CENTRAL BANK OF NIGERIA ECONOMIC REPORT

Half Year

2020

Central Bank of Nigeria

Economic Report
First Half of 2020

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

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1	**Godwin I. Emefiele, CON**	*Governor (Chairman)*
2	**Edward L. Adamu**	*Deputy Governor (Corporate Services)*
3	**Kingsley I. Obiora**	*Deputy Governor (Economic Policy)*
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EXECUTIVE SUMMARY

The Global Economy: The global growth of 2.9 per cent in 2019 was reversed, owing to the devastating effect of the COVID-19 pandemic. The IMF, in its June World Economic Outlook, projected that the global economy would shrink by 4.9 per cent, in 2020, which was 1.9 percentage points below the April 2020 projection. Purchasing Managers' Indices for most economies were below the 50 points threshold since March 2020, reflecting the precarious global economic conditions. The worsened global inflation remained generally, muted, both in advanced and emerging market economies, except for marginal rises in a few emerging and developing economies. Global financial conditions, following market participants' reaction to COVID-19 pandemic, regained stability towards the end of the first half of 2020. Policy responses by central banks were aimed at injecting liquidity and restoring financial stability. Also, governments responded with fiscal measures to stimulate aggregate demand.

The Real Economy: Domestic economic activity slowed in the first half of 2020, following the effects of COVID-19 pandemic. Both oil and non-oil sectors performed relatively poorly. Overall, output contracted by 4.97 per cent, reversing the growth trajectory since 2017, when the economy exited recession. Inflationary pressure remained elevated during the first half of the year. Headline inflation (year-on-year), rose from 12.13 per cent in January 2020 to 12.26 per cent in March 2020, before peaking at 12.56 per cent in June 2020. Global crude oil production declined as oil producing countries complied with OPEC+ supply cut agreements, in a bid to reverse prices. Crude oil prices were lower in the first half of 2020 relative to the level in the corresponding period of 2019. The Bonny Light, Nigeria's reference crude, on the average, traded for US$40.60 pb, compared with US$68.00 pb in the corresponding period of 2019. Unemployment and underemployment rates increased in the review period relative to its position in Q3 2018. The unemployment rate, at 27.1 per cent in the review period, was 4.0 percentage points, up from the 23.1 per cent recorded in Q3 2018. The underemployment rate also increased from 20.1 per cent in Q3 2018 to 28.6 per cent in Q2 2020.

The Federal Government and the CBN responded promptly to ease credit conditions and improve household income. Particularly, the Bank initiated new measures pursuant to its development financing function to ameliorate the impact of the COVID-19 pandemic on the economy.

Fiscal Developments: The effects of the COVID-19 pandemic on economic activities, significantly worsened Federation revenue, particularly non-oil receipts in the first half of 2020. However, owing to the lagged nature of oil revenue receipts, the plunge in crude oil prices and oil production-cut did not affect oil revenue in the review period as oil receipts, at ₦2,793.84 billion, rose by 57.6 per cent relative to the proportionate budget of ₦1,772.32 billion. Contrastingly, non-oil revenue, at ₦1,868.66 billion (2.7 per cent of GDP), declined by 43.5 per cent below its benchmark, owing to shortfalls in Corporate Tax, Value-Added Tax and Customs and Excise Duties. The total debt outstanding of the Federal Government stood at ₦24,522.05 billion at end-March 2020, driven, largely, by rising fiscal deficits.

Financial Developments: The financial sector in the first half of 2020 was characterised by volatility in stock prices and the exchange rate, rising corporate and public debt, capital flow reversals, excess liquidity in banks and drastic declines in oil prices, which posed major challenges to monetary policy. Notwithstanding the continued lull in the global financial markets and adverse shocks to global capital flows due to the impact of the COVID-19 pandemic, the financial sector remained stable in the review period, as the key financial soundness indicators showed resilience. The CBN eased credit conditions to support critical sectors of the economy. Broad money supply (M_3), at ₦35,625.9 billion, grew by 2.4 per cent, and this was below the target for 2020. The growth was driven by increases in net domestic claims and net foreign claims.

Liquidity in the financial sector was influenced, largely, by fiscal operations of governments, effects of CRR, foreign exchange intervention and settlement of matured bills. Average inter-bank, deposit and lending rates were, generally, lower than their levels in the corresponding period of 2019. Capital market activities closed on a mixed note, as the NSE All-Share Index (ASI) fell, while the aggregate market capitalisation rose at the end of the first half of 2020. The fall of the ASI renewed selling pressure on some stocks and widespread profit-taking across all the sectors. However, market capitalisation inched higher, due to bargain hunting, occasioned by the release of favourable financial results by some blue-chip companies.

The health of banks was, generally, sound in the review period, as industry levels of capital adequacy and liquidity ratios remained higher than the regulatory minimum. The stress test result of the banking industry solvency and liquidity position was positive and resilient under mild to moderate scenarios. CBN's intervention funds to agriculture and the health sector, as well as, micro, small- and medium-size enterprises (MSMEs), geared towards mitigating the effects of COVID-19 pandemic on the Nigerian economy, were channeled through the DFIs and other participating financial institutions, in the review period.

Following the introduction of new policy measures to enhance the resilience of the payments system infrastructure and expand electronic payment options by the CBN during the review period, there was an uptick in the use of contactless payments platforms.

External Sector Developments: The COVID-19 pandemic weighed negatively on Nigeria's external balance due to huge capital reversals, limited export earnings, and declines in remittances. Following these developments, the pressure on the external account persisted, with an overall balance of payments deficit of US$2.30 billion or 1.0 per cent of GDP. The deficit in the current and capital account, however, narrowed by 8.3 percent to US$8.86 billion (4.3 percent of GDP), in the first half of 2020. The financial account recorded a net acquisition of financial asset of US$3.87 billion or 1.9 per cent of GDP, compared with US$24.73 billion (9.7 percent of GDP) in the first half of 2019.

Gross external reserves at end-June 2020 stood at US$35.77 billion, compared with US$38.09 billion and US$44.75 billion at end-December and end-June 2019, respectively. The level could finance 7.2 months of import of goods and services or 10.5 months of goods only, which was higher than the 3.0 months international benchmark. The ratio of external reserves to short-term liabilities was also adequate at 367.4 per cent, above the benchmark of 100.0 per cent short-term debt cover of the Greenspan-Guidotti measure of external reserves adequacy. Public external debt stock at end-March 2020, at US$27.67 billion (6.0 per cent of GDP), was below the US$27.68 billion at end-December 2019.

The Bank adjusted the naira exchange rate in all segments of the foreign exchange market, towards convergence and stability of the currency. The end-period exchange rate of the naira to the US dollar at the inter-bank, BDC and I&E windows were ₦361.00/US$, ₦455.00/US$, and ₦386.50/US$, respectively, at end-June 2020.

Outlook: The Nigerian economy remains exposed to global shocks. The external sector, particularly, remained vulnerable, as the pressure on the external account was expected to persist for the rest of 2020, given the continued partial lockdown of the economy. With regard to fiscal policy, the COVID-19 pandemic weakened government revenue through its effect on global oil prices. However, fiscal outlook for the rest of the year was less grim, owing to the gradual recovery in oil prices.

The outlook for the financial sector of the Nigerian economy remains optimistic, due to the spillover effects of the COVID-19 pandemic on global financial institutions and markets. Overall, the outlook for the domestic economy for the second half of 2020 is relatively optimistic given the successes in containing the effect of COVID-19 pandemic. A rebound in output would depend on the effectiveness of the various stimulus packages and intervention measures put in place by government and the Bank to stimulate productivity, strengthen output growth and improve livelihoods.

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1.0 CBN MANDATE AND STRATEGY

THE CENTRAL BANK OF NIGEIRIA

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

Vision

- Be **THE MODEL CENTRAL BANK** delivering **PRICE** and **FINANCIAL SYSTEM STABILITY** and promoting **SUSTAINABLE ECONOMIC DEVELOPMENT.**
- *Specifically, to:*

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 policy, and management of the financial sector.

Mandate
(as contained in the 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; and
- 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

2.0 THE GLOBAL ECONOMY

Dynamics in the global economy and how global 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 modest global growth in 2019 plummeted in many economies, owing to the devastating shock of COVID-19 pandemic. The growth rate fell sharply from 2.9 per cent in 2019 with output contractions in many countries, and, thus, heightened uncertainty in the global environment (Table 2.1.1). The elevated uncertainty was accentuated by the mitigation measures adopted by various governments, such as, restrictions on free movement, shutdown of the services sector and partial restriction of production to limit the spread of COVID-19. These measures adversely affected consumer demand, supply of goods and services, and international value chain, which obstructed economic activities, such as, global trade, tourism, financial and commodity markets. Accordingly, the IMF, in its June 2020 World Economic Outlook (WEO), revised the global growth projection for 2020 to negative 4.9 per cent, which was 1.9 percentage points below the April 2020 growth projection. The sharp contraction was devastating on the vulnerable population in emerging markets and developing economies (EMDEs) and on global poverty. The forecast also showed a recovery path of 5.4 per cent growth in 2021 (Table 2.1.1).

Advanced Economies (AEs)

The majority of the advanced economies (AEs) might plunge into recession. Many of these economies contracted sharply, owing to public health measures, including social distancing and movement restrictions, which depressed economic activities and collapsed both domestic

Table 2.1. 1: Growth and Inflation in Selected Countries

Country	Growth			Inflation					
	2019	2020f	2021f	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
Global	*2.9*	*-4.9*	*5.4*						
Advanced Economies	*1.7*	*-8.0*	*4.8*						
United States	*2.3*	*-8.0*	*4.5*	*2.5*	*2.3*	*1.5*	*0.3*	*0.1*	*0.6*
United Kingdom	*1.4*	*-10.2*	*6.3*	*1.8*	*1.7*	*1.5*	*0.8*	*0.5*	*0.6*
Japan	*0.7*	*-5.8*	*2.4*	*0.7*	*0.4*	*0.4*	*0.1*	*0.1*	*0.1*
Germany	*0.6*	*-7.8*	*5.4*	*1.7*	*1.7*	*1.4*	*0.9*	*0.6*	*0.9*
Italy	*0.3*	*-12.8*	*6.3*	*0.5*	*0.3*	*0.1*	*0.0*	*-0.2*	*-0.2*
Emerging Market & Developing Economies	*3.7*	*-3.0*	*5.9*						
Russia	*1.3*	*-6.6*	*4.1*	*2.4*	*2.3*	*2.5*	*3.1*	*3.0*	*3.2*
China	*6.1*	*1.0*	*8.2*	*1.4*	*0.8*	*-1.2*	*-0.9*	*-0.8*	*-0.1*
India	*4.2*	*-4.5*	*6.0*	*7.6*	*6.6*	*5.8*	*7.2*	*6.3*	*6.2*
Sub-Saharan Africa	*3.1*	*-3.2*	*3.4*						
South Africa	*0.2*	*-8.0*	*3.5*	*4.4*	*4.6*	*4.1*	*3.0*	*2.1*	*2.2*
Nigeria	*2.2*	*-5.4*	*2.6*	*12.1*	*12.2*	*12.3*	*12.3*	*12.4*	*12.6*

Source: IMF WEO, June 2020 and Trading Economics, 'f' indicates projections and external demand. The AEs growth was projected to contract by 8.0 per cent well below the decline of 6.1 per cent in the March 2020 forecast (Table 2.1.1). Sharp growth contractions were mainly from countries that were severely impacted by COVID-19 pandemic, such as, Italy, the United Kingdom and the US. However, AE's growth is expected to improve in 2021 to about 4.8 per cent, once the COVID-19 abates and anti-pandemic measures lifted.

Table 2.1. 2: Selected Countries' PMIs

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
United States	51.9	50.7	48.5	36.1	39.8	50.9
United Kingdom	50	51.7	47.8	32.6	40.7	50.1
China	51.1	40.3	50.1	49.4	50.7	51.2
India	55.3	54.5	51.8	27.4	30.8	46.0
Germany	45.3	48.0	45.4	34.5	36.6	45.2
Italy	48.9	48.7	40.3	31.1	45.4	47.5
Japan	48.8	47.8	44.8	41.1	38.4	40.1
South Africa	45.2	44.3	48.1	46.1	50.2	53.9
Nigeria	59.2	58.3	51.1	37.1	42.4	41.1
Egypt	46	47.1	44.2	29.7	40.7	44.6
Kenya	49.7	49,0	37.5	34.8	36.7	46.6

Source: FXEMPIRE.

Emerging Markets and Developing Economies (EMDEs)

Growth performance is expected to decline in emerging markets and developing economies (EMDEs), due to spillover effects of the COVID-19 pandemic in advanced economies and weak domestic demand. The outbreak of the COVID-19 pandemic in EMDEs and spillover effects of weakness in major economies, alongside the disruptions in supply chains, dovetailed into significant output contractions in EMDEs. IMF WEO June 2020 forecast output contraction of 3.0 per cent for EMDEs in 2020 (Table 2.1.1). However, the degree of contraction was diverse, with relatively higher burdens on economies that were dependent on commodity exports, external financing and tourism. For instance, China is predicted to grow by 1.0 per cent, India by negative 4.5 per cent. In Latin America, Brazil and Mexico are projected to shrink by 9.1 and 10.5 per cent, respectively in 2020. The output contraction in EMDEs elevated market sentiment that triggered sudden capital reversals, causing heightened pressure in the foreign exchange markets. However, in 2021, the growth rate for EMDEs is projected to increase to 5.9 per cent.

Purchasing Managers' Index (PMI)

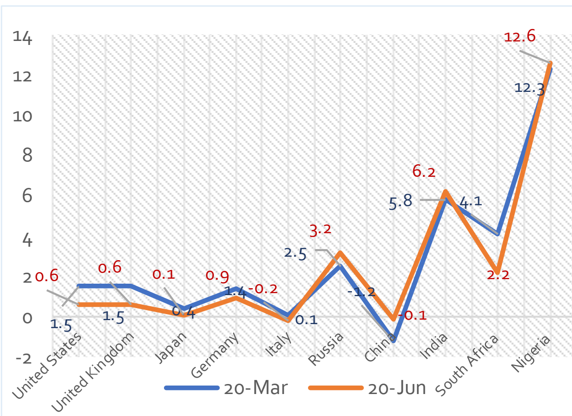
The PMI reflected the precarious global economic conditions as most economies' indices plunged below 50 points since March 2020, except in China, and South Africa, where it edged above 50 points since May, and lately in the US and the UK in June 2020. Economic activity is, however, expected to improve once the pandemic abates, and containment measures are lifted (Table 2.1.2). Thus, by end-2021, a recovery is expected in the advanced economies with fewer job losses and fewer firm bankruptcies.

2.2 GLOBAL INFLATION

Global inflation remained, generally, muted both in advanced and emerging economies, except for a marginal rise in a few EMDEs. Inflation expectations in advanced economies remained dampened owing to weak aggregate demand, despite the various fiscal and monetary measures adopted by the governments and the central banks. Other factors that contributed to the subdued inflation included the settlement of first phase of the US-China trade deal and the lag effect of successful election in the UK.

Consequently, inflation dipped further from an average of 1.0 per cent in March 2020 to an average of 0.4 per cent in June 2020 (Figure 2.2.1). A steady rise in inflation was noticed in Nigeria, India, Russia and China, between March 2020 and June 2020 (Table 2.1.1 and Figure 2.2.1).

Figure 2.2. 1: Inflation Rates in Selected Countries (per cent)



Source: Trading Economics Website

2.3 GLOBAL FINANCIAL MARKETS

Global Financial Conditions

The global financial conditions worsened, following market participants' initial reactions to the COVID-19 pandemic shock, but later stabilised. In the heat of the COVID-19 pandemic in April 2020, the sharp dip in Purchasing Managers' Index of major economies, altered investors' market risk perception of the precarious condition of the global financial markets. In a bid to secure liquidity and quality of investments, most portfolio investors moved out of emerging economies, culminating in a decline in government bond yields in major advanced economies. In March 2020 alone, over US$80.0 billion was withdrawn from EMDEs, the largest single-month capital outflow on record. However, stimulus packages introduced by governments moderated the impact of the outflows from the EMDEs. The uncertain market outlook, in both advanced and emerging economies, led to a significant drop in stock prices. Consequently, many international corporations were confronted with liquidity shortages, which increased corporations' debts and yield premia on risky or toxic corporate bonds (Figure 2.3.1). However, the stabilisation packages introduced by governments, relatively improved and eased market conditions, especially in advanced economies.

Figure 2.3. 1: Key Global Stock Indices and Credit Spreads on Corporate Bond Yields

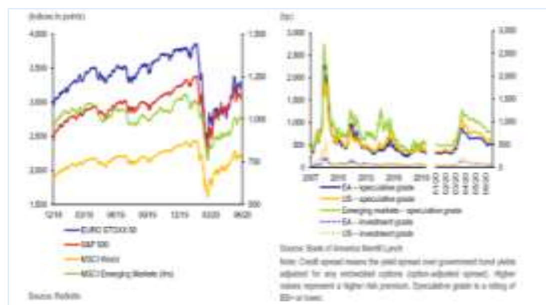
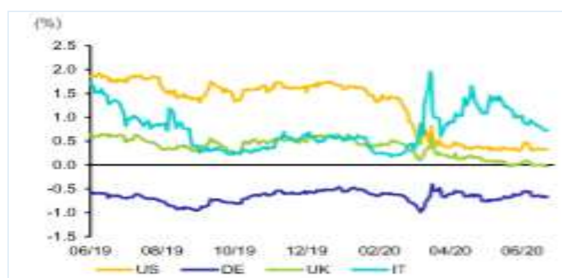
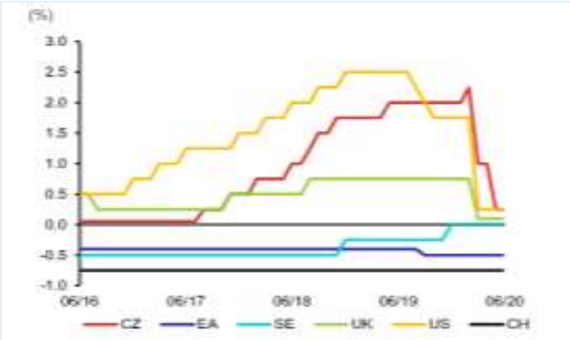


Figure 2.3. 2: Five-year Government Bond Yields for Selected Countries



Source: Czech National Bank, Financial Stability Report 2019/2020
Note: US, GE, UK and IT represent United States, Germany, United Kingdom and Italy, respectively.

Figure 2.3. 3: Monetary Policy Rates of Selected Central Banks



Source: Czech National Bank, Financial Stability Report 2019/2020.
Note: US, DE, UK and IT represent United States, Germany, United Kingdom and Italy respectively.

The initial huge capital outflow exerted pressure on domestic currencies of EMDEs and induced sharp depreciations of their currencies, despite interventions of central banks.

2.4 CENTRAL BANKS' RESPONSE

Central banks were swift in adopting policy responses aimed at ensuring liquidity and restoring financial stability. Many central banks across the globe quickly adopted monetary policy easing by cutting policy rates to boost liquidity, stabilize the financial system and restore confidence (Figure 2.3.3). The US Fed adjusted the policy rate to zero, while the ECB set its policy rate between 0 per cent and negative 0.5 per cent. The Fed cut the policy rate to improve banks' access to dollar liquidity through swap facilities and granted 14 central banks currency swap lines across both advanced and emerging economies.

Additional measures adopted by central banks included buying of bonds to fund corporate bond market, relaxing corporate bond eligibility requirements and launching the Pandemic Emergency Purchases Programme of EUR1,350 billion by the ECB for private and government securities. Most central banks also relaxed regulatory requirements for financial institutions. These measures partly mitigated the effect of the COVID-19 shock and reduced the negative effect on the monetary policy transmission mechanism on the economy. The initial tensions in the stock and bond markets were eased, and the sharp drop of 34.2 per cent in the MSCI World Index, in the heat of COVID-19 pandemic, was largely reversed. However, elevated risk premia persisted for highly indebted firms.

2.5 FISCAL MEASURES

Governments across the world introduced fiscal measures to boost liquidity of firms, and households' income and demand. Various governments in advanced economies, both at national and sub-national levels, adopted stabilisation programmes to stem the effect of COVID-19 pandemic on firms and households. These included: state guarantee of loan facilities; tax relief; wage contributions; loan moratoria; outright transfer of real resources to firms and households; providing rents and invoices aid; and social security contribution waivers.

The EMDEs also adopted some of these fiscal measures with varied degrees of success. Moreover, some economies with less fiscal space in EMDEs had little influence on their economies in the use of fiscal stimulus packages.

3.0 MACROECONOMIC PERFORMANCE

Performance of the Nigerian economy in the first half of 2020 across major sectors.

- 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

Implicit Target

A Consumer Price Index (CPI) of 6-9%

Monetary Policy Environment

Priorities of Monetary Policy

- Ensure price stability
- Mitigate the downside risks of COVID-19
- Encourage credit flow to the real sector

Major Economic Development

- COVID-19 outbreak and its containment measures
- Unprecedented collapse in oil demand and crude oil prices
- Sharp decline in global trade.

Instruments of MP

In the pursuit of its statutory objective, the Bank during the review period, deployed an array of conventional and unconventional monetary policy instruments.

- The CBN Bill remained the major instrument of monetary policy, complemented by:

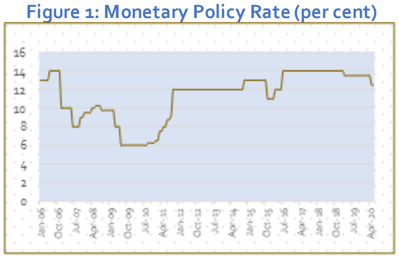
- Cash Reserve Ratio (CRR)
- Standing Facilities operations
- Interventions in the foreign exchange market.

Implications

Created considerable stress in the domestic economy leading to:

- Slowing growth
- Capital flow reversals
- Decline in external reserves
- Pressure on the exchange rate and domestic price level
- Inflationary pressure – 12.56% in June 2020, from 12.13% in January 2020

Figure 1: Monetary Policy Rate (per cent)



Source: Central Bank of Nigeria

Note: Data from January to November 2006 represents Minimum Rediscount Rate, MRR.

Monetary Policy Decisions

Date of Meeting	Decision
January 23 and 24, 2020	• *Retained the MPR at 13.50 per cent;* • *Increased the CRR by 500 basis points from 22.5 to 27.5 per cent;* • *Retained the LR at 30.0 per cent; and* • *Retained the asymmetric corridor at +200/– 500 basis points around the MPR.*
March 23 and 24, 2020	• *Retained the MPR at 13.50 per cent;* • *Retained the CRR at 27.5 per cent;* • *Retained the LR at 30.0 per cent; and* • *Retained the asymmetric corridor at +200/– 500 basis points around the MPR.*
May 28, 2020	• *Reduced the MPR by 100 basis points from 13.50 to 12.50 per cent;* • *Retained the CRR at 27.5 per cent;* • *Retained the LR at 30.0 per cent; and* • *Retained the asymmetric corridor at +200/– 500 basis points around the MPR.*

COVID-19 Monetary Policy Measures in Nigeria

- Bankrolled targeted stimulus to address the macroeconomic shocks caused by COVID-19
- Sustained implementation of the Loan-to-Deposit Ratio (LDR) and a suite of development finance initiatives
- Reduction of interest rates on all applicable CBN interventions from 9 to 5 per cent
- CBN initiatives
  - N1.0 trillion credit facility for the manufacturing sector
  - N50.0 billion Targeted Credit Facility (TCF) for households and micro, small and medium enterprises (MSMEs)
  - N100.0 billion credit facility for the pharmaceutical companies
  - Granting of an additional one-year moratorium on all CBN related intervention programmes
  - Regulatory forbearance to restructure loans in impacted sectors.

Exchange Rate Policy

- The bank re-adjusted the foreign exchange rate with a view to unifying exchange rates in all segments of the forex market to close the wide premium 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.

3.2 THE REAL ECONOMY

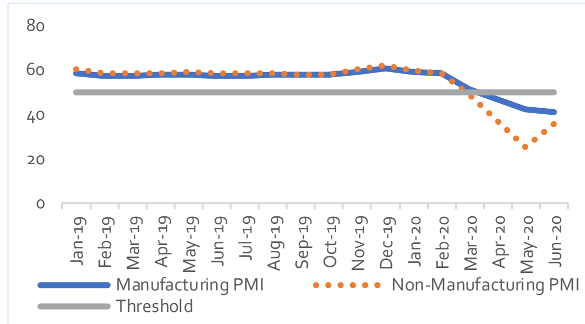
a. Output

Domestic output plummeted in the first half of 2020, following the outbreak of the COVID-19 pandemic and the attendant containment measures; and the collapse of crude oil prices in the world market.

Economic activities across all sectors of the economy were significantly impaired on account of the COVID-19 pandemic. To contain its spread, the Federal Government, in March 2020, imposed a lockdown on Lagos and Ogun States and the Federal Capital Territory (FCT). State governments followed the initiative with various forms of restrictions. Consequently, sectors such as education, transport, aviation, hotel and tourism, among others, were totally crippled. However, agriculture, health services, power, security and other activities considered as essential, were exempted from the restrictions, though not completely insulated from the impact of the pandemic. The supply chain for agricultural inputs and produce was further constrained against the backdrop of persisting security challenges in most food producing areas of the country.

Industrial activities took a hit with disruptions to both global and domestic supply chains, restriction in movement and exchange rate adjustment. The lacklustre performance of the sector was reflected in the slump in the Purchasing Managers' Indices (both manufacturing and non-manufacturing), from 59.2 points in January to 41.1 points in June 2020.

Figure 3.2. 1: Composite Purchasing Managers' Indices



Source: Central Bank of Nigeria

Overall, domestic output contracted, markedly, in the first half of 2020, reversing the fragile growth since the end of the 2016/17 recession. Real GDP (2010=100), on a year-on-year basis, contracted by 2.18 per cent, in contrast to the modest growth of 2.11 per cent in the first half of 2019.

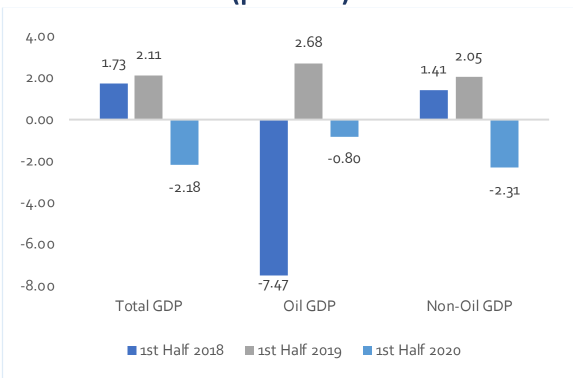
Both the Oil and Non-oil sectors performed poorly on account of the impact of the pandemic, which resulted in a huge slump in demand for crude oil, low crude oil prices, global and domestic supply chain disruptions, unemployment and income loss, and ultimately fall in output. Oil and Non-oil sectors contracted by 2.31 per cent and 0.80 per cent, respectively, as against growth rates of 2.05 per cent and 2.68 per cent in the corresponding half of 2019.

Box 1: Monetary and Fiscal Measures to Cushion the Impact of the COVID-19 Pandemic

	Policy	Measures
1	Monetary Policy	• Financial institutions were directed to engage International development partners and negotiate concessions to ease the pains of the borrowers; • The CBN provided credit support for the health industry to meet the potential increase in demand for health services and products; • The CBN initiated the Healthcare Sector Research and Development Intervention Scheme (HSRDIS) • The CBN coordinated CA-COVID - Private sector intervention scheme - which had mobilized over ₦32 billion to support the economy, lives and livelihoods; • Provided ₦1 trillion in loans to boost local manufacturing and production across critical sectors; • Took steps to unify the exchange rate; • Invoked partial risk guarantees for SMEs; • Granted additional moratorium of one year on CBN intervention facilities; • Reduced interest rate on intervention facilities from 9.0 per cent to 5.0 per cent; • Created ₦50 billion Target Credit Facility for affected MSMEs; • Granted regulatory forbearance to banks to restructure terms of facilities in affected sectors; and • Directed oil and oil service companies to sell foreign exchange to the CBN rather than the NNPC to improve foreign exchange supply to the economy.
2	Immediate Fiscal Measures	Unlock available funds in Special Accounts to create a ₦500bn intervention fund; **Specific measures to support the Private Sector:** • Activate the provisions of the Finance Act 2020 in support of MSMEs; • Structure and launch a Tax Resolution and Settlement Unit; • Extend deadlines and suspend penalties for filing tax returns; • Incentivise employers to retain and recruit staff during economic downturn; • Provide targeted tariff reduction and trade finance facilities to support strategic imports and serve as a boost to economic activity; and • Support strategic industries affected by the pandemic, such as the aviation, hospitality and road transport sectors. **Measures to support the Health Sector:** • Convert World Bank REDISSE programme to support COVID-19 interventions in the states; • Provide funding to pharmaceutical sector to support the procurement of raw materials and equipment required to boost local drug production; • Provide ₦86bn intervention fund for health infrastructure; • Accelerated procurement of medical supplies and equipment; and • Develop incentive package for frontline healthcare workers **Accelerate Infrastructure Completion:** • Expand the scope of the Road Infrastructure Tax Credit Scheme (RITCS) • Accelerate the construction of 794.4km of approved roads and bridges under RITCS
3	Fiscal Measures to Safeguard Oil Revenues	• Deregulate the price of refined petroleum products and establish a sustainable framework for maintaining the national strategic stock; • NNPC to ensure 100 per cent remittance of royalty and taxes paid by companies in kind to the Federation Account and periodic reconciliation with DPR and FIRS; • NNPC to continue to rationalise deductions from oil sector revenue in order to maximise payments to the Federation Account; • Maintain the practice of NNPC paying commercial value for all its crude oil lifting going forward; and • Reduce the average production costs of crude oil by at least 20 per cent in the first instance.
4	Fiscal Measures to Mobilise and Preserve Non-Oil Revenues	• Implement the VAT reforms in the Finance Act 2020, maintaining the increase in VAT rate from 5 per cent to 7.5 per cent; • Develop business continuity plans for tax and customs administration to provide services to citizens, taxpayers, and importers in case of widespread contagion (or mobility restrictions); • Rationalise ineffective tax incentives and exemptions; • Increase remittances and recovery of unremitted revenues from GOEs; • Sign-off of guidelines of Significant Economic Presence (to capture revenues from cross-border business transactions); • Unlock value from FG assets that are lying idle or under-utilised; and • Incentivise the use of up to ₦2 trillion of pension funds for roads and housing development.
5	Fiscal Measures to Reduce Non-Essential Spending	• Adopt a Financing Plan for the Power Sector Recovery Programme; • Eliminate non-critical and administrative capital expenditure; • Expand the biometric-based Integrated Personnel & Payroll Information System (IPPIS) to cover all MDAs; • Rationalise government agencies.
6	Measures to Mobilise External Support and Funding	• Engage with multilateral and donor agencies to access additional funding for crisis response, i.e. IMF - \$3.4bn; World Bank - \$2.5bn; AfDB - \$0.5bn, African Export-Import Bank - \$0.5bn, IsDB - \$113m; • Seek moratorium from official partners on bilateral and multilateral debts; and • Support arrangements to secure commercial debt relief.
7	Measures to Collaborate with and support The States	• Negotiate suspension of payments in respect of ISPO; • Provide moratorium on deductions in respect of bailout loans; • Develop guidelines to protect inter-state commerce; • Encourage States to achieve SIFTAS and other World Bank programme actions in order to access external support; • States should consider issuance of promissory notes to pay their construction debts; and • Collaborate with State Governments on Affordable Mass Housing, Agriculture and Off-grid Power Projects and other projects in the ESP.

Source: Nigeria Economic Sustainability Plan

Figure 3.2.2: Real GDP Growth, 2020H1 (per cent)



Source: National Bureau of Statistics

b. Sectoral Performance

Services and Industrial sectors contracted, while Agriculture sector expanded.

Services

The services sector contributed the most to the drop in overall output with a decline of 2.64 per cent in the first half of 2020.

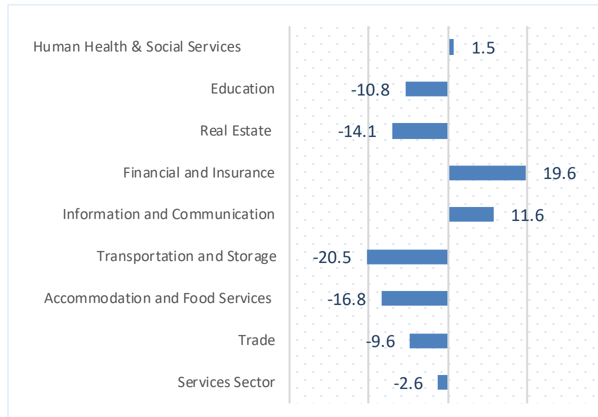
The dismal performance in sub-sectors such as trade, accommodation and food services, real estate, education, transportation, storage, tourism and recreation was directly related to restrictions in movement, which pervaded the later part of the review period.

Significant innovations were witnessed in business changing practices that shape economic activities during and post-COVID-19 era, enabled by ICT.

The need for business continuity, compliance with social distancing and other COVID-19 protocols, drove innovations which engendered the growth recorded in financial services, telecommunications and broadcasting.

Similarly, growth was witnessed in the human health sub-sector on account of increased attention by government and development partners, in response to the pandemic.

Figure 3.2.3: Services Sector Performance, 2020H1 (per cent)



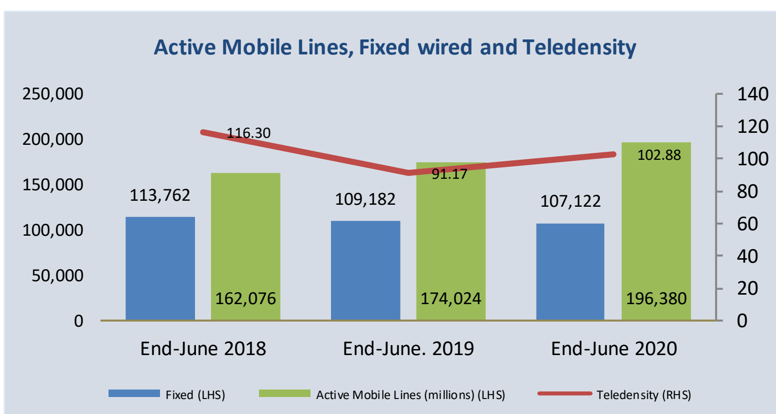
Source: National Bureau of Statistics

Box 2: Coping Strategies during the COVID-19 Pandemic

Following the outbreak of the COVID-19 pandemic, in which Nigeria recorded a total of 25,694 confirmed cases and 590 deaths at end-June 2020, the Federal Government responded with containment measures. On March 30, 2020, a total lockdown restricting both human and vehicular traffic, closure of airports and non-essential businesses was imposed in Lagos and Ogun States and the FCT. However, partial activities in essential sectors such as food and agriculture, power and banking, among others, were allowed. There were similar measures taken by various state governments. A nationwide lockdown was later implemented to contain the ravaging plague.

The interventions by the fiscal and monetary authorities, development partners and the private sector to cushion the impact of the pandemic on vulnerable households, in the face of disruptions in the supply chain, exacerbated demand pressures.

Innovation became the necessary and sufficient condition for all classes of producers and consumers, including government, corporates and households, to overcome the harmful effects of the Pandemic. For instance, to survive the times, without contravening the social distancing protocols, corporates and individuals had to adapt to changing realities in their business operations and lifestyles by intense use of ICT devices. Examples included the use of ICT for e-learning in schools, apps for meetings and shopping, banking and payment channels, streaming channels, and gaming for entertainment. These developments spurred increase in demand for ICT services, which led to a 12.8 per cent growth rate in telephone subscription to 196.4 million and 17.2 per cent increase in the number of internet subscriptions to 143.7 million at end-June 2020, compared with the corresponding period of 2019.



Source: Nigerian Communications Commission

Similarly, there was increased use of courier services for supply delivery by businesses and consumers in need of household purchases.

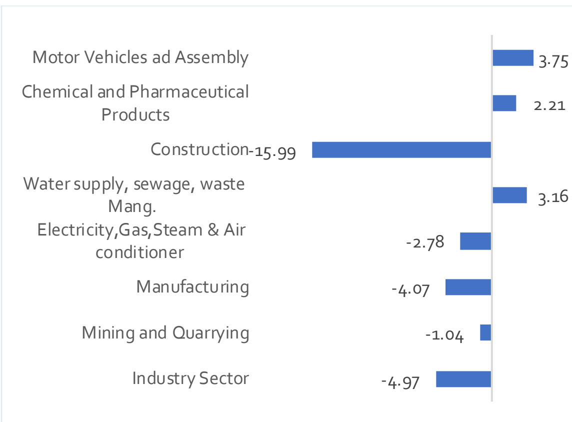
In summary, ICT assumed prominence in the daily lives of households and productivity for businesses. The future of the ICT sub-sector is promising with the commencement of the implementation of the National Broadband Plan (2020-2025), reduced Right-of-Way charges and increased investments.

Source: Central Bank of Nigeria

Industrial sector contracted by 4.97 per cent, reversing its previous growth trajectory.

The sector suffered under the COVID-19 containment measures as all sub-sectors contracted, except motor vehicles & assembly; water supply, sewage & waste management; and chemical pharmaceutical products, which recorded growth.

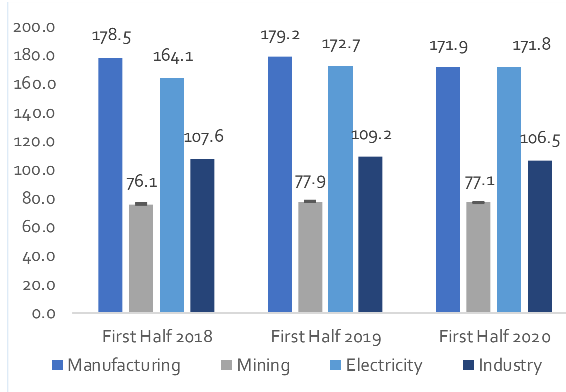
Figure 3.2.4:: Industry Sector Performance, First Half 2020 (per cent)



Source: National Bureau of Statistics

The contraction in the industrial sector was reflected in the index of industrial production, which declined by 2.4 per cent to 106.5 (2010=100), compared with the level in the corresponding period of 2019. At 171.9 (2010=100), the index of manufacturing production dropped by 6.1 per cent, below the 179.2 points in the corresponding period of 2019. Also, the index of mining production was 77.1 (2010=100) during the period, registering a decline of 1.0 per cent below the 77.9 points in the corresponding period of 2019.

Figure 3.2.5: Index of Industrial Production, First Half 2020 (2010=100)



Source: National Bureau of Statistics and Manufacturing Association of Nigeria

Electricity generation and consumption recorded declines.

With most industries shutdown, electricity consumption declined as demand was mainly for household consumption. Average electricity consumed declined by 4.4 per cent to an estimate of 3,021.0 MW/h, below the level in the corresponding period of 2019. Similarly, average electricity generation, estimated at 3,714.8 MW/h declined by 5.8 per cent, in the first half of 2020, compared with 3,942.7 MW/h in the first half of 2019. The decrease was attributed to low load demand by distribution companies (DISCOs), which affected the generation.

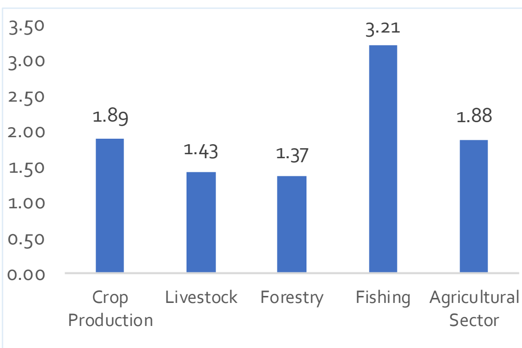
Agriculture

The agricultural sector showed resilience during the first half of 2020, maintaining its growth path, albeit, at a slower pace.

The sector recorded a 1.88 per cent growth (y-on-y) during the period, compared with the 2.45 per cent growth in the corresponding half of 2019. All the sub-sectors contributed to the increase in the review period, ranging from 1.43 per cent for livestock to 3.21 per cent for fishing.

This was on account of continued security challenges to agricultural activities, seasonality effects and supply shocks following restriction of movement for most of the period. The resilience of the sector was due to several reasons, including the border protection policy of the Federal Government, exclusion of the sector from some of the lockdown measures and increased demand for farm produce used as palliatives during the lockdown. Others were stock piling during the second quarter, as well as the multiplier effect of the various intervention programmes.

Figure 3.2.6: Agriculture Sector Performance, First Half 2020 (per cent)



Source: National Bureau of Statistics

Box 3: Policy Support and Developments in the Real Sector

	Sector	Developments
1	**Industrial Sector**	• The World Bank approved a US$750 million International Development Association (IDA) credit for Nigeria to address the perennial power supply challenges; • The Federal Government and Siemens AG, commenced the implementation of the first phase of the power agreement signed in 2019, which included pre-engineering and concessionary finance; • The Federal Government signed a tripartite memorandum of understanding (MoU) for a facility of US$1.46 billion with the Russian Government and the Afreximbank to resuscitate the Ajaokuta Steel Rolling Mill; • The National Sugar Development Council of Nigeria and the National Sugar Institute of India signed an MoU for the establishment of a sugar institute in Nigeria; and • The Bank of Industry (BOI) secured a US$1.1 billion medium-term syndicated facility from the international capital market to support micro, small, medium and large enterprises across key sectors of the Nigerian economy.
2	**Oil & Gas Sector**	• The Federal Ministry of Petroleum Resources issued a second license to the Niger Delta Exploration & Production Plc to build and operate a refinery in the country; • The Petroleum Products Pricing Regulatory Agency (PPPRA), approved the deregulation of PMS, allowing for a market-based pricing regime; and • The Department of Petroleum Resources (DPR) flagged off the 2020 Marginal Fields Bid Round, to grow the country's production capacity and increase the reserve base through further exploration and development.
3	**Gas Sub-sector**	• The Federal Government of Nigeria (FGN) inaugurated the National Gas Expansion Programme Committee to steer the Gas sub-sector for optimal performance and better utilisation of gas resources; • The Ministry of Petroleum Resources, through the DPR, launched the Nigerian Gas Transportation Network Code to boost gas availability and ensure low-cost gas in the domestic market; • The DPR shortlisted 200 companies, out of 800 bidders, for the development of 45 gas flare sites out of 178 sites under the Nigeria Gas Flare Commercialisation Programme across the country; and • The DPR commenced awareness campaign for the usage of compressed natural gas (CNG) as an alternative to PMS in Nigeria, especially for household consumers.
4	**Solid Minerals**	• Completion of the Obiafu - Obrikom-Oben (OB3) gas pipeline, a 127-kilometer pipeline, initially scheduled for mid-2020 was extended to the first quarter of 2021 due to the COVID-19 pandemic; • The Federal Government began the registration of artisanal miners in Yauri Local Government Area of Kebbi State; • Dukia Gold and Precious Metals Refinery Project (DGPMP) and Dukia Heritage Bank Buying Centre, were licensed by the Federal Government; and • The Ministry of Mines and Steel Development is collaborating with the Ministry of Foreign Affairs to sign MoUs with other countries to confiscate and return any gold from Nigeria that is not certified.
5	**ICT**	• The new National Broadband Plan (NBP) for 2020-2025 was launched with an objective of achieving a 70.0 per cent broadband penetration by 2025. Similarly, some state governments decreased their Right of Way (RoW) charges to ₦145 per metre from ₦6,000. This was done to significantly cut the price of connecting telecom masts with fibre optic cables instead of slow microwave technology.
6	**Rail Transport**	• 60 passenger coaches were received during the period: 44 cab cars and 16 trailer cars; and • Work continued on the construction of the 27km Blue Line of Lagos rail that would run from Marina to Okokomaiko and a new line linking the port of Warri with Ajaokuta Steel Mill and Itakpe as well as the completion of the US$1.53 billion track laying work for the 312km-long double-track standard gauge Lagos-Ibadan railway line project.
7	**Health**	• The CBN announced the ₦100 Billion credit support intervention fund for the Health and Pharmaceutical Industry. The Fund was to boost the financial and infrastructural deficit in the health sector and improve the technical capacity of the industry to tackle pandemics; • The CBN also initiated the Healthcare Sector Research and Development Intervention Scheme (HSRDIS) to help strengthen the public healthcare system with innovative financing of research and development (R&D) in new and improved drugs, vaccines and diagnostics of infectious diseases in Nigeria; • The Federal Government approved a waiver of duty for the importation and clearance of all medical equipment and supplies imported into the country and granted tax holiday to companies investing in the health and pharmaceutical industry.

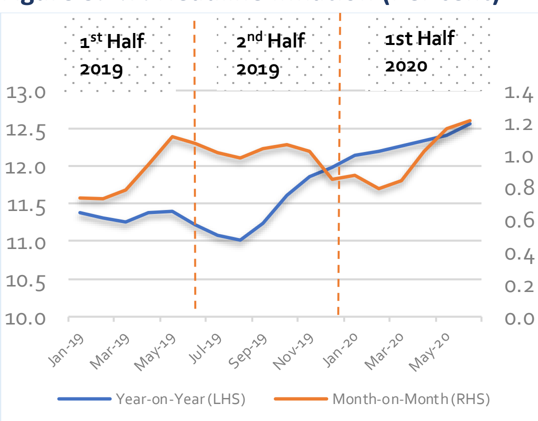
c. Price Developments

Inflation

Inflationary pressures remained elevated in the first half of 2020.

The sustained inflationary pressures resulted in increased headline inflation all through the first half of the year. Unlike the first half of 2019 when consumer prices trended downwards, in the first half of 2020, headline inflation (yoy) trended upwards from 12.13 per cent in January to 12.26 per cent in March, before peaking at 12.56 per cent in June. The higher headline inflationary outcome was driven, mainly, by the persistent food inflation shocks, increase in VAT rate from 5.0 per cent to 7.5 per cent, exchange, and disruptions to global and domestic supply chains.

Figure 3.2.7: Headline Inflation (Per cent)

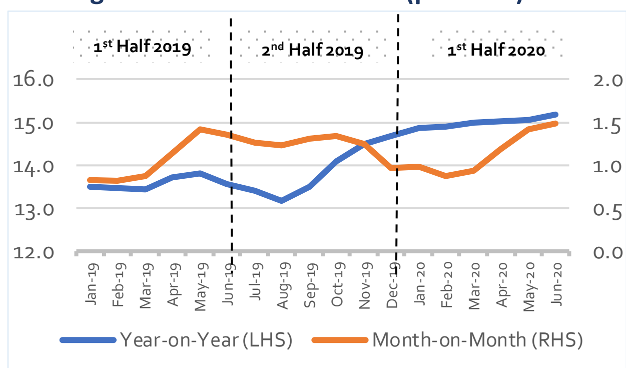


Source: National Bureau of Statistics

i. Food Inflation

Food prices (YoY) rose to 15.18 per cent during the period, compared with 13.56 per cent in the first half of 2019. The increase was persistent during the period, from 14.85 per cent in January to 14.98 per cent in March and 15.18 per cent in June 2020. The development was attributed to disruptions in agricultural supply chain, owing to continued conflicts and instability in most food producing regions of the country, the continued implementation of the land border protection policy, as well as, COVID-19 lockdown measures.

Figure 3.2.8: Food Inflation (per cent)

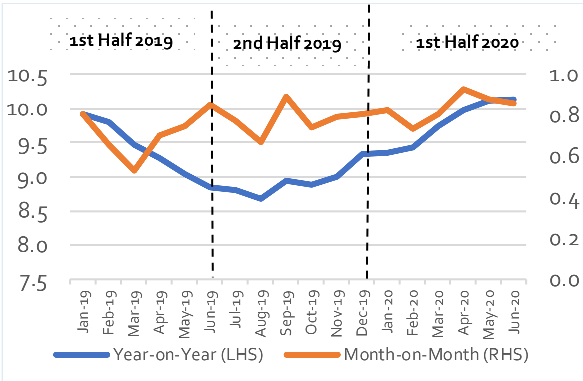


Source: National Bureau of Statistics

ii. Core Inflation

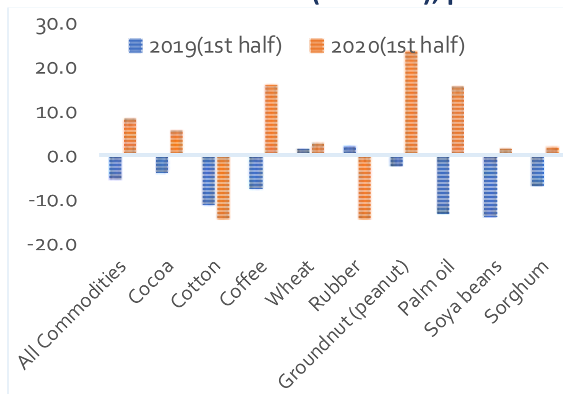
Core inflation rose all through the months in the first half of 2020, although the pace of increase was lower in the latter part of the period. The slowdown in the latter period was due largely, to the gradual re-opening of the economy, coupled with first-round effect of the reduction in the pump price of PMS from ₦145.00 per litre to ₦125.00 per litre, during the period.

Figure 3.2.9: Core Inflation (per cent)



Source: National Bureau of Statistics

Figure 3.2.10: Prices of World Agricultural Commodities in 2020 (first half), per cent



Source: Index Mundi

Commodity prices

Prices of most agricultural commodities rose amid the pandemic.

Despite the lockdown measures to contain the spread of the COVID-19 pandemic in many economies, agricultural commodity prices in the first half of 2020 were, generally, higher relative to the first half of 2019. At 80.3 points (2010=100), the All Commodities Price Index (in dollar terms), increased by 8.2 per cent in the first half of 2020, compared with price increases recorded a year ago, with the highest increase (23.4 per cent) recorded in the price of groundnut (peanut). The surge in the price of the commodity was, largely, on account of supply shocks in major growing countries.

An upward trend was observed in the prices of six commodities monitored ranging from 1.5 per cent for soya bean to 15.9 per cent for coffee. Coffee prices spiked amid supply concerns owing to supply chain disruptions that accompanied the pandemic. However, the prices of cotton and rubber decreased by 14.7 per cent and 14.5 per cent, respectively.

COVID-19 exacerbated domestic food prices.

The initial announcement of the outbreak of the disease and the expectation of a lockdown triggered panic buying of essential commodities, thereby, putting additional pressure on food prices. Furthermore, measures to curb the spread of the pandemic affected the distribution of farm inputs, thereby putting a strain on production and supply activities and delayed the 2020 wet season farming activities.

The Pandemic was not without its positive side, as increases were recorded in the patronage of locally produced food items by government, households, and non-governmental organisations as the global lockdown disrupted imports. Consequently, fifteen out of the nineteen commodities monitored, indicated price increase ranging from 1.9 per cent for groundnut oil to 26.5 per cent for imported rice, relative to the corresponding period of 2019.

Table 3.2.1*: Domestic Prices of Selected Agricultural Commodities (Naira/kg), First Half 2020*

FOOD ITEM	Unit	1st Half 2019 (1)	1st Half 2020 (2)	% Change (1) & (2)
Agric eggs(medium size)	1kg	*470.2*	*462.1*	*-1.7*
Beans brown,sold loose	'	*367.6*	*276.9*	*-24.7*
Beans:white black eye. sold loose	"	*329.3*	*253.1*	*-23.2*
Gari white,sold loose	"	*161*	*177.2*	*10*
Gari yellow,sold loose	"	*181.1*	*202*	*11.6*
Groundnut oil: 1 bottle, specify bottle	"	*577.5*	*588.5*	*1.9*
Irish potato	"	*284.4*	*298.4*	*4.9*
Maize grain white sold loose	"	*150.6*	*158.4*	*5.2*
Maize grain yellow sold loose	"	*153.8*	*159.4*	*3.6*
Palm oil: 1 bottle,specify bottle	"	*463.1*	*459.6*	*-0.8*
Rice agric sold loose	"	*318.8*	*384.1*	*20.5*
Rice local sold loose	"	*279.3*	*336.1*	*20.4*
Rice Medium Grained	"	*314.5*	*383.9*	*22.1*
Rice,imported high quality sold loose	"	*360.7*	*456.4*	*26.5*
Sweet potato	"	*138.2*	*149.1*	*7.9*
Tomato	"	*249.2*	*261.2*	*4.8*
Vegetable oil:1 bottle,specify bottle	"	*504.3*	*537.9*	*6.7*
Wheat flour: prepacked (golden penny 2kg)	"	*667.6*	*683.6*	*2.4*
Yam tuber	"	*206.5*	*214.9*	*4*

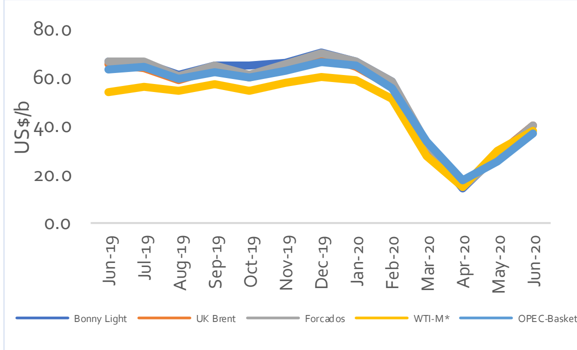
Source: Central Bank of Nigeria

Crude Oil Prices

Crude oil prices were notably lower in the first half of 2020.

Against the backdrop of weak demand and rapid increases in oil inventories for most of the period, which led to glut in the global market, the average spot price of Nigeria's reference crude, the Bonny Light (37° API), at US$40.60 per barrel, declined by 40.2 per cent, below its level in the first half of 2019. Similarly, the average prices of the West Texas Intermediate, the UK Brent, the Forcados and the OPEC Basket relative to their levels in the first half of 2019, fell by 33.9, 39.7, 40.1, and 40.2 per cent to US$36.72, US$39.95, US$40.85 and US$39.13 per barrel, respectively.

Figure 3.2. 11: Crude Oil Prices (US$/b)



Source: Reuters

World Crude Oil Supply and Demand

Crude oil production declined in the first half of 2020 as oil producing countries complied with OPEC+ supply cut agreements, in a bid to shore up plummeting prices.

At an average daily production of 1.80 mbd or 327.6 million barrels (mb), Nigeria's crude oil output decreased by 0.06 mbd or 3.23 per cent, below the level in the corresponding half of 2019. The development was attributed to production cut in compliance with OPEC+ agreement to stabilise the oil market amidst the impact of the pandemic on crude prices.

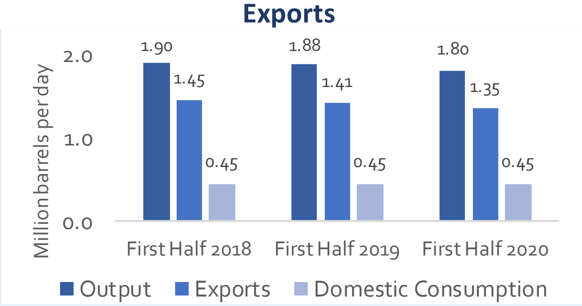
Aggregate crude oil production, including natural gas liquids (NGLs) and condensates by the Organisation of Petroleum Exporting Countries (OPEC) declined by 8.96 per cent to an average of 32.06 million barrels per day (mbd) in the first half of 2020, compared with 35.22mbd in the first half of 2019.

Similar declines were recorded in non-OPEC crude oil supplies, falling by 1.07 per cent to an estimated average of 64.47 mbd, compared with the level in the corresponding half of 2019. The lower supply level in the period was attributed, mainly, to the decision by non-OPEC oil producing nations to cut supplies in support of OPEC's effort at stabilizing the oil market. The decision was expected to check the global demand slump following the COVID-19 pandemic. Consequently, world supply of the commodity fell by 3.84 per cent, averaging 96.53 mbd during the period, compared with 100.38 mbd in the corresponding period of 2019.

World crude oil demand also fell in the first half of 2020, following the shutdown of most economies.

World crude oil demand averaged 89.83 mbd, compared with 101.72 mbd and 100.38 mbd in the second half and the corresponding period of 2019, respectively, representing a decrease of 11.69 per cent and 10.55 per cent. When compared with output level of 96.53 mbd, the crude oil market resulted in excess supply of 6.70 mbd over the demand level, hence the price decline. Of the total, demand from the Organisation for Economic Co-operation and Development (OECD) countries was 41.5 per cent, while non-OECD countries accounted for the balance.

Figure 3.2.12: Crude Oil Production and Exports



Source: Reuters

Aggregate export of crude oil was estimated at 1.35 mbd or 245.7 mb, compared with 1.41 mbd or 255.2 mb in the corresponding period of 2019.

d. Household Analysis

Notwithstanding the timely intervention of the Federal Government and CBN to ameliorate the impact of the COVID-19 pandemic on households, significant drops in household welfare occurred, as unemployment soared.

Unemployment

Unemployment and underemployment rates continued to soar.

In its efforts to moderate the rate of unemployment, the Federal Government intensified its initiatives at job creation during the period. For instance, the Government recruited 500,000 Nigerians within the age bracket of 18-35 under the Batch C N-Power programme[1]. The employment was open to both graduates and non-graduates who were unemployed at the time of application. Furthermore, the Government announced its planned creation of 774,000 jobs across the Federation (employment of 1,000 persons from each local government area) under the Special Public Works Programme in the Rural Areas. This was conceived to mitigate the effect of the COVID-19 Pandemic on the economy.

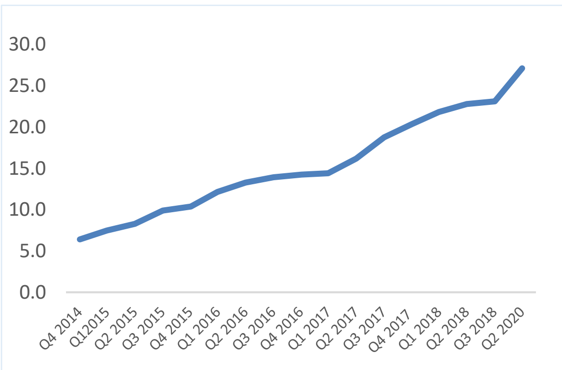
Despite efforts by government to create jobs through various intervention programmes, unemployment rate rose to 27.1 per cent[2] in 2020Q2 from 23.1 per cent in 2018Q3. The high unemployment rate reflected the increasing difficulty, over the years, in diversifying the

[1] However, 500,000 Nigerians from Batch A and B were disengaged.

[2] The latest unemployment figure prior to 2020Q2 was in 2018Q3.

economy away from oil and gas sector. The unemployment situation was further worsened by the number of people who lost on account of the lull in economic activities. Underemployment rates also jumped to 28.6 per cent in the period under review from 20.1 per cent in 2018Q3.

Figure 3.2.13: Unemployment rate 2014Q4-2020Q2 (per cent)



Source: National Bureau of Statistics

Household expectations

The expectations of households remained pessimistic.

Household expectations with respect to their confidence in the economy were, generally, negative during the period. The Consumer Expectations Survey by the CBN for the second quarter of 2020 indicated that the index of consumer expectation stood at -29.2 points, compared to 1.2 point a year ago. This was attributed to worsening economic conditions and deteriorating family income. However, their perception of the outlook for the rest of 2020 was positive at 0.2 and 23.7 points for the third quarter and next twelve months, respectively, owing to expectations of improvements in family financial situation income, savings and overall economic conditions. This was tied to increased economic activities, following relaxation of lockdown measures in the country.

e. Development Financing

The Bank ramped up its development financing initiatives in response to the COVID-19 pandemic.

In response to the pandemic, the CBN sustained and initiated new measures pursuant to its development financing objective. The scope of the new interventions were extended to cover the health care sector through the Health Care Sector Intervention Fund (HSIF) and the Health Sector Research & Development Intervention Scheme (HSRDIS), designed to strengthen the domestic capacity to meet the increasing in demand for healthcare products and services.

The Bank also responded directly to cushion the impact of the pandemic on households and small businesses through the launch of the Targeted Credit Facility (TCF).

In addition, the Bank introduced the COVID-19 Intervention Facility for the Manufacturing Sector (CIFMS) as a stimulus policy measure under the Bank's Real Sector Support Facility (RSSF) to strengthen the Nigerian manufacturing sector. The facility was meant to stimulate finance to boost local manufacturing and support mass employment and retention in the country. The details of these interventions are provided in Table 3.2.2.

Table 3.2.2: Disbursements on Interventions in the First Half of 2020			
	Disbursements		Repayments
	Amount (₦ Billion)	Beneficiaries	Amount (₦ Billion)
Agricultural Credit Guarantee Scheme (ACGS)	0.00148	16,922 loans guaranteed	1.347
N200 Billion Commercial Agricultural Credit Scheme (CACS)	27.09	15 projects	29.04
Micro, Small and Medium Enterprises Development Fund (MSMEDF)	Nil	Nil	4.97
Anchor Borrowers' Programme	149.01	810,583 farmers	124.9
Accelerated Agriculture Development Scheme (AADS)	6.00	4 State government-sponsored projects	N/A
Agribusiness/Small and Medium Enterprises Investment Scheme (AGSMEIS)	26.62	6,727 projects	0.2716
Paddy Aggregation Scheme (PAS)	3.20	3 Projects	Nil
Rice Distribution Fund (RDF)	1.00	6 Projects	Nil
National Food Security Programme (NFSP)	9.00	2 Projects	2.90
RSSF Using Differentiated Cash Reserve Ratio (RSSF-DCRR)	137.49	59 Projects	11.65
Non-oil Export Stimulation Facility (NESF)	9.00	2 Projects	2.85
Export Development Facility (EDF)	Nil	Nil	Nil
Creative Industry Financing Initiative (CIFI)	1.10	160 Projects	N/A
Targeted Credit Facility (TCF)	44.28	70,953 projects	N/A
Health Care Sector Intervention Fund (HSIF)	20.96	15 Projects	N/A
COVID-19 Intervention Facility for the Manufacturing Sector (CIFMS)		N/A	N/A

Source: Central Bank of Nigeria

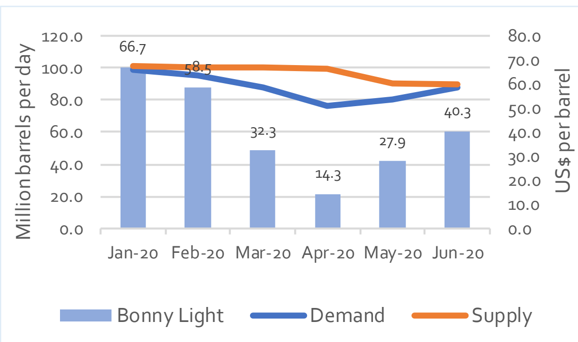
3.3 FISCAL DEVELOPMENTS

a. Federation Revenue

The effects of the COVID-19 pandemic on economic activities and the downturn in global demand for crude oil, amidst oil glut, significantly impaired Federation Revenue in the first half of 2020.

The dip in global crude oil demand due to COVID-19 restrictions and the Russia-Saudi trade impasse, induced oil glut, depressed crude oil price from US$66.7 per barrel (pb) in January 2020 to US$14.3 pb in April 2020.

Figure 3.3.1: Trends in the Global Demand and supply of Crude Oil and the Bonny Light Crude



Source: Reuters

To restore crude oil prices, OPEC+ agreed on supply cuts, that reduced Nigeria's production quota from 1.8 million barrels per day (mbpd) to 1.4 mbpd. Also, the average crude oil price in the first half of 2020 was US$17.0, lower than the US$57 benchmark in the 2020 annual budget of the Federal Government.

Fiscal Policy Framework, Objectives & Strategies

The MTEF/FSP sets out the key parameters and assumptions underlying fiscal policies, as well as the revenue and expenditure profile of the 2020 federal budget.

Highlights the macroeconomic objectives of the government between 2020 and 2022, and how it plans to achieve them.

The broad objectives of the medium-term policy framework are to accelerate economic growth, create jobs and promote structural transformation to reduce poverty and income inequality.

Economic Objectives

In line with the Economic Recovery and Growth Plan (ERGP), the medium term economic objectives of the government include:

- Restoring and sustaining economic growth;
- Building a globally competitive economy;
- Increasing social inclusion;
  - Enhancing economic growth and ensuring inclusiveness;
  - Promoting economic diversification and
  - Maintaining macroeconomic stability.

Fiscal Policy Objectives

- Improving revenue generation
- Ensuring adequate fiscal space for infrastructural development
- Enhancing quality of spending
- Ensuring sustainable deficit and debt levels.

Key Initiatives

- Accelerating Economic Growth and Job Creation
- Industrialisation through Public Private Partnerships
- Energy Sector Policy Initiatives
- Agriculture and Food Security
- Social Investments: Health, Education and Social Welfare
- Gender and Social Inclusion
- Infrastructure

Consequently, provisional gross Federally Collected Revenue[3] at ₦4,662.50 billion (or 6.7 per cent of GDP) in the first half of 2020, shrank by 8.2 and 0.7 per cent, relative to the benchmark and the level in the corresponding period of 2019, respectively. The drop in Federally Collected Revenue mirrored declining oil fortunes and low tax returns, attributed to COVID-19. Oil and non-oil revenues accounted for 59.9 and 40.1 per cent, respectively, of the Total Federally Collected Revenue. The development resulted in a shortfall of 65.0 per cent in the projected Federation Revenue in the first half of 2020. Hence, public sector fiscal profile was reviewed at both the national and sub-national levels. The 2020-2022 Medium-Term Expenditure Framework and Fiscal Strategy Paper (MTEF/FSP), as well as the 2020 annual budgets of the Federal and State governments, were revised downward (see Box 4).

Box 4: Federal Government Revises the 2020 Budget

Sequel to the eroding effect of COVID-19 on government finances, through its disruptions of economic activities and depression of international crude oil prices, the Federal Executive Council (FEC) on May 12, 2020 approved the revision of the Medium-Term Expenditure Framework and Fiscal Strategy Paper (MTEF&FSP, 2020-2022) as well as the amendment to the 2020 Appropriation Act.

The FEC approved the downward review of the key assumptions underpinning the 2020 approved budget, including the reduction of the crude oil price benchmark from US$57 pb to US$28 pb. This is in addition to cuts in selected budget heads, including the capital expenditures of ministries, departments, and agencies (MDAs), and the inclusion of new spending in relation to tackling the COVID-19 Pandemic.

Revised Budgetary Parameters

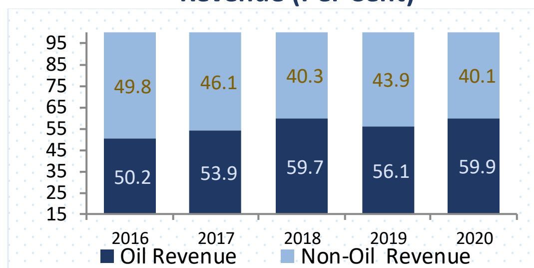
Parameters	2020 Approved Budget	2020 Revised Budget
Oil price per barrel	US$57	US$28
Crude oil production	2.18 mbpd	1.80 mbpd
Exchange rate	₦305/$1	₦360/$1

The revision also included the ₦500 billion COVID-19 Intervention Fund, which would notably be funded from the following sources; Federal Government Special Accounts (₦263.63 billion), Federation Special Accounts (₦186.37 billion), and grant & donations (₦50.00 billion).

The revised budget also provided for new borrowings to be financed from both domestic and external sources to the tune of ₦1,594.99 billion and ₦2,578.57 billion, respectively.

Source: Central Bank of Nigeria

Figure 3.3.2: Structure of Gross Federation Revenue (Per Cent)



Source: Data from The Office of Accountant General of the Federation (OAGF) and the Federal Ministry of Finance, Budget, and National Planning (FMFB&NP).

Table 3.3. 1: Federally Collected Revenue and Distribution (₦' Billion)

	Half Year-19	Half Year-20	Budget
Federation Revenue (Gross)	**4,694.6**	**4,662.5**	**5,132.3**
Oil	**2,632.9**	**2,793.8**	**1,772.3**
Crude Oil & Gas Exports	224.1	234.1	328.4
PPT & Royalties	1,635.3	1,628.6	614.7
Domestic Crude Oil/Gas Sales	717.6	873.5	213.3
Others	55.9	57.6	615.9
Non-oil	**2,061.7**	**1,868.7**	**3,308.7**
Corporate Tax	629.8	569.1	899.3
Customs & Excise Duties	405.9	418.2	502.1
Value-Added Tax (VAT)	597.1	637.8	1,095.3
Independent Revenue of Fed. Govt.	216.0	98.4	466.4
*Others**	212.9	145.3	345.5
Total Deductions/Transfers*	**1,157.1**	**1,343.2**	**1,360.0**
Federally Collected Revenue *Less Deductions & Transfers***	3,537.3	3,319.3	3,772.3
Plus:			
Additional Revenue	**139.5**	**252.6**	**0.0**
Excess Oil Revenue	78.1	104.0	0.0

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

Excess Non-Oil Revenue	12.1	11.7	0.0
Exchange Gain	*49.3*	*136.9*	*0.0*
Total Distributed Balance	**3,677.0**	**3,568.4**	**3,726.7**
Federal Government	1,576.1	1,522.1	1,434.8
State Governments	1,042.4	1,023.4	1,157.9
Local Governments	783.3	768.0	856.7
13% Derivation	275.2	255.0	277.3

Source: Compiled from OAGF figures and CBN Staff Estimates
Note: * Includes Education Tax, Customs Special Levies (Federation Account), National Technology Development, Customs Special Levies, Solid Mineral & Other Mining revenue, and other Non-regular earnings; ** Deductions includes cost of revenue collections and JVC cash calls; while transfers entails provisions for FGN Independent revenue and other Non-Federation revenue.

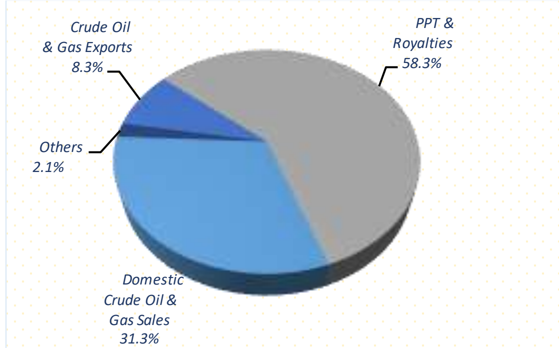
Drivers of Federally Collected Revenue

i. Oil Revenue

Despite the plunge in crude oil prices and oil production cuts, oil revenue in the first half of 2020 increased by 57.6 per cent over its budget benchmark. This was attributed to the lag effects of the Nigeria National Petroleum Corporation's (NNPC) accrual accounting method, where oil transaction contracts materialise within 90 days from the date of initiation, after which the proceeds are deposited in the Federation Account. Therefore, oil revenue receipts in the first quarter of 2020, was inclusive of part of the transactions in 2019Q4, prior to the plunge in crude oil prices.

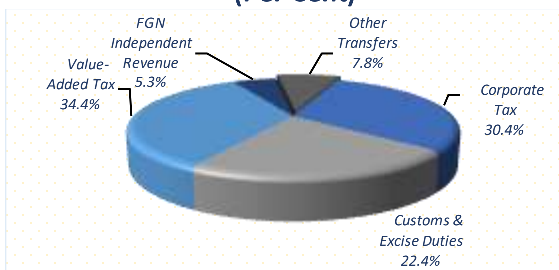
Thus, at ₦2,793.84 billion (4.0 per cent of GDP) estimated gross oil revenue [4] was above its benchmark by 57.6 per cent. The rise was largely driven by increases in Petroleum Profits Tax & Royalties.

Figure 3.3.3: Composition of Oil Revenue (Per Cent)



Source: Data from the OAGF and the FMFB&NP

Figure 3.3. 4: Composition of Non-Oil Revenue (Per Cent)



Source: OAGF and the FMFB&NP

ii. Non-oil Revenue

The lull in domestic economic activities and the disruptions in international trade and logistics, traceable to the Pandemic, hampered non-oil receipts. As a result, non-oil revenue, at ₦1,868.66 billion (2.7 per cent of GDP), declined by 43.5 per cent below its budget benchmark. The fall was attributed to shortfalls in Corporate Tax, Value Added Tax (VAT), Customs & Excise Duties and the Independent Revenue of the FGN, reflecting subdued economic activities due to the shutdown of businesses occasioned by COVID-19 containment measures.

Other factors included the Federal Inland Revenue Service (FIRS) introduction of tax relief

[4] Oil transaction contracts take about 90 days to fully materialize. Consequently, oil revenue receipts in the current period are reflective of developments in the domestic and global economies, three months preceding the current period of analysis.

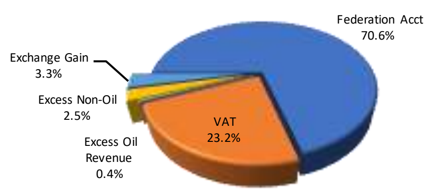
measures, including the extension of deadlines for filing tax returns on businesses that had fallen due, and the cessation of penalties and fines on defaulting taxpayers. In addition, COVID-19 lockdown measures lowered revenue collections from Customs Special Levies, by 52.2 per cent, relative to half year 2019.

Figure 3.3.5: Subnational Government Revenue (₦' Billion)

	Half Year 2019	Half Year 2020	Half Year Benchmark
State Governments	*1,042.42*	*1,023.43*	*1,157.90*
Local Governments	*783.33*	*767.98*	*856.69*
13% Derivation	*275.18*	*254.95*	*277.30*

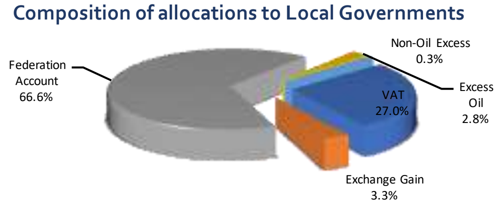
	State Government Allocations	*% of Total*
Top 3	Delta	*8.2*
	Akwa-Ibom	*6.4*
	Lagos	*6.4*
Bottom 3	Ebonyi	*1.8*
	Kwara	*1.8*
	Ekiti	*1.8*

Composition of allocations to State Governments



	Local Government Allocations	*% of total*
Top 3	Lagos	*6.8*
	Kano	*5.6*
	Katsina	*4.1*
Bottom 3	Ebonyi	*1.6*
	Gombe	*1.5*
	Bayelsa	*1.1*

Composition of allocations to Local Governments



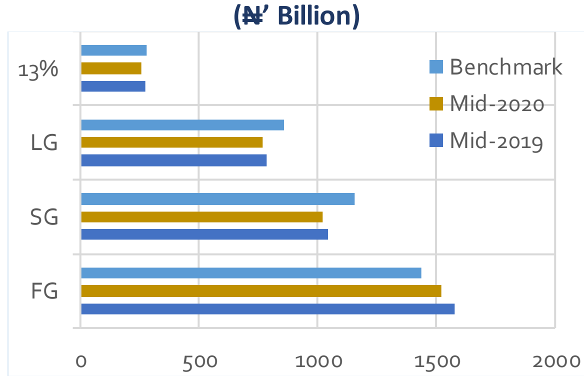
Of the Gross Federally Collected Revenue from oil and non-oil sources, there were statutory deductions of ₦1,099.55 billion with respect to oil and non-oil revenue earnings. Of this amount, the sum of ₦959.77 billion was deducted from oil revenue, while the balance of ₦139.78 billion was deducted from non-oil revenue.

Allocations to the three-tiers

The decline in receipts into the Federation Account in the first half of 2020 lowered allocations to the three tiers of government, with contractions in the fiscal space, particularly at the subnational level. The weak fiscal positions at the subnational levels were worsened by lower disbursements from the Federation Account, and the impairment of states' internal revenue generation efforts owing to the Pandemic.

Towards mitigating the effect of COVID-19 on the finances of state governments, as well as fast-tracking economic recovery, a US$750 million World Bank Facility was made available to state governments, under the States' Fiscal Transparency, Accountability and Sustainability (SFTAS) programme. In addition, some states legislated cuts in their 2020 annual budgets, to forestall further deterioration in fiscal balances. These fiscal supports and adjustments were expected to enhance fiscal positions.

Figure 3.3.6: Distribution to the Three Tiers of Government and 13% Derivation Fund (₦' Billion)



Source: Data from the OAGF and the FMF

Tax Effort Evaluation

An assessment of tax effort in the first half of 2020, showed that tax revenue, including oil and non-oil taxes, accounted for 54.4 per cent of the Federally Collected Revenue (gross), reflecting a slight decline of 0.8 per cent, relative to the corresponding period of 2019. However, expressed as a proportion of GDP, the tax-to-GDP ratio was 3.6 per cent, which was significantly lower, compared with the average of 17.2 per cent in 26 African countries[5]. This was indicative of a low tax effort and emphasised the need to improve the efficiency of tax administration in Nigeria.

b. Fiscal Operations of the Federal Government

i. Federal Government Fiscal Balance

The revenue effect of low oil prices and subdued economic activities, combined with rising expenditure as a result of the government's effort to boost the economy and reduce poverty, in the face of the COVID-19 challenge, led to a deterioration in the FGN fiscal balance in the review period.

The provisional overall deficit of the FGN at ₦2,643.66 billion, or 3.8 per cent of GDP, was 5.9 per cent above the budget benchmark of ₦2,487.77 billion. However, it was 5.6 per cent below the level recorded in the first half of 2019. The deficit was financed mainly from domestic sources.

Table 3.3.2: Fiscal Balance Half Year 2020 (₦' Billion)

	Half Year 2019	Half-Year 2020	Benchmark
Retained revenue	2,102.62	1,924.47	2,917.50
Aggregate expenditure	4,901.93	4,568.13	5,405.27
Primary balance	-1,687.04	-1,076.95	-1,011.92
Overall balance	-2,799.31	-2,643.66	-2,487.77
Deficit-to-GDP	-4.2%	-3.8%	-3.6%

Source: CBN Staff Estimates from available data
Note: Figures in 2020 are provisional

The high deficit, relative to the budgeted amount, reflected the expansionary fiscal stance of the government and its effort to mitigate the impact of the Pandemic and support growth.

ii. Federal Government Retained Revenue

The FGN Retained Revenue was dictated, largely, by the lower allocations from the Federation Account owing to the Pandemic.

The provisional Federal Government Retained Revenue, at ₦1,924.47 billion or 2.8 per cent of GDP, in the first half of 2020, dropped by 34.0 per cent and 8.5 per cent, respectively, compared with its benchmark and receipt in the corresponding period of 2019. The decline was attributed to the downturn in oil proceeds and the effect of COVID-19 containment measures on economic activities. Significant drops of 54.5 per cent and 8.2 per cent were recorded in the FGN Independent Revenue and Statutory (Federation Account allocation) components of FGN Retained Revenue respectively, relative to the level in the corresponding period of 2019.

[5] OECD: Revenue Statistics in Africa, 2019

Table 3.3.3: Economic Classification of Government Expenditure Half Year 2020

	Expenditure (=N=billion)	Percentage share			
		Administration	Economic services	Social and community services	Transfers
Recurrent	3843.14	27.6	7.7	16.3	48.4
Capital	444.75	38.5	41.1	15.9	4.5
Transfers	280.24	-	-	-	-

Source: Staff estimates

Table 3.3.4: Federal Government Retained Revenue (₦ Billion)

	Half Year 2019	Half Year 2020	Benchmark
FGN Retained Revenue	**2,102.62**	**1,924.49**	**2,917.50**
Federation Account	1425.32	1308.82	1282.60
VAT Pool Account	85.98	88.97	152.20
FGN Independent Revenue	216.03	98.40	466.42
Excess Oil Revenue	35.79	54.77	0.00
Excess Non-Oil	22.62	5.55	0.00
Exchange Gain	6.40	63.96	0.00
*Others**	310.49	304.02	1016.28

Source: Computed from OAGF and the FMFB&NP data
Note: * Includes FGN balance of special accounts, transfers to CRF and payments to FGN and other statutory benefits.

iii. Federal Government Expenditure

The level and composition of government expenditure in the first half of 2020, were influenced, largely, by the need to support growth, as well as cushion the effect of the COVID-19 pandemic on the citizenry. The accommodation of additional spending in the containment of the effects of the pandemic contributed to the provisional aggregate expenditure of ₦4,568.13 billion or 6.6 per cent of GDP, in the first half of 2020. For instance, the establishment of the ₦500 billion COVID-19 Crisis Intervention Fund for the purposes of strengthening the healthcare system and mitigating the impact of the Pandemic on the economy, was among other initiatives that added to the overall government spending in the period.

Table 3.3.5: Federal Government Expenditure (₦' Billion)

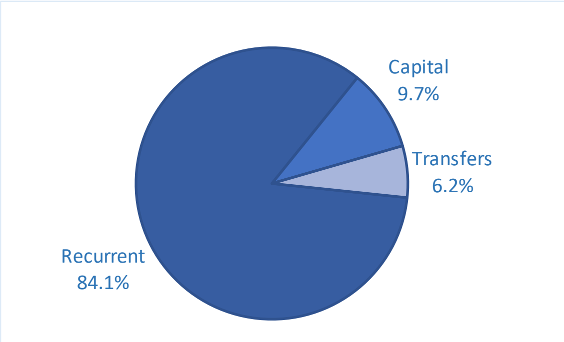
	Half Year 2019	Half Year 2020	Half Year Benchmark
Aggregate Expenditure	**4,901.9**	**4,568.1**	**5,405.3**
Recurrent	3,548.3	3,843.1	3,947.0
of which:			
Personnel Cost	1,123.3	1,426.6	1,523.2
Pension and Gratuitie	147.4	180.2	268.4
Overhead Cost	812.1	558.5	504.5
Interest Payments	1,112.3	1,566.7	1,475.9
Domestic	*202.2*	*251.8*	*402.7*
External	*910.1*	*1,315.0*	*1,073.1*
Special Funds	353.2	111.2	175.0
Capital Expenditure	1,123.5	444.8	1,244.3
Transfers	230.2	280.2	214.0

Source: CBN Staff Estimate

Aggregate expenditure in the period was below the benchmark and level in the first half of 2019 by 6.8 and 15.5 per cent, respectively. The reduction followed the adjustment made to the budget owing to the effects of the pandemic

Non-debt expenditure was below the benchmark by 7.9 per cent and constituted 49.8 per cent of total expenditure; while interest payments amounted to ₦1,566.72 billion or 81.4 and 34.3 per cent of FGN Retained Revenue and total expenditure, respectively.

Figure 3.3.7: Composition of Federal Government Expenditure (Per cent)



Source: Data from the OAGF

Recurrent expenditure, at ₦3,843.14 billion or 5.5 per cent of GDP, accounted for 84.1 per cent of total expenditure, while capital expenditure[6] and transfers had 9.7 and 6.2 per cent, respectively. The disproportionate share of recurrent expenditure in total government spending was indicative of a switch in government priority, owing to the COVID-19 pandemic. Interest payments[7] represented 40.7 per cent of total recurrent expenditure and grew by 40.9 per cent above the benchmark of ₦1,475.86 billion.

iv. Public Debt Strategy and Sustainability

Total Public Debt

Total public debt outstanding was driven by rising fiscal deficits and associated borrowings, induced by low revenue inflow in the face of relatively high expenditure.

Total public debt, constituting both the Federal and State Governments' external and domestic debt, in the first half of 2020, stood at ₦31,008.64 billion or 22.3 per cent of GDP, a sizeable increase of 20.6 per cent over its level at end-June 2019. The increase was attributed to the receipt of Budget Support Loan from the International Monetary Fund, new domestic borrowing to finance the revised 2020 Appropriation Act which included the issuance of a ₦162.557 billion Sukuk bond, and Promissory Notes to settle claims of exporters. The Federal Government owed 81.5 per cent of the total outstanding debt, while State Governments accounted for the balance of 18.5 per cent. Regardless, given that the FGN guarantees external borrowing by States in line with section 47 (3) of the Fiscal Responsibility Act, 2007, the latter's share of external debt (13.5 per cent of total external debt was a contingent liability to the FGN.

Table 3.3. 6: Total Public Debt (₦' Billion)

Type	1st Half 2018	1st Half 2019	1st Half 2020
External Debt	**6,750.91**	**8,322.63**	**11,363.24**
Of which:			
FGN	5,452.09	7,012.87	9,824.28
States and FCT	1,298.82	1,309.76	1,538.96
Domestic Debt	**15,628.76**	**17,379.02**	**19,645.40**
Of Which:			
FGN	12,151.43	13,412.80	15,455.70
States and FCT	3,477.32	3,966.22	4,189.70
Total	**22,379.66**	**25,701.65**	**31,008.64**

Source: Compiled from DMO Data

Federal Government Debt

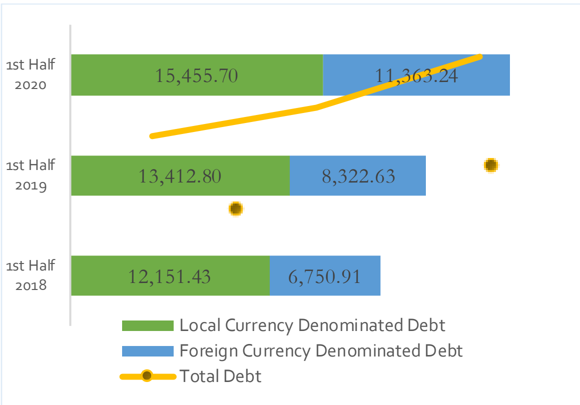
The 2020-2023 Debt Management Strategy (DMS) covers the main financial obligations over which the FG exercises full control, namely, the FG's external and domestic debt, and the SGs' external debt. The DMS ensures debt sustainability by among others, pursuing an optimal domestic-external debt ratio of 60:40 and a long term-short term domestic debt portfolio ratio of 75:25.

[6] Represented 23.1 per cent of the FGN retained revenue in the first half of 2020. This was above the West African Monetary Zone's (WAMZ) minimum benchmark of 20 per cent.

[7] Include interest payments on CBN Overdraft.

The consolidated debt stock of the Federal Government at end-June 2020, stood at ₦26,818.94 billion or 19.3 per cent of GDP which was below Nigeria's DMS threshold of 25 per cent of GDP. This represented an increase of 23.4 per cent over the level at end-June 2019.

Figure 3.3. 8: Composition of FGN Debt Stock



Source: Compiled from DMO data

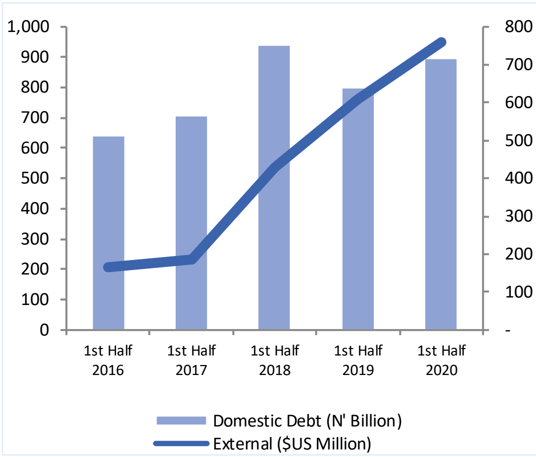
In the first half of 2020, domestic debt comprised 57.6 per cent of the total, while external debt accounted for the balance of 42.4 per cent. This indicated a mix that was close to the 2020-2023 DMS's 60:40 target. In terms of the domestic debt portfolio mix, short-term Nigerian Treasury Bills (NTBs), whose tenor fall between 91 and 364 days, constituted 17.9 per cent of the total, while 72.7 per cent were medium- and long-term instruments.

The relatively high composition of domestic debt increases concerns about the transmission of the sovereign default risk (associated with government borrowing) to domestic creditors, most of whom were banks.

On the other hand, foreign financing comprised loans from Commercial (35.5 per cent of total external debt stock), Multilateral (52.0 per cent) and Bilateral sources (12.5 per cent). Compared to the first half of 2019, the proportions showed the FGN's increased preference for Multilateral and Bilateral loans, relative to Commercial loans. The foreign debt portfolio mix was influenced, largely, by interest cost, tenor, and adjoining borrowing terms and conditions.

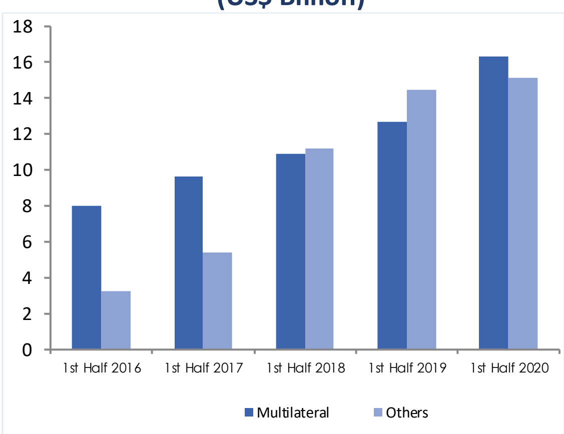
With a significant reduction in the stock of NTBs over the 2016-2019 DMS cycle, debt service as a ratio of non-debt expenditure and revenue, averaged 31.3 per cent and 45.9 per cent, respectively, reflecting an upward trend from 26.4 per cent and 39.1 per cent, respectively, in the first half of 2019. The gains recorded in reducing the cost of debt service were reversed by the negative impact of the COVID-19 pandemic on government finances as the same ratios rose to 38.4 per cent and 59.9 per cent, respectively in the first half of 2020.

Figure 3.3. 9: Breakdown of Total Debt Service, First Half 2016 - 2020 (₦' Billion)



Source: Data from the DMO

Figure 3.3. 10: Breakdown of External Debt Stock, First Half 2016 – First Half 2020 (US$ Billion)



Source: Data from the DMO

At 19.2 per cent, the debt-to-GDP ratio indicated a solvency position of the government. However, the rising cost of debt service underscores a precarious liquidity position that could impair the government's fiscal space, as well as its growth objectives.

Generally, the trajectory of FGN debt further constrained fiscal policy during the period, as interest payment obligations amounted to ₦1,153.13 billion in the first half of 2020. This suggested that, despite the subsisting revenue challenge, which was exacerbated by COVID-19, the larger proportion of FGN revenue was devoted to debt service.

3.4 FINANCIAL DEVELOPMENTS

a. Monetary and Credit Developments

The effects of COVID-19 pandemic on the economy were unprecedented and severe leading to volatility in capital markets, rising corporate and public debt, capital flow reversals, and drastic declines in oil prices. These posed major challenges to monetary policy in the first half of 2020. In response to these challenges, the Monetary Policy Committee (MPC) in March and May 2020, took major decisions to support the Federal Government's efforts at sustaining lives and livelihoods affected by the Pandemic.

The MPC among others, extended the moratorium on loans by an additional 1 year to ease pressure on loan repayments, reduced interest rates from 9.0 per cent to 5.0 per cent on its existing intervention programmes andcreated a ₦50.0 billion fund to support households and Small and Medium Enterprises (SMEs) affected by the COVID-19 pandemic. The Bank also, reduced the monetary policy rate (MPR) by 100 basis points to 12.50 per cent but retained the cash reserve ratio at 27.50 per cent, liquidity ratio at 30.00 per cent and the asymmetric corridor of +200/-500 basis points around the MPR for the standing lending and deposit facilities, respectively. The decisions were to ease tightening financial conditions in the market and moderate prices through support for the production of goods and services.

Broad Money Supply

Growth in monetary aggregates remained largely below indicative targets for 2020. Broad money supply (M_3) grew by 2.4 per cent to ₦35,625.87 billion at end-June 2020, compared with 5.2 per cent at end-June 2019. The growth in M_3 when annualized stood at 4.9 per cent, which was below the provisional growth target of 11.7 per cent for 2020. The modest expansion in broad money supply reflected decline in liabilities to non-residents, which resulted in a 30.5 per cent rise in net foreign assets. Claims on the domestic economy grew by 5.9 per cent (annualised to 11.7 per cent), a slow growth, compared with the 14.2 per cent at the end-June 2019 and the benchmark growth of 16.9 per cent for 2020. The slow growth in domestic claims was due, largely, to the 6.6 per cent decline in net claims on the Federal Government in contrast to the significant growth of 56.9 per cent at end-June 2019.

The lackluster growth in monetary aggregates relative to targets provided room for more monetary accommodation for the expansion of economic activities. The corresponding growth in monetary liabilities was due to the 21.9 per cent and 10.8 per cent surge in transferable deposits and 'other deposits' of the Depository Corporations (DCs), respectively. The significant growth of narrow money stock (16.2 per cent) emanated from the uncertainties surrounding the COVID-19 pandemic which drove money demand for precautionary and transactionary purposes.

Table 3.4. 1: Growth in Monetary Assets and Liabilities

	Jun 16	Jun 17	Jun 18	Jun 19	Jun 20
Net Foreign Assets	**15.2**	**-9.2**	**7.7**	**-16.1**	**30.5**
Net Domestic Assets	**7.7**	**1.9**	**-2.8**	**17.2**	**-3.2**
Domestic Claims	14.5	1.3	-5.2	14.2	5.9
Net claims on Government	19.2	6.8	-36.2	56.9	-6.6
Claims on:					
Other Sectors	*13.8*	*0.1*	*-0.1*	*5.3*	*10.3*
Other financial corporations	*1.7*	*-2.3*	*7.2*	*7.6*	*20.3*
State and local government	*24.7*	*19.3*	*5.6*	*1.1*	*-3.1*
Public nonfinancial corporations	*3.8*	*-1.2*	*72.9*	*1.0*	*-13.8*
Private sector	*18.9*	*-0.1*	*-4.4*	*4.8*	*8.2*
Total Monetary Assets	**9.6**	**-1.2**	**1.3**	**5.2**	**2.4**
Broad money liabilities	**9.6**	**-1.2**	**1.3**	**5.2**	**2.4**
Currency outside depository corporations	-5.3	-18.8	-14.7	-14.3	-7.6
Transferable deposits	6.9	-1.8	3.1	-6.7	21.9
Other deposits	12.2	-9.2	2.6	11.4	10.8
Securities other than shares	14.7	29.1	0.0	11.4	-47.0

Source: Central Bank of Nigeria

Drivers of Growth in Monetary Assets

Among the drivers of growth in money supply, domestic claims contributed the largest share at 6.1 percentage points, followed by net foreign claims at 5.1 percentage points. Net foreign assets of the banking system grew by 30.5 per cent to ₦7,576.93 billion at the end of the review period, and contributed 5.1 percentage points to the growth in broad money supply. Domestic claims grew by 5.9 per cent to ₦38,294.23 billion at end-June 2020 and contributed 6.1 percentage points, compared with 12.4 percentage points at end-June 2019.

Reduction in holdings of government treasury bills by Other Depository Corporations (ODCs) largely accounted for the decline of 6.6 per cent in net claims on the Central Government. Accordingly, the contribution of net claims on central Government to the growth of total monetary assets was negative 1.8 percentage points, in contrast to the positive contribution of 8.6 percentage points at end-June 2019.

Claims on other sectors rose by 10.3 per cent to ₦29,431.83 billion at end-June 2020, compared with the 5.3 per cent growth at end-June 2019, due to the 20.3 per cent and 8.2 per cent growth in claims on Other Financial Corporations (OFCs) and claims on private sector, respectively. Consequently, the contribution of claims on other sectors to the growth of total monetary assets was 7.9 percentage points, compared with the 3.8 percentage points in the first half of 2019.

Table 3.4. 2: Contribution to the Growth in Monetary Assets

	Jun 16	Jun 17	Jun 18	Jun 19	Jun 20
Net Foreign Assets	**3.8**	**-2.6**	**3.0**	**-5.8**	**5.1**
Domestic Claims	**14.6**	**1.2**	**-4.8**	**12.4**	**6.1**
Net Claims on Central Government	2.3	1.1	-4.8	8.6	-1.8
Claims on:					
Central government	*2.8*	*1.3*	*-1.2*	*5.8*	*4.2*
Other sectors	*12.3*	*0.1*	*0.0*	*3.8*	*7.9*
Other financial corporations	*0.4*	*-0.5*	*1.5*	*1.8*	*4.9*
States and local governments	*0.7*	*0.7*	*0.3*	*0.1*	*-0.2*
Public non-financial corporations	*0.1*	*0.0*	*0.5*	*0.0*	*-0.5*
Private sector	*11.2*	*-0.1*	*-2.3*	*1.9*	*3.6*

Source: Central Bank of Nigeria

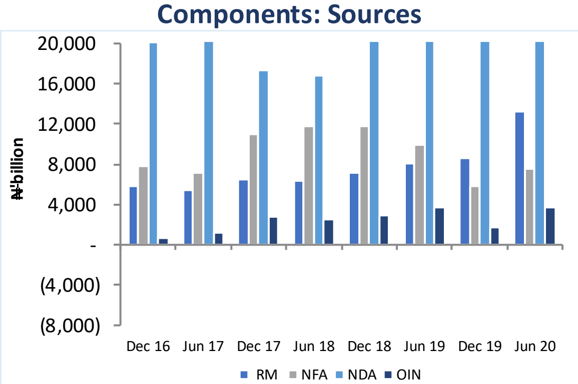
However, the growth in claims on 'other sectors' was due, largely, to OFCs which grew by 20.3 per cent compared with 7.6 per cent at end-June 2019. Claims on the private sector grew by 8.2

per cent, which was an improvement over the growth of 4.8 per cent at end-June 2019 and reflected the efforts of the Bank at reviving private sector growth.

Reserve Money

The accumulation of reserves by other depository corporations led to a rise in reserve money in the first half of 2020. The injection of liquidity in the banking system, arising from policy response to the COVID-19 pandemic in the review period led to a significant increase in the ODCs deposits with the Central Bank of Nigeria. Consequently, the currency deposit ratio declined to 21.0 per cent, from 38.9 per cent at end-June 2019. Liabilities to ODCs, at ₦10,956.20 billion, grew by 76.0 per cent at end-June 2020, from 6.7 per cent at end-June 2019. Similarly, currency-in-circulation (CIC) rose by 14.2 per cent at end-June 2020. Thus, reserve money grew by 52.9 per cent to ₦13,257.04 billion at end-June 2020, compared with 84.5 per cent at end-June 2019.

Figure 3.4. 1: Reserve Money and its Components: Sources



Source: Central Bank of Nigeria

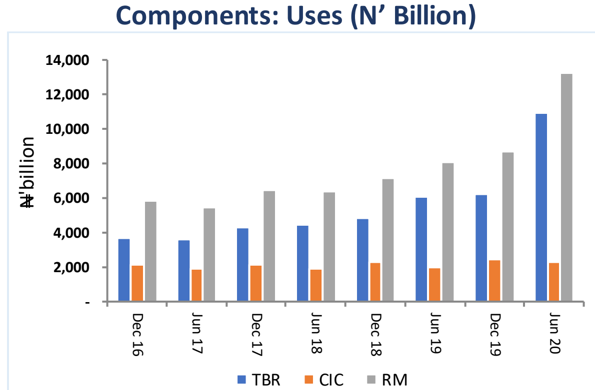
Table 3.4.3: Reserve Money (₦ Billion)

	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20
Net foreign assets	6,262.9	7,628.4	11,572.2	9,283.8	8,994.1
Net domestic assets	5,463.5	7,819.8	7,653.0	13,470.3	17,045.9
Net claims on Central Government	*-1,286.1*	*-37.6*	*-641.4*	*3,284.9*	*5,193.4*
Net Claims on other sector	*5,447.7*	*6,074.7*	*6,442.6*	*8,440.0*	*10,159.6*
Claims on ODCs	*1,301.9*	*1,782.8*	*1,851.8*	*1,745.4*	*1,692.9*
Other assets (net)	*-6,401.9*	*-9,967.9*	*-12,864.6*	*-15,566.9*	*-12,782.9*
Reserve Money	5,324.5	5,480.3	6,360.6	7,187.2	13,257.0
Currency in Circulation	*1,684.6*	*1,873.5*	*1,900.7*	*2,014.1*	*2,300.8*
Liabilities to ODCs	*3,639.9*	*3,606.8*	*4,459.9*	*5,173.1*	*10,956.2*

Source: Central Bank of Nigeria

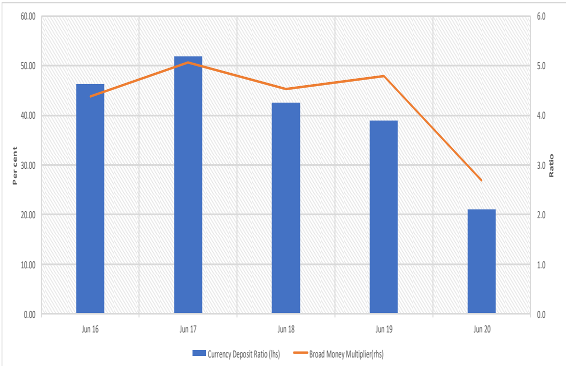
Both foreign and domestic assets (net) of the CBN accounted for the growth in reserve money. Net foreign assets grew due to the decline in liabilities to non-residents relative to assets, while, the growth in net domestic claims was accounted for mainly by the claims on other sectors of the economy.

Figure 3.4.2: Reserve Money and its Components: Uses (N' Billion)



Source: Central Bank of Nigeria

Figure 3.4.3: Currency-Reserve Deposit Ratio and Broad Money Multiplier



Source: Central Bank of Nigeria

Credit Utilisation by Sectors

Industry and services sectors accounted for the largest share of credit utilised. Of the total credit to the private sector, Agricultural and construction sectors accounted for 4.8 per cent and 4.6 per cent in June 2020, respectively, above their respective shares of 4.1 per cent and 4.0 per cent in the corresponding period of 2019. Industrial and services sectors accounted for 37.7 per cent and 38.4 per cent of total allocation, respectively, compared with 37.0 per cent and 37.7 per cent in June 2019. The government sector accounted for 8.0 per cent in June 2020, over the 7.2 per cent in the first half of 2019, reflecting the general decline in net claims on the Federal government by the ODCs.

Table 3.4. 4: Sectoral credit allocation

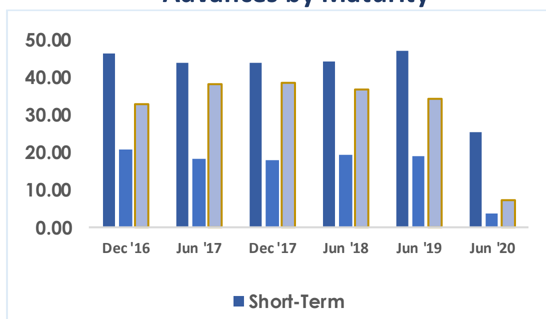
	19-Jun	19-Dec	20-Mar	Apr-20	20-May	20-Jun
Agriculture	4.1	4.6	4.6	4.7	4.6	4.8
Industry	37.0	37.3	37.9	37.3	37.5	37.7
Construction	4.0	4.1	4.3	4.5	4.5	4.6
Trade/General Commerce	5.9	7.2	6.9	6.8	6.7	6.5
Government	7.2	8.8	8.2	8.2	8.2	8.0
Services	37.7	37.9	38.1	38.4	38.5	38.4

Source: Central Bank of Nigeria

Maturity structure of Banks Claims and liabilities

Structure of ODCs' outstanding loans and advances showed banks' preference for short-term maturities. Bank credit maturing within one year accounted for 69.4 per cent, compared with 47.0 per cent at end-June 2019. The medium-term and long-term maturities stood at 10.4 and 20.2 per cent, respectively, compared with 18.9 and 34.1 per cent at the end of the corresponding period of 2019.

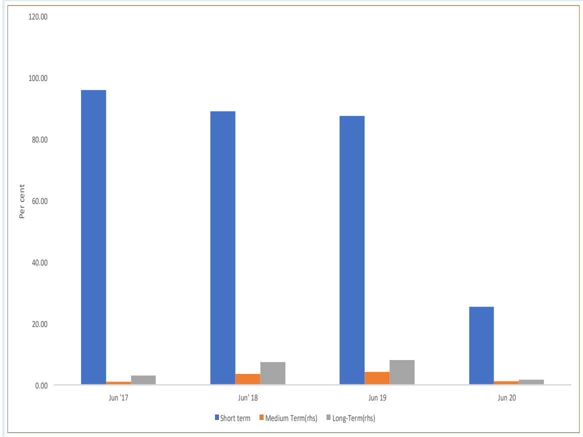
Figure 3.4. 4: Distribution of Bank Loans and Advances by Maturity



Source: Central Bank of Nigeria

Similarly, short-term (of less than one-year maturity) deposits constituted 87.7 per cent compared with 89.1 per cent at the end of the first half of 2019. Further analysis showed that the medium and long-term deposits constituted 4.2 and 8.1 per cent, respectively, compared with 3.6 and 7.3 per cent at end-June 2019. The preponderance of short-term liabilities remains a major constraint to holding long term assets by ODCs.

Figure 3.4. 5: Maturity Structure of Bank Deposits (per cent)

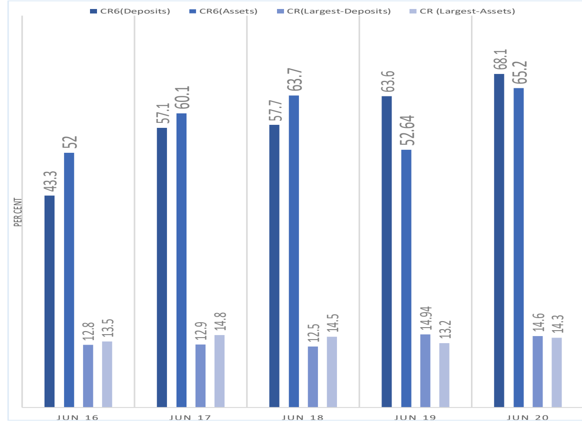


Source: Central Bank of Nigeria

Market Structure of the Banking Industry

The structure of the Nigerian banking industry remained oligopolistic in the first half of 2020, with the concentration ratios of the largest six banks (CR6) at 68.1 in deposits and 65.2 in assets. As in the corresponding half of 2019, there was no dominance of a single bank, as the share of the largest bank in deposits and assets stood at 14.6 per cent and 14.3 per cent, respectively compared with 14.9 and 13.2 per cent in the first half of 2019. Fourteen banks had percentage shares ranging from 0.1 to 5.1 per cent in deposits and 0.1 to 5.2 per cent in assets, compared with 0.1 to 4.3 per cent and 0.1 to 4.2 per cent, respectively in the corresponding period of 2019.

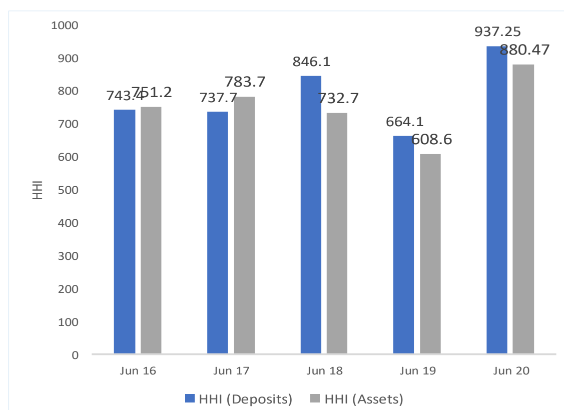
Figure 3.4. 6: Market Concentration Ratios of Banks (Assets and Deposits)



Source: Central Bank of Nigeria

The absence of dominance of any bank in the industry was further affirmed by the Herfindhal Hirschman Indices (HHI) of 937.38 (on a scale of 0 to 10,000) in deposits and 880.47 in assets, compared with 664.1 and 608.6, respectively, in the first half of 2019.

Figure 3.4.7: Measures of Competition in Banks: Herfindahl-Hirschman Index

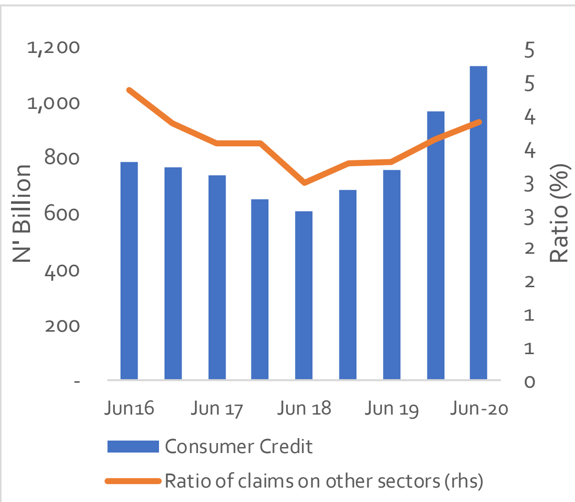


Source: Central Bank of Nigeria

Consumer Credit

The continued implementation of the LDR policy led to a significant rise in consumer credit in the period under review. At ₦1,127.10 billion, consumer credit rose by 17.0 per cent at end-June 2020, compared with 10.3 per cent at the end of the corresponding period of 2019, a persistent trend since June 2018. At that level, consumer loans constituted 3.9 per cent of total credit to other sectors, in the first half of 2020, compared with 3.3 per cent at the end of the corresponding half of 2019.

Figure 3.4.8: Consumer Credit and Ratio of Claims on Other Sectors (₦' Billion)



Source: Central Bank of Nigeria

b. Financial Soundness

The financial sector remained stable in the review period as the key financial soundness indicators remained resilience. This was despite the continued lull in global financial markets, adverse shocks to global capital flows and falling oil prices due to the impact of the COVID-19 pandemic.

The banking industry generally enjoyed health in the review period, as the industry's capital adequacy and liquidity ratios were above the regulatory minimum. However, as a result of the high increase in risk weighted assets, driven by the implementation of the policy measures to increase lending to the real sector, and corresponding increase in total qualifying capital, the industry capital adequacy ratio (CAR) remain relatively stable at 15.0 per cent at the end of the first half of 2020, compared with 15.3 per cent at end-June 2019.

The industry threshold, however, remained at 15.0 per cent for banks with international authorisation and 10.0 per cent for banks with either national or regional authorisation. The industry liquidity ratio decreased to 65.1 per cent at the end of the first half of 2020, from 73.0 per cent at end-June 2019, reflecting the decrease in the stock of liquid assets held by banks. With the exception of four commercial banks and one merchant bank, others met the minimum regulatory liquidity ratios of: 30.0 per cent, 20.0 per cent and 10.0 per cent for commercial banks, merchant banks and non-interest banks, respectively in the first half of 2020.

Due to sustained recoveries, write-offs and disposals of pledged collaterals, the asset quality of the banking industry, measured by the ratio of non-performing loans to total loans (NPL ratio), improved to 6.4 per cent at end-June 2020, compared with 9.4 per cent at end-June 2019. At that level, the ratio remained slightly above the regulatory threshold of 5.0 per cent. Loan loss provision coverage stood at 93.7 per cent at end-June 2020, compared with 79.8 per cent in the corresponding period of 2019.

The Joint (CBN/NDIC) Risk Asset Assessment (Target) examination of 26 banks in the review period showed that banks' earnings, compared with the corresponding period of 2019, improved as a result of higher volume of credit transactions, enhanced asset quality and high quality of loans that led to reduction in impairment charges, among others.

c. Developments in Other Financial Institutions

The OFIs provided financial interventions geared towards mitigating the effects of COVID-19 pandemic on the Nigerian economy and served as channels for delivering some CBN intervention funds to the agriculture and health sectors, as well as micro, small- and medium-size enterprises (MSMEs) during the review period. There were 6,334 Other Financial Institutions (OFIs) at end-June 2020, compared with the 6,183 institutions at end-December 2019, reflecting an increase of 151 OFIs. The development was attributed to the licensing of new OFIs, comprising 144 Bureaux de Change (BDCs), six (6) Finance Companies (FCs) and one (1) Microfinance Bank (MFB).

Total assets of other financial institutions (OFIs), excluding the BDCs, rose by 19.4 per cent to ₦3,802.58 billion at end-June 2020, relative to ₦3,183.50 billion at end-December 2019. The increase in total assets was attributed, largely, to increased borrowings and reserves arising from ploughed back profits, reflected in increased placements and investments. Banks' placements with the sub-sector rose by 43.3 per cent to ₦585.11 billion at end-June 2020, compared with ₦408.18 billion at end-December 2019, while investments increased by 55.6 per cent to ₦904.13 billion. Similarly, shareholders' fund increased by 23.21 per cent to ₦585.58 billion at end-June 2020, compared with ₦475.27 billion at end-December 2019. Borrowings also increased by 221.5 per cent from ₦547.97 billion at end-December 2019 to ₦1,753.98 billion at end-June 2020.

Development Finance Institutions

The development finance institutions' assets increased due to a significant rise in investment and other assets. Total assets of the seven development finance institutions (DFIs) [8] increased by 22.3 per cent to ₦2,471.00 billion at end-June 2020, compared with ₦2,021.18 billion at end-December 2019. The development was due largely to increases in reserves, deposits, borrowings and long-term liabilities, as well as increases in investments and other assets. The paid-up capital, however, remained unchanged at ₦238.78 billion, while the net loans and advances decreased by 4.1 per cent to ₦1,130.89 billion at end-June 2020, compared with ₦1,179.28 billion at end-December 2019.

Investments, other assets and fixed assets rose by 537.7 per cent, 66.9 per cent and 10.1 per cent, respectively in the review period. The sharp increase in investments was traced, largely, to short–term investments, majorly, treasury instruments, following a reduction of funds in bank placements. Aggregate shareholders' funds also increased by 22.3 per cent to ₦364.10 billion at end-June 2020, from ₦297.82 billion at end-December 2019. The increase was due, mainly, to accretion to reserves of the BOI, DBN and NMRC. A disaggregation of the total assets by institution, indicated that the BOI, DBN, FMB, NEXIM, NMRC, BOA and TIB accounted for 57.0, 19.3, 14.6, 4.4, 3.0, 1.5 and 0.2 per cent, respectively. The BOI, FMBN, DBN, NEXIM,

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

NMRC and BOA accounted for 64.1, 21.3, 7.3, 5.4, 1.6 and 0.3 per cent, of total net loans and advances, respectively.

However, the activities of some of the DFIs were relatively marred by operational inefficiency and negative adjusted capital. Some of these institutions incurred high operating costs, persistent operating losses and erosion of capital, which adversely affected their performance. Most of the DFIs exhibited weak board oversight, poor credit appraisal and administration, inadequate project monitoring, and low loan recovery efforts, which resulted in poor asset quality and high loan loss provisions, negatively affecting earnings and capital. Necessary statutory corrective measures were affected by the monetary authorities to safeguard the system.

Microfinance Banks

Assets of MFBs increased due to retention of profit, injection of capital and the ₦50 billion CBN COVID-19 intervention fund for household and SMEs channeled through the MFB.

One Microfinance Bank (MFB) was licensed in the first half of 2020, bringing the number of licensed MFBs to 912 (10 National, 135 State and 767 Unit MFBs), compared with 911 MFBs (10 National, 135 State and 766 Unit MFBs) at end-December 2019. Capital injection and accretion to reserves from ploughed back profits have bolstered MFBS total assets.

Total assets of the MFBs rose by 28.5 per cent to ₦638.67 billion at end-June 2020 from ₦496.85 billion at end-December 2019. The paid-up capital and shareholders' fund increased by 2.7 per cent and 5.2 per cent to ₦80.89 billion and ₦130.95 billion, respectively, compared with ₦78.80 billion and ₦113.67 billion at end-December 2019.

The CBN channeled intervention funds to the sub-sector through NIRSAL MFB as palliatives to cushion the effect of COVID-19 pandemic on MSMEs and households.

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

Investible funds available to the MFBs sub-sector in the review period amounted to ₦160.04 billion at end-June 2020, compared with ₦75.70 billion at end-December 2019. The funds were sourced, mainly, from increase in long-term loans (₦96.93 billion), deposits (₦32.97 billion) and reserves (₦15.19 billion). The funds were used, mainly, to increase net loans and advances (₦72.71 billion), bank placements (₦50.82 billion) and bank balances (₦18.23 billion).

Finance Companies

Finance companies' assets increased due largely, to injection of capital, accretion to reserves and increased borrowings. Total assets and liabilities of Finance Companies (FCs) sub-sector increased by 9.9 per cent to ₦256.62 billion at end-June 2020, above the ₦233.42 billion at end-December 2019. Similarly, loans and advances increased by 16.6 per cent to ₦93.44 billion at end-June 2020, compared with ₦80.13 billion at end-December 2019. However, investments fell by 9.2 per cent to ₦10.57 billion at end-June 2020, from ₦11.64 billion at end-December 2019, due to disposal of investment holdings by the institutions. Shareholders' funds increased by 17.7 per cent to ₦43.88 billion at end-June 2020, from ₦37.29 billion at end-December 2019. This was as a result of injection of additional capital and increase in ploughed back profit in the review period.

Borrowings increased by 11.0 per cent to ₦170.25 billion at end-June 2020, compared with ₦153.40 billion at end-December 2019. Fixed assets also rose by 9.5 per cent to ₦50.67 billion at end-June 2020, compared with ₦46.28 billion at end-December 2019. Similarly, balances with banks and reserves increased by 47.1 per cent and 31.4 per cent to ₦17.96 billion and ₦21.81 billion, respectively, at end-June 2020 relative to the levels at end-December 2019.

Investible funds available to the sub-sector in the review period amounted to ₦29.76 billion, compared with ₦65.40 billion at end-December 2019, signifying a lull in financial activities during the review period. The funds were sourced, mainly from borrowings (₦16.85 billion), reserves (₦5.21 billion) and paid up capital (₦1.38 billion). The funds were utilised, mainly, for loans and advances (₦13.32 billion); bank balances (₦5.31 billion); and placement with banks (₦2.41 billion).

Primary Mortgage Banks

Primary mortgage banks' total assets increased, reflecting increases in loans and advances and placements with banks. Although the number of licensed Primary Mortgage Banks (PMBs) at end-June 2020, remained unchanged, at 35, same as at end-December 2019, comprising 12 National and 23 State PMBs, total assets of the PMBs, however, increased marginally by 1.0 per cent to ₦436.29 billion at end-June 2020, over the ₦432.05 billion at end-December 2019. Shareholders' funds also fell by 12.3 per cent to ₦46.65 billion at end-June 2020, below the level of ₦53.17 billion at end-December 2019. Also, total loans and advances and investment in quoted shares increased to ₦240.45 billion and ₦12.49 billion, respectively, at end-June 2019, compared with ₦238.49 billion and ₦9.96 billion at end-December 2019. Similarly, placement with banks increased to ₦46.94 billion at end-June 2020, compared with ₦40.87 billion at end-December 2019. Non-current assets held for sale decreased to ₦50.02 billion at end-June 2020, relative to ₦52.59 billion at end-December 2019. Deposit liabilities and other liabilities rose by 3.1 and 29.7 per cent, respectively, to ₦147.98 billion and ₦206.16 billion at end-June 2020, compared with ₦143.56 billion and ₦158.96 billion at end-December 2019.

Investible funds available to the sub-sector amounted to ₦21.04 billion at end-June 2020, compared with ₦46.75 billion at end-December 2019. The fall in investible funds was due to the lockdown occasioned by the COVID-19 pandemic. The funds were sourced, mainly, from: increases in other liabilities (₦6.72 billion); deposits (₦4.41billion); and reductions in non-current assets held for sale (₦2.57 billion). The funds were utilised, mainly, to shore-up reserves (₦7.63 billion), increase placement with banks (₦6.06 billion) and investment in quoted shares (₦2.53 billion).

Nigeria Mortgage Refinance Company

Developments in the Nigeria Mortgage Refinance Company reflected increases in borrowings and reserves. Total assets of the Nigeria Mortgage Refinance Company (NMRC) stood at ₦74.71 billion at end-June 2020, compared with ₦73.71 billion at end-December 2019. Refinanced mortgages, however, decreased by ₦0.85 billion to ₦17.67 billion at end-June 2020, below the ₦18.35 billion in 2019, occasioned by a decrease in the creation of additional mortgages. The adjusted capital of ₦13.70 billion was higher than the minimum capital requirement of ₦5.0 billion for the Company. Similarly, the capital adequacy ratio (CAR) at 86.20 per cent, was above both the regulatory minimum of 10.0 per cent and the Company's internal benchmark of 15.0 per cent.

Earnings, Capital and Composite Risk Rating, of the Company, remained unchanged at "Acceptable", "Strong" and "Moderate", respectively. Similarly, the Company's mortgage refinance facilities remained "Performing". The Company had also maintained its capacity to generate capital internally, as its earnings retention rate remained at 100.0 per cent since its commencement of operations.

Bureaux-De-Change

The number of licensed BDCs increased to 5,300 at end-June 2020, compared with 5,164 at end-December 2019. The increased licensing reflected the desire of the Bank to deepen foreign liquidity, especially in the retail and of the market.

Examination of Other Financial Institutions

The Bank conducted routine and special examination of 250 OFIs in the first half of 2020. The exercise covered Risk-Based Supervision (RBS) of seven DFIs and forty MFBs, AML/CFT examination, using the Risk-Based Approach for 114 BDCs, thirty two MFBs and seventeen PMBs, as well as special examination of forty MFBs. Highlights of the RBS examination report were indicated in Table 3.4.9.

Similarly, the ML/FT RBS examination of the thirty-two MFBs revealed that the overall ML/FT rating for one MFB was "Low", one was "Moderate", twenty-six "Above Average", and four "High".

The overall ML/FT rating for the PMBs were "Moderate" for two, "Above Average" for fourteen, and "High" for one. The overall ML/TF Risk Assessment of the BDCs showed "Above Average" for 49 BDCs and "High" for 65 institutions.

Supervisory Letters were issued to the institutions with regulatory directives to effect sound corporate governance, ensure compliance with extant AML/CFT policies and procedures, strengthen internal controls/audit, and monitor/report suspicious transactions as well as rendition of returns on Politically Exposed Persons (PEPs) to the CBN. Also, for the PMBs, Supervisory Letters were issued to each of the institutions with regulatory directives to appoint Chief Compliance Officers, include AML/CFT training in their training plans, ensure risk profiling of customers and compliance with regular submission of suspicious transaction reports (STRs) to the NFIU.

Table 3.4. 5: Examination of Other Financial Institutions

OFIs	Composite Risk Rating (CRR)	NPL	Earnings Rating	Capital Rating	Prudential and Soundness Analysis
Development Finance Institutions	4 = High 1 = Above Average 1 = Moderate 1 = Low.	Two DFIs = zero per cent NPL, 5 = NPL ratios above the regulatory maximum of 5.0 per cent. Average NPL ratio of 28.11 per cent was significantly higher than the regulatory maximum of 5.0 per cent	3 =Acceptable 4 = Weak	3 = Strong 4 = Weak	Three DFIs failed the minimum CAR of 10.0 per cent. Two out of the five retail DFIs met the minimum regulatory capital of ₦10.0 billion. The Wholesale DFI, DBN, and the NMRC met the regulatory minimum capital of ₦100.0 billion and ₦5.0 billion, respectively.
Primary Mortgage Banks	22 = High 7 = Above Average 5 = Moderate	Average NPL remain unchanged at 48.94 per cent in the absence of more recent RBS examination due to lockdown occasioned by COVID-19 pandemic.	5 = Acceptable, 12 = Needs Improvement 17 = Weak. ROE improved to 0.2 per cent from negative 1.3 per cent at end-December 2019. Average ROA also improved from negative 0.16 per cent at end-December 2019 to 0.07 per cent.	1 = Strong 11 = Acceptable 9 = Needs Improvement 13 = Weak.	CAR declined to 13.9 per cent compared with 14.0 per cent at end-December 2019. With the exclusion of the financial data of four (4) technically insolvent institutions, the average CAR for the other 29 PMBs was 38.9 per cent. Liquidity ratio was 44.0 per cent compared with the revised average liquidity ratio of 85.4 per cent at end-December 2019. Four critically illiquid PMBs had aggregate liquidity ratio of negative 1.6 per cent. Seven PMBs also failed the minimum liquidity ratio benchmark of 20.0 per cent compared with nine PMBs at-end-December 2019.
Finance Companies	6 = Moderate, 14 = Above Average, 37 = High.	Average NPL was 43.03 per cent compared with 15.21 per cent at end-December 2019, due largely to lull in economic activities due to the COVID-19 pandemic.			Average CAR was 68.14 per cent, compared with 47.30 per cent at end-December 2019, and both ratios were higher than the regulatory minimum of 12.50 per cent. Average ROA and ROE were1.85 per cent and 11.03 per cent compared with 3.45 per cent and 21.19 per cent respectively, at end-December 2019.
Microfinance Banks	1 = Moderate 17 = Above Average 22 = High.	Average PAR decreased to 24.33 per cent compared with 51.7 per cent at end-December 2019, due, largely, to loan recoveries before the advent of the COVID-19 pandemic, and regulatory forbearance for the restructuring of credit facilities for institutions impacted by COVID-19.	8 = Acceptable 21 = Needs Improvement 11 = Weak	18 = Acceptable, 20 = Needs Improvement 2 = Weak.	Average CAR of the sub-sector fell to 23.02 per cent at end-June 2020, compared with 24.6 per cent at end-December 2019.

Source: Central Bank of Nigeria

d. Financial Markets

Activities in the money market in the first half of 2020, reflected the trend in liquidity conditions in the banking system and the slowdown in economic activities, attributable to the outbreak of the COVID-19 pandemic.

i. Money Market Developments

Liquidity in the banking system was influenced, largely, by fiscal operations of governments, effects of CRR and settlement for foreign exchange intervention. Others included maturity of CBN bills and monetised proceeds from crude oil sales (distributed at the monthly Federation Accounts Allocation Committee (FAAC)) meeting. The withdrawal of liquidity through the sale of CBN bills was a prominent factor that influenced the banking system's net liquidity level and consequently, the movement in money market rates.

Open Market Operation

Phased reduction of the number of auctions conducted during the period, occasioned by the outbreak of the COVID-19 pandemic, culminated in low level of activity in OMO. CBN bills worth ₦6,387.76 billion were issued in the first half of 2020 compared with ₦11,851.66 billion in the corresponding half of 2019. Public subscription and sale amounted to ₦8,567.22 billion and ₦6,453.88 billion, respectively, compared with ₦13,054.31 billion and ₦11,827.66 billion, subscribed to, and allotted, in the corresponding half of 2019. Consequently, the cost of liquidity management, at end-June, reduced by 48.7 per cent below the level in the corresponding period of 2019. The tenors of OMO auction ranged from 64 to 364 days, at stop rates of 9.12 per cent (±4.17). In the preceding year, the tenors were between 27 to 364 days, at stop rate of 13.03 per cent (±1.98).

Discount Window Operations

Due to the preference of tenored funds over the overnight facility, total request for repo transactions increased slightly in the first half of 2020. Total request for repo transaction rose by 8.1 per cent to ₦661.03 billion in the first half of 2020, compared with ₦611.30 billion in the first half of 2019. Applicable interest rates in the review period, stood at 18.00 per cent (±1.00) for the 4- to 90-day tenors. Consequently, total interest earned on repo was ₦10.75 billion. In 2019, the interest earned was ₦19.25 billion at 18.75 per cent (±0.75) for the same tenors. The high demand in 2020 reflected greater request for repo, which was attributed to a preference for tenored funds over overnight facility.

Standing Facilities

Activities were low at the standing facility window following the slowdown in economic activities arising from the impact of COVID-19 pandemic.

ODCs patronised the Bank's standing facility window to square-up their positions at the end of each business day. The trend at the window showed less recourse to the SLF in the first half of 2020, than in the corresponding period of 2019. The average daily request for SLF was ₦34.14 billion in 95 days, out of which ILF conversion was ₦12.89 billion, amounting to 37.76 per cent of the total request. The average daily interest earned was ₦0.21 billion. Comparatively, in the first half year of 2019, the average daily request for SLF was ₦98.65 billion in 121 days, out of which ILF conversion was

₦35.50 billion, while average daily interest income was ₦0.67 billion.

Patronage at the SDF window declined to an average daily amount of ₦21.87 billion for the 123 days in 2020, from ₦67.64 billion for the 121 days in 2019. The decline in SDF was partly attributed to the reduced threshold for daily deposits per institution from ₦7.5 billion to ₦2.0 billion in the quest by the CBN to curtail unbridled requests by market participants and encourage lending to the real economy. Average daily interest payments on the deposits decreased to ₦8.21 million in the review period, from ₦23.22 million in 2019. The reduced volume of transactions in the year was also due to slowdown in economic activities resulting from the impact of COVID-19 pandemic.

Applicable rates, for the SLF and SDF, anchored on the MPR were 15.50 per cent and 8.50 per cent, from January 02 to May 27, 2020, respectively; and 14.50 per cent and 7.50 per cent from May 28 to June 30, 2020. Comparatively, in the first half of 2019, the applicable rates were 16.00 per cent and 9.00 per cent, from January 02 to March 25, 2019, respectively, and 15.50 per cent and 8.50 per cent from March 26 to June 30, 2019.

Inter-bank Transactions

The inter-bank funds market was relatively active in the first half of 2020 with more patronage at the secured segment of the market. The total value of transactions at the market stood at ₦1,453.24 billion in the first half of 2020, an increase of 20.6 per cent, above the ₦1,205.09 billion in the corresponding period of 2019. Similarly, there was a large patronage of Open-buy-back (OBB) transactions, attributed largely to the greater risk aversion by market participants relative to the unsecured market segment. Accordingly, transactions at the OBB segment, at ₦1,377.80 billion, accounted for 94.81 per cent, while the unsecured inter-bank call took up the balance of 5.19 per cent or ₦75.44 billion.

Primary Market Activities

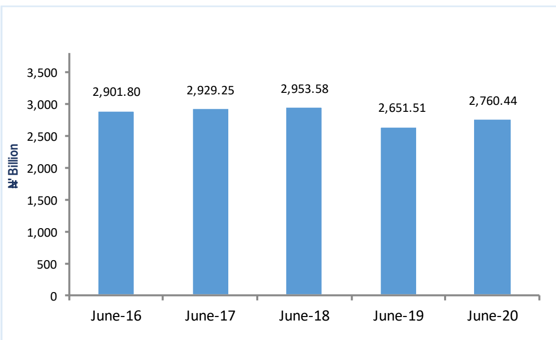
Public subscription at the primary market for NTBs witnessed a decline due to low yields. Total NTBs issued and allotted amounted to ₦1,515.68 billion apiece, indicating an increase of ₦41.84 billion or 2.9 per cent above the level in the corresponding period of 2019. Total public subscription stood at ₦2,904.16 billion, compared with ₦4,153.63 billion in the corresponding period of 2019. The decline in public subscription was traceable to the lower yield on government securities.

Of the total NTBs allotted, banks, including foreign investors, took up ₦978.37 billion or 64.6 per cent, Mandate and Internal fund customers (including CBN Branches), ₦498.44 billion or 32.9 per cent and merchant banks ₦38.88 billion or 2.6 per cent. The successful bid rates in the market were 2.65 per cent for the 91-day, 3.47 per cent for the 182-day and 5.15 per cent for the 364-day tenors. The range of successful bid rates in the corresponding period of 2019 was higher at 10.30 per cent for the 91-day, 12.69 per cent for the 182-day and 13.51 per cent for the 364-day tenors. The development was, largely, on account of the prevailing monetary policy stance.

Structure of Outstanding holdings of Nigeria Treasury Bills

Treasury bills outstanding as at end-June 2020, stood at ₦2,760.44 billion, compared with ₦2,651.51 billion at end-June 2019. Of the total, banks accounted for 21.1 per cent of the total at end-June 2020, compared with 41.7 per cent in the corresponding period of 2019. Mandate (parastatals) and Internal Funds customers took up 44.7 per cent, merchant banks 33.7 per cent, while the CBN held the balance of 0.5 per cent.

Figure 3.4.9: Nigerian Treasury Bills Outstanding (₦' Billion)



Source: Central Bank of Nigeria

OTC Transactions in NTBs

Reduced patronage from foreign and institutional investors reduced over the counter (OTC) transactions In NTBs. Transaction from January to June 2020, amounted to ₦39,728.24 billion, indicating a decline of ₦5,065.81 billion or 11.3 per cent below the level of ₦44,794.05 billion in the first half of 2019.

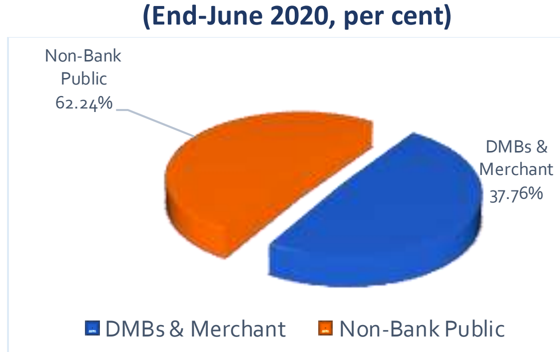
OTC transactions in FGN Bonds during the first half of 2020 amounted to ₦13,249.67 billion, indicating an increase of ₦6,196.95 billion or 87.9 per cent over the level of ₦7,052.72 billion in the same period of 2019. The trend was traced to the active participation of both local and foreign investors at the long tenored debt market.

Federal Government of Nigeria Bonds

FGN Bonds valued at ₦615.00 billion, were offered to the public, while public subscription and sale stood at ₦2,449.97 billion and ₦1,308.58 billion, respectively. The amount offered comprised new issues and re-openings of FGN Bonds. In the same period of 2019, FGN Bonds issues, subscription and allotment amounted to ₦700.00 billion, ₦1,160.45 billion and ₦615.39 billion, respectively. The decline in issues was attributed to government's efforts at rebalancing domestic debt structure in favour of longer tenored instruments to reduce the burden of domestic debt service.

Consequently, the total value of FGN Bonds outstanding at end-June 2020 stood at ₦11,673.84 billion, compared with ₦10,171.29 billion at end-June 2019, indicating an increase of ₦1,502.54 billion or 14.8 per cent. The structure of holdings showed that ₦5,319.79 billion or 45.6 per cent was held by commercial banks, ₦146.64 billion or 1.3 per cent by merchant banks, and the balance of ₦6,207.41 billion or 53.1 per cent by non-bank public.

Figure 3.4.10: Distribution of FGN Bonds (End-June 2020, per cent)



Source: Central Bank of Nigeria

ii. Interest Rate Developments

Money Market Rates

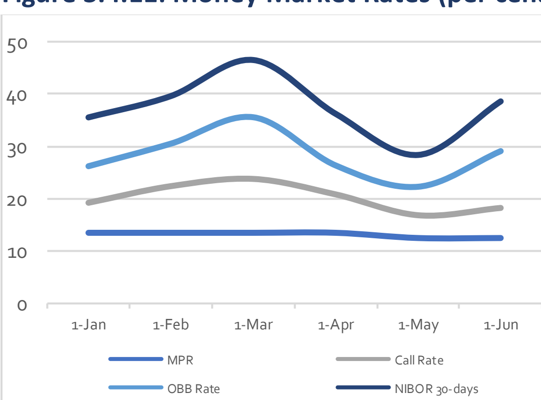
Money market rates were generally low in the first half of 2020 owing to higher liquidity in the banking system. The weighted average monthly inter-bank call and the OBB rate, for the first half of 2020, stood at 7.58 per cent and 8.68 per cent, respectively, compared with 11.74 per cent and 14.00 per cent in the same period in 2019. The weighted average Nigeria Inter-Bank Offered Rate (NIBOR) was 9.23 per cent, compared with 11.70 per cent in the corresponding half of 2019.

Table 3.4.6: Money Market Rates, Weighted Average (per cent)

	MPR	Call Rate	OBB Rate	NIBOR 30-days
20-Jan	*13.5*	*5.7*	*7.0*	*9.3*
20-Feb	*13.5*	*8.9*	*8.1*	*9.1*
20-Mar	*13.5*	*10.3*	*11.8*	*10.9*
20-Apr	*13.5*	*7.3*	*5.5*	*9.9*
20-May	*12.5*	*4.4*	*5.5*	*6.1*
20-Jun	*12.5*	*5.8*	*10.9*	*9.5*
Half year 2019	**13.7**	**11.7**	**14.0**	**11.7**
Half year 2020	**13.2**	**7.6**	**8.7**	**9.2**

Source: Central Bank of Nigeria

Figure 3.4.11: Money Market Rates (per cent)



Source: Central bank of Nigeria

Deposit and Lending Rates

Deposit and lending rates were generally lower than their levels in 2019. The average term deposit rates fell by 2.16 percentage points to 6.18 per cent below its level in the corresponding half of 2019. Rates on deposits of various maturities stood at 6.15 per cent (±0.19) in the first half of 2020, compared with 8.8 per cent (±0.13) in the corresponding period of 2019. With the year-on-year inflation rate at 12.56 per cent in June 2020, all deposit rates were negative in real terms.

The weighted average prime and maximum lending rates fell by 0.09 and 0.16 percentage point each, to 15.00 and 30.65 per cent, respectively, in the first half of 2020, below 15.59 and 30.81 per cent, in the first half of 2019. Consequently, the spread between the average term deposit and maximum lending rates widened by 2.45 percentage points to 24.47 percentage points.

Table 3.4.7: DMBs Deposits and Lending Rates (Per cent)

Month	Savings	Average Term Deposit Rates	Prime Lending	Max. Lending	Spread (AVTD-MXLR)
20-Jan	*3.9*	*6.2*	*15.0*	*30.8*	*24.5*
20-Feb	*3.9*	*6.3*	*15.0*	*30.6*	*24.3*
20-Mar	*3.9*	*6.3*	*14.7*	*30.5*	*24.2*
20-Apr	*3.7*	*6.1*	*14.9*	*30.7*	*24.7*
20-May	*3.8*	*6.0*	*14.7*	*30.7*	*24.7*
20-Jun	*3.8*	*6.1*	*15.7*	*30.6*	*24.5*
Ave. 2019 First Half	**4.0**	**8.8**	**15.6**	**30.8**	**22.0**
Ave. 2020 First Half	**3.8**	**6.2**	**15.0**	**30.7**	**24.5**

Source: Central bank of Nigeria

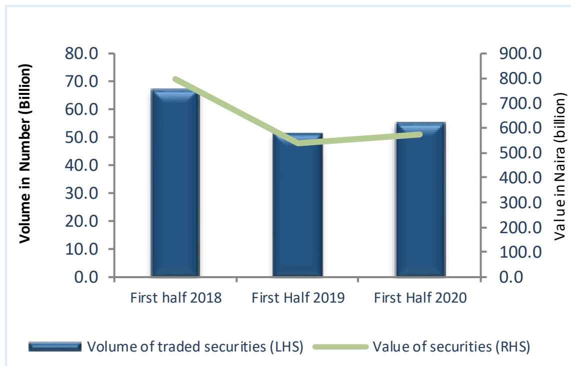
iii. Developments in the Capital Market

The negative impact of the COVID-19 pandemic, which included the crash in global crude oil prices and disruptions in the global supply chain, posed a major threat to the retention of portfolio investments during the review period. These challenges were somewhat mitigated by the gradual upturn in global crude oil prices and bargain hunting activities by investors who sought to take advantage of undervalued stocks. Furthermore, there was the new listing of 100 million units of 12.5 per cent, Fixed Rate Series 1 Senior Unsecured Bonds, in the debt segment of the market during the review period. Thus, the market closed on a mixed note, as the NSE All-Share Index fell, while the aggregate market capitalisation rose at the end of the first half of 2020.

The aggregate volume and value of traded securities rose by 7.6 per cent and 7.0 per cent to 55.42 billion shares and ₦576.50 billion, respectively, in 673,517 deals at end-June 2020, compared with 51.50 billion shares, valued at ₦538.67 billion, traded in 462,809 deals in the corresponding period of 2019. The equities sub-sector maintained its dominance in the market, with shares of 89.0 per cent and 98.3 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 indicated that the financial services sector (measured by volume of transactions), remained the most active, accounting for 32.59 billion shares (77.7 per cent), valued at ₦302.13 billion (60.0 per cent), in 339,396 deals with 34.98 billion shares (78.5 per cent), valued at ₦260.20 billion (51.4 per cent) in 270,789 deals in the first half of 2019. This was followed by the consumer goods and conglomerates sectors.

Analysis of investors' activities in the market showed a decline in participation by foreign investors, relative to the first half of 2019. The levels of domestic and foreign investors' participation were 60.5 per cent and 39.5 per cent, as against 54.2 per cent and 45.8 per cent, respectively, in the corresponding half of 2019.

Figure 3.4. 12: Volume and Value of Transactions at the NSE



Source: Securities and Exchange Commission (SEC)/Nigerian Stock Exchange (NSE)

NSE All-Share Index

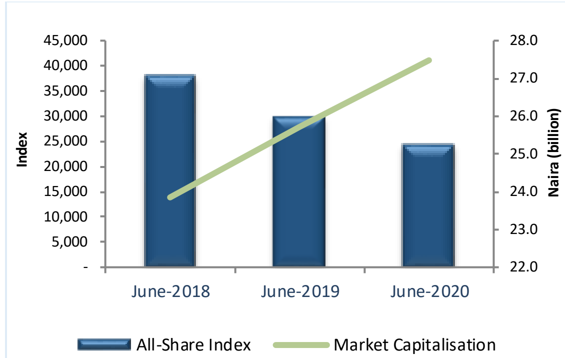
Following renewed selling pressure in some stocks and widespread profit-taking across all the sectors in the first half of 2020. The NSE All-Share Index at 24,479.22, nosedived by 8.8 per cent and 18.3 per cent decline, relative to 26,842.07 and 29,966.87 at end-December 2019 and end-June 2019.

Market Capitalisation

Market capitalisation inched higher, due to bargain hunting, following the release of financial results by some blue-chip companies, as well as dividends declared by some companies in the review period. Consequently, aggregate market capitalisation of the 307 listed securities closed at ₦27.48 trillion, indicating an increase of 6.1 per cent and 6.8 per cent above the levels at end-December 2019 and the corresponding period of 2019, respectively. Listed equities had a share of 46.5 per cent of the aggregate market capitalisation, while the debt and ETF components accounted for the balance of 53.5 per cent. The top twenty most capitalised companies on the Exchange accounted for 90.7 per cent (₦11.59 trillion) of the total equity capitalisation and 42.2 per cent of the aggregate market capitalisation.

The number of banks that made the list of the top twenty most capitalised companies remained eight, as in the corresponding half of 2019. However, they accounted for ₦2.37 trillion or 18.5 per cent of the total equity market capitalisation, compared with 23.3 per cent in the corresponding period of 2019. As a percentage of nominal GDP, aggregate market capitalisation stood at 39.4 per cent at end-June 2020, compared with 38.2 per cent in the corresponding period of 2019.

Figure 3.4.13: All-Share Index and Market Capitalisation



Source: Securities and Exchange Commission (SEC)/Nigerian Stock Exchange (NSE)

iv. Institutional Savings

Aggregate financial savings rose by 17.3 per cent to ₦20,002.24 billion in the first half of 2020, compared with ₦17,058.65 billion at the end of the corresponding period of 2019. The ratio of financial savings to GDP was 28.4 per cent, compared with 25.3 per cent recorded at the end of the corresponding period of 2019. Commercial and merchant banks remained the dominant depository institutions in the financial system, accounting for 94.1 per cent of total financial savings, compared with 92.8 per cent in the preceding half year. Other savings institutions, comprised, PMBs, life insurance companies, pension fund custodians, the Nigerian Social Insurance Trust Fund (NSITF), and MFBs, accounted for the balance of 5.9 per cent.

e. Developments on Financial Stability and Macroprudential Policy

Governance Structure of Nigerian Financial System Supervision/Regulation

Nigeria operates a multi-agency regulatory approach for financial supervision/regulation, with the CBN playing a central role in ensuring financial system stability. The institutional structure for Financial Supervision/Regulation in

Nigeria is a multi-agency regulatory approach comprising the Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC), Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM) and National Pension Commission (PenCom). The CBN, because of its key role in financial landscape, however, plays a vital role in the conduct of macroprudential regulation and oversight. The oversight of financial stability/macroprudential issues is performed both at the Institutional level by the CBN and at the Committee level, by the Financial Services Regulatory Coordination Committee (FSRCC) via its sub-committee (Financial System Stability Sub-committee). The CBN and the FSRCC ensure the operationalisation of macroprudential regulation to perform their role of promoting financial system stability.

f. Collective Risk to the Nigerian financial system

The adverse effects of the COVID-19 pandemic continued to spread across jurisdictions, including Nigeria, heightening financial vulnerabilities and risks through various channels as many businesses and households remained under total or partial lockdown. These developments resulted in slowed economic activities, low government revenues and loss of revenue by businesses and households, which heightened risks to financial stability in the review period. In view of the need to stimulate growth, while ensuring financial stability, the CBN assessed the emerging issues and took appropriate micro/macroprudential policy intervention measures.

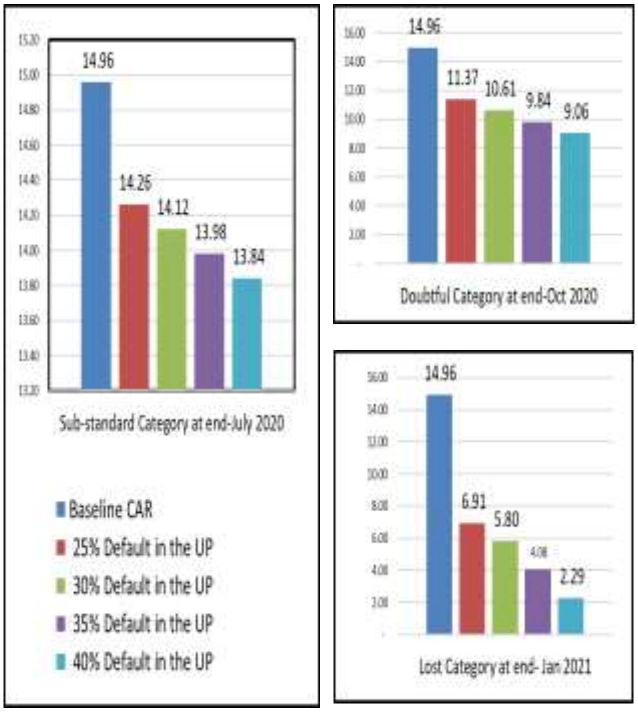
In mitigating the impact of the COVID-19 pandemic on the economy, the CBN announced a number of targeted policy measures to support affected businesses and households.

Solvency Stress Tests and Liquidity Simulations

The banking industry solvency and liquidity position under mild to moderate scenarios of sustained economic contraction remained robust, but maybe vulnerable under severe scenario of sustained economic contraction.

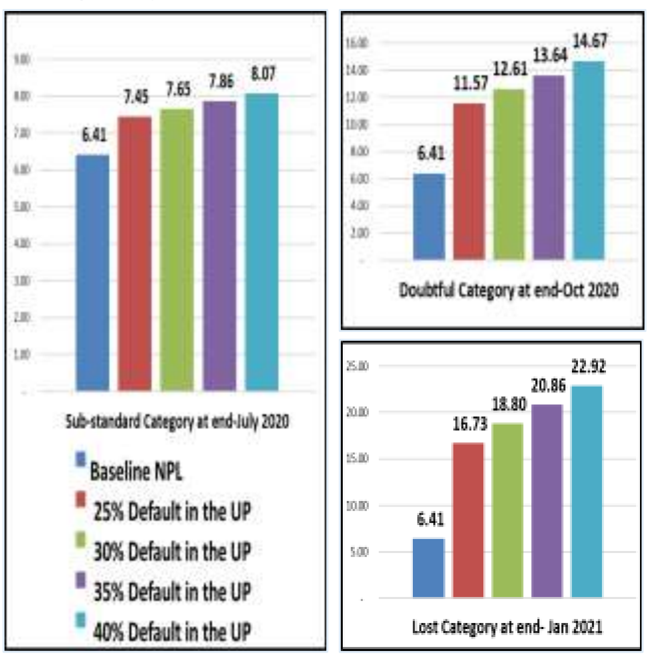
The CBN sustained the conduct of top-down solvency and liquidity assessment of the banking industry in the review period. Consequently, the Bank conducted top-down banking industry stress tests on twenty-two commercial and five merchant banks to assess their resilience to systemic risks, while the banks conducted bottom-up solvency and liquidity stress tests, in line with ICAAP provisions. The stress test was conducted within the background of a sharp fall in oil prices, reduced global demand for Nigeria's oil products, decline in Government revenue, unfavourable current account position and a fall in GDP.

Figure 3.4.14: Banking Industry Solvency Stress Testing - Impact on CAR



Source: Central Bank of Nigeria

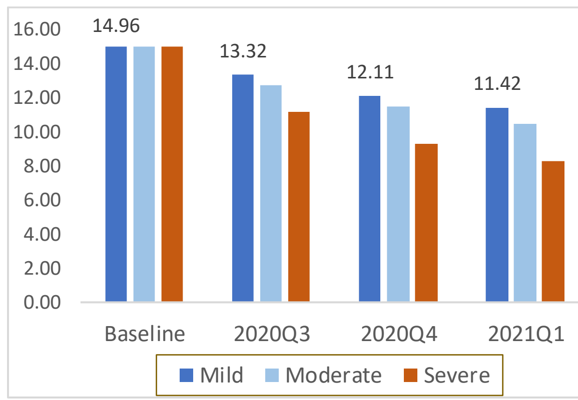
Figure 3.4.15: Banking Industry Solvency Stress Testing – Impact on NPLs



Source**: Central Bank of Nigeria**

The result showed that under the severe scenario of sustained significant contraction in GDP of 3.5 per cent in the third quarter of 2020, negative 4.0 per cent in the fourth quarter of 2020 and negative 4.5 per cent in first quarter of 2021, the banking industry CAR will fall to 11.19 per cent, 9.26 per cent and 8.30 per cent, respectively. However, the severity of the simulated GDP contraction may be contained by a combination of fiscal and monetary interventions.

Figure 3.4.16: Banking Industry Solvency Stress Testing – Impact of GDP Contraction on CAR



Source: Central Bank of Nigeria

Box 5: Monetary and Financial Measures to COVID-19 Pandemic

The Banking system in Nigeria has remained relatively stable and resilient over the past year and the Central Bank of Nigeria remains committed to its mandate of maintaining the safety, soundness and stability of the banking system. With the outbreak of the COVID 19 pandemic that started as a health crisis, various economies globally, including Nigeria, have been affected.

The pandemic, as well as measures that were put in place to control its spread, pose challenges to the resilience of banks. To address this challenge, the CBN introduced various mitigating policy measures in response to COVID-19 outbreak and spillovers, which include, but are not limited to:

- Extension of one-year moratorium on all principal repayments on CBN intervention facilities;
- Reduction of interest rate from 9.0 per cent to 5.0 per cent on applicable CBN intervention facilities;
- The ₦50.0 billion Targeted Credit Facility stimulus package disbursed through NIRSAL MFB to support households and MSMEs that are affected by the coronavirus pandemic;
- Regulatory forbearances to the banking sector, which allows banks to consider temporary and time-limited restructuring of the tenor and loan terms for businesses and households most affected by the COVID-19 pandemic;
- Regulation of the minimum loan-to-deposit ratio policy to maintain the banks' capacity to direct credit to households and businesses;
- Approval of a 12-month extension of the timeframe for MFBs to meet the new minimum regulatory capital requirements for the various classes of MFB license; and
- Suspension of the sale of foreign currency to Bureau-De-Change Operators.

The CBN also issued guidelines to encourage restructuring of facilities in the sectors that were most impacted by COVID-19 pandemic within the available prudential framework. The Guidelines streamline the eligibility criteria for loan restructuring by providing a basis for negotiating the restructuring between banks and their customers, defining the moratorium period for the affected facilities and ensuring continuity of viable businesses by mitigating the burden of debt servicing. Many banks have already taken advantage of these policy initiatives and obtained CBN's approval to restructure qualified facilities.

Source: Central Bank of Nigeria

Box 6: Dynamic Macroeconomic and Banking Industry Stress Testing Framework and Models for Nigeria

One of the strategic policy thrusts of the CBN over the next five years (2019-2024) is to preserve financial stability through enhancement of its on-site and off-site supervision tools and processes. In contributing to the achievement of this strategic objective, the CBN has finalised the draft review of its framework and Dynamic Macroeconomic, and Top-down Stress Testing Tools in the review period. The Framework and the models aimed at complementing the existing Early Warning System Tools and enhancing the Bank's ability to proactively identify potential risks to the financial system as well as risks to individual banks.

The Framework has five linked components: Module 1: Scenario Definition, Analysis and Simulation; Module 2: Macroeconomic Analysis, Modelling and Simulation; Module 3: Macro-financial/Satellite Analysis, Modelling and Simulation; module 4: Balance Sheet impact Analysis; and module 5: Feedback Mechanism. All the five components are designed to be model-driven, with modest room for expert judgement. The main econometric technique used is the Factor-Augmented Vector Autoregression with exogenous variables (FAVAR-X) model and Principal Component Analysis (PCA), which enable conditional macroeconomic and macro-financial scenario simulations and forecasts. The Basel II/III requirements are built into modules 3 and 4 in the assessment and treatment of solvency under stress via net impact on capital and risk-weighted assets (RWAs).

The framework and the models within it are operationalised by first defining and simulating all plausible, scenarios. All the key elements of the scenarios and conditions are captured and fed into the macroeconomic models, which in turn generates conditional forecasts of economic and sector specific future macroeconomic behaviour and outcomes. These forecasts form a spectrum of mild, moderate and severe macroeconomic and financial conditions, which are inputted into the macro-financial and satellite models. The macro-financial and satellite models then generate economic-driven/induced forward looking banking industry Financial Soundness Indicators (FSIs) and risk parameters (general and sector specific NPLs, asset quality and Probability of Default), which feed into the Module 4 (banks' balance sheet).

The impacts of scenarios and shocks are assessed using a matrix of policy linked indicators and variables - total Capital Adequacy Ratio (CAR), tier 1 ratio (T1R), common/core Tier 1 ratio (Core T1R), necessary recapitalisation (in absolute and percentage of GDP), risk drivers (including, Net Profit (before losses), Losses (Credit Risks), Losses/Gains (Trading & Investment Income), Net income (Profit or Loss) and Risk Weighted Assets and Leverage. At the end of module 4, the Macroeconomic and Banking Industry Stress Testing first cycle was completed. The module 5 (Feedback mechanism) commences the second cycle, which is activated by (1) inputting into module 2 the post-shock conditions of the banks (via reduced lending and investment to the economy and/or selected sectors) and (2) refinement of the initial scenarios, including consideration of regulatory interventions. The processes continues until another cycle is triggered. After several test runs, the framework has shown that it can run three complete circles with high degree of credibility.

A further stress testing of idiosyncratic impact of COVID-19 on banks' CAR in respect of defaults in unstructured [9] portfolios was carried out. The results revealed that the industry CAR would be threatened if 35.0 per cent of the unstructured credit portfolio is classified as "Doubtful", or 25.0 per cent as "Lost". At these stages, the industry NPL ratio would rise to 13.64 per cent and 16.73 per cent, while CAR would fall to 9.84 per cent and 6.91 per cent, respectively.

Credit Risk Management System (CRMS)

The CBN continued to ensure that banks fully comply with the redesigned Credit Risk Management System (CRMS) provisions as stipulated in the CBN Act 2007 and subsequent guidelines and circulars issued to strengthen credit administration in Nigeria.

To further support the resilience of the financial system and strengthen credit administration, the Bank sustained the phased deployment of the redesigned CRMS to the OFIs with a pilot on DFIs. In addition, an interface was created for the NDIC to manage credit records in respect of banks-in-liquidation. The Bank also commenced the re-validation of all eligible bank assets transferred to AMCON by banks with a view to adequately capturing them on the CRMS and granting AMCON update rights on them.

The CBN's CRMS database continued to serve as a veritable source of credit information in the banking industry. At end-June 2020, the total number of credit facilities on the CRMS database stood at 14,509,251, representing an increase of 119.0 per cent over the end-June 2019 position of 6,625,415 on account of increased compliance by banks. The number comprised 13,846,282 individual borrowers and 662,969 non-individuals.

The total number of facilities with outstanding balances on the CRMS database rose by 24.21 per cent to 1,987,529 at end-June 2020 from 1,600,072 at end-June 2019, made up of 1,893,452 individuals and 94,077 non-individuals. The strict enforcement of the CBN Regulatory Guidelines on CRMS paid off, as reflected in increased compliance by banks and significant increase in the CRMS credit records.

Table 3.4.8: Records on Credit Risk Management System

Description	Jun-19	Jun-20
*** Total No. of Credit/facilities reported on the CRMS:**	**6,625,415**	**14,509,251**
Individuals	*6,061,303*	*13,846,282*
Non-Individuals	*564,112*	*662,969*
*** Total No. of Outstanding Credit facilities on the CRMS:**	**1,600,072**	**1,987,529**
Individuals	*1,504,782*	*1,893,452*
Non-Individuals	*95,290*	*94,077*

Source: Central Bank of Nigeria
Note: These figures are based on submissions of all amounts of credit, on or before June 30, 2020 by Commercial, Merchant and Non-Interest Banks. * The figures include borrower(s) with multiple loans and/or credit lines.

g. Compliance Developments and Consumer Protection

Financial Sector Surveillance

To ensure the safety and soundness of banking institutions, the Bank enhanced its supervisory and surveillance activities in the first half of 2020, with a view to promoting 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 regular off-site appraisal of banks' and

[9] Facilities not structured in line with the CBN COVID-19 forbearance guidelines.

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) 1991 (as amended) and other policy guidelines, in performing these functions.

The FRCN in 2018 issued the Nigerian Code of Corporate Governance as the single code for the country, which is applicable to all sectors of the economy. The Nigerian Code of Corporate Governance replaced all extant codes including the seven extant CBN Codes for Corporate Governance for Banks, MFBs, DFIs, FCs, PMBs, NMRCs and BDCs. However, in furtherance of the decision of the FRCN that all sector regulators should develop sector specific guidelines in Corporate Governance for the institutions under their regulatory purview, the Bank has commenced developing Guidelines for all its licensed institutions. This has become necessary given the peculiarities of the sub-sector, which can be addressed through additional recommended practices. The provisions of the guidelines would, in some cases, enhance the Nigerian Code of Corporate Governance principle, whereas in others, it would introduce stricter requirements for institutions under the CBN's supervisory purview.

Banks' Compliance with the Code of Corporate Governance

In line with the CBN's oversight function, most banks in Nigeria complied with the CBN Code of Corporate Governance in the review period. The Bank concluded the Corporate Governance Scorecard Assessment on twenty banks, with fifteen banks rated "Acceptable", four banks "Needs Improvement", and one bank was rated "Weak". Consequently, more than 70.0 per cent of Nigerian banks largely complied with the CBN Code of Corporate Governance for Banks and the Guidelines for Whistle Blowing. Furthermore, all banks complied with the recommendations made in the preceding year's scorecard assessment.

Following the outbreak of the COVID-19 pandemic and the subsequent travel restrictions imposed by the Government, as part of containment measures the onsite assessment for the first quarter of 2020 could not be conducted as scheduled. This was, however, compensated for by the off-site review of banks' periodic submissions of Corporate Governance and whistle blowing returns.

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

Nigeria took pragmatic steps to address the risks of money laundering, terrorism financing and proliferation of weapons of mass destruction. These included the establishment of legal, institutional and regulatory frameworks, as well as strengthening international cooperation with countries of strategic interest. The Bank supervised, monitored and enforced compliance of banks with the provisions of Nigeria's Money Laundering Prohibition Act (MLPA) 2011 (as amended), the CBN AML/CFT Regulation 2013 (as amended) and other extant AML/CFT Laws and Regulations, including the FATF 40 Recommendations. These responsibilities were performed by providing off-site surveillance and on-site examinations of banks with a view to ensuring that no Nigerian bank was used as a gateway for Money Laundering, Financing of Terrorism or any other predicate offence.

In an effort to sustain Nigeria's good ranking with the Financial Action Task Force (FATF), and in compliance with the FATF requirements, the Inter-governmental Action Group against Money Laundering in West Africa (GIABA), made a follow up visit to Nigeria. This was to obtain more information and clarification on some grey areas identified during the second round of the on-site visit of Mutual Evaluation Exercise (MEE), carried out in the last quarter of 2019. The third interim draft report was released and the CBN has been collaborating with AML/CFT stakeholder agencies to address the deficiencies highlighted in the Report, which would be discussed and adopted at the next GIABA Plenary.

The COVID-19 pandemic has impacted on the ability of supervisors to implement the AML/CFT obligations in the areas of supervision. As such, AML/CFT on-site examination for the year 2019/ 2020, which was earlier scheduled for April 2020 was delayed until the end of the second half of the year. Despite the challenges, the banks continued to implement their AML/CFT requirements, render periodic returns and provide information to the CBN.

Consumer Protection

In furtherance of its statutory responsibility to promote confidence in the financial system, the Bank continued with the implementation of measures to ensure consumer protection, mainly in the form of customer complaints management. The Bank received 2,051 complaints from consumers of financial services providers in the first half of 2020, compared with 1,528 complaints in the corresponding period of 2019. Of the total 1,167 or 56.9 per cent were complaints on electronic/card, while 125 or 6.1 per cent were on excess charges. Other complaints were, mainly, on frauds, dishonoured guarantees and unauthorised deductions/transfers, among others. A total of 1,519 complaints, including those outstanding from 2019, were resolved in the review period, compared with 1,548 in the corresponding period of 2019.

Total claims in the review period in local currency and foreign currencies amounted to ₦4.58 billion and US$151,647.82, compared with ₦8.70 billion and US$315,475.54, respectively, in the corresponding period of 2019. Relief was brought to many of the affected customers as the sums of ₦2.67 billion and US$144,176.68 were refunded in the first half of 2020, compared with the ₦7.20 billion and US$315,229.02, refunded in the corresponding period of 2019.

Arrangements were concluded by the CBN to commence the development of a Consumer Protection Risk-Based Supervision Framework (CP-RBSF) in the second half of 2020. Also, a stakeholder sensitisation workshop was conducted in Abuja and Lagos from February 24 - 27, 2020 to sensitise regulators, organised consumer groups and professional bodies on the provisions of the Consumer Protection Regulation (CPR) issued in December 2019 with feedback obtained from stakeholders. The next phase of the sensitisation was proposed for the various categories of regulated financial institutions (FIs) when the lockdown occasioned by the COVID-19 pandemic would have been lifted.

In line with the Bank's directive, 29 financial service providers (FSPs), comprising twenty-three banks and six OFIs submitted their Board approved Consumer Protection Policies in the review period. However, three FIs requested for extension of time which was approved by Management in view of the COVID-19 lockdown, to enable their Boards meet and approve the policies.

In the first half of 2020, the Bank received the first set of Root Cause Analysis Report (RCAR) for the first quarter of 2020. Twenty-four institutions, comprising twenty-two banks and two non-bank institutions submitted their reports. A preliminary review of the reports indicated that the most recurring complaints during the quarter were electronic product/channels related complaints. The RCAR was used to identify the underlying cause of recurring complaints and remedial measures were put in place by the financial institutions to address them.

Financial Literacy

In preparation for the national roll out of the National Peer Group Educator Programme (NAPGEP), the Bank in the Training of Trainers programme for the zonal Financial Inclusion State Screening Committee (FISSCOs) across the country from February 17 - 22, 2020 and February 24 - 29, 2020. The Committee will subsequently train the volunteer Corps Members (VCMs) during NYSC orientation programmes.

In the review period, the Bank, in collaboration with the German Agency for International Development (GIZ) and other stakeholders, continued with the implementation of the financial literacy e-learning portal. The project was aimed at deploying a fully digital national e-Learning platform to provide a knowledge base and support financial education trainers/facilitators/multipliers as a collective effort to grow financial literacy in Nigeria. The Federal University of Technology, Minna (FUTMinna) was selected as vendor consulting firm to deliver the project. Milestone achieved so far included pilot testing with selected NYSC Volunteer Corps Members (VCMs), who participated in the March 2020 NYSC orientation programme across the 37 NYSC orientation camps.

Activities marking the 2020 Global Money Week (GMW) scheduled to commence on March 26, 2020 were postponed indefinitely due to the COVID-19 pandemic. Consequent upon the impact of the COVID-19 pandemic, and in line with the requirements of the National Centre for Disease Control (NCDC), the Bank adjusted to the new normal, holding mediation meetings, engagements with internal and external stakeholders, and trainings virtually, while complaints were received electronically by e-mail.

3.5 PAYMENTS SYSTEM MANAGEMENT

The Bank continued to improve on the credibility, reliability and efficiency of its payments system as the measures put in place by the monetary authority paid off with a seamless payments system service delivery. The reliability and efficiency of the payments system was tested as the COVID-19 pandemic put a strain on economic and financial transactions. However, the pandemic created opportunities for increased transactions in contact-less payments services. It also enabled transactions in the economy to continue seamlessly, leading to a surge in the uptake of non-cash payments options with positive impact on monetary policy transmission mechanism as higher proportion of cash resides in the banking system.

a. Payments System Policies

Historically, the CBN has strongly pursued policies and initiatives to address the needs of customers and emerging challenges of the payments system as they evolve, with the goal of ensuring households and businesses have access to safe, reliable and efficient payments options. The CBN continued to play a veritable role as an operator (provide payments infrastructure), catalyst (supports interoperability) and overseer (guides and regulates payments by developing and implementing new policies and standards) that ensures safety and guarantees stability of the payments infrastructure, in the review period.

i. Payments System Infrastructure

To ensure secured, robust and accessible payments infrastructure, the CBN enhanced the payments infrastructure by implementing some changes on the operations of Real-Time Gross Settlement (RTGS) System and Scripless Securities Settlement System (S4). The system upgrade was the restructuring of each of the four net settlement sessions on RTGS system to accommodate all schemes and instruments. Other features included the introduction of a cut-off time for all users in the transmission of net settlement file to NIBSS Plc for RTGS; and extension of the cut-off time for external users on the RTGS and S4 systems. This was with a view to facilitating faster settlement of clearing positions of banks and merchant settlements, as well as, reduction in clearing float and settlement risk.

To enhance the resilience of payments system infrastructure and expand electronic payments options, the CBN reduced the chargeback period for reversing failed transactions and complaints using the various e-payment channels such as ATMs, PoS and Internet (web) transactions within the stipulated timelines. The measure covers timelines of the finality of resolving failed transactions, refunds and resolution of disputed transactions on e-payment channels, as well as clearing all previous backlogs for the specific payment options within the stipulated timelines. This equally engenders integrity and reliability of the payment's infrastructure.

In its effort to enhance the safety, reliability and efficiency of the payments system, the CBN continued to implement the framework for BVN operations and watch-list. The BVN registration was sustained, given its veritable role in improving credit management due to its enhanced features in identity management, know your customer (KYC) and harmonization of accounts of an individual across the banking industry and payments system. In the review period, the number of BVN captured increased by 14.6 per cent to 43.9 million, compared with 38.3 million recorded in the corresponding period of 2019. Of this number, 2,670 were placed under the BVN watchlist. The review of the BVN framework and watchlist, which is an on-going exercise, is expected to be completed in the second half of the year. The essence of the review is to strengthen the efficiency of BVN operations and watchlist in the payments system infrastructure.

ii Promoting Interoperability

To achieve uniform customer bank account numbering structure among all DMBs and OFIs, the CBN issued the revised standards on Nigeria Uniform Bank Account Number (NUBAN) for banks and other financial institutions for the efficient operations of electronic funds transfer and cheque clearing operations by DMBs and OFIs. The revised standards set out the approved structure of a customer account number in all deposit-taking institutions in Nigeria. The deadline for full compliance by OFIs is slated for March 15, 2021.

Iii Guiding and Regulating

The CBN continued to conduct its oversight function of guiding and regulating payments service providers, as more participants were issued licences to provide payments services to households and businesses. The number of participants issued licences to operate in the different segments of the payments system increased to 114, compared with 107 and 96 participants in December 2019 and June 2019, respectively. In the first half of 2020, a total of eight licences were issued comprised: two licences to mobile money operators; four to payments solution service providers; one each to a payment terminal service provider and a third-party processor.

Table 3.5.1: Licensed Payments System Participants

License -Type	Number		
	Jun-19	Dec. 2019	Jun-20
Card Schemes	6	6	6
Mobile Money Operators	26	26	28
Payments Solution Service Providers	15	22	26
Payment Terminal Service Providers	21	21	22
Transaction Switching Companies	7	9	9
Third Party Processors	4	4	5
Accredited Cheque Printers	7	4	3
Super Agents	5	9	9
Non-Bank Acquirers	5	6	6
Total	**96**	**107**	**114**

Source: Central Bank of Nigeria

To promote and facilitate the development of efficient and effective systems for the settlement of transactions, the CBN issued the revised Guidelines on Operations of Electronic Payment Channels. The guidelines cover the operations and standards of automated teller machine (ATM), point of sale (POS) card acceptance services, mobile point of sale (MPOS) acceptance services and web acceptance services.

***As a regulator charged with the responsibility of setting standards for the effective and efficient functioning of the payments system, the CBN continued the implementation of the Nigeria Cheque Standards (NCS) and Nigeria Cheque Printers Accreditation Scheme (NICPAS) to ensure cheque standards as a payment instrument*.** The licences of two Accredited Cheque Printers (ACPs) were extended by twelve months to ensure that the printing needs of banks were adequately met. Furthermore, three Cheque Management Centres (CMCs) were accredited to carry out personalisation of cheques in line with the new standard.

To comply with the requirements of the new cheque standards of the revised NCS/NICPAS for unhindered operationalisation of Accredited

Cheque Printers (ACPs) and Cheque Management Centres (CMCs), an extension was granted to allow the parallel run of the old and new cheques from August 1 to December 31, 2020 due to the COVID-19 pandemic, after which only cheques with the new standards would be allowed for clearing.

***Payments and settlement systems are potential sources of systemic risks. Threats to the safety and efficiency of the payments system may affect the stability and soundness of financial institutions and consequently the financial system stability*.** The CBN introduced the payments system risk and information security management framework to safeguard the integrity of the payments system and provide a level playing field for payments service providers. The essence was to identify and address sources of systemic risks within the Nigerian payments system landscape; and establish sound governance arrangements to oversee the risk management framework by ensuring that risks are identified, monitored and mitigated. Others were to establish clear and appropriate rules and procedures to carry out the risk-management objectives; employ the resources necessary to achieve the payments system's risk management objectives; and integrate risk management into the decision-making processes of the Scheme Boards and Working Groups under Payments System Vision (PSV) 2020.

The CBN continued to provide clarity on pricing of e-payment services, to ensure a level playing field for all stakeholders and serve as a guide to charges by payments system operators. All switching companies were directed to implement a proportionate downward review of the switching charges to banks in line with the revised guidelines for pricing and charges. The essence is to provide a standard for the application of charges using the payments channels, lowered cost to consumers, as well as, encourage the use of such channels.

b. Nigeria's Payments Trends

The Nigerian payments system has undergone fundamental transformation in the past decades, as new payments methods, options and interfaces are evolving. Transactions in payments services were buoyed by a range of policies implemented by the CBN to tackle existing and evolving shortcomings in the payments system; as well as, taking advantage of the opportunities presented by the COVID-19 pandemic that provided widespread usage of contact-less payment services by economic agents. Available data showed that transactions in the payments system during the first half of 2020 significantly increased. The volume of electronic retail payments moved to 4,300.5 million from 1,233.04 million in the corresponding period of 2019, and the value declined to ₦328,989.60 billion from ₦76,478.35 billion in the same period a year earlier.

***Expansion in the database, to include the capturing of more important data on intra-bank and inter-scheme transactions from all licensed service providers, also played a key role in the quantum leap in the payments system transactions*.** Industry data on electronic payments was expanded to capture all e-payments transactions (Banks, MMOs, NIBSS, Switches and PSSPs), during the review period.

i. Retail Payments System

Transactions in e-payments witnessed tremendous increase in the first half of 2020 as a result of the opportunities presented by the COVID-19 pandemic, which promoted greater use of e-payments platforms and other contact-less options to settle financial transactions. The number of transactions using the e-payments[10] channels increased by 340.1 per cent to 4,192.6 million from 1,232.9 million in the first half of 2019. The corresponding value of the transactions also rose significantly by 163.7 per cent to ₦201,699.9 billion from ₦76,478.4 billion in the corresponding period of 2019.

A breakdown of the volume of transactions using the e-payment channels showed a tremendous increase to 834.4 million, 278.3 million, 257.9 million and 2,444.5 million from 424.6 million, 187.7 million, 25.7 million and 47.9 million for ATMs, PoS, mobile payments and Internet (web), respectively in the first half of 2019. In the same vein, the value of transactions using the e-payments options showed an increase in value to ₦8,610.5 billion, ₦2,003.2 billion, ₦4,455.3 billion and ₦169,730.9 billion in the first half of 2020 from ₦3,238.4 billion, ₦1,383.6 billion, ₦564.9 billion and ₦223.9 billion, for ATMs, PoS, mobile payments and internet (web), respectively, in the

Table 3.5.2: Volume and Value of Electronic Payments

Payment Channels	Number of Terminals		Number of Transactions (million)			Value ₦' Billion		
	19-Jun	20-Jun	19-Jun	19-Dec	20-Jun	19-Jun	19-Dec	20-Jun
ATMs	18,913	19,040	424.6	415.2	834.4	3,238.43	3,274.18	8,610.50
POS	166,078	340,960	187.7	250.9	278.3	1,383.62	1,821.12	2,003.20
Mobile	-	-	25.7	351.6	257.9	564.92	4,516.04	4,455.30
Internet (Web)	-	-	47.9	55.5	2,444.50	223.9	254.24	169,730.90
NIP	-	-	504.2	641.6	-	49,350.18	55,872.39	-
e-Bills Pay	-	-	0.6	0.48	-	281.56	371	-
REMITA	-	-	21.6	26.9	-	9,839.29	10,885.34	-
NAPS	-	-	20.6	26.7	-	11,596.45	13,535.50	-
NACS	-	-	-	-	97.8	-	-	127,027.90
RTGS	-	-	-	-	10.1	-	-	261.8
USSD	-	-	-	-	202.9	-	-	2,070.70
Mobile App	-	-	-	-	173.4	-	-	13,526.30
Direct Debit	-	-	-	-	1.2	-	-	1,303
Total			**1,232.90**	**1,768.88**	**4,300.50**	**76,478.35**	**90,529.81**	**328,989.60**

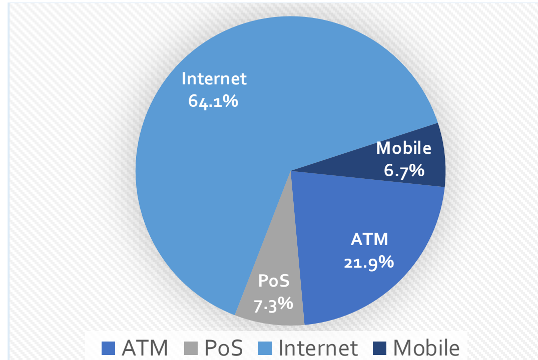
Source: Central Bank of Nigeria
Note: NIP and e-Bills Pay which were both NCS products, and web-based, were previously reported inter-scheme only. They are now appropriately aggregated under the internet/web channel transactions.

[10] E-payments transactions includes all electronic platforms used to settle financial transactions for households and businesses, such as ATMs, PoS, MMOs, internet (web), USSD and Mobile Apps.

corresponding period of 2019. The other retail payments channels such as USSD, Mobile Apps and direct debit, which data capture as electronic or e-payments options, commenced in the review period, recorded significant number of payments transaction. The number of transactions were 202.9 million, 173.4 million and 1.2 million and the corresponding values were ₦2,070.7 billion, ₦13,526.3 billion, and ₦1,303.0 billion, respectively, for USSD, Mobile Apps and direct debits in the first half of 2020.

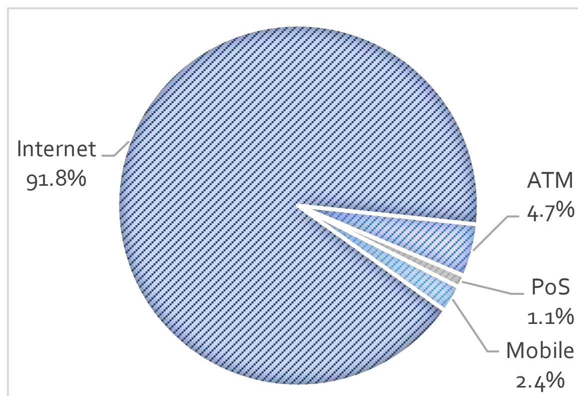
Analysis of the components of the e-payments channels showed an incredible increase in the volume and value of transactions on the internet (web) channel. It dominated all other channels by 64.1 per cent and 91.5 per cent in volume and value (Figures 3.5.1 and 3.5.2), respectively. The significant increase in the internet (web) payments option was attributable to aggregation of NIP, eBills, REMITA and NAPS payment platforms under the internet (web) channel transactions. The number of transactions by ATMs and PoS payment channels accounted for 21.9 per cent and 7.3 per cent, but in terms of value accounted for 4.7 and 1.1 per cent in the review period. Mobile money payments accounted for the least patronized in term of volume of transactions with 6.7 per cent and 2.4 per cent in share value in the first half of 2020.

Figure 3.5.1: Composition of e-Payments Transactions, First Half 2020 (per cent)



Source: Central Bank of Nigeria

Figure 3.5.2: Share of e-Payments Transaction by Value, First Half 2020 (per cent)



Source: Central Bank of Nigeria

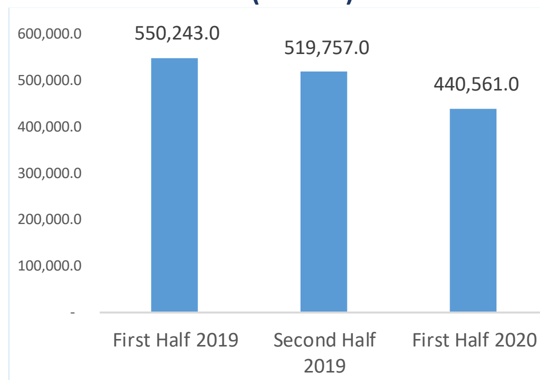
Transactions by cheques also increased in the review period, following its the increased usage to settle financial transactions, as the volume and value of cheques increased by 167.6 per cent and 213.8 per cent, to 9.1 million and ₦7,125.18 billion, from 3.4 million (₦2,270.92 billion), respectively, in the corresponding period of 2019. The increase was attributed partly to wider capture of cheques transactions previously under-reported to include intra-bank rather than only inter-bank cheques.

The NIBSS Automated Clearing System (NACS[11]) also witnessed increase in the number and volume of cheque transactions that were presented for clearing in the first half of 2020. The volume of cheque transactions at NACS increased by 77.2 per cent to 97.8 million from 20.6 million in the first half of 2019. The value equally increased by 995.4 per cent to ₦127,027.90 billion from ₦11,596.45 billion in the corresponding period of 2019.

ii. Wholesale Payments System

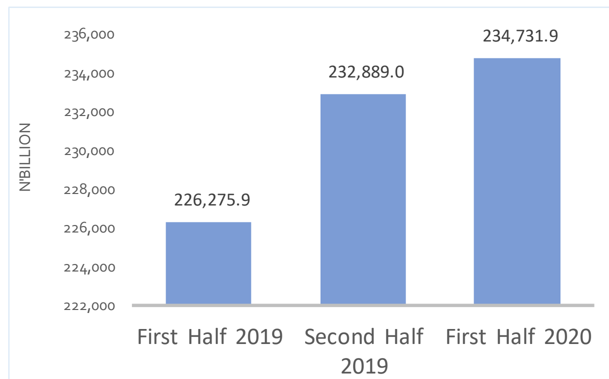
Transactions in the wholesale payments (Real Time Gross Settlement (RTGS) system) witnessed a decline in the volume of activities in the first half of 2020. The volume of inter-bank fund transfers through the CBN RTGS System declined by 19.9 per cent to 440,561 million from 550,243 million transactions between January and June 2019. However, the value of transactions increased modestly by 3.73 per cent to ₦234,731.91 billion from ₦226,275.85 billion in the corresponding period. The decrease in volume of transactions was attributed to the strain in economic activities due to the impact of the Pandemic, as walk-in customers with big-ticket transactions were unable to physically give instructions to activate such transactions, since banks partially carried out skeletal services to avoid a complete gridlock.

Figure 3.5.3: Volume of RTGS Transactions (Million)



Source: Central Bank of Nigeria

Figure 3.5. 4: Value of RTGS Transactions (₦' Billion)



Source: Central Bank of Nigeria

[11] NACS comprises ACH/NAPS/PMS

j. Financial inclusion

The objective of the National Financial Inclusion Strategy (NFIS), which was launched by the Central Bank of Nigeria on October 23, 2012, was to reduce the adult financial exclusion rate in Nigeria from 46.3 per cent in 2010 to 20.0 per cent by 2020. It also set ambitious targets with respect to Payments (70.0 per cent), Savings (60.0 per cent), Credit (40.0 per cent), Insurance (40 per cent) and Pension (40.0 per cent).

Performance

Progress in financial inclusion as at June 2020, was influenced by COVID-19 containment measures, which increased the onboarding and usage of certain financial products and channels over others. On the other hand, the pandemic impeded the implementation of strategic programmes targeted at deepening financial inclusion in Nigeria.

i. Product Indicators

Financial inclusion indicators measured by the proportion of adult Nigerians who used financial products indicated marginal progress in the percentage of adults with access to e-Payment products. The rate increased to 40.4 per cent in June 2020 from 39.5 per cent recorded in December 2019. Savings also increased to 41.2 per cent in June from 39.5 per cent by end 2019.

The proportion of adults who used credit products decreased to 5.1 per cent in June from 6.2 per cent, at end-December 2019. Likewise, the indicators for the use of Insurance and Pension products fell to 1.0 per cent and 8.6 per cent in June 2020, from 2.0 per cent and 8.7 per cent in December 2019, respectively.

Box 7: COVID-19 Pandemic and Nigeria's Payments Service

The COVID-19 pandemic has led to significant changes in Nigeria's retail payments system in many ways. First, consumers stepped up the uptake in use of cards and other non-cash payments platforms (e.g. web, PoS, ATMs, Mobile Apps) to avoid contracting the virus through person-to-person contact.

Second, the containment measures adopted by government by imposing restrictions in movements led to the closure of brick and mortar stores, consequently elevating the surge in e-commerce activities, thereby promoting cashless policy.

Third, improvements in infrastructure or upgrade in payments system infrastructure helped to engender efficiency, reliability and finality of transactions.

Fourth, there was increased awareness in the use of non-cash or contactless payments, which deepened prospects for scaling-up financial inclusion.

With these developments, the regulatory authorities rose to the challenges of not only availability of the e-payments channels but also the integrity. Thus, the number of licences granted to participants in the retail segment to the payments service providers maintained an upward trend to meet the increasing demand. In particular, there were increases in the number of licenses granted to payments solution service providers, payments terminal service providers and mobile money operators. The monetary authorities also kept-an-eye on standards to uphold the soundness of the financial system.

Figure 3.5. 5: Product Indicators

Definition of Indicators		Baseline 2010	Actual 2017	Actual 2018	Actual Dec. 2019	Actual Jun. 2020
Payments	% of adult population who have a payment product with a formal financial institution*	22.0%	31.3%	36.2%	39.5% (40.7m)	40.4% (42.2m)
Savings	% of adult population having a savings product with a formal financial institution*	24.0%	31.3%	36.2%	39.5% (40.7m)	41.2% (43.1m)
Credit	% of adult population having borrowed or paid back a loan through a regulated financial institution over the last 12 months	2.0%	5.4%	5.5%	6.2% (6.3m)	5.1% (5.3m)
Insurance	% of adult population covered by a regulated insurance policy	1.0%	1.1%	2.0%	2.0% (2.01m)	1.0% (0.92m)
Pension	% of adult population registered with a regulated pension scheme	5.0%	8.4%	8.5%	8.7% (8.9m)	8.6% (9.01m)

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

Source: Central Bank of Nigeria

ii. Channel Indicators

An assessment of the channels through which financial services were served showed significant improvement in the period under review. The number of agents serving 100,000 adults increased to 323 in June 2020, from 229 in December 2019. Also, the number of Micro Finance Bank (MFB) branches serving 100,000 adults increased from 2.1 in December 2019 to 2.8 in June 2020, from 2.06 in December 2019.

Figure 3.5. 6: Channels Indicators

	Baseline 2010	Actual 2017	Actual 2018	Actual Dec. 2019	Actual Jun. 2020
DMB branches per 100K adults	6.8	4.9 (5,049 branches)	5.4 (5,464)	5.3 (5,432)	4.5 (4,697)
MFB branches per 100K adults	2.9	2.3 (2,197 branches)	2.0 (2,044)	2.1 (2,132)	2.8 (2,957)
ATMs per 100,000 adults	11.8	18.0 (18,028 ATMs)	19 (18,910)	16.9 (17,518)	18.2 (19,093)
POS devices per 100,000 adults	13.3	130.7 (136,016 POSs)	218 (217,283)	180.4 (186,774)	202 (211,415)
Agents per 100,000 adults	0.0	10.7 (11,104 Agents)	38.6 (38,416)	228.8 (236,940)	322.7 (337,840) Agents

Source: Central Bank of Nigeria

Key Outcomes

Half-year 2020 National Financial Inclusion Governing Committee Engagements

I. Multi-sector responses to COVID-19 Pandemic

This entailed collaboration across banking, insurance, pension and other sectors. Financial Inclusion initiatives centered on rapidly expanding digital channels, leveraging agent networks, supporting resilience for the vulnerable, extending insurance covers for previous health exemptions and for essential workers in the

ii. EFInA Impact Survey of COVID-19 on Financial Inclusion

The pandemic affected financial inclusion in many ways: heightened food insecurity, decreased income, constrained access to finance, but increased remittances. The survey results would be adopted to drive targeted solutions by stakeholders.

iii. Digital solutions for government social interventions

Proposal being developed for digitizing humanitarian payments/social transfers, with pilot testing at the states.

iv. Financial inclusion of vulnerable segments

Strategic imperatives to drive improved access/usage of financial services by women developed to close the gender gap.

v. Financial literacy and enlightenment

E-learning platform were deployed to support the Volunteer Corps Members (VCMs) under the National Peer Group Educator Programme for Financial Inclusion. VCMs were posted to partners banks in host communities nationwide. NIBSS also developed a monitoring and evaluation app for NAPGEP.

Insights from the CBN Quarterly Household Survey on Financial Inclusion

1. 62.7 per cent of the respondents were financially included; out of which:
   - 45.2 per cent - banked
   - 1.3 per cent - formal other
   - 6.2 per cent - Formal only
   - Financially excluded - 37.3 per cent
2. Account holders that operated their account in the last 30 days - 60 per cent
3. Credit and Insurance remain low at approximately 1.5 per cent and 5.6 per cent respectively.
4. Most respondents are not aware of Mutual fund, USSD, Mortgage, Non-interest products and Credit card products.
5. Irregular or no income remain the biggest reason for not having a bank account.

Summarily, the COVID-19 pandemic disrupted the implementation of financial inclusion programmes, including the Account Opening Week and the zonal training for the National Peer Group Educator Programme for Financial Inclusion (NAPGEP). The imperative is to galvanize efforts and take advantage of the low-hanging fruits occasioned by the pandemic, to advance financial services to the unbanked and unreached (especially women, youth, rural dwellers and SMEs) in collaboration with key stakeholders.

3.6 EXTERNAL SECTOR DEVELOPMENT

a. Nigeria's External Balance

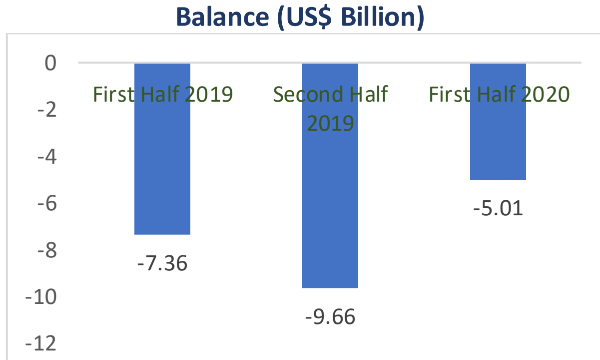
The COVID-19 pandemic weighed negatively on Nigeria's external balance due to huge capital reversals, limited export earnings and a decline in remittances. The external account recorded a deficit of US$2.31 billion (1.1 per cent of GDP), relative to US$6.64 billion (2.6 per cent of GDP) in the second half of 2019. The deficit in the current and capital account narrowed to US$8.86 billion (4.3 per cent of GDP) during the review period, relative to US$9.66 billion (3.8 per cent of GDP) in the preceding half of 2019. The moderation was due to the significant contraction in import of goods and services, as a result of global supply chain disruption and lower deficit in the primary income account. Transactions in the financial account resulted in a net acquisition of assets of US$3.87 billion (1.9 per cent of GDP), in contrast to a net incurrence of liabilities of US$24.73 billion (9.7 per cent of GDP) in the preceding half of 2019.

The stock of external reserves stood at US$35.78 billion at end-June 2020, indicating a decline from its post-recession trajectory. However, the level of the reserves could finance 8.7 months (goods only) or 5.8 months (goods and services) of import, compared with 7.2 months or 4.4 months, respectively, in the second half of 2019. The slump in crude oil prices as a result of the COVID-19 pandemic affected foreign exchange inflow, which exacerbated demand pressure in the foreign exchange market. Consequently, the average exchange rate of the naira at the inter-bank and BDC segments of the market depreciated to ₦337.26/US$ and ₦401.44/US$, respectively, while it exchanged at ₦376.44/US$ at the Investors and Exporters (I&E) window. The external debt stock increased from its end-March 2020 level of US$27.67 billion or 6.0 per cent of GDP to US$31.48 billion or 8.1 per cent of GDP, which was within the sustainable threshold of 40.0 per cent of GDP. These were relative to N306.94/US$ and ₦359.21/US$, and ₦362.49/US$, for interbank, BDC and the I&E window, respectively, in the second half of 2019.

i. Current and Capital Account Developments

The containment measures imposed by government to reduce the spread of the COVID-19 pandemic moderated the pressure on the current and capital account in the first half of 2020. These measures limited the importation of goods to majorly essential and medical supplies, while services, particularly travels were grounded for most part of the first half of 2020. Hence, the deficit narrowed by 8.3 per cent to US$8.86 billion, compared with the US$9.66 billion in the preceding half of 2019. However, it rose by 20.5 per cent, relative to the corresponding half of 2019, respectively.

Figure 3.6.1: Current and Capital Account Balance (US$ Billion)



Source: Central Bank of Nigeria

Export Performance

Export earnings declined due to the slump in the price of crude oil and dampened global demand, that had their origin in the lockdown measures. At US$19.72 billion or 9.5 per cent of GDP in the first half of 2020, export earnings were lower than the US$33.43 billion and US$31.55 billion by 41.0 per cent and 37.5 per cent, in the second and first halves of 2019, respectively.

A disaggregation showed that value of crude oil exports declined by 42.7 per cent and 42.2 per cent to US$13.79 billion (6.6 per cent of GDP) in the first half of 2020, relative to US$24.07 billion and US$23.87 billion in the second and first halves of 2019, respectively. This was attributed to the slump in crude oil prices, with the average price of Nigeria's reference crude, the Bonny Light, falling to US$39.98 per barrel in the review period, compared with US$65.69 and US$68.00 per barrel in the preceding and the corresponding halves of 2019, respectively. Similarly, crude oil production decreased to 1.80 mbpd, in the review period, compared with 1.88 mbpd in the preceding period of 2019, reflecting the enforcement of the production cap by the OPEC.

Gas export receipts declined by 18.8 per cent and 18.6 per cent to US$2.67 billion in the review period, relative to US$3.29 billion and US$3.28 billion, in the second and first halves of 2019, respectively. Crude oil and gas component remained dominant and accounted for 83.5 per cent of total export, with crude oil constituting 69.9 per cent, and gas, 13.6 per cent.

Non-oil receipts, which constituted the remaining 16.5 per cent of total exports, also declined significantly by 46.2 per cent and 25.9 per cent, to US$3.26 billion in the review period, compared with the US$6.01 billion and US$4.40 billion in the second and first halves of 2019, respectively. This was attributed to the low global demand, arising from the shutdown of production in major supply countries such as China and the US, as part of the breakdown measures of the COVID-19 pandemic. The main drivers of non-oil exports included cashew nuts, cocoa beans, and sesame seeds, with The Netherlands, Ghana, Brazil and the US as the major destinations. A disaggregation of non-oil exports by products revealed that agricultural, other products, manufactured, semi-manufactured and mineral products accounted for 69.1 per cent, 11.2 per cent, 9.1 per cent, 7.0 per cent and 3.5 per cent of the total, respectively.

Export to ECOWAS Sub-Region

The COVID-19 pandemic affected intra-African trade. Nigeria's non-oil export to the ECOWAS sub-region stood at US$111.86 million in the first half of 2020. Export to Ghana was the highest at US$43.67 million or 39.0 per cent of the total. This was followed by: Togo, US$29.10 million (26.0 per cent); Cote d'Ivoire, US$17.43 million (15.6 per cent); and Niger, US$6.20 million (5.5 per cent). Export to Guinea was US$4.50 million (4.0 per cent); Senegal, US$3.74 million (3.3 per cent); and Mali, US$2.69 million (2.4 per cent). Other countries accounted for the balance of 4.0 per cent. The dominant export commodity to the sub-region remained instant noodles, detergents, tobacco, plastics, dairy products, soya beans meal, and carbonated soft drink.

Foreign Exchange Earnings by Top 100 Non-oil Exporters

The 'great' lockdown due to the COVID-19 pandemic, disrupted the global supply and demand chains, lowering non-oil exports. Consequently, the value of export proceeds of the top one hundred exporters in the first half of 2020 was US$935.85 million, indicating a decline of 4.5 per cent, below the US$976.16 million in the corresponding period of 2019. Analysis of the activities of the "Top 100 Non-oil Exporters" showed that Olam Nigeria Limited topped the list with a value of US$203.69 million or 21.9 per cent of the total, from the export of cocoa beans, cashew nuts, and sesame seeds to Turkey and China. The second major non-oil exporter was Indorama Eleme Fertilizer and Chemicals Limited at US$79.37 million (8.5 per cent), realised from the export of urea, fertilizers and agronomy services to Turkey and China. The third major non-oil exporter was Starlink Global and Ideal Limited, with a value of US$53.30 million (5.9 per cent) from the export of cocoa beans to Malaysia. Wacot Limited followed, with US$51.47 million (5.5 per cent) from the export of cotton products to The Netherlands and the US.

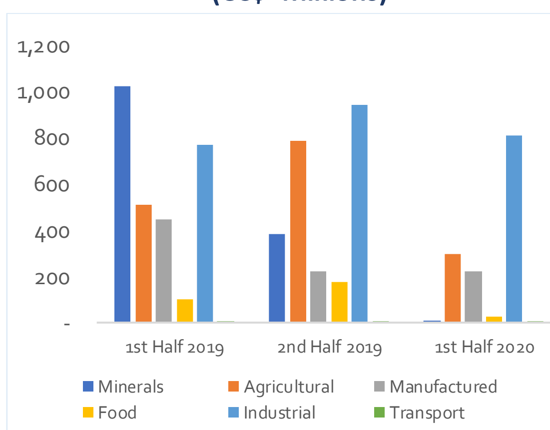
In the fifth position was the British-American Tobacco Nigeria Limited with value of US$44.17 million (4.7 per cent), from the export of cigarettes to Liberia, Guinea, Ghana, Cameroun, Cote d'Ivoire and Niger. H.M Agro Commodities Nigeria Limited, Banarly (Nig.) Limited, Gbemtan Investment Limited, Huxley Industries Limited, were at 96th, 97th, 98th, and 99th positions with export earnings of US$0.72 million, US$0.72 million, US$0.64 million, and US$0.61 million, respectively. Their major export products were Buffalo meat, seafood, cocoa products, and cashew nuts to Vietnam, Belgium, The Netherlands, and Kazakhstan, respectively. Mozukandj Nigeria Ltd placed 100th position with export value of US$0.60 million, from cocoa, cashew and sorghum to The Netherlands and the US.

Non-Oil Receipts through Banks

***Similarly, lockdown of the economy on account of the COVID-19 pandemic led to the decline in non-oil export receipts through banks in the first half of 2020*.** Non-oil export receipts through banks fell by 45.7 per cent to US$1.36 billion in the review period, compared with the level in the preceding period. A disaggregation showed that proceeds from industrial products decreased by 14.2 per cent to US$0.81 billion, representing 59.4 per cent of the total receipts, occasioned by decline in receipts from the export of raw materials (mainly chemicals).

Receipts from the export of agricultural products contracted significantly by 62.0 per cent to US$0.30 billion or 21.9 per cent of total receipts, due largely to the fall in the export of fertilizer and animal products. Manufactured products receipt at US$0.22 billion accounted for 16.1 per cent of the total, while food products at US$0.03 billion, accounted for 2.0 per cent. Mineral products accounted for the balance of 0.7 per cent.

Figure 3.6 2: Non-Oil Export Receipts by Banks (US$ 'Millions)



Source: Central Bank of Nigeria

Merchandise Import

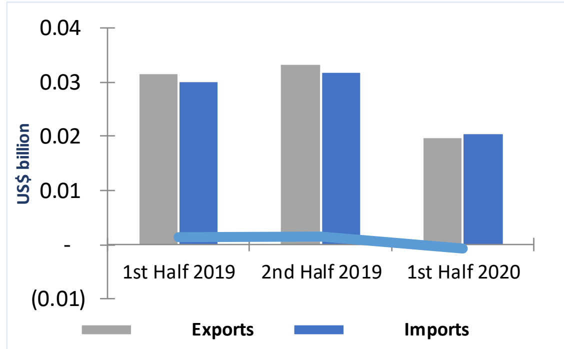
Due to the dampened global demand, aggregate imports also declined significantly.

At US$24.78 billion (11.9 per cent of GDP), aggregate imports fell by 22.5 per cent and 17.8 per cent, respectively, compared with US$31.97 billion in the second half of 2019 and US$30.14 billion in first half of 2019. Importation of non-oil products, which constituted 83.8 per cent of total import, declined by 22.7 per cent and 14.3 per cent to US$20.77 billion or 10.0 per cent of GDP, relative to the US$26.85 billion and US$24.24 billion in the preceding and the corresponding periods of 2019, respectively. Similarly, the importation of petroleum products, decreased to US$4.02 billion (1.9 per cent of GDP), representing 16.2 per cent of total imports, compared with the levels in the preceding half of 2019. The development reflected low demand during the partial lockdown period.

A breakdown of merchandise imports by sector indicated that industrial sector imports accounted for the largest share of 42.7 per cent, followed by manufactured products with a share of 21.6 per cent. Food products accounted for 14.6 per cent; oil sector, 13.4 per cent; transport sector, 4.9 per cent; agricultural sector, 1.6 per cent; and minerals sector, 1.3 per cent.

Overall, the goods account registered a trade deficit of US$5.06 billion (2.4 per cent of GDP) in the review period, as against surpluses of US$1.46 billion and US$1.41 billion in the preceding and the corresponding periods of 2019, respectively.

Figure 3.6.3: Export, Import and Trade Balance (US$ Billion)



Source: Central Bank of Nigeria

Services

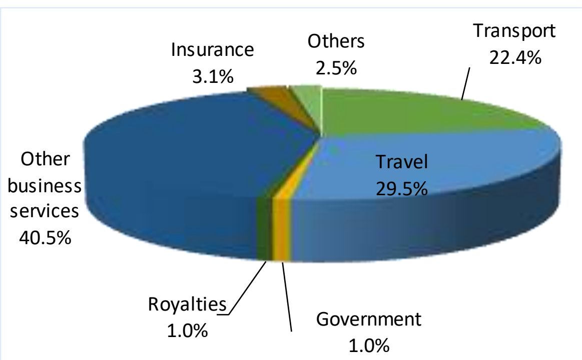
The Services sector witnessed significant reduction in activities as a result of the COVID-19 pandemic. Consequently, the deficit in the services account narrowed by 41.0 per cent and 34.6 per cent to US$10.47 billion (5.0 per cent of GDP), from US$17.74 billion and US$16.02 billion, in the preceding and the corresponding periods of 2019, respectively.

A disaggregation of services revealed that the value of services imports at US$12.42 billion in the review period, declined by 38.1 per cent and 33.4 per cent, relative to the US$20.07 billion and US$18.64 billion in the preceding and the corresponding periods in 2019, respectively.

A breakdown showed that payments in respect of other business services, which constituted 40.5 per cent of total payment, declined to US$5.01 billion in the review period, compared with US$8.14 billion and US$7.82 billion, in the second and first halves of 2019, respectively. The development was attributed to the decline in the payment for professional and management consulting, as well as, technical, trade-related and other services.

Payment for travel services, at US$3.67 billion or 29.5 per cent of the total, also declined as both personal (particularly education and health related) and business-related travels declined. This was due to the grounding of international travels by most countries during the COVID-19 pandemic induced lockdown. Payments in respect of transportation services declined to US$2.79 billion, accounting for 22.4 per cent of the total, owing to decreased payments for passenger fares and freight charges. Payments in respect of insurance, government, and communication services, as well as, royalties & licence fees decreased to US$0.39 billion or 3.2 per cent of the total, US$0.12 billion or 1.0 per cent of the total, US$0.01 billion or 0.1 per cent of the total and US$0.13 billion or 1.0 per cent of the total, respectively, relative to their levels in the preceding half of 2019. Payment in respect of other services represented the balance.

Figure 3.6 4: Share of Services Out-Payments (First Half 2020, Per cent)



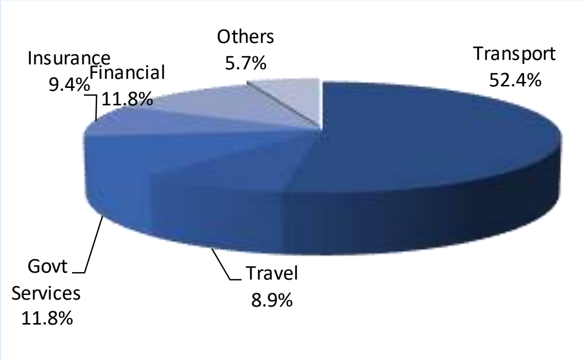
Source: Central Bank of Nigeria

Receipts on services revealed that the value of services exports declined to US$1.94 billion in the review period, relative to US$2.33 billion and US$2.62 billion in the second and first halves of 2019, respectively. Of this, receipts in respect of transportation services decreased to US$1.02 billion, compared with US$1.05 billion in second half of 2019, occasioned by lower receipts from freight services (mainly sea transportation) and other transportation services.

Receipts from travel services also declined to US$0.17 billion, compared with the US$0.52 billion and US$0.93 billion in the preceding and corresponding halves of 2019, respectively, as other personal travels (tourism related) declined significantly during the review period. Receipt from insurance services, mainly non-life, increased to US$0.18 billion in the first half of 2020, compared with US$0.01 billion and US$0.11 billion in the second and first halves of 2019, respectively. Communications, financial and government services receipts declined by 54.8 per cent, 66.5 per cent, and 48.6 per cent to US$0.09 billion, US$0.23 billion and US$0.23 billion, respectively, in the first half of 2020, compared with their respective levels in the corresponding period in 2019.

In terms of percentage share, receipts from transportation services was dominant with a share of 52.4 per cent of total receipts. This was followed by: government services, 11.8 per cent; financial services, 11.8 per cent; insurance services, 9.4 per cent; travel receipts, 8.9 per cent; communication services, 4.5 per cent; and others, 1.2 per cent.

Figure 3.6.5: Share of Services Receipts (First Half 2020, Per cent)



Source: Central Bank of Nigeria

Primary Income

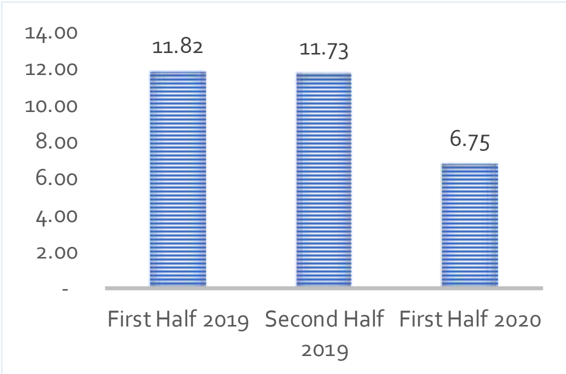
The reduction in payments of investment income to foreign investors resulted in an improvement in the primary income account. Thus, the deficit in the primary income sub-account narrowed by 47.8 per cent and 46.1 per cent to US$3.31 billion, relative to US$6.34 billion and US$6.15 billion in the preceding and corresponding periods in 2019, respectively. Dividend payments at US$3.25 billion in the review period, indicated a decline of 35.8 per cent and 38.7 per cent, compared with the US$5.32 billion and US$5.57 billion in the second and first halves of 2019, respectively. Reinvested earnings witnessed a divestment of US$0.45 billion, in contrast to a reinvestment of US$0.81 billion apiece, in the preceding and corresponding halves of 2019. Interest payment on other investment such as loans increased by 30.0 per cent to US$0.74 billion in the review period, from US$0.57 billion in the preceding period. Interest payments on portfolio investment also declined by 16.9 and 34.7 per cent to US$0.47 billion, relative to US$0.56 billion and US$0.71 billion in preceding and corresponding periods in 2019, respectively, on account of the decline in interest payment on short-term instruments.

Further analysis revealed that interest earnings on reserve assets declined by 10.3 per cent and 35.0 per cent to US$0.52 billion, relative to the US$0.58 billion and US$0.80 billion in the second and first halves of 2019, respectively. The compensation of employees sub-account, though in surplus position, declined by 34.1 per cent and 38.3 per cent to US$0.07 billion, compared with the US$0.11 billion apiece in the preceding and corresponding periods of 2019.

Secondary Income

The slowdown in economic activities owing to the COVID-19 pandemic had an adverse effect on income of migrants and remittances inflows to Nigeria. As a result, the surplus in the secondary income account declined in the review period to US$10.05 billion or 9.8 per cent of GDP, compared with the US$12.97 billion and US$13.40 billion in the second and first halves of 2019, respectively. This indicated decline of 22.5 per cent and 25.1 per cent, respectively. Inflow of personal transfers in form of workers' remittances, which constituted 87.5 per cent of total inflow, declined by 23.1 per cent and 23.7 per cent to US$9.02 billion, compared with US$11.73 billion and US$11.82 billion in the preceding and the corresponding halves of 2019. General government transfers, comprising payments to foreign embassies and international organisations, recorded a lower surplus of US$1.27 billion in the first half of 2020, compared with the US$1.59 billion in the preceding half of 2019, indicating a decline of 20.1 per cent.

Figure 3.6.6: Private Home Remittances (US$ billion)



Source: Central Bank of Nigeria

ii. Financial Account Developments

During the review period, Nigeria recorded a net lending position, mainly on account of reductions in both assets and liabilities. The financial account recorded a net acquisition of financial assets of US$3.87 billion or 1.9 per cent of GDP. This was in contrast to the net incurrence of financial liability of US$24.73 billion in the second half of 2019 and US$2.96 billion in the first half of 2019.

Net Liability Incurred

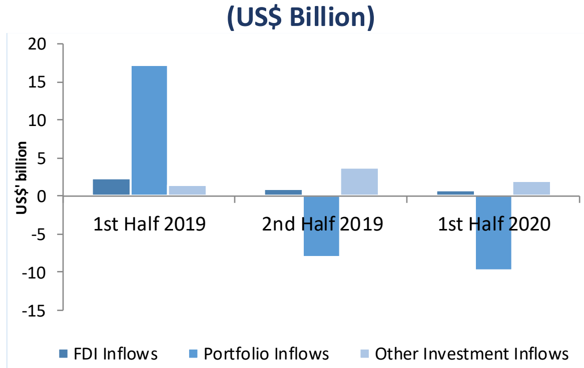
Aggregate foreign liabilities recorded a reduction of US$7.66 billion, which was higher than the US$3.27 billion in second half of 2019, due, largely, to portfolio capital reversal (both equity and debt securities), repayment of loans by the banks and the private sector, as well as, withdrawal of foreign currency placed in Nigerian banks. This was, however, in contrast to an incurrence of US$20.99 billion in the first half of 2019.

A breakdown showed that inflows of FDI, at US$1.17 billion, indicated an increase of 17.8 per cent, compared with US$0.99 billion in the second half of 2019. The development was as a result of inflow of fresh FDI equity and other capital, despite the global economic challenges of the COVID-19 pandemic. However, it declined by 49.2 per cent, compared with the level in the first half of 2019.

Portfolio investment, which comprised equity and debt securities, recorded a significant capital reversal of US$8.39 billion, higher by 4.5 per cent, compared with the US$8.03 billion in the preceding half of 2019. This was due, largely, to the sale of both equity and debt securities during the review period. Equity securities worth US$1.29 billion was sold, while debt securities valued at US$7.10 billion were disposed, consisting of US$6.56 billion short-term and US$0.54 billion long-term debt securities. Global financial markets volatility, price readjustments, liquidity crunch and increased risk aversion precipitated this huge outflow.

"Other" investment recorded an outflow of US$0.44 billion in the review period, in contrast to inflows of US$3.77 billion and US$1.53 billion in the second and first halves of 2019. The outflow was as a result of the repayment of loan liabilities by the banks and the private sector, as well as withdrawal of foreign currency placed in Nigerian banks.

Figure 3.6.7: Foreign Capital Inflows (US$ Billion)



Source: Central Bank of Nigeria

Net Acquisition of Asset

Aggregate financial assets worth US$3.79 billion were disposed in the review period, due, largely to the withdrawal of foreign currency deposits by banks and the private sector, as well as, the depletion of external reserves. However, this was significantly lower than the US$28.00 billion in the preceding half of 2019. In contrast, an acquisition of US$18.03 billion was recorded in the first half of 2019. Further analysis showed that acquisition of direct investment assets by residents decreased by 0.5 per cent to US$0.74 billion, compared with US$0.75 billion in the second half of 2019.

Portfolio investment outflow also fell to US$0.06 billion in the review period, compared with US$0.12 billion in the preceding half of 2019, indicating a decrease of 50.3 per cent. This reflected the lull in activities at the international capital markets. The “other” investment asset sub-account registered a disposal of US$2.29 billion, significantly lower than the US$22.23 billion in the corresponding period of 2019, largely driven by the withdrawal of foreign currency deposits by banks and the private sector.

Capital Importation

New capital imported into the economy, as reported by banks, declined to US$7.15 billion between January and June 2020, compared with US$14.31 billion in the first half of 2019, owing to the risk averseness of investors in periods of shock. A disaggregation of capital imported by sectors showed that 43.1 per cent of the total was invested in banking, while investment in financing accounted for 23.3 per cent. The purchase of shares, servicing, production/manufacturing, agriculture, and trading had respective shares of 18.1 per cent, 0.7 per cent, 5.4 per cent, 1.5 per cent and 2.7 per cent.

Other sectors accounted for the balance. By type of investment, portfolio investment remained dominant, 65.7 per cent of the total, followed by other investments (29.2 per cent) while FDI inflow accounted for the remaining 5.1 per cent. By country of origin, the United Kingdom remained the highest source of inflow, accounting for 53.5 per cent of the total, followed by the Republic of South Africa with 11.8 per cent. United Arab Emirates, The Netherlands and the United States accounted for 9.5 per cent, 8.2 per cent and 7.2 per cent, respectively, while other countries accounted for the balance.

Capital Outflow

Economic uncertainty in the wake of the twin shock of drop a crude oil prices and the adverse effect of COVID-19 have continued to weaken investors sentiments and to spike capital reversal.

In the first half of 2020, aggregate capital outflow stood at US$9.70 billion, compared with US$4.07 billion in the first half of 2019. A disaggregation showed that, outflow in the form of capital reversal, constituted 76.7 per cent, followed by repayments of loans, which accounted for 17.8 per cent. Payments of dividends to non-resident investors represented 5.3 per cent of the total, while ‘others’ accounted for the balance. In terms of capital outflow by sectors, financing was 49.0 per cent, followed by the banking sector, which constituted 31.6 per cent. Production/manufacturing, servicing, and oil & gas sectors accounted for 9.9 per cent, 3.4 per cent and 3.3 per cent, respectively. Other sectors accounted for the balance.

External Debt

On account of dwindling revenues, as crude oil price plummet and more resources are needed to contain the COVID-19 pandemic, Nigeria's external debt has continued to rise.

Public external debt stock, at US$31.48 billion (8.1 per cent of GDP) as at end-June 2020, increased by 13.7 per cent and 15.9 per cent, compared with US$27.68 billion at end-December 2019 and US$27.16 billion at end-June 2019. The increase was driven, largely, by the US$3.36 billion IMF emergency facility to the country. A breakdown showed that loans from multilateral sources, mainly, the World Bank and African Development Bank Groups, was US$16.36 billion, constituting 52.0 per cent of the total. Debt from commercial sources in the form of Euro and Diaspora Bonds was US$11.17 billion (35.5 per cent), while bilateral sources, mainly, the China EXIM Bank accounted for the remaining US$3.95 billion (12.5 per cent).

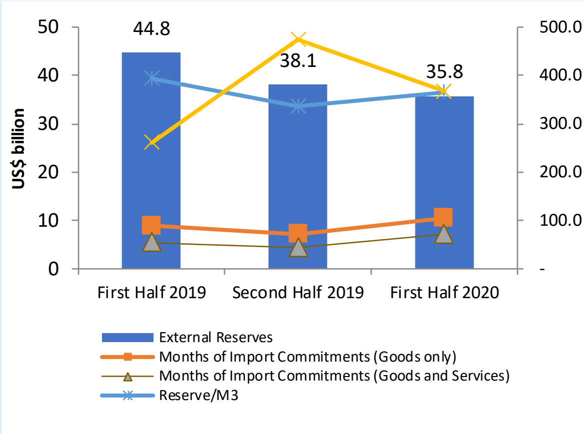
International Reserves

The weakly diversified economy, combined with the slump in crude oil prices and investor apathy, has continue to hamper the building of external reserve buffers.

Gross external reserves at end-June 2020 stood at US$35.77 billion, compared with US$38.09 billion and US$44.75 billion at end-December 2019 and end-June 2019, respectively. The decline of 6.1 per cent, when compared with the level at end-December 2019, was due, largely, to the effect of the COVID-19 pandemic on crude oil prices, which affected foreign exchange inflow to the economy. Other contributors to the decline were interventions at the foreign exchange market, direct and third-party. A breakdown of the external reserves by ownership showed that, the CBN had the largest share of 84.3 per cent, followed by the Federal Government with 15.5 per cent, while the share of the Federation accounted for the balance of 0.2 per cent. The CBN portion of the reserves fell by 19.0 per cent from its level at end-June 2019, due, largely, to the Bank's intervention at the foreign exchange market. In terms of currency composition, the US dollar, at US$29.35 billion, constituted 82.0 per cent of the total; special drawing rights, US$2.07 billion (5.8 per cent); Chinese yuan, US$3.99 billion (11.2 per cent); and other currencies made the balance of 1.0 per cent.

An assessment of external reserve adequacy based on the traditional measures showed that the end-June 2020 level of reserves could finance 5.8 months of import of goods and services or 8.7 months of goods only, higher than the 3.0 months international benchmark. The ratio of external reserves to short-term liabilities was also adequate at 426.3 per cent above the benchmark of 100.0 per cent short-term debt cover of the Greenspan-Guidotti measure of external reserves adequacy. In terms of external reserves to money supply (M3), the ratio, at 36.5 per cent, indicated that the level of reserves was inadequate, as it was above the international benchmark of 20.0 per cent.

Figure 3.6.8: External Reserves Stock and Months of Import Commitments



Source: Central Bank of Nigeria

iii. External Asset Management Programme and Income from Reserves Management

At end-June 2020, the net asset value of the fixed income portfolio managed by the six external asset managers stood at US$7.38 billion, compared with the US$7.15 billion at end-June 2019. The portfolio recorded an absolute return of US$0.98 billion since inception to end-June 2020. Overall, the operations of reserve asset management yielded an aggregate return of (₦142.47 billion) (US$0.39 billion) in the first half of 2020, representing an increase of ₦25.31 billion or 21.6 per cent, above the budgeted amount of ₦117.16 billion. It was also higher than the ₦123.76 billion in the first half of 2019 by ₦18.71 billion or 15.1 per cent, due, largely to the increased income from the additional allocation to the Internal Renminbi portfolio and the activities of the External Fund Managers.

Foreign Exchange Flows

The slump in crude oil prices as a result of the COVID-19 pandemic affected foreign exchange inflows to the economy in the review period. Aggregate inflow to the economy in the first half of 2020 at US$60.13 billion, fell by 17.8 per cent and 10.7 per cent, relative to US$73.12 billion and US$67.34 billion in the preceding half year and first half of 2019, respectively. A breakdown showed that inflow through autonomous sources at US$35.29 billion accounted for 58.7 per cent, while the CBN was US$24.84 billion or 41.3 per cent.

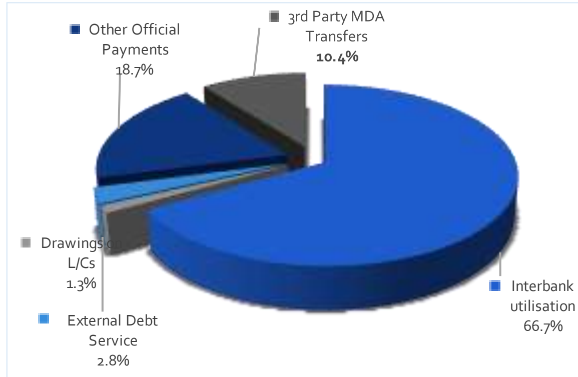
A disaggregation of inflow through autonomous sources showed that: invisible purchases amounted to US$33.92 billion; non-oil export receipts, US$1.36 billion; and external account purchases, US$0.02 billion, indicating a decline of 24.2 per cent, 45.6 per cent and 12.8 per cent, compared with their respective levels in the second half of 2019. Of the total invisible purchases, ordinary domiciliary accounts and over the counter (OTC) purchase amounted to US$9.48 billion and US$24.43 billion during the review period. A disaggregation of the OTC purchases showed that, capital importation amounted to US$8.13 billion, while home remittances was US$0.84 billion. Other OTC purchases amounted to US$15.46 billion.

Foreign exchange inflows through the CBN showed that crude oil receipts declined by 16.0 per cent to US$6.62 billion, compared with the level in the preceding half year. The development attributed to the drop in crude oil as a result of weak global demand. Non-oil receipts, on the other hand, increased by 1.4 per cent to US$8.22 billion, compared with the level in the second half of 2019. This was due to proceeds from government debt in the form of emergency financial assistance of US$3.36 billion, received from the IMF, under the Rapid Financing Instrument, to cushion the effect of the COVID-19 pandemic. Other non-oil receipts included: TSA and third-party receipts, US$3.56 billion; foreign exchange purchases, US$2.54 billion; returned payments (Wired/Cash), US$0.24 billion; recovered funds, US$0.31 billion; and DMBs cash receipts, US$3.03 billion. Others include Interbank swaps, US$2.18 billion; other official receipts, US$1.39 billion; unutilised funds from foreign exchange transactions, US$0.62 billion; unutilised IMTO receipts, US$0.61 billion; and interest on reserves and investments, US$0.37 billion.

Aggregate foreign exchange outflows from the economy declined to US$29.11 billion, relative to the levels in the preceding six months and first half of 2019, respectively. Outflow through autonomous sources at US$1.78 billion, fell by 22.3 per cent and 5.7 per cent, when compared with the levels in the preceding half year and first half of 2019, respectively. Outflow through the CBN was US$27.32 billion, a decrease of 15.4 per cent and 5.3 per cent, compared with the respective levels in the preceding six months and first half of 2019, owing to intervention in the foreign exchange market.

A disaggregation of outflow through the CBN showed that interbank utilisation decreased to US$18.17 billion or 62.4 per cent of the Bank's outflow, when compared with the second half of 2019, following the suspension of sales to BDCs. Other sources of outflow through the bank were: public sector direct payments, US$5.09 billion; third party MDAs transfers, US$2.84 billion; external debt service, US$0.76 billion; and drawings on L/Cs, US$0.37 billion. Also, foreign exchange special payments were US$0.07 billion; and funds returned to remitter registered US$0.01 billion. Outflow in respect of public sector direct payments comprised: Joint Venture Companies (JVC) cash calls, US$1.84 billion; estacode, US$0.01 billion; and miscellaneous, US$3.24 billion.

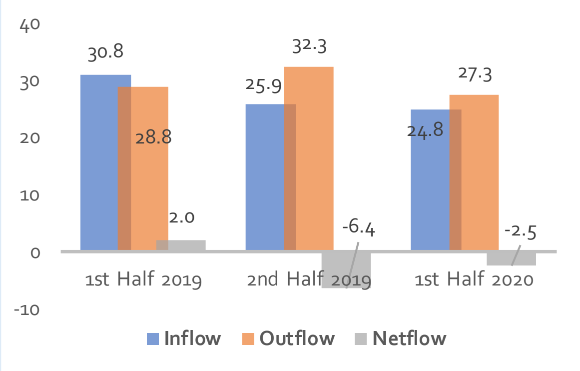
Figure 3.6.9: Foreign Exchange Disbursements through the CBN (First Half 2020)



Source: Central Bank of Nigeria

Overall, foreign exchange flow through the economy during the review period resulted in a net inflow of US$31.02 billion, compared with US$38.53 billion and US$36.61 billion in the preceding half year and corresponding half of 2019, respectively. The CBN recorded a net outflow of US$2.48 billion in the first half of 2020, compared with US$6.44 billion in the second half of 2019. This was in contrast to a net inflow of US$1.97 billion in the corresponding period of 2019. A net inflow of US$33.51 billion was recorded through autonomous sources in the review period, compared with US$44.97 billion and US$34.63 billion in the preceding six months and corresponding half of 2019, respectively.

Figure 3.6.10: Foreign Exchange Flows through the CBN (US$' Billion)



Source: Central Bank of Nigeria

b. Foreign Exchange Market and Management

Relative stability was maintained in the foreign exchange market in the first half of 2020, through the Bank's sustained periodic interventions. The global impact of the COVID-19 pandemic was felt in the foreign exchange market as crude oil price dipped, thus affecting foreign exchange inflow to the economy. In a bid to stabilise the foreign exchange market and achieve exchange rate convergence at the various segments of the market, the Bank adjusted the official naira interbank rate, by 15.0 per cent from ₦306/US$ to ₦360/US$, on March 20, 2020. In addition, adjustments were made to: I&E rate by 5.0 per cent from ₦360/US$ to ₦380/US$; IMTOs rate to banks, ₦376/US$; banks rate to CBN, ₦377/US$; CBN to BDCs, ₦378/US$; and BDCs to end-users, a maximum of ₦380/US$.

The Bank also implemented other measures to stabilise the foreign exchange market, which included: the restriction of foreign exchange for the importation of milk and dairy products on February 11, 2020, to boost local production; and the temporary suspension of foreign exchange sales to BDCs on March 27, 2020, following the suspension of international travels.

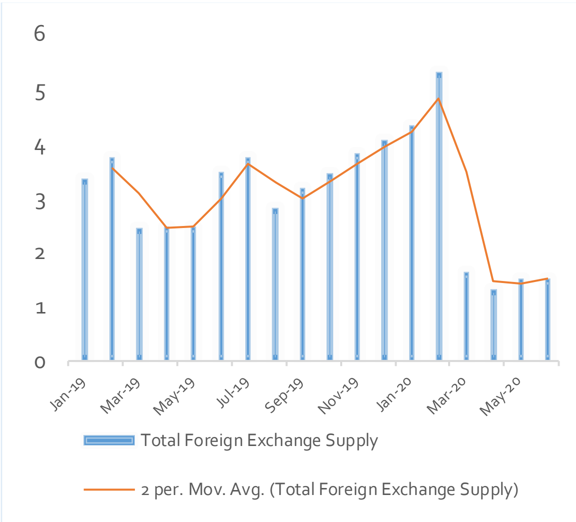
To meet the country's balance of payments needs and cushion the effect of the COVID 19 pandemic, the Executive Board of the International Monetary Fund (IMF) approved an emergency financial assistance of SDR 2,454.5 million (US$3.4 billion), equivalent to 100 per cent of quota to Nigeria, under the Rapid Financing Instrument (RFI), on April 28 2020.

i. Foreign Exchange Sales

The precautious level of economic activities hampered foreign exchange supply to authorised dealers. Total foreign exchange supply to authorised dealers by the Bank stood at US$13.98 billion, indicating a decline of 15.3 per cent each, below the levels in the preceding half year and the corresponding half of 2019, respectively. Of the total, inter-bank sales amounted to US$0.38 billion, compared with US$0.62 billion and US$0.81 billion in the preceding six months and the corresponding period of 2019, respectively.

At the BDC segment, total sales declined to US$3.63 billion in the review period, compared with US$6.75 billion and US$6.86 billion in the preceding half year and corresponding period of 2019, respectively, due to the temporary suspension of sales to the segment as international travels were grounded. Foreign exchange sales under the Secondary Market Intervention Scheme (SMIS) and to Small and Medium Enterprises (SME) declined by 7.6 per cent and 31.0 per cent to US$3.16 billion and US$0.57 billion, respectively, from their levels in the preceding half year. Sales to the I&E window rose by 27.6 per cent to US$6.24 billion, compared with the levels in the preceding six months and the corresponding period of 2019, respectively.

Figure 3.6. 11: Supply of Foreign Exchange (US$ Billion)



Source: Central Bank of Nigeria

ii. Forwards and Swaps Transactions

Increased uncertainty surrounding the naira exchange rate, as a result of the COVID-19 pandemic, prompted investors to hedge against currency risks. In the first half of 2020, forwards contracts disbursed at maturity amounted to US$2.24 billion. Matured swaps transactions increased to US$1.95 billion, compared with US$1.40 billion in the second half of 2019.

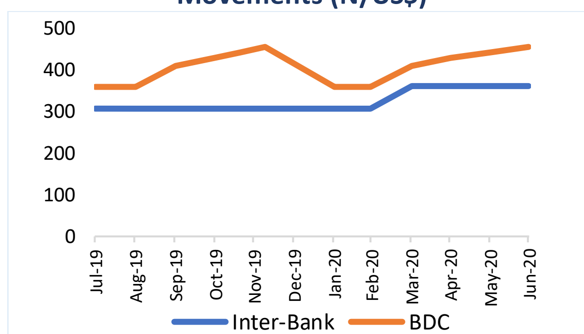
Exchange Rate Movements

During the review period, the Bank adjusted the naira exchange rate in all the segments of the foreign exchange market, in a bid to converge and further stabilize the currency, as well as reduce rent-seeking activities. Consequently, the naira depreciated against the United States dollar in all the segments of the market.

Spot Exchange Rate

In the first half of 2020, the average exchange rate of the naira to the US dollar at the inter-bank segment depreciated to ₦337.26/US$, below the value in second half of 2019, as a result of the adjustment of the naira exchange rate by 15.0 per cent. The average exchange rate of the naira at the BDC segment depreciated by 10.5 per cent to ₦401.44/US$, below the level in the preceding period of 2019. This was due to the temporary suspension of foreign exchange sales to the segment of the market and the CBN adjustment. Similarly, at the I&E window, the average exchange rate depreciated by 3.7 per cent to ₦376.44/US$, relative to the level in the preceding period of 2019. This was occasioned by the significant drop in foreign exchange sales due to the lull in economic activities.

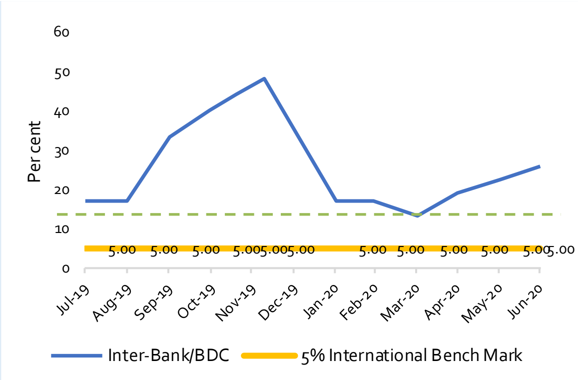
Figure 3.6.12: Average Exchange Rate Movements (₦/US$)



Source: Central Bank of Nigeria

Consequently, the premium between the average interbank and BDC rates widened by 1.9 percentage points to 19.0 per cent, during the review period, from 17.1 per cent in the corresponding period of 2019. Similarly, the premium between the average I&E and the BDC rates widened to 6.6 per cent in the first half of 2020, compared with 0.9 per cent in the corresponding period of 2019.

Figure 3.6.13: Interbank/Bureau-de-Change Foreign Exchange (₦/US$) Premium (per cent)



Source: Central Bank of Nigeria

The end-period exchange rate of the naira to the US dollar at the inter-bank segment closed at ₦361.00/US$ at the end-June 2020, compared with ₦307.00/US$ and ₦306.90/US$ at the end of the preceding period and first half of 2019, respectively. At the BDC segment, the end-period exchange rate depreciated to ₦455.00/US$, compared with respective rates of ₦362.00/US$ and ₦360.00/US$ at the end of the preceding six months and first half of 2019. At the I&E window, the exchange rate closed at ₦386.50/US$, showing a depreciation of 5.7 and 6.7 per cent, relative to ₦364.51/US$ and ₦360.74/US$, at the end of the preceding half year and first half of 2019, respectively. These depreciations were as a result of the Bank's adjustments of rates.

Cross Rates

Average exchange rate of the naira against selected international currencies in the review period showed a depreciation of 8.7 per cent, 8.6 per cent and 8.2 per cent, against the British pound, the Japanese yen and the euro, respectively, compared with their levels in the second half of 2019. At the regional level, however, the naira appreciated against the CFA francs and WAUA by 1.6 per cent and 0.2 per cent, respectively, relative to the values in the first half of 2019.

Emerging Markets Currencies

Most emerging market currencies, including the naira, witnessed significant pressure, due, largely to the slump in commodity prices and trade, in the review period. The South African rand depreciated by 11.9 per cent, while the Russian rouble depreciated by 7.9 per cent, and the Chinese RMB depreciated marginally by 0.04 per cent, against the dollar, in the review period. This was attributed, largely, to the effect of the COVID-19 pandemic, which affected commodity prices, particularly crude oil.

Table 3.6. 1: EMEs Exchange Rates to the US dollar

Period	Chinese RMB/US$	Nigerian Naira/US$	South African Rand/US$	Russian Rouble/US$
2019 H1	6.78	306.90	14.19	65.20
2019 H2	7.03	306.94	14.69	64.15
2020 H1	7.03	337.26	16.67	69.62

Source: Central Bank of Nigeria

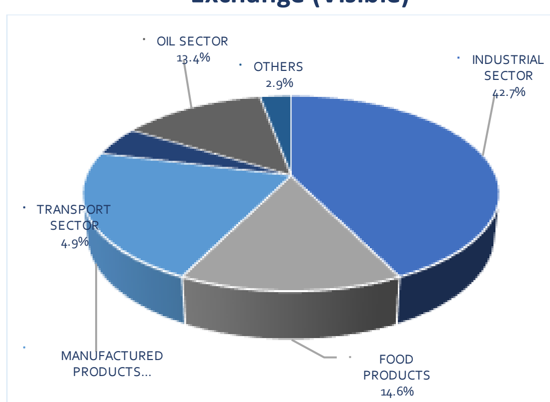
iii. Sectoral Utilisation of Foreign Exchange

Aggregate sectoral utilisation of foreign exchange in the first half of 2020 was US$17.70 billion, showing a decrease of 30.9 per cent, when compared with the level in the preceding period of 2019. However, it increased by 4.2 per cent, relative to the level in the corresponding period of 2019. A disaggregation showed that, 32.6 per cent of the foreign exchange was utilised for visible imports. In value terms, visible import saccounted for US$5.76 billion, compared with the levels in the second and first halves of 2019, respectively. Further analysis indicated that industrial sector, at US$2.46 billion, decreased by 29.2 per cent and 21.3 per cent compared with the levels in the preceding six months and corresponding period of 2019, respectively.

Similarly, the amount utilised for manufactured products, food products, oil and transportation sectors declined by 29.2 per cent, 19.2 per cent, 39.3 per cent and 15.4 per cent, to US$1.24 billion, US$0.84 billion, US$0.77 billion and US$0.28 billion, compared with their respective levels in the corresponding period of 2019. Foreign exchange utilisation for agricultural and mineral sectors fell by 36.8 per cent and 48.8 per cent to US$0.09 billion and US$0.07 billion, compared with their respective levels in the corresponding period of 2019.

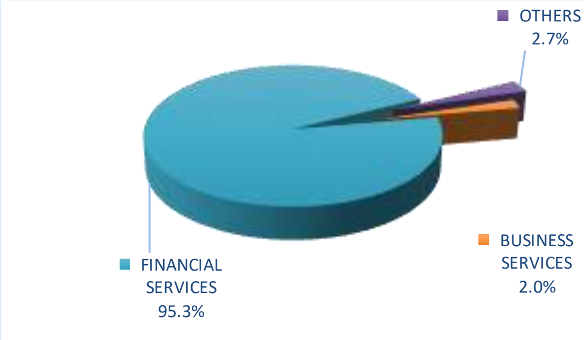
Invisible transactions also declined by 31.5 per cent to US$11.93 billion (67.4 per cent of total), compared with the level in the second half of 2019, but rose by 18.9 per cent, relative to the level in the corresponding period of 2019. The fall in foreign exchange utilisation across major sectors was attributed to the COVID-19 pandemic induced supply and demand shocks, which caused disruptions in global economic activities. A breakdown showed that the amount utilised for financial services, and education related services decreased by 28.6 per cent and 24.4 per cent to US$11.38 billion and US$0.08 billion, respectively, compared with the levels in the preceding period of 2019. This was attributed to the lower demand during the lockdown period. Similarly, the amount utilised for business services, communication, distribution, construction & related engineering, as well as, tourism and travel related services, declined during the review period. Other services also fell to US$0.04 billion, below the levels in the preceding half year and corresponding period of 2019, respectively.

Figure 3.6.14: Sectoral Utilisation of Foreign Exchange (Visible)



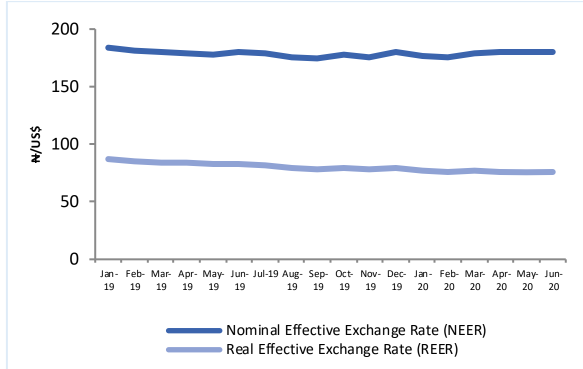
Source: Central Bank of Nigeria

Figure 3.6.15: Sectoral Utilisation of Foreign Exchange (Invisibles)



Source: Central Bank of Nigeria

Figure 3.6.16: NEER and REER



Source: Central Bank of Nigeria

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

The NEER and REER reflect the incipient weakness in Nigeria's external competitiveness. Provisional figure for the average 13-currency Nominal Effective Exchange Rate (NEER) index in the review period was 178.92, indicating a 1.1 per cent increase, but a 0.8 per cent decrease, relative to the levels in the second and first half of 2019, respectively. The increase relative to the preceding half year indicated a nominal appreciation of the naira relative to the currencies of its trading partners during the review period. The average Real Effective Exchange Rate (REER) index, which measures external competitiveness of a country was 76.22, representing a decline of 3.8 and 9.7 per cent, compared with the levels in the preceding six months and the corresponding period of 2019, respectively. This development indicated a depreciation of the naira in real terms, relative to its trading partners.

i. External Sector Risks

Crude Oil Price Volatility: Volatility in crude oil prices is expected to persist, as the effect of the COVID-19 pandemic on the global economy would take time to wane. The sustenance of the OPEC+ production cut agreement would help in stabilising crude oil prices at the international market.

Exchange Rate Pressure: The effect of the slump in crude oil prices at the international market and the decline in capital inflows and remittances, due to the COVID-19 pandemic, would likely put more pressure on the naira exchange rate. This could be compounded as investors' preference for safer commodities and currencies continues with the uncertainty surrounding the pandemic.

Contracting Global Remittance Flows: According to the World Bank projections, global remittance flows are expected to decline by about 20.0 per cent in 2020, due to the COVID-19 pandemic. This would reflect on remittance inflows to receiving countries such as Nigeria.

Shrinking Global Capital Flows: Foreign direct investment inflows are expected to be adversely affected, as investors prefer to withhold fresh investments due to uncertainty surrounding global economic developments. Furthermore, tight financial conditions globally are expected to reduce portfolio flows to emerging economies and developing countries, such as Nigeria, as investors may prefer to channel their resources to safe havens.

Rising External Debt and Debt Service Obligation: Based on the country's Debt Sustainability Analysis (DSA) by the Debt Management Office, Nigeria is in the region of moderate risk of debt distress, having exceeded one of the thresholds of debt service to revenue ratio of 20.0 per cent. The pandemic induced debt accumulation, coupled with low foreign exchange receipts could threaten the viability of the external sector

External Reserves: Reduced foreign currency inflow from oil exports and other sources; and

increased demand pressure could lead to de-accumulation of external reserves, thereby affecting the viability of the external sector.

4.0 OUTLOOK

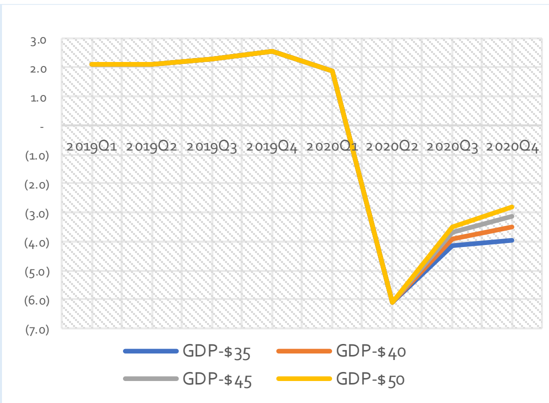
… Presents the short-to-medium-term direction of the Nigerian economy, drawing on dynamics in the global and domestic economy, market sentiments and forecasts.

Outlook on the:

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

***The outlook for Nigeria's economy for the second half of 2020 is less optimistic, given the impact of the shocks of the COVID-19 pandemic and oil price slump*.** The resulting public health measures, implemented to contain the spread of the virus, constrained economic activities. This development, coupled with the fall in crude oil prices in the near-term, would have a significant negative impact on government revenue, as well as foreign exchange earnings.

Figure 4.1: Economic Growth (Actual & Projections)



Source: NBS and CBN Staff Estimates

Thus, the contraction in real GDP growth for the second half of 2020 could moderate, based on the assumption that the COVID-19 pandemic would peter out towards the end of 2020; this is coupled with subdued crude oil prices. Specifically, real output, which shrank by 6.1 per cent in 2020Q2, is projected to contract by 3.91 and 3.52 per cent in 2020Q3 and 2020Q4, respectively. Furthermore, headline inflation could remain elevated above the single digit level given the expansionary monetary policy and fiscal stimulus aimed at cushioning the effect of the pandemic, inherent structural rigidities and security challenges affecting agricultural activities and food supply.

Table 4.1: Economic Sustainability Plan

	Real GDP			
	$35	$40	$45	$50
2019Q4	*2.55*	*2.55*	*2.55*	*2.55*
2020Q1	*1.87*	*1.87*	*1.87*	*1.87*
2020Q2	*-6.1*	*-6.1*	*-6.1*	*-6.1*
2020Q3	*-4.14*	*-3.91*	*-3.7*	*-3.52*
2020Q4	*-3.94*	*-3.52*	*-3.14*	*-2.8*
2020	**-3.08**	**-2.91**	**-2.77**	**-2.64**

Source: NBS & Staff Estimates

A rebound in output would depend on the impact of the various stimulus packages and intervention measures put in place by government to improve productivity, output growth and improve livelihoods.

The subsisting policy on loan-to-deposit ratio (LDR), the adjustment of corporate tax rates for MSMEs under the 2019 Finance Act and continued intervention in the real sector would stimulate investment and consumption in the second half of 2020. In addition, the development of the Gold Purchase framework by the CBN under the Presidential Artisanal Gold Mining Development Initiative (PAGMDI), would help to diversify the revenue base, improve foreign exchange earnings and accretion to foreign reserves.

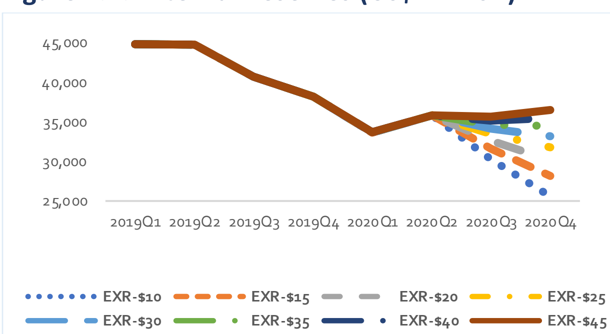
The outlook for the external sector remains vulnerable, with an expected deficit in the current account balance, continued capital reversals as well as likely decline in remittances. The pressure in the external sector could be sustained due to the expected increase in net imports as a result of the opening up of the economy. Besides, the depressed global output would negatively impact remittances inflows. Furthermore, the tight financial conditions globally are expected to reduce fresh capital inflows to emerging economies such as Nigeria as investors prefer to channel their resources to safer havens. The rate of capital reversal is, however, expected to abate in the second half of 2020 owing to reduced pressure in the foreign exchange market and gradual recovery in the price of crude oil at the international market.

Table 4.2: External Reserves Projections

	\$30 pb	\$35 pb	\$40 pb	\$45 pb
2019Q4	38,093	38,093	38,093	38,093
2020Q1	33,689	33,689	33,689	33,689
2020Q2	35,770	35,770	35,770	35,770
2020Q3	34,119	34,687	35,186	35,633
2020Q4	33,174	34,405	35,508	36,510

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

Figure 4.2: External Reserves (US\$ million)



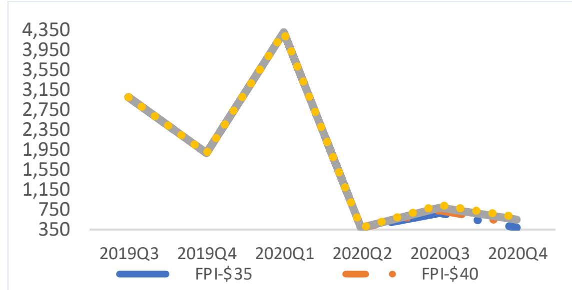
Source: CBN Staff Estimates

Table 4. 3: Foreign Portfolio Inflows Projections (US\$ Million)

	Foreign Portfolio Inflows Projections			
	\$35 pb	\$40 pb	\$45 pb	\$50 pb
2019Q4	1,883.58	1,883.58	1,883.58	1,883.58
2020Q1	4,309.47	4,309.47	4,309.47	4,309.47
2020Q2	385.32	385.32	385.32	385.32
2020Q3	674.90	736.49	795.46	852.20
2020Q4	400.04	467.34	536.05	606.02

Source: CBN & Staff Estimates

Figure 4.3: Foreign Portfolio Investment



Source: CBN Staff Estimates

The COVID-19 pandemic disrupted government revenue through its effect on global oil demand and taxable economic activities. However, the fiscal outlook for the rest of the year is less grim. The positive outlook is anchored on the prospect of favourable crude oil prices following OPEC+ agreed cuts in crude oil supply. This is also attributed to the pickup in domestic and global economic activities owing to the easing of COVID-19 restrictions, and the potential positive effect of the increasing implementation of the Finance Act 2019, on non-oil revenue.

Also, with several coronavirus vaccines at advanced levels of trials, there is a strong possibility of the pandemic fizzling out before the end of the year, thereby boosting the prospects of increased economic activities and rebound in government revenue.

The outlook for financial sector of the Nigerian economy remains cautiously optimistic, due to the spillover effects of the COVID-19 pandemic on global financial institutions and markets. The policy initiatives of the monetary authority, through various measures (cutting of interest rates by central banks, debt forbearance and debt forgiveness policies as weaken supply of foreign exchange, among others) would help to sustain financial sector resilience.

5.0. ADDITIONAL INFORMATION

Regional and Global activities and engagements of the Bank, in the review period

- International Meetings
  - Regional
  - Non-Regional

i. *Extra-Ordinary Meeting of the Ministers for Finance and Committee of Governors of the Central Banks of the Member States of the West African Monetary Zone (WAMZ).*

The Extra-ordinary Meeting of the Ministers for Finance and the Committee of Governors of the Central Banks of the Member States of the West African Monetary Zone (WAMZ), also referred to as the Convergence Council, was held at the Central Bank of Nigeria, Abuja, on January 16, 2020. Representatives from all the WAMZ Member States and the West African Monetary Institute (WAMI) were present at the Meeting.

The Report of the Extra-ordinary Meeting of the Technical Committee of the WAMZ, which preceded the meeting, formed the basis for the deliberations of the Convergence Council. The Technical Committee had considered the declaration by the Chairman of the Authority of Heads of State of the West African Economic and Monetary Union (WAEMU) on December 21, 2019 to change the name of CFA franc to the Eco.

Based on the Technical Committee's report, the Convergence Council resolved as follows:

- Reaffirmed their commitment to the decisions of the ECOWAS Authority of Heads of State and Government, relating to the ECOWAS Monetary Cooperation Programme, the revised roadmap, and the Single-Track Approach to the ECOWAS Single Currency Programme 2020;
- Welcomed the achievements under the revised roadmap, including the adoption of flexible exchange rates, monetary policy framework based on inflation targeting, federal model of common central bank, name of the common central bank, name and symbol of the common currency;
- Acknowledged the policy reform measures taken by WAEMU, including the change in gross external reserves management as a major first step towards delinking the CFA franc from the euro; and urged WAEMU to implement outstanding programme areas of the revised roadmap of the single currency programme; and revert to the Single-Track Approach in line with ECOWAS Authority's decision;
- Expressed reservations about the action of WAEMU and the inaction of ECOWAS Commission in connection with the unjustifiable and unilateral renaming of the CFA franc to "Eco" on one hand, and the adoption of fixed exchange rate regime on the other, which are not in line with the ECOWAS Authority's decision;
- Underscored the importance of the need for a tripartite consultative meeting between the Authorities of ECOWAS Commission, WAEMU Commission, and WAMZ with a view to clarifying and resolving issues and to avoid jeopardising the achievement of the shared goal of introducing a single currency in West Africa.

ii. 2019 End-Year Statutory Meeting of the West African Monetary Agency (WAMA)

The 2019 End-of-Year Statutory meeting of the Economic and Monetary Affairs Committee and the Operations and Administration Committee of WAMA took place on February 6 – 13, 2020, at the International Conference Centre, Freetown, Sierra Leone. The meeting which deliberated on the macroeconomic developments in the ECOWAS Sub-region, assessed the performance of member countries in terms of compliance with the convergence criteria, the 2020 monetary integration agenda and administrative/operational issues of the Agency.

The meeting considered twelve reports, broadly classified into three sub-groups: (a) Economic and Monetary Affairs Committee; (b) Operations and Administration Committee, and; (c) Any Other Business, as presented by WAMA. The documents were:

1. Economic and Monetary Affairs Committee

- Director General's Progress Report in the 1st half of 2019;
- Report on the ECOWAS Monetary Cooperation Programme for first half 2019;
- Report on Exchange Rate Developments of ECOWAS Currencies as at end 2019;
- Proposal for the Creation of a Community Solidarity and Cooperation Fund;
- The Charter Establishing the West Africa Securities Regulators Association (WASRA);
- West African Capital Markets Integration (WACMI) Operational Rules; and
- The Report of the Meeting of Member States Experts to Validate the WASRA Charter and WACMI Rules;

2. Operations and Administration Committee

- 2020 WAMA Work Programme;
- 2020 WAMA Draft Budget;
- Internal Audit Plan 2020;
- Strengthening the Human Resource Capacity of WAMA; and
- Selection of the Seat of the Common Central Bank

The Technical Committee recommended that WAMA should consider the deadlines for the Roadmap activities and expedite implementation of outstanding activities under the Revised Roadmap. WAMA was also urged to revise the Work Programme by prioritising programmes and activities that are critical for the creation of the single currency. After the discussions, the Technical Committee recommended that WAMA should consider the deadlines slated for the Roadmap activities and expedite implementation of outstanding activities under the Revised Roadmap. The TC also urged WAMA to revise the Work Programme prioritizing programmes and activities that are critical for the creation of the single currency.

Comments:

These recommendations were made at the Technical Committee wings of the 2019 End-Year Statutory Meetings held in Free Town, Sierra Leone from February 6-13, 2020 which preceded the Committee of Governor's (COG) Meeting. The recommendations were subsequently approved by the COG upon presentation by the Technical Committee in the same 2019 End-Year Statutory Meetings in February 2020.

iii. 2019 End-of-Year Statutory Meeting of The West African Institute for Financial and Economic Management (WAIFEM)

The 41st Meeting of the Technical Committee of the West African Institute for Financial and Economic Management (WAIFEM) was held in Freetown, Sierra Leone on February 9, 2020.

The Director-General presented the Progress Report which summarised developments in the Institute during the period July to December 2019. The report was presented under six main headings, namely: Training and Capacity Building Activities; Research Department; Administrative Development; Enhancement of the Institute Infrastructure; International Relations; and Outlook for the next six months.

The report indicated that twenty-five capacity building programmes were successfully implemented during the second half of 2019. The major outcomes of the meetings were the approval of the following:

- Draft Minutes of the 37th Meeting of the Board of Governors;

- Progress Report by the Director General;
- Draft Strategic Plan for Year (2020-2024);
- Draft Budget for Year 2020; and
- Draft Proposals for the Engagement of New External Auditors.

iv. 2019 End-of-Year Statutory Meeting of the West African Monetary Zone (WAMZ)

The 2019 End-of-Year Statutory Meetings of the WAMZ were held from February 10 – 14, 2020 in Freetown, Sierra Leone. The meetings deliberated on the macroeconomic developments and convergence report of the WAMZ as at end-June 2019. The meetings also considered administrative and operational issues of the Institute; and considered the WAMI work programme and budget for the 2020 financial year.

The assessment of the Member States' performance on the primary convergence scale indicated that only The Gambia met all four criteria. Ghana, Guinea, and Sierra Leone attained three criteria each. Nigeria satisfied two criteria, while Liberia satisfied only one criterion. The Technical Committee emphasized the need for statistical and policy harmonisation in the Zone as a critical tool for regional integration.

v. 33rd African Union (AU) Summit

The 33rd Ordinary Session of the Assembly of Heads of State and Government of the African Union held from February 9 – 10, 2020 at the AU Headquarters in Addis Ababa, Ethiopia. The meeting was held under the year 2020 theme: "Silencing the Guns: Creating Conducive Conditions for Africa's Development "

In his opening address, the newly elected Chairperson of the African Union, H.E. President Cyril Ramaphosa of the Republic of South Africa, outlined the priorities that would form the focus of the Union to bolster the progress being made in driving Africa's growth trajectory within the framework of Agenda 2053. These were:

- Deepening the unity of the continent;
- Advancing inclusive economic growth and sustainable development;
- Ensuring political and economic unity, good governance and peace;
- Supporting integration, industrialisation, economic development, trade and investment;
- Development of an appropriate strategy for the fourth industrial revolution;
- Economic and financial inclusion for women and mainstreaming the interests of women;
- Conflict resolution; and
- Championing the position of Africa as a strong and influential player in the global arena.

On the African Continental Free Trade Area (AfCFTA) which is expected to become operational in July 2020, Mr. Ramaphosa noted that it would be a major driver for reigniting industrialisation and paving the way for Africa's integration into the global economy as a player of considerable weight. He, however, noted that the potential of the AfCFTA to boost intra-African trade should not become a conduit for products with minimal African content under the guise of continental integration. He, therefore, reiterated the need to clearly define standards that would be applied to define a product that is proudly made in Africa.

The Bureau of the Assembly of the African Union for 2020 was announced during the meeting with South Africa as the Chair and Democratic Republic of Congo as the Vice Chair. It was also announced that the Democratic Republic of Congo would be the Chair of the Union in 2021.

vi. African Development Bank (AfDB)

The African Development Bank, in collaboration with the government of Nigeria, held a stakeholders meeting in Abuja from February 17-18, 2020 to address the categorisation and location of the Special Agro-Industrial Processing Zones (SAPZs), which were meant to kickstart the agricultural sector/Special Agro-Industrial Processing Zones in Nigeria. The workshop was attended, among others, by Afrexim Bank, the International Finance Corporation (IFC), the Food and Agriculture Organisation (FAO), the Development Bank of Nigeria and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). The forum presented all stakeholders with the opportunity to follow up on outcomes of previous interventions.

Nigeria's strategy is aimed at increasing agricultural productivity and output by focusing on developing key value chains and select the most promising agricultural clusters. Other elements of the strategy include promotion of inclusiveness, increasing yields using modern technologies, improved seed, fertilizers, mechanisation, digitisation, irrigation and maximise positive engagement of youth and women.

vii. Extra-Ordinary Summit of the Authority of Heads of State and Government of the West African Monetary Zone (WAMZ)

The Extra-Ordinary Summit of the Authority of Heads of State and Government of the West African Monetary Zone (WAMZ) was held on virtually on June 23, 2020. The Summit assessed developments in the implementation of the ECOWAS Single Currency Programme 2020, against the backdrop of the West African Economic and Monetary Union's (WAEMU) adoption of the Eco and implications for the Member States of the WAMZ.

It would be recalled that on December 21, 2019, the Chairman of the Heads of State and Government of the Member States of West African Economic and Monetary Union (WAEMU/UEMOA), President Alassane Ouattara, announced that:

- The name of CFA franc currency will be replaced by Eco in 2020;
- The Member States of WAEMU/UEMOA will no longer be required to keep 50.0 percent of their international reserves with the French Treasury and the operating account will be closed;
- The representative of France at all the WAEMU decision-making and management bodies will be withdrawn; and
- The fixed exchange rate regime in the WAEMU/UEMOA will be maintained.

Following the development, the Convergence Council of the WAMZ realised that the announcement by President Ouattara to replace the CFA Franc with Eco ahead of the rest of Member States breached the earlier decisions of the Authority of Heads of State and Government of ECOWAS. The Authority of the Heads of State and Government of the WAMZ viewed the development as indicating lack of trust in the integration programme and resolved to bring it to the attention of the Authority of Heads of State and Government of ECOWAS.

GLOBAL ENGAGEMENTS

i. *World Economic Forum*

The 2020 World Economic Forum (WEF) was held at Davos-Klosters, Switzerland from January 21 – 24, 2020 with the theme: ''Stakeholders for a Cohesive and Sustainable World''. Global leaders from around the world in business, government, international organisations, academia and civil society were in attendance. The annual meeting included several sessions on issues relating to the global economy, energy, technology, business, sustainable growth, health and environment, among others.

The WEF 2020 Annual Meeting featured discussions on four important global issues, bothering on how to:

- Address the urgent climate and environmental challenges that are harming the ecology and economy;
- Transform industries to achieve more sustainable and inclusive business models as new political, economic and societal priorities change trade and consumption patterns;
- Govern the technologies driving the 4th Industrial Revolution so they can benefit business and society while minimising their risks; and
- Adapt to the demographic, social and technological trends reshaping education, employment and entrepreneurship.

ii. *2020 Spring Meetings of the Board of Governors of the World Bank Group and the International Monetary Fund (IMF)*

The 2020 Spring Meetings of the Board of Governors of the World Bank Group (WBG) and the International Monetary Fund (IMF) were held virtually from April 14 – 17, 2020. The Nigerian delegation to the Meetings was led by the Honorable Minister of Finance, Mrs. Zainab Ahmed, supported by the Governor, Central Bank of Nigeria, Mr. Godwin Emefiele (CON). The sideline meetings of the International Monetary and Finance Committee (IMFC) and the Development Committee (DC) were also held.

The IMFC:

- Noted that the global economy will contract sharply in 2020, reflecting necessary health measures to contain the Covid-19 pandemic, disruptions in supply and demand, and tightening financial conditions;
- Projected a recovery in 2021, despite high uncertainty, as all available policy tools are employed to defeat the pandemic, protect jobs, and restore growth;
- Observed that targeted and sizable fiscal support was critical to provide a safety net for the most affected households and businesses and create conditions for a rapid recovery;
- Welcomed the actions of central banks and financial authorities to alleviate stressed global financial conditions and maintain financial stability;
- Welcomed the IMF's crisis response package, comprising streamlined procedures, rapid and enhanced access to emergency financing, including a temporary doubling of the annual access limits under the Rapid Credit Facility and Rapid Financing Instrument, liquidity provision through a new short-term liquidity line for members with very strong fundamentals and policies, and debt service relief to the poorest and most vulnerable countries. They called for additional contributions to ensure that the IMF can support its poorest and most vulnerable members;
- Called on the IMF to explore additional tools that could serve its members' needs as the crisis evolves, drawing on relevant experiences from previous crises; and

- Welcomed the coordinated approach agreed by the G20 and the Paris club, supported by the IMF and World Bank, toward a time-bound suspension by bilateral official creditors of debt service payments for the poorest countries that request forbearance. They called on private creditors to participate in the initiative on comparable terms.

The Development Committee:

- Noted that the global economy was experiencing an exceptional negative shock as a result of COVID-19, and the attendant sharp decline in global investor confidence has severely tightened external financing conditions for countries across the income spectrum;
- Observed that the Pandemic was disrupting trade, supply chains and investment flows, leaving financial and human capital idle, while remittances, transport revenues, and income from tourism have rapidly diminished; and the steep drops in commodity prices are also harming commodity-dependent economies;
- Welcomed the World Bank Group's (WBG) estimated financial support of up to US$150-160 billion over the next 15 months, with a focus on the poorest and vulnerable countries;
- Called on the World Bank to further explore options for the suspension of debt service payments over the suspension period April 2020 and June 2021, while maintaining financial capacity, current rating, and low cost of funding, and to report to its Board in a timely manner; and
- Called on the WBG and IMF to review the debt challenges of middle-income countries, and to explore expeditiously a range of solutions to fiscal and debt stress in those countries on a case-by-case basis.

Selected Macroeconomic and Social Indicators 1/

Indicator	Jun-16	Jun-17	Jun-18	Jun-19 1/	Jun-20 2/
Domestic Output and Prices					
GDP @ Current Mkt Prices (₦ billion)	46,172.8	53,495.2	59,638.2	67,387.1	70,306.8
GDP @ Current Mkt Prices (US$ billion)	227.7	175.0	195.0	219.6	208.5
Nominal GDP per Capita (₦)	503,111.4	567,839.5	616,817.5	679,238.9	690,599.9
Nominal GDP per Capita (US$)	2,480.9	1,857.5	2,017.1	2,213.2	2,047.7
Real GDP per Capita (₦)	353,437.4	343,887.4	340,827.4	339,138.6	323,536.7
Real GDP per Capita (US$)	1,742.8	1,124.9	1,114.6	1,105.0	959.3
Real GDP Growth (%) 3/	-1.1	-0.1	1.7	2.1	-2.2
Oil Sector	*-8.2*	*-6.6*	*4.6*	*2.7*	*-0.8*
Non-oil Sector	*-0.3*	*0.6*	*1.4*	*2.1*	*-2.3*
Sectoral Classification GDP Growth (%) 3/					
Agriculture	3.8	3.2	2.1	2.5	1.9
Industry	-6.9	-1.9	3.4	1.6	-5.0
Construction	-5.8	0.1	3.2	1.8	-16.0
Services	-0.2	-0.6	0.8	2.2	-2.6
Trade	1.0	-2.4	-2.4	0.3	-9.6
Oil Production (mbpd)	1.7	1.6	1.9	1.9	1.8
Manufacturing Capacity Utilisation (%)	45.4	50.3	54.5	54.1	46.2
Inflation:					
Inflation Rate (%) (Year-over-Year)	*16.5*	*16.1*	*11.2*	*11.2*	*12.6*
Inflation Rate (%) (12-month moving average)	*11.4*	*17.6*	*14.4*	*11.3*	*11.9*
Core Inflation Rate (%) (Year-over-Year) 4/	*16.2*	*12.5*	*10.4*	*8.8*	*10.1*
Core Inflation Rate (%) (12-month moving average) 4/	*10.9*	*16.2*	*11.7*	*9.6*	*9.4*
Food Inflation Rate (%) (Year-over-Year)	*15.3*	*19.9*	*13.0*	*13.6*	*15.2*
Food Inflation Rate (%) (12-month moving average)	*11.7*	*17.9*	*17.7*	*13.4*	*14.5*
Fiscal Indicators					
Federal Government Finance (% of GDP) 5/					
Retained Revenue	**2.8**	**4.4**	**3.4**	**3.1**	**2.7**
Total Expenditure	**5.5**	**6.1**	**6.5**	**7.3**	**6.5**
Recurrent Expenditure:	4.1	4.5	4.6	5.3	5.5
Of which: Interest Payments	1.3	1.7	1.8	1.7	2.2
Foreign	*0.1*	*0.1*	*0.2*	*0.3*	*0.4*
Domestic	*1.3*	*1.6*	*1.6*	*1.4*	*1.9*
Capital Expenditure and Net Lending	0.7	1.0	1.5	1.7	0.6
Transfers	0.2	0.3	0.2	0.5	0.2
Current Balance (Deficit (-)/Surplus (+))	**-1.3**	**-0.1**	**-1.2**	**-2.1**	**-2.7**
Primary Balance (Deficit (-)/Surplus (+))	**-1.3**	**0.0**	**-1.3**	**-2.5**	**-1.5**
Overall Fiscal Balance (Deficit (-)/Surplus (+))	**-2.6**	**-1.8**	**-3.1**	**-4.2**	**-3.8**
Financing	**2.6**	**1.8**	**3.1**	**4.2**	**3.8**
Foreign	0.0	0.0	0.0	0.0	0.0
Domestic:	2.6	1.8	3.1	4.2	3.8
Banking System	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Non-Bank Public	*1.1*	*0.0*	*0.7*	*0.0*	*2.0*
Others	*1.5*	*1.8*	*2.4*	*4.2*	*1.7*
Consolidated Government Debt Stock:	**14.9**	**15.5**	**15.8**	**16.1**	**19.1**
External 6/	*3.5*	*4.3*	*5.7*	*6.2*	*8.1*
Domestic	*11.5*	*11.2*	*10.2*	*10.0*	*11.0*

Selected Macroeconomic and Social Indicators 1/ . . . Continued

Indicator	Jun-16	Jun-17	Jun-18	Jun-19 1/	Jun-20 2/
Money and Credit (Growth Rate %)					
Reserve Money	**-7.5**	**-6.3**	**-1.9**	**0.1**	**52.9**
Narrow Money (M_1)	**4.6**	**-5.2**	**-0.3**	**-8.1**	**16.2**
Broad Money (M_2)	**9.2**	**-7.6**	**1.5**	**3.7**	**12.7**
Broad Money (M_3)	**9.6**	**-1.2**	**1.3**	**5.2**	**2.4**
Net Foreign Assets	**15.2**	**-9.2**	**7.7**	**-16.1**	**30.5**
Net Domestic Assets	**7.7**	**1.9**	**-2.8**	**17.2**	**-3.2**
Domestic Claims	14.5	1.2	-5.2	14.2	5.8
Net Claims on Government	19.2	6.8	-36.2	56.9	-6.6
Claims on Other Sectors	13.8	0.1	-0.1	5.3	10.3
of which Claims on Private Sector	*18.9*	*-0.1*	*-4.4*	*4.8*	*8.1*
Money Multiplier for M_3	4.4	5.1	4.5	4.8	2.7
Income Velocity of M_3	4.0	3.9	4.1	3.9	3.9
Interest Rates (% per annum)					
Monetary Policy Rate (MPR) (end period)	12.0	14.0	14.0	13.5	12.5
Repurchase Rate (Average)					
Reverse Repurchase Rate (Average)					
Treasury Bill Rate (Average)					
91-day	8.3	13.5	10.1	9.9	1.9
Inter-bank Call Rate (end-period)	3.5	4.4	5.0	5.0	14.0
Deposit Rates (end-period)					
Savings Rate	*3.6*	*4.1*	*4.1*	*3.9*	*3.8*
3-months Fixed	*6.9*	*9.0*	*9.4*	*9.1*	*4.7*
6-months Fixed	*6.6*	*10.7*	*10.2*	*10.8*	*5.0*
12-months Fixed	*5.2*	*11.2*	*10.1*	*10.6*	*7.1*
Prime Lending Rate (end period)	16.8	17.6	16.8	15.8	12.2
Maximum Lending Rate (end period)	26.9	30.9	31.2	31.0	28.7
External Sector					
Current Account Balance (% of GDP) 5/	-0.3	2.7	3.0	-3.3	-4.2
Goods Account	-1.2	2.4	6.0	0.6	-2.4
Services Account (net)	-1.7	-2.4	-5.5	-7.3	-5.0
Income Account (net)	-1.8	-3.2	-3.7	-2.8	-1.6
Current Transfers	4.4	5.9	6.1	6.1	4.8
Capital and Financial Account Balance (% of GDP) 5/	0.1	1.9	-0.7	1.3	-1.9
Overall Balance (% of GDP) 5/	-0.7	1.9	4.0	1.0	-1.1
External Reserves (US$ million)	26,505.5	30,341.0	47,157.9	44,747.0	35,779.7
Number of Months of Import Equivalent	8.1	11.0	15.3	8.9	8.7
Debt Service Due (% of Exports of Goods and Services)					
Average Crude Oil Price (US$/barrel)	40.5	52.2	72.0	67.9	40.6
Average Official Rate (₦/US$)	202.79	305.70	305.79	306.90	337.26
End of Period Official Rate (₦/US$)	283.00	305.90	305.75	306.90	361.00
Average Bureau de Change Exchange Rate (₦/US$)	325.00	426.85	362.25	359.77	401.44
End of Period Bureau de Change Exchange Rate (₦/US$)	348.00	366.00	360.50	360.00	455.00
Capital Market					
All Share Value Index (1984=100)	29,597.8	33,117.5	38,278.6	29,966.9	24,479.2
Value of Stocks Traded (₦ billion)	313.3	376.8	798.6	539.7	503.6
Market Capitalization (₦ Trillion)	9.8	11.5	13.9	13.2	12.8
Social Indicators					
Population (million)	183.5	188.4	193.4	198.4	203.6
Population Growth Rate (%)	2.6	2.6	2.6	2.6	2.6
Life Expectancy at Birth (Years)	***	***	***	***	***
Adult Literacy Rate (%)	***	***	***	***	***
Incidence of Poverty	***	***	***	***	***

1/ Revised
2/ Provisional
3/ Based on GDP measured at basic prices.
4/ Core Inflation is measured as the rate of change of all-item Consumer Price Index (CPI) less farm produce.
5/ Computations are based on GDP at Current Market Prices.
6/ Includes debts of states and the Federal Capital Territory.
Sources: Central Bank of Nigeria (CBN), Federal Ministry of Finance (FMF), National Bureau of Statistics (NBS), National Population Commission (NPOPC) Nigeria National Petroleum Corporation (NNPC), Nigerian Stock Exchange (NSE) and Debt Management Office (DMO).