Central Bank of Nigeria

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2020
Annual Economic Report

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STATEMENT BY THE GOVERNOR

During the year 2020, the world order was unprecedentedly disrupted by the outbreak of the novel Corona Virus (COVID-19), which started in China in the last quarter of 2019. The ensuing containment measures enforced by the various governments virtually shut down global economic activities as businesses rolled back, household demands weakened, and public finance deteriorated. In Nigeria, the lockdown measures, coupled with unfavourable developments in the international crude oil market, reverberated adversely across all sectors and culminated in a recession.

It is on this backdrop that I present the 2020 Annual Economic Report of the Central Bank of Nigeria. The year was challenging for the world and for Nigeria, in particular, with tumultuous economic and financial developments that were compounded by social and public health emergencies. The Bank's response was to strategically turn the adversity into opportunity by building capabilities that will reposition the Nigerian economy on a sustainable growth path. I, therefore, sincerely thank the Board, Management and entire Staff of the Bank for their immense support, resourcefulness and diligence during the challenging year.

Amidst the social and economic fragilities of the year 2020, the Bank experienced significant changes in its governance structure. To begin with, I wish to acknowledge the contributions of two former Board members who exited the Bank during the year. After five years of meritorious service, Dr. Okwu Joseph Nnanna completed his term as a Deputy Governor, 2 February 2020, while Dr. Mahmoud Isa-Dutse exited the Board as a non-Executive Director on 24 September 2020, following his retirement as the Permanent Secretary, Federal Ministry of Finance, Budget and National Planning. The Bank is immensely grateful to these exited Board members for their selfless services and invaluable input which will be greatly missed. We wish them the best of luck in their future endeavours.

Congruently, I welcome Dr. Kingsley Obiora, who has wide-ranging economic, banking and financial policy analyses experience with the International Monetary Fund. He was appointed a Deputy Governor during the year by President Muhammadu Buhari, GCFR. I also welcome Mr. Aliyu Ahmed, who has extensive economic analysis experience from a broad career in the fiscal sector. He joined the Board in his capacity as the new Permanent Secretary, Federal Ministry of Finance, Budget and National Planning. As I heartily congratulate the new members, I look forward to a cordial and productive working relationship with them. I am absolutely convinced that, with their formidable background and wealth of experience, their contributions will be immeasurable in moving the Bank forward.

The challenges that beleaguered the global economy in 2020 led to an output contraction of 3.50 per cent, as against a growth of 2.90 per cent in 2019. In addition to the disruptive effect of the COVID-19 pandemic, other factors that aggravated global headwinds included: rising trade restrictions among major global economies; lingering Brexit-related issues; uncertainty about the post-pandemic economic policies; concerns about the viability of global value-chains; and country-specific factors. These threats were, *however, mitigated by aggressive fiscal and monetary counter-measures to ease financial conditions, prop economic activities, boost market sentiments, and safeguard the financial system. As a result, monetary policy remained generally accommodative globally. Amidst these developments, global inflation dynamics was uneven, as inflation declined in the advanced economies but ascended in many Emerging Markets and Developing Economies (EMDEs). The upward trend in EMDEs, reflected adverse supply-side disruptions and other underlying structural imbalances.*

In Nigeria, output contracted by 1.92 per cent, in contrast to a growth of 2.27 per cent in 2019. The economy endured enormous headwinds due to the pandemic, which were worsened by debilitating socio-economic factors, subdued external demand, and falling commodity prices. This manifested in significant pressures in many macroeconomic variables. Inflationary pressure heightened in December 2020 to 15.75 per cent from 11.98 per cent in December 2019, reflecting, largely, the effect of logistical bottlenecks and security challenges on food inflation and the pass-through of energy price shocks to core inflation. There was also considerable foreign exchange market pressure that led to an adjustment of interbank exchange rate from ₦307.00/US$ in 2019 to ₦381.00/US$ in 2020, while external reserves dropped by 8.27 per cent to US$34.94 billion during the year.

For the second time, in less than five years, the economy slipped into recession in the third quarter of 2020. Thankfully, the recession was short-lived, as the country rebounded with a growth of 0.11 per cent in the fourth quarter. The gradual expansion was driven by improvements in non-oil activities, especially, due to our delicately balanced monetary policy actions, as well as the intensified effort of the Bank to support the diversification scheme of the Federal Government through various development finance initiatives. Specifically, to strengthen the Nigerian economy and moderate the effects of the pandemic, the Bank rolled out a number of key interventions. These included:

- *A ₦300.00 billion (initially ₦50.00 billion) Targeted Credit Facility stimulus package aimed at cushioning the adverse effects of COVID-19 on households and MSMEs;*
- *A ₦100.00 billion credit support intervention for the healthcare industry to strengthen the sector's capacity to meet demand for healthcare products and services;*
- *A moratorium on all principal repayments and reduction of interest rates on CBN intervention facilities as part of the measures to cushion the effect of the pandemic in the country;*
- *A ₦1.00 trillion loans intervention to boost local manufacturing and production across critical sectors;*
- *Directive to oil companies and oil-servicing companies to sell foreign exchange directly to the CBN to improve market liquidity; and*
- *A regulatory forbearance to banks to restructure terms of facilities in the affected sectors.*

The Bank also enhanced its collaboration with the fiscal authorities to bolster high-impact productive ventures, improve aggregate supply, and push down prices. These policies were reinforced by favourable outcomes in international crude oil market as the spot price of Bonny Light (37 °API) closed at US$51.27 per barrel on 31 December 2020 having fallen to an all-time low of US$7.15 per barrel on 21 April 2020.

Although global economic output is recovering from the collapse precipitated by COVID-19, the facts on ground indicate that it may remain below pre-pandemic trends for a prolonged period. Therefore, our response to the current economic challenge today will, no doubt, shape our common future for years to come. Our inclination is to seize the opportunity of the current global economic crisis to achieve a diversified economy with strong fundamentals, durable, sustainable and all-inclusive development for the benefit of all Nigerians.

Let me conclude by expressing my profound gratitude, once again, to the Board, Management and Staff of the Central Bank of Nigeria for their uncommon commitment, loyalty, innovativeness and unwavering zealousness in the face of challenges. The willingness to work, both remotely and onsite, on rotational basis, contributed immensely to the success recorded in the year. I also wish to thank the Presidency, the distinguished leadership of the National Assembly, Honourable Ministers of the Federal Republic, Nigeria's developmental partners, the organised private sector, as well as other stakeholders for their sustained support and co-operation all through the year. It is our hope that the year 2021, shall be a better one for us all.

Godwin I. Emefiele, *CON,*

Governor,
Central Bank of Nigeria.
December 2020.

EXECUTIVE SUMMARY

This Report reviews the operations and policies of the Central Bank of Nigeria (CBN) in response to global and domestic macroeconomic developments in 2020. It is structured in two parts. The first part highlights the activities and operations of the Bank while the second reviews the performance of the economy vis-à-vis the various policies implemented by the Bank to promote macroeconomic stability and engender growth. The Bank focused on achieving its key mandate of monetary and price stability by keeping banking system liquidity at optimal level to stimulate aggregate demand and economic recovery following the devastating effects of the COVID-19 pandemic. It adopted an accommodative monetary policy stance throughout the year in response to the precarious global and domestic economic conditions. A combination of conventional and unconventional policies was implemented to enhance credit flow to targeted sectors that were worst hit by the pandemic, to boost economic activities and stimulate growth.

Notwithstanding these measures, the economy slipped into recession following a contraction in output in the second and third quarters of the year. Aggregate output, however, grew by 0.11 per cent in the fourth quarter of 2020, in contrast to negative 3.62 per cent in the preceding quarter, indicating an end to the recession. The earlier-than-expected exit from recession, demonstrated the resilience of the domestic economy, buoyed by the various fiscal and monetary policy interventions and sustained implementation of the Nigeria Economic Sustainability Plan (NESP). On a year-on-year basis, the economy contracted by 1.92 per cent in 2020, in contrast to a growth of 2.27 per cent in 2019. Headline inflation maintained a consistent upward trend throughout the review period, closing at 15.75 per cent. This indicated an increase of 3.77 percentage points above the level at end-2019. Furthermore, the exchange rate premium between the average I&E and Bureau-de-change (BDC) rates widened to 13.0 per cent in 2020, compared with 0.7 per cent in 2019.

Leadership and Governance

There were two changes in the membership of the Board of Directors of the CBN in 2020. Dr. Kingsley I. Obiora was appointed Deputy Governor, on 2 March 2020 following the expiration of the tenure of Dr. Okwu J. Nnanna on 2 February 2020. Mr. Aliyu Ahmed was appointed Non-Executive Director, on 25 September 2020 to replace Dr. Mahmoud Isa-Dutse, former Permanent Secretary, Federal Ministry of Finance, Budget and National Planning, who retired from the public service on 24 September 2020.

The Board of Directors held five regular meetings while the Committee of Governors held fifty. The Finance and General-Purpose Committee held four meetings while the Remuneration, Ethics, and Anti-Corruption; Corporate Strategy; Financial System Stability; Pension Fund Management; Investment; and Audit, Risk and

Cybersecurity Committees, held three meetings each, in the review period.

The Monetary Policy Committee

The Monetary Policy Committee held six regular meetings in 2020; in January, March, May, July, September and November. At these meetings, major developments in the global/domestic economic and financial environments were reviewed. Appropriate monetary policy decisions were taken and promptly communicated to the public.

Mandate Operations

The Bank adopted an accommodative monetary policy stance in 2020 to mitigate the devastating impact of the COVID-19 pandemic on the economy. Consequently, liquidity surfeit remained a persistent feature of the banking system during the year. The major change in policies were: the upward review of the Cash Reserve Ratio (CRR) to 27.5 per cent in January 2020, from 22.5 per cent; the reduction of the monetary policy rate (MPR) by 100 basis points in May 2020, from 13.5 per cent and a further reduction in the MPR by 100 basis points to 11.5 per cent in September 2020, from 12.5 per cent, with the asymmetric corridor adjusted from +200/-500 basis points to +100/-700 basis points around the MPR, for the Standing Lending Facility (SLF) and Standing Deposit Facility (SDF), respectively. The increase in the CRR and retention of the Liquidity Ratio (LR) at 30.0 per cent during the year, was intended to manage the resultant banking system liquidity.

In furtherance of the Bank's mandate to produce and ensure that there were adequate banknotes to meet the needs of the economy, an indent of 2,518.68 million pieces of banknotes of various denominations was approved by the CBN to be printed by the Nigerian Security Printing and Minting Company (NSPM) PLC. This represented a decrease of 34.3 per cent from 3,830.94 million pieces approved in 2019. The company printed 100 per cent of the indent, compared with 79.6 per cent delivered in the preceding year. Banknotes in circulation rose significantly in 2020 with strong preference for high-denomination notes. At ₦2,907.13 billion at end-December 2020, Currency-in-Circulation (CIC) increased by ₦465.47 billion or 19.1 per cent above ₦2,441. 66 billion in 2019, due to release of funds by the Bank for the various intervention schemes and reduced cost of credit amidst the COVID-19 pandemic containment measures. Furthermore, the Bank initiated the establishment of a digital forensic currency laboratory to ensure that naira banknotes meet the Bank's stipulated standards and enhance its currency management operations. The facility would aid independent authentication and quality assessment of various input of the banknotes.

The foreign exchange market witnessed increased demand pressure attributed to foreign exchange liquidity shortage, induced by the COVID-19 pandemic, which negatively affected foreign exchange earnings and weakened the exchange rate. The Bank continued to operate special windows to ease access to foreign exchange for small and medium enterprises and invisible transactions. In addition, the Bank sustained its intervention in the secondary segment of the foreign exchange market to ensure adequate liquidity and stabilise the exchange rate. The premium between the average interbank and BDC rates widened to 20.9 per cent in 2020 from 17.1 per cent in 2019 while that between the average I&E and BDC rates widened to 13.0 per cent in 2020 from 0.7 per cent in 2019.

At end-December 2020, the structure of the Nigerian banking sector remains unchanged while the number of licensed banks increased to 30 compared with 29 in the preceding year. This followed the issuance of a licence to Greenwich Merchant Bank. The licensed banks comprised twenty-two commercial banks, six merchant banks and two non-interest banks. In the Other Financial Institutions (OFIs) sub-sector, there were 6,532 licensed institutions at end-December 2020, compared with 6,191 institutions in 2019. The OFIs sub-sector comprised 7 DFIs, 34 PMBs, 874 MFBs, 87 FCs and 5,530 BDCs.

The Bank sustained its supervisory and surveillance activities in 2020 with a view to promoting public confidence in the Nigerian banking system. The risk-based supervision (RBS) approach remained the pivot of its supervisory framework. In the review period, the Bank finalised the development of the Basel III Guidelines on: Liquidity Coverage Ratio (LCR); Liquidity Monitoring Tools (LMT); Leverage Ratio (LeR); Large Exposures (LEX); and Regulatory Capital (which encompasses standards for Risk-Based Capital definition (RBC), Capital Conservation Buffer (CCB1), Countercyclical Buffer (CCB2) and Higher Loss Absorbency (HLA)). However, given the impact of the COVID-19 pandemic, and in line with Basel Committee on Banking Supervision (BCBS) recommendation, the implementation date for Nigeria as well as the issuance of the finalised Guidelines were put on hold.

The review of the Internal Capital Adequacy and Assessment Process (ICAAP) reports of 13 banks with Composite Risk Rating (CRR) of High/Above-Average, as at 31 December 2019, was carried out during the review year. The exercise revealed that all the 13 banks adopted the Standardised Approach for the assessment of Pillar I Risks, while different internal approaches were adopted for Pillar II Risks.

In the review period, the Bank provided technical assistance in the areas of supervision/regulation of Basel standards and capital requirement to the College of Supervisors of the West African Monetary Zone (CSWAMZ); Community of African Banking Supervisors (CABS); Bank of Uganda; and the Central Bank of Seychelles.

During the year, efforts by MFBs to comply with the CBN recapitalisation directive were hampered by the effects of the COVID-19 pandemic. Consequently, the Bank extended the deadline for compliance with the new minimum capital requirements from end-April 2021 to end-April 2022. By the end of 2020, 259 MFBs had met the new capital requirement, while the capital levels of 499 MFBs were either below or equal to 50.0 per cent of the new minimum regulatory capital. At end-December 2020, 513 out of the 912 MFBs, had submitted their BVN enrolment data to the CBN. This brought the total enrolment to 1.9 million, representing 21.3 per cent of the 8.9 million active customers. The ongoing implementation of the National Association of Microfinance Unified Information Technology (NAMBUIT) platform, a core banking application for MFBs, and the integrated BVN portal and/or module, will boost the number of customers enrolled.

The CBN continued to provide oversight on compliance by banks 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. At end-December 2020, the total number of credit facilities on the CRMS database stood at 21.62 million, representing an increase of 102.1 per cent above the end-December 2019 position of 10.69 million. The number comprised 20.89 million individual borrowers and 0.73 million non-individuals. The improvement in credit record was due to increased compliance by banks, following strict enforcement of the Regulatory Guidelines on the CRMS by the CBN.

To address the risks of money laundering and terrorism financing, the Bank strengthened its collaboration and co-operation with both domestic and international stakeholders in compliance with the Financial Action Task Force FATF Recommendations 2 and 40. The Bank upgraded the AML/CFT Off-site Risk Assessment Methodology (ORAM) Framework in compliance with the FATF Recommendation 1 on assessing risks and application of risk-based approach.

Despite the lull in the global financial markets and adverse shocks to global capital flows, the financial sector remained stable and resilient in 2020. The health of banks was generally sound, as the industry levels of capital adequacy and liquidity ratios remained above the regulatory minimum. The industry Capital Adequacy Ratio (CAR) rose to 15.1 per cent at end-December 2020, compared with 14.5 per cent at end-December 2019, which was above the 15.0 per cent threshold for banks with international authorisation and 10.0 per cent for banks with either national or regional authorisation. The industry's liquidity ratio, decreased to 65.5 per cent at end-December 2020, compared with 103.9 per cent at end-December 2019, reflecting the decline in banks' stock of liquid assets. The asset quality of the banking industry stood at 6.1 per cent at end-December 2020, same as end-December 2019, and above the regulatory threshold of 5.0 per cent.

The Bank continued to implement policy measures to enhance the credibility, reliability, and efficiency of the payments system. The measures resulted to a surge in the uptake of contactless and other non-cash payment options in the wake of lockdowns and shutdowns of businesses during the period. Furthermore, the Bank sustained its existing development finance interventions and introduced new ones to mitigate the adverse effects of the COVID-19 pandemic, which severely disrupted business activities, household livelihoods and healthcare services. To increase the depth and coverage of its interventions, the Bank further developed frameworks for the implementation of non-interest window for eleven of its existing development finance programmes and schemes. Accordingly, the implementation of the existing ones such as the Agricultural Credit Guarantee Scheme (ACGS); Commercial Agriculture Credit Scheme (CACS); Micro, Small and Medium Enterprises Development Fund (MSMEDF); Power and Airlines Intervention Fund (PAIF); Anchor Borrower's Programme (ABP); Paddy Aggregation Scheme (PAS); Agribusiness/Small and Medium Enterprises investment Scheme (AGSMEIS); among others, was sustained. The Bank also introduced new ones such as the Nigeria Youth Investment Fund (NYIF); and Targeted Credit Facility (TCF) as a stimulus package to support households and micro, small and medium enterprises (MSMEs) affected by the COVID-19 pandemic, with a view to cushioning the adverse effect of the COVID-19 Pandemic on these critical segments of the economy.

Corporate Activities

During the year under review, the Bank's focus was largely to meet its mandate, despite disruptions caused by the COVID-19 pandemic and the EndSARS protest. It sustained and fortified cyber resilience of the IT infrastructure and services against cyber-attacks of any form. The CBN accelerated the implementation of the digital transformation strategy by immediately launching IT services that enabled staff to work remotely at any time. The development ensured continuity of business operations and sustained the stability of the financial system in a period of emergency. Other achievements were: the reduction in phishing rate from 10.0 per cent to 4.8 per cent (below the industry target of 8.0 per cent) and the successful completion of a remotely conducted ISO27001 annual audit exercise, with zero nonconformity.

During the period under review, the Bank experienced varied disruptions to its regular activities occasioned by the COVID-19 pandemic. In response, the Bank established an Inter-Departmental Committee on COVID-19 to coordinate and communicate the relevant activities to staff. In addition, the Business Continuity Plan of the Bank was reviewed and activated for the seamless delivery of operations. The CBN also conducted virtual security and safety awareness training for staff in all its locations to enhance personal safety and wellbeing. Similarly, the Bank deployed body temperature thermal screening cameras at the Head Office and Lagos Office to provide a more discrete, efficient and effective method of identifying and managing staff with high temperature that need further screening with virus-specific tests.

The Bank continued to strengthen the legal and regulatory framework to improve the overall effectiveness of the financial system in line with its mandate. To this end, relevant bills from the National Assembly were reviewed, including: the Banks and Other Financial Institutions Amendment Bill, 2020; Finance Bill, 2020; Insurance Bill, 2020; Foreign Exchange Bill, 2020; National Rice Development Council Bill, 2019; Electronic Transactions Bill, 2020; Petroleum Industry Bill, 2020; Food Security Bill, 2019; Nigeria Oil Palm Industrial Park Bill, 2019; and Draft Model Act (DMA) for Specialised Deposit-Taking Institutions and Specialised Deposit-Taking Holding Companies of the West African Monetary Zone (WAMZ).

At end-December 2020, a total of fifty-three Departmental audits, thirty-nine Process audits and seventy-six Branch audits, were carried out. Also, one hundred and ninety-one currency disposal operations, requiring audit witnesses, were completed.

ECONOMIC REPORT

The Global Economy

Global output contracted by 3.5 per cent in 2020, in contrast to a growth of 2.9 per cent in 2019, due largely to the disruptive effects of the COVID-19 pandemic. In advanced economies, output contracted by an average of 4.5 per cent in contrast to a growth of 1.6 per cent in 2019. Similarly, output in emerging markets and developing economies contracted by 3.3 per cent in 2020, as against an expansion of 3.7 per cent in 2019, due to a combination of factors, including the spread of the virus, elevated public debt, and risks associated with high dependence on external finance as well as lower remittance inflows. Output contracted by 2.6 per cent in sub-Saharan Africa in 2020, in contrast to a growth of 3.2 per cent in 2019 due to the disruptive impact of the COVID-19 pandemic.

Global inflation remained subdued in 2020, due largely to the negative output gap, occasioned by dwindling oil prices. In the advanced economies, inflation was below central banks' target in many countries.

The 2020 Spring and Annual Meetings of the Bretton Woods Institutions (BWIs) were held virtually from Washington DC, from 14-17 April 2020 and 13-20 October 2020, respectively. The meetings noted the threats posed by the COVID-19 pandemic to the global economy, and thus, welcomed the various combinations of fiscal and monetary policies implemented at national levels as well as the support from multilateral financial institutions, to mitigate the impact of the pandemic on the vulnerable groups. At the continental level, the meeting of Heads of State and Government of the African Union (AU) noted that the African Continental Free Trade Area (AfCFTA) would be a major driver for re-igniting industrialisation and paving the way for Africa's integration. Within the sub-region, the WAMZ Technical Committee advised member states to sustain the short-term efforts at curbing the spread and mitigating the impact of the COVID-19 pandemic, while fast-tracking the implementation of reforms to address structural challenges and enhance resilience to social and economic shocks.

Fiscal Operations of Government

The main thrust of fiscal policy, in 2020, was to accelerate the pace of economic recovery, promote economic diversification, enhance competitiveness and ensure social inclusion. Fiscal policy implementation in the year was adversely affected by macroeconomic shocks induced by the COVID-19 pandemic. Accordingly, provisional federally collected revenue (gross) was ₦9,276.10 billion (6.0 per cent of GDP) in 2020, indicating a decline of 9.6 per cent, relative to its level in 2019. The drop reflected declining oil revenue and lower tax returns attributed to the COVID-19 pandemic. Overall, oil revenue (gross) was ₦4,732.50 billion (3.0 per cent of GDP), or 51.0 per cent of total, while non-oil revenue (gross), at ₦4,543.60 billion (2.9 per cent of GDP), accounted for 49.0 per cent of total revenue.

The consolidated revenue and expenditure of the general government was ₦9,595.98 billion (6.2 per cent of GDP) and ₦16,639.76 billion (10.8 per cent of GDP) respectively, resulting in an overall deficit of ₦7,540.63 billion (4.9 per cent of GDP).

Federal Government retained revenue and aggregate expenditure at ₦3,982.14 billion (2.6 per cent of GDP) and ₦10,231.73 billion (6.6 per cent of GDP) respectively, resulted in an overall deficit of ₦6,248.59 billion (4.1 per cent of GDP), compared with ₦4,820.67 billion (3.3 per cent of

GDP) in 2019. The deficit which was above the revised WAMZ primary convergence criterion and the requirement of the Fiscal Responsibility Act, 2007 of 3.0 per cent of GDP was financed largely, from domestic sources.

The consolidated public debt stock, at end-December 2020, stood at ₦32,915.51 billion or 21.3 per cent of GDP, an increase of 20.1 per cent above its level at end-December 2019. The increase was attributed to the receipt of Budget Support Loan from the International Monetary Fund (IMF), new domestic borrowing to finance the revised 2020 Appropriation Act, which included the issuance of a ₦162.56 billion Sukuk bond for financing infrastructure, and Promissory Notes to settle claims of exporters. The Federal Government obligation accounted for 81.9 per cent of the total outstanding debt, while State Governments accounted for the balance of 18.1 per cent.

The Real Sector

Gross Domestic Product (GDP) measured at 2010 constant basic prices contracted by 1.92 per cent in 2020, in contrast to a growth of 2.27 per cent in 2019. The contraction was driven, largely by the oil sector, which shrank by 8.89 per cent, whereas the non-oil sector contracted by 1.25 per cent during the review period. The Industrial and Services sectors contracted by 5.85 and 2.22 per cent respectively, while the agricultural sector sustained its modest growth trajectory in 2020, expanding by 2.17 per cent, compared with 2.36 per cent in 2019. The contraction in output reflected the adverse impact of the COVID-19 pandemic on global and domestic supply chains and weak demand, arising from the weaker consumer purchasing power. The economy, however, showed resilience despite the devastating impact of the pandemic, as the contractions of 6.10 per cent and 3.62 per cent in the second and third quarters of the year, respectively were reversed in the fourth quarter, with output growth of 0.11 per cent. The diligent implementation of the Nigeria Economic Sustainability Plan (NESP) and the various intervention measures by the government, were largely responsible for the outcome.

Headline inflation (Year-on-Year) maintained an upward trajectory all through 2020, rising from 12.13 per cent in January 2020 to 15.75 per cent at end-December 2020. Similarly, the 12-Month moving average inflation exhibited a consistently upward trend throughout the year, closing at 13.21 per cent in December 2020. The sustained increase in headline inflation was attributed, mostly, to supply shocks that heightened pressure on domestic food and non-food prices.

Average spot price of Nigeria's reference crude, the Bonny Light (37^{o} API) was US$42.18 per barrel in 2020, compared with US$66.41 per barrel in 2019, a decrease of 36.5 per cent. Similarly, average price of the OPEC basket of thirteen crude streams was US$41.42 per barrel, representing a decline of 35.3 per cent, compared with its price in the preceding year. The decline in oil price was due to downturn in economic activities, which resulted in a decline in demand and glut in the international oil market.

The External Sector

The performance of the external sector remained weak in 2020 with an overall balance of payments deficit of US$1.66 billion (0.4 per cent of GDP), compared with US$4.49 billion (1.0 per cent of GDP) in 2019. The deficit was as a result of substantial decline in foreign exchange earnings, increased demand pressure for capital repatriation, and deteriorating external reserves, owing to the disruptive effects of the COVID-19 pandemic. The financial account recorded a net acquisition of financial assets of 1.2 per cent of GDP, lower than the 4.5 per cent of GDP in 2019. The current account recorded a higher deficit of 4.0 per cent of GDP, compared with 3.1 per cent of GDP in 2019.

The stock of external reserves at end-December 2020 was US$36.48 billion, compared with US$38.09 billion at end-December 2019. The reserve level could finance 8.4 months (goods only) or 6.1 months (goods and services) of current import commitments. This was higher than both the international benchmark and the West African Monetary Zone (WAMZ) convergence criterion of three months import cover. The stock of external public debt increased by 20.5 per cent to US$33.35 billion (7.7 per cent of GDP) at end-December 2020, relative to the US$27.68 billion (5.8 per cent of GDP) at end-December 2019 but remained within the international threshold of 40.0 per cent of GDP. The International Investment Position (IIP) recorded a net financial liability of US$81.86 billion in 2020, compared with US$73.42 billion in 2019, indicating an increase of 11.5 per cent. The development was attributed to new borrowing to mitigate the effect of the COVID-19 pandemic and meet BOP needs.

The average exchange rate of the naira to the US dollar at the interbank market depreciated by 14.5 per cent to ₦358.81/US$, compared with ₦306.92/US$ in 2019. At the BDC segment, the naira depreciated by 17.1 per cent to ₦433.70/US$, relative to ₦359.53/US$ in 2019. The end-period interbank exchange rate closed at ₦381.00/US$, indicating a 19.4 per cent depreciation, compared with ₦307.00/US$ at end-December 2019. Similarly, the end-period BDC rate, closed at ₦465.00/US$ in 2020, a depreciation of 22.2 per cent, compared with ₦362.00/US$ in 2019.

The Monetary Sector

Growth in monetary aggregates in 2020, reflected the accommodative monetary policy stance of the Bank. Both M_3 and M_2 grew by 13.54 and 30.57 per cent, respectively, compared with 6.45 and 9.16 per cent, at end-December 2019. The increase reflected, largely, the expansionary monetary policy stance of the Bank in response to the challenges of the COVID-19 pandemic. Aggregate bank credit to the economy grew by 15.91 per cent and was marginally above the benchmark of 13.20 per cent, while credit to private sector which grew by 15.16 per cent, performed below its 2020 benchmark of 18.61 per cent. Net foreign assets (NFA) of the banking system increased by 19.97 per cent in 2020, in contrast to the decline of 49.79 per cent recorded in 2019. Interest rates were, generally, lower than the levels in the preceding year reflecting excess liquidity in the banking system.

Indicators of financial sector performance showed mixed developments in 2020. The size of the financial sector, measured by the ratio of total monetary assets to GDP and banking system's assets to GDP, improved by 25.7 per cent and 66.8 per cent respectively compared with 23.9 per cent and 57.7 per cent, in 2019. The capacity of the banking system to finance economic activities, measured by the ratio of aggregate credit to GDP, rose by 27.6 per cent, compared with 25.2 per cent in the preceding year. Credit to the core private sector as a proportion of GDP, rose by 21.1 per cent at the end of the review period, compared with 11.2 per cent in 2019. However, the indicator of intermediation efficiency, measured by the ratio of currency outside banks to broad money supply, deteriorated slightly to 6.3 per cent at end-December 2020, compared with 5.8 per cent at end-December 2019.

Part 1:

Activities of the Central Bank of Nigeria

"We are strengthening the Nigerian economy by providing a combined stimulus package of about ₦3.5 trillion in targeted measures to households and businesses, to support the Federal Government's fight against COVID-19 and build a more resilient, more self-reliant Nigerian economy"

Godwin I. Emefiele, CON

LEADERSHIP

Mission

Central Bank of Nigeria

"To be proactive in providing a stable framework for the economic development of Nigeria, through the effective, efficient and transparent implementation of monetary and exchange rate policy and management of the financial sector"

Vision

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

Key Objectives

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

Strategic Focus

- Preserving macroeconomic and financial stability
- Foster the development of a robust payments system
- Targeted development finance
- Grow external reserves
- Diversify the economy through intervention programmes

Core Values

- Meritocracy
- Leadership
- Learning
- Customer-focused

Strategic Focus (2019-2024)

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

"The strategic focus of the Central Bank of Nigeria, over the next five years is, primarily, driven by the need to support continued growth and development of the Nigerian economy"

Strategy

Preserve Domestic Macroeconomic and Financial Stability

- Achieve single-digit inflation and accelerate the rate of employment;
- Support improved productivity in the agricultural and manufacturing sectors;
- Improve the supervision of financial institutions and pursue the recapitalisation of the Banking Industry; and
- Develop a robust mechanism to protect against loss of data, fraud and cybercrime.

1. Foster the development of a robust payment system infrastructure

- Improve speed and efficiency of payment channels and ensure they are safe and secure;
- Develop a regulatory sandbox in collaboration with NIBSS, Banks and Fintechs; and
- Support the spread and utilisation of digital modes of transactions and ensure the interoperability of payment channels.

1. Targeted Development Finance

- Financial Inclusion;
- Access to Credit; and
- Consumer Lending – lending to MSMEs and mortgage lending.

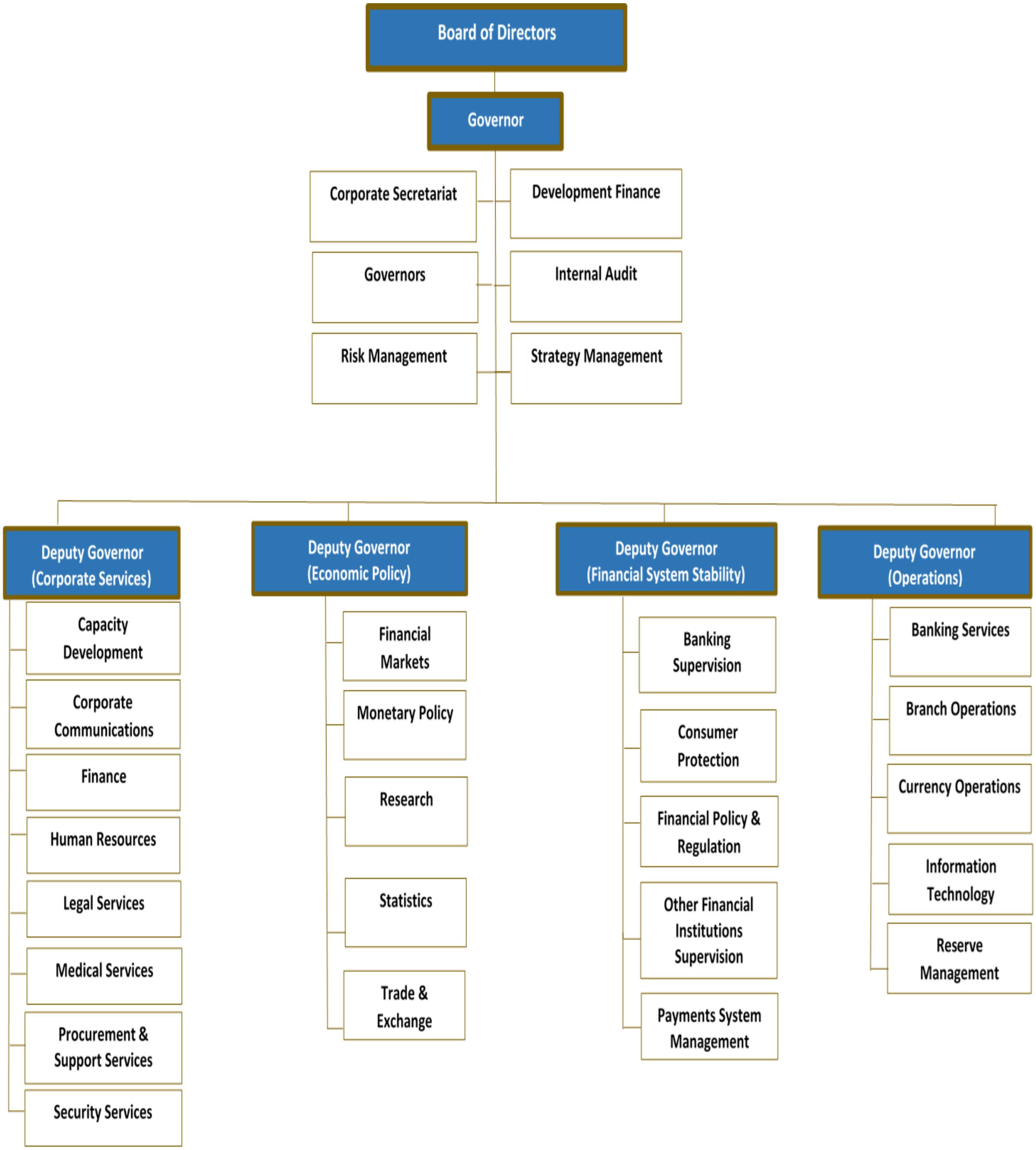
1. Grow External Reserves

- Increase and diversify Nigeria's exports base ; and
- Aggressively implement the N500bn facility for growth of non-oil exports.

1. Support efforts at diversifying the Economy through intervention programmes in the agriculture and manufacturing sectors

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

GOVERNANCE STRUCTURE



GOVERNORS' PROFILES

Godwin I. Emefiele, CON

Governor and Chairman, Board of Directors

Since 3 June 2014.

Prior to his appointment as the Governor of the Central Bank of Nigeria in June 2014, Godwin I. Emefiele (CON) was the Chief Executive Officer and Group Managing Director of Zenith Bank PLC. With over 35 years of experience in the banking sector, he helped to grow Zenith Bank in his executive capacities at various times, superintending Corporate Banking, Treasury, Financial Control and Strategic Planning. Before his banking career, he held teaching appointments, first, at the University of Nigeria, Nsukka and then, the University of Port Harcourt, where he taught Finance and Insurance, respectively. He is also an alumnus of Executive Education at Stanford University, Harvard University and Wharton Graduate Schools of Business. Emefiele holds B.Sc. and MBA degrees in Banking and Finance, and an Honourary Doctorate degree in Business Administration from the University of Nigeria, Nsukka.

Aishah N. Ahmad (Mrs.), CFA, CAIA

Deputy Governor, Financial System Stability
Board Member

Since 23 March 2018.

Aishah Ahmad is a seasoned financial policy expert with experience spanning over twenty years. She is an Honorary Fellow of the Chartered Institute of Bankers of Nigeria (CIBN) and holds the Chartered Financial Analyst (CFA) and Chartered Alternative Investment Analyst (CAIA) designations. She has held many leadership positions across private wealth, investment management, and banking in major financial institutions including Executive Director at the then Diamond Bank PLC. She obtained a bachelor's degree in Accounting from the University of Abuja, MBA (Finance) from the University of Lagos, and MSc. in Finance and Management from Cranfield University, UK. She is also an alumnus of Executive Education at Harvard Kennedy School.

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Edward L. Adamu

Deputy Governor, Corporate Services
Board Member

Since 23 March 2018.

Mr. Edward Adamu is a strategy and knowledge management specialist with over 35 years of professional experience. Prior to his appointment as Deputy Governor, he was Director, Strategy Management and Director of the Human Resources Departments, at the Central Bank of Nigeria, having risen through the ranks. He holds a B.Sc. degree in Quantity Surveying from the Ahmadu Bello University, Zaria and has received several certifications from world-class institutions, including the Executive Certificate in Economic Development from the Harvard Kennedy School. Mr. Adamu is a fellow of the Nigerian Institute of Quantity Surveyors and the Institute of Credit Administration.

Folashodun A. Shonubi

Deputy Governor, Operations

Board Member

Since 17 October 2018.

Mr. Shonubi is a seasoned information technology-driven banker with over 30 years professional experience. Prior to his appointment, he held several positions, including the Managing Director NIBSS PLC, and Executive Director, Information Technology and Operations at Union Bank of Nigeria PLC. He has worked in several financial institutions in executive IT and Treasury roles; was a Director, Information Technology and Corporate Services in Renaissance Securities Nigeria limited with responsibility for the Group's IT infrastructure in Africa and was Executive Director in Ecobank Nigeria Limited. He holds two Masters Degrees, in Business Administration and Mechanical Engineering, both from the University of Lagos.

Dr. Kingsley I. Obiora

Deputy Governor, Economic Policy

Board Member

Since 2 March 2020.

Dr. Obiora is an economist with vast working experience in regional and international institutions, including the West African Monetary Institute (WAMI), Accra, Ghana and the International Monetary Fund (IMF), Washington DC, USA. Before his appointment as a Deputy Governor in the CBN, he was on the Board of the IMF as an Alternate Executive Director, representing the interests of 23 African Countries, including Nigeria. Earlier in his career, he was a Special Assistant to the President's Chief Economic Adviser, a Technical Adviser to the National Economic Management Team, and the Special Adviser on Economic Matters to the CBN Governor. Dr. Obiora holds a B.Sc. in Economics and Statistics from the University of Benin and Master and Doctorate degrees in Economics from the University of Ibadan.

NON-EXECUTIVE DIRECTORS' PROFILES

Prof. Justitia O. Nnabuko

Non-Executive Director

Board Member

Since 7 July 2018.

Professor Justitia Nnabuko is an academic with a wealth of experience having served in various capacities at the University of Nigeria (UNN) since 1983. She holds a B.Sc. in Business Education from UNN, a PhD from the same University and became a Professor of Marketing in 2010. Prior to her appointment as a member of the CBN Board, she was the Dean of the Faculty of Business Administration at UNN. Prof. Nnabuko is a Fellow of the National Institute of Marketing of Nigeria, member of the Academy of Management, Nigeria, Nigerian Institute for Public Relations, Institute of Management Consultancy and National Association of Women of Academics.

Prof. Mike I. Obadan

Non-Executive Director

Board Member

Since 7 July 2018.

Professor Michael Obadan brings to the CBN Board a wealth of knowledge and broad experience acquired from numerous capacities both locally and internationally. He is currently a Professor of Economics at the University of Benin, Edo State. In the course of his career, he held various Senior Management positions, including Director-General, National Centre for Economic Management and Administration, Dean of the Faculty of Social Sciences, University of Ibadan, Research Director/Adviser of New Nigeria Bank Limited, and Chairman, Economic Policy Analysis and Management Network, Harare, Zimbabwe. Professor Obadan obtained his B.Sc. and PhD degrees in Economics from the University of Ibadan and is a fellow and member of many professional bodies. He is widely published and has received numerous awards.

Adeola S. Adetunji

Non-Executive Director

Board Member

Since 7 July 2018.

Mr. Adeola Adetunji holds a B.Sc. degree in Economics from the University of Ife, MBA from the University of Pittsburgh, USA and joined the CBN Board with vast Boardroom and Senior Management experience. At various times before his appointment, he served as the MD/CEO of Coca-Cola Nigeria Limited, MD Waveside Limited, MD Coca-Cola Sabco North & East Africa, among others. Mr. Adetunji is a member of the Global Advisory Council, University of Pittsburgh, USA; Young Presidents Organisation, and a Non-Executive Director at AIH Properties, South Africa.

Prof. Ummu A. Jalingo

Non-Executive Director

Board Member

Since 7 July 2018.

Professor Ummu Ahmed Jalingo began her professional career in 1997 as a Lecturer in Bayero University, Kano (BUK), where she rose to the position of Professor in 2010. She was the Head of the Economics Department, BUK from 2009 to 2013, and is currently the Director of the Centre for Social and Economic Research (CSER) in the Federal University, Dutse. She holds a B.Sc. degree in Economics from BUK and a PhD in Economics from the Usman Danfodio University, Sokoto. She is a member of many professional bodies and a recipient of many awards in recognition of her contributions to National Development.

Ahmed Idris

Accountant General of The Federation

Board Member

Since 7 July 2018.

Mr. Ahmed Idris is a Non-Executive Director of the CBN Board in his capacity as the Accountant-General of the Federation. He holds a B.Sc in Accountancy and an M.Sc. in International Affairs and Diplomacy from the Ahmadu Bello University, Zaria as well as an MBA from Bayero University, Kano. He is a vastly experienced accountant, who began his career with the organised private sector before joining the Federal Public Service in 2000. His public service experience spans various MDAs, including the Petroleum (Special) Trust Fund, National Poverty Eradication Programme, Ministry of Police Affairs, Federal Ministry of Interior, the Nigeria Security and Civil Defense Corps, and Ministry of Mines and Steel Development before his appointment as the Accountant-General of the Federation. Mr. Idris is a fellow and member of many professional bodies.

Dr. Abdu Abubakar

Non-Executive Director

Board Member

Since 4 April 2019.

Dr. Abdu Abubakar holds a First Class honours B.Sc. degree in Quantity Surveying from the Ahmadu Bello University, Zaria. He has over thirty years of combined experience in his academic and non-academic careers. Dr. Abdu is an expert in Construction Economics and Management and has served in various capacities, including Executive Director in charge of Banking Operations and Services at First Bank PLC. He also held senior positions in ATM Consortium Limited, Interswitch Limited, First Pension Custodian Nigeria Limited and Rainbow Town Development Limited. He was also a Special Assistant to the Honourable Minister of State for Education and Special Adviser to the Governor of the Central Bank of Nigeria on Private Sector and Parastatals.

Aliyu Ahmed

Board Member

Permanent Secretary, Federal Ministry of Finance

Appointed 25 September 2020.

Mr. Aliyu Ahmed is a Non-Executive Director of the CBN Board in his capacity as the Permanent Secretary, Ministry of Finance. He holds a B.Sc. in Quantity Surveying from Ahmadu Bello University, Zaria, Nigeria and a M.Sc. in Financial Economics from the University of Strathclyde, Glasgow, United Kingdom as well as an MBA in Finance from the University of Lagos. Mr. Aliyu served as a Lecturer in the Department of Economics and Management Studies Usmanu Danfodiyo University, Sokoto, Nigeria from 1989-1993 prior to his long and distinguished career in the Federal Civil Service which culminated in his appointment as Federal Permanent Secretary on December 18, 2019. Mr. Aliyu also served on the Technical Sub-committee of the Nigeria's Economic Management Team from 2006-2009. Currently, Aliyu serves on the Boards of Directors of the following Institutions: Africa Export Import Bank, Cairo, Egypt; OPEC Fund for International Development (OFID) Vienna, Austria, Nigeria National Petroleum Corporation (NNPC) and Asset Management Corporation of Nigeria (AMCON).

Principal Organs & Officers of the Bank
(as at 31 December 2020)

Members of the Board of Directors of the Bank

1	Godwin I. Emefiele, CON	-	*Governor (Chairman)*
2	Aishah N. Ahmad	-	*Deputy Governor (Financial System Stability)*
3	Edward L. Adamu	-	*Deputy Governor (Corporate Services)*
4	Folashodun A. Shonubi	-	*Deputy Governor (Operations)*
5	Kingsley I. Obiora	-	*Deputy Governor (Economic Policy)*
6	Adeola S. Adetunji	-	*Non-Executive Director*
7	Idris Ahmed	-	*Non-Executive Director*
8	Aliyu Ahmed	-	*Non-Executive Director*
9	Ummu A. Jalingo	-	*Non-Executive Director*
10	Justitia O. Nnabuko	-	*Non-Executive Director*
11	Mike I. Obadan	-	*Non-Executive Director*
12	Abdu Abubakar	-	*Non-Executive Director*
	Alice Karau	-	*Secretary to the Board*

Members of the Committee of Governors

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

Members of the Monetary Policy Committee

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

Principal Officers of the Bank as at 31 December 2020

Departmental Directors

1	Samuel C. Okojere	-	*Banking Services*
2	Bello Hassan	-	*Banking Supervision*
3	Musibau F. Olatinwo	-	*Branch Operations*
4	Aisha B. Abubakar	-	*Capacity Development Department*
5	Haruna B. Mustafa	-	*Consumer Protection*
6	Osita C. Nwanisobi*	-	*Corporate Communications*
7	Alice Karau	-	*Corporate Secretariat*
8	Ahmed B. Umar	-	*Currency Operations*
9	Philip Y. Yusuf	-	*Development Finance*
10	Benjamin A. Fakunle	-	*Finance*
11	Angela A. Sere-Ejembi	-	*Financial Markets*
12	Kevin N. Amugo	-	*Financial Policy and Regulation*
13	Mohammed D. Suleyman	-	*FSS 2020*
14	Jeremiah Abue	-	*Governors*
15	Umma A. Dutse	-	*Human Resources*
16	Rakiya S. Mohammed	-	*Information Technology*
17	Lydia I. Alfa	-	*Internal Audit*
18	Sirajuddin K. Salam-Alada	-	*Legal Services*
19	Muhammed A. Shehu	-	*Medical Services*
20	Hassan Mahmud	-	*Monetary Policy*
21	Nkiru E. Asiegbu	-	*Other Financial Institutions Supervision*
22	Musa I. Jimoh	-	*Payments System Management*
23	Arinze A. Stanley	-	*Procurement and Support Services*
24	Michael A. Adebiyi	-	*Research*
25	Abba Salihi	-	*Reserve Management*
26	Oluwafolakemi J. Fatogbe	-	*Risk Management*
27	Oluwakemi Osa-Odigie	-	*Security Services*
28	Mohammed M. Tumala	-	*Statistics*
29	Clement O. Buari	-	*Strategy Management*
30	Scholastica O. Nnaji	-	*Trade and Exchange*
31	Eunice N. Egbuna	-	*West African Monetary Institute*
32	Abubakar A. Kure	-	*NIRSAL Microfinance Bank*

*Acting

Special Advisers to the Governor as at 31 December 2020

1	Emmanuel U. Ukeje	*Financial Markets*
2	Yakubu Umar	*Islamic Finance*
3	Onyisi T. Odozi	*NSPM Plc.*
4	Aisha Usman Mahmoud	*Sustainable Banking*

Branch Controllers As at 31 December 2020			
1	Christopher O. Adayi	-	Abakaliki
2	Wahab L. Oseni	-	Abeokuta
3	Ibeawuchi F. Amagwu	-	Abuja
4	Ganiyu A. Atobatele	-	Ado-Ekiti
5	Fatai A. Yusuf	-	Akure
6	Patricia N. Ukwu	-	Asaba
7	Benedicth I. C. Maduagwu	-	Awka
8	Haladu A. Idris	-	Bauchi
9	Renner D. Jumbo	-	Benin
10	Mannir D. Abdullahi	-	Birnin-Kebbi
11	Glory U. Iniunam	-	Calabar
12	Hamman A. Joda	-	Damaturu
13	Sa'adatu A. Ibrahim	-	Dutse
14	Chiedozie E. Okonjo	-	Enugu
15	Shehu A. Goringo	-	Gombe
16	Babangida Jino	-	Gusau
17	Olufolake M. Ogundero	-	Ibadan
18	Babatunde A. Amao	-	Ilorin
19	Idrisa D. Maina	-	Jalingo
20	Yusuf B. Duniya	-	Jos
21	Ahmed M. Wali	-	Kaduna
22	Abdulkadir I. Ali	-	Kano
23	Dahiru N. Usman	-	Katsina
24	Samson A. Isuwa	-	Lafia
25	Atise J. Ekhator	-	Lagos
26	Ahmed I. Sule	-	Lokoja
27	Tijani K. Lawan	-	Maiduguri
28	John O. Itaha	-	Makurdi
29	Mas'ud T. Ibrahim	-	Minna
30	Ajuma D. Madojemu	-	Osogbo
31	Georgina U. O. Nwankwo	-	Owerri
32	Francis C. O. Diele	-	Port Harcourt
33	Yusuf B. Wali	-	Sokoto
34	Onyeka M. Ogbu	-	Umuahia
35	Itohan M. Ogbomon-Paul	-	Uyo
36	Sikiru K. Osidele	-	Yenagoa
37	Satu J. Jatau	-	Yola

2.0 MANDATE OPERATIONS

2.1 MONETARY POLICY

Primary Objective of Monetary Policy

Price and Monetary Stability

Implicit Target

Headline Inflation of 6-9 per cent

Monetary Policy Environment

Priorities of MP

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

Drivers

- The pandemic 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 objectives, the Bank during the review period, also deployed an array of conventional and unconventional monetary policy instruments.

- The Open Market Operations (OMO) remained the major instrument for liquidity management, complemented by:
- Cash Reserve Ratio (CRR)
- Liquidity Ratio (LR)
- Standing Facilities operations
- Discount Window Operations
- Interventions in the foreign exchange market.

Implications

Prevailing stress in the domestic economy led to:

- Slowing growth,
- Capital flow reversals
- Decline in external reserves
- Pressures on the exchange rate and domestic price
- Inflationary pressure – 12.56 per cent in December 2020, from 12.13 per cent in January, 2020.

Exchange Rate Policy

- The Bank adjusted the foreign exchange rate towards unifying exchange rates in all segments of the forex market
- The objective was 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.

Monetary Policy Decisions

Date of Meeting	Decision
23-24 January 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.*
23-24 March 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.*
28 May 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.*
20 July 2020	• *Retained the MPR at 12.50 per cent;* • *Retained the Asymmetric Corridor of +200/-500 basis points around the MPR;* • *Retained the CRR at 27.5 per cent; and* • *Retained the Liquidity Ratio at 30 per cent.*
21-22 September 2020	• *Reduced the MPR by 100 basis points from 12.5 to 11.5 per cent;* • *Adjusted the asymmetric corridor from +200/-500 to +100/-700 basis around the MPR;* • *Retained the CRR at 27.5 per cent* • *Retained the Liquidity Ratio at 30 per cent*
23-24 November 2020	• *Retained the MPR at 11.50 per cent;* • *Retained the asymmetric corridor of +100/-700 basis points around the MPR* • *Retained the CRR at 27.5 per cent* • *Retained the Liquidity Ratio at 30.0 per cent*

CBN COVID-19 Policy Initiatives

- Sustained implementation of the Loan-to-Deposit Ratio (LDR) and a suite of development finance initiatives.
- Reduced interest rates on all applicable CBN interventions from 9 to 5 per cent.
- ₦1.00 trillion credit facility for the manufacturing sector.
- Targeted Credit Facility (TCF) for households and micro, small and medium enterprises (MSMEs).
- ₦100.00 billion credit facility for the pharmaceutical companies.
- Granted a one-year moratorium and reduced interest rate from 9.0 to 5.0 per cent on all CBN related intervention programmes.
- Regulatory forbearance to restructure loans in impacted sectors.

2.1.1 Liquidity Management

The objective of liquidity management in 2020 was to ensure optimal banking system liquidity conducive for sustainable economic growth. The monetary policy stance in 2020 was, generally, accommodative as a result of the need to mitigate the effects of the COVID-19 pandemic on the domestic economy. Consequently, liquidity surfeit remained a persistent feature of the banking system during the year. Liquidity conditions were further amplified by maturing OMO bills, disbursements among the three-tiers of government, injections from the redemption of FGN Bonds and the purchase of foreign exchange by the Bank in the investors and exporters window.

The Bank responded to the challenge by implementing monetary policy measures to manage banking system liquidity and invariably, moderate exchange rate pressure during the review period. The major changes in policy were the adjustment in Cash Reserve Ratio (CRR) to 27.5 per cent in January 2020, from 22.5 per cent. Similarly, the Monetary Policy Rate (MPR) was reduced by 100 basis points to 12.5 per cent in May 2020, from 13.5 per cent. There was a further reduction in the MPR from 12.5 per cent to 11.5 per cent in September 2020. Also, in September 2020, the asymmetric corridor was adjusted to +100/-700 basis points from +200/-500 basis points around the MPR for the Standing Lending Facility (SLF) and Standing Deposit Facility (SDF), respectively. The Liquidity Ratio was, however, retained at 30.0 per cent during the year.

The Bank retained the maximum net foreign currency trading position at 0.5 per cent to limit commercial banks' exposure to foreign exchange risks, considering the COVID-19 pandemic related vulnerabilities in the external environment. To rein-in pressure in the foreign exchange market, the Bank continued to operate special windows to ease access to foreign exchange for small and medium enterprises and invisible transactions. In addition, the Bank intensified intervention in the secondary segment of the foreign exchange market to stabilise the rate.

In general, the Bank's liquidity management tool remained open market operations (OMO), conducted periodically to rein-in excess liquidity. The OMO instrument was complemented by reserve requirements, tenored repurchase transactions, standing facilities, and discount window operations.

The performance of key monetary aggregates was mixed in 2020, reflecting the impact of the pandemic disruption on economic activities. Both M3 and M2 recorded significant increase, growing by 13.54 and 30.57 per cent respectively, compared with 6.45 and 9.16 per cent at end-December 2019. The increase reflected, largely, the expansionary monetary policy stance in response to the challenges of COVID-19 outbreak. Aggregate bank credit to the economy grew by 15.91 per cent, marginally above the benchmark of 13.20 per cent, while credit to private sector, which grew by 15.16 per cent, performed below its 2020 benchmark of 18.61 per cent. The lower than expected credit to the private sector was due to the impact of the pandemic disruptions to economic activities on account of the negative effects of the twin shocks of lockdown measures and decline in crude oil prices. The net foreign assets (NFA) of the banking system increased by 19.9 per cent to ₦7,131.30 billion in 2020, in contrast to the decline of 49.8 per cent recorded in 2019.

Reserve money (RM) at ₦13,103.09 billion, grew by 50.9 per cent but fell short of the benchmark of ₦14,172.46 billion for 2020.

2.1.2 Interest Rate Policy and Developments

Interest rates movement in the money market reflected trends in liquidity condition in the banking system, influenced by the Bank's monetary policy stance.

- *Money Market Rates*

The annual weighted average inter-bank and Open-Buy-Back (OBB) rates were 5.48 and 6.33 per cent in 2020, compared with 9.15 and 10.55 per cent, respectively, in 2019. The weighted monthly average inter-bank call rate stood at 6.15 per cent (±4.15), while the OBB was 6.4 per cent (±5.38) per cent within the same period.

Table 2.1. 1: Average Money Market Rates

	2019 (%)	2020(%)
Interbank call	*9.15*	*5.48*
Call NIBOR	*11.43*	*6.75*
OBB	*10.55*	*6.33*
30-day NIBOR	*12.34*	*5.45*
MPR	*13.50*	*11.50*

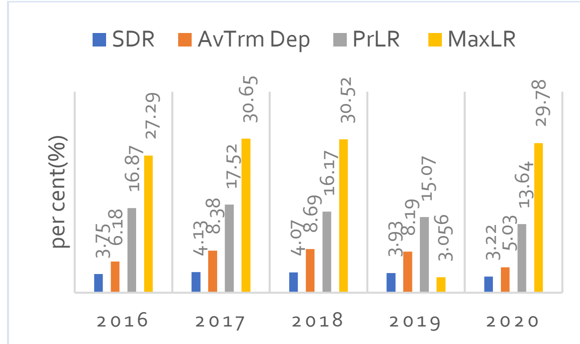
Source: Central Bank of Nigeria

- *Deposit and Lending Rates*

Average term deposit rate for the year fell by 3.16 percentage points to 5.03 per cent in 2020, compared with 8.19 per cent in 2019.

The weighted average prime and maximum lending rates fell by 1.43 and 0.78 percentage points to 13.64 and 29.78 per cent in 2020, respectively.

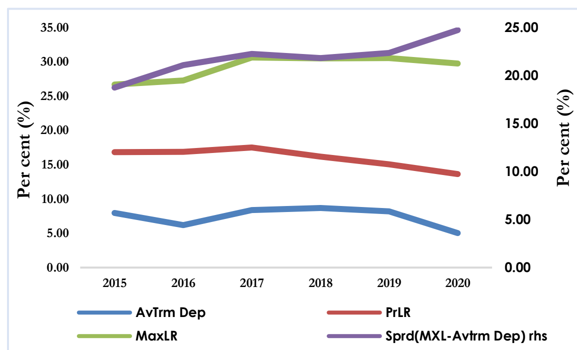
Figure 2.1. 1: Average Savings, Prime and Maximum Lending Rates



Source: Central Bank of Nigeria

Consequently, the spread between the average term deposit and maximum lending rates widened to 24.75 percentage points in the review year, compared with 22.37 percentage points in 2019.

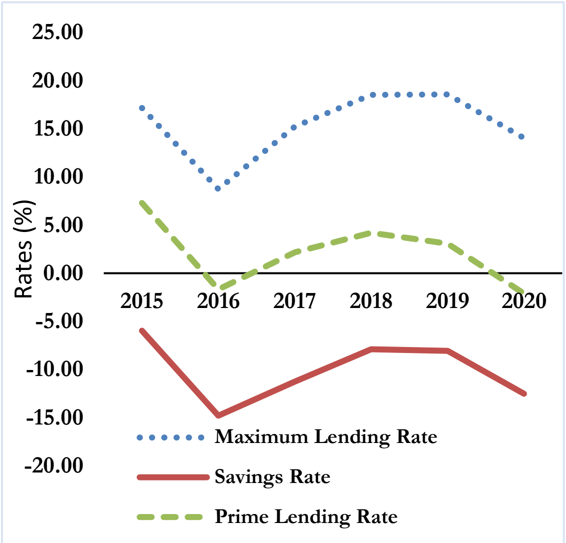
Figure 2.1. 2: Spread between the Average Term Deposit and Maximum Lending Rates



Source: Central Bank of Nigeria

In real terms, with a headline inflation of 15.75 per cent, the maximum lending rate was positive at end-December 2020, while all the deposit and prime lending rates were negative.

Figure 2.1.3: Real Interest Rates, 2015 - 2020



Source: Central Bank of Nigeria

2.2 CURRENCY MANAGEMENT

2.2.1 Issuance of Legal Tender Currency

In furtherance of the Bank's mandate to produce and ensure that there were adequate banknotes to meet the needs of the economy, an indent of 2,518.68 million pieces of banknotes of various denominations was approved. This represented a decrease of 34.3 per cent from 3,830.94 million pieces approved in the preceding year. The Bank engaged the Nigerian Security Printing and Minting Company (NSPM) PLC to print the entire indent. The company delivered 100 per cent of the indent, compared with 79.6 per cent delivered in 2019.

- *Currency-in-Circulation (CIC)*

Banknotes in circulation rose significantly in 2020 with strong preference for high-denomination amidst the COVID-19 pandemic containment measures. At ₦2,907.13 billion at end-December 2020, CIC increased by ₦465.47 billion or 19.1 per cent above the ₦2,441. 66 billion in 2019. Several factors accounted for the development, namely: the release of funds by the Bank for the various intervention schemes and reduced cost of credit. In the review year, ₦429.23 billion of the high-denomination banknotes, that is, ₦500 and ₦1000 were issued. These banknotes rose by 29.7 and 14.9 per cent; and accounted for 89.5 per cent and 33.7 per cent of the total banknotes in circulation in terms of value and volume, respectively. The increased preference for high-denomination banknotes reflected households demand for cash as a store of value and for precautionary reasons amidst the uncertainty around the containment measures, especially the lockdown to minimise the spread of the virus.

Table 2.1. 2: Currency-In-Circulation 2016 – 2020 (Value & Volume)

	2016		2017		2018		2019		2020	
Coins	Volume (million)	Value (billion)	Volume (million)	Value (billion)	Volume (million)	Value (billion)	Volume (million)	Value (billion)	Volume (million)	Value (billion)
₦2	107.71	0.22	107.57	0.22	204.38	0.41	204.38	0.41	204.38	0.41
₦ 1	616.67	0.62	616.49	0.62	736.08	0.74	736.08	0.74	736.08	0.74
.50K	580.24	0.29	580.07	0.29	681.48	0.34	681.48	0.34	681.48	0.34
.25K	348.23	0.09	348.23	0.09	348.25	0.09	348.25	0.09	348.25	0.09
.10K	315.57	0.03	315.57	0.03	315.58	0.03	315.58	0.03	315.58	0.03
1K	31.24	0.01	31.24	0.00	31.37	0.00	31.37	0.00	31.37	0.00
Sub-Total	1999.66	1.26	1999.17	1.25	2317.14	1.61	2317.14	1.61	2317.14	1.61
₦ 1000	1224.08	1224.08	1228.84	1228.84	1297.52	1297.52	1460.44	1460.44	1678.26	1678.27
₦ 500	1453.93	726.96	1316.57	658.28	1597.99	798.99	1421.27	710.63	1844.06	922.03
₦ 200	559.11	111.82	664.46	132.89	562.90	112.58	726.22	145.24	850.48	170.09
₦ 100	629.04	62.90	705.59	70.56	641.25	64.12	693.49	69.35	792.63	79.26
₦ 50	365.27	18.26	608.25	30.41	449.42	22.47	502.45	25.12	486.01	24.30
₦ 20	1189.44	23.79	1058.81	21.18	1097.84	21.96	934.29	18.69	1014.13	20.28
₦ 10	749.51	7.49	1006.82	10.07	797.68	7.98	768.82	7.68	783.69	7.84
₦ 5	521.58	2.61	752.15	3.76	494.89	2.47	204.37	2.88	688.62	3.44
Sub-Total	6691.96	2177.91	7341.49	2155.99	6939.49	2328.09	6711.35	2440.03	8137.88	2905.51
Total	**8691.62**	**2179.17**	**9340.66**	**2157.24**	**9256.63**	**2329.70**	**9028.49**	**2441.64**	**10455.02**	**2907.12**

Source: Central Bank of Nigeria

- *Currency Management, Storage and Distribution Initiatives*

In 2020, the Bank prioritised the implementation of several initiatives to enhance its currency management operations.

Despite the COVID-19 pandemic disruptions in the review year, the Bank launched the industry-wide Cash Activity Reporting Portal (CARP), an initiative under the Nigerian Cash Management Scheme (NCMS) and data transmission by industry stakeholders. The portal would improve visibility of the operations of NCMS participants and provide operational data to aid industry efficiency.

Pursuant to the need to drive efficiency in identifying the initial recipients of new banknotes upon issuance by the Bank, the implementation of the Mint Tracking System (MTS) gained momentum in 2020. All hardware and software components of the system developed in collaboration with the Nigerian Security Printing & Minting Company (NSPM PLC) were procured, while stakeholders were trained and sensitised. The pilot launch of the system was scheduled for the first quarter of 2021. The Bank would benefit from enhanced efficiency and transparency in banknote distribution and the incidence of currency hoarding and illegal sale of new banknotes would be mitigated.

Consistent with international best practices, the Bank commenced the process for deployment of an end-to-end solution for the integrated cash handling management at its branches. The initiative would help to minimise human intervention and institute a regime of secured cash handling. As part of the development, the Bank commenced the procurement process of plastic currency boxes in the review year. The plastic boxes represent the future of banknotes packaging as they are stronger, lighter, more durable and environmentally friendly. The boxes could be recycled and would support the modernisation and automation of currency management operations and banknote Tracking System.

The Bank has initiated the establishment of a digital forensic currency laboratory to ensure that naira banknotes meet the Bank's stipulated standards. The facility would aid independent authentication and quality assessment of various input of the banknotes. More so, it will allow the Bank to take ownership and support in-house analysis of banknotes as the sole issuer of the legal tender currency in Nigeria. Besides, it would assist in the conduct of routine analysis of counterfeit notes received, to ascertain the security features that are being attacked by counterfeiters.

To preserve the integrity and maintain the quality of banknotes in circulation, the Bank undertook a spot check exercise on banks. This was to ensure that newly printed and used banknotes should conform to predefined currency management standards before circulation and re-circulation in the economy. In this regard, the Bank undertook a spot check monitoring of 12 banks within the urban and rural areas across the 37 CBN Branches nationwide. The coverage was, however, hampered by the prevailing COVID-19 pandemic. The spot check revealed 13,083 infractions by the 12 banks, leading to penalties of various sums amounting to ₦181.0 million.

2.3 FOREIGN EXCHANGE MANAGEMENT

2.3.1 Foreign Exchange Market and Management

The foreign exchange market was impacted negatively by the COVID-19 pandemic. The market witnessed increased demand pressure attributed to shortage of foreign exchange, induced by the COVID-19 pandemic, which affected foreign exchange earnings negatively and triggered depreciation of the naira exchange rate.

The Bank, therefore, adopted various measures to manage scarcity of foreign exchange, enhance inflow to the economy, stabilise the exchange rate, and ensure proper functioning of the foreign exchange market. Due to increased demand pressure and depleting external reserves, the Bank adjusted the naira exchange rate in the various segments of the market on 20 March 2020. At the interbank market, the naira was adjusted by 15.0 per cent to ₦360.00/US$, from ₦306.00/US$, while the I&E rate was moved by 5.3 per cent to ₦380.00/US$, from ₦360.00/US$. International Money Transfer Operators (IMTOs) sales to banks was adjusted to ₦376.00/US$ and banks to CBN at ₦377.00/US$. The CBN sales to BDCs inched up to ₦378.00/US$ and BDC sales to end-users was adjusted to ₦380.00/US$.

Following the border protection policy and temporary suspension of international flight operations, the Bank suspended foreign exchange cash sales to BDC operators on 27 March 2020, but later resumed on 7 September 2020. In a bid to push the rates towards convergence across all segments of the market, the naira was further adjusted to ₦381.00/US$ in

July 2020, from ₦361.00/US$ in June 2020, at the interbank segment.

In line with the Bank's developmental objectives and effort to boost local production, stimulate rapid economic recovery, safeguard rural livelihood and increase jobs, the Bank restricted access to foreign exchange for the importation of milk and dairy products on 11 February 2020. The development was in continuation of the Bank's policy to support diversification of the economy through backward integration. Thus, Form M was issued to only 6 companies for importation of milk and its derivatives to enhance the capacity of companies and improve local milk production. The Bank also discontinued the sale of foreign exchange for the importation of maize/corn in July 2020.

Furthermore, the Bank on 24 August 2020, directed all authorised dealers to desist from destination payment for all Form 'M', for letters of credit, bills for collection and all other forms of payments routed through a buying company/agent or any other third party. Authorised Dealers would only open Form 'M' in favour of the ultimate supplier of the product or service. Also, the CBN introduced a Product Price Verification Mechanism to forestall over-pricing and/or mispricing of goods and services imported into the country. The policy was aimed at eliminating incidence of over invoicing, transfer pricing, double handling charges and avoidable costs. In addition, banks were directed to block domiciliary accounts of some companies connected to foreign exchange sharp practices for investigation. This was aimed at curbing abuses and ensuring prudent use of foreign exchange.

To further improve liquidity in the foreign exchange market, the Bank amended the procedures for receipt of diaspora remittances on 30 November 2020. In this regard, a directive was issued to all IMTOs to pay the beneficiaries of diaspora remittances in foreign currency (US dollars), through designated banks of their choice. The recipients of remittances were also given the option of receiving funds either in cash or paying to their ordinary domiciliary account. Furthermore, the Bank on 2 December 2020 directed banks to close all the naira accounts for IMTOs, except those maintained for operational purposes; and conduct proper audit of IMTOs accounts to ensure transparency and accountability of receipt of diaspora remittances in foreign currency.

The Bank sustained intervention to ensure the efficient functioning of the foreign exchange market. During the review period, aggregate foreign exchange supplied by the Bank decreased by 26.8 per cent to US$28.16 billion, compared with US$38.47 billion in 2019. A disaggregation showed that foreign exchange cash sales to BDC operators declined to US$5.33 billion, from US$13.61 billion in the preceding year. Similarly, interbank sales and SME intervention fell by 52.2 and 19.0 per cent to US$0.68 billion and US$1.18 billion, respectively, below their levels in 2019. However, interventions in the I&E window, SMIS, wholesale forwards and matured swaps contract increased by 38.2, 3.0, 49.4 and 5.0 per cent to US$8.25 billion, US$6.83 billion, US$2.24 billion and US$3.65 billion, respectively above the levels in 2019.

2.3.2 Foreign Exchange Flows

The COVID-19 pandemic and measures to contain the spread of the virus, adversely affected foreign exchange flow to the economy.

Consequently, aggregate foreign exchange inflow into the economy declined by 25.3 per cent to US$104.82 billion, compared with US$140.26 billion in 2019. Foreign exchange inflow through the economy comprised inflow through the CBN, constituting 38.2 per cent and autonomous sources, 61.8 per cent of the total.

A further analysis indicated that foreign exchange inflow through the CBN decreased to US$39.99 billion, from US$56.67 billion in 2019. A breakdown of the inflow through the CBN, showed that earnings from crude oil export fell by 35.0 per cent to US$10.30 billion, compared with US$15.85 billion in the preceding year. This was due to the slump in crude oil price, induced by weak global demand, on account of the lockdown of most economies, to contain the spread of the virus. Similarly, the non-oil component of the inflow, decreased by 27.3 per cent to US$29.69 billion, below US$40.82 billion in 2019. The development was driven, mainly, by decline in foreign exchange purchases, DMBs cash receipts and other official receipts by 64.4 per cent, 65.5 per cent and 30.0 per cent, respectively to US$3.80 billion, US$3.41 billion and US$3.61 billion.

A further breakdown of non-oil inflow through the CBN showed that: interest earnings on reserves and investment at US$0.48 billion; unutilised funds from foreign exchange transactions, US$0.77 billion; returned payments, US$0.42 billion and unutilised IMTO funds, US$0.93 billion, fell by 50.1, 66.2, 43.6 and 36.9 per cent below their respective levels in the preceding year. However, interbank swaps and TSA & third-party receipts at US$5.03 billion and US$5.57 billion, rose by 26.7 and 19.1 per cent, respectively, relative to the preceding year.

Inflow through autonomous sources decreased by 22.4 per cent to US$64.83 billion, compared with US$83.59 billion in 2019. A decomposition of inflow through autonomous sources showed that: invisibles was US$62.31 billion; non-oil export receipts by banks, US$2.47 billion; and external account purchases, US$0.04 billion, constituting 96.1, 3.8 and 0.1 per cent, respectively, of the total. Of the invisibles, over-the-counter (OTC) purchases and domiciliary account were US$44.86 billion (72.0 per cent) and US$17.45 billion (28.0 per cent), respectively. A breakdown of OTC purchases showed that: capital importation stood at US$10.63 billion; other OTC purchases, US$33.03 billion; and home remittances, US$1.20 billion.

*A*ggregate foreign exchange outflow from the economy declined by 31.3 per cent to US$44.95 billion, compared with US$65.39 billion in the preceding year. Of this, outflow through the CBN constituted 94.0 per cent of the total, while autonomous sources accounted for the balance of 6.0 per cent. A disaggregation showed that foreign exchange outflow, through the CBN, declined by 30.9 per cent to US$42.24 billion, compared with US$61.15 billion in the preceding year. The development was due, largely, to 26.8 and 56.4 per cent reduction in intervention in the foreign exchange market and public sector/direct payments, respectively.

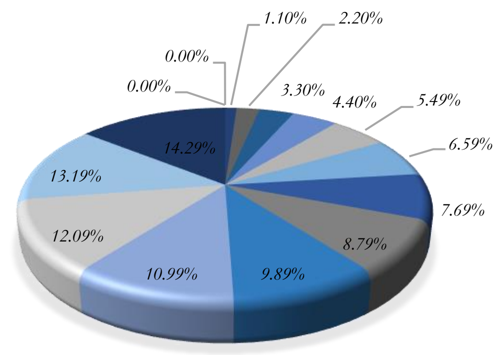
Nigeria received an emergency financial assistance of US$3.36 billion from the IMF, under the Rapid Financing Instrument, to enable the country mitigate the severe economic impact of the COVID-19 pandemic and the consequent sharp fall in crude oil prices. The Bank also received US$2.00 billion as securities lending cash collateral during the review period.

Public sector/direct payments declined by 56.4 per cent to US$6.64 billion, compared with US$15.24 billion in 2019. This was attributed to decrease in direct payments and Joint Venture Company (JVC) cash call payments by 63.6 and 34.1 per cent to US$4.15 billion and US$2.47 billion, respectively, compared with the levels in the preceding period. Similarly, estacode payments fell by 80.6 per cent to US$0.02 billion, compared with US$0.10 billion in 2019, on account of restrictions in foreign travels. Third-party MDA transfers at US$4.60 billion, fell by 10.9 per cent, relative to the level in the preceding year. However, external debt service and drawings on letters of credit rose by 14.5 and 18.4 per cent to US$1.56 billion and US$0.85 billion, respectively, over their levels in 2019. Other sources of outflow were: funds returned to remitters, US$0.17 billion; foreign exchange special payment, US$0.16 billion, Bank and SDR charges, US$0.04 billion; and National Priority Projects, US$0.02 billion.

Outflow through autonomous sources fell by 36.2 per cent, below the level in 2019, to US$2.71 billion, out of which payments for invisible and visible imports were US$2.08 billion and US$0.63 billion, respectively.

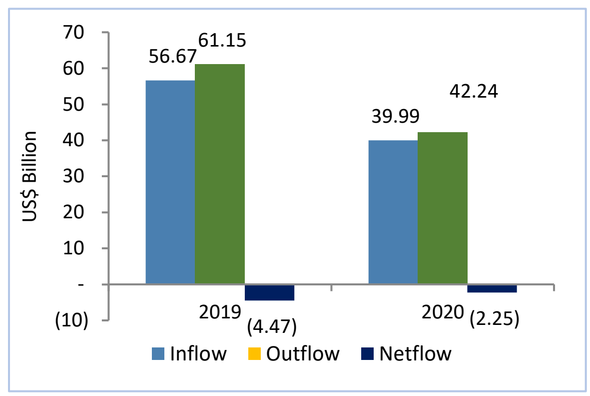
Overall, the economy in 2020 recorded a lower net inflow of US$59.87 billion, compared with US$74.87 billion in 2019, largely, on account of weak global economic performance and significantly lower crude oil export receipts.

Figure 2.3. 1: Foreign Exchange Disbursement through the CBN, 2020



Source: Central Bank of Nigeria

Figure 2.3. 2: Foreign Exchange Flows through the CBN, 2019 - 2020 (US$' Billion)



Source: Central Bank of Nigeria

2.3.3 Sectoral Utilisation of Foreign Exchange

The disruption of economic activities, resulted in a sharp fall in sectoral utilisation of foreign exchange by productive sectors. Aggregate sectoral utilisation of foreign exchange decreased by 41.6 per cent to US$27.86 billion in 2020. A disaggregation showed that the amount utilised for invisible trade declined by 47.6 per cent to US$16.00 billion, from US$30.52 billion and accounted for 57.4 per cent of the total. Utilisation in respect of visible import also fell by 31.0 per cent to US$11.86 billion, representing

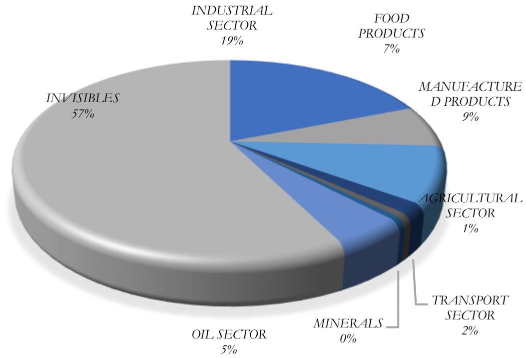
42.6 per cent of the total, from US$17.19 billion in 2019.

A decomposition of visible import showed that foreign exchange utilisation in the industrial, food products, manufacturing and agricultural sub-sectors fell by 33.2, 15.3, 27.5 and 37.3 per cent, to US$5.29 billion, US$1.87 billion, US$2.56 billion and US$0.19 billion, respectively, from their levels in 2019. Similarly, foreign exchange utilisation in the transport, mineral and oil sub-sectors fell by 29.7, 50.6 and 41.0 per cent to US$0.48 billion, US$0.16 billion, and US$1.32 billion, below their respective levels in the preceding year.

Under invisible import, foreign exchange utilisation for financial services decreased by 45.0 per cent below its level in 2019 to US$14.74 billion, representing 52.9 per cent of the total. Similarly, foreign exchange utilised for business, communication services, distribution services, and transport services declined by 67.0, 72.8, 73.8, and 81.3 per cent to US$0.58 billion, US$0.10 billion, US$0.01 billion, and US$0.20 billion, respectively, below their respective levels in 2019. Foreign exchange utilised for "other services" declined by 48.3 per cent to US$0.10 billion, relative to its level in the preceding period.

Foreign exchange utilised for educational services, rose by 27.3 per cent to US$0.27 billion, above the level in the preceding period.

Figure 2.3.3: Sectoral Utilisation of Foreign Exchange 2020

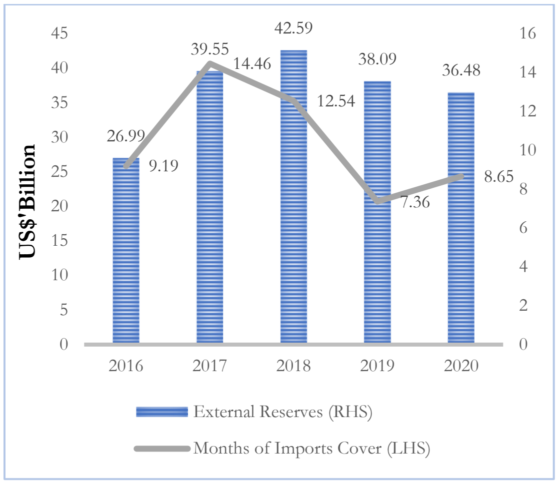


Source: Central Bank of Nigeria

2.3.4 External Reserves Management

Lower than expected foreign exchange earnings triggered increased financial outflow culminating in the depletion of the external reserves in 2020. External reserves decreased from US$38.09 billion at end-December 2019 to US$36.48 billion at end-December 2020, attributed, mainly, to intervention in the foreign exchange market, direct and third-part payments. The external reserves position could cover 8.4 months of import (goods only) or 6.1 months of import (goods and services) at end-December 2020, compared with 7.4 months of import (goods) or 4.5 months of import (goods and services) at end-December 2019. The increase in the level of import cover was driven by reduction in aggregate import during the review period, occasioned by lull in economic activities, amidst the COVID-19 pandemic.

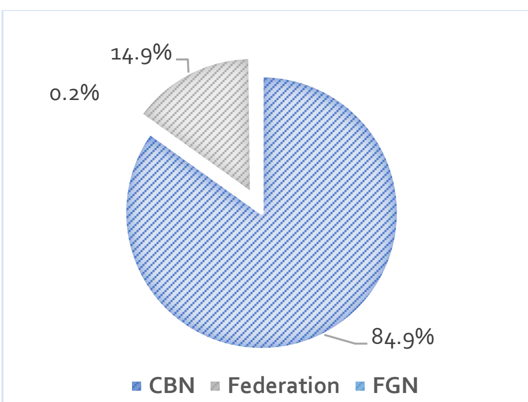
Figure 2.3. 4: Gross External Reserves Position and Months of Import Cover



Source: Central Bank of Nigeria

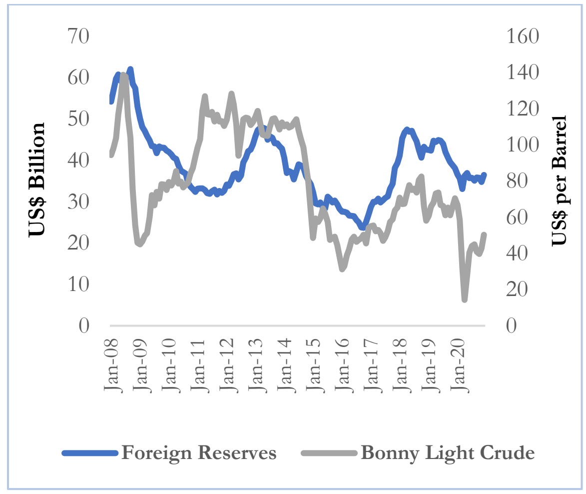
A breakdown of the external reserves by ownership at end-December 2020 indicated that, the share of CBN was 84.9 per cent (US$30.96 billion); Federal Government, 14.9 per cent (US$5.44 billion); and Federation, 0.2 per cent (US$0.07 billion).

Figure 2.3. 5: Holdings of External Reserves at end-December 2020



Source: Central Bank of Nigeria

Figure 2.3. 6: External Reserves Position and Crude Oil Price



Source: Central Bank of Nigeria

2.3.5 External Assets Management Programme

The Bank maintained the various benchmarks set for its External Asset Managers in the review year. The performance of the US Treasury Bonds Portfolio managed by the World Bank Treasury is benchmarked against the Bank of America Merrill Lynch 1-3 years US Treasury Index. The Global Government Bonds Short-Duration Portfolio is benchmarked against the Bank of America Merrill Lynch Global Government Bond G7 (ex-Italy) 1 to 3-year index, 100 per cent hedged into USD. The Dim Sum Bonds (Chinese Renminbi) portfolio is measured against the FTSE Dim Sum (off-shore CNY) Bond Index. The US Agency Mortgage-Backed Securities (MBS) portfolio is benchmarked against the Barclays US MBS Index.

At end-December 2020, the net asset value of the fixed income portfolio managed by the external asset managers stood at US$7,453 million. Overall, the portfolio recorded an absolute return of US$1,047 million from inception to 31 December 2020.

2.4 SURVEILANCE OF THE ACTIVITIES OF FINANCIAL INSTITUTIONS

2.4.1 Banking Supervision

To ensure the soundness, stability and safety of banking institutions, the Bank continued its supervisory and surveillance activities in 2020, with a view to promoting public confidence in the Nigerian banking system. The Bank sustained the risk-based supervision (RBS) approach as a pivot of its supervisory framework. Its activities in this regard, included regular on-site assessments (routine monitoring and special investigations) and off-site appraisal of banks, as well as periodic returns of OFIs. The Bank relied on the provisions of the CBN Act 2007, the Banks and Other Financial Institutions Act (BOFIA) 1991 (as amended) and other policy guidelines, in performing these functions.

In the review period, the Bank finalised the development of the Basel III Guidelines following a review of the regimes in other jurisdictions, such as Reserve Bank of South Africa, Bank Negara Malaysia, and Reserve Bank of India. To further enhance the quality and international comparability of the guidelines and reporting templates, a comprehensive review was conducted by a technical team of the International Monetary Fund (IMF) at the request of the CBN. Consequently, the Bank concluded the review of the Basel III Guidelines on: Liquidity Coverage Ratio (LCR); Liquidity Monitoring Tools (LMT); Leverage Ratio (LeR); Large Exposures (LEX); and Regulatory Capital. The Guidelines on Regulatory Capital encompasses standards for Risk-Based Capital definition (RBC), capital conservation buffer (CCB1), countercyclical buffer (CCB2) and higher loss absorbency (HLA). To operationalise these guidelines, the reporting templates (TR) of LCR (TR-LCR); LMT (TR-LMT); LeR (TR-LeR); LEX (TR-LEX); Group Capital Adequacy (TR-GCAR); and Solo Capital Adequacy (TR-SCAR) were finalised. However, given the impact of the COVID-19 pandemic, and in line with BCBS recommendation, the Nigerian implementation date and the issuance of the finalised Guidelines were put on hold.

In the review period, the internal Capital Adequacy and Assessment Process (ICAAP) reports as at 31 December 2019, submitted by 13 banks with Composite Risk Rating (CRR) of high/above average, was reviewed. The exercise revealed that all the 13 banks adopted the Standardised Approach for the assessment of Pillar I Risks, while different internal approaches were adopted for Pillar II Risks. In terms of total capital requirements, credit risk capital requirement was the largest, representing 68.0 per cent of the total capital requirements (Pillar I + Pillar II Capital Requirements). This was followed by operational and credit concentration risks, which represented 10.0 per cent and 5.0 per cent of the total, respectively.

The Bank also provided technical assistance in the areas of supervision/regulation of Basel standards and capital requirement to: College of Supervisors of the West African Monetary Zone (CSWAMZ); Community of African Banking Supervisors (CABS); Bank of Uganda; and Central Bank of Seychelles.

More so, on the backdrop of advice from the Financial Regulation Advisory Council of Experts (FRACE) and the NIB Unit / FRACE Secretariat, the Bank introduced Non-Interest (Islamic) window in eleven of its intervention schemes, namely:

- Agri-Business, Small and Medium Enterprises Investment Scheme (AGSMEIS);

- Micro, Small and Medium Enterprises Development Fund (MSMEDF);
- Anchor Borrowers Programme (ABP);
- Accelerated Agricultural Development Scheme (AADS);
- Creative Industry Financing Initiative (CIFI);
- Textile Sector Operational Modalities;
- Non-Oil Export Stimulation Facility (NESF) Guidelines;
- RSSF through CRR and Corporate Bond;
- Real Sector Support Facility (RSSF);
- Guidelines for the Implementation of the ₦300.00 billion Targeted Credit Facility (TCF); and
- Credit Support for the Healthcare Sector.

FRACE reviewed and approved the structure and transaction documents of the Federal Government of Nigeria (FGN) Sukuk of 2020, issued by the Debt Management Office (DMO). Also, it reviewed and approved the National Pension Commission (PENCOM) "Framework and implementation Guidelines for Non-interest Fund".

In the Other Financial Institutions (OFIs) sub-sector, the Bank embarked on the review of policy documents for the microfinance sub-sector during the review period. The policy documents were: Regulatory and Supervisory Guidelines for MFBs in Nigeria; Microfinance Banking Framework for Nigeria; and the Prudential Guidelines. The input received from stakeholders on the exposure draft were harmonised.

The adverse effect of the COVID-19 pandemic on the economy slowed down MFBs' effort to comply with the CBN recapitalisation directive. Consequently, the Bank extended the deadline for compliance with the new minimum capital requirements to end-April 2022, from end-April 2021. During the review period, 259 MFBs met the 2021 capital requirement, while the capital levels of 499 MFBs were either below or equal to 50.0 per cent of the new minimum regulatory capital.

In the review period, 410 candidates completed the Level II microfinance certification examination administered by the Chartered Institute of Bankers of Nigeria (CIBN). This brought the total number of certified candidates to 7,102 at end-December 2020, compared with 6,692 at end-December 2019.

At end-December 2020, 513 out of the 912 MFBs, had submitted their BVN enrolment data to the CBN, with additional enrolment of 1.9 million, representing 21.3 per cent of the 8.9 million active customers of MFBs. The on-going implementation of the National Association of Microfinance Unified Information Technology platform (NAMBUIT), a core banking application for MFBs and the integrated BVN portal/module would boost customers enrolment.

The Bank granted forbearance to OFIs to restructure their credit facilities impacted by the COVID-19 pandemic. It held three meetings with the executives of National Association of Microfinance Banks (NAMBs), and resolved as follows:

- All MFBs were required to comply with the phased recapitalisation deadlines;
- Penalties would be enforced for late submission of Audited Financial Statements and monthly returns without recourse to waivers;

- MFBs were required to comply with the directive on creation of corporate e-mails to facilitate effective communication between the MFBs and the CBN;
- Enforcement/implementation of the 10-year maximum tenure for External Auditors of MFBs;
- Mandatory enrollment of all MFBs on the Credit Risk Management System (CRMS) platform to comply with credit reporting standards to qualify for inclusion on the GSI platform; and
- Implementation of Basel II to complement International Financial Reporting Standards (IFRS) in enhancing transparency, capital cost reduction, effective capital and liquidity management.

The CBN established the Mortgage Interest Drawback Programme (MIDP) as intervention to deepen the mortgage and housing finance market.

Other developments in the mortgage sub-sector included:

- Implementation of the National Housing Finance Programme (NHFP) and the establishment of the Nigeria Mortgage Refinancing Company (NMRC), which raised ₦19.00 billion from the capital market out of its ₦140.00 billion Medium Term Note Fund to refinance qualified mortgages of Mortgage Lending Originators;
- Emergence of specialised products and institutions such as Mortgage Warehouse Funding Limited (MWFL) and Nigeria Mortgage Guaranty Limited to deepen the evolving secondary mortgage market and to improve housing affordability;
- Promotion of standardisation of mortgage loan origination to ensure that mortgage lending was consistent among all lenders and the Uniform Underwriting Standards (UUS) for mortgage lending was adopted for the formal/informal sector and for non-interest mortgages;
- Continuous improvement in the operational efficiency of mortgage banks through seamless integration of the customers of Mortgage Banks into the BVN platform;
- Collaborative efforts among the sub-sector's stakeholders through the Mortgage Bankers Committee (MBC) and the Mortgage Banking Association of Nigeria (MBAN) to enhance development and growth of the mortgage sub-sector; and
- Advocacy for the adoption of the Model Mortgage and Foreclosure Law (MMFL) by all states of the Federation, as well as the undertaking of land titling and administration reforms, aimed at making land more readily available for housing development.

The bi-annual consultative fora for the stakeholders of DFIs in Nigeria were held virtually in May and December 2020. The fora examined the current financial state of the DFIs and proffered solutions on issues concerning recapitalisation of four DFIs with negative adjusted capital position, importance of information technology and digitisation of DFIs operations, improvement in data accuracy and timeliness in returns rendition and credit reports, adoption of IFRS 9 and timely submission of audited accounts for approval. Other issues discussed included automation of AML/CFT returns rendition through appropriate online channel by the CBN, implementation of Basel II by the DFIs, which would be on proportionality basis, DFIs access to various CBN intervention funds and deployment of monthly returns rendition template as against quarterly template. Consequently, a committee was also constituted with membership drawn from the CBN and DFIs to address the observed differences in the credit reports submitted to Private Credit Bureaux and the CBN.

2.4.2 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. At end-December 2020, the total number of credit facilities on the CRMS database stood at 21.62 million, representing an increase of 102.1 per cent over the end-December 2019 position of 10.69 million. The number comprised 20.89 million individual borrowers and 0.73 million non-individuals.

The total number of facilities with outstanding balances on the CRMS database rose by 55.6 per cent to 3.94 million at end-December 2020, compared with 2.53 million at end-December 2019. This number was made up of 3.83 million individuals and 0.11 million non-individuals. The improvement in credit record was due to increased compliance by banks, following strict enforcement of the CBN Regulatory Guidelines on the CRMS.

Table 2.4.1: Borrowers from the Banking Sector (Commercial, Merchant and Non-Interest Banks)

Description	19-Dec	20-Dec
Total No. of Credit/facilities reported on the CRMS:	**10,694,298**	**21,616,075**
Individuals	10,083,010	20,887,088
Non-Individuals	611,288	728,987
Total No. of Outstanding Credit facilities on the CRMS:	**2,534,836**	**3,944,882**
Individuals	*2,448,230*	*3,830,870*
Non-Individuals	*86,606*	*114,012*

Source: Central Bank of Nigeria

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

The number of licensed credit bureaux remained at three at end-December 2020. The industry continued to record remarkable growth through increased awareness and support from stakeholders. At end-December 2020, the average number of uniquely identified credit records in the database of the three Private Credit Bureaux (PCBs), was 49.76 million, reflecting 34.8 per cent increase over the 36.91 million in 2019. The increase was attributed, mainly, to the wider coverage of the credit reporting system, which included all credit providers (who were hitherto not captured by the credit reporting system) as a result of the requirements of the provisions of the Credit Reporting Act, 2017.

2.4.3 Prudential Review and Examination

Despite the continued lull in 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 remained resilient. The health of banks was generally sound in the review period, as the industry levels of capital adequacy and liquidity ratios remained higher than the regulatory minimum. As a result of the high increase in total qualifying capital and a slight increase in risk weighted assets, driven by the implementation of the policy measures to increase lending to the real sector, the industry Capital Adequacy Ratio (CAR) rose to 15.1 per cent at end-December 2020, compared with 14.5 per cent at end-December 2019. The industry threshold for CAR, 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 65.5 per cent at end-December 2020, compared with 103.9 per cent at end-December 2019, reflecting the decrease in the stock of liquid assets held by banks. Apart from two commercial banks, all other commercial, merchant and non-interest banks met the minimum regulatory liquidity ratios of 30.0 per cent, 20.0 per cent, and 10.0 per cent for commercial, merchant and non-interest banks, respectively, at end-December 2020.

Due to sustained recoveries, write-offs and disposals of pledged collaterals, asset quality of the banking industry, measured by the ratio of non-performing loans to total loans (NPL ratio), stood at 6.1 per cent at end-December 2020, same level as at end-December 2019. At that level, the ratio remained slightly above the regulatory threshold of 5.0 per cent. Loan loss provision coverage stood at 94.2 per cent at end-December 2020, compared with 90.1 per cent at end-December 2019. The number of banks operating above the 5.0 per cent maximum NPL limit also stood at eight at end-December 2020, same as at end-December 2019.

2.4.4 Corporate Governance in the Nigerian Financial Services Industry

To ensure compliance with the CBN Code of Corporate Governance for banks, the Bank continued its oversight of the corporate governance regime of Nigerian banks in the review period. It sustained the use of the Code of the Corporate Governance Scorecard and statutory returns rendered by banks and other financial institutions. During the review period, the CBN issued notices of regulatory breach to defaulting banks for late or non-rendition of statutory returns as specified in the Code.

With the commencement of the Nigerian Code of Corporate Governance (NCCG) issued by the Financial Reporting Council of Nigeria in 2018, sector regulators such as the CBN, with extant codes of corporate governance for their regulated entities, were mandated to develop sector guidelines on corporate governance in line with the NCCG 2018. The NCCG sets out the minimum standards of practice that private companies are required to adopt. The 2018 NCCG is a principle-based code, which requires companies (financial institutions inclusive) to 'Apply and Explain', whereas the sector guidelines are rule-based regulations to govern the practices of licensed entities. The CBN, having regard to the prudential considerations of the different classes of entities under its purview, was at the final stage of developing sector guidelines to replace the seven extant codes.

Three sector-specific draft guidelines have been developed to cover the underlisted categories of the CBN licensed institutions: Deposit Money Banks (Commercial and Merchant Banks (CMBs); Non-Interest Banks and Non-interest Windows of Conventional Banks (NIBs); Payment Services Banks (PSBs)); Other Financial Institutions (MFBs, PMBs, BDCs, FCs, MRCs, DFIs, Holdcos, PCBs); and Payment Service Providers comprising Switches, Mobile Money Operators (MMOs), Payment Solution Services Providers (PSSPs), Payment Terminal Service Providers (PTSP), Super Agents and third party processors (TPPs).

In 2020, the Bank conducted two corporate governance scorecard assessments on some selected banks to ensure that sound corporate governance practices were entrenched in the banking industry. The scorecard was designed to assess banks' compliance with the provisions of the CBN Code of Corporate Governance 2014 and best practices. A total of 16 banks were assessed for scorecard in the 2020 financial year. These included two newly licensed banks, as well as banks that were rated 'Weak' and 'Needs Improvement' during the prior assessment. Out of the two banks that were previously assessed as 'Weak', one was found to have implemented most of the previous recommendations and was rated 'Acceptable'. Three banks were rated 'Needs Improvement' and the rest were rated 'Acceptable'.

2.4.5 Nigerian Sustainable Banking Initiatives

In line with its mandate, the Bank continued to monitor the implementation progress of the Nigerian Sustainable Banking Principles (NSBP) at both individual bank and industry levels. The CBN received semi-annual reports from banks in 2020, in compliance with the reporting template issued to the industry. The Reports were reviewed to assess reporting banks' implementation progress of the NSBP, including adequacy of the Environmental & Social Risk (E&S) policies. Banks perceived to be on slow pace with regards to the prescribed requirements were engaged thereon. Such banks were advised to address gaps in their respective environmental and social policies and procedures, as well as improve on capacity building efforts for their employees, among others. Similarly, banks' compliance and implementation progress were further assessed during the CBN routine Risk Based Supervision during the review period. Based on the reports rendered by the banks and onsite assessment, the industry recorded considerable progress in the implementation of the Principles.

Furthermore, the Bank commenced arrangements to align the NSBPs with Nigeria's Nationally Determined Contributions (NDCs) under the Paris Climate Agreement. The CBN continued to play strategic role in the implementation of the NSBPs in the industry, including organising and attending various stakeholder engagements on sustainable banking during the year.

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

Nigeria took pragmatic steps to address the risks of money laundering and terrorism financing. The Bank strengthened its collaboration and co-operation with both domestic and international stakeholders in compliance with the FATF Recommendations 2 and 40, dealing with international and national co-operation and coordination, to effectively address security challenges, especially the growing acts of terrorism.

The CBN, in April 2020, directed banks and other financial institutions to increase surveillance and report all transactions involving Lebanese companies and officials designated by the US as global terrorists under the United Nations Security Council Resolutions (UNSCRs) and other subsequent resolutions relating to UNSCRs 1267 and 1373, respectively.

During the period, the Bank continued to collaborate with both domestic and international stakeholders, such as the Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA), Financial Action Task Force (FATF), Association of Chief Compliance Officers of Banks in Nigeria (ACCOBIN), Regulators in the Financial Sector, the Nigeria Financial Intelligence Unit (NFIU) and other law enforcement Agencies. The collaboration with stakeholders would promote exchange of information and shared experiences.

The Bank in October 2020 issued an Advisory to banks and other financial institutions on COVID-19 related financial crimes bordering on cybercrimes, fraud, counterfeiting and sub-standard goods, diversion of public funds, and misuse of non-governmental organisations. Financial institutions were, therefore, requested to update their alert protocols in line with defined red flags and emerging trends.

The Bank upgraded the AML/CFT Off-site Risk Assessment Methodology (ORAM) Tool, in compliance with the FATF Recommendation 1 on assessing risks and application of risk-based approach. The ORAM Tool was initially developed for AML/CFT supervisory purpose by a team of experts from the International Monetary Fund (IMF) and staff of the CBN, during the IMF Technical Assistance Mission in February 2013. The ORAM Tool provides a holistic assessment of the ML/TF risks of supervised institutions and their control functions, taking cognisance of their asset size, structure, types of customers, products and services and geographical locations.

Other features of the upgraded tool included:

- Addition of more delivery channels such as PoS, USSD, ATM and Mobile App to accommodate emerging /COVID-19 related money laundering risks, terrorism financing, among others;

- Review of the Industry baseline to capture growth in financial transactions and assets in the industry;

- Review and update of the Mitigants questionnaire to adequately assess the AML/CFT controls put in place by financial institutions;

- Automation of the Mitigants questionnaire (Form 002) within the ORAM tool, so that all financial institutions were assessed with the same criteria and not on Examiners subjectivity; and

- Adoption of Risk-Based Supervision (RBS) matrix to arrive at Net ML/FT risk rating for the computation of the overall ML/FT risk, which is both qualitative and quantitative.

In continuation of its research into the nature, dimension and operations of Virtual Currency (VC) and Distributed Ledger Technology (DLT) in Nigeria, representatives of the Bank concluded jurisdictional study tours of England and South Africa. The findings and recommendations were considered for policy decisions by the Bank.

To improve data rendition, validation, data warehouse and analysis, effective 2 January 2020, all banks were required to render the Foreign Currency Transactions Report (FTR), Politically Exposed Persons (PEP) and Three Tiered KYC reports via AML/CFT Data Rendition and Processing System (ADRAPS) only and discontinue the parallel manual and ADRAPS submissions. The automation positively impacted the offsite surveillance of banks and strengthened AML/CFT Regulation and Supervision.

Following the Second Round of Mutual Evaluation Exercise (MEE) of Nigeria conducted by GIABA/FATF Assessors between 23 September and 14 October 2019, the Post Mutual Evaluation face-to-face meeting with the Assessors, was held in March 2020. The meeting afforded the CBN team the opportunity to make further clarification on areas of concern with a view to improving Nigeria's rating.

As a follow up to the concluded MEE in 2019, the CBN, in collaboration with other AML/CFT stakeholders and in line with the FATF Methodology, held meetings with Nigeria's Mutual Evaluation Assessment Team and Nigerian representatives from the various sectors in 2020. The objective of the meeting was to further clarify some grey areas and provide additional information on Nigeria's concluded Mutual Evaluation Assessment field work.

The Risk Based AML/CFT (RBA) examination of twenty-nine banks (24 commercial and 5 merchant banks) commenced on 7 September 2020, to cover a period of fifteen months from 1 April 2019 to 30 June 2020. The examination was, largely, carried out remotely, complemented by some onsite verification. Eight banks were rated "Moderate" risk, twenty banks were "Above Average", while one bank was assigned a "High" risk rating. The overall ML&FT risk (residual risk) in the industry was adjudged Above Average, which was a deterioration from the Moderate risk recorded in 2019, due to higher money laundering risks posed by the COVID-19 pandemic.

The results of the 2020 RBA revealed that the major ML&FT risks in the industry arose from the categories of Customers and Delivery Channels used by banks. Other findings included:

- Beneficial Ownership: Some Banks were yet to develop a proper database of beneficial ownership information;

- Minors Account: Inadequate KYC for students/minor account holders leading to profiles that were inconsistent with funds flow in the accounts, in contravention of Regulation 81(1) of CBN AML&CFT Regulations 2013 (as amended). Furthermore, Regulation 81(4) provides that minor accounts should be adequately monitored, and banks should ensure that transactions do not exceed an amount that should be determined by the financial institution as several financial institutions do not have a pre-determined amount in place;

- ML&FT Risks Assessment: Some banks were yet to conduct comprehensive ML&FT risk assessment of the institution as at the review period, thereby contravening Regulation 5 of CBN AML&CFT Regulation 2013 (as amended), which required all financial institutions to develop an Enterprise ML&FT Risk Assessment Profile that would be reviewed periodically. Also, some banks do not assess ML&FT risk in the development of new products and services.

- Internal Control and Internal & External Audit:
    - Most banks' internal audit reviews do not cover key AML&CFT areas and lack depth, especially in KYC process, monitoring and reporting system;

- Most banks' independent test on adequacy of their AML&CFT programmes was impartially executed.

- Transaction Monitoring System/STR:
  - Most banks monitoring parameters do not cover some high-risk businesses e.g. Casinos, Betting/Gaming etc.;
  - The Board of Directors of most banks do not have a reward scheme to incentivise employees to report suspicious activities;
  - Some banks do not file STRs to NFIU on customers/transactions that are suspicious after examiners review, thereby contravening section 31(3) of AML&CFT Regulations, 2013 (as amended);

- Training of Board and Staff Members:
  - Some banks failed to conduct appropriate and comprehensive AML&CFT trainings for Board and committee members, as well as staff in key AML&CFT roles;

- Integrity of Form 001 (Risk Assessment Report): Data extraction from Form 001 was manually carried out which was prone to errors and manipulation;
- Customer Due Diligence/Enhanced Due Diligence: Some banks still defaulted in the conduct of Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD) in respect of some High-Risk Customers, thereby contravening Section 14 (1) of the CBN AML&CFT Regulation 2013.
- Politically Exposed Persons: Some banks failed to identify Politically Exposed Persons (PEPs) as required by Section 3(7) (a) (b) of the Money Laundering Prohibition Act 2011 (as amended) (MLPA 2011) and Regulation 18 (3) to (5) of AML&CFT Regulations, 2013. Other deficiencies that existed in PEPs were on-boarding process involving initial screening, timing of Senior Management approvals, failure to sufficiently identify, verify, document Sources of Funds ("SOF") and Sources of Wealth ("SOW");

- Foreign/Currency Transaction Reporting: Some banks' procedure for generating and reporting FTR and CTR reports were not fully automated, and failed to render transactions that qualified for reporting as FTR/CTR. Some cash transactions (US$10,000.00 and above) were not reported, with the excuse that Section 2(1) of MLPA requires banks to report transfers only;

- Customers' risk profiling: Some banks failed to, appropriately, risk profile their customers and accounts were not reviewed in line with the review cycle of the different risk buckets, as stated in the AML & CFT Policy;

- Companies and affiliates placed on Post On No Debit (PND): Following the CBN circular to banks dated 10 September 2020 with reference BSD/DIR/GEN/LAB/13/061 to place 32 accounts on Post No Debit status, some banks had banking relationship with some of the listed customers. Such banks were sanctioned accordingly; and

- Inadequate record archiving system, as well as, screening and monitoring system.

2.4.7 Routine, Special, and Target Examination

The CBN/NDIC Joint Risk Asset examination of all banks was conducted to determine the quality of banks' assets and the adequacy of loan loss provisioning prior to the approval for publication of banks' 2019 audited financial statements.

The risk-based examination activities were modified and prioritised to accommodate the restrictions due to the COVID-19 pandemic. The CBN/NDIC joint Risk-Based Examination, covering thirteen banks with a Composite Risk Rating (CRR) of "High" and "Above Average", as well as the examination of two financial holding companies, was conducted between November and December 2020. The exercise was the only tranche of risk-based examination of banks for the year and it covered fifteen (15) months. The Bank could not conduct the risk-based examination of eleven (11) other banks with CRR of "Moderate" and "Low" for the period ended 30 September 2020 as a result of the COVID-19 pandemic. Similarly, the Risk Based Examination of the specialised financial institutions, the three (3) Credit Bureaux and AMCON, were not conducted during the year. However, Targeted Monitoring/Follow-up of banks was conducted during the review period. Appropriate remedial actions were identified for implementation by the examined institutions.

2.4.8 Cross Border Supervisory Activities

To enhance the supervision of cross border entities, the Framework on Cross Border Supervision was revised. The revised framework captures the expectation of the Revised Basel Core Principles for Effective Banking Supervision and would complement other guidelines and regulations governing the operations of banks in Nigeria. The Guidelines for Supervisory College was also developed in line with the principles and recommendations for effective supervisory colleges as set out by the Basel Committee on Banking Supervision (BCBS) and other best practice on supervisory colleges. The objective was to guide the establishment and operations of supervisory colleges in Nigeria. The Guideline for the Assessment of Country Risk was also developed in the review period.

The Bank was represented at a meeting of the Bureau and Assembly of Governors of the Association of African Central Banks (AACB), held in Dakar, Senegal from 10-13 February 2020. The work plan of Community of African Bank Supervisors (CABS) for 2020 - 2022 was approved by the COG of AACB at the meeting. The draft questionnaire for the survey of FinTech penetration and regulation in Africa was finalised and administered to all members of the AACB. The purpose of the questionnaire was to gauge the depth of FinTech adoption and the effectiveness of their regulation and supervision.

The meeting of the CABS Working Group (WG) on Crisis Management, Banking Resolution and FinTech, scheduled to hold in Abuja, Nigeria in March 2020, was postponed due to the outbreak of the COVID-19 pandemic. A three (3) year work plan for the WG, covering 2020 - 2022 was developed, which in the short-term, would focus on assessing the development of FinTech in the region, developing a framework for crisis management and banking resolution and implementing capacity building projects in crisis management, banking resolution and FinTech supervision.

The CBN-led CABS WG on crisis management, banking resolution and FinTechs developed a draft framework on crisis management and banking resolution, which was shared with stakeholders for comments. The framework would be presented for adoption by all the 41 member- countries of the AACB.

In another development, the Bank hosted the inaugural virtual meetings of the Colleges of Supervisors for Guaranty Trust Bank and Access Bank Groups on 10 and 12 August 2020, respectively.

In furtherance of its mandate as the lead of the CABS WG on crisis management, Banking resolution and FinTechs, the Bank organised a virtual training on FinTech regulations and supervision for members of the WG, from 7-11 December 2020. The objective of the programme was for participants to understand key concepts and trends in FinTech development and gain knowledge to develop framework for FinTech supervision. The training scope included: understanding the current and emerging risks in FinTech operations; how to entrench financial stability; and the application of SupTechs and RegTechs for supervision.

The Bank hosted a team of Examiners from the National Bank of Rwanda on a study tour to build capacity of Regional Bank Supervisors in AML regulation and supervision. Also, the programme served as an avenue for the CBN to provide technical assistance to other supervisors to standardise and harmonise supervisory practices in jurisdictions where Nigerian banks operate. Topics discussed during the programme included: Policy Development on Anti-Money Laundering and Combatting Financing of Terrorism; RBS (on-site inspection, planning and execution); Banking groups/holdings regulation and policy.

The Nigeria banking sector input into the 2019 Financial Stability Report (FSR) of the West Africa Monetary Zone (WAMZ) was forwarded to the West African Monetary Institute (WAMI) in the review period. The CBN, under the College of Supervisors of the West African Monetary Zone (CSWAMZ) participated in the following events:

- The 36th meeting of the College of Supervisors of the West African Monetary Zone (CSWAMZ), held in Sierra Leone, from 6-14 February 2020. The meeting reviewed developments in the banking system across the zone during the review period, including discussions on the implementation of IFRS/IFRS 9, Basel I, II/III, Integrated Regulatory Solution (IRS) and other relevant issues concerning financial system stability in the sub-region, in line with the mandate of the College;

- A virtual meeting of CSWAMZ in July 2020, to review the impact of the COVID-19 pandemic on the banking sector in the Zone; and

- The 37th meeting of the College of Supervisors of the West African Monetary Zone (CSWAMZ), held virtually from 31 August – 3 September 2020.

Similarly, the Bank made input into the Financial Stability Board (FSB), for the repository of financial policy measures taken by the FSB Regional Consultative Group (FSBRCG) members' jurisdictions in response to the COVID-19 outbreak. The input detailed the policy measures adopted by the CBN to manage the impact of the COVID-19 pandemic on the Nigerian banking sector. The Bank responded to a questionnaire from FSBRCG on supervisory issues associated with LIBOR benchmark transition to the Financial Stability Board Secretariat.

2.4.9 Examination of Foreign Subsidiaries

The onsite examination of offshore subsidiaries of Nigerian banks was not conducted due to the

COVID-19 pandemic. However, banks were required to highlight, in their monthly returns, the impact of the COVID-19 pandemic on their subsidiaries and measures taken to address them.

2.4.10 Foreign Exchange Monitoring/Examination

To ensure compliance with extant Foreign Exchange rules and regulations and utilisation of foreign exchange acquired for eligible transactions by the Authorised Dealers (ADs), the Bank conducted routine foreign exchange examination of twenty-six (26) ADs. The examination covered the foreign exchange activities of twenty-two commercial banks and four merchant banks. In addition, a series of adhoc reviews/spot checks was carried out on these banks during the review year.

Major infractions detected during the examination included: utilisation of cash deposits in excess of US$10,000.00 for telegraphic transfers by some banks' customers; usage of domiciliary account balances to fund importation of goods without processing Form M; permitting utilisation by small import customers in excess of the quarterly allowable limit of US$20,000.00; non-compliance by ADs with regulatory Net Open Position (NOP) limit; as well as breach of CBN approved Foreign Currency Trading Position (FCTP) limit, contrary to regulation. Appropriate penalties were imposed on the erring ADs, where applicable, in line with prevailing foreign exchange laws and regulations. Several requests by banks for approval to evacuate idle foreign cash from their vaults were processed during the year.

2.4.11 Macroprudential Surveillance and Regulation

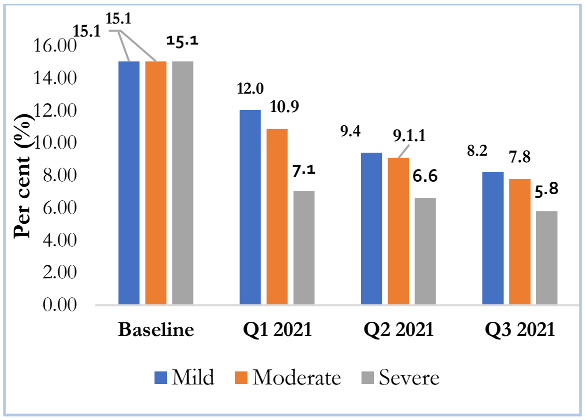
The CBN sustained the conduct of top-down solvency and liquidity assessment of the banking industry in the review period to ensure financial system stability.

Banking Industry Solvency Stress Tests and Liquidity Simulations

The banking industry solvency and liquidity positions under mild to moderate scenarios of sustained economic contraction remained robust but might be vulnerable under severe scenario.

The scenarios revealed that under the severe scenario of sustained significant contraction in GDP by 2.5 per cent in the second quarter of 2021, the contractions by 3.5 per cent in third quarter of 2021 and 4.0 per cent in fourth quarter of 2021, the banking industry CAR would fall to 7.1 per cent, 6.6 per cent and 5.8 per cent, respectively. However, the severity of the simulated GDP contraction may be contained by anticipated pick-up in economic activities on the backdrop of availability and access to the COVID-19 vaccines and combination of sustained fiscal and monetary stimulus. Targeted interventions being implemented by the Bank were expected to mitigate the potential impact of the COVID-19 pandemic on the economy and ensure financial system stability.

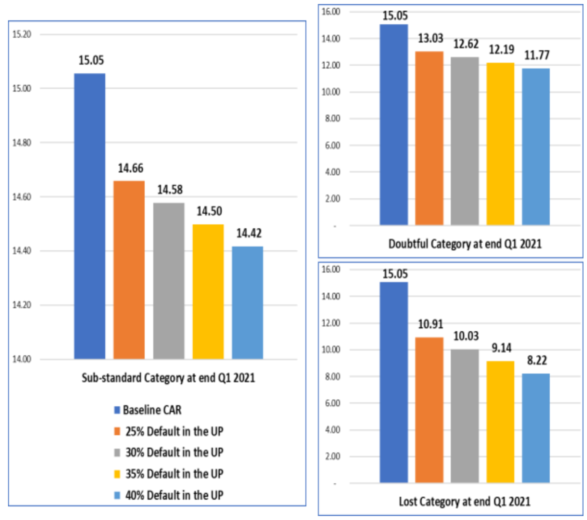
Figure 2.4. 1: Impact of GDP Contraction on CAR



Source: Central Bank of Nigeria

A further stress testing of idiosyncratic impact of COVID-19 pandemic on banks' CAR, in respect of defaults in unstructured 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 "Lost". At this stage, the industry NPL ratio would rise to 15.6 per cent, while CAR would fall to 9.1 per cent.

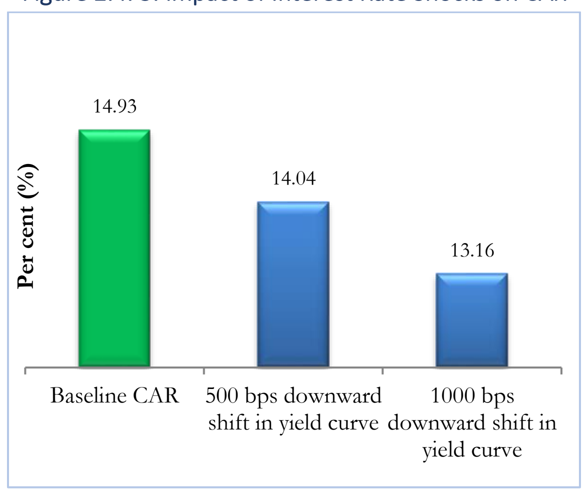
The stress test on the net position of interest-sensitive instruments showed that the industry maintained a stable solvency position to interest rate shock of "up to 1000 basis points downward shift in yield curve". Although the post-shock CAR declined from 14.9 per cent to 13.2 per cent, it remained, significantly, above the 10.0 per cent regulatory threshold. However, the interest rate shocks had significant adverse impact on the ROA and ROE.



Source: Central Bank of Nigeria

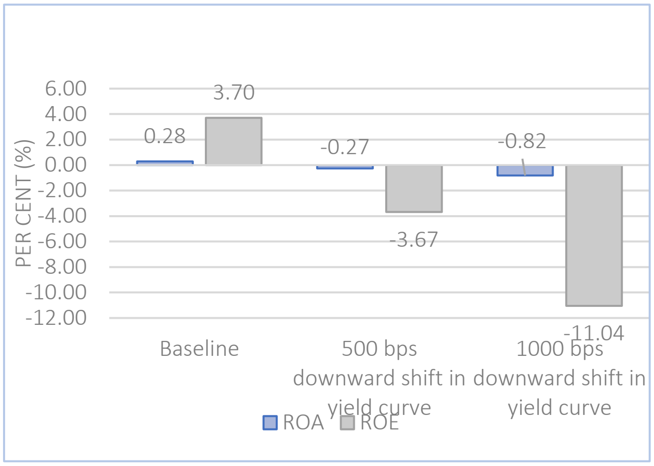
Figure 2.4. 2: Impact of Default in Unstructured Credits on CAR and NPL

Figure 2.4. 3: Impact of Interest Rate Shocks on CAR



Source: Central Bank of Nigeria

Figure 2.4.4: Impact of Interest Rate Shocks on ROA and ROE



Source: Central Bank of Nigeria

Table 2.4. 2: Impact of Selected Shocks on CAR, ROA and ROE

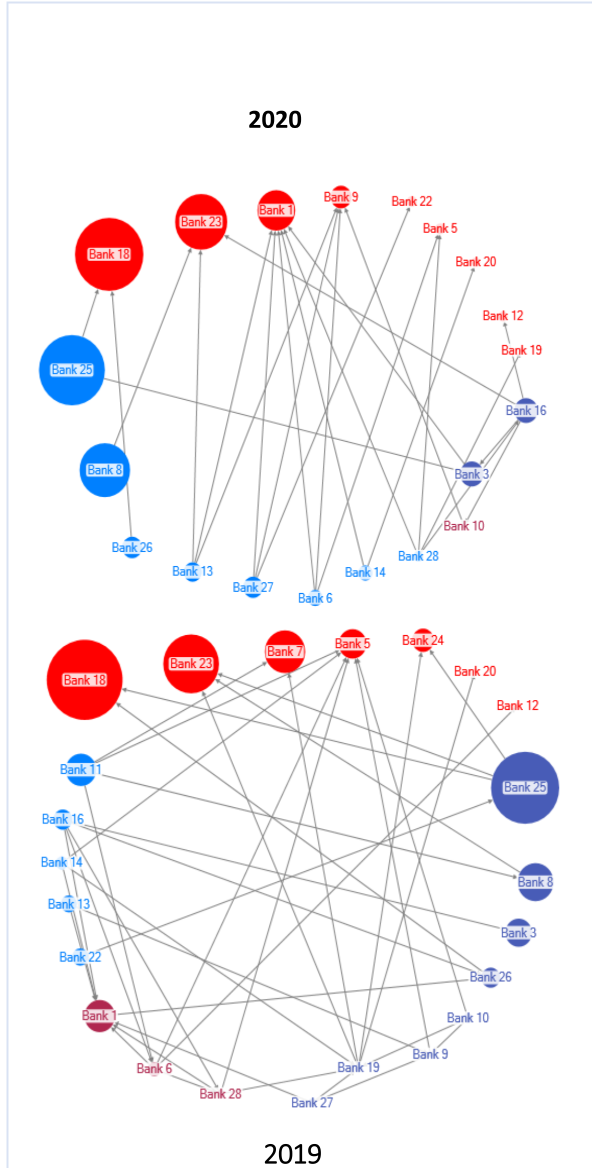
Banking Industry (Per cent)	
Baseline ROA	0.23
Baseline ROE	3.73
Impact of Downward Shift in Yield Curve Shocks on CAR	
500 bps downward shift in yield curve	*14.04*
1000 bps downward shift in yield curve	*13.16*
Impact of Downward Shift in Yield Curve Shocks on ROA	
500 bps downward shift in yield curve	*0.5*
1000 bps downward shift in yield curve	*0.05*
Impact of Downward Shift in Yield Curve Shocks on ROE	
500 bps downward shift in yield curve	*7.57*
1000 bps downward shift in yield curve	*0.77*

Source: Central Bank of Nigeria

Contagion Risk Analysis

Contagion risk analysis showed a decrease in exposure and interconnectedness (via interbank placement and takings). The total exposure decreased by 37.8 per cent to ₦396.34 billion at end-December 2020, compared with ₦636.76 billion at end-December 2019.

Figure 2.4.5: Contagion Risk 2020 and 2019



Note: Blue= Placement only, Deep Blue= Net Placement, Red= Takings only, Purple = Net Takings

Source: Central Bank of Nigeria

2.4.12 Examination of Other Financial Institutions

The Bank conducted routine and special examination of 190 OFIs in 2020. The exercise covered AML/CFT examination, using the Risk-Based Approach for 114 BDCs, as well as special examination of 76 MFBs with critical regulatory issues in the sub-sector. The Bank was unable to carry out the routine RBS examination on MFBs, DFIs and FCs during the review period due to the COVID-19 pandemic.

The special examination of the MFBs revealed that, 34 MFBs were active, while 42 MFBs had closed shop. The operating licences of the 42 MFBs were subsequently revoked by the Bank, due to regulatory infractions, such as unauthorised closure and failure to render monthly returns for more than six months. An off-site analysis of MFBs Statutory Returns at end-December 2020, showed that 742 MFBs met the minimum CAR of 10.0 per cent, 807 MFBs met the minimum LR of 20.0 per cent, while 408 MFBs operated within the maximum Portfolio-At-Risk (PAR) of 5.0 per cent. The examination reports further revealed infractions of extant regulations and erring institutions were appropriately sanctioned.

The Bank held a virtual meeting with the Association of Bureau-de-change operators of Nigeria (ABCON) in December 2020 to discuss AML/CFT compliance by BDCs and the outcome of GIABA Mutual Evaluation Exercise (MEE) conducted in 2019. The meeting agreed that BDCs should:

- Put in place stronger AML/CFT controls and ensure a comprehensive customer due diligence, observing the KYC principles (proper documentation);
- Conduct AML/CFT trainings for its members/staff regularly; and
- Improve on their AML/CFT returns rendition to the CBN and the Nigeria Financial Intelligence Unit (NFIU).

2.4.13 Consumer Protection

The Bank continued with the implementation of measures to ensure consumer protection, mainly, in the form of customer complaints management. The Bank received 4,630 complaints from consumers of financial services in 2020, compared with 3,132 in 2019, representing an increase of 47.8 per cent. These complaints comprised: account management issues; bonds, guarantees and indemnities; ATM dispense errors; failed transactions; erroneous transfers; excess charges; international trade; tenored investment; fraud; unauthorised charges; and Others.

Of the total number of complaints, 4,496 or 95.9 per cent were complaints against banks, while 134 or 4.1 per cent were against Other Financial Institutions and other miscellaneous complaints. A total of 4,357 complaints, including those outstanding from 2019, were resolved in the review period, compared with 3,309 in the preceding year.

Total claims in the review period in local and foreign currencies amounted to ₦3.92 billion and US$163,000.00, compared with the ₦12.38 billion and US$4.05 million, respectively, in 2019. The sum of ₦3.67 billion and US$147,000.00 were refunded in 2020, compared with the ₦8.60 billion and US$1.40 million in 2019. A total of three mediation meetings were held, during which eight banks were penalised for various infractions during the review year.

To improve consumer complaints management, the Consumer Complaints Management System (CCMS) was re-designed to enhance its efficiency and improve interface with the banking public, through the public portal. The Portal provides a platform for customers of financial service providers to escalate complaints that were neither resolved nor satisfactorily treated by the banks to the CBN.

In 2020, the CBN commenced the implementation of the Consumer Protection Risk-Based Supervision Framework (CP-RBSF) with the appointment of a consultant to drive the project. Also, following the issuance of the Consumer Protection Regulation (CPR) in December 2019, a stakeholder sensitisation workshop was conducted in Abuja and Lagos from 24–27 February 2020 for regulators, organised consumer groups and professional bodies on the provisions of the CPR.

To ensure compliance with the CPR, particularly the provisions of the Guide, a compliance examination was conducted in September 2020 on twenty (20) banks covering the period January - June 2020. The main objective of the examination was to confirm the compliance with some provisions of the Guide to Charges by Banks and Other Financial Institutions (The Guide) and the CPR issued in December 2019. The outcome of the examination revealed a satisfactory level of compliance with regulatory provisions.

2.4.14 Financial Literacy and Education

In preparation for the national roll out of the National Peer Group Educator Programme (NAPGEP), the Bank participated in the training of trainers programme for the zonal Financial Inclusion State Steering Committees (FISSCOs) across the country from 17–22 February 2020 and 24–29 February 2020. The programme was a train-the trainer initiative implemented by the CBN, in collaboration with other stakeholders, designed to leverage the NYSC scheme to drive financial education using Volunteer Corp Members (VCMs) to conduct financial literacy sessions for adult Nigerians. The Committee would, subsequently, train the VCMs during NYSC orientation programmes. The Programme was rolled out across the country in all NYSC Orientation Camps on 18 March 2020 and would onboard over 13,000 VCMs before the end of 2020, who would be assigned to financial services providers. The Programme was, however, stalled due to the COVID-19 pandemic.

The Bank and OFIs commenced the process of establishing modalities for the development and implementation of the Monitoring and Evaluation App for the NAPGEP initiative. The NIBSS organised the 1st stage of a one-day training for staff of the CBN and OFIs on the NAPGEP Administrative Portal.

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 is 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. The pilot run was conducted with selected NYSC VCMs, who participated in the March 2020 NYSC orientation programme across the 37 NYSC orientation camps.

Subsequently, FUT Minna implemented a one-day session on the "SabiMoni" Walkthrough from "Registration to Certification", to provide guidance on the features, technical and administrative requirements of the Platform from a user perspective. Furthermore, in preparation for the handover of SabiMoni platform on 12 December 2020, a one-week administrative support training programme was conducted by FUTMinna for staff of the Bank. The training was aimed at equipping participants with requisite skills to oversee the day-to-day operation of the portal.

Activities marking the 2020 Global Money Week (GMW), scheduled to commence on March 26, 2020, were postponed indefinitely due to the COVID-19 pandemic. Similarly, the World Savings Day (WSD) for 2020 was not held.

2.4.15 The Asset Management Corporation of Nigeria

The annual routine onsite examination of the Asset Management Corporation of Nigeria (AMCON) scheduled for 30 September 2020, was not carried out due to the COVID-19 pandemic. Offsite surveillance, however, continued with AMCON's quarterly reporting of its activities to the CBN. The net carrying value of AMCON's outstanding liabilities slightly reduced to ₦5.66 trillion at end-December 2020 from ₦5.71 trillion at end-December 2019, with the AMCON Notes of ₦4.03 trillion and Loan (Debenture) of ₦500.00 billion accounting for 78.0 per cent of the liabilities. The slight reduction in carrying value of AMCON's obligation to the CBN reflected repayment of ₦60.85 billion out of the principal sum of the AMCON Notes. The Notes are due for maturity on 27 December 2023 and the ₦500.00 billion loan falls due for redemption on 30 December 2022. AMCON was working on feasible alternatives to avert crystallisation of these obligations.

However, the carrying value of its assets, net of impairment rose to ₦964.27 billion at end-December 2020, compared with ₦950.16 billion in 2019. Contributions to the BSRCF by the CBN and fourteen participating banks for year 2020 was ₦276.48 billion. The CBN makes an annual contribution of ₦50.00 billion to the BSRCF, while the contributions of the participating banks was determined based on 50.0 basis points of their on-balance sheet assets and contingents. All funds collected in the BSRCF every year are invested in Government Securities prior to utilisation of the funds in December of every year by AMCON to make scheduled repayments to the CBN. The BSRCF is governed by a Board of Trustees constituted in line with the AMCON Amendment Act 2019 and is audited annually by External Auditors appointed by the Board of Trustees in line with Section 60T of the AMCON Amendment Act 2015. The total assets/funds attributed to the BSRCF as at 31 December 2019 was ₦1.77 trillion.

2.5 BANKING AND PAYMENTS SYSTEM OPERATIONS

The Bank continued to enhance the credibility and reliability, as well as improve the efficiency of payments system. The review period witnessed the COVID-19 pandemic, which disrupted economic activities around the world. The policy measures by the monetary authority played a veritable role in supporting the payments system to seamlessly provide payments that could led to a surge in the uptake of contactless and other non-cash payment options.

2.5.1 Payments System Policies

The Bank developed policies and initiatives to address the needs of customers and emerging challenges, and to ensure that households and businesses have access to safe, reliable and efficient payments options. In the review period, the Bank's role as an operator, a catalyst and an overseer ensured safety, guaranteed stability of payments infrastructure, and supported interoperability.

Payments System Infrastructure

To ensure a secured, robust and accessible payments system infrastructure, the Bank continued to improve the operations of Real-Time Gross Settlement (RTGS) System and Scripless Securities Settlement System (S4). The operational changes were: the restructuring of each of the four net settlement sessions on RTGS system to accommodate all schemes and instruments; 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 system and S4. The changes were introduced to facilitate faster settlement of clearing positions of banks and merchant settlements, and reduce clearing float and settlement risk.

To enhance the efficiency of government revenue collections, the Bank introduced a new model for the TSA e-collection to allow the multiple participation of all licensed Payments Solution Service Providers (PSSPs). The model would enable the Bank to have a central repository of TSA e-collection data and ease payment of government revenue. In the review period, the Bank also commenced the parallel run of the model with NIBSS as the central aggregator, three PSSPs and twenty-nine banks as collectors. Most of the collections by the banks were restricted to stamp duty and National cybersecurity fund remittances.

The Authorised Signature Verification (ASV) portal was approved for mandate verification of banks to reduce the turnaround time for processing mandates. The ASV portal warehouses electronic signatures of all authorised signatories in banks and the CBN. The portal provides a means of verifying signatures on inter-bank documents and performance of update on existing and new signatures.

To engender integrity and reliability of the payment infrastructure and improve quality service delivery, the Bank reduced the chargeback period for reversing failed transactions and complaints on the various e-payment channels within the stipulated timelines. The measure covered timelines for the reversal of failed transactions, refunds and resolution of disputed transactions on e-payment channels, adjustment of the chargeback cycle, as well as clearing all previous backlogs of customer refunds for the specific payment options.

To develop safe, reliable and efficient payments system and address issues of identity theft, the Bank continued to implement the Framework for BVN Operations and Watch-list. The Framework, due to its enhanced features in identity management, plays a vital role in improving credit management, Know-Your-Customer (KYC) and harmonisation of accounts of individuals across the banking sector and payments industry. Furthermore, it remains a credible unique identifier, which addresses issues of identity theft and reduces exposure to fraud in the payments system.

At end-December 2020, the number of registered BVN increased by 13.3 per cent to

45.80 million, compared with 40.41 million in 2019. There were 148.77 million unique bank customers and 167.44 million bank accounts. Of the total bank accounts, 97.73 million are linked with BVN and 72.23 million were active. A total of 2,992 BVN were placed on watch-list during the review period.

Promotion of interoperability

The Bank 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. The NUBAN Standards was first issued in August 2010 to achieve uniform customer bank account numbering among all banks. However, with the increasing role of the OFIs in the electronic payments system, it became imperative to expand the scope of the standards to include 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 was slated for 15 March 2021.

To ensure harmonisation with international payments system and cross-border transactions, the Bank directed all financial institutions (FIs) in Nigeria to activate and comply with the new timelines for the various activities leading to migration to ISO 20022 (International Organization for Standardisation 20022), as specified by SWIFT (Society for Worldwide Interbank Financial Telecommunications). The ISO 20022 Standard is an emerging global standard for payments messaging currently in use in cross-border payments in over 70 countries. In the years ahead, ISO 20022 would be the de-facto standard for high-value payments in reserve currencies. The Standard would create a common language and model for payments data, significantly, improve the quality of data across the payments ecosystem, build client confidence, while improving compliance and efficiency.

The ISO 20022 for FIs to FIs payments and reporting is scheduled to go live on SWIFT by end-November 2022. The corresponding legacy SWIFT MT Messages would be decommissioned on the SWIFT platform by November 2025, after a 3-year period of coexistence with ISO 20022.

Supervision and Regulation

In continuation of the Bank's oversight function of payments service providers, it issued and revoked licences in the review period. The number of licenced operators in the different segments of the payments system decreased to 97, in the review period compared with 107 participants in 2019. The decrease was occasioned by the revocation of eight licences, comprising: five Payment Terminal Service Providers (PTSPs); two Switching companies and a Mobile Money Operator (MMO). Furthermore, the Bank stopped the licensing of bank-led MMOs, as they only require a letter of 'No-Objection' to operate. This reduced the number of licensed MMOs to sixteen (16). Also, eight (8) Approvals-in-Principle were withdrawn, comprising: three (3) PTSPs; three (3) MMOs; a Switching company; and a PSSP. A total of eight (8) licences were issued, comprising: three (3) Super Agents; four (4) PSSPs; and one (1) Third-Party Processor (TPP).

To deepen financial inclusion and enhance access to financial services for the under-banked and unbanked segments of the population, the Bank issued licences to three Payment Service Banks (PSBs). The PSBs were Hope PSB, 9PSB and MoneyMaster PSB. Hope PSB and 9PSB commenced operations in November and December 2020, respectively, and had onboarded over 155,000 customers at end-December 2020.

Table 2.5.1: Licensed Payments System Participants

License -Type	Dec. 2019	Dec. 2020
Card Schemes	6	6
Mobile Money Operators	26	16**
Payment Solution Service Providers	22	26
Payment Terminal Service Providers	21	16
Transaction Switching Companies	9	7
Third Party Processors	4	5
Accredited Cheque Printers	4	3
Super Agents	9	12
Non-Bank Acquirers	6	6
Total	**107**	**97**

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

To promote a strong and credible payments system, the Bank approved a new licensing framework for the Nigerian payments system. The new licensing framework offers clarity for new and existing market participants given the significant evolution of the payments system. Payments system licensing has been streamlined according to permissible activities in four (4) broad categories and specified minimum capital requirement: Switching and Processing, (₦2 billion); Mobile Money Operations, (₦2 billion); and Payment Solution Services, (₦250 million). The permissible activities under the Payments Solution Services include: Super-Agent, (₦50 million); Payment Terminal Service Provider (PTSP), (₦100 million); and Payments Solutions Service Provider (PSSP) (₦100 million).

The fourth broad category, the Regulatory Sandbox, has no minimum capital requirement. It is a formal process for firms to conduct live tests of innovative products, services, delivery channels or business models in a controlled environment, with regulatory oversight, subject to appropriate conditions and safeguards. This would enable the Bank to stay abreast of innovations, while promoting a safe, reliable and efficient payments system to foster innovation without compromising on the delivery of its mandate.

To promote and facilitate the development of efficient and effective systems for the settlement of transactions, including the development of electronic payment systems; the Bank issued the revised Guidelines on Operations of Electronic Payment Channels. The guidelines covered operations; maintenance; roles and responsibilities; fees and charges; settlement mechanism; and standards for automated teller machine (ATM), point- of-sale (PoS), mobile point-of-sale (MPoS) and web acceptance services.

The Bank continued with the implementation of the revised Nigeria Cheque Standards (NCS) and Nigeria Cheque Printers Accreditation Scheme (NICPAS) to improve the safety of the Nigerian Clearing System and ensure cheque standards as a payment instrument. The COVID-19 pandemic, however, disrupted the Bank's accreditation exercise for Cheque Printers and Cheque Personalisation in the first half of the review year. Thus, to ensure that the printing needs of banks were adequately met, the Bank extended the licences of two Accredited Cheque Printers by twelve (12) months. In the second half of the year, one Cheque Printer was re-accredited, while four others had commenced their accreditation process at end-December 2020.

In compliance with the stipulations of the NCS and NICPAS Version 2.0 for the accreditation of all Cheque Management Centers of banks, the Bank accredited six (6) Cheque Management Centers.

Following the release of the NCS and NICPAS Version 2.0, the parallel run of the old and new cheques commenced. However, due to the COVID-19 pandemic and its effects on the activities of stakeholders nationwide, an extension was granted to allow the parallel run till March 2021, while full implementation would commence on 1 April 2021. After the deadline, only cheques conforming to the new standards would be allowed in the automated clearing system.

Furthermore, to ensure all new cheques comply with the requirements of the NCS and NICPAS Version 2.0, adequate quality control on cheques, using the RDM QCX MICR and Image Qualifier, was undertaken.

To safeguard the integrity of the payments system in Nigeria, the Bank introduced the Nigerian Payments System Risk and Information Security Management Framework to guide the management of risks associated with the payments system. The objectives of the framework were to: identify and address sources of systemic risks within the Nigerian payments ecosystem; establish sound governance structure to oversee the risk management framework; 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 PSV 2020. The associated risks identified by the framework included systemic, credit, liquidity, operational, compliance, legal and regulatory, settlement, and information security risks.

The Bank continued to provide clarity on pricing for providers of payment services, to ensure a level playing field for all stakeholders and serve as a guide to charges by payments system operators. In line with the revised guidelines for pricing and charges, all switching companies were directed to implement a proportionate downward review of the switching charges to banks. The essence was to provide a standard for the application of charges using the payments channels.

2.5.2 Nigeria's Payments Trend

The Nigerian payments system has evolved over the years with the advent of new payments methods, options and interfaces. Transactions in payment services were sustained by an array of policies implemented by the Bank to address current and evolving challenges in the payments system; as well as the opportunities presented by the COVID-19 pandemic of the surge in the uptake of contact-less payment services. Available data showed that the transactions in the payments system increased significantly. The volume and value of electronic payments increased to 10,145.80 million and ₦1,245,658.13 billion in 2020 compared with 3,002.90 million and ₦167,014.36 billion in the preceding year.

The leap in the transactions of the payments system was also attributed to the expansion in the database, to include the capturing of data on intra-bank and inter-scheme transactions from all licensed service providers. Industry data on electronic payments had expanded to capture all e-payment transactions (banks, MMOs, NIBSS, Switches and PSSPs).

Retail Payments System

The COVID-19 pandemic promoted greater use of e-payments platforms and other contact-less options to settle financial transactions. Consequently, e-payment transactions increased significantly in the review period. The volume of transactions on e-payments1 channels increased by 268.8 per cent to 10,716.6 million, compared with 2,906.1 million in 2019. The corresponding value of the transactions also rose significantly by 288.0 per cent to ₦470,123.40 billion, compared with ₦121,151.65 billion in the preceding year.

A breakdown of the volume of transactions using the e-payment channels showed a tremendous increase to 1914.2 million, 655.8 million, 769.2 million and 6480.6 million, compared with 839.8 million, 438.6 million, 377.3 million and 103.5 million for ATMs, PoS, mobile payments and Internet (web), respectively, in 2019. In the same vein, the value of transactions using the e-payments options showed an increase in value to ₦18,199.70 billion, ₦4,727.10 billion, ₦14,987.70 billion and ₦392,340.20 billion, compared with ₦6,512.61 billion, ₦3,204.75 billion, ₦5,081.00 billion and ₦478.14 billion, for ATMs, PoS, mobile payments and internet (web), respectively, in 2019. The other retail payments channels such as USSD, Mobile Apps and direct debit, which were captured as e-payments options in the review period, recorded significant number of payments transaction. The number of transactions were 482.3 million, 411.5 million and 3.0 million, and their corresponding values were ₦5,033.40 billion, ₦32,400.90 billion and ₦2,434.40 billion, respectively for USSD, Mobile Apps and direct debits in the review period.

An analysis of the components of the e-payments channels showed a significant increase in the volume (figure 2.5.1) and value (figure 2.5.2) of transactions with the internet (web) dominating by 66.0 per cent and 91.2 per cent in volume and value, respectively. The significant increase in the internet (web) payments option was attributed to aggregation

Table 2.5.2: Volume and Value of Electronic Payments

Payment Channels	No. of Terminals		No. of Transactions (million)		Value ₦' Billion	
	19-Dec	20-Dec	19-Dec	20-Dec	19-Dec	20-Dec
ATMs	19,129	18,810	839.8	1914.2	6,512.61	18,199.70
POS	303,162	459,285	438.6	655.8	3,204.75	4,727.10
Internet (Web)	-	-	103.5	6,480.60	478.14	392,340.20
RTGS Inter-Bank	-	-	-	0.9	-	439,055.40
RTGS Intra-Bank	-	-	-	12.6	-	51,771.91
NEFT	-	-	-	184.9	-	299,695.12
USSD	-	-	-	482.3	-	5,033.40
Mobile App	-	-	-	411.5	-	32,400.90
Direct Debit	-	-	-	3	-	2,434.40
Mobile (MMOs)	-	-	377.3	-	5,081.00	-
NIP	-	-	1145.8	-	105,222.56	-
e-Bills Pay	-	-	1.1	-	652.59	-
REMITA	-	-	48.5	-	20,724.63	-
NAPS			47.3	-	25,132.00	-
m-Cash			0.3	-	0.6	-
Central Pay			0.7	-	5.48	-
Total			3,002.90	10,145.76	167,014.36	1,245,658.13

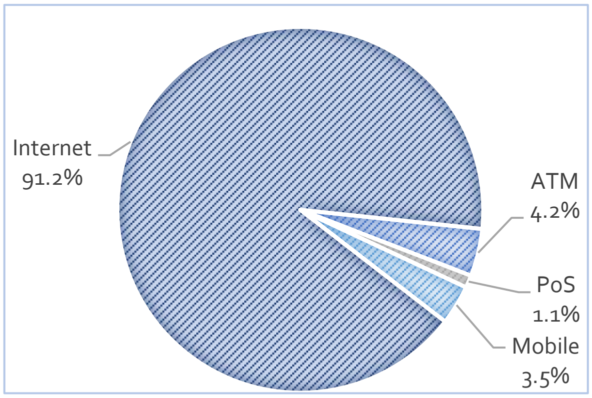
Source: Central Bank of Nigeria

of NIP, e-Bills, REMITA, NAPS and Central Pay payment platforms under the internet (web) channel transactions and the increased uptake of these channels to settle transactions by economic agents. The number of transactions by ATMs and mobile money payments channels accounted for 19.5 per cent and 7.8 per cent, respectively, but in terms of value accounted for 4.2 per cent and 3.5 per cent, respectively. The

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

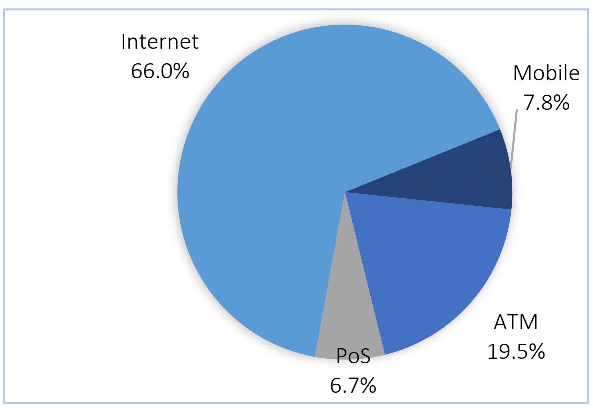
PoS was the least patronised in terms of volume and value of transactions with 6.7 per cent and 1.1 per cent of the aggregate.

Figure 2.5.1: Composition of e-Payments Transactions by Volume, 2020



Source: Central Bank of Nigeria

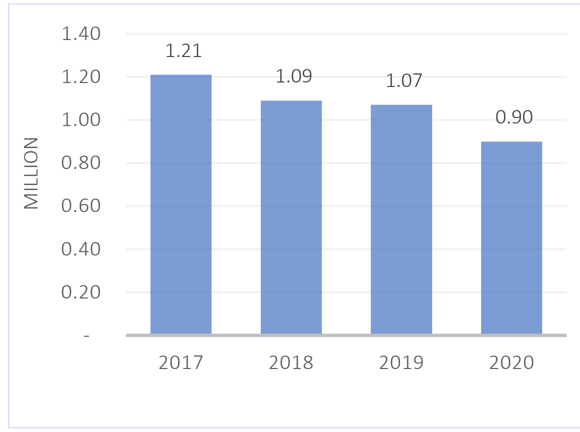
Figure 2.5.2: Share of e-Payments Transaction by Value 2020



Source: Central Bank of Nigeria

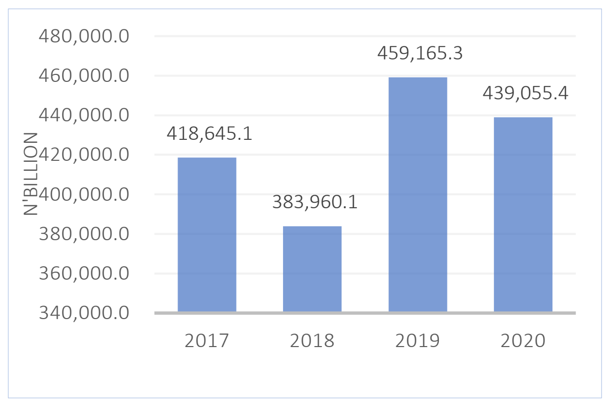
Transactions by cheques also increased in the review period, following increased usage to settle financial transactions, as the volume of cheque increased by 156.1 per cent to 20.0 million, compared with 7.8 million in 2019. The value of cheque transactions increased by 242.7 per cent to ₦15.42 trillion, compared with ₦4.50 trillion in 2019. The increase was attributed, partly, to wider capture of cheque transactions, including intra-bank cheque

Figure 2.5.3: Volume of Inter-Bank RTGS Transactions, 2017 - 2020



Source: Central Bank of Nigeria

Figure 2.5.4: Value of Inter-Bank RTGS Transactions, 2017 - 2020



Source: Central Bank of Nigeria

Wholesale Payments System

Inter-bank transactions in the wholesale payments (Real Time Gross Settlement (RTGS) system) witnessed a decline in volume and value of activities in the review period. The volume and value of inter-bank fund transfers through the CBN RTGS system declined by 15.9 per cent and 4.4 per cent to 0.9 million and ₦439,055.40 billion, respectively, compared with 1.07 million and ₦459,165.31 billion at end-December 2019. The decrease was attributed to the availability of alternative channels for large value payments. The volume and value of Intra-bank RTGS fund transfers, which were captured in the review period, was 12.6 million and ₦51,771.91 billion, respectively.

2.6 DEVELOPMENTAL FUNCTIONS

In 2020, the Bank sustained its existing development finance interventions and introduced new ones to mitigate the adverse effects of the COVID-19 pandemic, which severely disrupted business activities, households and the healthcare sector.

The intervention programmes and schemes are designed to expand credit to agriculture, aviation, health, manufacturing, power and entrepreneurship development. To deepen the depth and coverage of its interventions, the Bank further developed frameworks for the implementation of non-interest window for eleven of its existing development finance programmes and schemes.

2.6.1 Real Sector Intervention Initiatives

Anchor Borrower's Programme (ABP)

In 2020, the sum of ₦210.00 billion was disbursed through 6 PFIs to 892,893 smallholder farmers, cultivating 1,510,153 hectares of land. This represented an increase of 105.8 per cent, compared with ₦102.03 billion disbursed through 19 PFIs to 582,519 smallholder farmers who cultivated 668,367 hectares of land, in the preceding year. The farmers, who mostly cultivated rice, maize, tomato and sorghum, cotton, oil palm, poultry, cassava and others were linked to 36 anchors.

The number of PFIs decreased to 12 in 2020 from 20 in 2019, while the number of commodities financed decreased from 17 to 13. In the year under review, over 300 anchor companies had expressed interest to participate in the 2020/2021 farming season under the Programme.

From inception in 2015 to end-December 2020, a cumulative sum of ₦514.40 billion had been disbursed to farmers through 22 PFIs to finance 2,531,490 farmers, working with over 538 anchor companies.

Table 2.6.1: Cumulative Disbursements under the ABP by Anchor (2015 – 2020)

Anchors	No. of Anchors	No. of Farmers	No. of Hectares	Total Disbursements (₦' Billion)
State Govt.	*14*	*184,354*	*197,816.50*	*39.7*
Private	*498*	*524,454*	*1,077,664.50*	*149.1*
Commodity Associations	*16*	*1,822,682*	*1,973,215.50*	*325.6*
TOTAL	528	2,531,49	3,248,697	514

Source: Central Bank of Nigeria

Repayments made in the review year, included ₦122.19 billion cash and 79,436.40 metric tons in paddy, resulting in cumulative repayment of ₦12.70 billion since inception of the Programme in 2015.

The Bank, in 2020, adopted the use of commodities and offtake of excess harvest after recovery, for loan repayment. With the commencement of harvest of various commodities in various states, more than 2,995 metric tonnes of paddy and 1,089 metric tonnes of maize have been recovered from farmers as loan repayment, while harvest of produce for both commodities and others are currently ongoing. As at December 2020, cumulative repayment stood at ₦18.77 billion.

Nigeria Incentive-Based Risk Sharing System for Agricultural Lending Plc. (NIRSAL Plc.)

In 2020, the sum of ₦38.32 billion was disbursed to NIRSAL Plc in favour of 138,816 farmers, cultivating 18 commodities on 345,954 hectares across the country. The sum of ₦12.54 billion was repaid by NIRSAL Plc in the year under review.

Commercial Agriculture Credit Scheme (CACS)

To boost productivity growth within the agricultural value chain, the sum of ₦62.43 billion was released to 13 banks for 40 projects in 2020, compared with ₦19.70 billion released to 11 banks for 18 projects in 2019. The funds released comprised ₦23.13 billion for thirty-one private projects and ₦39.30 billion for nine State Government-sponsored projects. From inception in 2009 to end-December 2020, a cumulative sum of ₦685.42 billion had been disbursed to 640 projects. Year-on-Year comparison of activity under the CACS showed an increase of 157.14 per cent in terms of number of loans and 216.99 per cent by value of loans in 2020.

An analysis of number of projects financed under CACS by value chain showed that out of the 640 projects; production accounted for 60.47 per cent and dominated the activities funded, while processing accounted for 29.06 per cent. These activities were distantly followed by storage, input supplies and marketing, which registered 4.38 per cent, 3.59 per cent and 2.50 per cent, respectively.

Table 2.6. 2: Cumulative Funds Disbursement by Value Chain Activity under CACS (2009 - 2020)

Category	Number	%	₦-Billion	%
Production	*387*	*60.5*	*405.10*	*59.0*
Processing	*186*	*29.1*	*197.40*	*29.0*
Marketing	*16*	*2.5*	*22.00*	*3.2*
Storage	*28*	*4.4*	*36.06*	*5.3*
Input Supplies	*23*	*3.6*	*24.30*	*3.5*
Total	640	100	685.42	100

Source: Central Bank of Nigeria

In 2020, the sum of ₦55.01 billion was repaid by fifteen banks, compared with ₦62.40 billion repaid by thirteen banks in 2019, indicating a decline of 11.84 per cent compared with the preceding period in 2019. The repayment in 2020 was in respect of 164 projects representing 33 full repayments and 131 steady repayments. The cumulative amount repaid stood at ₦446.15 billion by eighteen lending Banks in respect of 132 projects as steady repayments and 439 projects as full repayment as at 31 December 2020.

In the review year, the Bank introduced policy measures to minimise the negative economic impact of COVID-19 pandemic on the domestic economy. Accordingly, interest rates on all interventions were reduced downward, from 9 per cent to 5 per cent effective 1 March 2020 to 28 February 2021. Consequently, the interest sharing arrangement between the CBN and participating banks on CACS was reviewed from 6 per cent to 4 per cent for PFIs and from 3 per cent to 1 per cent for CBN.

The focal commodities under the Scheme received a cumulative sum of ₦424.71 billion as outlined in the 2014 CACS Guidelines.

Table 2.6. 3: Performance of CACS by Focal Commodities (N Billion)

Commodity	Released	Total Payment	Outstanding Balance
Cassava	*19.82*	*13.64*	*6.18*
Cocoa	*20.98*	*19.94*	*1.04*
Cotton	*5.70*	*4.50*	*1.20*
Fish	*28.14*	*19.80*	*8.35*
Livestock	*45.79*	*24.68*	*21.11*
Maize	*11.00*	*6.14*	*4.86*
Oil Palm	*38.08*	*31.71*	*6.38*
Poultry	*77.00*	*59.45*	*17.55*
Rice	*153.91*	*72.01*	*81.90*
Soya Beans	*6.48*	*5.00*	*1.49*
Tomato	*13.82*	*6.18*	*7.64*
Sesame	*4.00*	*1.02*	*2.98*
Sub Total	*424.71*	*264.05*	*160.66*
Others	*260.71*	*182.09*	*78.62*
Total	**685.42**	**446.15**	**239.27**

Source: Central Bank of Nigeria

Paddy Aggregation Scheme

In 2020, the sum of ₦3.70 billion was released to four integrated rice millers, which brought the cumulative number of rice millers financed to twenty-one, valued at ₦56.40 billion as at 31 December 2020.

In terms of repayments, the sum of ₦500.00 million was repaid, while the Bank approved the recall of the total sum of ₦51.31 billion disbursed to participating financial institutions in favour of eighteen Rice Millers participating under the scheme. This brings total principal repayment to ₦53.90 billion in respect of nineteen projects and leaving an outstanding balance of ₦2.50 billion in respect of two projects.

Maize Aggregation Scheme (MAS)

The Maize Aggregation Scheme (MAS) was introduced to enhance access to affordable credit by feed millers, silo and warehouse operators, poultry farmers and confectionery companies. This would facilitate the purchase of home-grown maize for subsequent secondary production, thereby promoting national food security. Thus, the total sum of ₦1.70 billion was disbursed to three lending banks in favour of four projects which brought the cumulative number of projects financed to seven, valued at ₦6.00 billion as at 31 December 2020.

The sum of ₦2.30 billion was repaid by two lending banks in favour of two projects. Furthermore, CBN approved the recall of the total sum of ₦3.70 billion disbursed to participating financial institutions for various projects financed under the scheme. This brought total principal repayment to ₦6.00 billion in respect of seven projects.

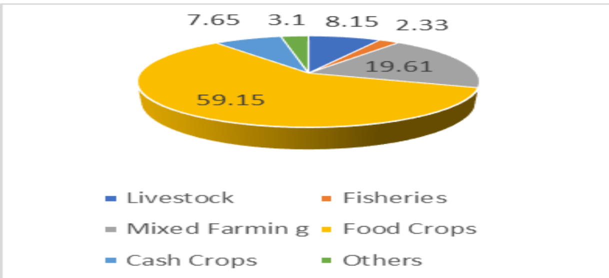
Rice Distributors Facility (RDF)

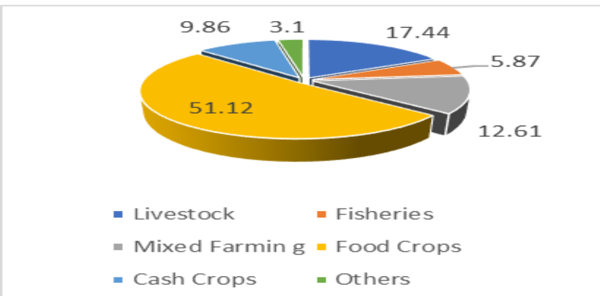
In 2020, no disbursement was made under the Rice Distributors Facility, as against the sum of N1.00 billion, which was disbursed in favour of one project. Thus, cumulative amount released under the Scheme since inception remained at ₦1.00 billion and no repayment had been made.

Agricultural Credit Guarantee Scheme (ACGS)

The ACGS was established to incentivise banks' lending to the agricultural sector by providing guarantee for loans extended to the sector from the banks' balance sheet. In 2020, a total of 30,267 loans, amounting to ₦4.32 billion, were guaranteed, compared with 28,903 loans valued at ₦4.07 billion in 2019. This represented an increase of 4.7 and 6.1 per cent in number and value of loans, respectively. An analysis of the loans showed that microfinance banks granted 30,246 loans valued at ₦4.32 billion (99.9 per cent of number and value), while commercial banks granted four loans valued at ₦3.86 million (0.1 per cent of number and value).

Figure 2.6. 1: Number and Value of Loans Guaranteed by Purpose under ACGS, 2020 (%)





Source: Central Bank of Nigeria

Cumulatively, the number and value of loans guaranteed under the Scheme, since inception in 1977 to end-December 2020, was 1,190,970 and ₦122.63 billion, respectively.

A total of 20,186 loans, valued at ₦3.04 billion, were fully repaid in the review year. This represented decrease of 15.50 and 11.32 per cent in number and value of fully repaid loans, respectively, compared with 23,888 loans, valued at ₦3.43 billion, in 2019. Cumulatively, repayments under the ACGS stood at 933,342 loans valued at ₦93.41 billion from inception to end-December 2020.

ACGS Claims Settlement

In 2020, a total of 10 Claims valued **at** ₦863.36 million was received during the year under review. The applications could not be processed as a result of incomplete documentation. The cumulative claims settled since inception in 1977 stood at ₦659.67 million in respect of 17,965 loans.

Interest Draw-Back Programme (IDP) Rebate Settlement

A total of 16,218 claims were settled, indicating an increase of 7.98 per cent relative to 15,019 claims in 2019. In terms of value, ₦191.19 million was settled in 2020, representing a decline of 1.78 per cent relative to ₦194.67 million in 2019. Cumulatively, 382,777 claims valued at ₦3.493 billion had been settled since inception of the Programme in 2003.

The National Food Security Programme (NFSP)

The sum of ₦59.09 billion was disbursed under the Programme from inception to end-December 2020 to four enterprises. Cumulatively, the total sum of ₦11.38 billion had been repaid.

The Presidential Fertilizer Initiative (PFI)

In the review year, the sum of ₦35.00 billion was released to fertilizer blending plants for procurement of raw materials, namely: diammonium phosphate; muriate of potash; urea; and limestone.

The Non-Oil Export Stimulation Facility (NESF)

In 2020, no disbursement was made from the NESF. Cumulatively, the sum of ₦45.99 billion had been disbursed and ₦12.07 billion had been repaid as at end-December 2020.

Export Development Facility (EDF)

In the review year, the Bank invested an additional ₦50.00 billion in the debenture of the Nigeria Export and Import Bank (NEXIM), thus bringing the cumulative investment to N100.00

billion as at end-December 2020. No repayment had been made under the Facility as disbursements were still under moratorium.

Small and Medium Enterprises Refinancing and Restructuring Facility (SMERRF)

Cumulatively, the sum of ₦381.99 billion was disbursed to 604 projects under the SMERRF since inception to end-December 2014, when it was discontinued. Repayments stood at ₦24.37 billion at end-December 2020, compared with ₦18.90 billion at end-December 2019. This brought the total amount repaid since inception to ₦169.13 billion. The Scheme had created 29,642 jobs and sustained the operations of 604 companies, 340 of which were not in operation before benefitting from the Facility, while the remaining 264 accessed funds under the Facility to complete/resuscitate their projects.

Table 2.6. 4: Sectoral Distribution of Cumulative Loans under the SMERRF

S/N	Sector	Number of projects	Value (₦' billion)
1	*Agro-allied*	*69*	*22.92*
2	*Chem. & Plastics*	*156*	*147*
3	*Eng. & Constr.*	*92*	*56.81*
4	*Food & Beverages*	*102*	*72.55*
5	*Hotel & Tourism*	*2*	*0.53*
6	*ICT*	*20*	*14.12*
7	*Oil & Gas*	*21*	*8.23*
8	*Paper & Allied Products*	*57*	*26.17*
9	*Pharmaceuticals*	*37*	*11.61*
10	*Solid Minerals*	*18*	*6.9*
11	*Textile & Leather*	*18*	*8.52*
12	*Transportation*	*12*	*6.63*
	Total	604	381.99

Source: Central Bank of Nigeria

Real Sector Support Facility (RSSF)

There was no disbursement in the year under review, compared with ₦48.70 billion disbursed for 9 projects in 2019. Cumulatively, ₦166.21 billion had been disbursed in respect of 25 projects since inception to end-December 2020. Repayments in the review year amounted to ₦9.98 billion, bringing cumulative repayments from inception in 2014 to end-December 2020, to ₦27.24 billion

Real Sector Support Facility Through Differentiated Cash Reserve Requirement (RSSF-DCRR)

The banks continued to draw down their cash reserve with the CBN to provide long-term finance for agricultural and manufacturing projects. Consequently, the sum of ₦457.09 billion was disbursed for 126 projects, compared with ₦242.96 billion for 78 projects in the preceding year 2019.

Since inception, the sum of ₦700.13 billion had been disbursed to two hundred and five projects. Out of the ₦700.13 billion disbursed under the DCRR window, ₦1.85 billion was disbursed through Jaiz Bank in favour of two beneficiaries under the Non-interest banking facility.

Healthcare Sector Intervention Facility (HSIF)

The HSIF was introduced in March 2020 to enhance the resilience of the healthcare sector to meet resultant medical demands from the COVID-19 pandemic. In the review year, the sum of ₦72.66 billion was disbursed to 72 projects. Of this amount, ₦810.00 million was disbursed through Jaiz and Sterling Bank in favour of 3 beneficiaries.

Textile Sector Intervention Facility (TSIF)

The sum of ₦87.26 billion was disbursed from inception to date in favour of 41 projects, while ₦12.12 billion had been repaid.

CBN-BOI Industrial Facility (CBIF)

In the review year, the Bank's invested additional ₦100.00 billion in the third tranche of Bank of Industry's (BOI) debenture, thereby increasing the cumulative disbursement for the Facility to ₦200.00 billion. No repayment was recorded as facilities granted under the scheme were still under moratorium.

Power and Airlines Intervention Fund (PAIF)

In 2020, as a boost to investments in the power sector for sustainable energy, ₦6.74 billion was released to the Bank of Industry (BOI) for three (3) power projects under the Facility (First Power Limited - ₦2.00 billion, Kano Hydro Power Projects - ₦1.71 billion and Inez Global Investment Ltd - ₦3.03 billion), compared to ₦3.76 billion that was released in 2019 to the Bank of Industry (BOI) for two power projects under the Facility (Flour Mills Limited - ₦1.25 billion and Kano Power Project - ₦2.51 billion). By end-December 2020, the cumulative amount released to BOI stood at ₦311.88 billion, out of which ₦191.11 billion was disbursed for 49 power projects, while ₦120.76 billion was released for twenty-four airline projects.

Table 2.6. 5: Funds Disbursement under the PAIF (2010 – 2020)

Type	No. of Projects	Amount (₦ billion)	%
Airline projects	24	120.76	39.19
Power projects	49	191.11	60.81
Total	**73**	**311.88**	**100**

Source: Central Bank of Nigeria

Repayments in the review year amounted to ₦22.22 billion, comprising ₦9.11 billion from airline projects and ₦13.11 billion from power projects. Cumulative repayment from inception was ₦194.65 billion, comprising ₦90.72 billion for airline and ₦103.93 billion for power projects.

Nigeria Bulk Electricity Trading-Payment Assurance Facility (NBET-PAF)

In order to enhance the capacity of GenCos to improve the level of power generation in the country, in 2020, a total of ₦171.00 billion was released to them, compared to ₦160.80 billion released in 2019 (₦58.66 billion – Gas Supplying Companies, ₦102.13 billion – Generating Companies, and ₦0.57 billion - equipment suppliers). Cumulatively, the sum of ₦865.98 billion had been released since inception.

However, the total interest payment received under the NBET-PAF from inception to date is ₦21.56 billion.

National Mass Metering Programme (NMMP)

The Bank introduced the National Mass Metering Programme to increase electricity metering nationwide, thereby improving revenue collection and enhancing operational efficiency of distribution companies (DisCos) in the country. Specifically, the primary objectives of the programme included:

- Increase metering rate nationwide;
- Eliminate arbitrary estimated billing;
- Strengthen local meter value chain – local meter manufacturing and deployment capacity;
- Job creation via the local value chain; and
- Enhance operational efficiency and profitability of DisCos – reduction in

collection losses, improve remittance, improve monitoring and data availability to better inform investment decision.

In 2020, the sum of ₦14.35 billion was disbursed to eight Meter Asset Providers.

Solar Connection Facility (SCF)

In 2020 the Bank introduced the Solar Connection Facility in 2020 to complement the Federal Government's effort under the Economic Sustainability Plan (ESP) to roll out 5 million new solar based connections in communities that are not grid connected. The aim is to provide affordable electricity to households, businesses and rural dwellers, through the provision of long term low interest credit facilities to the Nigeria Electrification Project (NEP) pre-qualified home solar value chain players that include manufacturers and assemblers of solar components and off-grid energy retailers in the country.

In the review year, the Bank had approved the sum of ₦7.00 billion to a project, under the intervention, for the procurement and installation of 100,000 solar home systems across the country.

Nigeria Electricity Market Stabilisation Facility (NEMSF)

In 2020, no disbursement was made from the Facility, compared with ₦6.10 billion to one (1) market participant in the power sector in 2019. The cumulative disbursement under the Facility, since inception, stood at ₦189.19 billion. Also, eleven DisCos that signed up under the Facility made repayments amounting to ₦22.10 billion, bringing the cumulative repayment to ₦72.18 billion.

Nigeria Electricity Market Stabilisation Facility-2 (NEMSF-2)

The Bank, in November 2020, introduced the Nigeria Electricity Market Stabilisation Facility-2 (NEMSF-2). The intervention was aimed at providing liquidity support to the DisCos, to enable them meet their financial obligation to the upstream market participants, while making critical infrastructure investment to improve service delivery and collection efficiency.

The objectives of the intervention are to:

- Finance critical infrastructure upgrades by the Distribution Companies (DisCos) in line with their MYTO approved CAPEX allowances from NERC; and
- Support payments due to the Nigeria Bulk Electricity Trading Plc and Transmission Company of Nigeria, arising from under collection of customer payments under the Service Based Tariff scheme in line with the ramp up programme.

Entrepreneurship Development Initiatives

Micro, Small and Medium Enterprises Development Fund (MSMEDF)

As part of its developmental functions and the mandate of promoting a sound financial system in Nigeria, the threshold for the Bank's Micro, Small and Medium Enterprises Development Fund (MSMEDF) was increased to ₦1.00 trillion in 2020 in view of the enormous contribution of the MSME segment to economic growth, job creation financial inclusion and poverty reduction.

In 2020, no disbursement was made under the intervention. However, cumulatively, the sum of ₦98.77 billion had been disbursed under the MSMEDF. Of the disbursed amount, the sum of ₦86.27 billion was disbursed to projects under

MSMEDF, while the balance was used for the financing of other initiatives as detailed below:

Table 2.6. 6: MSMEDF Disbursements: 2014 - 2020

Class	Net disbursements	Percentage
MSMEs	86,269,715,633.30	87.35
Grant	996,054,965.50	1.01
TRADERMONI	6,000,000,000	6.07
SANEF	5,500,000,000	5.57
Grand Total	**98,765,770,598.80**	**100.00**

Source: Central Bank of Nigeria

At end-December 2020, the states had accessed ₦60.23 billion, which represents 69.83 per cent of total funds disbursed, while other categories collectively received 30.17 per cent amounting to ₦26.03 billion. It is important to note that the high volume of borrowing by the states over the years was due to their strategic role as drivers of grassroot economic development.

Table 2.6.7: MSMEDF Facilities Disbursed from 2014-2020 and number Per Category

Category	Disbursement	No. of Projects	Percentage
States	*60.24*	*31*	*69.83*
DMBs	*12.67*	*423*	*14.68*
MFBs	*11.35*	*174*	*13.15*
COOPs	*0.42*	*52*	*0.49*
DFIs	*0.01*	*1*	*0.01*
NGO-MFIs	*0.59*	*35*	*0.69*
Grant	*1*	*12*	*1.15*
Total	**86.27**	**728**	**100**

Source: Central Bank of Nigeria

The sum of ₦3.41 billion was repaid in 2020, compared with ₦4.41 billion repaid in 2019, representing a decrease of 22.64 per cent, attributed majorly to the challenges faced by MSMEs due to COVID-19 outbreak. Cumulatively, repayment from inception under the intervention stood at ₦31.45 billion, at end-December 2020.

Of the 31 States that accessed the MSMEDF, 15 States provided revised Irreversible Standing Payment Order (ISPO), while discussions are ongoing with those that were yet to provide revised ISPO for monthly deduction of outstanding loan amount from their statutory allocations. One State, however, presented a Bank Guarantee as collateral for accessing the Facility.

Agri-Business/Small and Medium Enterprises Investment Scheme (AGSMEIS)

AGSMEIS, an initiative of the Bank in collaboration with the Bankers' Committee, requires banks to set aside 5.0 per cent of their profit after tax into a common pool, for MSMEs financing. NIRSAL MFB is the managing agent for AGSMEIS, leveraging the existing infrastructure of the Nigerian Postal Service (NIPOST) in all 774 local government areas. At end-December 2020, the sum of ₦40.57 billion was received from 26 banks, compared with ₦36.88 billion from 21 banks at end-December 2019. Cumulatively, ₦138.25 billion had been aggregated in the AGSMEIS Fund for on-lending to MSMEs.

Disbursements totaling ₦89.33 billion were made in respect of 23,154 enterprises in 2020. Cumulative disbursement at end-December 2020 was ₦101.91 billion in respect of 26,893 enterprises, out of which ₦100.90 billion was disbursed through NIRSAL Microfinance Bank (NIRSAL MFB) to 26,059 enterprises.

Repayments at end-December 2020 was ₦269.96 million, compared with ₦9.59 million at the end-December 2019.

Creative Industry Financing Initiative (CIFI)

The Bank, in collaboration with the Bankers' Committee, sustained its disbursements under the Creative Industry Financing Initiative (CIFI) to expand low-cost and long-term finance to entrepreneurs and investors in the Nigerian creative and information technology (IT) sub-sectors. The target sectors remained fashion, information technology, movie and music production. The coverage under this initiative also included start-ups and existing enterprises in the creative industry, as well as students of higher institutions engaged in software development.

At end-December 2020, the cumulative sum of ₦3.12 billion had been disbursed for 320 projects from the AGSMEIS Fund.

Targeted Credit Facility (TCF)

The Central Bank of Nigeria (CBN) introduced the Targeted Credit Facility (TCF) as a stimulus package to support households and micro, small and medium enterprises (MSMEs) affected by the COVID-19 pandemic, with a view to cushioning the adverse effects of COVID-19 on these critical segments of the economy. Disbursement of funds commenced in April 2020 through NIRSAL MFB.

At end-December 2020, the sum of ₦178.96 billion was released to NMFB in favour of 390,004 beneficiaries.

Nigerian Youth Investment Fund (NYIF)

The Nigerian Youth Investment Fund (NYIF), an initiative of the Federal Ministry of Youth and Sports Development (FMYSD), was introduced to provide Nigerian youths with investment inputs required to build successful businesses become sustainable employers of labour and contributors to Nigeria's development. The initial take-off seed capital was ₦12.50 billion to be disbursed through NIRSAL Microfinance Bank (MFB) and disbursement commenced in December 2020.

At end-December 2020, the sum of ₦191.7 million has been released to NIRSAL MFB in favour of 293 beneficiaries.

National Collateral Registry (NCR) and Secured Transactions in Movable Assets (STMAs)

In 2020, three milestones were recorded under the National Collateral Registry (NCR) and Secured Transactions in Movable Assets (STMAs). A Virtual workshop for Judicial Officers on the Secured Transactions in Movable Assets and Credit Reporting Reforms in Nigeria was held. The workshop was organised in collaboration with the IFC/World Bank Group, the National Judicial Institute (NJI) and the United Kingdom's Department for International Development (UKDFID). The two-day virtual workshop was aimed at sensitizing judges on the provisions of extant legislations on the credit infrastructure and what is expected of them, with a view to strengthening the adjudication process in respect of the laws.

In addition, the Registry collaborated with the Pro-Poor Growth and Promotion of Employment in Nigeria – SEDIN of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the Feed the Future Nigeria Agribusiness Investment Activity of the United States Agency for International Development (USAID), to improve communication of the objectives of the STMA Act 2017 and the NCR through repeated sensitization of MSMEs and FIs. The series of virtual sensitization workshops, which recorded massive participation of the target audience, lasted from June to December 2020.

Also, the Registry restored fees on its portal effective 1 November 2020 as contained in the circular of 4 September 2020 issued by the Financial Policy & Regulation Department of the Bank.

2.6.2 Financial Inclusion Programme

- **Review of The National Financial Inclusion Strategy**

The National Financial Inclusion Strategy, launched in 2012 and revised in 2018, had a target of attaining 95 per cent financial inclusion rate by the end of 2024. Among others, the revised Strategy recommended that implementation should focus on addressing how to reach 5 major target groups which were considered least financially included. They are the youths (age 18 – 35 years), women (gender gap), rural dwellers (access gap), MSMEs (formality gap) and people living in the North East and Northwest of Nigeria (regional gap).

In line with these recommendations, the 2020 stakeholders' activities were focused, largely, on taking financial services to the unbanked and under-banked. In addressing the access gap for instance, a significant leap was recorded in agent network expansion which grew to 538,000 agents (spread across the 774 LGAs) at end-December 2020, compared with 238,000 agents at end-December 2019. This translated to 51 agents per 10,000 adults in 2020, compared with 23 agents serving 10,000 adults in 2019.

In the absence of a demand-side survey in 2020, the counts of Bank Verification Number registration were used as a proxy to estimate the number of adults who are banked in the country. Total BVN count from inception increased to 45.6 million in 2020, compared with 40.7 million in 2019 (which is a 12.0 per cent increase). Further breakdown showed that 5.2 million new BVN registration was recorded in 2020, compared with 4.3 million BVN registered in 2019.

On age classification, the youth (18-35 years) constitute 60.2 per cent of total BVN registered in 2020, compared with 64.0 per cent recorded in 2019. For the regional gap, the North East and the North West recorded 16.0 per cent and 25.0 per cent of total BVN registered in 2020, respectively, compared with 9.7 per cent and 17.0 per cent recorded in 2019, respectively.

Gender classification shows that female constituted 51.2 per cent of total BVN registration counts in 2020 which is, 4.9 percentage points higher than the figure (46.3 per cent) recorded in 2019. Product indicators such as Credit, Insurance and Pension recorded a downward trend as they declined slightly to 5.1 per cent, 1.0 per cent and 8.6 per cent in 2020 from the previous year's position of 6.2 per cent, 2.0 per cent and 8.7 per cent, respectively.

Channels indicator recorded some upward trend in 2020 over the previous year. In 2020, a total of 51 agents served 10,000 adults compared with 23 agents per 10,000 adults, in 2019. During the period, 2 ATM machines served 10,000 adults which was the same position in 2019. For POS devices, 20 devices served 10,000 adults in 2020, compared with 18 devices per 10,000 adults recorded in 2019. Bank branches per 10,000 adults declined to 4.5 in 2020 from 5.25 in 2019 while MFB branches per 10,000 adults increased slightly to 2.8 in 2020, compared with 2.06 in 2019.

3.0 CORPORATE ACTIVITIES

The Bank continued the coordination, monitoring and reporting of its strategic projects and initiatives in the review period, aimed at providing a conducive environment for staff and stakeholders. Thus, the implementation of the following intervention projects was completed in the review period: the new CBN Ado-Ekiti Branch; total renovation of CBN Akure and Jos branches; CBN Diagnostic and Treatment Centre, Abuja; Centres of Excellence at Bayero University, Kano and University of Port Harcourt. In addition, the Bank continued its corporate social responsibility through capacity building and the provision of financial and other forms of assistance to institutions, organisations and individuals.

Specifically, five hundred and sixty-four project requests for financial assistance were received and processed in the review period. Of this number, one hundred and three projects, spread across the six geo-political zones of the country were approved, resulting in the disbursement of ₦960.80 million. Staff of the Bank sustained their support for the less-privileged, physically challenged groups and gender-related issues/initiatives through their regular contributions to the CBN Staff Alms Fund (C-SAF).

3.1 ADMINISTRATION

3.1.1 The Board of Directors and Other Committees

There were changes in the membership of the Board of Directors of the Bank in 2020, following the appointment of Kingsley I. Obiora, as a Deputy Governor, on 2 March 2020, by the President, and Aliyu Ahmed, as a Non-Executive Director, on 25 September 2020. Kinglsey I. Obiora replaced Joseph O. Nnanna, whose tenure expired on 02 February 2020, while Aliyu Ahmed replaced Mahmoud Isa-Dutse, a former Permanent Secretary in the Federal Ministry of Finance, Budget and National Planning, who retired from the Public Service on 24 September 2020.

As at 31 December 2020, the Board comprised the Governor, Godwin I. Emefiele (Chairman), four Deputy Governors, namely: Aishah N. Ahmad (Financial System Stability); Edward L. Adamu (Corporate Services); Folashodun A. Shonubi (Operations); and Kingsley I. Obiora (Economic Policy). In addition, there were seven Non-Executive Directors namely: Abdu Abubakar; Adeola Adetunji; Ummu A. Jalingo; Justitia O. Nnabuko; Mike I. Obadan; Ahmad Idris (Accountant-General of the Federation); and Aliyu Ahmed (Permanent Secretary, Federal Ministry of Finance, Budget and National Planning).

The Board of Directors held five regular meetings, while the Committee of Governors held fifty regular meetings. The Finance and General Purpose Committee held four meetings, while the Remuneration, Ethics, and Anti-Corruption, Corporate Strategy, Financial System Stability, Pension Fund Management, Investment, Audit, Risk and Cybersecurity Committees held three (3) meetings each, in 2020.

Table 3.1. 1: Board of Directors Meetings: Attendance in 2020

S/N	Member	No. of Meetings Attended
1	Godwin I. Emefiele	5 out of 6
2	Aishah N. Ahmad	5 out of 6
3	Edward L. Adamu	5 out of 6
4	Folashodun A. Shonubi	5 out of 6
5	Kingsley I. Obiora	4 out of 6
6	Abdu Abubakar	5 out of 6
7	Adeola Adetunji	4 out of 6
8	Aliyu Ahmed*	2 out of 6
9	Idris Ahmed	4 out of 6
10	Justitia O. Nnabuko	5 out of 6
11	Mahmoud Isa-Dutse**	3 out of 6
12	Mike I. Obadan	5 out of 6
13	Ummu A. Jalingo	5 out of 6

Source: Central Bank of Nigeria

Note: The sixth statutory meeting of the Board could not hold due to challenges associated with the COVID-19 Pandemic.

*Aliyu Ahmed assumed duty on 25 September 2020.

**Mahmoud Isa-Dutse retired on 24 September 2020.

Table 3.1. 2: Committee of Governors (CoG) Meetings and Attendance

S/N	Member	No. of Meetings Attended
1	Godwin I. Emefiele	50 out of 50
2	Aishah N. Ahmad	48 out of 50
3	Edward L. Adamu	45 out of 50
4	Folashodun A. Shonubi	48 out of 50
5	Kingsley I. Obiora*	39 out of 50
6	Okwu J. Nnanna**	3 out of 50

Source: Central Bank of Nigeria

Note:

*Kingsley I. Obiora joined the Board on 2 March 2020.

**Okwu J. Nnanna retired from the services of the Bank on 2 February 2020.

3.1.2 The Monetary Policy Committee (MPC)

The Monetary Policy Committee held six regular meetings in January, March, May, July, September and November 2020. At these meetings, major economic and financial developments in the global and domestic environments were reviewed. Appropriate monetary policy decisions were taken and promptly communicated to the public. The major changes in policy were the adjustment in Cash Reserve Ratio (CRR) to 27.5 from 22.5 per cent in January 2020, reduction in the Monetary Policy Rate (MPR) from 13.50 to 12.50 per cent in May 2020, and further to 11.50 per cent in September 2020. The asymmetric corridor was also adjusted from +200/-500 basis points to +100/-700 basis points around the MPR in September 2020.

Table 3.1. 3: Monetary Policy Committee (MPC) Meetings and Attendance in 2020

S/N	Members	No. of Meetings Attended
1	Godwin I. Emefiele	6 out of 6
2	Aishah N. Ahmad	6 out of 6
3	Edward L. Adamu	6 out of 6
4	Folashodun A. Shonubi	6 out of 6
5	Kingsley I. Obiora*	5 out of 6
6	Joseph O. Nnanna*	1 out of 6
7	Dahiru H. Balami*	2 out of 6
8	Robert C. Asogwa	6 out of 6
9	Adeola F. Adenikinju	6 out of 6
10	Aliyu R. Sanusi	6 out of 6
11	Mike I. Obadan	6 out of 6
12	Mahmoud Isa-Dutse*	4 out of 6
13	Aliyu Ahmed*	1 out of 6

Source: Central Bank of Nigeria

Note:

*The tenures of Joseph O. Nnanna, Dahiru H. Balami and Mahmoud Isa-Dutse expired in February, March and November 2020, respectively. Kingsley I. Obiora and Aliyu Ahmed joined the MPC in March and November 2020, respectively.

3.1.3 Development of CBN Branches and Intervention Projects

The Bank sustained its effort at providing a conducive environment for staff and customers. It also continued the implementation of intervention projects in various sectors of the economy during the review year.

Thus, the following projects were completed: the new CBN Ado-Ekiti Branch; total renovation of CBN Akure and Jos branches; CBN Diagnostic and Treatment Centre, Abuja; Centres of Excellence at Bayero University, Kano and University of Port Harcourt. In addition, there were interventions in public institutions at four locations, namely, Administrative Staff College of Nigeria (ASCON), Badagry, Lagos State, Federal Medical Centre (FMC), Azare, Bauchi State, National Institute for Policy and Strategic Studies (NIPSS), Kuru, Plateau State, and Nigerian Financial Intelligence Unit (NFIU), Asokoro, Abuja. The Bank also intervened in tertiary institutions in three locations, Enugu State University of Science and Technology (ESUT), Enugu State, Naval Academy, Owerrinta, Imo State and Ambrose Alli University (AAU), Ekpoma, Edo State.

3.1.4 Information Technology

During the year under review, the Bank's focus was largely to meet its mandate, despite the COVID-19 pandemic and the EndSARS protest. It sustained and fortified cyber resilience of the IT infrastructure and services against cyber-attacks of any form.

The CBN accelerated the implementation of the digital transformation strategy by immediately launching IT services that enabled staff to work from anywhere and at any time. The development ensured continuity of business operations and sustained the stability of the financial system in a period of emergency.

As part of the Bank's response to the economic impact of the Pandemic, the following measures were adopted. These included:

- The automation of the Anchor Borrowers' Programme (ABP) intervention process which was utilised during the 2020 wet season farming. The development led to increase in the ease of accessing the Bank's intervention projects by the targeted beneficiaries;

- The setting up of the technology platform for NIRSAL MFB for the disbursements of the ₦300.00 billion Target Credit Facility (TCF) to beneficiaries across the country, reduce the negative impact of COVID-19 on MSMEs as well as households;

- Making available over 99.5 per cent critical infrastructure, to enable the payment system in the country seamlessly support banking customers via diverse remote channels during the period of the Pandemic induced lockdown;

- The achievement of zero case of IT infrastructure hacking and the completion of the Intelligent Security Operations Centre (ISOC), thus, enhancing the objective of providing a credible, safe and robust payment system;

- Acceleration of automation and digitisation of some of the Bank's internal processes and activities such as: setting up of digital workspace for over 5,000 Bank's staff to aid remote working thus, mitigating the health risks associated with the Pandemic; transition to online virtual meeting both for internal and external stakeholders; deployment of the virtual clinic for staff; automation of the correspondence process for external stakeholders; and the deployment of a Mint Tracking solution, among others.

Most of these automations and digitisation processes were not only developed and delivered by inhouse resources, but also led to the replacement of old systems. The effort resulted to cost savings of about ₦360.00 million, in the period under review. Other noteworthy achievements were: the reduction in phishing rate from 10.0 per cent to 4.8 per cent (below the industry target of 8.0 per cent) and successful completion of a remotely conducted ISO27001 annual audit exercise, with zero nonconformity.

3.1.5 Library Operations

The number of print library resources consulted by staff in 2020 was 3,012, representing a decrease of 92.8 per cent, compared with 42,128 recorded in 2019. The development was attributed to the public health measures put in place to curb the spread of the COVID-19 pandemic, which prevented staff and public access to the physical Library. A total of 4,003 users visited the Library online catalogue in 2020, representing a decrease of 18.2 per cent, compared with 4,732 recorded in 2019.

The volume of books in the Bank's library system rose by 1.9 per cent to 120,169 in 2020, compared with 117,960 in 2019. This was attributed to the acquisition of new books, following the establishment of Awka and Yenagoa libraries. The Bank continued to provide access to electronic books and journals, covering economics, finance, business, information and communication technology, and banking, through Springer and Elsevier ScienceDirect platforms. Other e-book sources included: the International Monetary Fund (IMF) e-Library; and the World Bank Open Knowledge Repository (OKR). The following databases were also accessed: EBSCOHost; Journal Storage (JSTOR); Access to Global Online Research in Agriculture (AGORA); and Online Access to Research in Environment (OARE). The data and statistical sources accessed by users were: FitchConnect (former Business Monitor International (BMI)); the International Monetary Fund (IMF); World Bank; and the Economist Intelligence Unit (EIU).
The platform for improving online visibility of CBN publications (the Digital Commons) and the Remote Authentication Project were implemented during the review period. Furthermore, sensitisation sessions on the e-Library projects in different branches of the Bank continued. This was to enhance staff awareness on the services and resources available on the CBN e-Library platforms.

3.1.6 Legal Services

The Bank continued to strengthen the legal and regulatory framework to improve the overall effectiveness of the financial system in line with its mandate. To this end, relevant bills from the National Assembly were reviewed, including: the Banks and Other Financial Institutions Act, 2020; Finance Bill, 2020; Insurance Bill, 2020; Foreign Exchange Bill, 2020; National Rice Development Council Bill, 2019; Electronic Transactions Bill, 2020; Petroleum Industry Bill, 2020; Food Security Bill, 2019; Nigeria Oil Palm Industrial Park Bill, 2019; and Draft Model Act (DMA) for Specialised Deposit-Taking Institutions and Specialised Deposit-Taking Holding Companies of the West African Monetary Zone (WAMZ).

The CBN was involved in 1,090 cases, out of which two were foreign. Of the 1,088 local cases, 628 were garnishee proceedings. The other cases bordered on a wide range of issues, arising from disputes on the exercise of regulatory powers of the Bank, breach of contract, alleged wrongful termination of contracts, banking/financial operations, revocation of banking licenses and matters involving the Bank's landed properties.

In the review period, 217 cases were decided, of which 202 were either struck out, dismissed or discontinued by the plaintiffs or judgement given in favour of the Bank. However, regarding the remaining 15 cases, some of which are Garnishee Proceedings, the Bank has complied with the judgement of the court for some, while others were being appealed by the Bank.

3.1.7 Security Services

The CBN sustained its objective of maintaining the highest level of corporate security and providing a safe and conducive working environment for effective and efficient operations. Thus, it adopted best practices in security management, deployed security tools and equipment to guarantee asset protection, staff security consciousness, emergency preparedness, personnel safety and operational resilience to minimise the cost of security operations. The Bank also reviewed its Physical Security Policy and Security Operations Manual to make them more responsive to challenges.

In the review period, due to the emergence of COVID-19 and its associated challenges, the CBN conducted virtual security and safety awareness training for staff in all its locations to enhance personal safety and wellbeing. Also, it deployed body temperature thermal screening cameras at the Head Office and Lagos, to provide for a more discreet, efficient and effective method of identifying and managing staff with high temperature that needed further screening. Furthermore, security assessment and safety audit of the facilities were conducted to determine their compliance with best practice in security and safety management processes. Fire risk assessment of facilities under renovation was also carried out to deepen safety consciousness and reduce exposure to fire threats.

The Bank strengthened collaborations with the Nigeria Police, the Department of State Security Services and the Federal Fire Service and other security agencies for adequate security, particularly during the EndSARS protests. The CBN also carried out hardware and software upgrades to provide for the enhancement of system performance and address security risks from software vulnerabilities in surveillance and access control systems.

3.1.8 Internal Audit

In the review period, fifty-seven (57), forty-eight (48) and eighty (80) audits of Departments, Processes and Branches, were planned. However, due to the advent of the COVID-19 pandemic, a revised audit plan was approved by the Management of the Bank to carry out a total of thirty-four (34) Departmental audits, twenty-eight (28) Process audits and fifty-five (55) Branch audits. At end-December 2020, a total of fifty-three Departmental audits, thirty-nine Process audits and seventy-six Branch audits, were carried out. Also, one hundred and ninety-one currency disposal operations, requiring audit witnesses, were completed. Currency stock taking was conducted in all branches of the Bank in the review year. Furthermore, the Bank identified critical exceptions, bordering on control weaknesses, to the Audit, Risk and Cybersecurity Committee of the Board to ensure compliance and resolution of the exceptions.

3.1.9 Risk Management

During the period under review, the Bank experienced varied disruptions in its regular activities occasioned by the COVID-19 pandemic. In response, the Bank established an Inter-Departmental Committee on COVID-19, to coordinate and communicate relevant activities to staff. In addition, the Bank's Business Continuity Plan was reviewed and activated, in line with developments caused by the outbreak and spread of the Pandemic, for the seamless delivery of operations.

The underlisted were key activities carried out in the review period:

- Enterprise-wide review of Business Impact Analysis (BIA) reports to establish the preparedness level of the Bank;
- Ascertained the required number of staff for the conduct of critical on-site assignments and enabled the communication delivery process;
- Adopted remote work technologies to aid service delivery;
- Maintained a reasonable level of emergency preparedness through the activation of call-tree exercises;
- Enabled contact tracing through deployment of monthly COVID-19 health forms;
- Implemented a phased staff resumption schedule in line with the BCP response plan; and
- Implemented a centralised document handling system to minimise the risk of contracting the virus via documents sent in by external stakeholders.

The Bank, in addition, directed banks and other financial institutions to ensure that their business continuity processes were reviewed to ensure that banking services were delivered safely to customers, while staff worked in a safe environment.

In order to identify emerging risks, Risk Champions in all Business Units were contacted weekly, while outcomes were escalated to the Audit, Risk and Cybersecurity, and Risk Management Committees. Strategic Business Units (SBUs) also provided monthly reports on Key Risk Indicators, to enable the Bank monitor early warning signals. To ensure quantitative ranking and assessment of SBUs, the Enterprise Risk Profile, as well as the Enterprise Risk Register were updated. Furthermore, the Bank information assets were assessed and certified in line with requirements of ISO 27001:2013.

The Bank's reputational risk forum held fortnightly engagements to identify, assess, monitor and manage its reputational risk, while, a virtual edition of the Chief Risk Officers (CRO) Forum was held and discussed risks affecting the industry and likely mitigations.

3.1.10 Strategic Initiatives Management

The Bank executed its strategic projects and initiatives, despite constraints caused by the COVID-19 pandemic in 2020. The Management processes of these initiatives included: budgeting; monitoring and evaluation; and performance reporting. The CBN produced a Project Management Policy and Enterprise Project/Portfolio Management Handbook, in line with the phased change management approach for the implementation of its enterprise programme management function. This entails the systematic introduction of project management artefacts into the enterprise project management space to ensure effective stakeholders' participation and buy-in. These key organisational process assets would further deepen and drive the standardisation and institutionalisation of project management practices in the Bank.

3.1.11 Organisational Performance Measurement

The Bank administered surveys across SBUs to garner information and insights that facilitated decision making at Management level. The exercise was aimed at strengthening corporate performance management.

3.1.12: Enterprise Architecture Management

The Enterprise Architecture Management Group facilitated the setting up of the Bank's Data Governance Council which is responsible for effective data management in the Bank to ensure that all data in the organisation follow an established protocol and promote reliability as well as timeliness for Management decision making. The Group developed all the Data Governance Work Products (Strategy, Principles, Policy and Terms of Reference).

Furthermore, the Group facilitated the review of business processes of SBUs across the Bank to ensure process efficiency and timely deliverables.

3.1.13 Anti-Corruption and Ethical Issues

The Bank, on 3 December 2020, conducted the Annual Ethics, Compliance and Anti-Corruption Seminar for its employees with the theme "Generational Change and Ethics in the Workplace", to enhance their understanding of the different behaviour of different generations and coping mechanisms to ensure a harmonious workplace.

The CBN received 519 e-mails on fraud-related enquiries and acted, promptly, to protect potential victims from scammers. Two hundred and thirty-four complaints were received from members of the public against commercial banks, some of which were investigated by the Bank and others referred to the EFCC. The Bank participated virtually in the annual World Anti-corruption day activities on December 9, 2020. In the review period, there were monitoring visits to strategic business units (SBUs), to ascertain level of compliance with the Code of Business Ethics and Compliance (COBEC). The Remuneration, Ethics and Anti-Corruption Committee (REACC) of the Board, met three times in the review period.

As part of its effort on anti-money laundering and combating financing of terrorism (AML/CFT), the CBN collaborated with both internal and external stakeholders, through the quarterly inter-departmental stakeholders' meetings and the bi-monthly virtual meetings of the Association of Chief Compliance Officers of Banks in Nigeria (ACCOBIN). It also conducted one sensitisation programme for all the branches, and customer due diligence for eighteen branches.

Enhanced Due Diligence (EDD) was carried out in 2 CBN Branches to ascertain the volume and value of cash withdrawals over the counter by security agencies and other Ministries, Departments and Agencies (MDAs). Also, SWIFT sanctions screening was conducted, with 61,843 SWIFT messages screened. Reports generated indicating "hits" (suspected messages) were reviewed for Management consideration and no true hit was found. AML/CFT questionnaires were received from 8 correspondent banks. The questionnaires were promptly completed and returned to the respective banks.

In line with the industry and global best practices, the Bank registered its staff with Compliance Institute of Nigeria (CIN), Association of Certified Fraud Examiner (ACFE) and Association of Certified Anti-Money Laundering Specialist (ACAMS) and some staff became Certified Fraud

Examiners (CFEs) and Certified Anti-money Laundering Specialists (CAMS), respectively. This was a proactive step to protect the Bank from emerging financial crimes.

3.1.14 The Financial System Strategy (FSS) 2020

The CBN continued to strengthen the domestic financial market by aligning it with the international financial markets, through the activities of the FSS 2020. This was aimed at ensuring sustainable economic growth through five sectors strategy (mortgage, insurance, pension, commodity and MSME), as well as three enabler initiatives (legal, communication and advocacy).

During the review period, the Bank engaged international subject matter experts, critical stakeholders as well as the FSRCC on the validation of the draft bill on Securitisation/Assets Backed Securities bill and a bill on the Chartered Institute of Actuaries of Nigeria. The draft bills have been validated and subjected to sensitisation workshop for members of the NASS.

The CBN in collaboration with some participating institutions and key stakeholders implemented several initiatives in 2020, aimed at achieving its strategic objectives. These included:

- Development of a Housing Finance Ecosystem Report for Nigeria;
- Assessing the current housing gaps and commissioning a study led by the Nigerian Mortgage Refinancing Compony (NMRC) and critical players in the industry, including the CBN to develop policy proposals on the Housing Finance Ecosystem in Nigeria. The study was completed with the following key recommendations:
    - NMRC to deepen mortgage market development through the development of Securitisation/ Covered Bond Instruments;
      Expedite collaboration with the Nigerian Governors Forum to resolve issues of Title transfer; and
    - Operationalise the Mortgage Guarantee Company to create access to mortgages for lower income groups.
- The Bank engaged with relevant stakeholders on the initiative on Nigerian Green Smart City Project with some selected pilot States such as the FCT, Lagos, Port Harcourt, Enugu and Nasarawa. The proposed Nigerian Smart City Project is a collaborative initiative with State Governments, Stakeholder Agencies, Off-shore Financing Institutions and Investor Groups, on the development of Green Smart Cities that will comply with the sustainability principles.

During the review period, an industry-wide Committee of private and public professionals was set up to review factors constraining the investment of the funds on infrastructure. This was followed by a Forum with the theme: “Financing Infrastructure Development in Nigeria: Challenges, Opportunities and Way Forward” and “Pension Assets Risk Management in The Face of Uncertainties’’.

- The Bank, in collaboration with stakeholders, established an Industry Technical Committee to develop functional requirements and software specifications for the SME Financial Reporting Platform. The Platform is aimed at improving the financial records keeping and governance of SMEs in Nigeria. Also, in the review period, the CBN in conjunction with critical stakeholders developed Business Community-Credit Model (B2CM) to improve and create alternative platform to fund “community related agricultural and business value chain. In addition, the CBN commenced the implementation of communication strategy aimed at securing stakeholders buy-in.

- During the period under review, the CBN organised the financial sector forum centered on “Commodities Trading and the COVID-19 Pandemic: Challenges and Opportunities for a Vibrant Commodities Trading Ecosystem in Nigeria.”. The Forum was aimed at improving public awareness, identifying priority areas and attracting private sector investment in the Commodities Trading Ecosystem in Nigeria.
- To address the issue of Annuity in Nigeria, the Bank in collaboration with the NAICOM and the PenCom developed a Joint Revised Guidelines on Annuity, which distinguished between Programmed Withdrawal and Retiree Life Annuity. Furthermore, to promote human capital development in the financial system, the CBN completed and exposed the draft of the industry-wide Competency Framework for the Financial Services industry to various stakeholders, including the Financial Systems Regulating Coordinating Committee (FSRCC). The draft framework seeks to identify Job Competency Profiles across the different sectors in the Financial System; and critical success factors.

3.1.15 The Shared Services Project

The CBN Cash-less policy had been fully implemented in Lagos, Ogun, Abia, Anambra, Rivers and Kano States, as well as the Federal Capital Territory. However, the implementation of the policy in the remaining states in the country could not take-off on 31 March 2020 due to the COVID-19 pandemic.

The policy re-activation details were as follows:

Table 3.1.4: Cash Handling Limits

Account Type	Limits	Processing fee	
		Withdrawal	Lodgment
Individual	Above ₦500,000	3%	2%
Corporate	Above ₦3,000,000	5%	3%

Source: Central Bank of Nigeria

The Shared IT Infrastructure Programme, which was an initiative of the Bankers’ Committee in conjunction with CBN, focused on the implementation of the key industry capabilities to drive cost reduction and efficiency in the Nigerian financial industry in a sustainable manner. These included the provision of shared network - the Nigeria Financial Services Network (NFSN) and shared Remote Data Centre (RDC). The design for the NFSN was revalidated and updated to meet both current and future industry network requirements. On the shared data centre, over twenty banks had migrated their remote data centres to the shared RDC, saving the industry huge sums of money that each of them would have spent building tier-3 data centre for their disaster recovery. The remaining banks were at various stages of concluding their plans to migrate their remote data centres to the shared RDC.

In the review period, the CBN, in conjunction with the Bankers' Committee, continued the bid to ensure the adoption, implementation and compliance to Industry IT Standards through the IT Standards programme. Compliance audits were conducted across the industry on the following maturing standards:

- IT Service Management – ITIL;
- IT Governance – COBIT;
- Project Management (PMP/PRINCE2);
- Information Security (ISO 27001);
- Enterprise Architecture – TOGAF;
- Disaster Recovery – TIA942;
- Business Continuity – ISO22301; and
- Nigerian Data Protection Regulation – NDPR.

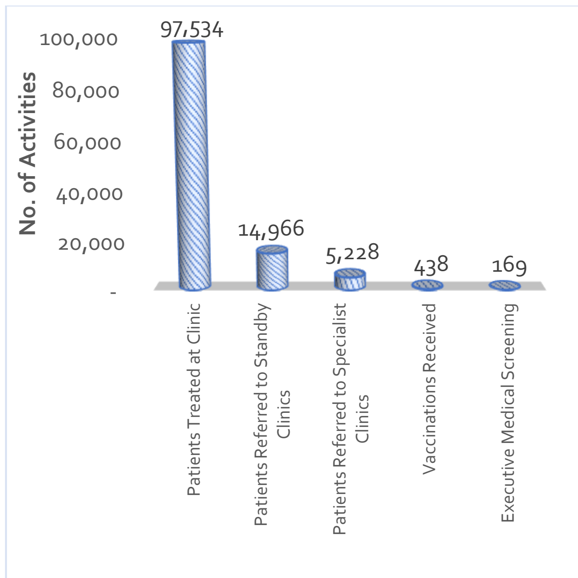
The IT Standards Governance Council also updated the IT Standards Roadmap to include ISO 20022, to ensure readiness and prepare the Nigerian Financial Services industry for the global transition by November 2025.

3.1.16 Medical Services

In the year under review, the Bank provided varied medical interventions to sustain a healthy and productive workforce. The Bank's staff clinics attended to a total of 97,534 cases, involving staff and their dependents. Of these cases, 14,966 were referred to stand-by hospitals, while one hundred and five staff/dependents were treated overseas for conditions that could not be handled locally. A total of four hundred and thirty-six adult vaccines were administered to staff, while one thousand, one hundred and eighty routine immunisation were administered to staff children in the review period. Also, three hundred and sixty-five prospective employees were screened for diseases and substance abuse.

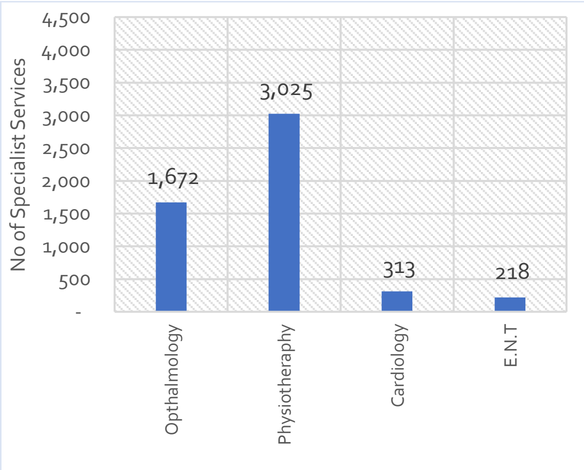
As part of the comprehensive health care plan for Bank's staff, several health seminars were conducted on topical health issues such as: COVID-19 infection; Hepatitis B infection; HIV/AIDS; diabetes mellitus; and hypertension.
Of the in-house specialty clinics, physiotherapy had the highest attendance of 3,025, followed by ophthalmology with 1,672 and ENT (ear, nose and throat) recording the least attendance of 218 patients. The Bank also sponsored comprehensive medical screening of 169 Executives.

Figure 3.1.1: Staff Clinic Activities, 2020



Source: Central Bank of Nigeria

Figure 3.1.2: Specialist Medical Services, 2020



Source: Central Bank of Nigeria

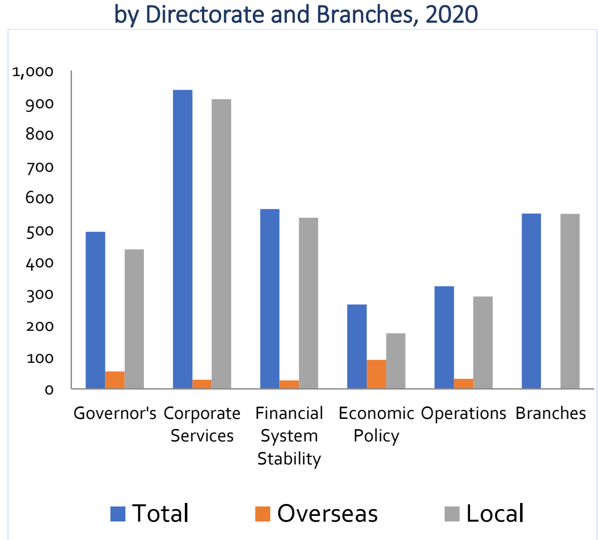
The Coronavirus infection (COVID-19) was first confirmed in Nigeria on 27 February 2020 and was declared a Pandemic by the World Health Organisation (WHO) on 11 March 2020. As at 31 December 2020, the Bank had tested 697 samples for COVID-19. There were 158 confirmed positive cases, 59 active cases, 98 discharged patients and 1 death.

In the review period, the Bank set up a travel advisory desk to provide travel health information and guidance to all staff concerning mode of travel, destinations and communicable diseases at their destinations. Also, adequate health information was provided on the intranet and at the Clinic, especially on COVID-19 protocols, which included the use of facemasks, frequent hand wash, hand sanitisers, physical distancing, among others.

3.1.17 Training

In line with the Bank's manpower development strategy, 3,135 staff participated in various training (in-class and virtual class) programmes in the review period. The number of staff that participated virtually was 2,543, while 235 attended overseas courses, 2,900 attended local training programmes, including 2 ITI courses. The training distribution by directorate showed that the Corporate Services Directorate recorded the highest with 939; followed by Financial System Stability 565; Governors Directorate 493; Operations Directorate recorded 322 and the Economic Policy Directorate recorded the least of 265. The Branches recorded 551.

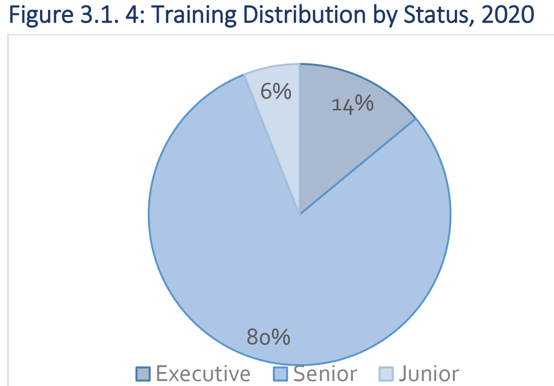
Figure 3.1. 3: Local and Foreign Training Distribution by Directorate and Branches, 2020



Source: Central Bank of Nigeria

Analysis of training in the review period indicated that 80.0 per cent of staff who benefitted were Senior, 14.0 per cent were Executives, while 6.0 per cent of the slots went to the Junior category.

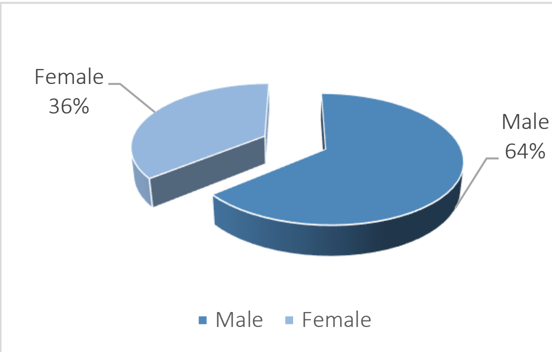
Figure 3.1. 4: Training Distribution by Status, 2020



Source: Central Bank of Nigeria

Also, analysis by gender showed that the beneficiaries of the various programmes comprised 64.0 per cent male and 36.0 per cent female staff. Similarly, staff beneficiaries of foreign training comprised 68.0 per cent male and 32.0 per cent female.

Figure 3.1. 5: Training Distribution by Gender 2020



Source: Central Bank of Nigeria

3.1.18 CBN Open Online Learning (COOL) Utilisation

The Bank's digital learning platform was upgraded from COOL 1.0 (powered by Skillsoft) to an enhanced and innovative version, COOL 2.0, (powered by Percipio). A total of 2,960 users were engaged during the review period. The ITI delivered two leadership programmes to address identified skill gaps of the Bank's staff. Also, it delivered training to other central bank-affiliated institutions/organisations. Forty-five staff of the Nigerian Deposit Insurance Corporation (NDIC) attended three training programmes (Macroeconomic Diagnostics, Balance Sheet Analysis for Policy Management and, Assets Liability and Liquidity Risk Management). The CBN collaborated with the Federal Reserve Bank (FRB), the West African Institute for Financial and Economic Management (WAIFEM), the United Nations Conference on Trade and Development (UNCTAD) and the Financial Accreditation Agency (FAA), Malaysia, to benefit from foreign expertise

Box 3
A Leading Economic Indicator (LEI) for the Nigerian Economy

The Gross Domestic Products (GDP) is an important economic indicator that measures the overall health of the economy. The GDP data is only available with a lag of two months in Nigeria. The delay in published GDP data poses a challenge to formulation of proactive and appropriate policies, particularly, in periods of uncertainty. In view of this challenge, the Research Department of the Bank, constructed a monthly leading economic indicator (LEI) index that would provide valuable information regarding overall economic activity.

The construction of the LEI was two-fold. Firstly, the drivers of GDP were identified, using a dynamic correlation analysis and a stacked ensemble approach. Secondly, two distinct methods were employed to construct a leading economic indicator for Nigeria, namely: the principal component and weighted-sum methods. The weights in the weighted-sum method were estimated using the Ordinary Least Squares (OLS), Vector Autoregression (VAR) and the US Conference Board approaches. Finally, the relationship between the constructed indices and the published quarterly GDP growth data was analysed to determine the extent to which the leading indicator tracks quarterly GDP growth in Nigeria.

The models showed that all the four constructed indices closely track and mimic the behaviour of the economic growth series in Nigeria. More so, the OLS framework was preferred as it outperformed the others, given the high correlation of its index with the GDP growth, thus, serving as a reasonable indicator for the dynamics of economic activity in Nigeria. In the absence of published GDP data, the LEI index could be used to support policymakers to make informed decisions and could also serve as an early warning signal for the future direction of output performance in Nigeria.

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in programme delivery on contemporary courses at minimal cost.

3.1.19 Staff Mode of Exit

The Bank lost the services of 249 staff through: thirty-nine deaths; four dismissals; one hundred and sixty-six mandatory retirements; fifteen resignations; one termination; ten voluntary retirements; and fourteen withdrawals of service.

3.1.20 Staff Promotion

The Bank appointed five Deputy Directors to the position of Directors to replace those who retired in 2019.

3.1.21 Staff Social Responsibility

Staff of the Bank sustained their support for the less-privileged in the society through their regular contributions to the CBN Staff Alms Fund (C-SAF), which supports worthy causes such as orphanages, educational schemes and healthcare. A total of ₦132.98 million was realised from the monthly departmental contributions at end-December 2020.

3.1.22 Nigerian Sustainable Banking Initiatives

The Annual International Women's Day (IWD) was celebrated on 10 March 2020 with the theme "I am Generation Equality: Realising Women's Rights". However, the celebration of World Environmental Day with the theme "Biodiversity: A Call to Combat the Accelerating Species Loss and Degradation of the Natural Environment" could not hold due to COVID-19 protocols and restrictions on physical presence. It was replaced by a publication on the Banknet, in commemoration of the Day, to create awareness on the need for staff to be committed to maintaining a balance between the natural and built environment by adopting environmentally friendly lifestyles.

3.2 COMMUNICATION AND COMMUNITY ENGAGEMENTS

3.2.1 Communications

The communication channels of the Bank were sustained for the dissemination, and enlightenment of stakeholders and the general public on its activities, policies and programmes. These included: dissemination of the decisions of the Monetary Policy Committee (MPC); the Bankers' Committee meetings, outcomes of the Bank's participation at the Spring and Annual Meetings of the IMF and World Bank; and policy positions of the Bank. This was with a view to upholding transparency and accountability in the conduct of the Banks' activities in line with global best practice.

The Bank approved the transmission of MPC Communiqués to the Chairmen of Banking Committees (Senate and House of Representatives) of the National Assembly within 48 hours of their release. Also, the CBN, periodically, provided adequate briefing to various committees of the two chambers of the National Assembly on the state of the economy, generally, and, the health of the banking system, in particular.

In the review period, twenty-six (26) appearances of the Governor and other top Management of the Bank at the National Assembly were coordinated. The Bank facilitated a Retreat with the Senate Committee on Banking, Insurance and Other Financial Institutions and the House of Representatives Committee on Banking and Currency held in Kaduna and Lagos, respectively.

It also coordinated the Oversight Visits of the Senate Committee on Banking, Insurance and Other Financial Institutions and the House of Representatives Committee on Banking and Currency which covered the Bank's projects locations in the South-East, South-South, South-West and North-West geopolitical zones of the country.

In addition, Interactive Sessions with critical stakeholders (organised Labour and civil societies) were organised on the 5-Year Policy Thrust of the Central Bank of Nigeria (2019 – 2024). The sensitisation programme was held at Owerri (South East), Uyo (South South), Lagos (South West), Lokoja (North Central), Kaduna (North West) and Bauchi (North East); covering all the geo-political zones of the country.

As part of continued effort at expanding its reach to stakeholders, the Bank participated at the Kaduna, Enugu and Lagos International Trade Fairs, where the Bank was overwhelmingly commended by the respective Chambers of Commerce and teeming stakeholders. It also coordinated the Bank-wide Sensitisation Programme, tagged "CBN Fair" held at Asaba and Owerri, respectively. The initial projection was to cover twenty-four States but the outbreak of COVID-19 limited the programme to only two States held from 17 – 21 February 2020.

In the review period, the approved Visual Identity and Branding Guideline was operationalised. The Guideline was designed to help promote the brand beliefs and visual elements of the Bank in a manner consistent with its mandate and strategy. The event, which included staff sensitisation of the approved Guidelines, was held at the Head Office in March 2020.

In the review period, the CBN organised various sporting activities, in collaboration with relevant stakeholders, in line with its corporate social responsibility policy. The activities included: the CBN Junior Tennis Tournament; the CBN Senior Open Tennis Championship; and All Financial Institutions Football Competition.

The 15th edition of the CBN Junior Tennis Championship was held at the Lagos Lawn Tennis Club, Lagos, on 11 October 2020, while the 42nd edition of the CBN Senior Open Tennis Tournament was held at the Tennis Court, National Stadium, Abuja, on 14 November 2020. Also, the CBN Governor's Golf Tournament was held at the IBB International and Country Golf Club, Maitama, Abuja, on 5 December 2020. The 34th edition of the CBN All Financial Institutions Football Competition did not hold due to the inability to mobilise participating teams, as a result of the COVID-19 pandemic.

The Bank organised the 2020 Annual Seminar for Finance Correspondents and Business Editors in one run against the usual two runs due to the COVID-19 pandemic. The Seminar was held simultaneously in Abuja and Lagos from 17 – 18 September 2020, with the theme "COVID-19 Pandemic: Turning Adversity into Opportunity". Also, the CBN hosted 50 associations/institutions on educational excursions to its Lagos and Abuja Offices.

The 40th Edition of the CBN Governor's cup football competition could not take place because of the COVID-19 pandemic. Similarly, the 2020 Edition of CBN/Nigerian Football Federation (NFF) sponsored All Financial Institutions Football Competition could not hold for the same reason.

In 2020, the Bank continued its corporate social responsibility through capacity building and the provision of financial and other forms of assistance to institutions, organisations and individuals. Five hundred and sixty-four project requests for financial assistance were received and processed in the review period. Of this number, one hundred and three projects, spread across the six geo-political zones of the country were approved, resulting in the disbursement of ₦960.80 million. A further analysis of the projects indicated that eighteen focused on community development; health care, thirty-eight; education and research, eight; women and youth empowerment, twenty-four; sports development, two; disaster relief and environmental sustainability, one each; and special donations, fifteen.

3.3 RESEARCH AND COLLABORATIVE ACTIVITIES

The CBN conducted research and collaborative studies on the Nigerian economy. The regular publications of the Bank were sustained during the review period. These included the: 2019 Annual Economic Report; 2020 Half-Year Economic Report; Monetary Policy Review; bi-annual Financial Stability Report; Quarterly CBN Economic and Financial Review; the biennial CBN Briefs; the 2019 Statistical Bulletin; and the bi-annual CBN Journal of Applied Statistics. Others included: occasional paper series, titled Exchange Rate and Manufacturing Subsector Performance in Nigeria: An Empirical Analysis; Determinants of Deposit and Lending Rates in Nigeria: Evidence from Bank-Level Data; Promoting Non-Oil Export in Nigeria: An Appraisal of Incentive Schemes and Institutional Arrangement; and the CBN Bullion.

The Bank also collaborated with the National Bureau of Statistics (NBS) and National Population Commission (NPC) to conduct the 2020 Household, Finance and Consumption Survey. It honoured requests to present papers and facilitate in training programmes, including those from the Federal Ministry of Finance, Budget and National Planning, Chartered Institute of Bankers of Nigeria (CIBN), Financial Institutions Training Centre (FITC), the West African Institute for Financial and Economic Management (WAIFEM), the College of Supervisors for the West African Monetary Zone (CSWAMZ), the Association of African Central Banks (AACB), and the International Monetary Fund (IMF). In addition, staff presented papers at professional conferences, both within and outside the country.

PART 2:

Economic Report

4.0 THE GLOBAL ECONOMY

Global output contracted by 3.5 per cent in 2020, in contrast to a growth of 2.9 per cent in 2019, due, largely, to the disruptive effect of COVID-19 outbreak. The contraction was broad based but more pronounced in advanced economies, which contracted by an average of 4.5 per cent, compared with 3.3 per cent in emerging and developing economies. Besides the health crisis, other factors that contributed to the contraction included rising trade restrictions among key global economies, lingering Brexit-related issues, and country-specific factors. In view of the resultant output gap, inflation trended downwards in the advanced economies, below central banks' target in many countries.

Inflation outcome in emerging and developing economies, however, recorded an uptick considering the acute effect of supply side disruption and other structural issues on price developments. The COVID-19 pandemic amplified other structural shocks that threatened a major meltdown in the global financial markets, particularly in the first half of 2020. These threats were, however, mitigated by aggressive fiscal and monetary countermeasures that eased financial conditions and supported market sentiments, thereby curtailing further amplification of risks to the financial system. Consequently, monetary policy remained, generally, accommodative across major central banks around the globe with general liquidity surfeit in the financial system in 2020.

4.1 OUTPUT GROWTH

Global output contracted by 3.5 per cent in 2020, as against a modest expansion of 2.9 per cent in 2019. The contraction was due largely to the outbreak of the COVID-19 pandemic and the associated containment measures, which led to disruption of economic activities in an unprecedented magnitude. Other factors that contributed to the contraction included rising trade restrictions among key global economies, lingering Brexit-related issues, and country-specific factors. Nevertheless, the considerable progress recorded in the development of COVID-19 vaccines moderated the rate of output contraction particularly in the second half of 2020.

In advanced economies, output contracted by 4.5 per cent in 2020, which was a significant divergence from the growth of 1.6 percent recorded in 2019. The magnitude of contraction was due, mainly, to larger than expected downturn in the United States of America (USA), during the period. Output contracted in the United States by 5.8 per cent in 2020, in contrast to a growth of 1.7 per cent in 2019. The development reflected the massive investment freeze due to the pandemic-induced disruption in both supply and demand sides of the economy. In the euro area, output shrank by 4.3 per cent in 2020, in contrast with an expansion of 2.2 per cent in 2019. The slump was largely an outcome of weaker than anticipated business sentiments due to a prolonged period of lockdown to contain the Pandemic.

The United Kingdom (UK) recorded the largest annual output contraction on record as GDP receded by 9.8 per cent in 2020, in contrast to a growth of 1.5 per cent in 2019. The fall in output was due to the effect of COVID-19 containment measures on economic activities.

Output in emerging market and developing economies contracted by 3.3 per cent in 2020, in contrast to a growth of 3.7 per cent in 2019. Unlike in other regions, the output contraction in the zone was due to a combination of factors, including the spread of the virus, elevated public debts, and high dependence on external finance, including remittances.

Table 4.1.1: Changes in World Output and Prices, per cent

Region/Country	Output					Consumer Prices				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
World	**3.3**	**3.8**	**3.5**	**2.8**	**-3.5**	**2.7**	**3.2**	**3.6**	**3.5**	**3.2**
Advanced Economies	**1.8**	**2.5**	**2.2**	**1.6**	**-4.9**	**0.7**	**1.7**	**2**	**1.4**	**0.8**
United States	*1.7*	*2.3*	*3*	*2.2*	*-3.4*	*1.3*	*2.1*	*2.4*	*1.8*	*1.5*
Japan	*0.5*	*2.2*	*0.3*	*0.3*	*-5.1*	*-0.1*	*0.5*	*1*	*0.5*	*-0.1*
Germany	*2.2*	*2.6*	*1.3*	*0.6*	*-5.4*	*0.4*	*1.7*	*2*	*1.3*	*0.5*
France	*1.1*	*2.3*	*1.8*	*1.5*	*-9*	*0.3*	*1.2*	*2.1*	*1.3*	*0.5*
Italy	*1.3*	*1.7*	*0.8*	*0.3*	*-9.2*	*-0.1*	*1.3*	*1.2*	*0.6*	*0.1*
United Kingdom	*1.9*	*1.9*	*1.3*	*1.4*	*-10*	*0.7*	*2.7*	*2.5*	*1.8*	*0.8*
Euro Area	*1.9*	*2.6*	*1.8*	*1.3*	*-7.2*	*0.2*	*1.5*	*1.8*	*1.2*	*0.4*
Other Advanced Economies	*2.2*	*2.8*	*2.3*	*1.8*	*-2.5*	*0.9*	*1.8*	*1.9*	*1.4*	*0.5*
Regional Groups										
Emerging & Developing Europe	*1.9*	*4.1*	*3.3*	*2.2*	*-2.8*	*5.5*	*5.6*	*6.4*	*6.6*	*5.2*
China	*6.8*	*6.9*	*6.7*	*6*	*2.3*	*2.0*	*1.6*	*2.1*	*2.9*	*2.9*
Russia	*0.2*	*1.8*	*2.5*	*1.3*	*-3.6*	*7.0*	*3.7*	*2.9*	*4.5*	*3.2*
Latin America and The Caribbean	*-0.6*	*1.4*	*1.1*	*0.2*	*-7.4*	*5.5*	*6.3*	*6.6*	*7.7*	*6.2*
Middle East & Central Asia	*4.5*	*2.6*	*2.1*	*1.4*	*-3.2*	*5.7*	*6.9*	*9.5*	*7.8*	*9.3*
Sub-Saharan Africa	*1.5*	*3.1*	*3.3*	*3.2*	*-2.6*	*10.4*	*10.7*	*8.4*	*8.5*	*10.6*

Source: Bloomberg

Emerging and developing Asia's economies contracted by 0.7 per cent in 2020, in contrast to a growth of 5.7 per cent in 2019. The contraction in 2020, which was due to the devastating impact of COVID-19, was the first in six decades. Other major factors that constrained growth in the region during the period included the trade and technology tension between the US and China as well as weakness in the financial sector, which was exacerbated by the health crisis.

The Chinese economy deviated from both global and regional trends, as it posted a growth of 1.9 per cent in 2020, though a significant slowdown in relation to the 6.1 per cent growth recorded in 2019. The moderate growth was, largely, attributed to strict virus containment measures, as well as emergency relief extended to businesses. The external sector was a key driver of the growth during the period as economic disruptions across the globe propelled demand for Chinese goods. In India, output contracted by 10.3 per cent in 2020, in contrast to a growth of 4.2 per cent in 2019. The plunge in output was due, largely, to Pandemic-induced shocks.

In the Middle East and North Africa (MENA) region, output contracted, significantly, by 5.0 per cent in 2020, as against a marginal growth of 0.8 per cent in 2019. The challenge to growth in the region resulted from a combination of the COVID-19 pandemic and collapse in oil prices, which affected economic activities. Economic performance in Saudi Arabia mirrored that of the MENA region during the review period. Output contracted by 5.4 per cent, as against a modest expansion of 0.3 per cent in 2019.

In sub-Saharan Africa, output contracted by 3.0 per cent, in contrast to a growth of 3.2 per cent in 2019. The weakness in economic activities was a fallout of multifaceted factors, including: the health crisis; low oil prices; civil strife; elevated public debt; and dwindling financial inflows. The growth path among the countries of the sub region remained mixed with a stark difference between the oil exporting and importing countries.

In South Africa, the economy contracted by 8.0 per cent in 2020 as against a modest growth of 0.2 per cent in 2019. Apart from the adverse impact of COVID-19 on economic activities, other headwinds included elevated public debts, inefficient state-owned enterprises, and loss of competitiveness of the external sector. In Nigeria, the economy shrank by 1.92 per cent in 2020 in contrast to 2.27 per cent growth in 2019. For Nigeria, the challenge from the pandemic was further compounded by weak socio-economic factors, heightened by subdued external demand and low commodity prices.

4.2 GLOBAL INFLATION

Global consumer prices remained subdued in 2020, reflecting the negative output gap that resulted from the COVID-19 pandemic. The decline in price was broad-based but seemed pronounced in climes with historically positive correlation between aggregate demand and price pressure.

Consumer price inflation remained low in advanced economies, and was, largely, below central banks' targets. While the supply side was severely hit by the disruption to economic activities occasioned by lockdowns and related measures, the effect of weak aggregate demand outweighed the challenges from the supply side. Consequently, the balance of risk reflected a downward pressure on price level in the advanced economies.

Headline Inflation in the advanced economies declined to 0.8 per cent in 2020 from 1.4 per cent in 2019. In the United States, inflation moderated to 1.5 per cent in 2020, from 1.8 per cent in 2019, due, largely, to a sharp drop in core personal consumption expenditure. In the euro area, there was a marked decline in inflation, as it reduced to 0.4 per cent in 2020 from 1.2 per cent in 2019. Though food prices recorded an uptick due to disruptions in supplies, the softening energy prices and the cut in value added tax in the second half of the year helped to dampen price in the region. In Japan, Inflation decelerated to negative 0.1 per cent in 2020, from 0.5 per cent in 2019 on account of a plunge in energy prices and weak external sector. In the UK, a sharp drop was equally recorded in inflation during the period, falling to 0.8 per cent from 1.8 per cent in 2019. The plummeting price in the UK was also attributed to weakness in aggregate demand, most especially in sectors that were highly sensitive to the restrictive measures introduced during the Pandemic.

In emerging market and developing economies, the outcomes of consumer price inflation was mixed in 2020. There was a relative degree of moderation in price level in some countries, while an uptick was recorded in majority of the countries. In Russia, inflation eased to 3.2 per cent in 2020 from 4.5 per cent recorded in 2019, due, mainly, to ebbing demand on account of the effects of the pandemic on households. In China, inflation remained flat at 2.9 per cent in 2020, as high base effect and subdued demand countered the upward pressure from disruption in economic activities due to the pandemic containment measures.

In sub-Saharan Africa, average inflation accelerated to 10.6 per cent in 2020 from 8.5 per cent in 2019. Besides the impact of the supply disruption on price developments, other factors that stoked price level during the period included weakening currency, poor infrastructure, rising level of insecurity, and high inflation expectations.

4.3 GLOBAL COMMODITY DEMAND AND PRICES

Global commodity prices remained stable in 2020, despite the outbreak of COVID-19 pandemic that led to shut down of global supply chain. At the height of the COVID-19 outbreak (between February and April 2020) the IMF's primary commodity price index fell by 24.0 per cent. However, as lockdowns and restrictions eased and economic activities rebounded (between April and August 2020), the index recovered by 31.0 per cent.

The price of the OPEC Reference Basket (ORB) dropped in 2020, with all component values falling (year-on-year), alongside their respective benchmarks. On a yearly basis, the ORB fell by US$13.08 to US$50.24/b, indicating a decline of 21.4 per cent. The price of Brent closed at above US$50.00/b in 2020, as producers cut output coupled with approvals of stimulus packages by the United States and the European Union.

Data from the United Nations' Food and Agriculture Organisation (FAO) indicated that the FAO Food Price Index (FFPI) averaged 107.5 points in December 2020, an increase of 6.5 points from December 2019 (6.4 per cent) year-on-year. The increase was driven by a significant surge in the prices of oil, sugar and cereal. The Cereal Price Index averaged 115.7 points in December 2020, indicating an increase of 18.5 points (19.0 per cent) from December 2019. The tightening outlook for export supplies and reduced harvest prospect in Argentina edged up the price of wheat in 2020. Maize prices also increased due to large maize purchases by China, amidst further cuts to production estimates in the US and Ukraine, both major exporters. Firm demand continued to push up feed barley and sorghum prices, among other coarse grain.

The Sugar Price Index averaged 87.0 points in December 2020, an increase of 4.0 points from 83.0 points from December 2019. The increase was driven by weaker crop prospect in the EU, Thailand and the Russia Federation, as unfavourable weather conditions negatively impacted yield. In addition, hurricanes, which damaged sugarcane crops and infrastructure in Nicaragua, Honduras and Guatemala supported price increases in the commodity.

Dairy Price Index averaged 108.8 points in December 2020, increasing by 5.3 points (5.12 per cent) on yearly basis. The increase was driven, largely, by firmer butter and cheese prices, reflecting the steady increases in global import demand and a surge in retail sales in Europe, coinciding with the region's milk production reaching seasonal lows. By contrast, skim milk powder prices fell, due to a slower pace of purchases in Asia, and increased global export from India.

The Vegetable Oil Price Index averaged 127.6 points in December 2020, an increase of 26.1 points (25.7 per cent) year-on-year. This was attributed to spikes in palm oil prices, supported by contractions in world inventory level, in addition to increases in soy, rapeseed and sunflower seed oil value. Soy prices firmed amid subdued export availabilities in South America and upbeat import demand, notably from India, while rapeseed and sunflower seed oil values strengthened further on limited supplies.

The Meat Price Index experienced a downward trend in 2020, decreasing by 12.3 points in December 2020 (11.6 per cent) year-on-year averaging 94.3 points. This was influenced by China's decision to ban imports of pork from Germany after African swine fever (ASF) was detected among wild boars, and a fall in poultry meat quotations, reflecting increased shipments from leading producers, amidst subdued international import demand.

Table 4.1.2: World Trade Volumes
(Average Annual Percentage Change in Trade in Goods and Services)

Volume of Trade	Advanced Economies					Emerging and Developing Economies				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Exports	2.2	3.8	3.4	0.9	-13.5	2.5	4.8	4.7	1.9	-4.9
Imports	2.7	4.0	3.7	1.2	-1.3	2.0	4.4	6.0	0.7	0.7
Terms of Trade	1.2	-0.4	-0.1	0	0.9	-1.2	0.1	1.6	-1.3	0.7

Source: WEO, October 2020

Gold prices closed the year at US$ 1,818.00 per troy ounce, which was up by US$ 285.54 (18.6 per cent) year-on-year. This was driven by the emergence of the COVID-19, a weaker US dollar and uncertainty around the U.S. presidential election.

4.4 WORLD TRADE

4.4.1 World Trade

The COVID-19 pandemic and its attendant effects on global macroeconomic outcomes resulted in substantial decline in global trade in 2020. Accordingly, the October 2020 WEO projected world trade to decline to negative 10.4 per cent in 2020 from a growth of 1.0 per cent recorded in 2019. It should be noted that the drastic fall in global trade was the worst after the negative 11.0 per cent recorded during the global financial crisis in 2009. The shrink in global trade had been attributed to the major contraction in contact-intensive sectors (hospitality, transport, tourism) that were worst affected by COVID-19 containment measures. The manufacturing sector also declined drastically because of the low demand for both capital goods and consumer durables. Also, the trade tension between the US and China further put significant pressure on global trade. The contraction in global trade of the advanced economies was more pronounced than that of the emerging economies. Aggregate exports declined by 11.6 per cent in the advanced economies, relative to 7.7 per cent in the emerging economies. Similarly, aggregate import declined by 11.5 per cent and 9.4 per cent in advanced and emerging economies, respectively. Despite the decline in global trade, the terms of trade improved marginally to 0.6 per cent from 0.0 growth in the preceding year, although it contracted to 2.6 per cent in emerging economies. In terms of sectoral analysis, the oil sector was the worst affected, as it declined by 32.1 per cent, in contrast to the growth of 10.2 per cent in 2019. Only the non-fuel primary commodities' trade category recorded growth in 2020.

4.5 INTERNATIONAL FINANCIAL MARKETS

The imminent threat of the COVID-19 pandemic at the beginning of 2020 brought negative sentiments that adversely affected the global financial market as several equity indices across advanced and emerging markets recorded sharp contractions during the period. Emerging markets were the worst hit, reflecting significant capital reversals, as portfolio investors sought safe havens. Nonetheless, the market defied expectations early in the second quarter, with mild rally, especially across several advanced markets, due, largely, to a fallout of significant systemic liquidity following the various fiscal and monetary responses undertaken across the globe. The equities market remained resilient through the third and fourth quarters of the year despite fears of low corporate earnings. Notably, news of remarkable successes in the development of COVID-19 vaccines, which boosted hopes of early recovery and improved investors' confidence, contributed significantly to the gains recorded in the third and fourth quarters of the year.

4.5.1 Capital Markets

Global stock markets rallied towards the end of 2020, despite the effects of the oil price shock and the COVID-19 pandemic that occasioned a bearish trend in the first half of 2020. The aggressive fiscal and monetary policy interventions played a key role in the easing of financial conditions and reigniting market confidence and investors' sentiment, reversing the bearish trend in the financial markets in the first half.

Accordingly, in North America, the S & P 500, the S & P/TSX Composite and the Mexico Bolsa (IPC) indices increased by 16.26, 2.17 and 1.21 per cent, respectively. In South America, the Brazilian Bovespa and Argentine Merval increased by 2.92 and 22.93 percent, respectively, while the Colombian COLCAP decreased by 13.51 percent.

In Asia, Japan's NIKKEI 225, China's Shanghai Stock Exchange and India's BSE Sensex indices increased by 16.01, 13.91 and 16.12 per cent, respectively. In Africa, the Nigerian NSE ASI and South African JSE African ASI increased by 50.03 and 4.07 per cent respectively, while the Kenyan Nairobi NSE 20, Egyptian EGX CSE 30 and Ghanaian GSE All-Share indices decreased by 29.61, 22.32 and 14.09 per cent, respectively.

4.5.2 The International Foreign Exchange Market

There was, generally, uneven performance of global currencies against the US dollar in 2020. This reflected an interplay of key factors, such as a shift to monetary policy accommodation by most central banks and weakening macroeconomic fundamentals that aggravated flight to safety of capital from most emerging and developing countries.

In North America, the Canadian dollar depreciated by 2.63 per cent at the end of 2020. The Mexican peso also depreciated by 5.23 per cent. Similarly, in South America, the Brazilian real, the Argentine peso and Colombian peso depreciated by 25.06, 40.44 and 4.66 per cent, respectively.

Table 4.1.4: Exchange Rates of Selected Countries (Value in currency units to US$)

	Currency	End-Dec 2018	End-Dec 2019	End-Dec 2020	% Change	
		1	2	3	1&2	2&3
Africa						
Nigeria	Naira	307	307	379	0	-23.45
South Africa	Rand	14.35	14.00	15.94	-2.4	-13.90
Kenya	Shilling	101.85	101.36	109.75	1.23	-8.28
Egypt	Pound	17.93	16.04	15.72	-0.67	2.18
Ghana	Cedi	4.92	5.75	5.87	-8.54	-2.09
North America						
Canada	Dollar	0.73	0.76	0.78	-4.11	-2.63
Mexico	Peso	19.65	18.92	19.91	3.72	-5.23
South America						
Brazil	Real	3.88	4.15	5.19	-6.96	-25.06
Argentina	Peso	37.67	59.87	84.08	-58.93	-40.44
Colombia	Peso	3249.75	3277.14	3429.73	-0.84	-4.66
Europe						
Uk	Pound	0.78	0.75	0.73	3.85	2.67
Euro Area	Euro	0.87	0.89	0.81	-4.6	8.99
Russia	Ruble	69.72	62	74.41	-17.25	-20.23
Asia						
Japan	Yen	109.69	108.61	103.25	0.98	4.94
China	Renminbi	6.88	6.96	6.53	-1.16	6.18
India	Rupee	69.77	71.35	73.05	-2.26	-2.38

Source: Bloomberg

Asia							
Japan	NIKKEI 225	23,656.62	18,917.01	22,288.14	23,185.12	27,444.17	16.01
China	Shanghai SE A	3,195.98	2,882.25	3,128.46	3,372.60	3,640.46	13.91
India	BSE Sensex	26,626.46	29,468.49	34,915.80	38,067.93	47,905.84	16.12

Source: Bloomberg

*Argentina Marvel as at 30th March, 2020

In Europe, both the British pound and the Euro appreciated by 2.67 and 8.99 per cent respectively, while the Russian ruble witnessed a sharp depreciation of 20.23 per cent. In the Asian market, the Chinese yuan and Japanese yen appreciated by 6.18 and 4.94 per cent respectively, while the Indian rupee depreciated by 2.38 per cent. In Africa, only the Egyptian pound recorded an appreciation of 2.18 per cent, while the Nigerian naira, South African rand, the Kenyan shilling and Ghanaian cedi depreciated by 23.45, 13.90, 8.28, and 2.09 per cent, respectively.

4.5.3 Monetary Policy Rates

Monetary policy stance was, generally, accommodative across major central banks around the globe in 2020. This was driven largely by the risk of a major global macroeconomic slowdown due to the combined shock from the oil price and COVID-19 pandemic. Given the, largely, accommodative stance of central banks, coupled with fiscal stimulus packages to cushion the effect of the Pandemic on the populace, the global economy experienced general liquidity surfeit in 2020.

In the advanced economies of the US, EU, UK and Japan, policy rates of central banks straddled the zero-lower-bound, an indication that monetary policy normalisation was on the horizon in these economies. Central banks of emerging markets, including India and South Africa, lowered their policy rates to mitigate the effects of the weakening global economy. In Brazil, policy rate was lowered consecutively since December 2019 to boost output growth and support the economy's sluggish recovery in the light of weak recovery of oil price. The Central Bank of Nigeria reduced its policy rate by 200-basis points to 11.50 per cent in 2020, to ease the impact of the crisis.

4.6 THE IMPACT OF GLOBAL ECONOMIC DEVELOPMENTS ON NIGERIA'S ECONOMY

The Nigerian economy grappled with major challenges emanating from developments in the global economy. The outbreak and spread of the COVID-19 virus and the subsequent measures to curtail it, caused significant disruptions to global demand and supply chains, leading to a sharp decline in global trade, unprecedented collapse in crude oil demand and weakened aggregate demand. The Pandemic triggered other global vulnerabilities, including rising corporate and public debts; tightening financial conditions and renewed financial market fragilities across the globe. The situation was compounded by a collapse in crude oil prices, following the combined effect of the Pandemic and oil price war between Saudi Arabia and Russia.

As such, the domestic economy contracted by 1.92 per cent in 2020, in contrast to a growth of 2.27 per cent in 2019. Inflationary pressures intensified, while the foreign exchange market witnessed significant pressure in the face of low accretion to external reserves. Thus, the naira weakened in all segments of the foreign exchange market in the review period.

The domestic financial markets were not insulated from the consequences of the global economic developments. The market witnessed considerable stress, with persistent capital reversals. However, the capital market closed the year upbeat, reversing the bearish performance of 2019.

Table 4.1.5: Monetary Policy Rates of Selected Countries, 2018-2020

	Ghana	South Africa	Nigeria	Brazil	USA	India	Russia	China	UK	Indonesia	Chile	Kenya	Euro Area
2019													
19-Jan	16	6.75	14	6.5	2.43	6.5	7.75	2.55	0.75	6	3	9	0
19-Feb	16	6.75	14	6.5	2.45	6.25	7.75	2.55	0.75	6	3	9	0
19-Mar	16	6.75	13.5	6.5	2.43	6.25	7.75	2.55	0.75	6	3	9	0
19-Apr	16	6.75	13.5	6.5	2.45	6	7.75	2.55	0.75	6	3	9	0
19-May	16	6.75	13.5	6.5	2.4	6	7.75	2.55	0.75	6	3	9	0
19-Jun	16	6.75	13.5	6.5	2.4	5.75	7.5	2.55	0.75	6	2.5	9	0
19-Jul	16	6.5	13.5	6.5	2.4	5.75	7.25	2.55	0.75	5.75	2.5	9	0
19-Aug	16	6.5	13.5	6	2.13	5.4	7.25	2.55	0.75	5.5	2.52.5	9	0
19-Sep	16	6.5	13.5	5.5	1.9	5.4	7	2.55	0.75	5.25	2	9	0
19-Oct	16	6.5	13.5	5	1.63	5.15	6.5	2.55	0.75	5	1.75	9	0
19-Nov	14.5	6.5	13.5	5	1.63	5.15	6.5	2.5	0.75	5	1.75	8.5	0
19-Dec	14.5	6.5	13.5	4.5	1.63	5.15	6.25	2.5	0.75	5	1.75	8.5	0
2020													
20-Jan	14.5	6.25	13.5	4.5	1.63	5.15	6.25	2.4	0.75	5	1.75	8.25	0
20-Feb	14.5	6.25	13.5	4.25	1.63	5.15	6	2.4	0.75	4.75	1.75	8.25	0
20-Mar	14.5	5.25	13.5	3.75	0.13	4.4	6	2.2	0.1	4.5	1	7.25	0
20-Apr	14.5	4.25	13.5	3.75	0.13	4.4	5.5	2.2	0.1	4.5	0.5	7	0
20-May	14.5	3.75	12.5	3	0.13	4	5.5	2.2	0.1	4.5	0.5	7	0
20-Jun	14.5	3.75	12.5	2.25	0.13	4	4.5	2.2	0.1	4.25	0.5	7	0
20-Jul	14.5	3.5	12.5	2.25	0.13	4	4.25	2.2	0.1	4	0.5	7	0
20-Aug	14.5	3.5	12.5	2	0.13	4	4.25	2.2	0.1	4	0.5	7	0
20-Sep	14.5	3.5	11.5	2	0.13	4	4.25	2.2	0.1	4	0.5	7	0
20-Oct	14.5	3.5	11.5	2	0.13	4	4.25	2.2	0.1	4	0.5	7	0
20-Nov	14.5	3.5	11.5	2	0.13	4	4.25	2.2	0.1	3.75	0.5	7	0
20-Dec	14.5	3.5	11.5	2	0.13	4	4.25	2.2	0.1	3.75	0.5	7	0

Source: Bloomberg

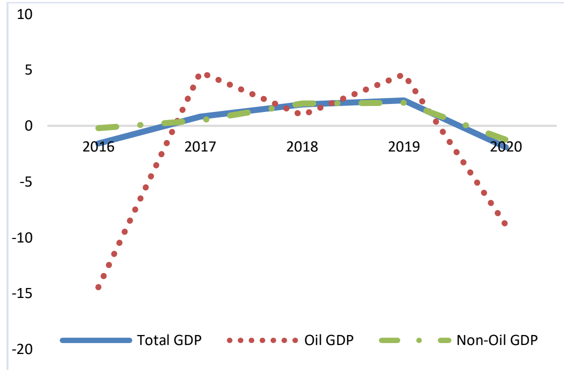
5.0 THE REAL ECONOMY

The Nigerian economy contracted by 1.92 per cent in 2020, in contrast to a growth of 2.27 per cent in 2019. The contraction in growth reflected the adverse impact of the COVID-19 pandemic, which resulted in global and domestic supply shocks that dominated the year. It was worsened by weak demand arising from the weaker consumer purchasing power. However, the economy maintained some resilience despite the devastating impact of the Pandemic, as it reversed the contraction experienced in the second and third quarters of the year, by the fourth quarter, with a growth of 0.11 per cent. The resilience of the economy was hinged on the diligent implementation of the Nigeria Economic Sustainability Plan (NESP) and the various intervention measures by the Government. Headline inflation (Year-on-Year) maintained an upward trajectory all through 2020, from 12.13 per cent in January 2020 to 15.75 per cent in December 2020. The sustained increase in headline inflation was attributed, mostly to supply shocks, insecurity and other structural challenges that persisted in the review period.

5.1 DOMESTIC OUTPUT

The economy contracted in 2020 as against the growth recorded in 2019. Data from the National Bureau of Statistics (NBS) indicated that the real Gross Domestic Product (GDP), measured at 2010 constant basic prices, stood at ₦70.00 trillion in 2020, compared with ₦71.40 trillion in 2019, indicating a contraction of 1.92 per cent during the period. The development was driven, largely, by Industry and Services sectors, which contracted by 5.85 and 2.22 per cent, respectively.

Figure 5.1.1: GDP Growth Rate 2016-2020 (per cent)



Source: National Bureau of Statistics (NBS)

Though the economy contracted, the impact was alleviated by the implementation of the Nigeria Economic Sustainability Plan (NESP) and the various economic and social intervention programmes of the Federal Government and the Central Bank of Nigeria. The contraction in growth reflected the negative impact of the COVID-19 pandemic on global and domestic supply shocks that dominated the year, as well as weak demand due to weaker consumer purchasing power.

Domestic shocks were exacerbated by the restriction on human and vehicular traffic, supply chain disruptions, the 'EndSARS' protest, persisting structural challenges such as insecurity, inadequate transport and power infrastructure, land border protection for most part of the year, as well as flooding in agricultural belts, all combined to limit the growth prospects of the economy in 2020. Also, the adoption of a price modulation mechanism for Premium Motor Spirit (PMS) and increases in electricity tariff for commercial and high-use residential areas exerted pressure on household income. Other factors such as weak crude oil demand, low crude oil prices and production cuts dominated the international crude oil market, drastically affecting government revenue and reserves.

Table 5.1. 1: Sectoral Contribution to the Growth Rate of Real GDP (percentage points)

Activity sector	2016	2017	2018	2019	2020
Agriculture	1.0	0.8	0.5	0.6	0.6
Crop Production	*0.9*	*0.8*	*0.5*	*0.6*	*0.5*
Industry	-2	0.4	0.3	0.5	-1.3
Crude Petroleum	*-1.3*	*0.4*	*0.1*	*0.4*	*-0.8*
Construction	*-0.2*	*0.04*	*0.1*	*0.1*	*-0.3*
Service	-0.5	-0.4	1.1	1.1	-1.2
Trade	*0*	*-0.2*	*-0.1*	*-0.1*	*-1.4*
Information and Communications	*0.2*	*-0.1*	*1.1*	*1.1*	*1.7*
Total (GDP)	**-1.5**	**0.8**	**1.9**	**2.3**	**-1.9**

Source: National Bureau of Statistics

The non-oil sector contracted by 1.25 per cent during the year, in contrast to a growth of 2.06 per cent recorded in 2019. The industry sector weighed down on growth with a contraction of 5.85 per cent, in contrast with a growth of 2.31 per cent recorded in 2019. Construction; manufacturing; and electricity, gas, steam and air conditioner sub-sectors caused the weak performance of the sector with contractions of 7.68, 2.75, and 2.90 per cent, respectively. However, growth was recorded in solid minerals; and water supply, sewage and waste management subsectors at 15.72 and, 3.81 per cent, respectively.

The Services sector also performed poorly with a contraction of 2.22 per cent, in contrast to a growth of 2.22 per cent in 2019. A cursory look at the Services sector showed that transport and storage; accommodation and food services; education; real estate; trade; professional scientific and technical services; other services; and administrative and support services drove the poor performance of the sector with contractions of 22.26, 17.75, 13.57, 9.22, 8.49, 7.92, 5.78, and 2.75 per cent, respectively. However, growth was recorded in information and communications technology (ICT), finance and insurance, human health and social service, and public administration sub-sectors with growth rates of 13.18, 9.37, 2.23 and 0.10 per cent, respectively.

On the other hand, the Agricultural sector sustained its modest growth trajectory in 2020, with a growth rate of 2.17 per cent, compared with 2.36 per cent in 2019. The performance of the sector was driven, largely, by crop production which grew by 2.24 per cent, while Livestock, Forestry, and Fishing followed with growth rates of 1.91, 1.62 and 0.26 per cent, respectively.

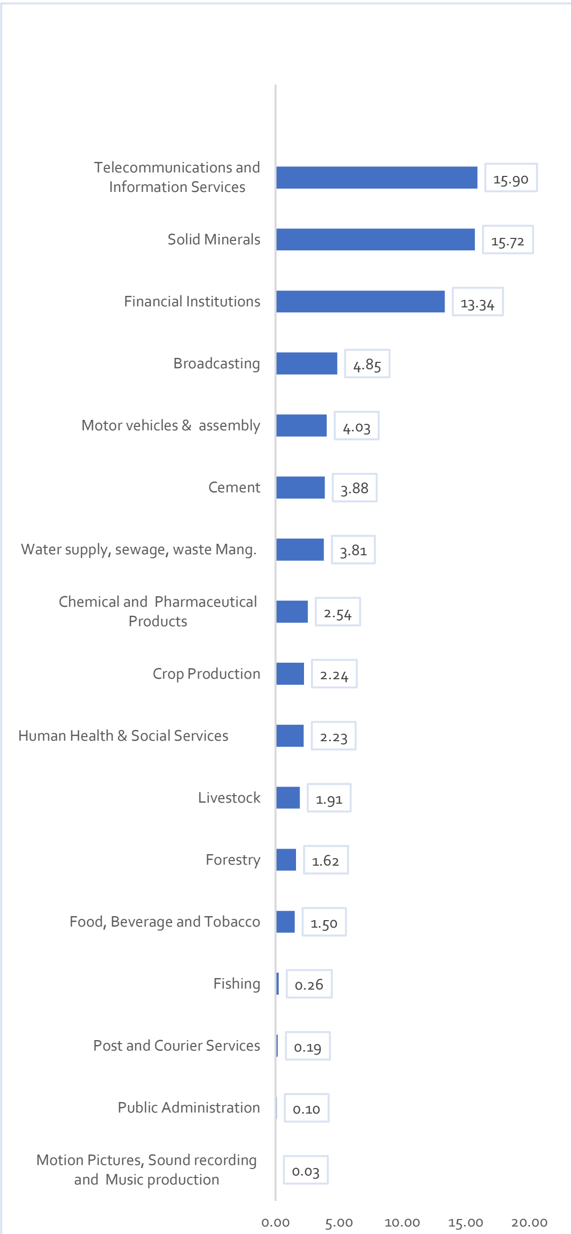
Table 5.1.2: Sectoral Growth Rates of Real GDP (per cent)

Activity Sector	2016	2017	2018	2019	2020
Agriculture	**4.1**	**3.5**	**2.1**	**2.4**	**2.2**
Crop Production	*4.3*	*3.6*	*2.3*	*2.5*	*2.2*
Livestock	*2.9*	*1.6*	*0.3*	*0.2*	*1.9*
Forestry	*2.6*	*3.3*	*3.1*	*2.6*	*1.6*
Fishery	*-0.7*	*1.3*	*1.6*	*3.3*	*0.3*
Industry	**-9**	**2.2**	**1.6**	**2.3**	**-5.9**
Crude Petroleum	*-13.7*	*4.8*	*1*	*4.6*	*-8.9*
Solid Minerals	*-14.6*	*0.1*	*10.1*	*-5*	*15.7*
Utilities	*-8.7*	*12.6*	*7.3*	*-1.9*	*-0.8*
Manufacturing	*-4.3*	*-0.2*	*2.1*	*0.8*	*-2.8*
Construction	*-6*	*1*	*2.3*	*1.8*	*-7.7*
Services	**-0.8**	**-0.9**	**1.8**	**2.2**	**-2.2**
Trade	*-0.2*	*-1.1*	*-0.6*	*-0.4*	*-8.5*
Transport and Storage	*0.4*	*3.9*	*13.9*	*10.7*	*-22.3*
Information and Communications	*2*	*-1.0*	*9.7*	*9.2*	*13.2*
Accommodation & Food Services	*-5.3*	*-1.6*	*1.8*	*2.9*	*-17.8*
Finance and Insurance	*-4.5*	*1.3*	*2*	*2.6*	*9.4*
Real Estate	*-6.9*	*-4.3*	*-4.7*	*-2.4*	*-9.2*
Human Health & Social Services	*-1.8*	*-0.3*	*-0.3*	*0.3*	*2.2*
Total (GDP)	-1.5	0.8	1.9	2.3	-1.9
Oil GDP	-14.5	4.7	1	4.6	-8.9
Non-Oil GDP	-0.2	0.5	2	2.1	-1.3

Source: National Bureau of Statistics

The oil sector also weighed down overall growth outcomes as it contracted by 8.89 per cent in 2020, in contrast to the growth of 4.59 per cent recorded in 2019. The weak performance of the sector was attributed to slump in crude oil prices and production cuts during the year, mainly, in compliance with the production cut agreements between the Organisation for Petroleum Exporting Countries, and their allies (OPEC +).

Figure 5.1.2: Best Performed sectors in 2020

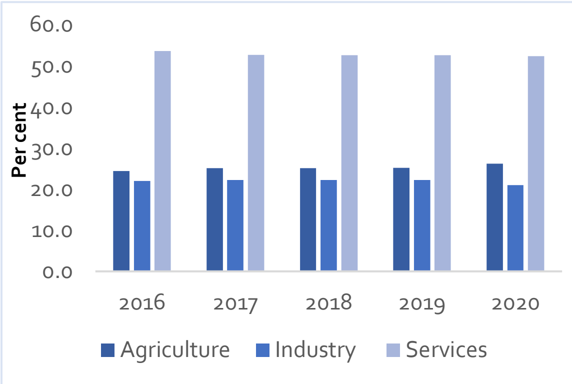


Source: National Bureau of Statistics

Figure 5.1.3: Poorly Performed Sectors in 2020

Source: National Bureau of Statistics

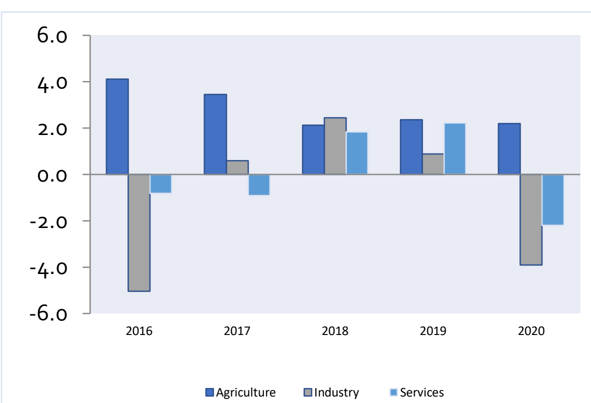
Figure 5.1.4: Sectoral Shares in GDP, (per cent)



Source: National Bureau of Statistics

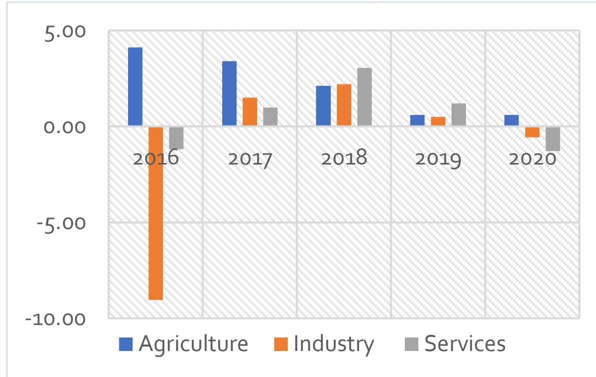
The services sector remained the most dominant sector in 2020. At 52.44 per cent, the Services sector accounted for the largest share of total real GDP in 2020. Within the Services sector, the share of information and communications technology was 15.05 per cent, followed by trade (14.94 per cent), real estate (5.66 per cent), finance and insurance (3.36 per cent), professional, scientific and technical services (3.35 per cent), 'other services' (3.24 per cent), public administration (2.10 per cent), education (1.88 per cent), and transport and storage (1.18 per cent). Furthermore, Agriculture and Industry accounted for 26.21 and 21.36 per cent, respectively, of the total share of real GDP.

Figure 5.1. 5: Growth Rate of Major Sectors of Non-oil Real GDP, (Per cent)



Source: National Bureau of Statistics

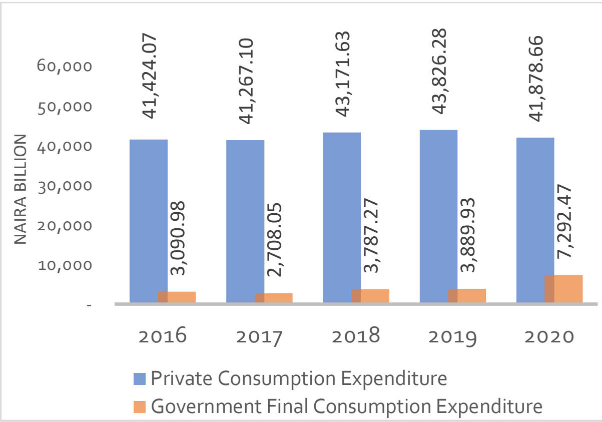
Figure 5.1.6: Contribution to Growth Rate of Non-oil Real GDP, 2016 – 2020 (per cent)



Source: National Bureau of Statistics

At ₦70,800.54 billion in 2020, the real domestic demand, at 2010 purchasers' price (GDP by Expenditure), decreased by 1.79 per cent relative to ₦72,094.09 billion in 2019. Private consumption and government final consumption expenditure were ₦41,878.66 billion and ₦7,292.47 billion, respectively, compared with ₦42,742.88 billion and ₦4,119.91 billion in 2019. While Government final consumption expenditure rose by 77.01 per cent, Private consumption expenditure declined by 2.02 per cent. Net export was ₦9,950.52 billion in 2020, representing a decline of 25.26 per cent below the level of ₦13,313.57 billion in 2019. Real investment (gross fixed capital formation) was ₦11,163.90 billion in the period under review, representing a decrease of 2.46 per cent below the level of ₦11,445.86 billion in the preceding year.

Figure 5.1.7: Real GDP (Expenditure Approach) at 2010 Purchasers' Price



Source: National Bureau of Statistics

5.1.1 Agriculture

Policy and Institutional Support

Agricultural policy during the year was geared towards alleviating the impact of the COVID-19 pandemic through the Agricultural Promotion Policy of the Federal Government. Pursuant to this, the CBN reduced the interest rates on all agricultural and other intervention schemes from 9.0 per cent to 5.0 per cent per annum. The Bank increased the share capital of the Agricultural Credit Guarantee Scheme Fund (ACGSF) from ₦3.00 billion to ₦50.00 billion and classified loans under the scheme into collateralised and non-collateralised. The amendment to the Fund also introduced a maximum amount to be granted to non-collateralised loans at ₦100,000.00 and minimum and maximum bands for collateralised loans were set at ₦10.00 million and ₦50.00 million, respectively. The ACGSF was also expanded to finance all activities in the agricultural value chain. Furthermore, the CBN released guidelines for non-interest window access to agricultural interventions with a view to promoting financial inclusion.

To conserve foreign exchange and promote local production, the Bank restricted access to foreign exchange for the importation of maize. However, to cushion the adverse impact of the policy on maize farmers, it granted the sum of ₦29.00 billion to major maize producers to boost local production of the commodity. Also, the ₦25.00 billion cassava growers' facility was open to farmers that grow improved disease-free cassava stems. The policy was aimed at boosting output of cassava.

The Federal Ministry of Agriculture and Rural Development (FMARD), in its effort to cushion the impact of the COVID-19 pandemic, offered free seeds to 2.0 million farmers as palliatives. Similarly, over 2.4 million farmers benefitted from the ₦600.00 million zero-interest loan under the Agro-Processing Productivity Enhancement and Livelihood Improvement Support (APPEALS), a World Bank-supported project in 6 states of the country.

In the review period, the Federal Government's decision to withdraw from fertiliser production and focus on quality control and supervision, as well as ensure a private sector-driven fertiliser production system was implemented during the review period. Consequently, the Nigerian Sovereign Investment Authority (NSIA), the custodian of the Presidential Fertiliser Initiative (PFI), invested the sum of ₦114 billion to revamp operations in 31 blending plants and upscale fertilizer production capacity by about 300.0 per cent. Moreover, the President directed the CBN to halt the funding of fertiliser imports. Additionally, Dangote Fertiliser Plant commenced operations and obtained a loan from the African Development Bank to boost production. Also, OCP

Africa Fertiliser Limited began the construction of a US$13.00 million fertilizer blending plant in Sokoto, with a capacity of 200,000 tonnes per annum. The Plant would commence operations in July 2021. The company disbursed 100,000 bags of subsidised fertilizers to 50,000 farmers in the year.

In the review period, the FMARD, in collaboration with the World Bank, commenced the implementation of the Livestock Productivity and Resilience Support (L-PRES) Project in 25 states. The Project, with a life span of six-years, would improve livestock production, prevent conflict between farmers and herders as well as enhance the agricultural value chain. The beneficiaries of the Project include cattle breeders, small ruminants (sheep, goats) rearers, poultry owners, and seed growers. The Project is supported by a ₦95.00 billion World Bank grant.

Several public-private partnerships designed to promote output were consummated in 2020. In this regard, DB Foods Group Limited partnered with the Kebbi State Government and the CBN to establish a ₦20.00 billion backward integrated tomato processing factory. The Kebbi State Government also partnered with the Nigerian National Petroleum Corporation (NNPC) in an ethanol production project that targets an annual income of ₦376.00 billion and 3,000 jobs. Similarly, Arla Foods, in partnership with Kaduna State Government and MILCOPAL Nigeria Limited, established a dairy factory in Kaduna to off-take milk from 400 local producers. In addition, Bayero University Kano, partnered with Dantata Foods Limited to boost agricultural production, in a World Bank backed project with a grant of US$12.00 million.

Other partnerships entered into during the period included that of the International Institute of Tropical Agriculture (IITA) with Oyo State Agribusiness Development Agency (OYSADA), to develop a sustainable cassava seed system in the state. This formed part of the Building an Economically Sustainable, Integrated Cassava Seed System, Phase 2 (BASICS-II) project, which was supported by the African Development Bank and the Bill and Melinda Gates Foundation. Also, the IITA partnered with the Nigerian Cassava Growers Association (NCGA) to provide cassava farmers with improved varieties of cassava cuttings. In addition, the IITA partnered with the Young Africa Works, a Foundation sponsored by Mastercard Foundation, to train 40,000 young Nigerians in different aspects of agribusiness.

The Nigerian Commodity Exchange (NCX) also commenced operations during the year with the launch of cashew trading in its warehouse in Kogi State. The Exchange also commissioned 12 warehouses across the country, with a combined capacity of over 26,000 metric tons.

To enhance the capacity of farmers, the Nigerian Stored Product Research Institute (NSPRI) trained 1,500 rural farmers in Kwara State on post-harvest management and storage practices. As part of the training, participants were exposed to solar drying techniques that utilize solar power to dry agricultural produce for proper storage. Moreover, a new variety of pepper was developed and introduced into the Nigerian market by Syngenta AG, an agrochemical and seed company. The sweet pepper, named Commander F1, is a disease-resistant variety that promises high returns on investment.

In a related development, an artificial intelligence (AI) company, AirSmart Limited launched an AI-powered software platform to help farmers have access to actionable intelligence that would drive efficiency. The company built aerial robotics and sensor drones that can assess Normalised Difference Vegetation Index (NDVI), which interprets farm data to help decide which farm area requires attention. The technology, which was launched in Lagos, was designed to gradually cover the whole country. These innovations would help the adoption of best practices in farming activities, thereby enhancing productivity.

Agricultural production

Agricultural production increased in 2020 owing to enhanced support by the government. Provisional data indicated that the aggregate index of agricultural production for the year under review stood at 144.7 index points (2010=100), indicating a growth of 2.2 per cent over the level in 2019. All the sub-sectors contributed to the development within the sector, with, crop production, livestock, forestry and fishery growing by 2.2, 1.9, 1.6, and 0.3 per cent, respectively. The increased production was attributed to the enhanced support from the government and the CBN, which helped to ameliorate the impact of the COVID-19 pandemic.

Table 5.1.3: Index of Agricultural Production by Type of Activity (2010=100)

Sub-sector	2015	2016	2017	2018	2019	2020 1/	Change (%)
Crops	125.3	131.4	136.2	139.3	142.8	146.0	2.2
Staples	*126.6*	*132.2*	*137.9*	*140.9*	*144.5*	*146.6*	*1.5*
Other crops	*125.7*	*133.7*	*136.6*	*141.3*	*142.7*	*143.7*	*0.7*
Livestock	125.1	126.1	128.1	128.5	128.7	131.2	1.9
Fishery	140.1	139.6	141.5	143.8	148.3	148.7	0.3
Forestry	122.7	125.2	129.4	133.4	136.9	139.2	1.6
Aggregate	**125.2**	**130.9**	**135.4**	**138.3**	**141.6**	**144.7**	2.2

Source: National Bureau of Statistics
1/Provisional

Crop Production

Provisional data showed that the index of crop production stood at 146.0 (2010=100), representing a growth of 2.2 per cent, over the level in the preceding year. 'Other crops' grew by 4.6 per cent in 2020, and staples grew by 2.0 per cent. Further analysis showed that the growth in 'Other crops' was led by cashew, sesame seed, pineapple and melon, which grew by 19.1, 12.0, 10.3, and 10.0 per cent, respectively. In addition, cotton, kola nut, palm produce, soya bean and cocoa grew by 7.3, 5.8, 5.5, 3.8, and 3.5 per cent, respectively. Growth in staples was led by increased production of rice, folio grain (acha), wheat, vegetables, cocoyam and potatoes which grew by 13.2, 6.6, 4.8, 2.9, 2.2, and 2.0 per cent, respectively. The growth in crop production was attributed, largely, to the increased intervention by the government and the CBN amidst the COVID-19 pandemic.

Livestock

The index of livestock production stood at 131.2 index points, indicating an increase of 1.9 per cent, compared with the previous year. Livestock production was boosted by growth in poultry, beef and milk at 7.0, 2.5, and 2.3 per cent, respectively. Also, production of egg, pork, goat meat and mutton grew by 1.4, 1.1, 1.0, and 0.7 per cent, respectively. The increased interventions from the Bank and the border protection policy, which restricted the smuggling of livestock, accounted, largely, for the improved production.

Fishery

The fishery index stood at 148.7 index points (2010=100) and was 0.3 per cent higher than the level in the previous year. Fish farming and Industrial coastal fish & shrimps led expansion in this subsector with a growth of 2.8 per cent apiece, while artisanal coastal catches grew by 0.5 per cent. This was attributed, largely, to increased interventions and the land border protection policy which encouraged local production. However, artisanal inland rivers and lake catches decreased by 1.7 per cent, attributed to the flooding experienced during the rainy season, as well as the restrictions imposed to curb the spread of the COVID-19 infections.

Forestry

Forestry production index stood at 139.1 points (2010=100), which was 1.6 per cent above its level in the previous year. Production of paper and paperboards, roundwood, sawn wood, and wood-based panels increased by 4.5, 1.6, 0.9, and 0.5 per cent, respectively. This was attributed to the growing demand from the construction industry for wood and related products.

Agricultural Prices

The prices of major agricultural export commodities exhibited an upward trend during the year under review. The all-commodity index (in USD terms, 2010=100) stood at 76.6 index points, representing a 3.3 per cent increase above the level in the previous year. All the commodities in the basket, except rubber, coffee and cotton, which declined by 5.7, 6.6, and 7.6 per cent contributed to the increase in the index. The price increases ranged from 1.2 per cent for cocoa to 37.4 per cent for groundnut. The upward trend for commodity prices was attributed to an upsurge in demand for food items amidst supply constraints, due to the restrictions occasioned by the COVID-19 pandemic.

Table 5.1.4: International Commodity Price Index

COMMODITY	2016	2017	2018	2019	2020	Change (%)
	1	2	3	4	5	4 & 5
All Commodities	84.05	76.39	75.77	74.16	76.61	3.30
Cocoa	94.51	66.31	74.96	76.50	77.45	1.24
Cotton	44.23	49.80	54.40	46.36	42.82	-7.64
Coffee	66.05	61.50	90.11	78.18	73.04	-6.57
Wheat	46.71	53.42	68.49	65.80	75.55	14.81
Rubber	33.79	42.04	29.17	30.08	28.37	-5.66
Groundnut	118.30	104.60	96.16	97.47	133.95	37.43
Palm Oil	52.10	55.35	51.73	48.71	60.89	25.01
Soya Beans	66.31	69.43	72.27	67.60	74.51	10.22

Sources: Central Bank of Nigeria

Table 5.1.6: Domestic Commodity Prices

COMMODITY	UNIT	2017	2018	2019	2020	Change (%)
		2	3	4	5	(4) and (5)
Agric eggs medium size	*1kg*	*499.871*	*497.52*	*466.04*	*474.29*	*1.8*
Beans: brown, sold loose	"	*367.755*	*401.82*	*339.57*	*299.19*	*-11.9*
Beans: white black eye, sold loose	"	*330.139*	*356.10*	*306.96*	*272.73*	*-11.2*
Gari white, sold loose	"	*275.012*	*201.96*	*159.03*	*207.69*	*30.6*
Gari yellow, sold loose	"	*304.732*	*244.34*	*176.68*	*234.55*	*32.8*
Groundnut oil: 1 bottle, specify bottle	"	*509.35*	*590.04*	*570.69*	*616.72*	*8.1*
Irish potato	"	*308.277*	*287.68*	*279.57*	*310.32*	*11.0*
Maize grain white, sold loose	"	*179.892*	*181.83*	*146.94*	*179.26*	*22.0*
Maize grain yellow, sold loose	"	*182.281*	*186.39*	*149.22*	*181.02*	*21.3*
Onion bulb	"	*234.706*	*247.89*	*223.02*	*260.30*	*16.7*
Palm oil: 1 bottle, specify bottle	"	*465.986*	*494.10*	*461.60*	*489.10*	*6.0*
Rice agric, sold loose	"	*339.852*	*325.69*	*331.17*	*407.13*	*22.9*
Rice local, sold loose	"	*305.046*	*279.53*	*292.47*	*363.35*	*24.2*
Rice, medium grained	"	*333.907*	*318.81*	*327.38*	*406.90*	*24.3*
Rice, imported high quality, sold loose	"	*394.888*	*370.34*	*377.99*	*490.85*	*29.9*
Sweet potato	"	*129.241*	*145.63*	*139.92*	*158.95*	*13.6*
Tomato	"	*312.931*	*299.51*	*241.54*	*283.23*	*17.3*
Vegetable oil: 1 bottle, specify bottle	"	*531.886*	*540.97*	*501.68*	*572.18*	*14.1*
Wheat flour: prepackaged (Golden Penny)	*2kg*	*634.269*	*656.52*	*668.83*	*709.63*	*6.1*
Yam tuber	*1kg*	*254.003*	*260.56*	*198.34*	*231.42*	*16.7*

Sources: Nigerian Bureau of Statistics (NBS)

The domestic prices of most agricultural commodities monitored also trended upward, compared with their levels in 2019. Data from the NBS showed that prices of 18 out of the 20 commodities monitored increased during the year, ranging from 1.8 per cent for agric egg to 32.8 per cent for garri (yellow). The rise in prices was due, largely to the impact of the attendant restrictions from the COVID-19 pandemic. Other causes of the price uptick were: the insecurity in key producing areas, the flooding experienced during the rainy season, and the increase in the pump price of petroleum and electricity tariff, which added to the cost of production, transportation and storage. However, the prices of beans (brown and white), decreased by 11.9 and 11.2 per cent, respectively, due to bumper harvest and improved supply.

5.1.2 Industry

Industrial Policy and Institutional Support

In 2020, the Federal Government implemented policies and programmes aimed at stimulating sustainable economic growth and building a globally competitive industrial sector to take advantage of the Africa Continental Free Trade Agreement (AfCFTA). The Government launched a ₦2.30 trillion National Economic Sustainability Plan, as part of effort to restore stability to the economy and cushion the effect of the COVID-19 pandemic.

The Federal Government also launched the National MSME Survival Fund and the Guaranteed off-take Stimulus Scheme to support micro, small and medium enterprises across the country. The Fund, totaling ₦75.00 billion (₦60.00 billion MSME Survival Fund and the Payroll Support Schemes and ₦15.00 billion Guaranteed Off-take Scheme), is aimed at boosting the economy by saving existing jobs and creating new job opportunities.

In addition, the CBN introduced the ₦50.00 billion Targeted Credit Facility (TCF) for households and small and medium enterprises, through the NIRSAL Microfinance Bank to ameliorate the effect of the COVID-19 pandemic. The TCF, which is financed from the Micro Small and Medium Enterprises Development Fund (MSMEDF), would grant each SME access to amounts not exceeding ₦25.00 million, while households have access to not more than ₦3.00 million.

Similarly, the Bank introduced a ₦100.00 billion Intervention Fund for Pharmaceutical Companies and Healthcare Service Providers. The Facility would help firms in the industry to expand and strengthen their capacity to combat the challenges posed by the COVID-19 pandemic. The Scheme would increase both private and public investment in healthcare, improve in service delivery and reduce medical tourism abroad, as well as, conserve foreign exchange.

To sustain its effort at improving power supply, the Federal Government approved the sum of ₦8.64 billion as part of counterpart funding for Phase 1 of the Presidential Power Initiative (PPI), also known as the Siemens Project. The activities approved under Phase 1 of the PPI included: improvement in transmission and distribution networks; mass metering project; simulation; and training of personnel. The initiative would improve electricity supply and demand in the country, thereby stimulating economic growth.

In a related development, the Federal Government launched the National Mass Metering Programme (NMMP) to eliminate the arbitrary estimated billing system in the country. Under the Programme, the CBN would provide financial support to electricity distribution companies (DisCos) to procure meters from the local meter manufacturers and install for customers who make payment over a period. This would improve revenue collections by the DisCos, boost manufacturing activities, conserve foreign exchange and create employment opportunities in the country.

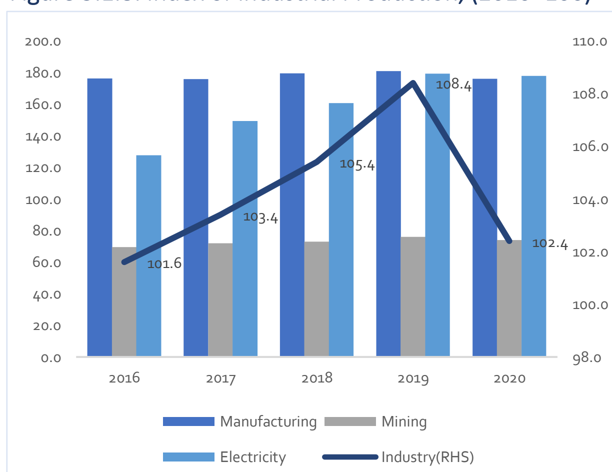
The Federal Government signed an Output-Based Fund Grant Memorandum of Understanding with seven private companies (Arnergy Solar Limited, Central Electric and Utilities Consortium, Cloud Energy PhotoElectric Limited, JV Solar Integrated Power Solutions Limited, Leadsun Technologies Company Limited, Privida Power Limited and Sosai Renewables Solar Electric) for the deployment of solar home systems to power rural communities. The companies would also supply electricity to MSMEs located in areas categorised as unserved or under-served in terms of power supply. The initiative would ensure the provision of uninterrupted power supply to homes and businesses of the beneficiaries.

Similarly, the CBN introduced the Solar Connection Facility, which offers obligors access to credit not exceeding ₦500.00 million, to help improve electricity supply and provide affordable off-grid electricity to consumers. The Facility complements Federal Government's effort at providing electricity to consumers through the provision of long-term low-interest credit facilities.

Industrial Production

The Industrial sector deteriorated in 2020, due to the COVID-19 pandemic and the consequent lull in economic activities. The performance in the sector reflected the depressed activities in the economy due to the fall in aggregate demand, resulting from the impact of the COVID-19 pandemic. Other factors that impacted on the sector were the fall in crude oil prices and the low level of production arising from insufficient access to foreign exchange by manufacturers, which affected prices of imported raw materials, spare parts and machineries. Consequently, the average industrial production index for 2020, stood at 102.7 (2010=100), showing a decrease of 5.3 per cent, compared with 108.4 in 2019.

Figure 5.1.8: Index of Industrial Production, (2010=100)

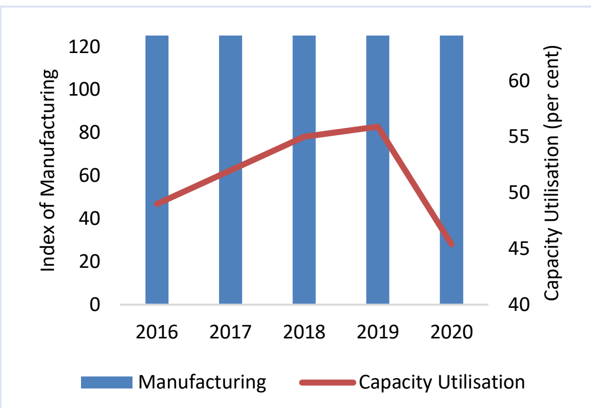


Source: Staff estimates

Manufacturing

The lockdown of the economy negatively affected the manufacturing sector, resulting in supply chain disruptions and sharp rise in input prices. Firms temporarily shutdown their activities, as they grapple with the heightened cost of business operations. Consequently, the average Index of manufacturing production declined to its lowest, since 2015, to 175.7, a decline of 2.8 per cent, compared with the level of 180.8 in 2019. Likewise, the average manufacturing capacity utilisation at 49.5 per cent fell by 7.3 percentage points, compared with the level of 56.8 in 2019, as most firms produced below capacity within the period.

Figure 5.1.9: Index of Manufacturing Production

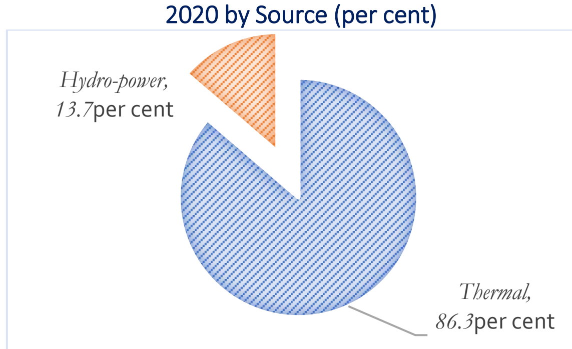


Source: Staff estimate

Electricity Generation

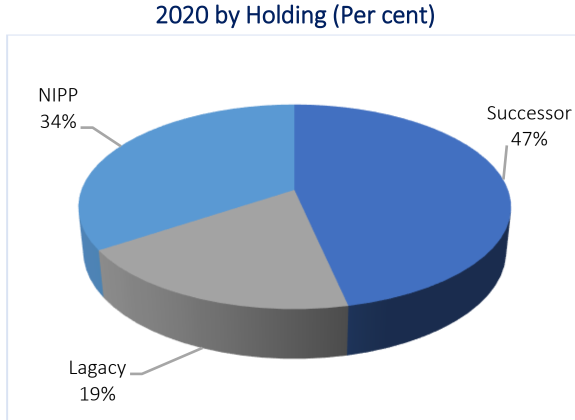
Despite improvement in installed electricity generation capacity, estimated average electricity generated during the year recorded marginal decline. Provisional data showed that total installed electricity generation capacity in 2020 witnessed a marginal increase of 0.8 per cent, compared with the level in 2019, to 14,557.8 MW. The increase was due to the installation of new generating plants and expansion in the capacity of existing ones. A disaggregation of the installed capacity showed that thermal power constituted 86.3 per cent, while hydropower accounted for the balance. An analysis by holding showed that: the successor companies accounted for 46.6 per cent; National Integrated Power Plant, 34.3 per cent; and Legacy Independent Power Plant, 19.1 per cent.

Figure 5.1.10: Nigeria's Power System: Composition in 2020 by Source (per cent)



Source: The Federal Ministry of Power and the Nigeria Electricity Regulatory Commission

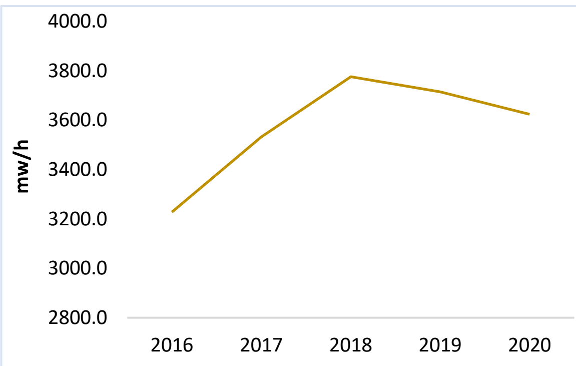
Figure 5.1.11: Nigeria's Power System: Composition in 2020 by Holding (Per cent)



Source: The Federal Ministry of Power and the Nigeria Electricity Regulatory Commission

The average electricity generation in 2020, at 3,676.1 MW/h, showed a decrease of 1.0 per cent, compared with the level in 2019. The decrease was attributed, majorly, to inadequate access to equipment and components needed for power generation, due to the COVID-19 induced restrictions, inadequate gas supply and load rejection by the DisCos. Also, delay in the execution of power projects as a result of the Pandemic contributed to the decline.

Figure 5.1.12: Electricity Power Generation



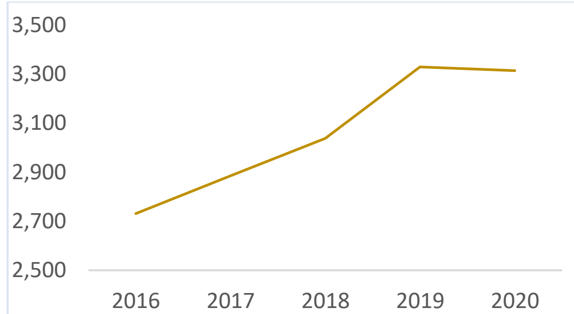
Source: Nigerian Electricity Regulatory Commission

Energy Consumption

Electricity Consumption

Increase in electricity consumption was observed in 2020. The average electricity consumption in 2020 was 3,351.5 MW/h, representing an increase of 8.4 per cent, compared with 3,091.0 MW/h in 2019. This was attributed, largely, to improvement in the transmission and distribution network, as well as, effort of the DisCos to increase electricity supply, following the introduction of the service-based tariff. There was a significant fall in energy loss during the period, declining to 9.4 per cent in 2020 from 20.2 per cent in 2019.

Figure 5.1.13: Electricity Consumption, (MW/h)



Source: *Nigerian Electricity Regulatory Commission*

Hydro-power Consumption

The volume of hydropower consumed in 2020 recorded an increase. At 4,160,188.0 tons (provisional) of coal equivalent (tce), total hydro-power consumption grew by 5.7 per cent above the level in 2019. Improvement in water management and turn around maintenance of the hydro-power plants was attributed to increase in power generation.

The Extractive Industry

Crude Oil

Policy and Institutional Support

Various reforms to deepen the crude oil sector were implemented in 2020. The government put in place several policies and programmes to boost activities in the oil and gas sector. The Department of Petroleum Resources (DPR), conducted the 2020 Marginal Oil Fields Bid Round exercise. The Bid round was restricted to indigenous companies and investors interested in petroleum exploration and production business. A total of 57 marginal oil fields located on land, swamp and shallow offshore terrains were offered. The exercise was carried out to encourage the participation of indigenous oil companies in the upstream subsector, eliminate the continued possession of undeveloped fields by international oil companies, and enhance revenue generation for the country.

The Petroleum Product Pricing Regulatory Agency (PPPRA) commenced the implementation of the Market Based Pricing Regime, by removing the price cap per litre on premium motor spirit (PMS). The PPPRA continued to monitor market trends, and periodically, advise the NNPC and oil marketing companies on appropriate market-based prices.

To improve the domestic supply and reduce the importation of refined petroleum products, the Waltersmith Refining and Petrochemical Company, with an installed capacity of 5,000 barrels per day, was completed and commissioned. The Refinery is expected to deliver about 271 million litres per annum of refined petroleum products, comprising diesel, kerosene, Heavy Fuel Oil (HFO) and naphtha. Thus, domestic supply of diesel and kerosene would be significantly enhanced.

In a related development, the Waltersmith Petroman Oil Company, operating within the OML 16, in Ibigwe field, signed a Technical Support Agreement (TSA) with the United Nations Industrial Development Organisation (UNIDO) and the United Nations Economic Commission for Africa (UNECA) for the development of an energy innovation park. The Park, when completed, would create an industrial cluster that reduces manufacturing costs by attracting petrochemical and other related companies that feed primarily off the hydrocarbon value chain, as well as take advantage of the AfCFTA.

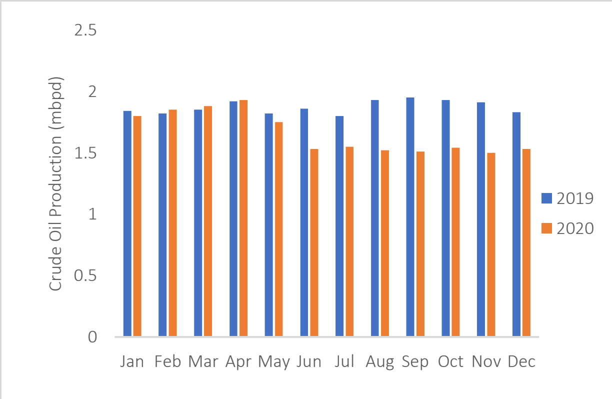
In line with the Federal Government's commitment to grow Nigeria's hydrocarbon reserves through reinvigorated exploratory activities in the inland frontier basins across the country, the NNPC discovered crude oil in the Benue Trough in commercial quantity. The discovery would boost Nigeria's reserve base.

Domestic Crude Oil Production, Refinery Utilisation, Petroleum Products Consumption and Prices

i. Crude Oil Production

Crude oil production declined in 2020, in compliance with OPEC+ production cut agreements. Average crude oil production, including Agbami crude grade, stood at 1.66 million barrels per day (mbpd) or approximately 607.56 million barrels (mb). This represented a decline of 11.2 per cent, below the average production of 1.87 mbpd or 682.55 mb in the preceding year. The decline was due, mainly, to the Declaration of Co-operation (DoC) issued in April 2020 by OPEC+ to rebalance the oil market. Based on the DoC, Nigeria was required to lower its production quota to 1.412 mbpd between May and June 2020 and 1.495 mbpd between July and December 2020 from 1.829 mbpd. Although Nigeria's average compliance level with its pledged production cut was 23.7 per cent in May 2020, the compliance rate improved to 98.5 per cent in November 2020. The development led to a significant reduction in Nigeria's crude oil production in the review period.

Figure 5.1.14: Domestic Crude Oil Production for 2019 and 2020



Source: Refinitiv Eikon (Reuters)

ii. Refinery Utilisation

The statutory allocation to NNPC to refine petroleum products for domestic consumption remained at 445,000 barrels of crude oil per day (bpd). However, in 2020, the three (3) refineries owned by NNPC was unable to process any crude, compared with the combined average refining capacity utilisation of 2.5 per cent in 2019. The refineries were shut down and operational activities suspended owing, mainly, to the on-going Turn Around Maintenance (TAM) of the plants. Consequently, no white products (Premium Motor Spirit (PMS), Automotive Gas Oil (AGO) and Dual-Purpose Kerosene (DPK)) were produced locally in 2020, compared with 470,336 metric tonnes produced in the preceding year.

iii. Petroleum Products Supply and Distribution

In 2020, NNPC lifted an estimated 105,882,492.3 barrels of crude oil from the daily allocation for domestic utilisation for processing under the Direct Sales-Direct Purchase (DSDP) Scheme to meet domestic petroleum product supply.

An estimated average of 38,290,713 litres per day of white products were sold and distributed by the Petroleum Product Marketing Company (PPMC) in the review period, compared with 59,346,185 litres per day in 2019. The decline in the sale of white products, was due, largely, to the decrease in demand because of the slowdown in economic activities. A breakdown by product showed that PMS had the highest sales volume of 37,912,732 litres per day (99.0 per cent); AGO at 352,602 litres per day (0.9 per cent) and DPK at 25,376 litres per day (0.1 per cent). Additionally, an estimated total of 3,304 litres per day of special products (Low Pour Fuel Oil (LPFO)) was sold in January and February 2020.

iv. Prices

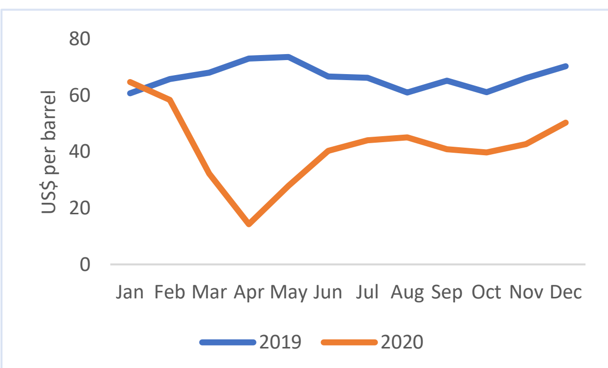
The yearly average spot price of Nigeria's reference crude, the Bonny Light (34.9^{o} API), was US$42.19 per barrel (pb) in 2020, marking a significant decline of 36.5 per cent, below the preceding year's average of US$66.41pb. Analysis of the price movements showed that, average monthly spot price was US$66.69pb in January and US$58.46pb in February 2020. Thereafter, the price fell to as low as US$14.28pb in April and gradually levelled up in July and August at US$44.10pb and US$45.06pb, respectively. The price further declined to US$40.85pb and US$39.74pb in September and October, respectively, before closing at US$50.33pb in December, above the yearly average.

The average prices of the UK Brent crude, Forcados and West Texas Intermediate exhibited similar trend as the Bonny Light, at US$41.80pb, US$42.32pb and US$39.41pb, respectively, all of which were markedly lower than their prices in 2019. Furthermore, the average price of the OPEC

Basket of thirteen (13) crude streams was US$41.42pb, representing a decline of 35.3 per cent, compared with its price in the preceding year.

The measures implemented by most economies globally, to stem the spread of the COVID-19 infections, dampened economic activities, resulting in the decline in demand, excess supply in the market and consequently, a fall in prices. The development had a significant impact on the Federal Government's oil revenue and the implementation of the 2020 budget. However, the effort of OPEC+ at rebalancing the oil market and the optimism about the rollout of the COVID-19 vaccines, globally, improved demand outlook and boosted crude oil prices.

Figure 5.1.15: Average Monthly Prices of Bonny Light, 2019-2020 (US$ per barrel)



Source: RefinitivEikon (Reuters)

Global Crude Oil Production and Demand

Crude oil supply and demand declined during the year. Aggregate crude oil supply, including natural gas liquids (NGLs) and condensates by OPEC, averaged 30.70 million barrels per day (mbpd) in 2020. This represented a decline of 11.3 per cent, below the level in 2019. The decline in aggregate OPEC supply was driven, mainly, by the decrease in its crude oil portion by 3.66 mbpd, in compliance with OPEC+ Production Cut Agreement.

Total world supply averaged 93.85 mbpd, indicating a decline of 6.4 per cent, below the level in 2019. The decline in world supply was due, largely, to decrease in aggregate OPEC supply by 3.91 mbpd. World crude oil demand averaged 91.89 mbpd, compared with 100.86 mbpd in 2019, representing a decline of 8.9 per cent. Demand from the Organisation for Economic Co-operation and Development (OECD) countries was 42.15 mbpd, representing 45.9 per cent of the total world demand, while non-OECD countries accounted for the balance. The decline in world crude oil demand was driven, mainly, by the fall in demand by major oil consuming nations, specifically Europe and the United States, following the lockdown of their economies to curtail the spread of COVID-19 infections.

Gas

Policy and Institutional Support

The Federal Government declared year 2020 as the “Year of Gas”, with strong commitment to develop the Nigerian gas sub-sector, ensure a significant reduction in gas flaring and improve domestic gas supply. To achieve this, the Government instituted key policy guidelines and regulatory initiatives that enhanced the development of gas and gas-based infrastructure in the country to boost production, export and utilisation of gas.

The National Gas Expansion Programme (NGEP) was introduced in 2020 to deepen domestic gas supply and stimulate demand, through efficient utilisation of Nigeria's gas resources and infrastructure. The effective implementation of the Programme would promote the use of liquefied petroleum gas (LPG) and Compressed Natural Gas (CNG) as fuels of choice for domestic transportation, cooking and power generation.

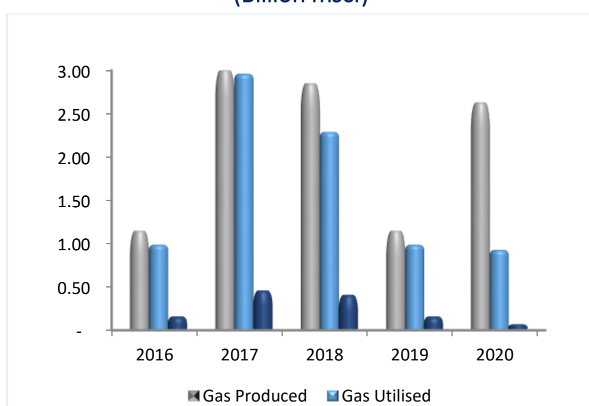
To increase LPG consumption and penetration in the country, the government adopted the Cylinder Recirculation Model (CRM) to replace the Cylinder Owned Model (COM) currently in operation. The major difference between the CRM and the COM lies in the ownership of the LPG cylinders. The CRM would eliminate the up-front purchase of the LPG cylinders by consumers.

The Federal Government of Nigeria inaugurated the US$2.80 billion Ajaokuta-Kaduna-Kano (AKK) gas pipeline project in July 2020. The domestic gas transmission infrastructure, when completed, would supply gas to Europe, through the proposed Trans Sahara Gas Pipeline and Nigeria-Morocco Gas Pipelines. Furthermore, the Federal Government launched the Nigerian Gas Transportation Network Code (NGTNC) initiative in August 2020, to deepen the Nigerian gas market. The Code outlines specific rules and principles to guide the use and operation of the gas transportation network system, secure gas transmission infrastructure and ensure a cost-effective tariff for pipeline management. The Gas Network Code would operate through the Network Code Electronic Licensing and Administrative System (NCELAS), which has also been developed. The NCELAS is an online platform used by the DPR to regulate the gas sub-sector. It records processes, administers regulatory roles, and issues all applicable licences to network players. The Project would boost government revenue, create investment opportunities, improve gas supply to the power sector and enhance the growth of gas-based industries.

Gas Production and Utilisation

Increase in gas production and utilisation was recorded during the year. The total volume of gas produced in 2020 was 2,729.10 billion cubic feet (bcf), representing a decrease of 4.74 per cent below the level in 2019. Of the total gas produced, 92.9 per cent was utilised, while 7.1 per cent was flared. From the volume utilised, 18.9 per cent was sold to third parties including Nigerian Gas Company and 27.5 per cent was re-injected. The sharing formula for gas utilisation is as follows: gas sold to NLNG Limited (43.3 per cent); utilised as fuel (5.5 per cent); converted to Escravos gas-to-liquids (EGTL), and natural gas liquids (NGL) were 3.5, and 1.3 per cent, respectively.

Figure 5.1.16: Gas Production and Utilisation (Billion mscf)



Source: *Nigerian National Petroleum Corporation (NNPC)*

Solid Minerals

Policy and Institutional Support

Solid minerals sector remained resilient despite the impact of the Pandemic. Though the lockdown measures led to reduced mining operations and subsequent closure of mining sites in most locations, the solid minerals sector remained relatively resilient, growing in real terms by 15.72 per cent in 2020. The robust performance of the sector was attributed to a combination of favourable policies by the Government and the surge in the prices of selected commodities, such as gold. The price of gold surged during the Pandemic as the international community resorted to the commodity as a reliable store of value.

In November 2020, the Ministry of Mines and Steel Development signed an Expression of Interest Agreement with Messrs La Mancha Incorporated, a Luxembourg-incorporated private gold development and mining company, based in Egypt. The Agreement was aimed at improving investment in gold mining in Nigeria and boosting the diversification of the economy, through the minerals and metals sector.

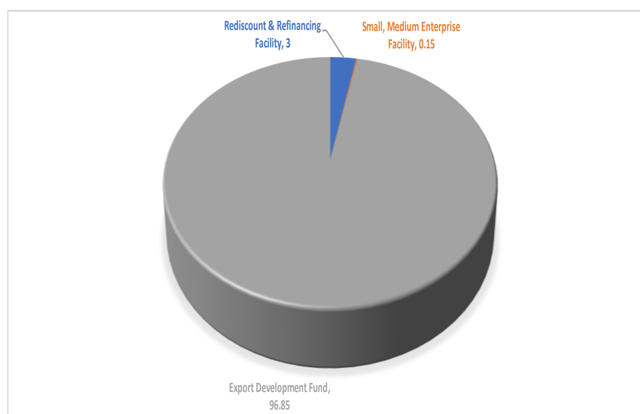
In addition, the Federal Government commissioned the Dukia Gold and Precious Metals Project (DGPMP) in June 2020, to facilitate best practices in domestic mining and refining, as well as proper trading of Nigeria's gold. The Project was expected to create employment opportunities for local miners and mining co-operatives, across the solid minerals value chain. Also commissioned were the Dukia-Heritage Bank Gold and Precious Metals Buying Centres, which were part of a valuable private sector collaboration, intended as a sustainable means for Nigerians to exchange their gold jewelry and other precious items for cash.

Institutional Financing

The Nigeria Export-Import Bank (NEXIM)

Total funding support provided to the non-oil export sector, under the various lending facilities in 2020, was ₦31.30 billion for 39 projects, compared with ₦24.70 billion disbursed in 2019 to 37 projects. The significant increase in the level of intervention/disbursement was attributed to the Bank's continued streamlining of its loan processes, which enabled existing clients to quickly utilise and roll over their facilities. A breakdown of the disbursement by facility showed that 96.9, 3.0, and 0.1 per cent were disbursed under the Export Development Fund, the Rediscounting & Refinancing and the Small Medium Enterprise facilities, respectively.

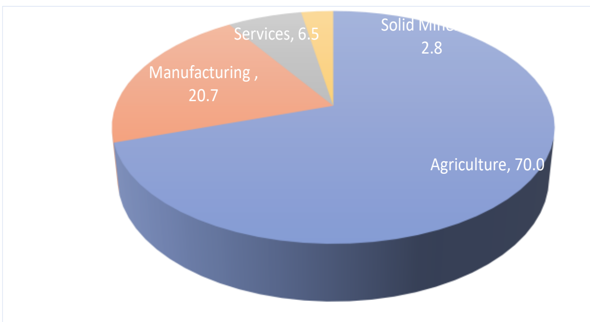
Figure 5.1.18: Summary of NEXIM Disbursements by Facility, 2020 (per cent)



Source: Nigerian Export-Import Bank

A sectoral analysis of disbursements showed that the agricultural sector received ₦21.90 billion, representing 70.0 per cent of total. This was followed by the manufacturing sector, with ₦6.50 billion or 20.7 per cent; while services and solid minerals, accounted for ₦2.00 billion, or 6.5 per cent and ₦0.90 billion, or 2.8 per cent, respectively.

Figure 5.1.19: Summary of NEXIM Disbursements by Sector, 2020 (per cent)



Source: Nigerian Export-Import Bank

5.1.3 Transport and Communications

The transport sub-sector was significantly affected by the restrictions on human and vehicular movement which accompanied the COVID-19 containment measures during the year. The sub-sector contributed negatively to the growth rate of overall output, contracting by 22.26 per cent, in real terms, in contrast with a growth rate of 10.73 per cent recorded in 2019. A further analysis showed that road, rail, water and air transport also contracted by 22.25, 33.64, 16.44, and 36.98 per cent, respectively in 2020, in contrast with their growth rate of 11.24, 1.74, 0.56, and 13.17 per cent, respectively in 2019.

Road Transport

Effort to improve the quality of road infrastructure received a boost with the sustained implementation of the Road Infrastructure Development, and Refurbishment Investment Tax Credit Scheme approved in 2019. Under the Scheme, the construction of various road projects across the country was embarked upon, including the reconstruction of the second section of the Apapa-Oworonsoki-Ojota road. Others included: the dualisation of the 560km Kano-Maiduguri road; construction of Kano – Gwarzo – Dayi road (linking Kano and Katsina States), and the full scope development of arterial road from Northern Parkway Shehu Musa Yar'Adua Way to the Northern Expressway (ONEX)/Muritala Mohammed Way in Abuja. Also included were; the construction of Gasamu-Hamshi-Gogoram road in Yobe State (a link road connecting Uneme-Tusamu-Odoga to Okpekpe in Etsako East Local Government Area of Edo State) and the reconstruction of Mamabu-Donga road in Taraba South Local Government Area of Taraba State. Others were; the construction of the Yakassai-Badume-Damargu-Makinzali Road in Kano, and the rehabilitation of the Kaduna-Panbegua-Jos Road, linking Kaduna and Plateau States.

Similarly, there were critical interventions in the maintenance and general repairs of various roads across the country, including the maintenance of Ikot Ekpene-Itu road in Cross River State, the Onitsha – Aguleri-Adani road in Anambra State, maintenance repairs along Atan-Agbara in the border axis of Lagos and Ogun States along Badagry area. Also approved was the general maintenance of the Benin-Asaba-Onitsha dual carriageway, as well as the Warri-Benin carriageway in Delta state, among others.

The Federal Government implemented the Artisan Support Scheme for road transport workers and operators severely affected by the pandemic-induced movement restrictions. The Scheme was part of the Micro, Small and Medium Enterprises (MSMEs) Survival Fund launched by the Federal Government, which targeted about 333,000 artisans and transport business operators. Beneficiaries of the Scheme were given ₦30, 000.00 each as operational grant to help reduce the effect of income loss due to the Pandemic.

The CBN, in collaboration with the Nigerian Sovereign Wealth Fund, secured the Federal Government's approval to set up a ₦15.00 trillion infrastructure development company, to invest in road transport infrastructure. The entity would be jointly owned by the CBN, Africa Finance Corporation (AFC) and the Nigeria Sovereign Investment Authority, with an Independent Infrastructure Fund Manager (IIFM) that will mobilise foreign and local capital to support the Federal Government in building the transport infrastructure (road network and railway lines), required to move raw materials, agricultural produce and finished goods across the country.

Air Transport

The weak performance of the aviation sector, owing to the COVID-19-induced restrictions was moderated by the sustained policy support of the Federal Government in 2020. During the review period, the Federal Government signed a bilateral air transport agreement with the United States, India, Morocco and Rwanda. The Agreements would allow equal opportunities in the movement of commercial flights among the members and boost competitiveness for domestic carriers, while operating in accordance with the constitutional requirements and interests of the countries involved.

Also, the Federal Government signed the instrument of ratification to the African Trade Insurance Agency's (ATI) treaty. The ATI is a major institutional and regulatory initiative which would improve risk mitigation measures and increase investment and trade flow.

The Federal Government approved a ₦5.00 billion bailout fund for airline operators and other business owners in the aviation subsector. Out of the total funds, ₦4.00 billion was designated to domestic airline operators, while ₦1.00 billion was disbursed to other business owners within the subsector. The CBN also intervened in the sector by establishing a ₦50.00 billion Targeted Credit Facility for airline operators and other service providers within the aviation sector. Through this Facility, the Bank extended credit to airline service providers at 5.0 per cent interest rate per annum.

Domestic Operations

The harmonised data from Federal Airport Authority of Nigeria (FAAN) and National Airspace Management Agency (NAMA) revealed that a total of 8,383,882 passengers were airlifted by domestic airlines in 2020. This represented a 36.2 per cent decrease from the 13,133,105 passengers airlifted in 2019. Total aircraft movement also declined by 16.7 per cent to 178,517 from the 214,316 recorded in 2019. The decline was attributed to movement and travel restrictions imposed by the Federal Government to curb the spread of the COVID-19 Pandemic.

International Operations

The number of airline passengers on international routes in 2020 decreased by 65.5 per cent to 1,597,062 compared with 4,628,350 recorded in 2019. Aircraft movement also decreased by 50.8 per cent to 21,787 during the review period, compared with 44,242 recorded in 2019.

Cargo movement at designated airports decreased by 10.0 per cent to 147.5 million kg, compared with the 164.9 million kg recorded in 2019. Mail movement, also decreased by 5.7 per cent to 44.6 million kg in 2020, compared with 47.3 million kg recorded in 2019. The decrease in foreign travels was attributed to decline in tourism due to travel restrictions and bans on foreign citizens from countries with high cases of the COVID-19 Pandemic.

Rail Transport

The Federal Government continued to accord attention to rail infrastructure in the country. Rail projects approved in the review period included; rehabilitation and reconstruction of the Port Harcourt - Maiduguri Eastern Narrow-Gauge Railway, with new branch lines and transhipment facilities, construction of the Kano-Maradi (Niger) rail line to enhance trade with the landlocked West African countries. Track laying for the Lagos-Ibadan segment of the Lagos-Kano standard gauge railway was completed with provision for extension to the Apapa ports, while the 10 major and minor stations were at various stages of completion. The track was designed to link three major terminals in the ports: the Apapa Bulk Terminal Limited (ABTL), ENL Port and Terminal and APM Terminal. This would enable massive movement of cargo and ease the extant congestion at the ports. The rail line is expected to provide an alternative means of transportation in the covered areas, boost commercial activities, and reduce road congestion.

A total of 1,006,035 passengers and 68,127 tons of freight were moved by rail in 2020 compared with 2,593,744 passengers and 141,186 tons of freight moved during the corresponding period of 2019. This indicated a decrease of 61.0 and 52.0 per cent for passenger and freight movement, respectively. The decrease was attributed to movement and travel restrictions imposed by the Federal Government to curb the COVID-19 Pandemic.

Water Transport

Maritime infrastructure received a boost during the year. The Nigerian Maritime Administration and Safety Agency (NIMASA) acquired two special mission vessels and ten fast interceptor boats with sophisticated intelligence gathering capability to timely detect and respond to illegal activities in the Nigerian maritime territory and the Gulf of Guinea. These assets were acquired under the Integrated National Security and Waterways Protection Infrastructure, also called the Deep Blue Project, which was established to tackle insecurity in the Nigerian Exclusive Economic Zone, among others.

Also, the Akwa Ibom State Government secured approval for the implementation of the first phase of the Ibom Deep Seaport Project in the State. The Port is a Federal Government project but driven by the Nigerian Ports Authority, the Federal Ministry of Transport and the Akwa-Ibom State Government, with Global Maritime and Port Services Limited as the transaction driver. Furthermore, the Federal Government approved a deep seaport in Bonny under a Public-Private-Partnership (PPP) programme in the sum of US$241.15 million. The Project would increase the capacity of the country to receive cargo from big vessels, thereby facilitating increased trade in the country.

Data from the Nigerian Ports Authority (NPA) showed that between January and December 2020, a total of 3,972 ocean going vessels berthed at Nigerian ports, compared with 18,206 vessels in 2019. Cargo throughput stood at 78,443,623 metric tons in the same period, compared with 90,456,622 metric tons recorded in 2019, representing a decrease of 13.3 per cent. The decrease in the number of ships and cargo throughput was attributed to decline in trade due to lock down of most economies owing to the COVID-19 containment measures put in place by various governments in 2020.

Information and Communications Technology

Policy and Institutional Support

The ICT subsector remained a critical non-oil growth driver, propelled by the increased adoption of mobile lines and internet services. The sub-sector contributed positively to overall output growth, with a growth of 13.18 per cent, in real terms, compared with a growth of 9.17 per cent recorded in 2019. To deepen growth of the subsector, the National Broadband Plan (NBP) of the country was reviewed during the year, leading to the launch of a new National Broadband Plan (NBP) for 2020-2025. The new Broadband Plan was designed to deliver data download speed across Nigeria with a minimum speed of 25Mbps in urban areas, and 10Mbps in rural areas. The Project was expected to have effective coverage available to at least 90.0 per cent of the population by 2025 at a price not more than ₦390.00 per gigabyte of data.

Similarly, in a bid to reduce the cost of telecom services nationwide and promote access to its services, a couple of State Governments decreased their Right of Way (RoW) charges to ₦145.00 per metre from ₦6,000.00 per meter. This was done to significantly cut the price of connecting telecom masts with fibre optic cables instead of the slow microwave technology.

Also, to accelerate broadband penetration across the country, the Nigerian Communications Commission (NCC) set up a committee to review the framework for the licensing of Infrastructure Companies (InfraCos) and recommend sustainable funding options for effective implementation of the proposed National Fibre Project. In collaboration with relevant stakeholders, the Commission kick-started the policy formulation process on the deployment and adoption of the fifth-generation (5G) network in Nigeria.

To facilitate the diversification of the economy, the National Digital Economy Policy and Strategy (NDEPS) was developed by the Federal Ministry of Communications and Digital Economy. The Strategy was aimed at attaining the key national objectives of improving security, reducing corruption and expanding the economy through digitalisation. Consequently, the Federal Government approved the transfer of the National Identity Management Commission (NIMC) to the Federal Ministry of Communications and Digital Economy from the Presidency. This was done to ensure synergy and effective supervision in harnessing the potentials of NIMC towards achieving the objectives of the NDEPS.

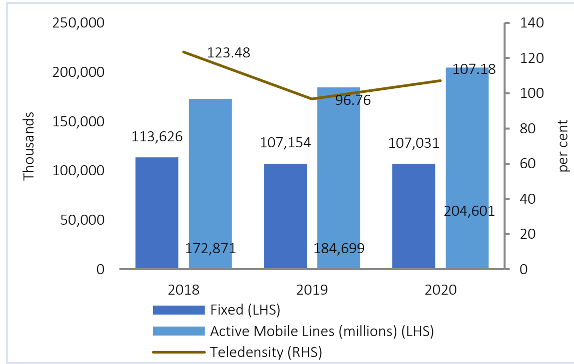
In a related development, the Federal Government, through the NCC, issued directives aimed at improving transparency of SIM registration and usage in the country. This included the suspension of new SIM registration by all operators, submission of valid National Identification Number (NIN) by subscribers to update SIM registration records as well as the cancellation of USSD and verification fees associated with the NIN registration.

Performance of the Subsector in 2020

Digital mobile lines continued to drive growth in the communications sector. Data from NCC showed that the number of active telephone lines stood at 204.6 million at end-December 2020, compared with 184.7 million at end-December 2019. This represented an increase of 10.8 per cent. Similarly, teledensity grew to 107.18 lines per 100 inhabitants at end-December 2020, compared with 96.76 lines per 100 inhabitants at end-December 2019.

The number of internet users increased to 154.3 million at end-December 2020, compared with 126.1 million at end-December 2019. This was due, largely to increased usage of internet services and adoption of tech-related services during the lockdown, as individuals and businesses were forced to work remotely. Broadband internet penetration increased to 45.0 per cent at end-December 2020, compared with 37.8 per cent recorded at end-December 2019, inching the country closer to the set target of 70.0 per cent broadband penetration by 2025.

Figure 5.1.20: Fixed Wired, Teledensity and Active Mobile Lines



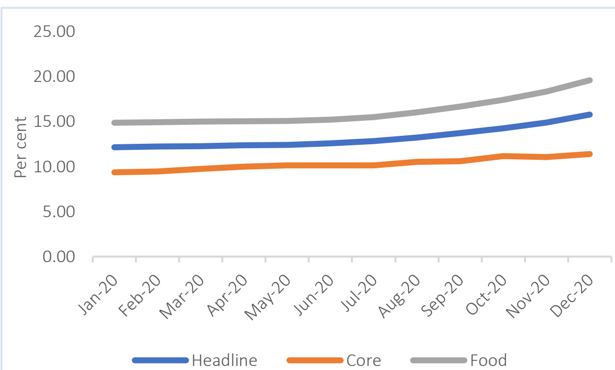
Source: Nigerian Communication Commission

A further analysis indicated that the wireless Global System for Mobile (GSM) communication segment continued to dominate market share, accounting for 204.1 million lines in the telecoms sector. This represents 99.8 per cent of the total 204.6 million connected lines at end-December 2020. Mobile Telecommunications Network (MTN) had the largest share of the market with 80.8 million, up from 68.8 million subscribers in 2019, followed by Airtel with 55.6 million, compared with 50.2 million subscribers in 2019, and Globacom with 54.8 million, up from 51.7 million subscribers. However, 9mobile recorded a marginal decline in subscribers with about 13 million, compared with 13.6 million in 2019.

5.2 CONSUMER PRICES

Consumer prices surged in 2020, driven mainly, by supply shocks which heightened pressure on food and non-food prices. Available data from the NBS indicated that the all-items composite Consumer Price Index (CPI) stood at 355.9 points (November 2009=100) at end-December 2020, compared with 307.5 points at end-December 2019. Consequently, headline inflation (Year-on-Year) maintained an upward trajectory all through 2020, rising to 12.56 per cent in June from 12.26 per cent in March 2020. It rose further to 13.71 per cent in September 2020 and closed at 15.75 per cent in December 2020. The 12-Month moving average inflation rate also exhibited a similar trend throughout the year, rising to 11.90 per cent in June from 11.62 per cent in March and 11.46 per cent in January 2020. Further increases were observed in September, rising to 12.44 per cent and closing at 13.25 per cent in December 2020. Month-on-Month headline inflation rate also, rose consistently throughout the year, except in February when a slight moderation was observed.

Figure 5.2.1: Trends in Inflation, (year-on-year)



Source: National Bureau of Statistics

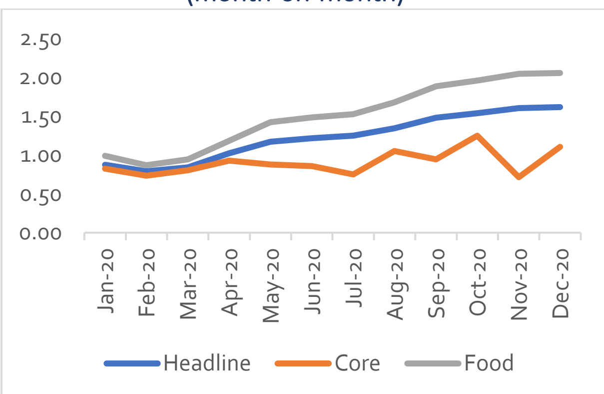
The sustained increases in headline inflation was attributed largely to supply shocks which heightened pressure on domestic food and non-food prices. These shocks ranged from supply chain disruptions that accompanied the COVID-19 containment measures and the 'EndSARS' protests, marked increases in electricity tariff and the price of Premium Motor Spirit (PMS), as well as shortages in food supply, owing to sustained security challenges in food producing areas and flooding. Others were the effect of foreign exchange restrictions and surge in money supply, following accommodative monetary policy measures that were implemented to ease the impact of the Pandemic on households and businesses.

Core inflation (all-items, less farm produce), (Y-on-Y), also witnessed sustained pressure during the year (except in July 2020 when a moderation was observed). The single digit rate in core inflation since September 2018 was also reversed during the year with double digits recorded from May 2020. Core inflation rose to 10.13 per cent in June 2020 from 9.73 per cent in March and 9.35 per cent in January 2020. The rates further increased to 11.37 per cent in December 2020, from 10.58 per cent in September. However, on a M-on-M basis, core inflation maintained a mixed trend though ending at 1.10 per cent in December, higher than 0.82 per cent in January 2020.

The surge in core inflation was attributed to supply chain disruptions that pervaded most of the year, in addition to spill-over effects of the hike in energy prices. Similarly, the impact of exchange rate pass-through to domestic prices, following foreign exchange realignments and demand management activities of the Bank, contributed to accelerating the pace of core inflation in 2020.

Food inflation remained the major driver of headline inflation throughout 2020. Consistent increases were recorded from 14.85 per cent in January to 14.98 per cent in March and 15.18 per cent in June. It further rose to 16.66 per cent in September before peaking at 19.56 per cent in December 2020. Sustained increase in food inflation was attributed to food shortages that were exacerbated by persistent security challenges in the food producing regions of the country, flooding, disruption in planting activities following the COVID-19 containment measures and other supply chain disruptions that accompanied the 'EndSARS' protests. Spill over effects of foreign exchange restrictions and pricing, as well as the increase in the cost of transportation/logistics, also accounted for the rise in food prices. Food inflation also rose consistently on a month-on-month basis.

Figure 5.2.2: Trends in Inflation (month-on-month)



Source: National Bureau of Statistics

5.3 THE SOCIAL SECTOR

5.3.1 Education

Activities in the education sector stagnated for a greater part of the review year, as the Federal Government ordered the closure of schools at all levels nationwide, to stem the spread of the Coronavirus from March 2020 through October 2020. However, learning activities received a boost with the transition to digital learning platforms across various tiers of education, as schools and education service providers, especially within the urban areas, developed digital platforms that enabled online learning experiences for students.

The temporary closure of schools weighed on the subsector's contribution to overall output growth, contracting by 13.57 per cent, in real terms, in contrast to a growth of 0.80 per cent recorded in the previous year.

To make education more accessible to Nigerians, the Federal Government approved the establishment of the University of Health Science, Otukpo, Benue State. Approvals were also given for the establishment of six new Federal Polytechnics with one in each of the six geo-political zones. The polytechnics were in Katsina State (North-West); Gombe State (North-East); Plateau State (North-Central); Oyo State (South-West) and Enugu State (South-East) and Cross River State (South-South). Similarly, the National Universities Commission (NUC) gave a provisional licence for the take-off of the Confluence State University of Science and Technology, Osaro, Kogi State as the 50th State Government-owned university in the country.

To develop the education sector in Edo State through improving the teaching and learning processes in basic education, as well as expanding access to quality digital skills and entrepreneurship development programmes for youths, the World Bank approved a US$293.00 million facility to support the State Government in revamping the education sector over the next three years. Edo State Government would be required to make a commitment of US$75.00 million for the Facility.

Similarly, the Kwara State Government received about ₦7.15 billion grant from the Universal Basic Education Commission (UBEC), for the first time since 2013, when the State was blacklisted from the national scheme. The fund represents the accumulation of UBEC grants that were not accessed between 2014 and 2019. The fund would be used to refurbish 600 primary schools out of the over 1,400 decrepit basic education facilities across the State over two years.

5.3.2 Health

The health sector remained at the forefront of national discourse and support as the COVID-19 pandemic persisted. On account of the increased attention, the sector made significant contribution to overall output growth in 2020, with a growth of 2.23 per cent, in real terms, compared with a growth of 0.31 per cent in the previous year.

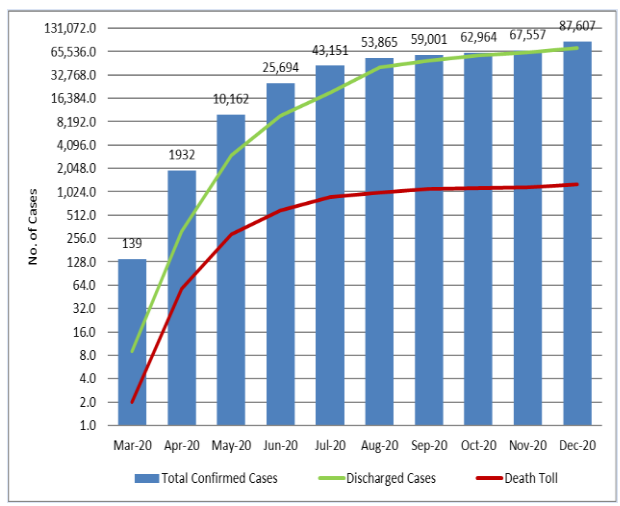
Following the outbreak of the Pandemic, the Federal Government and relevant authorities responded with guidelines, containment measures, revamping of health facilities, establishment of isolation centres as well as improved testing capacities.

To boost the resilience of the sector, the Federal Government approved a waiver of duty for the importation and clearance of all medical equipment and supplies and granted tax holiday to companies investing in the health and pharmaceutical industry. The Federal Government also approved the sum of ₦9.30 billion as premium to Insurance Companies, for Life Group Insurance and payment of death benefits of health workers. In addition, ₦8.90 billion was approved for payment of COVID-19 hazard and inducement allowances to front line health workers in the country.

The CBN introduced the Health Care Sector Intervention Facility (HSIF) for the Health and Pharmaceutical Industry. The Facility was to enhance the capacity of the industry to tackle pandemics. The Bank also initiated the Healthcare Sector Research and Development Intervention (Grant) 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.

Due to the high volume of human traffic between Nigeria and the rest of the world and weak compliance to the COVID-19 protocols, there was a resurgence in the number of new cases, extending to the second wave of the pandemic in the country. At End-December 2020, data from the Nigeria Centre for Disease Control (NCDC) showed that the total number of infected persons stood at 87, 510, with total discharged cases at 73,713, and a death toll of 1,289 persons.

Figure 5.3.1: COVID-19 Statistics in Nigeria 2020



Source: Nigeria Centre for Disease Control

During the review period, the World Health Organisation (WHO) certified Nigeria and the African region free of the wild polio virus. Nigeria, which accounted for more than half of all global cases less than a decade ago, was the last African country still confronted by the virus until after three consecutive years of recording zero case of the disease.

To accelerate the pace of achieving Universal Health Coverage in Nigeria, the Federal Government unveiled the Nigeria's Health Sector Roadmap, which is a nine-point, medium-term Plan developed by the Federal Ministry of Health. The objectives of the Agenda include: implementation of Mandatory Universal Health Insurance, in collaboration with State Governments and the FCT Administration; operationalisation of the Basic Health Care Provision Fund (BHCPF), in collaboration with partners and agencies; and recruitment and deployment of 50,000 Community Health Extension Workers; revamping Federal Teaching Hospitals across the country. Others are collaboration with private sector investors to establish high-quality hospitals in Nigeria; reduction of gaps in all health-related Sustainable Development Goals (SDGs) by at least 60.0 per cent; reduction in the current imbalance between primary, secondary, and tertiary health care; and collaboration with the private sector to create a large number of well-paying jobs for Nigerian youths. The Plan also seeks to optimise services at the Primary Healthcare Centres (PHC) across the country and grant easier access to essential healthcare services for the most vulnerable citizens. Under the Plan, every PHC in the country would have at least one doctor, a pharmacist, a staff nurse and other paramedical support staff. The Plan will also increase the immunisation rate to 80.0 per cent by 2028 and reduce maternal and child mortality.

Furthermore, the Federal Government launched the 'Group, Individual and Family Social Health Insurance Programme (GIFSHIP)' to enhance the quality of human capital and improve access to affordable health care delivery. The Programme would enable individuals, families and groups across different income groups to access universal health care at reduced cost, while boosting healthcare penetration towards the attainment of Universal Health Coverage.

5.3.3 Housing and Urban Development

The Housing sector continued its poor performance in 2020, weighing down overall output growth and contracting by 9.22 per cent, in real terms, compared with a contraction of 2.36 per cent in 2019. Its poor performance was attributed to the lull in economic activities that pervaded the year. However, to reduce the housing deficit, the Federal Government, through *the* Family Homes Fund (FHF) Limited began the construction of a 300,000 mass-housing scheme for low-income earners across the country. To realise the Project, the CBN approved the sum of ₦200.00 billion as Mortgage Finance Facility to the FHF on a project basis.

The Facility is a term loan with a 3-year tenor from the date of disbursement with an interest rate of not more than 5.0 per cent per annum guaranteed by the Federal Ministry of Finance, Budget and National Planning. It targets 1.5 million Nigerian families, while hoping to create 1.8 million jobs in the process.

A couple of State governments, through various partnerships with stakeholders, boosted the availability of affordable housing for their employees during the year under review. Thus, the Ekiti State government partnered with the United Nations Office for Project Services (UNOPS) and Sustainable Housing Solutions (SHS) Holdings to build 50,000 low-cost housing units from 2020-2030. The Project, when completed, would help to improve the availability of affordable housing units in the State. As part of the Agreement, UNOPS and SHS would mobilise resources from third parties to fund the initiative with gross development value of US$2.00 billion.

Also, the Kano State government flagged off the construction of 5,000 affordable housing units for teachers in public primary and secondary schools in the state under the first phase of a scheme tagged Teachers Reserved Areas (TRA), implemented jointly by the State government, FHF and the Federal Mortgage Bank of Nigeria. The State government would provide the land, auxiliary facilities such as water, electricity and roads, while the partners would handle other aspects of the project. Similarly, the Bauchi State government, in collaboration with FHF Limited, commenced the construction of 2,500 housing units for low-income individuals and families in the state.

5.4 SOCIAL INTERVENTION

The Federal Government, substantially, increased social intervention programmes during the year. The number of beneficiaries of the various social intervention programmes of the Government was, significantly, increased. Thus, N-Power beneficiaries increased from 500,000 to 1,000,000; the Government Enterprise and Empowerment Programme (GEEP) beneficiaries also increased by 1,000,000, while the number of beneficiaries of the Home-Grown School Feeding rose by 5,000,000.

The Federal Government, however, disengaged both batches A and B beneficiaries of the N-Power programme, allowing for opportunities for new batches into the Scheme. Consequently, a portal was unveiled for the exited N-power volunteers to access CBN empowerment schemes.

The Federal Government commenced a nationwide implementation of the MSME Survival Fund as part of the Economic Sustainability Plan implemented to cushion the impact of the COVID-19 pandemic on small businesses. Under the Survival Fund, 1.7 million Nigerians would be impacted, and at least 1.3 million jobs would be saved across the country. The intervention would provide an immediate relief to the adverse impact of the pandemic on businesses, protect and sustain the income of vulnerable MSMEs from economic disruption and boost production capabilities of small businesses with a view to ensuring they remain in business.

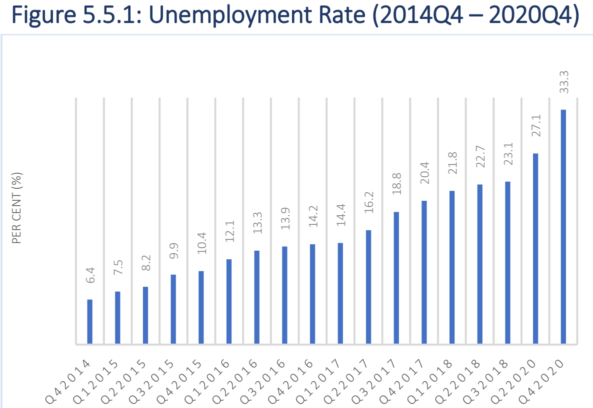
To increase access to financial capital required for economic activities and poverty reduction in rural areas, the Federal Government launched a grant project for rural women, designed to provide a

₦20,000.00 one-off grant to 150,000 of the poorest and most vulnerable women in rural Nigeria. So far, the cash grant had been launched in 16 states namely; Plateau, Sokoto, Ebonyi, Nasarawa, Imo, Zamfara, Jigawa, Adamawa, Ekiti, Kebbi, Bauchi, Ondo, Katsina, Gombe, Taraba and Kano states.

5.5 EMPLOYMENT AND JOB CREATION

Unemployment rate rose to 33.3 per cent in 2020Q4 from 27.1 per cent in 2020Q2, while the rate of underemployment fell to 22.8 per cent in 2020Q4 from 28.6 per cent recorded in 2020Q2. Both unemployment and underemployment rates were highest among the youth within the age range of 15 to 34 years in the review period. Youth unemployment rate rose to 42.5 per cent up from 34.9 per cent, while the underemployment rate for the same category declined to 21.0 per cent from 28.2 per cent in 2020Q2. In 2020Q4, the rate of unemployment was higher in rural areas than the urban centre with 34.5 per cent and 31.3 per cent, respectively. Based on gender, female unemployment was higher than that of males with 35.2 and 31.8 per cent, respectively.

Figure 5.5.1: Unemployment Rate (2014Q4 – 2020Q4)



Source: National Bureau of Statistics

In response to the challenge of rising pace of youth unemployment challenge in the country, the Federal Ministry of Youth and Sports Development initiated the ₦75.00 billion Nigeria Youth Investment Fund (N-YIF). Funded by the CBN, the N-YIF aims at financially empowering Nigerian youths through skill acquisition towards the establishment of SMEs. The Fund was estimated to generate at least 500,000 jobs between 2020 and 2023. The Bank provided an initial take-off seed capital of ₦12.50 billion required for the Fund to operate for the remaining part of the year 2020.

The Fund would be disbursed through the NIRSAL MFB window at not more than 5.0 per cent interest rate per annum. As a significant percentage of youths are engaged in the informal sector, the N-YIF would facilitate the transition of informal enterprises owned by youths into the formal mainstream economy, where they can be supported comprehensively, build a bankable track record, and be accurately captured as active participants in economic development, as well as, support the innovative ideas, skills and talents of the youths.

5.6 ENVIRONMENT

In furtherance to the country's commitment to contribute to climate targets, the President signed the Instrument of Ratification of the Doha Amendment of the Kyota Protocol to the United Nations Framework Convention on Climate Change (UNFCCC), thereby joining other nations to endorse the climate treaty and in readiness to implement the Paris Agreement. The ratified treaty provides closure to the climate regime established in Kyoto. Under the Doha Amendment, countries were collectively required to cut emissions by at least 18.0 per cent by 2020, through investment in carbon-cutting projects.

Furthermore, the Federal Government approved the first National Action Plan on Gender and Climate Change that would help incorporate gender into climate action policies. The Plan, which covers the period 2020-2025 (with a midterm review by 2022), includes significant sectors such as agriculture; forestry and land use; food security and health, energy and transport; waste management, water and sanitation. The Plan would adopt an inclusive approach in effectively implementing gender-responsive climate change initiatives, while taking cognisance of needs, interests and vulnerabilities of all persons at every stage, from concept formulation through to programme design, implementation, monitoring and evaluation phases.

The Federal Government also increased support towards environmental protection with an approved sum of ₦17.75 billion for soil erosion, flood and pollution control as part of its accelerated intervention projects. The benefiting states across the country included Anambra, Ekiti, Lagos, Delta, Bauchi, Kano, Benue, Plateau and the FCT.

The engagement of youths in the climate policy-making processes was initiated as the Federal Ministry of Environment, in partnership with German foundation, Friedrich-Ebert-Stiftung (FES), and the International Climate Change Development Initiative (ICCDI), conducted a virtual National Youth Climate Consultation on Nigeria's Nationally Determined Contributions (NDC) Enhancement. The outcome of the Consultation led to the establishment of eight (8) Youth Working Groups (YWGs) across eight sectors, to serve as official engagement mechanisms for youths interfacing with relevant stakeholders on the final government NDCs. The sectors covered were agriculture, energy, oil and gas, industry, transport, water, waste management, and crosscutting issues (finance, gender and others).

During the review period, Oando Foundation (OF), initiated a project tagged 'Clean Our World' (COW), to promote environmental education, sustainable action and responsibility among students in targeted schools and host communities in Lagos State. The initiative, which leveraged support from Sumitomo Chemical, a Japanese Chemical Company, aims to promote environmental education through awareness and general training in plastic recycling and waste management, while encouraging the adoption of eco-conscious lifestyles.

Similarly, the Islamic Development Bank (IsDB) engaged climate change desk officers at sub-national levels in a capacity building workshop, through an initiative of the Climate Action Enhancement Package (CAEP) of the NDC partnership, in collaboration with the Federal Ministry of Environment and the Norwegian Ministry of Foreign Affairs. The week-long regional workshop seeks to train participants on issues that address the impact and risk associated with climate change in Nigeria, explore low carbon emission and mitigation options as well as build climate sensitive, and highly prone infrastructural investments that support green economic growth in the country.

6.0 FISCAL POLICY & DEVELOPMENTS

Fiscal policy implementation in 2020 was adversely affected by macroeconomic shocks induced by the COVID-19 pandemic. Containment measures, including widespread lockdowns disrupted economic activities and dampened global crude oil demand. Consequently, crude oil prices plummeted from US$72.20 per barrel (pb) in January to US$14.30 pb in April, resulting in losses of over 65.0 per cent of projected revenue, which heightened fiscal risk. The fiscal operations of the Federal Government of Nigeria (FGN) in the review period resulted in a provisional overall deficit of ₦6,248.59 billion, or 4.1 per cent of GDP, while consolidated public debt rose to ₦32,915.51 billion at end-December 2020. The dynamics in public debt was driven by new borrowings to finance COVID-19-related spending.

2020 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

6.1 FISCAL POLICY THRUST IN 2020

The 2020 fiscal thrust was to accelerate the pace of economic recovery, promote economic diversification, enhance competitiveness and ensure social inclusion. The 2020 budget of the Federal Government captioned "Budget of Sustaining Growth and Job Creation", was based on the 2020-2022 Medium-Term Expenditure Framework and Fiscal Strategy Paper (MTEF/FSP). It was implemented alongside the Finance Act 2019 and the Strategic Revenue Growth Initiative (SRGI). Against the backdrop of the global pandemic, significant economic disruption and the plunge in international crude oil prices, the Federal Executive Council (FEC) in the second quarter of 2020 approved the revision of the 2020-2022 MTEF/FSP, as well as the amendment to the 2020 Appropriation Act. The development resulted in the downward review of the fiscal parameters and budgets of sub-national governments.

Box 5
The 2020 Finance Act and the 2020 FGN Budget

The Finance Act has five strategic objectives:

- Promoting fiscal equity by mitigating instances of regressive taxation;
- Reforming domestic tax laws to align with global best practices;
- Introducing tax incentives for investments in infrastructure and capital markets;
- Supporting Micro, Small and Medium-Sized businesses in line with the Ease of Doing Business Reforms; and
- Raising Revenues for Government.

The 2020 Finance Act contained provisions of increased VAT rate from 5.0 per cent to 7.5 per cent. Thus, the 2020 Budget was based on the new VAT rate.

Similarly, the objectives of the 2020 budget were to:

- Foster fiscal consolidation to strengthen the macroeconomic environment;
- Incentivize private sector investment essential to complement the Government's development plans, policies and programmes;
- Invest in critical infrastructure, human capital development and enabling institutions, especially in key job creating sectors; and
- Enhance the social investment programmes to further deepen their impact on the most vulnerable Nigerians.

The FEC approved the downward review of the key parametres in the 2020 approved budget, to ensure realistic benchmark projections in tandem with the downturn in economic activities. This was 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/US$1	₦360.00/US$1
Fiscal Deficit	₦2.18 trillion	₦4.98 trillion
Expenditure	₦10.59 trillion	₦10.81 trillion
Revenue	₦8.42 trillion	₦5.83 trillion

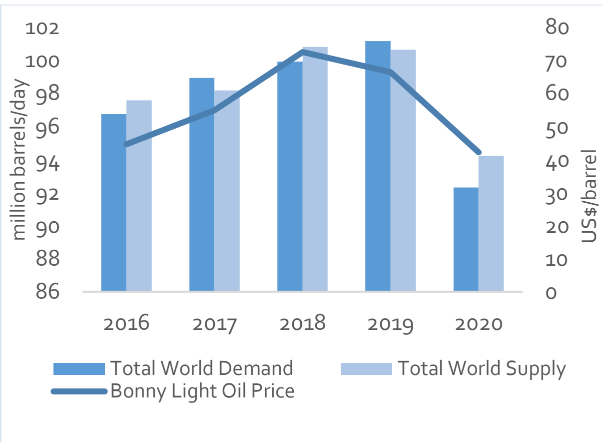
Source: Federal Ministry of Finance, Budget and National Planning (FMFB&NP)

The revision also included the ₦500.00 billion COVID-19 Intervention Fund, which would notably be funded from the following sources; Federal Government Special Accounts (₦263.60 billion), Federation Special Accounts (₦186.34 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 ₦1,595.00 billion and ₦2,578.60 billion,

6.2 FEDERATION REVENUE

slowdown in economic activities occasioned by the global pandemic and the downturn in global demand for crude oil, amidst oil glut, significantly impaired federation revenue in 2020. The plunge in global crude oil demand due to COVID-19 restrictions and the Russia-Saudi impasse which induced oil glut, crashed crude oil price to US$42.2 per barrel (pb) in 2020, from the annual average of US$64.3 pb in 2019. To improve crude oil prices, OPEC+ agreed on production cuts, which reduced Nigeria's production quota from 1.8 million barrels per day (mbpd) to 1.4 mbpd.

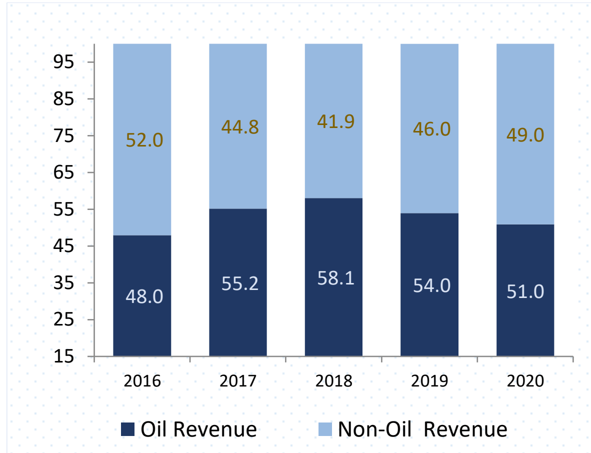
Figure 6.2.1: Trends in the Global Demand and Supply of Crude Oil and the Bonny Light Crude



Source: Reuters

Consequently, provisional federally collected revenue[2] (gross), at ₦9,276.10 billion or 6.0 per cent of GDP in 2020, shrank by 9.6 and 8.7 per cent, relative to the level in 2019 and the benchmark, respectively. The drop in federally collected revenue reflected declining oil receipts and low tax returns, attributed to the COVID-19 pandemic. Oil and non-oil revenues accounted for 51.0 and 49.0 per cent, respectively, of the total federally collected Revenue.

Figure 6.2.2: 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).

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

Table 6.2.1: Federally Collected Revenue and Distribution (₦' Billion)

	2019	2020	Budget
Federation Revenue (Gross)	**10,262.30**	**9,276.10**	**10,162.02**
Oil	**5,536.66**	**4,732.50**	**3,544.64**
Crude Oil & Gas Exports	398.64	356.49	656.86
PPT & Royalties	3,529.06	2,803.92	1,229.38
Domestic Crude Oil/Gas Sales	1,478.12	1,461.06	426.61
Others	130.83	111.02	1,231.78
Non-oil	**4,725.60**	**4,543.60**	**6,617.38**
Corporate Tax	1,637.22	1,441.46	1,798.62
Customs & Excise Duties	837.35	909.46	1,004.24
Value-Added Tax (VAT)	1,175.94	1,474.53	2,190.62
Independent Revenue of Fed. Govt.	557.34	492.27b	932.84
*Others**	517.82	225.85	691.07
Total Deductions/Transfers*	**2,764.76**	**2,684.04**	**2,708.64**
Federally Collected Revenue *Less Deductions & Transfers***	7,497.54	6,592.06	7,453.39
Plus:			
Additional Revenue	**208.80**	**587.04**	**0.0**
Excess Oil Revenue	78.09	247.96	0.0
Excess Non-Oil Revenue	22.59	143.98	0.0
Exchange Gain	*108.10*	*195.10*	*0.0*
Total Distributed Balance	**7,706.50**	**7,179.10**	**7,453.39**
Federal Government	3,344.56	3,028.04	2,869.61
State Governments	2,174.97	2,117.19	2,315.80
Local Governments	1,636.76	1,583.61	1,713.38
13% Derivation	550.13	450.26	554.60

Source: Compiled from OAGF figures and CBN Staff Estimates
Note: * Includes Education Tax, Customs Special Levies (Federation Account), National Technology Development Fund, 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.

6.2.1 Components of Federation Revenue

Oil Revenue

Notwithstanding the plunge in crude oil prices and oil production cuts, oil revenue in 2020 increased by 33.5 per cent above the budget benchmark. This was partly attributed to the Nigeria National Petroleum Corporation's (NNPC) accrual accounting method, where oil transaction contracts crystalise within 90 days from the date of initiation. As a result, some of the oil receipts in 2020 was inclusive of some transactions in the fourth quarter of 2019, prior to the plunge in crude oil prices.

Thus, at ₦4,732.50 billion (3.0 per cent of GDP) estimated gross oil revenue [3] was above its benchmark by 33.5 per cent. Petroleum Profit Tax & Royalties contributed to the increase in gross oil revenue. However, relative to the level in 2019, oil revenue declined by 14.5 per cent owing to the plunge in the price of crude oil in the international market and decline in domestic crude oil production, during the period. These developments were attributed, mainly, to the tepid global demand, due to the slowdown in economic activities.

Non-oil Revenue

The slump in domestic economic activities and the disruptions in international trade and logistics, attributed to the lock down effects of the Pandemic, hampered non-oil receipts. As a result, non-oil revenue, at ₦4,543.60 billion (2.9 per cent of GDP), declined by 31.3 per cent and 3.9 per cent below the budget benchmark and the level in 2019, respectively. The fall was attributed to shortfalls in Independent Revenue of the FGN, Value Added

[3] Oil transaction contracts take about 90 days to fully materialise. 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.

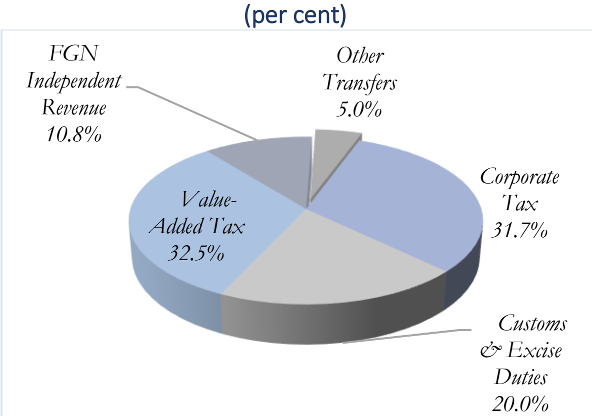
Tax (VAT) and Corporate Tax, reflecting subdued economic activities.

Table 6.2. 2: Sources of Revenue to the Three Tiers of Government (₦' Billion)

	FG's Share	FCT	Sub-Total	States	13%	Sub-Total		
Statutory Allocation	*3,039.22*	*48.66*	*3,087.88*	*1,285.35*	*410.35*	*1,695.70*	*990.95*	*5,774.53*
Additional: Share from Excess Oil Revenue	*118.47*	*2.29*	*120.77*	*61.25*	*18.72*	*79.97*	*49.22*	*247.97*
Additional: Excess Non-Oil Revenue (Excess Bank Charges, etc)	*74.41*	*1.44*	*75.85*	*38.47*	*0.0*	*38.47*	*29.66*	*143.98*
Additional: Share from Exchange Difference	*89.85*	*1.74*	*91.58*	*46.45*	*21.19*	*67.64*	*35.81*	*195.04*
Share of VAT	*191.98*	*13.71*	*205.69*	*685.66*	*0.0*	*685.66*	*479.96*	*1,371.32*
FG Independent Revenue	*492.27*	*0.0*	*492.27*	*0.0*	*0.0*	*0.0*	*0.0*	*492.27*
Internally Generated Revenue	*0.0*	*0.0*	*0.0*	*764.85*	*0.0*	*764.85*	*29.34*	*794.19*
Less State Allocation to LG	*0.0*	*0.0*	*0.0*	*20.19*	*0.0*	*20.2*	*0.0*	*20.2*
Net Internally Generated Revenue	*0.0*	*0.0*	*0.0*	*764.85*	*0.0*	*764.9*	*29.3*	*794.2*
Grants	*0.0*	*0.0*	*0.0*	*73.45*	*0.0*	*73.4*	*9.4*	*82.8*
Share of Stabilization Fund	*0.0*	*0.0*	*0.0*	*6.13*	*0.0*	*6.1*	*0.0*	*6.1*
State Allocation to LG	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*20.2*	*20.2*
Others	*462.8*	*0.0*	*462.8*	*0.0*	*0.0*	*0.0*	*4.7*	*467.6*
TOTAL	4,469.03	67.84	4,536.88	2,961.62	450.26	3,411.88	1,647.22	9,595.98

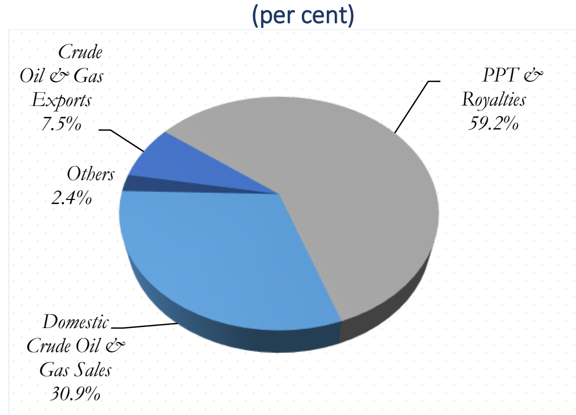
Source: OAGF, the FMFB&NP and CBN Staff estimates

Figure 6.2.3: Composition of Non-Oil Revenue (per cent)



Source: Office of the Accountant-General of the Federation (OAGF) and the Federal Ministry of Finance, budget and National Planning (FMFB&NP)

Figure 6.2.4: Composition of Oil Revenue (per cent)



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

Of the gross federally collected revenue from oil and non-oil sources, there were statutory deductions of ₦2,000.10 billion. Of this amount, the sum of ₦1,622.50 billion was deducted from oil revenue, while the balance of ₦377.60 billion was deducted from non-oil revenue.

6.3 GENERAL GOVERNMENT FINANCES[4]

6.3.1 Aggregate Revenue of the three tiers of Government

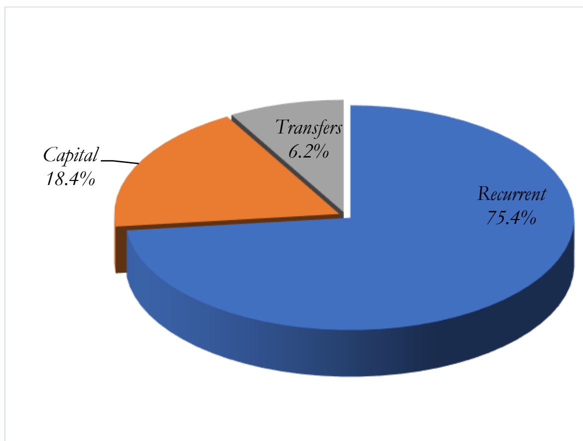
The three tiers of government experienced decline in receipts into their account in 2020, occasioned by the pandemic resulting in contraction in the fiscal space at all levels of government. The deteriorating fiscal position at the sub-national levels was heightened by the weakening of states' internal revenue generation efforts.

Provisional data showed that, at ₦9,595.98 billion or 6.2 per cent of GDP, aggregate revenue of the general government in 2020, comprised: the Federation Account, ₦5,774.53 billion; VAT Pool Account, ₦1,371.32 billion; Exchange Gain [5], ₦195.04 billion; Excess Non-Oil Revenue[6], ₦143.98 billion; and Excess Oil Revenue, ₦247.97 billion[7]. Revenue exclusive to the Federal Government consisted of: Federal Government Independent Revenue, ₦492.27 billion; and "Others[8]", ₦462.83 billion. In addition, revenue exclusive to the sub-national (state and local) governments included: ₦794.19 billion; ₦82.80 billion; ₦6.13 billion; ₦20.19 billion; and ₦4.74 billion, from Internally-Generated Revenue, Grants, Stabilisation, State allocations to local governments and "Others", respectively.

6.3.2 Aggregate Expenditure

Provisional aggregate expenditure of the general government, at ₦16,639.76 billion (10.8 per cent of GDP), increased by 4.4 per cent, above the level in 2019. A breakdown showed that recurrent expenditure, at ₦12,542.10 billion (8.1 per cent of GDP), accounted for 75.4 per cent of the total; while capital expenditure at ₦3,065.67 billion (2.0 per cent of GDP); and transfers, ₦1,031.99 billion (0.7 per cent of GDP); represented 18.4 and 6.2 per cent of the total, respectively.

Figure 6.3.1: Composition of General Government Expenditure, 2020



Sources: Data from Office of the Accountant-General of the Federation (OAGF) and the Federal Ministry of Finance, budget and National Planning (FMFB&NP)

4 Consolidated fiscal operations of the three-tiers of government.

5 Includes revenue from Forex Equalisation Account

6 Includes other memorandum sharing such as Excess Bank Charges

7 Include additional Excess crude/PPT payment to the three-tiers of government.

8 Include *Revenues from Special Accounts and FGN's share of Signature Bonus.*

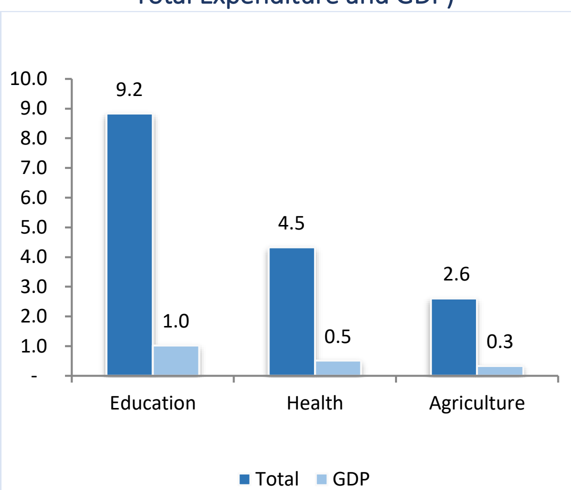
6.3.3 Consolidated Fiscal Balance and Financing

The fiscal operations of the general government resulted in estimated primary and overall deficits of ₦3,662.88 billion (2.4 per cent of GDP) and ₦7,540.63 billion (4.9 per cent of GDP), compared with ₦3,128.24 billion (2.2 per cent of GDP), and ₦5,687.76 billion (3.9 per cent of GDP), respectively, in 2019. The estimated overall deficit was financed, largely, from domestic sources.

6.3.4 Consolidated Expenditure on Primary Welfare Sectors[9]

Consolidated general government spending on the primary welfare sectors indicated an increase relative to 2019. Consequently, aggregate expenditure on the primary welfare sectors rose by 0.5 per cent to ₦2,721.34 billion (1.9 per cent of GDP) from ₦2,708.95 billion in 2019.

Figure 6.3.2: General Government Expenditure on Key Primary Welfare Sectors, 2020 (Per cent of Total Expenditure and GDP)



Source: Staff estimates

6.4 FISCAL OPERATIONS OF THE FEDERAL GOVERNMENT

6.4.1 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 reflate the economy and reduce poverty, in the face of the COVID-19 challenges led to a deterioration in the FGN fiscal balance in the review period. The provisional overall deficit of the FGN, at ₦6,248.59 billion, or 4.1 per cent of GDP, was 25.6 per cent above the budget benchmark of ₦4,975.54 billion. Similarly, it was 29.6 per cent above the level recorded in 2019. The deficit was above the thresholds provided by the Fiscal Responsibility Act (FRA) and the WAMZ primary convergence criterion of 3.0 per cent of GDP apiece and was financed wholly from domestic sources.

Table 6.4.1: Fiscal Balance (₦' Billion)

	2019	2020	Benchmark
Retained revenue	4,894.03	3,983.14	5,835.01
Aggregate expenditure	9,714.65	10,231.73	10,810.55
Primary balance	-2.366.54	-2,983.69	-2,023.83
Overall balance	-4,820.61	-6,248.59	-4,975.54
Deficit-to-GDP	-3.3%	-4.1%	-3.3%

Source: CBN Staff Estimates

Note: Figures in 2020 are provisional

The high deficit, relative to the budget, reflected the expansionary fiscal stance of the government

[9] Classification for identifying poverty-reducing expenditures

in its effort to mitigate the impact of the Pandemic and support growth.

6.4.2 Federal Government Retained Revenue

The decline in FGN retained revenue was occasioned, largely, by the lower allocations from the Federation Account, owing to the Pandemic. The provisional Federal Government Retained Revenue, at ₦3,983.14 billion or 2.6 per cent of GDP in 2020, fell by 31.7 per cent and 18.6 per cent, respectively, compared with its benchmark and receipt in 2019. The decline was attributed to the fall in oil proceeds and the effect of COVID-19 containment measures, which slowed down economic activities. Significant drops of 47.2 per cent and 32.4 per cent were recorded in the FGN Independent Revenue and VAT Pool Account, respectively, relative to the budget.

Table 6.4.2: Federal Government Retained Revenue (₦ Billion)

	2019	2020	Benchmark
FGN Retained Revenue	**4,894.03**	**3,983.14**	**5,835.01**
Federation Account	3,078.45	2,534.14	2,565.20
VAT Pool Account	169.33	205.70	304.41
FGN Independent Revenue	557.34	492.27	932.84
Excess Oil Revenue	35.79	120.77	0.00
Excess Non-Oil	11.31	75.85	0.00
Exchange Gain	49.68	91.58	0.00
*Others**	992.13	462.83	2,032.55

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.

6.4.3 Federal Government Expenditure

The Federal Government's objective to optimise the share of recurrent to total expenditure was marred by the incidence of the Pandemic which necessitated increased government stimulus spending to support growth and curtail the effect of the COVID-19 pandemic on the citizenry.

Table 6.4.3: Federal Government Expenditure (₦ Billion)

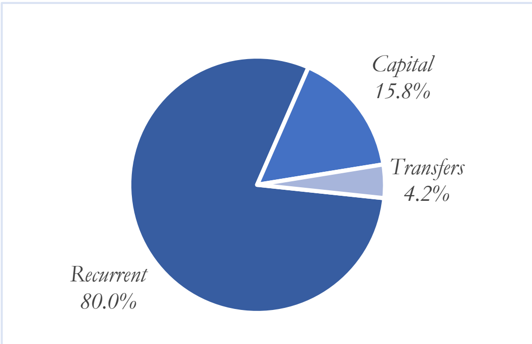
	2019	2020	Benchmark
Aggregate Expenditure	**9,714.65**	**10,231.73**	**10,810.55**
Recurrent:	6,997.19	8,188.81	7,893.98
Personnel Cost	*2,288.58*	*2,763.39*	*3,046.45*
Pension and Gratuities	*307.38*	*359.60*	*536.72*
Overhead Cost	*1,689.21*	*1,572.49*	*1,009.10*
Interest Payments	*2,454.06*	*3,264.90*	*2,951.71*
Domestic	*2,005.40*	*2,711.72*	*2,146.24*
External	*448.66*	*553.18*	*805.47*
Special Funds	*257.96*	*228.43*	*350.00*
Capital Expenditure	2,289.00	1,614.89	2,488.54
Transfers	428.46	428.03	428.03

Source: CBN Staff Estimate

Aggregate expenditure in the period was below the benchmark by 5.4 per cent. However, it was 5.3 per cent above the level in 2019. The reduction relative to the budget was attributed to the fiscal adjustments, owing to the effects of the Pandemic.

Non-debt expenditure was below the benchmark figure by 11.3 per cent and constituted 68.1 per cent of total expenditure; while interest payments amounted to ₦3,264.90 billion or 82.0 and 31.9 per cent of FGN retained revenue and total expenditure, respectively.

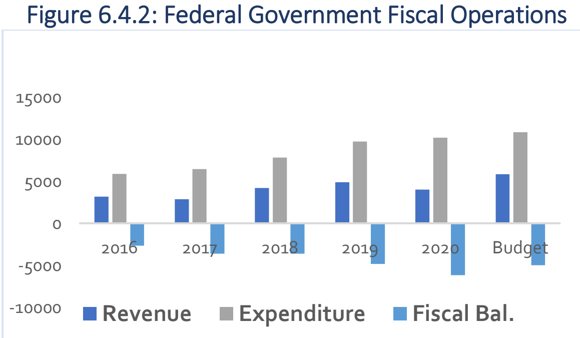
Figure 6.4.1: Composition of Federal Government Expenditure (per cent)



Source: Data from the Office of the Accountant General of the Federation (OAGF)

Recurrent expenditure, at ₦8,188.81 billion or 5.3 per cent of GDP, accounted for 80.0 per cent of total expenditure, while capital expenditure[10] and transfers constituted 15.8 and 4.2 per cent, respectively. The rise in recurrent expenditure relative to the level in 2019 was attributed to the increase in personnel cost owing to the implementation of the Payroll Support Program to sustain jobs, in the face of dwindling revenue. Interest payments[11] grew by 33.0 per cent above the level in 2019 and represented 39.9 per cent of total recurrent expenditure.

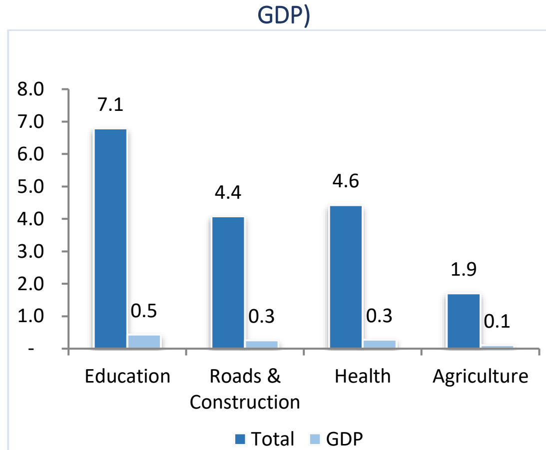
Figure 6.4.2: Federal Government Fiscal Operations



Source: Staff Estimate

Analysis of Federal Government spending on the primary welfare sectors revealed that expenditure on roads & construction fell by 17.4 per cent or ₦94.91 billion, relative to the level in 2019. Furthermore, outlay on agriculture & natural resources, and health decreased by 21.8 and 1.2 per cent, to ₦189.78 billion, and ₦473.41 billion, respectively, compared with the levels in 2019. Conversely, expenditure on Education rose by 5.4 per cent to ₦724.49 billion. Aggregate expenditure on the primary welfare sectors relative to the level in 2019 amounted to ₦1,839.20 billion, or 1.2 per cent of GDP, and constituted 18.0 per cent of total expenditure.

Figure 6.4.3: Federal Government's Expenditure on Key Primary Welfare Sectors, 2020 (per cent of total and GDP)



Sources: Staff Estimates

[10] Represented 40.4 per cent of the FGN retained revenue in 2020. This was above the West African Monetary Zone's (WAMZ) minimum benchmark of 20.0 per cent.

[11] Include interest payments on CBN Overdraft.

Box 7
States Fiscal Transparency, Accountability and

The Federal Government established SFTAS Programme, with a concessional loan of US$750 million from the International Development Association (IDA) of the World Bank.

- ❖ **Performance-Based Grants (US$700.00 million).** *The eligibility criteria for states to obtain the grant: they are required to publish online their annual budgets and the audited financial statement of the preceding year*
- ❖ **Disbursement Linked Indicators (DLIs)**: *The DLI consists of 22-Point Fiscal Sustainability Plan and the 14 Open Government Partnership (OGP). The sum of **US$50.00 million** is set aside to enhance states' capacity to achieve the results of the programme. Eligible states receive grants under this programme for achieving*:
- Improved financial reporting and budget reliability;
- Increased openness and citizens' engagement in the budget process;
- Improved cash management and reduced revenue leakages through implementation of the State/Single Treasury Account (TSA);
- Strengthened IGR collection; biometric registration and Bank Verification Number used to reduce payroll fraud;
- Improved procurement practices – transparency and value for money; and
- Strengthen public debt management and fiscal responsibility framework.

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- Strengthened IGR collection; biometric registration and Bank Verification Number used to reduce payroll fraud;
- Improved procurement practices – transparency and value for money; and
- Strengthen public debt management and fiscal responsibility framework.

Source: Adapted from the Federal Ministry of Finance

6.5 SUB-NATIONAL GOVERNMENT FISCAL ANALYSIS

6.5.1 State Governments and FCT Finances[12]

Overall Fiscal Balance and Financing

c Classification of Government Expenditure 2020

Percentage share

on	Economic services	Social and community services	Transfers
	6.4	18.6	47.1
	43.7	12.0	19.1
	-	-	-

The fiscal balance of the State governments widened in the review period. This was as a result of the shortfalls in statutory allocations and low internal revenue generation effort, amidst high and rising expenditure obligations, occasioned by the effects of the Pandemic. Provisional data on State Governments' (including the FCT), indicated

- *Tax Effort*

The combined IGR of the 36 States and the FCT constituted 22.0 per cent of total revenue and was 1.2 per cent below the collections in 2019. A disaggregation on state-by-state basis, showed that Lagos State ranked highest with 60.0 per cent of the aggregate IGR, followed by Rivers and Kwara States, with 41.0 and 29.0 per cent, respectively, while Bauchi ranked the least with 5.1 per cent. Overall, State Governments' tax effort in 2020, relative to 2019, deteriorated by 1.2 per cent.

To reduce the cost of IGR collections, states under the auspices of the Nigeria Governors' Forum agreed to discontinue the outsourcing of tax collections to contractors.

Table 6.5.1: State Governments' Revenue 2020

[12] Provisional data.

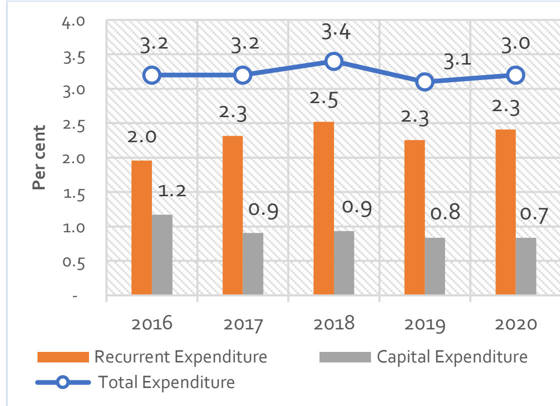
Item	Revenue				Share of GDP	
	2019 1/		2020 1/		2019	2020
	Amount (₦ Billion)	Share (%)	Amount (₦ Billion)	Share (%)	%	%
Federation Account 2/	2144.90	59.0	1744.36	50.1	1.5	1.1
Excess Oil Revenue 3/	28.30	0.8	82.27	2.4	0.0	0.1
VAT	564.45	15.5	699.37	20.1	0.4	0.5
Internally Generated Revenue	773.83	21.3	764.85	22.0	0.5	0.5
Exchange Gain	39.01	1.1	69.40	2.0	0.0	0.0
Grants & Others 4/	86.00	2.4	119.50	3.4	0.1	0.1
Total	3636.51	100.0	3479.72	100.0	2.5	2.3

Sources: FMF, OAGF and CBN Staff estimates.
1/ Provisional, 2/ Including FCT, 3/ Including 13% Derivation Fund, 4/ Including stabilisation fund and Distribution from excess non-oil revenue.

Expenditure

Relative to 2019, the total expenditure of State Governments rose by 5.8 per cent to ₦4,763.08 billion (3.0 per cent of GDP). The increase was driven by expenditures to mitigate the effects of COVID-19 and curb security challenges in the states. A breakdown revealed that, at ₦3,607.26 billion or 2.3 per cent of GDP, recurrent expenditure was 9.9 per cent above the level in 2019 and accounted for 75.7 per cent of the total expenditure. Capital expenditure, at ₦1,155.82 billion, or 0.7 per cent of GDP, was 5.3 per cent below the level in 2019 and constituted 24.3 per cent of the total.

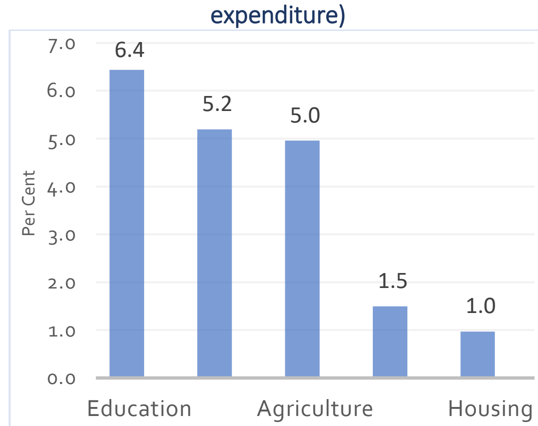
Figure 6.5.1: State Governments' Expenditure (per cent of GDP)



Source: CBN Staff estimates

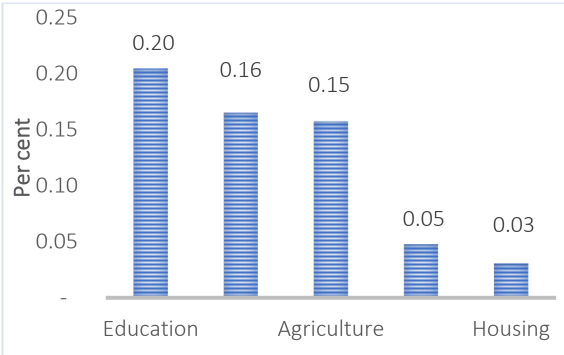
Aggregate expenditure on primary welfare sectors by states, amounted to ₦907.58 billion. This represented 0.6 per cent of GDP and 19.1 per cent of total expenditure. Education received the highest share at ₦306.47 billion and accounted for 6.4 per cent of total expenditure on primary welfare.

Figure 6.5.2: State Governments' Expenditure in Key Primary Welfare Sectors, 2020 (per cent of total expenditure)



Source: CBN Staff Estimates

Figure 6.5.3: State Governments' Expenditure in Key Primary Welfare Sectors, 2020 (per cent of GDP)



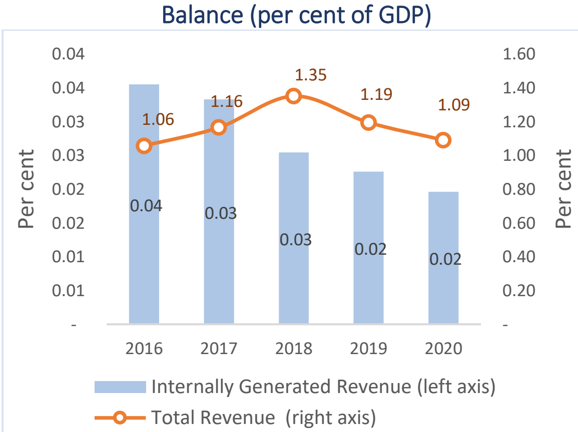
Source: CBN Staff Estimates

6.5.2 Local Governments Finances[13]

The Overall Fiscal Balance and Financing

Local governments' (LGs) fiscal balance resulted to a ₦2.27 billion surplus in FY2020 from a deficit of ₦0.27 billion in FY2019. The lack of financial autonomy in the LGs, increased their exposure to fiscal shocks emanating from the central and State Governments. The surplus was financed mainly from domestic sources.

Figure 6.5.4: Local Governments Revenue and Overall Balance (per cent of GDP)



Sources: FMFB&NP, OAGF data and CBN Staff Estimates.

Revenue

The revenue challenge at the federation level, trickled down to the local governments, as the provisional aggregate revenue of the 774 LGs amounted to ₦1,647.22 billion (or 1.1 per cent of GDP). This represented a decrease of 4.4 per cent, relative to the level in the preceding period. The revenue comprised allocations from the Federation Account, ₦990.95 billion (60.2 per cent); and the VAT Pool Account, ₦479.96 billion (29.1 per cent). Others included: Excess Oil Revenue, ₦47.22 billion (2.9 per cent); Exchange Gain, ₦35.81 billion (2.2 per cent); Excess Non-Oil Revenue, ₦29.66 billion (1.8 per cent); State Allocation, ₦20.19 billion (1.2 per cent); Grants & Others, ₦9.35 billion (0.6 per cent), while 'Others' amounted to ₦4.74 billion (0.3 per cent).

The IGR[14] of the LGs in 2020, stood at ₦29.34 billion (or 1.8 per cent of the total revenue) and was 10.0 per cent below the collection in 2019. As in previous years, Lagos had the highest IGR in 2020, accounting for 14.0 per cent of the total local government IGR in 2020; while Kwara State ranked the least with 0.4 per cent of the total IGR. The low contribution of IGR to the aggregate revenue profile of the sub-national governments, reflected lull in economic activity.

The shortfall in revenue in 2020, was attributed to COVID-19-induced downturn in economic activities and plunge in crude oil prices, which impeded inflow into the Federation Account and reduced allocations to the sub-units.

Expenditure

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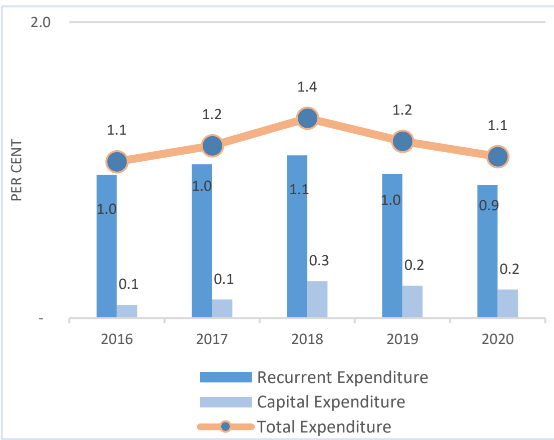
[13] Provisional

[14] Including fees and fines, local licenses, earnings from commercial undertakings, rent on LG property, interest payments and dividends, among others.

Given the imperative for fiscal consolidation in the face of increasingly narrowing fiscal space, provisional aggregate expenditure of local governments, at ₦1,644.95 billion or 1.1 per cent of GDP, was below the level in 2019 by 4.5 per cent. A breakdown indicated that recurrent outlay was ₦1,349.99 billion or 82.1 per cent of the total, while the capital expenditure of ₦294.95 billion, accounted for the balance of 17.9 per cent.

Figure 6.5.5: Local Governments Expenditure, (per cent of GDP)



Source: Computed based on data from the FMF and CBN Staff Estimates

Table 6.5.2: Local Government Revenue 2020

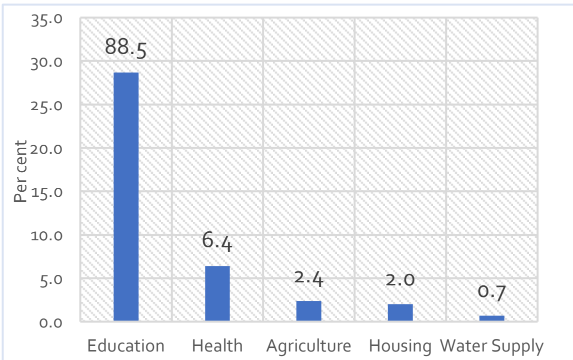
Item	Revenue 2019 1/ Amount (₦' Billion)	Revenue 2019 1/ Share (%)	Revenue 2020 1/ Amount (₦' Billion)	Revenue 2020 1/ Share (%)	Share of GDP 2019 1/ %	Share of GDP 2020 1/ %
Federation Account	1221.74	70.9	990.95	60.2	0.8	0.6
VAT	395.11	22.9	479.96	29.1	0.3	0.3
Internally Generated Revenue	32.60	1.9	29.34	1.8	0.0	0.0
Excess Non-Oil Revenue	4.42	0.3	29.66	1.8	0.0	0.0
Excess Oil Revenue	13.99	0.8	47.22	2.9	0.0	0.0
Exchange Gain	19.43	1.1	35.81	2.2	0.0	0.0
Grants & Others 2/	34.96	2.0	34.28	2.1	0.0	0.0
Total	**1722.26**	**100.0**	**1647.22**	**100.0**	**1.2**	**1.0**

Sources: FMF, OAGF, and CBN Staff Estimates.
1/Provisional, 2/Including State Allocation and other miscellaneous revenue

A breakdown of recurrent expenditure showed that personnel cost was ₦1,011.07 billion (74.9 per cent) of the total, while overheads and consolidated revenue fund charges and 'others' amounted to ₦154.95 billion (11.5 per cent) and ₦183.98 billion (13.6 per cent), respectively. A disaggregation of capital expenditure by functions revealed that administration accounted for ₦102.39 billion (34.7 per cent), while social & community services, economic services, and transfers, accounted for ₦84.82 billion (28.8 per cent); ₦61.66 billion (20.9 per cent) and ₦46.09 billion (15.6 per cent), respectively.

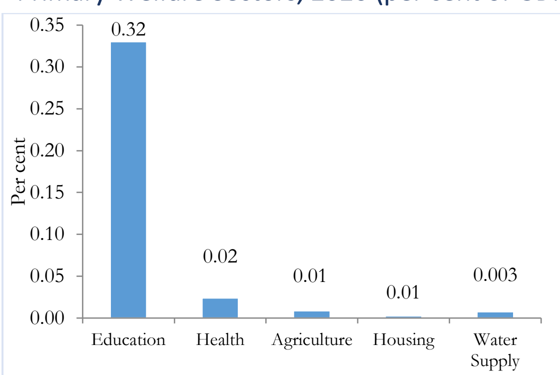
Analysis of spending on primary welfare sectors, showed that expenditure on health increased by 7.5 per cent, as a result of COVID-19-induced expenditure. In contrast, expenditures on housing, agriculture, water supply, and education decreased by 2.6 per cent, 6.2 per cent, 2.6 per cent and 1.4 per cent, respectively; compared with their levels in 2019. Overall, at ₦558.75 billion or 0.4 per cent of GDP, aggregate expenditure on the primary welfare sectors decreased by 1.0 per cent, below the level in 2019 and accounted for 34.0 per cent of total expenditure.

Figure 6.5.6: Local Governments Expenditure on Primary Welfare Sectors, 2020 (per cent of total expenditure)



Sources: CBN Staff Estimates.

Figure 6.5.7: Local Governments Expenditure on Primary Welfare Sectors, 2020 (per cent of GDP)



Sources: *CBN Staff Estimates.*

6.6 PUBLIC DEBT STRATEGY AND SUSTAINABILITY

6.6.1 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 increasing spending need of the government. Total public debt, constituting both the Federal and State Governments' external and domestic debt, at end-December 2020, stood at ₦32,915.51 billion or 21.3 per cent of GDP, indicating an increase of 20.1 per cent over the level at end-December 2019. The increase was attributed to the receipt of concessional Loans from the International Monetary Fund, other multilateral and bilateral lenders to finance the revised 2020 Appropriation Act, and Promissory Notes to settle some arrears of the Federal Government. The Federal Government owed 81.9 per cent of the total outstanding debt, while State governments accounted for the balance of 18.1 per cent. However, given that the FGN guaranteed external borrowing by States in line with section 47 (3) of the Fiscal Responsibility Act, 2007, the latter's share of external debt (13.8 per cent) remains a contingent liability of the FGN.

Table 6.6.1: Total Public Debt (₦ Billion)

Type	2018	2019	2020

External Debt	**7,759.20**	**9,022.40**	**12,705.62**
Of which:			
FGN	6,460.40	7,534.30	10,948.18
States and FCT	1,298.80	1,488.10	1,757.44
Domestic Debt	**16,627.80**	**18,378.90**	**20,209.90**
Of Which:			
FGN	12,774.40	14,272.60	16,023.89
States and FCT	3,853.40	4,106.30	4,186.01
Total	**24,387.00**	**27,401.30**	**32,915.51**

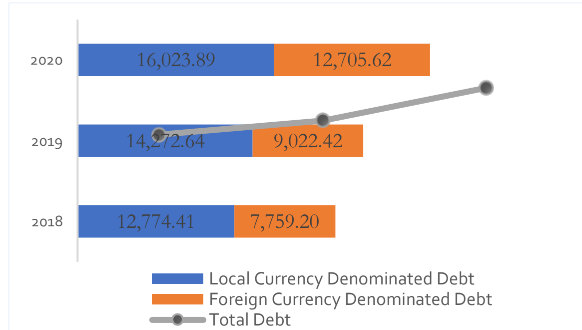
Source: Debt Management Office (DMO)

6.6.2 Federal Government Debt

The 2020-2023 Debt Management Strategy (DMS) covers the main financial obligations relating to the FGN's external and domestic debt, and the State government's external debt. The DMS ensures debt sustainability by pursuing optimal domestic-external debt ratio of 70:30 and a long-term-short-term domestic debt ratio of 75:25.

The consolidated debt stock of the Federal Government at end-December 2020, which stood at ₦28,729.50 billion or 18.6 per cent of GDP, was below Nigeria's DMS threshold of 40.0 per cent of GDP. This represented an increase of 23.3 per cent the level in 2019.

Figure 6.6.1: Composition of FGN Debt Stock (₦ Billion)

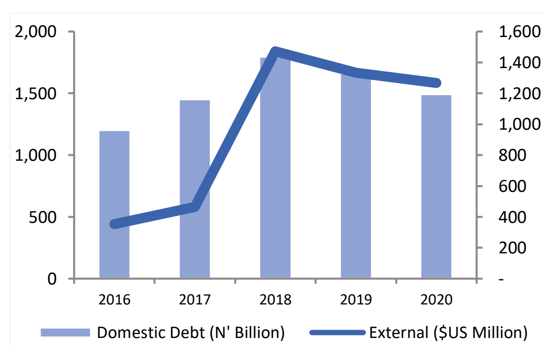


Source: Debt Management Office (DMO)

At end-December 2020, domestic debt comprised 55.8 per cent of the total, while external debt accounted for the balance of 44.2 per cent. In terms of the domestic debt portfolio mix, short-term Nigerian Treasury Bills (NTBs), whose tenor fall between 91 and 364 days, constituted 17.0 per cent of the total, while 83.0 per cent were medium- and long-term instruments.

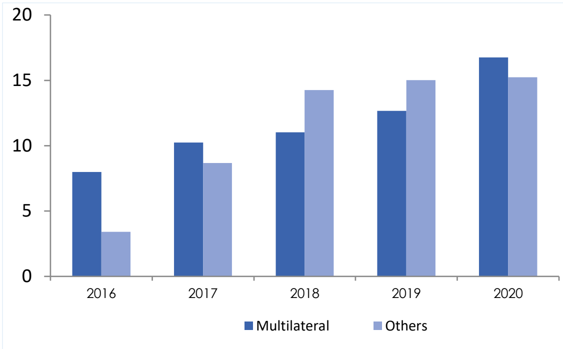
Foreign financing comprised loans from Commercial (34.0 per cent of total external debt stock), Multilateral (53.8 per cent) and Bilateral sources (12.2 per cent). The foreign debt portfolio mix was influenced, largely, by interest cost, tenor, and borrowing terms and conditions.

Figure 6.6.2: Breakdown of Total Debt Service (₦ Billion)



Source: Debt Management Office (DMO)

Figure 6.6.3: Breakdown of External Debt Stock, 2016 – 2020 (US$ Billion)



Source: Debt Management Office (DMO)

To mitigate the impact of the Pandemic and boost economic activities, the FGN incurred new debt. Total debt service in 2020[15] was ₦2,084.52 billion or 1.4 per cent of GDP, indicating a decrease of 6.8 per cent below the level at end-December 2019. It accounted for 52.3 per cent of FGN retained revenue, 29.9 per cent of non-debt expenditure and 22.5 per cent of gross revenue in 2020.

[15]Represents actual debt service payments by the Debt Management Office which may differ from the figures in the Federal Government finances table that indicates contributions to the external creditors' fund.

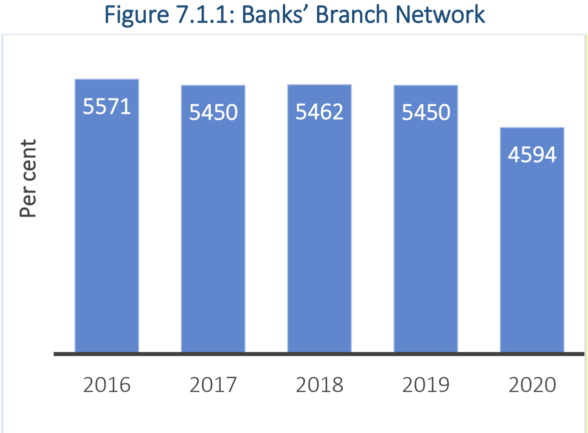
7.0 FINANCIAL SECTOR DEVELOPMENTS

7.1 INSTITUTIONAL DEVELOPMENTS

7.1.1 Growth and Structural Changes

The number of licensed banks increased to 30 at end-December 2020, compared with 29 in the preceding year. The increase followed the issuance of licence to Greenwich Merchant Bank. The licensed banks comprised twenty-two commercial banks, six merchant banks and two non-interest banks. Eight commercial banks had international authorisation, while fourteen and four had national and regional authorisation, respectively. The number of bank branches stood at 4,594 at end-December 2020, compared with 5,450 in 2019. There were 4 holding companies and 3 payment service banks.

Figure 7.1.1: Banks' Branch Network



Source: Central Bank of Nigeria

The number of offshore subsidiaries of Nigerian banks stood at sixty at end-December 2020, same as at end-December 2019. The number of affiliates and international branches of Nigerian banks stood at one and two, respectively, while the number of representative offices reduced to four with the closure of the HSBC representative office, thus, bringing the total number of offshore entities to sixty-seven in 2020, compared with sixty-eight in 2019.

In the Other Financial Institutions (OFIs) sub-sector, there were 6,532 licensed institutions at end-December 2020, compared with 6,191 institutions in 2019. The total number of OFIs comprised 7 DFIs, 34 PMBs, 874 MFBs, 87 FCs and 5,530 BDCs. The increase was as a result of newly licensed OFIs (366 BDCs, 12 FCs and 5 MFBs), while the operating licence of 42 MFBs were revoked by the Bank.

Institutional Savings

Aggregate financial savings rose by 23.4 per cent to ₦21,892.91 billion in 2020, compared with ₦17,737.85 billion at end-December 2019. The ratio of financial savings to GDP was 15.0 per cent, compared with 12.2 per cent recorded at end-December 2019. Commercial and merchant banks remained the dominant depository institutions in the financial system, accounting for 93.6 per cent of total financial savings, compared with 93.8 per cent at end-December 2019. 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 6.4 per cent in 2020, compared with 6.2 per cent in 2019.

7.2 MONETARY AND CREDIT DEVELOPMENTS

The effects of the COVID-19 pandemic, subdued growth and the decline in oil price, were major challenges to monetary policy in 2020. The Bank responded with policy measures to support government's efforts at sustaining lives and livelihoods affected by the Pandemic. It took steps to ease flow of credit to the private sector; improve manufacturing activities, and financial and exchange rate stability, while sustaining its intervention in Agriculture and Small & Medium Scale Enterprises (SMEs) to boost growth. Specific measures taken included: 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; ₦50.00 billion Targeted Credit Facility stimulus package disbursed through NIRSAL MFB to support households and MSMEs that were affected by the coronavirus pandemic; regulatory forbearances to the banking sector, which allowed 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.

7.2.1 Broad Money Supply

Broad money supply expanded but was below the indicative target for 2020. Broad money supply, M_3, grew by 13.5 per cent to ₦39,569.74 billion at end-December 2020, compared with 6.5 per cent at the end of the preceding period. This was on account of the increased claims on non-residents, relative to liabilities, resulting to an increase of 20.0 per cent in net foreign assets, in contrast to a decline of 49.8 per cent at end-December 2019. Domestic claims grew by 15.9 per cent to ₦42,554.42 billion at end-December 2020, compared with 29.0 per cent at the end of the preceding period. The moderation owed, largely, to the slow growth in net claims on the Central Government, which stood at 22.8 per cent at end-December 2020, compared with 105.4 per cent at end-December 2019.

Table 7.2.1: Growth in Monetary Assets and Liabilities (per cent)

Item	*Dec 16*	*Dec 17*	*Dec 18*	*Dec 19*	*Dec 20*
Net Foreign Assets	*47.5*	*39.8*	*7.9*	*-49.8*	*20*
Domestic Claims	*25.8*	*-3.2*	*9.6*	*29*	*15.9*
Net Claims on Central Government	*78.8*	*-17.6*	*32.4*	*105.4*	*22.8*
Claims on Other Sectors	*18.7*	*-0.4*	*5.8*	*13.1*	*13.3*
Claims on Private Sector	*20.4*	*-1.5*	*-10.4*	*22.9*	*15.2*
Broad Money Liabilities	***31.9***	***1.4***	***15***	***6.5***	***13.5***
Currency Outside Depository Corporations	*25*	*-2.2*	*7*	*6*	*23.4*
Transferable Deposits	*14.7*	*5.2*	*10.4*	*1.5*	*56.3*
Other Deposits (Quasi Money)	*19.3*	*3.1*	*11*	*13.6*	*19.2*
Securities Other Than Shares	*190.7*	*-7.8*	*38.8*	*-5*	*-68.8*
Monetary Base	*1.6*	*10.9*	*10.7*	*20.9*	*50.9*
Currency in Circulation	*17.3*	*-1*	*8*	*4.7*	*19.1*
Liabilities to Other Depository Corporations	*-6*	*17.9*	*12.1*	*28.6*	*63.4*
Narrow Money (M1)	*16.6*	*3.7*	*9.7*	*2.4*	*50*
Broad Money (M2)	*18.2*	*3.3*	*10.5*	*9.2*	*30.6*
Broad Money (M3)	*31.9*	*1.4*	*15*	*6.5*	*13.5*

Source: Central Bank of Nigeria

The moderation in net claims on central government was as a result of government's efforts to reduce domestic debt in favour of foreign debt.

Out of the total domestic claims, credit by the CBN to the central government grew at 48.4 per cent, majorly, on account of direct loans. Loans by Other Depository Corporations (ODCs) to the central government declined by 11.2 per cent at end-December 2020, against 6.1 per cent growth in the preceding period, largely, on the heels of the reduction in both securities holdings and direct loans. Claims on other sectors grew by 13.3 per cent to ₦30,149.60 billion at end-December 2020, compared with the growth of 13.1 per cent at end-December 2019. The claims comprised loans to states and local governments, Other Financial Corporations (OFCs), public non-financial corporations, and the real (productive) private sector, which expanded by 10.6 per cent, 11.0 per cent, 12.0 per cent and 15.2 per cent to ₦2,068.52 billion, ₦8,568.44 billion, ₦799.00 billion and ₦18,713.70 billion, respectively, compared with 7.1 per cent, 1.0 per cent, 1.8 per cent and 22.9 per cent at end-December 2019.

Table 7.2.2: Growth in Monetary Liabilities (per cent)

	Dec 16	*Dec 17*	*Dec 18*	*Dec 19*	*Dec 20*
Broad Money Liabilities	**29.3**	**1.4**	**15**	**6.4**	**13.5**
Currency outside DCs	*25.2*	*-2.2*	*7*	*6*	*23.4*
Transferable Deposits	*2.8*	*5.2*	*10.4*	*1.5*	*56.3*
Other Deposits	*22.5*	*3.1*	*11*	*13.6*	*19.2*
Foreign Currency Deposits	*20.6*	*-5*	*16*	*13.8*	*8.8*
Securities other than Shares	*190.7*	*-7.8*	*38.8*	*-5*	*-68.8*

Source: Central Bank of Nigeria

The corresponding growth in monetary liabilities was due to the 56.3 per cent, 19.2 per cent and 23.4 per cent increase in transferable deposits, 'other deposits' of the Depository Corporations (DCs) and currency outside depository corporations, respectively. Narrow money (M_1) grew by 50.0 per cent to ₦15,976.60 billion at end-December 2020. The development was attributed to the uncertainties due to the COVID-19 pandemic, slow growth and the economic recession that occurred in the third quarter, leading to a higher demand for transaction balances.

Growth in foreign currency deposits contributed, largely, to the growth in quasi money. Quasi money rose by 20.9 per cent to ₦22,033.65 billion at end-December 2020, compared with the growth of 13.6 per cent recorded at end-December 2019. Of the total "Other deposits" in banks, foreign currency deposits (FCD) constituted 28.8 per cent and grew by 8.8 per cent to ₦6,247.67 billion at end-December 2020, compared with the growth of 13.8 per cent at end-December 2019. Holdings of securities other than shares fell by 68.8 per cent, compared with the decline of 5.0 per cent recorded at end-December 2019, reflecting the sustained restriction of the non-corporates and individuals from participation at the OMO window.

Drivers of Growth of Broad Money

Among the drivers of growth in broad money supply, domestic claims contributed the largest at 16.8 percentage points, followed by net foreign assets, which contributed 3.4 percentage points. Net foreign assets rose, on account of significant growth in claims on non-residents, outweighing the liabilities. Claims on non-residents by the banking system grew by 11.4 per cent to ₦19,579.96 billion, in contrast to the decline of 14.7 per cent at end-December 2019, while liabilities grew by 7.0 per cent, compared with 32.6 percent at end-December 2019. The increase in the banking system's claims was on account of the 52.7 per cent and 2.7 per cent rise in ODCs' and CBN's claims, respectively, in contrast to the decline of 2.4 per cent and 16.9 per cent, at end-December 2019.

Consequently, net foreign assets of the banking system grew by 20.0 per cent to ₦8,334.33 billion at the end of the review period, in contrast to a 49.8 per cent decline at end-December 2019, contributing 3.4 percentage points to the growth of M_3 at end-December 2020, against a negative contribution of 18.0 percentage points at end-December 2019. Domestic claims contributed 16.8 percentage points, claims on the central government, 6.6 percentage points, 'other sectors', 10.1 percentage points and claims on the private sector 7.1 percentage points.

Table 7.2.3: Contribution to the Growth in M_3 (percentage point)

Item	*Dec 16*	*Dec 17*	*Dec 18*	*Dec 19*	*Dec 20*
Net Foreign Assets	12	11.2	3.1	-18	3.4
Domestic Claims	26	-3.1	8.8	25.2	16.8
Net Claims on Central Government	*9.4*	*-2.8*	*4.3*	*15.8*	*6.6*
Claims on Other Sectors	*16.6*	*-0.3*	*4.6*	*9.4*	*10.1*
Claims on Other Financial Corporations	*1.4*	*0.4*	*7.1*	*-0.2*	*2.4*
Claims on State and Local Government	*1.9*	*1.8*	*0.9*	*0.4*	*0.6*
Claims on Public Nonfinancial Corporations	*1.3*	*-1.7*	*2.1*	*0.04*	*0.1*
Claims on Private Sector	*12*	*-0.8*	*-5.4*	*9.2*	*7.1*
Currency Outside Depository Corporations	*1.7*	*-0.1*	*0.4*	*0.4*	*1.4*
Transferable Deposits	*4.5*	*1.4*	*2.8*	*0.4*	*13.9*
Other Deposits	*10.8*	*1.5*	*5.6*	*6.7*	*10*
Securities Other Than Shares	*15.3*	*-1.4*	*6.2*	*-1*	*-11.8*
Total Monetary Assets(M3)	32.3	1.2	15.8	6.5	13.5

Source: Central Bank of Nigeria

7.2.2 Reserve Money

On account of substantial liquidity injections to banks, growth in the Bank's liabilities to ODCs and currency-in-circulation led to an increase in reserve money. Liabilities to ODCs and currency-in-circulation rose by 63.4 per cent and 19.1 per cent to ₦10,194.63 billion and ₦2,908.46 billion, respectively, at end-December 2020, compared with 28.6 per cent and 4.7 per cent at end-December 2019. Consequently, reserve money (RM) grew by 50.9 per cent to ₦13,103.09 billion at the end of the review period, compared with 20.9 per cent at end-December 2019. Among the major sources of reserve money were claims on ODCs by the CBN, which grew by 73.6 per cent to ₦2,498.50 billion, and net claims on the central government, which rose by 48.4 per cent to ₦8,559.48 billion at end-December 2020. Others were claims on non-financial corporations and the private sector, which grew by 40.0 per cent and 31.7 per cent to ₦0.72 billion and ₦1,394.10 billion, respectively.

Table 7.2.4: Reserve Money Sources (percentage change)

Item	*Dec 16*	*Dec 17*	*Dec 18*	*Dec 19*	*Dec 20*
Net Foreign Assets	*41.3*	*44.4*	*12.0*	*-35.7*	*7.0*
Claims on ODCs	*105.1*	*-9.2*	*-12.0*	*-12.6*	*73.6*
Net Claims on Central Gov.	*-105.6*	*-176.0*	*-1273.1*	*590.4*	*48.4*
Claims on Other Sectors	*5.1*	*6.4*	*29.5*	*10.6*	*10.2*
Claims On OFCS	*-0.1*	*5.8*	*32.7*	*-2.2*	*7.6*
Claims On SG s & LGs	*0.00*	*96.6*	*2.7*	*0.9*	*-0.2*
Claims on Pub NFCs	*-8.6*	*-91.1*	*61.6*	*15.7*	*40.0*
Claims on Private Sector	*50.8*	*271.8*	*0.8*	*1122.7*	*31.7*

Source: Central Bank of Nigeria

7.2.3 Consumer Credit

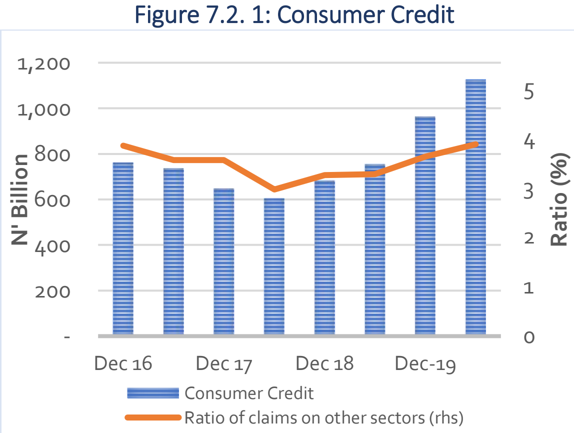
Consumer credit grew during the review period, due to continued implementation of the minimum loan-to-deposit ratio (LDR) policy of 65.0 per cent and the drive for financial assets by banks. Outstanding consumer credit grew by 17.7 per cent to ₦1,663.07 billion at end-December 2020 and constituted 8.9 per cent of banks' outstanding claims to the private sector, compared with 9.1 per cent in preceding period.

Table 7.2.5: Maturity Structure of DMB's Loans and Advances, and Deposit Liabilities

Tenor	Loans (%)				Deposits (%)			
	2017	2018	2019	2020	2017	2018	2019	2020
0-30 days	25.6	25.2	28.7	29	74.4	72.9	73	75.21
31-90 days	7.8	9.3	10.2	7.41	12.9	10.1	10.9	9.64
91-180 days	5.3	4.4	5.7	4.42	4.8	3.2	4.2	3.35
181-365 days	5	8.3	7.1	10.52	3.7	1.9	2.3	1.82
Short-term	43.7	47.2	51.7	51.34	95.9	88.1	90.3	90.02
Medium-term - (above 1 year and below 3 Years)	18	17.4	17.4	17.2	1.3	3.8	4	4.13
Long-term (3 years and Above)	38.4	35.4	30.9	31.46	2.8	8.1	5.7	5.85

Source: Central Bank of Nigeria

Figure 7.2. 1: Consumer Credit

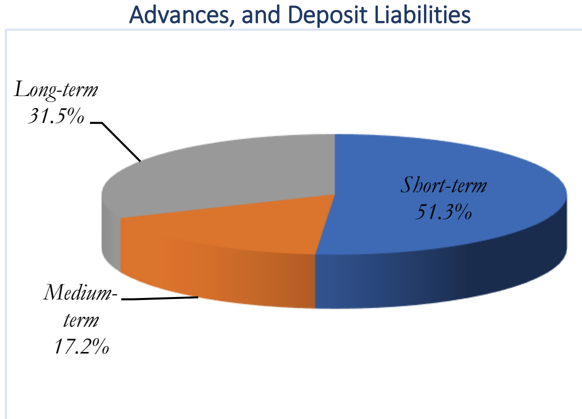


Source: Central Bank of Nigeria

7.2.4 Maturity Structure of Banks' Loans and Advances, and Deposit Liabilities

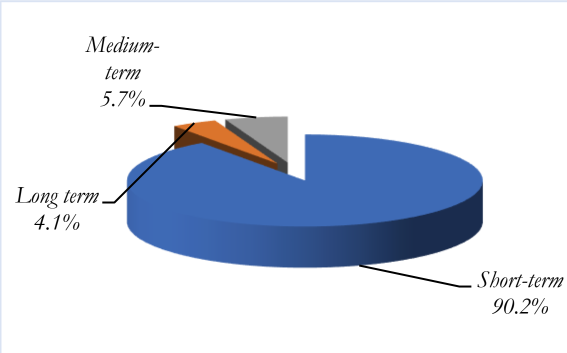
As in the preceding year, short-term maturities remained dominant in banks' outstanding credit and deposits. Outstanding loans and advances maturing one year and earlier, accounted for 51.3 per cent of the total, compared with 51.7 per cent at end-December 2019. The medium-term and long-term maturities stood at 17.2 per cent and 31.5 per cent, respectively, compared with 17.4 per cent and 35.4 per cent at the end of the corresponding period of 2019. Deposit liabilities showed a similar trend, with short-term deposits constituting 90.02 per cent of the total at end-December 2020, compared with 90.3 per cent at end-December 2019. A further analysis showed that the medium and long-term deposits constituted 4.1 and 5.9 per cent, respectively, compared with 4.0 and 5.7 per cent at end-June 2019. The structure of banks' deposit liabilities reflected their preference for short-term claims on the economy.

Figure 7.2.2: Maturity Structure of DMBs' Loans and Advances, and Deposit Liabilities



Source: Central Bank of Nigeria

Figure 7.2.3: Maturity Structure of DMBs' Deposits at end-December 2020 (per cent)



Source: Central Bank of Nigeria

7.2.5 Sectoral Distribution of Credit

Industrial and services sector accounted for over 70.0 per cent of the credit to the private sector. Of the total credit to the private sector, agriculture and construction sectors accounted for 5.2 per cent and 4.7 per cent in December 2020, respectively, above their respective shares of 4.6 per cent and 4.1 per cent in the corresponding period of 2019. Industrial and services sectors accounted for 37.2 per cent and 37.6 per cent of total allocation, respectively, compared with 37.3 per cent and 37.9 per cent in December 2019.

Table 7.2.6: Share in Outstanding Credit to the Core Private Sector (per cent)

Item	Dec 16	Dec 17	Dec 18	Dec 19	Dec 20
Agriculture	3.3	3.4	4.0	4.6	5.2
Industry	38.8	39.6	41.0	37.3	37.2
Construction	3.9	4.2	4.1	4.1	4.7
Trade/General Commerce	6.1	6.5	7.1	7.2	6.6
Government	8.4	8.8	9.0	8.8	8.7
Services	39.4	37.6	34.8	37.9	37.6

Source: Central Bank of Nigeria

The government sector accounted for 8.7 per cent in December 2020, below the 8.8 per cent in December 2019, reflecting the general decline in net claims on the Federal Government by the ODCs.

7.2.6 Financial/Banking System Developments

Performance of financial sector indicators were mixed in 2020. There was an increase in aggregate savings, measured by the ratio of quasi money to GDP, which stood at 14.1 per cent from 12.5 per cent in 2019. Similarly, the size of financial sector, measured by two indicators: the ratio of total monetary assets to GDP, and banking system's assets to GDP, improved at 25.7 per cent and 66.8 per cent, compared with 23.9 per cent and 57.7 per cent in 2019, respectively. There was also an improvement in the financing capacity of the banking system, measured by the ratio of aggregate credit to GDP, ratio of claims on the private sector to GDP and the ratio of credit to the core private sector to GDP, which rose by 27.6 per cent, 19.5 per cent and 21.1 per cent at the end of the review period, compared with 25.2 per cent, 18.3 per cent and 11.2 per cent, respectively, in the preceding period.

Table 7.2.7: Indicators of Financial sector Developments

Item	2016	2017	2018	2019	2020
M3/GDP	27.7	25	25.6	23.9	25.7
CIC/M3	7.8	7.6	7.1	7	7.4
COB/GDP	1.8	1.6	1.5	1.4	1.6
QM/GDP	13.8	12.7	12.6	12.5	14.1
NDC/GDP	26.4	22.8	22.3	25.2	27.6
CP/GDP	22	19.6	18.4	18.3	19.5
Cp (core)/GDP	14.8	13	10.4	11.2	12.1
Banking System's Assets/GDP	53.9	57.6	59.5	57.7	66.8
COB/M3	6.5	6.3	5.8	5.8	6.3

Source: Central Bank of Nigeria

However, there was a slight deterioration in intermediation efficiency indicator, measured by the ratio of currency outside banks to broad money supply, which stood at 6.3 per cent, compared with 5.8 per cent at end-December 2019.

7.2.7 Money Multiplier and Velocity of Money

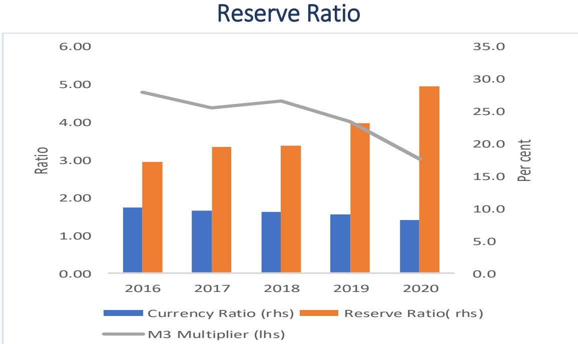
Broad money multiplier stood at 3.02 at end December 2020, a decrease of 1.0 below the level at end-December 2019, indicating the slower rate of monetary expansion in the review period. The development was as a result of a rise in banks reserve ratio to 29.0 per cent in 2020, compared with 23.2 per cent in the preceding period.

Table 7.2.8: Currency reserves, reserve ratio, Multiplier and Velocity of M3

Item	*2016*	*2017*	*2018*	*2019*	*2020*
Currency Ratio	*10.2*	*9.7*	*9.5*	*9.1*	*8.3*
Reserve Ratio	*17.2*	*19.5*	*19.8*	*23.2*	*29.0*
M3 Multiplier	*4.80*	*4.39*	*4.56*	*4.01*	*3.02*
Velocity of M3	*3.61*	*3.99*	*3.90*	*4.18*	*3.90*

Source: Central Bank of Nigeria

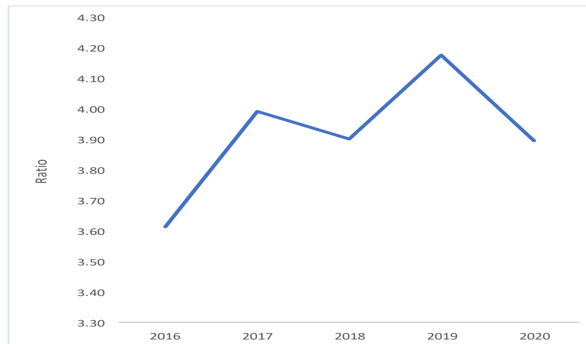
Figure 7.2. 4: Money Multiplier, Currency Ratio and Reserve Ratio



Source: Central Bank of Nigeria

The velocity of broad money, M_3, stood at 3.9, a decline of 0.3, suggesting slower economic activities in 2020, relative to the preceding year. This was induced, largely, by uncertainties of the COVID-19 pandemic, slow economic growth and economic recession.

Figure 7.2.5: The Velocity of Money



Source: Central Bank of Nigeria

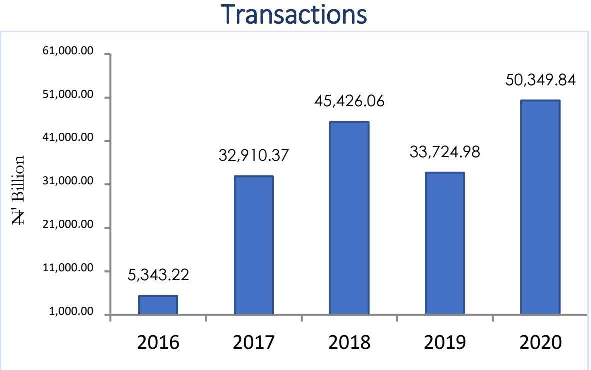
7.3 MONEY MARKET DEVELOPMENTS

Money market activities in 2020 reflected the trends in liquidity conditions, influenced by the uncertainties surrounding the COVID-19 pandemic. Banking system liquidity was influenced by the disbursement to the states and local government by the Federation Accounts Allocation Committee (FAAC) and flows from monetary operations. Open Market Operations (OMO), purchase of foreign exchange from authorised dealers by the CBN, were used to moderate liquidity flow into the banking system. The demand for and supply of funds by authorised dealers at the inter-bank market showed preference for collateralised transactions, reflecting market players' risk aversion. Interest rates at the money market were low relative to the preceding year, on the heels of excess liquidity and the lull in market activities associated with the COVID-19 pandemic.

7.3.1 Inter-bank Market transactions

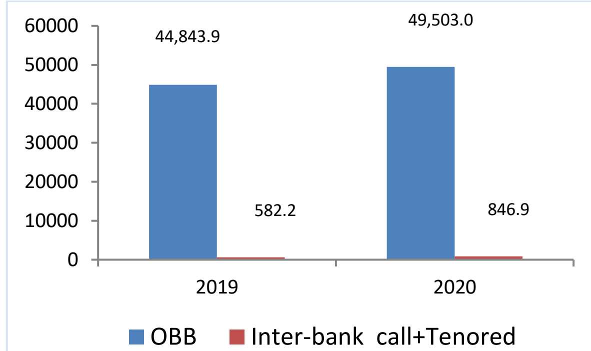
Market players showed preference for collateralised transactions at the interbank market as in the preceding year. The value of transactions increased by 10.8 per cent to ₦50,349.84 billion in 2020, compared with ₦45,426.06 billion in 2019. OBB transactions accounted for 98.3 per cent of the total value of inter-bank deals, while transactions at the unsecured inter-bank segment accounted for the balance of 1.7 per cent, compared with 98.7 and 1.3 per cent, respectively, in 2019. A breakdown of the transactions at the inter-bank market showed an increase in call placements by 61.8 per cent to ₦824.65 billion, compared with ₦509.54 billion in 2019. At the OBB segment, transactions increased by 10.4 per cent to ₦49,502.95 billion in 2020, compared with ₦44,843.91 billion in 2019.

Figure 7.3.1: Value of Interbank Funds Market Transactions



Source: Central Bank of Nigeria

Figure 7.3.2: Share of Interbank Funds Market Transactions



Source: Central Bank of Nigeria

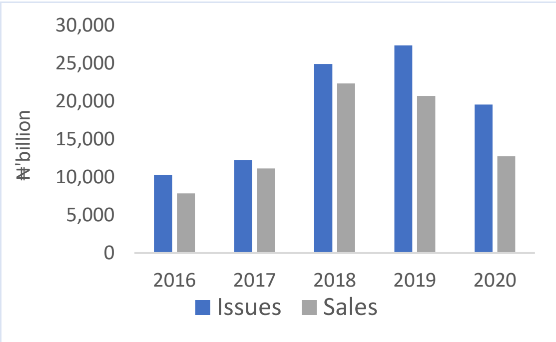
7.3.2 Monetary Operations

Liquidity management was conducted using CBN bills as the main instrument of monetary policy, complemented by discount window operations, CRR and interventions in the foreign exchange market.

Open Market Operations (OMO)

There was a reduction in OMO sales, due to the accommodative monetary policy stance of the Bank. Total CBN bills offered at the OMO was ₦12,650.23 billion, while public subscription and sale amounted to ₦19,578.50 billion and ₦12,764.58 billion, respectively, in 2020, compared with ₦21,501.14 billion, ₦27,373.11 billion and ₦20,723.62 billion offered, subscribed and sold in 2019.

Figure 7.3.3: OMO Issues and Sales



Source: Central Bank of Nigeria

CBN Promissory Note

Promissory Notes worth ₦3.00 billion were issued during the year, compared with ₦8.34 billion issued in 2019. A total of ₦6.82 billion was redeemed in the review period.

Repurchase Transactions (Repo)

There was a decrease in request for repo transactions in 2020. This was attributed to the accommodative monetary policy stance of the Bank. Total request for repo transactions in 2020 was ₦828.21 billion, indicating a reduction of 96.4 per cent from ₦1,626.15 billion in 2019, while the interest rates ranged from 16.00 to 19.00 per cent for 4-day to 90-day tenors, compared with 18.50 to 19.50 per cent in the preceding year. Consequently, total interest earned on repo was ₦13.64 billion, a significant reduction of 205.3 per cent from the ₦41.66 billion in the preceding year.

7.3.3 Discount Window Operations

CBN Standing Facilities

The trend at the standing facilities window showed a reduction in the request for the SLF and SDF on account of the liquidity surfeit in banks and the restriction of the remunerable SDF from ₦7.50 billion to ₦2.00 billion since July 2019. Patronage at the SDF window decreased to an average daily amount of ₦29.18 billion in 249 transaction days in 2020, compared with ₦48.32 billion in 251 transaction days in 2019. Similarly, the average daily interest payments on the deposits decreased to ₦7.87 million in 2020 from ₦17.22 million in 2019. The reduction in volume of transactions for the year was due to the change in remunerable SDF from ₦7.50 billion to ₦2.00 billion per day per participant, since July 2019, reinforcing the need for banks to deploy excess funds for financing real production.

The average daily request for SLF was ₦29.68 billion in 154 transaction days, while the average daily interest charged was ₦20.73 million in 2020, compared with ₦81.06 billion in 238 transaction days and ₦55.13 million in 2019, respectively. However, there was increased patronage in March 2020 and July 2020, due to market participants' desire to meet monetary and prudential regulatory requirements. Applicable rates for the SLF and SDF, were anchored on the MPR.

Rediscounting Transactions

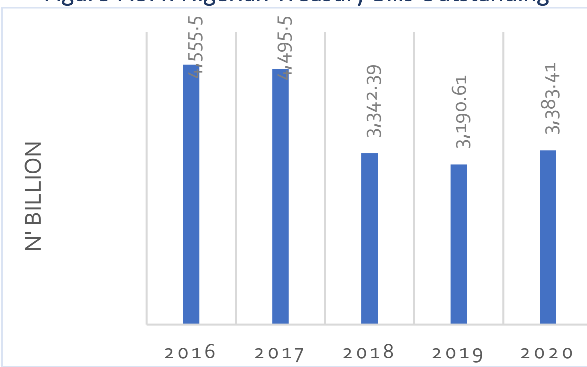
There was no rediscounting of bills in the review period due to the ample liquidity in banks, while OMO bills worth ₦140.55 billion with outstanding days to maturity of 1 to 352 days at rates that ranged from 13.50 per cent to 14.38 per cent, were rediscounted in 2019.

7.3.4 Primary Market Activities

Total value of Nigerian Treasury Bills rose in 2020, due to higher NTBs issues by the Federal Government to finance its short-term fiscal deficit. The total value of NTBs issued and allotted was ₦3,383.14 billion apiece, indicating an increase of ₦192.53 billion or 6.0 per cent above the level in 2019. Total public subscription stood at ₦7,931.77

billion, compared with ₦9,608.87 billion in 2019. The decline in public subscription was due to low yields.

Figure 7.3.4: Nigerian Treasury Bills Outstanding

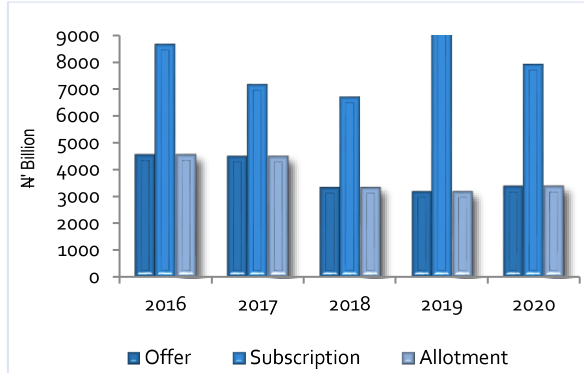


Source: Central Bank of Nigeria

Structure of Outstanding holdings of Nigeria Treasury Bills

The structure of allotment of the instrument indicated that banks, including foreign investors, took up ₦2,318.62 billion or 68.5 per cent, mandate and internal funds ₦969.63 billion or 28.7 per cent and merchant banks ₦94.88 billion or 2.8 per cent. During the review period, the stop rates, ranged from 0.01 to 3.50 per cent for the 91-day, 0.09 per cent to 4.90 per cent for the 182-day and 0.15 to 6.54 per cent for the 364-day tenors. The stop rates in 2019 ranged from 4.00 per cent and 11.10 per cent for the 91-day, 5.00 per cent and 13.50 per cent for the 182-day and 5.50 per cent and 15.00 per cent for the 364-day tenors.

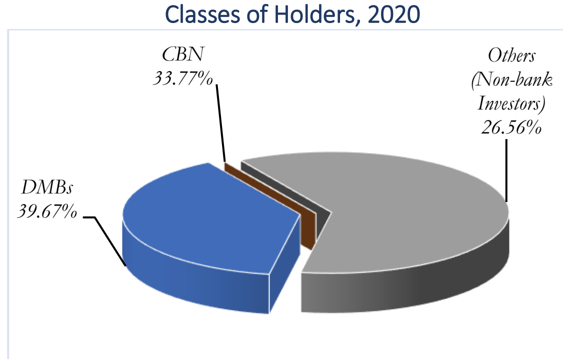
Figure 7.3.5: NTB Issues, Subscriptions and Allotments



Source: Central Bank of Nigeria

The sum of ₦3,321.22 billion was repaid in the review year, resulting in a net outflow of ₦62.19 billion from the banking system, compared with a net outflow of ₦73.45 billion in the preceding year.

Figure 7.3.6: Nigerian Treasury Bills Outstanding: Classes of Holders, 2020



Source: Central Bank of Nigeria

Over-the-Counter Transactions in Treasury Bills and FGN Bonds

Over-the-Counter (OTC) transactions for NTBs amounted to ₦85,981.06 billion, indicating an increase of ₦13,858.53 billion or 19.2 per cent over ₦72,122.54 billion recorded in 2019. The development was attributed, largely, to increased transactions by foreign and other institutional investors.

During the review period, OTC transactions in FGN Bonds amounted to ₦26,885.76 billion, indicating an increase of ₦10,234.33 billion or 61.5 per cent over ₦16,651.43 billion in 2019. The trend was traced to active participation of both local and foreign investors.

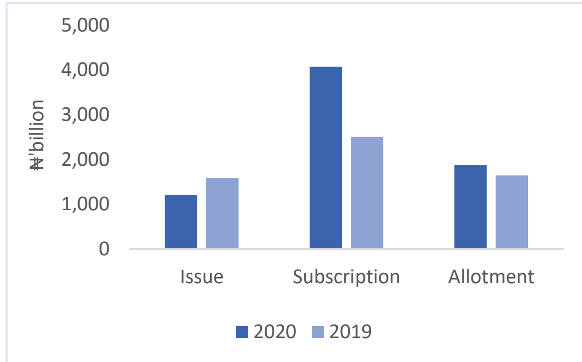
7.3.5 Federal Republic of Nigeria Treasury Bonds

There was no new issue of the Federal Republic of Nigeria Treasury Bonds (FRNTBs). Accordingly, the outstanding stock of the instrument end-December 2020 was ₦100.99 billion, compared with ₦125.99 billion at end-December 2019. The decline in the amount outstanding was due to the redemption of ₦25.00 billion during the review period. A breakdown of the amount outstanding showed that the CBN held ₦18.01 billion, while ₦82.98 billion was held in the Sinking Fund. In 2019, CBN held ₦29.27 billion, while ₦96.71 billion was held in the Sinking Fund.

7.3.6 Federal Government of Nigeria (FGN) Bonds

There were new issues and re-openings of FGN Bonds series 1, 2, 3, 4, 5 and 6 in the review year. Total FGN Bonds offered for sale in 2020 was ₦1,210.00 billion, while public subscription and allotment stood at ₦4,077.27 billion and ₦1,879.40 billion, respectively. In 2019, FGN Bonds issued, subscribed to, and allotted were ₦1,590.00 billion, ₦2,514.23 billion and ₦1,650.75 billion, respectively. The higher subscription in 2020 was traced to the preference for long-tenored instruments with attractive yields. In addition, the restriction placed on non-banking institutions and individuals from purchasing OMO bills also buoyed activities in the bond market.

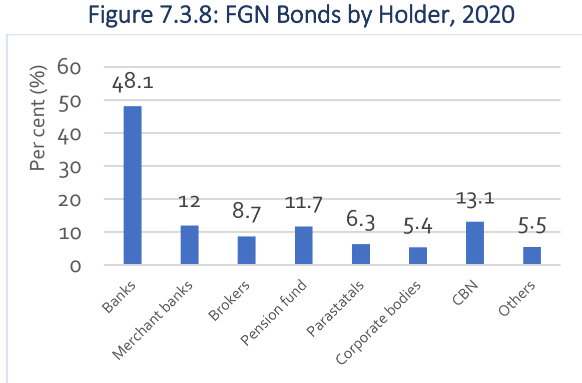
Figure 7.3.7: Outstanding FGN Bonds



Source: Central Bank of Nigeria

The structure of holdings of the FGN Bonds in 2020 was as follows: commercial banks, ₦5,890.61 billion (48.1 per cent); merchant banks, ₦146.64 billion (1.2 per cent); and the balance of ₦6,207.41 billion (50.7 per cent) was held by the non-bank public.

Figure 7.3.8: FGN Bonds by Holder, 2020



Source: Central Bank of Nigeria

7.3.7 Federal Government of Nigeria Savings Bonds

A total of ₦3.64 billion was allotted during the review period, indicating a decrease of ₦2.13 billion or 36.88 per cent, compared with ₦5.76 billion at end-December 2019. The decrease was attributed to the lower number of subscription and FGN's reduced number of FGN Savings Bond auction during the review period. The new issues were for 2- and 3- years and the coupon rates applied ranged from 1.32 per cent to 7.14 per cent and 1.82 per cent to 8.14 per cent for the 2- and 3- years, respectively. The range of coupon rates in 2019 was higher, between 9.09 per cent to 12.13 per cent and 10.09 per cent to 13.13 per cent for the 2-years and 3-years respectively. Consequently, total value of FGN Savings bonds outstanding at end-December 2020 was ₦12.29 billion.

7.3.8 Federal Government of Nigeria Green Bonds

There was no new issue of the FGN Green Bond during the review period, compared with ₦15.00 billion 7-Year FGN Green Bond issued and allotted during the preceding period. The FGN Green Bond had a coupon rate of 14.50 per cent payable semi-annually. Consequently, the total value of Green Bonds outstanding at end-December 2020 stood at ₦25.69 billion.

7.3.9 Federal Government of Nigeria Sukuk

A total of ₦162.56 billion 7-Year FGN Sukuk was issued and allotted in 2020. The Sukuk had a rental rate of 11.20 per cent payable semi-annually, bringing the total value of FGN Sukuk outstanding at end-December 2020 to ₦362.56 billion, an increase of 81.28 per cent, compared with ₦200.00 billion in 2019. The increase in investment was attributed to greater awareness of shariah compliant financial instruments, as well as an increase in knowledge of market participants.

7.3.10 Federal Government of Nigeria Promissory Note

The total value of ₦971.70 billion FGN Promissory Notes was outstanding as at end-December 2020. The 1-, 2-, 3-, 4- and 5-year notes were issued to settle part of the legacy local contractors' debts, outstanding obligations to oil marketing companies and State Governments.

7.4 DEVELOPMENTS IN OTHER FINANCIAL INSTITUTIONS

The OFIs provided financial interventions geared towards mitigating the effects of the COVID-19 pandemic on the Nigerian economy. The sub-sector also served as a channel for the disbursement of CBN intervention funds to the agricultural and health sectors, as well as Micro-Small- and Medium-Scale Enterprises (MSMEs) during the review period. There were 6,532 OFIs at end-December 2020, compared with the 6,191 Institutions at end-December 2019, reflecting an increase of 341 OFIs. The increase in the number of institutions was attributed to the licensing of new OFIs, comprising of 366 BDCs, 12 FCs and 5 MFBs, while the operating license of 42 MFBs were revoked by the Bank.

Total assets of OFIs, excluding the BDCs, rose by 49.2 per cent to ₦4,748.76 billion at end-December 2020, compared with ₦3,183.50 billion at end-December 2019. The increase in total assets was attributed, largely, to injection of additional capital by the newly licensed OFIs, mobilisation of additional deposits and inclusion of the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) on-lending facilities from the CBN as on-balance sheet. Net loans and advances increased by 29.2 per cent to ₦2,153.43 billion at end-December 2020, compared with ₦1,666.99 billion at end-December 2019. Bank placements of the sub-sector rose, significantly, by 108.9 per cent to ₦852.56 billion at end-December 2020, from ₦408.18 billion at end-December 2019, while investments increased by 99.5 per cent to ₦1,159.48 billion at end-December 2020, compared with ₦581.20 billion at end-December 2019. Similarly, shareholders' funds increased by 22.3 per cent to ₦581.16 billion at end-December 2020, compared with ₦475.27 billion at end-December 2019. The increase in shareholders' funds was due, largely, to accretion of consolidated reserves by the DFI, FC and MFB sub-sectors.

Total borrowings increased significantly by 275.5 per cent to ₦2,057.74 billion at end-December 2020, compared with ₦547.97 billion at end-December 2019. The increase was attributed, largely, to borrowings by the DFIs.

7.4.1 Development Finance Institutions

The development finance institutions' assets increased, due to significant rise in investments and other assets. Total assets of the seven DFIs[16] increased by 50.6 per cent to ₦3,044.48 billion at end-December 2020, compared with ₦2,021.18 billion at end-December 2019. The development was due, largely, to accretion to reserves by three DFIs (BOI, DBN and NMRC), increases in long-term borrowings, placements and investments by the institutions. Placements increased by 111.0 per cent to ₦538.02 billion at end-December 2020, compared with ₦255.04 billion at end-December 2019. Similarly, investments increased by 114.5 per cent to ₦1,062.01 billion at end-December 2020, compared with ₦495.10 billion at end-December 2019. The sharp increase in investments was due, largely, to increase in borrowings, which were deployed for short–term investments, largely, treasury bills. The paid-up capital, however, remained unchanged at ₦238.78 billion, while the net loans and advances increased by 8.9 per cent to ₦1,283.83 billion at end-December 2020, compared with ₦1,179.28 billion at end-December 2019.

Borrowings by DFIs rose, significantly, by 411.8 per cent to ₦1,857.09 billion at end-December 2020, compared with ₦362.88 billion at end-December 2019. The increase was due, mainly, to the borrowings of €1.00 billion and US$1.00 billion from AFREXIM Bank and ₦100.00 billion from CBN Industrial Fund by BOI, as well as borrowing of ₦50.00 billion from CBN Export Development Fund by NEXIM. Aggregate shareholders' funds also increased by 36.7 per cent to ₦370.58 billion at end-December 2020, from ₦271.14 billion at end-December 2019. The increase was due, mainly, to accretion to reserves by the BOI, DBN and NMRC. Other assets increased by 15.1 per cent to ₦72.16 billion at end-December 2020, from ₦62.68 billion at end-December 2019, while fixed assets fell by 7.4 per cent to ₦62.57 billion at end-December 2020, from ₦67.58 billion at end-December 2019.

[16] 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)

A disaggregation of the total assets by institution, indicated that the BOI, DBN, FMB, NEXIM, NMRC, BOA and TIB accounted for 62.1 per cent, 16.2 per cent, 12.0 per cent, 5.1 per cent, 2.8 per cent, 1.7 per cent, and 0.2 per cent, respectively. The BOI, FMBN, DBN, NEXIM, BOA and NMRC accounted for 57.1 per cent, 18.4 per cent, 16.7 per cent, 4.7 per cent, 1.8 per cent, and 1.4 per cent, respectively, of the total net loans and advances.

7.4.2 Microfinance Banks

Assets of MFBs increased due to inclusion of on-lending facilities granted to NIRSAL by the CBN as on-balance sheet. Five Microfinance Banks (MFBs) were licensed, while the operating licences of 42 MFBs were revoked in 2020, bringing the total number of licensed MFBs to 874 (10 National, 134 State and 730 Unit MFBs), compared with 911 MFBs (10 National, 135 State and 766 Unit MFBs) at end-December 2019.

Total assets of the MFBs rose by 87.1 per cent to ₦929.83 billion at end-December 2020, compared with ₦496.85 billion at end-December 2019. The paid-up capital and shareholders' funds also increased by 7.6 per cent and 15.0 per cent to ₦84.78 billion and ₦130.71 billion, respectively, compared with ₦78.80 billion and ₦113.67 billion at end-December 2019. The development was attributed, mainly, to capital injection and accretion to reserves from ploughed back profits. Net loans and advances increased by 98.8 per cent to ₦507.95 billion at end-December 2020, compared with ₦255.47 billion at end-December 2019. The development was attributed to the CBN intervention funds channelled to the sub-sector through the NIRSAL MFB as palliatives to cushion the effect of the COVID-19 pandemic on MSMEs and households. Similarly, deposit liabilities rose by 46.6 per cent to ₦366.90 billion at end-December 2020, compared with ₦250.17 billion at end-December 2019. Reserves also increased by 31.8 per cent, to ₦45.93 billion at end-December 2020, compared with ₦34.87 billion at end-December 2019.

Investible funds available to the MFBs sub-sector amounted to ₦442.29 billion, compared with ₦75.70 billion at end-December 2019. The funds were sourced, mainly, from long-term loans (₦266.0 billion), deposits (₦116.73 billion) and reserves (₦11.07 billion). The funds were used, mainly, to increase net loans and advances (₦252.48 billion), bank placements (₦128.02 billion) and bank balances (₦41.84 billion).

An analysis of the maturity structure of MFBs loans & advances and deposit liabilities showed that short-term credit remained dominant in the review year. Accordingly, at end-December 2020, short-term loans (with maturity of less than one year), accounted for 53.5 per cent of the aggregate loans and advances, indicating a decline of 27.9 percentage points from the 81.40 per cent in the preceding year. Loans with long-term maturity (over 360 days) accounted for 46.5 per cent of the total, compared with 18.6 per cent at end-December 2019. Similarly, an analysis of the deposit structure showed that short-term deposit liabilities (less than one-year maturity) remained dominant, constituting 71.4 per cent of total deposit liabilities, indicating 12.7 percentage points decline, below the 84.0 per cent in 2019. However, deposits of long-term maturity (above 1 year) increased by 12.7 percentage points, accounting for 28.7 per cent of total deposit liabilities at end-December 2020, compared with 16.0 per cent in 2019.

Table 7.4.1: Maturity Structure of Assets and Liabilities of Microfinance Banks (MFBs)

	2019		2020	
Tenor/Period	Loans and Advances	Deposits	Loans and Advances	Deposits
0-30 days	20.8	35.2	10.2	30.1
31-60 days	10.6	11.5	3.2	8.2
61-90 days	9.4	11.3	4.7	9.6
91-180 days	19	15.3	15.0	14.9
181-360 days	21.6	10.7	20.4	8.6
Short-Term	81.4	84	53.5	71.38
Above 360 days	18.6	16	46.5	28.7
Total	**100**	**100**	**100**	**100**

Source: Central Bank of Nigeria

7.4.3 Finance Companies

Finance companies' assets increased due, largely, to injection of capital by newly licensed institutions, accretion to reserves, as well as increased borrowings and other liabilities. The number of FCs stood at 87 at end-December 2020, compared with 75 at end-December 2019. The increase was attributed to the licensing of 12 new institutions during the review period. Total assets and liabilities of Finance Companies (FCs) sub-sector increased by 34.1 per cent to ₦313.11 billion at end-December 2020, compared with ₦233.42 billion at end-December 2019. Similarly, loans and advances increased by 41.7 per cent to ₦113.55 billion at end-December 2020, compared with ₦80.13 billion at end-December 2019. However, investments fell by 2.4 per cent to ₦11.36 billion at end-December 2020, compared with ₦11.64 billion at end-December 2019, due to disposal of investment holdings by the institutions. Shareholders' funds increased by 17.5 per cent to ₦43.82 billion at end-December 2020, compared with ₦37.29 billion at end-December 2019. This was as a result of injection of additional capital and ploughed back profits in the review period.

Borrowings increased by 30.8 per cent to ₦200.64 billion at end-December 2020, compared with ₦153.40 billion at end-December 2019. Fixed assets also rose by 34.8 per cent to ₦62.37 billion at end-December 2020, compared with ₦46.28 billion at end-December 2019. Similarly, balances with banks and reserves increased by 107.1 per cent and 14.1 per cent to ₦26.20 billion and ₦18.94 billion, respectively, at end-December 2020, relative to the levels at end-December 2019. Also, placements with other banks increased by 58.4 per cent to ₦44.29 billion at end-December 2020, compared with ₦27.95 billion at end-December 2019.

Investible funds available to the sub-sector amounted to ₦81.41 billion at end-December 2020, compared with ₦65.40 billion at end-December 2019, signifying improved financial activities. The funds were sourced, mainly, from increases in borrowings (₦47.24 billion), other liabilities (₦27.35 billion) and paid-up capital (₦4.19 billion). The funds were utilised, mainly, to increase loans and advances (₦33.43 billion); placements with banks (₦16.33 billion); and fixed assets (₦16.09 billion).

7.4.4 Primary Mortgage Banks

Although the number of primary mortgage banks remain unchanged, the total assets increased, reflecting increase in cash holdings, cash reserve requirement, balances with banks and placements with banks. The number of licensed PMBs at end-December 2020, remain unchanged at 34 relative with the number at end-December 2019, comprising 12 National and 22 State PMBs. Total assets of PMBs increased by 6.8 per cent to ₦461.34 billion at end-December 2020, compared with ₦432.05 billion at end-December 2019. Similarly, placement with banks increased to ₦57.91 billion at end-December 2020, compared with ₦40.87 billion at end-December 2019. Total loans and advances also increased to ₦248.09 billion at end-December 2020, compared with ₦238.49 billion at end-December 2019.

Shareholders' funds, and investment in quoted shares, however, fell by 32.2 per cent and 27.4 per cent to ₦36.05 billion and ₦7.23 billion, respectively, at end-December 2020, compared with ₦53.17 billion and ₦9.96 billion, respectively, at end-December 2019. Consequently, cash on hand, cash reserve requirement and balances with banks increased by 88.0 per cent, 55.6 per cent and 45.6 per cent to ₦1.27 billion, ₦2.10 billion and ₦19.69 billion, respectively, at end-December 2020. Similarly, deposit liabilities, paid up capital, long term loans/NHF and other liabilities increased to ₦170.82 billion, ₦108.32 billion, ₦72.17 billion and ₦178.44 billion at end December 2020, compared with ₦143.56 billion, ₦106.10 billion, ₦70.73 billion and ₦158.96 billion, respectively, at end-December 2019.

Investible funds available to the sub-sector amounted to ₦58.00 billion at end-December 2020, compared with ₦46.75 billion at end-December 2019. The funds were sourced, mainly, from deposits (₦27.26 billion); other liabilities (₦19.47 billion); and reduction in non-current assets held for sale (₦2.73 billion). The funds were utilised, mainly, to absorb the decrease in reserves (₦19.35 billion); increase placement with banks (₦17.04 billion); and loans and advances (₦9.61 billion).

The average CAR of the sub-sector fell to 11.5 per cent at end-December 2020, compared with 12.3 per cent at end-December 2019. Except for five, all PMBs met the minimum CAR of 10.0 per cent. The decline in average CAR was due, largely, to the decrease in shareholders' funds of the PMB sub-sector by 32.2 per cent. Despite the extension of the deadline from 30 September 2019 to 31 July 2020 for five PMBs with capital below the regulatory minimum to meet up, the institutions were yet to comply with the minimum capital requirements as at end-December 2020. The sub-sector recorded increase in the average liquidity ratio to 48.2 per cent at end-December 2020, compared with 39.5 per cent in 2019. The rise in liquidity ratio was due, largely, to increase in liquid assets. There were eleven critically illiquid PMBs with aggregate liquidity ratio of 2.7 per cent. In all, 11 PMBs failed the minimum liquidity ratio benchmark of 20.0 per cent at end-December 2020, compared with 9.0 at-end-December 2019.

7.4.5 Bureaux-De-Change

The number of licensed BDCs increased to 5,530 at end-December 2020, compared with 5,164 at end-December 2019. The increase in the number of BDCs was informed by the need to channel additonal foreign exchange to the retail end of the foreign exchange market to enhance liquidity and access to foreign exchange.

7.5 CAPITAL MARKET DEVELOPMENTS

7.5.1 Developments in the Nigerian Capital Market

Activities in the Nigerian capital market, generally, moved in tandem with developments in the larger economy during the review period. The Securities and Exchange Commission (SEC) sustained its activities, aimed at strenghtening regulation and ensuring efficient functioning of the Nigerian capital market, in line with the stipulated recommendations contained in the Nigerian Capital Market Master Plan (2015 - 2025). Some initiatives by the Commission in the review period included:

- Organisation of its 4th Budget Seminar Series themed, “Leveraging the 2020 Budget and Finance Act for the Growth of the Nigerian Capital Market”, was held in Lagos on February 13, 2020. The Seminar was to serve as a forum for evaluating the connection between the Nigerian capital market and the annual budget of the Federal Government, with the aim of identifying how the capital market can contribute to, and benefit from the budget and its implementation;

- The inaugural International Conference on the Nigerian Commodities Market themed “Commodities Trading Ecosystem: Key to Diversifying the Nigerian Economy” in collaboration with the Implementation Committee on the Commodities Trading Ecosystem Roadmap, held on 13 March 2020. The Conference communique contained resolutions to aid access to long-term financing for the agricultural sector, encourage collaboration among stakeholders, identify bankable projects, among others:

- A market-wide capital market support committee on the COVID-19 was inaugurated to coordinate the capital market community’s effort in mitigating the medical and economic impact of the Pandemic on the vulnerable and the less privileged. The Committee raised the sum of ₦1.00 billion from market participants and stakeholders and utilised same in providing palliatives to the needy and procure medical equipment to designated hospitals and isolation centers; and

- Issuance of clarifications to facilitate effective compliance with the new CIS Rules, sequel to the publication of new rules relating to Collective Investment Schemes in December 2019. Thus, all fund managers of collective Investment Schemes were required to comply with the provisions of the new rules and provide evidence of compliance on or before 30 September 2020.

7.5.2 The Nigerian Stock Exchange (NSE)

The NSE continued with the implementation of its initiatives and enhanced its product portfolio to boost its strategic performance in the review period. A step in this regard was the receipt of approval-in-priniciple from the SEC to launch clearing and settlement of exchange-traded derivative products, as Nigeria’s premier Central Counterparty Clearing House (CCP). The Exchange also made significant progress towards its conversion to a demutualised exchange and was awaiting SEC regulatory approvals to finalise the process.

Significant feats were accomplished across the areas of business development, market development, investor protection, corporate citizenship and government relations. Some of these included:

- The launch of the Growth Board to boost accessibility to the market by SMEs by offering advisory support, relaxed entry criteria and reduced post-listing obligation;

- Revamping the NSE Data portal to bolster access to NSE market data;

- Collaboration with the SEC to train capital market operators on legal and regulatory requirements of derivatives trading;
- Hosting industry leaders at Oil and Gas webinars, Sustainable Capital Markets forum, Smart Investing Workshop, 5th Market Data Workshops, 2nd NSE CEO's Stakeholder Engagement Call, Nigerian Securities Lending Forum and 2nd Islamic Finance Forum;

- Co-hosting a robust engagement with the 36 State Governors on the privatisation of state-owned-enterprises, in collaboration with the Nigerian Investment Promotion Commission (NIPC) and the Nigeria Governor's Forum (NGF);

- Compensation of a total of ₦17.02 million to 49 investors/claimants who suffered pecuniary losses in 2020; and
- Committing of ₦100.00 million to support the fight against the COVID-19 pandemic in Nigeria. The sum of ₦60.00 million was donated to the Capital Market Support Committee for COVID-19, while ₦40.00 million was given to the NSE's "Masks for All Nigerians" campaign, which facilitated the distribution of face masks to vulnerable people throughout the country.

The Secondary Market

Notwithstanding the adverse effect of the COVID-19 pandemic, activities in the secondary segment of the Nigerian capital market showed bullish performance in 2020, as investors' shifted their portfolio from the money market, due to low yield, as well as renewed optimism, following the rebound in crude oil prices and approval of the COVID-19 vaccines. Consequently, the NSE All Share Index (ASI) and equities market capitalisation rose, with the ASI emerging as the best-performing index in the world at the close of the year. The market turnover volume and value, similarly, trended upward at the end of the review period.

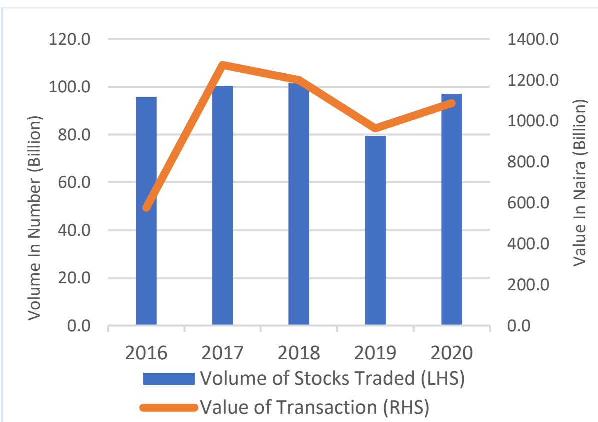
The cumulative volume and value of traded securities were 96.96 billion shares and ₦1,086.19 billion, respectively, traded in 1,156,830 deals at end-December 2020. This represented an increase of 22.1 per cent and 12.6 per cent, compared with the preceding year's levels of 79.43 billion shares and ₦964.92 billion, respectively, traded in 884,138 deals. The bulk of the transactions were in equities, which accounted for 99.9 per cent of the turnover volume and 94.7 per cent of value of traded securities, compared with 99.9 per cent and 99.4 per cent, respectively, in the preceding year. The average daily volume and value of traded equities were 370.02 million shares and ₦3.92 billion, respectively, compared with 325.52 million shares and ₦3.93 billion, in 2019.

Transactions in the financial services sector accounted for the bulk of the activities, with volume of traded stocks at 65.94 billion shares (68.0 per cent), valued at ₦606.69 billion (55.6 per cent) in 661,571 deals, compared with 60.54 billion shares (76.2 per cent), valued at ₦502.79

billion (52.1 per cent) in 518,240 deals in the preceding year.

An analysis of investors' activities in the Market showed a decline in participation by foreign investors, relative to the level in 2019. The levels of domestic and foreign investors' participation were 66.4 per cent and 33.6 per cent of the total transactions, as against 51.1 per cent and 48.9 per cent, respectively, in 2019.

Figure 7.5.1: Volume and Value of Transactions at the NSE



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

NSE All-Share Index

As investors' appetite for riskier assets remained strong due to persistent low yield on fixed-income instruments and attractive valuation of the listed companies, the All-share index grew significantly in 2020. The NSE All-Share Index, which opened the year at 26,842.07, rose significantly by 50.0 per cent to close at 40,270.72. Similarly, all sectoral indices of the NSE, except for the NSE-ASeM, NSE Consumer Goods and NSE-Oil/Gas indices, recorded positive growth at end-December 2020. The NSE-Industrial index recorded an impressive growth of 90.8 per cent, relative to the level at the end of the preceding year. The NSE 30 rose by 39.3 per cent; NSE Banking (10.1 per cent); NSE CG (12.3 per cent); NSE Insurance (50.6 per cent); NSE Lotus Islamic (55.1 per cent); and NSE Main Board (49.8 per cent). Other indices rose as follows: NSE Pension (31.7 per cent); NSE Premium (64.0 per cent); NSE-AFR Bank Value (12.7 per cent); NSE MERI Growth (18.7 per cent); NSE MERI Value (29.5 per cent); and NSE AFR Div Yield (45.7 per cent).

Market Capitalisation

In the review year, Market capitalisation was characterised by bargain hunting, following the release of financial results by some blue-chip stocks, as well as, attractive dividends yield by some companies. The aggregate market capitalisation of the 306 listed securities rose by 49.1 per cent to ₦38.59 trillion, compared with the level in 2019. This reflected an increase in the value of securities across different asset classes (equities, debt and ETF). Similarly, market capitalisation of the 161 listed equities rose by 62.4 per cent, to ₦21.06 trillion at end-December 2020, compared with the level in 2019. The equities segment constituted 54.6 per cent of aggregate market capitalisation, compared with 50.1 per cent in 2019. There were eight banks in the top twenty (20) most-capitalised stocks on the Exchange, same as in 2019. The banks accounted for 15.9 per cent of the aggregate market capitalisation, compared with 23.2 per cent in 2019.

Total market capitalisation, as a percentage of the nominal GDP, was 25.0 per cent, compared with 17.8 per cent at end-December 2019. Similarly, the ratio of the value of traded stocks to GDP was

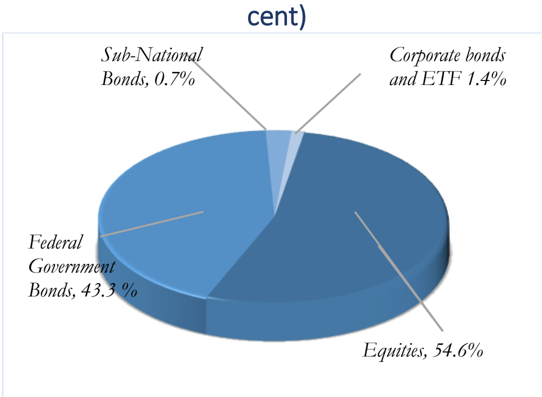
0.8 per cent, compared with 0.7 per cent recorded at end-December 2019.

Figure 7.5.2: Trends in Market Capitalisation and NSE Value Index

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

The debt securities component of market capitalisation, included Federal Government Bonds (₦16.7 trillion or 43.3 per cent), sub-national and supra-national Bonds (₦272.4 billion or 0.7 per cent) and Corporate Bonds/Debentures (₦507.8 billion or 1.3 per cent), and the Exchange Traded Funds (ETFs) accounted for the balance (₦24.5 billion or 0.06 per cent).

Figure 7.5.3: Aggregate Market Capitalisation (per cent)



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

At end-December 2020, the number of listed securities stood at 306, compared with 307 at end-December 2019, while the number of listed companies and listed equities stood at 156, and 161, compared with 160 and 165, respectively, at end-December 2019. The number of listed bonds rose, marginally, to 133 from 132 recorded at the end of the preceding year, while the number of ETFs rose to 12, compared with 10, at end-December 2019.

Domestic portfolio investment flows remained higher than foreign portfolio investment flows throughout the year 2020. Accordingly, the share of domestic portfolio investors, in total transactions, was 66.4 per cent, while the foreign transactions accounted for 33.6 per cent of total transactions, compared with 51.1 per cent and 48.9 per cent, respectively, in 2019.

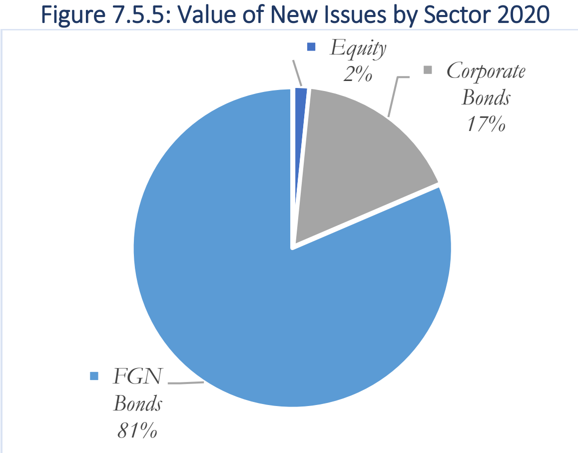
Figure 7.5.4: Share of Banks in the 20 Most Capitalised Stocks in the NSE

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

New Issues Market

Activities in the primary segment of the Nigerian capital market weakened in 2020, as there were sixty-four new security issuance, worth ₦2.28 trillion, compared with sixty-three securities, valued at ₦2.50 trillion in 2019. In addition, one private placement worth ₦3.01 billion and six equity rights issues, worth ₦31.39 billion, were approved by the Commission. In the government segment of the primary market, thirty-six FGN bonds (₦1,879.40 billion) and twenty-one corporate bonds (₦168.72 billion), were issued and allotted by the Debt Management Office (DMO) in the review period, compared with the thirty six FGN bonds, worth ₦1,742.46 billion; twelve corporate bonds, worth ₦168.72 billion; and two sub-national bonds, worth ₦114.80 billion, issued in 2019.

Figure 7.5.5: Value of New Issues by Sector 2020



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

8.0 EXTERNAL SECTOR DEVELOPMENT

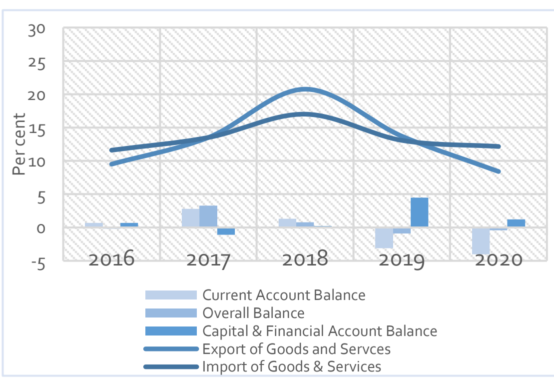
The performance of external sector remained weak during the review period, occasioned by the advent of the Coronavirus pandemic, which disrupted global economic activities as countries imposed various measures, prominent among which was the lockdown, to curtail the spread of the virus. This resulted in weak global demand, leading to lull in global trade activities, and slump in commodity prices, particularly crude oil, despite the OPEC+ production cut agreement in place. The external sector was impacted through substantial decline in foreign exchange earnings, increased demand pressure for capital repatriation, and depleting external reserves, as well as debt accumulation to shore up external reserves. Various policy measures were implemented by fiscal and monetary authorities to mitigate the effects of the Pandemic and the consequent decline in foreign exchange earnings.

8.1 BALANCE OF PAYMENTS

8.1.1 Major Developments

The external account remained under pressure as the effects of the COVID-19 pandemic weighed on trade activities and capital flows during the review period. An overall balance of payments deficit of US$1.66 billion, representing 0.4 per cent of GDP was recorded in 2020, compared with US$4.49 billion or 1.0 per cent of GDP in 2019. The deficit in the current account widened to US$16.98 billion or 4.0 per cent of GDP in the review period, relative to US$14.63 billion or 3.1 per cent of GDP in 2019. The financial account recorded a lower net acquisition of financial assets, equivalent to 1.2 per cent of GDP in 2020, below the 4.5 per cent of GDP in 2019. The stock of external reserves at end-December 2020 was US$36.48 billion and could finance 8.4 months of imports for goods only, or 6.1 months of import of goods and services, higher than both the international benchmark and that of the West African Monetary Zone (WAMZ) convergence criterion of three months. The stock of external debt at end-December 2020 increased by 20.5 per cent to US$33.35 billion, representing 7.7 per cent of GDP, which was within the international threshold of 40.0 per cent of GDP. The exchange rate remained relatively stable, driven by the Bank's robust foreign exchange management policies. The International Investment Position (IIP) recorded a net financial liability of US$81.86 billion in 2020, compared with US$73.42 billion in 2019, indicating an increase of 11.5 per cent. The development was attributed to new borrowings to mitigate the effect of the COVID-19 pandemic and meet balance of payment needs.

Figure 8.1.1: Balance of Payments, 2016-2020 (per cent of GDP)



Source: Central Bank of Nigeria

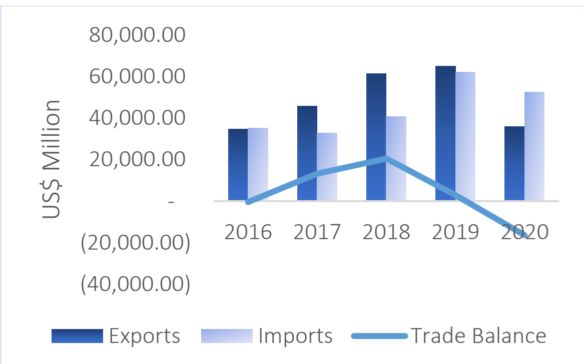
8.2 THE CURRENT ACCOUNT

The effects of the COVID-19 pandemic, particularly, the partial lockdown measure, that paralysed global economic activities and weighed on crude oil prices, resulted in weak current account position during the review period, as goods account swung into deficit, from a surplus position in 2019. A current account deficit of US$16.98 billion or 4.0 per cent of GDP was recorded in 2020, compared with US$14.63 billion or 3.1 per cent of GDP in 2019. This was due, largely, to significant decline in export earnings, which resulted in a deficit in the goods account. However, the deficit in the services account narrowed to 3.7 per cent of GDP in the review period, on account of the significant decline in payments for services, particularly with the closure of the global airspace, except for essential services, to curtail the spread of the Corona virus. The deficit in the primary income account also narrowed to 1.3 per cent of GDP, owing to the sharp decline in dividends and other interest payments to non-resident investors. The secondary income account retained its surplus position, though lower at 4.9 per cent of GDP in 2020.

8.2.1 The Goods Account

The COVID-19 pandemic weakened global trade as a result of the lockdown measures across the globe, which led to crash in commodity prices, particularly that of crude oil. Thus, transactions in the goods account during the review period resulted in a trade deficit of US$16.40 billion or 3.8 per cent of GDP, in contrast to a surplus of US$2.87 billion or 0.6 per cent of GDP in 2019. Aggregate export, which represented 8.4 per cent of GDP, fell by 44.7 per cent to US$35.94 billion in 2020, relative to the US$64.98 billion in 2019. A breakdown of total export showed that despite the slump in crude oil prices, the dominance crude oil and gas was evident as its share accounted for 87.4 per cent of the total, while non-oil export accounted for balance of 12.6 per cent. Aggregate merchandise import fell by 15.7 per cent to US$52.35 billion in 2020, compared with US$62.11 billion in 2019. Non-oil import, at 10.5 per cent of GDP, remained dominant, accounting for 86.1 per cent of the total, while oil import, representing 1.7 per cent of GDP, accounted for the balance.

Figure 8.2.1: Value of Import, Export and Trade Balance, 2016 – 2020 (US$ million)



Source: Central Bank of Nigeria

Import (CIF)

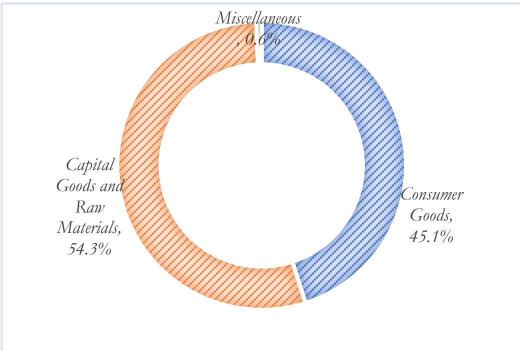
Aggregate import, unadjusted for balance of payments, decreased by 14.1 per cent to US$57.32 billion in 2020, relative to the US$66.74 billion in 2019. This was occasioned by the decline in the importation of both oil and non-oil products, such as used vehicles and motorcycles. Petroleum product import fell as demand decreased, due to lull in economic activities for most part of the review period. A disaggregation, based on returns from commercial banks, showed that the industrial sector accounted for 45.0 per cent of total import, followed by manufactured products with 21.8 per cent. Food products, oil, transport, agriculture and mineral sub-sectors accounted for 15.9, 11.2, 4.1, 1.6, and 1.3 per cent, respectively.

Import by Major Groups

Analysis of import by major groups revealed that capital goods and raw material category, which constituted 54.3 per cent of the total, dominated total import with a value of US$31.12 billion in 2020, from US$37.60 billion in 2019. This was followed by consumer goods category with a value of US$25.84 billion or 45.1 per cent of the total, compared with US$28.72 billion or 43.0 per cent in 2019. Miscellaneous import, at US$0.36 billion, accounted for the balance.

A disaggregation showed that within the capital goods and raw material category, importation of capital goods with US$25.67 billion or 44.8 per cent of the total dominated, while raw material import, mainly industrial chemicals, was US$5.45 billion, representing 9.5 per cent of the total. The dominance of capital goods was consistent with the import substitution industrialisation drive aimed at reducing consumption of foreign produced goods. In the consumer goods category, importation of durable goods, valued at US$13.57 billion, accounted for 23.7 per cent of the total, while non-durable goods, at US$12.27 billion, represented 21.4 per cent.

Figure 8.2.2: Import by Major Groups, 2020 (per cent)



Source: Central Bank of Nigeria

Import by the Harmonised System (HS) Classification

Analysis of import by Harmonised System (HS) classification showed that machinery and mechanical appliances, at US$17.22 billion, accounted for the largest share of 30.1 per cent of the total, followed by vehicles, aircraft, vessels and associated transport equipment at US$6.93 billion (12.1 per cent). Products of chemicals or allied was US$6.71 billion (11.7 per cent); vegetable products, US$4.99 billion (8.7 per cent); plastic and articles thereof, US$3.83 billion (6.7 per cent); base metals and articles of base metal, US$3.68 billion (6.4 per cent); and prepared foodstuff, US$3.68 billion (6.4 per cent).

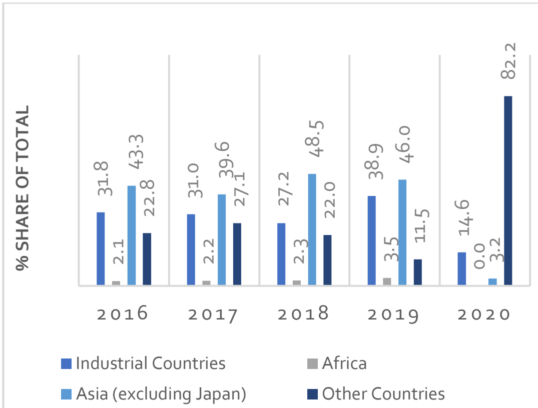
A further analysis showed that live animals & animal products, at US$2.95 billion, constituted 5.1 per cent of the total; pulp of wood, US$1.24 billion (2.2 per cent). Others included: optical photographic, cinematographic, measuring appliances, US$1.52 billion (2.7 per cent); textile & textile articles, US$1.02 billion (1.8 per cent); and articles of stone, US$0.41 billion (0.7 per cent); while "other" categories accounted for the balance.

Non-oil Import by Country of Origin

A disaggregation of non-oil import to Nigeria by originating country showed Brazil as the leading source, accounting for 79.2 per cent of the total. This was followed by Belgium and Italy, with 5.7 per cent and 5.1 per cent, respectively. Import from the United Arab Emirates was 2.8 per cent, while China had a share of 1.7 per cent of the total. Import from Japan represented 1.4 per cent, Malaysia and France had respective shares of 1.2 per cent and 1.0 per cent. Other countries accounted for the balance.

Analysis of import by group showed that "Other" countries as a group, recorded an increase in their share to 82.2 per cent in 2020, above the 11.5 per cent in 2019. The share of industrialised countries decreased to 14.6 per cent, compared with 38.9 per cent in 2019. Similarly, the share of Asia (excluding Japan) decreased to 3.2 per cent, from 46.0 per cent in 2019. The share of African countries was the least and witnessed a significant decrease to 0.01 per cent, from the level in 3.5 per cent in 2019.

Figure 8.2.3: Non-oil Import by Country of Origin, 2016-2020 (percentage share of total)



Source: Central Bank of Nigeria

Export (FOB)

The outbreak of the COVID-19 pandemic and its associated measures induced demand and supply shocks across all value-chains. The development depressed global economic performance and resulted in slump in crude oil prices at the international market. This resulted in significant decline in Nigeria's export proceeds by 44.7 per cent to US$35.94 billion, equivalent to 8.4 per cent of GDP in 2020, compared with US$64.98 billion or 13.7 per cent of GDP in 2019. The adverse effect of the COVID-19 pandemic was felt in all components of the export sub-sector.

A breakdown showed that crude oil and gas receipts fell by 42.4 per cent to US$31.40 billion or 7.3 per cent of GDP in the review period, relative to US$54.51 billion or 11.5 per cent of GDP in 2019. The development was attributed largely to weak demand for Nigeria's reference crude, the Bonny Light, occasioned by the COVID-19 pandemic containment measures imposed across the world.

Accordingly, the price of the commodity declined significantly by 36.5 per cent to an average of US$42.19 per barrel in the review period, compared with US$66.41 per barrel in 2019. In addition, a decline in production was witnessed in 2020, where average production reduced by 11.2 per cent to 1.66 million barrels per day, relative to 1.87 million barrels per day in 2019. The decline was largely associated with the compliance of member countries with the OPEC+ production cap, aimed at boosting crude oil prices, amidst low global demand.

Similarly, receipts from non-oil, including electricity export fell considerably by 56.6 per cent to US$4.54 billion or 1.1 per cent of GDP in 2020, relative to US$10.47 billion or 2.2 per cent of GDP in 2019. The development was as a result of reduction in global demand due to the impact of the COVID-19 pandemic.

Box 9

Positioning Nigeria for African Continental Free Trade Area (AfCFTA)

- *The African Continental Free Trade Area (AfCFTA) is an initiative of African Union (AU), designed to improve intra African trade and create a single market for trade in Africa. In particular, the objectives of AfCFTA include elimination of trade barriers, expand customs cooperation, liberalization of trade in services and improve dispute resolution among member countries. Nigeria is a signatory to AfCFTA agreement, by implication, a participating country in the scheme.*

- *While the establishment of AfCFTA provides opportunities for member countries to maximally harness their exports potentials, the extent to which Nigeria can benefit from the scheme depends on the competitiveness of goods and services produced by her. Nigeria has the largest population, economic size, agricultural output and third largest manufacturing sector in Africa. Strengthening the efficiency in our production capacities can enable the country to leverage the benefits that can ensue. Moreover, Nigeria can improve benefit of AfCFTA by establishing clear strategic roadmap of short and long-term trade targets that turns the country's comparative advantages into competitive advantages. This strategy must be complemented by improved business and institutional environments that guarantee leveling playing field for homegrown enterprises. In addition, Nigeria should adopt active strategy that deliberately promote small and medium scale enterprises (MSMEs), create awareness of AfCFTA among MSMEs, and provide opportunities for MSMEs to have easier access to finance, through that create more jobs for her citizen.*

- *Benefits that Nigeria can derive from AfCFTA are numerous. The scheme can provide new markets for Nigerian goods, especially, manufacturers goods, that can easily be exported to other African countries and expand their market share through AfCFTA. With AfCFTA, Nigeria can improve her service export by exporting services to other less developed neighbouring African countries. One strategic sector of the Nigerian economy that stands to benefit from AfCFTA is the transportation sector, the scheme can provide opportunities for cross border road network, water, rail and air transportation to expand and thereby increase the country's income from services. The AfCFTA permits free cross border movement, this will help Nigerian to freely secure quality jobs from within the region thereby reducing unemployment. The scheme could drastically reduce high importation challenge as Nigerian firms can easily source raw materials from resource-rich African countries through that reduce importation from advanced countries.*

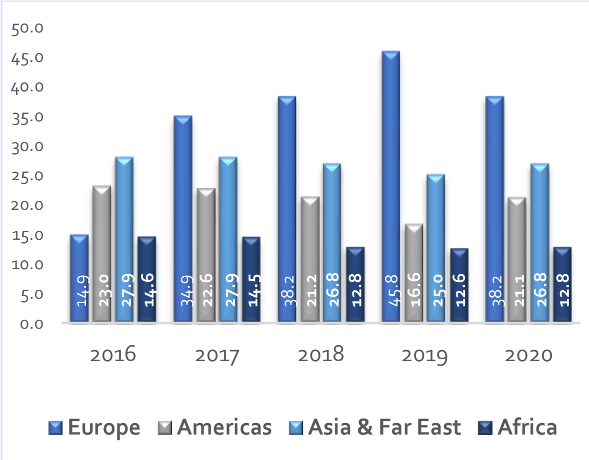
- *In that regard policy should seek to minimizing associated costs such as loss tariff revenue, vanishing local SMEs and maximizing benefits of the scheme Nigeria will benefit from lower import prices, increased exports, production efficiency, higher value-added jobs, and increase in outputs. These policies should focus on how to improve macroeconomic environment, infrastructure, competitiveness, security, easy access to information, property right and legal enforcement of contracts, ease of doing business, and strengthening manufacturing and industry subsectors.*

Direction of Crude Oil Export

Available data on Nigeria's crude oil export in the review period showed a reduction in the value and volume of crude oil export by 44.1 per cent and 11.2 per cent, respectively. A breakdown of export by destination showed that India maintained its lead as the highest consumer of Nigeria's crude oil, followed by The USA and Spain. By continent, Europe was the major destination for Nigeria's crude oil export, with US$10.25 billion, representing 38.2 per cent of the total. Within the group, Spain ranked highest with US$2.70 billion, accounting for 10.1 per cent of the total. This was followed by: Netherlands, US$2.44 billion (9.1 per cent); France, US$1.90 billion (7.1 per cent); the United Kingdom, US$1.17 billion (4.4 per cent); and Italy, US$0.72 billion (2.7 per cent). Other countries in the group accounted for the balance.

Ranking next to Europe was Asia, with US$7.19 billion or 26.8 per cent of the total. India purchased US$5.35 billion worth of Nigeria's crude and had the largest share of 20.0 per cent of the total, followed by Indonesia with a value of US$0.98 billion or 3.6 per cent, and China with US$0.23 billion, representing 0.9 per cent of the total. Next to Asia was the North America with US$4.83 billion (18.0 per cent). Canada and the United States accounted for 3.7 per cent and 14.3 per cent, respectively. African continent followed, with export of crude oil worth US$3.44 billion (12.8 per cent) in 2020. South Africa ranked highest within the group with US$1.47 billion or 5.5 per cent; Togo, US$0.72 billion, accounting for 2.7 per cent of the total; and Côte d'Ivoire, US$0.43 billion or 1.6 per cent of the total. In the South American continent, US$0.84 billion (3.1 per cent) was realised with export to Brazil accounting for 1.2 per cent, while that to Argentina constituted 0.9 per cent of the total.

Figure 8.2.4: Direction of Crude Oil Exports, 2016 – 2020 (percentage share of total)



Source: Central Bank of Nigeria

Non-oil Export

The partial lockdown of the Nigerian economy to contain the spread of COVID-19 resulted in the closure of many industries, factories and businesses, particularly small and medium enterprises, thereby, leading to decline in production for export. As a result of this development, non-oil export receipts fell considerably by 56.6 per cent to US$4.54 billion or 1.1 per cent of GDP in 2020, relative to US$10.47 billion or 2.2 per cent of GDP in 2019.

A breakdown of non-oil export by product showed that agricultural produce category, valued at US$2.88 billion, constituted the highest share of 63.4 per cent of the total. Within the category, export of cocoa beans dominated with a share of 26.7 per cent, followed by other agricultural produce, 16.4 per cent; sesame seeds, 11.9 per cent; cashew nuts, 2.2 per cent; rubber, 2.0 per cent; beef/crustaceans, 2.0 per cent; and other agricultural produce made up the balance.

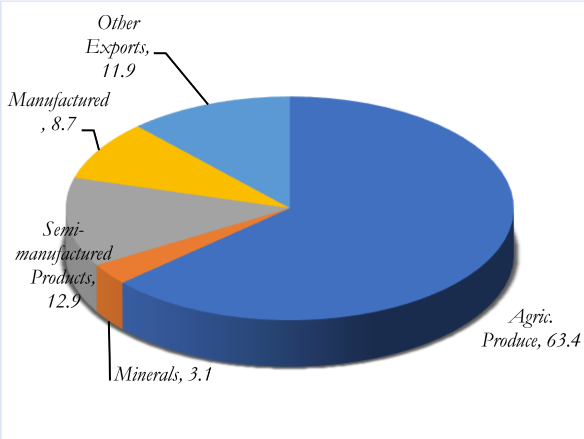
The semi-manufactured products category, with a value of US$0.59 billion, constituted 12.9 per cent of the total. Within the category, aluminum recorded the highest performance of 3.7 per cent, followed by leather & processed skins at 3.2 per cent; cocoa products, 1.1 per cent; palm products, 1.1 per cent; copper 0.9 per cent; lead, 0.6 per cent; wheat bran pellets, 0.3 per cent. Other semi-manufactured products within the sub-category accounted for the balance.

The manufactured goods category, at US$0.39 billion, accounted for 8.7 per cent of the total, of which export of tobacco was 4.5 per cent; soap and detergents, 0.6 per cent; pet flakes/plastic, 0.5 per cent; beer/beverages, 0.4 per cent; insecticide, 0.3 per cent; paper products, milk products and ceramic tile and glass 0.2 per cent apiece; aluminium products, empty bottles and textiles 0.1 per cent apiece. Other manufactured products accounted for the balance.

The minerals category recorded the lowest export value of US$0.14 billion, accounting for 3.1 per cent of the total. Within the category, lead constituted 1.5 per cent and copper, 0.7 per cent. Other minerals accounted for the balance.

The "other" export category, at US$0.54 billion, accounted for 11.9 per cent of total non-oil export, of which urea was 5.3 per cent; other products, 2.6 per cent; electricity, 1.9 per cent; cement/lime products, 1.3 per cent; used/re-exported machinery, 0.4 per cent; and petroleum products and charcoal, 0.2 per cent each.

Figure 8.2.5: Non-oil Export by Product, 2020 (Per cent)



Source: Central Bank of Nigeria

Non-oil Export to the ECOWAS Sub-Region

The value of non-oil export to the ECOWAS sub-region was US$235.35 million in the review period, below the US$335.68 million in 2019, reflecting the effect of the COVID-19 pandemic. Among member countries, export to Ghana was the highest with US$82.14 million, or 34.9 per cent of the total, lower than the US$101.06 million or 30.1 per cent in 2019. This was followed by: Côte d'Ivoire, US$38.66 million (16.4 per cent); Niger, US$17.56 million (7.5 per cent); Guinea, US$11.18 million (4.7 per cent); and Senegal, US$8.74 million (3.7 per cent). Export to Burkina Faso was the least at US$0.12 million. These values were higher than the US$60.94 million, US$32.23 million, and US$64.13 million recorded by Togo, Côte d'Ivoire and Niger, respectively, in 2019. However, the values for Guinea Bissau and Burkina Faso were higher in 2019 at US$12.01 million and US$3.59 million, respectively. The dominant export products to the sub-region remained: tobacco; plastics; rubber; plastic footwear; soap and detergents; as well as polybags.

Activities of the Top 100 Non-oil Exporters

Aggregate value of the top one hundred non-oil export increased by 8.6 per cent to US$1.89 billion, compared with US$1.74 billion in 2019. A breakdown showed that Olam Nigeria Limited ranked 1st with proceeds of US$371.68 million, accounting for 19.6 per cent of the total, from the export of premium grade sesame seeds and fermented cocoa bean seeds to Australia, Greece, Turkey, The Netherlands and Syria. Starlink Global and Ideal Limited ranked 2nd with US$141.39 million or 7.5 per cent of the total each, from the export of raw cocoa beans, raw cashew nuts, shea nuts and sesame seeds to Malaysia. In the 3rd place was the British American Tobacco (BAT) Nigeria, with US$122.31 million (6.5 per cent of the total), from the export of cigarettes to Liberia, Guinea, Ghana, Cameroon, Côte d'Ivoire and Niger.

Indorama Eleme Fertilizer and Chemicals Ltd ranked 4th with proceeds of US$117.51 million (6.2 per cent of the total), from the export of granular urea in bulk to Côte d'Ivoire, Brazil, Canada, the USA, Senegal, Benin, Cameroon and Argentina. Wacot Limited ranked 5th with proceeds of US$71.35 million (3.8 per cent of the total), from the export of sesame seed and ginger to The Netherlands, Italy, Poland, Turkey, Japan and India. Metal Recycling Industries Limited ranked 6th with proceeds of US$70.30 million (3.7 per cent of the total), from the export of aluminum to Saudi Arabia.

Etc Agro Company Nigeria Limited ranked 7th with a value of US$60.87 million (23.2 per cent of the total) from export of sesame seeds to Japan, while Valency Agro Nigeria Limited occupied the 8th position with export receipts valued at US$56.83 million (3.0 per cent of the total), from the export of agro & consumer goods, sulphur & fertilizers, and steel & scrap to The Netherlands and the USA.

Tulip Cocoa Processing Limited and Mamuda Industries (Nig) Limited ranked 9th and 10th with exported goods valued at US$44.53 million or 2.4 per cent and US$44.32 million or 2.3 per cent of the total, respectively. Tulip Cocoa Processing Limited exported cocoa (liquor, butter and cake) to The Netherlands, while Mamuda Industries (Nig) Limited exported processed and finished leather to Italy, India and Spain.

The 14th exporter was Olatunde International Limited with US$26.58 million, realised from the export of raw cocoa beans to Spain, The Netherlands and Belgium. The 31st major exporter was Broadgrain Africa Limited with US$14.46 million or 0.8 per cent of the total, from export of grains, cereals, oilseeds, pulses, specialty crops and related by-products for both food and feed markets to Canada. PZ Cussons Nigeria Plc was the 47th major exporter with US$6.55 million (0.3 per cent of the total), from export of morning fresh, soap, Nunu filled milk and hair cream to Libya, Gabon, Liberia, DR Congo and Ghana. At the 50th position was Sunbeth Global Concept Limited with US$6.03 million from the export of raw cocoa beans and cashew to the US and Europe.

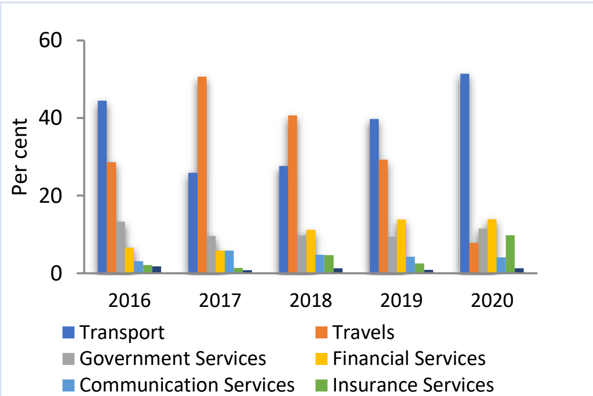
Unilever Nigeria Plc took the 89th position with US$2.44 million, from the export of OMO multi-active relaunch detergent and Closeup deep action toothpaste to Ghana and Côte d'Ivoire. In the 92nd position was H.M Agro Commodities Nigeria Limited, with export earnings of US$2.15 million from sesame seeds and hibiscus flowers to America. Mozukahdj Nigeria Limited and Abvee Industries Limited were in the 94th and 97th positions with proceeds of US$1.98 million, and US$1.82 million, respectively, from the export of Cocoa, Cashew, and Sorghum to Vietnam, China and Switzerland; and Polymer to China, respectively. Toon Consolidated Company Limited was placed 100th with earnings of US$1.75 million, from the export of dried split ginger, dried hibiscus flower, sesame seed, kola nuts and hard wood charcoal to Holland, Germany and Poland.

8.2.2 Services Account

The activities in the major services sub-sectors plummeted, due to lower demand for international services. Specifically, the aviation industry was worse hit as international travel was grounded during the lockdown in the second quarter of 2020, to contain the spread of the virus. As a result, the deficit in the services account narrowed significantly by 53.1 per cent, to US$15.84 billion (3.7 per cent of GDP), compared with US$33.76 billion (7.1 per cent of GDP) in 2019. This was as a result of decreased payments, particularly in respect of travels, freight, and other business services, during the review period.

A breakdown of the account showed that aggregate services receipts declined by 19.3 per cent to US$3.99 billion, compared with US$4.95 billion in 2019. Of the total, receipts in respect of transportation services increased by 4.3 per cent to US$2.05 billion, representing 51.4 per cent of the total. Receipts in respect of financial services was US$0.56 billion, representing 13.9 per cent of the total in the review period, relative to US$0.69 billion in 2019. Government services receipts declined marginally by 0.6 per cent to US$0.46 billion (11.5 per cent of the total), compared with the level in 2019. Insurance and travel services receipts were US$0.39 billion (9.9 per cent of the total) and US$0.31 billion (7.9 per cent of the total), compared with US$0.12 billion and US$1.45 billion, respectively, in 2019. Receipts in respect of communication services declined by 22.9 per cent to US$0.16 billion, representing 4.1 per cent of total receipts in the review period, compared with US$0.21 billion in 2019.

Figure 8.2.6: Percentage Share of Services Receipts

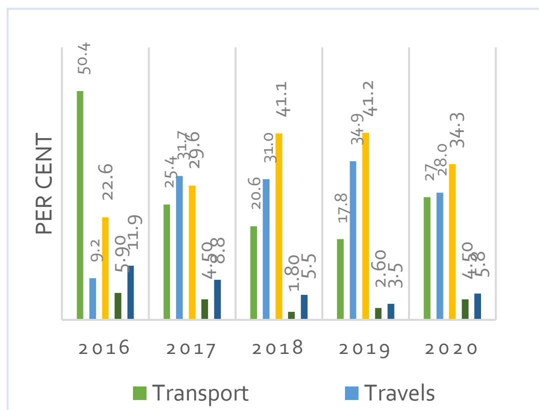


Source: Central Bank of Nigeria

A further breakdown showed that payments for international services declined significantly by 48.8 per cent to US$19.83 billion, relative to US$38.71 billion in 2019, on account of the COVID-19 pandemic, which disrupted economic activities. A disaggregation showed that payment in respect of other business services, particularly technical services declined significantly by 57.4 per cent to US$6.80 billion in 2020, relative to US$15.97 billion in 2019. Similarly, payments in respect of transportation and travel services declined by 22.6 per cent and 58.9 per cent to US$5.35 billion and US$5.55 billion, respectively, in the review period, compared with US$6.91 billion and US$13.51 billion in 2019. The significant decline in both transportation and travel services was due, largely, to lower payment of passenger fares, and decrease in both personal (mainly education and health-related) and business travels, respectively, following the wide-spread restriction on cross border movement, to contain the spread of the virus. Insurance, financial and government services payments declined by 9.2 per cent, 12.4 per cent, and 9.3 per cent to US$0.90 billion, US$0.38 billion, and US$0.23 billion, respectively, compared with their levels in 2019.

In terms of their share in total payments: other business services accounted for 34.3 per cent; transportation services, 27.0 per cent; travel services, 28.0 per cent; insurance services, 4.5 per cent; financial services, 1.9; computer & information services, 1.7 per cent; royalties and license fees, 1.3 per cent; and government services, 1.2 per cent. Other categories accounted for the balance.

Figure 8.2.7: Percentage Share of Services Payment



Source: Central Bank of Nigeria

Table: 8.2.1 Net Share of Major Invisible Transactions (per cent) 2016 – 2020

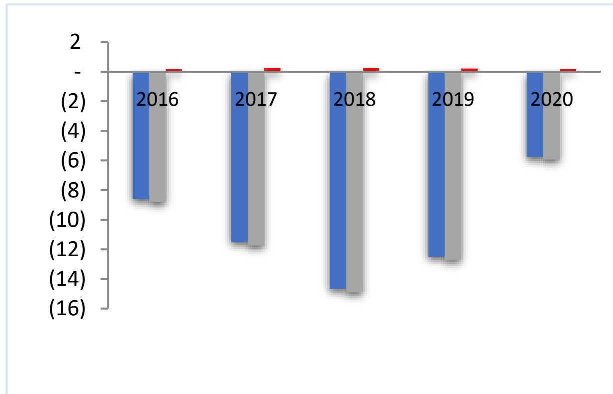
Items	2016	2017	2018	2019	2020
Transportation	52.1	25.3	19.3	14.6	20.8
Travel	0.1	24.5	29.2	35.6	33.1
Insurance Services	7.5	5.6	1.3	1.5	3.2
Communication Services	1	-0.5	-0.2	-0.2	-0.9
Construction Services	0	0.01	0.2	0.1	0.1
Financial Services	1.5	1.9	0.5	-0.6	-1.1
Computer and Information Services	1.8	1.7	1	0.5	2.2
Royalties and License Fees	3.1	1.9	1	0.8	1.6
Government Services	1	-1.7	-0.8	-0.6	-1.4
Personal, Cultural & Recreational Services	0.2	0.8	0.2	0.3	0
Other Business Services	31.7	40.5	48.5	47.9	42.6
Total	100	100	100	100	100

Source: Central Bank of Nigeria

8.2.3 The Primary Income Account

The lull in economic activities due to the COVID-19 pandemic resulted in lower repatriation of dividends and profits during the review period. Thus, the deficit in the primary income account narrowed significantly by 43.0 per cent to US$5.76 billion, equivalent to 1.3 per cent of GDP in 2020, relative to US$10.10 billion or 2.1 per cent of GDP in 2019. The development was attributed, mainly, to reduced outflow in the investment income sub-account, which fell significantly by 41.2 per cent, to US$7.28 billion, compared with US$12.38 billion in 2019, on account of lower payment of dividends and distributed branch profits. The compensation of employees sub-account, which maintained its surplus position, registered a decline of 22.4 per cent to US$0.17 billion in 2020, compared with US$0.22 billion in 2019.

Figure 8.2.8: Net Primary Income (US$ Billion) 2016-2020



Source: Central Bank of Nigeria

8.2.4 The Secondary Income Account

The Bank's foreign exchange policy cushioned the effect of the COVID-19 pandemic on diaspora remittance inflow. Consequently, a surplus position was maintained in the secondary income, though lower by 20.3 per cent at US$21.02 billion, representing 4.9 per cent of GDP in the review period, relative to US$26.37 billion or 5.5 per cent of GDP in 2019. This was attributed majorly, to reduced inflow of personal transfers, particularly remittances inflow, reflecting challenging global environment in the face of the COVID-19 pandemic.

The surplus in the general government sub-account, which comprised receipts from foreign embassies and international organisations, increased by 152.8 per cent to US$4.58 billion in 2020, compared with US$1.81 billion in the preceding year. The improvement was attributed, mainly, to increased financial assistance to the Nigerian government to augment available resources to mitigate the effects of the COVID-19 pandemic. The “Other” sectors sub-account, however, decreased by 33.1 per cent to US$16.44 billion, compared with US$24.56 billion in 2019, as a result of the 27.8 per cent decline in remittances inflow to US$17.00 billion in 2020, compared with US$23.55 billion in 2019.

Table 8.2.2: Secondary Income Account (US$ Million), 2016 – 2020

INFLOW (credit)	2016	2017	2018	2019	2020
1.General government (Grants, ODA, Technical Assistance & Gifts)	1,4067.0	679.7	414.6	1,812.2	4,581.14
2. Financial corporations, nonfinancial corporations, households, and NPISHs (remittances and other transfers in kind)	19,535.7	21,837.54	24,111.0	25,268.3	17,045.69
OUTFLOW (debit)					
1.General government (Payments to International Organizations & other payments)	7.6	-	-	-	-
2. Financial corporations, nonfinancial corporations, households, and NPISHs (remittances and other transfers)	1,045.9	521.63	391.57	711.09	604.52
NET SECONDARY INCOME	19,889.2	21,995.6	24,134.1	26,369.3	21,022.32

Source: Central Bank of Nigeria.

8.3 THE FINANCIAL ACCOUNT

Global capital flows, particularly from developed to emerging market and developing economies, were hampered amidst the COVID-19 pandemic. During the review period, the financial account recorded a net acquisition of financial assets of US$5.07 billion, equivalent to 1.2 per cent of GDP, lower than the US$21.44 billion or 4.5 per cent of GDP in 2019. The development was attributed, mainly, to lower holdings of foreign currency by the private sector and depletion in external reserves during the review period.

A disaggregation of financial flows showed that foreign financial assets, representing financial outflows, declined to US$3.37 billion or 0.8 per cent of GDP in the review period, compared with US$11.51 billion or 2.4 per cent of GDP in 2019. The development was due, largely, to the reduction in the holdings of foreign currency by banks and the private sector, as well as the depletion of external reserves.

Acquisition of direct investment assets stood at US$0.34 billion, (0.1 per cent of GDP), compared with US$0.29 billion in 2019. The development reflected the uncertainty pervading the global economy on account of the COVID-19 pandemic, which discouraged resident investors from acquiring new investments overseas. Portfolio investment assets decreased by 80.6 per cent to US$0.02 billion in 2020.

Other investment assets declined substantially by 81.3 per cent to US$1.38 billion or 0.3 per cent of GDP, compared with US$7.40 billion in 2019, driven, largely, by lower foreign currency holdings by banks and the private sector, during the review period.

External reserve asset was depleted by US$1.66 billion in the review period, lower than the US$4.49 billion in 2019, to ensure foreign exchange liquidity and exchange rate stability.

During the review period, the financial account witnessed significant pressure due to portfolio capital reversal, induced by the COVID-19 pandemic and the slump in crude oil prices. Thus, aggregate financial liabilities, representing foreign financial inflow reduced significantly to US$1.71 billion (0.4 per cent of GDP) in 2020, relative to US$9.92 billion (2.3 per cent of GDP) in 2019. The development was due to portfolio capital reversal (both equity and debt securities), repayment of loans by the banks and the private sector and withdrawal of foreign currency placed in Nigerian banks. Portfolio capital reversals are typical of a crisis period as investors move to safer havens due to risk averseness.

A breakdown showed that, inflow of foreign direct investment increased by 3.5 per cent to US$2.39 billion (0.6 per cent of GDP) in the review period, compared with US$2.31 billion (0.5 per cent of GDP) in 2019. This was due to the 5.9 per cent increase in the inflow of fresh FDI equity.

Portfolio capital reversal of US$3.59 billion (0.8 per cent of GDP) was witnessed in 2020, as against an inflow of US$3.18 billion (1.9 per cent of GDP) in 2019. This was as a result of the disposal of both equity and debt securities during the review period, following the bearish performance of the capital market during the lockdown period and low returns on investment in fixed income securities. In addition, tight financial conditions resulting from reduced foreign exchange liquidity contributed to the reversal of portfolio investment during the review period. The ratio of external reserves to portfolio investment was 135.4 per cent in 2020, above the benchmark of 100.0 per cent short-term debt cover of the Greenspan-Guidotti measure of external reserves adequacy.

Other investment liabilities, driven, largely, by loans, declined to US$2.91 billion (0.7 per cent of GDP), relative to US$4.44 billion (0.9 per cent of GDP) in 2019. This was on account of the repayment of loans by banks and significantly lower foreign currency placements in Nigerian banks.

The COVID-19 pandemic and the consequent slump in crude oil prices affected Nigeria's foreign exchange earnings, thereby leading to increased debt accumulation, essentially, to meet balance of payments needs. To this end, public external debt stock increased by 20.5 per cent at end-December 2020 to US$33.35 billion, compared with the US$27.68 billion at end-December 2019. This was due largely, to additional disbursements from multilateral and bilateral sources during the review period. Specifically, a US$3.36 billion IMF emergency facility was secured by the country. Multilateral borrowing, mainly, from the IMF, World Bank and the African Development Bank, increased to US$17.93 billion, constituting 53.8 per cent of total external debt, compared with US$12.66 billion or 45.7 per cent in 2019. Loans from commercial sources, in form of Euro and Diaspora bonds, remain unchanged at US$11.17 billion or 33.5 per cent of the total. Loans from bilateral sources, principally the China Exim Bank, also increased to US$4.06 billion, representing the remaining 12.2 per cent of the total, compared with the US$3.85 billion or 13.9 per cent in 2019. At 7.7 per cent of GDP, public sector external debt remained within the international threshold of 40.0 per cent of GDP.

8.4 CAPITAL IMPORTATION AND OUTFLOW

The uncertainty surrounding investments in global financial markets affected capital inflow as most financial markets exhibited bearish investment sentiments, particularly during the lockdown period and resultant weak global demand occasioned by job losses, factory closures and wage cut. This development led to sharp decline in capital inflow during the review period. Thus, returns from commercial banks showed that aggregate new capital injected into the economy was US$10.48 billion in 2020, compared with US$23.99 billion in 2019, indicating a decrease of 56.3 per cent.

8.4.1 Capital Importation by Nature of Investment

A disaggregation of capital imported by type of investment showed that portfolio investment, at US$5.14 billion, accounted for the largest share of 49.0 per cent of the total. Of this amount, money market instruments amounted to US$4.15 billion, representing 39.6 per cent of the total; equity securities, US$0.76 billion or 7.2 per cent; and government bonds, US$0.23 billion or 2.2 per cent of total. Inflow of FDI was US$1.03 billion, representing 9.8 per cent of the total inflow, of which equity accounted for the total inflow. Other investment inflow at US$4.31 billion constituted 41.2 per cent of the total. A further breakdown of other investment inflow showed that loans was US$3.38 billion or 32.2 per cent of the total, while other claims at US$0.93 billion accounted for 8.9 per cent. Trade credit and currency deposits accounted for the balance.

Table 8.4.1: New Capital Inflows (US$' Million)

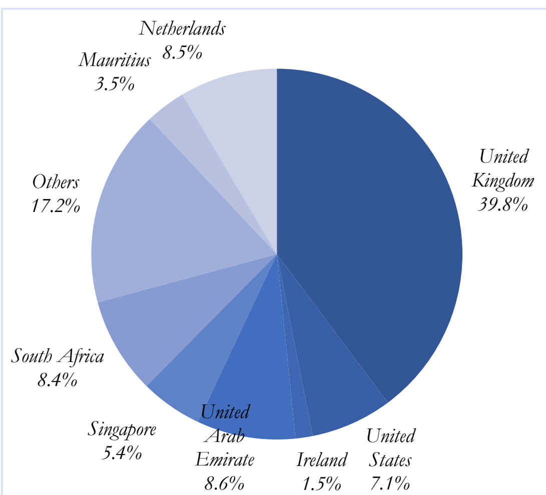
NATURE OF CAPITAL	2016	2017	2018	2019	2020
FDI – Equity	1,059.5	1,038.7	1,288.3	922.2	1,026.0
FDI - Other capital	0.3	2.3	5.6	12.1	3.0
Sub-Total	**1,062.4**	**1,041.0**	**1,293.9**	**934.3**	**1,028.9**
Portfolio Investment – Equity	859.1	3,594.0	2,456.4	1,893.2	755.1
Portfolio Investment – Bonds	395.9	526.8	980.2	1,022.4	231.2
Portfolio Investment - Money Market Instruments	577.9	3,309.5	8,731.7	13,449.9	4,150.9
Sub – Total	**1,832.8**	**7,430.3**	**12,168.4**	**16,365.5**	**5,137.2**
Other Investments - Trade Credits	0.2	295.7	6.9	0.0	0.0
Other Investments - Loans	2,424.6	2,894.3	3,684.7	5,078.8	3,378.9
Other Investments - Currency Deposits	0.0	3.5	1.0	3.0	0.9
Other Investments - Other Claims	26.9	739.6	284.9	1,608.4	934.6
Sub – Total	**2,451.7**	**3,933.1**	**3,977.5**	**6,690.3**	**4,314.4**
TOTAL	**5,346.9**	**12,404.4**	**17,439.8**	**23,990.1**	**10,480.5**

Source: Central Bank of Nigeria

8.4.2 Capital Importation by Country of Origin

A breakdown of capital importation by country of origin showed the United Kingdom as the dominant source of capital with a value of US$4.17 billion or 39.8 per cent of total capital inflow, followed by the United Arab Emirates, US$0.90 billion or 8.6 per cent. Inflow from The Netherlands was US$0.89 billion (8.5 per cent); Republic of South Africa, US$0.88 billion (8.4 per cent); the United States, US$0.74 billion (7.1 per cent); Singapore, US$0.56 billion (5.4 per cent); Mauritius, US$0.37 billion (3.5 per cent); and Ireland, US$0.15 billion (1.5 per cent). Other countries accounted for the balance.

Figure 8.4.1: Capital Importation by Country of Origin, 2020 (per cent)

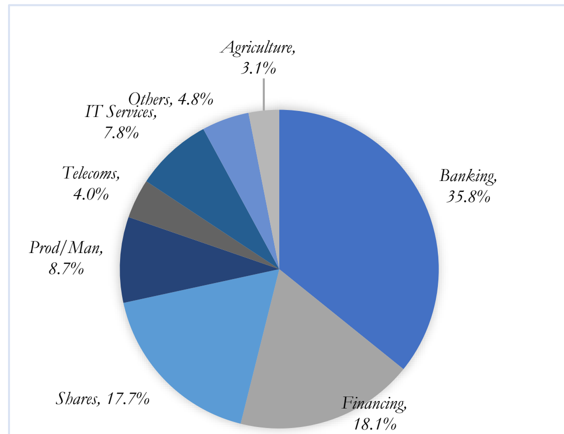


Source: Central Bank of Nigeria

8.4.3 Capital Importation by Sector

Analysis of imported capital by economic sectors indicated that banking received the highest share of 35.8 per cent, valued at US$3.75 billion. Inflow for financing amounted to US$1.89 billion and accounted for 18.1 per cent of the total. Shares, production/manufacturing, IT services, telecoms and agriculture received US$1.85 billion, US$0.91 billion, US$0.82 billion, US$0.42 billion and US$0.32 billion, representing 17.7, 8.7, 7.8, 4.0, and 3.1 per cent, respectively. Inflow to other sectors accounted for the balance.

Figure 8.4.2: Capital Importation by Sector, 2020 (per cent)

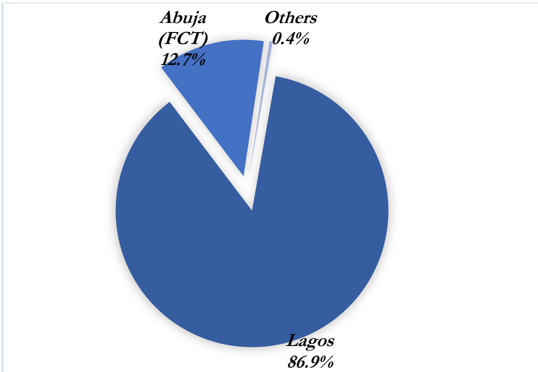


Source: Central Bank of Nigeria

8.4.4 Capital Importation by Destination

A breakdown of capital importation on state-by-state basis showed that Lagos State received the highest inflow, representing 86.9 per cent of the total, valued at US$9.10 billion, followed by the Federal Capital Territory (FCT) with US$1.33 billion, representing 12.7 per cent of the total. Other states accounted for the balance.

Figure 8.4.3: Capital Importation by States, 2020 (per cent)



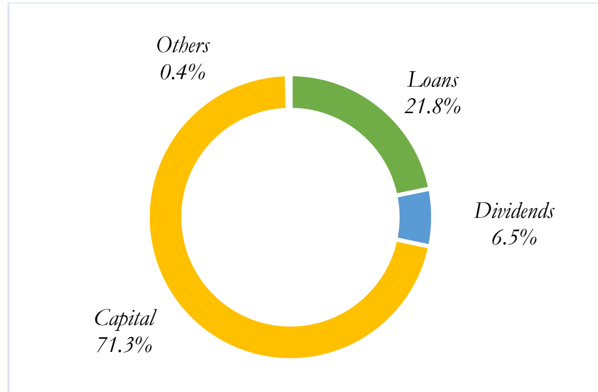
Source: Central Bank of Nigeria

8.4.5 Capital Outflow

Despite the effect of the COVID-19 pandemic, which triggered significant capital reversal, aggregate capital outflow declined by 22.4 per cent to US$12.43 billion in 2020, compared with US$16.03 billion in 2019. The development was largely as a result of the significant drop in the repatriation of dividends and profits by non-resident investors during the review period.

A disaggregation showed that, outflow in form of reversal, which accounted for 71.3 per cent of total outflow, declined by 27.0 per cent to US$8.86 billion, compared with US$12.14 billion in 2019. This was followed by repayment of loans, which accounted for 21.7 per cent of the total, at US$2.70 billion, relative to US$2.33 billion in 2019, indicating an increase of 15.9 per cent. Payment of dividends declined significantly by 35.1 per cent to US$0.81 billion (6.5 per cent of the total), compared with US$1.25 billion in 2019. Similarly, payment of profit to non-residents and other outflows, which accounted for the balance, declined substantially by 96.5 per cent and 81.3 per cent, below their respective levels in 2019.

Figure 8.4.4: Capital Outflow, 2020 (per cent)



Source: Central Bank of Nigeria

8.5 THE INTERNATIONAL INVESTMENT POSITION (IIP)

The net financial liability in Nigeria's International Investment Position (IIP) increased by 11.5 per cent to US$81.86 billion in 2020, compared with US$73.42 billion in 2019. The stock of financial assets decreased by 5.0 per cent to US$101.90 billion at end-December 2020, from US$107.22 billion at end-December 2019, due, largely, to lower asset positions in other investments and reserve assets.

A breakdown of aggregate stock of financial assets showed that foreign direct investment decreased by 22.4 per cent to US$6.87 billion, compared with US$8.86 billion at end-December 2019, occasioned by the 28.8 per cent decrease in the stock of other capital. Portfolio investment assets, however, increased marginally by 0.8 per cent to US$1.93 billion at end-December 2020, relative to the level at end-December 2019, following the 13.2 per cent increase in the holdings of equity securities by resident investors.

The stock of other investment assets, decreased by 3.0 per cent to US$56.61 billion, compared with US$58.35 billion at end-December 2019, due, largely to decline in the stock of foreign currency holdings of the private sector and reduction in the stock of trade credits. A breakdown showed that the stock of trade credits to non-residents decreased by 46.4 per cent to US$1.27 billion at end-December 2020, compared with the US$2.36 billion at end-December 2019. The development was driven largely by lower demand for Nigeria's crude at the international market, occasioned by the COVID-19 pandemic.

However, the stock of loans to foreign entities increased significantly to US$2.06 billion at the end of the review year, relative to US$0.45 billion at end-December 2019. This was on account of the increase in the stock of short-term loans extended to non-residents by Nigerian banks.

The stock of foreign currency deposits, decreased by 4.1 per cent to US$53.28 billion at end-December 2020, compared with US$55.54 billion at end-December 2019, due, largely, to the 5.0 per cent decrease in the holdings of the private sector, during the review period.

The stock of external reserves at end-December 2020, decreased by 4.2 per cent to US$36.48 billion, relative to US$38.09 billion at end-December 2020. This was due, largely, to 4.8 per cent reduction in the foreign exchange component of the reserve asset, due to the Bank's intervention in the foreign exchange market and other third-party related payments.

As a share of total stock of assets at end-December 2019, other investment assets remained dominant at 55.6 per cent, followed by reserve assets, 35.8 per cent; direct investment, 6.7 per cent; and portfolio investment, the remaining 1.9 per cent.

The stock of financial liabilities increased by 1.7 per cent to US$183.76 billion at end-December 2020, compared with US$180.64 billion at end-December 2019. A disaggregation of the stock showed that direct investment increased by 2.4 per cent to US$102.09 billion at end-December 2020, compared with US$99.71 billion at end-December 2019. Direct investment in equity capital and reinvested earnings increased by 1.6 per cent to US$59.65 billion, compared with US$58.72 billion at end-December 2019. Similarly, other FDI capital, particularly debt instruments, increased by 3.6 per cent to US$42.45 billion, relative to US$40.99 billion at the end of the preceding year.

The stock of inward portfolio investments, however, declined by 17.5 per cent to US$26.95 billion, compared with US$32.66 billion at end-December 2019. This was due, majorly, to the 15.1 per cent and 17.9 per cent decline in the stock of equity and debt securities to US$3.90 billion and US$23.05 billion, respectively, at end-December 2020, compared with US$4.59 billion and US$28.07 billion, respectively, at end-December 2019. The development reflected substantial capital reversal, occasioned by the effect of the COVID-19 pandemic.

Other investment liabilities increased by 13.3 per cent to US$54.68 billion at end-December 2020, compared with US$48.28 billion at end-December 2019, driven largely by increase in the stock of loans. The stock of loan liabilities, increased by 13.4 per cent to US$40.94 billion, compared with US$36.09 billion at the end of the preceding year. A breakdown showed that loans to general government and the private sector increased by 34.4 and 6.4 per cent, to US$22.18 billion and US$14.02 billion, respectively, as a result of fresh loan disbursements. The increased stock of loan liabilities to general government reflected the IMF facility of US$3.36 billion obtained to tackle BOP challenges, spurred by the COVID-19 pandemic.

Loans to banks, however, decreased by 26.1 per cent to US$4.74 billion at end-December 2020, on account of principal repayments during the review period.

The stock of currency & deposits increased by 4.6 per cent to US$6.48 billion at the end of the review period, compared with US$6.19 billion at end-December 2019, driven largely by increased foreign currency placements in Nigerian banks.

The stock of direct investment dominated total financial liabilities, accounting for 55.6 per cent of the total, followed by other investment liabilities with a share of 29.8 per cent and portfolio investment liabilities, 14.7 per cent.

8.6 EXCHANGE RATE MOVEMENTS

The average exchange rate of the naira to the US dollar depreciated in all segments of the foreign exchange market. This was attributed to increased demand pressure, occasioned by significant decline in crude oil prices due to the COVID-19 pandemic, which resulted in lower foreign exchange receipts. The average exchange rate of the naira at the interbank segment, which was relatively stable in January and February 2020 at an average of ₦306.96/US$, depreciated to ₦326.63/US$ and ₦361.00/US$ in March 2020 and April 2020, respectively. This was as a result of policy adjustments by the Bank, amid decreased receipts from oil and capital inflow. The Bank further adjusted the exchange rate to ₦381.00/US$ in August 2020, aimed at bringing convergence in all segments of the market. Thereafter, the naira remained stable at ₦381.00/US$ till the end of the year in that segment of the market.

The annual average exchange rate at the interbank market in 2020, was ₦358.81/US$, representing a depreciation of 14.5 per cent, compared with ₦306.92/US$ in 2019. The end-period interbank exchange rate closed at ₦381.00/US$, indicating a 19.4 per cent depreciation, compared with ₦307.00/US$ at end-December 2019.

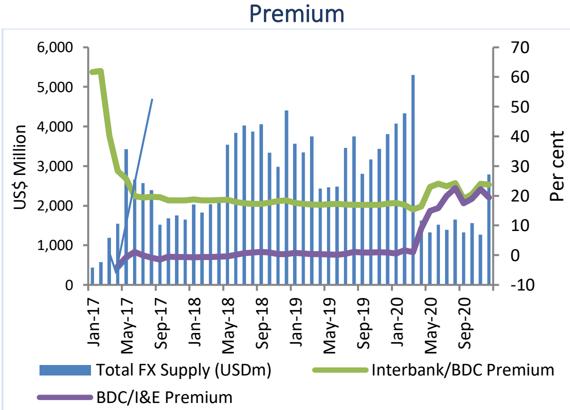
At the BDC segment, the naira appreciated from ₦361.00/US$ in January 2020 to ₦359.00/US$ in February 2020, but depreciated to ₦376.89/US$, ₦420.15/US$, and ₦443.89/US$ in March, April and May 2020, respectively. This was due to increased speculative activities, following the decision by the Bank to temporarily suspend foreign exchange sales to the BDC operators, during the lockdown period. The naira further depreciated to ₦464.71/US$ and ₦473.48/US$ in July and August 2020, respectively, but appreciated to ₦453.68/US$ in September 2020, as a result of sustained intervention and resumption of foreign exchange sales to the BDC operators. The exchange rate, however, depreciated to ₦459.50/US$ and ₦472.74/US$ in October and November 2020, respectively, but appreciated to ₦471.62/US$ in December 2020.

Consequently, the annual average exchange rate at the BDC segment, in 2020, was ₦433.70/US$, a depreciation of 17.1 per cent, relative to ₦359.53/US$ in 2019. Similarly, the end-period BDC rate, closed at ₦465.00/US$ in 2020, indicating a depreciation of 22.2 per cent, compared with ₦362.00/US$ in 2019.

At the Investors' and Exporters (I&E) window, the exchange rate depreciated from ₦363.20/US$ in January 2020 to ₦373.04/US$ and ₦387.48/US$ in March and July 2020, respectively. The development was attributed to foreign exchange liquidity shortage, induced by lower portfolio inflow and crude oil receipts. The naira strengthened to ₦386.26/US$ and ₦385.90/US$ in August and October 2020, respectively, supported by the Bank's interventions. The naira, however depreciated to ₦386.91/US$ and ₦394.92/US$ in November and December 2020, respectively. The annual average exchange rate at the I&E window, in 2020, was ₦382.18/US$, a depreciation of 5.3 per cent, relative to ₦361.92/US$ in 2019. Similarly, the end-period I&E rate, closed at ₦410.25/US$ in 2020, showing a depreciation of 12.5 per cent, compared with ₦364.51/US$ in 2019.

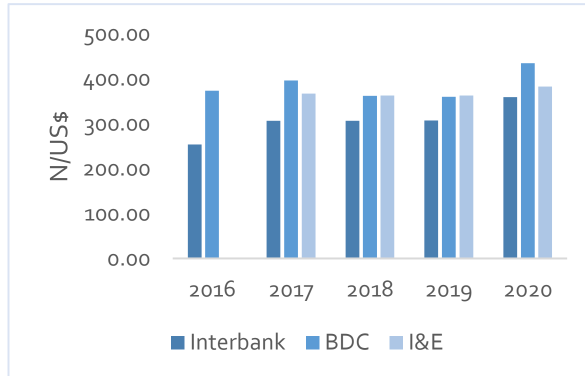
The premium between average annual interbank and BDC rates widened to 20.9 per cent in 2020, from 17.1 per cent in 2019. Similarly, the premium between annual I&E/BDC rates widened to 13.5 per cent in 2020, from 0.7 per cent in 2019. The premium between the end-period interbank and BDC exchange rates was 22.0 per cent in 2020, compared with 17.9 per cent in 2019, while that between end-period I&E/BDC rates in 2020 was 13.31 per cent, compared with 0.7 per cent in 2019.

Figure 8.6.1: Demand and Supply of Foreign Exchange, Interbank/BDC Rate Premium and BDC/I&E Rate Premium



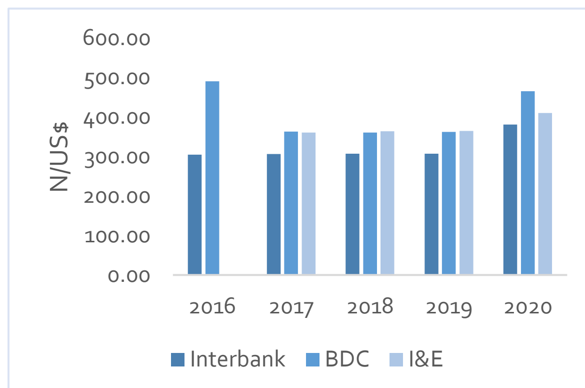
Source: Central Bank of Nigeria

Figure 8.6.2: Average Yearly Exchange Rate of the Naira per US Dollar



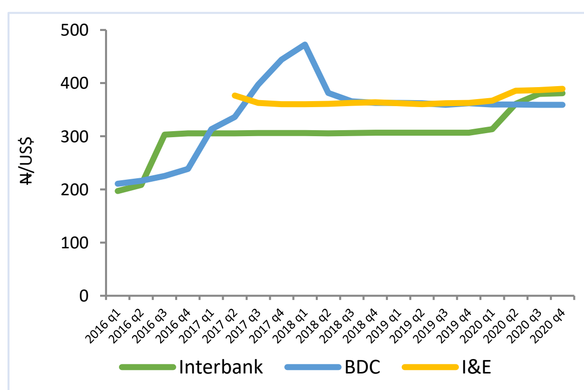
Source: Central Bank of Nigeria

Figure 8.6.3: End-period Exchange Rate of the Naira per US Dollar



Source: Central Bank of Nigeria

Figure 8.6.4: Quarterly Average Exchange Rate of the Naira vis-à-vis US Dollar

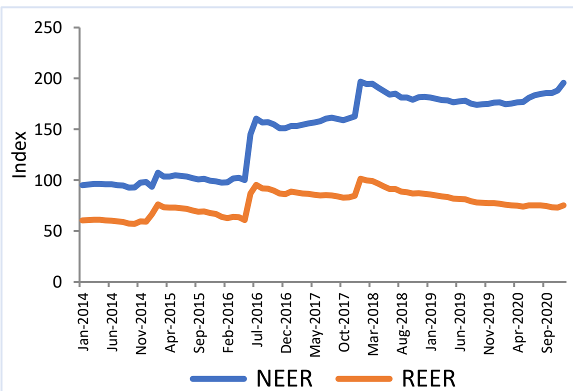


Source: Central Bank of Nigeria

8.7 The Nominal and Real Effective Exchange Rates

The average 19-currency nominal effective exchange rate (NEER) index increased by 2.7 per cent, above the level in 2019 to 182.02. The average 19-currency real effective exchange rate (REER) index, fell by 7.7 per cent, below the level in 2019 to 74.94. The REER index opened at 76.97 in January 2020 and closed at 75.23 in December 2020.

Figure 8.7. 1: Nominal and Real Effective Exchange Rate Indices



Source: Central Bank of Nigeria

Table 8.7. 1: Nominal and Real Effective Exchange Rate Indices (November 2009=100)

	2019 1/		2020 2/		Percentage Change	
	Monthly index	*Annual average index*	*Monthly index*	*Annual average index*	*Monthly index*	*Annual average index*
NEER	176.32	177.17	195.86	182.02	11.08	2.73
REER	77.53	81.15	75.23	74.94	-2.97	-7.65

Source: Central Bank of Nigeria

1/ Revised 2/ Provisional

9.0 INTERNATIONAL ECONOMIC RELATIONS

The 2020 Spring and Annual Meetings of the Bretton Woods Institutions (BWIs) noted the disruptive effects of the COVID-19 pandemic to global trade, supply chains and investment flows, with the attendant threat to global economy. The meetings welcomed fiscal supports at the national levels as well as the accommodative stance of central banks and multilateral financial institutions to mitigate the impact on the vulnerable groups. At the global meetings, the Inter-Governmental Group of Twenty-Four (G-24) commended the global co-operation from the G20, World Health Organisation, World Trade Organisation, the WBG's and International Financial Institutions (IFIs) to provide support for all countries in confronting the social and economic crises brought about by the pandemic.

At the continental level, the meeting of Heads of State and Government of the African Union (AU) noted that the African Continental Free Trade Area (AfCFTA) will be a major driver for reigniting industrialisation and paving the way for Africa's integration. At the sub-regional level, the Meeting of the WAMZ Technical Committee advised member states to sustain short-term efforts at curbing the spread and containing the impact of the COVID-19 pandemic on real sector activities, while fast-tracking the implementation of reforms to address structural challenges to enhance resilience to social and economic shocks confronting their economies.

9.1 INTERNATIONAL CO-OPERATION

9.1.1 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 International Monetary Fund and the World Bank Group was held virtually from Washington DC, from 14 – 17 April 2020. The sideline meetings of the Development Committee and the International Monetary and Financial Committee (IMFC) were also held.

The International Monetary and Financial Committee (IMFC):

- *Noted that the global economy would contract sharply in 2020, reflecting the effect of the necessary health measures to contain the virus, disruptions in economic supply and demand, and tightening financial conditions;*
- *Projected a recovery for next year, 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 vulnerable 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;

- *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.*

The Development Committee (DC):

- *Noted that the global economy is experiencing an exceptional negative shock because 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 disrupted trade, supply chains and investment flows; leaving financial and human capital idle, while remittances, transport revenues, and income from tourism have rapidly diminished; the steep drops in commodity prices were also harming commodity-dependent economies;*
- *Welcomed the World Bank Group's (WBG) estimated financial support of up to US$150.00-160.00 billion over the next 15 months, with a focus on the poorest and vulnerable in all client countries;*
- *Called on the World Bank to further explore options for the suspension of debt service payments over the suspension period, 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.*

9.1.2 2020 Annual Meetings of the Board of Governors of the World Bank Group and the International Monetary Fund (IMF).

The 2020 Annual Meetings of the Board of Governors of the World Bank Group (WBG) and the International Monetary Fund (IMF) were held virtually from Washington DC from 13 – 20 October 2020. The sideline meetings of the Ministers of the Inter-Governmental Group of 24, the International Monetary and Finance Committee (IMFC) and the Development Committee (DC) were also held. The Nigerian delegation to the meetings was led by the Honourable Minister of Finance, Budget and National Planning, Mrs. Zainab Ahmed.

The G24 Ministers:

- *Noted that COVID-19 had spread rapidly around the world over the past six months. While countries were in different stages in containing the spread of the virus, several were still experiencing high levels of infection and deaths;*
- *Commended the efforts of the G20, World Health Organisation, World Trade Organization, and International Financial Institutions (IFIs) to deepen global co-operation to support all countries in confronting the inter-related health, social and economic crises brought about by the COVID-19 pandemic;*
- *Welcomed the WBG's proposed US$12.00 billion initiative that would help developing*

countries procure COVID-19 vaccines to treat up to 1 billion people as soon as effective drugs become available. They also welcomed the COVID-19 Vaccine Global Access (COVAX) Initiative and urge major economies to provide the necessary financial support to ensure timely and affordable access for all countries, without exception; and

- *called on the major economies to work together and use all policy tools available to foster a supporting environment to help countries contain the pandemic and restore an inclusive economic growth.*

The IMFC:

- Emphasised the need for international co-operation to accelerate research, development, manufacturing, and distribution of COVID-19 diagnostics, therapeutics and vaccines, with the aim of supporting equitable and affordable access for all;
- Agreed to sustain and strengthen its efforts to achieve strong, sustainable, balanced, and inclusive growth, while making the most of current economic, social, environmental, technological, and demographic transformations, in a way consistent with its pre-crisis agenda; and
- Reaffirmed its commitment to a strong, quota-based, and adequately resourced IMF at the center of the global financial safety net.

The Development Committee:

- Commended the WBG for its exceptional delivery in the final quarter of fiscal year 2020, with US$45.00 billion in commitments consisting of US$32.00 billion from IBRD/IDA, US$11.00 billion from IFC, and US$2.00 billion from MIGA, including via their fast-track facilities, for operations in more than 100 countries;
- Supported the extension of the Debt Service Suspension Initiative (DSSI) by six months and to examine, during the 2021 WBG and IMF Spring Meetings, if the economic and financial situation requires to extend further the DSSI by another six months, with targeted complements to the April 2020 DSSI Term Sheet. It strongly encouraged private creditors to participate on comparable terms when requested by eligible countries;
- Noted that the global economy was recovering but the recovery was partial, uneven and uncertain. There was need to remain vigilant; and
- Global growth for 2020 was put at negative 4.4 per cent, while growth for 2021 was forecast at 5.2 per cent.

9.1.3 World Economic Forum

The 2020 World Economic Forum (WEF) was held at Davos-Klosters, Switzerland from 21–24 January 2020 with the theme: "Stakeholders for a Cohesive and Sustainable World". Global leaders from around the world in areas such as business, government, international organizations, 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.

The WEF 2020 annual meeting featured discussions on four important global issues on how to:

- address the urgent climate and environmental challenges that harmed 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 Fourth Industrial Revolution so they benefit business and society, while minimising their risks to them; and
- adapt to the demographic, social and technological trends reshaping education, employment and entrepreneurship.

9.2 REGIONAL CO-OPERATION

9.2.1 African Union (AU)

The 33rd Ordinary Session of the Assembly of Heads of State and Government of the African Union was held at the AU Headquarters in Addis Ababa, Ethiopia, from 9 – 10 February 2020. The meeting was held under the 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 will need to be the focus of the Union to bolster the progress being made in driving Africa’s growth trajectory within the framework of Agenda 2063 including:

- 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 became operational in July 2020, Mr. Ramaphosa noted that the AfCFTA 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 and scale. He, however, noted that with the potential of the AfCFTA to boost intra-African trade, it should not become a conduit for products with minimal African content under the guise of continental integration and reiterated the need to clearly define what standards will be applied to define what constitutes a product that is proudly made in Africa. Mr Ramaphosa announced that South Africa will host the Extra Ordinary Summit on the AfCFTA to be held back to back with the Extra Ordinary Summit on “Silencing the Guns” in May 2020.

During their sessions, the Heads of State and Government considered:

The Institutional Reform of the AU

The Report was delivered by H.E. President Paul Kagame, in his capacity as the leader on the Project as well as an update by the Chairperson of the AU Commission, Mr. Moussa Faki Mahamat, on the status of implementation of the institutional reforms.

The Report on (AfCFTA)

The Report was delivered by H.E. President Mahamadou Issoufou of Niger and leader of the AfCFTA, which has been signed by 54 of the 55 countries that constitute the AU and ratified by 28 countries.

The bureau of the Assembly of the African Union for 2020 was announced during the Assembly: Chair - South Africa; Vice Chair - Democratic Republic of Congo; Second Vice Chair - Mali; 3rd Vice Chair - Kenya; and Rapporteur- Egypt. It was also announced that the Democratic Republic of Congo will be the Chair of the Union in 2021.

9.3 SUB-REGIONAL CO-OPERATION

9.3.1 Extra-Ordinary Meeting 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) was held at Abuja, Nigeria on 16 January 2020. Representatives from all the WAMZ Member States and the West African Monetary Institute (WAMI) were present.

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

Based on the Technical Committee's report, the Convergence Council made the following observations:

- Reaffirmed their commitment to the decisions of the ECOWAS Authority of Heads of State and Government, relating to the ECOWAS Monetary Co-operation 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 rate, 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 toward delinking the CFA franc from the euro, and urge 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 about 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 were not in line with the ECOWAS Authority's decision; and
- 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 jeopardizing the achievement of the shared goal of introducing a single currency in West Africa, guided by a single roadmap adopted by the ECOWAS Authority.

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

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

- *Presentation on the WAMZ Convergence Report as at end-June 2019;*
- *The Report showed that global output was projected to grow by 2.9 per cent (WEO January 2020). The slow growth reflected the changes in global technology supply chains, arising from the US-China trade war, Brexit-related uncertainty, weaker outlook for some key emerging markets and developing economies. Tighter financial conditions also negatively impacted on global output growth;*
- *Real GDP growth for the WAMZ was estimated at 2.6 per cent as at end-June 2019, compared to 2.3 per cent in 2018. The improved real GDP growth in the Zone reflected domestic policy adjustments, pick-up in commodity prices, among others. Inflationary pressures in the Zone moderated, as end-period inflation declined to 11.0 per cent at end-June 2019, from 11.1 per cent in the corresponding period of 2018. The moderation was attributed to the tight monetary policy stance implemented by the monetary authorities of most Member States and the relative stability in the foreign exchange market;*
- *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 one criterion. Ghana missed the fiscal deficit criterion. Guinea missed the central bank financing criterion. Sierra Leone did not satisfy the single-digit inflation criterion. Liberia missed all but the fiscal deficit criterion, while Nigeria breached the central bank financing and inflation criteria. It was projected that The Gambia's performance would drop to three criteria by end-December 2019, from four primary convergence criteria as at end-June 2019. Ghana, Guinea and Sierra Leone would maintain compliance with three primary criteria, while Nigeria will sustain compliance with two primary criteria. However, Liberia would miss all the four primary criteria by the end of December 2019;*
- *The financial system in the WAMZ witnessed improved performance, relative stability and continued resilience during the first half of 2019, due, largely, to improved macroeconomic environment in the economies of Member States. With regards to financial development and integration in the Zone, Member States implemented programmes and policies to ensure that financial regulations and supervision meet the minimum international standards. Significant progress was made on the implementation of International Financial Reporting Standards*

(IFRS), Risk-Based Supervision (RBS), Basel II and the automation of banking supervision processes. Activities in the insurance industry in the Zone picked up, also because of improved macroeconomic environment;

- *The Report outlined several challenges facing the Zone, including the continued dependence of growth on agriculture and extractive sectors, which exposes the economies of the WAMZ Member States to shocks; inflationary pressures, though moderating, remained elevated, driven by the pass-through effects of currency depreciation and supply side constraints, which in turn impacted food and transportation costs as well as increases in utility charges among others;*
- *The Report proffered some policy measures and encouraged Member States to implement policy initiatives aimed at modernising agriculture to engender further growth, introduce high yielding and drought resistant crop varieties and adopt modern farming practices; and*
- *The Technical Committee took note of the high quality of the Report and emphasised the need for statistical and policy harmonization in the Zone as a critical tool for regional integration.*

9.3.2 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 9 February 2020.
In attendance were representatives of all the five member central banks as well as representatives from the Ministry of Finance Sierra Leone; Ministry of Finance and Economic Affairs, The Gambia; West African Monetary Institute (WAMI); West Africa Monetary Agency (WAMA); ECOWAS Bank for Investment and Development (EBID); and Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA).

Progress Report by the Director-General

The Director-General presented the Progress Report which summarized developments at the Institute during the period from July to December 2019. The report was presented under seven (7) main headings, namely: Training and capacity building activities; Research Department; Administrative developments; Enhancement of the Institute Infrastructure; International Relations; and Outlook for the next six months.

The Director-General reported that twenty-five capacity building programmes were successfully implemented during the second half of 2019. Sixteen of the programmes were implemented by the three programme departments as against the thirteen courses earmarked to be implemented during the period. He stated that the additional three programmes were two demand-driven programmes and a fee-paying Diploma programme in French Language. In addition, nine programmes were conducted by the Business Development and Consultancy Unit (BDCU). A total of 528 executive/senior/middle level officials from the member central banks, core economic ministries, offices of the accountant general, debt management offices and other public-sector agencies and some private institutions attended the various programmes.

The major decisions from the meetings were approvals of the:

- 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.

9.3.3 Extra-Ordinary Virtual Summit of the West African Monetary Zone (WAMZ)

The Extra-Ordinary Virtual Summit of the Authority of the Heads of State and Government of the West African Monetary Zone (WAMZ) was held at Accra, Ghana on 23 June 2020. The purpose of the Summit was to assess developments on the implementation of the ECOWAS Single Currency Programme 2020, on the backdrop of the decision taken by the West African Economic and Monetary Union (WAEMU) and implications for the Member States of the WAMZ.

On 21 December 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 per cent 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 would be withdrawn; and
- the fixed exchange rate regime in the WAEMU/UEMOA will be maintained.

Following this development, the Convergence Council of the WAMZ noted 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.

9.3.4 Virtual Meeting of the Ministerial Committee on the ECOWAS Single Currency Programme

The Virtual Meeting of the Ministerial Committee on the ECOWAS Single Currency Programme was held in Abuja, Nigeria on 13 July 2020. The meeting was preceded by the Technical Committee Meeting of the Ministerial Committee on 8 July 2020. The Ministries of Economy and Finance of Member States, Governors of ECOWAS Central Banks and some Regional Institutions were represented at the meeting. The Ministerial Meeting considered the following reports:

- *The Report of the Technical Committee on the ECOWAS Single Currency Programme;*
- *ECOWAS Convergence Situation and Article 15 of the Supplementary Act 2015; and*
- *The Financial Report of the Management Board of the Special Fund.*

In terms of Macroeconomic Convergence in ECOWAS, it was reported that five Member States (Benin, Burkina Faso, Côte d'Ivoire, Mali and Togo) met all the convergence criteria in 2019 against three countries (Benin, Ivory Coast and Niger) in 2018. In respect, of the primary criteria, six Member States (Benin, Burkina Faso, Cabo Verde, Ivory Coast, Mali and Togo) met the four criteria against five countries (Benin, Cabo Verde, Ivory

Coast, Niger and Togo) in 2018. Regarding the secondary criteria, eleven Member States met the two criteria in 2019.

However, at the end of 2019, only Togo met the primary convergence criteria on a sustainable basis (2017-2019) which was in line with Article 15 of the Supplementary Act of the Authority of ECOWAS Heads of State.

In terms of macroeconomic outlook for the ECOWAS, it was reported that growth in the Region for 2020 was dependent on the persistence of the COVID-19 pandemic. Economic activity was expected to contract by 2.1 per cent, while other macroeconomic indicators, particularly the budget deficit, public debt and the overall balance of payments were expected to deteriorate in 2020.

The Ministerial Committee recommended that a new roadmap for the ECOWAS Single Currency Programme be developed based on a comprehensive assessment of the implementation of the revised Roadmap, while considering the prevailing situation characterised by the persistence of COVID-19 in the region.

9.3.5 Virtual Mid-Year Statutory Meetings of the West African Monetary Zone (WAMZ), West African Monetary Agency (WAMA) and the West African Institute for Financial and Economic Management (WAIFEM).

The 2020 Mid-Year Statutory Meetings of the West African Monetary Zone (WAMZ), West African Monetary Agency (WAMA) and the West African Institute for Financial and Economic Management (WAIFEM), held virtually in Lagos, Nigeria from August 31 – September 11, 2020. The meetings took place as follows:

- 37th Meeting of the Technical Committee of WAMA – 31 August – 2 September 2020;
- 42nd Meeting of the Technical Committee of WAIFEM – 3 September 2020;
- 47th Meeting of the Technical Committee of WAMZ – 7-8 September 2020;
- 39th Meeting of Board of Governors of WAIFEM – 10 September 2020;
- 41st Meeting of the Committee of Governors of WAMZ – 10 September 2020;
- 56th Meeting of the Committee of Governors of WAMA – 10 September 2020; and
- 44th Meeting of the Convergence Council – 11 September 2020

The meetings had in attendance representatives from member central banks in the ECOWAS sub-region, AFRISTAT, Ministries of Finance, African Development Bank (AfDB), West African Bankers Association (WABA), Inter-governmental Action Group against Money Laundering in West Africa (GIABA), amongst other observers, and was virtually hosted by the Bank of Ghana.

The Convergence Council of Ministers and Governors of the Central Banks of the Member States of the West African Monetary Zone (WAMZ) on 11 September 2020, held their 44th meeting, hosted by the West African Monetary Institute (WAMI), in Accra, Ghana. The Meeting deliberated on the status of implementation of the WAMZ Work Programme, as well as macroeconomic developments and status of convergence of the Member States, within the framework of the ECOWAS Single Currency Programme 2020.

The 41st Meeting of the Committee of Governors, was held on 10 September 2020. Among the key recommendations of the Committee of Governors meeting were:

- *increase investments in the agriculture and mining sectors with a view to modernising their operations to realise the growth potential of these sectors. This will enhance further growth, while boosting production and generating employment;*
- *scale up investment in growth enhancing capital projects for sustaining long-term growth and repositioning the private sector to lead the pursuit of inclusive growth and employment generation;*
- *fast-track the implementation of policy reforms to address structural challenges and bottlenecks in the business environment to help reduce the high cost of doing business;*
- *ensure price stability by maintaining prudent monetary policy stances, addressing supply side constraints and improving current account balances;*
- *strengthen tax administration and public financial management to boost revenue mobilisation, while implementing expenditure rationalisation measures to improve compliance with fiscal deficit criterion;*
- *address high NPLs with measures such as improved risk management, and enhanced credit delivery safeguards (collateral registry, credit reference system, perfection of collaterals and improving the legal regimes on foreclosures, etc.) to reduce the incidences of default; and*
- *sustain efforts at containing the spread and socio-economic impact of the COVID-19 pandemic on Member States' economies*.

After deliberations on the Report of the 41st Meeting of the Committee of Governors of the Central Banks of the Member States of the WAMZ, the Convergence Council directed WAMI to convene a Governors' Symposium on Policy Responses to the COVID-19 Pandemic.

9.2.8 Symposium on Monetary Responses of the Member States of the West African Monetary Zone (WAMZ): Emerging Lessons from Covid-19 Pandemic.

WAMI organised a Symposium on the theme "Monetary Policy Responses of the Member States of the WAMZ: Emerging Lessons from COVID-19" in Lagos, Nigeria from 26–27 November 2020. The Symposium was aimed at facilitating sharing of country experiences, relating to economic policy responses in managing the adverse impact of COVID-19, on the economies of the WAMZ.

APPENDIXES

Selected Macroeconomic and Social Indicators /1

Indicator	2016	2017	2018	2019	2020 2/
Domestic Output and Prices					
GDP at Current Mkt Prices (₦ billion)	102,575.4	114,899.2	129,086.9	145,639.1	154,252.3
GDP at Current Mkt Prices (US$ billion)	404.6	375.7	421.7	474.5	429.9
Nominal GDP per Capita (₦)	551,598.5	601,966.0	659,027.8	724,702.6	747,862.6
Real GDP per Capita (₦)	369,177.9	362,574.0	360,109.5	358,741.3	343,262.8
Nominal GDP per Capita (US$)	2,176.0	1,968.6	2,153.1	2,361.2	2,084.3
Real GDP per Capita (US$)	1,456.4	1,185.7	1,176.5	1,168.8	956.7
Real GDP Growth (%)	-1.6	0.8	1.9	2.3	-1.9
Oil Sector	-14.4	4.7	1.0	4.6	-8.9
Non-oil Sector	-0.2	0.5	2.0	2.1	-1.3
Sectoral GDP Growth (%)					
Agriculture	4.1	3.4	2.1	2.4	2.2
Industry	-8.9	2.1	1.9	2.3	-5.8
Services	-0.8	-0.9	1.8	2.2	-2.2
Oil Production (mbd)	1.6	1.7	1.9	1.9	1.7
GDP Deflator Growth (%) 3/	9.5	11.1	10.2	10.4	7.7
Inflation Rate (%) (Dec-over-Dec)	18.5	15.4	11.4	12.0	15.8
Inflation Rate (%) (12-month moving average)	15.7	16.5	12.1	11.4	13.2
Core Inflation Rate (%) (Dec-over-Dec) 4/	18.1	12.1	9.8	9.3	11.4
Core Inflation Rate (%) (12-month moving average) 4/	15.3	13.5	10.5	9.2	10.3
Food Inflation Rate (%) (Dec-over-Dec)	17.4	19.4	13.6	14.7	19.6
Food Inflation Rate (%) (12-month moving average)	14.9	19.5	14.3	13.7	16.2
Aggregate Demand and Savings (% of GDP)					
Aggregate Demand	100.0	100.0	100.0	100.0	100.0
Private Final Consumption Expenditure	81.5	80.1	76.6	74.6	67.4
Government Final Consumption Expenditure	5.4	4.4	5.6	5.6	9.7
Gross Fixed Capital Formation	14.7	14.7	19.0	24.6	28.3
Increase in Stock	0.6	0.8	0.8	0.8	0.9
Net Export of Goods and Non-factor Services	-2.3	0.0	-2.0	-5.6	-6.3
Export of Goods and Non-factor Services	9.2	13.2	15.5	14.2	7.8
Import of Goods and Non-factor Services	11.5	13.2	17.5	19.8	14.1
Domestic Saving	12.8	13.1	16.8	23.0	25.0
Gross National Saving	10.5	13.1	14.8	17.4	18.7

Selected Macroeconomic and Social Indicators /1

Indicator	2016	2017	2018	2019	2020 2/
Public Finance (% of GDP)					
General Government					
Revenue	6.5	6.2	7.7	7.0	6.2
Expenditure	10.3	10.0	10.8	10.9	10.8
Transfers	1.6	0.8	0.8	0.7	0.7
Current Balance	-0.2	-0.9	0.1	-0.6	-1.9
Primary Balance	-2.4	-2.2	-1.4	-2.1	-2.4
Overall Balance	-3.8	-3.8	-3.2	-3.9	-4.9
Federal Government					
Retained Revenue	3.1	2.5	3.2	3.4	2.6
Total Expenditure	5.7	5.6	6.1	6.7	6.6
Recurrent Expenditure	4.1	4.2	4.4	4.8	5.3
Of which: Interest Payments	1.4	1.6	1.7	1.7	2.1
Foreign	0.1	0.2	0.2	0.3	0.4
Domestic	1.3	1.4	1.4	1.4	1.8
Capital Expenditure and Net Lending	0.6	1.1	1.3	1.6	1.0
Transfers	1.0	0.4	0.4	0.3	0.3
Current Balance (Deficit(-)/Surplus(+))	-1.2	-1.6	-1.1	-1.6	-2.7
Primary Balance (Deficit(-)/Surplus(+))	-1.0	-1.7	-1.2	-1.4	-1.9
Overall Fiscal Balance (Deficit(-)/Surplus(+))	-2.6	-3.1	-2.8	-3.3	-4.1
Financing	2.6	3.1	2.8	3.3	4.1
Foreign	0.0	1.1	0.8	0.0	0.0
Domestic	2.6	2.1	2.0	3.3	4.1
Banking System	0.3	1.2	0.0	0.0	0.0
Non-bank Public	0.2	-0.5	0.5	0.6	1.3
Other Funds	2.1	1.3	1.5	2.7	2.7
Federal Government Debt Stock	14.2	16.0	15.9	16.0	18.6
External 5/	3.4	5.0	6.0	6.2	8.2
Domestic	10.8	11.0	9.9	9.8	10.4

Selected Macroeconomic and Social Indicators… Continued /1

Indicator	2016	2017	2018	2019	2020 2/
Money and Credit (Growth Rate %)					
Reserve Money	1.6	10.9	10.7	20.9	50.9
Narrow Money (M_1)	16.6	3.7	9.7	2.4	50.0
Broad Money (M_2)	18.2	3.3	10.5	9.2	30.6
Broad Money (M_3)	31.9	1.4	15.0	6.4	10.8
Net Foreign Assets	47.5	39.8	7.8	-49.8	23.4
Net Domestic Assets	26.7	-13.5	19.5	38.3	8.2
Domestic Claims (DC)	25.8	-3.3	9.6	29.0	15.9
Net Claims on Government	78.8	-17.6	32.4	105.4	22.8
Claims on Other Sectors (COS)	18.7	-0.4	5.8	13.1	13.3
Money Multiplier for M_3	4.8	4.4	4.6	4.0	2.9
Income Velocity of M_3	3.7	4.0	3.9	4.2	4.0
Financial Development Indicators (%)					
M_3/GDP	27.4	24.8	25.4	23.9	25.0
CIC/M_3	7.8	7.6	7.1	7.0	7.5
COB/M_3	6.5	6.3	5.8	5.8	6.5
QM/M_3	50.0	50.8	49.0	52.3	56.3
CIC/GDP	2.1	1.9	1.8	1.7	1.9
COS/GDP	21.8	19.4	18.2	18.3	19.5
Claims on Private Sector (CPS)/GDP	14.6	12.9	10.2	11.2	12.1
COS/Non-Oil GDP	23.2	21.5	20.6	20.2	21.2
DMBs Assets/GDP	31.2	30.5	29.8	29.9	35.4
CBN's Assets/GDP	22.2	26.6	29.2	27.8	31.4
Banking System's Assets/GDP	53.3	57.0	58.9	57.7	66.8
Capital Market Indicators					
All Share Value Index (1984=100)	26,914.6	38,243.2	31,430.5	26,842.1	40,270.7
Value of Stocks Traded (Billion Naira)	578.5	1,078.2	1,203.4	931.5	1,086.2
Value of Stocks/GDP (%)	0.6	0.9	0.9	0.6	0.7
Market Capitalization (Billion Naira)	16,185.7	22,917.9	21,904.0	25,890.2	38,589.6
Of which: Banking Sector (Billion Naira)	1,456.9	2,501.8	1,675.7	1,341.7	1,407.2
Insurance Sector (Billion Naira)	135.5	147.3	115.9	117.6	148.1
Market Capitalization/GDP (%)	15.8	19.9	17.0	17.8	25.0
Of which: Banking Sector/GDP (%)	1.4	2.2	1.3	0.9	0.9
Insurance Sector/GDP (%)	0.1	0.1	0.1	0.1	0.1
Banking Sector Cap./Market Capitalization (%)	9.0	10.9	7.7	5.2	3.6
Insurance Sector Cap./Market Capitalization (%)	0.8	0.6	0.5	0.5	0.4
Interest Rates (% per annum)					
Monetary Policy Rate (MPR) (end period)	14.0	14.0	14.0	13.5	11.5
Repurchase Rate (Average)	18.5	19.0	19.0	19.0	
Treasury Bill Rate (Average)					
91-day	10.1	13.5	11.0	9.6	1.6
182-day	12.7	16.9	12.1	11.2	2.2
364-day	14.1	18.0	12.8	12.2	3.6
Inter-bank Call Rate (end-period)	10.4	9.0	14.0	3.0	1.0
Deposit Rates (end-period)					
Savings Rate	4.2	4.1	4.1	3.9	2.0
3-months Fixed	8.8	9.6	9.5	6.6	2.7
6-months Fixed	10.2	11.1	10.5	7.5	2.6
12-months Fixed	10.8	10.9	10.3	9.0	5.0
Prime Lending Rate (end period)	17.1	17.7	16.2	15.0	11.4
Maximum Lending Rate (end period)	28.5	31.0	30.5	30.7	28.3
Government Bond (Average coupon)					
5-year	13.9	15.8	13.6	13.0	11.1
7-year	-	-	14.3	14.8	

10-year	14.3	15.9	14.3	14.2	8.6
15-year					9.7
20-year	14.8	16.4	-	-	
25-year	-	-	-		8.3
30-year	-	-	-	14.1	12.3

Selected Macroeconomic and Social Indicators Cont'd /1

Indicator	2016	2017	2018	2019	2020 2/
Balance of Payments Indicators (% of GDP)					
Current Account Balance	1.3	3.4	1.5	-3.1	-4.0
Goods Account	-0.1	3.5	4.9	0.6	-3.8
Services Account (net)	-2.0	-3.5	-6.2	-7.1	-3.7
Income Account (net)	-1.5	-2.5	-2.9	-2.1	-1.3
Current Transfers	4.9	5.9	5.7	5.6	4.9
Capital and Financial Account Balance	2.5	1.4	0.0	4.5	1.2
Overall Balance	-0.2	3.3	0.8	-0.9	-0.4
Other External Sector Indicators					
External Reserves (US$ million)	26,990.6	39,353.5	42,594.8	38,092.7	36,476.9
Number of Months of Import Equivalent	9.2	14.5	12.5	7.4	8.4
Average Crude Oil Price (US$/barrel)	48.8	54.9	72.5	66.4	42.2
Average Official Rate (₦/US$)	253.5	305.8	306.1	306.9	358.8
End of Period Official Rate (₦/US$)	305.0	306.0	307.0	307.0	381.0
Average Bureau de Change Exchange Rate (₦/US$)	372.9	395.4	361.5	359.5	433.7
End of Period Bureau de Change Exchange Rate (₦/US$)	490.0	363.0	361.0	362.0	465.0
Social Indicators					
Population (million)	185.96	190.87	195.87	200.96	206.26
Population Growth Rate (%)	2.6	2.6	2.6	2.5	2.6
Unemployment Rate (%)	14.23	18.80	23.13		27.11

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/ Includes State Government Debts

All ratios of GDP are computed based on GDP at Current Market Prices.

M1 = Narrow Money Supply; M2 = Broad Money Supply (M2); M3 = Broad Money Supply (M3); GDP = Gross Domestic Product; CIC = Currency in Circulation

COB = Currency Outside Banks; QM = Quasi-Money.

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)