CENTRAL BANK OF NIGERIA LIMITS DAILY STANDING DEPOSIT FACILITY TO N2 BILLION

AUGUST 2019

The Central Bank of Nigeria ("CBN") recently released a circular titled: RE: Guidelines on Accessing the CBN Standing Deposit Facility," (the "Circular") with reference number: FMD/DIR/CON/ONG/12/2019, to all Nigerian banks and discount houses.

The Circular provides that The Standing Deposit Facility ("SDF") of two billion naira shall be remunerated at the interest rate prescribed by the Monetary Policy Committee from time to time and any deposit by a bank in excess of N2 billion shall not be remunerated.

SDF is the amount of liquid asset that banks and discount houses with liquidity surplus are allowed to keep with the CBN.

This development represents the second reduction in the remunerable deposit placement by banks through the SDF since 2014.

In November 2014, the CBN released a circular on SDF limiting the remunerable bank deposit placement to N7.5 billion. However, upon review of the 2014 Circular, the CBN observed that the banks and discount houses had a preference for keeping their idle balances with the CBN rather than releasing it back into the economy through loan facilities. This, in turn, became a constraint on financial intermediation.

This Circular was issued as a means of addressing the above inadequacy of the 2014 Circular.

The Circular represents about 73 percent reduction from the previous limit of N7.5 billion introduced in 2014. According to the CBN, this reduction was a means of encouraging increased lending to the productive sectors of the Nigerian economy.

The CBN's recent move could have a positive impact on the economy, as it is expected to cause an improvement in the market liquidity and encourage deposit houses and banks to increase loan facilities to the productive sector of the economy. This is an advantage as it will boost the economy.

Conversely, this Circular may not lead to an improved economy as the CBN expects because the banks and discount houses may not convert the funds into high risk loan assets, preferring to earn no interest on their liquid assets kept with CBN.

Also, while the liquidity in the market will rise, the liquidity could be locked up in a large portfolio of government securities in contrast to the overall objective of lending to the public.

In conclusion, it is important for the CBN to ensure balance between the potential risks and benefits of this Circular. A more detailed framework of the directive may be required.

Furthermore, robust recovery mechanisms for loans should be put in place to convince the banks and discount houses that the risks associated with providing loans to the public can be mitigated.

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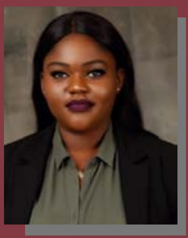

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