

REVIEW OF MACROECONOMIC DEVELOPMENTS IN Q2 2021

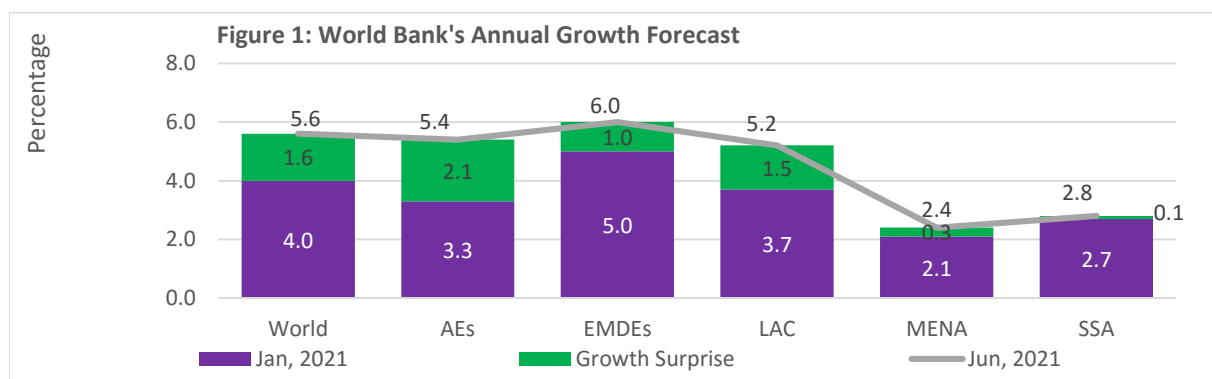
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1. Macroeconomic Conditions

1.1 Global Economic Conditions

The global economy rallied exceptionally in 2021 after its collapse in 2020 in the wake of the pandemic. The World Bank in June 2021 Global Economic Prospect (GEP) projected the global economy to grow by 5.6%, above annual growth of 4.0% earlier predicted in January 2021. Similarly, the IMF had in its April 2021's World Economic Outlook (WEO) expected the global economy to achieve 6% growth in 2021, recording a remarkable upswing from -3.3% growth in 2020. The performance built on strong but uneven economic recovery across the globe in the first two quarters of 2021 from the recessions occasioned by COVID-19 pandemic in 2020.



Source: Data from WB's Global Economic Prospect June, 2021

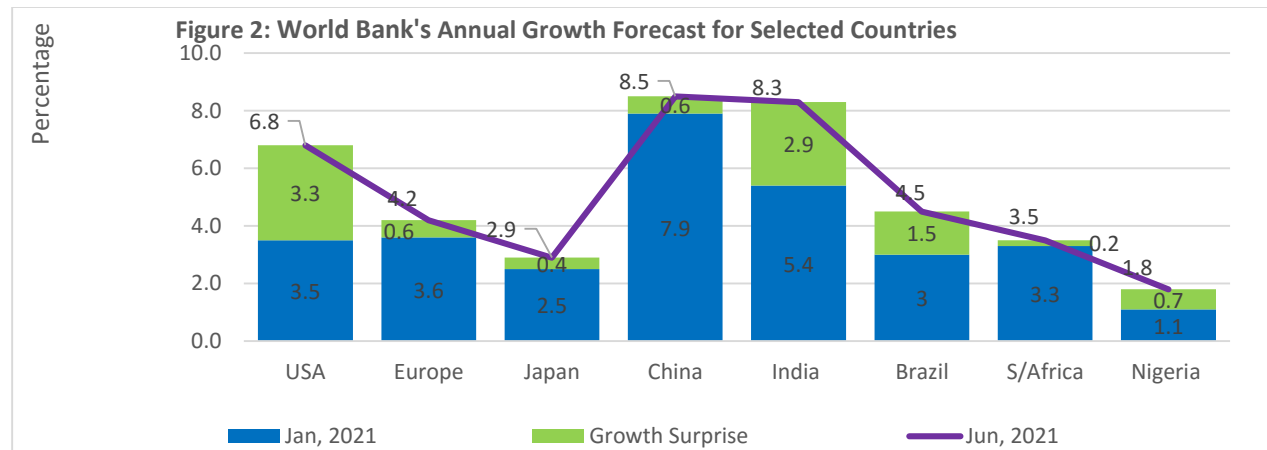
The global economic growth surprise derived from stronger than expected growth in Advanced Economies (AEs), especially the United States. Weaker growth surprises in Emerging Markets and Developing Economies (EMDEs), Latin America and the Caribbean (LAC), Middle East and North Africa (MENA), as well as the Sub-Saharan African (SSA), contributed less to global growth.

According to the World Bank's (WB's) GEP June 2021, AEs and EMDEs were projected to achieve annual growth of 5.4% and 6.0%, beating January 2021 annual forecast of 3.3% and 5.0%, respectively (figure 1). Annual economic growth in LAC, MENA and SSA were also predicted to respectively attain 5.2%, 2.4% and 2.8%, beating Q1 annual growth predictions of 3.7%, 2.1% and 2.7%.

Economic growth in AEs and its momentum in June 2021 GEP was largely supported by growth surge in the United States. Similarly, growth in EMDEs derived largely from China

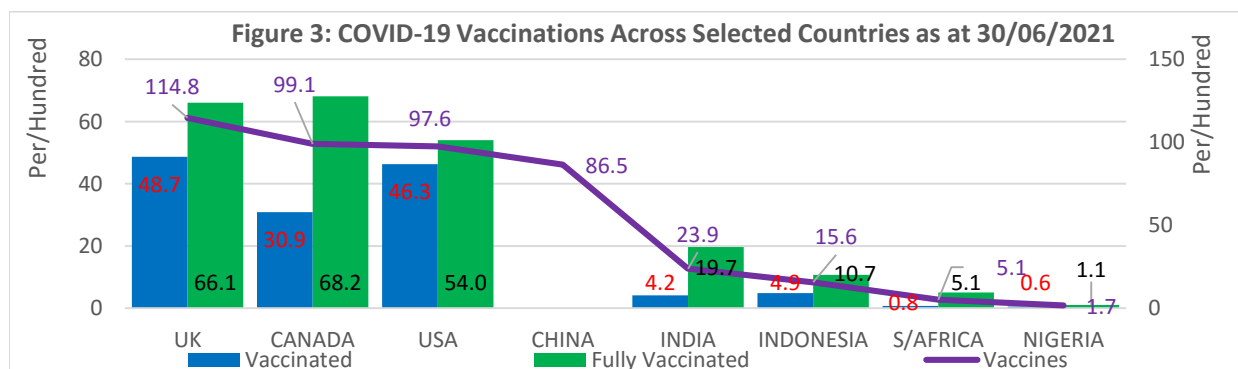
and India, as indicated in figure 2. The World Bank in its June 2021 GEP also projected the USA to achieve an annual growth of 6.8%, surpassing its January 2021 forecast of 3.5% by 3.3 percentage points, while China and India were to attain an annual growth of 8.5% and 8.3%, respectively, and thus supported economic growth of EMDEs as a group.

Economic growth of the largest economies in SSA, namely South Africa and Nigeria was relatively weak, achieving 3.5% and 1.8%, respectively, with negligible growth surprises. This growth performance for Africa’s largest economies helped to explain the sluggish average growth in the SSA region.



Source: Data from WB’s Global Economic Prospect June, 2021

Figures 1 and 2 show that economic growth during the COVID-19 pandemic was uneven, with AEs recording large growth and EMDEs (excluding China and India) posting relatively weak growth that may be associated with unequal access and progress of inoculation against the COVID-19. Figure 3 shows that while many AEs made giant strides at vaccinating their population, resulting in resumption of economic activities, many developing countries, except China, still faced challenges in accessing and distributing vaccines.



Source: Our World in Data (OWID) project in Oxford University

The weak economic growth in many developing countries other than China and India resulted from fragilities in the long-term economic fundamental exacerbated by COVID-19 pandemic. Many of these economies were unable to optimise benefits from firmed global demand and increase in commodity prices due to debt loads and high interest repayment that constrict fiscal space. With rising inflation due to supply shock and declining resources, many EMDE governments continued to withdraw, albeit gradually, fiscal and monetary policy supports, thus further dampening economic growth.

In spite of the current momentum of the global economic growth driven by strong recoveries in the USA, China, India and a few other countries, several downside risks arising from uneven growth and prevalence of weak economic performance among EMDEs weighed heavily on global economic growth in the medium to long term. These risks were expected to continue as long as access, distribution and administration of the vaccines remain inadequate.

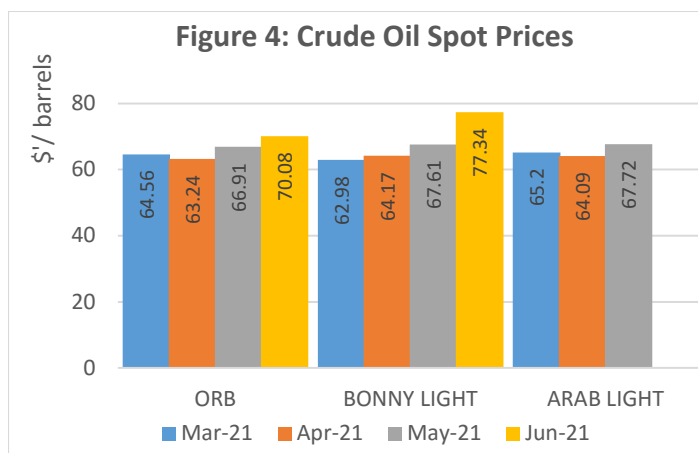
These expectations informed the moderation of the global economic growth in the medium term. According to the WB's GEP of June 2021, global economic growth is expected to moderate to 4.3% and 3.1% in 2022 and 2023, respectively. AEs and EMDEs growth prospect in the medium term were also moderated downwards, with exception of SSA where growth was currently very low. Besides the COVID-19 scars on growth fundamentals, the moderations were in part attributable to policy support withdrawals over time.

International trade in Q2 2021 continued to strengthen in response to rising global demand supported by improved optimism and progress in vaccine distribution and administration. World trade volume was projected by the WB to reach an annual growth of 8.3% in June, 2021, up by 3.3%, above 5.0% predicted in January, 2021. The outlook, especially in the medium term, was however weak due to downside risks such as growth moderations, rising costs of trade and production slowdowns induced by supply bottlenecks.

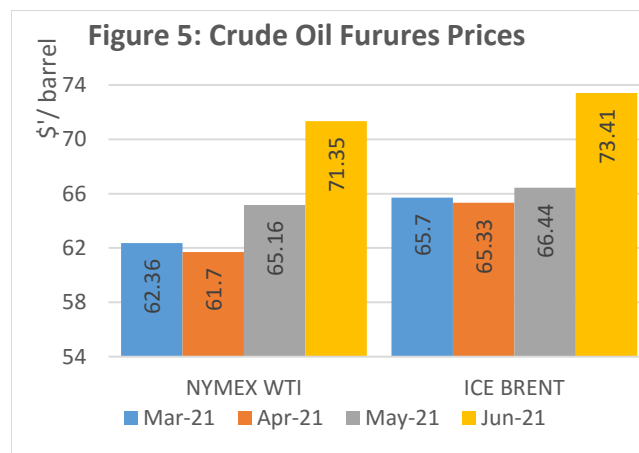
Owing to the rise in global demand and booming trade, commodity prices were expected to continue to rise in 2021. Agricultural product prices were projected to rise by 16% in 2021, due in part to supply constraints like weather and insecurity-induced displacement of farmers in some parts of the world. Similarly, crude oil price experienced upticks in Q2 2021 as global demand strengthened.

According to OPEC Monthly Reports, both the spot and future prices of crude oil prices rose in Q2 2021. Although, crude oil prices fell from \$64.56 in March 2021 to \$63.24 in April 2021, the OPEC Reference Basket (ORB) and the weighted average price of petroleum product produced by OPEC countries, rose gradually to \$70.08 in June 2021 as figure 4 shows. Arab Light followed a similar pattern, falling from \$65.20 in March to \$64.09 in April before climbing to \$67.72 in May 2021. In contrast, Bonny Light consistently rose from \$62.98 in March to \$64.17 in April and peaked at \$77.34 in June 2021.

Similarly, NYMEX WTI and ICE Brent - the crude oil futures – first declined from \$62.36 and \$65.70 in March 2021 to \$71.70 and 65.33 in April, before rising to \$65.16 and \$66.44 in May, and \$71.35 and \$73.41 in June 2021, respectively.



Source: OPEC Monthly Oil Market Report for March-July, 2021



Source: OPEC Monthly Oil Market Report for March-June, 2021

1.2 Domestic Economic Conditions

1.2.1 Nigerian Real GDP Growth and Sectorial Contributions

The Gross Domestic Product (GDP) grew by 5.01% (year-on-year) in real terms in the Q2 2021, representing a significant increase by 11.11 percentage points relative to the growth rate of -6.1% achieved in the Q2 of 2020 and by 4.5 percentage points for growth recorded in Q1 2021.

The performance not only indicated third consecutive quarters of growth since the contractions in Q2 and Q3 2020 but also marked rebound of economy prior to nationwide restrictions at the outset of COVID-19 pandemic in 2020.

Furthermore, the growth was mainly driven by the non-oil sector, which grew by 6.74% in the Q2 2021 while the oil sector contracted by 12.65% due to lower average daily production of 1.61 million barrels per day (mbpd) from 1.81mbpd and 1.72 mbpd recorded in Q2 2020 and Q1 2021, respectively. For a clarity, the Nigerian economy has been classified broadly into the oil & non-oil sectors and Agricultural, Industrial & Services Sectors as shown in the table 1.

Table 1 shows that the Oil sector contributed 7.42% to GDP in Q2 2021, down from 8.93% and 9.25% recorded in the Q2 2020 and preceding Q1 2021, respectively. On the other hand, the share of non-Oil sector in the real GDP in Q2 2021 was 92.58%, higher than 91.07% recorded in the Q2 2020 and 90.75% in Q1 2021.

Table 1: Selected Macroeconomic Indicators in Nigeria

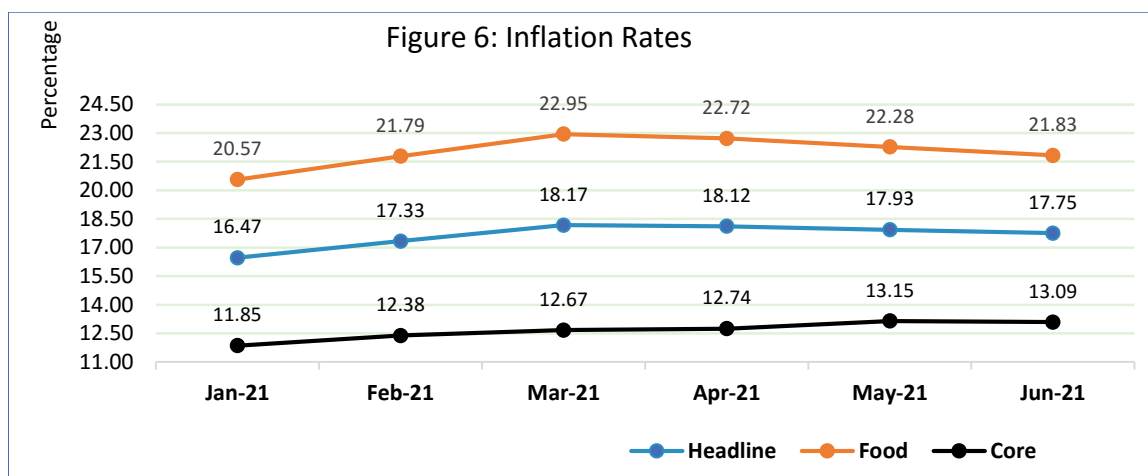
Macroeconomic Indicators	2020				2021	
	Q1	Q2	Q3	Q4	Q1	Q2
Oil Production (MBPD)	2.07	1.81	1.67	1.56	1.72	1.61
Real GDP Growth (%)	1.87	-6.1	-3.62	0.11	0.51	5.01
Oil Growth Rate	5.06	-6.63	-13.89	-19.76	-2.21	-12.65
Non-Oil Growth Rate	1.55	-6.05	-2.51	1.69	0.79	6.74
Contribution of the Oil Sector to	9.50	8.93	8.73	5.87	9.25	7.42
Contribution of the Non-Oil Sector to	90.50	91.07	91.27	94.13	90.75	92.58
Contribution of Agriculture to RGDP	21.96	24.65	30.77	26.95	22.35	23.78
Contribution of Industries to RGDP (%) (Mining , Manufacturing,	23.65	21.87	21.59	18.77	23.75	20.57
Contribution of Services to RGDP (%) (Trade, Health, education, finance ICT)	54.39	53.49	47.64	54.28	53.90	55.66

Source: National Bureau of Statistics

In Q2 2021, the growth in the non-oil sector was driven mainly by growth in Trade, Information and Communication Transportation, Electricity, Agriculture (Crop Production) and Manufacturing (Food, Beverage & Tobacco), indicative easing of movement, return of business and economic activity across the country relative to similar period in 2020.

1.2.2 Consumer Price and Food Indices (Inflation)

The headline inflation (year-on-year) moderately declined from 18.17% in March 2021 to 18.12% in April, then to 17.93% in May, and further to 17.75% in June 2021. The decline recorded in the Q2, 2021 was after 19 consecutive months of increase (figure 6).



Source: National Bureau of Statistics

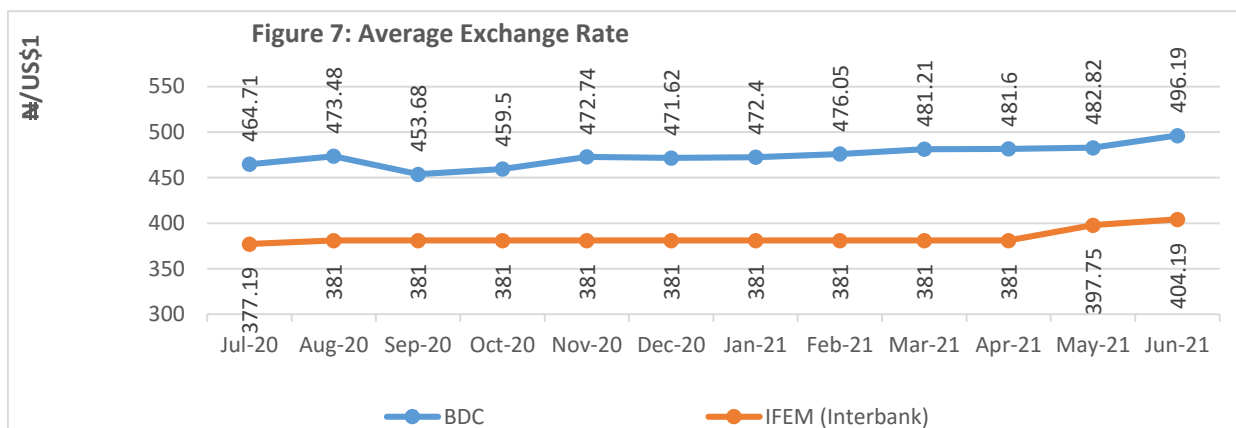
The analysis of inflation in June 2021 revealed that increases were recorded in all the 12 Classifications of Individual Consumption by Purpose (COICOP) divisions that yield the Headline inflation index. Such divisions included, amongst others, Food & Non-Alcoholic Beverages; Alcoholic Beverages, Tobacco & Kola; Clothing & Footwear; Housing, Water, Electricity & Gas; Furnishings & Household Equipment; Health; Transport; Communication; Recreation & Culture; Education; Restaurants & Hotels and Miscellaneous Goods & Services.

On a narrow scale, the composite food index declined to 21.83% in June 2021 from 22.72% in April 2021, and 22.95% in March 2021. This rise in the food index was driven mainly by increases in prices of Bread, Cereals, Milk, Cheese, Eggs, Fish, Soft drinks, Coffee, Tea and Cocoa, Fruits, Meat, Oils and fats and Vegetables.

Furthermore, the Core inflation or "All items less farm produce" which excludes prices of volatile agricultural produce stood at 13.09% in June 2021, higher than 12.74% in April. The items with the most price increases were Pharmaceutical products, Garments, Other services in respect of personal transport equipment, Gas, Household textile and Non-durable household goods.

1.2.3 Exchange Rate Movement

The foreign exchange market continued to be on the rise in the period under review. Figure 7 presents the trend of Naira/US\$ rate in both the Interbank and the Bureau de Change Markets.

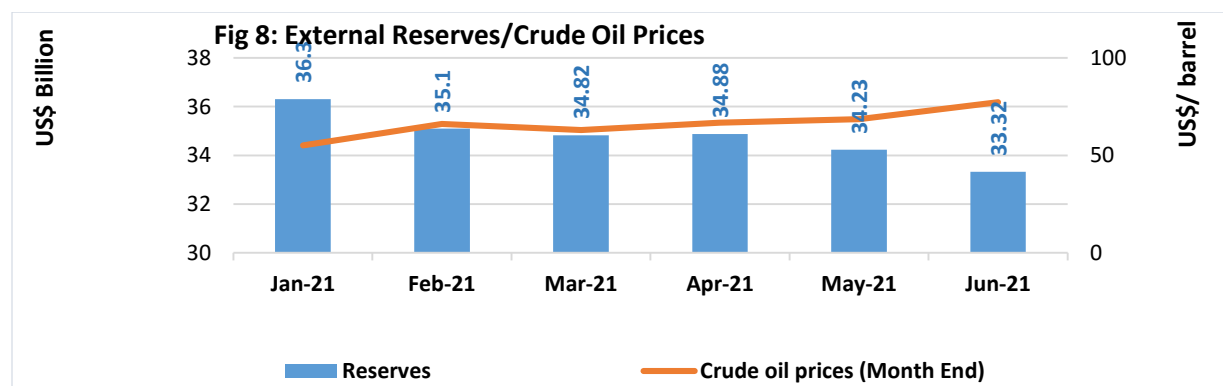


Source: CBN Statistical Database

The average Naira-USD exchange rate depreciated from ₦381/US\$ in April 2021, to ₦397.75/US\$ and ₦404.19/US\$ in May and June 2021, respectively, at the inter-bank market segment. Similarly, the exchange rate depreciated in the Bureau de Change (BDC) market from ₦481.21/US\$ in March 2021 to ₦481.6/US\$, ₦482.82/US\$ and ₦496.19/US\$ in April, May and June 2021, respectively.

1.2.4 External Reserve Movement

Figure 8 presents the trend of Nigeria’s External Reserves from January 2021 to June 2021.



Source: CBN Statistical Database

The nation’s external reserve slightly rose from US\$34.82 billion in March 2021 to US\$34.88 billion in April 2021, but later declined in Q2 2021, settling down at US\$34.23 billion and US\$33.32 billion at the end of May and June 2021, respectively, despite the rising price of crude oil.

1.2.5 Nigeria Public Debt Stock

Table 2 shows that Nigeria’s total debt stood at ₦33.11 trillion in Q2 2021, having grown by 7.1% from ₦33.11 trillion in Q1 2021. The domestic debts accounted for 61.34% or ₦21.75 trillion while external debt was responsible for 38.66% or ₦13.71 trillion of the total debt as at June, 2021. Table 2 highlights the status of the Total Public Debt stock from Q1, 2020 to Q2, 2021.

Table 2: Nigeria Public Debts

(N' Trillion)	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2
Total Public Debt	28.63	31.01	32.22	32.92	33.11	35.46
* Total External Debts	9.99	11.36	12.19	12.71	12.47	13.71
* Total Domestic Debts	18.64	19.65	20.04	20.21	20.64	21.75
- FG Only	14.53	15.46	15.85	16.02	16.51	17.63
- State & FCT	4.11	4.19	4.19	4.19	4.12	4.12
External Debts (%)	34.89%	36.65%	37.82%	38.60%	37.67%	38.66%
Domestic Debts (%)	65.11%	63.35%	49.18%	61.40%	62.33%	61.34%
Public Debt growth rate	4.49%	8.31%	3.90%	2.17%	0.58%	7.10%
Actual Domestic Debt Service (N'Billion)	609.13	312.81	604.19	351.99	612.71	322.75
Actual External Debt Service (N'Billion)	170.60	103.62	193.23	110.28	382.30	113.91
Total Debt Services paid	779.73	416.43	797.42	462.27	995.01	436.66
US\$/Naira Rate	361	361	381	381	381	381

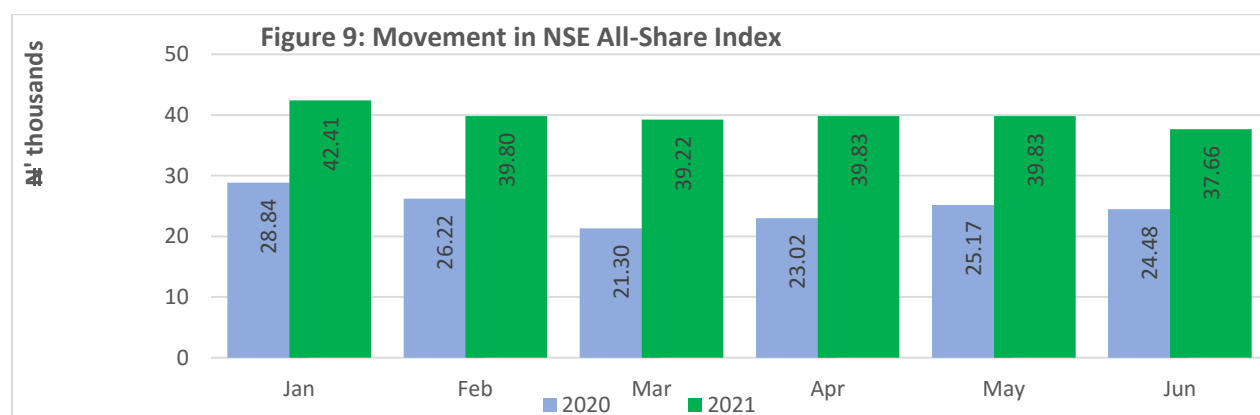
Source: Debt Management Office (DMO) - Total Public Debt, External Debt Services and Domestic Debt Services

2. Financial Sector Developments

2.1 Capital Market Development

2.1.1 The All-Share Index

The Nigerian Stock Exchange All-Share Index (NSE ASI) for all listed equities declined by 1225.59 (3.14%) from 39,045.13 in Q1 2021 to close at 37,658.26 in Q2, 2021 representing a year to date (YtD) loss of -6.49%, as shown in figure 9.



Source: NSE Market Capitalisation Reports

The Q2 performance reflected a steady YtD loss of -1.08%, -5.00% for April and May to close at 39,834.42 and 38,256.95, respectively. In contrast, the equity market performed

better in Q2 2021 relative to Q2 2020. The ASI grew by 49.5% from 25,182.67 in Q2 2020 to 37,658.26 in Q2, 2021.

2.1.2 Market Capitalisation

Similarly, the Market Capitalization Index stood at 37,907.28 as at 30 June 2021, compared to 39,045.13 as at 31 March 2021, implying the loss of 1,137.85 from Q1 2021 to Q2 2021.

As shown in table 3, capitalisation of equities, exchange traded funds, and FGN bonds as at 30 June 2021 depreciated by 3.27%, 39.71% and 4.11% from ₦20.43 trillion, ₦20.32 billion and ₦17.17 trillion in Q1, 2021 to ₦19.77 trillion, ₦12.25 billion, and ₦16.47 trillion in Q1, 2021 respectively.

Indicators	Q2 2021	Q1 2021	% Change (Q2 2021-Q1 2021)	Q2 2020	% Change (Q1 2021-Q1 2020)
Equities	19,766.57	20,434.94	-3.27%	12,793.94	54.50%
Exchange Traded Funds (ETF)	12.255	20.325	-39.71%	14.07	-12.90%
Total Debts	17,393.19	17,896.21	-2.81%	14,752.51	17.90%
Corporate Bonds/ Debenture	717.087	519.759	37.97%	526.52	36.19%
FGN Bonds	16,468.55	17,173.90	-4.11%	13,853.06	18.88%
State and Local Bonds	207.555	202.555	2.47%	369.70	-43.86%
Supranational Bonds	-	-	-	3.24	-100.00%
Total Market. Capitalisation**	37,172.02	38,351.48	-3.08%	27,560.52	34.87%

** excluding memorandum listings

Source: NSE Market Capitalisation Reports

2.1.3 Domestic and Foreign Portfolio Investment

The trading figures in table 4 show that total transactions in June 2021 stood at ₦100.77 billion with foreign investors executing 23.24% of the value while domestic investors executed 76.76% of the total portfolio flows. The total transaction value significantly declined by 55.90% from ₦228.49 billion in March to ₦100.77 billion in June 2021.

Table 4: Domestic & Foreign Portfolio Transactions in Equity Trading in 2020 & 2021

Year	Month	Total		Domestic			Foreign		
		₦' Billion	Growth (%)	₦' Billion	% of Total	Growth (%)	₦' Billion	% of Total	Growth (%)
2021	June	100.77	3.68	77.35	76.76	0.59	23.42	23.24	15.43
	May	97.19	39	76.90	79.12%	-41.7	20.29	20.88%	-27.59
	April	159.93	30	131.91	82.48%	-29.8	28.02	17.52%	-31.05
	March	228.49	5.99	187.85	82.21%	22.37	40.64	17.79%	-34.53
	February	215.58	-7.26	153.51	71.21	-16.99	62.07	28.79	30.62
	January	232.46	-13.66	184.94	79.56	-7.21	47.52	20.44	-32.04
2020	December	269.24	-15.28	199.32	74.03	-20.43	69.92	25.97	3.878
	November	317.81	29.77	250.5	78.82	53.51	67.31	21.18	-17.63
	October	244.9	81.45	163.18	66.63	71.91	81.72	33.37	104.04

Sources: The Nigerian Stock Exchange's Domestic & Foreign Portfolio Investment Reports

Further analysis of investment transactions showed that total foreign transactions declined by 31.05% from ₦40.64 billion in March 2021 to ₦28.02 billion in April 2021 and further reduced by 16.42% to ₦23.42 billion in June 2021.

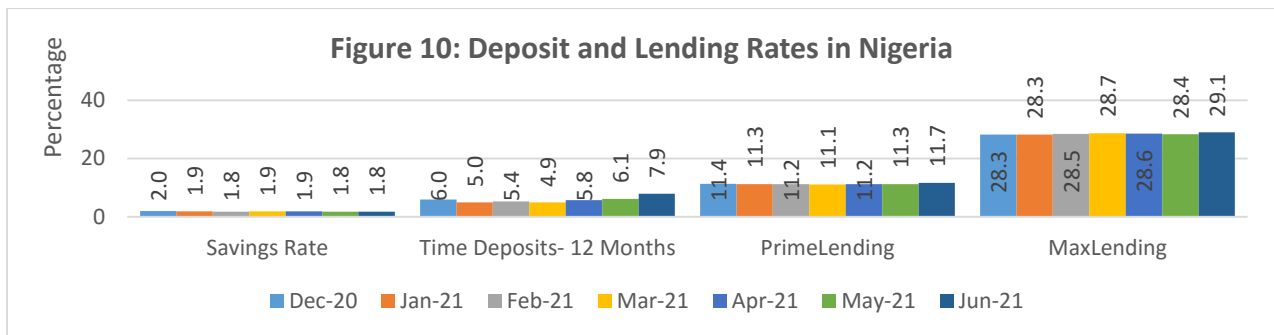
On the other hand, Domestic Portfolio Investments (DPIs) fell by 29.78% from ₦187.85 billion in March 2021 to ₦131.91 billion in April and further by 41.36% to ₦77.35 billion in June 2021.

2.2 Money Market Development

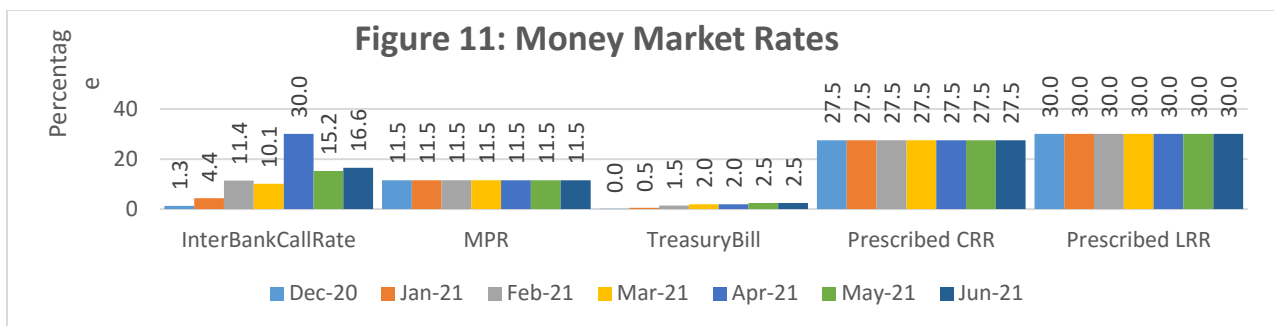
2.2.1 Interest Rates Movement

In Q2 2021, money market rates were relatively flat as in Q1 2021, with exception of time deposit rate that slightly rose in Q2. Figure 10 shows that interest on savings deposit rose from 1.8% in February 2021 to 1.9% in March and April 2021, before declining to 1.8% in May and June 2021. Similarly, both prime lending rate and maximum lending rate were flat over the period, prime lending rate hovering between 11.1% and 11.7% and maximum lending rate between 28.3% and 29.1% in Q1 and Q2 2021 respectively. Interest rate on one-year time deposit however rose consistently from 4.9% in March to 6.1% and 7.9% in May and June 2021, respectively.

While the Monetary Policy Rate (MPR) was constant in Q1 and Q2 2021 at 11.5%, interest rate on 90-day treasury bill rose from 1.5% in February to 2.5% in June 2021. Interbank rate though fell from 11.4% in February to 10.1% in March 2021, it spiked to 30.0% in April before sliding down to 15.2% and 16.6% in May and June 2021, respectively.



Source: CBN Statistical Database

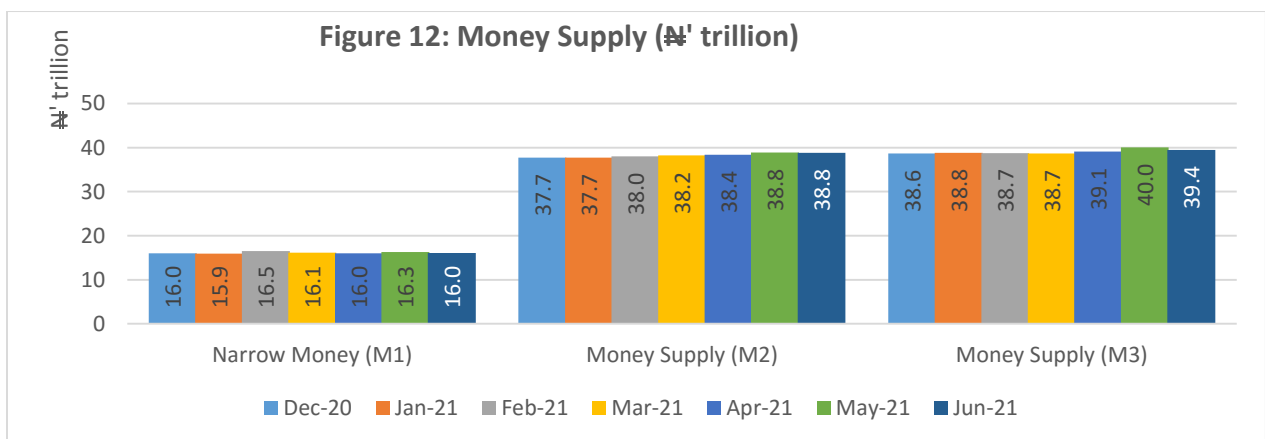


Source: CBN Statistical Database

2.2.2 Money Supply

Money supply in Nigeria has been on the increase, albeit at a slow rate. Figure 12 shows that broad money supply (M3) rose by 3.28% from ₦38.74 trillion in March 2021 to 40.01 trillion in May 2021, and later declined by 1.54% to ₦39.4 trillion in June 2021. Money supply (M2) increased by 1.6% from ₦38.2 trillion in March to ₦38.8 trillion in June 2020.

Similarly, Narrow Money Supply (M1) increased by 0.87% from ₦16.14 trillion in March to ₦16.28 trillion in May 2021, but later declined by 1.72% to ₦16.0 trillion in June 2021.



Source: CBN Statistical Database

3. CBN Monetary Policy and Circulars

3.1 Monetary Policy

The CBN Monetary Policy Committee (MPC) met twice in Q2 2021: on 22nd and 23rd March, and on 24th and 25th May, 2021. The highlights of the meetings and their implications to the economy, banking industry and the NDIC are presented hereinafter.

The Committee noted the following:

- i. Many financial indicators of the banking sector outperformed their regulatory threshold in Q2 2021. Capital Adequacy Ratio (CAR) and Liquidity Ratio (LR) of 15.8% 38.9% were well above their regulatory threshold of 15.0% (for international banks) and 30%, respectively. The non-performing loan (NPL) ratio of 5.89% also showed a progressive improvement when compared to 6.6% recorded in previous quarter. As it was still above the 5% regulatory thresholds, the CBN advised banks to control and reduce it to required level.
- ii. The Equity Market performance continued to decline in Q2 2021 as did the All-Share Index (ASI) and Market Capitalization (MC).
- iii. Despite stimulus packages and suites of interventions by both the monetary and fiscal arms of government, food inflation continued to witness a steady rise and was attributable to supply chain disruptions occasioned by the farmer-herdsmen crisis and other forms of insecurity endemic across the country especially agricultural belts.
- iv. The PMI grew, albeit marginally, to 49.0 index points in April 2021 from 48.8 index points in March 2021. This increase is a lead indicator of recovery of output growth following the easing of restrictions to curtail the spread of the pandemic. The Non-manufacturing PMI, however, declined marginally to 47.3 index points in April 2021, against 47.9 index points in March 2021.
- v. Total disbursement for the Anchor Borrowers Programme (ABP) stood at ₦631.4billion as at end May 2021. This comprises ₦253.4 billion channelled to household under the Targeted Credit Facility, ₦111.7 billion to the Agri-Business Small and Medium Enterprises Investment Scheme (AGSMEIS), ₦97.4 billion disbursed to 91 projects that comprise pharmaceutical, Hospitals and Health Care Services projects across the country under Health Care Support Intervention Facility. Others were ₦2.04 billion disbursed to 7,057 beneficiaries under the National Youth Intervention, ₦ 35.9 billion for the procurement of 656,752 meters under the National Mass Metering Programme, and ₦93.8 billion disbursed under the Nigeria Electricity Market Stabilization Facility (NEMSF 2) to 11 distribution

companies to enhance power supply across the country. In addition, N856.3 billion had been disbursed to 233 projects across various sectors in agro-llied, mining, steel production and packaging industries, amongst others under the ₦1 trillion Real Sector Intervention Stimulus.

The Committee recommended that:

- i. The CBN maintain its current drive to improve access to credit to the private sector, while exploring other initiatives with the fiscal authorities to improve funding to critical sectors of the economy.
- ii. The CBN continue to ensure risk surveillance while strengthening its macro-prudential stance in response to rising NPLs ratio which currently stood at 5.89 percent in May from 6.3 percent in the March; all above regulatory threshold of 5 percent.
- iii. Notwithstanding the various intervention facilities towards boosting output, the CBN should continue to aggressively increase its interventions in these subsectors, including agricultural processing and manufacturing.
- iv. While government's efforts in combating the headwinds imposed by the pandemic are commendable, government should avoid an entire nationwide lockdown like was experienced in 2020, as that may jeopardise the weak economic recovery from the recession occasioned by the Pandemic.
- v. Government should intensify effort towards addressing the security situation in the country to ease supply bottlenecks and bring down food prices which is the underline impetus for core inflation.
- vi. Government explore the option of private-public partnership for infrastructural developments to further improve road networks, telecommunications and power supply as this would will greatly support the supply chain and help moderate inflation.
- vii. There is need for collaboration with Nigeria's huge diaspora, through the issuance of diaspora bonds targeted at specific infrastructure projects.
- viii. The CBN should maintain its collaboration with the fiscal authority to improve the investment climate towards attracting sustainable Foreign Direct Investment (FDI).

The Committee's Decisions

The MPC in its statutory and extraordinary meetings held in the first quarter of this year voted to:

- i. Retain the MPR at 11.5 per cent;
- ii. Retain the asymmetric corridor of +100/-700 basis points around the MPR;
- iii. Retain the CRR at 27.5 per cent; and
- iv. Retain the Liquidity Ratio at 30 per cent.

Policy Implications for the Economy

- i. Retaining the MPR signifies stability in the CBN policies, and signals to Deposit Money Banks to lend to the real sector to generate increase in economic activity and growth. While increase lending may increase money supply and increase inflation in the short run, increase in aggregate supply would lower prices and reduce inflation in the long run.
- ii. Credit expansion assists firms to increase output and possibly profit. Their stock value is therefore enhanced, leading to attraction of inflow of foreign portfolio investors with a positive multiplier effects on the capital market, employment generation and potential for increased economic activity that engenders growth and development.
- iii. The policy on LDR has continued to enhance aggregate domestic credit to the economy, thus improving production and investment activities, with its effects on employment and disposable income.
- iv. The various liquidity injections through the intervention programmes of the CBN towards stimulating credit expansion and production in the critically impacting sectors such as agricultural and manufacturing is expected to lower prices, increase aggregate output and GDP and sustain economic recovery.

Policy Implications for Banks

- i. CRR, though retained at 27.5% to maintain price stability, may however constrain ability of banks to expand credit, hence their ability to generate income.
- ii. Maintaining MPR at 11.5% in the face of deteriorating exchange rate and increased exposure for banks with dollar denominated loans could limit the ability of banks to diversify their portfolios.
- iii. Deposit Money Banks may leverage on the various intervention programmes embarked upon by the CBN to shore up their balance sheets, hence assisting banks to regain stability in the face of the pandemic.

- iv. The rising rate of inflation could negatively impact banks profitability through increased operational and overhead costs. It could also effectively reduce the disposable incomes of households hence the tendency for them to de-save to fund current consumption. This would adversely affect banks loanable funds and profitability.

Implications for the NDIC

- i. There is a need to sharpen operational and supervisory skills of staff of NDIC to meet up with novel and evolving challenges arising from the prevailing climate of uncertainties driven by the pandemic, second wave of economic shutdowns in leading economies, attendant dwindling oil prices, contractions in banking positions, squeezed margins and rising incidences of NPLs. These headwinds could encourage overly risky behaviour in the banking industry.
- ii. The several Intervention programmes and regulatory forbearances by the CBN aimed at stabilizing the economy could result in lax compliance to prudential measures, sectoral imbalances in loan allocation and corporate governance issues. This would require enhanced supervision and engagements by the NDIC with banks in its bid to protect depositors and forestall the crystallization of its ultimate mandate.
- iii. The requirement to increase lending to the private sector could mean increased NPLs in the banks, and its effect on the balance sheet positions of banks thus necessitating a need for increased supervision to ensure that adequate prudential measures are employed by these banks so as to avoid costs to the deposit insurer.
- vi. The prevailing low interest rates at the back of high trending inflation, resulting in decreased disposable income and reduction in savings could signal a reduction of bank deposits by individuals and households. This would ultimately imply less premium due to the NDIC and slow accretion to the DIF.

3.2 CBN Circulars

3.2.1 CBN Second Quarter Circulars

During the period under review, the CBN issued a number of circulars and guidelines on the operations of insured deposit-taking financial institutions in Nigeria. The highlights of some of the circulars are presented as follows:

- i. **FPR/DIR/PUB/CIR/01/002 Credit Risk Management System (CRMS): Commencement of Enrolment of all Development Finance Institutions (DFIs), Microfinance Banks (MFBs), Primary Mortgage Banks (PMBs) and Finance Companies (FCs)**

The CBN in a circular dated 8 April 2021 issued a circular to all Other Financial Institutions (OFIs) on the commencement of the enrolment of OFIs on the CRMS platform. To ensure full compliance, OFIs were reminded to conclude the tagging of all live credit files with BVN and TIN by May 14th, 2021.

ii TED/FEM/PUB/FPC/01/004

Re: Introduction of the CBN'S "Naira for Dollar Scheme" for Diaspora Remittances

The CBN in a letter dated 6 May 2021 issued a circular to all Deposit Money Banks, International Money Transfer Operators (IMTOs) and The General Public on the continuation of the CBN's "Naira 4 Dollar Scheme" until further notice. The scheme is aimed at encouraging increase in inflows of diaspora remittances into the country. In this light, all recipients of diaspora remittances through the CBN licensed IMTOs shall be paid N5 for every USD1 received as remittance inflow.

iii FPR/DIR/PUB/CIR/01/004 Issuance of Guidelines for Shared Services Arrangement

The CBN in letter dated 25th of May, 2021 issued a circular to all Deposit Money Banks and Other Financial Institutions on the Guidelines for shared services and transfer pricing arrangements in the Nigerian banking industry. The effective date for the full compliance of the Guideline is June 1, 2022.

iv PSM/DIR/CON/CWO/20/063

Issuance of the Regulatory Framework for Non-Bank Acquiring in Nigeria

The CBN in its letter dated 25 May 2021 issued a circular to Deposit Money Banks, Payment Service Providers and Other Financial Institutions on the regulatory framework for non-bank acquiring in Nigeria. As part of its mandate to promote a sound financial system and facilitate the development of electronic payment systems, the frame sets out the rules for the operation of Non-bank Merchant Acquiring in Nigeria as a regulated service and provides minimum standards and requirements for the operations.