Review of Macroeconomic Developments in the Third Quarter of 2021

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1. Macroeconomic Conditions

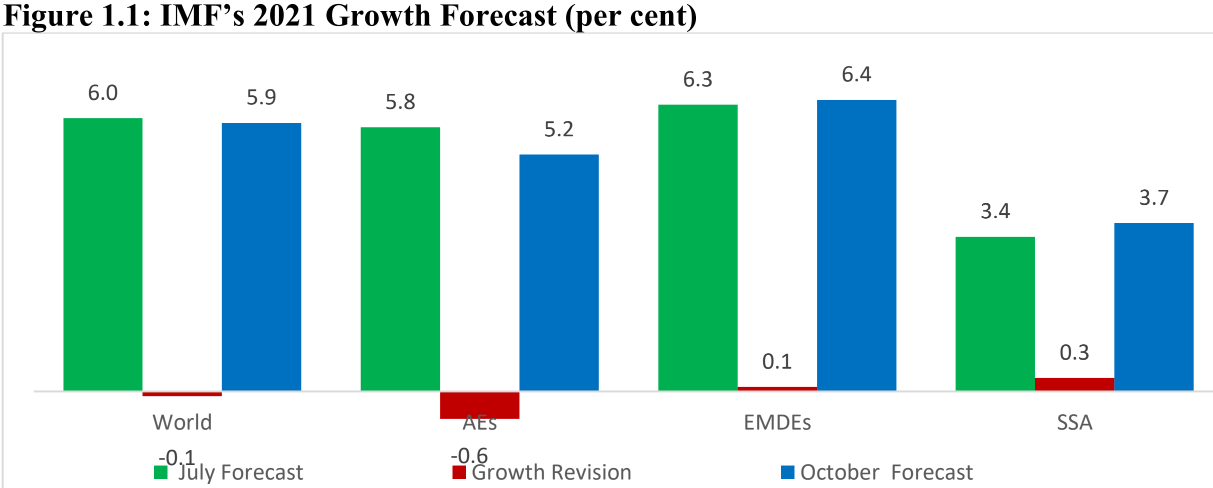
1.1 Global Economic Conditions

The global economic growth marginally slowed down in the third quarter of 2021, thus dampening the global growth recovery expected in 2021, especially for some countries. Consequently, the IMF's April and July 2021 forecast of 6.0 per cent global economic growth was revised downwards to 5.9 per cent, while the OECD's global growth projection of 5.8 per cent in May 2021 declined to 5.7 per cent in its September 2021 Economic Outlook.

The slowdown of the global growth recovery stemmed from persistent disruption in supply chains, mostly in Advanced Economies, relatively poor access to vaccines for low-income countries, and withdrawal of policy support due to thinning fiscal space and inflationary pressures, among others. These downside risks weighed negatively on private investment and consumption demand, further undermining growth momentum and the prospect of a return to pre-pandemic economic growth performance in many developing countries.

As shown in Figure 1.1, a negative growth revision of -0.4 per cent in Advanced Economies (AEs) to 5.2 per cent in October significantly drove the -0.1 per cent moderation of the global growth projection for 2021, while a positive but smaller revision of 0.3 per cent in both Emerging and Developing Economies (EMDEs) and Sub-Saharan Africa (SSA) to 6.4 per cent and 3.7 per cent in October 2021, respectively, moderated the effects of the large growth revisions in AEs on the global growth.

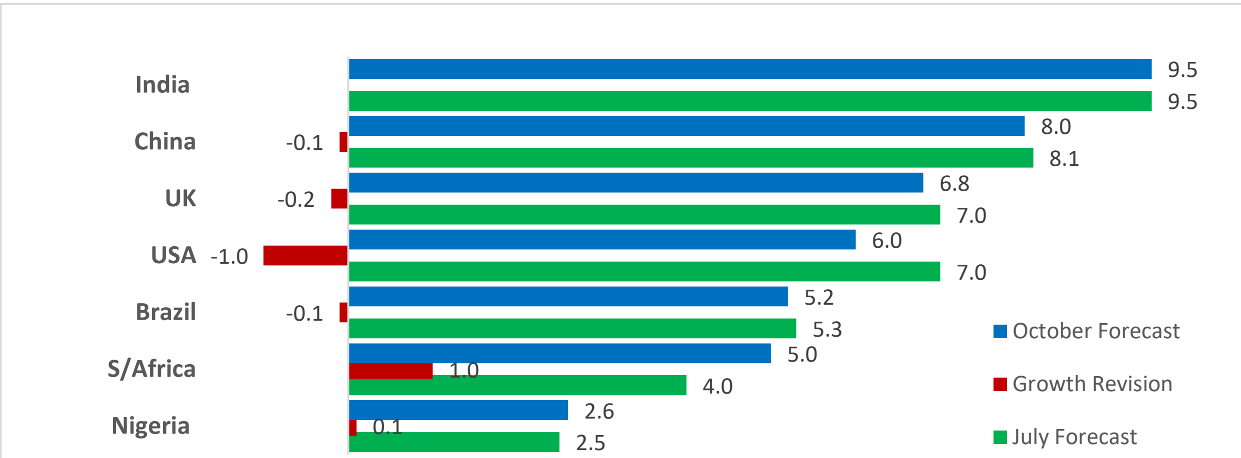
Figure 1.1: IMF's 2021 Growth Forecast (per cent)



AEs= Advanced Economies; SSA = Sub-Saharan Africa
EMDEs = Emerging Market and Developing Economies
Source: IMF's July update and October WEO, 2021

The sizeable negative revision of AEs' growth derived primarily from -1.0 per cent decline in IMF's growth projection for the United States from 7.0 per cent in July 2021 to 6.0 per cent in October 2021, and to a lesser extent from downward growth revisions for Germany, Japan, and the United Kingdom.

Figure 1.2: IMF's 2021 Growth Projection (per cent)



Source: IMF's July update and October WEO, 2021

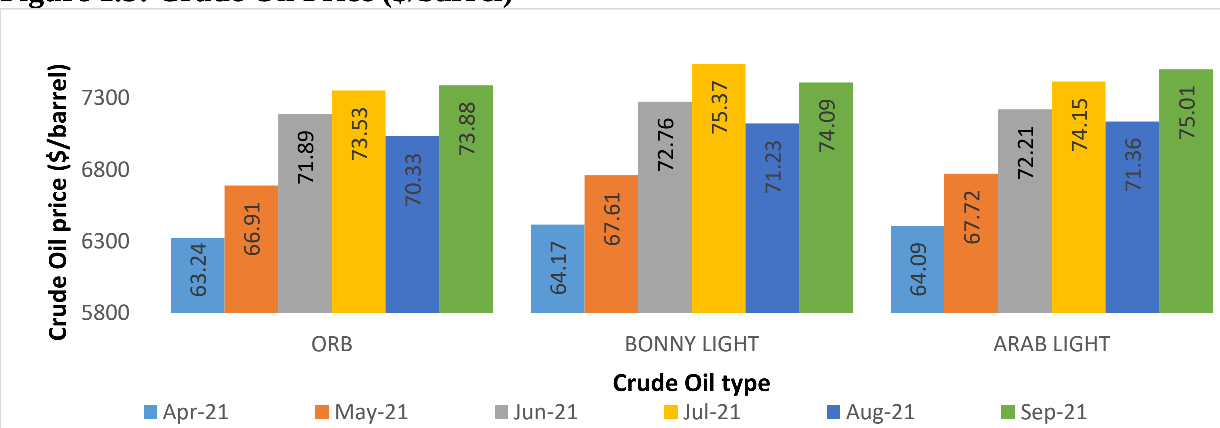
As shown in Figure 1.2, the marginal positive revision in EMDEs' growth derived from countries other than China, India, and Brazil had their growth revised downward. The upward growth revision of the SSA region is supported by a large positive growth revision of South Africa from 4.0 per cent in July to 5.0 per cent in October and a 0.1 per cent revision for Nigeria's 2021 economic growth forecast from 2.5 per cent in July to 2.6 per cent in October 2021.

Inflation rose significantly in some AEs & EMDEs. The increase stemmed from the release in pent-up demand due to rising output, disruptions in supply chains, rising prices of oil and other commodities, as well as an increase in shipping costs (IMF, October 2021; and OECD, September 2021). The IMF's October 2021 inflation forecast for AEs was 2.4 per cent, higher than the 2.1 per cent forecast in July 2021. The rise in inflation derived from the increase in inflation in the USA, Canada, and the UK, where inflation rose to 3.6 per cent, 3.1 per cent, and 2.3 per cent by 0.7, 1.1, and 1.0 percentage points, respectively, above its levels in May (OECD, September 2021).

The inflation forecast for EMDEs rose from 5.4 per cent in July 2021 to 5.5 per cent in September 2021. Rising inflation in EMDEs was attributed to rising food prices, past depreciation of currencies, increases in indirect taxes as well as rise in the prices of electricity (OECD, 2021; IMF, October 2021). Oil prices rose by 13.9 per cent between February and August 2021 due to the rapid economic recovery in AEs. Oil prices continued their surge on the back of strong fundamentals that include slow recovery from crude oil supply disruptions in the US as a result of hurricanes, ease in inventory overhang, firmer demand for oil from the US and Europe, rally in the oil futures market, amongst others.

As shown in Figure 1.3, oil prices settled at a higher level at the end of the third quarter of 2021 than they did at the end of the second quarter of 2021. OPEC Reference Basket (ORB) rose from USD71.89 in June 2021 to USD73.53 in July 2021 and fell to USD70.33 in August 2021. It, however, rose to USD73.88 in September 2021. Bonny Light crude oil and Arab Light crude oil followed the same pattern, rising from USD72.76 and USD72.21 in June 2021 to USD75.37 and USD74.15 in July 2021. They, however, fell to USD71.23 and USD71.36 in August 2021 and later rose to USD74.09 and USD75.01 in September 2021, respectively. The price trajectories of the crude oil futures were similar to those of spot prices. ICE Brent and NYMEX WTI closed at a higher level in the third quarter of 2021 than they did in the second quarter of 2021, owing to stronger market fundamentals amidst market sentiments over the COVID-19 pandemic.

Figure 1.3: Crude Oil Price ($/barrel)



Source: OPEC Monthly Reports

1.2 Domestic Economic Conditions

1.2.1 Nigerian Real GDP Growth and Sectorial Contribution

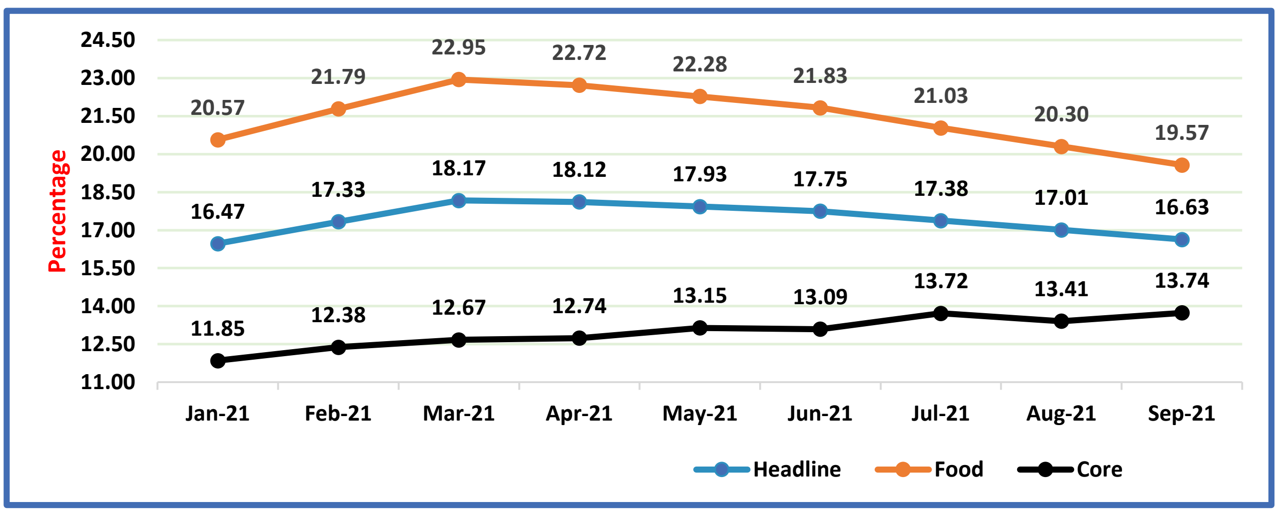
In the third quarter of 2021, the Nigerian economy sustained the relatively strong growth performance that began in the previous quarter. The real GDP increased by 4.03 per cent in the third quarter of 2021, indicating the persistence of growth fundamentals behind the 5.01 per cent growth recorded in the second quarter of 2021. With a positive change in the third quarter of 2021, the Nigerian economy recorded four consecutive quarters of growth since the recession experienced in mid-2020. When compared to -3.62 per cent GDP growth in the third quarter of 2020, the growth rate in the third quarter of 2021 was higher by 765 basis points. The economic growth achieved in the third quarter of 2021 was derived largely from the strong performance in the non-oil sector, which moderated the effects of the growth decline in the oil sector. The non-oil sector grew by 5.44 per cent, while the oil sector declined by 10.73 per cent in the third quarter of 2021. The poor performance in the oil sector stemmed from a reduction in average daily oil production from 1.67 million barrels per day (mbpd) and 1.61 mbpd in the third quarter of 2020 and second quarter of 2021, respectively, to 1.57 mbpd. Table 1.1 presents Nigerian economic growth rates and those of the constituent sectors over seven quarters in 2020 and 2021.

Table 1.1: Nigerian Economic Growth Rates by Sectors

Categories	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3
Oil Production (MBPD)	2.07	1.81	1.67	1.56	1.72	1.61	1.57
Real GDP Growth (per cent)	1.87	-6.1	-3.62	0.11	0.51	5.01	4.03
Oil Growth Rate (per cent)	5.06	-6.63	-13.89	-19.76	-2.21	-12.65	-10.73
Non-Oil Growth Rate (per cent)	1.55	-6.05	-2.51	1.69	0.79	6.74	5.44
Contribution of the Oil Sector to RGDP (per cent)	9.50	8.93	8.73	5.87	9.25	7.42	7.49
Contribution of the Non-Oil Sector to GDP (per cent)	90.50	91.07	91.27	94.13	90.75	92.58	92.51
Contribution of Agriculture to RGDP (per cent)	21.96	24.65	30.77	26.95	22.35	23.78	29.94
Contribution of Industries to RGDP (per cent) (Mining & Quarrying, Manufacturing, Construction, etc.)	23.65	21.87	21.59	18.77	23.75	20.57	20.41
Contribution of Services to RGDP (per cent) (Trade, Health, education, finance ICT, etc.)	54.39	53.49	47.64	54.28	53.90	55.66	49.65

Source: National Bureau of Statistics

Figure 1.4: Inflation Rates



Source: National Bureau of Statistics

1.2.2 Consumer Price and Food Indices (Inflation)

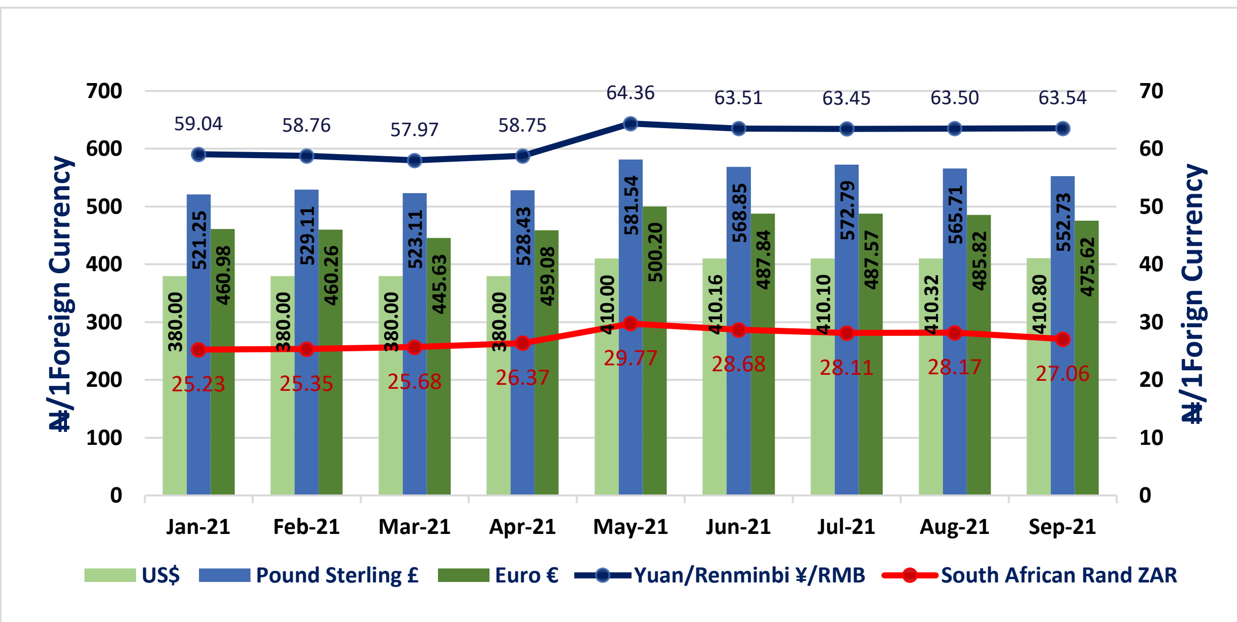
Inflation, as measured by the Consumer Price Index (CPI), was 16.63 per cent (year-on-year) in September 2021. That is 0.38 percentage points lower than the 17.01 per cent recorded in August 2021 and much lower than the 17.38 per cent and 17.75 per cent recorded in July and June 2021, respectively (Figure 1.4). The composite food index declined to 19.57 per cent in September 2021 from 20.30 per cent and 21.03 per cent in August and July 2021, respectively. Furthermore, the Core Inflation or "All items less farm produce", which excludes prices of volatile agricultural produce, stood at 13.74 per cent in September 2021, increasing by 33 basis points from 13.41 per cent in August 2021.

1.2.3 Exchange Rate Movement

The naira exchange rate vis-à-vis the US dollar in the Investors and Exporters' (I&E) window was ₦410.8/US$ at the end of the third quarter of 2021 compared with ₦410.16/US$ and ₦380/US$ at the end of the second and first quarter of 2021, respectively. The Pound Sterling exchanged for ₦552.73/£ in the third quarter from ₦568.85/£ at the end of the second quarter of 2021. The Euro, the Chinese Yuan/Renminbi, and the South African Rand stood at ₦475.62/€, ₦63.54/¥_RMB, and ₦27.06/ZAR, respectively, in the third quarter of 2021.

Figure 1.5 presents the trend of Naira to US$, Pound Sterling, Euro, Yuan/Renminbi, and South African Rand rates at the I & E Foreign Exchange Window for January to September 2021.

Figure 1.5: Exchange Rate Movement

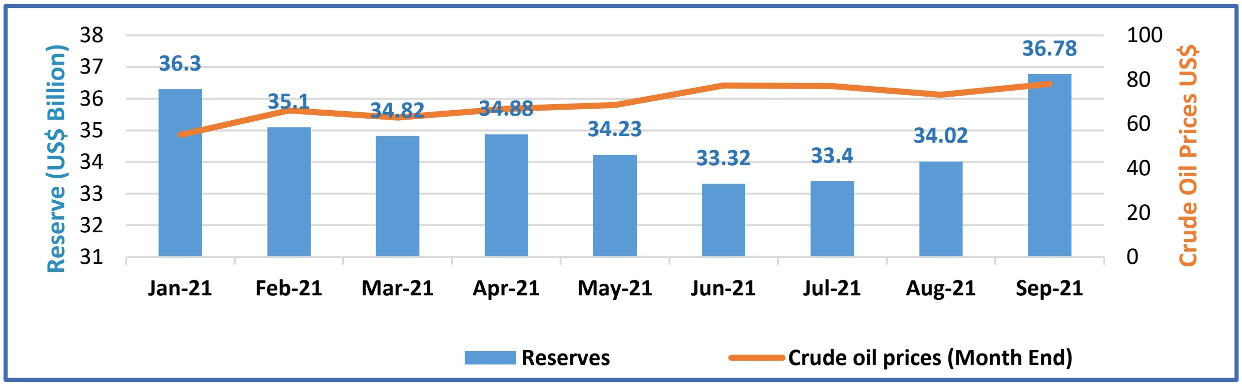


Source: CBN Statistical Database

1.2.4 External Reserves

The nation's stock of external reserves, which stood at USD36.3 billion as at 31 January 2021, declined to USD34.82 billion in the second quarter of 2021 and further to USD33.32 billion by 31 March 2021. The reserves, however, had been on the increase, with a balance of USD36.78 billion as at 30 September 2021. Similarly, the crude oil price had been on the rise from USD62.98 per barrel (Pb) by the end of January 2021 to USD77.34 Pb and USD78.11 Pb in the second and third quarters of 2021, respectively. Figure 1.6 presents the trend of Nigeria's external reserves from 31 January 2021 to 30 September 2021.

Figure 1.6: External Reserves and Crude Oil Prices



Source: CBN Statistical Database

1.2.5 Nigeria Public Debt Stock

The public debt grew by 7.17 per cent from ₦35.46 trillion as of 30 June 2021 to ₦38 trillion by 30 September 2021. Domestic debt stood at ₦22.43 trillion, accounting for 59.02 per cent of the total debt, while external debt stood at ₦15.57 trillion, representing 40.98 per cent of the total public debt as of 30 September 2021. Table 1.2 highlights the status of the total public debt stock from the first quarter of 2020 to the third quarter of 2021.

Table 1.2: Nigeria's Public Debt

(₦' Trillion)	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3
Total Public Debt	28.63	31.01	32.22	32.92	33.11	35.46	38.00
* Total External Debts	9.99	11.36	12.19	12.71	12.47	13.71	15.57
* Total Domestic Debts	18.64	19.65	20.04	20.21	20.64	21.75	22.43
- FG Only	14.53	15.46	15.85	16.02	16.51	17.63	18.23
- State & FCT	4.11	4.19	4.19	4.19	4.12	4.12	4.20
External Debts (%)	34.89	36.65	37.82	38.60	37.67	38.66	40.98
Domestic Debts (%)	65.11	63.35	49.18	61.40	62.33	61.34	59.02
Public Debt growth rate	4.49	8.31	3.90	2.17	0.58	7.10	7.17
Actual Domestic Debt Service	609.13	312.81	604.19	351.99	612.71	322.75	808.49
Actual External Debt Service	70.60	103.62	193.23	110.28	382.30	113.91	213.52
Total Debt Services paid	779.73	416.43	797.42	462.27	995.01	436.66	1,022.01
US$/Naira Rate	361	361	381	381	381	381	410

Source: DMO - Total Public Debts, External Debt Services, and Domestic Debt Services

1.3 Financial Sector Developments

This section discusses developments in money and capital markets in Nigeria for the third quarter of 2021.

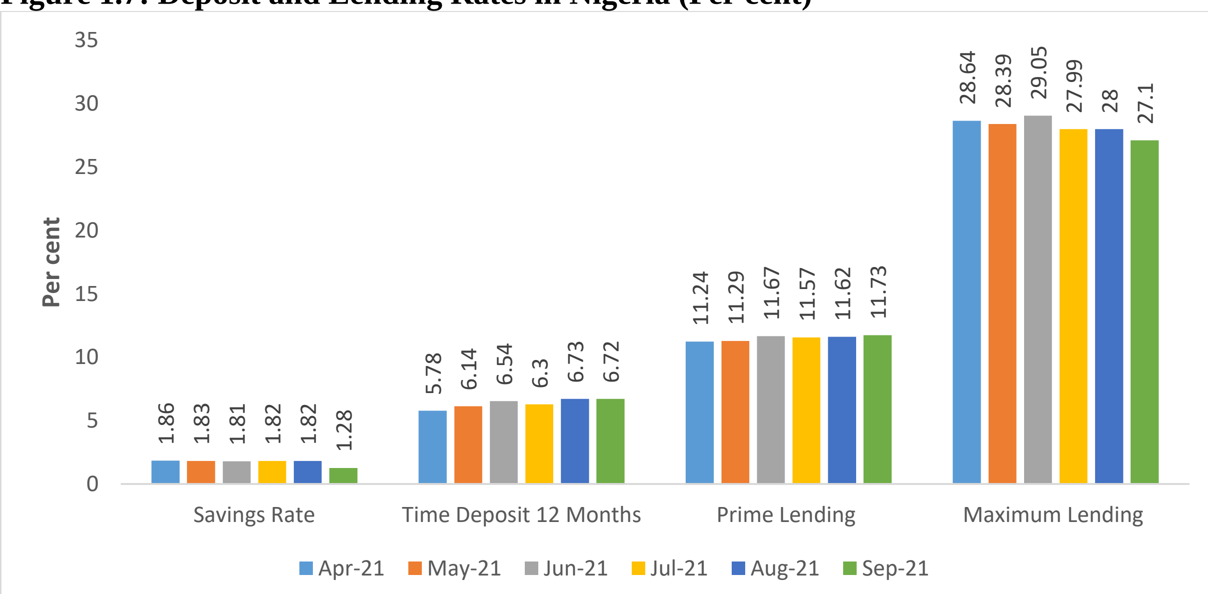
1.3.1 Money Market Development

1.3.2 Interest Rates Movement

In the third quarter of 2021, money market rates were almost the same as in previous quarters of the year. Figure 1.7 shows that the average savings rate hovered around 1.8 per cent, declining slightly from 1.86 per cent in April 2021 to 1.81 per cent in June 2021 and eventually rising to 1.82 per cent in August 2021. Nonetheless, there was a decline to 1.28 per cent in September 2021.

The time Deposit rate on instruments with 12-month tenor rose from 5.78 per cent in April 2021 to 6.54 per cent in June 2021 and 6.73 per cent in August 2021 before declining to 6.72 per cent in September 2021. Also, the Prime Lending rate declined from 11.67 per cent in June 2021 to 11.62 per cent in August 2021. However, there was an increase to 11.73 per cent in September 2021. As indicated in Figure 1.7, the Maximum Lending rate fell from 29.05 per cent in June 2021 to 28.00 per cent and 27.1 percent in August 2021 and September 2021, respectively.

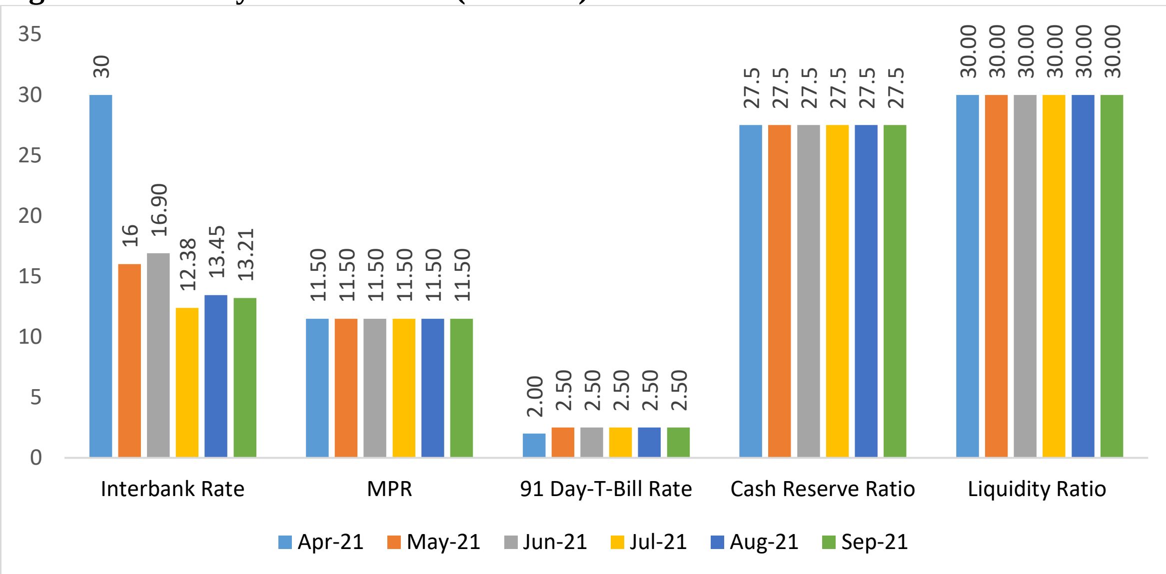
Figure 1.7: Deposit and Lending Rates in Nigeria (Per cent)



Source: CBN Statistical Database

As shown in Figure 1.8, the interbank rate declined from 16.90 per cent in June 2021 to 12.38 in July 2021, before an uptick to 13.45 per cent in August 2021, and a further decline to 13.21 in September 2021. 91-day Treasury Bill rate was however steady at 2.5 per cent in the third quarter of 2021. The Monetary Policy Rate (MPR) remained at 11.5 per cent, Cash Reserve Ratio (CRR) at 27.5 per cent, and the Liquidity Ratio (LR) at 30.0 per cent throughout the third quarter of 2021.

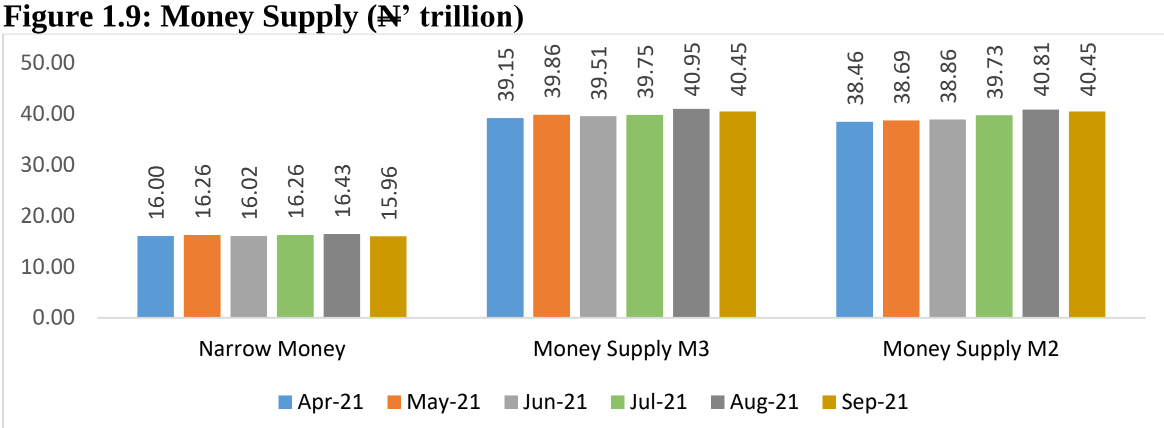
Figure 1.8: Money Market Rates (Per cent)



Source: CBN Statistical Database

As shown in Figure 1.9, Narrow Money (M1) stood at ₦15.96 trillion in September 2021, having risen from ₦16.0 trillion in June 2021. Money Supply (M2) rose from ₦38.8 trillion in June 2021 to ₦39.7 trillion in July and further to ₦40.81 trillion in August 2021 before declining to ₦40.45 trillion in September 2021. Also, Broad Money Supply (M3) rose from ₦39.51 trillion in June 2021 to ₦39.8 trillion in July and further to ₦40.95 trillion in August 2021 before declining to ₦40.45 trillion in September 2021.

Figure 1.9: Money Supply (₦' trillion)



Source: CBN Statistical Database

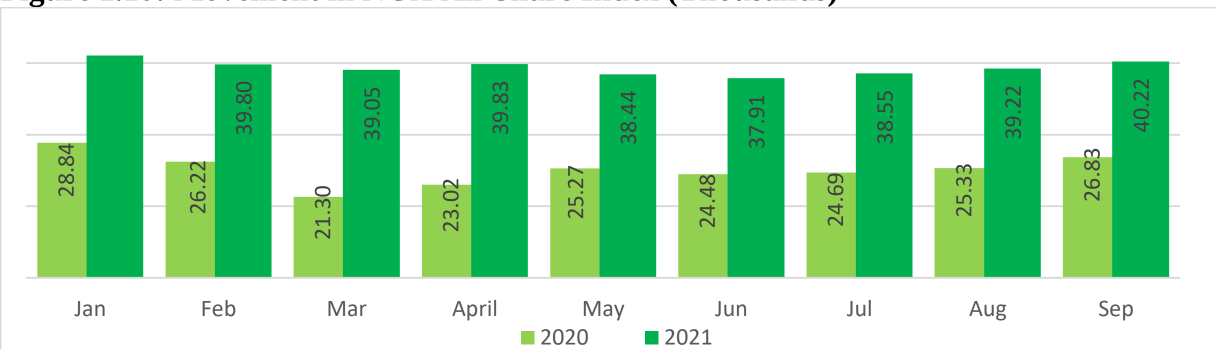
1.3.3 Capital Market Development

Following its demutualization, the Nigerian Exchange Limited ("NGX" or "The Exchange") rebranded all its nineteen (19) indices on 28 June 2021 by changing the prefix from NSE to NGX, consistent with the new brand identity of the Exchange.

1.3.4 All-Share Index

The Nigerian Exchange Limited All-Share Index (NGX ASI) for all listed equities gained at the end of the third quarter of 2021. As shown in Figure 1.10, the index gained 2,313.89 (2.31 per cent) points from 37,907.28 in the second quarter of 2021 to close at 40,221.17 at the end of the third quarter of 2021.

Figure 1.10: Movement in NGX All-Share Index (Thousands)



Source: NGX

1.3.5 Market Capitalisation

The All-Share Index of the Nigeria Stock Exchange Index stood at 40,221.17 at the end of the third quarter of 2021, compared with 37,907.28 at the end of the second quarter of 2021. As shown in Table 1.3, the Market Capitalisation of equities, Corporate bonds, and FGN bonds as of 30 September 2021 appreciated by 6.05%, 9.28%, and 5.69% from ₦19.77 trillion, ₦717.09 billion, and ₦16.47 trillion in second quarter 2021 to ₦20.96 trillion, ₦783.67 billion and ₦17.41trillion in the third quarter, 2021, respectively.

Table 1.3: Market Capitalisation (N' billion) by Type of Security

Indicators	**End-Q3 2021**	**End-Q2 2021**	**% Change (Q3-Q2 2021)**	**End-Q3 2020**	**% Change (Q3 2021-Q3 2020)**
Equities	20,961.61	19,766.57	6.05%	14,036.04	49.34%
Exchange Traded Funds (ETF)	12.03	12.25	-1.87%	15.86	-24.19%
Total Debts	18,397.22	17,393.19	5.77%	16,473.51	11.68%
Corporate Bonds/ Debenture	783.67	717.09	9.28%	548.02	43.00%
FGN Bonds	17,406.00	16,468.55	5.69%	15,554.18	11.91%
State and Local Bonds	207.56	207.56	0.00%	369.70	-43.86%
Supranational Bonds	-	-	-	1.62	-100.00%
Total Market. Capitalisation**	**39,370.85**	**37,172.02**	**5.92%**	**30,525.42**	**28.98%**

Source: NSE Market Capitalisation Reports
**** Excluding Memorandum Listings**

1.3.6 Domestic and Foreign Portfolio Investment

The trading figures in Table 1.4 show that the total transactions in September 2021 stood at ₦118.15 billion. Foreign investors executed 20.61 per cent of the value, while domestic investors executed 79.39 per cent of the total flow. The total transaction value increased by 32.13 per cent from ₦89.42 billion in August to ₦118.15 billion in September 2021.

Table 1.4: Domestic & Foreign Portfolio Transactions in Equity Trading in 2021

Year	Month	Total		Domestic			Foreign		
		₦' Billion	**Growth (per cent)**	**₦' Billion**	**per cent of Total**	**Growth (per cent)**	**₦' Billion**	**per cent of Total**	**Growth (per cent)**
2021	September	**118.15**	32..13	93.80	79.39	46.43	24.35	20.61	-3.98
	August	**89.42**	-0.39	64.06	71.64	-13.71	25.36	28.36	63.30
	July	**89.77**	-10.92	74.24	82.70	-4.02	15.53	17.30	-33.69
	June	**100.77**	3.68	77.35	76.76	0.59	23.42	23.24	15.43
	May	**97.19**	-39.23	76.9	79.12	-41.70	20.29	20.88	-27.59
	April	**159.93**	-30.01	131.91	82.48	-29.78	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

Source: Debt Management Office

1.4 CBN Monetary Policy Circulars

1.4.1 Monetary Policy

CBN Monetary Policy Committee (MPC) met twice in the third quarter of 2021: on the 26th and 27th of July 2021 and the 16th to 17th of September 2021. The highlights of the Committee meeting and their implications for the economy of the 16th to 17th of September 2021 are presented hereinafter.

The Committee noted the following:

- Despite the strong output growth identified in some Advanced Economies, several developing economies were still lagging in vaccination progress; members thus emphasized the need for widespread availability of vaccines, which remained vital to surmounting the Pandemic and attaining full and all-inclusive recovery of the global economy.
- The banking sector's Capital Adequacy Ratio (CAR) and Liquidity Ratio (LR) remained above the prudential limits at the end of the third quarter of 2021 at 15.2 per cent and 41.7 per cent, respectively, end-July 2021. The Non-Performing Loan (NPL) ratio of 5.4 per cent also showed a progressive improvement when compared with the 5.7 per cent recorded in the previous quarter.

The Committee urged the CBN to sustain efforts to bring down the NPL below the 5 per cent prudential benchmark.

- In the Equities Market, All-Share Index and Market Capitalization both increased by 2.67 per cent and 2.63 per cent, respectively, from 30th June to 14th September 2021.
- The continued moderation in headline inflation for the fifth consecutive month to 17.01 per cent (year-on-year) in August 2021 from 17.38 per cent in July 2021 was largely attributed to a marginal decline in the food component. The MPC noted that headline inflation remained well above the Bank's benchmark corridor of 6-9 per cent but expressed optimism that with sustained interventions by the Bank, food production will continue to improve, thus further moderating headline inflation.
- The manufacturing and non-manufacturing PMI recorded a moderate improvement to 46.9 index points each in August 2021 from 46.6 index points in July 2021. The increase was attributed to new orders, mainly driven by rising demand, an uptrend in business activity, and further normalization of economic activities.
- Regarding CBN interventions to sustain the recovery of output growth and address the downside risks to other external and domestic shocks to the economy, total disbursement for the Anchor Borrowers Programme (ABP) stood at N798.09 billion to 3.9 billion smallholder farmers as at the end of August 2021. The sum of ₦708.39 billion has been disbursed under its Commercial Agriculture Credit Scheme (CACS) to support 657 large-scale agricultural projects.

The Committee recommended that:

- The CBN should 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.
- Nigerian banks should continue to extend more credit to businesses and consumers to facilitate a seamless recovery of output growth, reduce unemployment and stabilize prices.
- The CBN should take further steps to restrict the activities of unauthorised and illegal dealers in the foreign exchange market, stating that all foreign exchange transactions must be conducted at the I&E window to ensure transparency and stability. The CBN should intensify surveillance over foreign exchange sales and utilisation by commercial banks and customers to ensure that operators adhere to its stipulated guidelines.
- The federal government should improve its tax collection in order to reduce its dependence on oil revenues and reduce its exposure to counter-cyclical shocks. The Committee reiterated the growing need to improve the agricultural value chain, particularly in key commodity products like cocoa, palm oil, and cashew, to diversify the country's export receipts.
- The CBN should support manufacturing initiatives that could achieve the diversification objectives.
- The CBN should continue to maintain adequate surveillance on banks to ensure compliance with its extant credit policy while ensuring that they are not unduly exposed to credit risks, as well as its current efforts to bring NPLs below the 5.0 per cent prudential benchmark.
- Presidential Task Force on COVID-19 to intensify efforts toward procurement of more vaccines and the vaccination of more people to ensure that herd immunity is achieved.

- Notwithstanding that the various intervention facilities have helped in boosting output, the Bank should continue to aggressively increase its interventions in these subsectors with high employment-generating capacity.
- Government should prioritize security surveillance in farming communities as the increased supply of food would play a significant role in stabilizing macroeconomic fundamentals.
- Fiscal authority should not relent on other complementary infrastructure initiatives such as Public-Private-Partnerships and engagement of Nigeria's huge diaspora through the issuance of diaspora bonds to fund specific projects.
- The federal government should continue to improve the ease of doing business in Nigeria to retain the current patronage of the Nigerian economy by foreign investors.
- 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 Decision

The MPC, in its statutory meetings held in the third quarter of 2021, 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.

1.4.2 Policy Implications for the Economy

- The Committee decided to maintain a hold stance to allow previous policy measures to continue to permeate the economy while observing global and domestic developments.
- Maintaining the MPR from previous quarters implied that the economy was expected to continue to stimulate credit expansion to critical sectors. This indicated improved stock value and propensity for an increase in the inflow of foreign portfolio investors, which has a positive multiplier effect on the capital market.
- Retaining the MPR asymmetric corridor signals an indication to the Deposit Money Banks to lend more to stimulate growth, increase employment, as well as revive economic activity for quick growth recovery.
- The LDR policy continued to increase aggregate domestic credit to the economy, which translated to increased production and investment activities and the antecedent impact on employment and disposable income.
- The various intervention programmes of the CBN towards stimulating credit expansion in the critically impacting sectors such as agriculture was expected to lower inflation, increase aggregate output and GDP, as well as sustain economic recovery.

1.5 CBN Third Quarter Circulars

During the period, 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 below:

i. PSM/DIR/CON/INM/011/07

Supervisory Framework for Payment Service Banks

The CBN issued a circular dated 8 July 2021 as regards the supervisory framework for Payment Service Banks (PSBs). The Banks were expected to leverage technology to provide services that would be easily accessed by the unbanked population and those who were in hard-to-reach areas of the country. The framework provided a set of regulations that were targeted at streamlining the operations of PSBs, ensuring transparency in their operations as well as ascertaining adequate customer protection. The framework focused on corporate governance, risk management of the PSBs, and the safety of funds to the consumers of their products. It also aimed to ensure that sound risk management practices were embedded in the operations of the PSBs.

ii. PSM/DIR/CON/INM/011/09

Framework and Guidelines on Mobile Money Services in Nigeria

On 9 July 2021, the CBN issued a framework and guidelines on Mobile Money services in Nigeria. The framework addressed business rules governing the operations of mobile money services and specified basic functionalities expected of any Mobile Money service and solution in Nigeria. It identified the participants and defined their expected roles and responsibilities in providing Mobile Money services in the system. In addition, it set the basis for the regulation of services offered at different levels.

iii. PSM/DIR/CON/CWO/20/095

Circular to all DMBs, PSPs, and OFIS on Issuance of the Guidelines for Licensing and Regulation of Payment Service Holding Companies in Nigeria

The CBN, in a letter dated 3 August 2021, issued a circular to all Deposit Money Banks and Other Financial Institutions on the issuance of the guidelines for licensing and regulation of Payments Service Holding Companies in Nigeria.

The guidelines required companies desirous of offering switching and processing services and mobile money services to set up a Payment Service Holding (PSH) structure to clearly delineate the activities of the various subsidiaries.

iv. FPRD/DIR/PUB/CIR/01/020

Cessation of Non-Permissible Activities by Microfinance Banks

The CBN, in a letter dated 19 August 2021, issued a circular to all Microfinance Banks (MFBs) on the cessation of non-permissible activities by MFBs in Nigeria. The circular aimed at reminding all MFBs to strictly comply with the extant Revised Regulatory and Supervisory Guidelines for MFBs in Nigeria 2012, which emphasised the prohibition of activities such as wholesale banking and foreign exchange transactions.

v. BSD/DIR/PUB/LAB/14/063

Basel III Implementation by Deposit Money Banks in Nigeria

The CBN, on 2 September 2021, issued a circular to all banks concerning the commencement of Basel III Implementation by DMBs in Nigeria. Following the gradual economic recovery from the Covid-19 Pandemic, the CBN released the Basel III Guidelines for implementation. It was expected to run concurrently with Basel II. The implementation commenced in November 2021.

vi. BSD/DIR/PUB/14/063

Guidelines on Regulatory Capital for Deposit Money Banks in Nigeria

The CBN, in a circular dated 2 September 2021, issued revised guidelines on Regulatory Capital for Deposit Money Banks in Nigeria.

The revised guidelines set out the criteria that banks' capital instruments must meet to be eligible for regulatory purposes as per Basel lll standards.

vii. BSD/DIR/PUB/14/063

Guidelines on Leverage Ratio (LeR)

The CBN, in a circular dated 2 September 2021, issued guidelines on Leverage ratio (LeR) along with disclosure requirements applicable to all licensed commercial, merchant, and non-interest banks in Nigeria. The guideline intended to limit the build-up of excessive on-balance sheet and off-balance-sheet leverage in the banking system to avoid destabilizing effects of deleveraging processes which could damage the broader financial system and the economy, as well as fortify the risk-based requirements with a simple, non-risk based "backstop" measure for capital adequacy requirements.

viii. BSD/DIR/PUB/14/063

Liquidity Monitory Tools (LMT)

The CBN, in a circular dated 2 September 2021, issued a guideline on Liquidity Coverage Ratio for DMBs in Nigeria. The guideline was envisioned to ensure that banks held sufficient unencumbered high-quality liquid assets (HQLA) to survive a 30-day stress period. The BCBS specified five additional tools and metrics: Contractual maturity mismatch; Concentration of funding; Available unencumbered assets; LCR by significant currency, and Market-related monitoring tools.

ix. BSD/DIR/PUB/14/063

Guidelines on Liquidity Coverage Ratio (LCR)

The CBN, in a circular dated 2 September 2021, issued guidelines on the liquidity coverage ratio for DMBs operating in Nigeria.

This aimed at promoting short-term resilience of the liquidity risk profile of reporting entities by ensuring that they had an adequate stock of unencumbered high-quality liquid assets (HQLA) that could be converted easily and immediately into cash in private markets to survive a significant stress scenario lasting 30 calendar days.

x. BSD/DIR/PUB/14/063

Large Exposure (LEX)

In a circular dated 2 September 2021, the CBN issued a circular to all DMBs on Large Exposure (LEX). Given that previous supervisory guidelines did not specifically set out how banks should measure and aggregate exposures to a single counterparty which has resulted in considerable variation in practice across banks, the guideline was designed to align the supervisory practice in Nigeria with the expectation of the Basel Committee on Banking Supervision (BCBS) Standards.

xi. BSD/DIR/PUB/14/063

Liquidity Risk Management & Internal Liquidity Adequacy Assessment Process (ILAAP)

The CBN, in a circular dated 2 September 2021, issued a guideline on the Liquidity Risk Management & Internal Liquidity Adequacy Assessment Process (ILAAP) to all DMBs in Nigeria This aimed at settling the minimum supervisory expectation of BCBS principles as well as ensuring that banks are in a position to meet their daily liquidity obligations and also ensure that they could withstand a period of market-wide or bank-specific liquidity stress affecting both secured and unsecured funding.

xii. BSD/DIR/PUB/14/063

Revised Guidelines on Supervisory Review Process of Internal Capital Adequacy Assessment Process (SRP/ICAAP)

The CBN, in a circular dated 2 September 2021, issued a revised guideline on the Supervisory Review Process of Internal Capital Adequacy Assessment Process (SRP/ICAAP).

The introduction of Basel lll necessitated the review of the guidelines in line with emerging best practices. The revised guideline strengthened the risk-based capital standards and introduced additional measures.