group;
- requested that the AU Commission should mobilise additional support for the activities of the MNJTF to fill some identified capability gaps, especially the provision of Counter-Improvised Explosive Devices (C-IED), amphibious equipment, counter drone equipment, force protection vehicles, surveillance equipment, and Intelligence, Surveillance and Reconnaissance (ISR) services. Other identified gaps include Quick Impact and Peace Strengthening Projects and Humanitarian support for the affected population.
- stressed the need to fully implement the Regional Strategy for the Stabilisation, Recovery, and Resilience of the Boko Haram-affected areas of the Lake Chad Basin Region through the African Union Post Conflict Reconstruction and Development Centre;
- expressed gratitude to the AU's partners, especially the European Union, for their continued support to the activities of the MNJTF, including the 60 million Euros provided to support the MNJTF for 2021;
- expressed concerns over the humanitarian crisis in the affected areas of the Lake Chad Basin region and appealed to the AU Member States and the international

community to step up humanitarian support to the affected communities; and

- renewed the mandate of the MNJTF for another period of twelve months, effective from 31 January 2021.

ii. Ordinary Session of the Economic Community of West African States (ECOWAS) Authority of Heads of State and Government

The 58th Ordinary Session of the ECOWAS Authority of Heads of State and Government was held virtually on 23 January 2021. The meeting considered the Report of the 85th Ordinary Session of the ECOWAS Council of Ministers from 20 – 21 January 2021. The Authority:

- commended Member States for the measures taken to contain the COVID-19 pandemic;
- approved the harmonised ECOWAS Protocol for cross-border movement of persons and goods during the pandemic and capped the cost of the COVID-19 PCR test at US$50 for ECOWAS nationals traveling within the region. It also approved a pooled procurement approach for anti-COVID vaccines and instructed the ECOWAS Commission to set up a Vaccine Revolving Fund;
- noted the deterioration in attaining the ECOWAS macroeconomic convergence in 2020, due to measures taken by the Member States to combat COVID-19 Pandemic;
- granted ECOWAS Member States waiver in respect of achieving the macroeconomic convergence criteria in 2021, given the expected negative impact of the second wave of the COVID-19 pandemic on Member states' economies;
- directed the ECOWAS Commission, the West African Monetary Agency (WAMA), West African Monetary Institute (WAMI), UEMOA Commission, and Member States' central banks, to submit to its next Ordinary Session: a draft of the new Convergence and Macroeconomic Stability Pact among ECOWAS member states, with a start date of 1 January 2022, for the convergence phase; and a new roadmap for the ECOWAS Single Currency Programme;
- directed the ECOWAS Commission, WAMA, and Member States' central banks to expedite work toward the rapid interconnection of ECOWAS Payments Systems and submit a report at the following Ordinary Session scheduled to hold in June 2021;
- noted the commencement of the AfCFTA on 1 January 2021, the ratification of the agreement by 12 out of 15 ECOWAS Member States, and the submission to the African Union of common schedules of tariff concessions for trade in goods and specific commitments on trade in services in five priority sectors by some Member States;
- encouraged Member States, yet to ratify the AfCFTA Agreement, to accelerate the process of ratification to promote harmonious trade liberalisation in the region and maintain the integrity of the ECOWAS Common External Tariff;
- directed the ECOWAS Commission to continue to support the Member States in the development and implementation of national strategies for adaptation to the rules of the AfCFTA;
- implored the ECOWAS Commission to continue advocacy campaigns in the Member States for greater involvement of all stakeholders, and to continue to coordinate the approaches of Member States in negotiations under the AfCFTA;
- expressed concerns over continued terrorist attacks in frontline countries, particularly in Burkina Faso, Mali, Niger and Nigeria; and

- acknowledged contributions by Ghana and Nigeria to fund the 2020 – 2024 Action Plan implementation and urged the other Member States to expedite payment of their voluntary contributions.

iii. West African Institute for Financial and Economic Management (WAIFEM) End-of-Year Statutory Meetings

The End-of-Year Statutory Meetings of the West African Institute for Financial and Economic Management (WAIFEM) held virtually in February 2021. The Meeting commenced with the 43rd Meeting of the Technical Committee from 4 - 5 February 2021, followed by the 40th Meeting of the Board of Governors on 15 February 2021.

The Technical Committee of WAIFEM considered and recommended the following draft reports to the Board of Governors for approval:

- Strategic Plan for 2021 - 2025;
- Budget for the Year 2021;
- Manual for WAIFEM Endowment Fund;
- Manual for WAIFEM Research Account; and
- the Impact Assessment of the Doctoral Fellowship/Visiting Scholar Schemes.

iv. West African Monetary Zone (WAMZ) End-of-Year Statutory Meetings

The End-of-Year Statutory Meetings of the West African Monetary Zone (WAMZ) commenced with the 48th Meeting of the WAMZ Technical Committee from February 8 - 9, 2021, followed by the 42nd Meeting of the Committee of Governors of WAMZ on 15 February 2021, and concluded with the 45th Meeting of the Convergence Council of Ministers and Central Bank Governors on 16 February 2021.

The following documents were considered and recommended for approval:

- WAMZ Macroeconomic Developments and Convergence Report, end-June 2020;
- Paper on Assessing the Preparedness of WAMZ Member States' Migration to Inflation Targeting Framework;
- Paper on Fiscal Convergence in the West African Monetary Zone (WAMZ) ;
- WAMZ Payments System Development Project – Progress Report;
- Proposed WAMI Work Programme and Budget FY 2021;
- Model Act for Specialised Deposit-taking Institutions and Specialised Deposit-taking Holding Companies of the West African Monetary Zone;
- Report of the 38th Meeting of the College of Supervisors of the WAMZ (CSWAMZ); and
- Report of the 3rd Meeting of the College of Supervisors of Non-Bank Financial Institutions.

v. West African Monetary Agency (WAMA) End-of-Year Statutory Meeting

The End-of-Year Statutory Meeting of the West African Monetary Agency (WAMA) was held virtually. The Meeting commenced with the 38th Meeting of the Technical Committee of WAMA from 10 – 12 February 2021, followed by the 57th Meeting of the Committee of Governors of WAMA on 15 February 2021.

The Technical Committee of WAMA considered and recommended the following reports to the Committee of Governors:

- Report on the ECOWAS Monetary Cooperation Programme for first Half 2020;
- Report on Exchange Rate Developments in ECOWAS;

- Establishment of a Community Solidarity and Stabilisation Fund;
- Update on Reserve pooling for the ECOWAS single currency area;
- Update on size and distribution of the capital of the CBWA;
- WAMA Work Programme and Proposed Budget for 2021; and
- Review of WAMA staff terminal benefits.

vi. Meeting of the Technical Sub-Committee on the ECOWAS Single Currency Programme

ECOWAS Commission organised a virtual meeting of the Technical Sub-Committee on the ECOWAS Single Currency Programme via video conference, from 7 – 9 April 2021. The Meeting reviewed the following:

i. draft of the new Sheet for the ECOWAS Single Currency Programme proposed by the Regional Institutions; and

ii. proposal for the definition of "majority" within the framework of the Pact for Convergence and Macroeconomic Stability between the ECOWAS Member States.

The Meeting was attended by representatives of the Central Banks, ECOWAS and UEMOA Commissions, the West African Monetary Agency (WAMA), and the West African Monetary Institute (WAMI).

vii. Inaugural Meeting for the Establishment of the Proposed Trade Development Committee of the West African Monetary Zone

At its 45th meeting held virtually on 16 February 2021, the Convergence Council of the WAMZ called for a Trade Development Committee to focus on connectivity across all transport modes, particularly maritime, to facilitate faster and cheaper movement of goods within the zone. In this regard, the Council directed WAMI, to convene an inaugural meeting to establish the Trade Development Committee of the WAMZ.

Consequently, the inaugural meeting for the establishment of the Trade Development Committee of the West African Monetary Zone (WAMZ) held virtually from 13-14 April 2021 and considered the concept note for establishing the Trade Development Committee of the WAMZ.

viii. African Union Specialised Technical Committee (STC) on Finance, Monetary Affairs, Economic Planning, and Integration.

The West African Monetary Agency (WAMA) organised a one-day virtual Seminar for the Governors of the central banks of Member States of the ECOWAS on 'Policy Responses to Emerging Extreme Events and Lessons from the European Monetary Integration Process' on 28 May 2021.

The Seminar discussed the experience of the Euro Area vis-à-vis its monetary union that took off in 1999. The Governors examined the policies adopted in their various central banks and how they helped stabilise their economies during similar economic crises as the current COVID-19 pandemic.

The Seminar discussed the following:

- Monetary policy challenges in the time of Covid-19 and COP26;
- Banking Supervision and Climate Change, Relevance for the ECOWAS;
- Towards Convergence, the European and ECOWAS Experience; and
- Building a strong Monetary Institute, the Role of WAMA.

ix. Continental Seminar of the Association of African Central Banks (AACB) 2021

The first Continental Seminar of the Association of African Central Banks (AACB) for 2021 was held virtually from 31 May to 2 June 2021, on the theme: Remittances, Fluctuations of Exchange Rates and Management of Foreign Reserves: Financing Opportunities for Africa and Implications for African Central Banks.

The Seminar held two plenary sessions centered around six presentations, namely:

- contribution of remittances in enhancing development finance in Africa;
- leveraging FinTech to ensure efficiency and compliance in the remittance market;
- exchange rate fluctuations and consolidation of foreign reserves in Africa;
- migrant workers' remittances: African financing economies and the impact of COVID-19;
- fintech and the migrant remittance market; and
- migrant workers' remittances, current account structure, and the consolidation of foreign exchange reserves.

x. Meeting of Nigerian Stakeholders on Trade Development

The Meeting of Nigerian stakeholders on trade developments led by the DG WAMI was held at the CBN between 21-24 June 2021.

The WAMZ Convergence Council in February 2021 directed WAMI to organise a meeting with the key stakeholders on trade in Nigeria before convening the meeting of all WAMZ member states. The meeting objectives were to harness Nigeria's stakeholders' ideas and outline actionable points to promote trade in WAMZ member countries.

During the meeting, a presentation was made by the Nigeria Export-Import (NEXIM) Bank, titled "The Sea Link Project." The presentation gave an insight into what NEXIM had done on trade development.

5.2 NON-REGIONAL MEETINGS

i. 2021 Spring Meetings of the Boards of Governors of the International Monetary Fund (IMF)/World Bank Group

The 2021 Spring Meetings of the Board of Governors of the World Bank Group (WBG), the International Monetary Fund (IMF), and the Inter-Governmental Group of Twenty-Four (G-24) on International Monetary Affairs and Developments were held virtually from 29 March – 9 April 2021. The sideline meetings included those of the International Monetary and Finance Committee (IMFC) of the Governors of IMF, the Development Committee (DC) of the World Bank Group, as well as the meetings of the Ministers of the G-24. The proceedings of the meetings were;

The G-24 Ministers:

- noted that though the global economy showed signs of recovery from the COVID-19 crisis, the path to broad-based and inclusive recovery was fraught with uncertainty about the availability and access to safe and affordable vaccines for all and the strength of external financial support to developing countries;
- noted that the pandemic had strained health systems and severely hit economies of developing countries, with limited policy space to respond;
- observed that millions of people had fallen into extreme poverty, and food insecurity had risen steeply, especially in the poorest

countries and those living in fragile and conflict-affected areas;

- indicated that G-24 members' urgent priorities were to contain the pandemic, thus, scaling up vaccinations and rebuilding economies to avoid a lost decade of development and a major decline in people's well-being;
- noted that international cooperation was essential to secure a better recovery for all countries and promote a strong pace of global convergence of per capita income levels between advanced and developing countries;
- reiterated the importance of a strong global financial safety net, with an adequately resourced, quota-based IMF at its center; and
- welcomed the stronger support in the IMF's Executive Board for a meaningful new allocation of Special Drawing Rights (SDRs) to address long-term global liquidity needs.

The IMFC:

- noted that the global economy was recovering from the crisis faster than expected due to the unprecedented policy response and rapid progress in vaccine development;
- highlighted that the prospects for recovery were highly uncertain and uneven within and across countries due to varying policy space, different economic structures and rigidities, pre-existing vulnerabilities, and uneven access to vaccines;
- emphasised that elevated financial vulnerabilities could pose risks should global financial conditions tighten swiftly, and that sound policy was essential for the stability of the international monetary system;
- remained committed to ensure that its exchange rates reflect underlying economic fundamentals and noted that exchange rate flexibility could facilitate the adjustment of their economies; and
- called on the IMF to make a comprehensive proposal on a new Special Drawing Rights (SDR) general allocation of US$650 billion to help meet the long-term global need to supplement reserves while enhancing transparency and accountability in the reporting and use of SDRs.

The Development Committee:

- noted that the COVID-19 pandemic had caused unprecedented public health, economic and social crisis, threatening the lives and livelihoods of millions. The economic shock increased poverty, worsened inequalities, and reversed development gains;
- observed that fragility, conflict, and violence (FCV) had worsened in many regions. It was urgent to address drivers of FCV, forced displacement, and migration. It looked forward to the implementation of the FCV strategy.
- highlighted a sustainable and inclusive recovery required for addressing financial sector vulnerabilities, eliminating tax evasion, and mobilising vital investments; and
- commended the WBG for scaling-up climate finance over the past two years, its continued role as the largest multilateral source of climate investment in developing countries, emphasis on biodiversity, and technical and financial support for adaptation, mitigation, and resilience.

G-24 Technical Group Meeting

The Intergovernmental Group of Twenty-Four (G-24) Technical Group Meeting (TGM) was held virtually from February 23 - March 18, 2021. The theme was *"Toward an Agenda for an Inclusive, Resilient and Sustained Recovery."* Deliberations were centered on the adverse economic impact of the COVID-19 Pandemic on Emerging Markets and Developing Countries (EMDCs).

During the meeting, sessions on Managing Capital Flow Volatility, International Tax Cooperation, Domestic Resource Mobilisation to Support a Better Post-COVID Recovery and Delivering on Climate Finance to Support Better Recovery and Climate Goals were held.