2023
Half Year
Economic Report

2023 Half Year Economic Report

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ABOUT THE REPORT

The Central Bank of Nigeria (CBN) Economic Report presents economic developments in Nigeria, intended for dissemination to the public. The Report provides insights on current developments in the real, fiscal, financial, and external sectors of the Nigerian economy, as well as on global issues of interest. It also reflects the policy initiatives of the CBN in pursuit of its mandate. The Report is targeted at a wide range of readers, including economists, policymakers, financial analysts in the government and private sectors, and the public. Free copies of the Report, both current and past issues, can be obtained from the CBN website: *www.cbn.gov.ng. All inquiries concerning the report should be directed to the Director, Research Department, Central Bank of Nigeria, P.M.B. 187, Garki, Abuja, Nigeria.*

GOVERNANCE FRAMEWORK

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)*
6	Alice Karau	-	*Secretary to the Board*

Members of the Monetary Policy Committee (MPC) as of 30 June 2023

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	Mike I. Obadan	-	*Member*
7	Adeola F. Adenikinju	-	*Member*
8	Robert C. Asogwa	-	*Member*
9	Aliyu R. Sanusi	-	*Member*
10	Ahmed Aliyu	-	*Member*
11	Momodu Omamegbe	-	*Member*
12	Mohammed A. Salisu	-	*Member*
13	Hassan Mahmud	-	*Secretary*

List of Departmental Directors as of 30 June 2023

1	Samuel C. Okojere	-	Banking Services
2	Haruna B. Mustafa	-	*Banking Supervision*
3	Elizabeth O. Fasoranti	-	*Branch Operations*
4	Muhammad A. Abba	-	*Capacity Development*
5	Rashida J. Monguno	-	*Consumer Protection*
6	Osita C. Nwanisobi	-	*Corporate Communication*
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	Chibuzo A. Efobi	-	*Financial Policy and Regulation*
13	Joseph G. Omayuku	-	*Governors*
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16	Lydia I. Alfa	-	*Internal Audit*
17	Sirajuddin K. Salam-Alada	-	*Legal Services*
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19	Hassan Mahmud	-	*Monetary Policy*
20	Nkiru E. Asiegbu	-	*Other Financial Institutions Supervision*
21	Musa I. Jimoh	-	*Payments System Management*
22	Arinze A. Stanley	-	*Procurement and Support Services*
23	Michael A. Adebiyi	-	*Research*
24	Benjamin C. Nnadi	-	*Reserve Management*
25	Blaise Ijebor	-	*Risk Management*
26	Oluwakemi O. Osa-Odigie	-	*Security Services*
27	Mohammed M. Tumala	-	*Statistics*
28	Clement O. Buari	-	*Strategy Management*
29	Ozoemena S. Nnaji	-	*Trade and Exchange*
30	Olorunsola E. Olowofeso	-	*West African Monetary Institute*
31	Abubakar A. Kure	-	*NIRSAL Microfinance Bank*

List of Branch Controllers/Currency Officers as at 30 June 2023

1	Ogbogu D. Amaechi	-	*Abakaliki*
2	Wahab Oseni	-	*Abeokuta*
3	Ogbu, O. Michael	-	*Abuja*
4	Wasiu A. Omotoso	-	*Ado-Ekiti*
5	Fatai A. Yusuf	-	*Akure*
6	Okafor G. Ikechukwu	-	*Asaba*
7	Benedicth I.C. Maduagwu.	-	*Awka*
8	Haladu A. Idris	-	*Bauchi*
9	Renner D. Jumbo	-	*Benin*
10	Mannir D. Abdullahi	-	*Birnin-Kebbi*
11	Glory U. Iniunam	-	*Calabar*
12	Gana A. Abdulkadir	-	*Damaturu*
13	Sa'adatu A. Ibrahim	-	*Dutse*
14	Chidozie E. Okonjo	-	*Enugu*
15	Shehu A. Goringo	-	*Gombe*
16	Umar B. Ibrahim	-	*Gusau*
17	Olufolake M. Ogundero	-	*Ibadan*
18	Najimu L. Oluwale	-	*Ilorin*
19	Idirisa D. Maina	-	*Jalingo*
20	Esther T. Catherine	-	*Jos*
21	Yusuf W. Baba	-	*Kaduna*
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23	Musa Ahmed. Ladan	-	*Katsina*
24	Samson Isuwa	-	*Lafia*
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26	Ahmed I. Sule	-	*Lokoja*
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28	John O. Itaha	-	*Makurdi*
29	Saheed M. Ademola	-	*Minna*
30	Ajuma D. Madojemu	-	*Osogbo*
31	Oruwari Oyoburuoma	-	*Owerri*
32	Okeke Chuks	-	*Port Harcourt*
33	Dahiru U. Nakazalle	-	*Sokoto*
34	Ayotunde O. Oladimeji	-	*Umuahia*
35	Itohan M. Ogbomon-Paul	-	*Uyo*
36	Francis E. Asuquo	-	*Yenagoa*
37	Sanusi S. Nyashi	-	*Yola*

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EXECUTIVE SUMMARY

The Global Economy: *Global economic output expanded in the first half of 2023 on account of improvement in supply chain, moderating inflationary pressures, improved business and consumer sentiments, as well as eased household budget constraints. This was reflected in the average J.P. Morgan Global Composite Purchasing Manager's Index (PMI), which rose to 52.75 points in the first half of 2023, from 48.85 points and 52.00 points in the preceding and corresponding periods of 2022, respectively. The expansion was driven, primarily, by the services sub-sector, which rose to 53.65 points, compared with 49.30 points in the preceding period.*

The Real Economy: *The domestic economy maintained a modest growth trajectory in the first half of the year, despite significant headwinds. Real Gross Domestic Product (GDP) grew by 2.41 per cent, compared with 2.91 per cent and 3.32 per cent in the preceding and the first halves of 2022, respectively. The growth was on account of sustained improvement in the performance of the non-oil sector, driven by increased investments in the sector and sustained fiscal and monetary stimuli to critical sectors of the economy.*

Despite the subsisting monetary policy tightening, headline inflation, in the first half of 2023, rose to 22.79 per cent from 21.34 per cent and 18.60 per cent at the preceding and corresponding halves of 2022. The heightened price pressures were occasioned by higher energy and food prices that accompanied the Russia-Ukraine war and exchange rate pass-through. From the domestic front, cost-push factors such as the removal of PMS subsidy and the reforms in the foreign exchange market, among other legacy structural challenges, contributed to the continued surge in aggregate prices.

Domestic crude oil production in the first half of 2023 improved due to enhanced security of crude oil production and distribution infrastructure and sustained investment in exploration activities by the NNPC Limited. At an average daily production of 1.21 million barrels per day (mbpd), Nigeria's crude oil output in the first half of 2023, increased by 2.54 per cent, from 1.18 mbpd in the second half of 2022. However, it fell slightly by 0.82 per cent, relative to the level in the corresponding half of 2022. Crude oil prices declined in the first half of 2023, due, mainly to higher global supply, particularly from the US and Mexico. Consequently, the average spot price of Nigeria's reference crude, the Bonny Light, fell by 17.22 per cent in the first half of 2023 to US$81.87 per barrel (pb) from US$98.90 pb in the second half of 2022. The Bank reduced the pace of its intervention in the critical segments of the economy, while loan repayment increased in the same period. The increase in recovery reflected increased drive for loan-recovery and positive returns from the programmes.

Fiscal Developments: *Fiscal policy in the first half of 2023 towed the path of fiscal consolidation with the implementation of broad reforms to widen the fiscal space and ensure fiscal viability. In addition, expenditure and public debt policies were implemented to reflect efforts at softening the impact of external and domestic headwinds. Revenue performance was influenced by broad reforms in the mineral and non-oil sectors. The Finance Act 2023 helped broaden the tax base to include digital assets for capital gains. However, the continued crude oil theft, and subsisting tax expenditures lowered accretion to the Federation Account. Federation revenue waned due to subsidy payments for premium motor spirit (PMS) and low domestic crude oil production. Accordingly, at N6,903.32 billion or 5.4 per cent of GDP, provisional gross federally collected* *revenue declined by 5.5 per cent, relative to the level in the second half of 2022, and fell short of the proportionate budget by 34.8 per cent. Retained revenue of the FGN rose significantly, relative to the corresponding period of 2022. Provisional FGN retained revenue, at N3,128.31 billion (2.6 per cent of the GDP), outpaced performance in the first half of 2022 by 34.9 per cent, reflecting higher independent FGN receipts.*

Provisional aggregate expenditure of the FGN declined, relative to the first half of 2022. At N6,998.76 billion (8.9 per cent of the GDP), provisional aggregate expenditure of the FGN was below the level in the first half of 2022 and the benchmark by 13.0 per cent and 35.9 per cent, respectively. The lower expenditure was driven by reduced interest obligations, arising from the redemption of N703.77 billion out of the total debt stock of the FGN in 2022. Consequently, the fiscal operations of the Federal Government (FGN) resulted in an overall deficit of 3.1 per cent of GDP, while consolidated public debt levels exceeded the 40.0 per cent debt-to-GDP national threshold, but remained well within the 70.0 per cent benchmark for Market Access Countries (MAC).

Financial Developments: The Bank sustained its hawkish policy stance in a bid to tame inflationary pressure in the first half of 2023. Despite the subsisting monetary policy tightening, liquidity in the banking system was higher-than-expected on the back of the combined effect of currency recirculation, exchange rate reforms, improved FAAC payments and maturities of government securities. Consequently, broad money supply (M3) grew significantly by 24.4 per cent annualised to 48.8 per cent exceeding its provisional benchmark of 28.21 per cent. The financial sector remained resilient in the first half of 2023, as key financial soundness indicators were within regulatory benchmarks. The Bank's payments system architecture remained robust driving digital financial inclusion through the introduction of innovative measures aimed at fostering a more profound evolution of the payments system landscape during the period.

Activities at the Nigerian equities market were bullish, as the All-Share Index (ASI) and aggregate market capitalisation appreciated, relative to their levels at end-December 2022 and end-June 2022. The performance was on account of better-than-expected 2023Q1, corporate earnings declaration, dividend reinvestments, and the anticipation of favourable 2023H1 corporate earnings following the reforms in the energy sector and the foreign exchange market.

External Sector Developments: The external account in the first half of 2023 deteriorated due largely to global financial tightening to rein in inflation, and a lull in economic activities, attributed to the uncertainties surrounding the general elections. The development resulted in an overall balance of payments deficit of 1.4 per cent of GDP, relative to 1.0 per cent of GDP in the second half of 2022 and 0.4 per cent of GDP in the first half of 2022.

Sustained inflow of remittances and lower payments for the import of goods and services, resulted in an improved current account surplus of 1.1 per cent of GDP. The financial account maintained a net borrowing position with a net incurrence of financial liabilities of 0.7 per cent of the GDP, compared with 1.4 per cent in the preceding period. The international investment position (IIP) posted a lower net liability of US$53.13 billion. The external reserves position at end-June 2023 was US$33.71 billion and could finance 7.9 months of import (goods only) or 5.9 months of import (goods and services), which was above the international benchmark of 3.0 months. The adoption of a market determined *exchange rate in June 2023 led to the depreciation of the naira by 10.3 per cent. The stock of external debt increased to US$43.16 billion at end-June 2023, from US$40.06 billion at end-June 2022.*

Outlook: Looking ahead, the global economic outlook for the rest of 2023 remains positive, owing to easing supply chain pressure, as shocks from the COVID-19 pandemic and Russia-Ukraine war taper. On the domestic front growth is expected to maintain a positive trajectory for the rest of the year. Tailwinds to the outlook are predicated on a sustained rally in crude oil prices, improvement in domestic crude oil production, gains of fiscal consolidation and other reforms under the Finance Act 2023. Headwinds to the domestic outlook remain rising energy prices, external debt service obligations, subsisting security challenges, legacy infrastructural deficit, and tightening global financial conditions.

Section One

CBN MANDATE & STRATEGY

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

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

Preserving macroeconomic and financial stability

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

Foster the Development of a Robust Payments System

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

Improve Access to Credit

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

Grow our External Reserves

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

Diversify the Economy through intervention programmes

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

CBN Strategy

Mission

"To ENSURE monetary, price, and financial system stability as a catalyst for inclusive growth and sustainable economic development"

Vision

"To be a people-focused Central Bank promoting confidence in the economy and enabling an improved standard of living"

Core Values

- Integrity
- Partnership
- Accountability
- Courage
- Tenacity

Section Two

THE GLOBAL ECONOMY

2.1 GLOBAL OUTPUT GROWTH

Global economic output expanded in the first half of 2023 due to diminishing supply chain pressures and moderating inflationary pressures. Economic activities expanded on eased household budget constraints and improved business & consumer sentiments as a result of tailwinds from moderating inflationary pressures, and waning supply chain disruptions due to the reopening of China's economy.

The average J.P. Morgan Global Composite Purchasing Manager's Index (PMI), rose to 52.75 points in the first half of 2023 above 48.85 points and 52.00 points in the preceding and corresponding periods, respectively. The expansion was driven primarily by the services sub-sector, which rose to 53.65 points, compared with 49.30 points in the preceding period, as business optimism strengthened, and cost pressures peaked. It was, however, dampened by a contraction in manufacturing output as new orders declined. The manufacturing sub-index remained in contractionary territory at 49.53 points in the first half of 2023.

Table 2.1: Global Purchasing Managers' Index (PMI)

	2022H1	2022H2	2023H1
Composite	52.0	48.85	52.75
Manufacturing	51.87	49.83	49.53
Services (Business Activity)	52.67	49.30	53.65

Source: JP Morgan.

2.1.1. Advanced Economies (AEs)

Economic activities in major Advanced Economies improved as supply chains normalised and price pressures moderated. The average JP Morgan composite Global Purchasing Managers' Index (PMI) in most of the countries in the region improved in the first half of 2023. In the United States and the United Kingdom, a solid upturn in private sector business activity, attributed to improved supply chains, broad decline in food and energy prices, and stronger demand, stimulated the pace of economic activity. The expansion was reflected by the rise in PMI to 51.68 and 52.59 points, compared with 46.90 and 49.40 points, respectively, in the second half of 2022.

Similarly, economic activity expanded in Germany as PMI rose to 51.99 points, over the level in the preceding half of 2022. The expansion was underpinned by an uptick in the services sector on the back of reduced inflationary pressures and the acceleration of new businesses and job creation. Also, business activities in Japan further expanded, as reflected by the rise in PMI to 52.00 points, compared with 50.33 points in the corresponding period of 2022. The expansion was buoyed by increased demand and accommodative policies such as the travel subsidy programme.

Table 2.2: Selected Countries' PMIs

	2022H1	2022H2	2023H1
United States	*54.43*	*46.90*	*51.68*
United Kingdom	*56.67*	*49.40*	*52.59*
China	*46.47*	*49.95*	*54.32*
India	*54.48*	*56.90*	*59.59*
Germany	*54.23*	*46.85*	*51.99*
Italy	*52.18*	*48.20*	*53.07*
Japan	*50.33*	*50.15*	*52.00*
South Africa	*49.47*	*50.65*	*49.18*

Source: IHS Markit.

2.1.2 Emerging Markets and Developing Economies

Growth in the Emerging Markets and Developing Economies (EMDEs) remained impressive, due to rising demand and the re-opening of China's economy. The PMI figures indicated expansion for most EMDEs. Specifically, China's PMI index, at 54.32 points, rose above the benchmark relative to 49.95 points in the preceding period. This was driven primarily by improved domestic sales and operating conditions in China's manufacturing sector and an overall uptick in economic activities. India's PMI index rose to 59.59 points above 56.90 points and 54.48 in the preceding and corresponding half of 2022, respectively. The increase was attributed to surging demand and increased export orders, with improvements in operating conditions.

In South Africa, the PMI index dropped to 49.18 from 50.65 points in the second half of 2022, owing primarily to disruptions in electricity supply and elevated prices, resulting in weak economic performance.

2.2 GLOBAL INFLATION

Inflationary pressures moderated in the first half of 2023 following monetary policy tightening by most central banks and supply chain improvement. In the Advanced Economies (AEs), inflation generally declined due to lower commodity prices, reduced energy costs, and sustained interest rate hikes. In the United States, inflation eased to 3.0 per cent, compared with 6.5 per cent at end-December 2022 and 9.1 per cent at end-June 2022. In the United Kingdom, inflation decreased to 7.9 per cent, compared with 10.5 per cent and 9.4 per cent at end-December 2022 and end-June 2022, respectively.

In Japan, inflation fell to 3.3 per cent, from 4.0 per cent at end-December 2022, but was higher than 2.4 per cent at end-June 2022. Inflation in Germany and Italy fell to 6.4 per cent and 6.7 per cent, from 8.1 per cent, and 12.3 per cent at end-December 2022, respectively, and 6.7 per cent and 8.5 per cent at end-June 2022.

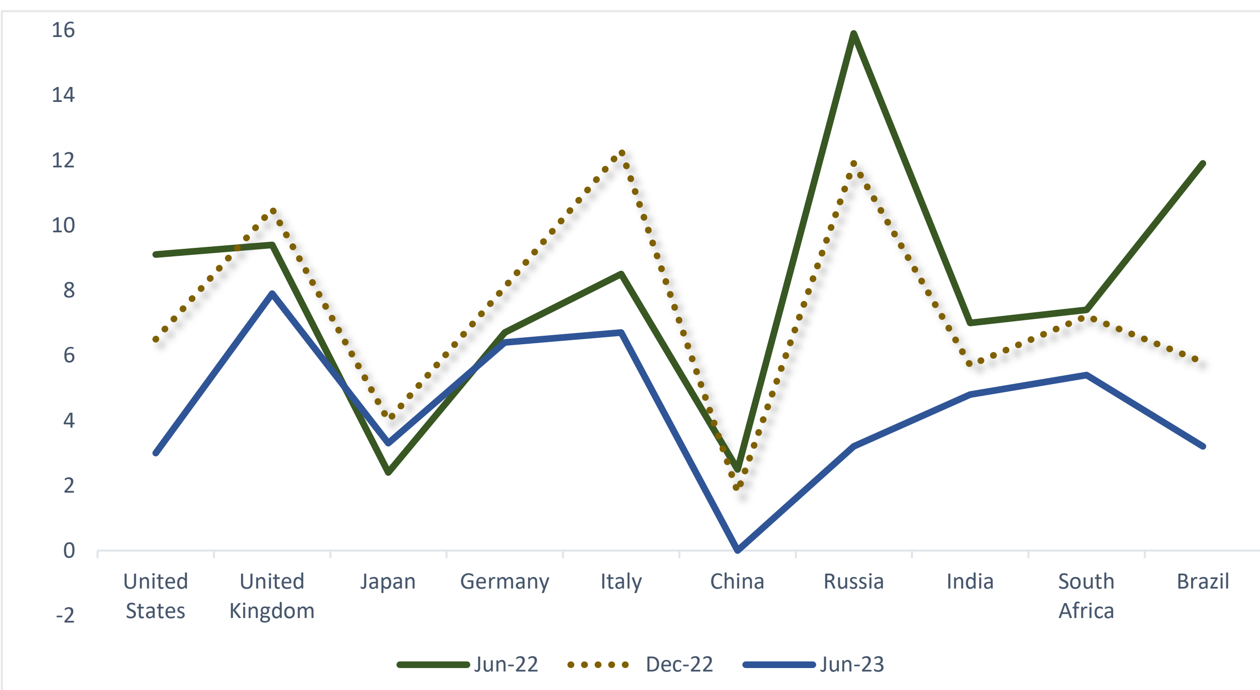
In the EMDEs, inflation generally declined in most economies, compared with the level in the second half of 2022, due to decreased food and energy prices and the normalisation of the supply chains in many sectors. Specifically, inflation in China flattened to 0.0 per cent, from 1.8 per cent at end-December 2022 and 2.5 per cent at end-June 2022. Inflation in Russia and India declined to 3.2 per cent and 4.8 per cent at end-June 2023, from 11.9 per cent and 5.7 per cent in the preceding half, and 15.9 per cent and 7.0 per cent in the corresponding half of 2022, respectively.

Table 2.3: Inflation in Selected Countries

Country	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
United States	9.1	8.5	8.3	8.2	7.7	7.1	6.5	6.4	6.0	5.0	4.9	4.0	3.0
United Kingdom	9.4	10.1	9.9	10.1	11.1	10.7	10.5	10.1	10.4	10.1	8.7	8.7	7.9
Japan	2.4	2.6	3.0	3.0	3.7	3.8	4.0	4.3	3.3	3.2	3.5	3.2	3.3
Germany	6.7	6.7	7.0	8.6	8.8	8.8	8.1	8.7	8.7	7.4	7.2	6.1	6.4
Italy	8.5	8.4	9.1	9.4	12.6	12.6	12.3	10.7	9.8	8.1	8.7	8.0	6.7
China	2.5	2.7	2.5	2.8	2.1	1.6	1.8	2.1	1.0	0.7	0.1	0.2	0.0
Russia	15.9	15.1	14.3	13.7	12.6	12.0	11.9	11.8	11.0	3.5	2.3	2.5	3.2
India	7.0	6.7	7.0	7.4	6.8	5.9	5.7	6.5	6.4	5.7	4.7	4.3	4.8
Brazil	11.9	10.1	8.7	7.2	6.5	5.9	5.8	5.8	5.6	4.7	4.2	3.9	3.2
South Africa	7.4	7.8	7.6	7.5	7.6	7.4	7.2	6.9	7.0	7.1	6.8	6.3	5.4

Source: Refinitiv Eikon (Thomson Reuters).

Figure 2.1: Inflation in Selected Countries (per cent)



Source: Refinitiv Eikon (Thomson Reuters).

Similarly, inflation in Brazil and South Africa fell, compared with the level in the second half of 2022, driven majorly, by declining energy costs. In Brazil, inflation fell to 3.2 per cent, from 5.8 per cent at end-December 2022 and 11.9 per cent at end-June 2022. Inflation in South Africa decelerated to 5.4 per cent, from 7.2 2 per cent at end-December 2022 and 7.4 per cent at end-June 2022.

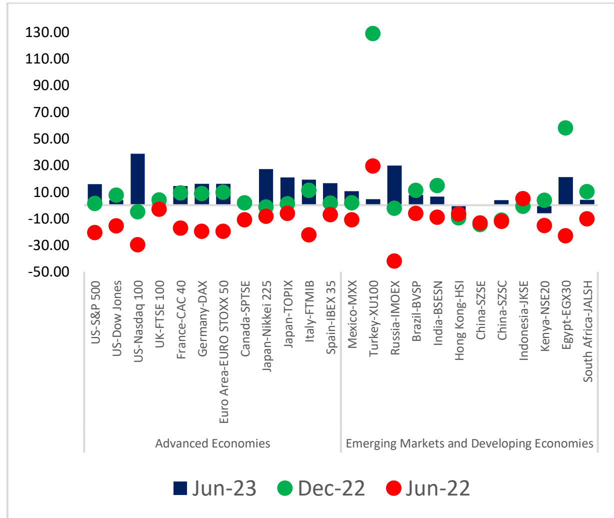
2.3 GLOBAL FINANCIAL MARKETS

2.3.1 Global Financial Conditions

Tight global financial conditions amid waning inflationary pressures influenced the performance of financial markets in the first half of 2023. Global stock markets were bullish in the review period, led by the AEs, despite the policy rate hikes. The equity indices of the AEs weathered the banking sector crisis to post gains, fueled by the surge in artificial intelligence (AI) inspired tech stock and the deceleration in inflation. Specifically, the S&P 500 grew by 15.91 per cent, compared with 1.43 per cent in the second half of 2022 and a contraction of 20.58 per cent in the first half of 2022.

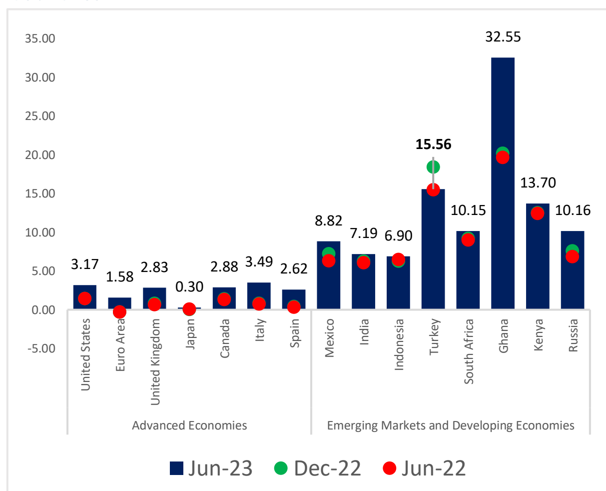
Similarly, the performance of the Nasdaq 100, CAC 40, DAX, EURO STOXX 50, NIKKIE 225, TOPIX, FTMIB, and IBEX 35 surpassed the gains in the previous and corresponding periods of 2022. Notably, the EMDEs stocks were confronted by capital outflows triggered by concerns about rising interest rates and inflation amid broad-based weaknesses in commodity prices and concerns over the outlook for the Chinese economy. Specifically, the Brazilian BVSP, Indian BSESN, Egyptian EGX30, and South African JALSH, underperformed in the review period, compared with the levels in the first and second halves of 2022. Uncertainties surrounding the Turkish election constrained the growth of the XU100 to 4.54 per cent, from 129.04 per cent in the second half of 2022 and 29.48 per cent in the first half of 2022.

Figure 2.2: Key Global Stock Indices



Source: Reuters and Bloomberg.

Figure 2.3: 10-year Government Bond Yields for Selected Countries



Source: Bloomberg.

In response to elevated inflation, government bonds surged on the back of the hawkish monetary policy stance. Bond yields in the US rallied by 1.5 percentage points, compared with the second half of 2022, reflecting concerns over inflation and expectations of tighter monetary policies by the US Federal Reserve. Similarly, the bond yields of the United Kingdom (2.83 per cent), Japan (0.30 per cent), and Canada (2.88 per cent) rose higher than in the preceding period. Yields of emerging market bonds also rallied in the review period, except Turkey, reflecting the rate-cutting stance of the Turkish Central Bank at the beginning of the year. Policy rate hikes fueled the surge in yields of Mexico, India, Indonesia, South Africa, and Kenya, while the increase in the Russian bond yield was largely due to the government's dependence on bonds to finance its budget deficit.

2.4 GLOBAL COMMODITY PRICES

2.4.1 Agricultural Commodity Prices

Global agricultural commodity prices generally declined in the first half of 2023. The extension of the Black Sea Grain Initiative between Russia and Ukraine played a pivotal role in sustaining grain exports to global markets. In addition, favourable weather conditions in key grain-producing regions, which benefitted harvest, coupled with a decrease in energy costs moderated agricultural commodity prices.

Consequently, the all-commodities index stood at 124.5 index points (2010=100), showing a 0.9 per cent decline, compared with the level in the preceding half, but was 19.1 per cent higher than the corresponding period in 2022. Significant price decreases were observed for rubber, palm oil, soybeans, wheat, and cotton, which saw declines of 0.6 per cent, 2.5 per cent, 5.8 per cent, 8.0 per cent, and 14.7 per cent, respectively.

Conversely, price increases of 7.4 per cent, 10.9 per cent, and 20.9 per cent were recorded for groundnut, coffee, and cocoa, respectively, in the first half of 2023. The surge in price of cocoa was driven by lower production in West Africa, a consequence of the prevalence of black pod disease, which significantly affected cocoa supply.

Table 2.4: Indices of Average World Prices of Nigeria's Major Agricultural Export Commodities (2010 = 100) (Dollar Based)

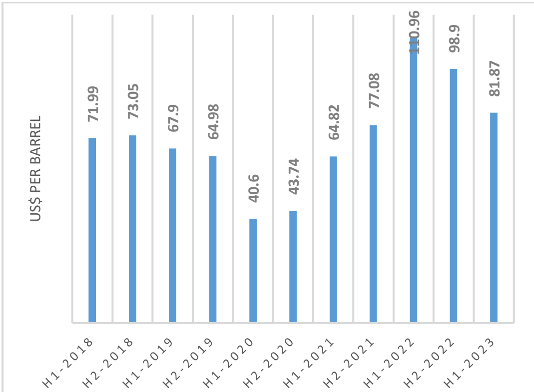
	2022H1	2022H2	2023H1	% Δ
	-1	-2	-3	
All Commodities	*104.5*	*125.7*	*124.5*	*19.1*
Cocoa	*79.7*	*66.6*	*80.6*	*1.0*
Cotton	*89.9*	*145.3*	*123.9*	*37.8*
Coffee	*112.1*	*145.1*	*160.9*	*43.5*
Wheat	*152.6*	*201.4*	*185.3*	*21.4*
Rubber	*36.3*	*45.3*	*45.0*	*24.1*
Groundnut	*107.6*	*136.1*	*146.1*	*35.8*
Palm Oil	*131.1*	*115.7*	*112.7*	*-14.0*
Soya Beans	*127.0*	*150.4*	*141.8*	*11.6*

Source: Staff Computation based on data from Index Mundi.

2.4.2 Crude Oil Prices

Crude oil prices declined in the first half of 2023, due, mainly to higher global supply, particularly from the US and Mexico. Consequently, the average spot price of Nigeria’s reference crude, the Bonny Light, fell by 17.2 per cent to US$81.87 per barrel (pb) from US$98.90 pb in the second half of 2022, and by 26.2 per cent from US$110.96 pb in the corresponding half of 2022.

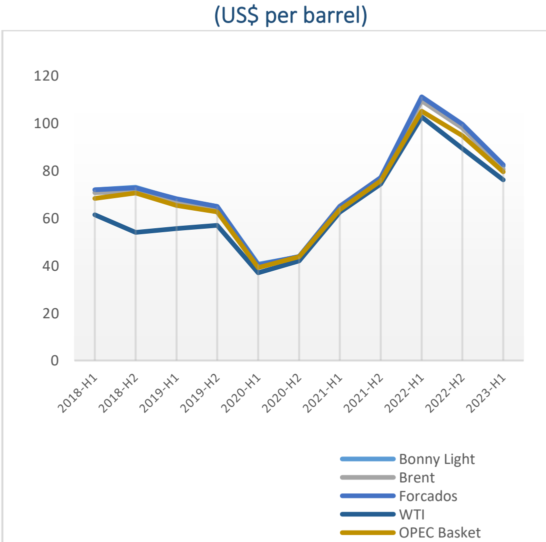
Figure 2.5: Bonny Light Average Prices, 2018H1-2023H1(US$ per barrel)



Source: Refinitiv Eikon (Thomson Reuters).

Similarly, prices of the Brent, Forcados, West Texas Intermediate (WTI) and OPEC Reference Basket fell by 18.0 per cent, 17.5 per cent, 15.1 per cent and 16.3 per cent to US$80.37 pb, US$82.26 pb, US$75.93 pb and US$79.35 pb, respectively, relative to the level in the second half of 2022. Furthermore, the prices of all the crude streams declined, compared with the levels in the corresponding half of 2022.

Figure 2.6: Average Monthly Crude Oil Prices, 2022-2023 (US$ per barrel)



Source: Refinitiv Eikon (Thomson Reuters).

2.4.3 Global Crude Oil Supply and Demand

Global crude oil supply increased on account of higher supplies from some non-OPEC countries. World crude oil supply averaged 101.20 million barrels per day (mbpd) in the first half of 2023, a 2.4 per cent and 2.30 per cent increase above the levels in the preceding and corresponding halves of 2022, respectively. The rise was attributed, mainly to higher supplies of crude oil from Mexico and the US. Specifically, increased private sector investment in Mexico's oil and gas sector contributed to the increase in crude oil supply. In the US, the crude oil supply increase was supported by higher demand for oil in Asia, as countries in the region sought alternative sources of crude following production cuts by OPEC+.

Following the announcement by OPEC+ in April 2023 to cut production by 1.16 mbpd from May until the end of the year, OPEC crude oil supply fell by 2.1 per cent, to 33.76 mbpd in the first half of 2023, from 34.57 mbpd in the preceding half of 2022. Specifically, the OPEC crude portion fell by 2.2 per cent to 28.43 mbpd, while the Liquefied Natural Gas (LNG) and condensates portion fell by 1.6 per cent to 5.41 mpbd, compared with the levels in the second half of 2022. However, it rose by 0.24 per cent compared with 33.76 mbpd in the first half of 2022.

World crude oil demand rose to 100.40 mbpd in the first half of 2023, compared with 100.06 mbpd and 98.56 mbpd in the preceding and corresponding halves of 2022, respectively. The Organisation for Economic Co-operation and Development (OECD) countries' demand was 45.0 per cent (45.53 mbpd) of the total world demand, while non-OECD countries, led by China, accounted for the balance, at 54.87 mbpd.

The improved economic growth in China following the reopening of its economy and higher crude oil import quotas to refiners, supported the increase in demand. In addition, the importation of large volumes of discounted Russian crude feedstock by Chinese refiners, further supported the increase in crude oil demand.

2.5 CENTRAL BANKS' RESPONSE

Most central banks tightened their monetary policy stance to tame the persistent inflationary pressures. The pace of policy hikes slowed in the first half of the year, signaling an end to the aggressive tightening cycle in 2022, as inflationary pressures began to ease. Specifically, the Federal Reserve raised the monetary policy rate by a cumulative 75 basis points (bps) to 5.25 per cent within the period. The European Central Bank and Bank of England raised their policy rates by 150 bps each, to 4.0 per cent and 5.0 per cent, respectively. Also, the Bank of Canada raised its benchmark rate by 50 bps to 4.75 per cent. However, the Bank of Japan maintained its ultra-low policy rate at -0.10 per cent to support economic recovery.

Monetary authorities in the EMDEs also maintained a hawkish stance, tightening rates further to curtail the elevated inflation and safeguard their domestic currencies. The Bank of Mexico raised its repo rate to 11.25 per cent from 10.50 per cent. Central Bank of Turkey also hiked its policy rate to 15 per cent from 9.0 per cent, reversing its unorthodox monetary policies. Major economies in Africa also continued to tighten their financial conditions. The Central Bank of Egypt and the Reserve Bank of South Africa raised policy rates by 2 bps and 125 bps, to 18.25 per cent and 8.25 per cent, respectively, in the first half of 2023. The Bank of Ghana raised its policy rate by a cumulative 250 bps, to 29.50 per cent. However, the People's Bank of China retained the anchor rate at 3.65 per cent throughout the period to balance growth and safeguard the yuan.

Table 2.5: Monetary Policy Rates of Selected Central Banks

Country	2022H1	2022H2	2023H1
United States	4.5	4.50	5.25
United Kingdom	1.25	3.50	5.00
Japan	-0.10	-0.10	-0.10
Canada	1.75	4.25	4.75
Euro Area	0.0	2.50	4.00
China	3.70	3.65	3.65
India	4.9	6.25	6.50
Mexico	7.75	10.5	11.25
Turkey	14.0	9.0	15.0
Egypt	11.5	16.25	18.25
Ghana	19.0	27.00	29.50
South Africa	7.00	7.00	8.25
Nigeria	14.00	16.50	18.50

Source: Various Central Bank Websites.

2.6 FISCAL MEASURES

Fiscal authorities faced the dilemma of supporting counter-inflationary measures and providing relief to the vulnerable. Several European countries commenced the reform of their fiscal framework after adopting flexible policy measures to cushion the effects of the COVID-19 pandemic. The new measures were aimed at achieving debt sustainability and building up fiscal buffers. The EU also extended the escape clause earlier adopted in 2022 to allow greater flexibility when countries are faced with shocks.

During the period, the Turkish government rolled out a programme to provide free natural gas to households for one year to stem the cost-of-living crises in the country. Some countries within the EU, such as Germany and France, also implemented energy subsidies to address the elevated energy prices owing to the Russia-Ukraine war.

In Africa, Heads of Government, the African Development Bank, Development Finance institutions, and institutional investors established the modalities for developing 69 priority infrastructure projects worth US$160 billion, expected to be completed by 2030. The 69 projects were under the Programme for Infrastructure Development in Africa (PIDA), a blueprint for infrastructure development meant to increase Africa's output, competitiveness and economic integration.

Also, the Governments of Egypt and Ghana secured loans of about US$3 billion each from the IMF. The loans aimed at restoring macroeconomic stability, particularly safeguarding domestic currencies while protecting the vulnerable. The countries introduced reforms towards a more sustainable debt framework, preserve financial stability, restore buffers, and pave the way for private-sector-led growth. To address the high inflationary pressure and fiscal prudence, the Bank of Ghana signed a Memorandum of Understanding with the Ghanaian government to eliminate fiscal dominance by halting the financing of the budget through Ways and Means Advances.

Section Three

MACROECONOMIC PERFORMANCE

3.1 MONETARY POLICY

Monetary Policy objectives

Price stability

Headline inflation: 6-9%

Monetary Policy Environment

Priorities of Monetary Policy

- *Ensure exchange rate & price stability*
- *Strengthen financial market fundamentals*
- *Encourage credit flow to the real sector*

Major Economic Development

- *Exchange rate instability*
- *Heightened currency speculation*
- *Elevated global inflation*
- *Insecurity-induced inflationary pressure*

Instruments of MP

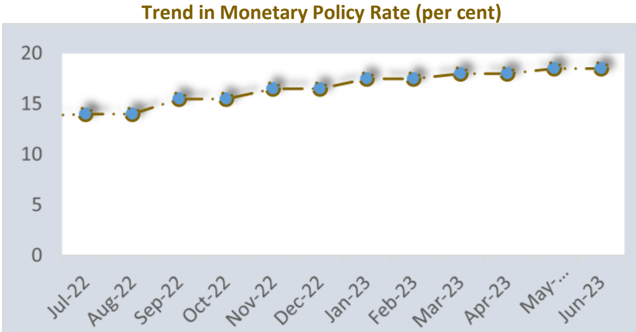
In fulfilling its statutory mandate, the Bank utilized a variety of monetary policy instruments during the review period.

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

Implications

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

Trend in Monetary Policy Rate (per cent)



Monetary Policy Decisions

January 23 and 24, 2023	• Raised the MPR to 17.5 percent • Retained the CRR at 32.5 percent • Retained the Liquidity Ratio at 30.0 percent; and • Retained the Asymmetric corridor at +100 and -700 basis points around the MPR.
March 20 and 21, 2023	• Raised the MPR to 18.0 percent • Retained the CRR at 32.5 percent • Retained the Liquidity Ratio at 30.0 percent; and • Retained the Asymmetric corridor at +100 and -700 basis points around the MPR.
May 23 and 24, 2023	• Raised the MPR to 18.5 percent • Retained the CRR at 32.5 percent • Retained the Liquidity Ratio at 30.0 percent; and • Retained the Asymmetric corridor at +100 and -700 basis points around the MPR.

Liquidity Management

Throughout the first half of the year, the Central Bank of Nigeria (CBN) employed Open Market Operations (OMO), reserve requirements, and discount window operations to maintain optimal banking system liquidity. In response to escalating inflationary pressures, the CBN adhered to a tight monetary policy stance, incrementally raising the Monetary Policy Rate (MPR) by 50 basis points at each of the January, March, and May 2023 Monetary Policy Committee (MPC) meetings, reaching 18.5 percent.

The asymmetric corridor, set at +100/-700 basis points around the MPR, alongside the Cash Reserve Ratio (CRR) at 32.5 percent and Liquidity Ratio at 30 percent, remained unchanged. The Bank's decisions were driven by upside risks to the inflation outlook and a commitment to uphold its credibility, aligning with earlier forward guidance to tighten policy in the face of persistent inflationary trends.

Exchange Rate Policy

- *In an official press release issued on June 14, 2023, the CBN informed business stakeholders and the public about immediate adjustments to the operations of the Nigerian foreign exchange market. These modifications entail consolidating multiple exchange rates into the Investors and Exporters (I&E) window, providing unrestricted access to foreign exchange for all eligible transactions without segmentation.*

3.2 THE REAL ECONOMY

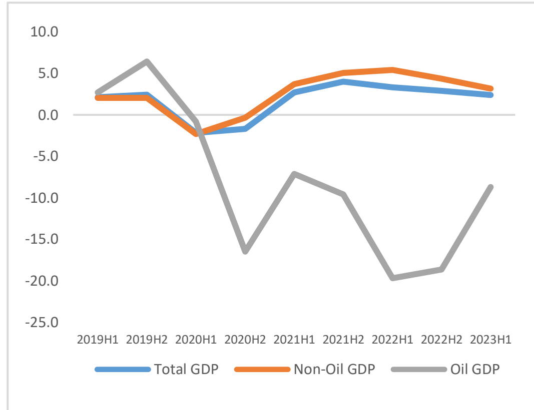
3.2.1 Domestic Output

The economy maintained its growth trajectory, albeit at a slower pace, despite significant headwinds in the first half of the year. Real Gross Domestic Product (GDP) grew by 2.41 per cent to ₦35,469 billion, compared with 2.91 per cent and 3.32 per cent in the preceding and the first halves of 2022, respectively. The growth was on account of sustained improvement in the performance of the non-oil sector, which grew by 3.18 per cent to ₦33,420 billion in the first half of 2023. Continued growth in the non-oil sector was largely, driven by increased investment in ICT infrastructure, owing to the continued deployment of the Fifth Generation (5G) broadband services, and improved finance and insurance services. Also, the 2023 general elections and the pre-population census spending gave further impetus to growth.

The growth momentum, however, moderated on account of both global and domestic headwinds. On the global front, energy costs, exacerbated by the lingering effects of the Russia-Ukraine war, coupled with sustained the hikes in policy rates to contain inflation, weakened the productive base of the economy.

On the domestic front, the subsisting infrastructural and security challenges, and hike in PMS prices, constrained production activities during the period.

Figure 3.2.1: GDP Growth Rate (per cent)



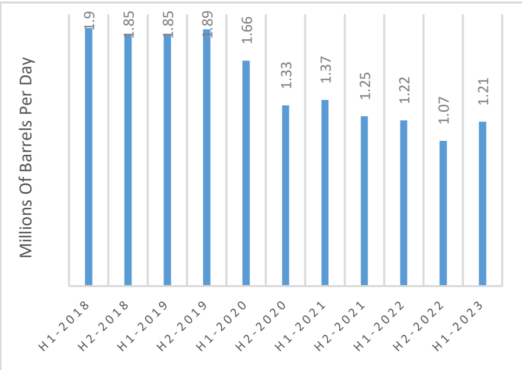
Source: National Bureau of Statistics (NBS).

The oil sector contracted by 8.70 per cent to ₦2,049 billion during the period, compared with the 18.66 per cent and 19.71 per cent in the preceding and first halves of 2022, respectively, due to lower crude oil prices. However, the narrowed contraction was on account of improved security measures in the crude oil production and distribution infrastructure. In addition, sustained investment, such as the exploration activities by the Nigeria National Petroleum Company (NNPC) Limited, particularly in the Middle Benue Trough (starting with the Ebenyi-A Exploration Well in Nasarawa State) contributed to the lower contraction.

Furthermore, Total Energies made a significant oil and gas discovery in the Ntokon field, located in Oil Mining Lease (OML)102 offshore Nigeria. The Ntokon-1AX well has a reservoir of 38 meters of light oil and 15 meters of gas.

Consequently, at an average daily production of 1.21 million barrels per day (mbpd), Nigeria's crude oil output in the first half of 2023, increased by 2.54 per cent, over 1.18 mbpd in the second half of 2022. In contrast, the production level fell slightly by 0.82 per cent, relative to the levels in the corresponding half of 2022.

Figure 3.2.2: Average Crude Oil Production



Source: Refinitiv Eikon (Thomson Reuters).

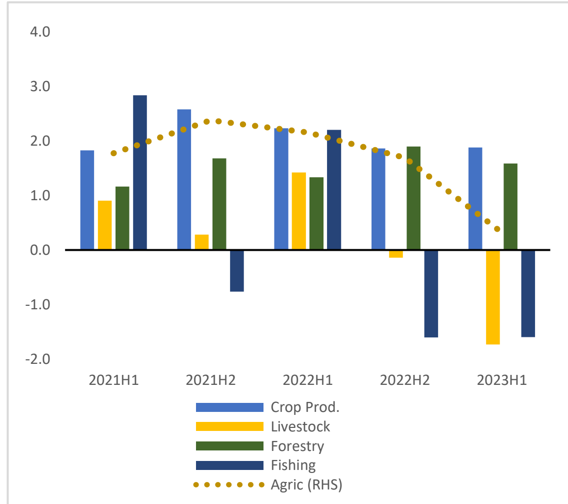
3.2.2 Sectoral Performance

Agriculture

Agriculture sector performance moderated in the first half of 2023. The tepid growth was on account of marked increases in input costs, heightened security concerns along food producing areas, and lagged effects of the 2022 flooding on farm produce, and food delivery chain.

Thus, the agriculture sector grew tepidly by 0.32 per cent to ₦7,922 billion, compared with the 1.69 per cent and 2.15 per cent in the preceding and first halves of 2022, respectively. The growth was driven mainly by crop production, which grew faster at 1.88 per cent compared with 1.86 per cent in the preceding half. Forestry grew by 1.58 per cent while livestock and fishery contracted by 17.3 per cent and 1.59 per cent, respectively.

Figure 3.2.3: Agriculture Sector Performance (%)



Source: National Bureau of Statistics (NBS).

The growth of the sector was corroborated by the higher Index of Agricultural Production, which stood at 152.3 points (2010=100).

Table 3.2.1: Agricultural Production Index

	First Half 2022, 1	Second Half 2022, 2	First Half 2023, 3	%(3&1)	%(3&2)
Aggregate	149.3	151.82	152.31	2.01	*0.32*
Crops	148.4	151.18	154.02	3.79	*1.88*
Staples	*136.9*	*136.52*	*136.71*	-0.14	*0.14*
other crops	*153.6*	*150.41*	*152.01*	-1.04	*1.06*
Livestock	147.8	147.77	122.21	-17.32	*-17.30*
Fishery	154.9	157.86	155.35	0.29	*-1.59*
Forestry	158.92	156.81	159.29	0.23	*1.58*

Source: National Bureau of Statistics (NBS).

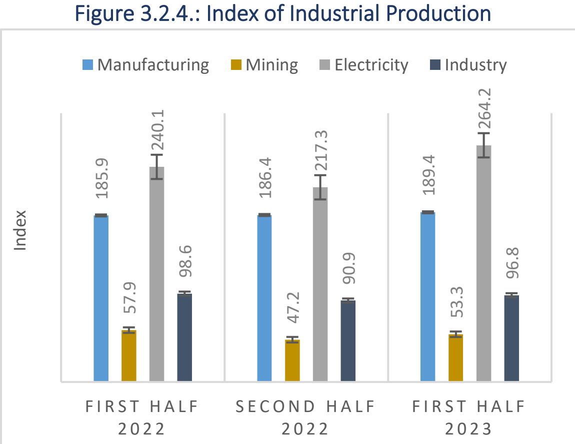
Industry

The performance of the industry sector remained weak on account of technical and production challenges, especially in the crude petroleum and natural gas sub-sector. The sector contracted (though at a slower pace) by 0.76 per cent in to ₦7,025 billion the first half of 2023, compared with 4.52 per cent and 4.73 per cent contractions inthe preceding and corresponding halves of 2022, respectively.

Contraction in the industry sector was due to the poor performance of the mining and quarrying subsector, especially the crude oil and natural gas activity sector as a result of lower crude oil prices owing to increased global supply of crude oil, particularly from the US and Mexico. However, the solid mineral activity sector grew further by 32.92 per cent compared with 27.42 per cent in the preceding half, on account of sustained implementation of reforms.

The slow pace of contraction of the industry sector was reflected in the improvement in the index of Industrial Production, which, at 96.8 (2010=100) index points, rose by 6.5 per cent, compared with 90.9 points in the preceding half of 2022.

Figure 3.2.4.: Index of Industrial Production



Source: Computed based on data obtained from NBS and Manufacturing Association of Nigeria (MAN).

Manufacturing subsector

The Manufacturing sub-sector remained largely innovative and resilient to observed shocks as it drove growth in the industry sector and overall GDP growth with contributions of 0.87 percentage point and 0.18 percentage point, respectively. The subsector also grew faster by 1.88 per cent, compared with 0.51 per cent in the preceding half of 2022 on account of innovative supply chain delivery systems and other cost-cutting measures which improved operational efficiency of manufacturing outfits amid rising operational costs as well as increased investment in plant and technology.

The sub-sector showed resilience in the face of higher energy prices and weaker purchasing power of citizens owing to rising inflationary pressures. The improved performance was due to rising demand for locally manufactured goods. This resulted in higher manufacturing capacity utilisation, which increased by 3.3 percentage points to 58.2 per cent, compared with 54.9 per cent and 57.9 per cent observed in the preceding and corresponding halves of 2022, respectively.

Construction

Construction subsector supported growth, expanding by 3.34 per cent to ₦1,322 billion in the first half of 2023, compared with a growth of 4.59 per cent and 4.48 per cent in the preceding and corresponding halves of 2022, respectively. The positive performance of the sub-sector was attributed to continued investment in public ad private sectors to narrow infrastructural deficit in the country. This included the completion of key infrastructural projects, such as the Second Niger Bridge, 200 out of 365 kilometres of the Kano-Abuja highway, and 114 out of 127 kilometres of the Lagos-Ibadan highway. This was in addition to the ongoing construction of the dual carriageway section of the Kaduna-Kano Road and Federal Secretariat building complexes in Anambra, Bayelsa, and Zamfara states. Also, the number of housing units under construction by the Federal Government increased to 6,124 units as at June 2023, from 6,018 units and 5,698 units as at the end of the preceding and corresponding halves of 2022, respectively. In addition, the number of completed housing units increased to 2,870 units as at end June 2023 from 2,515 units and 2,362 units at the end of the preceding and corresponding halves of 2022, respectively.

Water Supply, Sewage and Waste Management Sub-Sector

The water supply, sewage and waste management sub-sector grew by 14.72 per cent to ₦114 billion, compared with 6.28 per cent and 19.41 per cent in the preceding and corresponding halves of 2022, respectively. This resulted in a 0.04 percentage point contribution to overall growth.

Energy

Electricity, Gas, Steam & Air conditioner subsector

*T*he Electricity, Gas, Steam & Air conditioner subsector grew by 6.84 per cent to ₦161.87 billion in the first half of 2023, compared with 7.06 per cent and a contraction of 11.42 per cent in the preceding and corresponding halves of 2022, respectively. The growth was driven mainly by the improvement in electricity generation occasioned by the execution of the Siemens project *and* activation of the 700 megawatts Zungeru Hydroelectric Power Plant to the national grid, among other investments. Hence, the average electricity generation, at 4,193.4 MW/h increased by 4.0 and 10.3 per cent, compared with 4,031.0 MW/h and 3,801.9 MW/h in the preceding and corresponding half of 2022. Similarly, the average electricity consumption rose by 13.4 per cent to 3,547.8 MW/h from 3,128.1 MW/h and 3,236.2 MW/h in the preceding and corresponding halves of 2022. The increase was attributed to addional investment in the electricity distribution chain and continued deployment of prepaid meters nationwide.

A comprehensive legal and institutional framework for Nigeria's electricity industry was created with the signing of the Electricity Act of 2023 into law. The Act aims to transform the sector by empowering states, companies, and individuals to generate, transmit and distribute electricity. It addresses issues related to grid instability, electricity access and employment opportunities.

Refinery Operations

The output of the five modular refineries [1] in Nigeria revealed that fuel oils constituted the majority of products produced and was closely followed by the automotive gas oil (AGO) or diesel.

[1] The five modular refineries are - the Waltersmith, Niger Delta Petroleum Resources (NDPR), OMSA Pillar Astex Company (OPAC), Duport and Edo Refineries.

Table 3.2.2: Total production from refineries (million litres) 2023H1

Product	Jan	Feb	Mar	Apr	May	Jun	Total
AGO	7.5	9.9	8.9	9.8	10.3	9.3	55.6
DPK	2.0	5.2	2.9	4.9	1.2	5.7	21.9
NAPHTA	3.6	9.6	8.0	5.1	2.4	10.1	38.8
Fuel Oil	11.0	9.1	5.6	10.7	8.7	10.9	56.0
Total	24.1	33.8	25.4	30.5	22.5	36.0	172.3

Source: Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA).

Consumption of Petroleum Products

Nigeria's Premium Motor Spirit (PMS) consumption fell during the period on account of the removal of subsidy, which led to a reduction in domestic demand. The total estimated volume of Premium Motor Spirit (PMS) consumed in the first half of 2023 fell by 5.55 per cent to 11.480 billion litres from 12.155 billion litres and 12.190 billion litres in the preceding and corresponding halves of 2022. However, the total estimated volume of Automotive Gas Oil (AGO) consumed increased by 21.09 per cent and 26.29 per cent, to 2.536 billion litres from 2.094 billion litres and 2.008 billion litres in the preceding and corresponding halves of 2022.

Table 3.2.3: Industry Sector Performance (Growth rate)

	2020H1	2020H2	2021H1	2021H2	2022H1	2022H2	2023H1
Industry Sector	-4.97	-6.7	-0.08	-0.86	-4.73	-4.52	-0.76
Mining and Quarrying	-1.04	-15.54	-6.98	-8.67	-19.27	-16.94	-8.00
Manufacturing	-4.07	-1.51	3.44	3.26	4.55	0.51	1.88
Electricity, Gas, Steam & Air conditioner	-2.78	-2.98	56.58	7.51	-11.42	7.06	6.84
Water supply, sewage, waste Management.	3.16	4.68	16.92	20.19	19.41	6.28	14.72
Construction	-15.99	1.95	2.4	3.75	4.48	4.59	3.34

Source: National Bureau of Statistics (NBS).

Services

The services sector sustained its performance and remained the major driver of growth owing to the increased leverage of ICT in business and improved access to credit by financial institutions. The Sector contributed 2.49 percentage points to the overall growth and rose by 4.39 per cent to ₦20,521 billion in the first half of 2023, compared with 6.29 per cent and 7.07 per cent in the second and first halves of 2022, respectively.

Table 3.2.4: Services Sector Performance (Growth rate)

	2020H1	2020H2	2021H1	2021H2	2022H1	2022H2	2023H1	Contribution to Growth in 2023H1
Services Sector	-2.64	-1.83	4.27	6.84	7.07	6.29	4.39	2.49
Trade	-9.64	-7.43	8.97	8.3	5.5	4.79	1.87	0.31
Accommodation and Food Services	-16.8	-18.56	-2.85	1.63	2.24	5.85	3.53	0.02
Transportation and Storage	-20.47	-24.01	6.3	26.39	15.4	15.03	-28.10	-0.41
Information and Communication	11.59	14.77	5.97	7.11	9.06	10.43	9.40	1.63
Arts, Entertainment & Recreation	-3.01	-3	-0.17	4.02	1.4	7.64	4.28	0.01
Financial and Insurance	19.63	-0.72	-1.47	23.74	20.88	12.09	24.02	1.05
Real Estate	-14.11	-5.07	2.79	1.85	4.43	3.58	1.79	0.10
Professional, Scientific & Technical Serv.	-8.08	-7.78	-1.43	1.32	1.9	2.60	2.99	0.09
Administrative and Support Services	-2.15	-3.26	2.02	3.04	2.87	3.41	-1.26	-0.00
Public Administration	-2.88	2.62	-1.34	0.53	1.97	1.85	2.12	0.04
Education	-10.83	-15.6	-3.5	1.4	1.58	1.18	1.01	0.02
Human Health & Social Services	1.49	2.94	4.79	5.07	4	4.39	2.20	0.02
Other Services	-5.98	-5.57	-1.54	1.28	3.1	0.99	-11.30	-0.38

Source: National Bureau of Statistics (NBS).

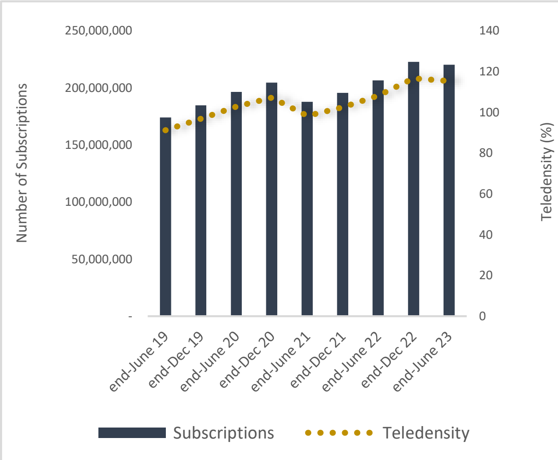
Information and Communication Technology

During the first half of 2023, the Information and Communication industry maintained a positive growth trajectory, contributing 1.63 percentage points to real GDP growth. The sector grew by 9.40 per cent to ₦6,56 billion, compared with 10.43 per cent and 9.06 per cent in the second half and first half 2022, respectively. The sector's performance was attributed to substantial investment in the 5G network services by the telecommunication companies. Despite the huge investment in the subsector, slower growth was realised in the ICT subsector on account of the 1.12 per cent drop in the number of active telecom subscriptions to 221.26 million, below 222.57 million recorded at end-December 2022.

In addition, the broadband penetration rate declined to 47.01 per cent below its preceding level of 47.36 per cent within the same timeframe. The development was attributed to the disconnection of customers who were unable to comply with the enhanced Subscriber Identity Module (SIM) registration requirements by the government. The policy which also discouraged new SIM card registration was intended to check rising security challenges and improve the national security environment.

Teledensity, which gauges the number of telephone connections per 100 individuals also dipped to 115.30 per cent in the first half of 2023, compared with 116.60 per cent at end-December 2022.

Figure 3.2.5.: Active Telephony Subscriptions and Teledensity 2023H1



Source: Nigerian Communications Commission (NCC).

Domestic Wholesale and Retail Trade

The domestic wholesale and retail trade subsector also supported growth, contributing 0.1 percentage point to the overall growth. The subsector grew at a slower pace, on account of policy-induced shocks on aggregate demand, which manifested in weaker purchasing power of households, and higher energy costs.

Education

Similarly, the education subsector grew by 1.01 per cent to ₦570 billion compared with 1.18 per cent and 1.58 per cent in the preceding and corresponding halves of 2022. The growth was on account of continued efforts by the government to improve access and the quality of infrastructure of educational institutions nationwide. Thus, the FGN signed the Student Loan Bill (2023) into law, to provide financial assistance to Nigerian students in tertiary institutions through the Education Loan Bank.

Similarly, the Federal Executive Council approved the establishment of 37 new private universities across the country. The Federal Government also approved the disbursement of ₦320.34 billion intervention fund to public tertiary institutions nationwide.

Transport

The Transport subsector dragged growth, dipping by 18.1 per cent to ₦366.41 billion from ₦593.21 billion and ₦509.61 billion in the preceding and corresponding halves of 2022, respectively. The poor performance of the sector was attributed to the unintended effects of the currency redesign policy and hike in the price of PMS, which increased transport costs. The number of passengers who used the rail transport service decreased to 915,842 persons from 1,837,456 persons and 1,375,492 persons in the preceding and corresponding halves of 2022, respectively. The decrease was due to perceived security concerns along the rail routes amid intermittent suspension of rail services on account of derailment of coaches from the rail lines. However, the volume of cargoes increased to 115,995 tonnes from 86,448 tonnes and 70,576 tonnes in the preceding and corresponding halves of 2022, respectively. Similarly, the number of airlifted passengers on the domestic and international routes fell to 8,096,505 from 9,347,079 and 9,965,684 in the preceding and corresponding periods of 2022, respectively. Also, cargo movement by air fell to 60.536 million kg from 75.236 million kg and 80.529 million kg in the preceding and corresponding halves of 2022, respectively. However, the number of ocean going vessels increased to 2,454 tonnes from 2,429 tons and 2,346 tonnes in the preceding and corresponding halves of 2022, respectively. The volume of cargo throughput also increased to 84.299 million tonnes, from 79.089 million tonnes in the preceding half, though below the

84.659 million tonnes recorded in the corresponding half of 2022.

3.2.3 Employment and Job Creation

The Federal Government sustained efforts at improving the employment level in the country by partnering with stakeholders. The federal government, through the Ministry of Labour and Employment collaborated with the German Federal Ministry for Economic Cooperation and Development to train 200,000 Nigerian youths on various skills and equip them to be self-employed. The training was on arts, fashion, painting, baking, ICT, and fishery, among others.

Box 1: Revised Methodology for Conducting the Nigeria Labour Force Survey (NLFS)

The National Bureau of Statistics (NBS) recently revised the methodology for conducting the Nigeria Labour Force Survey (NLFS), first published in November 2022. The revision was done using the International Labour Organisation (ILO) guidelines of the 19th International Conference of Labour Statisticians (ICLS) Resolution. Specifically, revisions included:

a. *The questionnaire was redesigned in line with international best practice: The new questionnaire for the NLFS followed the ILO template and was adapted to suit the Nigerian context. This enabled employment figures, including temporary absence, subsistence agriculture, job characteristics, underemployment, and unemployment to be more precisely captured and suitable for international comparisons.*
b. *Data collection was modified to follow a continuous approach. Data collection for the surveys was changed from four separate surveys for the entire year to continuous data collection technique, allowing for quarterly national-level estimates. While a sample of 33,300 households was used per quarter in the previous labour force surveys, 35,520 households now used in the Revised methodology. This allows for national-level quarterly estimates and full year state-level results.*
c. *Third, the schedule for fieldwork was adjusted to reduce proxy response. In previous labour force surveys, the fieldwork for each quarter lasted between 17 – 21 days making enumerators spend approximately 2 days in each enumeration area. In the revised methodology, each field team spends one week in each enumeration area and interviews take place between Wednesdays to Sundays. This gives the enumerators time to interview the eligible respondents in person, capturing those who were not available for interview weekdays but available on*

The level of unemployment stood at 4.1 per cent in the first quarter of the year compared with 5.3 per cent at the fourth quarter of 2022.

3.2.4 Consumer Prices

Headline inflation maintained a northward trajectory throughout the first half of 2023 despite sustained monetary policy tightening. Notwithstanding the improvements in supply chains, price pressures rose due to higher energy cost and food prices that accompanied the Russia-Ukraine war and exchange rate pass-through following elevated global inflation rates. From the domestic front, cost-push factors such as the removal of PMS subsidy and the reforms in the foreign exchange market accounted for the continued surge in aggregate prices. Furthermore, other structural challenges such as election-related expenditures, the effect of the 2022 flooding on farming activities, security challenges, legacy infrastructural deficit, and expectations of further increase in aggregate prices continued to weigh on inflation.

Thus, the observed shocks in the macro-economy drove headline inflation (year-on-year) to 22.79 per cent at end-June 2023 from 21.34 per cent at end-December 2022 and 18.60 per cent at end-June 2022. Further analysis indicated that, although the seasonally adjusted inflation rate was above the long-run trend, there appeared to be a convergence to its trend level, indicating that current shocks to inflation would wane over time.

Box 2: Measures of underlying inflation

Central banks have maintained a keen interest in the evolution of core inflation in their countries. This is because core inflation represents the non-volatile component of the Consumer Price Index (CPI). The CPI serves as a critical tool for central banks to conduct effective monetary policy, anchor inflation expectations, promote transparency, and support overall economic stability and growth. It helps central banks focus on the underlying inflation trend and avoid being swayed by short-term price fluctuations, contributing to their ability to fulfill their mandates effectively.

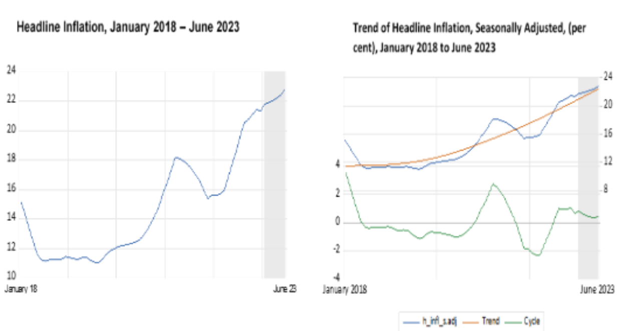
Prior to this Report, the Central Bank of Nigeria had presented only the core inflation measures published by the National Bureau of Statistics (NBS). These measures involved excluding farm produce from the CPI in the first instance (Core 1) and, farm produce and energy prices from the CPI basket in the second instance (Core 2). The excluded items represent volatile components of the CPI, hence they are removed to obtain the core inflation rates.

However, despite the relevance of exclusion methods (Core 1 and 2) in determining underlying inflationary pressures, trimmed measures confer some unique advantages such as ensuring that components of CPI that form the underlying inflationary measures are determined by non-volatile components which can change from month to month based on extent of volatility, unlike the exclusion measures that constantly excludes predefined volatile components. Two trimmed measures of underlying inflation were therefore introduced in this Report to complement the existing core measures. They are the trimmed mean and the trimmed median inflation rates.

The trimmed mean excludes CPI components whose rates of change in a given month are located in the tails of the distribution of price changes. This measure helps filter out extreme price movements that might be caused by factors specific to certain components. In particular, we excluded 20 per cent of the weighted monthly price variations at both the bottom and top of the distribution of price changes, hence 14 items were excluded out of the 68 items that constitute the components of the CPI. These excluded components can change from month to month, depending on which are extreme at a given time. The components are seasonally adjusted, thereby eliminating seasonal effects.

The trimmed median excludes all price changes except for the one in the center of the distribution of price changes, where the price changes are ranked from lowest to highest (or most negative to most positive).

Figure 3.2.5: Headline Inflation Rate (per cent)



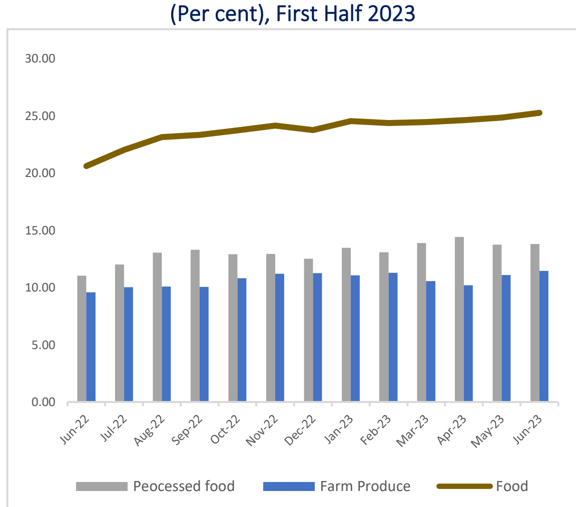
Source: National Bureau of Statistics (NBS).

Food Inflation

Aggregate food price increases remained unabated and grew consistently to 25.25 per cent at end-June 2023 from 23.75 per cent at end-December 2022 and 20.60 per cent a year ago. Food prices rose on account of continued security challenges, particularly in major food producing areas, exchange rate effect, (especially on imported food and input for food processing) as well as higher transport costs in the delivery of farm produce to the markets.

The rise in food inflation was driven mainly by processed food which accounted for an average of 13.7 percentage points compared with the average of 10.9 percentage points contributed by farm produce.

Figure 3.2.6: Contribution of Processed Food and Farm Produce (Percentage Points) to Food Inflation (Per cent), First Half 2023



Source: National Bureau of Statistics (NBS).

Table 3.2.5: Average Contribution of Components of Processed Foods, 2023H1

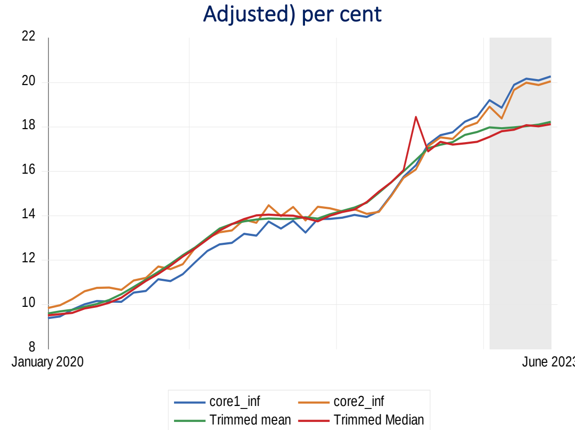
Component	Share (%)
Fish & Sea Food	25.79
Meat	21.34
Guinea Corn Flour Sold Loose	19.11
Corn Flakes 350g	7.38
Gari Yellow Sold Loose	4.31
Oil & Fats	4.12
Milk, Cheese & Eggs	3.86
Fritters (Puff Puff)	3.21
Eko (Agidikafa)	2.26
Sugar, Jam, Honey, etc.	2.05
Custard 300g	1.99
Plantain Flour	1.52
Corn Flour 2kg	1.21
Others	1.84

Source: National Bureau of Statistics (NBS).

Core Inflation

Underlying inflationary pressures persisted throughout the period, as core inflation measures, such as 'all items less farm produce' and 'all items less farm produce and energy', indicated a rising trajectory of the non-volatile component of the CPI. Supply side shocks drove core inflation (all items less farm produce and energy) to 20.06 per cent at end-June 2023 from 18.21 per cent at end-December 2022 and 15.70 per cent in June 2022. Further review of the core inflation rate using alternative measures such as the trimmed mean (20.0 per cent trim) and the trimmed median, revealed that the core inflation rate continued to follow a northward trajectory.

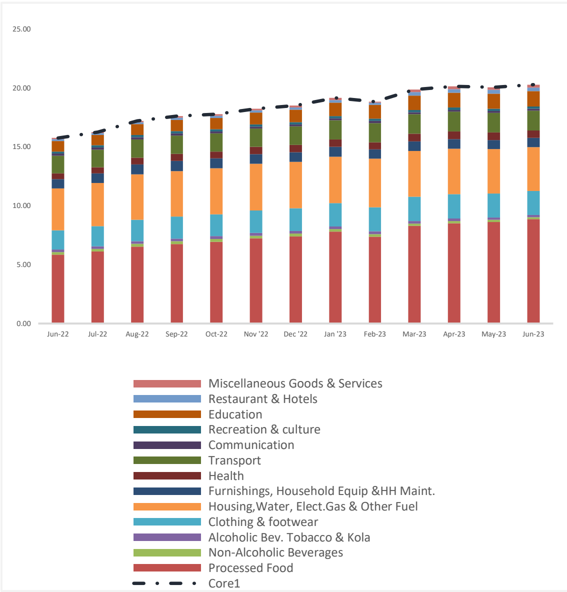
Figure 3.2.7: Core Inflation Measures, (Seasonally Adjusted) per cent



Source: National Bureau of Statistics (NBS).

Dynamics in core inflation was driven by processed food items, which contributed an average of 8.23 percentage points in the first half of 2023. This was followed closely by the housing, water, electricity, gas, and other fuel components, which contributed an average of 3.89 percentage points to core inflation. Clothing and footwear component also drove core inflation by an average of 2.04 percentage points during the period. Further analysis revealed that fish & sea food (due mainly to higher cost of fish feed and other inputs), meat, and guinea corn flour contributed an average of 25.79 per cent, 21.34 per cent, 19.11 per cent and 7.34 per cent, respectively, to the upward pressure from the processed food component of the core inflation in the first half of 2023.

Figure 3.2.8: Component Contribution to Core2 Inflation (Percentage Points)



Source: National Bureau of Statistics (NBS).

3.2.5 Development Financing

The Bank continued to intervene in the critical sectors of the economy. The Bank reduced the pace of its intervention in the critical segments of the economy, relative to the preceding and the corresponding periods of 2022. A total of 63 projects, including 134,275 individuals and businesses benefited from the Bank's 13 intervention programmes, compared with 125 and 187 projects, including 279,211 and 134,275 individuals and businesses that benefited from its 20 and 19 programmes in the preceding and the corresponding periods of 2022, respectively.

Cumulative disbursement declined by 35.4 per cent to ₦331.33 billion below ₦513.13 billion in the preceding half of 2022, while the repayment increased by 27.4 per cent to ₦264.04 billion above ₦207.33 billion in the same period. The increase in recovery reflected the drive for repayments.

Activities at the National Collateral Registry (NCR) indicated mixed performance. The number of financing statements and number of borrowers indicated that 30,327, worth ₦833.49 billion, was registered in respect of 31,734 borrowers during the review period, compared with 40,909, worth ₦1,025.61 billion, in respect of 42,695 borrowers in the second half of 2022.

A further breakdown indicated that 48.79 per cent of the financing statements were for 47.81 per cent of borrowers (female and female-owned enterprises). When compared with the second half of 2022, 51.43 per cent of the financing statements were in respect of 50.57 per cent of total borrowers (female and female-owned enterprises). From the inception of the NCR in 2016 to end-June 2023, a total of 146 financial institutions had registered 319,220 financing statements valued at ₦17.24 trillion.

Table 3.2.6: No. and Value of Secured Transactions in Movable Assets (STMA) Financing Statements in respect of Females and Female-owned Businesses 2023

Debtor Type	No. of Financing Statements in respect of Females and Female-owned Businesses		No. of Female and Female-owned Enterprise Borrowers		Financing Statements (N' billion)	
	2022H2	2023H1	2022H2	2023H1	2022H2	2023H1
Individual	20,393	14,360	20,776	14,568	763.21	73.39
Large Business	29	23	83	47	1.19	0.59
Medium Business	354	186	400	253	2.78	1.92
Micro Business	36	38	43	47	0.19	0.30
Small Business	226	192	289	256	2.23	1.44
Total	21,038	14,799	21,591	15,171	769,599,468, 769.96	77,643,585, 975.35

Source: Central Bank of Nigeria.

[2] This measures underlying inflation by excluding farm produce from Headline inflation

Table 3.2.7: No. and Value of Secured Transactions in Movable Assets (STMA) Financing Statements 2023

Debtor Type	No. of Financing Statements in respect of Females and Female-owned Businesses		No. of Female and Female-owned Enterprise Borrowers		Financing Statements (N' billion)	
	2022H2	2023H1	2022H2	2023H1	2022H2	2023H1
Individual	36,364	26,743	37,464	27,437	829.15	445.65
Large Business	271	205	480	357	95.34	168.07
Medium Business	2,120	1,498	2,355	1,781	73.74	179.49
Micro Business	295	279	335	320	2.50	2.07
Small Business	1,859	1,602	2,061	1,839	24.88	38.21
Total	40,909	30,327	42,695	31,734	1,025.61	833.49

Source: Central Bank of Nigeria.

3.2.5 Financial Inclusion

The drive towards the attainment of 95.0 per cent financial inclusion target by 2024 was enhanced by the significant increase in the use of the agent network, which increased to 1.67 million by June 2023, to bridge the channels dispersion gap, particularly in the rural areas and Northern Nigeria. Also, Unique/Foundational ID with total NIN registrations reaching 101 million as of June 26, 2023, were optimised. In addition, SabiMoni e-Learning Platform was launched to facilitate self-paced online delivery of the financial literacy curriculum for the Volunteer Corps Members (VCMs) to reduce dependence on manual and paper-based training materials, and to broaden outreach to the target consumers. Similarly, 195,314 agents were onboarded under the SANEF agent expansion scheme, bringing the total to 1,669,487, and increasing access point per capita to 1,574 agents per 100,000 adults.

Table 3.2.8 Disbursements on Interventions in 2022H1, 2022H2 and 2023H1

Interventions	2022H1			2022H2			2023H1 *		
	Disbursements		Repayments	Disbursements		Repayments	Disbursements		Repayments
	Amount (₦ Billion)	Beneficiaries	Amount (₦ Billion)	Amount (₦ Billion)	Beneficiaries	Amount (₦ Billion)	Amount (₦ Billion)	Beneficiaries	Amount (₦ Billion)
Agricultural Credit Guarantee Scheme (ACGS)	3.21	13,194 Loans Guaranteed	2.14	5.25	30,650 Loans Guaranteed	₦3.14	0.03	10,304 loans	₦3.30
Commercial Agricultural Credit Scheme (CACS)	28.3	12 Projects	32.86	0.99	11 Projects	43.61	2	1 Project	40.7
Anchor Borrowers' Programme	35.52	28,875 farmers	42.99	103.72	245,361 farmers	63.37	37.9	123,856 farmers	82.15
Accelerated Agriculture Development Scheme (AADS)	1.5	1 State government-sponsored projects	4.37	0.18	1 State government-sponsored projects	1.64	Nil	Nil	1.92
Maize Aggregation Scheme (MAS)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	-
Paddy Aggregation Scheme (PAS)	6.2	3 Projects	Nil	Nil	Nil	1	Nil	Nil	4.5
Presidential Fertilizer Initiative (PFI)	Nil	Nil	3	Nil	Nil	4	Nil	Nil	3
National Food Security Programme (NFSP)	Nil	Nil	2.03	Nil	Nil	4.95	Nil	Nil	3.29
Real Sector Support Facility Using Differentiated Cash Reserve Ratio (RSSF-DCRR)	210.29	34 Projects	18.5	73.2	16 Projects	27.39	114.12	16 Projects	43.24
COVID-19 Intervention for Manufacturing Sector (CIMS)	413.84	50 Projects	12	131.26	29 Projects	7.95	83.65	24 Projects	30.03
Non-oil Export Stimulation Facility (NESF)	Nil	Nil	2	Nil	Nil	7.45	Nil	Nil	4.08
Micro, Small and Medium Enterprises Development Fund (MSMEDF)	Nil	Nil	2.52	0.01	130 Beneficiaries	5.07	Nil	Nil	1.22
Agribusiness/Small and Medium Enterprises Investment Scheme (AGSMEIS)	1.6	2,720 Beneficiaries	0.008	1.32	154 Beneficiaries	2.75	4.19	1 Project	Nil
Creative Industry Financing Initiative (CIFI)	Nil	Nil	0.28	0.17	30 Beneficiaries	0.3	Nil	Nil	0.41
Targeted Credit Facility (TCF)	24.37	50,302 Beneficiaries	Nil	1.21	2,863 Beneficiaries	0.82	0.035	66 Beneficiaries	1.05
Nigeria Youth Investment Fund (NYIF)	Nil	Nil	0.28	0.88	Nil	2.62	Nil	Nil	-
Shared Agent Network Expansion Facility (SANEF)	Nil	Nil	0.37	Nil	Nil	0.4	Nil	Nil	0.85
Healthcare Sector Intervention Facility (HSIF)	17.21	11 Projects	Nil	12.28	8 Projects	6.53	Nil	Nil	7.44
Healthcare Sector Research & Development Intervention (Grant) Scheme (HSRDIS)	0.02	-	Nil	0.03	1 Project	Nil	0.04	N/A	-
National Mass Metering Programme (NMMP)	0.2	3 DisCos	Nil	3.11	3 DisCos	0.36	2.4	N/A	1.87
Nigeria Electricity Market Stabilization Facility (NEMSF - 2)	34.37	8 DisCos	Nil	63.64	8 DisCos	13.98	35.57	8 DisCos	21.95
Nigeria Bulk Electricity Trading – Payment Assurance Facility (NBET-PAF)	26.93	1 Project	322.87	Nil	1 Project	Nil	Nil	Nil	Nil
Solar Connection Facility (SCF)	0	Nil	Nil	0	Nil	Nil	Nil	Nil	1.07
Intervention Facility for Nigeria Gas Expansion Programme (IFNGEP)	26	4 Projects	Nil	9.3	2 Projects	Nil	Nil	Nil	Nil
Tertiary Institution Entrepreneurship Scheme (TIES)	0.26	53 Beneficiaries	Nil	0.06	20 Beneficiaries	Nil	0.16	41 Beneficiaries	Nil
100FOR100 Policy on Production and Productivity (100FOR100 PPP)	69.13	51 Projects	1.43	82.54	31 Projects	1.14	47.23	20 Projects	6.1
Youth Entrepreneurship Development Programme (YEDP)	Nil	Nil	0.12	Nil	Nil	0.001	Nil	Nil	0.00013
Power and Airline Intervention Facility (PAIF)	Nil	Nil	15.91	Nil	Nil	4.37	4	1 Project	5.87
Textile Sector Intervention Facility (TSIF)	Nil	Nil	8.62	1.5	3 Projects	4.49	Nil	Nil	Nil
Private – Accelerated Agricultural Development Scheme (P-AADS)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Export Facilitation Initiative (EFI)	36	5 Projects	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Export Development Facility (EDF)	17.08	15 Projects	Nil	22.39	14 Projects	Nil	Nil	Nil	Nil

Source: Central Bank of Nigeria.

3.3 FISCAL DEVELOPMENTS

Fiscal policy in the first half of 2023 towed the path of fiscal consolidation with the implementation of broad reforms to widen the fiscal space and ensure fiscal viability. In addition, expenditure and public debt policies were implemented to reflect efforts at softening the impact of external and domestic headwinds.

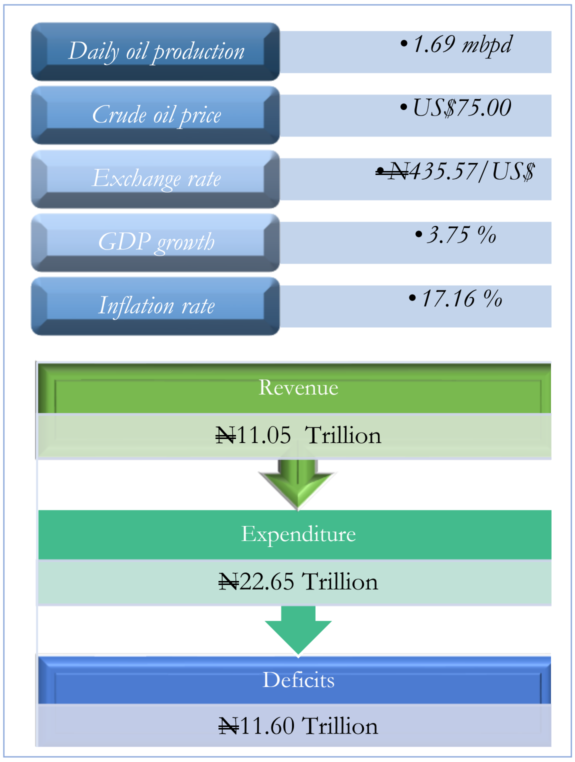
Consequently, the fiscal operations of the Federal Government (FGN) resulted in an overall deficit of 3.1 per cent of GDP, while public debt, at 25.0 per cent of GDP (at end-March 2023) remained within the 40.0 per cent medium-term domestic debt strategy threshold.

3.3.1 Federation Account Operations

- *Federation Revenue*

Revenue performance in the review period was influenced by broad reforms in the mineral and non-oil sectors. Specifically, the Finance Act 2023, helped broaden the tax base to include digital assets for capital gains. However, the continued crude oil theft, and subsisting tax expenditures lowered accretion to the Federation Account.

Key Budget Parameters and Projections

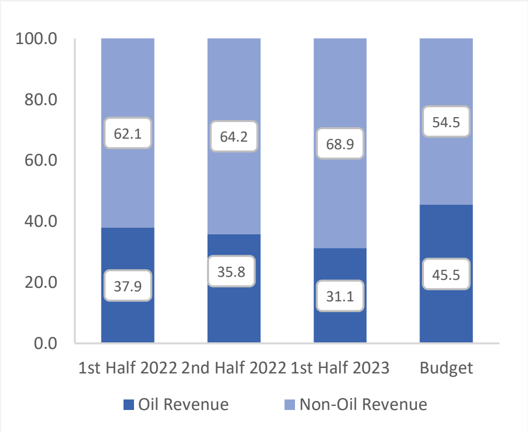


Source: 2023 Appropriation Act.

Relative to the second half of 2022, federation revenue in the first half of 2023 waned, owing to subsidy on premium motor spirit, and low domestic crude oil production. At ₦6,903.32 billion or 5.4 per cent of GDP, provisional gross federally collected revenue[3] declined by 5.5 per cent, relative to the level in the second half of 2022, and fell short of the proportionate budget by 34.8 per cent. However, it was 25.0 per cent above collection in the first half of 2022. The performance, relative to the corresponding half of 2022, reflected payoffs from non-oil revenue reforms, including the Strategic Revenue Growth Initiatives (SRGIs); and higher oil revenue, following the removal of the petrol subsidy.

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

Figure 3.3.1: Structure of Federation Revenue (per cent)



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

The strong performance of non-oil revenue was sustained in the first half of 2023, accounting for 68.9 per cent of total federation earnings.

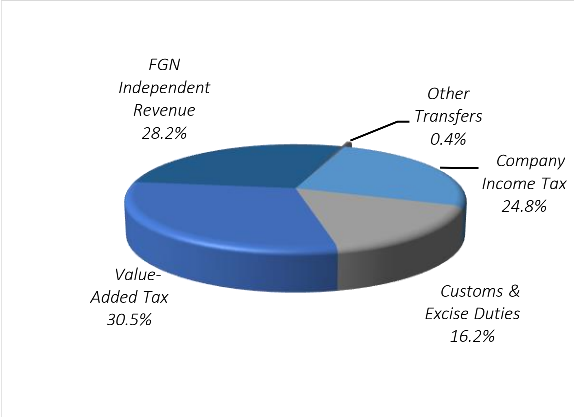
Improvement in non-oil revenue reflected the benefits from fiscal consolidation measures implemented under the Finance Act 2023. Conversely, the contribution of oil continued to decline from 37.9 per cent in the first half of 2022, to 31.1 per cent in the current period. Structural rigidities, burden of subsidy payments and low domestic crude oil production due to theft, insecurity, and under-investment in the upstream sector, contributed to the depressed performance of oil revenue.

Drivers of Federally Collected Revenue

Non-oil Revenue

Sustained growth in the economy, tax reforms, and expenditure rationalisation in Government-Owned Enterprises and MDAs, drove non-oil revenue performance in the period. In nominal terms, non-oil revenue at ₦4,753.18 billion (3.3 per cent of the GDP), surpassed the levels in the first half of 2022 by 38.7 per cent and the preceding half by 1.4 per cent. However, the collection fell short of the proportionate target by 17.6 per cent.

Figure 3.3.2: Composition of Non-Oil Revenue (per cent)

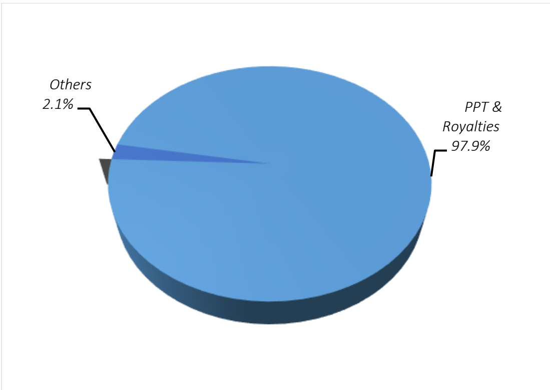


Sources: Federal Ministry of Finance, Budget, and National Planning (FMFB&NP) and Office of the Accountant General of the Federation (OAGF).

Oil Revenue

Low domestic crude oil production and subsidy deductions, majorly contributed to the decline in oil receipts in the period. Oil revenue at ₦2,150.14 billion (2.0 per cent of the GDP), underperformed in relation to the proportionate budget of ₦4,821.79 billion by 55.4 per cent. However, it surpassed the level in the first and second halves of 2022 by 2.6 per cent and 17.8 percent, respectively.

Figure 3.3.3: Composition of Oil Revenue (per cent)



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

Deductions

From the gross revenue of ₦6,903.32 billion realised in the first half of 2022, statutory deductions from oil and non-oil revenue, as well as transfers, amounted to ₦2,727.30 billion, leaving a net distributable balance of ₦4,649.76 billion.

Allocations to the three tiers of government

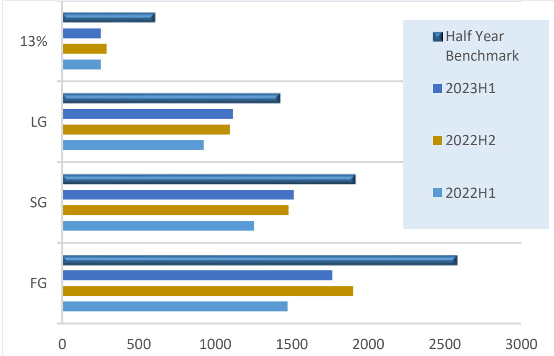
Allocation to the three tiers of government exceeded the level in the first half of 2022, owing to improved non-oil revenue. Total disbursement exceeded the level in the corresponding half of 2022 by 19.0 per cent. However, it was 2.5 per cent and 28.9 per cent below the levels in the second half of 2022 and the half year budget, respectively. The shortfall in federation allocation, relative to the target, exacerbated fiscal pressure at the central and subnational levels.

Table 3.3.1: Federally Collected Revenue and Distribution (N Billion)

	1st Half 2022	2nd Half 2022	1st Half 2023	Budget
Federation Revenue (Gross)	5,521.90	7,303.07	6,903.32	10,587.32
Oil	2,095.34	2,615.36	2,150.14	4,821.79
Crude Oil & Gas Exports	0.00	0.00	0.00	245.42
PPT & Royalties	1,707.64	2,507.91	2,104.11	4,120.51
Domestic Crude Oil/Gas Sales	339.12	64.56	0.00	50.29
Others	48.57	42.89	46.03	405.56
Non-oil	3,426.56	4,687.71	4,753.18	5,765.53
Corporate Tax	969.91	1,670.78	1,176.60	1,046.33
Customs & Excise Duties	789.36	898.29	771.49	1,057.94
Value-Added Tax (VAT)	1,181.86	1,280.40	1,448.05	1,476.89
Independent Revenue of Fed. Govt.	467.84	820.66	1,339.43	1,584.54
*Others**	17.58	17.58	56.73	599.83
Total Deductions/Transfers*	1,917.89	2,686.46	2,727.30	4,745.99
Federally Collected Rev (Net) *Less Deductions & Transfers***	3,604.01	4,616.61	4,176.02	6,470.88
Plus:				
Additional Revenue	303.99	152.08	473.74	68.17
Excess Oil Revenue	0.00	20.00	0.00	0.00
Excess Non-Oil Revenue	293.64	119.14	258.26	68.17
Exchange Gain	10.35	12.94	215.48	0
Total Distributed Balance	3,907.99	4,768.70	4,649.76	6,539.06
Federal Government	1,473.96	1,903.20	1,767.10	2,582.20
State Governments	1,255.39	1,478.91	1,513.80	1,918.63
Local Governments	925.35	1,097.18	1,115.39	1,428.22
13% Derivation	253.3	289.41	253.47	610.01

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

Figure 3.3.4: Distribution to the Three Tiers of Government and 13% Derivation Fund (N Billion)



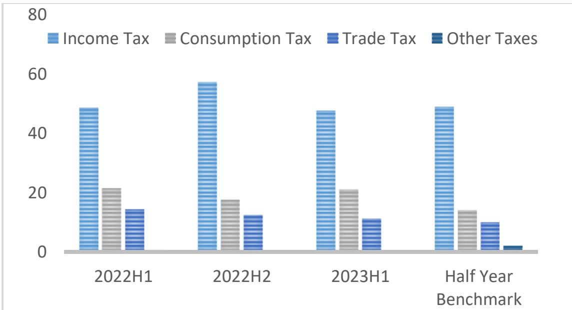
Source: Federal Ministry of Finance, Budget, and National Planning (FMFB&NP) and Office of the Accountant General of the Federation (OAGF).

Tax Effort

Analysis of the structure of federation revenue indicates declining contribution of taxes to total federation earnings. Tax revenue accounted for 79.9 per cent of total federation revenue in the first half of 2023, compared with 84.5 per cent and 87.3 per cent in the first and second halves of 2022, respectively. Income tax (consisting of Petroleum Profit Tax (PPT) and Company Income Tax (CIT)) remained the main driver of tax revenue in the period.

Tax revenue-to-GDP, at 5.4 per cent, was marginally above the first half tax revenue-to-GDP ratio of 5.2 per cent, but was below the level in the second half of 2022 of 5.8 per cent. This compares with an average tax revenue-to-GDP of 16.0 per cent in 31 African countries[4].

Figure 3.3.5: Composition of Tax Revenue



Sources: Staff computation using data from the Federal Ministry of Finance, Budget and National Planning (FMFB&NP) and Office of the Accountant General of the Federation (OAGF).
Note: Income tax consists of CIT and PPT. However, PPT includes royalties, which might overstate PPT contribution.

[4] Revenue Statistics in Africa 2022, OECD Publishing.

Table 3.3.2: Tax & Non-Tax Revenue Structure (N Billion)

	2022H1	2022H2	2023H1	Budget
Total revenue	5,521.90	7,303.07	6,903.32	10,587.32
Non-Tax	*855.54*	*928.12*	*1,385.46*	*2,680.35*
Tax	*4,666.36*	*6,374.96*	*5,517.86*	*7,906.97*
Tax Revenue Percentage of:				
Total Revenue	*84.5*	*87.3*	*79.9*	*74.7*
GDP	*5.2*	*5.8*	*5.4*	*7.0*
Income tax	2,677.56	4,178.69	3,280.71	5,166.85
PPT	*1,707.64*	*2,507.91*	*2,104.11*	*4,120.51*
CIT	*969.91*	*1,670.78*	*1,176.60*	*1,046.33*
Consumption tax	1,181.86	1,280.40	1,448.05	1,476.89
Trade tax	789.36	898.29	771.49	1,057.94
Other Taxes	*17.59*	*17.58*	*17.60*	*205.30*

Note: PPT includes royalties, thus overstating its contribution. Other Taxes includes Education Tax.

Sources: Staff computation using data from the Federal Ministry of Finance, Budget and National Planning (FMFB&NP) and Office of the Accountant General of the Federation (OAGF).

3.3.2 Fiscal Operations of the Federal Government

FGN Retained Revenue

Retained revenue of the FGN rose significantly, relative to the corresponding period of 2022. Provisional FGN retained revenue, at ₦3,128.31 billion or 2.6 per cent of the GDP, outpaced performance in the first half of 2022 by 34.9 per cent, reflecting higher statutory and independent FGN receipts. However, relative to the second half of 2022 and the target, FGN retained revenue dropped by 6.3 per cent and 43.4 per cent, respectively. The development indicated persisting revenue challenge, despite growing non-oil revenue.

Table 3.3.3: FGN Retained Revenue (N Billion)

	2022H1	2022H2	2023H1	Budget
FGN Retained Revenue	2,319.48	3,340.03	3,128.31	5,522.55
Federation Account	1,185.93	1652.23	1,369.80	2,141.67
VAT Pool Account	165.08	178.85	202.11	191.55
FGN Independent Revenue	467.84	820.66	1,339.43	1,584.54
Excess Oil Revenue	0.00	10.52	0.00	0.00
Excess Non-Oil	118.04	55.55	94.88	0.00
Exchange Gain	4.90	6.06	100.32	0.00
*Others**	377.68	616.17	21.77	1,604.80

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

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

Federal Government Expenditure

Provisional aggregate expenditure of the FGN declined, relative to the first half of 2022. At ₦6,998.76 billion or 8.9 per cent of the GDP, provisional aggregate expenditure of the FGN was below the level in the first half of 2022 and the benchmark by 13.0 and 35.9 per cent, respectively. The lower expenditure was, driven by reduced interest obligations, arising from the redemption of ₦703.77 billion[5] out of the total debt stock of the FGN in 2022. Relative to the second half of 2022, aggregate expenditure in the first half of 2023 was, however, higher by 8.3 per cent, driven by increased capital spending.

At ₦4,147.27 billion or 5.7 per cent of the GDP, total recurrent expenditure accounted for 59.3 per cent of total expenditure, while capital expenditure and transfers constituted 34.0 per cent and 6.7 per cent, respectively.

5 N317.71 billion in domestic debt repayment, and USD906.24 million or N386.05 billion @ N426 /USD1

Table 3.3.4: FGN Expenditure (₦ Billion)

	2022H1	2022H2	2023H1	Budget
Aggregate Expenditure	8,042.32	6,465.26	6,998.76	10,913.59
Recurrent	5,176.67	5,418.41	4,147.27	7,443.48
of which:				
Personnel Cost	1,716.37	1,881.05	1,971.90	2,507.96
Pension and Gratuities	191.05	200.29	253.29	427.41
Overhead Cost	543.05	406.42	557.53	1,229.32
Interest Payments	2,597.85	2,787.63	1,244.20	3,278.80
Domestic	*2,048.15*	*2,145.72*	*1,098.34*	*2,371.42*
External	*549.70*	*641.91*	*145.86*	*907.38*
Special Funds	128.35	143.02	120.36	0.00
Capital Expenditure	2,445.67	721.62	2,376.55	2,986.37
Transfers	419.98	325.24	474.94	483.74

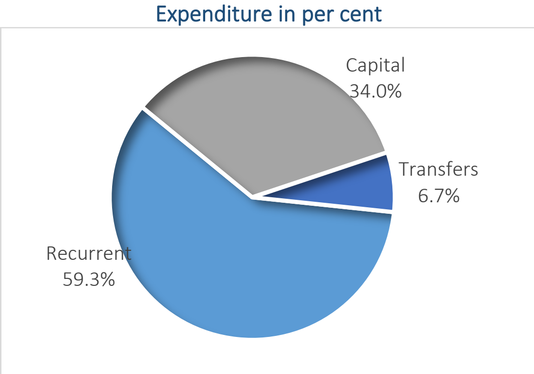
Source: CBN Staff Estimate.

Table 3.3.5: Economic Classification of Government Expenditure, First Half 2023

	Expenditure (=N=billion)	Percentage share			
		Admin.	Economic services	Social and community services	Transfers
Recurrent	4,147.27	33.3	8.9	18.8	39.0
Capital	2,376.55	38.5	41.1	15.9	4.5
Transfers	474.94	-	-	-	-

Source: CBN Staff Estimate.

Figure 3.3.6: Composition of Federal Government Expenditure in per cent



Sources: Office of the Accountant General of the Federation (OAGF) and Staff estimates.

Federal Government Fiscal Balance

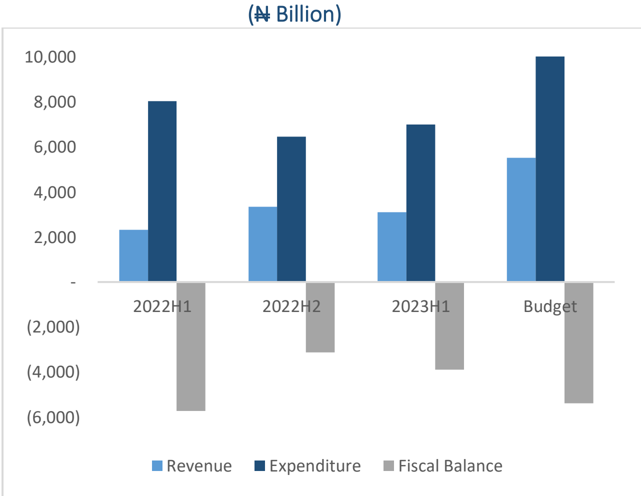
The fiscal operations of the Federal Government in the first half of 2023 recorded a deficit of 3.8 per cent of the GDP, driven, largely, by low revenue outcome. The fiscal operations of the Federal Government resulted in an overall deficit of ₦3,870.45 billion, representing a contraction of 32.4 per cent, relative to the level in the first half of 2022 and was below the proportionate budget by 28.2 per cent. It however, widened by 23.8 per cent, when compared with the second half of 2022. The deficit was financed from domestic (FGN Bond, Treasury Bills, Sukuk, Promissory Notes, Treasury Bonds, Green Bonds, and Savings Bonds) and external (Multilateral, Bilateral, Commercial and Syndicated loans) sources.

Table 3.3.6: Federal Government Fiscal Operations (₦ Billion)

	2022H1	2022H2	2023H1*	Budget
Retained revenue	2,319.48	3,340.03	3,128.31	5,522.55
Aggregate expenditure	8,042.32	6,465.26	6,998.76	10,913.59
Primary balance	-3,124.99	-337.60	- 2,6426.26	-2,112.24
Overall balance	-5,722.84	-3,125.23	-3,870.45	-5,391.04
Deficit-to-GDP (%)	-6.3	-2.9	-3.8	-2.4

Source: CBN Staff Estimates from available data.
Note: * 2023 Figures are provisional.

Figure 3.3.7: Federal Government Fiscal Operations (₦ Billion)



Sources: Federal Ministry of Finance, Budget and National Planning (FMFB&NP) and Office of the Accountant General of the Federation (OAGF).
Note: revenue and expenditure figures are provisional.

3.3.3. Public Debt Strategy and Sustainability

FGN borrowing in the review period was anchored on the 2020-2023 MTDS[6], which stipulates a self-

[6]2020-2023 Medium-Term Debt Strategy framework

imposed debt-to-GDP threshold of 40.0 per cent, as against the 70.0 per cent for Market Access-Countries (MAC[7]). The strategy also targets an optimal portfolio mix of 70.0 per cent domestic and 30 per cent external debt; among other considerations towards ensuring debt sustainability.

Table 3.3.7: Revised MTDS Targets

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

Source: MTDS 2020-2023, Debt Management Office.

- ### *Total Public Debt*

Public debt levels exceeded the 40.0 per cent debt-to-GDP national threshold, but remained well within the 70.0 per cent benchmark for Market-Access Countries (MAC). Total public debt outstanding, comprising Federal and State governments' debt obligation, at end-June 2023, stood at ₦87,379.40 billion or 42.3 per cent of the GDP, representing an increase of 103.9 and 75.3 per cent, above the levels at end-June 2022 and end-March 2023, respectively. The increase was attributed to the exchange rate revaluation and securitisation of FGN Ways and Means Advances.

Table 3.3.8: Total Public Debt (₦ Billion)

Type	2022H1	2022H2	2023H1*
External Debt	**16,615.66**	**18,702.25**	**33,248.98**
Of which:			
FGN	14,723.46	16,703.35	29,898.43
States & FCT	1,892.20	1,998.90	3,350.54
Domestic Debt	**26,230.22**	**27,548.12**	**54,130.42**
Of Which:			
FGN	20,948.94	22,210.36	48,314.74
States & FCT	5,281.28	5,337.75	5,815.68
Total	**42,845.88**	**39,556.03**	**87,379.40**

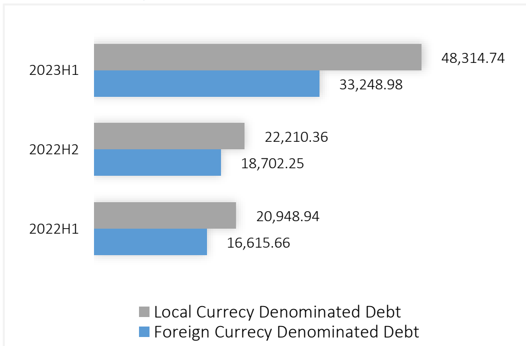
Source: Debt Management Office.
Note: *As at end-June, awaiting third quarter figures.

The consolidated debt stock of the Federal Government (including State governments' external debt, which are contingent liability of the FGN) was ₦81,563.72 billion or 39.5 per cent of the GDP, while State governments' domestic debt stock accounted for the balance of ₦5,815.68 billion or 2.8 per cent of the GDP.

Federal Government Debt Profile

A breakdown of the FGN debt shows domestic debt at ₦48,314.74 billion (59.2%), while external debt stood at ₦33,248.98 billion (40.8%) or US$43.16 billion. FGN Bond maintained its dominance in domestic debt portfolio, accounting for 86.9 per cent, followed by Treasury Bills (9.8%), Promissory Notes (1.6%), FGN Sukuk (1.5%), and others[8] (0.2%).

Figure 3.3.8: Composition of FGN Debt Stock (₦ Billion)



Source: Debt Management Office.
Note: 2023H1 is at end-June.

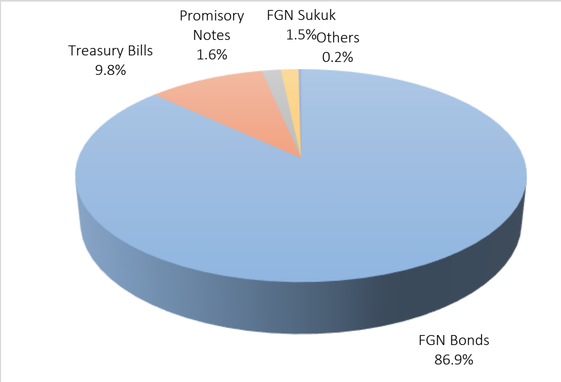
Holdings of Nigeria's external debt indicates that Multilateral, Commercial and Bilateral loans accounted for 48.2 per cent, 36.2 per cent and 12.8 per cent, respectively, while 'other' loans[9] constituted 2.9 per cent.

[7] These are countries with capacity to access international markets on a durable and substantial basis.

[8] Composed of Treasury Bonds (0.11 per cent), Green Bonds (0.03 per cent) and FGN Savings Bond (0.06 per cent)

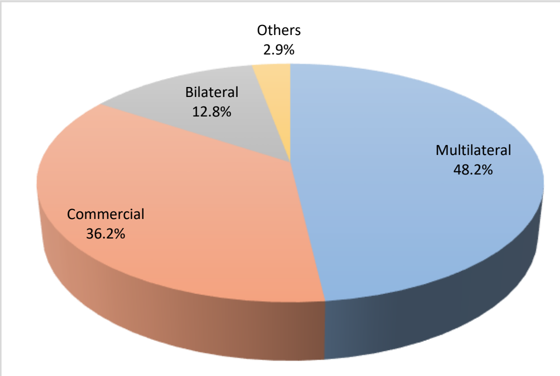
9 Promissory Notes

Figure 3.3.9.: Composition of Domestic Debt Stock in Per cent



Source: Debt Management Office.

Figure 3.3.10: Composition of External Debt Stock in Per cent

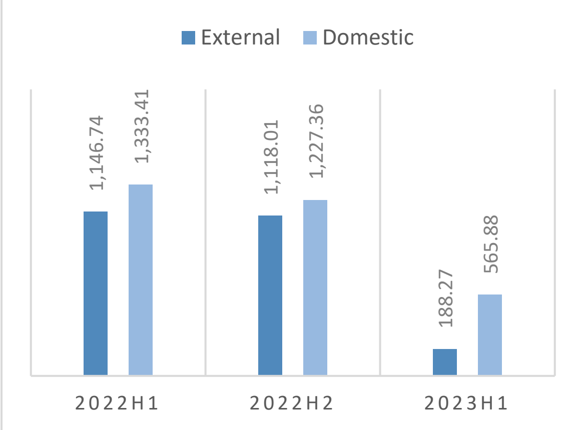


Source: Debt Management Office.

Debt Service

The consolidated debt service payment of the Federal Government in the first half of 2023 was ₦1,997.65 billion, compared with ₦1,809.56 billion in the corresponding half of 2022. Of the total interest payment in the period, 72.1 per cent or ₦1,440.01 billion went to domestic creditors, while 27.9 per cent or ₦557.64 billion was paid to external creditors. With regards to the solvency of the FGN, debt service accounted for 63.9 per cent of FGN retained revenue in the first half of 2023. This compares with the DMO's self-imposed debt-service-revenue threshold of 50.0 per cent, and the ratio of 54.2 per cent in the first half of 2022.

Figure 3.3.11: Breakdown of Total Debt Service (₦ Billion)



Source: Debt Management Office.
Note: 2023H1 is at end-June.

3.3.4 Sub-National Government Finances

State Governments and the FCT

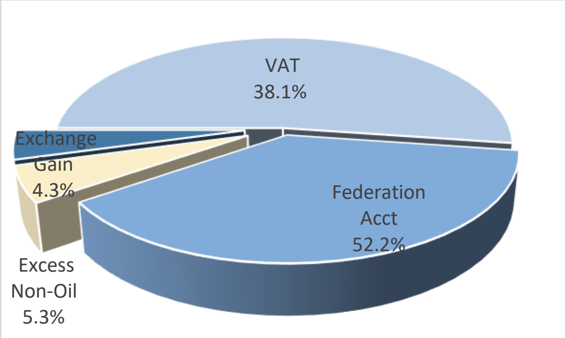
Revenue

The revenue of state governments increased in the first half of 2023, relative to the first half of 2022; driven, majorly, by improvements in receipts from Exchange Gain and VAT. At ₦1,767.26 billion state governments' gross statutory allocation increased by ₦258.58 billion or 17.1 per cent, relative to the level in the first half of 2022. The increase was due, largely, to considerable improvement in Exchange Gain, and VAT receipts, on account of the depreciation of the naira, increased consumption of VAT-able goods, broadening of the tax-net, and curbing of revenue leakages.

Subsisting liabilities of ₦348.03 billion [10] was deducted from states' Federation Account receipts, leaving a net balance of ₦1,419.23 billion for distribution to the states. This exceeded the distribution in the corresponding period of 2022 by ₦187.79 billion or 15.2 per cent. The sources of states' statutory revenue include: Federation Account, ₦923.20 billion (52.2%); VAT Pool Account, ₦673.69 billion (38.1%); Non-oil Excess ₦94.44 billion (5.3%); and Exchange Gain, ₦75.93 billion (4.3%).

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

Figure 3.3.12: Composition of State Governments and FCT's Revenue First Half 2023 in Per cent



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

Table 3.3.9: Subnational Government Revenue (₦ Billion)

		Half Year 2022	Half Year 2023	Half Year Benchmark
State Governments		1,255.39	1,513.80	1,918.6
13% Derivation		253.30	253.47	610.01
	State		Allocation (₦'Billion)	% of Total
Top 3	Lagos		142.11	8.0
	Delta		123.13	7.0
	Rivers		95.16	5.4
Bottom 3	Ekiti		33.27	1.9
	Kwara		33.02	1.9
	Nasarawa		32.85	1.9

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

Local Government Finances

Aggregate revenue of local governments improved in the first half of 2023, on the back of higher VAT collection. The 774 Local governments received ₦1,115.39 billion from the Federation Account in the first half of 2023. This was 20.5 and 1.7 per cent higher than the levels in the first and second halves of 2022, respectively. It was, however, 21.9 per cent below target.

Gross allocation to Local governments comprised receipts from the Federation Account, ₦535.65 billion (48.0%); VAT, ₦417.31 billion (42.3%); Non-oil Excess revenue, ₦68.94 billion (6.2%); and Exchange Gain, ₦39.23 billion (3.5%).

Table 3.3.10: Subnational Government Revenue (N Billion)

	2022H1	2022H2	2023H1	Budget
State Govt.	1,255.39	1,478.91	1,513.80	1,918.63
Local Govt.	925.35	1,097.18	1,115.39	1428.22
13% Derivation	253.3	289.41	253.47	610.01

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

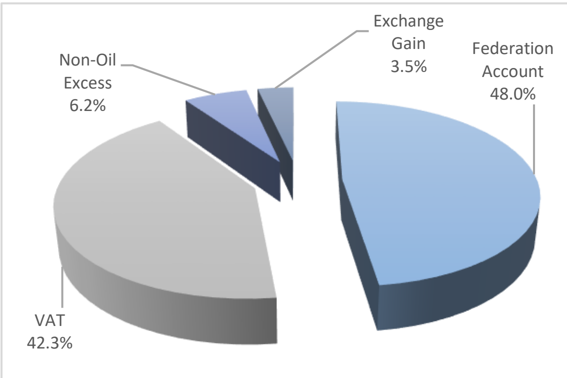
Local governments in Lagos, Kano and Katsina states received the highest allocations in the period at ₦90.69 billion (8.1%), ₦61.15 billion (5.5%), and ₦44.57 billion (4.0%); while Ebonyi, Gombe and Bayelsa states ranked least receiving 1.6, 1.4 and 1.1 per cent of the total allocation to the 774 local governments, respectively.

Table 3.3.11 Subnational Government Revenue Performance by State

	Local	Allocation (₦'Billion) 2022H1	2022H2	2023H1	% of Total
Top 3	Lagos	75.06	82.58	90.69	8.1
	Kano	51.14	60.70	61.15	5.5
	Oyo	37.67	44.81	-	
	Katsina	-	-	44.57	4.0
Bottom 3	Ebonyi	14.37	17.34	17.36	1.6
	Gombe	13.26	15.85	15.84	1.4
	Bayelsa	10.79	12.49	12.61	1.1

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

Figure 3.3.13: Composition of Statutory Allocations to Local Governments, First Half 2023 in Per cent



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

3.4 FINANCIAL DEVELOPMENTS

3.4.1 Monetary and Credit Developments

The Bank sustained its hawkish policy stance in a bid to tame inflationary pressure in the first half of 2023. Key policies, such as the adoption of market-determined exchange rate and the securitisation of Ways and Means Advances, influenced the trajectory and structure of key monetary aggregates.

Reserve Money

Reserve money rose by 8.2 per cent to ₦17,339.25 billion, driven, wholly by growth in liabilities to Other Depository Corporations (ODCs). Liabilities to Other Depository Corporations grew by 13.2 per cent, relative to the 30.6 and 6.4 per cent growth at end-December 2022 and end-June 2022, respectively. The increase in liabilities to ODCs was attributed to 18.9 per cent growth in required reserves, reflecting increased deposits, arising from improved financial services.

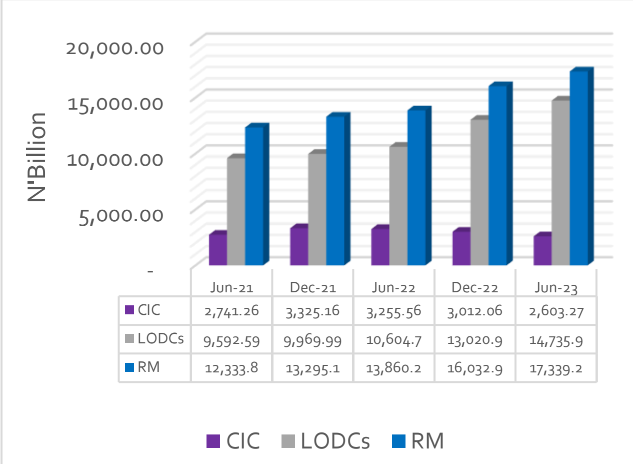
Currency-in-circulation (CIC), however, contracted by 13.6 per cent, compared with a decline of 9.4 per cent and 2.1 per cent at end-December 2022 and end-June 2022, respectively, thus constituting a drag on reserve money. The development was due to the Bank's efforts aimed at deepening the adoption of the eNaira and electronic transaction channels.

Table 3.4.1: Reserve Money (N' Billion)

	Jun-21	Dec-21	Jun-22	Dec-22	Jun-23
Reserve Money	12,333.85	13,295.15	13,860.27	16,032.96	17,339.25
Currency in Circulation	*2,741.26*	*3,325.16*	*3,255.56*	*3,012.06*	*2,603.27*
Notes and Coins	*2,741.26*	*3,324.22*	*3,254.21*	*3,009.51*	*2,596.11*
eNaira	*-*	*0.94*	*1.35*	*2.55*	*7.16*
Liabilities to ODCs	*9,592.59*	*9,969.99*	*10,604.70*	*13,020.91*	*14,735.98*

Source: Central Bank of Nigeria.

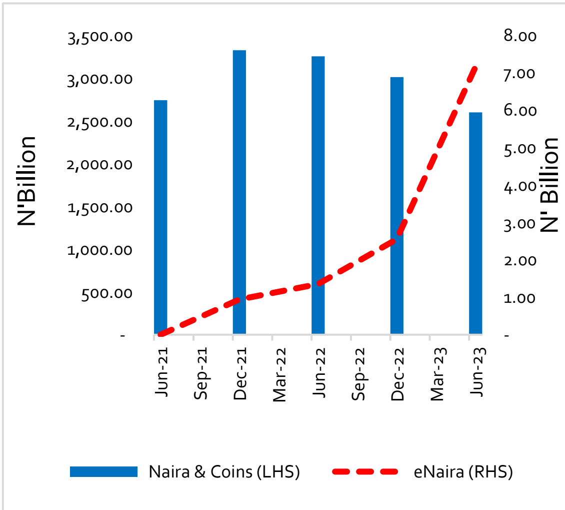
Figure 3.4.1: Reserve Money



Source: Central Bank of Nigeria.

Further disaggregation of CIC revealed that the value of notes and coins declined by 13.7 per cent to ₦2,596.11 billion at end-June 2023, while eNaira transactions increased by 180.8 per cent to ₦7.16 billion.

Figure 3.4.2: Composition of Currency-in-Circulation (₦ Billion)



Source: Central Bank of Nigeria.

Box 3

Currency Operations

The Bank issued currency totaling ₦2,405.34 billion during the review period. This represented an increase of 331.0 and 236.37 per cent, relative to the first and second halves of 2022, respectively. The eNaira accounted for less than half a per cent of the currency issued, with banknotes accounting for over 99.0 per cent.

Period	Bank Note (₦ Billion)	eNaira (₦ Billion)	Total (₦ Billion)
Jan – Jun 2022	557.61	0.48	558.09
Jul – Dec 2022	713.51	1.55	715.09
Jan – Jun 2023	2,400.48	4.86	2,405.34

The Forensic Currency Laboratory of the Bank has secured approval to commence in-house counterfeit notes adjudication and examination using state-of-the-art technology to enhance quality and integrity of the currency.

Broad Money Supply

Broad money (M3) grew significantly above its provisional benchmark, driven, largely, by the increase in net foreign assets (NFA) following the adoption of a market- determined exchange rate in June 2023. NFA grew significantly by 59.6 per cent to ₦11,112.80 billion against the contraction of 25.6 and 34.7 per cent recorded at end-December 2022 and end-June 2022, respectively. Notably, the NFA maintained a downward trajectory until May 2023 before it started rising in June 2023, due to the revaluation effect of the assets, following the Bank's decision to switch to a market-determined exchange rate. This was reflected in the 51.8 per cent growth in claims on non-residents, propelled by the increase in the value of the official reserve assets and other foreign assets of the Bank, as well as the increase in foreign currency deposits of ODCs.

Net domestic assets (NDA) also grew by 18.9 per cent to ₦53,818.46 billion in June 2023, relative to 28.9 and 21.9 per cent at end-December 2022 and end-June 2022, respectively. The increase in NDA was, driven by the 31.2 per cent growth in domestic claims which was prompted by the 39.8 and 26.6 per cent rise in net claims on the central government and claims on other sectors, respectively.

The composition of the monetary authority's claims on the central government changed significantly in line with the securitisation of the Ways and Means Advances, which took effect in June 2023. Consequently, claims in the form of securities and shares increased by 987.1 per cent, compared with the growth of 22.8 per cent at end-December 2022, but contrasted with the decrease of 4.6 per cent in the corresponding period of 2022. Claims in the form of loans to the central government declined by 60.78 per cent, in contrast to the increase of 34.4 and 25.6 per cent at end-December 2022 and end-June 2022, respectively.

Claims on other sectors increased owing to the 26.9, 4.6 and 31.5 per cent growth in claims on other financial corporations, claims on public nonfinancial corporations and claims on private sector, respectively.

The combined growth in NFA and NDA, culminated in the 24.4 per cent increase in broad money (M3) to ₦64,906.93 billion, relative to the 17.4 and 10.0 per cent growth at end-December 2022 and end-June 2022, respectively. On an annualised basis, M3 grew by 48.8 per cent, 20.6 percentage points above the 2023 provisional benchmark of 28.21 per cent.

On the liability side, the major drivers of the growth in broad money liabilities were transferable deposits and other deposits, which grew by 22.2 and 28.5 per cent, respectively, compared with the 20.3 and 17.6 per cent at end-December 2022 and 16.5 per cent and 8.2 per cent at end-June 2022. Specifically, the 71.3 per cent growth in other deposits was propelled by the increase in foreign currency deposits, following the adoption of a market-determined exchange rate. Currency outside depository corporations, however, constituted a drag on the growth of monetary liabilities as it declined by 11.9 per cent, thus, sustaining its downward trend since December 2022.

Table 3.3.12: Growth in Monetary Assets and Liabilities

	Jun 21	Dec 21	Jun 22	Dec 22	Jun 23
NFA	(18.73)	4.22	(34.68)	(25.57)	59.64
DC	**6.85**	**17.83**	**17.82**	**31.42**	**31.22**
Net claims on Government	0.88	20.42	31.61	61.61	39.64
Claims on					
Other Sectors	9.15	16.83	12.35	19.46	26.60
Other financial corporations	(1.89)	(5.34)	2.91	(11.69)	26.86
State and local government	3.57	20.63	29.85	32.47	(8.51)
Public nonfinancial corporations	28.75	3.44	42.37	40.89	4.55
Private sector	13.87	26.84	12.64	19.95	31.47
Broad money Liabilities	1.56	14.24	10.02	17.44	24.39
Currency outside depository corporations	(9.91)	17.74	(7.46)	(12.57)	(11.91)
Transferable deposits	3.25	13.30	16.61	20.34	22.20
Other deposits	3.86	19.99	8.19	17.63	28.49
Securities other than shares	(39.82)	(99.92)	(1.68)	0.00	26.13

Source: Central Bank of Nigeria

Drivers of Growth in Monetary Assets

NFA contributed 8.0 percentage points to the growth in broad money supply, in contrast to the negative 5.4 percentage points and 7.3 percentage points, respectively, at end-December 2022 and end-June 2022. NDA contributed 16.4 percentage points to the growth in money supply, relative to contributions of 22.8 percentage points at end-December 2022 and 17.3 percentage points at end-June 2022.

Domestic claims contributed the most to growth in broad money supply at 38.3 percentage points, which was higher than the 34.5 percentage points and 19.6 percentage points contributions recorded in the preceding half and the corresponding period of 2022, respectively. A further disaggregation shows that net claims on central government and claims on other sectors both recorded higher contributions of 17.0 percentage points and 21.3 percentage points, respectively.

Drivers of Growth in Monetary Liabilities

Other deposits contributed the most to growth in monetary liabilities at 16.9 percentage points, relative to 10.5 percentage points and 4.9 percentage points at end-December 2022 and end-June 2022, respectively. This was followed by transferable deposits, which contributed 7.7 percentage points, compared with 6.9 percentage points and 5.7 percentage points at end-December 2022 and end-June 2022, respectively. Currency outside depository corporations constituted a drag to growth in monetary liabilities, as it recorded a negative contribution of 0.6 percentage point in the review period, compared with negative 0.8 percentage point and negative 0.5 percentage point at end-December 2022 and end-June 2022, respectively.

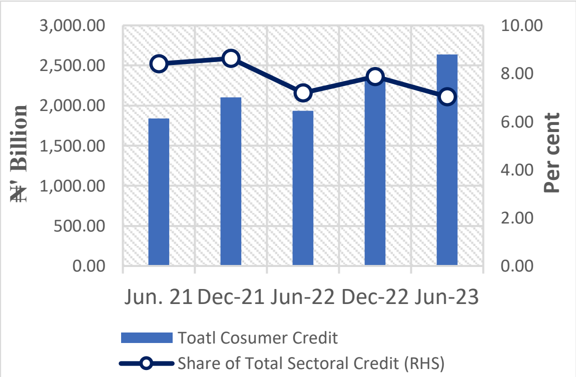
3.4.2 Consumer Credit

The value of consumer credit extended by ODCs to economic agents expanded relative to the level in the preceding half. Consumer credit improved despite the increase in lending rates. The development was due to increased demand for personal loans and strengthened enforcement of the loan-to-deposit ratio (LDR) policy. Consequently, consumer credit outstanding rose by 13.7 per cent to ₦2,637.32 billion in the review period, compared with ₦2,318.63 billion and

₦1,933.18 billion in the preceding half and corresponding period of 2022, respectively.

Consumer credit accounted for 7.0 per cent of total credit to the various sectors of the economy by the ODCs, compared with 7.9 and 7.2 per cent in the preceding half and corresponding period of 2022, respectively.

Figure 3.4.3: Consumer Credit and its Share of Total Sectoral Credit



Source: Central Bank of Nigeria.

Credit Utilisation by Sectors

The Bank's numerous intervention initiatives, LDR policy implementation and the revaluation of foreign credit to critical sectors led to a significant increase in sectoral credit allocation to critical sectors of the economy. Total sectoral credit utilisation stood at ₦37,479.37 billion at end-June 2023, representing an increase of 27.3 and 39.6 per cent, respectively, relative to the ₦29,445.87 billion and ₦26,846.40 billion recorded at end-December 2022 and end-June 2022. Of the total sectoral credit utilised, services sector sustained its dominance, as it accounted for the largest share of 51.6 per cent, relative to 52.8 and 54.5 per cent at end-December 2022 and end-June 2022, respectively. The share of industry sector increased by 2.5 percentage points to 43.5 per cent, relative to 41.0 and 39.4 per cent recorded at end-December 2022 and end-June 2022, respectively. The share of credit to agriculture declined by 1.3 percentage points to 4.9 per cent, compared with 6.2 and 6.1 per cent in the preceding half year and corresponding period, respectively.

Table 3.4.1: Sectoral Credit Allocation in Per cent

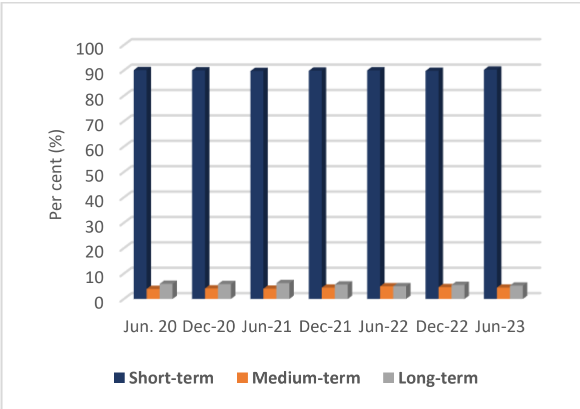
	Jun-22	Dec-22	Jun-23
Agriculture	6.1	6.2	4.9
Industry	39.4	41.0	43.5
of which Construction	4.4	4.0	4.0
Services	54.5	52.8	51.6
of which Trade/General Commerce	7.1	7.5	7.7

Source: Central Bank of Nigeria.

Maturity structure of Banks Claims' and Liabilities

Short-term deposits of less than one-year maturity accounted for 90.2 per cent, relative to 4.5 and 5.3 per cent for medium-term and long-term deposits, respectively. Short-term deposits rose by 0.4 and 0.2 percentage points, relative to its share of 89.8 and 90.0 per cent at end-December 2022 and the corresponding period of 2022, respectively. The preference for short-term deposits over longer-term deposits has continued to grow despite the increase in deposit rates for medium- to long-term. This was, driven by uncertainties around inflation expectations.

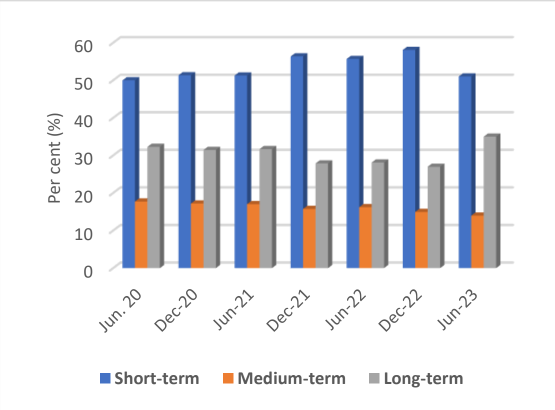
Figure 3.4.4: Maturity Structure of Bank by Deposits in Per cent



Source: Central Bank of Nigeria.

The structure of banks' loans exhibited a similar trend as deposits. Credit with maximum maturity of one year formed the bulk of banks' loan portfolio, accounting for 51.0 per cent of the total loans, relative to 14.0 and 35.0 per cent for bank credit with medium-term and long-term tenors, respectively. At 51.0 per cent, short-term credit declined by 7.1 percentage points, relative to the 58.1 and 55.1 per cent recorded in the preceding and corresponding halves, respectively. Although, short-term credit trended downward, it continued to be dominant in the loan portfolio of banks due to the need to match short-term liabilities and uncertainty in the business environment.

Figure 3.4.5: Distribution of Bank Loans and Advances by Maturity in Per cent

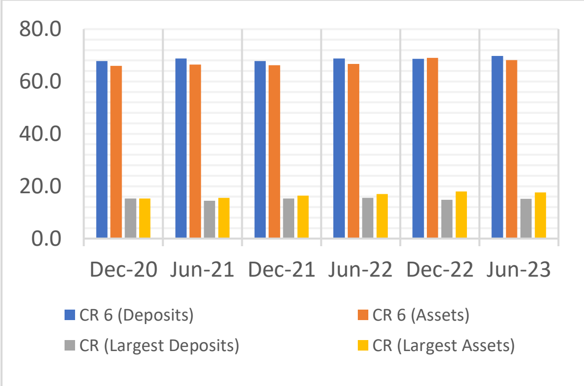


Source: Central Bank of Nigeria.

Market Structure of the Banking Industry

The market structure of the banking industry recorded marginal improvement. There was slight tapering in the concentration ratio of the five largest banks in terms of deposits and assets, relative to the preceding period of 2022. The concentration of the five largest banks in terms of deposits moderated by 4.5 percentage points to 64.10 per cent, compared with the 68.60 per cent concentration ratio in the preceding half of 2022. Similarly, in terms of assets, the concentration of the five largest banks declined by 6.32 percentage points to 62.68 per cent over 69.00 per cent in December 2022. The shares of individual banks in total deposits and assets ranged from 0.13 per cent to 15.20 per cent and 0.44 per cent to 17.55 per cent, respectively.

Figure 3.4.6: Market Concentration Ratios of Banks (Assets and Deposits)



Source: Central Bank of Nigeria.

The structure of the banking system remained competitive as the Herfindahl-Hirschman Indices (HHI) of 973.70 in deposits, and 981.80 in assets (on a scale of 100 to 10,000) remained below 1,000, signifying the existence of competition in the banking system. Nonetheless, the HHI position for both deposits and assets increased relative to the corresponding half-year position of 954.53 and 933.89, respectively.

3.4.3 Financial Soundness Indicators

Nigeria's financial sector remained resilient, as key financial soundness indicators were within regulatory benchmarks. At end-June 2023, the industry Capital Adequacy Ratio (CAR) fell to 11.2 per cent, from 13.8 and 14.1 per cent at end-December 2022 and end-June 2022, respectively. The development was attributed to the reforms in the foreign exchange market, resulting in the revaluation of foreign exchange denominated risk assets. Consequently, the risk-weighted assets of banks increased, which more than offset the rise in their total qualifying capital. The ratio, however, remained above the minimum regulatory benchmark of 10.0 per cent.

Analysis of bank asset quality measured by the ratio of non-performing loans (NPLs) to gross loans stood at 4.1 per cent at end-June 2023, relative to 4.2 per cent at end-December 2022, and 5.0 per cent at end-June 2022. The NPL ratio was within the 5.0 per cent prudential requirement.

Banking industry Liquidity Ratio (LR) rose by 9.2 percentage points to 62.2 per cent, compared with 53.0 per cent at end-December 2022. The rise in LR reflected an increase in the stock of liquid assets held by banks, particularly, government securities. Liquidity ratio remained above the regulatory benchmark of 30.0 per cent.

3.4.4 Developments in Other Financial Institutions

The Bank sustained its regulation and supervision of Other Financial Institutions (OFIs) in the review period to support stability of the financial system and enhance inclusive growth. To further broaden the reach of the OFIs segment, 13 new OFIs, comprising 11 MFBs and two FCs, were granted operating licences. In addition, following the revocation of operating licenses of 186 OFIs consisting of four Primary Mortgage Banks (PMBs), three Finance Companies (FCs) and 179 Microfinance Banks (MFBs), the total number of OFIs stood at 6,536 at end-June 2023, relative to 6,709 and 6,699 at end-December 2022 and end-June 2022, respectively.

A further analysis showed that there were a total of 712 MFBs in operation as at end-June 2023, comprising 9 National, 123 State, and 580 Unit MFBs, compared with 880 MFBs and 875 MFBs at end-December 2022 and end-June 2022, respectively. The change in the number of MFBs relative to the level in the second half of 2022 was due to the licencing of 11 new MFBs and the revocation of 179 MFBs.

The FCs in operation at end-June 2023 were 110, compared with 111 at end-December 2022 and 106 at end-June 2022. The change was, due to the licensing of two FCs in the first half of 2023, while the licences of three FCs were revoked in the review period.

The number of operating PMBs decreased to 32 (10 national PMBs and 22 state PMBs) at end-June 2023 from 34 at end-December 2022. The decrease was as a result of the revocation of operating licences of four PMBs at end-December 2022.

The number of Bureaux-de-Change (BDC) and DFIs remained at 5,675 and seven (7), respectively, as there was no newly licenced institution during the review period.

An analysis of the OFIs financial position showed that, total assets excluding the Bureaux-de-Changes (BDCs), was ₦6,377.01 billion at end-June 2023. This was 2.2 and 12.9 per cent above the ₦6,240.55 billion and ₦5,646.65 billion, at end-December 2022 and end-June 2022, respectively. The increase in total assets was attributed, largely, to increases in shareholders' funds, deposit liabilities, borrowings and 'due to other banks'.

Table 3.4.2: Breakdown of Other Financial Institutions

S/N	Type	Total No. of institutions as at		
		end-Jun-22	end-Dec-22	end-Jun-23
1	Microfinance Banks:			
	Unit	*732*	*737*	*580*
	State	*134*	*134*	*123*
	National	*9*	*9*	*9*
		875	880	712
2	Bureaux De Change	5,613	5,675	5,675
3	Finance Companies	106	111	110
4	Development Finance Institutions	7	7	7
5	Primary Mortgage Banks:			
	State	*23*	*25*	*22*
	National	*11*	*11*	*10*
		34	36	32
	Total	6,697	6,707	6,536

Source: Central Bank of Nigeria

Table 3.4.3: Other Financial Institutions Consolidated Financial Position

ASSETS	JUN. 2022	DEC. 2022	JUN. 2023
	N'000	N'000	N'000
Cash & Bank Balances	263,824,378	295,309,667	240,441,610
Placements	708,544,239	810,478,588	942,068,762
Investments	1,231,449,913	1,548,315,206	1,477,387,519
Net Loans & Advances	3,023,609,148	3,147,517,943	3,237,205,058
Other Assets	249,145,506	262,036,336	287,868,142
Fixed Assets	170,071,913	176,894,192	192,039,524
Total Assets	5,646,645,097	6,240,551,932	6,377,010,615
Financed By:			
Share Capital	498,230,745	494,913,592	663,072,057
Reserves	235,691,426	246,951,059	313,904,949
Shareholders' fund	733,922,171	741,864,651	976,977,006
Deposits Liabilities	1,186,557,994	1,289,653,202	1,296,852,513
Borrowings	2,125,758,380	2,513,660,735	3,155,758,751
Due to Other Banks	157,941,082	62,849,814	185,060,971
Other Liabilities	920,530,197	758,322,662	53,587,339
Long-term Liabilities	521,935,273	874,200,868	708,774,035
Total Capital & Liabilities	5,646,645,097	6,240,551,932	6,377,010,615

Source: Central Bank of Nigeria

Net loans and advances, at ₦3,237.21 billion, was 2.9 and 7.1 per cent above its levels at end-December 2022 and end-June 2022, respectively. Similarly, placements increased by 14.0 per cent to ₦942.07 billion, compared with the ₦810.48 billion at end-December 2022. Investments at ₦1,477.39 billion at end-June 2023 fell by 4.6 per cent from the ₦1,550.32 billion recorded at end-December 2022.

Total Deposit liabilities, at ₦1,296.85 billion in the first half of 2023, was 0.6 and 9.3 per cent above the levels at end-December 2022 and end-June 2022, respectively. Borrowings amounted to ₦3,155.76 billion at end-June 2023, indicating an increase of 25.5 and 48.5 per cent, compared with the levels at end-December 2022 and end-June 2022, respectively. Share capital of ₦663.07 billion at end-June 2023, was 34.0 per cent and 33.1 per cent higher than the levels at end-December 2023 and end-June 2022, respectively. Similarly, reserves increased by 27.1 and 33.2 per cent to ₦313.91 billion at end-June 2023, relative to its levels at end-December 2022 and end-June 2022, respectively.

Furthermore, "due to other banks" increased by 194.5 and 17.2 per cent to ₦185.06 billion at end-June 2023, relative to its levels at end-December 2022 and end-June 2022, respectively. Shareholders' fund amounted to ₦976.98 billion, an increase of 31.7 and 33.1 per cent relative to its levels at end-December 2022 and end-June 2022, respectively. The increase in shareholders' fund was due to fresh capital injections and accretion to reserves.

A disaggregation of the total capital, at ₦6,377.01 billion, showed that the DFIs, MFBs, PMBs and FCs accounted for 61.4, 22.9, 8.2 and 7.5 per cent of the total, respectively.

3.4.5 Development Finance Institutions

The consolidated financial position of the Development Finance Institutions (DFIs) improved owing to additional capital injection to enhance their functions. At end-June 2023, the total assets of the DFIs was ₦3,916.78 billion, an increase of 3.8 and 17.5 per cent above the levels at end-December 2022 and end-June 2022, respectively. The rise was, majorly, due to increase in placements, net loans and advances, investment, fixed assets, and "Other assets". The increased asset was financed through accretion to reserves, increased borrowings, shareholders' fund, paid-up capital, deposits, and long-term liabilities.

Furthermore, analysis of the total assets by institution indicated that, the Bank of Industry (BOI), Federal Mortgage Bank of Nigeria (FMBN), Development Bank of Nigeria (DBN), Nigerian Export-Import Bank (NEXIM), Nigeria Mortgage Refinance Company (NMRC), Bank of Agriculture (BOA) and The Infrastructure Bank (TIB) accounted for 62.6, 13.9, 13.2, 6.9, 2.2, 1.1 and 0.1 per cent, respectively. The BOI, DBN, FMBN, NEXIM, NMRC and BOA accounted for 54.3, 19.3, 17.2, 7.3, 1.4 and 0.5 per cent, of the total net loans and advances, respectively.

Table 3.4.4: Consolidated Balance Sheet of DFIs for the first half of 2023

ASSETS	JUN. 2022	DEC. 2022	JUN. 2023
	N'000	N'000	N'000
Cash & Bank Balances	*22,002,218*	*45,347,441*	*15,979,261*
Placements	*466,507,297*	*540,251,875*	*634,344,315*
Investments	*1,121,464,031*	*1,437,983,251*	*1,373,293,546*
Net Loans & Advances	*1,598,617,094*	*1,614,042,034*	*1,723,426,155*
Other Assets	*60,525,133*	*60,134,815*	*80,012,589*
Fixed Assets	*64,943,907*	*76,724,014*	*89,722,409*
Total Assets	***3,334,059,680***	***3,774,483,430***	***3,916,778,275***
Financed By:			
Paid-up Capital	*238,780,740*	*238,868,169*	*398,244,480*
Reserves	*232,891,187*	*246,934,588*	*318,201,961*
Shareholders' fund	*471,671,927*	*485,802,757*	*716,446,441*
Deposits	*558,363,855*	*600,086,698*	*646,656,845*
Borrowings	*1,886,720,548*	*2,259,312,570*	*2,855,073,704*
Due to Other Banks	*2,927,389*	*1,467,273*	*1,232,985*
Other Liabilities	*371,031,896*	*372,581,982*	*-353,769,363*
Long-term Liabilities	*43,344,065*	*55,232,150*	*51,137,663*
Total Capital & Liabilities	***3,334,059,680***	***3,774,483,430***	***3,916,778,275***

Source: Central Bank of Nigeria.

Microfinance Banks

Assets of MFBs decreased, following the revocation of the licences of some MFBs. Total assets of the MFBs decreased by 3.4 per cent to ₦1,461.14 billion at end-June 2023, from ₦1,512.09 billion at end-December 2022. However, it was higher than the level at the corresponding period of 2022 by 3.7 per cent or ₦1,408.58 billion. The asset gap was financed, mainly by increase in 'takings from other banks' and share holders' funds.

Table 3.4.5: Balance Sheet of MFBs for the First Half of 2023

	JUN. 2022	DEC. 2022	JUN. 2023
	N'000	*N'000*	*N'000*
Cash	*32,744,108*	*7,937,795*	*9,398,478*
Balances with Banks	*151,276,444*	*186,842,538*	*152,549,820*
Placements	*127,669,383*	*140,433,293*	*171,013,148*
Short term Investments	*32,033,882*	*24,783,957*	*24,239,757*
Long Term Investments	*7,381,753*	*13,556,832*	*10,197,623*
Net Loans and Advances	*955,227,381*	*1,031,013,635*	*985,397,083*
Other Assets	*66,799,279*	*75,975,326*	*79,070,436*
Fixed Assets	*35,449,116*	*31,551,291*	*29,270,403*
TOTAL ASSETS	***1,408,581,346***	***1,512,094,667***	***1,461,136,748***
FINANCED BY			
Paid-up Capital	*119,260,260*	*117,280,901*	*134,651,505*
Reserves	*54,573,548*	*65,017,456*	*53,404,528*
Shareholders' Fund	*173,833,808*	*182,298,357*	*188,056,033*
Deposits	*453,989,534*	*507,633,134*	*466,886,509*
Takings from Other Banks	*133,925,243*	*36,453,326*	*161,986,359*
Long Term Loans/On-lending	*390,356,047*	*605,040,843*	*575,617,373*
Other Liabilities	*256,476,714*	*180,669,007*	*68,590,474*
TOTAL LIABILITIES	***1,408,581,346***	***1,512,094,667***	***1,461,136,748***

Source: Central Bank of Nigeria.

Finance Companies

Total assets of FCs increased, due largely to increases in net loans and advances, placements, investment, fixed assets and other assets. The total assets rose to ₦475.62 billion at end-June 2023, indicating an increase of 14.1 and 26.0 per cent, compared with ₦416.90 billion and ₦377.47 billion at end-December 2022 and end-June 2022, respectively.

Table 3.4.6: Consolidated Balance Sheet of FCs for first half of 2023

ASSETS	Jun. 2022	Dec. 2022	Jun. 2023
	N'000	*N'000*	*N'000*
Cash	*2,233,223*	*2,197,848*	*1,537,155*
Balances with Banks	*27,670,496*	*28,208,361*	*30,366,762*
Placements	*37,021,246*	*49,617,287*	*56,525,436*
Investments	*12,756,583*	*14,384,508*	*19,107,701*
Net Loans and Advances	*181,798,627*	*204,412,724*	*245,861,463*
Other Assets	*66,198,625*	*70,243,528*	*70,514,713*
Fixed Assets	*49,792,007*	*47,839,606*	*51,706,663*
TOTAL	***377,470,807***	***416,903,862***	***475,619,893***
FINANCED BY:			
Paid-up Capital	*29,404,116*	*26,524,245*	*28,991,984*
Reserves	*17,780,420*	*12,039,063*	*1,617,782*
Shareholders' Funds	*47,184,536*	*38,563,308*	*30,609,766*
Long Term Liabilities	*1,940,146*	*3,473,686*	*3,607,465*
Total Borrowings	*239,037,832*	*254,348,165*	*300,685,047*
Other Liabilities	*89,308,293*	*120,518,703*	*140,717,615*
TOTAL	***377,470,807***	***416,903,862***	***475,619,893***

Source: Central Bank of Nigeria.

Primary Mortgage Banks

The total assets of PMBs decreased due mainly to the revocation of the operating licences of two PMBs. Total assets of PMBs, at ₦523.48 billion, reflected a decrease of 2.5 and 0.6 per cent below the ₦537.07 billion and ₦526.53 billion at end-December 2022 and end-June 2022, respectively. The development was due, mainly, to the decreases in net loans and advances, and investments. Net loans and advances at ₦282.52 billion at end-June 2023, decreased by 5.2 and 1.9 per cent from the ₦298.05 billion and ₦287.97 billion at end-December 2022 and end-June 2022, respectively. Investments at ₦37.14 billion, decreased by 25.5 and 20.4 per cent below the levels at end-December 2022 and end-June 2022, respectively.

Table 3.4.7: Consolidated Balance Sheet of PMBs for the first half of 2023

ASSETS	JUN. 2022	DEC. 2022	JUN. 2023
	N'000	N'000	N'000
Cash	*1,670,226*	*942,406*	*2,635,867*
Cash Reserve Requirement	*2,590,795*	*2,372,286*	*2,365,231*
Balances with Banks	*23,636,868*	*21,460,992*	*25,609,036*
Placement with banks	*77,346,313*	*80,176,133*	*80,185,863*
Investments/Non-current Assets Held for Sale	*46,623,126*	*49,817,888*	*37,135,056*
Short Term Investments	*4,388,071*	*822,347*	*7,007,616*
Investment in Quoted Shares	*6,802,467*	*6,966,423*	*6,406,220*
Net Loans and Advances	*287,966,046*	*298,049,550*	*282,520,357*
Other Assets	*55,622,469*	*55,682,667*	*58,270,404*
Fixed Assets	*19,886,883*	*20,779,281*	*21,340,049*
TOTAL	***526,533,264***	***537,069,973***	***523,475,699***
FINANCED BY:			
Paid-up Capital	*110,785,629*	*112,240,277*	*101,184,088*
Reserves	*-69,553,729*	*-77,040,048*	*-59,319,322*
Shareholders' Funds	*41,231,900*	*35,200,229*	*41,864,766*
Deposits	*174,204,605*	*181,933,370*	*183,309,159*
Due to Banks/Others	*21,088,450*	*24,929,215*	*21,841,627*
Long-term Loans/NHF	*86,295,015*	*84,552,970*	*78,411,534*
Other Liabilities	*203,713,294*	*210,454,189*	*198,048,613*
TOTAL	***526,533,264***	***537,069,973***	***523,475,699***

Source: Central Bank of Nigeria.

Examination of Other Financial Institutions

The Bank conducted Target and Anti-Money Laundering, Combating the Financing of Terrorism, and combating Proliferation Financing (AML/CFT/CPF) examinations on 910 BDCs, and Risk-Based Supervision (RBS) and AML/CFT examination of 100 MFBs. The objective was to ascertain compliance with the extant Money laundering (ML) and Terrorism Financing Acts and other applicable regulations. The Money Laundering, Terrorism Financing, and Proliferation Financing (ML/FT/PF) risk examination of the OFIs was assessed in line with the extant money laundering and terrorism Acts that were enacted in 2022 and the newly gazetted CBN AML/CFT/CPF Regulations 2022. The examination revealed various infractions from the extant regulations and the erring institutions were penalized in line with the extant CBN AML/CFT/CPF (Administrative Sanctions) Regulations of 2018.

Furthermore, target examination of 116 OFIs, comprising, 2 PMBs, 17 FCs and 97 MFBs was conducted in the review period. The examination focused on risk asset portfolio, corporate governance and adequacy of regulatory capital. Out of the 17 FCs, 11 were examined, four had closed shop, while two were undergoing restructuring. Of the 11 FCs examined, 10 were required to inject additional capital. The target examination of the 97 MFBs revealed that 69

MFBs were solvent, while 28 MFBs required additional capital.

3.4.6 Financial Markets

Interest Rate Developments

Interest rates movements, generally, reflected the hawkish policy stance of the Bank. The banking system witnessed ample liquidity on the back of the combined effect of currency recirculation, exchange rate reforms, improved FAAC payments and maturities of government securities.

In the interbank market, the movements of rates were generally mixed. The average interbank call rate (IBCR) gained 0.20 percentage point, while average open-buy-back rate (OBB) shed 0.67 percentage point to close the review period at 12.41 and 12.42 per cent, respectively, compared with the levels in the preceding half of 2022.

Table 3.4.8: End-Period Money Market Rates

	IBCR	OBB	NIBOR-CALL	NIBOR-30	MPR
2021 H1	16.87	16.39	13.39	12.30	11.50
2021 H2	0.00	12.59	13.78	10.03	11.50
2022 H1	11.10	10.89	11.80	8.52	13.00
2022 H2	12.08	11.61	11.89	13.16	16.50
2023 HI	11.66	10.89	10.04	11.49	18.50
Jan	10.35	8.51	10.31	11.61	17.50
Feb	12.54	6.10	12.54	12.75	17.50
Mar	14.75	6.62	13.83	13.21	18.00
April	15.80	7.49	17.36	15.02	18.00
May	12.31	9.39	13.15	12.89	18.50
June	11.66	10.89	10.04	11.49	18.50

Source: Central Bank of Nigeria

Note: IBCR-Interbank Call Rate, NIBOR- Nigeria Inter-Bank Offered Rate, OBB – Open Buy Back, MPR- Monetary Policy Rate

The average NIBOR-call rate declined to 10.04 per cent from 11.89 per cent in the preceding half of 2022. These developments were in tandem with the liquidity conditions in the market following the Bank's implementation of the CRR policy, interventions in the foreign exchange market, FAAC distributions, among others.

Deposit and Lending Rates

The average lending rates remained elevated, following the hawkish monetary policy stance of the Bank. The average prime and maximum lending rates rose to 13.9 and 28.4 per cent in the first half of 2023, compared with 12.8 and 28.3 per cent in the second half of 2022, respectively. In comparison with the levels in the corresponding period of 2022, the average prime and maximum lending rates rose by 2.0 percentage points and 0.4 percentage point, respectively.

Table 3.4.9: DMBs Deposit and Lending Rates in Per cent

Month	Savings Rate (1)	Term Deposit Rate (2)	Prime Lending Rate (3)	Max. Lending Rate (4)	Spread (Percentage points) (5) (2) & (4)
Jan-23	*4.3*	*7.6*	*13.7*	*27.6*	*20.0*
Feb-23	*4.3*	*7.1*	*13.6*	*28.8*	*21.7*
Mar-23	*4.6*	*6.7*	*14.0*	*28.1*	*21.4*
Apr-23	*4.6*	*6.9*	*14.1*	*28.6*	*21.7*
May-23	*5.1*	*7.0*	*14.1*	*28.3*	*21.3*
Jun-23	*5.2*	*6.6*	*13.9*	*28.9*	*22.3*
2023 H1	4.68	6.98	13.87	28.38	21.41
2022 H2	3.38	6.21	12.75	28.26	22.06
2022 H1	1.30	3.41	11.90	27.96	24.55

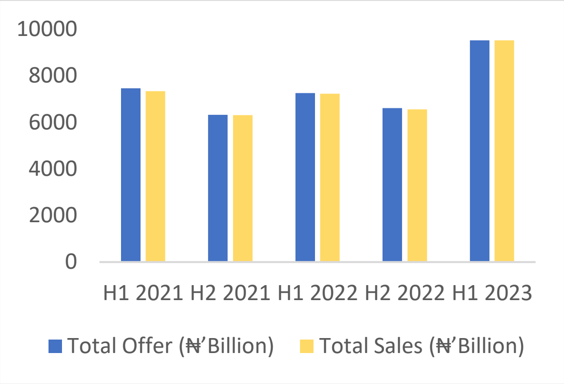
Source: Central Bank of Nigeria.

The average term deposit rate increased to 7.0 per cent in the first half of 2023 compared with 6.2 per cent in the second half of 2022. Consequently, in first half of 2023, the spread between the average term deposit and maximum lending rates narrowed to 21.4 percentage points in the review period compared with 22.1 and 24.6 percentage points in the preceding and corresponding halves of 2022, respectively.

Open Market Operations

Transactions in Open Market Operations (OMO) increased during the review period. Total CBN bills offered, subscribed to, and allotted at the OMO was ₦9,518.83 billion apiece, compared with ₦6,559.63 billion and ₦7,333.01 billion in the preceding and corresponding halves of 2022. The higher amount of OMO bills was in tandem with the Bank's contractionary monetary policy stance.

Figure 3.4.7: OMO Offer and Sales, (₦ Billion)



Source: Central Bank of Nigeria.

Tenored Repurchase Transactions (Repos)

There were no transactions in tenored repo, as against ₦6,285.26 billion and ₦4,998.12 billion in the first and second halves of 2022, respectively, reflecting liquidity conditions in the market.

Discount Window Operations

CBN Standing Facilities

Transaction at the standing facilities window showed growth in the deposit placements arising from the increased average net liquidity to ₦792.88 billion in the first half of 2023 from ₦330.04 billion in the preceding half of 2022.

The average daily SDF amount of ₦26.84 billion was recorded in 120 transaction days, at applicable rates ranging from 10.5 per cent to 11.50 per cent in the first half of 2023. This compared with ₦9.81 billion in 123 transaction days at applicable rates, which ranged from 7.0 per cent to 9.5 per cent in the preceding half of 2022.

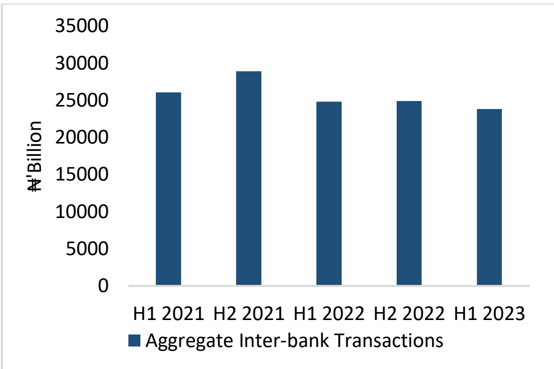
Consequently, the average interest payments on deposits increased to ₦0.90 billion in the first half of 2023 from ₦0.31 billion in the preceding half of 2022. On the other hand, average daily request for SLF (comprising only ILF Conversion) stood at ₦91.69 billion in 103 transaction days, compared with ₦76.08 billion (outright SLF and ILF) in 121 transaction days in the preceding half of 2022, with average daily interest of ₦0.10 billion charged relative to ₦0.61 billion in the preceding half of 2022.

Interbank Market Transactions

Secured transactions dominated inter-bank market transactions, albeit with recorded increases in unsecured placements. The aggregate value of transactions at the OBB, interbank call and interbank tenored segments declined in the review period to ₦23,807.16 billion, from ₦24,915.0 billion and ₦25,408.36 billion in the preceding and corresponding periods, respectively.

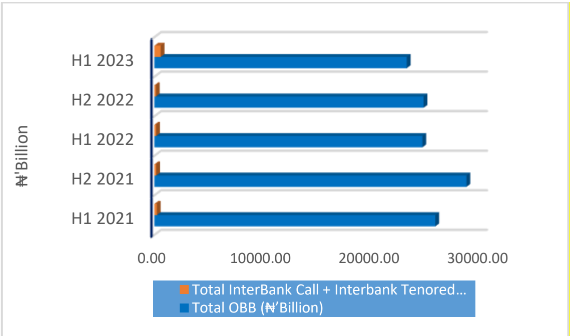
Average transactions at the OBB segment in the review period stood at ₦193.61 billion lower than ₦198.25 billion and ₦200.56 billion in the preceding and corresponding periods. At the interbank (call and tenored) segments, average transactions in the review period stood at ₦10.07 billion, marginally lower than ₦10.31 billion in the preceding period, but higher than ₦4.86 billion in the corresponding period. Specifically, transactions at the OBB segment accounted for the bulk of interbank transactions at 97.6 per cent, while the interbank call and tenored transactions accounted for the remaining 2.4 per cent. There was a significant increase in interbank call and tenored transactions in the review period, indicating improved confidence among counterparties in the interbank market.

Figure 3.4.8 Value of Interbank Funds Market Transactions, (₦' Billion)



Source: Central Bank of Nigeria.

Figure 3.4.9: Share of Interbank Funds Market Transactions, (₦' Billion)

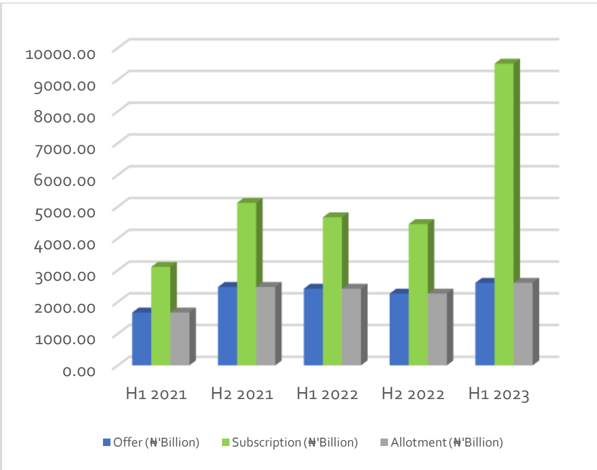


Source: Central Bank of Nigeria.

Primary Market Activities

The total sales of Nigerian Treasury Bills (NTBs) increased, compared with the level recorded in 2022, due, mainly, to the Federal Government's strategy to maximise domestic borrowings, amid rising global interest rates. The total value of NTBs offered and allotted was ₦2,599.91 billion apiece, indicating an increase of 13.06 per cent and 7.6 per cent, above ₦2,260.28 billion and ₦2,415.58 billion, respectively, in the preceding and corresponding periods of 2022. The total public subscription stood at ₦9,502.78 billion, compared with ₦4,450.28 billion and ₦4,663.18 billion in the preceding and corresponding halves of 2022, respectively. Public subscription was higher due to the sustained appetite for risk-free instruments and prevailing liquidity conditions.

Figure 3.4.10: NTB Offer, Subscriptions, and Allotments

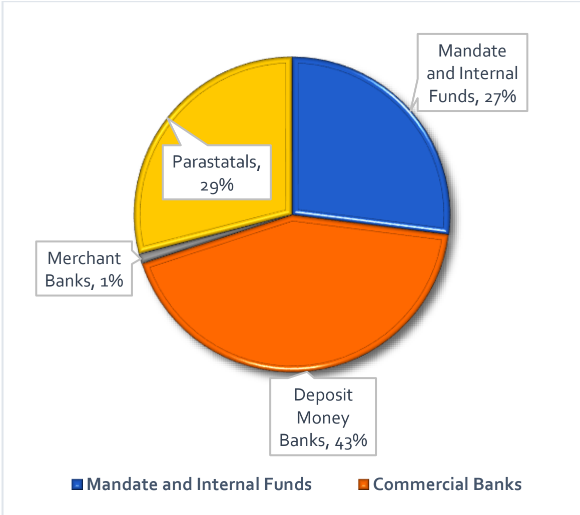


Source: Central Bank of Nigeria.

Structure of Allotment of Nigeria Treasury Bills

The structure of allotment of the NTBs indicated that deposit money banks, including foreign investors, took up ₦1,999.10 billion or 76.9 per cent. Mandate and internal funds stood at ₦319.32 billion or 12.3 per cent and merchant banks accounted for the balance of ₦281.49 billion or 10.8 per cent. The stop rates ranged between 0.10 and 6.00 per cent for the 91-day, 0.30 and 8.00 per cent for the 182-day and 4.00 and 6.49 per cent for the 364-day.

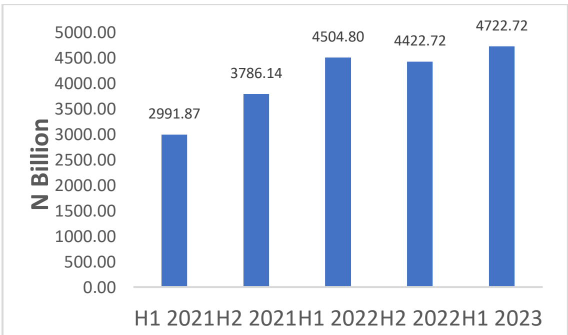
Figure 3.4.11: Nigerian Treasury Bills Outstanding: Class of Holders in Per cent



Source: Central Bank of Nigeria.

The total value of NTBs outstanding at end-June 2023 stood at ₦4,722.72 billion, compared with ₦4,422.72 billion, at end-December 2022 indicating an increase of 4.84 per cent.

Figure 3.4.12: Nigerian Treasury Bills Outstanding



Source: Central Bank of Nigeria

Over-the-Counter Transactions in Treasury Bills and FGN Bonds

There was a decrease in Over-the-Counter (OTC) transactions for NTBs, in contrast to transactions in FGN Bonds, which recorded an increase. OTC transactions for NTBs amounted to ₦17,465.16 billion, indicating a decrease of 31.02 per cent below ₦25,318.10 billion recorded in the preceding half of 2022. OTC transactions in FGN Bonds amounted to ₦10,310.64 billion, indicating an increase of 88.73 per cent above ₦5,463.28 billion recorded in the preceding half of 2022. The mixed development in the OTC markets was attributed, primarily to preference by investors for long-tenored bond instruments with higher market rates to the NTBs.

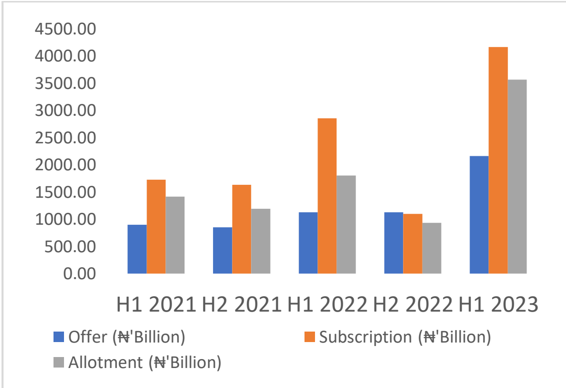
Federal Republic of Nigeria Treasury Bonds

Federal Republic of Nigeria Treasury Bonds (FRNTBs) worth ₦50.99 billion remained outstanding at end-June 2023, same at end-December 2022. A breakdown of the amount outstanding indicated that the CBN held ₦3.12 billion or 6.1 per cent, while ₦47.87 billion or 93.9 per cent was held in the Sinking Fund. There were no new issues of FRNTBs in the first half of 2023.

Federal Government of Nigeria (FGN) Bonds

Total amount of FGN Bonds offered to the public in the review period was ₦2,160.00 billion, while public subscription and allotment stood at ₦4,163.94 billion and ₦3,567.42 billion, respectively. In the latter half of 2022, FGN Bonds issuance, subscription and allotment were ₦1,350.00 billion, ₦1,631.21 billion, and ₦1,195.18 billion, respectively. The increased subscription was attributed to the conduct of twenty-four (24) auctions in the first half of 2023 against eighteen (18) in the preceding half, coupled with attractive yields and the prevailing liquidity conditions. The subsisting restriction placed on non-banking institutions and individuals from purchasing OMO bills also sustained activities in the bond market. The total value of FGN Bonds outstanding at end-June 2023 stood at ₦41,972.73 billion, compared with ₦16,421.56 billion at end-December 2022, indicating an increase of 155.6 per cent. The significant rise was a reflection of the Federal Government's approval to restructure the "Ways and Means Advances" to FGN Bonds.

Figure 3.4.13: FGN Bonds Auctions



Source: Central Bank of Nigeria.

Federal Government of Nigeria Savings Bonds

In the first half of 2023, FGN Savings Bonds worth ₦6.28 billion was offered and allotted, compared with ₦9.13 billion at end-December 2022. The decline was attributed to investors' preference for longer tenored instruments. The new issues were 2- and 3-year tenors with coupon rates ranging from 9.47 per cent to 10.39 per cent and 10.47 per cent to 11.39 per cent, respectively. The coupon rates in the preceding half ranged from 8.08 per cent to 12.49 per cent for the 2-year tenor, and 9.08 per cent to 13.49 per cent for the 3-year tenor. Consequently, the total value of FGN Savings bonds outstanding at end-June 2023 was ₦30.70 billion, compared with ₦27.51 billion at end-December 2022.

Federal Government of Nigeria Green Bonds

There was no issuance of FGN Green bonds in the review period. Thus, the outstanding stock of the

Green bond remain unchanged at ₦15.00 billion at end-June 2023.

Federal Government of Nigeria Sukuk

During the review period, there was no issuance of FGN Sukuk. Thus, FGN Sukuk outstanding at end-June 2023 remained at ₦742.56 billion. In the preceding half of 2022, a 10-year FGN Sukuk of ₦130.00 billion was issued and allotted with the rental rate of 15.64 per cent payable semi-annually.

Federal Government of Nigeria Promissory Note

FGN Promissory Notes valued at ₦304.17 billion were issued in the review period. The outstanding stock of the Notes at end-June 2023 stood at ₦780.04 billion, representing an increase of 47.2 per cent, compared with ₦530.03 billion at end-December 2022. The increase was attributed to the payment of incentives to exporters under the Export Expansion Grant (EEG) scheme.

Table 3.4.10: Outstanding Debt Instruments

Instrument	Outstanding 2022H2 (N' billion)	Outstanding 2023H1 (N' billion)
NTBs	4,504.8	4,722.72
FGN Bonds	16,421.56	41,972.73
Treasury Bonds	50.99	50.99
Savings Bonds	27.51	30.7
FGN Sukuk	742.56	742.56
FGN Green Bonds	15	15
Promissory Notes	530.03	780.04

Source: Central Bank of Nigeria

3.4.7 Developments in the Capital Market

Institutional Development

In the first half of 2023, the Securities and Exchange Commission (SEC), continued its regulatory activities to protect investors, market operators, and ensure market integrity. Thus, the Commission performed the following regulatory functions and activities:

- Blacklisted six unregulated online trading platforms, which included, Prime Invest, FXBoxed, New Finance LLC, Axi24, Evolve Consulting LLC, and Trust Fund-Mining Global Pty Ltd.;
- Accepted applications for its Regulatory Incubation (RI) program for FinTech firms operating or seeking to operate in the Nigerian Capital Market; and
- Cautioned the investing public against investment on the Binance platform for crypto-assets.

The Nigerian Exchange Limited (NGX) sustained its transparency initiatives, aimed at enhancing market integrity and protecting investors by providing compliance-related information to all listed companies. The NGX accomplished the following during the review period:

- Instituted the Digital and Technology Products Advisory Panel, aimed at engendering interaction with the capital market community and the fintech ecosystem to enhance and increase the Exchange digital product offerings; and

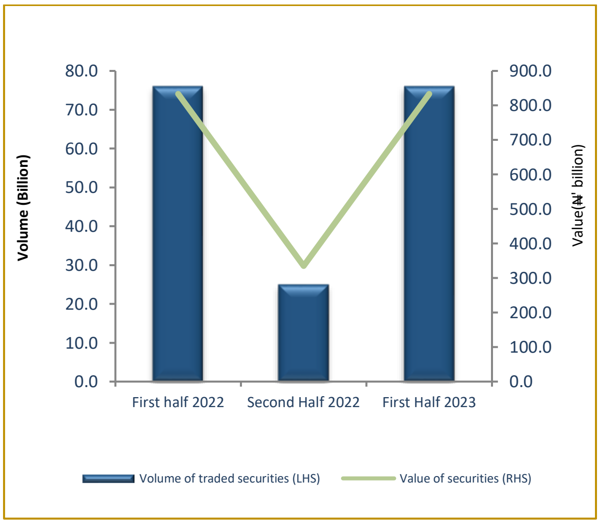
- Listed the Africa Infra Plus Fund (AIPF I), which is the first Carbon+ fund in Nigeria, amounting to ₦20.50 billion, closed-end infrastructure fund.

Secondary Market Activities

Activities on the Nigerian capital market was bullish in the first half of 2023, as the All-Share Index (ASI) and aggregate market capitalisation appreciated, despite uncertainties in the global and domestic economies. The performance was on account of better-than-expected 2023Q1, corporate earnings declaration, corporate initiatives in digital technology & climate products, dividend reinvestments, anticipation of favourable 2023H1 corporate earnings in the wake of reforms in the energy sector and the foreign exchange market. Also, appreciation in the banking services stocks, consumer goods, telecommunication and oil/gas stocks also contributed to the improved performance. Furthermore, there were 34 new listings on the Exchange in 2023H1, compared with 26 and 31 listings in the second and first halves of 2022, respectively.

The Exchange recorded a significant surge in the aggregate volume and value of traded securities at end-June 2023. The aggregate volume of transactions and value of traded shares increased by 165.2 and 117.3 per cent to 66.23 billion shares and ₦727.86 billion, respectively, in 596,360 deals, compared with the 24.97 billion shares and ₦334.97 billion in 489,793 deals recorded at end-December 2022. Activities on the Exchange was slower in the review period, compared with the corresponding half of 2022.

Figure 3.4.14: Volume and Value of Equities Traded on the NGX

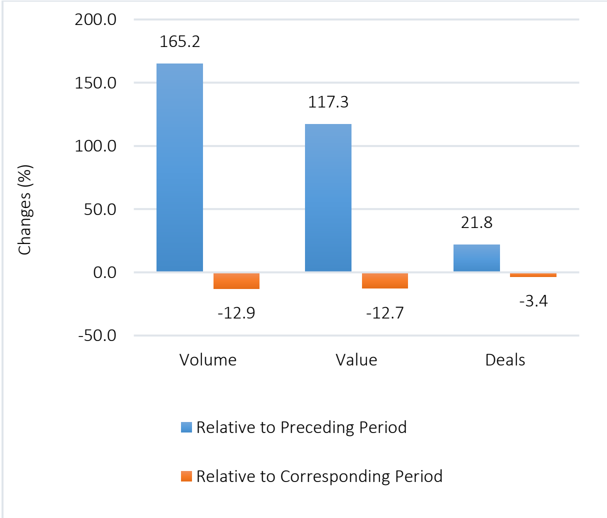


Sources: Staffs' computation using data from Securities and Exchange Commission (SEC).

The equities segment maintained its dominance in the capital market, accounting for 99.9, 99.8 and 99.7 per cent of the aggregate volume, value of transactions and number of deals, respectively; while the debt and Exchange Traded Fund (ETF) components accounted for the balance.

Sectoral analysis of the equities segment of the market showed that the financial services sector, measured by volume of transactions, remained the most active sector on the Exchange. The segment accounted for 34.27 billion shares or 51.8 per cent, valued at ₦337.12 billion or 46.5 per cent, in 289,623 deals or 48.7 per cent of the total equities' transactions at end-June 2023.

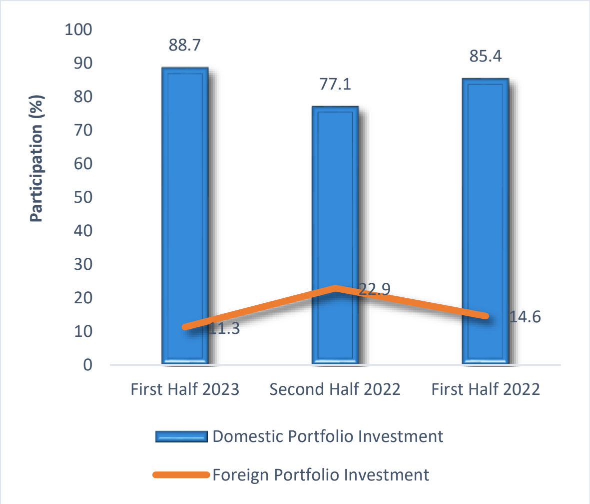
Figure 3.4.15: Changes in Volume, Value & Number of Deals of Equities Traded on the NGX



Sources: Staffs' computation using data from SEC.

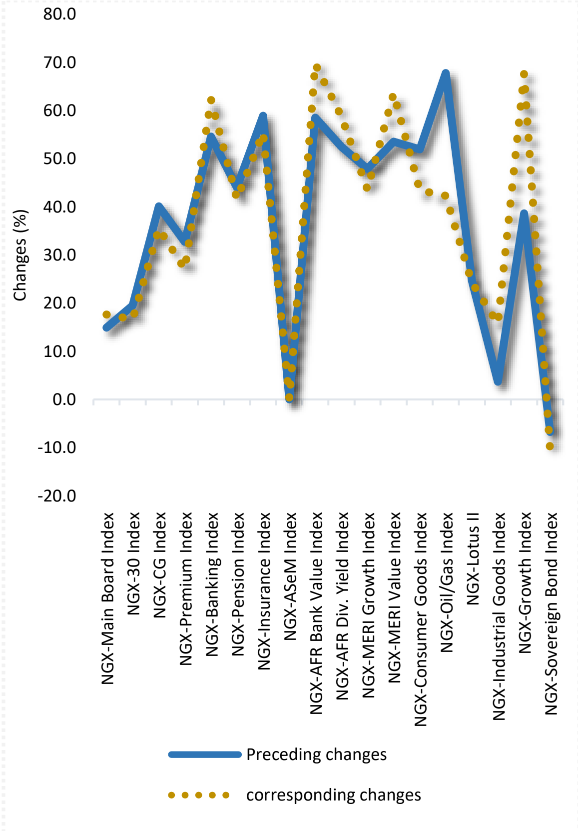
In the review period, rising global interest rate and appreciation of the US dollar triggered capital flight. Consequently, domestic investors outperformed the foreign ones, relative to the preceding and corresponding halves of 2022. The levels of domestic and foreign investors' participation were 88.7 and 11.3 per cent, respectively, compared with 77.1 and 22.9 per cent in the preceding half year. Relative to the levels in the corresponding half of 2022, the domestic and foreign investors' participation stood at 85.4 and 14.6 per cent, respectively.

Figure 3.4.16: Domestic and Foreign Investors Participation in the Equities Market.



Sources: Staffs' computation using data from SEC.

Figure 3.4.17: Percentage Changes of Sectoral Indices at end-June 2023.



Sources: Staffs' computation using data from SEC.

NGX All-Share Index

The NGX All-Share Index (ASI) improved on account of price appreciation in the banking services, consumer goods, telecommunication and oil/gas stocks, as well as reforms in the energy sector and the foreign exchange market. The NGX All-Share Index closed at 60,968.27 index points at end-June 2023, reflecting an increase of 19.0 and 17.7 per cent, relative to the 51,251.06 and 51,817.59 recorded at end-December 2022 and end-June 2022, respectively.

A bullish run was recorded across all the sectoral indices monitored in the review period, as all the indices appreciated, compared with the levels at end of the second and first halves of 2022, with the exception of NGX-Sovereign bond index, which depreciated, while NGX-ASeM remained flat.

Market Capitalisation

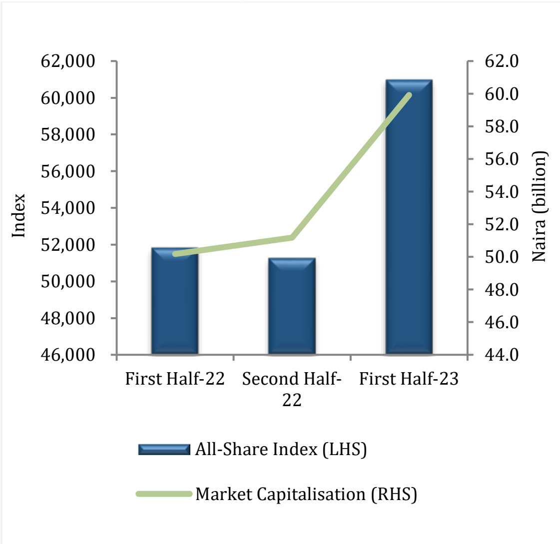
The aggregate market capitalisation appreciated, due to strong corporate earnings in 2023Q1, reforms in the energy sector and the foreign exchange market, among others. The aggregate market capitalisation of the 311 listed securities closed at ₦59,920.00 billion, indicating an appreciation of 17.0 and 19.4 per cent, relative to the levels in the second and first halves of 2022, respectively. The development was, due to appreciation in the value of securities in all the segments of the market (equities, debts, and ETFs).

Similarly, the market capitalisation of the 156 listed equities grew by 18.7 and 18.9 per cent to ₦33,203.45 billion at end-June 2023, compared with the levels at end-December 2022 and end-June 2022, respectively. The listed equities accounted for 55.4 per cent of the aggregate market capitalisation, while the debt and ETF components accounted for 44.6 and 0.02 per cent, respectively.

The top ten capitalised companies on the Exchange accounted for ₦25,619.29 billion or 77.2 per cent of the total equity market capitalisation and 42.8 per cent of the aggregate market capitalisation. Two banks made the top ten list, accounting for ₦2,105.42 billion or 6.3 per cent of the total equity market capitalisation.

Total market capitalisation, as a percentage of nominal GDP, stood at 15.0 per cent at end-June 2023, relative to 14.1 and 14.0 per cent at end-December 2022 and end-June 2022, respectively. The Warren Buffet Index[11], measured by the ratio of the value of traded stocks to GDP was between one and two standard deviation of the historical trend line, implying that the stock market was slightly overvalued. The ratio remained the same as the level at end-December 2022, but was lower by 0.1 percentage point, compared with the 0.8 per cent at end-June 2022.

Figure 3.4.18: All-Share Index and Aggregate Market Capitalisation



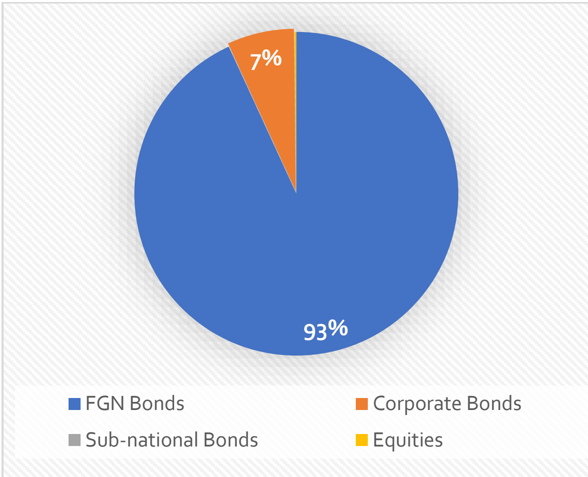
Sources: Staffs' computation using data from SEC.

Primary Market Activities

Activities in the primary segment of the Nigerian capital market improved in the first half of 2023. There were 34 new security issuances worth ₦3,829.74 billion, compared with 26 and 31 valued at ₦1,505.20 billion and ₦2,090.20 billion, in the preceding and corresponding halves of 2022, respectively. During the review period, there was no initial public offering (IPO), public offering, and equity rights issues. There were, however, two private placements worth ₦6.40 billion, compared with no private placements in the preceding period and corresponding periods.

In the government segment of the primary market, 24 FGN Bonds worth ₦3,567.42 billion were issued and allotted by the Debt Management Office (DMO), compared with 18 worth ₦1,227.47 billion and 15 worth ₦1,555.70 billion in the preceding and corresponding halves of 2022. Eight corporate bonds valued at ₦255.92 billion compared with 16 valued at ₦267.73 billion, 10 valued at ₦410.40 billion, in the preceding and corresponding halves of 2022.

Figure 3.4.19: Value of New Issues by Sector



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

[11] Warren Buffet Index decision, if absolute difference between the actual and historical average:
a. are within 1 standard deviation above or below the trend line, indicates slight over or undervaluation; b. between 1 and 2 standard deviations above or below the trend line, indicate moderate over or undervaluation; and c. 2+ standard deviations above or below the trend line, indicate severe over or undervaluation.

Institutional Savings

Aggregate financial savings rose by 28.6 per cent to ₦40,841.63 billion over ₦31,868.76 billion at end-December 2022, and increased by 42.7 per cent over the ₦28,617.06 billion at end-June 2022. The ratio of financial savings to GDP rose to 18.5 per cent over 16.0 and 14.4 per cent at the end of the second and first halves of 2022, respectively. This was driven, largely, by robust corporate earnings. Further analysis on financial savings showed that, banks (commercial, merchant, and non-interest banks) remained the dominant depository institutions in the financial system. Thus, accounting for 95.3 per cent of total financial savings, compared with 95.2 and 93.7 per cent in the preceding and corresponding halves of 2022, respectively. Other institutions, comprising, primary mortgage banks, microfinance banks, life insurance companies, pension fund custodians and the Nigeria Social Insurance Trust Fund (NSITF), accounted for the balance of 4.8 per cent.

3.4.8 Developments in Financial System Stability and Macroprudential Policy

In the review period, associated risks and vulnerabilities to financial system stability were contained using macroprudential policies.

Solvency Stress Tests and Liquidity Simulations

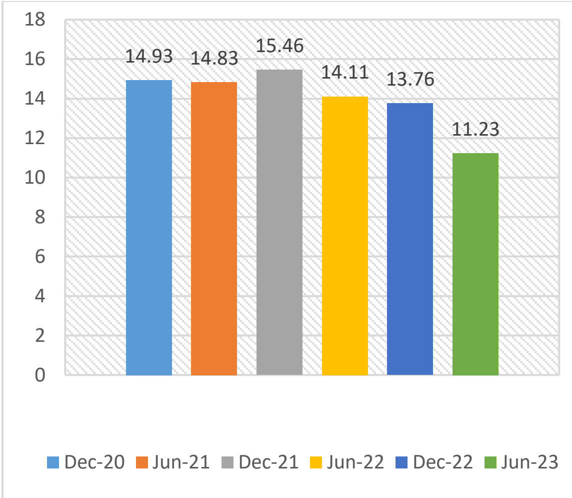
Stress test conducted revealed that the banking industry remained resilient under mild-to-moderate scenarios of sustained economic and financial conditions. Though there was a slight moderation in the banking industry's resilience at end-June 2023, relative to the levels at end-December 2022, the CAR and NPL, were within industry regulatory benchmarks, while LR, at 44.38 per cent, was above the threshold. The baseline CAR, LR and NPL ratios in the review period were 11.23, 44.38 and 4.14 per cent, respectively. Return on Asset (ROA) and Return on Equity (ROE) stood at 2.3 and 32.2 per cent, respectively. The industry, however, could be vulnerable under severe scenarios of sustained economic and financial stress.

Table 3.4.11: Banking Industry Baseline Selected Key Indicators for First Half of 2023

	CAR (%)	LR (%)	NPLs (%)	ROA (%)	ROE (%)
Jun 2023	11.23	44.38	4.14	2.3	32.2
Dec 2022	13.76	44.12	4.21	1.86	23.82
Jun 2022	14.1	54.2	5.0	2.0	17.3
Percentage Point(s) Change	**-2.53**	**4.26**	**-0.07**	**0.44**	**8.38**
Benchmarks	**10.0 - 15.0**	**30**	**5**	**-**	**-**

Source: Central Bank of Nigeria.

Figure 3.4.20: Banking Industry CAR in Per cent



Source: Central Bank of Nigeria.

Credit Risk Shocks

The impact of general credit risk shock of 10.0, 15.0, 20.0, 30.0, 50.0 and 100 per cent in NPLs could result in a deterioration of banking industry CAR to 10.92, 10.76, 10.61, 10.29, 9.66, and 8.04 per cent, respectively, from the baseline position of 11.22 per cent in the review period.

Table 3.4.12: Credit Default Shocks on Banking Industry CAR in Per cent

Single Factor Shocks	End-Dec 2022	End-June 2023
Baseline CAR	13.76	11.23
	Post-Shock CAR	
10% NPLs increase	13.44	10.92
15% NPLs increase	13.28	10.76
20% NPLs increase	13.12	10.61
30% NPLs increase	12.81	10.29
50% NPLs increase	12.16	9.66
100% NPLs increase	10.51	8.04

Source: Central Bank of Nigeria.

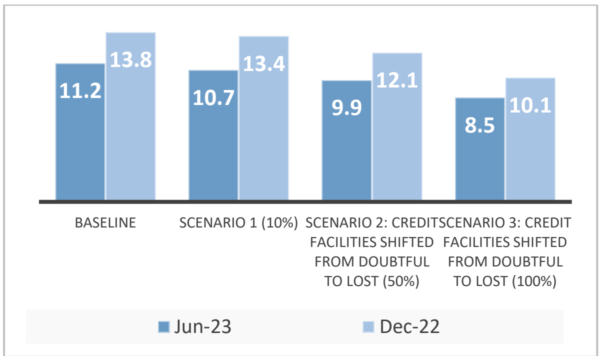
Similarly, the banking industry's resilience was demonstrated by the obligor credit concentration stress test as CAR remained above the minimum regulatory benchmark of 10.0 per cent under all the three scenarios.

Table 3.4.13: Credit Concentration Risk on Banking Industry CAR in Per cent

	Dec-22	Jun-23
Baseline CAR	13.76	11.23
Single Factor Credit Concentration Shocks		
Scenario 1		
Five largest corporate credit facilities shifted from pass-through to sub-standard (10%)	13.43	10.68
Scenario 2		
Five largest corporate credit facilities shifted from sub-standard to doubtful (50%)	12.09	9.86
Scenario 3		
Five largest corporate credit facilities shifted from doubtful to lost (100%)	10.36	8.45

Source: Central Bank of Nigeria.

Figure 3.4.21: Credit Concentration Risk for First Half 2023 In Per cent

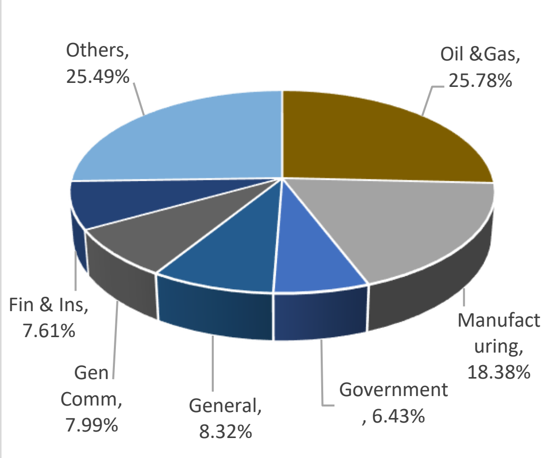


Source: Central Bank of Nigeria.

Sector Credit Concentration Risk

In the review period, analysis of the banking industry's total credit by sector indicated that: Oil and Gas; Manufacturing; General; Government; General Commerce; and Finance & Insurance accounted for 25.8, 18.4, 8.3, 6.4, 8.0, and 7.6 per cent, respectively, while "others" constituted 25.5 per cent.

Figure 3.4.22: Sectoral Concentration of Credit in Per cent



Source: Central Bank of Nigeria.

The result of the stress test of the sector credit concentration indicated that the banking industry could absorb a shock up to 20.00 per cent in exposure to oil and gas, with post shock CAR dropping to 10.38 per cent, from an initial 11.23 per cent. A shock of 50.0 per cent exposure to oil and gas sector, could, however, lead to vulnerability of 5.66 per cent in the banking industry.

Table 3.4.14: Stress Test on Oil and Gas Exposures for First Half 2023

	Industry CAR (%)
Baseline CAR	11.23
20% Default on total exposure to Oil and Gas	10.38
50% Default on total exposure to Oil and Gas	5.7

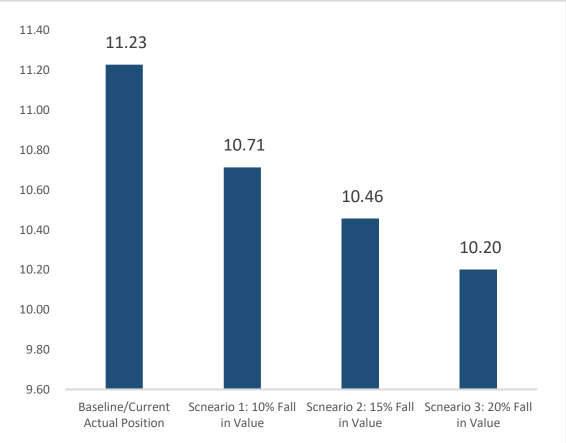
Source: Central Bank of Nigeria.

Interest Rate Risk

Rising interest rates, the war in Ukraine and structural issues continue to generate spillover effects globally, posing significant challenges to countries, including Nigeria. The continued rise in inflation rate and the ensuing contractionary policy stance has implications on the cost of credit and fixed income assets. Although banks tend to gain from higher net income, they suffer losses as loan origination declines and default rates rise. The net effect would determine the potential impact on banking industry health and the appropriate use of microprudential and macroprudential tools.

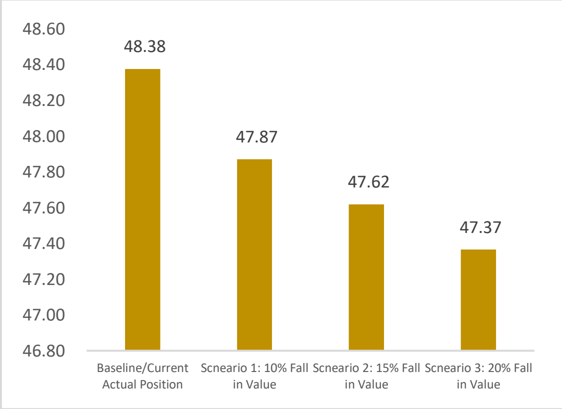
In view of the above, interest rate stress testing was conducted to assess the impact of mild, moderate and severe scenarios on banks' CAR and LR. The results showed that the banks could withstand a shock of 20.0 per cent loss in value of banks holding of FGN bonds under Fair-Value-through Profit/Loss (FVTPL) and Fair-Value-Through Other Comprehensive Income (FVTOCI), as the industry's post-shock CAR and LR remained above the regulatory thresholds of 10.0 per cent and 30 per cent, respectively.

Figure 3.4.23: Impact of Rise in Interest on CAR via FGN Securities (FVTPL & FVTOCI) Holding of Banks



Source: Central Bank of Nigeria.

Figure 3.4.24: Impact of Rise in Interest on LR via FGN Securities (FVTPL & FVTOCI) Holding of Banks



Source: Central Bank of Nigeria.

Table 3.4.15: Liquidity Stress Test Results (Post-Shock)

	No of Banks with LR < 30%		Industry LR (%)			
	Dec-22	Jun-23	Dec-22	Shortfall to 30% LR threshold (₦' billion)	Jun-23	Shortfall to 30% LR threshold (₦' billion)
Day 1	5	9	29.56	148.83	36.06	-2,351.13
Day 2	13	16	25.29	1,519.57	31.39	-504.02
Day 3	19	19	20.84	2,794.56	26.47	1,200.64
Day 4	23	21	16.00	4,042.96	21.09	2,841.14
Day 5	23	21	10.89	5,212.68	15.80	4,198.56
Day 30	27	24	5.95	6,165.73	9.40	5,584.13

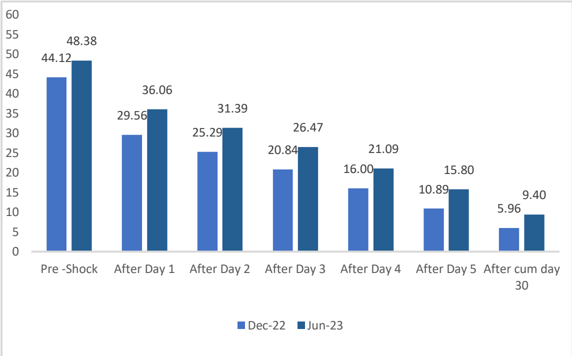
Source: Central Bank of Nigeria

Liquidity Stress Test

In the first half of 2023, Implied Cash Flow Analysis (ICFA) and Maturity Mismatch/Rollover Risk methods were used in liquidity stress tests to determine the resilience of individual banks and the banking industry to funding and liquidity shocks.

The outcome of the stress test showed that after a one-day run scenario, the liquidity ratio for the industry declined from 48.38 per cent baseline position to 36.06 per cent. Similarly, under the 5-day and 30-day scenarios, the liquidity ratio for the industry declined to 15.80 per cent and 9.40 per cent, indicating a liquidity position shortfall of ₦4.20 trillion and ₦5.58 trillion, respectively.

Figure 3.4.25: Industry Liquidity Ratios at Periods 1-5 and cumulative 30-day Shocks



Source: Central Bank of Nigeria.

Maturity Mismatch

The industry's baseline assets and liabilities maturity profile at end-June 2023, showed that the shorter end of the market (≤90-day bucket) was adequately funded, showing an excess of ₦18,997.06 billion assets over liabilities.

Table 3.4.16: Maturity Profile of Assets and Liabilities at end-June 2023 (Billion Naira)

Bucket	Liabilities	Assets	Mismatch	Cumulative Mismatch
≤30 days	49,723.15	30,316.69	19,406.46	19,406.46
31-90 days	4,615.25	5,024.65	-409.4	18,997.06
91-180 days	2,101.23	4,206.46	-2,105.23	16,891.83
181-365 days	2,008.29	7,283.89	-5,275.60	11,616.23
1-3 years	3,147.34	7,512.10	-4,364.77	7,251.46
>3 years	4,220.44	17,635.60	-13,415.16	-6,163.70
Total	65,815.69	71,979.39		

Source: Central Bank of Nigeria.

The System-wide Maturity Mismatch Analysis (Test 2A) revealed that the banking industry was adequately funded, except for above 3-years bucket. Under Static Rollover Risk Analysis (Test 2B) and Dynamic Rollover risk (Test 2C), the industry had mismatches of ₦11,172.34 billion and ₦13,345.06 billion, respectively. These reflected increases of ₦3,793.17 billion and ₦3,186.55 billion, relative to end-June 2022 tests, under the Test 2B and Test 2C, respectively.

Table 3.4.17: Test Results for System-wide Maturity Mismatch at end-June 2023

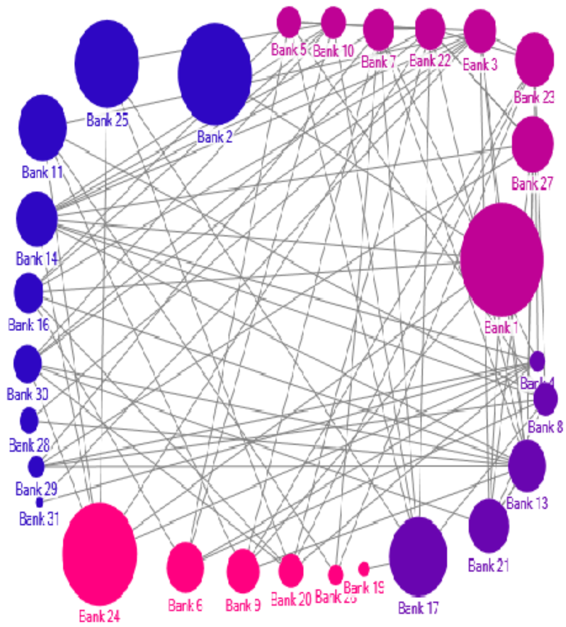
	Test 2A		Test 2B		Test 2C	
	Descriptive Maturity Mismatch. (No consideration of rollover)		Static Rollover risk Analysis. (No possibility to close liquidity gaps in other buckets)		Dynamic Rollover risk test. (Free assets used to close liquidity gaps in other buckets)	
	₦' billion	No of banks with mismatch	₦' billion	No of banks with mismatch	₦' billion	No of banks with mismatch
≤30 days	27,601.65	5	17,657.02	8	688.32	8
31-90 days	7,706.92	9	-1,701.67	19	-1,290.11	9
91-180days	6,009.96	11	-2,525.48	25	-1,307.00	10
181-365days	2,919.59	17	-5,878.09	30	-1,132.31	10
1-3 Years	3,756.61	20	-5,308.97	31	-1,828.53	16
Above 3 years	-5,219.96	28	-13,415.16	31	-8,475.43	20
Total	42,774.77		-11,127.34		-13,345.06	

Source: Central Bank of Nigeria.

Contagion Risk Analysis

The contagion risk analysis, using inter-bank placements and takings, depicted a decline in interconnectedness. The total exposure increased by 134.71 per cent to ₦1,228.92 billion, compared with the end-December 2022 position. Further analysis revealed that 12 out of 23 banks accounted for ₦1,108.94 billion of total placements, while another six banks accounted for ₦874.43 billion of total takings. The exposures did not pose any significant threat to financial system stability, as all placements were collateralised.

Figure 3.4.26: Network Analysis based on Interbank Exposures



Node colour representation
Blue = Lenders,
Deep Blue= Net Placement
Red = Borrowers
Purple= Net Takings

Source: Central Bank of Nigeria.

Credit Risk Management System

The implementation of the Credit Risk Management System (CRMS) [12] *continued to strengthen credit administration in Nigeria.* The CBN CRMS database continued to serve as a viable source of credit information in the Nigerian banking industry. The number of credit facilities on the CRMS database increased by 13.3 per cent to 49,060,977 at end-June 2023 over the 43,320,180 recorded at end-December 2022, due to increased credit by banks. The number of credit/facilities reported on the CRMS database comprised 47,918,185 individuals and 1,142,792 non-individuals.

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

Table 3.4.18 Borrowers from the Banking Sector (Commercial, Merchant and Non-Interest Banks)

Description	End-Dec 2022	End-Jun 2023	Change	Change (%)
* Total No. of Credit/facilities reported on the CRMS:	43,320,180	49,060,977	5,740,797	13.25
Individuals	42,227,560	47,918,185	5,690,625	13.48
Non-Individuals	1,092,620	1,142,792	50,172	4.59
* Total No. of Outstanding Credit facilities on the CRMS:	9,579,073	12,744,856	3,165,783	33.05
Individuals	9,426,343	12,566,218	3,139,875	33.31
Non-Individuals	152,730	178,638	25,908	16.96

Source: Central Bank of Nigeria

The total number of credit/facilities with outstanding balances on the CRMS database increased by 33.1 per cent to 12,744,856 at end-June 2023 from 9,579,073 at end-December 2022. This comprised 12,566,218 individuals and 178,638 non-individuals.

Private Credit Bureaux

The number of licensed credit bureaux remained three (3) at end-June 2023, same as in the preceding and corresponding period of 2022. The average number of uniquely identified credit records in the database of these three credit bureaux at end-June 2023 stood at 56.87 million, a decrease of 20.72 million, compared with 77.59 million at end-December 2022. The decrease was attributed mainly to a reduced appetite for borrowing in view of market uncertainties and political changes.

Table 3.4.19: Credit Records in the Databases of the Bureaux at end-June 2022

S/N	Component	CRC Credit Bureau Ltd	CR Services Credit Bureau Plc	First Central Credit Bureau Ltd
1	Number of credit records	88,864,944	941,180	80,816,616
2	Value of Credit Facilities (N' Trillion)	50.35	44.13	40.76
3	Number of borrowers	34,937,835	17,989,074	23,389,390
4	Number of subscribers	1,793	739	1,564

Source: Central Bank of Nigeria.

However, the average number of subscribers in the database of the credit bureaux increased to 1,365 at end-June, 2023, over 1,316 at end-December, 2022. The annual onsite routine examination of the three credit bureaux as at December 31, 2022 commenced in June 2023.

3.4.9 Developments in Regulatory Compliance & Consumer Protection

Financial Sector Surveillance

During the first half of 2023, the Bank sustained its regulatory and supervisory oversight of the institutions under its purview, towards promoting a safe, stable, and sound financial system. This was performed through offsite surveillance and onsite examination, as well as the issuance of relevant guidelines to banks and other financial institutions.

Sequel to the commencement of the parallel run of the Basel II and III Guidelines in November 2021, banks reported their CAR computation using both the extant Basel II template and the new Basel III template for concurrent review by the CBN. Adjustments were made to the five (5) Basel III CBN Reporting Templates based on the feedback and gaps observed during the parallel run.

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

Nigeria made some progress on most of the Mutual Evaluation Report's (MER) recommended actions by Financial Action Task Force (FATF), which included: improving its AML/CFT/CPF legislative framework; updating its assessment of inherent ML/TF/PF risks; and strengthening its implementation of targeted financial sanctions. A subsequent evaluation of the actions taken by Nigeria was reviewed at the February 2023 meeting of Financial Action Task Force International Cooperation and Review Group (FATF/ICRG). In that review, some outstanding deficiencies were noted for consideration by the Nigerian authorities, of which the activities to implement FATF's action plan on Nigeria were ongoing.

To strengthen the existing AML/CFT/CPF regime, the Bank undertook the following activities during the first half of 2023:

- Routine Risk-Based AML/CFT/CPF Examination of 19 banks with "Above Average" rating. The examination was conducted to ensure that the banking system and financial system were not used for money laundering, terrorism financing and the financing of proliferation of weapons of mass destruction;

- In-house AML/CFT/CPF training on: Politically Exposed Persons (PEPs) spot check; PEPs return appraisals; and AML/CFT/CPF RBS cross border examination, among others. Staff of the Bank also participated in training outreach to banks and other financial institutions. Similarly, in-house training for all Examiners on issues concerning AML/CFT/CPF was conducted;

- Target examination of Politically Exposed Persons (PEPs) in June 2023 based on Risk-Based Approach (RBA). The examination focused on 15 banks with previous ratings of Low or Moderate Effectiveness, four (4) new banks and five (5) new Payment Service Banks that have not been assessed before;

- On-site AML/CFT/CPF cross-border examinations in 2023. During the examination, six Nigerian banks foreign subsidiaries were visited, namely, FBN UK, GT Bank UK, Zenith Bank UK, Access Bank South Africa, UBA Liberia, and UBA Kenya in June 2023. The examinations were conducted to assess the subsidiaries' compliance with the CBN AML/CFT/CPF regulations, 2022 in regards to their host country AML/CFT/CPF laws and regulations; and

- Training and engagement with Chief Compliance Officers of banks to remediate one of the MER recommended actions that required supervisors to have regular stakeholders' engagement. Members of the Association of Chief Compliance Officers of Banks in Nigeria (ACCOBIN) were trained on issues of mutual concern and interest.

Compliance with the Code of Corporate Governance

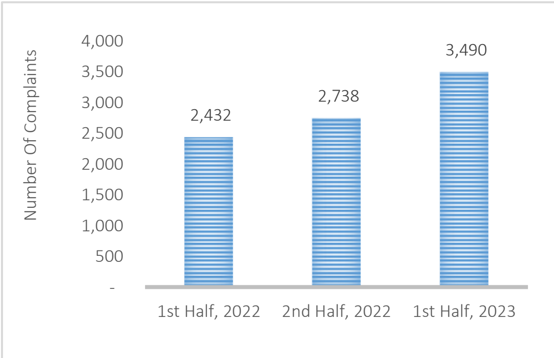
Corporate Governance Compliance Scorecard Assessment was conducted on eight (8) selected banks using the risk-based approach (RBA), to ascertain the level of compliance with the CBN Code of Corporate Governance for Banks and Discount Houses, 2014. The assessment was based on the following pillars of corporate governance: Board and Management; Ethics and Professionalism; Treatment of Shareholders; Rights of other Stakeholders; Disclosure; and Transparency.

The result of the examination showed that all the eight banks were rated "Acceptable", and largely compliant with the CBN Code of Corporate Governance. The examination noted two (2) significant observations that were not in compliance with extant code of corporate governance. First, two (2) banks failed to obtain CBN approval for investors, who held above 5.0 per cent shareholdings, contrary to Section 3.2.1 of the Code, which required that "an equity holding of 5 per cent and above by any investor shall be subject to CBN's prior approval". Second, two banks were also found to have failed to engage External Auditors to review the banks' Risk Management Practices as required by the provisions of Section 6.1.9 of the CBN Code that "External Auditors shall render annually, reports on the bank's risk management practices to the CBN". Consequently, the four (4) banks were sanctioned for the infractions.

Consumer Protection

In furtherance of its statutory responsibility to promote confidence in the financial system, the Bank sustained the implementation of measures to ensure consumer protection, mainly in the form of customer complaints management. The Bank received 3,490 complaints from consumers of financial services in the first half of 2023, indicating an increase of 27.5 and 43.5 per cent above the levels in second half of 2022 and the corresponding half of 2022, respectively.

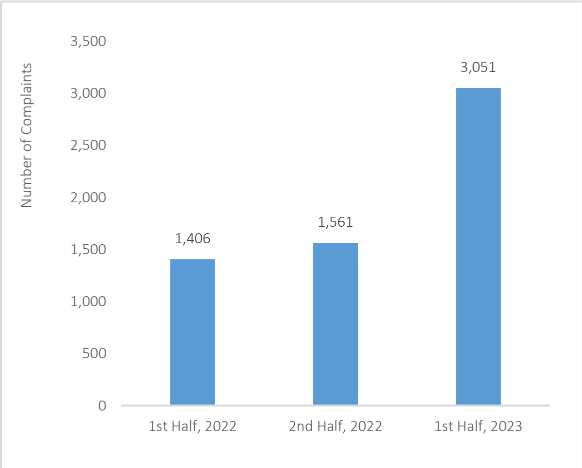
Figure 3.4.27: Complaints Received in the First Half of 2023



Source: Central Bank of Nigeria.

A total of 3,051 complaints, including those outstanding from 2022, were resolved in the review period, indicating 95.5 and 117.0 per cent increases, compared with the 1,561 and 1,406 complaints resolved in the preceding and corresponding periods of 2022, respectively.

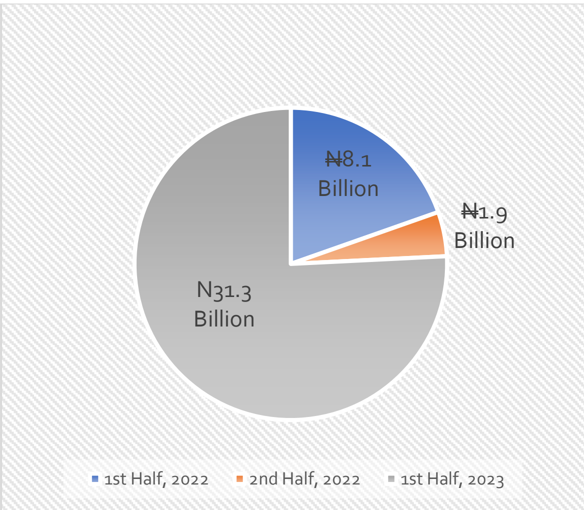
Figure 3.4.28: Complaints Resolved in the First Half of 2023



Source: Central Bank of Nigeria

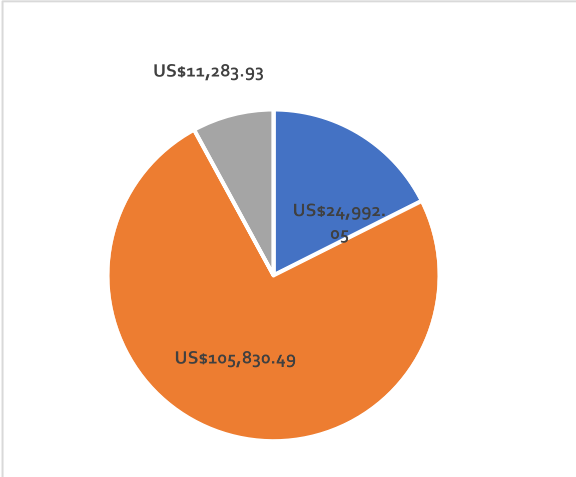
In the review period, total claims in local and foreign currencies amounted to ₦31.30 billion and US$24,992.05, respectively, compared with ₦1.90 billion and US$105,830.49 claimed in the preceding period of 2022 and ₦8.1 billion and US$11,283.93 in the corresponding period of 2022. There was an increase of 1,547.4 per cent in local currency claims, in contrast to a decrease of 76.4 per cent in foreign currency claims, compared with the levels in the preceding period.

Figure 3.4.29a: Total Claims in the First half of 2023 (₦)



Source: Central Bank of Nigeria

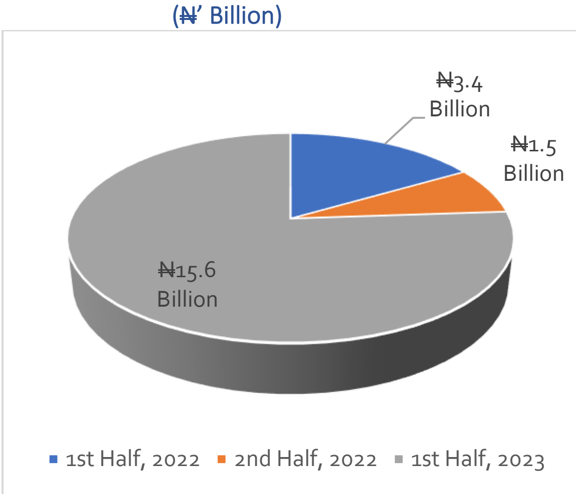
Figure 3.4.29b: Total Consumer Claims in the First Half of 2023 (US$)



Source: Central Bank of Nigeria

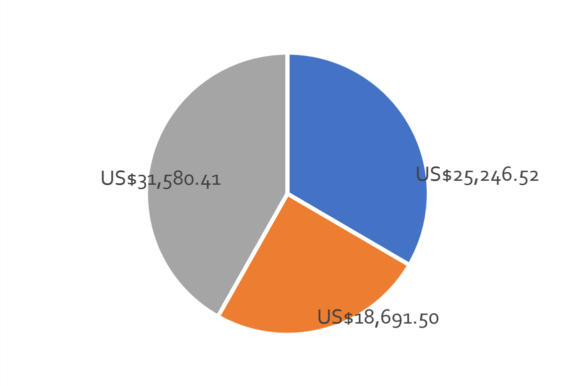
The sums of ₦15.6 billion and US$25,246.52 were refunded, compared with the ₦1.5 billion and US$18,691.50 refunded in the second half of 2022 and ₦3.4 billion and US$31,580.41 refunded in the first half of 2022. This indicated an increase of 4.7 and 35.0 per cent in local and foreign currency refunded to consumers of financial services, respectively, relative to the levels in the preceding period.

Figure 3.4.30a: Total refunds in the First Half of 2023 (₦' Billion)



Source: Central Bank of Nigeria

Figure 3.4.30b: Total refunds in the First Half of 2023 (US$)



Source: Central Bank of Nigeria

The Consumer Complaints Management System (CCMS) is a web-based solution designed to enable customers monitor the status of complaints already logged with their respective banks, as well as address the cumbersome nature of the manual system of complaints management in the banking industry.

The redesign of the CCMS was concluded in the first half of 2023 to enhance its efficiency and improve interface with the banking public, through the public portal. The portal will provide a platform for consumers of financial service to escalate to the CBN complaints that were neither resolved nor satisfactorily treated by their banks. The Bank also reviewed the draft Framework for Registration of Trademarks and Patent Rights of the Bank's Proprietary Properties and the Consumer Protection Framework (CPF).

Consumer Education Initiatives.

The CBN implemented the 2023 Global Money Week (GMW) in collaboration with the Junior Achievers of Nigeria (JAN) and Bankers Committee. The 11th edition of the GMW was held 20 – 26 March 2023 with the theme "Plan your Money, Plant your Future". To commemorate the event, the CBN, Bankers Committee, and other stakeholders mentored over 600 secondary school students across 8 schools selected from the six geo-political zones of the country. The students were educated on the importance of savings, budgeting, investing etc. Other activities covered included financial literacy rally with children and youth, tour of the Nigerian Exchange Limited (NGX) for the students, financial literacy fair at the CBN Head Office and essay competitions in selected schools.

Similarly, in April 2023, the Bank organised a webinar with the theme, "Digital Financial Services: the Way Forward" as part of the effort to improve the level of financial literacy among staff. The webinar focused on raising awareness on the need to embrace Digital Financial Services (DFS) and to mitigate against fraud and other challenges inherent in the use of Digital Financial Services.

The Bank continued with the implementation of periodic nationwide media engagements to raise awareness on the Bank's consumer protection/financial literacy initiatives, leveraging on the Bank's dedicated media channels (radio stations, social media, etc.). The media engagement was to enlighten the public on the SabiMONI financial literacy e-learning platform; the Naira redesign policy; cash withdrawal limit; e-Naira etc.

The SabiMONI e-Learning portal was launched on 15 May 2023. It was developed to improve the financial literacy level among consumers of financial products and services. This, in turn, would facilitate the attainment of the target of 95.0 per cent financial inclusion rate by 2024 in Nigeria. A total of 557 participants (401 Male and 156 Female) were on-boarded onto the platform on the day of the launch. The focus was to increase user adoption.

As part of its effortto conduct Monitoring and Evaluation (M&E) of Consumer Protection initiatives and upskill staff in the areas of M&E and Consumer Research, the Bank commenced the development of a Monitoring and Evaluation framework and established a Consumer Protection Embedded Laboratory in collaboration with Innovation for Poverty Action (IPA). The diagnostic phase of the project had been concluded.

The Bank developed a USSD/SMS Short code to serve as an avenue for consumers to: verify the licensing status of financial institutions regulated by the Bank; and access other financial information services. The service was accessible by MTN, Airtel and 9Mobile users via *959#, while efforts were still ongoing towards connecting other mobile network providers to the platform.

- *Nigeria Sustainable Banking Principles*

The Bank continued to monitor the implementation of the Nigeria Sustainable Banking Principles (NSBPs) at individual bank and industry levels. In that regard, the Bank received and reviewed semi-annual reports from banks for the period ended December 2022, in line with the reporting template issued to the industry via a circular captioned "Reporting Template for the Nigeria Sustainable Banking Principles".

The review assessed progress made by banks in the implementation of the NSBPs in line with the requirements of the Guidance Note issued to the industry in 2012. Subsequent to the review, banks were advised to improve on areas of weakness to further deepen the implementation of the NSBPs, including the enhancement of environmental and social (E&S) risk management practices, deployment of measures to reduce carbon footprints from operations, E&S assessment of third-party vendors, building the capacity of employees, among others.

Progress in compliance and implementation were further assessed during routine Risk-Based Supervision Examinations and onsite assessment of E&S Implementation.

The NSBPs were being reviewed to reflect emerging issues and global imperatives. The review would also include aligning the Principles with Nigeria's Nationally Determined Contributions (NDCs) under the Paris Climate Agreement.

The CBN continued to provide appropriate intervention to help resolve the challenges hindering the implementation, as well as offer an objective, fair and equitable basis for possible incentives.

The Bank attended various stakeholder engagements on sustainable banking and established an in-house Sustainability Steering Committee to coordinate the implementation of sustainability issues including the NSBPs.

- *Asset Management Corporation of Nigeria*

The annual Routine Examination of the Asset Management Corporation of Nigeria as at 31 December 2022, held in the first quarter of 2023. The examination focused on the review of the Corporation's operations from October 1, 2021, to December 31, 2022 and the scope covered corporate governance, strategic planning, loan administration and management of Eligible Bank Assets (EBA), enforcement processes and Assets Under Management. Others were the financial position, third party Service Providers, validation of collaterals, compliance with the AMCON Act 2010 (as amended in 2015, 2019 and 2021), its Operating Guidelines, other relevant extant laws and regulatory directives.

From inception of its operations to June 30, 2023, the Corporation has achieved a total recovery of ₦1,801.00 billion, made up of cash recovery of

₦971.33 billion and other collections (property sale, share sales, rental income, dividend income and re-investment income) of ₦829.73 billion. In the first half of 2023, the Corporation achieved cash recoveries of ₦45.83 billion and other collections of ₦15.16 billion.

The carrying value of AMCON's liabilities increased to ₦5,865.00 billion at end-June 2023, over the ₦5,599.00 billion at end-December 2022 (unaudited) and ₦5,715.00 billion at end-June 2022, representing an increase of 4.6 and 2.6 per cent, respectively. The carrying value of the AMCON Note remained at ₦3,859.00 billion at end-June 2023, while the sum of ₦500.00 billion Loan plus accrued interest of ₦15.00 billion was fully repaid by AMCON on January 31, 2023. The AMCON Note is scheduled for redemption on December 27, 2023. The Corporation's total assets net of impairment stood at ₦1,171.00 trillion at end-June 2023, compared with ₦989.89 billion recorded at end-December 2022 (unaudited) and ₦896.49 billion at end-June 2022, representing an increase of 18.2 and 30.7 per cent, respectively.

Contributions to the Banking Sector Resolution Cost Fund (BSRCF) by the CBN and other participating banks for the year 2023 amounted to ₦417.00 billion. The collection is invested in primary issuance of Nigeria Treasury Bills pending utilisation by AMCON in meeting its obligations on issued securities in line with Section 60E (1)(a) of the AMCON amendment Act 2015.

3.5 PAYMENTS SYSTEM MANAGEMENT

The Bank under the Nigeria Payments System Vision 2025 (PSV2025) continued to introduce innovative measures to strengthen the payment system landscape to further deepen digital financial inclusion and enhance financial intermediation to support inclusive growth.

3.5.1 Payments System Policies

The Bank continued to strengthen the payments ecosystem with the introduction of two innovative regulatory measures, namely, the Operational Guidelines for Open Banking in Nigeria and the Guidelines for Contactless Payments in Nigeria. These innovations aimed at guaranteeing the safety, and stability of the payments infrastructure, while fostering an environment that promotes interoperability.

Operational Guidelines for Open Banking in Nigeria

Operational guidelines on open banking were issued in March 2023, with the objective of establishing the principles for data sharing across the banking and payments ecosystem. It stipulates data and Application Programming Interface (API) access requirements, design, and information security specifications between banks and third-party financial service providers (FSPs) with the customer's consent. The guidelines provide an Open Banking Registry (OBR) for regulatory oversight of participants to enhance transparency in the operations of open banking, improve accessibility to financial services, promote innovation, and create new opportunities for businesses and consumers.

Guidelines for Contactless Payments in Nigeria

The guidelines were issued in June 2023, specifying minimum standards and requirements for the operation of contactless payments, the roles and responsibilities of stakeholders, and sanctions/penalties. Hence, the guidelines require:

i. A maximum transaction limit of ₦15,000.00 per transaction and ₦50,000.00 per day for contactless payments without Personal Identification Number (PIN) or biometric verification;

ii. All contactless devices to be connected to an account or wallet that has a Bank Verification Number (BVN);
iii. Merchants to conduct proper Know Your Customer (KYC) checks on all customers who make contactless payments; and
iv. That contactless readers are properly configured and maintained.

Box 4

Contactless payment

Contactless payment refers to a payment method that enables customers to conduct financial transactions without the necessity of physical contact between their payment instruments, such as contactless-enabled credit or debit cards, wearable devices, or mobile phones, and the point-of-sale (POS) terminal.

It relies on near-field communication (NFC) technology, allowing for secure and rapid wireless data exchange between the payment instrument and the POS terminal when they are in proximity. The absence of physical interaction streamlines the payment process, resulting in reduced transaction time and enhanced customer convenience.

Payments System Infrastructure

Enrolment and linkage of the existing accounts to the Bank Verification Number (BVN) increased against the backdrop of innovative payments system infrastructure. At end-June 2023, the number of bank customers enrolled on the BVN platform was 57.99 million. This represented an increase of 2.56 per cent over the 56.51 million enrolled in the preceding half of 2022 and a 5.78 per cent rise from the 54.65 million enrolled in the corresponding period. A total of 154.05 million bank accounts were linked with BVN compared with 127.91 million and 130.56 million in the preceding and corresponding halves of 2022, respectively. The total number of active bank accounts in the banking industry rose to 182.01 million, above 159.42 million accounts in the second half of 2022.

Furthermore, the number of BVN placed on Watch-list for Fraudulent and Deceased, during the first half of 2023 were 7,709 and 15,027 respectively, underscoring the Bank's commitment to ensuring vigilance and security within the financial system.

Table 3.5.1: BVN Statistics

	End-Jun. 2022	End-Dec. 2022	End-Jun. 2023
BVN enrolment	54,651,086	56,513,499	57,990,304
Accounts linked with BVN	130,569,656	127,916,574	154,053,756
Active Accounts	148,462,947	159,421,664	182,013,156
BVN on Watchlist (Fraudulent)	6,047	7,353	7,709
BVN on Watchlist (Deceased)	11,871	13,743	15,027

Source: Central Bank of Nigeria.

Payments System Strategy

The PSV2025 strategy remains the overarching roadmap for the implementation of a nationally utilised and internationally recognised payments ecosystem in Nigeria. The PSV2025 strategy document is an essential roadmap, strategically designed to accommodate emerging initiatives and innovations within the payments landscape. The strategy provides a conducive environment and offers enhanced momentum for the introduction of novel products, innovative business models, and increased participation across the payment ecosystem.

Supervision and Regulation

The Bank increased the licensing of Payments System Providers (PSPs) in the first half of 2023 to strengthen financial services penetration and accommodate new entrants in the Nigerian electronic payment space. The number of licensed PSPs increased significantly to 213 above 132 and 116 in the preceding and corresponding halves of 2022, respectively. Further analysis showed that the Bank issued one new licence for Card Scheme, one for Switching and Processing, 35 for Payments Solution Service Providers (PSSPs), 19 for Payments Terminal Service Providers (PTSPs), and 24 for Super Agents (SAs). However, the number of Mobile Money Operators (MMOs) remained 17 compared with the preceding half of 2022 but grew from 16 in the corresponding half of 2022.

Implementation of Nigeria Cheque Standard and Nigeria Cheque Printers Accreditation Scheme Version 2.0.

In the review period, the Bank conducted both accreditation and compliance exercises for Cheque Printers and Personalisers in compliance with the provisions of the Nigeria Cheque Standards (NCS) and the Nigeria Cheque Printers Accreditation Scheme (NICPAS) Version 2.0. At end-June 2023, there were six (6) existing Cheque Printers, of which the Bank renewed the licences of three: Papi Printing Company Limited, Marvelous Mike Press Limited and KAS Arts Services Limited, while the other three: Superflux International Limited, Tripple Gee Co. Ltd. and Yaliam Press Limited, had subsisting licences.

Similarly, the licences of seven Personalisers, namely, Zenith Bank Plc, Ecobank Plc, Stanbic IBTC Bank Plc, First Bank Plc, Keystone Bank Plc, Wema Bank Plc and Providus Bank Plc, were renewed.

Furthermore, the Bank issued a circular on the Revised Nigeria Cheque Standard (NCS) and Nigeria Cheque Printers Accreditation Scheme (NICPAS) directing DMBs to ensure that the use of old cheques for any form of transaction and settlement ceased to be acceptable by 31 December 2023.

Table 3.5.2: Licensed Payments System Participants

License -Type	Number		
	June 2022	Dec. 2022	June 2023
Card Schemes	7	7	8
Switching and Processing	13	16	17
Mobile Money Operators*	16	17	17
Payment Solution Service Providers	39	42	77
Payment Terminal Service Providers	19	19	38
Super Agents	20	26	50
Accredited Cheque Printers	2	5	6
Total	**116**	**132**	**213**

Source: Central Bank of Nigeria.
*The data shown is for Non-Bank Licensed Mobile Money Operators.
** n.a – Not applicable with new licence categorization.

3.5.2 Trends in the Payments System

Electronic payments increased on account of the Bank's policies to enhance the efficiency of the payments system. During the review period, electronic payments (e-payments) witnessed notable growth in both the volume and value of transactions. The retail e-payments and wholesale e-payments increased in both volume and value. The surge in retail e-payments was attributed to the increased adoption of technology and the Internet, which facilitated more accessible avenues for online financial services. Furthermore, the Bank's unwavering commitment to fostering a cashless economy and the currency re-design policy in the first quarter of 2023 encouraged the use of electronic payment methods.

Analysis of electronic payments showed that the volume of total e-payments rose significantly by 62.5 per cent to 19,532.94 million transactions in the first half of 2023, compared with 12,020.52 million in the second half, and by 94.3 per cent above 10,053.47 million in the first half of 2022. In value terms, e-payments increased by 25.8 per cent to ₦983.73 trillion, above ₦782.29 trillion in the second half of 2022, and by 33.3 per cent over the ₦737.95 trillion in the first half of 2022. The rise was attributed to the increased adoption and utilisation of various electronic channels as preferred means of payments.

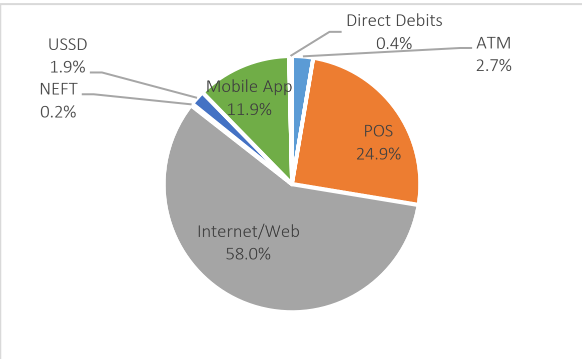
3.5.2.1 Retail Payments System

Transactions in retail e-payments in the first half of 2023 increased significantly in both volume and value, attributed to the shifting consumer preference towards e-transactions and growth in e-commerce. At 19,532.79 million, the volume of transactions rose by 62.5 per cent and 94.3 per cent above the 12,020.38 million and 10,053.32 million in the second and first halves of 2022, respectively. A breakdown of the volume of transactions across e-payment channels in the first half of 2023 showed significant increases over the levels in the corresponding half of 2022. Internet/web increased by 74.5 per cent; Point of Sales (POS), 184.9 per cent; Mobile App, 190.1 per cent; Unstructured Supplementary Service Data (USSD), 38.7 per cent; National Electronic Funds Transfer (NEFT), 23.6 per cent; and Direct Debit, 109.4 per cent, to 11,321.44 million, 4,872.27 million, 2,330.34 million, 370.29 million, 48.83 million and 72.10 million, respectively. ATM transactions, however, declined by 27.0 per cent to 519.52 million. Relative to the second half of 2022, transactions via the internet/web, POS, Mobile App, and Unstructured Supplementary Service Data (USSD) increased by 49.4, 124.0, 120.2, and 48.7 per cent, respectively, while NEFT and Direct Debit transactions decreased by 0.3 and 38.1 per cent, respectively.

The total value of transactions increased to ₦932.39 trillion in the first half of 2023, signifying a growth of 25.1 and 33.0 per cent over the levels in the preceding and corresponding halves of 2022, respectively. A breakdown of the value of transactions across e-payment channels in the first half of 2023 showed significant increases over the levels in the corresponding half of 2022. Internet/web increased by 32.7 per cent; Point of Sales (POS), 207.4 per cent; Mobile App, 88.8 per cent; Unstructured Supplementary Service Data (USSD), 19.8 per cent; National Electronic Funds Transfer (NEFT), 14.2 per cent; and ATM, 15.7 per cent, to 462.17 trillion, 48.44 trillion, 97.05 trillion, 2.72 trillion, 298.13 trillion and 14.63 trillion, respectively. Direct Debit, however, declined by 5.1 per cent to 9.25 trillion. Relative to the second half of 2022, transactions via the internet/web, POS, Mobile App, USSD and NEFT increased by 6.2, 91.7, 62.5, 22.5, and 60.0 per cent respectively, while ATM and Direct Debit transactions decreased by 26.3 and 44.4 per cent, respectively.

Analysis of the components of the retail e-payments segment showed that the internet/web channel dominated all other channels, accounting for 58.0 per cent of the total volume and 49.6 per cent of the total value in the review period. The composition of e-payments transactions by volume revealed that, POS, Mobile App, ATMs, NEFT, USSD and Direct Debit channels constituted 24.9, 11.9, 2.7, 0.2, 1.9, and 0.4 per cent respectively of the total e-payment transactions. In value terms, PoS, Mobile App, ATMs, NEFT, USSD and Direct Debit channels constituted 5.2, 10.4, 1.6, 32.0, 0.3, and 1.0 per cent of the total e-payment transactions in the first half of 2023.

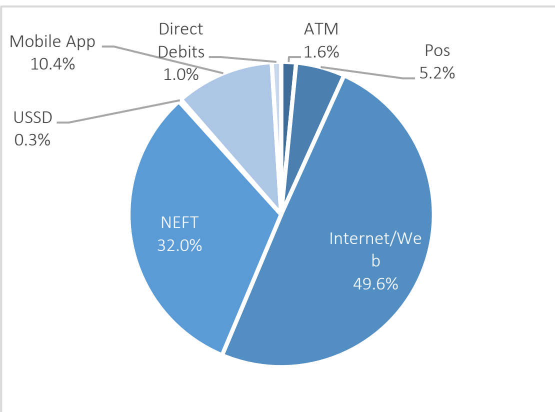
Figure 3.5.1: Composition of e-Payments Transactions by Volume, First Half 2023 in Per cent



Source: Central Bank of Nigeria

At end-June 2023, the number of ATM terminals stood at 19,490, compared with 19,433 and 19,392 terminals at end-December 2022 and end-June 2022, respectively. The number of connected Point-of-Sale (POS) terminals increased to 2.29 million above 1.66 million at end- December 2022 and 1.29 million at end-June 2022. Similarly, the number of agents increased to 1,669,487 above 1,474,173 and 1,204,423 at end-December 2022 and end-June 2022, respectively.

Figure 3.5.2: Share of e-Payments Transactions by Value First Half 2023 in Per cent



Source: Central Bank of Nigeria

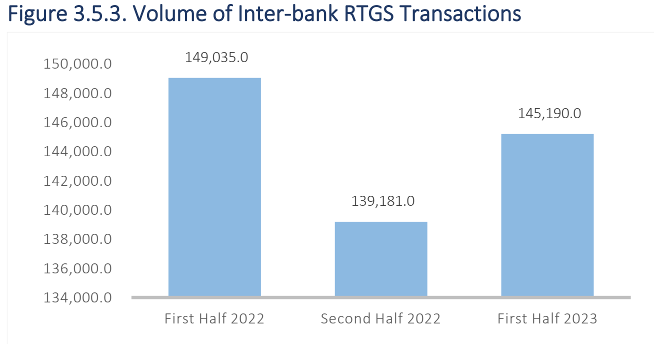
The volume and value of cheque transactions decreased in the review period due to the uptake of e-payment channels in settling transactions. At 6.9 million, the volume of cheque transactions decreased by 25.0 and 17.8 per cent below 9.2 million and 8.4 million in the second and first halves of 2022, respectively. Similarly, at ₦6,969.9 trillion in the first half of 2023, the value of cheque transactions decreased by 10.2 and 6.9 per cent, below ₦7,764.5 trillion and ₦7,486.7 trillion in the second and first halves of 2022, respectively.

In the first half of 2023, the volume and value of payment services offered by MMOs through their agent touchpoints increased significantly. The volume of transactions increased to 5,128 million, above 1,480.99 million and 445.3 million in the second and first halves of 2022, respectively. Similarly, the value of transactions increased to ₦42.25 trillion, compared with ₦23.01 trillion and ₦9.58 trillion in the second and first halves of 2022. These developments were attributed to the increased onboarding of agents, a crucial driver for advancing financial inclusion.

3.5.2.2 Wholesale Payments System

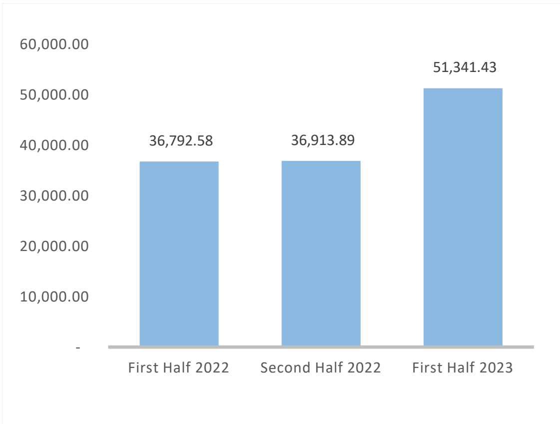
The volume and value of transactions in the wholesale payments (Real Time Gross Settlement (RTGS)) system increased in the first half of 2023. The volume of inter-bank fund transfers through the RTGS increased by 4.3 per cent to 145,190 in the first half of 2023 above 139,181 in the preceding half of 2022, but fell by 2.6 per cent below 149,035 in the corresponding half of 2022. At ₦51,341.43 billion, the value of transactions increased by 39.1 and 39.5 per cent above ₦36,913.89 billion and ₦36,792.58 billion in the preceding and corresponding halves of 2022, respectively.

Figure 3.5.3. Volume of Inter-bank RTGS Transactions



Source: Central Bank of Nigeria

Figure 3.5.4: Value of Inter-bank RTGS Transactions (N' Billion)



Source Central Bank of Nigeria

Table 3.5.3: Volume and Value of Electronic Payments and Other Channels

Payment Channels	Number of Terminals			Volume of Transactions (Million)			Value of Transaction N'Trillion		
	Jun-22	Dec-22	Jun-23	Jun-22	Dec-22	Jun-23	Jun-22	Dec-22	Jun-23
ATM	*19,392*	*19,433*	*19,490*	711.71	795.29	519.52	12.64	19.84	14.63
POS	*1,299,738*	*1,665,664*	*2,292,561*	1,710.29	2,175.51	4,872.27	15.76	25.27	48.44
Internet (Web)	-	-		6,487.17	7,576.73	11,321.44	348.30	435.36	462.17
NEFT	-	-		39.52	48.98	46.83	261.03	186.33	298.13
RTGS	-	-		0.15	0.14	0.15	36.79	36.91	51.34
USSD	-	-		267.04	249.06	370.29	2.27	2.22	2.72
Mobile App	-	-		803.16	1,058.24	2,330.34	51.41	59.71	97.05
Direct Debits	-	-		34.43	116.57	72.10	9.75	16.65	9.25
Total e-Payment				**10,053.47**	**12,020.52**	**19,532.94**	**737.95**	**782.29**	**983.73**
Cheques	-	-		*8.4*	*9.2*	6.9	*7.49*	*7.87*	6.96
MMOs	-	-		*445.3*	*1,480.99*	5,128.03	*9.58*	*23.01*	42.25

Source: Central Bank of Nigeria
Note: Total e-payment transactions includes ATM, online transfers, NEFT, RTGS, USSD, Mobile App, and Direct Debit transactions

3.6 EXTERNAL SECTOR DEVELOPMENTS

The external account in the first half of 2023 deteriorated largely, due to global financial tightening to rein in inflation, and a lull in economic activities, attributed to the uncertainties surrounding the general elections. The development resulted in an overall balance of payments deficit of 1.4 per cent of GDP, higher than the deficit of 1.0 per cent of GDP and 0.4 per cent of GDP in the second half of 2022, and the first half of 2022, respectively.

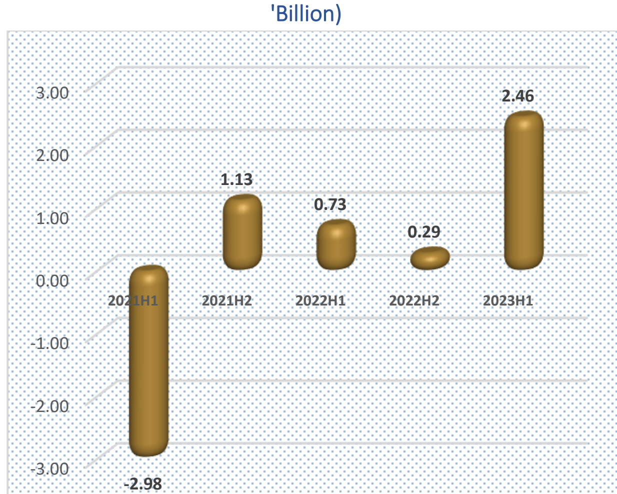
Sustained inflow of remittances, coupled with declines in import bills and payment for services, resulted in an improved current account surplus of 1.1 per cent of the GDP. The financial account maintained a net borrowing position with a net incurrence of financial liabilities of 0.7 per cent of the GDP, compared with 1.4 per cent in the preceding period. The international investment position (IIP) posted a lower net liability of US$53.13 billion in the review period.

The external reserves position at end-June 2023 was US$33.71 billion and could finance 7.9 months of import (goods only) or 5.9 months of import (goods and services), which was above the international benchmark of 3.0 months. The foreign exchange market remained relatively stable in the first five months of 2023. Following the Bank's introduction of new reforms from June 14, 2023, the average exchange rate of the naira depreciated by 10.3 per cent. The stock of external debt increased to US$43.16 billion, from US$41.69 billion at end-December 2022, following additional loan disbursements.

Current and Capital Account Developments

The current and capital account recorded a higher surplus, driven by improved surplus in the secondary income account and lower deficits in the services and the primary income accounts. The current account surplus improved significantly to US$2.46 billion or 1.1 per cent of GDP, compared with US$0.73 billion and US$0.29 billion in the first and second halves of 2022, respectively. The development was buoyed by lower deficits in the services and primary income accounts, as well as a higher surplus in the secondary income account.

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



Source: Central Bank of Nigeria

Trade

Transactions in the goods account resulted in a lower surplus of US$2.66 billion or 1.3 per cent of GDP, compared with US$3.24 billion and US$2.76 billion in the first and second halves of 2022, respectively. The development was, largely, due to lower export earnings.

Export Performance

Lower export receipts was recorded, on account drop in gas export as a result of slowdown in demand, due to favourable weather conditions, particularly in Europe. Aggregate export earnings declined by 1.6 per cent to US$28.29 billion or 13.7 per cent of GDP, compared with US$28.75 billion in the second half of 2022. It also indicated a decline of 20.2 per cent, compared with US$35.47 billion in the first half of 2022. The development was, driven, majorly by the decrease in oil export earnings to US$24.90 billion, from US$25.54 billion in the second half and US$31.57 billion in the first half of 2022. The decline in oil and gas export receipts was majorly on account of a slowdown in demand for gas.

In terms of share in total export earnings, crude oil and gas component remained dominant, with 88.0 per cent, while non-oil accounted for 12.0 per cent.

A disaggregation of total export shows that crude oil and gas export receipts declined by 2.5 per cent and 21.1 per cent to US$24.90 billion (11.5 per cent of GDP), in the review period, compared with US$25.54 billion and US$31.57 billion in the preceding and corresponding halves of 2022, respectively. Crude oil export receipts rose slightly by 0.1 per cent to US$22.02 billion, relative to US$22.00 billion in the second half of 2022, reflecting majorly, sustained levels of crude oil production, following the increased surveillance of pipeline infrastructure against vandalism and theft. Compared with the first half of 2022, oil export declined by 20.7 per cent from US$27.76 billion.

Gas export receipts dropped by 19.0 per cent and 24.6 per cent to US$2.88 billion, compared with US$3.55 billion and US$3.81 billion in the preceding and corresponding halves of 2022, respectively. The development was, driven, largely by lower export of liquefied natural gas and liquefied petroleum gas in the review period, occasioned by slowdown in demand, due to favourable weather conditions, particularly, in Europe and the United States.

Non-oil export earnings rose by 5.8 per cent to US$3.40 billion or 1.6 per cent of GDP, from US$3.21 billion in the second half of 2022, but declined by 13.1 per cent, compared with US$3.91 billion in the corresponding half of 2022. The rise in non-oil export earnings was attributed to favourable commodity prices and the positive effects of domestic policy measures aimed at boosting non-oil export.

A breakdown of non-oil export by sector shows that agricultural export, (majorly cocoa beans, cashew nuts and sesame seeds) accounted for the largest share of 43.5 per cent, followed by other non-oil export (mainly urea and cement) with 24.6 per cent. Semi-manufactured (driven by aluminium, leather products, cocoa products and tin) accounted for 15.0 per cent, while mineral product (mainly copper, lead and zinc) was 9.6 per cent. Manufactured products (majorly aluminium products and tobacco) accounted for 7.5 per cent of total non-oil export.

The main non-oil export commodities comprised urea, cocoa beans, cashew nuts, sesame seeds, and aluminium. Vietnam, Japan, China, Brazil, the US, Hungary, The Netherlands and Malaysia were the major export destinations.

Export to the ECOWAS Sub-Region

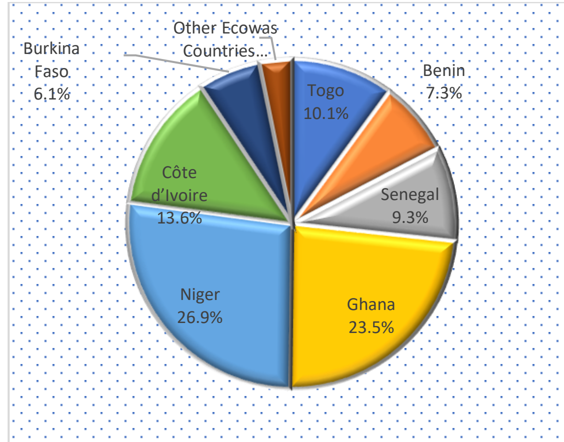
Nigeria's export to the ECOWAS sub-region decreased, reflecting a lull in economic activities during the general elections period. Nigeria's non-oil export to the ECOWAS sub-region declined to US$175.48 million in the first half of 2023, from US$249.17 million in the second half of 2022 and US$254.98 million in the first half of 2022. A breakdown shows that Nigeria's export to Niger, at US$47.14 million, constituted 26.9 per cent of the total, followed by: Ghana with US$41.16 million, 23.5 per cent; Côte d'Ivoire, US$23.78 million, 13.6 per cent; and Togo, US$17.72 million, 10.1 per cent. Export to Senegal was US$16.33 million, 9.3 per cent; Benin, US$12.75 million, 7.3 per cent; and Burkina Faso, US$10.67 million, 6.1 per cent. Other countries accounted for the balance of 3.4 per cent. The major export commodities to the sub-region were tobacco, instant noodles, detergents, plastics, dairy products, soyabean meal and carbonated soft drinks.

Table 3.6.1: Export to ECOWAS Sub-Region (US$ Million)

S/N	Country	Amount
1	Niger	47.14
2	Ghana	41.16
3	Côte d'Ivoire	23.78
4	Togo	17.72
5	Senegal	16.33
6	Benin	12.75
7	Burkina Faso	10.67
8	Mali	2.00
9	Liberia	1.34
10	Guinea-Bissau	0.92
11	The Gambia	0.89
12	Sierra Leone	0.48
13	Guinea	0.29
14	Cape Verde	-
Total		**175.48**

Source: Central Bank of Nigeria

Figure 3.6.2: Export to ECOWAS Sub-Region in Per cent



Source: Central Bank of Nigeria

Foreign Exchange Earnings by the Top 100 Non-Oil Exporters.

The sustained implementation of domestic policy measures aimed at boosting non-oil export resulted in higher earnings by the top 100 non-oil exporters. Receipts by the top 100 non-oil exporters increased by 1.9 per cent to US$2.12 billion, from US$2.08 billion in the second half of 2022. The amount was lower than US$2.29 billion in the corresponding half of 2022. The value of the top 100 non-oil export accounted for 47.1 per cent of total non-oil export receipts.

A breakdown of the receipts shows that Indorama Eleme Fertiliser and Chemical Limited topped the list with a value of US$260.22 million, representing 12.3 per cent of the total, from the export of urea and fertiliser to Turkey and China. Dangote Fertilizer Limited followed with US$199.87 million or 8.6 per cent of the total, from the export of fertilizer to the US and Brazil.

In third place was Outspan Nigeria Limited with export value of US$133.55 million or 6.3 per cent of total, from the export of cocoa beans and cashew nuts to Malaysia, the US, and Vietnam. In the fourth position was Starlink Global and Ideal

Limited, with earnings of US$100.50 million (4.7%), from the export of aluminium alloy ingots, copper billets, and brass ingots to China. In the fifth, sixth and seventh positions were Metal Recycling Industries Limited, Segilola Resources Operating Limited and Olam Nigeria Limited with export values of US$86.04 million (4.1%); US$71.01 million (3.4%) and US$60.11 million (2.8%). Metal recycling Industries Limited exported aluminium and brass ingots to China. Segilola Resources Operating Limited exported gold to China, while Olam Nigeria Limited exported cocoa bean seeds to Australia, Greece, Turkey and China.

Everest Metal Nigeria Limited, WACOT Limited, and Sunbeth Global Concept Limited ranked eighth, ninth and tenth, with respective earnings of US$56.61 million (2.7%), US$53.49 million (2.5%), and US$50.45 million (2.4%). Everest Metal Nigeria Limited exported aluminium and copper ingots to the US, while WACOT Limited exported cotton products, sesame seeds, and ginger to The Netherlands and the US. Sunbeth Global Concept Limited exported cocoa beans and cashew nuts to the US.

Table 3.6.2: Top 10 Non-Oil Exports (US$ Million)

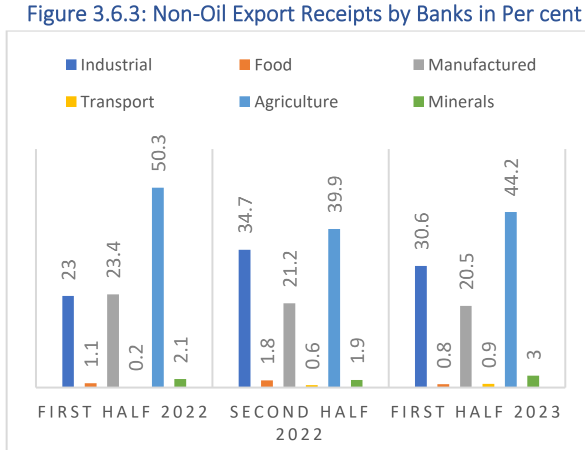
S/N	EXPORTER	AMOUNT	% SHARE
1	INDORAMA ELEME FERTILIZER AND CHEMICAL LTD	260.22	12.3
2	DANGOTE FERTILIZER LIMITED	199.87	9.4
3	OUTSPAN NIGERIA LIMITED	133.55	6.3
4	STARLINK GLOBAL & IDEAL LIMITED	100.50	4.7
5	METAL RECYCLING INDUSTRIES LIMITED	86.04	4.1
6	SEGILOLA RESOURCES OPERATING LIMITED	71.01	3.4
7	OLAM NIGERIA LIMITED	60.11	2.8
8	EVEREST METAL NIGERIA LIMITED	56.61	2.7
9	WACOT LIMITED	53.49	2.5
10	SUNBETH GLOBAL CONCEPT LTD	50.45	2.4

Source: Central Bank of Nigeria

Non-Oil Receipts through Banks

Non-oil export proceeds repatriated through the banking system increased by 22.6 per cent to US$3.48 billion, compared with US$2.84 billion in the preceding half of 2022. The value was also higher than US$2.85 billion in the corresponding half of 2022 by 21.9 per cent. The amount accounted for 77.3 per cent of total non-oil export receipts in the review period. A breakdown of the proceeds by sector shows that receipts from the export of agricultural products accounted for 44.2 per cent of total receipts, followed by industrial products with a share of 30.6 per cent of the total. Proceeds from the sale of manufactured products constituted 20.5 per cent; mineral products, (3.0%); transport, (0.9%); and food products, (0.8%).

Figure 3.6.3: Non-Oil Export Receipts by Banks in Per cent



Source: Central Bank of Nigeria

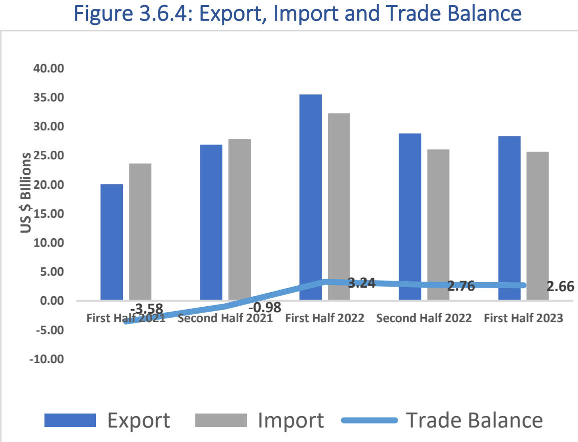
Merchandise Import

Aggregate merchandise import bills decreased, due to supply constraints and low aggregate demand.

Aggregate merchandise import decreased by 1.4 and 20.5 per cent to US$25.64 billion or 11.9 per cent of the GDP, compared with US$26.00 billion and US$32.23 billion in the second and first halves of 2022, respectively. A breakdown shows the importation of non-oil products declined by 8.4 and 17.2 per cent to US$15.59 billion or 7.2 per cent of GDP, compared with US$17.03 billion and US$18.84 billion in the second and first halves of 2022. Importation of petroleum products increased by 11.9 per cent to US$10.04 billion (4.6 per cent of GDP), compared with US$9.0 billion in the second half of 2022, but declined by 28.0 per cent relative to US$13.96 billion in the corresponding half. Despite the decline in non-oil import, it continued to dominate total import, accounting for 60.8 per cent of the total import. Oil import constituted the balance of 39.2 per cent.

A breakdown of merchandise import by broad economic categories indicates that fuels and lubricants accounted for 32.6 per cent, followed by industrial sector, with 19.3 per cent. Furthermore: capital goods was 15.4 per cent, food and beverages, 13.1 per cent; transport equipment and parts, 13.0 per cent; consumer goods, 5.2 per cent; and others, 1.4 per cent.

Figure 3.6.4: Export, Import and Trade Balance



Source: Central Bank of Nigeria

Services

Transactions in the services account resulted in a lower deficit, owing, largely, to reduced payments for transportation and travel services. The deficit in the services account decreased by 12.1 per cent to US$6.32 billion, or 2.9 per cent of GDP in the first half of 2023, compared with US$7.19 billion in the second half of 2022. Analysis indicates that payments for imported services declined by 13.4 per cent to US$8.49 billion, relative to US$9.81 billion in the second half of 2022.

A breakdown shows that payments for transportation and travel services declined by 18.1 and 15.0 per cent, respectively, to US$3.85 billion and US$1.79 billion, compared with US$4.70 billion and US$2.10 billion in the second half of 2022. The development was attributed to lower spending on air transportation, while for travel payments was due to lower expenditure on education related travels.

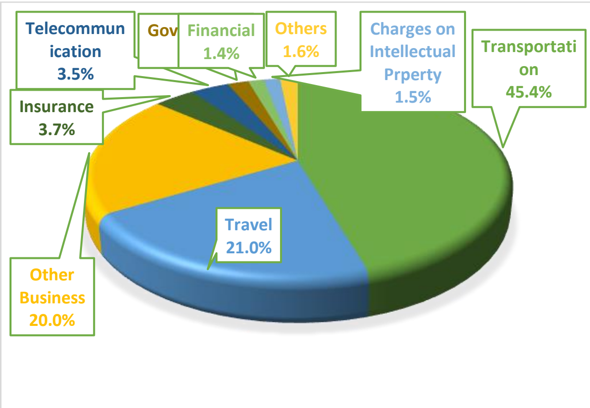
Furthermore, financial services, declined by 57.0 per cent, to US$0.12 billion in the first half of 2023. Similarly, payments for insurance and pension services, as well as government services fell by 1.7 and 2.8 per cent to US$0.32 billion and US$0.16 billion, compared with the levels in the preceding half of 2022.

Payments for personal, cultural, and recreational services increased to US$0.12 billion, from US$0.02 billion. Payments for telecommunications services also grew by 14.5 per cent to US$0.30 billion, relative to US$0.26 billion in the second half of 2022, owing to higher payments for computer and information services.

Analysis of total services payments by share shows that transportation services constituted 45.4 per cent, followed by travel services at 21.0 per cent.

Other business services accounted for 20.0 per cent; insurance services, 3.7 per cent; telecommunications and computer services, 3.5 per cent; government services, 1.9 per cent; charges on intellectual property, 1.5 per cent; and financial services, 1.4 per cent.

Figure 3.6.5: Share of Services Out-Payments in Per cent



Source: Central Bank of Nigeria

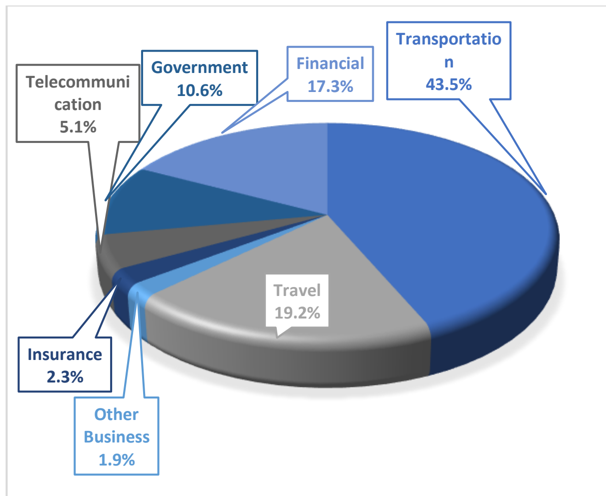
Aggregate earnings from services export declined by 17.0 and 3.2 per cent to US$2.17 billion, relative to the levels in the second half and first half of 2022. The development was attributed to lower inflow from the provision of travel, financial and transportation services.

A breakdown reveals that receipts from travel decreased by 33.4 per cent, to US$0.42 billion, compared with US$0.63 billion in the second half of 2022. Proceeds from transportation services also dropped by 10.4 per cent to US$0.95 billion, compared with the level in the preceding half of 2022, owing majorly to lower receipts from sea transportation services. Receipts from financial services also fell by 18.0 per cent to US$0.38 billion, relative to US$0.46 billion in the second half of 2022. Inflow from telecommunication services, declined by 20.5 per cent to US$0.11 billion, relative to the level in the second half of 2022.

Receipts from government services decreased marginally by 0.7 per cent to US$0.23 billion, compared with the level in the preceding half of 2022.

In terms of share in total services receipts, transportation services accounted for 43.5 per cent of the total, followed by: travels, 19.2 per cent; financial services, 17.3 per cent; government service, 10.6 per cent; and telecommunication services, 5.1 per cent. Insurance services was 2.3 per cent, while other business services accounted for 1.9 per cent of the total.

Figure 3.6.6: Share of Services Receipts in Per cent



Source: Central Bank of Nigeria

Primary Income

The deficit in the primary income account narrowed, due, majorly, to lower investment income claims by non-resident investors as some companies declared losses. The primary income account deficit narrowed by 13.0 per cent to US$4.95 billion, compared with US$5.69 billion, in the preceding half of 2022 and by 31.0 per cent, relative to US$7.18 billion in the corresponding period of 2022.

Investment income from direct investment in the form of dividends and profit payments, decreased by 11.1 per cent to US$5.77 billion, compared with US$6.49 billion in the preceding half of 2022. A breakdown shows that dividend payments increased by 1.3 per cent to US$5.02 billion, from US$4.96 billion in the second half of 2022. There were, however, negative reinvested earnings of US$0.79 billion was recorded, compared with US$0.42 billion in the preceding half-year. The development reflected lower investment income claims by non-resident investors as some companies declared losses during the review period.

Interest payments on portfolio investments increased to US$0.18 billion, compared with US$0.11 billion in the second half of 2022, indicating the bullish performance of the capital market in the review period. Similarly, interest earnings on external reserves investments grew to US$0.46 billion, compared with US$0.29 billion in the second half of 2022, owing to higher interest on fixed income securities in the Advanced Economies. Interest payments on loans increased to US$1.32 billion, from US$0.95 billion in the preceding period.

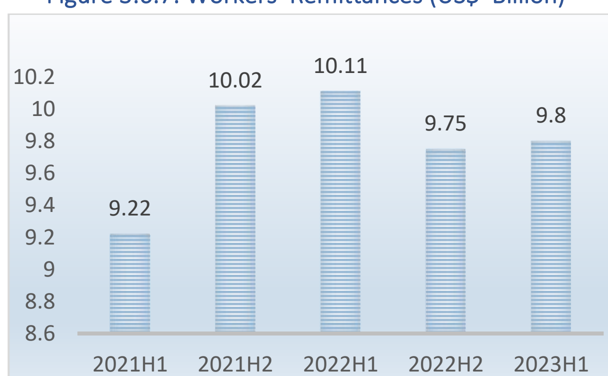
The compensation of employees sub-account remained in a surplus position, though lower by 2.2 per cent at US$0.12 billion, compared with the level in the preceding half of 2022.

Secondary Income

The secondary income account recorded a higher surplus, owing to increased inflow of grants to the general government and sustained inflow of remittances. The surplus in the secondary income account increased to US$11.08 billion or 5.1 per cent of GDP in the review period, compared with US$10.41 billion or 4.0 per cent of GDP in the preceding period. It was, however, lower than US$11.44 billion recorded in the corresponding half of 2022. The increase was occasioned by sustained inflow of remittances and higher inflow of grants to the general government, majorly to support the general elections process during the review period. Inflow of grants to the general government rose to US$1.44 billion in the first half of 2023, from US$1.26 billion in the preceding half of 2022. The amount, however, was lower by 7.3 per cent when compared with US$1.55 billion in the corresponding period.

Remittances from migrant workers, which constituted 86.8 per cent of total secondary income inflow increased slightly to US$9.80 billion, from US$9.75 billion in the second half of 2022, but lower than US$10.11 billion in the first half of 2022, reflecting improvements in wages in major migrant host countries as inflation eases in the review period.

Figure 3.6.7: Workers' Remittances (US$' Billion)



Source: Central Bank of Nigeria

Financial Account Developments

The financial account remained in a net borrowing position in the review period. The financial account recorded a lower net incurrence of liabilities of US$1.48 billion in the review period, compared with US$3.54 billion and US$2.95 billion in the preceding and corresponding halves of 2022, respectively. The development was, due to lower inflow of foreign portfolio and loans, occasioned by the lull in domestic economic activities, particularly during the general elections in the first quarter and tight global financial conditions.

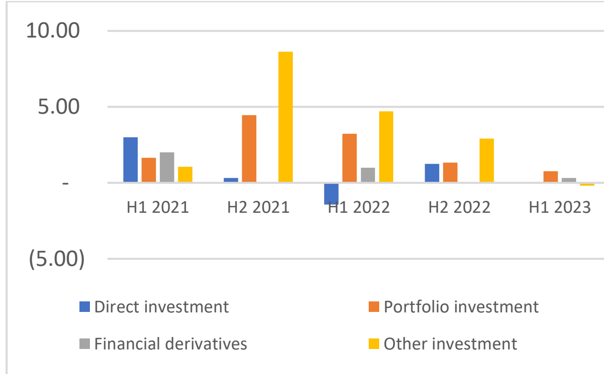
Net Incurrence of Liabilities

Tighter global financial conditions and uncertainties surrounding the general elections dampened investors' sentiments, thus, resulting in a lower inflow of foreign capital. Aggregate financial liabilities declined significantly to US$0.97 billion, compared with US$5.51 billion and US$7.49 billion in the second and first halves of 2022, respectively.

A breakdown reveals that foreign direct investment (FDI) inflow amounted to US$0.01 billion in the first half of 2023, compared with US$1.25 billion in the preceding half. This was in contrast to a divestment of US$1.44 billion in the corresponding half of 2022. The decrease was as a result of the lower inflow of equity and negative reinvested earnings.

Also, portfolio investment inflow in form of equity and debt securities was lower at US$0.77 billion, relative to US$1.34 billion and US$3.22 billion in the preceding and corresponding halves of 2022, respectively. The development was owing majorly to the Central Bank's redemption of matured investments in short-term debt securities. In contrast, 'other' investment recorded an outflow of US$0.18 billion, in contrast to an inflow of US$2.92 billion in the preceding half of 2022, and US$4.70 billion in the corresponding half of 2022, due to withdrawal of currency and deposits from domestic deposit taking corporations.

Figure 3.6.8: Foreign Capital Inflow (US$ Billion)



Source: Central Bank of Nigeria

Net Acquisition of Assets

Aggregate financial assets recorded a disposal of US$0.52 billion, in contrast to an acquisition of US$1.96 billion and US$4.54 billion in the preceding and corresponding halves of 2022, respectively. The development was, largely due, to lower acquisition of other investment assets and depletion in external reserves.

An analysis reveals a disposal of direct investment assets by resident investors stood at US$0.01 billion in the review period, relative to an acquisition of US$0.18 billion in the second half of 2022. Portfolio investment assets decreased to US$0.02 billion, compared with US$0.40 billion in the preceding half of 2022. The acquisition of 'other investment' asset also decreased to US$2.44 billion, compared with US$3.93 billion in the preceding half of 2022. The decline was, due to the withdrawal of foreign currency and deposits by deposit taking corporations and repayment of loans by the deposit-taking corporations.

Reserve assets was depleted by US$2.96 billion in the review period, compared with US$2.54 billion in the preceding half of 2022. The depletion was on account of settlement of balance of payments obligations, including servicing of outstanding debt obligations.

External Debt

Nigeria's public external debt increased in the review period, owing to incurrence of new of loans. Nigeria's public sector external debt stock and external debt service payment at end-June 2023 stood at US$43.16 billion or 10.4 per cent of GDP and US$0.37 billion, respectively. A breakdown showed that the multilateral loans, from the World Bank, International Monetary Fund, and African Development Bank Groups, amounted to US$20.79 billion, accounting for 48.2 per cent of the total. A total of US$15.62 billion or 36.2 per cent of the total was borrowed from commercial sources in the form of Euro Bonds. Loans from bilateral sources was US$5.52 billion, or 12.8 per cent of the total, promissory notes were US$0.93 billion, or 2.2 per cent of the total, while syndicated loan (arranged by African Finance Corporation) stood at US$0.30 billion or 0.7 per cent of the total debt stock.

The external debt service payment stood at US$0.37 billion at end-June 2023. A breakdown showed that interest payment totaled US$0.21 billion, accounting for 56.8 per cent of the entire debt service payment. Principal repayment totaled US$0.13 billion, or 35.1 per cent of the total, while other payments made up the balance. An analysis of interest payments showed that interest payment on commercial borrowings accounted for 75.3 per cent of the total at US$0.16 billion, while interest on multilateral loans amounted to US$0.04 billion or 21.4 per cent of the total. Interest payments to bilateral institutions accounted for the balance.

International Investment Position

A lower net liability was recorded in the International Investment Position. A lower net financial liability of US$53.13 billion was recorded at end-June 2023, compared with US$74.64 billion at end-December 2022, and US$74.91 billion at end-June 2022.

The stock of financial liabilities, representing foreign investors' claims on the economy, declined by 12.1 per cent to US$161.90 billion at end-June 2023, relative to US$184.27 billion at end-December 2022. There was also a 11.7 per cent decline when compared to US$183.25 billion at end-June 2022. The development reflected a decrease in the stock of portfolio investments (particularly the household holdings) and direct investments (particularly equity and investment fund shares in direct investment enterprises).

The stock of portfolio investment fell by 21.3 per cent to US$28.46 billion at end-June 2023, relative to US$36.17 billion at end-December 2022. Similarly, the stock of FDI liabilities declined by 16.0 per cent to US$72.08 billion at end-June 2023, relative to US$ 85.81 billion at end-December 2022. The stock of other liabilities also declined by 1.9 per cent to US$57.98 billion at end-June 2023, relative to US$59.12 billion at end-December 2022.

Total stock of financial assets declined marginally by 0.8 per cent to US$108.77 billion at end-June 2023, relative to US$109.64 billion at end-December 2022. This was, largely due, to the depletion in external reserves.

Further analysis reveals that direct investment declined slightly by 0.1 per cent to US$13.65 billion at end-June 2023, relative to US$13.67 billion at end-December 2022. Portfolio investment declined by 5.1 per cent to US$3.85 billion at end-

June 2023, relative to US$4.06 billion at end-December 2022. However, 'Other' investment assets rose by 4.3 per cent to US$54.40 billion, relative to US$52.14 billion at end-December 2022. The stock of reserve assets fell to US$33.71 billion at end-June 2023, relative to US$36.61 billion at end-December 2022.

External Reserves

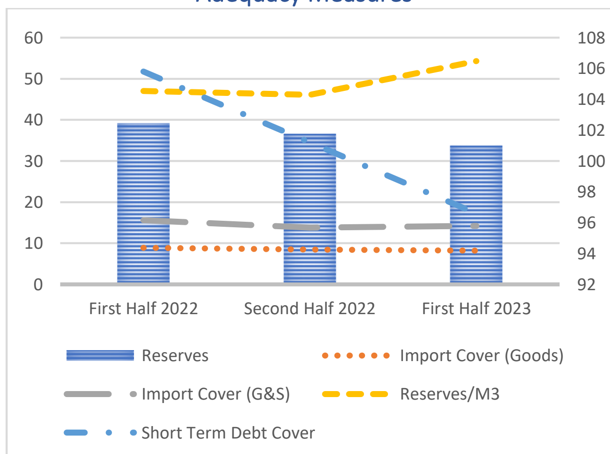
The external reserves remained above the international benchmark of three months of import cover. Gross external reserves at end-June 2023 stood at US$33.71 billion, compared with US$36.61 billion and US$39.16 billion at end-December 2022 and end-June 2022, respectively. The 7.9 per cent decline in external reserves, compared with the level at end- December 2022, was, mainly due, to the Bank's effort to stabilise the foreign exchange market and settlement of other obligations, including public sector and external debt service payments.

A breakdown of external reserves by ownership shows that, the CBN maintained the largest share of 85.9 per cent, followed by the Federal Government with 14.0 per cent. The Federation accounted for the outstanding 0.1 per cent. In terms of currency composition, the US dollar, at US$25.11 billion, constituted 74.5 per cent of the total; Special drawing rights, US$5.02 billion (14.9%); Chinese yuan, US$3.16 billion (9.4%); and other currencies accounted for the balance of 1.2 per cent.

An assessment of external reserves adequacy based on the traditional benchmark, shows, that the level of reserves at end-June 2023 could finance 6.0 months of import of goods and services or 8.2 months of goods only, higher than the prescribed 3.0 months international benchmark.

The ratio of external reserves to short-term liabilities was 3.4 percentage points below the benchmark of 100.0 per cent short-term debt cover, based on the Greenspan-Guidotti measure of external reserves adequacy. In terms of external reserves to money supply (M3), the ratio, at 40.1 per cent was above the international benchmark of 20.0 per cent.

Figure 3.6.9: External Reserves Stock and Reserve Adequacy Measures



Source: Central Bank of Nigeria

External Asset Management Programme and Income from Reserves Management

The Net Asset Value of the portfolio managed by the external Asset Managers increased to US$7.31 billion at end-June 2023, from US$7.23 billion at end-December 2022 and US$7.26 billion at end-June 2022.

Foreign Exchange Flows

The economy recorded a higher net foreign exchange inflow, due to increased receipts from autonomous sources. Foreign exchange flow through the economy recorded a net inflow of US$16.75 billion in the first half of 2023, compared with US$14.27 billion in the second half of 2022.

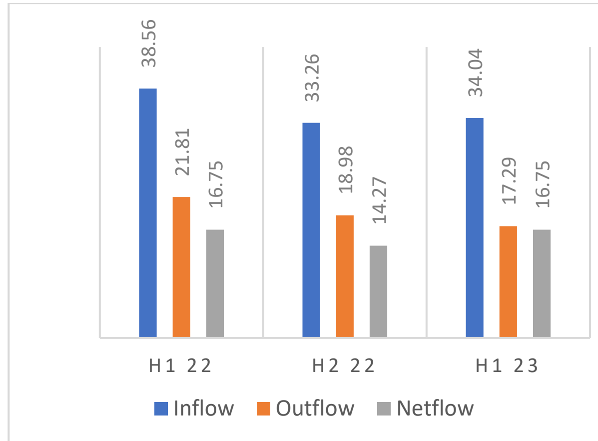
Aggregate inflow into the economy rose by 2.4 per cent to US$34.04 billion in the first half of 2023, compared with US$33.26 billion, in the second half of 2022, but fell by 11.7 per cent, compared with US$38.56 billion, in the first half of 2022. The development was driven, largely, by 8.6 per cent increase in inflow through autonomous sources. A breakdown shows that inflow through the CBN and autonomous sources accounted for 36.9 and 63.1 per cent, respectively.

Inflow through autonomous sources increased by 8.6 per cent to US$21.47 billion, from US$19.77 billion in the second half of 2022. Foreign exchange inflow through the CBN fell by 6.8 per cent to US$12.58 billion in the first half of 2023 from US$13.49 billion in the second half of 2022.

Aggregate foreign exchange outflow from the economy declined by 8.9 per cent to US$17.29 billion, from the levels in the second half of 2022. A breakdown shows that outflow through autonomous sources declined by 29.5 per cent to US$2.07 billion, compared with the level in the second half of 2022. Similarly, outflow through the CBN decreased by 5.2 per cent to US$15.22 billion.

A net inflow of US$19.40 billion was recorded in the first half of 2023 through autonomous sources, compared with US$16.84 billion in the second half of 2022. The CBN recorded a higher net outflow of US$2.65 billion in the first half of 2023, compared with US$2.56 billion in the second half of 2022.

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



Source: Central Bank of Nigeria

Foreign Exchange Management

The foreign exchange market remained relatively stable in the first five months of 2023. The Bank, however, introduced some operational changes in the foreign exchange market from June 14, 2023, which included the collapse of all foreign exchange segmented markets into the Investors and Exporters (I&E) window. Thus, all eligible foreign exchange transactions for medical needs, school fees, Business Travel Allowance/ Personal Travel Allowance (BTA/PTA) and Small and Medium Enterprise (SMEs) import amongst others were to be transacted at the I & E window.

The Bank also discontinued the RT200 Rebate Scheme and the Naira4Dollar Remittance Scheme to ensure a market determined foreign exchange rate. In addition, the Bank introduced eNaira payment option to recipients of diaspora remittances. The policy shift to a market determined regime resulted in the depreciation of the naira.

Exchange Rate Movements

The exchange rate of the naira to the US dollar at the I&E window, closed at ₦770.88/US$ at end-June 2023, relative to ₦460.00/US$ at end-December 2022 and ₦414.00/US$ at end-June 2022.

The average exchange rate of the naira to the US dollar at the I&E window depreciated by 10.3 per cent and 14.4 per cent to ₦486.08/US$ in the first half of 2023, relative to ₦436.00/US$ and ₦416.02/US$ in the second and first halves of 2022, respectively.

Figure 3.6.11: Average Exchange Rate Movements (₦ /US$)

Source: Central Bank of Nigeria

In the first half of 2023, the average cross exchange rate of the naira against the surveyed currencies depreciated, relative to the levels in the second half of 2022. The naira depreciated by 14.6 per cent against the British pound to ₦600.39/£. The naira also depreciated by 15.8 per cent against the euro to ₦525.46/€ and 13.3 per cent against the Japanese yen at ₦3.60/¥. The naira weakened by 15.3 per cent against the CFA Franc and 12.0 per cent against the WAUA, to ₦0.79/CFA and ₦638.94/WAUA.

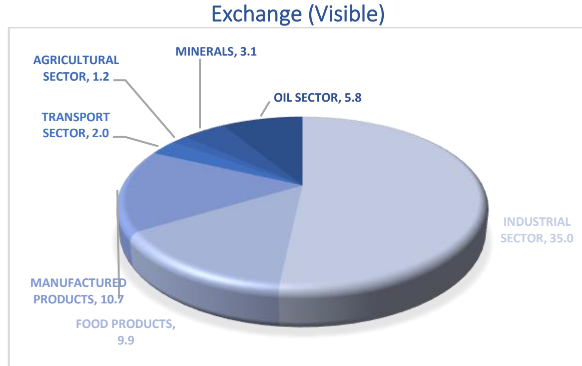
Sectoral Utilisation of Foreign Exchange

Aggregate utilisation of foreign exchange by sectors decreased, driven, mainly by decline in the utilisation for invisibles import. Aggregate sectoral utilisation of foreign exchange was US$13.78 billion in the first half of 2023, indicating a decrease of 10.9 per cent, compared with the level in the second half of 2022. It also fell by 3.9 per cent relative to the level in the corresponding half of 2022. A disaggregation shows that US$9.34 billion or 67.7 per cent of the foreign exchange was utilised for visible import, indicating an increase of 0.2 and 5.0 per cent, compared with their levels in the second and first halves of 2022, respectively.

Further analysis shows that the amount utilised by the industrial sector, at US$4.83 billion, rose by 14.0 per cent, over the level in the second half of 2022. Similarly, utilisation by oil, mineral and transport sectors grew by 13.2, 15.9 and 12.8 per cent, to US$0.81 billion, US$0.43 billion and US$0.28 billion, respectively, compared with the levels in the preceding period.

The amount utilised for manufactured, food products and agricultural sectors declined by 27.3, 12.9 and 4.2 per cent, to US$1.47 billion, US$1.36 billion, and US$0.16 billion, respectively, relative to the levels in the preceding half of 2022.

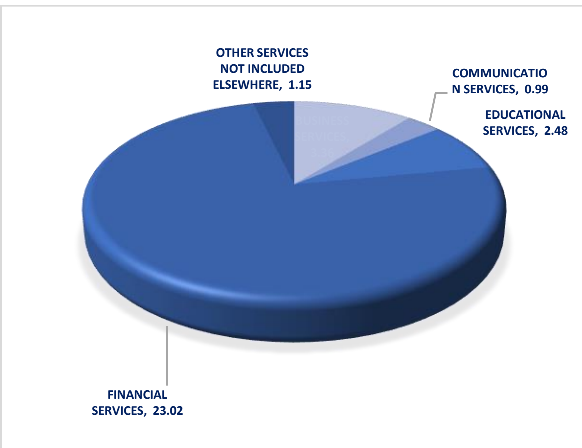
Figure 3.6.12: Share of Sectoral Utilisation of Foreign Exchange (Visible)



Source: Central Bank of Nigeria

Invisible transactions at US$4.45 billion or 32.3 per cent of the total, declined by 27.7 per cent, below US$6.16 billion in the second half of 2022, and 18.4 per cent below US$5.45 billion recorded in the first half of 2022. A breakdown shows that the amount utilised for financial services and other services declined by 25.8 and 56.9 per cent to US$3.17 billion and US$0.16 billion, respectively, below the levels in the second half of 2022. The amount utilised for transport, educational and business services also decreased by 46.2, 37.3 and 13.1 per cent, to US$0.17 billion, US$0.34 billion, and US$0.46 billion, respectively, relative to the levels in the second half of 2022.

Figure 3.6.13: Share of Sectoral Utilisation of Foreign Exchange (Invisibles) in Per cent

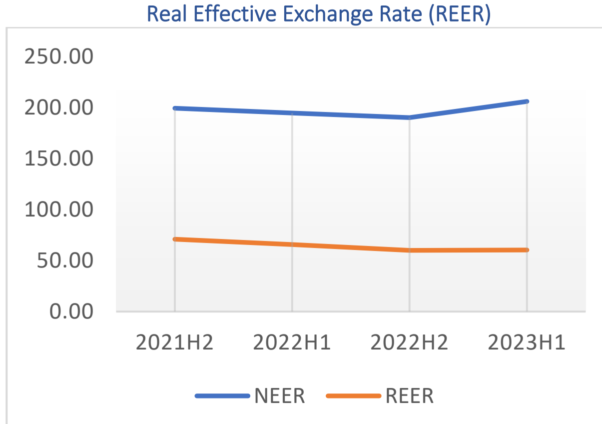


Source: Central Bank of Nigeria

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

The average 19-currency[13] NEER index (November 2009=100) in the review period was 217.07 index points, indicating a rise of 14.1 and 11.4 per cent, relative to the levels in the second and first halves of 2022, respectively. The average REER index (November 2009=100) was 62.82 points, representing a 4.7 per cent increase and 4.6 per cent decrease, compared with the levels in the second and first halves of 2022, respectively. The indices reflected depreciation against the major trading partners in the review period, which suggested increased export competitiveness.

Figure 3.6.14: Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER)



Source: Central Bank of Nigeria

[13] China, India, USA, Netherlands, Brazil, Spain, France, South Africa, Germany, UK, Japan, Cote d'Ivoire, South Korea, Indonesia, Belgium, Italy, Ghana, Sweden, UAE

Section Four

OUTLOOK

4.1 GLOBAL ECONOMIC OUTLOOK

The global economic outlook for the rest of 2023 remains positive, owing to the easing supply chain pressure, as shocks from the COVID-19 and Russia-Ukraine war moderate. The prevailing tight financial conditions, however, is expected to suppress demand, resulting to slower growth, particularly, in the AEs. Consequently, the IMF projected the expansion of the global economy to slow in 2023 at 3.0 per cent, below the pre-pandemic average of 3.8 per cent, and the 3.5 per cent recorded in 2022.

In the Advanced Economies (AEs), rising credit constraints and shrinking labour markets are expected to drag output growth to 1.5 per cent in 2023, from 2.7 per cent in 2022. In the United States, output is projected to slow to 1.8 per cent in 2023 from 2.1 per cent in 2022, attributable to the anticipated impact of tight monetary policy. Growth in the euro area is projected to fall to 0.9 per cent in 2023 from 3.5 per cent in 2022. In the UK, growth is expected to decline to 0.4 per cent from 4.1 per cent in 2022 as households face severe cost of living crisis. The German economy is projected to slide into recession, contracting by 0.3 per cent, from 1.8 per cent growth in 2022.

In Emerging Markets and Developing Economies (EMDEs), growth is projected to remain stable at 4.0 per cent in 2023. Anticipated recovery in China would be driving growth. Thus, the Chinese economy is projected to grow by 5.2 per cent from 3.0 per cent in 2022. Output in India is, however, expected to decline to 6.1 per cent in 2023 from 7.2 per cent in the preceding year. At the regional level, growth in the Middle East and Central Asia is projected at 2.5 per cent in 2023 from 5.4 per cent in 2022.

The outlook for sub-Saharan Africa is positive, with growth projected at 3.5 per cent in 2023, a decrease from the 3.9 per cent growth in 2022. The projection for the region reflects the contagion effects from advanced countries and the monetary tightening.

Global headline inflation is projected to remain elevated in 2023, though lower than the levels in 2022, due to lower energy prices and monetary policy measures. Consequently, global headline inflation is expected to decline from 8.7 per cent in 2022 to 6.8 per cent, with about three-quarters of the global economies expected to experience lower disinflation. However, the IMF projections suggest that the inflationary pressure could heighten further if international commodity prices rise and central banks loosen their policy stance.

In the AEs, inflationary pressure is expected to ease, reflecting the impact of the decline in energy and commodity prices owing to the diminishing effects of the Russia-Ukraine war. Thus, the inflation rate in AEs is expected to decline to 4.6 per cent from 7.3 per cent in 2022. Within the EMDEs, inflation is projected to continue to trend downward, declining to 8.1 per cent from 9.9 per cent in the preceding year.

Inflationary pressure could, however, rise further if the labour market in the AEs remains tight and wages rise. Also, any unexpected rise in energy and food prices could make it more difficult to anchor inflation expectations, which would require even tighter monetary policy to tackle.

Table 4.1: Economic Growth in Selected Countries

Country	Growth		
	2022	2023f	2024f
Global	*3.5*	*3.0*	*3.0*
Advanced Economies	*2.7*	*1.5*	*1.4*
United States	*2.1*	*1.8*	*1.0*
United Kingdom	*4.1*	*0.4*	*0.1*
Japan	*1.0*	*1.4*	*1.0*
Germany	*1.8*	*-0.3*	*1.3*
Italy	*3.7*	*1.1*	*0.9*
Emerging Market & Developing Economies	*4.0*	*4.0*	*4.1*
Russia	*-2.1*	*1.5*	*1.3*
China	*3.0*	*5.2*	*4.5*
India	*7.2*	*6.1*	*6.3*
Sub-Saharan Africa	*3.9*	*3.5*	*4.1*
South Africa	*1.9*	*0.3*	*1.7*
Nigeria	*3.1*	*3.2*	*3.0*

Source: IMF World Economic Outlook, 2023

Note: 2023f and 2024f are forecasts

4.2 DOMESTIC ECONOMIC OUTLOOK

Nigeria's output growth is expected to maintain a positive trajectory for the rest of 2023. The growth prospects are dependent on continued policy support in the agriculture and oil sectors, and reforms in the foreign exchange market. Specifically, the Nigerian economy is estimated to grow in 2023 by 2.79 per cent (CBN), 3.79 per cent (FMBNP) and 3.20 per cent (IMF). The positive outlook is predicated on the effective implementation of Finance Act 2023 and the 2022-2025 Medium-Term National Development Plan (MTNDP), and the continued interventions by the CBN in growth-enhancing sectors.

The risk to the outlook is still tilted to the downside, characterised by significant headwinds such as rising energy prices emanating from lingering effects of the Russia-Ukraine war, and the persisting security and infrastructural challenges, which could undermine the growth outlook in the short-to-medium-term.

Domestic prices are expected to remain elevated through the second half of 2023. This is on the back of spillovers from global supply constraints, and exchange rate pass-through. More so, the persisting security and infrastructural challenges could exacerbate inflationary pressures.

Fiscal sector performance is expected to remain on a positive recovery trajectory in the second half of 2023. This outlook is contingent on the effective implementation of the Finance Act 2023 and restructuring of key revenue generating MDAs to boost non-oil revenue. Low domestic crude oil production, growing public debt, lingering insecurity, global economic slowdown, and the war in Ukraine, could, however, pose significant downside risks to fiscal operations in the short- to medium-term.

The financial sector is expected to remain resilient in the second half of 2023. The outlook mirrors the efforts of the CBN in continuously monitoring emerging vulnerabilities and risks in the system, including periodic stress-tests and examination exercises, and the provision of risk mitigants.

The outlook for Nigeria's external position is optimistic, on the expectation of favourable terms of trade, occasioned by sustained rally in crude oil prices and an improvement in domestic crude oil production. The positive outlook is supported by the sustenance of crude oil price, propelled by the decision to cut production from May, and gains from capital flows and remittances. Lower crude oil earnings, abolishing of fuel subsidy removal, rising import bills and increased external debt servicing obligations could, however, pose downside risks to the accretion of external reserves. In addition, the sustained monetary policy tightening by central banks across advanced economies increases the risk of capital outflow.

Section Five

ADDITIONAL INFORMATION

5.1 REGIONAL MEETINGS

47th Meeting of the Technical Committee (TC) of the West African Institute for Financial and Economic Management (WAIFEM) was held in Banjul, The Gambia, on 5 February 2023. The draft Minutes of the 43rd Meeting of the Board of Governors, held virtually on 25 August 2022, was considered by the TC, and recommended for the Board's consideration and adoption. Highlights of the Meeting included the need for:

- Deliberate actions to ensure more female participation in WAIFEM programmes, following the observed gender imbalance (31.3 per cent female participation);
- Africa Capacity Building Foundation (ACBF) to pilot the capacity building project for Enhanced Leadership and Governance with respect to Public Financial Management (ELG-PFM) in five countries - Nigeria, Ghana, Kenya, Zimbabwe and Senegal;
- WAIFEM to foster close collaboration with development partners, including joint training programmes with the International Monetary Fund (IMF), World Bank, African Regional Technical Assistance Centre in West Africa (AFRITAC West 2), Africa Training Institute (ATI), and Macroeconomic and Financial Management Institute (MEFMI) to promote cost-effectiveness in service delivery;
- WAIFEM to sustain discussion with the African Development Bank (AfDB) and the ACBF to fund training programmes on emerging macroeconomic management, leadership, and governance issues; and
- Continuation of WAIFEM face-to-face training programmes, in addition to the Hybrid (Blended Learning) format.

49th Meeting of the Convergence Council of Ministers and Governors of Central Banks of the West African Monetary Zone (WAMZ). The Convergence Council (CC) of Ministers and Governors of the Central Banks of the Member States of the WAMZ held its 49th Meeting in Banjul, The Gambia, on 10 February 2023. The Meeting deliberated on the status of implementation of the WAMZ work programme and activities under the Economic Community of West African States (ECOWAS) Single Currency Programme. The Report of the 46th Meeting of the WAMZ's Committee of Governors (CoG) formed the basis for the deliberations. Highlights of the Meeting included:

- Adoption of the Macroeconomic Developments and Convergence Report of end-June 2022, the study on the "Optimal Inflation-Growth Threshold: A Case of WAMZ Member States", and the roadmap for adoption of inflation targeting;
- The reduction of the financial burden on Member States. The ECOWAS Commission was advised to allocate resources to WAMI and WAMA to carry out their roles as the proposed 2027 deadline for the launching of the ECOWAS Single Currency Programme approaches;
- The appropriateness of the current 5.0 per cent inflation threshold for the WAMZ was questioned, on account of the inability of

Member States to satisfy the criterion since its adoption. Earlier studies had suggested an optimal inflation threshold of about 10.0 per cent for the Zone; and

- WAMI was directed to update the roadmap on inflation targeting and the pre-conditions set for Member States of the WAMZ.

Second Dakar Financing Summit for Africa's Infrastructure Development, Dakar, Senegal

The African Union Development Agency and the Government of Senegal held the 2nd Dakar Financing Summit for Africa's Infrastructure Development in Dakar, Senegal, from 1 - 3 February 2023.

African Heads of government, the African Development Bank, development finance institutions, and institutional investors met to articulate the modalities for implementing 69 infrastructure projects worth US$160 billion for completion by 2030. The 69 projects fall under the Programme for Infrastructure Development in Africa (PIDA), a blueprint for infrastructure development to increase Africa's competitiveness and economic integration. PIDA's Priority Action Plan 2, was adopted by the African Union Assembly of Heads of State and Government in 2021.

Regional bodies and unions were implementing the 69 projects in all five of Africa's regions. The projects included:

- Trans-border Sub-marine Fiber point of presence and Regional Smart Hub Facility and Data Center project, which would provide information and communication technology connectivity to 285 million people in Ethiopia, Kenya, Somalia, South Sudan, Tanzania, and Uganda;

- The Gambia River Basin Development Organization (OMVG) Energy Project which involves 4 countries, The Gambia, Guinea, Guinea-Bissau, and Senegal. It focuses on the rational management of the joint resources of Rivers Gambia, Kayanga-Géba and Koliba-Corubal, whose basins have power-generating potential; and

- Baynes Hydropower project, an energy project that would benefit Angola, Botswana, the Democratic Republic of the Congo, Eswatini, Lesotho, Malawi, Mozambique, Namibia, South Africa, Tanzania, Zambia, and Zimbabwe.

36th Ordinary Session of the Assembly of the African Union

The 36th Ordinary Summit of the African Union (AU) was held in Addis Ababa, Ethiopia, from 18 - 19 February 2023, with the theme "The Year of African Continental Free Trade Area (AfCFTA): Acceleration of the African Continental Free Trade Area Implementation". The deliberations at the summit focused on the integration of Africa, ensuring continental peace and security, socio-economic development, rebuilding Africa from the brunt of various health and socio-economic crises, and strong African representation in multi-lateral international institutions. The Heads of State and Government considered, among others:

- The agenda, draft decisions, and declarations at the summit of the Assembly for adoption, which were submitted by the 42nd Ordinary Session of the Executive Council, held before the Summit on 15 and 16 February 2023;
- The Institutional Reforms of the AU, which was presented by President of the Republic of Rwanda, H.E. Paul Kagame;
- The activities of the Peace and Security Council (PSC) and the state of peace and security in Africa; and
- The global political, financial, and energy policy governance, presented by President of the Republic of Senegal, H.E. Macky Sall, and the global food crisis.

Regional Workshop of the Expert Committee on the Harmonization of Regulatory and Supervisory Framework for Banks and Non-Bank Financial Institutions in ECOWAS was held in Freetown, Sierra Leone, from 12 - 16 June 2023. The objective was to validate the draft Model Act for Banks and Financial Holdings Companies for the ECOWAS region. Key highlights were:

- The articulation of a model Banking Act clarifying the terminology and ensuring its consistent application across legal jurisdictions; and
- The agreement to establish two sub-committees to review the structure of the Model Act, and make recommendations regarding the arrangement of the sections and any other relevant adjustments.

Annual Meetings of the Board of Governors of the African Development Bank Group. The 58th Annual Meeting of the Board of Governors of the African Development Bank and the 49th Meeting of the Board of Governors of the African Development Fund (the concessional arm of the Bank Group) was held in Sharm El Sheikh, Egypt, from 22 - 26 May 2023, with the theme "Mobilising Private Sector Financing for Climate and Green Growth in Africa".

The Meetings served as a forum to discuss Africa's challenges in attracting private sector financing in low-carbon investments and practical policies that governments could use to address the bottlenecks. It also served as a platform to share experiences to stimulate private financing, domestically and internationally, harness capital for climate financing, and promote the transition to green growth in Africa.

Joint Multilateral Surveillance Mission to Nigeria by ECOWAS Commission, West African Monetary Agency (WAMA), and West African Monetary Institute (WAMI). The ECOWAS Commission, WAMA, and WAMI conducted a Joint Multilateral Surveillance Mission to Nigeria, during the period 4 - 11 May 2023, to assess the country's macroeconomic developments and status of convergence in 2022, as well as the outlook for 2023 within the framework of the ECOWAS Monetary Cooperation Programme.

The Mission noted that:

- The Nigerian economy is recovering, driven by agriculture and services;
- Inflationary pressures remained elevated;
- Revenue fell short of expenditure, leading to the widening of the budget deficit in 2022;
- external sector performance improved, as the current account deficit narrowed to US$2,490.69 in 2023Q1, from US$2,348.31 in 2022Q4, respectively, despite the prevailing global challenges; and

Nigeria met one of the four primary criteria (gross external reserves) and both secondary criteria under macroeconomic convergence.

4.2 NON-REGIONAL MEETINGS

The Intergovernmental Group of Twenty-Four Technical Group Meeting. The Meeting was held virtually from 23 February - 2 March 2023, with the theme "Challenges to Structural Transformation for Emerging Market and Developing Countries (EMDEs)". Discussions were centered on multiple issues that create both long-term and immediate policy challenges for the EMDEs.

The Virtual TGM sessions provided a forum for Member countries to discuss developments in key areas of concern and formulate views that informed the positions that the Group could articulate in global discussions and its forthcoming Spring Ministerial Communiqué.

Following extensive deliberations, the group agreed on key actionable recommendations as follows:

- The setting up and implementation of responsive country models in resource allocation and operational efficiency;
- Ensuring a decent transition that focuses on sustainable and inclusive growth among members;
- Increased transparency in the enforcement of agreed benchmarks and growth-enhancing financing options in the World Bank Group operations;
- Welcomed new deals that could aid structural transformation, by shifting from austerity to investment-led public spending, progressive taxation, and tailored policies;

- Advocated capital efficiency among member countries, and the need to play an active role in defining ambition;
- Called for caution among members in promoting private financing mechanisms, considering potential borrower costs and the chronic deficiency of private development finance;
- Resolved to increase capital contribution, implement concrete actions, ensure equitable burden sharing and financial commitments; and
- Ramped up Action Plan for Climate and SDG Investment Mobilisation, in the short term, leveraging on existing blended finance transactions and funding with successful tract records.

2023 Spring Meetings of the Board of Governors of the International Monetary Fund / The World Bank Group, 10—16 April 2023.

The Meetings of the Board of Governors of the World Bank Group (WBG), the International Monetary Fund (IMF) and the Inter-Governmental Group of Twenty-Four (G-24) on International Monetary Affairs and Developments were held In-person and virtually from April 10– 16, 2023. The Nigerian delegation was led by the Honorable Minister of Finance, Budget and National Planning, Mrs. Zainab Ahmed. The sideline Meetings included those of the International Monetary and Finance Committee (IMFC) of the Governors of IMF, the Development Committee (DC) of the World Bank Group, as well as the Meetings of the Ministers of the G-24. The proceedings of the Meetings were;

The G24 Ministers:

- Called for structural changes to prevent further erosion of the Bank and Fund's legitimacy and reinvigorate multilateralism, noting that, "Multilateralism can only exist where there is expanded consultation between developed and developing countries, the broader UN system and the Bretton Woods Institutions for a more balanced governance structure.";
- Expressed concerns that more concessional lending to middle-income countries due to the Bank's shifting mandate, could be at the expense of poorer countries, the struggle to adequately replenish both the Bank's IDA and the Fund's Poverty Reduction and Growth Trust (PRGT) being an early indication of this challenge;
- Welcomed the establishment of a new Loss and Damage Fund agreed at the 27th United Nations Conference on Climate Change (COP27) in November 2022, and called on advanced economies to step up their commitments;
- Expressed concern on the increasing risks to financial stability that could disrupt economic recovery. Thus, in managing the exit from accommodative macro-economic policies, policymakers need to strike a balance between containing surging inflation and supporting economic recovery; and
- Observed that Faster than expected increases in interest rates in advanced economies could raise rates globally and trigger capital outflows from developing countries, reducing access to financial

markets, and further increasing debt vulnerabilities.

The International Monetary and Financial Committee (IMFC):

- Condemned the war in Ukraine and stressed that it is causing immense human suffering and exacerbating existing fragilities in the global economy - constraining growth, increasing inflation, disrupting supply chains, heightening energy and food insecurity, and elevating financial stability risks;

- Remained committed to the IMF's policy advice and analytical work on policies to address financial sector vulnerabilities, contain inflation, tackle elevated debt levels, and the impact of geo-economic fragmentation; and
- Welcomed the IMF's strong policy and financial support to low-income countries, including those benefiting from the new temporary food shock window and Poverty Reduction and Growth Trust-supported programs.

The Development Committee:

- Highlighted process made on the Evolution Roadmap of the World Bank Group (WBG) and look forward to more work to achieve major milestones during their meeting in October 2023 in Marrakech. They charged the Board of Executive Directors and WBG management to finalize the work plan with detailed actions to be taken;
- Welcomed increased support for nature and biodiversity, and other environmental challenges and look forward to seeing updates on the Gender Strategy and the mid-term review of the Fragility, Conflict, and Violence Strategy;
- Recognized that Russia's invasion of Ukraine has continued to have massive humanitarian consequences and a detrimental impact on the global economy and called for continued economic support to Ukraine and other countries affected by the war;
- Expressed their commitment to ensuring that the WBG has adequate financial capacity to respond to development challenges and support its expanded mission. They strongly reaffirmed their commitment to boosting the WBG's financial capacity, including through a revision of IBRD's (International Bank for Reconstruction and Development) minimum Equity-to-Loan Ratio to 19.0 per cent, a Hybrid Capital pilot for capital-market investors, and a scaled-up bilateral guarantee program. They looked forward to seeing updates from the Executive Directors on the implementation of these initiatives, which have the potential to add US$50.00 billion additional financing capacity in the next ten years;
- Agreed to consider a proposal to remove the Statutory Lending Limit (SLL) from the Articles of Agreement;
- Commended the WBG management and staff for responding at scale to the unanticipated crises, with historic surges in development financing that have sustained the fight against poverty. The WBG delivered

a record US$330.00 billion during the last three-and-a-half fiscal years;

- Observed that the WBG was also the world's largest provider of climate finance to developing countries in the last three-and-a-half fiscal years, reaching almost US$90.00 billion, and has outlined its plan for alignment with the Paris Agreement;
- Expressed their deep appreciation to Mr. David Malpass for his strong and steadfast leadership of the WBG during a historically challenging period, including an unprecedented surge in financing in response to the multiple crises affecting global development outcomes. They value his commitment to the WBG mission, its strategic goals and country-level development outcomes. They also commended his support to staff, as well as his strong leadership, which has made possible the many significant accomplishments during his tenure; and
- Reiterated its call for greater international cooperation and strengthened multilateralism to safeguard global economic integration.