CENTRAL BANK OF NIGERIA

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Central Bank of Nigeria

Mandate

▪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

Vision

"Be the model Central Bank delivering Price and Financial System Stability and promoting Sustainable Economic Development"

Mission Statement

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

Core Values

- Meritocracy
- Leadership
- Learning
- Customer - Focus

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STATEMENT BY THE GOVERNOR

Monetary policy in the second half of 2020, was shaped by persisting uncertainties that resulted from the outbreak of the Coronavirus Disease (COVID-19) pandemic in the first half of 2020, and the threats of a second wave infections with the emergence of new variants of the disease. Continued lockdowns of world economies to curtail the pandemic slowed global output recovery, due to persistent decline in global aggregate demand, and disruptions in global supply chains and trade. In addition, vaccine production and distribution remained inadequate and unequal across regions. Other vulnerabilities included rising sovereign and corporate debts; heightened financial market volatilities; low prices of crude oil and other commodities; slow recovery in supply chain networks; and rising unemployment.

Following these developments, the domestic economy faced sustained pressure on the exchange rate coupled with strains on demand and supply which elevated the general price level. Accordingly, headline inflation (year-on-year) rose from 12.82 per cent in July to 15.75 per cent in December 2020. Growth performance remained susceptible to challenges from the global and domestic economic environment. Consequently, the economy slipped into a recession as output contracted by 3.62 per cent (year-on-year) in the third quarter of 2020 following a contraction of 6.10 per cent in the preceding quarter. The contraction was largely driven by a sharp contraction of 13.89 per cent in the oil sector as well as the contraction of 2.51 per cent in non-oil sector in the third quarter of 2020. Following the sustained implementation of economic stimulus by both the monetary and fiscal authorities, the economy exited recession in the fourth quarter of 2020, as Real Gross Domestic Product (GDP) grew by 0.11 per cent (year-on-year) in the fourth quarter of 2020.

The Nigerian Financial market witnessed considerable volatility owing to lingering shocks from the pandemic, weakness in crude oil prices, soaring global debt and high unemployment. The fluctuations in the money market interest rates, remained within the Standing Facilities corridor reflecting swings in banking system liquidity. The capital market, however, witnessed a bullish trend, driven by strengthened investors' confidence in the equities segment of the market. Consequently, the All-Share Index (ASI) increased by 64.51 per cent from 24,479.22 at end-June 2020 to 40,270.72 at end- December 2020.

In order to contain the foregoing developments, monetary policy in the review period remained largely accommodative. In addition, the Bank sustained its development finance interventions to maintain a balance between supporting the fragile recovery of output growth and stable price developments. Thus, Monetary Policy Rate (MPR) was reduced by 100 basis points to 11.5 per cent, while the asymmetric corridor was adjusted to +100/-700 basis points around the MPR, the CRR of 27.5 per cent and Liquidity Ratio of 30.0 per cent were maintained throughout the period.

The outlook for the domestic economy over the short-to-medium-term indicates that inflationary pressure may be sustained, being accentuated by rising food prices resulting from disruptions to the food supply chain arising mainly from banditry and insurgency in major food belts, persisting pressure on the exchange rate, and increased fiscal stimulus to cushion the impact of the COVID-19 pandemic. Nonetheless, monetary policy will continue to be proactive, and supportive of financial stability and non-inflationary output growth.

GODWIN I. EMEFIELE
Governor, Central Bank of Nigeria
February 2021.

CHAPTER ONE

1.0 OVERVIEW

This chapter presents a summary of the entire document by highlighting key developments that influenced monetary policy as well as the attendant policy responses by the Bank during the second half of 2020. The developments cover global and domestic output, prices, monetary policy and liquidity management as well as the financial market.

In the review period, the thrust of the Bank's monetary policy continued to signal a moderately accommodative policy-stance, reflecting developments in the global and domestic economic and financial environments. These developments included the protracted lockdown of economies across several regions of the world following the second wave of COVID-19 infections and the absence of effective treatments for the virus which continued to drag global output recovery. Other factors were: persisting decline in global aggregate demand and supply; disruptions in global supply chain and trade; rising sovereign and corporate debts; heightened financial market vulnerabilities; low prices of crude oil and other commodities; slow recovery in supply chain networks; and rising unemployment. Thus, the strains on demand and supply coupled with the pressure on the exchange rate elevated the general price level as headline inflation (year-on-year) rose by 2.93 percentage points from 12.82 per cent in July to 15.75 per cent in December 2020.

During the second half of 2020, the domestic economy recorded mixed performance. The economy slipped into recession in the third quarter of 2020 following two consecutive quarters of negative growth, owing to a halt to economic activities as a result of the lockdown measures to contain the spread of the coronavirus disease (COVID-19). This followed sustained implementation of economic stimulus by both the monetary and fiscal authorities. Data from the National Bureau of Statistics (NBS) showed that the real Gross Domestic Product (GDP) contracted by 3.62 per cent (year-on-year) in the third quarter of 2020 in contrast to the growth of 2.28 per cent in the corresponding period of 2019 and contraction of 6.10 per cent in the preceding quarter, resulting in a recession. The recession was largely driven by sharp contraction in the oil sector by 13.89 per cent, a 20.38 percentage points decrease compared with the growth of 6.49 per cent recorded in the corresponding quarter of 2019. The non-oil sector also contracted by 2.51 per cent in the third quarter of 2020, in contrast to the growth of 1.85 per cent in the corresponding quarter of 2019. The outcome was a lower contraction when compared with -6.05 per cent in the preceding quarter of 2020.

In the fourth quarter of 2020, the economy exited recession owing to the implementation of the Economic

Sustainability Plan (ESP) of the Federal Government as well as the sustained interventions in the real sector by the Central Bank of Nigeria. Accordingly, real Gross Domestic Product (GDP) grew by 0.11 per cent (year-on-year) in the fourth quarter of 2020, lower than the 2.55 per cent in the corresponding period of 2019 and in contrast to the contraction of 3.62 per cent in the third quarter of 2020. The output growth was driven mainly by the performance of the non-oil sector which grew by 1.69 per cent in the fourth quarter of 2020. The outcome was lower than the growth of 2.26 per cent recorded in the corresponding period of 2019 and was in contrast to the contraction of 2.51 per cent in the preceding quarter of 2020. The oil sector, however, contracted by 19.76 per cent in the fourth quarter of 2020 in contrast to the growth of 6.36 per cent in the corresponding quarter of 2019. The outcome was, however, a deeper contraction compared with -13.89 per cent in the preceding quarter of 2020.

Foreign exchange pressure continued to mount in the second half of 2020, arising from the shock to the oil market compounded by the COVID-19 pandemic. There was relative stability at the interbank foreign exchange window. Exchange rate premium widened remarkably in November 2020, owing largely to significant dip in reported remittances. To encourage increased remittances, the Bank, in December 2020, directed all diaspora remittances to be paid directly in foreign currency to beneficiaries. The immediate impact of the policy directive was reflected in the narrowing of the exchange rate premium from N114/US$ in November 2020 to N84/US$ in December 2020. The interbank exchange rate stabilized at N381/US$ all through the review period. The Bank sustained existing reforms and maintained the restriction of access to foreign exchange for 43 items, suspended the integration and collaboration between mobile money operators (MMOs), Switches, PSPs and IMTOS on diaspora remittances, such that only DMBs can pay beneficiaries of diaspora remittances in foreign currency. The policy was intended to centralize the transmission process, eliminate the multiple layers of unofficial channels and check diversion of remittance inflows.

In the second half of 2020, the Nigerian financial market witnessed considerable volatility owing to lingering shocks from the COVID-19 pandemic, weakness in crude oil prices, soaring global debt and high unemployment.

In the review period, the instruments used by the Bank to achieve its objective of price and monetary stability remained: the Monetary Policy Rate (MPR); the Cash Reserve Ratio (CRR); Liquidity Ratio; Open Market Operations (OMO); and Discount Window Operations. These were occasionally complemented with interventions in the foreign exchange market. Among these, the Monetary Policy Rate (MPR) continued to be the Bank's key instrument for signalling monetary policy stance and management. It was reduced by 100 basis points to 11.5 per cent in September 2020, while the asymmetric corridor was also adjusted from +200/-500 to +100/-700 basis points around the MPR during the review period. The reduction signalled the Bank's commitment to support the recovery of output growth.

The primary tool of liquidity management in the review period remained Open Market Operations (OMO). OMO sales decreased by 5.45 per cent to ₦6,138.58 billion in the second half of 2020 from ₦6,492.30 billion in the preceding half year. The outcome was also a decrease of 31.0 per cent from ₦8,895.99 billion in the corresponding half of 2019.

The changing liquidity conditions of the banking system reflected the fluctuations experienced in the money market interest rates in the second half of 2020. The rates were volatile but stayed within the Standing Facilities corridor during the review period, thus reflecting swings in banking system liquidity. The developments in net liquidity position and flows which culminated in lower monthly average market rates showed the impact of CBN Interventions in the bid to support system liquidity following the outbreak of the COVID-19 pandemic. Overall, the banking system liquidity was sourced mainly from statutory monthly disbursement to Federal, States and Local governments by the Federation Account Allocation Committee (FAAC); maturing government securities and OMO bills owned by domestic individuals and corporations; and CBN real sector interventions.

The performance of the Nigerian capital market in the second half of 2020 was largely bullish, driven primarily by the equities segment of the market, a reflection of strengthened investors' confidence. Despite the negative impacts of the COVID-19 pandemic and weak macroeconomic outcomes, the gains recorded within the review period were mainly attributable to high volume of liquidity. The policy of the Central Bank of Nigeria restricting access to Open Market Operations (OMO) left investors with limited investment options, thereby encouraging increased investment in the stock market. Consequently, the All-Share Index (ASI) increased by 64.51 per cent from 24,479.22 at end-June 2020 to 40,270.72 at end- December 2020. Similarly, it increased by 50.03 per cent compared with 26,842.07 at end-December 2019. Market capitalization (MC) increased by 64.92 per cent from ₦12.77 trillion at end-June 2020 to ₦21.06 trillion at end-December 2020. Also, compared with the corresponding period of 2019, it increased by 62.50 per cent from ₦12.96 trillion at end-December 2019 to ₦21.06 trillion at end-December 2020.

Activities in the bond market were dominated by Federal Government of Nigeria (FGN) securities in the second half of 2020. State/Municipal bonds and Corporate bond segments of the market also recorded some activities with the former accounting for the least share by market volume.

In terms of outlook, the economy is expected to rebound in the first half of 2021 with the gradual phasing out of lockdowns following optimism around COVID-19 vaccine approvals and rollouts, continuous synchronized injection of monetary and fiscal stimulus, an uptick in global commodity prices, as well as the improvement in the global oil market although significant downside risks remain. Headwinds to output growth include the resurgence of COVID-19 infection and slow rollout of COVID-19 vaccines; weakness in trade and investment; narrow fiscal space, weakened fiscal buffers and rising public debt; capital flow reversal; foreign exchange pressures; infrastructure deficit, and high levels of insecurity. Accordingly, annual real GDP growth for 2021 is estimated at 2.15 per cent up from a contraction of 1.92 per cent in 2020.

Also, Staff estimates suggest that the year-on-year headline inflation is expected to accelerate to 17.85 in first quarter of 2021, up from 15.75 per cent in the fourth quarter of 2020 on account of security challenges associated with food supply, hike in the price of PMS and lingering effect of the COVID-19 restrictions. Inflationary pressures are expected to persist in the short to medium-term, owing to security challenges which have continued to affect agricultural production; increase in energy and transport costs; and further pass-through effect of foreign exchange rate adjustment. As the Bank continues to manage liquidity conditions in the domestic economy, inflationary pressures will also be monitored to ensure that the upside risks to inflation and downside risks to growth are minimized.

The primary focus of monetary policy will tend towards striking a balance between supporting the recovery of output growth, while maintaining stable price development across inflation, exchange rate and money market interest rates.

CHAPTER TWO

THE GLOBAL ECONOMY

2.1 Global Output

Global growth was estimated at -3.5 per cent in 2020, a 0.9 percentage point higher than projected in the October forecast (IMF WEO, January 2021). This reflects, on average stronger than-expected recovery across regions in the second half of the year. The negative growth, however, reflected the adverse impact of COVID-19 pandemic on economic activities due to containment measures employed to reduce the spread of the pandemic. High policy uncertainty and a further erosion of business and consumer confidence also contributed to output contraction.

Output growth in the advanced economies was estimated to contract by 4.9 per cent in 2020 from growth of 1.6 per cent in 2019. The Euro area was estimated to contract by 7.2 per cent in 2020 from a growth of 1.3 per cent in 2019, reflecting a deeper than anticipated slowdown in economic activity due to weak demand from key trading partners. Growth rate in 2020 was estimated to contract in major euro area economies such as Germany (-5.4 per cent), France (-9.0 per cent) and Italy (-9.2 per cent). Similarly, growth in United States was projected to contract by 3.4 per cent in 2020 from a growth of 2.2 per cent in 2019.

For the Emerging and Developing Economies, output was expected to contract by 2.4 per cent in 2020 from a growth of 3.6 per cent in 2019. This was largely due to COVID-19 induced disruption to domestic economic activities and large spillovers from weaker external demand. Growth in India declined from 4.2 per cent in 2019 to 1.9 per cent in 2020. Similarly, the Chinese economy was estimated to slow to 2.3 per cent in 2020 compared with 6.0 per cent in 2019.

In Sub-Saharan Africa growth was projected to contract by 2.6 per cent in 2020 from a growth of 3.2 per cent in 2019. The Nigerian economy was estimated to contract by 3.2 per cent in 2020 from a growth of 2.2 per cent in 2019 due mainly to a sharp fall in crude oil prices resulting from weaker global demand and containment measures to fight the spread of COVID–19. Similarly, the South African economy was estimated to contract by 7.5 per cent in 2020 from a marginal growth of 0.2 per cent in 2019.

2.2 Global Inflation

Inflation in the advanced economies remained below pre-pandemic levels during the period under review. In emerging market and developing economies, inflation declined sharply in the initial stages of the pandemic, but has since picked up in some countries, due to supply disruptions and increase in food prices. In advanced economies, inflation is projected to fall from 1.4 per cent in 2019 to 0.7 per cent in 2020 due to the outbreak of COVID-19 and the associated reduction in consumer spending.

Inflation in the United States is projected to decrease to 1.5 per cent in 2020, from 1.8 per cent in 2019 due to lockdowns and restrictions on movement. Similarly, in the United Kingdom, inflation is expected to decline to 0.3 per cent in 2020 from 1.4 per cent in 2019. In the Euro Area, inflation remains below its 2 per cent target, and is projected to decline to 0.1 per cent in 2020 from 1.3 per cent in 2019.

In the emerging market and developing economies, inflation is expected to fall to 5.0 per cent in 2020, from 5.1 per cent in 2019 mainly on account of subdued spending due to the COVID-19 pandemic. For China, inflation is expected to fall to 1.4 per cent in 2020, from 4.5 per cent in 2019. Whilst in India, inflation is projected to decline to 3.4 per cent in 2020 from 6.7 per cent in 2019; Brazil projected to record a fall in inflation to 2.0 per cent in 2020 from 4.3 per cent in 2019.

In Russia, inflation remained below the central bank target of 4 per cent, with an estimate of 3.8 per cent in 2020 from 3.0 per cent in 2019. Nigeria's inflation increased to 12.8 per cent in 2020 from 12.0 in 2019 amidst rising food prices and an accommodative monetary policy. In South Africa, with remission in the spread of COVID-19, inflation is projected to fall to 3.3 per cent in 2020 from 3.7 per cent in 2019.

2.3 Global Financial Market Developments

2.3.1 Money Market and Central Bank Policy Rates

A survey of fourteen (14) central banks indicated a strong trend towards continued monetary accommodation by the advanced and emerging market economies. All these central banks maintained their monetary accommodation stance without policy rate adjustment with the exception of central banks of Egypt, Nigeria, Brazil and Indonesia that lowered their policy rate in the review period by 25 basis points.

Several central banks in advanced economies lost considerable policy headroom in the wake of adjustments to stave off downside risks associated with the COVID-19 pandemic, thus remaining firmly straddled to the zero-lower-bound. They have thus resorted to quantitative easing and in some cases, direct liquidity injections. Policy makers have expressed concern of the heightened risk of a debt crisis in the medium term, due to the ongoing massive monetary and fiscal policy accommodation, but the immediate focus is to guide the global economy out of recession and return it back on a path of long term equilibrium growth.

Central banks of major oil exporting countries like Brazil, Russia and Nigeria lowered their policy rates and simultaneously adjusted their exchange rates to safeguard their economies from the combined oil market and the COVID-19 pandemic shocks. However, the decision of the Bank of Indonesia, a major exporting country to lower its policy rate in the review period was meant to indirectly weaken its currency and boost export revenue (see Table 2.1).

Table 2.1: Policy Rates of Selected Central Banks Jul 2020 – Dec 2020

Country	July	Aug	Sept	Oct	Nov	Dec
Egypt	9.25	9.25	8.75	8.75	8.25	8.25
Kenya	7.00	7.00	7.00	7.00	7.00	7.00
S. Africa	3.50	3.50	3.50	3.50	3.50	3.50
Ghana	14.50	14.50	14.50	14.50	14.50	14.50
Nigeria	12.50	12.50	11.50	11.50	11.50	11.50
Brazil	2.25	2.00	2.00	2.00	2.00	2.00
USA	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euro Area	0.00	0.00	0.00	0.00	0.00	0.00
India	4.00	4.00	4.00	4.00	4.00	4.00
Russia	4.50	4.25	4.25	4.25	4.25	4.25
China	3.85	3.85	3.85	3.85	3.85	3.85
UK	0.10	0.10	0.10	0.10	0.10	0.10
Indonesia	4.25	4.00	4.00	4.00	4.00	4.00

Source: www.cbrates.com

2.3.2 Global Capital Market

Major global stock markets recorded positive performance in the review period. In Europe, the UK FTSE 100, French CAC 40, and German DAX indices increased by 4.20 per cent, 12.50 per cent and 12.00 per cent, respectively. In North America, the United States S&P 500, the Canadian S&P/TSX Composite and the Mexican Bolsa indices rose by 21.80 per cent, 13.30 per cent and 16.40 per cent, respectively. Similarly, in South America, the Brazilian Bovespa, the Argentine Merval and the Columbian COLCAP indices increased by 24.30 per cent, 31.40 per cent and 29.70 per cent, respectively. In Asia, the Japanese Nikkei 225, the Chinese Shanghai SE and the Indian BSE Sensex indices increased by 23.10 per cent, 16.40 per cent, and 37.20 per cent, respectively. In Africa, the Nigerian NSE All-Share, the South African JSE All-Share, the Egyptian EGX CASE 30 and the Ghanaian GSE All Share indices also increased by 64.50 per cent, 9.80 per cent, 0.70 per cent and 2.10 per cent, respectively. Conversely, the Kenyan Nairobi NSE 20 index decreased by 4.30 per cent.

Table 2.2: Selected International Stock Market Indices as at December 31, 2020

Table 2d: Selected International Stock Market Indices as at December 31, 2020						
Country	**Index**	**31-Dec-19**	**30-Jun-20**	**31-Dec-20**	**Dec 31, 2019 - Dec 31, 2020 % Change**	**June 30 - December 31, 2020 % Change**
AFRICA						
Nigeria	NSE All-Share Index	26,842.07	24,479.22	40,270.72	50.0	64.5
South Africa	JSE All-Share Index	57,084.10	54,093.40	59,408.68	4.1	9.8
Kenya	Nairobi NSE 20 Share index	2,654.39	1,952.26	1,868.39	-29.6	-4.3
Egypt	EGX CASE 30	13,961.56	10,764.59	10,845.26	-22.3	0.7
Ghana	GSE All-Share Index	2,257.15	1,899.90	1,939.14	-14.1	2.1
NORTH AMERICA						
US	S&P 500	3,230.78	3,083.01	3,756.07	16.3	21.8
Canada	S&P/TSX Composite	17,063.43	15,389.72	17,433.36	2.2	13.3
Mexico	Bolsa	43,541.02	37,871.09	44,066.88	1.2	16.4
SOUTH AMERICA						
Brazil	Bovespa Stock	115,645.30	95,735.40	119,017.20	2.9	24.3
Argentina	Merval	41,671.41	38,972.80	51,226.49	22.9	31.4
Columbia	COLCAP	1,662.42	1,108.90	1,437.89	-13.5	29.7
EUROPE						
UK	FTSE 100	7,542.44	6,200.89	6,460.52	-14.3	4.2
France	CAC 40	5,978.06	4,935.99	5,551.41	-7.1	12.5
Germany	DAX	13,385.93	12,246.62	13,718.78	2.5	12.0
ASIA						
Japan	NIKKEI 225	23,656.62	22,288.14	27,444.17	16.0	23.1
China	Shanghai SE A	3,195.98	3,128.46	3,640.46	13.9	16.4
India	BSE Sensex	41,253.74	34,915.80	47,905.84	16.1	37.2

Source: Bloomberg

2.3.3 Global Commodity Prices

During the review period, global commodity prices witnessed significant recoveries owing to increased demand following the roll-out of various COVID-19 vaccines and the attendant resumption of more economic activities. Consequently, the IMF primary commodity price index increased by 25.63 per cent to 125.5 points at end-December from 99.9 points at end-June 2020. All the commodity sub-indices rose during the review period. The commodity sub-indices of energy, non-fuel, metals, edibles and industrial inputs all rose by 44.17, 16.35, 36.18, 9.65 and 32.15 per cent, respectively, over the same period. In the petroleum sector, actual prices per barrel based on the OPEC Reference Basket rose by 31.45 per cent to US$50.24 at end-December 2020 from US$38.22 at end-June 2020.

The Food and Agriculture Organization (FAO) Food Price Index increased by 16.35 per cent to 108.5 points in December 2020 from 93.25 points in June 2020. The sub-indices of dairy, cereals, vegetable oils and sugar all rose to 109.2, 115.9, 131.2 and 87.1 at end-December 2020 from 98.2, 96.9, 86.6 and 75.0 respectively, at end-June 2020, while that of meat fell to 94.8 at end-December 2020 from 95.2 at end-June 2020.

2.3.4 Global Foreign Exchange Market

In the second half of 2020, most of the key global currencies appreciated against the dollar, in contrast to depreciation experienced in the first half. This was largely attributed to improved economic activities following the development of COVID-19 vaccines and easing of restrictions imposed to contain the spread of the virus.

In Africa, the Nigerian naira, Kenya shilling and Ghana cedi all depreciated by 5.25, 2.51 and 1.35 per cent, respectively. However, the South African rand and Egyptian pound appreciated by 22.03 and 2.66 per cent, respectively.

In North America, the Canadian dollar and Mexican peso appreciated by 7.44 and 14.25 percent, respectively.

In South America, the Brazilian peso and the Colombian peso appreciated by 3.32 and 8.80 percent respectively, while the Argentina peso depreciated by 16.63 per cent.

In Europe, the British pound and the Euro appreciated by 10.35 and 8.58 percent respectively, while the Russian rubble depreciated by 6.57 percent.

In Asia, the Japanese yen, the Chinese renminbi and Indian rupee all appreciated by 3.49, 8.40 and 3.52 percent respectively.

Table 2.3: Exchange Rates of Selected Countries (value in currency units to US$)

Exchange Rates of Selected Countries (Value in currency units to US$)					
	Currency	31-Dec-19	30-Jun-20	31-Dec-20	Jun 20 - Dec 20 (% App/Dep)
AFRICA					
Nigeria	Naira	307.00	361.00	381.00	-5.25
South Africa	Rand	14.00	17.19	14.09	22.03
Kenya	Shilling	101.36	106.50	109.24	-2.51
Egypt	Pound	16.04	16.16	15.74	2.66
Ghana	Cedi	5.75	5.79	5.87	-1.35
NORTH AMERICA					
Canada	Dollar	1.30	1.36	1.27	7.44
Mexico	Peso	18.94	22.71	19.88	14.25
SOUTH AMERICA					
Brazil	Real	4.02	5.36	5.19	3.32
Argentina	Peso	59.87	70.15	84.15	-16.63
Colombia	Peso	3286.84	3732.61	3430.77	8.80
EUROPE					
UK	Pound	0.75	0.81	0.73	10.35
Euro Area	Euro	0.89	0.89	0.82	8.58
Russia	Ruble	62.00	69.19	74.05	-6.57
ASIA					
Japan	Yen	108.65	106.91	103.30	3.49
China	Yuan	6.96	7.08	6.53	8.40
India	Rupee	71.35	75.64	73.07	3.52
Source: bloomberg					

CHAPTER THREE

THE DOMESTIC ECONOMY

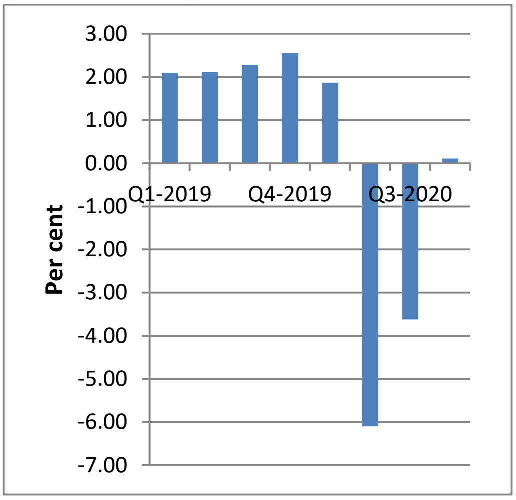
3.1 Output in the Domestic Economy

The Nigerian economy in the second half of 2020 witnessed mixed performance. The domestic economy slipped into recession in the third quarter of 2020 following two consecutive quarters of negative growth, owing to a halt in economic activities as a result of the lockdown measures imposed across the country in order to contain the spread of the coronavirus disease (COVID-19). The economy, however, exited recession in the fourth quarter following sustained implementation of economic stimulus by both the monetary and fiscal authorities. Data from the National Bureau of Statistics (NBS) showed that the real Gross Domestic Product (GDP) contracted by 3.62 per cent (year-on-year) in the third quarter of 2020 in contrast to the growth of 2.28 per cent in the corresponding period of 2019 and a contraction of 6.10 per cent in the preceding quarter, causing the economy to slip into recession. This was largely driven by a sharp contraction in the oil sector by 13.89 per cent, a 20.38 percentage points decrease compared with the growth of 6.49 per cent recorded in the corresponding quarter of 2019. The decline in oil production as a result of OPEC+ restriction to spur prices was largely responsible for the poor performance of the oil sector. Average crude oil production fell by 17.73 per cent to 1.67 million barrels per day (MBPD) in the third quarter of 2020 from 2.03 mbpd in the corresponding period of 2019. This implied a decline by 7.73 per cent when compared with 1.81 mbpd recorded in the second quarter of 2020. The non-oil sector also contracted by 2.51 per cent in the third quarter of 2020, in contrast to the growth of 1.85 per cent in the corresponding quarter of 2019. The outcome was a lower contraction when compared with -6.05 per cent in the preceding quarter of 2020.

In the fourth quarter of 2020 however, the economy exited recession owing to the implementation of the Economic Sustainability Plan (ESP) of the Federal Government as well as the sustained interventions in the real sector by the Central Bank of Nigeria. Accordingly, real GDP grew by 0.11 per cent (year-on-year) in the fourth quarter of 2020, though lower than the 2.55 per cent in the corresponding period of 2019 and in contrast to the contraction of 3.62 per cent in the preceding quarter of 2020. The output growth was driven mainly by the performance of the non-oil sector which grew by 1.69 per cent in the fourth quarter. The outcome was lower than the growth of 2.26 per cent recorded in the corresponding period of 2019 and in contrast to the contraction of 2.51 per cent in the preceding quarter of 2020. The oil sector, however, contracted by 19.76 per cent in the fourth quarter of 2020 in contrast to the growth of 6.36 per cent in the corresponding quarter of 2019. This, however, implied a deeper contraction compared with -13.89 in the preceding quarter of 2020. Oil production fell further by 22.0 per cent to 1.56 mbpd in the fourth quarter of

2020 from 2.0 mbpd in the corresponding period of 2019 and by 6.59 per cent from 1.67 mbpd in the preceding quarter (fig 3.1).

Figure 3.1: Gross Domestic Product Growth Rate (2019Q1 – 2020Q4)



Source: National Bureau of Statistics (NBS)

3.1.1 DOMESTIC ECONOMIC ACTIVITIES

In the second half of 2020, real GDP was driven by activities in both oil and non-oil sectors. In the third quarter of 2020, both the oil and non-oil sectors contracted as reflected in the contraction of the real GDP. The non-oil sector contracted by 2.51 per cent in the third quarter of 2020 in contrast to the growth of 1.85 per cent in the corresponding period of 2019. The development was, however, a lower contraction when compared with -6.05 per cent in the preceding quarter. Activities that accounted for the contraction were: Transportation and Storage (-42.98%); Accommodation and Food Services (-22.61%); Education (-20.74); Real Estate (-13.4%); Trade (-12.12); Professional, Scientific & Technical Services (-10.31); Others (-7.53%); Electricity, Gas, Steam & Air conditioner (-3.66%); and Fishing (-2.07%). These compares with their respective growth rates of 18.34, 2.28, 1.19, -2.62, -1.45, -2.62, 1.03, -11.81 and 1.68 per cent in the corresponding period of 2019. Activities that moderated the contraction of the non-oil sector in the review period were: Information and Communication (14.56%): Water supply, sewage, waste Management (7.10%); Public Administration (3.58%); Financial and Insurance (3.21%); Construction (2.84%); Human Health & Social Services (2.84%); Forestry (2.55%); and Livestock (2.29%) compared with their respective growth rates of 9.98, 2.37, 0.61, 1.07, 2.37, 0.86, 3.78 and 0.02 per cent in the corresponding period of 2019.

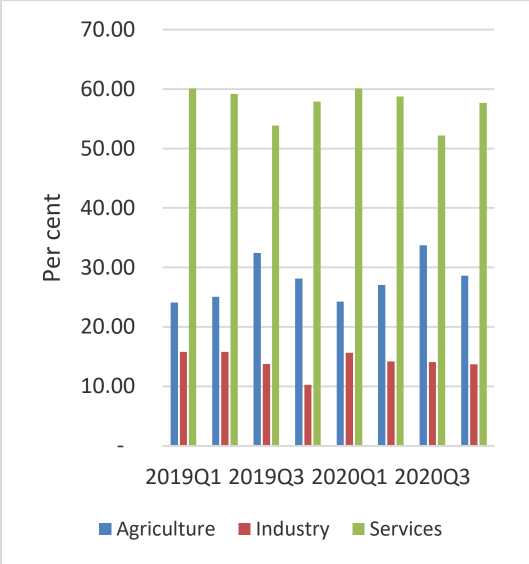
The oil sector also contracted by 13.89 per cent, a 20.38 percentage points decrease compared with the growth of 6.49 per cent in the corresponding period of 2019. Average crude oil production fell by 17.73 per cent to 1.67 million barrels per day (mbpd) in the third quarter of 2020 from 2.03 mbpd in the corresponding period of 2019. The outcome was also a decline by 7.73 per cent when compared with 1.81 mbpd recorded in the second quarter. The development was due to decline in oil production and supply as a result of OPEC+ restriction to spur prices following the lull in demand arising from the outbreak of the coronavirus disease.

During the fourth quarter of 2020, the non-oil sector, however, grew by 1.69

per cent but lower by 0.57 percentage point when compared with 2.26 per cent recorded in the corresponding period of 2019. The development was higher by 4.2 percentage points when compared with the contraction of 2.51 per cent recorded in the preceding quarter. Activities that drove the growth of the non-oil sector during the period included: Quarrying and Other Minerals (48.42%); Telecommunications and Information Services (17.64%); Cement (6.59%); Broadcasting (4.42%); Crop Production (3.68%); Human Health & Social Services (3.05%); Real Estate (2.81%); Motion Pictures, Sound recording and Music production (2.51%); Livestock (2.38%); Food, Beverage and Tobacco (2.15%); and Motor vehicles & assembly (2.02%). These compares with their respective growth rates of -5.63, 10.26, 1.13, 2.17, 2.52, -0.56, -3.45, 0.81, -0.20, 2.69 and -2.13 per cent in the corresponding period of 2019.

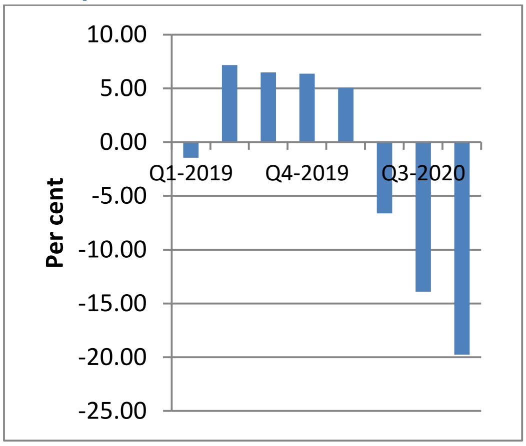
Also, during the fourth quarter, the oil sector contracted by 19.76 per cent in contrast to the growth of 6.36 per cent in the corresponding quarter of 2019. The development was, however, a deeper contraction compared with -13.89 recorded in the preceding quarter of 2020. Oil production fell by 22.0 per cent to 1.56 mbpd in the fourth quarter from 2.0 mbpd in the corresponding period of 2019. It also fell by 6.59 per cent compared with 1.67 mbpd in the preceding quarter.

Figure 3.2: Non-oil Sector Performance (2019Q1 – 2020Q4)



Source: NBS

Figure 3.3: Performance of oil Sector (2019Q1 – 2020Q4)



Source: NBS

3.1.2 Sectoral Analysis

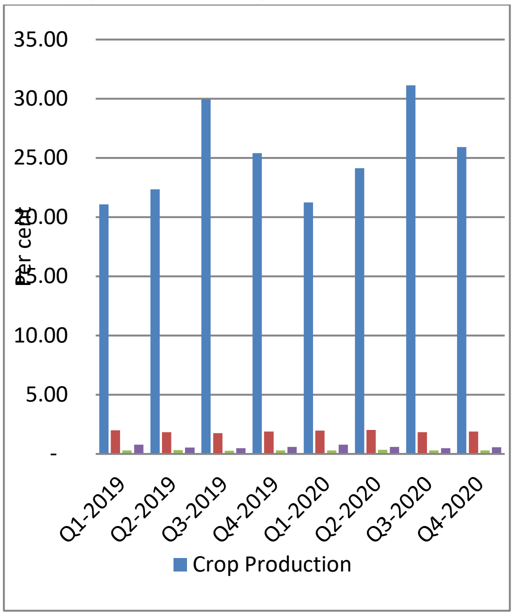
The key contributors to output performance in major sectors in the review period are analysed in this section.

3.1.2.1 Agriculture

In the third quarter of 2020, growth in real agricultural output moderated by 0.89 percentage point to 1.39 per cent, compared to 2.28 per cent recorded in the corresponding period of 2019. It also moderated by 0.19 per centage point compared with 1.58 per cent in the preceding period. Output growth in the sector was driven by Forestry which grew by 2.55 per cent in Q3 2020, a moderation by 1.23 percentage point when compared with 3.78 per cent in the corresponding period of 2019. This, however, was an improvement by 1.47 percentage point over the 1.08 per cent growth in the preceding quarter of 2020. The Forestry subsector was followed by Livestock which grew by 2.29 per cent in the third quarter from 0.02 per cent recorded in the corresponding period of 2019 and 2.26 per cent in the preceding quarter. Crop production also grew by 1.38 per cent in the third quarter of 2020, a moderation by 1.03 percentage point compared with 2.41 per cent in the corresponding period of 2019. The development was also a moderation compared with 1.44 per cent in the preceding quarter of 2020. The Fishing sub-sector, however, contracted by 3.75 and 7.75 percentage points to -2.07 per cent in the third quarter of 2020 from the growth of 1.68 and 5.68 per cent in the corresponding period of 2019 and the preceding quarter of 2020, respectively.

During the fourth quarter of 2020, growth in real agricultural output improved to 3.42 per cent from 2.31 and 1.39 per cent in the corresponding period of 2019 and the preceding quarter of 2020, respectively. Output growth in the sector was driven mainly by Crop Production which grew significantly by 3.68 per cent from 2.52 and 1.38 per cent in the corresponding period of 2019 and the preceding quarter, respectively. Livestock sub-sector also grew by 2.38 per cent in the fourth quarter of 2020 in contrast to the contraction of 0.20 in the corresponding period of 2019 and a growth of 2.29 per cent in the preceding quarter of 2020. Forestry also grew by 1.24 per cent in the fourth quarter of 2020, reflecting a moderation compared with 1.26 and 2.55 per cent in the corresponding period of 2019 and the preceding quarter, respectively. The Fishing sub-sector, however, contracted by 3.6 in contrast to the growth of 2.33 per cent in the corresponding period of 2019. The development was a deeper contraction compared with -2.07 per cent recorded in the preceding quarter of 2020. The share of the agriculture sector in overall GDP stood at 26.95 per cent in the fourth quarter compared with 26.09 and 30.77 per cent in the corresponding period of 2019 and the preceding quarter, respectively.

Figure 3.4: Agricultural Sector Contribution by Activity (2019Q1-2020Q4)



Source: CBN Statistics Department

3.1.2.1.1 Agricultural Policies and Institutional Support

During the review period, the agricultural sector continued to enjoy a number of existing and new policies, reforms and institutional support, as highlighted below:

3.1.2.1.1.1 The Agricultural Credit Guarantee Scheme (ACGS)

In the second half of 2020, a total of 10,626 loans, valued at ₦2.84 billion were guaranteed under the scheme compared with 9,641 loans, valued at ₦1.48 billion in the first half of 2020. The development represented an increase of 10.22 and 91.89 per cent, respectively, in the number and value of loans guaranteed. Also, 14,097 loans valued at ₦2.25 billion were repaid, compared with 6,089 loans valued at ₦0.79 billion in the first half of 2020. This represented an increase of 31.52 and 184.81 per cent in the number and value of loans repaid, respectively.

3.1.2.1.1.2 N200 Billion Commercial Agriculture Credit Scheme (CACS)

Under the Scheme, ₦28.34 billion was disbursed to 23 projects in the second half of 2020, an increase of 4.61 per cent, compared with ₦27.09 billion to 15 projects in the first half of 2020. On the other hand, a total of ₦25.98 billion was repaid by 284 projects in the review period, which represented 10.54 per cent lower than the repayment of ₦29.04 billion by 264 projects in the first half of 2020.

3.1.2.1.1.3 Micro, Small and Medium Enterprises Development Fund (MSMEDF)

In the second half of 2020, the sum of ₦200.00 million was disbursed to 2 projects as against first half of 2020 where there was no disbursement under the scheme due to the ravaging effects of COVID-19. Repayments during the period amounted to ₦2.07 billion which was lower by 58.35 per cent compared with the repayment of ₦4.97 billion in the preceding period.

3.1.2.1.1.4 Anchor Borrowers' Programme (ABP)

In the second half of 2020, the sum of ₦69.62 billion was disbursed to 203,764 smallholder farmers across the country to produce rice, maize, cassava, cotton, maize, ginger, fish, onion, cocoa, soya beans and sesame. This compares with ₦154.93 billion disbursed to 897,674 farmers in the preceding period. Furthermore, a total of 605,279 hectares of land were cultivated, compared with 1,095,891 hectares in the first half of 2020. Repayments under the Programme amounted to ₦15.47 billion in the review period, compared with ₦22.80 billion in the preceding period.

3.1.2.1.1.5 Accelerated Agriculture Development Scheme (AADS)

Under the Scheme, the sum of ₦1.50 billion was disbursed to one (1) State government-sponsored projects for 1,000 farmers in the second half of 2020, compared with ₦6.00 billion disbursed to four (4) projects in the first half of 2020. The projects included rice poultry, cassava, fish, maize and soya beans.

3.1.2.1.1.6 Agribusiness/ Small and Medium Enterprises Investment Scheme (AGSMEIS)

In the review period, ₦62.72 billion was disbursed to 15,724 projects, compared with ₦26.62 billion released to 6,727 projects in the first half of 2020. This represented an increase of 135.61 and 133.74 per cent in value and numbers of projects, respectively, compared with the first half of 2020. Repayment in the review period amounted to ₦92.52 million, compared with ₦27.16 million in the preceding half year.

3.1.2.1.1.7 Paddy Aggregation Scheme (PAS)

Under the Scheme, the sum of ₦500.00 billion was released to one (1) project in the second half of 2020, compared with ₦3.20 billion released to 4 projects in the first half of 2020. The sum of ₦51.81 billion was repaid during the second half of 2020 compared with ₦2.08 billion repaid in the preceding period.

3.1.2.1.1.8 Rice Distribution Fund (RDF)

In the second half of 2020, there was no disbursement and/or repayment compared with the sum of ₦1.00 billion disbursed to six (6) projects in the preceding half year.

3.1.2.1.1.9 Maize Aggregation Scheme (MAS)

The Maize Aggregation Scheme (MAS) is a working capital facility introduced to improve access to affordable credit for the purchase of home-grown maize by maize processors and millers. The broad objective is to promote national food security through increased domestic maize production, stable prices, and improved profit for farmers. In the second half of 2020, the sum of ₦200.00 million was disbursed to one (1) project under the Scheme, compared with the previous half year when ₦1.00 billion was disbursed.

3.1.2.1.1.10 National Food Security Programme (NFSP)

During the review period, there was no disbursement under the programme compared with the sum of ₦9.00 billion disbursed to two (2) projects in the preceding period. Repayment in the review period was ₦2.36 billion, compared with ₦2.85 billion in the preceding half year.

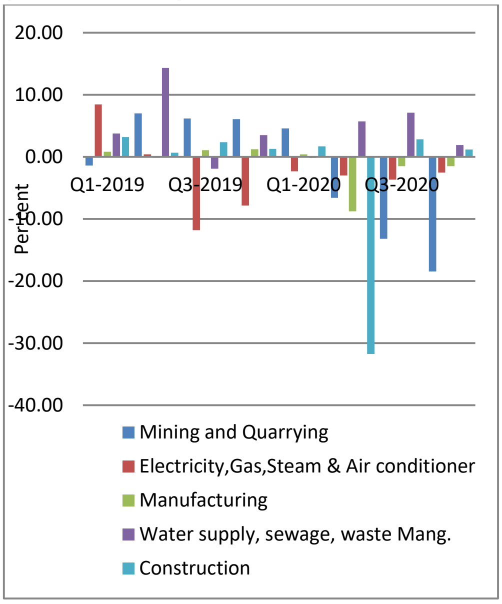
3.1.2.2 Industry

3.1.2.2.1 Industrial Production

Growth in the industrial sector contracted during the review period. In the third quarter of 2020, the sector contracted by 6.12 per cent in contrast to the growth of 3.21 per cent in the corresponding period of 2019. This was, however, an improvement compared with the contraction of 12.05 per cent in the preceding quarter of 2020. At -13.22 per cent, the Mining and Quarrying sub-sector was the main driver of the contraction in the third quarter in contrast to the growth of 6.19 per cent by the sub-sector in the corresponding period of 2019. Under the Mining and Quarrying, Crude Petroleum and Natural Gas sub-sector contracted by 13.89 per cent in the review period in contrast to the growth of 6.19 per cent in the corresponding period and -6.60 per cent in the preceding quarter. The outcome was a deeper contraction when compared with -6.60 per cent in the preceding quarter of 2020. This was followed by contractions in Electricity, Gas, Steam & Air conditioner and Manufacturing by 3.66 and 1.51 per cent in the third quarter of 2020, compared with -11.81 and 1.10 per cent in the corresponding period of 2019, and -3.0 and -8.78 per cent in the preceding quarter, respectively. The contraction in the sector was moderated by growth of 7.10 and 2.84 per cent in Water supply, sewage & waste Management and Construction in the third quarter of 2020 compared with -1.90 and 2.37 per cent recorded in the corresponding period and 5.71 and -31.77 per cent in the preceding quarter.

During the fourth quarter, the industrial sector contracted further by 7.30 per cent in contrast to the growth of 2.75 per cent in the corresponding period of 2019. The development was a deeper contraction compared with -6.12 per cent recorded in the preceding quarter. Mining and Quarrying was the main driver of the contraction by -18.44 per cent in the review period in contrast to the growth of 6.07 per cent in the corresponding period of 2019 and -13.22 per cent in the preceding quarter. As usual, the Crude Petroleum and Natural Gas sub-sector contracted by 13.89 per cent in the review quarter in contrast to the growth of 6.19 per cent in the corresponding period of 2019 and -6.60 per cent in the preceding quarter. Electricity, Gas, Steam & Air conditioner and Manufacturing also contracted in the review quarter by 2.51 and 1.51 per cent, compared with -7.82 and 1.24 per cent in the corresponding period of 2019, and -3.66 and -1.51 per cent in the preceding quarter, respectively. The contraction in the sector was, however, moderated by the growth of 1.92 and 1.21 per cent in water supply, sewage & waste Management and Construction in the third quarter of 2020 compared with 3.52 and 1.31 per cent in the corresponding period and 7.10 and 2.84 per cent in the preceding quarter. The share of industrial sector in overall GDP in the fourth quarter moderated to 18.77 per cent from 20.27 and 21.59 in the corresponding period of 2019 and preceding quarter, respectively.

Figure 3.5: Industrial Sector Contribution by Activity (2019Q1-2020Q4)



Source: CBN Statistics Department

3.1.2.2.2 Industrial Policy and Institutional Support:

The sector benefited from a number of policy measures, reforms and incentives in the period under review as highlighted below:

3.1.2.2.2.1 Real Sector Support Facility (RSSF) Using Differentiated Cash Reserve Ratio (RSSF-DCRR)

In the period under review, the sum of ₦169.23 billion was disbursed to 42 projects, compared with ₦131.60 billion disbursed to 55 projects in the first half. The sum of ₦20.37 billion was repaid in the second half of 2020 compared with ₦11.65 billion in the preceding period.

3.1.2.2.2.2 Non-oil Export Stimulation Facility (NESF)

Under this Facility, the sum of ₦2.00 billion was released to one (1) project in the second half of 2020 compared with ₦9.00 billion disbursed to two (2) project in the first half of 2020. In addition, ₦750.90 million was repaid compared with ₦2.85 billion in the preceding period.

3.1.2.2.2.3 Export Development Facility (EDF)

During the review period, the sum of ₦50.00 billion was disbursed compared with the preceding period when there was no disbursement due to the impact of COVID-19 pandemic. There was no repayment in both the review and preceding periods.

3.1.2.2.2.4 Creative Industry Financing Initiative (CIFI)

Under the initiative, the sum of ₦1.64 billion was disbursed to 151 projects in the second half of 2020, compared with

₦1.10 billion to 160 projects in the preceding period.

3.1.2.2.2.5 Targeted Credit Facility (TCF)

During the period under review, the sum of ₦134.68 billion was disbursed to 319,051 project compared with ₦33.38 billion disbursed to 41,600 projects in the preceding period.

3.1.2.2.2.6 Health Sector Intervention Fund (HSIF)

Under the Fund, the sum of ₦50.70 billion was disbursed to 56 projects in the second half of 2020 compared with ₦20.96 billion disbursed to 15 projects in the first half. Although significant part of the projects under this scheme are currently under moratorium, the sum of ₦775.49 million was repaid in the period under review.

3.1.2.2.2.7 COVID-19 Intervention Facility for the Manufacturing Sector (CIFMS)

In the period under review, the sum of ₦150.37 billion was disbursed to 25 projects compared with ₦137.49 billion disbursed to 59 projects of struggling manufacturing companies in the first half of 2020. Although significant part of the projects under the facility are currently under moratorium, the sum of ₦21.95 billion was repaid in the second half compared with no repayment in the preceding period as all the project were under moratorium.

3.1.2.2.2.8 CBN-BOI Industrial Facility (CBIF)

This intervention was introduced to support Nigerian industrial sector towards industrialization. In the second half of 2020, the sum of ₦200.00 billion was disbursed compared with the preceding period where there was no disbursement. The entire sum was disbursed to Bank of Industry (BOI) as a single obligor.

3.1.2.2.2.9 Textile Sector Intervention Facility (TSIF)

This Facility aimed at supporting the entire Cotton, Textile and Garment (CTG) sub-sector in Nigeria. In the period under review, the sum of ₦4.00 billion was disbursed to 2 projects compared with preceding period when there was no disbarment.

3.1.2.2.2.10 Power and Airline Intervention Fund (PAIF)

In the period under review, the sum of ₦3.03 billion was disbursed compared with the preceding period where there was no disbarment.

3.1.2.2.2.11 Nigerian Bulk Electricity Trading - Payment Assurance Programme (NBET-PAF)

During the review period, the sum of ₦85.58 billion was disbursed compared with the preceding period when there was no disbursement due to the impact of COVID-19 pandemic.

3.1.2.2.2.12 National Mass Metering Programme (NMMP)

This programme was introduced in the first half of 2020 to increase Nigeria's metering rate and eliminate arbitrary estimated billing. Another aim of the programme was to strengthen the local meter value chain by increasing local meter manufacturing, assembly and deployment capacity to support Nigeria's economic recovery to achieve 100 per cent market remittance obligations of the DisCos; and network monitoring capability.

Accordingly, the sum of ₦14.35 billion was disbursed during the second half to support the procurement and installation of 657,562 meters across the Country to eight obligors. There was no disbursement during the preceding half year.

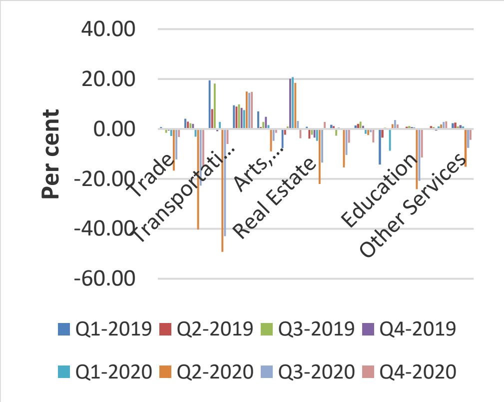
3.1.2.3 Services Sector

During the review period, the Services sector recorded mixed performance. In the third quarter of 2020, the sector contracted by -5.49 per cent in contrast to the growth of 1.87 per cent in the corresponding period of 2019 and -6.78 per cent in the preceding quarter. The contraction in the sector was driven by Transportation & Storage (-42.98%), Accommodation & Food Services (-22.61%), Education (-20.74%), Trade (-12.12%), Real Estate (-13.40%), Professional, Scientific & Technical Services (-10.31%), Other Services (-15.07%), Arts, Entertainment & Recreation (-4.67%) and Administrative and Support Services (-1.21%). These compares with their respective growth rates of 18.24, 2.28, 1.19, -1.45, -2.31, -2.62, 1.03, 2.89 and 3.05 per cent in the corresponding period of 2019. The contraction was, however, moderated by growth in the Information & Communication (14.56%), Public Administration (3.58%), Financial & Insurance (3.21%) and Human Health & Social Services (2.82%) sub-sectors compared with their respective growth rates of 9.88, 0.61, 1.07 and 0.86 per cent in the corresponding period of 2019.

In the fourth quarter of 2020, however, the Services sector grew by 1.31 per cent, lower compared with 2.60 in the corresponding period of 2019. The development was in contrast to the contraction of -5.49 per cent in the preceding quarter of 2020. The output growth in the fourth quarter of 2020 was driven by Information & Communication (14.95%), Human Health & Social Services (3.05%), Real Estate (2.81%) and Public Administration (1.80%) sub-sectors compared with their respective growth rates of 8.50, -0.56, -3.45 and 0.06 per cent in the corresponding period of 2019. The growth was moderated by contractions in Accommodation & Food Services (-15.03%), Education (-11.43%), Transportation & Storage (-5.95%), Professional, Scientific & Technical Services (-5.43%), Administrative and Support Services (-5.31%), Other Services (-4.27%) and Trade (-3.20%). These compared with their respective growth rates of 2.02, 0.84, -0.80, 055, 1.27, 1.55 and -0.58 per cent in the corresponding period of

2019. The share of the Sector in overall GDP improved to 54.28 per cent in the first quarter of 2020 from 53.64 and 47.64 per cent in the corresponding period of 2019 and preceding quarters, respectively.

Figure 3.6: Services Sub-Sector Contribution, 2019Q1-2020Q4



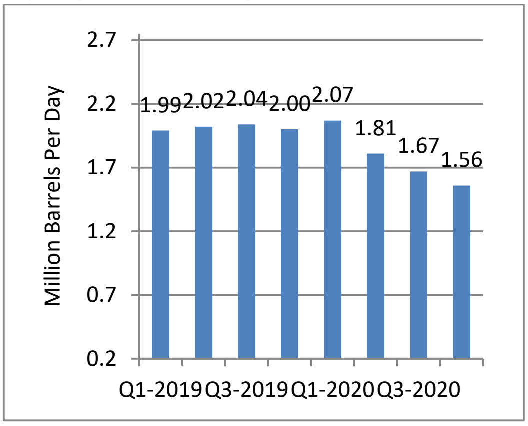
Source: Statistics Department

3.1.2.4 Oil Sector

During the second half of 2020, the performance of the oil sector was mixed. While the gradual re-opening of the economy across the globe improved oil demand and supply, the second and third wave of COVID-19 infections and the consequent fresh rounds of lockdown, weak aggregate demand and OPEC+ production cuts affected the performance of the oil sector. Accordingly, average crude oil production fell by 17.73 per cent to 1.67 million barrels per day (mbpd) in the third quarter of 2020 from 2.03 mbpd in the corresponding period of 2019. The outcome was also a decline by 7.73 per cent when compared with 1.81 mbpd recorded in the second quarter. Average crude oil production fell further by 22.0 per cent to 1.56 mbpd in the fourth quarter of 2020 from 2.0 mbpd in the corresponding period of 2019 and by 6.59 per cent from 1.67 mbpd in the preceding quarter.

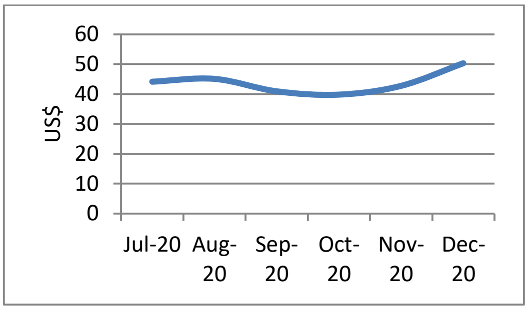
Crude oil prices trended upwards during the review period, primarily due to OPEC+ oil production cut following a lull in oil demand. Consequently, the price of Nigeria's reference crude, the Bonny Light 37^{0}API, which stood at US$44.1 per barrel (pb) in July 2020, rose to US$45.06 pb in August 2020. The second wave of COVID-19 infection and consequent lockdown in some regions of the world affected aggregate demand thereby weakening crude oil prices to US$40.85 pb in September 2020 and further to US$39.74 pb in October 2020. The successful COVID-19 vaccines trials and the peaceful conduct and outcome of the US Presidential election as well as the impact of OPEC+ production restrictions supported recovery in the prices of crude oil to US$42.7 and US$50.33 pb in November and December 2020, respectively. Overall, the average price of Bonny Light of US$43.79 pb in the second half of 2020 was slightly above the Federal Government of Nigeria's revised budget benchmark of US$30pb.

Figure 3.7: Quarterly Domestic Oil Production and Export (2019Q1-2020Q4)



Source: NBS

Figure 3.8: Monthly Bonny Light Oil Price, July 2020 – December 2020



Source: CBN Statistics Department

3.2 Domestic Price Developments

In the review period, inflationary pressures intensified. The contributory factors to this development included: the lingering effects of the upward review in the Value Added Tax (VAT), upward adjustments in the petroleum pump price and electricity tariff, supply bottlenecks in connection with land border protection policy, continuing exchange rate pressure, security concerns in some farming locations, and the severe impact of Covid-19 pandemic.

The three inflation measures, namely the headline, food and core inflation, maintained a general upward trend in the review period, with the gap between the headline inflation and the upper band of the Bank's indicative benchmark of 6-9 per cent, widening significantly. Price developments reflected a range of demand- and supply-related factors, accentuated mainly by the increase in food prices. Rising food prices have been linked to the disruption to farming activities as a result of insecurity and poor weather conditions. In addition, the Covid-19 lockdowns and the resulting complication of the global supply chains, elevated pandemic-related global uncertainty, concerns about second wave of Covid-19 infections, and the delay in the roll-out of Covid-19 vaccines undermined global productivity and output, with serious adverse effects on Nigeria, a prime commodity exporter. In addition, the continuing low oil prices impacted negatively on the Nigeria's foreign exchange earnings, thus leading to capital reversals and sudden stop. These developments precipitated exchange rate-related inflationary pressures.

On the supply side, exchange rate pressure in the review period was attributable to the protracted decline in oil prices owing mainly to the pandemic-induced global economic slowdown. Exchange rate pass-through to domestic prices has been significant, as cost-push factors induced acceleration in core inflation. Exchange rate premium widened remarkably in

November 2020 owing to significant dip in reported remittances. The Bank, in December 2020, directed that all diaspora remittances to be paid directly in foreign currency to beneficiaries. The immediate impact of this policy directive was observed through the narrowing of the exchange rate premium from N114/US$ in November 2020 to N84/US$ in December 2020. The interbank exchange rate stabilized at N381/US$ throughout the review period. In addition, external reserves declined marginally owing to the dwindling foreign exchange earnings, resulting from low crude oil receipts. The Bank sustained existing reforms and maintained the restriction of access to foreign exchange for 43 items, suspended the integration and collaboration between mobile money operators (MMOs), Switches, PSPs and IMTOS on diaspora remittances, such that only DMBs can pay beneficiaries of diaspora remittances in foreign currency. The policy was intended to centralize the transmission process, eliminate the multiple layers of unofficial channels and check diversion of remittance inflows.

On the demand-side, activities in the money market weighed on price developments. The Inter-Bank Call and Open Buy Back (OBB) rates edged towards the zero-lower bound in the review period, as cash reserve requirements for both private and public funds, and liquidity ratio were maintained at their previous levels. The banking system witnessed ample liquidity due to maturities, funding unlocked by the Bank's credits growth and pro-growth interventions.

3.2.1 Trends in Inflation

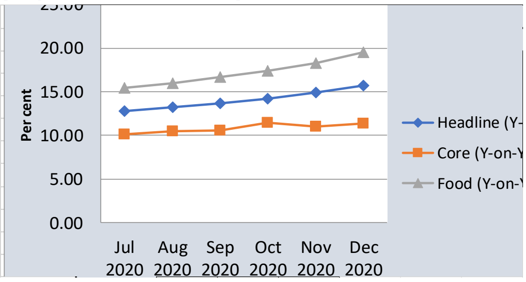
Headline, core and food measures of inflation maintained upward trajectories during the period under review. These three measures of the consumer price index (CPI) stood at 355.9, 312.6 and 406.4, in December 2020, up from their respective levels of 330.1, 297.2 and 369.5 in July 2020. Thus, Food inflation (year-on-year) increased by 4.08 percentage points from 15.48 per cent in July to 19.56 per cent in December 2020. Core inflation, however, rose marginally by 1.27 percentage point from 10.10 per cent in July to 11.37 per cent in December 2020. Consequently, headline inflation increased by 2.93 percentage points from 12.82 per cent in July to 15.75 per cent in December 2020 (Figure 3.1 and Table 3.1). Thus, the major contributor to the overall acceleration in consumer prices during the period was food inflation, while some sub-components of the core measure also contributed (Table 3.4).

Table 3.1: Inflation Rates, July – December 2020

	Headline Inflation			Core Inflation			Food Inflation		
	CPI	Y-on-Y	12MMA	CPI	Y-on-Y	12MMA	CPI	Y-on-Y	12MMA
Jul 2020	330.10	12.82	12.05	297.20	10.10	9.48	369.50	15.48	14.63
Aug 2020	334.60	13.22	12.23	300.30	10.52	9.64	375.70	16.00	14.87
Sep 2020	**339.5**	13.71	12.44	303.20	10.58	9.77	382.70	16.66	15.13
Oct 2020	344.70	14.23	12.66	307.00	11.14	9.96	390.20	17.38	15.42
Nov 2020	350.30	14.89	12.92	309.10	11.05	10.14	8398.20	18.30	15.75
Dec 2020	355.90	15.75	13.25	312.60	11.37	10.31	406.40	19.56	16.17

Source: Nigerian National Bureau of Statistics data base

Figure 3.9: Headline, Core and Food Inflation Rates (July – December 2020)



Source: Nigerian National Bureau of Statistics data base

3.2.1.1 Headline Inflation

The major components of headline inflation increased during the second half of the year. The main driver of headline inflation in the review period was Food and Non-Alcoholic Beverages which increased from 8.68 per cent to 11.47 per cent and Transport which also rose from 0.64 per cent to 0.77 per cent over the same period. However, the price of Housing, Water, Electricity, Gas and Other Fuels decreased from 1.30 per cent to 0.45 per cent between July and December 2020, (Table 3.2 and Figure 3.4). In general, headline inflation rose from 12.82 per cent in July to 15.75 per cent in December 2020.

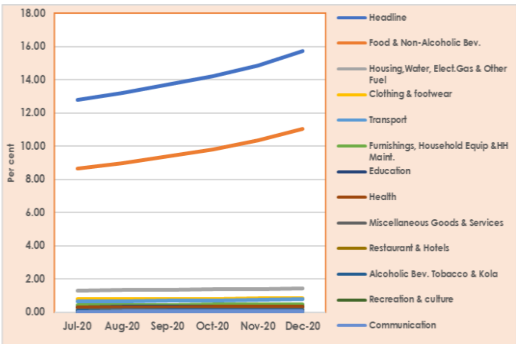
The price developments reflected largely, the impact of the continuing acceleration in food prices and the implementation of measures to combat the COVID-19 pandemic. The increments in both electricity tariff and pump price of fuel were some of the other underlying factors for the rise in headline inflation in the period under review. Other causative factors were: loose policy stance of the CBN and its increased intervention in the real sector, disruptions to food supply chain, exchange rate adjustment, occasioned by the declining oil receipts and worsening capital inflow reversals. In addition, the heightened global economic uncertainties due to COVID-19, fiscal and quasi-fiscal activities, implementation of border protection policies, and negative shocks to commodity prices, due to weak global demand; worsening spate of armed banditry, terrorist activities and kidnapping as well as herdsmen and farmers clashes, which adversely affected food supply chain, all contributed in stoking domestic prices.

Table 3.2 Major Components of Headline Inflation ((Y-on-Y), July - December 2020

	Headline	Food & Non-Alcoholic Bev.	Furnishings, Household Equipment & HH Maint.	Health	Transport	Communication	Recreation & culture	Education	Restaurant & Hotels	Miscellaneous Goods & Services
Jul '20	12.82	8.68	0.43	0.28	0.64	0.03	0.05	0.32	0.09	0.15
AUG '20	13.22	8.98	0.44	0.29	0.67	0.03	0.05	0.32	0.09	0.15
Sept. '20	13.71	9.38	0.44	0.31	0.69	0.03	0.05	0.33	0.09	0.15
Oct. '20	14.23	9.81	0.45	0.32	0.72	0.03	0.05	0.33	0.09	0.16
Nov. '20	14.89	10.35	0.46	0.33	0.74	0.03	0.05	0.34	0.09	0.16
Dec '20	15.75	11.07	0.48	0.34	0.77	0.04	0.05	0.34	0.1	0.16
%change (Jan - Jul 2020	2.93	2.39	0.05	0.06	0.13	0.01	0	0.02	0.01	0.01

Source: Nigerian National Bureau of Statistics data base

Figure 3.10: Major Components of Headline Inflation (Y-on-Y), July - December 2020



Source: Nigerian National Bureau of Statistics data base

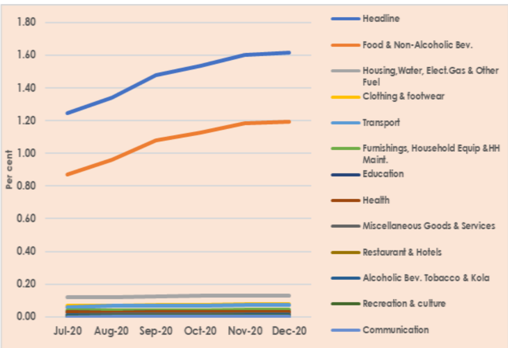
On a month-on-month basis, headline inflation increased from 1.25 per cent in July to 1.61 per cent in Dec 2020. The major driver of month-on-month headline inflation were the prices of food and non-alcoholic beverages, which rose from 0.87 per cent in July to 1.19 per cent in December; Clothing and Footwear rose from 0.07 per cent in July to 0.08 per cent in December; Housing, Water, Elect. Gas & Other Fuels also rose from 0.12 per cent in July to 0.13 per cent in December 2020 (Table 3.2 and Figure 3.10).

Table 3.3: Major Components of Headline Inflation (M-on-M), July - December 2020

	Headline	Food & Non-Alcoholic Bev.	Furnishings, Household Equip &HH Maint.	Health	Transport	Communication	Recreation & culture	Education	Restaurant & Hotels	Miscellaneous Goods & Services
Jul '20	1.25	0.87	0.04	0.03	0.06	0.00	0.00	0.03	0.01	0.01
Aug '20	1.34	0.96	0.04	0.03	0.07	0.00	0.00	0.03	0.01	0.01
Sep '20	1.48	1.08	0.04	0.03	0.07	0.00	0.00	0.03	0.01	0.01
Oct '20	1.54	1.13	0.04	0.03	0.07	0.00	0.00	0.03	0.01	0.01
Nov '20	1.60	1.18	0.04	0.03	0.07	0.00	0.00	0.03	0.01	0.01
Dec '20	1.61	1.19	0.04	0.03	0.07	0.00	0.00	0.03	0.01	0.01
%Change (Jul - Dec 2020)	28.80	36.78	8.01	1.64	18.23	5.25	5.25	0.00	0.00	0.00

Source: Nigerian National Bureau of Statistics data base

Figure 3.11: Major Components of Headline Inflation (M-on-M), July – December 2020



Source: Nigerian National Bureau of Statistics data base

3.2.1.2 Food Inflation

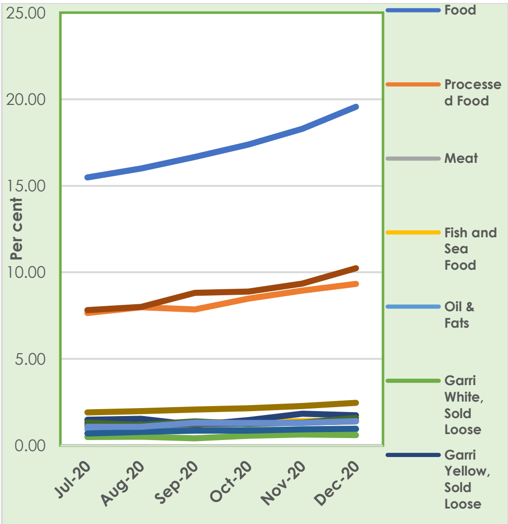
Food inflation (year-on-year) rose from 15.48 per cent in July to 19.56 per cent in December 2020, an increase of 4.08 percentage points. The main driver was the price of farm produce which rose by 2.41 percentage points from 7.82 to 10.23 per cent. Similarly, processed food rose by 1.67 percentage points from 7.66 per cent in July to 9.33 per cent in December 2020. The increase in the price of processed food was accounted for, by the rise in the prices of garri yellow sold loose, fish and sea food, and meat by 0.25, 0.18 and 0.12 percentage point, respectively. Farm produce was driven majorly by yam, potatoes and other tubers (0.54 per cent), rice local sold loose (0.32 per cent) and rice agric sold loose (0.27 per cent). Food shortage as a result of social unrest and security concerns remained the major challenge underlying the upsurge in food inflation. Other complementary factors included: higher transportation costs due to the rise in average pump price of fuel, increased cost of processing due to higher energy tariffs, implementation of border protection policy, and loose monetary policy stance of the Bank. The pressure on the exchange rate leading to exchange rate adjustments also mounted pressure on imported food prices with a corresponding pass-through to food inflation during the period.

Table 3.4: Major Components of Food Inflation (Y-on-Y), July – December 2020

Year	Food	Processed Food	Meat	Fish and Sea Food	Oil & Fats	Garri White, Sold Loose	Garri Yellow, Sold Loose	Farm Produce	Vegetabes	Yam, Potatoes & other tubers	Maize Grain White, Sold Loose	Rice Agric, Sold Loose	Rice Local, Sold Loose
Jul-20	15.48	7.66	1.30	1.28	0.93	0.48	1.49	7.82	1.15	1.91	0.70	1.32	1.08
Aug-20	16.00	7.98	1.31	1.30	0.92	0.51	1.53	8.01	1.18	1.98	0.78	1.18	1.07
Sep-20	16.66	7.85	1.32	1.33	0.91	0.42	1.19	8.81	1.22	2.07	0.85	1.40	1.31
Oct-20	17.38	8.48	1.34	1.36	0.90	0.56	1.47	8.90	1.27	2.16	0.85	1.25	1.30
Nov-20	18.30	8.94	1.37	1.40	0.90	0.64	1.84	9.35	1.33	2.27	0.92	1.32	1.30
Dec-20	19.56	9.33	1.45	1.46	0.93	0.60	1.74	10.23	1.40	2.46	0.96	1.59	1.40
Change btw Jul & Dec	4.08	1.67	0.14	0.18	-0.01	0.12	0.25	2.41	0.25	0.54	0.26	0.27	0.32

Source: Nigerian National Bureau of Statistics data base

Figure 3.12: Major Components of Food Inflation (Y-on-Y), July – December 2020



Source: Nigerian National Bureau of Statistics data base

Consistent with the increasing year-on-year trend, month-on-month food inflation in general, increased by 0.53 percentage point from 1.52 per cent in July to 2.05 per cent in December 2020.

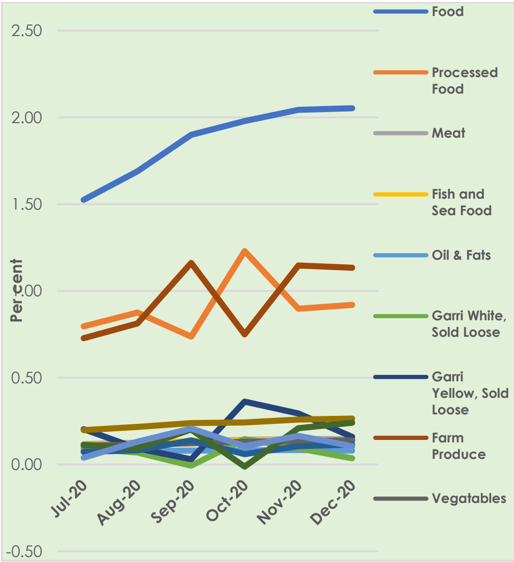
The price of processed food rose by 0.12 percentage point from 0.80 per cent in July 2020 to 0.92 per cent in December 2020. In the same period, the price of farm produce rose by 0.40 percentage point from 0.73 per cent to 1.13 per cent. Thus, the increase in food inflation was due to increases in both processed food and farm produce, with the latter being the main driver. The key driver of the increase in the processed food category was meat which rose by 0.03 percentage point, while that of farm produce was rice agric sold loose (0.13 percentage points).

Table 3.5: Major Components of Food Inflation (M-on-M), July – December 2020

Year	Food	Processed Food	Meat	Fish and Sea Food	Oil & Fats	Garri White, Sold Loose	Garri Yellow, Sold Loose	Farm Produce	Vegetables	Yam, Potatoes & other tubers	Maize Grain White, Sold Loose	Rice Agric, Sold Loose	Rice Local, Sold Loose
Jul-20	1.52	0.80	0.12	0.11	0.08	0.09	0.20	0.73	0.11	0.20	0.07	0.11	0.04
Aug-20	1.69	0.88	0.13	0.12	0.08	0.07	0.09	0.81	0.11	0.22	0.08	0.09	0.13
Sep-20	1.90	0.74	0.13	0.14	0.08	-0.01	0.03	1.16	0.12	0.24	0.14	0.20	0.21
Oct-20	1.98	1.23	0.14	0.14	0.08	0.15	0.36	0.75	0.13	0.24	0.06	-0.01	0.11
Nov-20	2.04	0.90	0.15	0.14	0.08	0.09	0.29	1.15	0.13	0.26	0.11	0.21	0.17
Dec-20	2.05	0.92	0.15	0.14	0.08	0.04	0.16	1.13	0.14	0.26	0.11	0.24	0.11
Change btw Jul & Dec	0.53	0.12	0.03	0.02	0.00	-0.06	-0.05	0.40	0.03	0.07	0.04	0.13	0.07

Source: Nigerian National Bureau of Statistics data base

Figure 3.13: Major Components of Food Inflation (M-on-M), July – December 2020



Source: Nigerian National Bureau of Statistics data base

3.2.1.3 Core Inflation

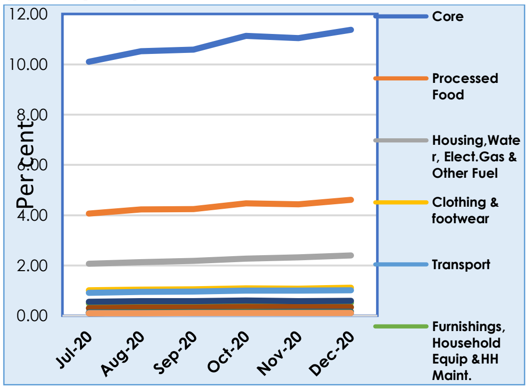
Core inflation (year-on-year) rose from 10.10 per cent in July to 11.37 per cent in December 2020, an increase of 1.27 percentage points. The performance was driven by processed food (0.55 percentage point), Housing, water, electricity, gas and other fuels (0.33 percentage point), Clothing and footwear (0.11 percentage point), Transportation (0.11 percentage point), and Health (0.04 percentage point). All components of core inflation increased in the review period (Table 3.6 and Figure 3.8). The rise in processed food, transportation, health, clothing and footwear, and housing, water, electricity, gas and other fuel, which drove the increase in core inflation was due to the lingering effects of COVID-19 pandemic and slowdown of economic activities arising from the glut in the supply of commodities/services. The increments in both electricity tariff and pump price of fuel were some of the underlying factors for the rise in core inflation. Other causative factors were: loose policy stance of the CBN and its increased intervention in the real sector, exchange rate adjustment occasioned by the declining oil receipts and worsening capital reversals, heightened global economic uncertainties due to COVID-19, implementation of border protection policies, and negative shocks to commodity prices, due to weak global demand.

Table 3.6: Major Components of Core Inflation (Y-on-Y), July – December 2020

Year	Core	Processed Food	Housing, Water, Elect. Gas & Other Fuel	Clothing & footwear	Transport	Furnishings, Household Equip &HH Maint.	Education	Health	Miscellaneous Goods & Services	Restaurant & Hotels	Non-Alcoholic Beverages	Alcoholic Bev. Tobacco & Kola	Recreation & culture	Communication
Jul-20	10.10	4.06	2.07	1.01	0.91	0.49	0.56	0.30	0.10	0.11	0.14	0.13	0.11	0.10
Aug-20	10.52	4.23	2.13	1.04	0.95	0.51	0.58	0.33	0.12	0.13	0.14	0.13	0.11	0.10
Sep-20	10.58	4.24	2.18	1.05	0.96	0.51	0.58	0.33	0.11	0.13	0.15	0.13	0.11	0.11
Oct-20	11.14	4.47	2.27	1.09	1.00	0.54	0.60	0.35	0.14	0.16	0.15	0.14	0.11	0.11
Nov-20	11.05	4.44	2.33	1.08	1.00	0.52	0.58	0.34	0.11	0.13	0.16	0.14	0.12	0.11
Dec-20	11.37	4.61	2.40	1.11	1.02	0.52	0.59	0.34	0.11	0.14	0.16	0.14	0.12	0.11
Change btw Jul & Dec	1.27	0.55	0.33	0.10	0.10	0.03	0.03	0.04	0.01	0.03	0.03	0.01	0.01	0.01

Source: Nigerian National Bureau of Statistics data base

Figure 3.14: Major Components of Core Inflation (Y-on-Y), July – December 2020



Source: Nigerian National Bureau of Statistics data base

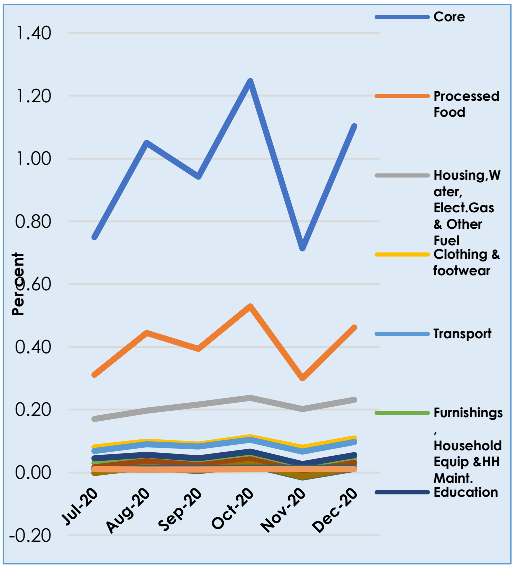
Similarly, on a month-on-month basis, core inflation increased by 0.35 percentage point from 0.75 per cent in July to 1.10 per cent in December 2020. Processed food was the major driver of the rise in core inflation, increasing from 0.31 per cent in July to 0.46 per cent in December 2020 (Table 3.7 and Figure 3.9).

Table 3.7: Major Components of Core Inflation (M-on-M), July – December 2020

Year	Core	Processed Food	Housing, Water, Elect. Gas & Other Fuel	Clothing & footwear	Transport	Furnishings, Household Equip &HH Maint.	Education	Health	Miscellaneous Goods & Services	Restaurant & Hotels	Non-Alcoholic Beverages	Alcoholic Bev. Tobacco & Kola	Recreation & culture	Communication
Jul-20	0.75	0.31	0.17	0.08	0.07	0.03	0.04	0.02	0.00	0.00	0.01	0.01	0.01	0.01
Aug-20	1.05	0.44	0.20	0.10	0.09	0.05	0.06	0.04	0.02	0.02	0.01	0.01	0.01	0.01
Sep-20	0.94	0.39	0.22	0.09	0.08	0.04	0.04	0.02	0.00	0.01	0.01	0.01	0.01	0.01
Oct-20	1.25	0.53	0.24	0.11	0.10	0.06	0.07	0.04	0.02	0.03	0.02	0.01	0.01	0.01
Nov-20	0.71	0.30	0.20	0.08	0.07	0.02	0.03	0.00	-0.02	-0.01	0.02	0.01	0.01	0.01
Dec-20	1.10	0.46	0.23	0.11	0.10	0.04	0.06	0.03	0.01	0.02	0.02	0.01	0.01	0.01
Change btw Jul & Dec	0.35	0.15	0.06	0.03	0.03	0.01	0.01	0.01	0.01	0.02	0.01	0.00	0.00	0.00

Source: Nigerian National Bureau of Statistics data base

Figure 3.15: Major Components of Core Inflation (M-on-M), July – December 2020



Source: Nigerian National Bureau of Statistics data base

3.2.2 Seasonally-Adjusted Inflation

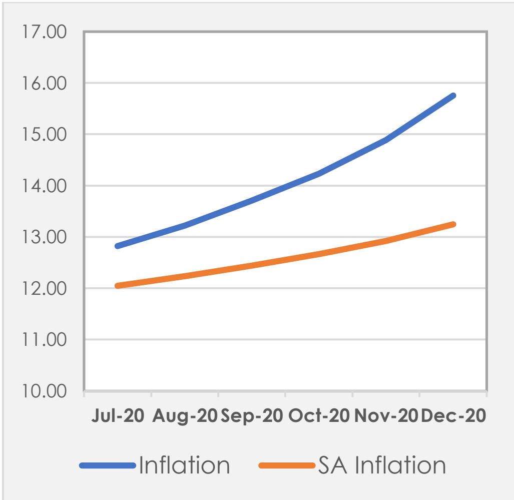
The actual and seasonally-adjusted measures of headline inflation trended upwards in the review period, reflecting the increasing inflationary trend witnessed during the first half of 2020 (Table 3.8 and Figure 3.10). Actual headline inflation continued to reflect the general price level in the economy, trending above the seasonally-adjusted headline inflation throughout the second half of 2020. The overall upward trend in both actual and seasonally-adjusted measures of inflation were attributed to the COVID-19 pandemic, food shortages due to security challenges and border protection policy, loosening of monetary policy stance/ lower market interest rates, increasing fiscal/quasi fiscal interventions exchange rate price adjustment, fuel and energy price fluctuations and implementation of 7.5 per cent value added tax (VAT).

Table 3.8: Actual and Seasonally Adjusted Headline Inflation, July – December 2020

Year	Inflation	SA Inflation
Jul-20	12.82	12.05
Aug-20	13.22	12.23
Sep-20	13.71	12.44
Oct-20	14.23	12.66
Nov-20	14.89	12.92
Dec-20	15.75	13.25

Source: Nigerian National Bureau of Statistics data base and CBN

Figure 3.16: Actual and Seasonally Adjusted Headline Inflation, July – December 2020



Source: Nigerian National Bureau of Statistics data base and CBN

3.2.3 Key Factors that Influenced Domestic Prices

During the review period, inflationary pressure was primarily influenced by the net effect of cost-push, demand-pull and moderating factors. The key highlights of these factors included: the impact of measures to contain the Covid-19 pandemic, supply side bottlenecks resulting from shutdown of economic activities as well as partial border protection measures, exchange rate pressures, increase in fuel costs due to partial removal of subsidy, sustained increase in food prices, owing to decrease in agricultural output stemming from insecurity in most parts of the north, continued efforts by the Bank to improve real sector activities through several intervention programs, and increase in electricity tariff. Others included: the liquidity effects of capital releases from the budget, as well as the impact of festive and other seasonal activities.

3.2.3.1 Demand-side Factors

The upward trend in headline inflation was influenced by demand side factors in the review period. Capital releases for infrastructural projects and other contracts, real sector intervention programmes and the Bank's accommodative monetary policy stance boosted naira liquidity in the system and hence aggregate demand. Demand pressure on foreign exchange for tradable goods, despite sustainance of measures by the Bank in managing foreign exchange demand, exerted pressure on the exchange rate resulting in rate adjustments to stabilise the market. The pass-through of the resulting exchange rate adjustment mounted inflationary pressure. The net impact of these factors was a significant and sustained increase in inflationary pressures.

3.2.3.2. Supply-side Factors

The supply-side factors that exacerbated inflationary pressures especially on food, during the review period included partial border protection measures and partial lockdown due to second wave of Covid-19 pandemic, insecurity in most part of the north which created supply side disruptions. In addition, the recent fuel price policy created volatility in prices and increase in the price of electricity.

3.2.3.3 Moderating Factors

The steady increase in the supply of foreign exchange in the second half of 2020 was among the factors that moderated domestic prices as well as energy prices. Other factors included the improved performance of the non-oil sector, especially, agriculture and manufacturing, which were supported through various intervention programmes of the Bank. In addition, the effective implementation of the Economic Recovery and Growth Plan provided a strategic roadmap for the economy and helped to restore investor confidence. Government support of the real sector including efforts to improve ease of doing business and implementation of other policies to boost productivity, enhanced aggregate demand and confidence in the Nigerian economy.

3.3 Monetary Policy and Liquidity Management

During the second half of 2020, monetary policy was influenced by developments in the global and domestic economic and financial environments. On the global front, the protracted lockdown in countries across several regions of the world following the second wave of COVID-19 infections as well as the absence of effective treatment of the virus continued to drag global output recovery. Headwinds arising from the COVID-19 pandemic were: persistent decline in global aggregate demand and supply; disruptions in global supply chain and trade; rising sovereign and corporate debts; heightened financial market vulnerabilities; low prices of crude oil and other commodities; slow recovery in supply chain networks; and rising unemployment.

On the domestic scene, the economy continued to witness uncertainties arising from the COVID-19 pandemic and fluctuations in crude oil prices. The domestic economy slid into recession in the third quarter of 2020, following two consecutive quarters of contraction in output. Factors from the domestic front that influenced monetary policy were: disruptions to key supply channels due to security challenges from herder-farmer clashes; banditry/kidnapping; and poor power supply. Other factors include the disruptions to supply chains following restriction of movements to curb the spread of the COVID-19 pandemic; adverse weather conditions, which resulted in flooding of farmlands; the adjustment of the exchange rate; as well as the pass-through to domestic prices following the depreciation in the exchange rate.

3.3.1 Monetary Policy Responses to Evolving Economic Conditions

During the second half of 2020, monetary policy management was targeted at positioning the economy to cope with developments from the global and domestic economic and financial environments. The second wave of COVID-19 infections and lockdowns in several countries as well as weak crude oil prices were the major global developments which influenced demand and supply. The second wave of infections created uncertainties towards the control of the pandemic and the return of economic activities to the path of sustainable growth. The oil market continued to witness fluctuations arising from weak demand and rising supply, forcing the OPEC+ to impose restrictions on crude oil output in order to support prices. Others were: disruptions in global supply chain and trade; persisting decline in global aggregate demand and supply; heightened financial market vulnerabilities; rising unemployment; and rising sovereign and corporate debts.

The domestic economy was faced with the challenges of negative/ weak output growth, high inflation and rising unemployment. Other challenges included: disruptions to supply chains following restriction of movements to curb the spread of the pandemic; adverse weather conditions, which resulted in flooding of farmlands; exchange rate depreciations; banditry/kidnapping; and poor power supply.

These challenges and the desire to achieve the Bank's objective of price stability conducive to sustainable and inclusive growth were the key considerations that shaped monetary policy in the second half of 2020.

The monetary authority continued with its interventions to reflate the economy, improve aggregate supply and drive down inflation. Recent interventions were largely in the areas of Manufacturing, Agriculture, Electricity & Gas, Solar Power and housing constructions among others. So far, total disbursements from the Bank's interventions in the wake of the COVID-19 pandemic amounted to ₦3.5 trillion including: Real Sector Funds, (₦216.87 billion); COVID-19 Targeted Credit Facility (TCF), (₦73.69 billion); Agri-Business/ Small and Medium Enterprise Investment Scheme (AGSMEIS), (₦54.66 billion); Pharmaceutical and Health Care Support Fund, (₦44.47 billion); and Creative Industry Financing Initiative (₦2.93 billion). Under the Real Sector Funds, a total of 87 projects that included 53 Manufacturing, 21 Agriculture and 13 Services projects were funded. In the Health Care sector, 41 projects which included 16 pharmaceuticals and 25 hospital and health care services were funded. Under the Targeted Credit Facility, 120,074 applicants received financial support for investment capital. The Agri-Business/Small and Medium Enterprise Investment Scheme (AGSMEIS) intervention has been extended to a total of 14,638 applicants, while 250 SME businesses, predominantly the youths, have benefited from the Creative Industry Financing Initiative. In addition to these initiatives, the CBN was set to contribute over ₦1.8 trillion of the total sum of N2.30 trillion needed for the Federal Government's 1-year Economic Sustainability Plan (ESP), through its various financing interventions using the channels of Participating Financial Institutions (PFIs).

The Bank in a bid to diversify the sources of foreign exchange reserves, developed a Gold Purchase Framework under the Federal Government's Presidential Artisanal Gold Mining Development Initiative to help create jobs and to strengthen and stabilise the naira.

The establishment of the Infrastructure Corporation of Nigeria Limited (InfraCorp) led by the CBN is aimed at leveraging local and international funds for rebuilding critical infrastructure across the country. The entity, which will be wholly focused on Nigeria and Nigerians will be co-owned by the CBN, the Africa Finance Corporation (AFC) and the Nigeria Sovereign Investment Authority (NSIA), but exclusively managed by an Independent Infrastructure Fund Manager (IIFM) that will mobilize local and foreign capital to support the Federal Government in building the transport infrastructure required to move agriculture and other products to processors, raw materials to factories, and finished goods to markets. The sum of N15 trillion was projected over 5 years for the initial stage of the project.

Further, the Bank's policy on Loan-to-Deposit ratio also resulted in a significant growth in credit to various sectors from ₦15.57 trillion to ₦19.33 trillion between end-May 2019 and end-August 2020, an increase of ₦3.77 trillion. This growth in credit was mainly to manufacturing (₦866.27 billion), consumer credit (₦527.65 billion), oil & gas (₦477.65 billion), agriculture (₦287.11 billion) and construction (₦270.97 billion).

3.3.2 Monetary Policy Committee Meetings

The Monetary Policy Committee (MPC) met three times in the second half of 2020, namely in July, September and November. The key considerations during the *July* meeting were: the utmost need for both the monetary and fiscal authorities to collaborate for the optimally synergise towards reviving the economy; address rising inflationary pressures; and exchange rate instability. Based on the foregoing, the July MPC decided by a vote of eight members to hold the MPR, while two members voted for a reduction. All members voted to retain all the other policy parameters.
During the September 2020 meeting, the MPC enumerated factors likely to exert upward pressure on prices to include the prevalence of security challenges in the country, adverse weather conditions causing flooding in some farming regions, increase in petroleum pump price, deregulation in electricity tariff, low crude oil price and exchange rate adjustment. The Committee stressed the need to address the structural supply-side issues that put upward pressure on production cost and depressed economic growth. It also expressed concerns over the rising public debt profile and urged the fiscal authority to strengthen its debt management strategy, explore other sources of revenue, as well as enhanced efficiency in public expenditure. The MPC was faced with the policy dilemma of whether to pursue the primary objective of price stability or focus on output growth, which contraction in the second quarter of 2020.

In view of the foregoing, the September MPC decided to reduce the MPR by 100 basis points to 11.5 per cent and adjust the asymmetric corridor to +100/-700 around the MPR, while leaving all other parameters unchanged.

At the November 2020 meeting, the key considerations centred around tailwinds imparting upward pressure to domestic prices and key headwinds to output growth. The MPC noted the continued uptick in inflation driven by supply side disruptions arising from the COVID-19 pandemic and other legacy factors. It also noted that the contraction had bottomed out, since it moderated significantly from -6.10 to -3.62 per cent in the third quarter of 2020. On balance, the MPC was of the view that, although all three options of tightening, holding, or loosening offer some benefits to the economy, the hold option was desirable at this meeting. Accordingly, the November MPC voted to retain: the MPR at 11.5 per cent; the asymmetric corridor of +100/-700 basis points around the MPR; CRR at 27.5 per cent; and Liquidity Ratio at 30 per cent.

The communiqués of the MPC meetings are contained in the appendix.

3.3.3 Instruments of Liquidity Management

In the second half of 2020, the instruments used by the Bank to achieve its objective of price and monetary stability remained: the Monetary Policy Rate (MPR); the Cash Reserve Ratio (CRR); Liquidity Ratio; Open Market Operations (OMO); and Discount Window Operations. These were occasionally complemented with interventions in the foreign exchange market.

3.3.3.1 Monetary Policy Rate (MPR)

The Monetary Policy Rate (MPR) continued to be the Bank's key instrument for signalling monetary policy stance and management in the review period. It was reduced by 100 basis points to 11.5 per cent in September 2020, while the asymmetric corridor was also adjusted from +200/-500 to +100/-700 basis points around the MPR during the review period. The reduction was meant to sustain the trajectory of the economic recovery and reduce the negative impact of COVID-19.

3.3.3.2 Open Market Operations (OMO)

In the review period, the primary tool for liquidity management remained, the Open Market Operations (OMO). OMO sales decreased by 5.45 per cent to ₦6,138.58 billion in the second half of 2020 from ₦6,492.30 billion in the preceding half of 2020. The outcome was also a decrease of 31.00 per cent from ₦8,895.99 billion in the corresponding half of 2019(Table 3.9).

Table 3.9: OMO Bills Auction (January – December, 2020) (₦'billion)

Date	2019	2020	% Change
Jan	3,070.42	2,193.52	-29%
Feb	3,474.13	1,575.64	-55%
Mar	2,158.57	673.38	-69%
Apr	841.21	676.19	-20%
May	1,152.67	114.00	-90%
Jun	1,130.64	1,259.57	11%
1st Half	**11,827.64**	**6,492.30**	-45%
Jul	1,348.83	392.76	-71%
Aug	608.11	1,037.67	71%
Sep	1,801.03	1,171.79	-35%
Oct	1,962.21	988.67	-50%
Nov	1,446.31	1,022.11	-29%
Dec	1,729.50	1,525.58	-12%
2nd Half	**8,895.99**	**6,138.58**	-31%
Cumulative Figure	**20,723.63**	**12,630.88**	-39%

Source: CBN Financial Market Department

Figure 3.17: OMO Bills Auction (January – December, 2020

Source: CBN Financial Market Department

3.3.3.3 Reserve Requirements

In the second half of 2020, the Bank deployed reserve requirements namely: the Cash Reserves Ratio (CRR) and Liquidity Ratio (LR) to complement MPR and OMO auctions. The Monetary Policy Committee sustained the CRR at 27.5 per cent and maintained Liquidity Ratio at 30.0 per cent, to curb the excess liquidity in the banking system.

3.3.3.4 Standing Facilities

In the second half of 2020, the deposit money banks (DMBs) continued to access the standing facilities (lending/deposit) window to meet their daily liquidity requirements. The asymmetric corridor which defines the window in the market was maintained at +100/-700 basis points around the MPR.

Under the Window, the requests for Standing Lending Facility (SLF) decreased by 44.92 per cent to ₦1,827.09 billion in the second half of 2020 from ₦3,317.40 billion in the first half. This also reflected a decrease of 75.79 per cent from ₦7,548.37 billion in the corresponding half of 2019 (Table 4.2).

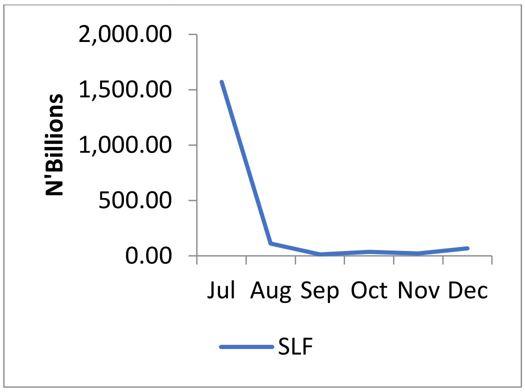
The volume of deposits under the Standing Deposit Facility (SDF)t, however, increased by 34.70 per cent to ₦4,164.78 billion in the second half of 2020 from ₦3,091.78 billion in the first half of 2020. When compared with the corresponding half year of 2019, there was a marginal increase, of 2.27 per cent from ₦4,072.20 billion (Table 3.10). Transactions at the Window resulted in a net deposit of ₦2,337.69 billion in the second half of 2020 compared with a net lending by the Bank of ₦225.62 billion and ₦3,476.17 billion in the preceding and corresponding half years. The developments indicated the existence of excess liquidity in the banking system.

Table 3.10: CBN Standing Lending Facility (January 2019 – December 2020) (N'billion)

Date	2019	2020	% Change
Jan	3,232.63	580.77	
Feb	3,328.80	510.27	
Mar	1,955.75	957.34	
Apr	2,011.93	277.93	
May	896.82	398.84	
Jun	715.33	592.25	
1st Half	**12,141.26**	**3,317.40**	**-72.68%**
Jul	1,508.97	1,570.18	
Aug	3,201.93	112.72	
Sep	1,497.88	14.39	
Oct	343.57	37.11	
Nov	720.58	22.94	
Dec	275.44	69.75	
2nd Half	**7,548.37**	**1,827.09**	**-75.79%**
Total	**19,689.63**	**5,144.49**	

Source: CBN Financial Market Department

Figure 3.18: Standing Lending Facility (July – December 2020)



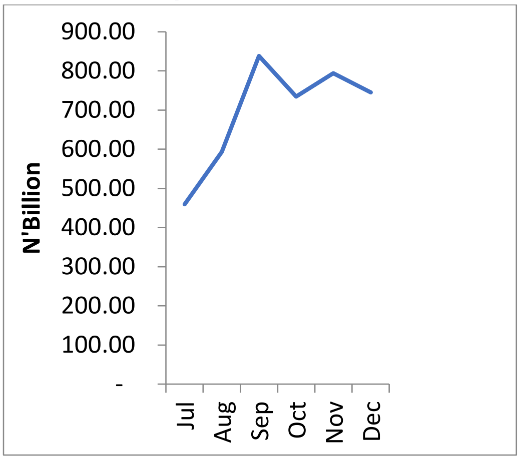
Source: CBN Financial Market Department

Table 3.11: CBN Standing Deposit Facility (January 2019 – December 2020) (N'billion)

Date	2019	2020	% Change
Jan	976.66	618.49	
Feb	704.41	523.41	
Mar	1,402.26	356.80	
Apr	1,056.76	601.53	
May	2,178.21	549.50	
Jun	1,748.92	442.05	
1st Half	**8,067.22**	**3,091.78**	**-61.67%**
Jul	1291.45	459.49	
Aug	361.43	593.42	
Sep	405.56	838.22	
Oct	710.75	734.51	
Nov	555.34	794.31	
Dec	747.67	744.83	
2nd Half	**4,072.20**	**4,164.78**	**2.27%**
Total	**12,139.42**	**7,256.56**	

Source: CBN Financial Market Department

Figure 3.19: Standing Deposit Facility (July - December, 2020)



Source: CBN Financial Market Department

3.3.3.5 Foreign Exchange Intervention

There was continued pressure on the foreign exchange market in the second half of 2020, which arose from the shock to the oil market compounded by the COVID-19 pandemic. Declining foreign exchange inflows continued to be a major challenge during the review period. In order to increase supply, the Central Bank moved to stop foreign exchange leakages through diaspora remittances, by adopting new policy measures to boost efficient flow of remittances by encouraging the use of official channels. This would further deepen the foreign exchange market, provide more liquidity, and create more transparency in the administration of diaspora remittances into Nigeria.

Similarly, to ensure prudent use of foreign exchange, the Bank introduced 'Product Price Verification Mechanism' and directed that payments for all Forms 'M', letters of credit and other forms of payment be made to the 'ultimate supplier of products' by passing third parties.

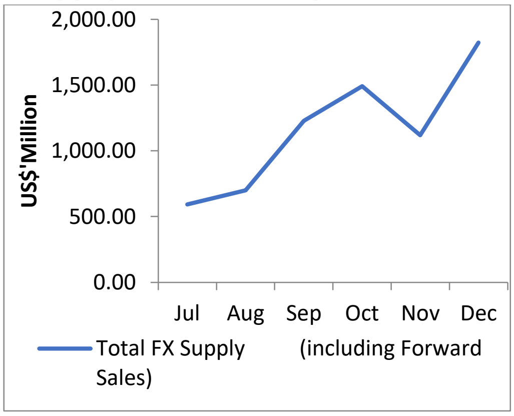
Total foreign exchange supply decreased by 32.51 per cent to US$6,957.28 million in the second half of 2020 from US$10,308.01 million in the first half of 2020. The development also represented a decrease of 50.70 per cent compared with US$14,113.31 million in the corresponding period of 2019 (Table 3.12). The decrease in supply was due to the continued effect of the COVID-19 pandemic.

Table 3.12: Foreign Exchange Supply by the CBN (US$ Million)

Date	2019	2020	% Change
	Total FX Supply (including Forward Sales)	Total FX Supply (including Forward Sales)	
Jan	1,480.92	1,604.27	
Feb	1,932.96	3,364.39	
Mar	1,159.78	3,344.29	
Apr	1,244.32	674.87	
May	1,455.05	639.76	
Jun	1,115.47	680.43	
1st Half	**8,388.50**	**10,308.01**	**22.88%**
Jul	2,160.21	593.33	
Aug	3,160.16	699.92	
Sep	1,985.79	1,229.16	
Oct	1,908.88	1,492.34	
Nov	2,317.46	1,119.27	
Dec	2,580.81	1,823.26	
2nd Half	**14,113.31**	**6,957.28**	**-50.70%**

Source: CBN Financial Market Department

Figure 3.20: Total FX Supply (including Forward Sales) (July – December, 2020)



Source: CBN, Financial Market Department

3.3.4 Developments in Monetary Aggregates

In the review period, the performance of major monetary aggregates was mixed, relative to their benchmarks. Broad money supply (M3) grew below its indicative benchmark for 2020 in view of the Bank's restriction of non-bank agents from participating in OMO bill auctions. The other measure of broad money supply (M2), however, grew above its benchmark as maturing OMO securities were not rolled over, thus increasing the demand deposit portion of narrow money supply (M1). The growth in broad money supply reflected the behaviour of its key components namely, Net Domestic Assets (NDA) and Net Foreign Assets (NFA).

Net Domestic Assets (NDA) contracted, relative to its benchmark in the review period. Its key component, Net Domestic Credit (NDC) grew moderately, driven by growth in both private sector and government credit, NFA grew below its benchmark in the review period, driven primarily by the monetary authority's foreign assets, mostly the COVID-19 loans and grants from abroad.

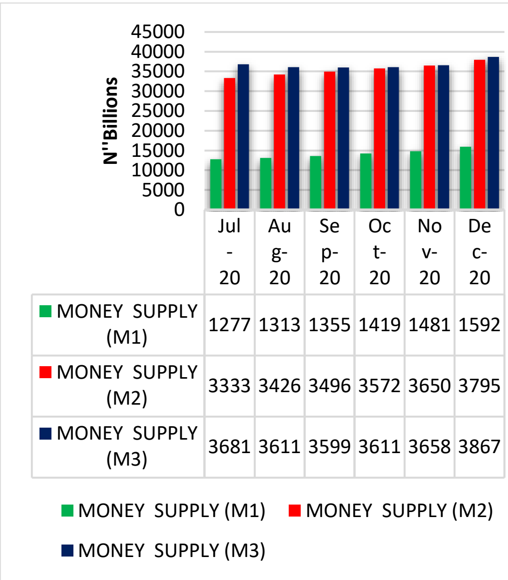
3.3.4.1 Broad Money (M3, M2)

The broad measures of money supply (M3 & M2) grew in the review period. M3 grew by 9.42 per cent to ₦38,673.64 billion at end-December 2020 from ₦35,345.80 billion at end-June 2020. When compared with the end-December 2019 level of ₦34,850.88

billion, it decreased by 10.97 per cent. The M3 growth rate at end-December 2020 was below the 2020 indicative growth target of 15.70 per cent. Similarly, M2 grew by 17.98 per cent to ₦37,957.59 billion at end-December 2020 from ₦32,171.34 billion at end-June 2020. Compared with the end-December 2019 level of ₦28,759.34 billion, it increased by 31.98 per cent. The annual M2 growth was much higher than the 2020 indicative growth benchmark of 8.42 per cent.

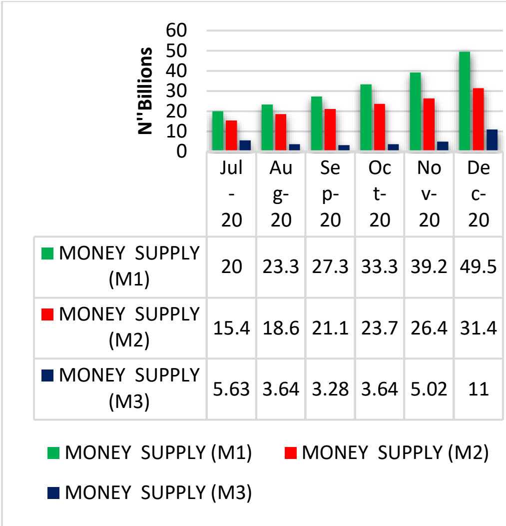
The increase in M2 was primarily driven by increase in M1 by 49.54 per cent and quasi money by 20.87 per cent owing to the prohibition of the non-bank public from investing in OMO bills. Thus, the proceeds of matured OMO bills were not rolled over but became part of M1 deposits or reinvested in other near money instruments.

Figure 3.21: Money Supply (M1), (M2) and (M3) (July - December 2020)



Source: CBN Statistics Department

Figure 3.22: Growth in Money Supply (M1), (M2) and (M3) (July - December 2020)



Source: CBN Statistics Department

3.3.4.2 Narrow Money (M1)

Narrow Money (M1) increased by 30.48 per cent to ₦15,923.94 billion at end-December 2020 from ₦12,204.25 billion at end-June 2020. It also increased by 49.54 per cent compared with ₦10,648.41 billion at end-December 2019. The annual M1 growth of 49.54 per cent was higher than the 2020 indicative growth benchmark of 44.91 per cent (Figures 3.21 and 3.22). The performance of M1 was attributable to the significant increase in Demand Deposits by 15.41 per cent, owing to the inability of DMBs to roll-over matured CBN bills held on behalf of the non-bank public.

3.3.4.3 Net Foreign Assets (NFA)

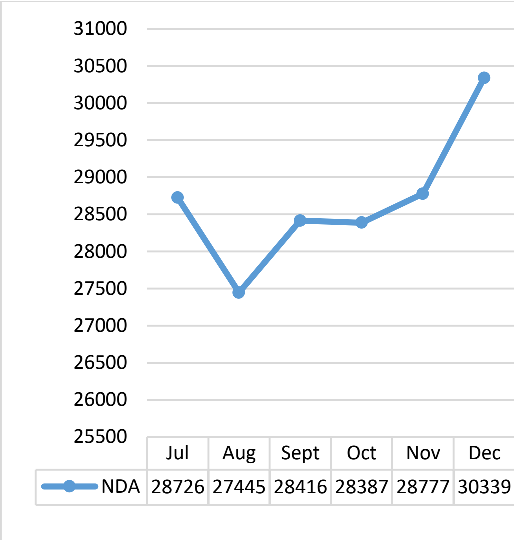
Net Foreign Assets (NFA) increased by 10.00 per cent to ₦8,3334.32 billion at end-December 2020 from ₦7,576.75 billion at end-June 2020. Compared with the end-December 2020 figure of ₦5,944.46 billion, NFA increased by 40.20 per cent. This annual growth rate of NFA at end-December 2020 was marginally below the 2020 indicative growth target of 44.91 per cent. The performance of NFA below its benchmark in the review period was driven largely by Claims on Non-Residents in the Monetary Authority's Account.

3.3.4.4 Net Domestic Assets (NDA)

Net Domestic Assets (NDA) increased by 9.26 percent to ₦30,339.31 billion at end-December 2020 from ₦27,769.05 billion at end-June 2020. Compared with the end-December 2019 figure of ₦28,906.42 billion, NDA grew by 4.96 per cent. The annual growth in NDA was far higher than the 2020 indicative growth benchmark of -0.66 per cent.

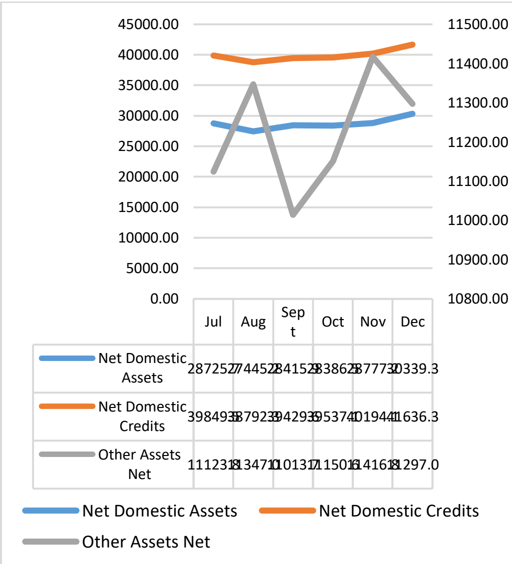
Net Domestic Credit (NDC) increased by 13.40 per cent, driven largely by credit to the private sector which increased by 13.34 per cent owing to the Bank's regulatory measure to improve lending to the real sector as well as its development finance interventions. These interventions were targeted at improving the flow of credit to critical sectors of the economy in the light of weak performance and heightened uncertainties associated with the COVID-19 pandemic. Credit to government also increased by 13.58 per cent, due to increase in Federal government expenditure to curb the COVID-19 pandemic. The moderate performance of NDA was also attributable to the behaviour of Other Items Net (OIN) with moderated increase of 1.58 per cent.

Figure 3.23: Net Domestic Assets (NDA) (June - December 2020)



Source: CBN, Statistics Department

Figure 3.24: NDA, NDC and Other Assets (Net) (June – December, 2020)



Source: CBN Statistics Department

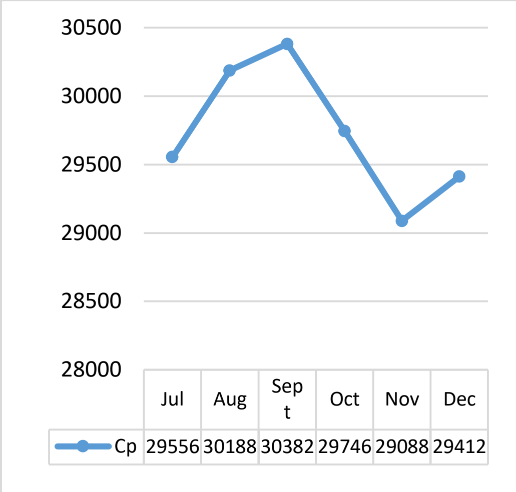
3.3.4.5 Credit to Government (Cg)

Credit to Government (Cg) increased by 29.40 per cent to ₦11,469.18 billion at end-December 2020 from ₦8,863.20 billion at end-June 2020. Compared with the end-December 2019 figure of ₦10,098.14 billion, it grew by 13.58 per cent. The annual growth of Cg at end-December 2020 was significantly higher than the 2020 indicative growth target of -2.06 per cent. The significant increase in credit to government is the outcome of Government's expenditure to curb the COVID 19 pandemic.

3.3.4.6 Credit to the Private Sector (Cp)

Cedit to the private sector (Cp) increased by 3.37 per cent to ₦31,669.74 billion at end-December 2020 from ₦29,183.70 billion at end-June 2020. Compared with the end-December 2019 figure of ₦26,616.74 billion, it grew by 13.34 per cent. The annual growth in Cp at end-December 2020 was below the 2020 indicative growth target of 18.61 per cent. If the increase in government borrowing continues, this may lead to the crowding out effect of government borrowing on private sector as witnessed in the recent past.

Figure 3.25: Domestic Credit to Private Sector (June - December 2020)



Source: CBN, Statistics Department

3.3.4.7 Reserve Money (RM)

Reserve Money (RM) decreased by 1.16 per cent to ₦13,103.09 billion at end-December 2020 from ₦13,257.04 billion at end-June 2020. However, when compared with its end-December 2019 level of ₦8,680.95 billion, RM grew by 50.94 per cent. The annual growth in RM as at December 2020 was below the 2020 indicative growth target of 63.47 per cent. The performance of RM was attributed to increase in excess reserves of DMBs owing to their inability to rollover maturing CBN bills held on behalf of non-bank economic agents.

Table 3.13a, b presented a summary of the major monetary aggregates and their provisional outcomes as at end-December 2020.

Table 3.13a: The Performance of Monetary Aggregates

Variables	Actual H2 2019	Actual H1 2020	Actual H2 2020	Benchmark 2020	H1:2020 Deviation from Benchmark	Change in H1, 2020 over H2, 2020
M3 (N'b)	34,850.88	35,345.80	38,673.64	37,128.47	1,545.17	3,327.84
M3 (%)	2.10%	1.64%	10.97%	15.70%	-0.05	0.09
M2 (N'b)	28,877.94	32,171.34	37,957.59	33,273.21	4,684.38	5,786.25
M2 (%)	6.38%	11.77%	31.44%	8.42%	0.23	0.20
M1 (N'b)	10,648.41	12,204.25	15,923.94	11,417.22	4,506.72	3,719.69
M1 (%)	10.82%	15.86%	49.54%	44.91%	0.05	0.34
RM (N'b)	8,680.95	13,257.04	13,103.09	14,172.46	-1,069.37	-153.95
RM (%)	20.63%	52.91%	50.94%	63.47%	-0.13	-0.02
NDC (N'b)	36,714.88	38,046.91	41,636.32	40,957.45	678.87	3,589.41
NDC (%)	12.93%	5.16%	13.40%	13.20%	0.00	0.08
Cg (N'b)	10,098.14	8,863.20	11,469.18	9,287.71	2,181.47	2,605.98
Cg (%)	23.95%	-6.54%	13.58%	-2.06%	0.16	0.20
Cp (N'b)	26,616.74	29,183.70	30,167.13	31,669.74	-1,502.61	983.43
Cp (%)	9.48%	9.32%	13.34%	18.61%	-0.05	0.04
NFA (N'b)	5,944.46	7,576.75	8,334.32	8,413.73	-79.41	757.57
NFA (%)	-41.62%	30.54%	40.20%	44.91%	-0.05	0.10
NDA (N'b)	28,906.42	27,769.05	30,339.31	28,714.74	1,624.57	2,570.26
NDA (%)	20.16%	-4.15%	4.96%	-0.66%	0.06	0.09

Source: CBN, Statistics Department

Table 3.13b: The Performance of Monetary Aggregates and their Implications

S/N	Monetary Aggregates	Performance	Implication
1	Overall Monetary Aggregates	Mixed-	The mixed performance is indicative of growing uncertainties and weakening economic fundamentals. The improved performance of NFA which is not due to improved export revenue is a major concern for policy.
2	Broad Money (M3, M2)	Mixed	While M3 performed below its benchmark, M2 grew significantly above its target, providing mixed policy signals. The behaviour of M2 appears consistent with the prevailing uptrend in inflation.
3	Narrow Money (M1)	Strong and above target	The strong performance is not indicative of improved economic activities, but merely the result of a portfolio shift arising from the inability of DMBs to reinvest matured OMO bills on behalf of the non-bank public. This concern is further amplified by the weak signals from other monetary aggregates, consistent with weakening economic activities.
4	Net Foreign Assets (NFA)	Moderately below target	The performance of NFA which is not due to improved export revenue is a major concern for policy.
5	Net Domestic Assets (NDA)	above target	The performance in NDA reflects sharp growth in money supply especially M2.
6	Credit to the Govt (Cg)	Above target	The performance of credit to government reflects Government's expenditure to curb the COVID-19 pandemic. The overperformance of credit to government could lead to the crowding-out of private sector investments.
7	Credit to the Private Sector (Cp)	Below target	Although private sector credit was below target, its quantum relative to the credit to government increased, reflecting improved credit delivery as a result of the Bank's Loan-to-Deposit policy as well as CBN interventions to channel credit to targeted sectors.

Source: CBN, Statistics Department

3.4 Domestic Financial Markets Developments

In the second half of 2020, the Nigerian financial market experienced considerable volatility, owing to lingering shocks from the COVID-19 pandemic, weak crude oil prices, soaring global debt and high unemployment. The COVID-19 related shocks resulted in lower fiscal receipts and acretion to external reserves, which led to pressure in the foreign exchange market.

The money market remained active in the review period, with market rates reflecting liquidity conditions in the banking system. The rates remained within the Standing Facilities corridor, reflecting fluctuations in banking system liquidity.

Stability in the foreign exchange market was supported by sustained interventions by the CBN to stabilize the naira in the midst of demand pressures for foreign exchange. The All-Share Index (ASI) and Market Capitalization (MC) increased during the second half of 2020; likely reflecting improved investor sentiment in response to the mitigating measures adopted by the monetary and fiscal authorities to contain the pandemic.

3.4.1 The Money Market

The changing liquidity conditions of the banking system reflected the fluctuations experienced in the money market interest rates in the second half of 2020. The rates were volatile but remained within the Standing Facilities corridor during the review period, thus, reflecting swings in banking system liquidity. The developments in net liquidity position and flows, which culminated in lower monthly average market rates reflected the impact of CBN Interventions in the bid to support system liquidity following the outbreak of the COVID-19 pandemic. Since the prevalence of the pandemic in March 2020, money market rates have further eased as liquidity was boosted by FGN coupon payments and liquidity infusion, through CBN interventions in the banking system. This was intended to enhance job creation and provision of credit facilities to stimulate business activities for both corporates and individuals, particularly those that lost their goods and business premises to hoodlums, during the recent end Special Anti-robbery Squad (SARS) protest.

Liquidity conditions in the banking system continued to influence money market rates in the review period. The Open Buy Back (OBB) rate declined progressively as a result of rising liquidity levels in the banking system, while there were no transactions at the uncollateralized inter-bank call window. Consequently, the monthly weighted average OBB rate declined to 1.88 per cent in October 2020 from 3.50 per cent in September 2020.

Overall, the financial system's liquidity were sourced from statutory monthly disbursement to states and local governments by the Federation Account Allocation Committee (FAAC); maturing government securities and OMO bills owned by domestic individuals and local corporations; and real sector CBN interventions.

The interbank segment of the market witnessed less trading days in the second half of 2020, which resulted in lower transaction volume compared with the OBB segment. The continuing preference for the collateralized transactions could be attributed to the high-risk perception of money market participants of open market lending and the oligopolistic nature of the market.

3.4.1.1 Short-term Interest Rate Developments

The short-term rates reflected the prevailing liquidity conditions in the banking system. In addition to the various Monetary Policy Committee decisions, the banking system liquidity was influenced by the statutory FAAC disbursements, OMO, NTB transactions, and maturing government securities. The CBN foreign exchange interventions aimed at moderating FOREX demand pressures also played a role in money market liquidity and the short-term interest rates.

However, as COVID-19 pandemic takes its toll on various sectors of the economy, its impact on the financial sector and in particular, the market for short-term instruments becomes important, as it contributes to the short-term interest rates developments in a number of ways. For example, the injection of monetary and fiscal stimulus, which aims to boost economic activities and stabilise Nigerian financial markets during the pandemic, is expected to drive the rates down. While these efforts were geared towards mitigating the impact of the crisis on the financial market, they also serve as a trajectory to achieving monetary policy objectives.

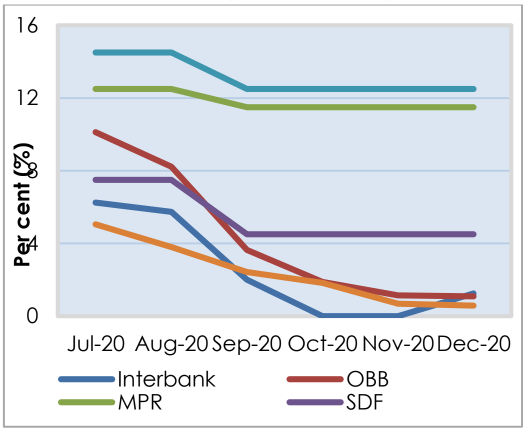
In the period under review, the interbank call segment recorded significantly low transaction volumes compared with the Open Buy Back (OBB) segment. Rates in both segments appeared considerably volatile, fell significantly and remained at low levels. Specifically, the OBB rate dropped from 10.12 per cent in July 2020 to 1.09 per cent in December 2020. Similarly, the interbank call rate dropped from 6.25 per cent in July to 1.25 per cent in December 2020.

Table 3.14: Weighted Average Monthly Money Market Interesr Rates (Jul – Dec, 2020)

PERIOD	Interbank	OBB	SDF	MPR	SLF	NIBOR-30 DAYS
	(%)	(%)	(%)	(%)	(%)	(%)
Jul-20	6.25	10.12	7.50	12.50	14.50	5.04
Aug-20	5.74	8.22	7.50	12.50	14.50	3.79
Sep-20	2.00	3.64	4.50	11.50	12.50	2.43
Oct-20	0.00	1.88	4.50	11.50	12.50	1.83
Nov-20	0.00	1.13	4.50	11.50	12.50	0.68
Dec-20	1.25	1.09	4.50	11.50	12.50	0.57
Average	3.81	4.35	5.50	11.83	13.17	2.39

Source: CBN, Statistics

Figure 3.26: Weighted Average Monthly Money Market Interest Rates (Jul – Dec, 2020)

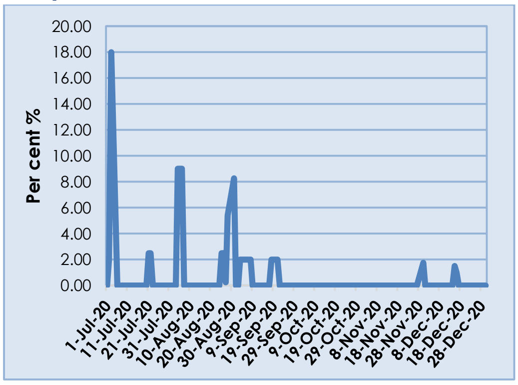


3.4.1.1.1 The Interbank Call Rate

The uncollateralized interbank call segment experienced quite negligible activities. Trading volumes were minimal and relatively inconsequential as a greater number of days without trading activities were recorded. This reflects increased risk perception and market participants' persistent preference for the collateralised OBB transaction. Against this backdrop and also due to an increasing level of liquidity in the system, the interbank call rates consistently fell from 6.25 per cent in July 2020 to 5.74 per cent in August 2020. As this persisted, the monthly average rate decreased sharply to 2.00 per cent in September 2020. There were, however, no transactions at the interbank call segment in October and November 2020. The drop in rate within this period may be linked to the Bank's decision at the September MPC meeting to reduce the MPR by 100 basis points from 12.50 to 11.50 per cent and adjust the asymmetric corridor from +200/-500 basis point to +100/-700 basis points around the MPR. However, by the end of December 2020, the interbank call rate rebounded, settling at 1.25 per cent.

As represented in Figure 3.27, the analysis of the daily interbank rates for the period showed that for the days of trading activities, the call rate ranged from 0.25 per cent in August 2020 to peak at 18.00 per cent in July 2020. The peak of 18.00 per cent in July was largely due to a tight liquidity conditions impacted by a slowdown in economic activities owing to the COVID19 pandemic, and mopping up activities through OMO transactions. The 0.25 per cent recorded in August on the other hand, signalled improved system liquidity conditions by the Bank. This is in a bid to stimulate economic activities by targeting access to loans by businesses and individuals during the current pandemic. The average interbank call rate for the period July – December was 3.81 per cent, which represented a decrease from the 7.11 per cent recorded in the first half of 2020.

Figure 3.27: Daily Interbank Call Rate (Jul – Dec 2020)



3.4.1.1.2 The Open Buy Back (OBB) Rate

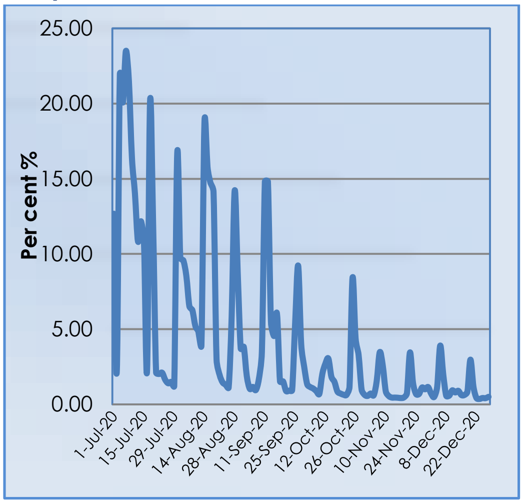
The OBB segment of the market continuously witnessed a higher number of transactions compared with the interbank call segment, in the period under review. The monthly weighted average OBB rate fluctuated downwards between 10.12 and 1.09 per cent. The monthly weighted average rate of the OBB fell from 10.12 per cent in July 2020 to 8.22 per cent in August 2020 suggesting an improvement in system liquidity. The total inflows from the net OMO sales, FAAC distributions and FX sales outweighed the outflows in form of CRR debits. In addition, the growing fiscal and monetary injections, coupled with a decrease in the uncertainties surrounding the impact of the global pandemic on the Nigerian economy accounted for rising liquidity levels in the banking system. Consequently, the monthly weighted average of the OBB rate declined from 3.64 per cent in September 2020 to 1.88 per cent in October 2020 and 1.13 per cent in November 2020.

In December 2020, with development reflecting more stringent containment measures, and endorsement of vaccines globally, the OBB rate dropped further closing at 1.09 per cent.

An analysis of the daily rates indicated that the OBB rate fluctuated between 0.37 and 23.49 per cent between July and December 2020). The spike of 23.49 per cent observed in July 2020 was associated with the lingering effect of withdrawal of liquidity from the banking system through OMO auctions.

The average OBB rate for the period, July – December 2020, stood at 4.35 per cent, which was lower than the 8.19 per cent recorded in the first half of 2020.

Figure 3.28: Daily Open Buy Back Rate (Jul – Dec 2020)



3.4.1.1.3 The Nigeria Interbank Offered Rate (NIBOR)

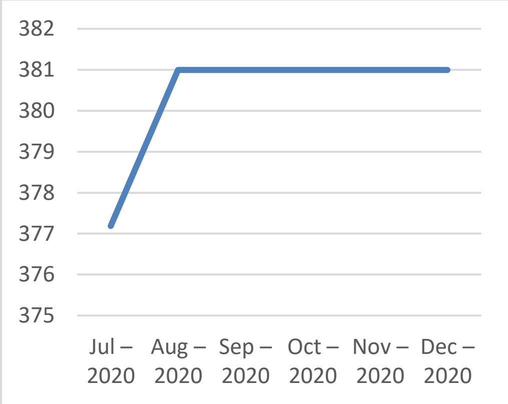
The Nigerian money market reference rate (NIBOR) also showed a downward trend in the period under review. After a peak of 5.04 per cent in July 2020, the rate continued to drop till the end of the year. This signalled a progressive improvement of liquidity conditions in the banking system. In August, the 30-day monthly weighted average NIBOR stood at 3.79 per cent. It, later, dropped to 2.43 per cent in September 2020, a decrease of 136 basis points. The 30-day monthly weighted average NIBOR continued its downward slide to 0.68 per cent in November 2020.

3.4.2 Foreign Exchange Market

The apex Bank has continued to ensure exchange rate stability amidst tight foreign exchange (FOREX) liquidity. However, the pressure continued to mount on the Naira with further depreciation despite the Bank's intervention at the interbank foreign exchange market. The intervention was meant to maintain stability, manage system liquidity and ultimately safeguard the Naira and external reserves against volatility.

The inability of the OPEC plus group to agree on a significant oil output cut also heightened uncertainty around oil-supply and price. The continuous unfavourable global macro-economic environment due to the spread of COVID-19 pandemic further weakened economic and financial activities, thus impacting on exchange rate stability. Though, recent developments depicted stable oil price, the fear of sudden weakening of global demand and possible fall in oil price due to partial lockdown continued to build-up. The effect of the international oil price volatility directly impacts the supply of foreign exchange. The dwindling foreign exchange earnings as a result of crude oil export production cut impacted negatively on the size of external reserves and exchange rate stability.
Also of significance was the end-SARS protest that possibly caused disruption to the foreign exchange inflows. The agitations and unrest that characterised the protest caused uncertainties amongst investors, particularly foreign portfolio investors resulting to increased capital outflow from the economy.

Figure 3.29: Daily Naira/US Dollar Exchange Rate, July – December 2020



Source: CBN Statistics Department

Within the period under review, the CBN increased supply to the FOREX market in order to strengthen the naira. The Bank also relaxed further restrictions by allowing the International Money Transfer Operators (IMTOs) customers' access their remittances in foreign currencies. In a bid to further reduce the pressure on the value of the naira and improve the US dollar liquidity, the Bank adjusted the naira exchange rate ₦360.00/US$ to ₦381.00/US$ in July 2020 making it the second of such adjustment in the same year.

The Bank's I&E window also played a fundamental role in the accessibility of FOREX for importation of essential items. In addition, the Bank during the period under review, maintained its existing policies among which included:

- Direct interventions in the FOREX market as well as injections through International Money Transfer Operators (IMTOs).

- Restriction of FOREX sales for 43 items; and
- Systematic monitoring of DMBs to prevent them from engaging in speculative activities.

3.4.2.1 Average Exchange Rates

The interbank exchange rate depreciated by 12.86 per cent from an average of ₦337.26/US$ in the first half of 2020 to an average of ₦380.37/US$ in the second half of the year. The second exchange rate adjustment by the CBN in July 2020 accounted for the significant depreciation of the foreign exchange rates.

Table 3.15: Average Monthly Spot Exchange Rate (N/US$), Jan 2020 – Dec 2020

MONTH	Interbank
January	306.96
February	306.96
March	326.63
April	361.00
May	361.00
June	361.00
Average	**337.26**
July	377.19
August	381.00
September	381.00
October	381.00
November	381.00
December	381.00
Average	**380.37**

Source: CBN Statistics Department

3.4.2.2 End-Period (Month) Exchange Rates

During the period under review, the Interbank foreign exchange market experienced major movements in the exchange rate. The movements at the interbank segment were relatively stable over the period.

The Naira depreciated by 11.08 per cent against the dollar at the interbank segment in second half 2020 closing at an average of ₦381/US$ when compared with ₦342.99/US$ in first half 2020.

The policy direction of the Bank is to ensure exchange rate stability; however, persistent pressures have continued in the market.

Table 3.16: End-Month Exchange Rate (N/US$), Jan 2020 – Dec 2020

MONTH	Interbank
January	307.00
February	306.95
March	361.00
April	361.00
May	361.00
June	361.00
Average	**342.99**
July	381.00
August	381.00
September	381.00
October	381.00
November	381.00
December	381.00
Average	**381.00**

Source: CBN Statistics Department

3.4.2.3 Nominal and Real Effective Exchange Rates

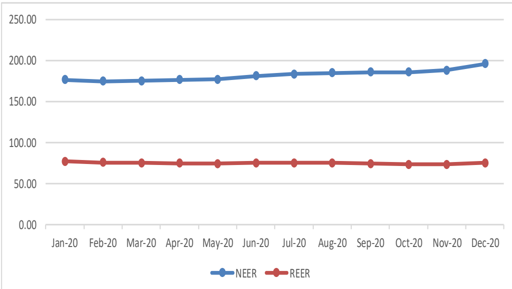
The Nominal Effective Exchange Rate (NEER) showed a depreciation of 5.76 per cent, from an average of 176.46 in the corresponding second half of 2019 to an average of 187.24 in the current period. It depreciated by 5.76 percent when compared with the average of 176.80 percent recorded in the first half of 2020. On the other hand, the Real Effective Exchange Rate (REER) appreciated by 6.47 per cent from an average of 79.31 in the second half of 2019 to an average of 74.49 percent in the second half of 2020. A further analysis with the average of 75.37 recorded in the first half of 2020 indicated that the REER witnessed an appreciation of 1.18 per cent. (Table 3.17). The continuous depreciation of the NEER signifies the weakening of the domestic currency against the currencies of trading partners, while the appreciation of the REER implies a loss of trade competitiveness with Nigeria's trading partners (Table 3.17 and figure 3.30).

Table 3.17: Average Nominal and Real Effective Exchange Rates Indices (July 2019 – Dec 2020)

PERIOD	NEER	REER
Jul-19	179.16	81.79
Aug-19	175.26	79.41
Sep-19	174.54	78.37
Oct-19	177.56	79.2
Nov-19	175.8	77.77
Dec-19	179.62	78.92
2019:H2 Average	**176.46**	**79.31**
Jan-20	176.39	76.98
Feb-20	174.69	75.80
Mar-20	175.12	75.16
Apr-20	176.50	74.86
May-20	176.99	74.17
Jun-20	181.08	75.22
2020: H1 Average	**176.80**	**75.37**
Jul-20	183.31	75.43
Aug-20	184.74	75.20
Sep-20	185.61	74.54
Oct-20	185.69	73.37
Nov-20	188.21	73.20
Dec-20	195.86	75.23
2020:H2 Average	**187.24**	**74.49**

Source: CBN Statistics Department

Figure: 3.30: Nominal and Real Effective Exchange Rates Indices (July 2019 – Dec 2020)



Source: CBN Statistics Department

3.4.2.4 Foreign Exchange Flows through the CBN

Foreign exchange inflow through the CBN totalled US$15,149.97 million at the end of second half of 2020. The inflow represented a significant decrease by 41.87 per cent from the US$25,853.79 million recorded in the second half of

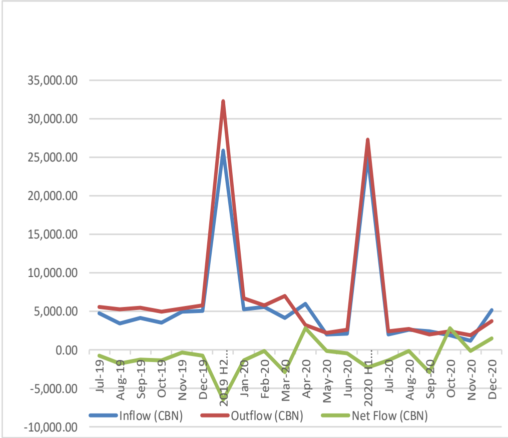
2019. It was also a decline of 39.46 per cent when compared with the US$25,024.98 million in the first half of 2020. On the other hand, outflows declined by 53.81 per cent from $32,300.86 million in the second half of 2019 to $14,917.55 million at end-2020. Moreover, the outflows represented a significant decrease by 45.40 percent compared with the $27,321.79 recorded during the first half of 2020. The analysis indicated a net outflow of US$232.22 million in the current period compared with a net outflow of US$6,447.07 million in the corresponding period of 2019, as well as the net outflow of $2,296.80 in the first half of 2020. The significant and continuous contraction in both inflows and outflows of forex during the review period was linked to the drop in crude oil earnings due to production cut and the headwinds accompanying the second wave of the COVID-19 pandemic.

Table 3.18: Monthly Foreign Exchange Flows through the CBN (Jul 2019 – Dec 2020)

Period	Inflow (CBN)	Outflow (CBN)	Net Flow (CBN)
Jul-19	4,747.84	5,540.36	-792.51
Aug-19	3,459.58	5,237.95	-1,778.37
Sep-19	4,152.02	5,425.34	-1,273.32
Oct-19	3,520.49	4,952.03	-1,431.54
Nov-19	4,978.75	5,385.84	-407.09
Dec-19	4,995.11	5,759.35	-764.24
2019 H2 Total	**25,853.79**	**32,300.86**	**-6,447.07**
Jan-20	5,271.65	6,652.58	-1,380.93
Feb-20	5,594.29	5,722.81	-128.52
Mar-20	4,121.73	6,997.01	-2,875.28
Apr-20	5,940.18	3,164.66	2,775.52
May-20	1,991.72	2,184.25	-192.53
Jun-20	2,105.41	2,600.48	-495.06
2020 H1 total	**25,024.98**	**27,321.79**	**-2,296.80**
Jul-20	1,977.68	2,371.01	-1,380.93
Aug-20	2,576.38	2,671.52	-128.52
Sep-20	2,423.87	1,956.65	-2,875.28
Oct-20	1,885.82	2,346.49	2,775.52
Nov-20	1,148.11	1,874.29	-192.53
Dec-20	5,137.91	3,697.60	1,440.31
2020 H2 Total	**15,149.77**	**14,917.55**	**232.22**

Source: CBN Statistics Department

Figure 3.31: Monthly Foreign Exchange Flows through the CBN (Jul 2019 – Dec 2020)



3.4.2.5 Foreign Exchange Flow through the Economy

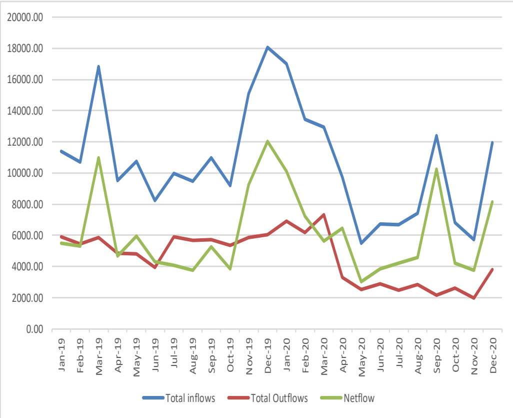
Gross foreign exchange inflow to the economy dropped sharply by 29 per cent to US$50,937.45 million in the second half of 2020 from US$72,766.77 million in the corresponding second half of 2019. It also decreased substantially by 22.06 percent when compared with US$65,355.00 million in the first half of 2020. Gross foreign exchange outflows also dipped by 54.25 per cent to US$15,828.80 million in the period under review, from US$34,596.63 million in the corresponding period of 2019. Compared with US$29,102.13 million at the end period of first half of 2020, it reflected a dip by 45.61 per cent. The development resulted to a net inflow of US$35,108.65 million compared with the net inflows of US$38,170.14 million and US$34,408.19 million in the corresponding period of 2019, and preceding first half of 2020, respectively. The fall in the gross foreign exchange flows in the economy could be attributed to the recent global economic headwinds caused by the unprecedented prevalence of cOVID-19 and subsequent outbreak of the second wave which has heightened economic uncertainties around the globe.

Table 3.19: Monthly Foreign Exchange Flows through the Economy (Jan 2019 – Dec 2020) (US$ Million)

PERIOD	Inflow (CBN)	Inflow (Autonomous)	Total Inflows	Outflows (CBN)	Outflows (Autonomous)	Total Outflow	Net Flow	Net Flow (CBN)	Net Flow (Autonomous)
Jan-19	5,397.41	6,000.11	11,397.52	5,690.85	209.55	5,900.40	5,497.12	-293.44	5,790.56
Feb-19	5,228.38	5,489.17	10,717.55	5,362.41	65.56	5,427.97	5,289.58	-134.03	5,423.61
Mar-19	7,758.24	9,061.45	16,819.69	5,248.48	615.57	5,864.05	10,955.64	2,509.76	8,445.88
Apr-19	3,852.66	5,675.93	9,528.60	4,271.03	597.85	4,868.88	4,659.71	-418.37	5,078.08
May-19	4,986.98	5,757.28	10,744.26	4,597.62	184.52	4,782.15	5,962.12	389.36	5,572.76
Jun-19	3,596.06	4,629.87	8,225.93	3,676.36	239.70	3,916.06	4,309.87	-80.30	4,390.17
2019 H1 Total	**30,819.73**	**36,613.82**	**67,433.55**	**28,846.76**	**1,912.75**	**30,759.51**	**36,674.04**	**1,972.97**	**34,701.07**
Jul-19	4,747.84	5,238.69	9,986.54	5,540.36	365.21	5,905.57	4,080.97	-792.51	4,873.48
Aug-19	3,459.58	5,991.19	9,450.76	5,237.95	452.92	5,690.87	3,759.90	-1,778.37	5,538.27
Sep-19	4,152.02	6,828.70	10,980.72	5,425.34	306.97	5,732.30	5,248.42	-1,273.32	6,521.73
Oct-19	3,520.49	5,654.47	9,174.96	4,952.03	402.30	5,354.33	3,820.63	-1,431.54	5,252.17
Nov-19	4,978.75	10,110.42	15,089.17	5,385.84	485.99	5,871.83	9,217.34	-407.09	9,624.43
Dec-19	4,995.11	13,089.51	18,084.62	5,759.35	282.38	6,041.73	12,042.89	-764.24	12,807.13
2019 H2 Total	**25,853.79**	**46,912.98**	**72,766.77**	**32,300.86**	**2,295.77**	**34,596.63**	**38,170.14**	**-6,447.07**	**44,617.21**
Jan-20	5,271.65	11,763.49	17,035.14	6,652.58	268.22	6,920.80	10,114.34	-1,380.93	11,495.27
Feb-20	5,594.29	7,828.51	13,422.80	5,722.81	473.25	6,196.06	7,226.74	-128.52	7,355.26
Mar-20	4,121.73	8,842.45	12,964.18	6,997.01	336.71	7,333.72	5,630.46	-2,875.28	8,505.74
Apr-20	5,940.18	3,778.59	9,718.77	3,164.66	125.34	3,290.00	6,428.77	2,775.52	3,653.25
May-20	1,991.72	3,514.53	5,506.25	2,184.25	316.09	2,500.34	3,005.91	-192.53	3,198.44
Jun-20	2,105.41	4,602.44	6,707.86	2,600.48	260.73	2,861.21	2,001.97	4,341.72	3,846.65
2020 H1 Total	**25,024.98**	**40,330.01**	**65,355.00**	**27,321.79**	**1,780.34**	**29,102.13**	**34,408.19**	**2,539.98**	**38,054.61**
Jul-20	1,977.68	4,707.21	6,684.89	2,371.01	90.49	2,461.50	4,223.39	-393.33	4,616.72
Aug-20	2,576.38	4,819.01	7,395.38	2,671.52	160.13	2,831.65	4,563.74	-95.14	4,658.88
Sep-20	2,423.87	9,969.21	12,393.08	1,956.65	201.55	2,158.20	10,234.88	467.22	9,767.65
Oct-20	1,885.82	4,940.22	6,826.04	2,346.49	256.42	2,602.91	4,223.13	-460.67	4,683.80
Nov-20	1,148.11	4,549.23	5,697.34	1,874.29	88.80	1,963.09	3,734.25	-726.17	4,460.42
Dec-20	5,137.91	6,802.81	11,940.72	3,697.60	113.86	3,811.45	8,129.26	1,440.31	6,688.95
2020 H2 Total	**15,149.77**	**35,787.68**	**50,937.45**	**14,917.55**	**911.25**	**15,828.80**	**35,108.65**	**232.22**	**34,876.43**

Source: CBN Statistics Department

Figure 3.32: Monthly Foreign Exchange Flows through the Economy (Jan 2018 – Dec 2020) (US$ Million)



Source: CBN Statistics Department

3.4.3 Capital Market

The Nigerian capital market recorded a bullish performance in the second half of 2020, driven primarily by the equities segment of the market, reflecting improved investors' confidence. Despite the negative impacts of the COVID-19 pandemic and weak macroeconomic fundamentals, the gains recorded within the review period were mainly attributable to high volume of liquidity. The policy of the Central Bank of Nigeria restricting access to Open Market Operations (OMO) left investors with limited investment options, thereby encouraging increased investment in the equities market.

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3.4.3.1 Equities Market

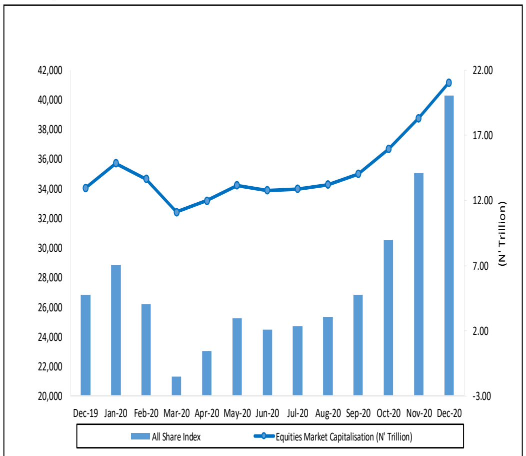
The All-Share Index (ASI) increased by 64.51 per cent from 24,479.22 at end-June 2020 to 40,270.72 at end-December 2020. Similarly, it increased by 50.03 per cent compared with 26,842.07 at end-December 2019. Market capitalization (MC) increased by 64.92 per cent from ₦12.77 trillion at end-June 2020 to ₦21.06 trillion at end-December 2020. Also, when compared with the corresponding period of 2019, it increased by 62.50 per cent from ₦12.96 at end-December 2019 to ₦21.06 at end-December 2020.

Table 3.20: NSE All-Share Index (ASI) and Market Capitalization (MC) (December 2019 – December 2020)

Date	ASI	MC(Equities) N'Trillion)
Dec-19	26,842.07	12.96
Jan-20	28,843.53	14.86
Feb-20	26,216.46	13.66
Mar-20	21,300.47	11.10
Apr-20	23,021.01	12.00
May-20	25,267.82	13.17
Jun-20	24,479.22	12.77
Jul-20	24,693.73	12.88
Aug-20	25,372.13	13.21
Sep-20	26,831.76	14.02
Oct-20	30,530.69	15.96
Nov-20	35,042.14	18.31
Dec-20	40,270.72	21.06

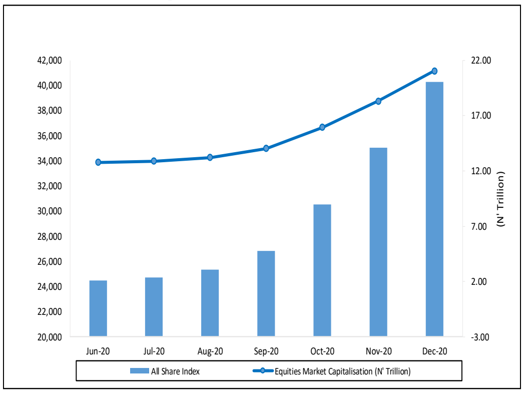
Source: Nigerian Stock Exchange (NSE)

Figure 3.33: NSE All Share Index (ASI) and Market Capitalization (MC) (December 2019 - December 2020)



Source: Nigerian Stock Exchange (NSE)

Figure 3.34: NSE ASI and MC (June 2020 – December 2020)



Source: Nigerian Stock Exchange (NSE)

3.4.3.1.2 Market Turnover

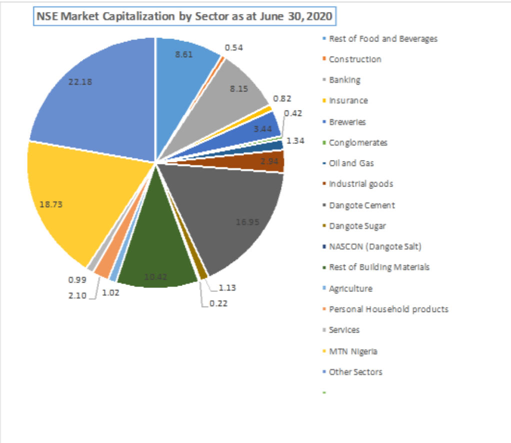
Aggregate stock market turnover in the second half of 2020 stood at 55.00 billion shares, valued at ₦534.07 billion in 586,534 deals. This represents a 31.23 per cent increase compared to 41.91 billion shares, valued at ₦495.65 billion in 567,184 deals in the first half of 2020. Aggregate stock market turnover also increased by 65.66 per cent on a year-on-year basis from 33.20 billion shares, valued at ₦420.13 billion in 419,491 deals as at end December 2019.

Foreign portfolio investment inflows during the period exceeded outflows by ₦194.85 billion.

3.4.3.1.3 Sectoral Contribution to Equity Market Capitalization

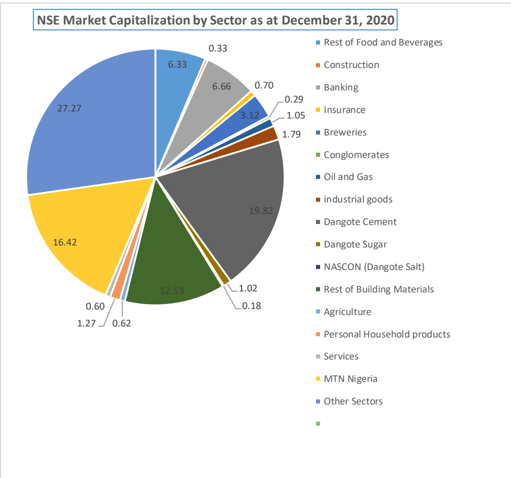
In the review period, market capitalization was dominated by 'Other Sectors'. The sector's contribution increased from 22.18 per cent of market capitalization as at end-June 2020 to 27.27 per cent at end-December 2020. The dominance of 'Other Sectors' in the review period could be attributable to the introduction of telecommunications companies on the exchange. In addition, sectors that contributed significantly to overall market capitalization were Banking and Food & Beverages, with market shares of 6.66 per cent and 6.33 per cent, respectively, at end-December 2020.

Figure 3.35: NSE Market Capitalization by Sector as at End-June 2020



Source: Nigerian Stock Exchange (NSE)

Figure 3.36: NSE Market Capitalization by Sector as at End-December 2020



Source: Nigerian Stock Exchange (NSE)

3.4.3.1.4 The Warren Buffett Valuation Metric and Nigeria's Equities Market

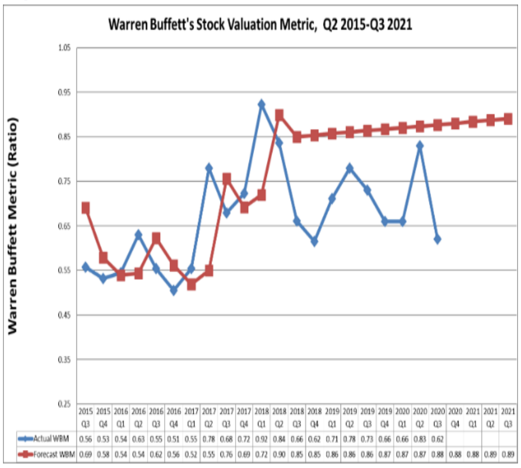
During the review period, the analysis of Warren Buffett valuation metric showed that the Nigerian equities market was moderately undervalued. The average valuation metric from 2015Q2 to 2020Q3 for actual is 0.62, indicating that the stock market in Nigeria is modestly undervalued.

The average forecast valuation metric from 2015Q2 to 2021Q3 is 0.88, which suggests that the stock market is modestly undervalued for the forecast period.

The variation of the actual from forecast for Q2 2020 was -0.26, which is within the tolerance level.

This development was attributed to the weak performance of the economy in Q3 2020 because of the residual effects of the restrictions on movement and economic activity implemented across the country in early Q2 in response to the COVID-19 pandemic. The cautious lifting of restrictions by government, including the gradual re-opening of businesses and travels have buoyed resumption of certain economic activities during the period.

Figure 3.37: Warren Buffett Valuation of Nigerian Equities Market



Source: NSE, NBS

3.4.3.2 Bond Market

Activities in the bond market were dominated by Federal Government of Nigeria (FGN) securities in the second half of 2020. There were also some activities in the State/Municipal bonds and Corporate bond segments of the market, with the former recording the least share by market volume.

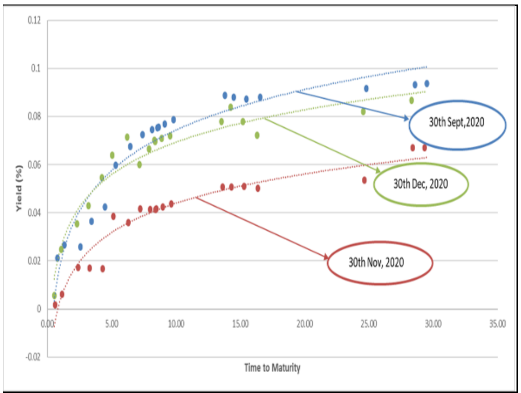
3.4.3.2.1 FGN Bonds

The 10-year dollar-denominated bond yields for Nigeria decreased by 272 basis points to 0.2 per cent at end-Dec 2020, from 3.74 per cent at end-June 2020. It fell by 302 basis points when compared with 3.04 per cent at end-December 2019, (Figure 3.38).

Figure 3.38: 10-Year U.S. Dollar-denominated Bond Yield for Nigeria (December 2019 – December 2020)

The yield curve for December 2020 decreased at both the short and long end of the curve, compared with the preceding period. The development at the short end reflects high liquidity level within the banking system. However, with a concave shape or positive slope, the graph suggests that amid economic recession in the country induced by the COVID-19 pandemic, investors' confidence in the economy may not have totally waned.

Figure 3.39: FGN Bond Yield Curves: September 30th, 2020 VS. November 30th, 2020 and December 30th, 2020



3.4.3.2.2 State/Local Government Bonds

The sub-national bonds market continued to record low activities during the review period. For instance, the total value of outstanding State/ Local governments bonds decreased by 26.74 per cent from ₦369.69 billion at end-June 2020 to ₦270.80 billion at end-December 2020. It was, also lower when compared with ₦354.90 billion recorded at end-December 2019.

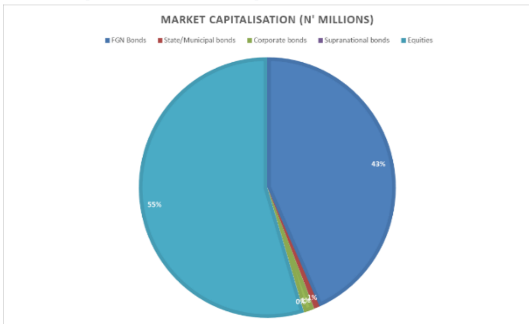
3.4.3.2.3 Corporate Bonds

Activities in the corporate bonds segment declined during the review period. The value of outstanding corporate bonds as at end-December 2020 decreased by 3.56 per cent from ₦526.51billion to ₦507.75 billion in the second half of 2020. This development could be associated with decreased activities in the sovereign bond market.

3.4.3.3 Overall Analysis of the Nigerian Capital Market

The value of FGN bonds increased by 21 per cent to ₦16.72 trillion at end-December 2020 from ₦13.78 trillion at end-June 2020, and higher than the ₦12.20 trillion recorded as at end-Dec 2019. FGN bonds accounted for 43.33 per cent of aggregate market capitalization as at end-December 2020. The value of state/municipal bonds, corporate bonds and supranational bonds were N270.80 billion, N507.79 billion and N1.61 billion, accounting for 0.70, 1.32 and 0.00 per cent of aggregate market capitalization, respectively. The equities market contributed 54.60 per cent of aggregate market capitalization at end-December 2020, while FGN bonds, state/municipal bonds, corporate bonds and supranational bonds accounted for the balance of 45.40 per cent (Figure 3.40).

Figure 3.40: Structure of the Nigerian Capital Market (December 2020)



CHAPTER FOUR

ECONOMIC OUTLOOK AND RISKS

4.1 Outlook for Global Output

There are substantial differences in anticipated growth experiences across the various economic regions and individual economies. The development reflected the evolution of the pandemic, and uneven impacts on economies due to variations in economic structures; access to vaccines and other required medical interventions; quality of medical infrastructure and the effectiveness of containment strategies.

After an estimated 3.5 per cent contraction in 2020, global growth is projected at 5.5 per cent in 2021. The estimated contraction for 2020 is 0.9 percentage points higher than the October WEO forecast. This is largely due to the more rapid economic rebound witnessed on average across regions in the second half of the year. The 2021 growth projections are up 0.3 percentage points, highlighting improved and supportive policies by the larger economies on the backdrop of the COVID-19 pandemic, and expectations of improved economic activity and trade, due to the rollout of the vaccines later in the year.

Amongst the advanced economies such as the United States and Japan; strengthened fiscal support as well as earlier anticipated vaccine distributions and better medical facilities placed them in better position; compared with the emerging market and developing economies. Most advanced countries have been able to implement certain measures, aimed at alleviating the effects of the pandemic, such as equity injections, loans, guarantees and other direct tax and spending measures, including interest rate cuts. However, recovery paths still differ among the group. The United Kingdom and the Euro area are expected to remain below end-2019 economic activity levels up to 2022, compared with the United States and Japan that are expected to regain pre-COVID activity levels in the second half of 2021. The 2021 forecast for the United States and Japan were revised by 2.0 and 0.8 percentage points respectively relative to the October 2020 WEO projection, largely due to sustained momentums from end-2020 and other fiscal measures and stimulus packages. This is in contrast to the Euro area and the UK's forecast with slight downward revisions, reflecting activity slowdowns towards the end of the year amidst fears from rising infections and possible renewed lockdowns. Other significant E.U. countries projections include Germany (-0.7 per cent); France (-0.5 per cent) and Italy (-2.2 per cent).

The Emerging Market and Developing economies are also projected to chart differing recovery paths. In China the Central Bank's liquidity interventions have yielded positive recovery results, as well as effectively implemented containment measures and forced public investment response. Turkey's growth projections were revised to 6 percentage points in 2021 (representing a 1 per cent rise the from October 2020

WEO projections). The country's strong hospital infrastructure limited the extent of Covid-19 cases and deaths, coupled with a series of supportive measures, both at the micro and macro levels, including unemployment schemes, unpaid leave subsidies, subsidized credit lines to individuals and an expansionary monetary to boost lending. Another notable revision to the forecast is that of India (2.7 percentage points for 2021), reflecting carryover from a stronger-than-expected recovery in 2020 after lockdowns were eased.

In Latin America, where most countries are still struggling to contain infections, the two largest economies, Brazil and Mexico, are both projected to recover by 3.6 and 4.3 per cent, respectively, 0.8 percentage points higher than projected in the October WEO forecast. The pandemic continues to spread in Latin America and the Caribbean (LAC), but economic activity is picking up. After a deep contraction in April, activities began a gradual recovery in May, due to ease of lockdowns with consumers and firms adapting to social distancing and other containment measures.

Oil exporters and tourism-based economies within the group face particularly difficult prospects considering the expected slow normalization of cross-border travel and the subdued outlook for oil prices. Saudi Arabia accurately showcases these impacts, as according to the WEO October 2020 forecast, the country was expected to grow by 3.1 per cent in 2021, with the expansion of hydrocarbon activity and resumption of capital projects. However, in its January 2021 WEO update, the IMF revised its growth projections for Saudi Arabia to 2.6 per cent in 2021 representing a difference of -0.5 per cent in compared with the October 2020 WEO projections. Low oil revenue weighed on Saudi Arabia's current account balance, with a projected deficit of US $17.1 billion in 2020, from a surplus of US $47 billion a year earlier. Saudi Arabia's foreign exchange revenues were further impacted by a quasi-ban on Hajj - the Muslim pilgrimage, which attracts millions of visitors to the country each year, as Saudi authorities limited the entry of foreign nationals to slow the spread of COVID-19.

In Sub Saharan Africa's growth forecast stood at 3.2 per cent in 2021, 0.1 percentage point above October WEO forecast. Pre-existing infrastructural constraints, such as poor power-supply, are expected to slow the pace of economic activities. Debt sustainability concerns also continue to linger especially with intensified borrowing needs. Wide scale vaccine distribution in the SSA region is limited by various challenges such as the high cost of the vaccines and affordability for fiscally-stretched economies to rollout national vaccine programmes, poor transportation infrastructure and distribution systems, weak health systems, and outdated or insufficient cold storage systems to preserve vaccines. These constraints could delay the region's recovery in the absence of international assistance. In Nigeria, growth recovery is projected at 1.5 per cent in 2021, –0.2 percentage points lower than the October WEO projections. This is attributed to low oil prices, reduced production under the OPEC plus agreement, and declining domestic demand from the lockdown. Also, agricultural growth slowed amid difficulties in transporting inputs and products to markets.

South Africa's performance will be severely affected by the health crisis, especially being the country worst hit by the COVID-19 outbreak in the SSA region. Its output is expected to recover modestly in 2021, with recovery rate projected at 2.8 per cent, -0.2 percentage points below the 2020 October WEO projections. This development would be driven mainly by the impact of containment measures leading to a decline in investment, exports, and private consumption. However, gradual recovery is expected to resume as business confidence responds to growth-enhancing reforms. Overall, growth in the group of emerging market and developing economies is forecast at 6.3 per cent in 2021, 0.3 percentage points above the October 2020 WEO forecast.

Growth among low-income developing countries is projected at 5.1 per cent in 2021, 0.2 percentage points above the October 2020 WEO forecast, although with differences across individual countries. The strength of the recovery is projected to vary significantly across countries, depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spillovers, and structural characteristics at the beginning of the crisis. Many countries, particularly low-income developing economies, entered the crisis with high debts that were set to rise further during the pandemic.

As noted in the October 2020 WEO, the pandemic is expected to reverse the progress made in poverty reduction across the past two decades. About 90 million people across the world are likely to fall below the extreme poverty threshold during 2020–21.

Table 4.1 Global Output and Inflation Outlook

	2019	**2020**	**2021***	**2022***
A. World Output				
World Output	2.8	-3.5	5.5	4.2
Advanced Economies	**1.6**	**-4.9**	**4.3**	**3.1**
USA	2.2	-3.4	5.1	2.5
Euro Area	1.3	-7.2	4.2	3.6
Japan	0.3	-5.1	3.1	2.4
UK	1.4	-10.0	4.5	5.0
Canada	1.9	-5.5	3.6	4.1
Other Advanced Economies	1.8	-2.5	3.6	3.1
Emerging & Developing Economies	**3.6**	**-2.4**	**6.3**	**5.0**
Emerging and Developing Europe	2.2	-2.8	4.0	3.9
Latin America and the Caribbean	0.2	-7.4	4.1	2.9
Middle East and Central Asia	1.4	-3.2	3.0	4.2
Sub-Saharan Africa	3.2	-2.6	3.2	3.9
B. Commodity				

Prices (US' Dollars)				
Oil	-10.2	-32.7	21.2	-2.4
Non-fuel	0.8	6.7	12.8	-1.5
C. Consumer Prices				
Advanced Economies	1.4	0.7	1.3	1.5
Emerging & Developing Economies	5.1	5.0	4.2	4.2

Source: IMF WEO Update, Jan 2021
***Forecast**

4.2 Outlook for Global Inflation

In advanced economies, inflation is projected to be 1.3 per cent in 2021, due to the cyclical recovery in demand as economies reopen from COVID-19 lockdowns and increases in commodity prices. Consistent with persistent negative output gaps, inflation is expected to remain subdued during 2021–22. In advanced economies, it is projected to remain generally below central bank targets at 1.5 per cent.

Inflation in the United States and United Kingdom is projected to rise to 2.2 and 1.5 per cent, respectively, in 2021, driven by pent-up demand as consumers increase spending on items whose consumptions, they were forced to delay due to lockdowns and movement restrictions. In the Euro Area, inflation is projected to rise to 1.1 per cent in 2021 due to easing of restrictions.

Among emerging market and developing economies, inflation is projected at a little over 4 per cent in 2021, which is lower than the historical average for the group. In China, India and Brazil, fast administration of COVID-19 vaccines and a resumption of economic activity will cause inflation to rise to 2.5. ,4.0 and 2.9 per cent, respectively in 2021.

For sub-Saharan Africa, inflation is projected to fall to 7.3 per cent in 2021 due to the administration of vaccines and resumption of economic activities. Specifically, inflation in Nigeria is projected to fall to 11.6 per cent in 2021, whilst in South Africa, inflation is projected to rebound at 4.3 per cent in 2021.

4.3 Outlook for Domestic Output Growth

The economy is expected to rebound in the first half of 2021 with the gradual phasing out of lockdowns following optimism around COVID-19 vaccine approvals and vaccine rollouts, synchronization of monetary and fiscal stimuli, uptick in global commodity prices, as well as the improvement in the global oil market. The significant downside risks to output growth include the resurgence of COVID-19 infection and slow rollout of COVID-19 vaccines; and weakness in trade and investment. Other risk factors include a narrow fiscal space, weakened fiscal buffers and rising public debt; capital flow reversal; foreign exchange rate pressures and pass-through; infrastructure deficit, and high levels of insecurity.

Based on these developments, the Central Bank of Nigeria (CBN) projected real GDP to grow by 1.44 and 2.22 per cent in first and second quarters of 2021, respectively, while annual output growth for 2021 is estimated at 2.15 per cent from a contraction of -1.92 per cent in 2020 (Table 4.2.) The projection for real GDP growth was based on crude oil prices of US$65 per barrel.

Table 4.2: Possible Variations in Nigeria's GDP growth outlook

Economic Sustainability Plan						
	RGDP-$45	RGDP-$50	RGDP-$55	RGDP-$60	RGDP-$65	RGDP-$70
2020Q1	1.87	1.87	1.87	1.87	1.87	1.87
2020Q2	-6.10	-6.10	-6.10	-6.10	-6.10	-6.10
2020Q3	-3.62	-3.62	-3.62	-3.62	-3.62	-3.62
2020Q4	0.11	0.11	0.11	0.11	0.11	0.11
2020	-1.92	-1.92	-1.92	-1.92	-1.92	-1.92
2021Q1f	1.31	1.34	1.37	1.40	1.44	1.47
2021Q2f	1.58	1.74	1.90	2.06	2.22	2.38
2021	1.55	1.70	1.85	2.00	2.15	2.30

Source: CBN Staff Estimates

4.4 Outlook for Domestic Inflation

CBN Staff estimates suggest that the year-on-year headline inflation is expected to accelerate to 17.85 in the first quarter of 2021, from 15.75 per cent in fourth quarter of 2020. This is premised on anticipated food supply shocks associated with insecurity, hike in price of PMS and lingering effects of the COVID-19 restrictions. Inflationary pressures are expected to persist in the short to medium-term, owing to security challenges which have continued to affect agricultural production, increase cost of energy products (pump price of PMS and electricity tariff), and pass-through effect of foreign exchange rate depreciations. As the Bank continues to manage liquidity conditions in the domestic economy, inflationary developments will also to be monitored to ensure that the downside risks to inflation and growth are minimized.

Table 4.3: Inflation Forecast

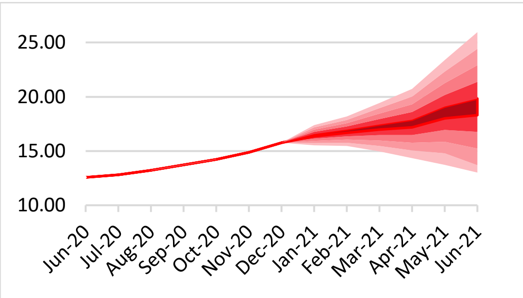
YEAR-ON-YEAR INFLATION RATE

Status	Month	Headline inflation	Food inflation	Core inflation
Actual	Jul-2020	12.82	10.10	15.48
	Aug-2020	13.22	10.52	16.00
	Sep-2020	13.71	10.58	16.66
	Oct-2020	14.23	11.14	17.38
	Nov-2020	14.89	11.05	18.30
	Dec-2020	15.75	11.37	19.56
Forecast	Jan-2021	16.52	11.70	12.63
	Feb-2021	16.81	12.10	13.06
	Mar-2021	17.09	11.79	13.01
	Apr-2021	17.01	11.98	13.39
	May-2021	17.16	12.06	13.45
	Jun-2021	17.15	12.09	13.54

12-MMA INFLATION RATE

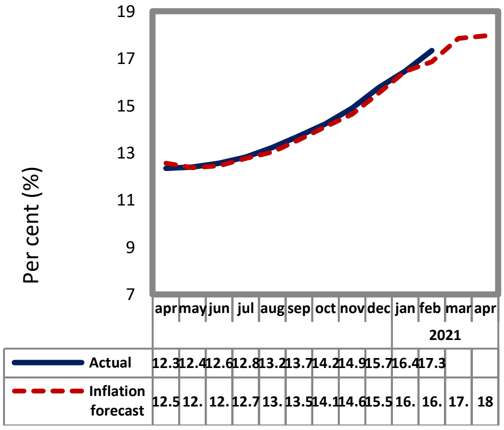
Status	Month	Headline inflation	Food inflation	Core inflation
Actual	Jul-2020	1.25	0.75	1.52
	Aug-2020	1.34	1.05	1.67
	Sep-2020	1.48	0.94	1.88
	Oct-2020	1.54	1.25	1.96
	Nov-2020	1.60	0.71	2.04
	Dec-2020	1.61	1.10	2.05
Forecast	Jan-2021	1.54	1.12	1.62
	Feb-2021	1.04	1.09	0.96
	Mar-2021	1.08	0.53	1.54
	Apr-2021	0.95	1.09	1.09
	May-2021	1.29	0.95	1.49
	Jun-2021	1.20	0.89	1.37

Figure 4.1: Fan Chart of Inflation Forecast



Source: CBN Staff Estimates

Figure 4.2: Inflation Forecast



Source: CBN Staff Estimates

4.5 The Outlook for Monetary Policy in First Half of 2021

The conduct of Monetary Policy in 2021 will continue to be anchored on a Medium-Term Framework. This will enable the Bank to consistently anchor expectations and prevent market agents from overly engaging in speculative activities in response to existing shocks. In this context, the primary objective of monetary policy will reflect striking a balance between supporting the recovery of output growth while maintaining stable price development across inflation, exchange rate and market interest rate. The Bank will continue to monitor developments in the global economy which influence the direction of monetary policy in the near to medium term. The risk to global output growth includes the pandemic induced economic shock which is mainly characterized by negative shocks to commodity prices, disruptions to the global supply chain, exchange rate volatilities, rising corporate and public debt, rising levels of unemployment, tightening financial conditions, and uncertainty of global economic policies. Despite these risks, the IMF (January 2021 WEO Update) forecast global output growth of 5.2 per cent in 2021, 0.3 percentage points above the October updated forecast of 5.2 per cent, reflecting optimism around COVID-19 vaccines rollout and expectations of continuous policy support and flexibility across the globe. Other challenges to the monetary policy include rising fiscal and monetary injections to reflate their economy, sustaining exchange rate stability, high cost of liquidity management, financial market volatility and constrained credit growth. In addition, headline, food and core inflation are likely to trend slightly upwards in the near term, due to the higher cost of food, arising from supply chain disruptions, insecurity and legacy structural factors such as the high energy costs, transport and production inputs. These issues will continue to demand close attention and monitoring in monetary policy implementation.

Growth tailwinds that are expected to aid monetary policy implementation include renewed determination by the fiscal authority to speedily implement the Economic Sustainability Plan stimulus of ₦2.3trillion, improved agricultural production; and improvement in the oil market and accretion to reserves following the recovery in oil prices largely due to positive updates on COVID-19 vaccine approvals and rollouts as well as the OPEC+ market interventions. Further, sustained stability in exchange rate supported by increased foreign exchange earnings from Nigerian oil export and foreign portfolio inflow is expected to support monetary policy implementation.

4.6 The Risks to the Outlook

4.6.1 Risks to Global Output

A positive consensus on the 2021 global economic outlook is emerging. The vaccine rollout will begin to reach critical mass over the medium tern, activity will rebound, supported by accommodative financial conditions and fiscal support, with lost output continuing to be recouped into 2022.

Although recent vaccine approvals have raised hopes of a turnaround in the pandemic later in the year 2021. However, renewed waves and new variants of the virus pose concerns for the outlook. Amid these uncertainties, the global economy is projected to grow 5.5 per cent in 2021 and 4.2 per cent in 2022. The 2021 forecast is revised upwards by 0.3 percentage point relative to the previous forecast in October 2020, reflecting expectations of a vaccine-powered strengthening of activity later in the year and additional policy support in a few large economies. The projected recovery for 2021 follows a severe collapse in 2020 that has had adverse impacts on women, youth, the poor, the informally employed, and those who work in contact-intensive sectors. The global growth contraction for 2020 was estimated at -3.5 per cent, 0.9 percentage point higher than projected in the previous forecast (reflecting stronger-than-expected momentum in the second half of 2020).

In advanced economies, the vaccine will take several quarters to rollout. There could be delays and hiccups along the way. The US is already off to a slower than expected start, as are several European countries. The current corona virus wave will harm economic activity more than previously envisaged. Lockdowns in Europe and the enormous spike in cases in the US will affect consumption spending, worsening the outlook, especially for many services such as restaurants, travel and tourism. First quarter 2021 decline in real GDP may not be ruled out. Labour market scarring may be far more persistent than anticipated, slowing re-employment. Participation rate may remain low, and workers who lost jobs may not have the skills for new ones.

The advanced economies are asking too much of monetary policy arming central banks with more ammunition. But while continued easing will maintain loose financial conditions and support asset prices, any added impulse will be small. Fiscal policy stepped up in 2020 but will be more conservative in 2021. The US passed another bill worth almost 5 per cent of GDP. The prospects for further fiscal support have brightened with the Democratic Party having the majority in both houses of congress, but there are still obstacles in the path to robust spending. Some nations in Europe, such as Spain and Italy, feel that their fiscal space is constrained, while others may be reluctant to use theirs.

Solvency problem could be an issue in 2021. Large US firms have been able to borrow at lower rates on capital markets, but smaller companies are not faring as well and face tightening bank lending standard. Elevated business leverage could result in increased bankruptcies and default. European small-and medium-sized enterprises may face similar constraints.

China is expected to be a major global growth engine in 2021 but could face downside risks. China has shown relative restraint in its policy support. Monetary policy focused on maintaining a flow of credit instead of quantitative easing or rate cuts. Unfortunately, credit support has often been directed at state-owned enterprises, rather than relatively more dynamic private firms. Authorities have recently allowed several bonds defaults, upsetting financial markets. Banks are reportedly already tightening lending standards. Fiscal policy has been especially cautious in contrast with what obtained during the global financial crisis.

China's rising current account surplus could become a source of tension. It is increasing sharply given the relatively restrained macroeconomic stance, a collapse in tourism outflow, lower oil and commodity prices, and strong personal protective equipment and work-from-home exports. As a result, Chinese GDP growth may exceed domestic activity, absorbing demand from the rest of the world, which may aggravate global protectionist pressures.

Other emerging markets are confronting ongoing constraints. Many face lost tourism receipts, declining remittances and lower commodity revenues. While some have undertaken quantitative easing or purchased government debt, their policy space is far more constrained than those of the advanced economies. Some countries like Turkey, Brazil, Argentina, and Ukraine, face peculiar problems, while Mexico has pursued a conservative policy stance. Many low-income countries face debt distress.

Sub-Sahara Africa is contending with an unprecedented health and economic crisis which jeopardizes years of hard-won development gains and upended the lives and livelihood of millions. The outlook for 2021 is broadly unchanged from the June 2020 update. In 2021, the regional growth should recover modestly to 3.1 per cent. This outlook is subjected to some downside risks, particularly regarding the path of the Covid-19 pandemic and the resilience of the region's health systems. The risks are compounded by uncertainty on the availability of external financing, with associated needs estimated about $900 billion over 2020-23. Overall, the region's outlook will be shaped by the availability of additional financing and the transformative domestic reforms to promote resilience (including revenue mobilization, digitalization and fostering better transparency and governance), lift medium term growth, create opportunities for a wave of new job seekers and progress towards the sustainable development goals (SDGs).

The economy of the MENA countries are expected to rebound in 2021. Oil exporters should gain from higher crude prices and the reduction of OPEC+ cuts, while countries across the region should gain from some progress in the vaccine rollout and stronger demand abroad. However, the geopolitical tensions, fragile fiscal positions and uncertainty around the pandemic pose downside risks. The region's growth in 2021 is projected at 3.3 per cent.

4.6.2 Risks to Domestic Output

The IMF (January 2021 WEO Update), has forecast that the Nigerian economy is expected to recover to 1.5 per cent in 2021. This projection is hinged on the assumption of strong performance of the non-oil sector, given the expected continued weakness of the oil sector in the near to medium term. In addition to the impact of COVID-19 pandemic, the Nigerian economy is confronted with legacy structural and security issues that impose a drag on the full recovery of the economy to its equilibrium long-run growth path.

4.6.3 Risks to Domestic Inflation Outlook

The major up thrust to headline inflation remains the food component which has been on an uptrend due to banditry and kidnapping in farming communities, lingering supply chain disruptions, high logistics costs, poor road networks between farming communities and major towns and cities, seasonal shocks and other structural factors as well as the general uptick in insecurity in both urban and rural settlements. The hikes in cost of energy products e.g. petrol pump price and electricity tariffs together with the pass-through effect of exchange rate adjustment is still feeding through the system and placing upward pressure on the consumer price inflation.

In summary, the overall outlook for the domestic economy is confronted with severe headwinds and thus, the strength of recovery in the second half of 2021 will primarily depend on improved sentiment around the efficacy of COVID-19 vaccine, access to vaccine and other medical interventions, the pace of oil demand growth, effectiveness of policy support and other direct interventions of fiscal and monetary authorities, normalization of cross-border travel, and faster pace of growth in trade and investment. These headwinds may be mitigated if additional fiscal and monetary policy actions remain effective in managing expectations and uncertainties to fully optimize private sector decision-making and participation.

Appendices

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 131 OF THE 274th MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 20TH JULY 2020

1.0 Background

The Monetary Policy Committee (MPC) met on 20th July 2020, amidst elevated uncertainties across the world. The projected global output contraction was revised downward, as many countries had to extend the lockdown period in the wake of a second wave of coronavirus infections, and continued lack of effective treatment or vaccines for the Novel Coronavirus disease. However, there is cautious optimism that the global growth contraction would reverse to positive growth path by 2021, as the pandemic is contained, potential treatment found, and restrictions on business activities are lifted by most economies.

The Committee reviewed developments in the global and domestic economic environment in the first half of 2020 and evaluated the monetary policy options to address these challenges.
Ten (10) members of the Committee were in attendance.

Global Economic Developments

Global output growth weakened further, as a result of the persistent headwinds from the COVID-19 pandemic. These headwinds comprised: persisting decline in global aggregate demand and supply; disruptions in global supply chain and trade; rising sovereign and corporate debts; heightened financial market vulnerabilities; low prices of crude oil and other commodities; and rising unemployment.

The Committee noted, with concern, the IMF's further downgrade of global economic contraction to -4.9 per cent from -3.0 per cent in 2020. The downward revision was based primarily on the amplified negative impact of COVID-19 pandemic on many advanced and emerging market economies, as they witnessed extended lockdown periods and restrictions on economic activities.

The Committee noted the general optimism of a V-shaped global growth trajectory due to the expected early abatement of the pandemic and the gradual resumption of economic activities. However, the Committee believes that global recovery, while assured for 2021, is more likely to be a U-shaped one. In this regard, it is not surprising that the recovery has been revised downwards from 5.8 per cent to 5.4 per cent in 2021.

The Committee observed the continued downward trend in inflation in most Advanced Economies, particularly below the 2.0 per cent long-run target, despite the huge monetary and fiscal stimulus injections during the period. The Committee, however, noted that as the lockdown eases across the advanced economies, aggregate demand is

expected to strengthen and inflation would pick up to support the expected output growth. Across the Emerging Markets and Developing Economies (EMDEs), the Committee observed the divergent inflation trends, with most developing commodity-exporting countries recording increase in inflation compared with other more diversified economies. This development had inadvertently exerted significant pressure on the exchange rates of these economies as the pass-through to domestic prices has been amplified.
The Committee observed that the unprecedented increase in public spending to support households and businesses, in the wake of the pandemic, may spur inflationary pressures in some economies, as the supply shortfalls struggle to meet up with the demand build up.

Domestic Economic Developments

Available data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew marginally by 1.87 per cent in the first quarter of 2020 compared with 2.55 and 2.10 per cent in the preceding and corresponding quarters of 2019. The performance was largely driven by the 5.06 per cent growth in the oil sector and 1.55 per cent growth in the non-oil sector. The decline in output growth in the first quarter was largely attributed to the twin effect of the decline in oil prices and the shocks from the Covid-19 pandemic.

The Committee observed the gradual, but persistent decline in the Manufacturing and non-Manufacturing Purchasing Manager's Indices (PMI), below the benchmark. The Manufacturing PMI declined to 41.1 index points in June 2020 from 42.4 index points in May 2020. Conversely though, the non-manufacturing PMI improved to 35.7 index points in June 2020 from 25.3 index points in May 2020. The trend in the manufacturing and non-Manufacturing PMI was attributed, largely, to: slower growth in production levels; new domestic orders; employment rate; raw materials supply; and new export orders. The Committee noted the staff forecast of 1.03 per cent contraction in growth in Q2 2020, on the back of the continued adverse impact of the pandemic on the economy.

The Committee expressed concern over the persistent, albeit marginal, uptick in inflation for the tenth consecutive month, as headline year-on-year inflation rose to 12.56 per cent in June 2020 from 12.40 per cent in May 2020. The increase in headline inflation was largely driven by the increase in both food and core inflation, which rose marginally to 15.18 and 10.13 per cent in June 2020 from 15.04 and 10.12 per cent in May 2020, respectively. The Committee noted the contribution of the legacy structural factors in the persistent uptick in inflationary pressure. These factors included: disruptions to key supply channels due to security challenges from herder-farmer clashes, banditry/kidnapping, inadequate transportation outlay, epileptic power supply, and low technological adaptability. These factors have compounded the supply chain challenges.

The Committee reiterated the need for a robust fiscal policy strategy to attract private investment and capital, to finance the huge infrastructure deficit in Nigeria, and strengthen the existing initiatives by the federal government and the CBN in this direction.

The Committee recognized the supportive developmental roles of the CBN towards addressing some of these structural issues. The MPC specifically expressed optimism on the future impact of N50 billion Household and SME facility, out of which N49.195 billion has been disbursed, to over 92,000 beneficiaries. The N100 billion healthcare and N1.0 trillion manufacturing and agricultural interventions to support the rebound in growth from the impacts of the pandemic on the economy. The Committee further commended the CBN coordinated CA-COVID - Private sector intervention scheme - which had mobilized over N32 billion to support the economy, lives and livelihoods. The Committee noted that the CBN had disbursed over N152.9 billion to the manufacturing sector to finance 61 manufacturing projects and another N93.6 billion to the Healthcare sector, amongst many other sector-specific facilities.

The Committee is hopeful that upon further drawdown of these intervention facilities, the much needed reset and rebound of the Nigerian economy will become a reality.

The Committee noted that broad money supply (M3) grew by 1.64 per cent in June 2020 from 2.72 per cent in May 2020, largely due to increases in Net Domestic Assets (NDA) and Net Foreign Assets (NFA). The growth in M3, however, remained well below the indicative benchmark of 13.09 per cent for 2020.

Aggregate domestic credit (net) grew by 5.16 per cent in June 2020 compared with 7.47 per cent in May 2020. The Committee commended the CBN Loan-to-Deposit Ratio (LDR) initiative to address the credit conundrum as the total gross credit increased by N3.33 trillion from N15.56 trillion at end-May 2019 to N18.90 trillion at end-June 2020. These credits were largely recorded in manufacturing, consumer credit, general commerce, and information and communication and agriculture, which are productive sectors of the economy.

Money market rates remained relatively stable in the review period, reflecting the prevailing liquidity situation in the banking system. The monthly weighted average Inter-bank call and Open Buy Back (OBB) rates increased to 5.75 and 11.31 per cent, respectively, in June 2020 from 5.22 and 5.80 per cent, respectively in May 2020.

The Committee welcomed the modest recovery recorded in the equities market as the All-Share Index (ASI) and

Market Capitalization (MC) increased by 6.33 and 6.44 per cent, on April 30 and June 30, 2020, respectively. The modest improvement reflected the resumption of business activities which spurred market confidence, as Government commenced gradual ease of the lockdown.

The Committee noted the decrease in NPLs ratio to 6.4 per cent at end-June 2020 from 9.4 per cent in the corresponding period of 2019, on account of increased recoveries, write-offs and disposals. The Committee expressed confidence in the stability of the banking system and urged the Bank to monitor the compliance of DMBs to its prudential and regulatory measures to sustain the soundness and safety of the banking industry.

In light of the Bank's continued effort to find innovative ways of using local resources to diversify the sources of the country's Foreign Exchange Reserves, the Committee welcomed the decision of the Central Bank of Nigeria to develop a Gold Purchase Framework under the Federal Government's Presidential Artisanal Gold Mining Development Initiative. The standardised gold bars, which would be purchased in Naira from Nigerian miners and refiners would not only create thousands of jobs for the artisans, but would provide a new sources of foreign exchange accretion to our reserves, and ensure the strength and stability of the Naira.

The Committee also commended the Federal Government for the approval to establish a CBN-led Infrastructure Development Company, which will leverage local and international funds for rebuilding of critical infrastructure across the country. This entity, which will be wholly focused on Nigeria and Nigerians alone will be co-owned by the CBN, the Africa Finance Corporation (AFC) and the Nigeria Sovereign Investment Authority (NSIA), but exclusively managed by an Independent Infrastructure Fund Manager (IIFM) that will mobilize local and foreign capital to support the Federal Government in building the transport infrastructure required to move agriculture and other products to processors, raw materials to factories, and finished goods to markets. The sum of N15 trillion is projected over 5 years for the initial run. The Committee noted with satisfaction the CBN's immediate work on the updates and timelines for the establishment of this much-needed entity.

Outlook

The outlook for the global economy remains weak. The IMF's earlier expectations that the coronavirus pandemic will wane by the end of the second quarter of 2020, as economies implement the various prevention protocols, were not achieved. Several countries witnessed a second outbreak after the initial ease in lockdown. This necessitated the IMF's downgrade of output growth forecast for both 2020 and 2021.

The slow recovery in oil prices, and its attendant volatility, is projected to continue in 2020 and well into 2021. This would further dampen recovery prospects, particularly for most oil-exporting countries.

With many central banks, in the advanced economies, exhausting their conventional monetary policy headroom, unconventional monetary policy tools would trigger global liquidity surfeit, with consequences for many emerging market and developing economies, including, volatility in international financial system and markets.

Provisional data on key domestic macroeconomic variables indicate that the Nigerian economy may record negative quarterly GDP growth in the 2nd quarter of 2020, but there is cautious optimism that the year may end in marginal negative territory, with strong recovery prospects in 2021.

The Committee's Considerations

The Committee's considerations were guided by the developments in the global and domestic economic environment.

The MPC noted that the current coordinated efforts by the Federal Government to contain the COVID-19 pandemic would reposition the economy on a sustainable path of rapid recovery. The Committee welcomed the government's articulated fiscal stimulus to cushion the impact of the pandemic on households and businesses, through various palliatives and fiscal incentives and reiterated the need for effective and timely implementation.

The MPC expressed the utmost need for both the monetary and fiscal authorities to collaborate, for the optimal synergy for measures targeted at reviving the economy. The Committee called on the government to sustain its efforts at diversifying revenue sources and ensure fiscal prudence, particularly, with the use of the recent grants and multilateral concessionary loans. The Committee encouraged the adoption of counter-cyclical fiscal policy framework to shield the economy from persistent revenue shocks.

The MPC noted the Bank's overarching commitment to maintaining price stability and encourage the Bank to sustain the current measures targeted at moderating inflation, including addressing some of the supply-side structural challenges.

The Committee urged the Bank to continue to give particular attention to its mandate of exchange rate stability, given the recent volatility in the international financial system, to avoid excessive demand pressures in the foreign exchange market.

The MPC commended the Bank on its efforts in sustaining the soundness and resilience of the financial system, particularly, in the face of severe economic challenges. The Committee noted the Bank's drive to accelerate credit growth to the private sector, especially to micro, small and medium scale enterprises and the recent monetary stimulus packages to households and businesses affected by the pandemic.

The Committee's Decision

The Committee reviewed the policy options before it and argued that the option of tightening at this time would contradict the noble initiative of expansion of affordable credit to the real sector, noting that this would heighten the cost of production which will translate to higher prices of goods and services and harder economic condition for people.

On the other hand, loosening monetary stance would provide the desired succour for stimulating output growth and rapid recovery, but with implications for domestic private investment and capital mobilisation to support the huge domestic financing gap. Further cut in MPR may not necessarily lead to a corresponding decrease in market interest rate, considering the current economic challenges. The Committee was also mindful of the cut in policy rate at the last MPC meeting and the need to allow time for the transmission effect to permeate the economy.

Given the plethora of monetary and fiscal measures recently deployed to address the impending economic crisis, following the COVID-19 outbreak, it would be a relatively cautious option to hold, in order to evaluate the effectiveness of these tools at addressing the current challenges, particularly with the mounting uncertainties within the domestic economy, as well as the external vulnerabilities.

After reviewing the three options, the MPC noted that the imperative for monetary policy at the May 2020 meeting was to strike a balance between supporting the recovery of output growth and reducing unemployment while maintaining stable prices. The Committee noted at this meeting that the economic fundamentals have marginally improved by the end of June 2020, following the gradual pick-up of economic activities as the positive impacts of the various interventions permeate into the economy.

As a result, the Committee noted that the earlier downward adjustment of the MPR by 100 basis points to 12.5 per cent to signal the loosening monetary policy stance is yielding positive impact as credit growth increased significantly in the economy. The Committee also noted the positive impact of the various fiscal and monetary interventions on households, SMEs and manufacturing sectors. The Committee also noted that increasing MPR at this stage will thus be counter-intuitive and will result in upward pressure on market rates and cost of production.

In view of the foregoing, the Committee decided by a majority vote to retain the Monetary Policy Rate (MPR) at 12.5 per cent and to hold all other policy parameters constant.

The Committee decided by a vote of eight members to Hold and two members voted to Reduce MPR. All members voted to retain all other policy parameters.

In summary, the MPC voted to:

I. Retain the MPR at 12.5 per cent;
II. Retain the asymmetric corridor of +200/-500 basis points around the MPR;
III. Retain the CRR at 27.5 per cent; and
IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
20th July, 2020

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 132 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON 21ST AND 22ND SEPTEMBER, 2020

1.0 Background

The Monetary Policy Committee (MPC) met on Monday, 21st and Tuesday, 22nd September, 2020, in the light of lingering uncertainties associated with the COVID-19 pandemic and downturn in crude oil prices. These uncertainties which centered primarily on when the pandemic will be fully subdued and the oil market return to normalcy, have resulted in persistent weak aggregate demand, disruptions in global supply chains, mixed price development, volatile and downward trending oil prices, as well as rising unemployment.

The Committee reviewed these developments and assessed their impact on the domestic economy in the first three quarters of 2020 and noted the outlook for the rest of the year.

Ten (10) members of the Committee were in attendance.

Global Economic Developments

The Committee observed the moderate improvement in global output performance with widespread recession in the second quarter of 2020. This followed the sharp decline in output growth in the Advanced Economies and some Emerging Markets and Developing Economies (EMDEs), as well as the risk of further deterioration in global output growth, associated with the lingering shocks from the COVID-19 pandemic. Global exports and international travels, however, showed signs of gradual, but sluggish recovery, as countries relax restrictions to allow for resumption of economic activities.

The International Monetary Fund (IMF), therefore, remained cautious of its global growth forecast for 2020, which was hinged on the near-term containment of the pandemic. The likelihood of a second-round spike in the rate of infection is, however, undermining hopes of an early return to normalcy. Oil exporting countries are also likely to face further revenue shortfalls as a result of the decision by OPEC+ to reduce its production ceiling from 9.6 million barrels per day to 7.7 million barrels per day. Due to these headwinds, we suspect that the global economy may suffer a deeper contraction in 2020 than the 4.9 per cent projected by the IMF. This may also dampen the projected recovery in 2021. The MPC observed the huge injection of monetary and fiscal stimulus into the global economy, noting its medium-term inflationary potential. In major advanced economies, inflation mostly remained below their 2.0 per cent long-run objectives, as the recovery of both global aggregate demand and supply remained stalled. Across the group of Emerging Market and Developing Economies, price development remained mixed, reflecting the diverse structure of these economies. The exchange rates of EMDEs continued to be under pressure as global capital flows were subdued, reflecting investor's preference for gold as a safe haven. With the unprecedented and coordinated injection of liquidity by central banks and fiscal authorities globally, the risk of another financial crisis post-COVID-19 can no longer be overlooked as this may likely crystalize into a double deep global recession when central banks across the globe move to normalize monetary policy.

In the global financial markets, conditions remain relatively tight reflecting continued uncertainties. Thus, while markets are showing moderate signs of recovery, financial conditions are yet to ease fully as investors remain cautious of the lingering risk of a second-round of lockdown.

Domestic Economic Developments

Available data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) contracted by 6.10 per cent in the second quarter of 2020 compared with expansions of 1.87 and 2.12 per cent in the preceding quarter of 2020 and the corresponding period of 2019, respectively. The development ended, the three-year trend of low, but positive real GDP growth recorded in Nigeria since the end of the 2016/17 recession. The contraction in Q2 2020 was largely driven by the poor performance of both the oil and non-oil sectors due to the lockdown to contain the spread of the pandemic in Q1 2020. The oil sector contracted by 6.63 per cent in Q2 2020 from -5.03 per cent in the previous quarter, while the non-oil sector contracted by 6.05 per cent in Q2 2020, compared with an expansion of 1.55 per cent in Q1 2020.

The MPC noted the continued weakness in economic activities as indicated by the Manufacturing and non-Manufacturing Purchasing Manager's Indices (PMIs), which remained below the 50-index point benchmark. In August 2020, the Manufacturing and non-Manufacturing PMIs were 48.5 and 44.3 index points, respectively, compared with 42.4 and 43.3 index points in July 2020. This was attributed to slower growth in production, business activities, new orders, supply delivery time, employment level, new export orders and raw materials and input prices. Similarly, the employment level index component of the Manufacturing and non-Manufacturing PMIs in August 2020 was 44.6 and 44.3 index points, respectively, compared with 40.0 and 41.1 index points in July 2020. The Committee was, however, optimistic that with the easing of the lockdown and gradual resumption of economic activities, the PMIs will improve in the short-to medium term.

The Committee expressed deep concern on the continued uptick in inflation for the twelfth consecutive month as headline inflation (year-on-year) rose to 13.22 per cent in August 2020 from 12.82 per cent in July 2020. The increase in headline inflation was largely driven by the persistent increase in the food component, which rose to 16.00 per cent in August 2020 from 15.48 per cent in July 2020. The core component also rose to 10.52 per cent in August from 10.10 per cent in July 2020. These upticks were driven primarily by legacy structural factors such as the inadequate state of critical infrastructure and broad-based security challenges across the country, which dampened production activities. Other factors include the disruptions to supply chains following restriction to movements to curb the spread of the pandemic; adverse weather conditions, which resulted in flooding of farmlands; as well as the inflation pass-through to domestic prices following the depreciation in the exchange rate. The recent increase in energy cost is also expected to further impact the domestic price level in the short-term.

The Committee, therefore, stressed the urgent need for a combination of broad-based monetary and fiscal policy measures to curb the rise in inflation and contraction in output growth. This will involve targeted investment by the fiscal authorities to resuscitate critical infrastructure to improve the ease of doing business across the country. In addition, the MPC believes the fiscal authorities can build on earlier efforts and articulate a clear strategy to attract private sector investment. The Bank will, however, continue to take relevant steps to ensure that the detrimental risk of inflation to the economy is contained. The Committee noted the various interventions by the CBN to reflate the economy, improve aggregate supply and drive down inflation. Recent interventions were largely in the areas of Manufacturing, Agriculture, Electricity & Gas, Solar Power and housing constructions among others. It expressed optimism that these initiatives will significantly ease the adverse impact of the COVID-19 pandemic and set the economy on a path of recovery. So far, total disbursements from the Bank's interventions in the wake of the COVID-19 pandemic amounted to N3.5 trillion including: Real Sector Funds, (N216.87 billion); COVID-19 Targeted Credit Facility (TCF), (N73.69 billion); AGSMEIS, (N54.66 billion); Pharmaceutical and Health Care Support Fund, (N44.47 billion); and Creative Industry Financing Initiative (N2.93 billion). Under the Real Sector Funds, a total of 87 projects that included 53 Manufacturing, 21 Agriculture and 13 Services projects were funded. In the Health Care sector, 41 projects which included 16 pharmaceuticals and 25 hospital and health care services were funded. Under the Targeted Credit Facility, 120,074 applicants have received financial support for investment capital. The Agri-Business/Small and Medium Enterprise Investment Scheme (AGSMEIS) intervention has been extended to a total of 14,638 applicants, while 250 SME businesses, predominantly the youths, have benefited from the Creative Industry Financing Initiative. In addition to these initiatives, the CBN is set to contribute over N1.8 trillion of the total sum of N2.30 trillion needed for the Federal Government's 1-year Economic Sustainability Plan (ESP), through its various financing interventions using the channels of Participating Financial Institutions (PFIs). The MPC is, thus, using this medium to appeal to our important economic stakeholders to take advantage of these intervention initiatives to help support a quick rebound in growth.

The Bank's policy on Loan to Deposit ratio also resulted in a significant growth in credit to various sectors from N15.57 trillion to N19.33 trillion between end-May 2019 and end-August 2020, an increase of N3.77 trillion. This growth in credit was mainly to manufacturing (N866.27 billion), consumer credit (N527.65 billion), oil & gas (N477.65 billion), agriculture (N287.11 billion) and construction (N270.97 billion).

On Monetary Aggregates, broad money supply (M3) rose to 6.93 per cent (year-to-date) in August 2020 from 5.23 per cent in July 2020, reflecting the increase in both Net Foreign Assets and Net Domestic Assets. Similarly, aggregate domestic credit (net) grew by 6.94 per cent in August 2020 compared with 9.43 per cent in July 2020.

Money market rates remained relatively stable in the review period with some mild volatility, reflecting the prevailing liquidity conditions in the banking system. The monthly weighted average Inter-bank call rate increased to 7.38 per cent in August 2020 from 6.25 per cent July 2020, while the Open Buy Back (OBB) rate decreased to 8.39 per cent in August 2020 from 10.12 per cent in July 2020.

The MPC noted the moderate improvement in the equities market in the review period, as the All-Share Index (ASI) increased by 5.78 per cent from 24,174.75 on July 21, 2020 to 25,572.57 on September 18, 2020. On a year-to-date basis, however, the ASI decreased by 4.73 per cent compared with 26,842.07 as at December 31, 2019. Market Capitalisation (MC) also increased by 5.98 per cent from N12.61 trillion to N13.36 trillion over the same period. As a lead indicator, therefore, this improvement in market indices signposts the commencement of a broad-based economic recovery.

The Committee also noted the decrease in the NPLs ratio to 6.1 per cent at end-August 2020 compared with 9.4 per cent in the corresponding period of 2019 due largely to recoveries, write offs and disposals.

The Committee expressed confidence in the overall stability of the banking system as reflected in the positive performance of the financial soundness indicators (FSIs), despite the persistence of the COVID-19 pandemic. It however, called on the Bank to sustain its regulatory oversight on the industry in the light of the continued fragility of macroeconomic indicators and the impact of the COVID-19 pandemic and the growing risk of cyber-attacks on business and economic activities.

On the external sector, the Committee noted the resumption of sales to Bureaux de Change (BDCs) in a bid to improve liquidity and ease demand pressure in the foreign exchange market. Consequently, the exchange rate appreciated at all windows. The MPC observed the recent improvement in external reserves and urged the Bank to maintain its prudent allocation of foreign exchange towards balancing supply and demand.

Outlook

The broad outlook for the global recovery remains uncertain, as the headwinds associated with the COVID-19 pandemic persist, especially due to new indications of a second spike in the rate of infections, continues to dampen prospects of a near term recovery.

With several economies contracting deeper than expected, the global economy may eventually contract beyond the -4.9 per cent earlier projected by the IMF, as the second-round spike in the infection rate has resulted in widespread localized lockdowns in some advanced and emerging market economies. In addition, the persisting volatility in global oil prices, which is likely to continue beyond the end of 2020 as indicated by the deliveries in the oil futures market, signposts the likelihood of a disorderly global recovery.

The synchronized monetary policy accommodation by major central banks in both the Advanced and Emerging Market Economies, portends the likelihood of a medium-term debt crisis which may set the global economy into another downturn, if not properly managed.

On the domestic economy, staff forecast suggests that the economy may continue to grapple with the effects of the pandemic throughout the rest of the year. With persistent focus on activities meant to reverse the contraction, the MPC projects growth at positive levels in Q4 2020, or at the latest by Q1 2021, based on the anticipated positive results from the coordinated and sustained interventions by both the monetary and fiscal authorities. These interventions include, the coordinated response of the monetary and fiscal authorities to curtail the spread of the COVID-19 pandemic, reverse the downturn in the economy, improve sources of revenue in the non-oil sector and encourage the build-up of fiscal buffers.

The Committee's Considerations

The Committee's considerations focused on the major headwinds exerting downward pressure on output growth and upward pressure on domestic prices.

The key factors considered by the MPC as likely to exert upward pressure on domestic prices in the near term include: the prevalence of security challenges in the country; adverse weather conditions causing flooding in some farming regions; the increase in petroleum pump price; deregulation in electricity tariff; low crude oil price; and exchange rate adjustment.

The Committee noted that available evidence does not support the view that the rise in inflation was due to monetary factors. Rather, there is overwhelming evidence that the inflationary pressure reflects the prevalence of structural rigidities and supply shocks. Hence, the traditional tools of monetary policy may not be helpful in addressing current inflationary pressures. Instead, the useful policies will be the supply-side measures implemented by the Bank. In the light of this, reducing MPR will signal to the Deposit Money Banks to lend more to stimulate growth, increase aggregate supply, which should dampen prices in the immediate term.

Although the MPC remains committed to its primary mandate of ensuring price stability, it however, noted the need to address the structural supply-side issues that are putting upward pressure on production cost and depressing economic growth. To this end, the Committee supports the various intervention programmes of the Bank towards stimulating production in the agricultural and manufacturing sectors to increase aggregate output and lower prices.

On Financial Markets, the Committee considered the impact of the dwindling capital inflows on yields in the equities, bonds and money markets. It, however, observed the improvement in the equities market from the second quarter of 2020, indicating prospects of medium-term economic recovery. Members also took cognizance of the prevailing low rates in the money market which are also below the lower band of the standing facilities corridor, as being a distortion to money market operations.

The Committee noted the increase in aggregate credit and encouraged further expansion in credit to employment-generating sectors to expedite growth recovery. It, however, urged the Bank to sustain its regulatory surveillance over the banking system to ensure that Non-Performing Loans (NPLs) remain low.

The Committee also noted the rising public debt profile and urged the fiscal authority to strengthen its debt management strategy, explore other sources of revenue, as well as enhance efficiency in public expenditure. It commended the combined effort of the Federal Government and the CBN in providing the required stimulus to contain the pandemic and ease its impact on the Nigerian economy.

The Dilemma of Monetary Policy

The MPC was at this meeting confronted by policy dilemma. Whereas MPC believes in the primacy of its price and monetary stability mandate, it nevertheless was confronted with what policy direction to focus on, given the contraction in output growth during the second quarter of 2020, which may lead to a recession, if the third quarter of 2020 output growth numbers further show a contraction. It is, therefore, of the view that, if a recession occurs in Q3 2020 the Committee would be confronted with proposing policy options in a period of stagflation. This is because, with the recent removal of subsidy on fuel price, the increase in energy prices, and the adjustment of the exchange rate, inflationary pressure will no doubt persist

unless MPC consider options that will deal with the pressure aggressively.
The Committee was therefore of the view that, to abate the pressure, it had no choice but to pursue an expansionary monetary policy using development finance policy tools, targeted at raising output and aggregate supply to moderate the rate of inflation.

At present, fiscal policy is constrained and so cannot, on its own lift the economy out of contraction or recession given the paucity of funds arising from weak revenue base, current low crude oil prices, lack of fiscal buffers and high burden of debt services. Therefore, monetary policy must continue to provide massive support through its development finance activities to achieve growth in the Nigerian economy. This is the reason MPC will continue to play a dominant role in the achievement of the goals of the Economic Sustainability Program (ESP) through its interventionist role to navigate the country towards a direction that will boost output growth and moderate the level of inflation.

Similarly, given that the currency adjustment was a causal factor in determining the price of petroleum products and energy prices, the MPC believes that the CBN management must take bold actions to stabilize the exchange rate. Management was further enjoined by the MPC to continue to provide funding to sectors that will resolve the supply constraints in petrol pricing, energy pricing and food availability.

To support household consumption, the MPC enjoined management to aggressively channel its funding to targeted households, SMEs and consumer credit by further increasing its lending activities through its NIRSAL Microfinance Bank (NMFB). The Management was also directed to ensure that DMBs respond to the reduction in deposit rates by aggressively lowering cost of credit to borrowers.

As regards output growth, MPC noted that air and road transportation; entertainment & accommodation; food services; and education subsectors were adversely affected by the lockdown. It therefore suggested that more efforts be put in place to continue to provide relief and funding to these subsectors to catalyse growth and improve the output numbers.

Dealing with The Causal Factors of Inflation

In the view of the MPC, so far, evidence has not supported the rising inflation to monetary factors but rather, evidence suggests non-monetary factors (structural factors) as the overwhelming reasons accounting for the inflationary pressure.

Accordingly, the implication is that traditional monetary policy instruments are not helpful in addressing the type of inflationary pressure we are currently confronted with. What is useful is the kind of supply side measures currently being implemented. MPC also expects that a downward adjustment in MPR may be necessary to further put pressure on our deposit money banks to lower cost of credit in aid of growth.

The Committee's Decision

In the face of declining economic growth and rising inflation, the Committee faced a difficult set of policy choices, requiring trade-offs and sequencing.

Following the above considerations, the Committee reviewed the choices before it, bearing in mind its primary mandate of price stability and the need to support the recovery of output growth. Consequently, the Committee noted that the likely action aimed to addressing the rise in domestic prices would have been to tighten the stance of policy, as this will not only moderate the upward pressure on prices, but will also attract fresh capital into the economy and improve the level of the external reserves. It however, noted that this decision may stifle the recovery of output growth and thus, drive the economy further into contraction.

On easing the stance of policy, the MPC was of the view that this action would provide cheaper credit to improve aggregate demand, stimulate production, reduce unemployment and support the recovery of output growth. The Committee, however, observed that with inflation trending upwards, easing of the policy stance may exacerbate the current inflationary pressure through an increase in money supply. In addition, the MPC noted the tendency of an asymmetric response to downward price adjustments by 'Other Depository Corporations', thus undermining the overall beneficial impact of a reduction to the cost of capital.

In the Committee's view, a hold position will allow the economy to adjust to the ongoing stimulus measures put in place by the monetary and fiscal authorities to curb the downturn and allow more time for the MPC to assess their impact on the economy.

After the consideration of the three policy options, Members were of the opinion that the option to loosen will complement the Bank's commitment to sustain the trajectory of the economic recovery and reduce the negative impact of COVID-19. In addition, the liquidity injections are expected to stimulate credit expansion to the critically impacted sectors of the economy and offer impetus for output growth and economic recovery.

In view of the foregoing, the Committee decided to reduce the MPR by 100 basis points to 11.5 per cent and adjust the asymmetric corridor to +100/-700 around the MPR.

Six (6) members voted to reduce the MPR by 100 basis points, one (1) member by 50.0 basis points and three (3) voted to hold. Nine (9) members voted to change the asymmetric corridor while one member voted to hold.

All members voted to hold the Cash Reserve Ratio (CRR) and Liquidity Ratio (LR).

In summary, the MPC voted to:

i. Reduce the MPR by 100 basis points from 12.5 to 11.5 per cent;
ii. Adjust the asymmetric corridor from +200/-500 basis points to +100/-700 basis points around the MPR;
iii. Retain the CRR at 27.5 per cent; and,
iv. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
22nd September, 2020

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 133 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 23rd AND TUESDAY 24th NOVEMBER 2020

1.0 Background

The Monetary Policy Committee (MPC) met on the 23rd and 24th of November, 2020 amidst the announcement of the discovery of several high efficacy COVID-19 vaccines, resulting in stronger optimism for improvement in global output. However, persisting weakness in crude oil prices, soaring global debt and high unemployment persist. In the domestic environment, the Nigerian economy slid into recession in the third quarter of 2020, following a second consecutive quarter of contraction in output. The third quarter contraction was, however, milder than the previous quarter. The Committee appraised the developments in both the global and domestic economies, as well as the outlook for the rest of the year and the first quarter of 2021.

Ten (10) members of the Committee were in attendance at the meeting.

Global Economic Developments

Although the global economy witnessed a better-than-expected recovery in the second quarter of 2020, it, however, continued to be weighed down by the headwinds largely associated with the COVID-19 pandemic and weak crude oil prices. In the advanced economies, the persistence of weak aggregate demand, slow recovery in supply chain networks and the rebound in COVID-19 infection rates, have cast a new wave of uncertainty over their recovery in the short to medium term. In the Emerging Market and Developing Economies (EMDEs), China continues to lead the recovery, recording a stronger-than-expected growth in the second quarter of 2020. In India, on the other hand, growth continued to be muted as a result of increasing rates of COVID-19 infections and fatality. In general, this group of economies is set to contract less, compared with the advanced economies, led by the expected strong recovery in China. Consequently, the International Monetary Fund (IMF) reviewed the forecast for global growth in 2020 to reflect a slower pace of contraction from -4.9 per cent to -4.4 per cent.

Inflation in most Advanced Economies is expected to remain subdued in the medium to long term as aggregate demand remains weak across several economies, reflecting the impact of the Pandemic on income. The US economy has, however, maintained a steady pace of job creation, even though infection rates and total fatality continue to rise in that country. The threat of a rebound of the Pandemic in several countries has resulted in second and third waves of lockdowns in these countries. This is expected to further dampen aggregate demand and slow the pace of price development. In several Emerging Market and Developing Economies (EMDES), inflation remained relatively high compared with the Advanced

Economies owing to the persistence of exchange rate pressures, dwindling capital flows and weak accretion to reserves as well as other structural issues. In the financial markets, conditions remain relatively stable, buoyed by continued monetary and fiscal stimulus. The huge level of monetary and fiscal injections has, however, increased the likelihood of a global financial crisis post-pandemic, especially when central banks commence normalization of monetary policy.

Domestic Economic Developments

Data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) contracted by -3.62 per cent in Q3 2020, compared with -6.10 and 2.28 per cent in the previous quarter and corresponding period of 2019, respectively, thereby pushing the economy into recession. The oil sector contracted further by 13.89 per cent in Q3 2020 from -6.63 per cent in the previous quarter, while the non-oil sector contracted by -2.51 per cent in Q3 2020, compared with -6.05 per cent in the preceding quarter. The persisting weak performance was mainly attributed to the lull in economic activities associated with the low price in the oil market as well as the lingering effects of the Coronavirus Pandemic.

The MPC observed the gradual improvement in the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMIs) which rose to 50.2 and 47.6 index points, respectively, in November 2020, compared with 49.4 and 46.8 index points in October 2020. This development signposts an increase in economic activities, driven by growth in new orders, improved supply delivery time, rising production levels and new export orders. The employment level index component of the manufacturing and non-manufacturing PMIs also improved in November 2020 to 47.3 index points and 46.7 index points, respectively, compared with 46.0 index points and 44.2 index points in October 2020. The Committee, however, noted the likely downside risk to growth of the recent unrest in the country, warning that this may adversely impact economic recovery in the near term.

The Committee noted with concern that inflation has been on the rise for the fourteenth consecutive month, as headline inflation (year-on-year) moved up to 14.23 per cent in October 2020 from 13.71 per cent in September 2020. This was attributed to the increase in both food and core inflation, which rose to 17.38 and 11.14 per cent in October 2020 from 16.66 and 10.58 per cent in September 2020, respectively. The continued increase in food and core inflation was attributed to the persistence of insecurity across the country as well as lingering structural deficiencies impacting the logistics of moving food items to urban areas such as poor road networks, unstable power supply and a host of other infrastructural deficiencies. Other factors include the persisting impact of coronavirus-induced supply disruptions, recent hikes in the price of energy products (PMS and electricity) and weak crude oil prices.

The Committee, however, noted that the rise in inflation will likely abate in the medium term, as domestic production is expected to recover, following the resumption of economic activities postCOVID-19 lockdown. In addition to this, food inflation is expected to moderate as harvest season sets in. Monetary and fiscal policies are also expected to continue their broad-based stimulus support towards full recovery. This will involve fiscal measures to reduce unemployment, provide an enabling environment for private sector investment and necessary support to the health sector to cushion the impact of the coronavirus pandemic. In addition, the CBN is expected to sustain its various intervention measures to boost consumer spending and support the recovery.

The Committee noted that growth in broad money supply (M3) increased marginally to 3.53 per cent in October 2020 from 3.20 per cent in September 2020, reflecting an increase in Net Foreign Assets (NFA). It further noted the moderation in contraction in Net Domestic Assets (NDA) to -2.19 per cent from -5.05 per cent in the previous period. Aggregate domestic credit, however, grew by 7.61 per cent in October 2020 compared with 7.35 per cent in the previous month, as a result of the Bank's policy on Loan-to-Deposit Ratio (LDR), supported by the Bank's interventions in the various sectors of the economy. Total gross credit by the banking industry stood at N19.54 trillion as at 13th November 2020 compared with N19.33 trillion at end-August 2020, an increase of N290.13 billion. When compared with N15.56 trillion at the commencement of the LDR policy in May 2019, total gross credit increased by N3.97 trillion. These loans were granted mainly to manufacturing (N738 billion), General Commerce (N874 billion), Agric and Forestry (N301 billion), Construction (N291 billion), ICT (N231 billion), just to mention a few.

The Committee noted the reduction in interest rates on loans granted by Deposit Money Banks (DMBs). As at October 2020, 86.23 per cent of total loans granted to over one (1) million customers, by Deposit Money Banks (DMBs) were at interest rates considerably below 20 per cent. This was an improvement from 76.43 per cent as at July 2019.

MPC noted the improvement in Financial Soundness Indicators of the DMBs which showed Capital Adequacy Ratio (CAR) of 15.5 per cent, Non-Performing Loans (NPLs) of 5.73 per cent and Liquidity Ratio (LR) of 35.6 per cent, as at October, 2020. As regards nonperforming loans (NPLs), MPC however, noted that the ratio remained above the prudential benchmark of 5.0 per cent and urged the Bank to sustain its tight prudential regime to bring it below the benchmark.

The Committee welcomed the improvement in the financial soundness indicators of Other Financial Institutions (OFIs) as indicated by the growth of N582 billion, or 16.94 per cent (year-on-year), in aggregate assets to N4.02

trillion as at end-September 2020. Similarly, aggregate credit grew by N217 billion, or 12.27 per cent (year-on-year), to N1.99 trillion during the same period. The Capital Adequacy Ratio for the subsector also exceeded the minimum prudential ratio of 10 per cent.

The Committee recognized the supportive developmental roles of the CBN towards addressing some of the structural issues in the economy. The MPC specifically expressed optimism on the future impact of the disbursements from Agri-Business/Small and Medium Enterprise Investment Scheme (AGSMEIS) (N92.90 billion to 24,702 beneficiaries), Anchor Borrowers Program (ABP) by the sum of N164.91 billion to 954,279 beneficiaries and COVID-19 Targeted Credit Facility (TCF) to household and SMEs (N149.21 billion to 316,869 beneficiaries).

Liquidity conditions in the banking system continued to influence money market rates in the review period. The Open Buy Back (OBB) rate declined progressively as a result of rising liquidity levels in the banking system, while there were no transactions at the uncollateralized inter-bank call window. Consequently, the monthly weighted average OBB rate declined to 1.88 per cent in October 2020 from 3.50 per cent in September 2020.

The Committee noted the recent impressive performance recorded in the equities market, particularly the increased patronage by domestic investors largely driven by low yields in the money market. The All-Share Index (ASI) increased by 20.55 per cent to 30,530.69 on October 30, 2020 from 25,327.13 on September 30, 2020. Similarly, Market Capitalization, grew by 20.82 per cent to N15.96 trillion from N13.21 trillion over the same period. This improved performance was largely attributed to positive third quarter corporate earnings as investors moved in to pick-up bargain stocks.

The Committee observed the moderate decline in the external reserves position, which stood at US$35.18 billion as at November 19, 2020 compared with US$35.95 billion at end-September 2020, as crude oil prices continue to fluctuate with downward pressure.

Outlook

Overall, the medium-term outlook for the global economy is beginning to show a ray of optimism following the discovery of COVID-19 vaccines.

In the domestic economy, available data and forecasts for key macroeconomic variables also suggest optimism in output growth in the fourth quarter of 2020, due to the positive outlook for most economic activities. Accordingly, the economy is expected to recover from recession by the end of 2020, while inflation is projected to moderate by the first quarter of 2021.

The Committee's Considerations

The Committee's considerations remained focused around tailwinds imparting upward pressure to domestic prices and key headwinds to output growth.

The Committee noted that inflation continued to be driven by supply side disruptions arising from the COVID-19 pandemic and other legacy factors. Key amongst these are: the security challenges in parts of the country; increase in food prices; and the recent hike in pump price of PMS and electricity tariff. The MPC, therefore, emphasized the need to address structural supply side issues putting upward pressure on costs of production and unemployment. To address the public health crisis associated with the COVID-19 pandemic, the Committee urged the Federal Government to make relentless effort to procure a substantial quantity of the COVID-19 vaccines to surmount the public health crisis and pave the way for a broader macroeconomic recovery.

The Committee noted that the contraction had bottomed out, since it moderated significantly from -6.10 to -3.62 per cent in the third quarter of 2020. This was so because both the monetary and fiscal authorities had anticipated the impending recession and had put measures in place for its quick reversion. Some of these measures include the Economic Sustainability Programme by the Federal Government and other CBN facilities targeted at households, small and medium enterprises (SMEs), youth empowerment, and reduction of unemployment. It thus, urged the Federal Government to maintain its initiatives targeted at reducing unemployment, particularly amongst the youths, citing the recent EndSARS protests and ensuing agitation by hoodlums as potentially disruptive to output growth in Nigeria. To this end, the MPC reiterated its support for the various development finance initiatives of the CBN to stimulate production and reduce unemployment. MPC further encouraged the Bank to intensify its efforts by increasing funding to more beneficiaries so as to boost consumer spending and accelerate recovery from recession.

On the Financial Markets, the Committee considered the improved performance in the equities market as a leading indicator of medium-term macroeconomic recovery. It thus urged the Bank to maintain its policies on exchange rate and financial system stability to attract more investment into the Nigerian equities market.

The MPC noted that credit to key sectors of the economy increased and encouraged the continued credit support to employment stimulating sectors to hasten the recovery of output growth and improve employment particularly among the youths. The Committee emphasized the need for the Bank to maintain its regulatory surveillance over the banking system to ensure that nonperforming loans remain low.

MPC noted with pleasure, the CBN's engagement with relevant stakeholders, particularly in the private sector, to hasten the recovery of growth. This engagement would involve collaboration towards job creation and provision of credit facilities to stimulate business activities for both corporates and individuals, particularly those who lost their goods and business premises to hoodlums, during the recent protest.

The Committee's Decision

At this meeting, the Committee focused not only on price stability, but also on the need to speedily take actions to exit the recession. In view of these considerations, the choices before the Committee were focused on whether: to tighten the stance of policy to address rising price levels recognizing its primary mandate of price stability; to ease to support output recovery; or to hold to allow existing policy initiatives to permeate the economy.

The Committee noted that, although the appropriate response to rising inflationary pressure would be to tighten the stance of policy in order to moderate upward pressure on prices, it nevertheless, felt that doing this would exert downward pressure on the recovery of output growth. The Committee also felt that tightening would negate the Bank's desire to expand credit to the real sector at affordable terms, not only to boost production, but also to increase consumer spending. To the Committee, tightening was therefore not the appropriate response at this time.

With the economy, whereas MPC felt that government spending and Bank's expansionary stance would be desirable to support recovery and guide the economy out of recession, it felt loosening would trigger excess liquidity and worsen the inflationary pressure. MPC also felt that excess liquidity may impact demand pressure and fuel further depreciation of the naira.

With respect to a hold position, the Committee was of the view that this will be beneficial as it will allow current policy measures to permeate the economy while observing the trend of developments. The Committee also felt that the heterodox policies of the Bank targeted at various sectors are showing positive results that would further engender growth.

On balance, the MPC was of the view that, although all three options offer some benefits to the economy, the hold option was desirable at this meeting. Based on these factors, members, voted in line with the most pressing need towards reversing the recession and achieving medium term macroeconomic stability.

In view of the foregoing, the Committee decided by a unanimous vote to retain all parameters.

In summary, the MPC voted to:

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

Thank you.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
24th November, 2020