CENTRAL BANK OF NIGERIA

MONETARY POLICY REVIEW

FEBRUARY 2022
VOLUME X, NUMBER 1

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ISSN: 2141-6281

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

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

Mission Statement

"To **ENSURE** Monetary, Price and Financial System Stability as a Catalyst for Inclusive Growth and Sustainable Economic Development."

Core Values

Integrity

Partnership

Accountability

Courage

Tenacity

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STATEMENT BY THE GOVERNOR

Monetary policy in the second half of 2021 continued to contend with the lingering effects of the COVID 19 pandemic that still posed downside risks to the recovery of the global economy. While successes were recorded in the development and deployment of vaccines to curtail the mortality from and the spread of the deadly virus, its rapid mutation into new and lethal strains, as well as unequal access and uptake of the vaccines remains a challenge to developing and emerging economies.

Advanced economies' central banks indicated probable commencement of monetary policy normalization, as a response to inflationary trends above their long-run objectives. In the Emerging Market and Developing Economies, episodes of capital flow reversals, exchange rate pressures, high energy costs, and the poorly coordinated policy stimulus to combat the macroeconomic slowdown associated with the Pandemic, have resulted in mixed inflationary outcomes among the group.

On the domestic scene, the balance of forces between the bearish global environment, accentuated by the uncertainties around the path of containment of the pandemic, on the one hand, and the steady stimulus packages provided by both the fiscal and monetary authorities resulted in the sustenance of growth recovery towards the pre-pandemic levels. Data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 4.03 per cent (year-on-year) in the third quarter and dipped slightly to 3.98 per cent in the 4th quarter of 2021. Inflationary pressure intensified while the foreign exchange market witnessed significant pressure, arising from low accretion to external reserves.

The money market remained broadly active with market rates fluctuating according to liquidity conditions in the banking system. Driven primarily by strong investor confidence, reflected in improved activities in the equities segment of the market, the Nigerian capital market in the second half of 2021 was bullish. Consequently, the All-Share Index (ASI) increased by 12.69 per cent from 37,907.28 at end-June 2021 to 42,716.44 at end-December 2021.

In the context of the global and domestic macroeconomic developments highlighted above, the monetary policy in the review period aimed at maintaining a balance between the competing objectives of mitigating inflationary pressures and the commitment to reinvigorating growth towards the pre-pandemic levels. Thus, monetary policy broadly assumed an accommodative stance in the review period. While the Bank sustained its economic stimulus packages through real sector development financing interventions, the monetary policy instruments were generally retained at their extant values. In summary, the Monetary Policy Committee maintained the MPR at 11.5 per cent, the Asymmetric Corridor at +100/-700 basis points around the MPR, the CRR at 27.5 per cent, and the Liquidity Ratio at 30.0 per cent throughout the period.

The outlook for the domestic economy over the short-to-medium term indicates that inflationary pressure may not decelerate. There is, however, cautious optimism about increased production as the economy fully recovers from the restrictions and supply chain disruptions imposed by the pandemic. Monetary policy will continue to be proactive, and supportive of financial stability and non-inflationary growth.

GODWIN I. EMEFIELE
Governor, Central Bank of Nigeria
February 2022.

CHAPTER ONE

1.0 OVERVIEW

This chapter summarises key economic and financial developments and the attendant policy responses by the Bank that shaped monetary policy during the second half of 2021. These include developments in output, prices, financial market, liquidity management and monetary policy in the global and domestic economies.

On the global front, while progress has been made in subduing the COVID-19 pandemic, including lowering of restrictions and reopening of several economies, the rapid mutation into new and deadlier strains of the virus continue to pose downside risks to the recovery of the global economy. Also, the uneven access to vaccines across several countries was a significant risk to the attainment of global herd immunity. The rise in inflation above the long run objectives in some advanced economies, although expected to be transient, re-enforces the fear that central banks in this bloc may soon commence monetary policy normalization. The Emerging Market and Developing Economies recorded mixed inflationary outcomes with some recording higher rates, owing largely to capital flow reversals, supply chains disruptions, exchange rate pressures, high energy costs and poor response to policy stimulus to combat the macroeconomic slowdown associated with the pandemic.

In the domestic economy, uncertainties surrounding the containment of the pandemic continued to pose challenges to the recovery of output growth. In addition, the slow pace of vaccination across the country remained a source of concern for monetary policy. Other factors were: lingering security challenges; legacy issues of infrastructural deficits; rising cost of energy; oil theft and exchange rate pressure with passthrough to domestic prices. Nevertheless, headline inflation (year-on-year) decreased from 17.38 per cent in July to 15.63 per cent in December 2021.

In the second half of 2021, the Nigerian economy sustained its growth recovery towards the pre-pandemic level. The recovery was largely due to the steady stimulus provided by both the Federal Government and Central Bank of Nigeria. Key policies sustained to revitalize businesses and households deeply affected by the COVID-19 pandemic were the Federal Government's Economic Sustainability Plan, and development finance interventions by the Bank in the critical sectors, particularly agriculture, manufacturing and health.

Data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 4.03 per cent (year-on-year) in the third quarter of 2021 in contrast to the contraction of 3.63 per cent in the corresponding period of 2020 and the growth of 5.01 per cent in the preceding quarter. The growth was driven largely by 5.44 per cent growth of the non-oil sector, in contrast to the contraction of 2.51 per cent in the corresponding period of 2020 and growth of 6.74 per cent in the preceding quarter. The oil sector, however, contracted by 10.73 per cent (year-on-year) in the third quarter, which was a moderation compared with the deeper contractions of 13.89 and 12.65 per cent in the corresponding period of 2020 and the preceding quarter of 2021, respectively.

During the fourth quarter of 2021, the domestic economy sustained its growth trajectory, owing to continued implementation of various economic and development finance interventions of the Government and the Bank. Accordingly, real Gross Domestic Product (year-on-year) grew by 3.98 per cent in the fourth quarter compared with the growth of 0.11 and 4.03 per cent in the corresponding period of 2020 and the preceding quarter, respectively. The growth was mainly driven by the 4.73 per cent expansion in the non-oil sector, compared with the respective growth rates of 1.69 and 5.44 per cent in the corresponding period of 2020 and the preceding quarter. The contraction in the oil sector, however, moderated during the fourth quarter to 8.06 per cent compared with contractions of 19.76 and 10.73 per cent (year-on-year) in the corresponding period of 2020 and the preceding quarter of 2021, respectively.

Inflationary pressure subsided during the review period, due largely to moderating impact of the COVID-19 pandemic. Headline and food measures of inflation maintained a downward trend, while core inflation rose moderately. Food inflation (year-on-year) decreased by 3.66 percentage points to 17.37 per cent in December 2021 from 21.03 per cent in July. Core inflation, however, rose moderately by 0.15 percentage point to 13.87 per cent in December 2021 from 13.72 per cent in July. Consequently, headline inflation decreased by 1.75 percentage point to 15.63 per cent in December 2021 from 17.38 per cent in July. Thus, the food measure was the major driver of the overall moderation in headline inflation during the period.

The exchange rate was relatively stable as oil earnings increased due to the improvement in global demand. The development was attributed to the resumption of economic activities as most countries further eased restrictions associated with the COVID-19 pandemic. Nonetheless, the pass-through of the exchange rate to domestic prices has been significant, causing core inflation to accelerate. Thus, the naira remained under pressure prompting the decision by the Bank to adjust the exchange rate from N410.88/US$ to N412.99/US$ in late 2021. In addition, the adjustment also aimed at aligning the exchange rate with market realities. The Bank continued its foreign exchange demand management coupled with other measures which included the Naira-4-Dollar scheme to attract diaspora remittances, continued restriction of access to foreign exchange for 43 items, and the suspension of foreign exchange sales to BDCs.

The tension in the Nigerian financial market persisted during the second half of 2021, due to the impact of lingering shocks from the COVID-19 pandemic as the mutation of the virus into new strains such as the Omicron variant continued. Accordingly, the Bank sustained the use of the following instruments to achieve its objectives of price and macroeconomic stability in the review period: the Monetary Policy Rate (MPR); the Cash Reserve Requirement (CRR); Liquidity Ratio; Open Market Operations (OMO); and Discount Window Operations in addition to periodic interventions in the foreign exchange market. The Monetary Policy Rate (MPR) remained the Bank's key instrument for signalling monetary policy stance. The MPR was unchanged at 11.5 per cent along with the asymmetric corridor of +100/-700 basis points, showing the Bank's commitment to an accommodative policy stance.

Open Market Operations (OMO) remained the main instrument for liquidity management. Total sale of OMO bills increased marginally by 2.95 per cent to ₦6,319.47 billion in the second half of 2021 from ₦6,138.58 billion in the corresponding period of 2020. The development also represented a significant increase in sales of 252.40 per cent from ₦1,793.25 billion in the first half of 2021. The increased operations were attributed to liquidity surfeit in the banking system.

The money market witnessed increased activities with slight fluctuations in the second half of 2021, reflecting liquidity conditions in the banking system. This was informed by statutory monthly disbursements to both the States and Local governments by the Federation Account Allocation Committee (FAAC), maturing government securities, sale of CBN bills and various CBN interventions. The interbank call segment of the market recorded less trading days in the period under review, resulting in lower transaction volumes compared with the OBB segment. For instance, no transaction was recorded in the interbank segment in December 2021. The collateralized OBB instrument continued to be preferred by market participants due to the perception of counter-party risks among market participants.

The performance of the Nigerian capital market in the second half of 2021 was bullish, driven primarily by improved activities in the equities segment, reflecting strong investor confidence. The increased attraction to the market was largely attributed to improved corporate earnings and foreign exchange liquidity. In the bonds market, real yields declined progressively with rising inflation. Consequently, the All-Share Index (ASI) increased by 12.69 per cent from 37,907.28 at end-June 2021 to 42,716.44 at end-December 2021. Market capitalization (MC) also increased by 12.85 per cent from ₦19.76 trillion at end-June 2021 to ₦22.30 trillion at end-December 2021 which represented an increase of 5.89 per cent, year-on-year.

Federal Government of Nigeria (FGN) securities largely dominated activities in the bond market, accounting for 44.75 per cent in the second half of 2021. Corporate and State/Local Government bonds followed, with the latter recording the least share by market volume.

In terms of the outlook, the domestic economy is expected to maintain its output recovery trajectory through the first half of 2022. This is premised on implementation of the 2021 - 2025 National Development Plan, improvement in aggregate demand, recovery in global commodity prices, and positive impact of CBN interventions in growth-enhancing sectors. The downside risks to this outlook include the continuing COVID-19 infections across the globe and possibility of the spread of new variants which could lead to renewed lockdowns and other restrictive measures that may affect economic activities. These would be in addition, to the persisting security challenges, legacy infrastructural issues, foreign exchange demand pressures, continuing capital reversals, high public debt, and constrained fiscal space. Consequently, the Federal Government forecasts real GDP to grow by 4.20 per cent in 2022.

In terms of price outlook, staff projections indicate that headline inflation would moderate to 14.48 per cent at end-June 2022, which is above the upper limit of the Bank's indicative range of 6–9 per cent. Upside risks to inflation in the near-term, remain the combination of monetary and structural factors which include the continuing impact of COVID-19 on the economy, expectations of the removal of fuel subsidy, lingering security challenges, especially in major food producing areas of the country, liquidity impact of the implementation of the 2022 budget and preparation for the 2023 general elections. With this outlook in mind, monetary policy formulation and implementation will aim at containing the emerging challenges to achieve the Bank's objective of price and financial system stability conducive to inclusive growth.

CHAPTER TWO

THE GLOBAL ECONOMY DEVELOPMENTS

2.1 Global Output

The International Monetary Fund (IMF) estimated global growth at 5.9 per cent in 2021 from a contraction of 3.1 per cent in 2020. This was due to improved but divergent recoveries across the advanced and the emerging market economies as a result of differences in vaccine rollouts to contain the pandemic and associated fiscal support.

A combination of factors, however, constituted headwinds to global output growth in the review period. These included supply chain disruptions, the re-introduction of movement restrictions in some countries due to a resurgence in COVID-19 cases from the Omicron Variant; and elevated inflation across countries which dampened aggregate demand.

In the advanced economies, output was estimated at 5.0 per cent in 2021 compared with a contraction of 4.5 per cent in 2020. The development was partly attributable to the realization that many of the advanced economies made good progress in vaccinations, though hesitancy to receive the vaccines in some areas constrained further gains. In the United States (US), output growth was estimated at 5.6 per cent in 2021, from -3.4 per cent in 2020. In the euro area, growth was estimated at 5.2 per cent in 2021, from -6.4 per cent in 2020. In Japan, output growth was estimated at 1.6 per cent in 2021 from a contraction of 4.5 per cent in 2020. In Canada, growth was estimated at 4.7 per cent in 2021 from -5.2 per cent in 2020. The United Kingdom (UK) recorded the highest growth rate in the group at 7.2 per cent in 2021 from a contraction of 9.4 per cent in 2020 due largely to the effectiveness of its widespread vaccination campaign.

In the Emerging Market and Developing Economies (EMDE), output growth was estimated at 6.5 per cent in 2021 from -2.0 per cent in 2020. Improved conditions for commodity exporters and stronger domestic demand in key regional economies, particularly emerging and developing Europe, were the strong drivers of the outcome. However, uneven access to vaccines, slow employment growth and supply side bottlenecks continued to constrain output growth in some other economies. Output growth in Emerging and Developing Asia was estimated at 7.2 percent in 2021 from a contraction of 0.9 per cent in 2020. India's economy grew by 9.0 per cent in 2021 from a contraction of 7.3 per cent in 2020. China recorded higher growth of 8.1 per cent in 2021 from 2.3 per cent in 2020, despite disruptions to industrial production as a result of power outages; weak recovery of private consumption; and plummeting real estate investment. In Emerging and Developing Europe, Russia grew by 4.5 per cent in 2021 from -2.7 per cent in 2020. In Latin America and the Caribbeans, Brazil grew by 4.7 percent in 2021 from -3.9 per cent in

2020, while Mexico expanded by 5.3 per cent in 2021 from -8.2 per cent in 2020.

In Sub-Saharan Africa, growth was estimated at 4.0 per cent in 2021, from -1.7 per cent in 2020, reflecting higher oil and metal prices, stronger domestic agricultural and industrial production, positive spillovers from improved global activity, and some progress in the control of the pandemic. The recovery, however, remains fragile given the resurgence of the virus, slow pace of vaccination, increased food insecurity, reduced capital inflows and conflict in some low-income countries. Output growth in Nigeria was estimated at 3.4 per cent in 2021 from a contraction of 1.92 per cent in 2020. South Africa grew by 4.6 per cent in 2021 from -6.4 per cent in 2020.

2.2 GLOBAL INFLATION

Global inflation remained high in the review period due to a combination of demand and supply side factors. As countries relaxed lockdown measures, rising demand for agricultural commodities, production inputs, and crude oil exerted upward pressure on prices. On the supply side, persisting bottlenecks associated with restrictions to contain the spread of the coronavirus hampered production and distribution, resulting in disruptions to the smooth delivery of goods and services. Inflation remained elevated throughout 2021, averaging 3.1 per cent in the advanced economies and 5.9 per cent in the emerging market and developing economies.

In the advanced economies, inflation in the United States (US) averaged 4.69 per cent in 2021 compared with 1.25 per cent in 2020, reflecting rising cost of energy, transportation, food and shelter. In the Eurozone, it averaged 2.59 per cent in 2021 from 0.25 per cent in 2020 driven largely by surging energy and beverage prices, amongst others. In the United Kingdom, average inflation rose to 2.59 per cent in 2021 from 0.85 per cent in 2020, largely reflecting the surge in global energy prices as well as rising cost of housing and utilities. The Japanese economy, however, remained in deflation at -0.26 per cent in 2021 compared with -0.03 per cent in 2020.

In the Emerging Markets and Developing Economies, consumer price inflation in China declined to 0.85 per cent in 2021 from 2.39 per cent in 2020. In India, inflation averaged 5.52 per cent in 2021 compared with 6.18 per cent in 2020, while in Russia, it averaged 6.69 per cent in 2021 from 3.38 per cent in 2020, as the cost of food, non-food products and services rose sharply.

In Latin America and the Caribbeans, inflation in Brazil averaged 8.3 per cent in 2021 compared with 3.2 per cent in 2020, reflecting increased demand as the economy reopened as well as inflation pass-through from the weakening currency. In Sub-Saharan Africa, inflation in South Africa averaged 4.55 per cent in 2021 from 3.28 per cent in 2020, driven by high energy prices and legacy labour market issues. In Nigeria, inflation rose to 16.95 per cent in 2021 from 13.25 per cent in 2020. The development was the result of persisting structural factors hampering food supply; the impact of the pass-through from several adjustments to the exchange rate; and rise in domestic energy prices. In Ghana, consumer price inflation averaged 9.98 per cent in 2021 compared with 9.89 per cent in 2020, driven by the cost of transportation, housing & utilities.

2.3 Global Financial Market Developments

2.3.1 Money Market and Central Bank Policy Rates

During the review period, most central banks across the globe indicated desire to commence monetary policy normalisation in the face of build-up of inflationary pressure. In the advanced economies, most central banks continued in the accommodative mode with strong guidance of the likely commencement of monetary policy normalisation in the first half of 2022. Several emerging market central banks, however, have moved towards interest rate lift-off to counter the likely haemorrhage of capital associated with policy normalisation in the advanced economies.

Of the fourteen (14) central banks surveyed between July and December 2021, five raised their policy rates, one lowered, while the rest maintained. Four emerging market central banks, the Central bank of Brazil, Central Bank of Russia, Reserve Bank of South Africa and Bank of Ghana, raised their policy rates by between 25 to 125 basis points. These actions were targeted at forestalling capital outflows to US dollar denominated assets when the US Fed commences interest rate lift-off. The Bank of England was the only advanced central bank to commence interest rate lift-off, while maintaining its current stock of asset purchases. It raised its policy rate by a moderate 15 basis points, the first hike since August 2018. Other advanced economy central banks – the US Fed, the ECB and the Bank of Japan, maintained their policy rates in the review period. The People's Bank of China was the only emerging market economy that lowered its rate in the review period to support its ongoing recovery from the COVID-19 pandemic. Even though the US Federal Reserve Bank retained its policy rate, it was amongst the first of the advanced economy central banks to commence tapering of its bond buying programme with guidance of an early return to interest rate hike. The European Central Bank and the Bank of Japan both retained their policy rates and continued their bond buying programmes, thus maintaining a broad accommodative policy stance. Several other emerging market central banks such as the Reserve Bank of India, Bank Indonesia, Central Bank of Kenya and the Central Bank of Nigeria kept their policy rates unchanged.

The US Fed is expected to completely taper its US$120bn monthly asset purchase programme during the first quarter of 2022 and announce its first policy rate hike thereafter. This may result in a sharp rise in capital outflow from Emerging Market Economies to safer dollar denominated securities unless their central banks respond with a sizeable rate hike. The impending era of tighter financial conditions would thus portend a portfolio shift from emerging market economies to the advanced economies as investors seek higher and less risky returns. Given the trend towards rate hike in the advanced economies and with Nigeria moving towards an election year in 2023, naira denominated securities face an increased risk of a price slump due to the usual rise in sovereign risk preceding election periods. The Central Bank of Nigeria should factor these developments into its monetary policy process to address the likely haemorrhage of capital from the economy towards the end of 2022 and into 2023.

Table 2.1: Policy Rates of Selected Central Banks Jan. 2021 – Dec. 2021

Country	July 2021	August 2021	Sep-2021	Oct-2021	Nov-2021	Dec-2021
Egypt	8.25	8.25	8.25	8.25	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	3.75	3.75
Ghana	13.5	13.5	13.5	13.5	14.5	14.5
Nigeria	11.5	11.5	11.5	11.5	11.5	11.5
Brazil	3.5	5.25	7.75	7.75	7.75	9.25
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	6.5	6.50	7.50	7.50	7.50	8.50
China	3.85	3.85	3.85	3.85	3.85	3.80
UK	0.10	0.10	0.10	0.10	0.10	0.25
Indonesia	3.50	3.50	3.50	3.50	3.50	3.50

Source: www.cbrates.com

2.3.2 Global Capital Market

The performance of major global stock markets was generally positive in the review period reflecting improved recovery from the COVID-19 challenges. Thus, despite the emergence of various COVID-19 variants, economic activities continued to improve, occasioned by widespread rollout and administration of vaccines.

In Europe, the UK FTSE 100, French CAC 40 and the German DAX indices increased by 3.8, 9.1 and 1.9 per cent, respectively in the second half of 2021. In North America, the United States S&P 500, Canadian S&P/TSX Composite and Mexican Bolsa indices increased by 10.7, 5.1 and 5.7 per cent, respectively. In South America, Argentine Merval and Colombian COLCAP indices increased by 33.9 and 12.2 per cent, respectively. Conversely, the Brazilian Bovespa stock index decreased by 17.3 per cent, during the review period. In Asia, the Japanese Nikkei 225, Chinese Shanghai SE and Indian BSE Sensex indices increased by 0.3 per cent, 1.4 per cent, and 11.3 per cent, respectively. In Africa, the Nigerian NGX All-Share, South African JSE All-Share, Egyptian EGX CASE 30 and Ghanaian GSE All Share indices increased by 12.7, 10.6, 16.5 and 5.3 per cent, respectively. Conversely, the Kenyan Nairobi NSE 20 index decreased by 1.3 per cent, during the review period.

Table 2.2: Selected International Stock Market Indices as at December 31, 2021

Selected International Stock Market Indices as at December 31, 2021						
Country	**Index**	**31-Dec-20**	**30-Jun-21**	**31-Dec-21**	**Dec 31, 2020 - Dec 31, 2021 % Change**	**June 30, 2021 - December 31, 2021 % Change**
AFRICA						
Nigeria	NSE All-Share Index	40,270.72	37,907.28	42,716.44	6.1	12.7
South Africa	JSE All-Share Index	59,408.68	66,634.38	73,709.39	24.1	10.6
Kenya	Nairobi NSE 20 Share index	1,868.39	1,927.53	1,902.57	1.8	-1.3
Egypt	EGX CASE 30	10,845.26	10,256.62	11,949.18	10.2	16.5
Ghana	GSE All-Share Index	1,939.14	2,652.21	2,793.24	44.0	5.3
NORTH AMERICA						
US	S&P 500	3,756.07	4,310.47	4,772.14	27.1	10.7
Canada	S&P/TSX Composite	17,433.36	20,165.58	21,198.03	21.6	5.1
Mexico	Bolsa	44,066.88	50,289.75	53,150.36	20.6	5.7
SOUTH AMERICA						
Brazil	Bovespa Stock	119,017.20	126,801.70	104,822.00	-11.9	-17.3
Argentina	Merval	51,226.49	62,371.95	83,500.11	63.0	33.9
Columbia	COLCAP	1,437.89	1,257.73	1,410.97	-1.9	12.2
EUROPE						
UK	FTSE 100	6,460.52	7,114.22	7,384.54	14.3	3.8
France	CAC 40	5,551.41	6,555.14	7,153.03	28.9	9.1
Germany	DAX	13,718.78	15,583.24	15,884.86	15.8	1.9
ASIA						
Japan	NIKKEI 225	27,444.17	28,707.04	28,791.71	4.9	0.3
China	Shanghai SE A	3,640.46	3,761.68	3,814.30	4.8	1.4
India	BSE Sensex	47,905.84	52,318.60	58,253.82	21.6	11.3

Source: Bloomberg

2.3.3 Bond Market and Sovereign Yields

Using the 10-year U.S. Treasury bond as a benchmark to gauge the performance of similar bonds in other countries as follows: Ghana, Brazil, Nigeria, Mexico and China with yield spreads of 960, 295, 247, 140 and 125 basis points respectively, were considered higher credit risk countries than the US.

In contrast, Germany, France, Japan, Portugal, Spain, UK, Italy, Greece and Canada with yields of minus 171, 146, 133, 106, 96, 56, 35, 23 and 6 basis points respectively, suggest stronger credit worthiness than the US.

The yield spreads on Nigerian sovereign bonds of 247 basis points, higher than the yield on the U.S 10-year benchmark bond indicates a high-risk premium and therefore attracts a high return for investors. However, Ghana with a yield spread of 960 basis points higher than the yield on the U.S. 10-year benchmark bond suggests a higher risk premium than the Nigerian sovereign bond.

Table 2.3: Sovereign Yields Spreads (Benchmark 10-Year Government Bonds) as at December 31, 2021

Country	June 30, 2021 Yield (%)	August 31, 2021 Yield (%)	September 1, 2021 Yield (%)	October 29, 2021 Yield (%)	December 31, 2021 Yield (%)	Change in Yield (Basis Points)	December 30, 2021 Spread over the U.S. (Basis points)
AFRICA							
Nigeria	6.68	5.36	5.36	3.67	3.99	-2.69	247
Ghana	6.1	7	7	9.95	11.12	5.02	960
NORTH AMERICA							
Canada	1.39	1.21	1.21	1.66	1.46	0.07	-6
Mexico	2.87	2.7	2.7	3.03	2.92	0.05	140
US	1.47	1.3	1.3	1.57	1.52	0.05	0
SOUTH AMERICA							
Brazil	3.7	3.76	3.76	4.72	4.47	0.77	295
EUROPE							
France	0.12	-0.03	-0.03	0.27	0.19	0.07	-133
Germany	-0.21	-0.39	-0.39	-0.11	-0.19	0.02	-171
Greece	0.8	0.74	0.74	1.3	1.29	0.49	-23
Italy	0.82	0.71	0.71	1.17	1.17	0.35	-35
Portugal	0.39	0.21	0.21	0.51	0.46	0.07	-106
Spain	0.41	0.34	0.34	0.61	0.56	0.15	-96
UK	0.71	0.71	0.71	1.03	0.96	0.25	-56
ASIA							
China	3.08	2.84	3.08	2.97	2.77	-0.31	125
Japan	0.05	0.02	0.05	0.09	0.06	0.01	-146

Source: Bloomberg

2.3.4 Global Commodity Prices

During the second half of 2021, global commodity prices increased due to strong global demand as economies re-opened fully following the sustained roll-out of COVID-19 vaccines. Consequently, the IMF primary commodity price index rose by 15.40 per cent to 186.9 points at end-December 2021 compared with 161.7 points at end-June 2021. Nevertheless, the performance of the sub-indices under the primary commodity index were mixed. While the sub-indices of energy and edibles rose by 40.54 and 4.18 per cent to 241.3 points and 134.7 points at end-December 2021 from 171.7 points and 129.3 points at end-June 2021, respectively, the sub-indices of non-fuel, industrial inputs and metals decreased by 3.62, 17.27 and 19.88 per cent, respectively, to 149.3, 168.6 and 190.2 points at end-December 2021 from 154.9, 203.8 and 237.4 points at end-June 2021.

In the oil sector, actual prices per barrel of the OPEC Reference Basket rose by 5.94 per cent to US$77.97 per barrel at end-December 2021 from US$73.6 per barrel at end-June 2021.

The Food and Agriculture Organization (FAO) Food Price Index rose by 6.7 per cent to 133.7 points at end-December 2021 from 125.3 points at end-June 2021. The sub-indices of vegetable oils, sugar, cereals, dairy and meat all increased, by 13.19, 8.08, 7.83, 7.59 and 0.27 per cent, respectively, to 178.5, 116.4, 140.5, 129.0 and 111.0 points at end-December 2021 from 157.7, 107.7, 130.3, 119.9 and 110.7 points at end-June 2021.

2.3.5 Global Foreign Exchange Market

In the second half of 2021, most currencies continued to depreciate against the US dollar as in the first half of the year. This was attributable to the strengthening of the US economy resulting from vaccine roll-out and further easing of restrictions imposed to contain the spread of the coronavirus as well as broad fiscal support.

In Africa, the Nigerian naira at the Investors and Exporters (I&E) window depreciated against the US dollar by 12.41 per cent. Similarly, the South African rand, Ghana cedi, Kenya shilling, and the Egyptian pound all depreciated by 10.71, 6.03, 3.47 and 0.45 per cent, respectively. The low foreign exchange earnings from export of primary commodities due to weak global recovery, coupled with capital reversals as a result of forward guidance by the Fed to commence monetary policy normalization, resulted in exchange rate pressure and depreciation in the sub-region. In **North America,** the Canadian dollar and Mexican peso depreciated by 3.94 and 1.33 per cent, respectively. In **South America,** the Argentina peso, Colombian peso and Brazilian peso all depreciated by 8.71, 6.15 and 5.39 per cent, respectively. The prolong impact of COVID-19 pandemic and associated lockdowns as well as capital reversals in pursuit of higher yields contributed to currency depreciation. In **Europe,** the euro and the Russian ruble all depreciated against the dollar by 6.05 and 1.48 per cent, respectively, due to resurgence of COVID-19 infections and low production activities, while the British pound appreciated by 87.21 per cent. In **Asia,** the Japanese yen and the Indian rupee all depreciated by 5.15 and 1.01 per cent, respectively, while the Chinese renminbi appreciated by 1.42 per cent.

Table 2.4: Exchange Rates of Selected Countries (value in currency units to US$)

Exchange Rates of Selected Countries (Value in local currency units to US$)					
	Currency	12/31/2020	6/30/2021	12/31/2021	PTP* % App/Dep
AFRICA	a	b	c	d	PTP (%)
Nigeria	Naira	390.35	381.00	435.00	(12.41)
South Africa	Rand	14.69	14.26	15.97	(10.71)
Kenya	Shilling	102.66	107.25	111.11	(3.47)
Egypt	Pound	15.73	15.65	15.72	(0.45)
Ghana	Cedi	5.87	5.77	6.14	(6.03)
NORTH AMERICA					
Canada	Dollar	1.27	1.22	1.27	(3.94)
Mexico	Peso	19.88	20.07	20.34	(1.33)
SOUTH AMERICA					
Brazil	Real	5.19	5.27	5.57	(5.39)
Argentina	Peso	84.15	93.79	102.74	(8.71)
Colombia	Peso	3,430.77	3821.25	4,071.48	(6.15)
EUROPE					
UK	Pound	0.73	1.39	0.74	87.21
Euro Area	Euro	0.82	0.83	0.88	(6.05)
Russia	Ruble	74.05	74.14	75.26	(1.48)
ASIA					
Japan	Yen	103.30	109.15	115.08	(5.15)
China	Renminbi	6.53	6.45	6.36	1.42
India	Rupee	73.07	73.59	74.34	(1.01)
PTP= Period to Period					
YTD = Year to Date					

Source: Bloomberg

CHAPTER THREE

THE DOMESTIC ECONOMY

3.1 Output in the Domestic Economy

In the second half of 2021, the Nigerian economy remained on a positive recovery path towards attaining its pre-pandemic output growth level. The sustained recovery was largely due to the combination of monetary and fiscal support, targeted at easing growth challenges imposed by the pandemic. In addition to the provision of vaccines, the Government sustained the implementation of the Economic Sustainability Plan to revitalize businesses and households affected by the COVID-19 pandemic. The Central Bank also initiated various development finance interventions in the real sector, particularly in agriculture, manufacturing and Small and Medium Scale Enterprises (SMEs), to complement fiscal efforts to revamp the economy.

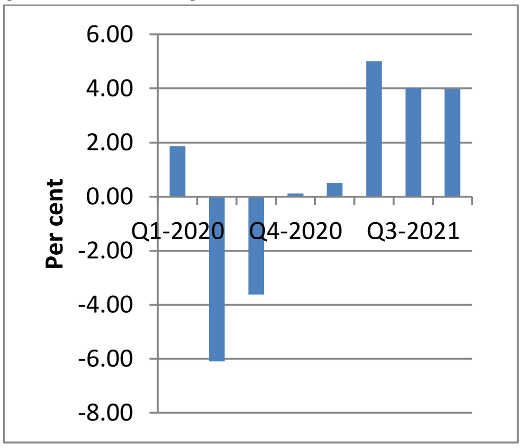
As a consequence of these developments, data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product grew by 4.03 per cent (year-on-year) in the third quarter of 2021 compared with a contraction of 3.63 per cent in the corresponding period of 2020 and growth of 5.01 per cent in the preceding quarter. The development was largely driven by a 5.44 per cent growth in the non-oil sector, compared with -2.51 per cent in the corresponding period of 2020 and growth of 6.74 per cent in the preceding quarter. The key drivers of the non-oil sector performance were: Services (8.41%); Industry (4.55%); and Agriculture (1.22%). The sector's contribution to real GDP rose to 92.51 per cent in the third quarter from 91.27 per cent in the corresponding period of 2020 but declined marginally compared with 92.58 per cent in the preceding quarter of 2021.

The oil sector, however, contracted by 10.73 per cent (year-on-year) in the third quarter of 2021, a moderation compared with deeper contractions of 13.89 and 12.65 per cent in the corresponding period of 2020 and preceding quarter of 2021, respectively. Accordingly, average daily oil production fell to 1.57 million barrels per day (mbpd) in the third quarter of 2021 compared with 1.67 and 1.61 mbpd recorded in the corresponding period of 2020 and the preceding quarter, respectively. The development was due mainly to production shut-ins and divestment by major international oil companies occasioned by oil theft, pipeline sabotage as well as agitations by local communities over oil spills.

During the fourth quarter of 2021, the domestic economy sustained its growth trajectory, owing to continued implementation of various economic and development finance intervention programmes of the Federal Government and the Central Bank of Nigeria. Accordingly, real Gross Domestic Product grew by 3.98 per cent in the fourth quarter of 2021 compared with 0.11 and 4.03 per cent (year-on-year) in the corresponding period of 2020 and the preceding quarter, respectively. The performance was mainly driven by the 4.73 per cent growth in the non-oil sector, compared with the respective growth rates of 1.69 and 5.44 per cent in the corresponding period of 2020 and the preceding quarter. The key drivers of the non-oil sector growth were Services (5.58%), Industry (3.60%) and Agriculture (3.58%). Its share in real GDP rose further to 94.81 per cent in the fourth quarter from 94.13 and 92.51 per cent in the corresponding period of 2020 and the preceding quarter of 2021, respectively.

The contraction in the oil sector moderated to -8.06 per cent (year-on-year) in the fourth quarter compared with -19.76 and –10.73 per cent in the corresponding period of 2020 and the preceding quarter of 2021, respectively. Average daily oil production fell further to 1.50 million barrels per day (mbpd) in the fourth quarter of 2021 from 1.56 and 1.57 mbpd recorded in the corresponding period of 2020 and the preceding quarter, respectively.

Figure 3.1: Gross Domestic Product Growth Rate (2020Q1 – 2021Q4)



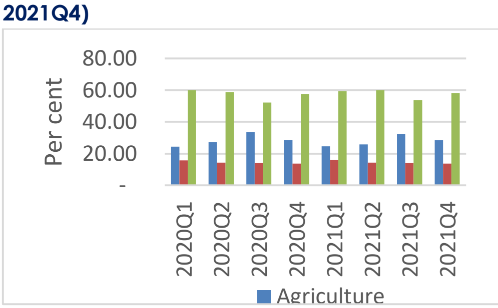
Source: National Bureau of Statistics (NBS)

3.1.1 DOMESTIC ECONOMIC ACTIVITIES

In the second half of 2021, real GDP was driven by activities in both the non-oil and oil sectors. The non-oil sector grew by 5.44 per cent in the third quarter of 2021 compared with -2.51 and 6.74 per cent in the corresponding period of 2020 and the preceding quarter, respectively. The sub-sectors that drove the overall growth were: financial & insurance (23.23%); transportation & storage (20.61%); electricity, gas steam & air conditioner (14.36%); water supply, sewage & waste management (12.97%); and trade (11.90%). These compare unfavourably with their respective growth rates of 6.80, -42.98, -3.66, 7.10 and -12.12 per cent in the corresponding period of 2020. Oil sector output contracted by 10.73 per cent in the third quarter of 2021 compared with contractions of 13.89 and 12.65 per cent in the corresponding quarter of 2020 and the preceding period of 2021, respectively. Average daily oil production in the third quarter of 2021 fell to 1.57 mbpd from 1.67 mbpd in the corresponding period of 2020 and 1.61 mbpd in the preceding quarter of 2021. The development was due to the decrease in production as a result of leakages, fire incidents, and a declaration of a force majeure arising from the collapse in infrastructure on the Forcados, Qua Iboe, and Agbami oil facilities along with emergency halts in operation due to maintenance.

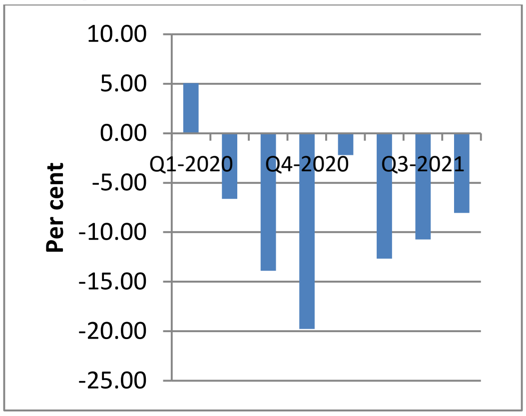
During the fourth quarter of 2021, the non-oil sector grew by 4.73 per cent compared with 1.69 per cent in the corresponding period of 2020 and 5.44 per cent in the preceding quarter of 2021, respectively. The performance of the non-oil sector activities were driven mainly by Mining & Quarrying (43.50%), Transport & Storage (29.72%), Water Supply, Sewage & Waste Management (28.84%), Finance & Insurance (24.14%); Human Health & Social Services (5.14%), Information & Communication (5.03%), Arts, Entertainment & Recreation (4.31%), Crop Production (3.87%), Construction (3.46%), Administrative & Support Services (2.70%), and Manufacturing (2.28%). These compare with their respective growth rates of 43.42, -5.95, 1.92, -3.63, 3.05, 14.95, -1.52, 3.68, 1.21, -5.31 and -1.51 per cent in the corresponding period of 2020. During the quarter, the contraction in the oil sector moderated to -8.06 per cent (year-on-year) compared with -19.76 and –10.73 per cent in the corresponding period of 2020 and the preceding quarter of 2021, respectively. Average daily oil production fell further to 1.50 mbpd in the fourth quarter of 2021 compared with 1.56 and 1.57 mbpd in the corresponding period of 2020 and the preceding quarter, respectively.

Figure 3.2: Non-oil Sector Performance (2020Q1 – 2021Q4)



Source: NBS

Figure 3.3: Performance of oil Sector (2020Q1 – 2021Q4)



Source: NBS

3.1.2 Sectoral Analysis

The key factors that contributed to output growth in major sectors in the review period are analysed in this section.

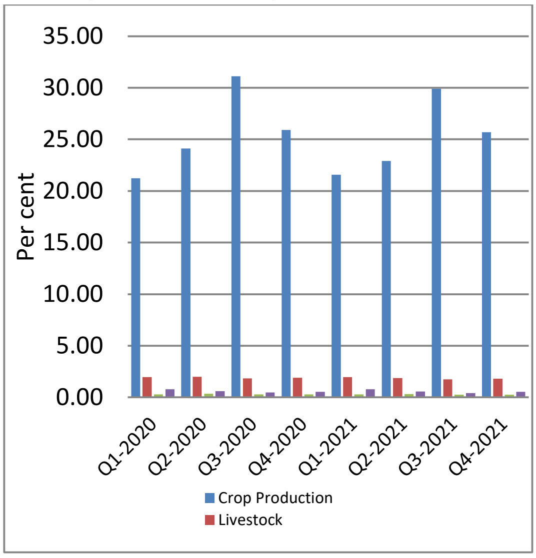
3.1.2.1 Agriculture

During the third quarter of 2021, growth in real agricultural output moderated to 1.22 per cent compared with 1.39 and 1.30 per cent in the corresponding period of 2020 and the preceding quarter of 2021, respectively. Growth in the sector was driven by forestry which grew by 1.98 per cent compared with 2.55 and 1.08 per cent in the corresponding period of 2020 and the preceding quarter, respectively. This was followed by crop production which grew by 1.36 per cent in the third quarter 2021 compared with 1.38 per cent apiece in the corresponding period of 2020 and the preceding quarter. Livestock also grew moderately by 0.12 per cent in the third quarter of 2021 compared with 2.29

and 0.13 per cent in the corresponding period of 2020 and the preceding quarter, respectively. Growth of the sector was, however, moderated by contraction in the fishing sub-sector of 3.97 per cent compared with -2.07 and 2.27 per cent in the corresponding period of 2020 and the preceding quarter of 2021, respectively. The share of the agriculture sector in overall GDP fell to 29.94 per cent in the third quarter of 2021 from 30.77 in the corresponding period of 2020, but was an improvement compared with 23.78 per cent in the preceding quarter, respectively.

In the fourth quarter of 2021, real agricultural output growth improved to 3.58 per cent compared with 3.42 and 1.22 per cent in the corresponding period of 2020 and the preceding quarter of 2021, respectively. Growth in the sector was driven mainly by Crop production which grew by 3.87 per cent in the fourth quarter of 2021 from 3.68 and 1.36 per cent in the corresponding period of 2020 and the preceding quarter, respectively. This was followed by Fishing which grew by 1.69 per cent in the fourth quarter compared with contractions of -3.60 and -3.97 per cent in the corresponding period of 2020 and the preceding quarter of 2021, respectively. Forestry also grew by 1.41 per cent in the review period from 1.24 and 1.98 per cent in the corresponding period of 2020 and the preceding quarter, respectively. Livestock grew by 0.41 per cent compared with 2.38 and 0.12 per cent in the corresponding period of 2020 and the preceding quarter, respectively. The share of agriculture sector in overall GDP stood at 26.84 per cent in the fourth quarter from 26.21 and 29.94 per cent in the corresponding period of 2020 and the preceding quarter, respectively.

Figure 3.4: Contribution to Agricultural Sector Growth (2020Q1 – 2021Q4)



Source: NBS

3.1.2.2 Agricultural Policies and Institutional Support

In the review period, the agricultural sector continued to enjoy a number of existing initiatives and institutional support, as highlighted below:

3.1.2.2.1 Commercial Agriculture Credit Scheme (CACS)

Under the Scheme, ₦13.27 billion was disbursed in the second half of 2021, representing a decrease of 18.24 per cent compared with ₦16.25 billion in the first half of 2021. A total of ₦47.79 billion was repaid in the review period, which represented an increase of 138.83 per cent over the repayment of ₦20.01 billion in the first half of 2021.

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

In view of the contribution of the MSME to job creation, financial inclusion and poverty reduction, the threshold for the MSMEDF was increased from ₦200.00 billion to ₦1.00 trillion in 2020. A total of ₦10.85 billion was disbursed during the second half of 2021. Repayments during the review period stood at ₦11.72 billion, compared with ₦2.91 billion in the first half of 2021, reflecting an increase of 302.75 per cent.

3.1.2.2.3 Anchor Borrowers' Programme (ABP)

In the second half of 2021, the sum of ₦246.67 billion was disbursed to 986,716 smallholder farmers across the country for the production of rice, maize, cassava, cotton, ginger, fish, onion, cocoa, soya beans and sesame. This represents a significant increase compared with ₦176.30 billion disbursed to 1,008,457 smallholder farmers in the preceding period. Also, repayments under the Programme increased significantly by 343.19 per cent to ₦210.47 billion compared with ₦47.49 billion in the preceding period.

3.1.2.2.4 Accelerated Agriculture Development Scheme (AADS)

The Scheme disbursed ₦36.12 million in the second half of 2021 compared with ₦1.50 billion in the first half of 2021. The sum of ₦5.19 billion was repaid in the period under review as the projects' moratorium expired.

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

In the review period, ₦22.92 billion was disbursed to 8,538 projects, compared with ₦9.79 billion to 1,067 projects in the first half of 2021. This represents 134.12 and 700.19 per cent increase in value and numbers of projects, respectively, compared with the first half of 2021. Repayment in the review period was ₦1.16 billion, compared with ₦135.47 million in the first half of 2021, representing an increase of 759.26 per cent.

3.1.2.2.6 Paddy Aggregation Scheme (PAS)

There was no disbursement in the review period, compared with ₦4.17 billion released to one (1) project in the first half of 2021. There was a repayment of ₦4.67 billion during the review period, compared with no repayment in the first half of 2021 due to the extension of moratorium granted to beneficiaries.

3.1.2.2.7 National Food Security Programme (NFSP)

There was no disbursement in the review and preceding periods under this scheme. Repayment at end-December 2021 was ₦2.47 billion compared with ₦8.31 billion at end-June 2021.

3.1.2.2 Industry

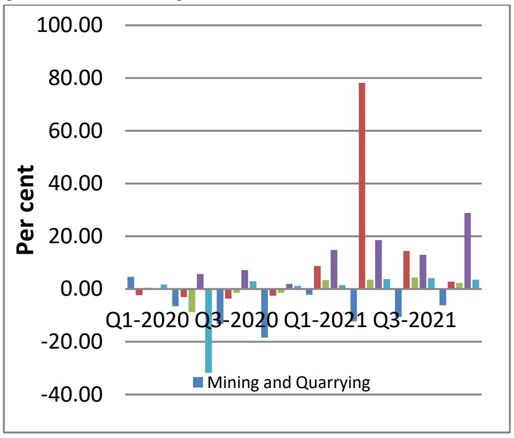
3.1.2.2.1 Industrial Production

The industrial sector contracted by 1.63 percent in the third quarter of 2021, compared with -6.12 percent in the corresponding period of 2020 and -1.23 per cent in the preceding quarter of 2021. The development in the sector was driven mainly by Mining & Quarrying which contracted by 10.56 per cent in the third quarter of 2021 compared with -13.22 and -12.29 per cent in the corresponding period of 2020 and the preceding quarter, respectively. Crude Petroleum and Natural Gas was the main driver of contraction in the Mining and Quarrying sub-sector, contracting significantly by 10.73 per cent in the third quarter compared with -13.89 and -12.65 per cent in the corresponding period of 2020 and the preceding quarter, respectively.

Other sub-sectors in the industrial sector grew during the review period. The Electricity, Gas, Steam & Air Conditioner grew by 14.36 per cent in the third quarter of 2021 compared with -3.66 per cent in the corresponding period of 2020 and 78.16 per cent in the preceding quarter of 2021. Water supply, sewage & waste management also grew by 12.97 per cent in the third quarter compared with 7.10 and 18.48 per cent in the corresponding period of 2020 and the preceding quarter of 2021, respectively. Manufacturing grew by 4.29 per cent in the review period compared with -1.51 per cent in the corresponding period of 2020 and 3.49 per cent in the preceding quarter of 2021. Construction expanded by 4.10 per cent compared with 2.84 and 3.70 per cent in the corresponding period of 2020 and the preceding quarter of 2021, respectively. The share of the industrial sector in overall GDP declined to 20.41 per cent from 21.59 and 20.57 per cent in the corresponding period of 2020 and the preceding quarter of 2021, respectively.

In the fourth quarter of 2021, the contraction of the industrial sector moderated to -0.05 per cent compared with -7.30 and -1.63 per cent in the corresponding period of 2020 and the preceding quarter, respectively. The main driver of contraction in the sector was Mining & Quarrying which contracted by -6.16 per cent in the fourth quarter of 2021 compared with -18.44 and -10.56 per cent in the corresponding period of 2020 and the preceding quarter, respectively. Crude Petroleum and Natural Gas drove the contraction in the sub-sector, contracting by -8.06 per cent in the fourth quarter compared with -19.76 and -10.73 per cent in the corresponding period of 2020 and the preceding quarter, respectively. Other sub-sectors grew during the review period. Accordingly, Water supply, sewage & waste management expanded by 28.84 per cent in the fourth quarter compared with 1.92 and 12.97 per cent in the corresponding period of 2020 and the preceding quarter of 2021, respectively. Construction grew by 3.46 per cent compared with 1.21 and 4.10 per cent in the corresponding period of 2020 and the preceding quarter of 2021, respectively. Electricity, Gas, Steam & Air Conditioner also grew by 2.78 per cent in the review period compared with -2.51 per cent in the corresponding period of 2020 and 14.36 per cent in the preceding quarter of 2021. This was followed by Manufacturing which grew by 2.28 per cent in the review period compared with -1.51 per cent in the corresponding period of 2020 and 4.29 per cent in the preceding quarter of 2021. Accordingly, the share of the industrial sector in overall GDP declined to 18.05 per cent from 18.77 and 20.41 per cent in the corresponding period of 2020 and the preceding quarter of 2021, respectively.

Figure 3.5: Industrial Sector Contribution by Activity (2020Q1-2021Q4)



Source: NBS

3.1.2.2.2 Industrial Policy and Institutional Support

During the second half of 2021, the industrial sector benefited from existing policy initiatives and incentives some of which are highlighted below:

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

The Facility disbursed the sum of ₦420.19 billion to 39 projects in the second half of 2021, compared with ₦199.69 billion to 32 projects in the first half of 2021, representing increases of 110.42 and 21.88 per cent in value and number of projects, respectively. A total of ₦80.72 million was repaid in the second half of 2021, compared with ₦1.97 billion in the preceding period.

3.1.2.2.2.2 Non-Oil Export Stimulation Facility (NESF)

The Facility disbursed ₦1.76 billion in the period under review. A total of ₦3.79 billion was repaid, compared with ₦0.58 billion in the preceding period.

3.1.2.2.2.3 Creative Industry Financing Initiative (CIFI)

In the second half of 2021, a total of ₦214 million was disbursed to 31 projects, compared with ₦70 million to 21 projects in the first half of 2021. The sum of ₦190.07 million was repaid in the second half of 2021 compared with ₦12.91 million in the previous half-year.

3.1.2.2.2.4 Targeted Credit Facility (TCF)

During the period under review, ₦82.37 billion was disbursed to 136,532 projects compared with ₦144.93 billion to 323,654 projects at end-June 2021. This represented 43.17 and 57.82 per cent decrease in the value and number of projects, respectively. No repayments were made during the period as all the facilities were under moratorium.

3.1.2.2.2.5 Health Sector Intervention Fund (HSIF)

The Fund disbursed ₦10.41 billion to 23 projects in the second half of 2021, compared with ₦25.16 billion disbursed to 23 projects in the first half of the year. There were no repayments in the review period, compared with ₦12.50 million repaid by 3 projects in the first half of 2021. A significant proportion of the facilities were under moratorium.

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

In the review period, the sum of ₦140.73 billion was disbursed to 44 projects, compared with ₦35.99 billion to 16 projects in the first half of 2021, an increase of 291.03 per cent and 175 per cent in value and number of projects funded, respectively. There were no repayments as all the facilities were still under moratorium.

3.1.2.2.2.7 Nigeria Youth Investment Fund (NYIF)

In the review period of the Fund disbursed ₦936.10 million, compared with ₦2.81 billion in the first half of 2021. Compared with the preceding period when the fund was under moratorium, the sum of ₦2.62 billion was repaid in the period under review.

3.1.2.2.2.8 Healthcare Sector Research and Development Intervention Scheme (HSRDIS)

Under the scheme, ₦27.50 million was disbursed as additional tranche to the five (5) projects/grant recipients in the second half of 2021 to the ₦145.40 million disbursed in the first half of 2021.

3.1.2.2.2.9 Textile Sector Intervention Facility (TSIF)

In the review period, the sum of ₦450 million was disbursed to two (2) projects, compared with ₦390 million to one (1) project in the first half of 2021.

3.1.2.2.2.10 Power and Airline Intervention Fund (PAIF)

In the period under review, the sum of ₦991.84 million was disbursed compared with ₦890.27 million in the preceding period. A cumulative sum of ₦313.76 billion has so far been disbursed under the Scheme to 73 projects. A total of ₦6.57 billion was repaid in the second half of 2021 compared with ₦20.20 billion in the first half of 2021.

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

In the review period, the sum of ₦301.36 billion was disbursed to the Programme through the Bank of Industry (BOI) compared with ₦88.99 billion in the first half of 2021. There was no repayment in the current and preceding periods.

3.1.2.2.2.12 Nigerian Electricity Market Stabilization Facility (NEMSF 1 & 2)

In the second half of 2021, ₦99.99 billion was disbursed compared with ₦21.69 billion in the first half of 2021. A total of ₦10.44 billion was repaid during the period as the moratorium on the Facility has ended.

3.1.2.2.2.13 National Mass Metering Programme (NMMP)

In the second half of 2021, the sum of ₦11.79 billion was disbursed, compared with ₦21.69 billion in the first half of 2021, representing a decrease of 45.64 per cent. There was no repayment as the programme was under moratorium.

3.1.2.2.2.14 Intervention Facility for National Gas Expansion Programme (IFNGP)

A total of ₦39.00 billion was disbursed in the second half of 2021 to four (4) projects.

3.1.2.2.2.15 Shared Agent Network Expansion Facility

There was no disbursement in the review period, compared with the sum of ₦500 million disbursed to one (1) project in the first half of 2021. The sum of ₦65.71 million was repaid in the second half of 2021, compared with ₦401.28 million in the first half of 2021.

3.1.2.2.2.16 Presidential Fertilizer Initiative (PFI)

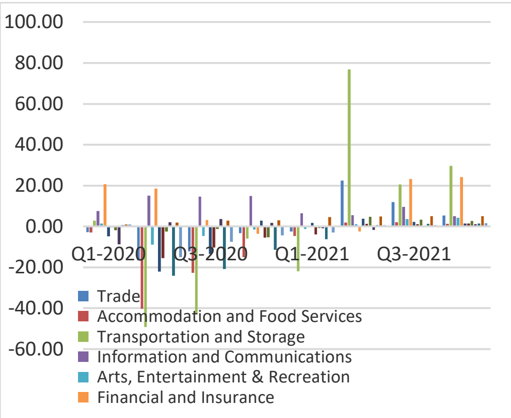
The initiative was designed to resuscitate Nigeria's moribund fertilizer plants to boost food production towards achieving food security. Although there was no disbursement in the review period, a total of ₦5.75 billion was repaid compared with ₦2.5 billion in the preceding period.

3.1.2.3 Services Sector

The services sector grew by 8.41 per cent in the third quarter of 2021 compared with -5.49 per cent in the corresponding period of 2020 and 9.27 percent in the preceding quarter. The growth in the sector was driven by Financial & insurance (23.23%); Transportation & Storage (20.61%); Trade (11.90%); ICT (9.66%); Human Health & Social Services (4.99%); Art, Entertainment & Recreation (3.68%); Administration & Support Services (3.36%); Real Estate (2.32%); Accommodation & Food Services (2.09%); Education (1.37%); Professional, Scientific & Technical Services (1.11%); and Other Services (0.73%). These compare with their respective growth rates of 3.21, -42.98, -12.12, 14.56, 2.82, -4.69, -1.21, -13.4, -22.61, -20.74, -10.31 and -7.53 per cent in the corresponding quarter. Public Administration was the only sub-sector that contracted by 0.15 per cent compared with a growth of 3.58 per cent in the corresponding period of 2020.

In the fourth quarter of 2021, the sector sustained its growth trajectory, expanding by 5.58 per cent compared with 1.31 and 8.41 per cent in the corresponding period of 2020 and the preceding quarter, respectively. The growth in the sector was driven by Transportation & Storage (29.72%), Financial & Insurance (24.14%), Trade (5.34%), Human Health & Social Services (5.14%), Information & Communication (5.03%), Arts, Entertainment & Recreation (4.31%), and Administrative & Support Services (2.70%). These compare with their respective growth rates of -5.95, -3.63, -3.20, -3.05, 14.95, -1.52 and -5.31 per cent in the corresponding quarter. The Sector's share in overall GDP rose to 55.11 per cent in the review period from 54.28 and 49.65 per cent in the corresponding period of 2020 and the preceding quarter, respectively.

Figure 3.6: Services Sub-Sector Contribution, 2020Q1-2021Q4



Source: NBS

3.1.2.4 Oil Sector

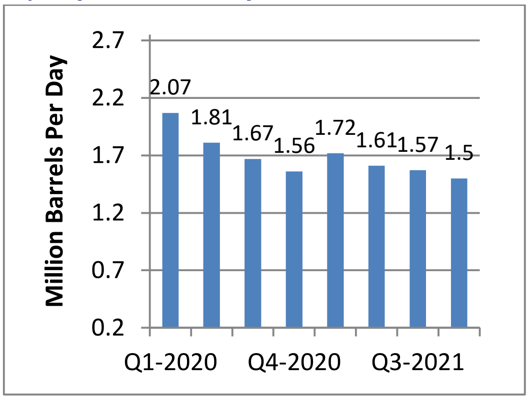
During the second half of 2021, oil sector performance reflected developments in prices and domestic production. While prices improved significantly in response to measures to ease the impact of the COVID-19 pandemic, production was constrained by existing domestic challenges in the sector including divestment by oil majors, oil theft and vandalism.

Consequently, average domestic crude oil production fell to 1.57 mbpd in the third quarter of 2021 from 1.67 and 1.61 mbpd in the corresponding period of 2020 and the preceding quarter, respectively.

In the fourth quarter, the recurring incidences of oil theft and vandalism of oil facilities continued to affect oil production, as average daily oil production fell further to 1.50 million barrels per day (mbpd). This compares with 1.56 mbpd and 1.57 mbpd in the corresponding period of 2020 and the preceding quarter, respectively.

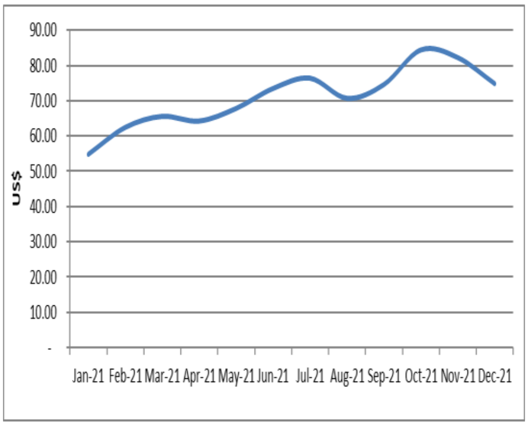
On the other hand, crude oil prices trended upwards during the review period, as global demand continued to strengthen in the face of constrained supply. The price of Nigeria's reference crude, the Bonny Light 37^{0}API, stood at US$74.81 per barrel (pb) in December 2021 compared with US$50.32 pb in the corresponding period of 2020 and US$73.40 at end-June 2021. Overall, the average price of Bonny Light in the second half of 2021 of US$76.57 pb was significantly above the Federal Government of Nigeria's 2021 budget benchmark of US$40 pb.

Figure 3.7: Quarterly Domestic Oil Production and Export (2020Q1-2021Q4)



Source: NBS

Figure 3.8: Monthly Bonny Light Oil Price, January 2021 - December 2021



Source: Statistics Department

Table 3.1: Growth Rates of Real GDP by Expenditure (%), 2020-2021

	Q1-2020	Q2-2020	Q3-2020	Q4-2020	Q1-2021	Q2-2021	Q3-2021	Q4-2021
GDP (Basic Price)	1.87	-6.10	-3.62	0.11	0.51	5.01	4.03	3.98
GDP (Market Price)	1.95	-6.04	-3.14	0.01	0.41	5.36	4.07	4.64
Household Consumption	-10.04	-18.67	2.99	15.15	47.16	42.40	19.36	7.30
Gov. Consumption Expenditures	6.80	148.29	99.18	12.13	-4.57	-53.56	-39.51	-16.76
Gross Fixed Capital Formation	-3.05	-32.52	-11.99	-9.44	-0.03	6.11	7.52	5.86
Net Exports	43.70	14.06	-40.84	-52.16	-91.74	-49.30	-38.27	1.35
National Disposable Income	3.57	2.12	0.32	-1.28	-6.46	-5.66	-1.48	2.84
Compensation of Employees	6.70	-6.47	-2.32	6.36	9.26	19.44	14.54	11.79
Operating Surplus	0.25	-5.93	-4.17	-2.34	-3.15	-4.45	-1.01	0.79
Other Current Transfers from RoW Net	10.24	53.45	11.07	-44.62	-63.70	-59.80	-46.12	-6.38

Source: NBS

3.2 Domestic Price Developments

In the review period, inflationary pressure subsided, due largely to the moderating impact of the COVID-19 pandemic. While all three measures of inflation: headline, food, and core trended downwards in the second half of 2021, headline inflation, remained substantially above the upper band of the Bank's indicative corridor of 6-9 per cent. The upward pressure on prices in the review period was largely driven by supply-side factors, reflecting the constraints imposed on production and distribution activities associated with the COVID-19 pandemic.

The supply-side factors that influenced price development in the review period include the disruptions to production and distribution activities associated primarily with the COVID-19 lockdown and its lag effect. Others were the persisting security challenges which impacted food supply; uncertainties surrounding the deregulation of energy prices; as well as the dearth of transport infrastructure. The deregulated price of Automotive Gas Oil (AGO) also had a direct impact on cost of production and logistics. There was also significant reduction in accretion to external reserves owing to lower foreign exchange receipt from crude oil thereby constraining the Bank's ability to intervene in the foreign exchange market to moderate exchange rate pressure. Foreign exchange supply through autonomous sources (I&E window) declined by 42.53 per cent on a year-on-year basis thereby aggravating demand pressures. To address this, the Bank introduced various schemes and policy measures such as the Naira4Dollar scheme targeted at improving diaspora remittances, sustained its policy on restriction of access to foreign exchange to 43 items, as well as the suspension of sales of foreign exchange to BDCs.

On the demand side, the provision of stimulus by both the Federal Government and the Central Bank to ease the impact of the Pandemic affected liquidity conditions in the money market. Accordingly, the Inter-Bank Call and Open Buy Back (OBB) rates remained relatively low, reflecting liquidity surfeit in the banking system. Maturing securities and Federation Account Allocation Committee (FAAC) disbursements also influenced system liquidity.

3.2.1 Trends in Inflation

Headline, food and core measures of inflation maintained a downward trend in the review period. The consumer price indices (CPI) of these three measures stood at 411.5, 477.0 and 355.9 in December 2021 compared with 387.5, 447.2 and 338.0 in July 2021, respectively. Food inflation (year-on-year) decreased by 3.66 percentage points to 17.37 per cent in December 2021 from 21.03 per cent in July. Core inflation, however, rose moderately by 0.15 percentage point to 13.87 per cent in December 2021 from 13.72 per cent in July. Consequently, headline inflation decreased by 1.75 percentage point to 15.63 per cent in

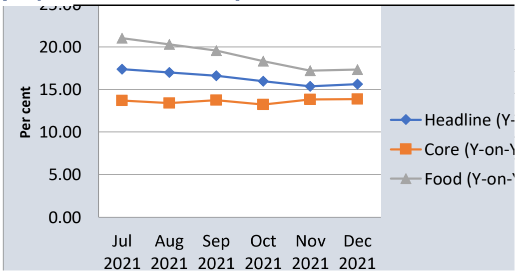
December 2021 from 17.38 per cent in July (Figure 3.9 and Table 3.1). Thus, the food measure was the major driver of the overall moderation in headline inflation during the period (Table 3.1).

Table 3.2: Inflation Rates, July – December 2021

	Headline Inflation			Core Inflation			Food Inflation		
	CPI	Y-on-Y	12MMA	CPI	Y-on-Y	12MMA	CPI	Y-on-Y	12MMA
Jul 2021	387.51	17.38	16.30	338.00	13.72	12.05	447.18	21.03	20.16
Aug 2021	391.48	17.01	16.60	340.61	13.41	12.29	451.93	20.30	20.50
Sep 2021	395.98	16.63	16.83	344.84	13.74	12.55	457.61	19.57	20.71
Oct 2021	399.87	15.99	16.96	347.59	13.24	12.73	461.77	18.34	20.75
Nov 2021	404.18	15.40	16.98	351.96	13.85	12.96	466.71	17.21	20.62
Dec 2021	411.52	15.63	16.95	355.91	13.87	13.16	476.95	17.37	20.40

Source: NBS

Figure 3.9: Headline, Core and Food Inflation Rates (July – December 2021)



Source: NBS

3.2.1.1 Headline Inflation

The major components of headline inflation continued to decrease during the review period. The main driver of moderation in headline inflation was Food & Non-Alcoholic Beverages which decreased by 2.63 percentage points from 12.81 per cent in July to 10.17 per cent in December 2021. Other components that also moderated in the review period are Health (0.77 percentage point), Recreation and Culture (0.75 percentage point), Restaurant & Hotel (0.74 percentage point), and Furnishing, Household Equipment & Household Maintenance (0.73 percentage point). Transport, however, rose by 5.98 percentage points to 0.87 per cent in December 2021 from -5.11 per cent in July (Table 3.2 and Figure 3.10). In general, headline inflation decreased to 15.63 per cent in December 2021 from 17.38 per cent in July.

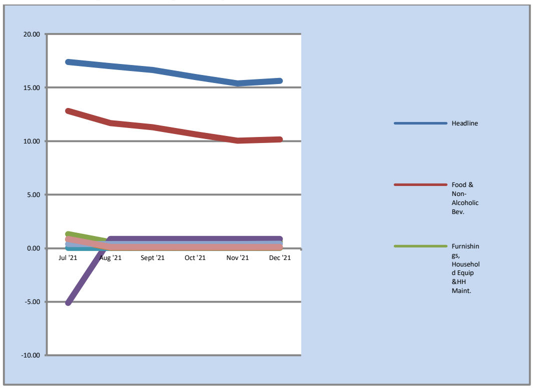
In the review period, the continued implementation of the Economic Sustainability Plan by the Federal Government and the interventions of the Central Bank of Nigeria in the agricultural sector led to increase in food production, thus, moderating food prices. The stability in the exchange rate due to demand management measures of the Bank, also contributed to the moderation of prices. Headline inflation, however, remained above the Bank's threshold of 6-9 per cent as the economy was still confronted with legacy challenges which include the high state of insecurity, poor infrastructure, rising energy costs, amongst others, which continued to constrain economic activities.

Table 3.3a Major Components of Headline Inflation (Y-on-Y), July - December 2021

	heaadline	Food & Non-Alcoholic Bev.	Furnishings, Household Equip &HH Maint.	Health	Transport	Communication	Recreation & culture	Education	Restaurant & Hotels	Miscellaneous Goods & Services
Jul-21	17.38	12.81	1.32	1.13	-5.11	0.04	0.81	0.39	0.86	0.19
Aug-21	17.01	11.68	0.57	0.37	0.88	0.04	0.06	0.39	0.11	0.19
Sep-21	16.63	11.30	0.57	0.37	0.87	0.04	0.06	0.39	0.11	0.19
Oct-21	15.99	10.64	0.58	0.36	0.87	0.04	0.06	0.40	0.11	0.19
Nov-21	15.40	10.04	0.58	0.36	0.87	0.04	0.06	0.40	0.11	0.19
Dec-21	15.63	10.17	0.59	0.36	0.87	0.04	0.06	0.41	0.11	0.19
Difference btwn July &Dec 2021	-1.75	-2.63	-0.73	-0.77	5.98	0.00	-0.75	0.02	-0.74	0.00

Source: NBS

Figure 3.10: Major Components of Headline Inflation (Y-on-Y), July – December 2021



Source: NBS

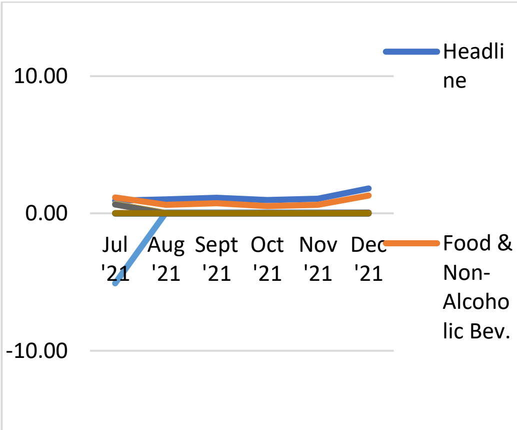
On a month-on-month basis, headline inflation increased to 1.82 per cent in December 2021 from 0.93 per cent in July. The major drivers of month-on-month headline inflation were the prices of transport which rose by 5.16 percentage points to 0.07 per cent in December 2021 from -5.09 per cent in July 2021. Food & non-alcoholic beverages also rose by 0.14 percentage point to 1.30 per cent in December 2021 from 1.16 per cent in July 2021. Furnishing, Household Equipment & Household Maintenance, Health, and Restaurant & Hotels, however, decreased by 0.64 percentage points apiece (Table 3.3 and Figure 3.11).

Table 3.3b: Major Components of Headline Inflation (M-on-M), July - Dec 2021

	Headline	Food & Non-Alcoholic Bev.	Furnishings, Household Equip &HH Maint.	Health	Transport	Communication	Recreation & culture	Education	Restaurant & Hotels	Miscellaneous Goods & Services
Jul '21	0.93	1.16	0.69	0.67	-5.09	0.00	0.00	0.03	0.65	0.01
Aug '21	1.02	0.63	0.04	0.02	0.06	0.00	0.00	0.03	0.01	0.01
Sept '21	1.15	0.74	0.04	0.02	0.06	0.00	0.00	0.03	0.01	0.01
Oct '21	0.98	0.54	0.05	0.03	0.07	0.00	0.00	0.03	0.01	0.01
Nov '21	1.08	0.64	0.05	0.03	0.07	0.00	0.00	0.03	0.01	0.02
Dec '21	1.82	1.30	0.05	0.03	0.07	0.00	0.01	0.04	0.01	0.02
%Change (Jul - Dec 2021)	0.89	0.14	-0.64	-0.64	5.16	0.00	0.00	0.00	-0.64	0.00

Source: NBS

Figure 3.11: Major Components of Headline Inflation (M-on-M July – December 2021



Source: NBS

3.2.1.2 Food Inflation

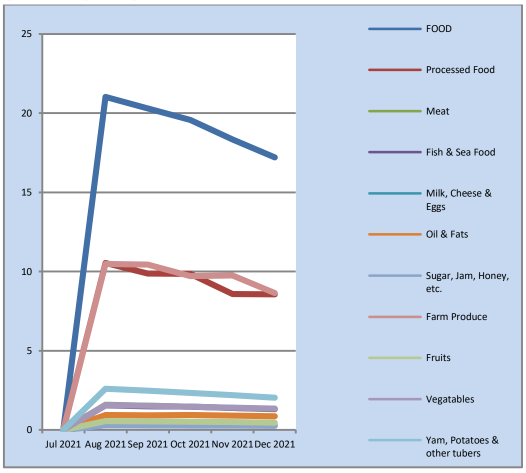
Food inflation (year-on-year) decrease by 3.66 percentage points to 17.37 per cent in December 2021 from 21.03 per cent in July. The main driver of the decrease was the price of processed food which fell by 1.66 percentage points to 8.88 per cent in December 2021 from 10.54 per cent in July. Farm produce also fell by 2.00 percentage point to 8.49 per cent in December 2021 from 10.49 per cent in July. This was the result of bumper harvests across key food producing areas. Components responsible for this were meat, sugar, Jam, Honey, etc.

Table 3.4: Major Components of Food Inflation (Y-on-Y), July - December 2021

	FOOD	Processed Food	Meat	Fish & Sea Food	Milk, Cheese & Eggs	Oil & Fats	Sugar, Jam, Honey, etc.	Farm Produce	Fruits	Vegatables	Yam, Potatoes & other tubers
Jul 2021	21.03	10.54	1.59	1.55	0.29	0.95	0.29	10.49	0.56	1.57	2.59
Aug 2021	20.30	9.87	1.53	1.49	0.29	0.92	0.28	10.44	0.54	1.53	2.47
Sep 2021	19.57	9.86	1.48	1.46	0.28	0.93	0.28	9.71	0.52	1.47	2.35
Oct 2021	18.34	8.58	1.39	1.38	0.28	0.89	0.27	9.75	0.49	1.41	2.19
Nov 2021	17.21	8.57	1.31	1.33	0.27	0.87	0.26	8.64	0.46	1.35	2.04
Dec 2021	17.37	8.88	1.33	1.37	0.28	0.88	0.27	8.49	0.46	1.34	2.00
Change btw Jul &Dec. 2021	-3.66	-1.66	-0.27	-0.18	-0.02	-0.07	-0.02	-2.00	-0.09	-0.23	-0.60

Source: NBS

Figure 3.12: Major Components of Food Inflation (Y-on-Y), July - December 2021



Source: NBS

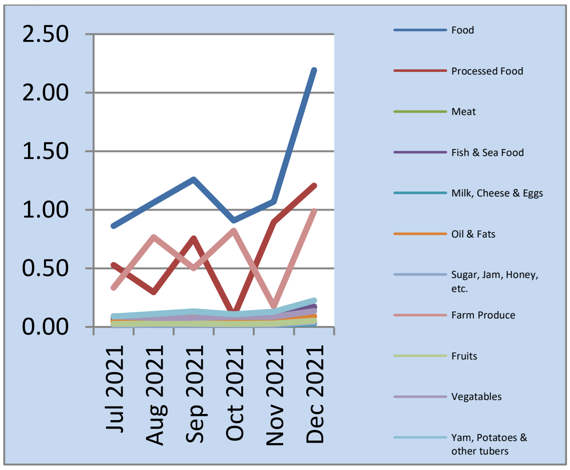
Month-on-month food inflation, however, increased by 1.33 percentage point to 2.19 per cent in December 2021 from 0.86 per cent in July driven by increases in the prices of both processed food and farm produce. The price of processed food rose by 0.68 percentage point from 0.53 per cent in July 2021 to 1.21 per cent in December 2021. Similarly, the price of farm produce rose by 0.66 percentage point to 0.99 per cent in December 2021 from 0.33 per cent in July. All other sub-components of food inflation maintained an upward trend in the review period.

Table 3.5: Major Components of Food Inflation (M-on-M), July - December 2021

	Food	Processed Food	Meat	Fish & Sea Food	Milk, Cheese & Eggs	Oil & Fats	Sugar, Jam, Honey, etc.	Farm Produce	Fruits	Vegatables	Yam, Potatoes & other tubers
Jul 2021	0.86	0.53	0.07	0.07	0.02	0.04	0.01	0.33	0.03	0.09	0.09
Aug 2021	1.06	0.29	0.08	0.08	0.02	0.06	0.02	0.77	0.03	0.08	0.11
Sep 2021	1.26	0.76	0.09	0.11	0.02	0.09	0.02	0.50	0.03	0.08	0.13
Oct 2021	0.91	0.09	0.07	0.08	0.02	0.05	0.02	0.82	0.03	0.09	0.11
Nov 2021	1.07	0.89	0.08	0.10	0.02	0.06	0.02	0.18	0.03	0.08	0.13
Dec 2021	2.19	1.21	0.17	0.17	0.03	0.09	0.04	0.99	0.05	0.14	0.22
Change btw Jul & Dec. 2021	1.33	0.68	0.09	0.10	0.01	0.05	0.03	0.65	0.03	0.05	0.14

Source: NBS

Figure 3.13: Major Components of Food Inflation July - December 2021



Source: NBS

3.2.1.3 Core Inflation

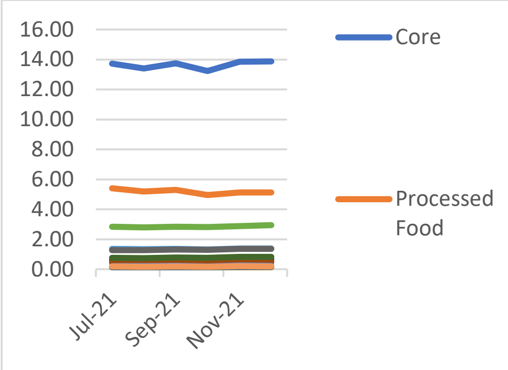
Core inflation (year-on-year) rose by 0.15 percentage point to 13.87 per cent in December 2021 from 13.72 per cent in July. The development was driven by increases in Housing, water, electricity & other fuel (0.11 percentage point), transport (0.09 percentage point), furnishings, household equipment & household maintenance (0.06), and health (0.03 percentage point). Processed food, however, decreased by 0.28 percentage point to 5.12 per cent in December 2021 from 5.40 per cent in July (Table 3.6 and Figure 3.14). The rise in core inflation could be attributed to supply-side challenges, rising cost of energy and exchange rate depreciation.

Table 3.6: Major Components of Core Inflation (Y-on-Y) July - December 2021

	Core	Processed Food	Non-Alcoholic Beverages	Alcoholic Bev. Tobacco & Kola	Clothing & footwear	Housing, Water, Elect.Gas & Other Fuel	Furnishings, Household Equip &HH Maint.	Health	Transport	Communication	Recreation & culture	Education	Restaurant & Hotels	Miscellaneous Goods & Services
Jul-21	13.72	5.40	0.19	0.16	1.37	2.83	0.61	0.45	1.28	0.13	0.15	0.76	0.21	0.18
Aug-21	13.41	5.20	0.18	0.16	1.34	2.80	0.60	0.44	1.28	0.14	0.15	0.75	0.20	0.17
Sep-21	13.74	5.30	0.18	0.16	1.36	2.83	0.63	0.47	1.32	0.14	0.15	0.78	0.23	0.19
Oct-21	13.24	4.96	0.18	0.16	1.33	2.82	0.61	0.44	1.31	0.14	0.15	0.77	0.20	0.17
Nov-21	13.85	5.14	0.18	0.17	1.38	2.88	0.66	0.50	1.37	0.14	0.16	0.83	0.24	0.21
Dec-21	13.87	5.12	0.18	0.17	1.39	2.94	0.67	0.49	1.37	0.14	0.16	0.82	0.22	0.19
change btwn Jul& Dec 2021	0.15	-0.28	0.00	0.01	0.03	0.11	0.06	0.03	0.09	0.00	0.01	0.07	0.01	0.01

Source: NBS

Figure 3.14: Major Components of Core Inflation (Y-on-Y) July - December 2021



Source: NBS

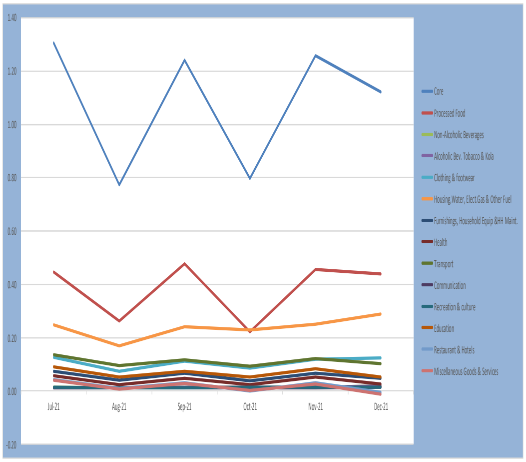
On a month-on-month basis, core inflation, however, decreased by 0.18 per centage point to 1.22 per cent in December 2021 from 1.31 per cent in July. The major drivers of the decline were restaurant & hotel (-0.05 percentage point), miscellaneous goods & services (-0.05 percentage point), education (-0.04 percentage point), and housing, water, electricity, gas & other fuel (0.04 percentage point) (Table 3.7 and Figure 3.15).

Table 3.7: Major Components of Core Inflation (M-on-M) July – December 2021

	Core	Processed Food	Alcoholic Beverages	Alcoholic Bev. Tobacco & Kola	Clothing & footwear	Housing,Water, Elect.G	Furnishings, Household	Health	Transport	Communication	Recreation & culture	Education	Restaurant & Hotels	Miscellaneous Goods &
Jul-21	1.31	0.45	0.01	0.01	0.13	0.25	0.07	0.06	0.14	0.01	0.01	0.09	0.04	0.04
Aug-21	0.77	0.26	0.01	0.01	0.07	0.17	0.04	0.02	0.09	0.01	0.01	0.05	0.01	0.01
Sep-21	1.24	0.48	0.01	0.01	0.11	0.24	0.07	0.05	0.12	0.01	0.01	0.07	0.03	0.03
Oct-21	0.80	0.22	0.01	0.01	0.09	0.23	0.04	0.02	0.09	0.01	0.01	0.05	0.00	0.00
Nov-21	1.26	0.46	0.01	0.01	0.12	0.25	0.07	0.05	0.12	0.01	0.01	0.08	0.03	0.03
Dec-21	1.12	0.44	0.02	0.02	0.12	0.29	0.05	0.02	0.10	0.01	0.01	0.05	-0.01	-0.01
change btwn Jul and Dec. 2021	-0.18	-0.01	0.00	0.01	0.00	0.04	-0.03	-0.03	-0.03	0.00	0.00	-0.04	-0.05	-0.05

Source: NBS

Figure 3.15: Major Components of Core Inflation (M-on-M) July – December 2021



Source: NBS

3.2.2 Seasonally Adjusted Inflation

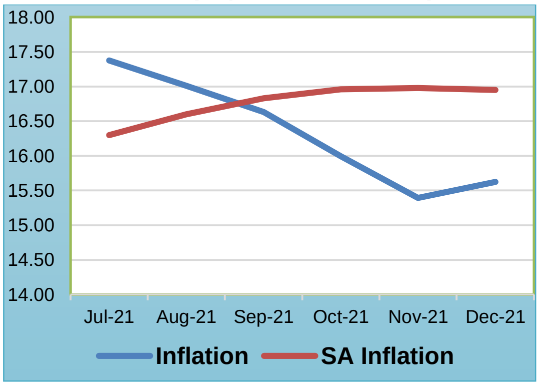
Actual headline inflation trended downwards between July and November 2021. This trend, however, reversed in December 2021 as a result of increased spending associated with the festive period and end of year activities. In contrast, the seasonally adjusted measure maintained an upward trajectory between July and November 2021 before declining marginally in December (Table 3.8 and Figure 3.16). Actual headline inflation reflected the general price level in the economy, trending below the seasonally adjusted measure between September and December 2021. The overall downward trend in actual headline inflation was occasioned by the continued implementation of the Government's Economic Sustainability Plan, supported by various interventions in agriculture and manufacturing by the Central Bank of Nigeria. These helped to create jobs and simultaneously improve the supply of goods and services. The upward trend in the seasonally adjusted measure was mainly attributed to the demand shock associated with the post-lockdown recovery as well as festive and end-of-year activities.

Table 3.8: Actual and Seasonally Adjusted Headline Inflation (July – December 2021)

Year	Inflation	SA Inflation
Jul-21	17.38	16.30
Aug-21	17.01	16.60
Sep-21	16.63	16.83
Oct-21	15.99	16.96
Nov-21	15.40	16.98
Dec-21	15.63	16.95

Source: NBS

Figure 3.16: Actual and Seasonally Adjusted Headline Inflation (July – December 2021)



Source: NBS

3.2.3 Key Factors that Influenced Domestic Prices

The decline in inflationary pressure during the review period was primarily influenced by some moderating factors, although cost-push and demand-pull forces were also at play. The key moderating factors were: the easing of COVID-19 related restrictions; fiscal policy support through the continued implementation of the Economic Sustainability Plan and initiatives by the Central Bank of Nigeria to support recovery through interventions in the agricultural and manufacturing sectors. Exchange rate stability was also achieved through demand management measures by the Bank.

3.2.3.1 Demand-side Factors

The demand-side factors that influenced headline inflation in the review period included capital releases for infrastructural projects, real sector intervention programmes, and the Bank's accommodative monetary policy stance to support the recovery of aggregate demand all boosted naira liquidity in the system. In addition, foreign exchange demand pressure, despite the Bank's demand management measures resulted in pass-through on domestic prices.

3.2.3.2. Supply-side Factors

Supply-side factors that influenced inflationary developments in the review period include the persisting security challenges, particularly in farming communities, and lagged impact of disruptions to production and distribution activities associated with the COVID-19 lockdown. Others were: the poor conditions of transport infrastructure which impacted upward pressure on the cost of cross-country logistics; rising cost of AGO and inflation expectations from the proposed deregulation of energy prices; and the declining supply of foreign exchange through autonomous sources, which heightened the pressure on the naira.

3.2.3.3 Moderating Factors

The key factors that moderated inflationary pressure in the review period were: the Federal Government's support through the Economic Sustainability Plan and the easing of COVID-19 related restrictions as well as interventions by the Central Bank of Nigeria in the agricultural and manufacturing sectors. The Bank's rigorous demand management policy was also central to the moderation of demand pressure in the foreign exchange market. This helped in sustaining relative stability in the foreign exchange market.

3.3 Monetary Policy and Liquidity Management

The design and implementation of Monetary policy in the second half of 2021 was guided by emerging issues and developments in the global and domestic economic and financial environments.

On the global front, while relative progress had been made in easing the impact of the COVID-19 pandemic, the recovery of the global economy progressed moderately as new strains of the virus such as delta and omicron continued to cast a shadow on the full recovery. This resulted in an uneven recovery across the globe, with the advanced economies making substantially more progress than other developing economies, largely due to more fiscal and monetary support at their disposal. Following the progressive lifting of restrictions earlier imposed to curb the spread of the pandemic, the global economy experienced a surge in demand initially thought to be transient as global supply gradually recovered to offset the demand-supply gap which existed post-lockdown. In this light, inflation in the advanced economies rose substantially above their long run objectives over a period of time as central banks in these economies believed that the rise was transient. As inflation persisted, however, these central banks began talks of tapering, withdrawal of stimulus and interest rate lift-off, with the US Federal Reserve Bank at the forefront of the discourse. In the Emerging Markets and Developing Economies, however, there was a mixed inflationary outcome with some of the economies facing higher pressures compared with their peers, as exchange rate pressures, capital flow reversals, rising energy cost, weak supply chains and varying access to stimulus impacted macroeconomic performance in these economies differently.

On the domestic front, uncertainties around the path of containment of the pandemic continued to pose challenges to output recovery. In addition, the slow pace of vaccination across the country amongst other legacy issues remained a source of concern for monetary policy.

3.3.1 Monetary Policy Response to Evolving Economic Conditions

In the review period, monetary policy formulation and implementation was targeted at addressing the downside risks to growth and upside risks to inflation. The uneven access to vaccines, unwillingness in some quarters to be vaccinated, and the continued mutation of the virus into deadlier strains imposed a drag on the full recovery of the global economy. The rising level of global inflation associated with the recovery from the COVID-19 pandemic and high energy cost led major central banks in the advanced economies to give forward guidance of commencement of monetary policy normalisation. This prompted concern for capital flow reversals from emerging markets and developing economies with attendant consequence on exchange rate pressure and external reserves. Accordingly, the International Monetary Fund (IMF) revised global output growth for 2021 downwards to 5.9 from 6.0 per cent.

In the third and fourth quarters of 2021, the domestic economy grew by 4.03 and 3.98 per cent respectively, compared with -3.62 and 0.11 per cent in Q3 and Q4 2020, respectively. Headline inflation (year-on-year) moderated to 15.63 per cent in December 2021 from 17.38 per cent in July, but still remained above the Bank's upper band of 9.00 per cent. These developments shaped monetary policy in the second half of 2021.

The broad money supply (M3) grew during the period driven by growth in Net Domestic Assets (NDA), while net Foreign Assets (NFA), contracted. The continued growth in Net Domestic Assets (NDA) was largely driven by increased claims on the Federal Government and other public nonfinancial corporations, private sector and state and local governments. In the equities market, both the All-Share Index (ASI) and Market Capitalization (MC) increased depicting improved investor sentiment, following impressive corporate earnings of listed companies on the Exchange. This led to a new bargain hunting drive by investors. In the banking system, the Capital Adequacy Ratio (CAR) and Liquidity Ratio (LR) both remained above their prudential limits. The Non-Performing Loan ratio (NPL) improved, reflecting tight prudential regime by the Bank.

The money market rates oscillated within the standing facilities corridor, reflecting the prevailing liquidity conditions in the banking system. The monthly weighted average Open Buyback (OBB) and Inter-bank Call rates both increased during the period, reflecting the tight liquidity condition in the banking system. The gross external reserves stood at US$41.41 billion as at November 18, 2021, compared with US$41.34 billion in October 2021, a moderate increase of 0.17 per cent.

In the second half of 2021, the policy decisions were to retain the MPR at 11.5 per cent; retain the asymmetric corridor of +100/-700 basis points around the MPR; retain the CRR at 27.5 per cent and retain the Liquidity Ratio at 30 per cent. Also, the Bank continued its interventions to boost aggregate demand and investments, as well as diversifying the economy through foreign exchange restrictions for the importation of goods and food products that can be produced in Nigeria.

In order to complement the monetary policy decisions, the Bank sustained its intervention programmes to ensure sustainable growth, ease supply chain challenges and drive down prices. These interventions were in manufacturing/industries, agriculture, energy/infrastructure, healthcare and Micro, Small & Medium Enterprises (MSMEs)[1].

3.3.2 Monetary Policy Committee Meetings

In the second half of 2021, the Monetary Policy Committee (MPC) met in July, September, and November. At the July meeting, the Committee noted the gradual recovery of output growth and expressed confidence in the recovery. The MPC, however, carefully reviewed the downside risks to growth and upside risks to inflation in the short- to medium-term. While the economy

[1] Details of the interventions in the review period are contain in sections 3.1.2.2 and 3.1.2.2.2

has been gradually reopening, Members noted that the Pandemic was far from over and therefore may moderate the pace of the recovery. The MPC was concerned about the broad level of insecurity across the country, noting its impact in key commodity producing areas and urged the Federal Government to intensify security surveillance in farming communities. On inflation, the Committee noted the contribution of poor infrastructure to rising domestic prices and re-iterated the importance for the Federal Government to prioritize investment in public infrastructure such as transportation networks, power supply and telecommunication facilities through Public-Private-Partnerships.

Committee members also noted the persistent reduction in remittance of oil revenue to the Consolidated Revenue Fund and urged the Government to continue to explore additional sources of non-oil revenue, as this would reduce the over dependence on a single revenue source.

In the financial market, the Committee noted the continued improvement in the equities market, indicating sustained investor confidence in the Nigerian economy. It also applauded the continued resilience of the banking system in the face of severe shocks to both the domestic and global economies.

Overall, Members were confident that the Bank was taking the right steps toward the restoration of macroeconomic stability, while noting the downside risks to growth and the upside risks to price developments. On the basis of foregoing, the Committee decided by a unanimous voted to maintain the monetary policy rate (MPR) at 11.5 per cent, the Asymmetric Corridor at +100/-700 basis points around the MPR, the CRR at 27.5 per cent, and the Liquidity Ratio at 30 per cent.

During the September 2021 MPC, the Committee noted the continued recovery in output growth and urged the Bank to maintain its current policy measures. It, however, noted the downside risk posed by the increasing level of insecurity in parts of the country and urged the Federal Government to prioritize security surveillance particularly in farming communities.

The Committee noted that inflation had decelerated for the fifth consecutive month and commended the Bank's effort at revitalising the Nigeria Commodity Exchange (NCX) to improve the supply value chain. In addition, members commended the complementary benefit of the take-off of the Nigerian Infrastructure Corporation (INFRACORP) which is expected to markedly improve the business environment.

On the financial market, the MPC noted the moderate improvement in the equities segment, the progressive decline in the non-performing loans, and further commended the management on the stability of the exchange rate. The Committee thus, urged the Bank to take further steps to restrict the activities of unauthorised and illegal dealers in the foreign exchange market, and ensure that operators adhere to stipulated guidelines set by the Bank.

Overall, the MPC assessed the headwinds and tailwinds to growth, as well as the upside risks to inflation, and consequently, decided by a unanimous vote to hold all policy parameters at their extant position.

The MPC at its November 2021 meeting, noted the key downside risks to growth and upside risks to inflation, commending the continued recovery in output growth in the third quarter of 2021. The Committee however, remained cautious of the need to monitor price developments while urging the Bank to maintain its interventions as the pandemic was yet to be over. Members also reiterated the impact of poor infrastructure on rising domestic price levels as well as the persistence of insecurity in major food-producing areas, noting the downside risk to the recovery.

The Committee also commended the gradual diversification of the economy with the increased contribution of the non-oil sector to Government revenues and called for more support to increase non-oil exports as a source of foreign exchange earnings into the economy. The Committee further urged the Government to seek equitable partnerships with foreign investors and Nigerians in diaspora to fund capital projects.

The Committee also noted the growing investor confidence in the Nigerian economy reflected by the strong position of the equities market and the continued resilience of the banking system.

Members noted the likely commencement of monetary policy normalization by the US Fed and called on the Federal Government to intensify its drive towards a counter-cyclical fiscal policy in view of the imminent tightening of external financial conditions.

In general, the MPC expressed confidence in the ongoing policies of both the monetary and fiscal authorities which was the hallmark of the current recovery and restoration of macroeconomic stability in Nigeria. The Committee thus, decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 11.5 per cent. In summary, the MPC voted to retain: the MPR at 11.5 per cent; the asymmetric corridor of +100/-700 basis points around the MPR; the CRR at 27.5 per cent; and the Liquidity Ratio at 30 per cent.

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

3.3.3 Instruments of Liquidity Management

In the review period, the Bank sustained the use of its monetary policy instruments to achieve the objectives of price and macroeconomic stability. The instruments were: the Monetary Policy Rate (MPR); the Cash Reserve Ratio

(CRR); Liquidity Ratio; Open Market Operations (OMO) and Discount Window Operations. Furthermore, there were periodic interventions in the foreign exchange market.

3.3.3.1 Monetary Policy Rate (MPR)

The Monetary Policy Rate (MPR) remained the Bank's key instrument for signalling monetary policy stance and management in the second half of 2021. The MPR was kept unchanged at 11.5 per cent and the asymmetric corridor maintained at +100/-700 basis points, reflecting the Bank's commitment to an accommodative policy stance to support output growth.

3.3.3.2 Open Market Operations (OMO)

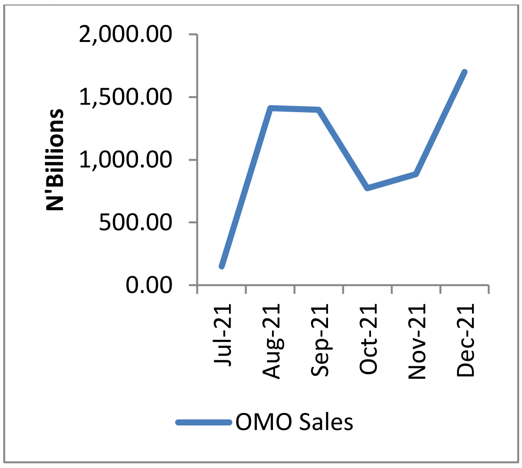
In the second half of 2021, Open Market Operations (OMO) was the main instrument of Liquidity Management. Total OMO sales increased marginally by 2.95 per cent to ₦6,319.47 billion in the second half of 2021 from ₦6,138.58 billion in the corresponding period of 2020, but was a significant increase of 252.40 per cent when compared with ₦1,793.25 billion in the first half of 2021 (Table 3.9). The increased operations were attributed to excess liquidity in the Banking System.

Table 3.9: OMO Bills Auction (July – December, 2021) (N'billion)

Date	2020	2021	% Change
Jan	2,193.52	452.67	-79%
Feb	1,575.64	763.23	-52%
Mar	673.38	381.92	-43%
Apr	676.19	63.19	-91%
May	114.00	66.64	-42%
Jun	1,259.57	65.60	-95%
1st Half	**6,492.30**	**1,793.25**	-72%
Jul	392.76	151.26	-61%
Aug	1,037.67	1,411.89	36%
Sep	1,171.79	1,398.60	19%
Oct	988.67	772.66	-22%
Nov	1,022.11	884.22	-13%
Dec	1,525.58	1,700.83	11%
2nd Half	**6,138.58**	**6,319.47**	3%
Cumulative Figure	**12,630.88**	**8,112.72**	-36%

Source: Financial Market Department

Figure 3.17: OMO Bills Auction (July - December, 2021)



Source: Financial Market Department

3.3.3.3 Reserve Requirements

In the review period, Reserve Requirements, namely: the Cash Reserves Ratio (CRR) and Liquidity Ratio (LR) were deployed to complement the MPR and OMO auctions as macro-prudential and liquidity management instruments. The CRR and LR were maintained at 27.5 and 30.0 per cent, respectively. This was due to the liquidity surfeit in the banking system.

3.3.3.4 Standing Facilities

The Standing Facilities window was used by the Bank to meet the daily liquidity requirements of Other Depository Corporations (ODCs) in the second half of 2021. The asymmetric corridor was maintained at +100/-700 basis points around the MPR.

The requests for Standing Lending Facility (SLF) decreased by 65.03 per cent to ₦3,406.45 billion in the second half of 2021 from ₦9,741.84 billion in the preceding period of 2021. This, however, reflected an increase of 86.44 per cent from ₦1,827.09 billion in the corresponding period of 2020 (Table 3.10).

Similarly, the volume of deposits under the Standing Deposit Facility (SDF), declined by 32.22 per cent to ₦1,221.95 billion in the second half of 2021 from ₦1,829.90 billion in the preceding period of 2021. This also represented a decrease of 70.66 per cent when compared with ₦4,164.78 billion in the corresponding period of 2020 (Table 3.11).

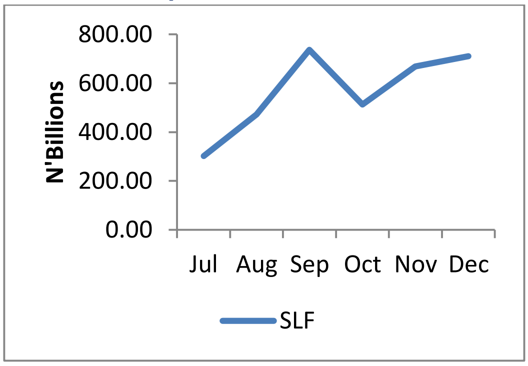
Transactions at the Standing Facility window resulted in a net lending of ₦2,184.50 billion in the second half of 2021 compared with a net lending of ₦7,911.94 billion in the preceding half year and a net deposit of ₦2,337.69 billion in the corresponding half year. This development signalled a trend towards moderation of banking system liquidity surfeit.

Table 3.10: CBN Standing Lending Facility (January 2020 – December 2021) (N'billion)

Date	2020	2021	% Change
Jan	580.77	395.77	
Feb	510.27	552.66	
Mar	957.34	886.51	
Apr	277.93	2,498.55	
May	398.84	4,818.91	
Jun	592.25	589.44	
1st Half	**3,317.40**	**9,741.84**	**193.66%**
Jul	1,570.18	302.54	
Aug	112.72	472.57	
Sep	14.39	737.72	
Oct	37.11	513.22	
Nov	22.94	668.87	
Dec	69.75	711.54	
2nd Half	**1,827.09**	**3,406.45**	**86.44%**
Total	**5,144.49**	**13,148.29**	

Source: Financial Market Department

Figure 3.18: Standing Lending Facility (July – December 2021)



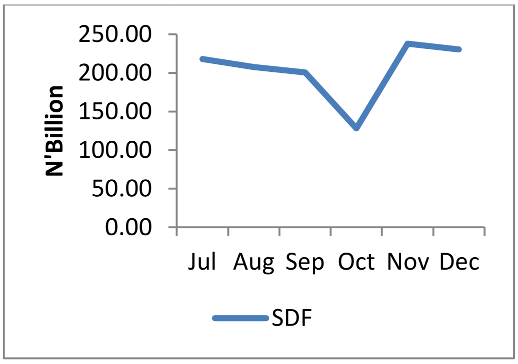
Source: Financial Market Department

Table 3.11: CBN Standing Deposit Facility (January 2020 – December 2021) (N'billion)

Date	2020	2021	% Change
Jan	618.49	528.33	
Feb	523.41	441.51	
Mar	356.80	420.36	
Apr	601.53	145.52	
May	549.50	123.89	
Jun	442.05	170.29	
1st Half	**3,091.78**	**1,829.90**	**-40.81%**
Jul	459.49	218.06	
Aug	593.42	207.58	
Sep	838.22	200.35	
Oct	734.51	128.10	
Nov	794.31	237.64	
Dec	744.83	230.22	
2nd Half	**4,164.78**	**1,221.95**	**-70.66%**
Total	**7,256.56**	**3,051.85**	

Source: Financial Market Department

Figure 3.19: Standing Deposit Facility (July - December 2021)



Source: Financial Market Department

3.3.3.5 Foreign Exchange Intervention

In the review period, pressure in the foreign exchange market persisted due to the lingering challenges posed by the COVID-19 pandemic, which affected the global commodity and oil markets. The Bank in response; continued the Naira-4-Dollar Scheme to further encourage diaspora remittances; directed licensed International Money Transfer Operators (IMTOs) to pay beneficiaries of diaspora remittances only in foreign currency to improve foreign exchange inflows into Nigeria; restricted importation of Sugar to three companies involved in Backward Integration Programmes (BIP) on sugar production; and operationalised the Pan African Payments and Settlements System (PAPSS) to safeguard the external reserves.

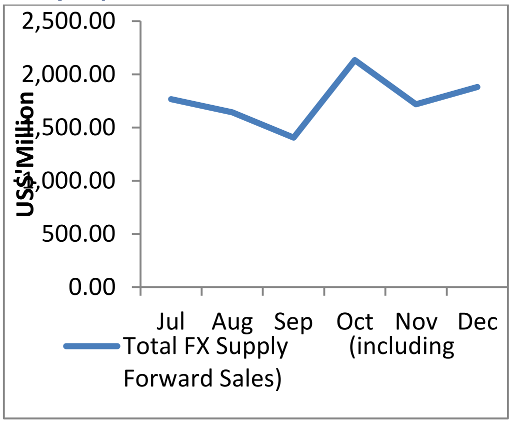
Accordingly, total foreign exchange supply increased by 51.55 per cent to US$10,543.51 million in the second half of 2021 from US$6,957.28 million in the corresponding half of 2020, and by 88.80 per cent when compared with US$5,831.59 million in the first half of 2021 (Table 3.12). The increased supply was largely due to interventions in the foreign exchange market to ensure exchange rate stability.

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

2020	2021	% Change
Total FX Supply (including Forward Sales)	**Total FX Supply (including Forward Sales)**	
1,604.27	717.05	
3,364.39	714.55	
3,344.29	770.08	
674.87	962.80	
639.76	1,283.74	
680.43	1,383.37	
10,308.01	**5,831.59**	**-43.43%**
593.33	1,764.80	
699.92	1,641.32	
1,229.16	1,405.29	
1,492.34	2,133.54	
1,119.27	1,717.77	
1,823.26	1,880.79	
6,957.28	**10,543.51**	**51.55%**

Source: Financial Market Department

Figure 3.20: Total FX Supply (including Forward Sales) July – December, 2021



Source: Financial Market Department

3.3.4 Developments in Monetary Aggregates

In the second half of 2021, monetary aggregates grew significantly, with the broad measures of money supply performing above their indicative benchmarks for the year, reflecting the growth in the components - currency in circulation and deposits. The performance was driven by the largely accommodative monetary policy stance of the Central Bank of Nigeria geared towards strengthening recovery from the COVID-19-induced recession that the country experienced in 2020.

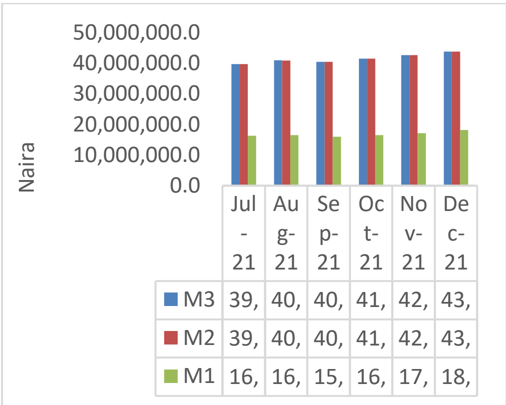
Net Domestic Assets (NDA) performed above its benchmark in the review period. Its key component, Net Domestic Credit (NDC) grew moderately, driven by growth in both private sector and government credit. Net Foreign Asset (NFA) grew but was below the benchmark in the review period, driven primarily by 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 10.90 per cent to ₦43,818.47 billion at end-December 2021 from ₦39,510.56 billion at end-June 2021. When compared with the end-December 2020 level of ₦38,904.92 billion, it increased by 12.63 per cent. The growth of M3 (year-on-year) was higher than the 2021 indicative growth target of 9.64 per cent. Similarly, M2 grew by 12.75 per cent to ₦43,817.57 billion at end-December 2021 from ₦38,863.05 billion at end-June 2021. Compared with the end-December 2020 level of ₦37,828.88 billion, it increased by 15.83 per cent which was significantly higher than the indicative growth benchmark of 10.26 per cent for 2021. During the period under review, there was no significant difference between M2 and M3 measures of money supply owing to the gradual withdrawal of the CBN bills, which was the major driver of M3.

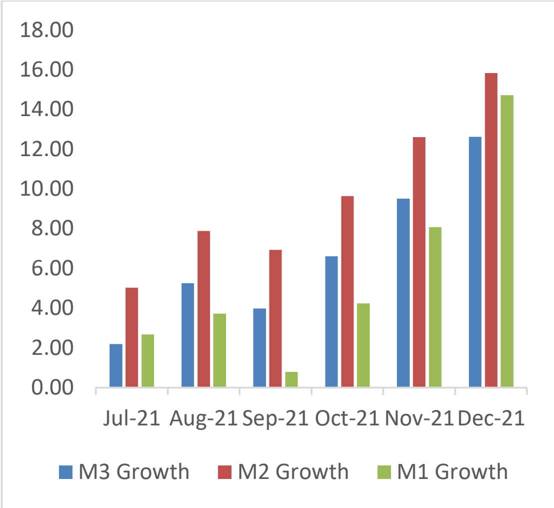
The increase in M2 was primarily driven by the increase in Narrow Money (M1) by 13.67 per cent and quasi money by 18.67 per cent in 2021 owing to the prohibition of the non-bank public from investing in CBN bills. Thus, the proceeds of matured CBN bills were not rolled over but became part of M1 deposits or reinvested in other near-money instruments.

Figure 3.21: Money Supply (M1), (M2) and (M3) (July – December 2021)



Source: Statistics Department

Figure 3.22: Growth in Money Supply (M1), (M2) and (M3) (July - December 2021)



Source: Statistics Department

3.3.4.2 Narrow Money (M1)

Narrow Money (M1) increased by 13.39 per cent to ₦18,169.30 billion at end-December 2021 from ₦16,024.39 billion at end-June 2021. It also increased by 14.72 per cent when compared with its level of ₦15,838.40 billion at end-December 2020. The year -on -year growth in narrow money, was lower than the 2021 indicative growth benchmark of 15.71 per cent (Figures 3.21 and 3.22). The growth in M1, though relatively lower than the indicative benchmark, was attributed to the gradual pick-up of economic activities which translated to growth in the banking sector credit.

3.3.4.3 Net Foreign Assets (NFA)

Net Foreign Assets (NFA) increased by 20.87 per cent to ₦8,814.45 billion at end-December 2021 from ₦7,292.25 billion as at end-June 2021. When compared with ₦8,973.31 billion at end-

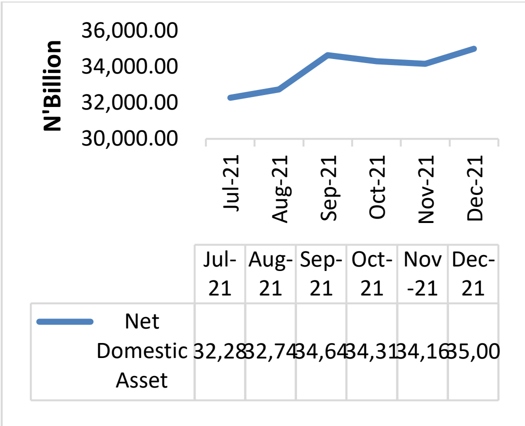
December 2020, NFA contracted by 1.77 per cent in contrast to the 2021 provisional indicative growth target of 32.79 per cent. The below benchmark performance of the NFA in the review period was due to the decline in foreign asset holdings of the central bank, especially in the fourth quarter of 2021, as well as those of non-interest, primary mortgage, and microfinance banks.

3.3.4.4 Net Domestic Assets (NDA)

Net Domestic Assets (NDA) increased by 8.65 per cent to ₦35,004.03 billion at end-December 2021 from ₦32,218.32 billion at end-June 2021. When compared with ₦29,931.62 billion at end-December 2020, NDA grew by 16.95 per cent year-on-year, which was significantly higher than the indicative growth benchmark of 4.21 per cent for 2021. The growth in NDA was attributable to the growth in Other Items Net (OIN) by 10.05 per cent in the review period.

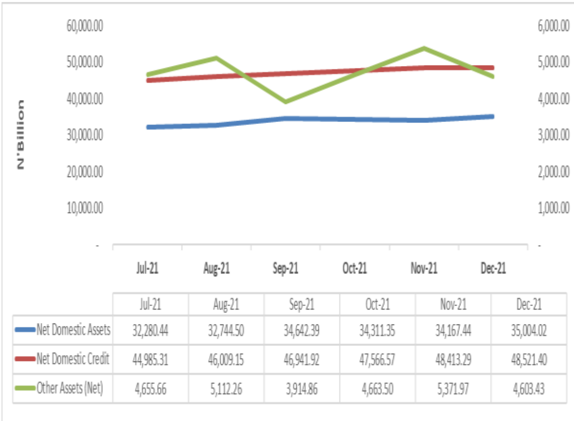
Net Domestic Credit (NDC) increased year-on-year by 17.25 per cent, driven largely by the growth in net credit to government (NCg) and credit to private sector (CPs) of 15.96 and 17.75 per cent, respectively. The continuous increase in CPs reflects the Bank's regulatory measures to improve lending to the real sector as well as its sustained development finance interventions. These interventions were targeted at improving the flow of credit to critical sectors to support the fragile recovery of the economy post-COVID-19. The growth in CPs is an indication of improved financing of the economy by the banking system.

Figure 3.23: Net Domestic Asset (NDA) (July - December 2021)



Source: Statistics Department

Figure 3.24: NDA, NDC and Other Assets (Net) (July – December 2021)



Source: Statistics Department

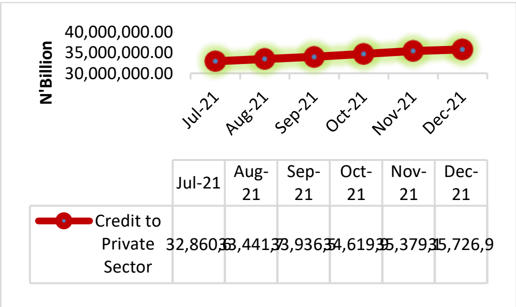
3.3.4.5 Credit to the Government (Cg)

Credit to Government (Cg) increased by 14.95 per cent to ₦13,326.80 billion at end-December 2021 from ₦11,593.88 billion at end-June 2021. Compared with ₦10,449.16 billion at end-December 2020, it grew by 15.96 per cent, which was significantly higher than the 2021 indicative growth target of 5.20 per cent. Developments during the period drove this outcome as the Federal Government borrowed to fund the deficit in the 2021 budget. This development poses a challenge as excessive and continuous borrowing by government raises concerns about fiscal sustainability and the crowding out of the private sector.

3.3.4.6 Credit to the Private Sector (Cp)

Credit to the private sector (Cp) increased by 7.87 per cent to ₦35,194.60 billion at end-December 2021 from ₦32,625.54 billion at end-June 2021. The development represented a growth of 17.75 per cent when compared with ₦29,890.46 billion at end-December 2020, which is marginally higher than the 2021 indicative growth target of 16.79 per cent. The marginal increase in private sector credit further stimulates demand and promote growth in the economy. The sustained implementation of the Loan to Deposit Ratio (LDR) also supported the enhanced performance of the CPs.

Figure 3.25: Domestic Credit to Private Sector (July – December, 2021)



Source: Statistics Department

3.3.4.7 Reserve Money (RM)

Reserve Money (RM) increased by 7.79 per cent to ₦13,295.15 billion at end-December 2021 from ₦12,333.85 billion at end-June 2021. Year-on-year, RM increased by 1.43 per cent from its end-December 2020 level of ₦13,107.92 billion. The RM at end-December 2021 was below the 2021 indicative benchmark of ₦13,538.85 billion by ₦243.70 billion. The performance of RM was largely due to the decline in the total deposit liability, and the weakening implicit cost of cash holding which reflected in the movement of Reserve Requirement. A summary of the major monetary aggregates and their provisional outcomes as at end-December 2021 is presented in Table 3.13a and b.

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

Variables	Actual H2 2020	Actual H1 2021	Actual H2 2021	Benchmark 2021	H2:2021 Deviation from Benchmark	Change in H2, 2021 over H1, 2020
M3 (N'b)	38,904.92	39,510.56	43,818.47	42,349.10	1,469.37	4,307.91
M3 (%)	11.63%	1.56%	12.63%	9.64%	2.99%	11%
M2 (N'b)	37,828.88	38,863.05	43,817.57	41,573.51	2,244.06	4,954.52
M2 (%)	30.99%	2.73%	15.83%	10.26%	5.57%	13%
M1 (N'b)	15,838.40	16,024.39	18,169.30	18,487.33	-318.03	2,144.91
M1 (%)	48.74%	1.17%	14.72%	15.71%	-0.99%	14%
RM (N'b)	13,107.92	12,333.85	13,295.15	13,538.85	-243.70	961.30
RM (%)	50.99%	-5.91%	1.43%	3.33%	-1.90%	7%
NDC (N'b)	41,383.17	44,219.42	48,521.40	48,260.60	260.80	4,301.98
NDC (%)	12.71%	6.85%	17.25%	13.41%	3.84%	10%
Cg (N'b)	11,492.71	11,593.88	13,326.80	13,049.45	277.35	1,732.92
Cg (%)	13.81%	0.88%	14.95%	5.20%	9.75%	14%
Cp (N'b)	29,890.46	32,625.54	35,194.60	35,211.15	-16.55	2,569.06
Cp (%)	12.30%	9.15%	17.75%	16.79%	0.96%	9%
NFA (N'b)	8,973.31	7,292.25	8,814.45	9,743.43	-928.98	1,522.20
NFA (%)	50.95%	-18.73%	-1.77%	32.79%	-34.56%	17%
NDA (N'b)	29,931.62	32,218.32	35,004.02	32,605.67	2,398.35	2,785.70
NDA (%)	3.55	7.64%	16.95%	4.21%	12.74%	9%

Source: Statistics Department

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

S/N	Monetary Aggregates	Performance	Implication
1	Overall Monetary Aggregates	Mixed	Evidence indicates fragile recovery after the pandemic driven recession. In the external sector, there is continued pressure on the naira leading to the depletion of reserves.
2	Broad Money (M3, M2)	Above target	Both M3 and M2 performed above their benchmarks. The growth signifies liquidity surfeit, mainly arising from the prohibition of the non-bank public from investing in CBN bills.
3	Narrow Money (M1)	Marginally below target	The weak performance is due to the fragile recovery post-COVID-19. Economic activities are slow and yet to pick-up to pre-pandemic levels. There are also increased use of e-payments platforms as well as the introduction of e-naira.
4	Net Foreign Assets (NFA)	below target	The poor growth performance of NFA has been persistent. This is mainly driven by the contraction of foreign asset holdings of the Monetary Authority especially in the fourth quarter of 2021 as it struggles to stabilize the exchange rate and prevent further depreciation of the naira.
5	Net Domestic Assets (NDA)	Above target	The performance in NDA is driven by growth in both private sector credit and credit to government. Credit to the government, if not checked, could crowd out credit to the core private sector.
6	Credit to the Govt (Cg)	Above target	The performance of credit to government indicates that government met its funding needs through the issuance of debt instruments due to the growing budget deficit.
7	Credit to the Private Sector (Cp)	Close to target	The performance demonstrates the increasing role of the private sector in driving economic activities. Growth in output and employment is as a result of credit made available to the real sector.

Source: Statistics Department

3.4 Domestic Financial Markets Developments

In the second half of 2021, the Nigerian financial market witnessed slight volatility owing to lingering shocks from the COVID-19 pandemic. Although some progress has been made in subduing the COVID-19 pandemic, including lowering of restrictions and reopening of several economies, the fast pace of mutation of new and deadlier strains of the virus continued to pose risks to the financial markets. The development resulted in stock market volatility, exchange rate shocks among the emerging markets and developing economies, and capital flow reversals. Global inflation continued to mount forcing some central banks in advanced economies to change their stance about its transitory nature and began to provide forward guidance of monetary policy normalisation, which continue to cause volatility in the financial market.

Foreign exchange market stability was accentuated by the Bank's intervention to stabilize the naira amid increased foreign exchange demand pressures. In the capital market, the All-Share Index (ASI) and Market Capitalization (MC) increased during the second half of 2021; largely due to enhanced economic activities and improved investors' confidence. The money market remained active in the review period, with market rates reflecting liquidity conditions in the banking system. Also, the net liquidity position and interest rates in the money market reflected the impact of the Bank's liquidity management operations. Accordingly, the monthly average Open Buy Back (OBB) rates rose to 12.59 per cent in December 2021 from 10.10 per cent in November 2021.

3.4.1 The Money Market

Despite the ravaging impact of COVID-19 pandemic money market activities witnessed significant increase. However, the rates recorded slight fluctuations in the second half of 2021, reflecting liquidity levels in the banking system. The development was the result of statutory monthly disbursement to the three tiers of government by the Federation Account Allocation Committee (FAAC); government securities maturities, sale of OMO bills and the various CBN interventions.

The interbank call segment of the market recorded less trading days in the period under review, resulting to lower transaction volumes compared with the OBB segment. For instance, zero transaction was recorded in the interbank call segment for December 2021. The development reflected the continuing high-risk perception and aversion of money market participants to open market lending due to counterparty risk.

From July to December 2021, the Monetary Policy Committee (MPC), held most of its policy instruments constant. The Bank thus retained the Monetary Policy Rate (MPR) at 11.50 percent with its asymmetric corridor at +100/-700 basis points around the MPR. Furthermore, the

Cash Reserve Ratio (CRR) and Liquidity Ratio (LR) were retained at 27.5 and 30.0 per cent, respectively during the period.

3.4.1.1 Short-term Interest Rate Developments

The liquidity conditions in the banking system were indicative of the money market activities. In addition to the various Monetary Policy Committee decisions, the CBN's intervention aimed at moderating foreign exchange demand pressures also played a vital role in money market liquidity and the short-term interest rates.

During the period under review, the interbank call segment recorded lower average rate compared with the Open Buy Back (OBB) segment. The rate in the OBB segment increased marginally from 11.92 per cent in July 2021 to 12.59 per cent in December 2021, while the interbank call rate dropped from 12.38 per cent in July 2021 to 10.50 per cent in November, with no rate recorded in December 2021 as there were no transactions in the month. The 30-day NIBOR rate which reflects the Nigerian interbank short-term lending rates for some selected banks decreased from 12.30 per cent in July 2021 to 10.03 per cent in December 2021.

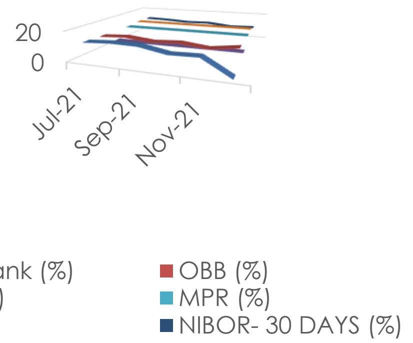
Table 3.14: Weighted Average Monthly Money Market Interest Rates (Jul.-Dec., 2021)

PERIOD	Interbank	OBB	SDF	MPR	SLF	NIBOR-30
	(%)	(%)	(%)	(%)	(%)	(%)
Jul-21	12.38	11.9	4.5	11.5	12.5	12.30
Aug-21	13.45	12.9	4.5	11.5	12.5	11.86
Sep-21	13.21	11.1	4.5	11.5	12.5	10.92
Oct-21	10.00	12.1	4.5	11.5	12.5	11.38
Nov-21	10.50	10.1	4.5	11.5	12.5	9.49
Dec-21*	0.00	12.5	4.5	11.5	12.5	10.03
Averag	9.92	11.8	4.5	11.5	12.5	11.00

Source: Statistics Department

Note: *December figures are monthly averages

Figure 3.26: Average Weighted Monthly Money Market Interest Rates (Jul.-Dec., 2021)



Source: Statistics Department

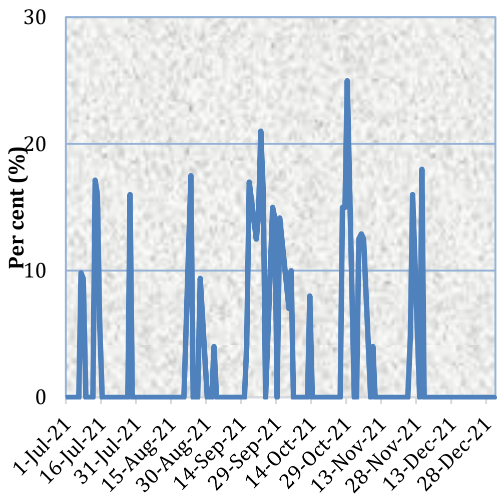
3.4.1.1.1 The Interbank Call Rate

The interbank call segment was relatively inactive, reflecting market participants' strong preference for the collateralised OBB instrument. During the period under review, the interbank call segment was characterised by scanty trade volumes as well as several days without trading activities as compared with the OBB segment. No transactions were recorded throughout December 2021.

The weighted average interbank call rate stood at 12.38 per cent in July 2021 while no rate was recorded in December 2021. Specifically, the monthly weighted average interbank call rate rose from 12.38 per cent in July 2021 to 13.45 per cent in August 2021 representing a 1.07 percentage points increase. However, the rate slightly dropped to 13.21 per cent in September 2021. In November 2021, it witnessed a slight up-tick to 10.50 per cent following a drop between September and October 2021. No rate was recorded in December 2021, as there was transactions in the interbank call segment, during the month. Nevertheless, the net flows from activities affecting banking system liquidity (i.e., OMO sales and maturity, foreign exchange interventions, CRR debits, the Bank's intervention facilities to stimulate growth and fiscal disbursement) contribute to the rates recorded in the period.

The analysis of the daily interbank call rate showed that for days where trading activities took place, the call rate ranged from 4.00 per cent recorded on trading days in September and November 2021 to 25.00 per cent in October 2021. The peak of 25.0 per cent in October was largely due to the Bank's mopping up activities at the end of the month. The average interbank call rate for the period July – December 2021 was 9.92 per cent representing 7.09 percentage points increase from the 2.83 per cent recorded in the second half of 2020 ,and 0.30 percentage points higher than the 9.62 per cent recorded in the first half of 2021.

Figure 3.27: Daily Interbank Call Rate (Jul – Dec 2021)



Source: Financial Markets Department

3.4.1.1.2 The Open Buy Back (OBB) Rate

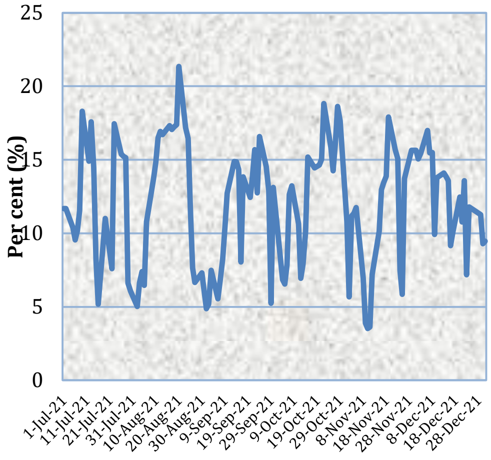
The OBB segment of the market experienced higher trading activities compared with the interbank call segment. The OBB rate and interbank call rate varied slightly in terms of their trends in the period under review. The monthly average OBB rates fluctuated which indicates an undulation between a tightened and an improved banking system liquidity. Within a spread of 10.10 per cent and 12.97 per cent, the monthly average OBB rate rose from 11.92 per cent in July 2021 to 12.97 per cent in August 2021. After a drop to 11.11 per cent in September, the rate further decreased by 2.08 percentage points from 12.18 per cent in October 2021 to 10.10 per cent in November 2021. Amidst investors' skepticism associated with the new variant of the COVID-19 (Omicron) and funding pressures from the increase in OMO, bonds and the Nigerian Treasury Bills auctions, the OBB rate witnessed an increase of 2.49 percentage points to close at 12.59 per cent at the end of second half of 2021.

In terms of the daily transactions, the OBB rate ranged from 3.52 per cent to 21.34 per cent between July and December 2021. Similar to the interbank call rate, the observed spike of 21.34 per cent at the third week of August 2021 is associated with increase in OMO sales, in spite of maturities as well as oversubscribed bond auctions during the period. The low rate recorded in November 2021 was largely due to the inflow of liquidity to the system through OMO maturities worth N123.6 billion within the third week of November 2021.

The average OBB rate in the second half of 2021 stood at 11.81 per cent, which is significantly higher than the 4.35 per cent recorded in the corresponding period of 2020, but lower than the 12.19 per cent recorded in the preceding half year of 2021 (i.e., January – June 2021).

The average monthly OBB rates recorded in the period under review trended towards the upper band of the MPR.

Figure 3.28: Daily Open Buy Back Rate (Jul–Dec 2021)



Source: Financial Markets Department

3.4.1.1.3 The Nigeria Interbank Offered Rate (NIBOR)

The Nigerian money market reference rate (NIBOR) also fluctuated over the period under review. It consistently dropped in the first three months of the period but later fluctuated till the end of December 2021. The 30-day weighted average NIBOR traded from 12.30 per cent in July 2021 to 11.86 per cent in August 2021 and dropped further to 10.92 per cent in September 2021. Following a slight increase of 0.46 percentage points to 11.38 per cent in October 2021, the average monthly rate decreased further in November 2021 to 9.49 per cent. This represents a 1.89 percentage points decrease. However, the rate stood at 10.03 per cent by the end of second half of 2021. The 30-day weighted average NIBOR rate for the second half of 2021 (i.e., July – December 2021) stood at 11.00 per cent.

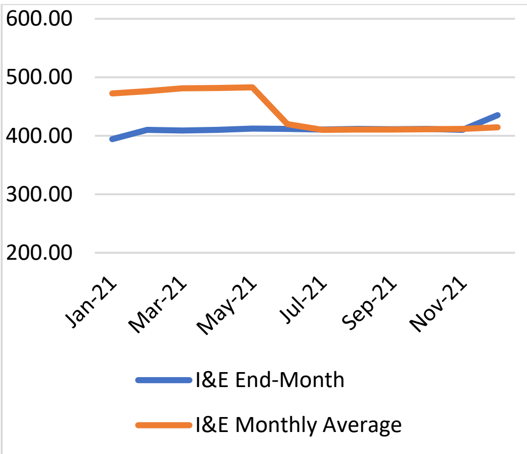
3.4.2 Foreign Exchange Market

The Continued spread of the COVID-19 pandemic remains a key contributing factor imposing a drag on global economic activities. As economies moved towards full lifting of associated restrictions, the new variants of the coronavirus emerged, leading some economies to re-introduce various measures of restrictions. This development imposed severe global supply-side constraints, and thus widened the supply-demand gap, resulting in a sharp rise in inflation across several economies. To curb the demand pressure and moderate inflationary pressure, most advanced economy central banks provided guidance to commence monetary policy normalization which may inadvertently tighten financial conditions and squeeze on economic activities, causing a slowdown in the recovery of the global economy.

With the tightening of external financial conditions, accretion to external reserves has dwindled progressively, especially as foreign investors began their exit from the economy in pursuit of higher yields thus increasing foreign exchange outflow, resulting in exchange rate pressure and depreciation of the naira. To curb the trend and safeguard the value of the naira, the Bank adopted various measures such as: the ban of FOREX sales to Bureau de Changes (BDCs), introduction of the Naira for Dollar policy, and deployment of strategic interventions in the FOREX market to provide foreign exchange liquidity. Overall, the FOREX market experienced some level of moderation in the second half of 2021, compared with the previous periods, thus demonstrating some relative stability.

Despite the threat posed by the Omicron variant, the global economy has remained relatively open compared with the first phase of the pandemic when the economy went into complete lock-down. In addition, the downward trend in COVID-19 mortality rates has given additional support for global economic recovery thus ensuring continued economic activities and sustained demand for crude oil, Nigeria's major FOREX earner. Nigeria's high import bill, however, remains a cause for concern for the stability of the exchange rate of the naira in the near term.

Figure 3.29: Daily Naira/US Dollar Exchange Rate Jan –Dec 21



Source: Statistics Department

In the period under review, the CBN maintained its development finance intervention programs to boost domestic production and promote import substitution to curb the high demand for foreign exchange for importation. Following the ban of FOREX sales to BDCs, the Bank increased FOREX sales at its official I&E window, thus providing more liquidity to meet genuine market demand. The Bank, in June 2021, adopted the Investors and Exporters window (I&E) as the default reference exchange rate for official transactions in the country.

3.4.2.1 Average Exchange Rates

The foreign exchange at the I&E segment significantly appreciated by an average of 12.27 per cent from an average of ₦468.99/US$ in the first half of 2021 to an average of ₦411.44/US$ in the second half of 2021.

Table 3.15: Average Monthly Spot Exchange Rate (N/US$), Jan 2021 – Dec 2021

MONTH	I&E
January (2021)	472.40
February	476.05
March	481.22
April	481.60
May	482.72
June	419.94
Average	**468.99**
July	410.12
August	410.39
September	410.80
October	411.25
November	411.74
December	414.34
Average	**411.44**

Source: Statistics Department

3.4.2.2 End-Period (Month) Exchange Rates

In the second half of 2021, the exchange rate at the I&E segment was stable at ₦411/ US$ but spiked to ₦435/US$ in December. The sharp increase was attributed to seasonal demand associated with the yuletide period. Compared with the average of ₦407.76/US$ in the first half of 2021, the exchange rate at the I&E segment depreciated slightly in the second half of the year by 1.77 percent to $414.97/US$. The depreciation was due to the spike experienced in end-December.

Table 3.16: End-Month Exchange Rate (N/US$), Jan – Dec 2021

MONTH	I&E
January (2021)	394.13
February	410.25
March	408.67
April	410.00
May	412.00
June	411.50
Average	**407.76**
July	410.68
August	411.63
September	411.00
October	411.50
November	410.00
December	435.00
Average	**414.97**

Source: Statistics Department

3.4.2.3 Nominal and Real Effective Exchange Rates

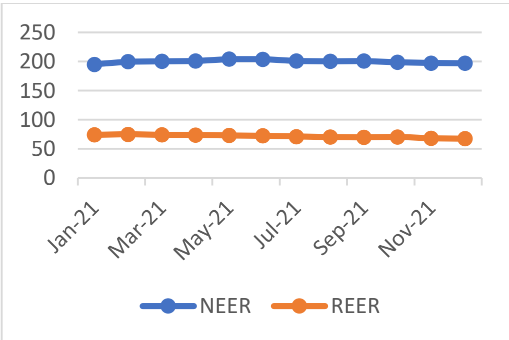
The Nominal Effective Exchange Rate (NEER) appreciated by 0.77 per cent to an average of 199.41 points in the second half of 2021 from an average of 200.92 points recorded in the preceding half of 2021, It however, depreciated by 6.81 per cent compared with the average of 187.24 percent recorded in the second half of 2020. Similarly, the Real Effective Exchange Rate (REER), appreciated by 5.99 per cent to an average of 69.68 in the second half of 2021 from an average of 73.86 in the first half of 2021. It also appreciated by 6.93 per cent from an average of 74.51 in the second half of 2020 (Table 3.17). The modest appreciation of the NEER implies strengthening of the domestic currency in recent times against the currencies of our trading partners, while the appreciation of the REER implies a trend towards improvement in trade competitiveness with Nigeria's trading partners and the narrowing of the inflation differentials (Table 3.17 and figure 3.30).

Table 3.17: Average Nominal and Real Effective Exchange Rates Indices (July 2020 – Dec 2021)

PERIOD	NEER	REER
20-Jul	183.31	75.43
20-Aug	184.74	75.2
20-Sep	185.61	74.53
20-Oct	185.68	73.49
20-Nov	188.21	73.2
20-Dec	195.86	75.23
2020: H2 Average	**187.24**	**74.51**
21-Jan	195.41	74.13
21-Feb	200.06	75.05
21-Mar	200.49	74.29
21-Apr	201.12	74.05
21-May	204.31	73.12
21-Jun	204.13	72.52
2021: H1 Average	**200.92**	**73.86**
21-Jul	201.09	71.08
21-Aug	200.55	70.4
21-Sep	201.03	69.93
21-Oct	198.88	70.69
21-Nov	197.59	68.29
21-Dec	197.32	67.69
2021: H2 Average	**199.41**	**69.68**

Source: Statistics Department

Figure: 3.30: Nominal and Real Effective Exchange Rates Indices (Jan 2021 – Dec 2021)



Source: Statistics Department

3.4.2.4 Foreign Exchange Flows through the CBN

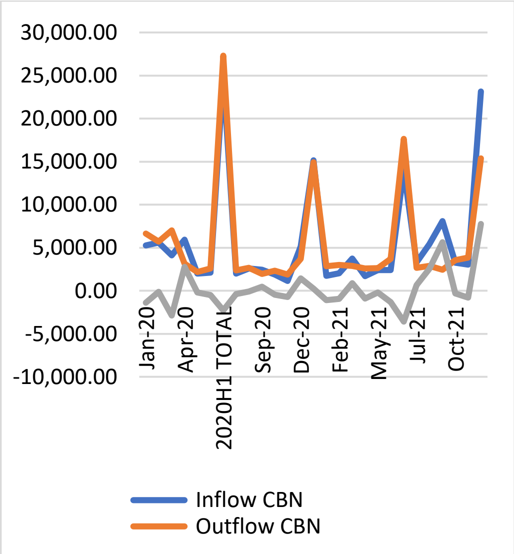
Foreign exchange inflow through the CBN stood at a total of US$26,007.93 million at the end of the second half of 2021. The inflow increased significantly by 71.67 per cent compared with US$15,149.77 million recorded in the second half of 2020. Compared with the US$14,060.38 million recorded in the first half of 2021, it also increased by US$11,947.55 million. Outflows through the CBN also increased by 30.15 per cent to $19,414.50 million in second half of 2021 from $14,917.55 million in the second half of 2020. It increased further by 10.02 per cent compared with the $17,646.13 million recorded during the first half of 2021. The development indicated a net inflow of US$14,659.25 million in the current period compared with a lower net inflow of US$232.22 million in the corresponding period of 2020 and net outflow of $-2,285.24 million in the first half of 2020. The increase in FOREX inflows through the CBN in the review period is primarily linked to the relative stability at the I&E window.

Table 3.18: Monthly Foreign Exchange Flows through the CBN (Jan 2020 – Dec 2021)

Period	Inflow CBN	Outflow CBN	Netflow CBN
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	2,006.29	2,187.25	-180.96
Jun-20	2,105.41	2,600.48	-495.06
2020H1 TOTAL	**25,039.55**	**27,324.79**	**-2,285.24**
Jul-20	1,977.68	2,371.01	-393.33
Aug-20	2,576.38	2,671.52	-95.14
Sep-20	2,423.87	1,956.65	467.22
Oct-20	1,885.82	2,346.49	-460.67
Nov-20	1,148.11	1,874.29	-726.17
Dec-20	5,137.91	3,697.60	1,440.31
2020H2 TOTAL	**15,149.77**	**14,917.55**	**232.22**
Jan-21	1,739.28	2,832.54	-1,093.26
Feb-21	2,049.31	3,006.55	-957.24
Mar-21	3,758.90	2,882.18	876.72
Apr-21	1,686.73	2,586.14	-899.41
May-21	2,418.38	2,614.58	-196.19
Jun-21	2,407.78	3,724.15	-1,316.37
2021H1 TOTAL	**14,060.38**	**17,646.13**	**-3,585.74**
Jul-21	3,314.48	2,655.78	658.70
Aug-21	5,427.65	2,888.68	2,538.97
Sep-21	8,089.20	2,436.94	5,652.26
Oct-21	3,247.73	3,547.67	-299.93
Nov-21	3,048.99	3,852.52	-803.53
Dec-21	2,879.88	4,032.91	6,912.79
2021H2 TOTAL	**26,007.93**	**19,414.50**	**14,659.25**

Source: Statistics Department

Figure 3.31: Monthly Foreign Exchange Flows through the CBN (Jan 2020 – Dec 2021)



Source: Statistics Department

3.4.2.5 Foreign Exchange Flow through the Economy

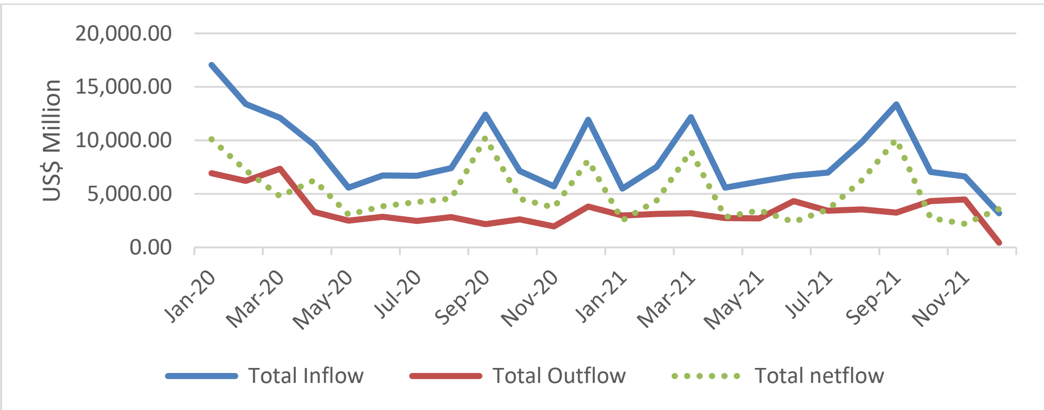
Gross foreign exchange inflow to the economy dropped sharply by 8.19 per cent to US$47,048.34 million in the second half of 2021 from US$51,243.94 million in the corresponding second half of 2020. It however, increased by 8.01 per cent compared with US$43,559.02 million in the first half of 2021. On the other hand, total outflow stood at US$19,404.28 million, compared with US$15,828.80 recorded in the corresponding period of 2020, rose by 22.59 percent. Similarly, it slightly increased by 1.90 percent from US$19,041.59 million when compared with the first half of 2021. The moderate rise in the gross foreign exchange flows in the economy in the review period signposts the restoration of investor confidence as constrained macroeconomic condition began to ease.

Table 3.19: Monthly Foreign Exchange Flows through the Economy (Jan 2020 – Dec 2021) (US$ Million)

Foreign Exchange Flows Through the Nigerian Economy (US$' Million)									
Period	Inflow CBN	Outflow CBN	Netflow CBN	Total Inflow	Total Outflow	Total netflow	Inflow Autonomous	Outflow Autonomous	netflow Autonomous
Jan-20	5,271.65	6,652.58	-1,380.93	17,035.14	6,920.80	10,114.34	11,763.49	268.22	11,495.27
Feb-20	5,594.29	5,722.81	-128.52	13,395.60	6,196.06	7,199.53	7,801.30	473.25	7,328.05
Mar-20	4,121.73	6,997.01	-2,875.28	12,096.05	7,333.72	4,762.33	7,974.32	336.71	7,637.61
Apr-20	5,940.18	3,164.66	2,775.52	9,550.81	3,290.00	6,260.81	3,610.63	125.34	3,485.30
May-20	2,006.29	2,187.25	-180.96	5,564.05	2,503.34	3,060.72	3,557.77	316.09	3,241.68
Jun-20	2,105.41	2,600.48	-495.06	6,707.86	2,861.21	3,846.65	4,602.44	260.73	4,341.72
2020H1 TOTAL	**25,039.55**	**27,324.79**	**-2,285.24**	**64,349.51**	**29,105.12**	**35,244.39**	**39,309.96**	**1,780.33**	**37,529.63**
Jul-20	1,977.68	2,371.01	-393.33	6,684.89	2,461.50	4,223.39	4,707.21	90.49	4,616.72
Aug-20	2,576.38	2,671.52	-95.14	7,395.38	2,831.65	4,563.74	4,819.01	160.13	4,658.88
Sep-20	2,423.87	1,956.65	467.22	12,393.08	2,158.20	10,234.88	9,969.21	201.55	9,767.65
Oct-20	1,885.82	2,346.49	-460.67	7,132.53	2,602.91	4,529.63	5,246.72	256.42	4,990.30
Nov-20	1,148.11	1,874.29	-726.17	5,697.34	1,963.09	3,734.25	4,549.23	88.80	4,460.42
Dec-20	5,137.91	3,697.60	1,440.31	11,940.72	3,811.45	8,129.26	6,802.81	113.86	6,688.95
2020H2 TOTAL	**15,149.77**	**14,917.55**	**232.22**	**51,243.94**	**15,828.80**	**35,415.14**	**36,094.17**	**911.25**	**35,182.92**
Jan-21	1,739.28	2,832.54	-1,093.26	5,477.94	2,970.63	2,507.31	3,738.67	138.09	3,600.57
Feb-21	2,049.31	3,006.55	-957.24	7,518.68	3,134.56	4,384.13	5,469.37	128.01	5,341.36
Mar-21	3,758.90	2,882.18	876.72	12,161.33	3,175.42	8,985.91	8,402.43	293.24	8,109.18
Apr-21	1,686.73	2,586.14	-899.41	5,569.94	2,744.48	2,825.46	3,883.21	158.34	3,724.87
May-21	2,418.38	2,614.58	-196.19	6,140.01	2,701.34	3,438.67	3,721.62	86.76	3,634.86
Jun-21	2,407.78	3,724.15	-1,316.37	6,691.12	4,315.16	2,375.96	4,283.34	591.01	3,692.33
2021H1 TOTAL	**14,060.38**	**17,646.13**	**-3,585.74**	**43,559.02**	**19,041.59**	**24,517.43**	**29,498.63**	**1,395.46**	**28,103.17**
Jul-21	3,314.48	2,655.78	658.70	6,977.90	3,428.63	3,549.26	3,663.42	772.86	2,890.56
Aug-21	5,427.65	2,888.68	2,538.97	9,849.59	3,540.76	6,308.82	4,421.94	652.08	3,769.86
Sep-21	8,089.20	2,436.94	5,652.26	13,355.89	3,255.21	10,100.69	5,266.70	818.26	4,448.43
Oct-21	3,247.73	3,547.67	-299.93	7,053.92	4,307.99	2,745.93	3,806.18	760.32	3,045.86
Nov-21	3,048.99	3,852.52	-803.53	6,633.89	4,454.75	2,179.14	3,584.90	602.23	2,982.67
Dec-21	2,879.88	4,032.91	6,912.79	3,177.15	416.94	3,594.09	3,318.70	-297.27	3,615.97
2021H2 TOTAL	**26,007.93**	**19,414.50**	**14,659.25**	**47,048.34**	**19,404.28**	**28,477.93**	**24,061.85**	**3,308.49**	**20,753.36**

Source: Statistics Department

Figure 3.32: Monthly Foreign Exchange Flows through the Economy (Jan 2020 – Dec 2021) (US$ Million)



Source: Statistics Department

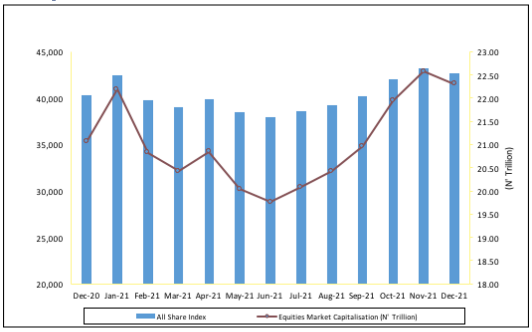
3.4.3 Capital Market

The performance of the Nigerian capital market in the second half of 2021 was bullish, primarily due to improved activities in the equities segment of the market, reflecting improved investor confidence as corporate earnings improved. The attraction to foreign investors was further facilitated by improved foreign exchange liquidity following the CBN's interventions in the FOREX market. Real yields, however, declined significantly in the bonds market, as inflation inched up.

3.4.3.1 Equities Market

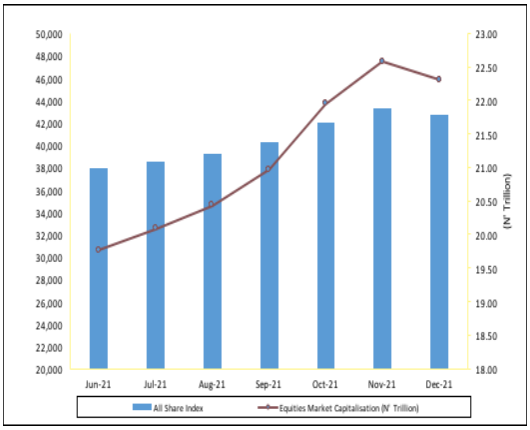
The All-Share Index (ASI) increased by 12.69 per cent to 42,716.44 at end-December 2021 from 37,907.28 at end-June 2021. Market capitalisation (MC) also increased by 12.85 per cent to ₦22.30 trillion at end-December 2021 from ₦19.76 trillion at end-June 2021. Compared with the corresponding period of 2020, it increased by 5.89 per cent from ₦21.06 trillion at end-December 2020.

Figure 3.33: NSE All Share Index (ASI) and Market Capitalization (MC) (December 2020 - December 2021)



Source: Nigerian Exchange Group (NGX)

Figure 3.34: NSE ASI and MC (June 2021 – December 2021)



Source: Nigerian Exchange Group

3.4.3.1.2 Market Turnover

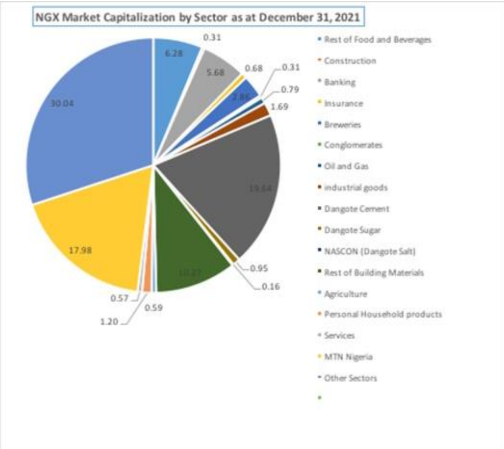
Aggregate stock market turnover in the second half of 2021 stood at 42.70 billion shares, valued at ₦428.74 billion in 500,858 deals. This represents an 11.72 per cent decrease compared with 48.37 billion shares, valued at ₦483.57 billion in 553,828 deals in the first half of 2021. Aggregate stock market turnover also decreased by 22.36 per cent compared with 55.00 billion shares, valued at ₦534.07 billion in 586,534 deals as at end December 2020.

3.4.3.1.3 Sectoral Contribution to Equity Market Capitalisation

In the review period, market capitalisation was dominated by 'Other Sectors', which comprises just a few participants trading on the Nigerian Stock Exchange. The sector's contribution increased to 30.04 per cent at end-December 2021 from 26.47 per cent of market capitalisation at end-June 2021. The dominance of 'Other

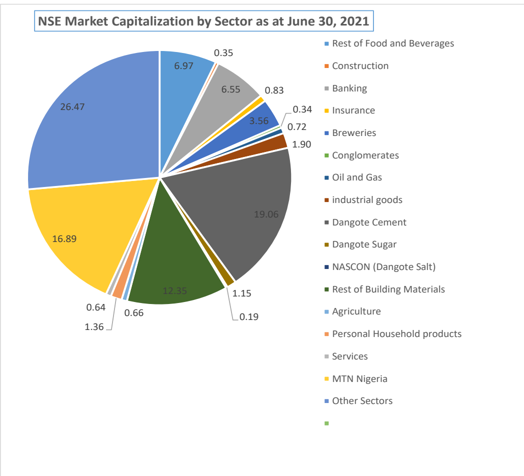
Sectors' was largely due to the introduction of telecommunication companies on the Exchange which were categorised in this sector. Some other sectors that contributed significantly to overall market capitalisation were Food & Beverages and Banking, with market shares of 6.28 and 5.68 per cent respectively, as at end-December 2021.

Figure 3.35: NSE Market Capitalisation by Sector as at End-December 2021



Source: Nigerian Exchange Group

Figure 3.36: NSE Market Capitalization by Sector as at End-June 2021

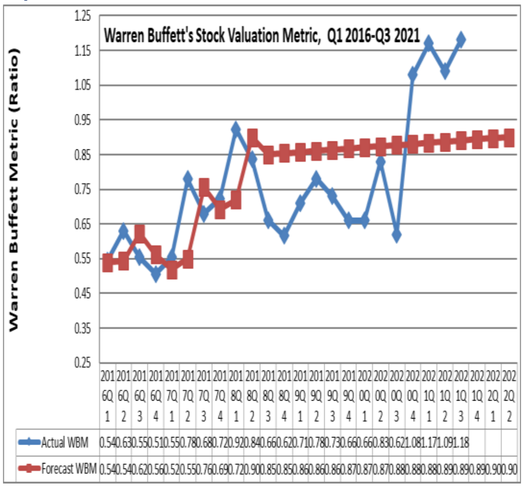


Source: Nigerian Exchange Group

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

In the second half of 2021, the Warren Buffet valuation metric indicated that Nigeria's equities market was overvalued. The valuation metric was 1.18 in the third quarter of 2021 indicating that current stock prices do not fairly reflect the intrinsic values of the stocks. In other words, Nigerian stocks traded higher than their real or intrinsic values. This is contrary to the forecast valuation metric for the second quarter of 2022 of 0.90, which predicted undervaluation of the Nigerian stock market. The rise in stock prices was attributed to investor buying behaviour rather than by genuine improvements in market fundamentals.

Figure 3.37: Warren Buffett Valuation of Nigerian Equities Market



< 50% = significantly undervalued; < 75% = moderately undervalued; < 90% = fairly undervalued; < 115% = modestly overvalued; > 115% = significantly overvalued.

Source: NGX, NBS

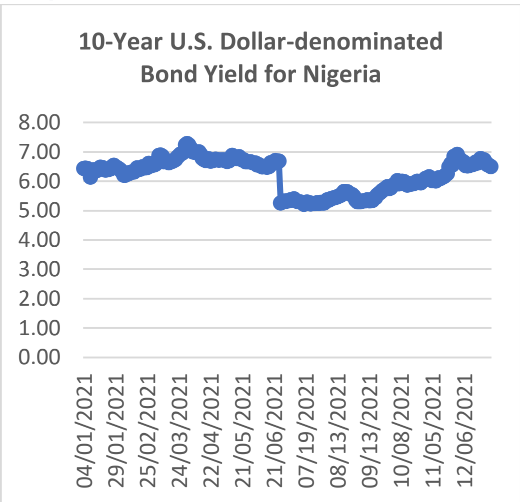
3.4.3.2 Bond Market

The Federal Government of Nigeria (FGN) securities largely dominated the activities in the bond market, accounting for 44.75 per cent of the market in the second half of 2021. Corporate and State/Local Government bonds followed, with the latter recording the least share by market volume.

3.4.3.2.1 FGN Bonds

The 10-year dollar-denominated bond yield for Nigeria increased by 119 basis points to 6.50 per cent at end-December 2021, from 5.31 per cent at end-June 2021. Compared with -0.2 per cent at end-December 2020, the yield rose by 670 basis points (Figure 3.38).

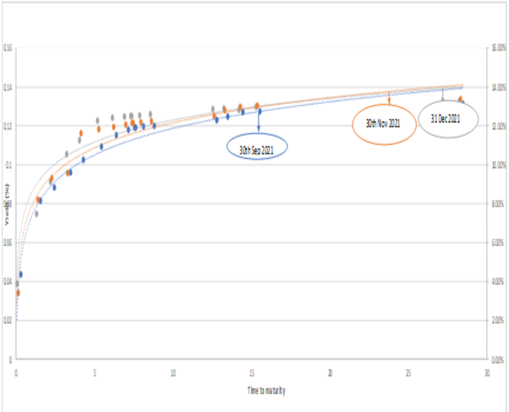
Figure 3.38: 10-Year U.S. Dollar-denominated Bond Yield for Nigeria (December 2020 – December 2021)



Source: Bloomberg

In the review period, the yield curve increased at both the short and long ends, signposting a normal shaped curve. The shape of the yield curve reflects a higher rate of interest for the longer-term bonds compared with short-term bonds, indicating a broad level of investor confidence in the recovery of macroeconomic fundamentals. In other words, the upward sloping yield curve indicates a positive outlook for the Nigerian economy.

Figure 3.39: FGN Bond Yield Curves: September 30th, 2021 VS. November 30th, 2021 and December 31st, 2021



Source: FMDQ

3.4.3.2.2 State/Local Government Bonds

The sub-national bonds market maintained a steady performance during the review period. The total value of outstanding state/local governments bonds at end December 2021 was ₦207.55 billion, unchanged from its position at end-June 2021. It was however lower, compared with ₦270.80 billion recorded at end-December 2020. The reduced borrowing by states/local governments may signpost slowing economic activities amongst these sub-nationals following the broad slowdown in the global economy.

3.4.3.2.3 Corporate Bonds

Activities in the corporate bonds segment improved during the review period. The value of outstanding corporate bonds as at end-December 2021 increased by 0.17 per cent to 718.30 at end-December 2021 from ₦717.08 billion in the first half of 2021. This development may be associated with increased attractiveness of fixed income securities as the rise in inflation depresses bond prices to adjust for higher yields.

3.4.3.3 Overall Analysis of the Nigerian Capital Market

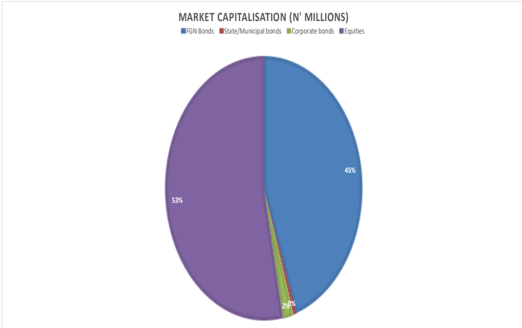
The value of FGN bonds increased by 14.28 per cent to ₦18.81₦ trillion at end-December 2021 from ₦16.46 trillion at end-June 2021 and higher than ₦13.78 trillion recorded at end-Dec 2020. FGN bonds accounted for 44.75 per cent of aggregate market capitalisation at end-December 2021.

The value of state/municipal bonds and corporate bonds were ₦207.55 billion and ₦718.30 billion, accounting for 0.49 and 1.71 per cent of aggregate market capitalisation, respectively.

The value of Supranational bonds was not reported in the review period.

The equities market contributed 53.03 per cent of aggregate market capitalisation at end-December 2021, while the bond market comprising FGN bonds, state/municipal bonds, corporate bonds and supranational bonds accounted for the balance of 46.97 per cent (Figure 3.40).

Figure 3.40: Structure of the Nigerian Capital Market (December, 2021)



Source: Nigerian Exchange Group

CHAPTER FOUR
ECONOMIC OUTLOOK AND RISKS

4.1 Outlook for Global Output

Global output growth was projected to moderate to 4.4 per cent in 2022, from 3.8 per cent in 2023. The projected growth decline was predicated on the continuing disruptive effects of the persisting COVID 19 pandemic on supply chains, coupled with the tapering of monetary accommodation by major advanced economies' central banks. The scenario is expected to persist in the medium term as output is expected to decline further to 3.8 per cent in 2023. (IMF WEO Update of January 2022).

Output in advanced economies was projected to moderate to 3.9 per cent in 2022, and 2.6 per cent in 2023. The moderation of growth in the group is underpin by prolonged supply disruptions in the US, the euro area and the United Kingdom (UK), earlier withdrawal of monetary accommodation in the US, softer external demand in Canada, and COVID disruptions in the euro area and the UK. Consequently, output growth in the US was revised downwards to 4.0 per cent in 2022, and 2.6 per cent in 2023. In Canada, growth was revised downwards by 0.8 percentage points to 4.1 per cent in 2022, and 2.0 per cent in 2023. There was also a 0.4 percentage-point downgrade of projected output growth in the euro area to 3.9 per cent in 2022, and 2.5 per cent in 2023. Projected output growth in the UK was downgraded by 0.3 percentage point to 4.7 per cent in 2022, and 2.3 per cent in 2023.

In the emerging market and developing economies, output was projected at 4.8 per cent in 2022, and would remain steady at 4.7 per cent in 2023. However, in the Emerging and Developing Asia, projections had been revised downwards by 0.4 percentage points to 5.9 per cent in 2022 and 5.8 per cent in 2023. China's output growth is projected at 4.8 per cent in 2022, and 5.2 per cent in 2023, backed by deteriorating conditions in the housing sector, lower prospects for employment in the construction sector, and mobility restrictions to achieve a strict zero-COVID strategy.

Output was projected to grow at 2.4 per cent in the Latin America and the Caribbean Group in 2022 and 2.6 per cent in 2023. A stronger monetary policy response to curtail inflation is expected to negatively affect domestic demand in Brazil and Mexico. Also, lower output growth in the US is expected to dampen the prospects of stronger external demand in Mexico. Thus, output growth in Brazil is projected at 0.3 per cent in 2022, and 1.6 per cent in 2023. Similarly, output growth in Mexico is projected at 2.8 per cent in 2022, and 2.7 per cent in 2023.

In Emerging and Developing Europe, output growth is estimated at 3.5 per cent in 2022, and 2.9 per cent in 2023. Output in Russia is anticipated to grow at 2.8 per cent in 2022, and 2.1 per cent in 2023. The marginal downgrade from

October 2021 WEO reflects an expected weak harvest and a possible third wave of the COVID pandemic in the country. In Sub-Saharan Africa, output growth was projected at 3.7 per cent in 2022, and 4.0 per cent in 2023. Business sentiment in South Africa remained subdued and is expected to negatively impact investment. Thus, output growth in South Africa is estimated at 1.9 per cent in 2022, and 1.4 per cent in 2023. Output growth in Nigeria is projected to remain steady at 2.7 per cent in 2022 and 2023.

Table 4.1 Global Output and Inflation Outlook

	2017	2018	2019	2020	2021	2022*	2023*
A. World Output							
World Output	3.7	3.6	2.8	-3.1	5.9	4.4	3.8
Advanced Economies	**2.3**	**2.2**	**1.6**	**-4.5**	**5.0**	**3.9**	**2.6**
USA	2.2	2.9	2.2	-3.4	5.6	4.0	2.6
Euro Area	2.4	1.9	1.3	-6.4	5.2	3.9	2.5
Japan	1.7	0.3	0.3	-4.5	1.6	3.3	1.8
UK	1.7	1.3	1.4	-9.4	7.2	4.7	2.3
Canada	3	2	1.9	-5.2	4.7	4.1	2.8
Other Advanced Economies	2.6	2.7	1.8	-1.9	4.7	3.6	2.9
Emerging & Developing Economies	**4.7**	**4.5**	**3.6**	**-2.0**	**6.5**	**4.8**	**4.7**
Latin America and the Caribbean	1.3	1.1	0.2	-6.9	6.8	2.4	2.6
The Middle East and Central Asia Africa	2.2	2.4	0.8	-2.8	4.2	4.3	3.6
Sub-Saharan Africa	2.7	3.2	3.2	-1.7	4.0	3.7	4.0
B. Commodity Prices (US Dollars)							
Oil	23.3	29.4	-10.2	-32.7	67.3	11.9	-7.8
Non-fuel	6.8	1.3	0.8	6.7	26.7	3.1	-1.9
C. Consumer Prices							
Advanced Economies	1.4	2	1.4	0.7	3.1	3.9	2.1
Emerging & Developing Economies	4.3	4.8	5.1	5.1	5.7	5.9	4.7

Source: IMF WEO, January 2022
*Forecast

4.2 Outlook for Global Inflation

Outlook for global inflation remained elevated in the near-to-medium term as commodity prices continue to recover on the back of increased demand associated with the sustained recovery of global output growth.

With the continued easing of COVID-19 restrictions, resumption of airline services, and leisure & entertainment industries, aggregate demand will likely receive boost which may increase the pace of price development in the short to medium term. Inflation is, thus, expected to rise substantially above pre-pandemic levels, thus necessitating a response from central banks in the short term.

The various indicators discussed thus far, point to a highly uncertain outlook for inflation. The baseline projections indicate that inflation is expected to moderate to its pre-pandemic range in 2022, as supply-demand mismatches are resolved. This is motivated by three pieces of evidence: Firstly, labour market slack remains large, even as job postings have increased, with employment rates typically below their pre-shock levels. Secondly, in large, advanced economies, inflation expectations are still well anchored, according to benchmark market-based measures. Finally, structural factors that have lowered the sensitivity of prices to shrinking labour market slack such as increasing automation continue to operate or are even intensifying. However, the lagged pass-through to broader inflation from higher food and oil prices for importers means that price pressures are anticipated to stay elevated into 2022 in some emerging markets and developing economies. In economies where the stock of vacant dwellings is low, the pandemic shock and low borrowing costs have also spurred an increase in house prices.

Table 4.2 Global Inflation Outlook

	2020	2021*	2022*
Global Outlook	3.2	3.1	3.5
Advanced Economies	**0.4**	**2.0**	**1.8**
USA	1.2	4.3	3.5
Euro Area	0.3	2.2	1.7
Japan	0.0	-0.2	0.5
Emerging & Developing Economies	**3.1**	**5.7**	**2.3**
China	**2.4**	**1.1**	**1.8**
Russia	**3.4**	**5.9**	**4.8**
India	**6.2**	**5.6**	**4.9**
Sub-Saharan Africa	10.3	10.7	8.6
Nigeria	**13.2**	**16.9**	**13.3**
Ghana	9.9	9.3	8.8
Angola	22.3	24.4	14.9
LIC	13.1	10.6	8.3
Ethiopia	20.4	25.2	.

Source: IMF WEO, October 2021
*Forecast

4.3 Outlook for Domestic Output Growth

The domestic economy is projected to sustain its growth trajectory in the first half of 2022. This is predicated on the implementation of the 2021 -2025 national development plan, improvement in aggregate demand, recovery in global commodities prices, and positive impact of CBN interventions in growth-enhancing sectors. The downside risk to the growth prospects remained the intractable security challenges; including banditry, farmers and pastoralists clashes, kidnapping and other terrorist activities that constitute disruptions to the production chain, particularly in the northern part of the country. Furthermore, the rising cases of COVID-19 infections across the globe and the emergence of more infectious variants could precipitate restrictive measures which would severely affect income and compress aggregate demand. Other downside risks include foreign exchange pressures; capital flow reversals; a deficit in critical infrastructure; rising public debt; and narrow fiscal space.

Consequently, the International Monetary Fund (IMF) projected Nigeria's output growth for 2022 at 2.7 per cent, while the World Bank estimated the growth at 2.8 percent. Staff projections at the Central Bank of Nigeria (CBN) forecasts real GDP growth at 2.72 per cent in 2022. The projection for real GDP growth was based on assumption of crude oil prices of US$80 per barrel.

Table 4.3: Possible Variations in Nigeria's GDP growth outlook

	PESSIMISTIC				BASELINE	OPTIMISTIC	
	Scenario 1 COP-$60/b	Scenario 2 COP-$65/b	Scenario 3 COP-$70/b	Scenario 4 COP-$75/b	Scenario 5 COP-$80/b	Scenario 6 COP-$85/b	Scenario 7 COP-$90/b
2020Q4	0.11	0.11	0.11	0.11	0.11	0.11	0.11
2021Q1	0.51	0.51	0.51	0.51	0.51	0.51	0.51
2021Q2	5.01	5.01	5.01	5.01	5.01	5.01	5.01
2021Q3	4.03	4.03	4.03	4.03	4.03	4.03	4.03
2021Q4f	2.38	2.50	2.62	2.74	2.86	2.98	3.10
2021f	**2.98**	**3.01**	**3.04**	**3.07**	**3.10**	**3.13**	**3.16**
2022Q1f	1.94	2.22	2.48	2.71	2.94	3.14	3.34
2022f	**1.39**	**1.76**	**2.10**	**2.42**	**2.72**	**2.99**	**3.26**

Source: CBN Staff Estimates

4.4 Outlook for Domestic Inflation

Headline inflation is projected to reverse the upward movement experienced since December 2021. The year-on-year headline inflation is expected to decline to 15.52, 15.15, and 14.73 per cent in January, March, and May 2022, respectively from 15.63 per cent in December 2021. Staff projections indicate that inflation is expected at 14.48 per cent by end-June 2022, above the upper limit of the indicative benchmark of 6–9 per cent. Upside risk to inflation in the near-term remains a combination of monetary and structural factors, including the continuing impact of COVID-19 on the economy, (especially with the new wave of the Omicron variant) which further heightens macroeconomic uncertainty. Others include expectations of fuel subsidy removal, lingering insecurity/banditry in agricultural producing areas of the country thereby causing food shortages, implementation of the 2022 budget, and electioneering expenses in preparation for 2023 elections. Other factors which could potentially induce inflationary pressure include increased fiscal/quasi-fiscal interventions, rising fiscal deficits, exchange rate pressures due to a ban on the sale of forex to BDCs, and capital flow reversals. Some attenuating factors, however, include the broadly loose stance of monetary policy and increased intervention in the agricultural sector to support growth recovery. As the Bank continues to manage liquidity conditions through a mix of conventional and heterodox policies in the domestic economy, inflationary developments will be monitored to ensure that the risks of inflation to growth and financial stability are minimized.

Table 4.4: Inflation Forecast

YEAR-ON-YEAR INFLATION RATE

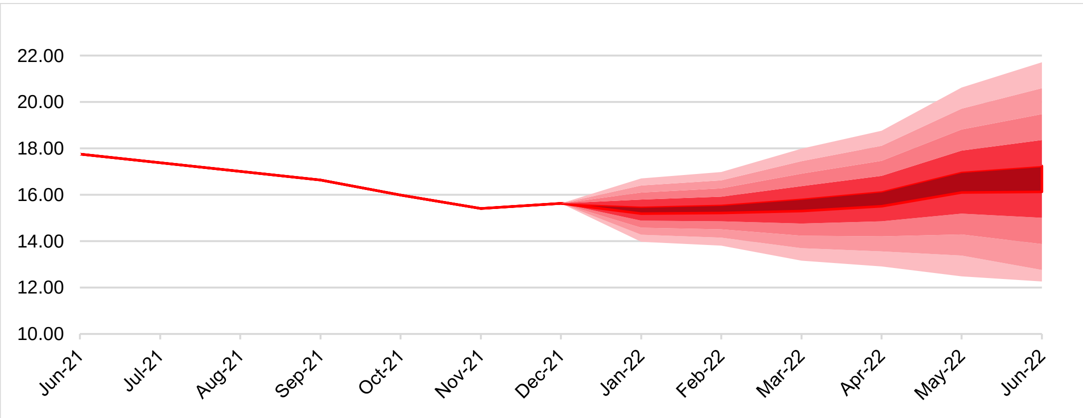
Status	Month	Headline inflation	Food inflation	Core inflation
Actual	Jul-21	17.38	21.03	13.72
	Aug-21	17.01	20.35	13.41
	Sep-21	16.63	19.57	13.74
	Oct-21	15.99	18.34	13.24
	Nov-21	15.40	17.21	13.85
	Dec-21	15.63	17.37	13.87
Forecast	Jan-22	15.52	16.92	13.72
	Feb-22	15.40	16.66	13.42
	Mar-22	15.15	16.39	13.22
	Apr-22	14.98	16.12	12.96
	May-22	14.73	15.92	12.69
	Jun-22	14.48	15.70	12.42

12-MMA INFLATION RATE

Status	Month	Headline inflation	Food inflation	Core inflation
Actual	Jul-21	0.93	0.86	1.31
	Aug-21	1.02	1.06	0.77
	Sep-21	1.15	1.26	1.24
	Oct-21	0.98	0.91	0.80
	Nov-21	1.08	1.07	1.26
	Dec-21	1.82	2.19	1.12
Forecast	Jan-22	1.40	1.44	1.12
	Feb-22	1.43	1.66	0.94
	Mar-22	1.34	1.67	0.89
	Apr-22	0.82	0.76	0.76
	May-22	0.79	0.88	0.99
	Jun-22	0.84	0.93	0.58

Source: NBS, and CBN Staff Estimates

Figure 4.1: Fan Chart of Inflation Forecast



Source: CBN Staff Estimates

4.5 The Outlook for Monetary Policy in The First Half of 2022

The Medium-Term Expenditure Framework (MTEF) of the Federal Government of Nigeria will continue to provide the anchor for the Bank's monetary policy formulation and implementation in the first half of 2022. The objective of monetary policy during the period remains the achievement of price and financial system stability with inclusive growth. In line with the MTEF, the CBN would manage expectations, provide time-consistent policies and react to temporary shocks to strengthen the ongoing recovery and maintain the external and internal balance of the economy.

The Bank will continue to observe global developments as they affect the Nigerian economy. The risks to global output may include uncertainties surrounding the evolution of new variants of the COVID-19 virus, as well as the pace of vaccine uptake; rising consumer prices in advanced economies and consequent monetary policy normalization. The IMF World Economic Outlook (WEO) projects global growth to moderate from 5.9 in 2021 to 4.4 per cent in 2022 (WEO, January 2022). The growth prospects were limited due to the spread of the new Omicron COVID-19 variant, forcing countries to reimpose mobility restrictions; coupled with rising energy prices and supply disruptions that resulted in higher and more broad-based inflation, notably in the United States and many emerging markets and developing economies. There is also the ongoing retrenchment of China's real estate sector; and slower-than-expected recovery of private consumption.

With regards to the domestic economy, monetary policy may face challenges including unabating inflationary pressures; security challenges which continue to pose significant risks to medium-term growth with the potential effect on other key macroeconomic indicators. These include rising level of domestic debt which could dampen investor confidence in the domestic financial markets, uncertainty around fuel subsidy removal with implications on prices, and uncertainty around crude oil prices given the complex interplay of political and economic factors at the global level, with implication for external reserves accretion and exchange rates. Monetary policy formulation and implementation will therefore aim at containing these challenges to achieve price and financial system stability supportive of inclusive growth.

4.6 The Risks to the Outlook

4.6.1 Risks to the Global Output

The evolution of the pandemic remained the principal downside risk to global output growth, given the slow global suppression of the disease. The risk stems from the emergence of more infectious, deadly, and vaccine-resistant variants. All regions thus remained exposed to renewed outbreaks of the pandemic. This uncertainty coupled with

unequal vaccine access and high vaccine hesitancy had hampered the ability of some countries to fully reopen and further increased the divergence in economic prospects across regions.
According to the IMF (Oct 2021 WEO), nearly 60 per cent of the population in advanced economies were fully vaccinated while 96 per cent of the population in low-income countries remained unvaccinated. Moreover, the resurgence of the pandemic through the highly transmissible Delta variant had also increased socio-economic risks and vulnerabilities in many countries, further heightening the downside risks to growth. Although the economic impact of the Delta variant has been relatively mild in countries with high vaccination rates, particularly most advanced economies, growth prospects have been significantly lowered in other regions, particularly low-income countries and some emerging market economies.

In terms of production, the effect of the renewed pandemic outbreaks on the global supply chain have fuelled supply-demand mismatches and accentuated inflationary pressures in many advanced economies. This had been compounded by labour shortages in some service sectors, higher energy prices, as well as higher shipping and commodity prices. Other downside risks to global output growth include: tightening financial conditions amplified by elevated debt levels, rising food prices as well as rising conflict and social unrest. In addition, the growing adverse social and economic effects of climate change, particularly the rise in global temperatures and other natural disasters have constituted further constraints on growth in the near to medium term.

4.6.2 Risks to Domestic Output

According to the IMF January 2022 WEO Update, the Nigerian economy is forecast to grow by 2.7 per cent in 2022 and 2023, following an improvement of 3.0 per cent in 2021. The projection is anchored on improved performance of both oil and non-oil sectors. The oil sector is expected to improve due to anticipation of growing global demand, and increased oil production quota as the economies continue to remain open and production activities continue to rise in the advanced economies. The non-oil sector is expected to sustain its recovery due to the sustained interventions by both fiscal and monetary authorities to stimulate the economy. However, the risk to the outlook remains rising inflationary pressure in advanced economies, re-emergence of a new and more deadly strain of COVID-19, and legacy structural and security challenges which continued to hinder the full recovery of the output growth.

4.6.3 Risks to Domestic Inflation Outlook

The headline inflation has remained above the upper band of the Central Bank of Nigeria's inflation benchmark range of 6.0-9.0 per cent despite the gradual rise in economic activities, following CBN and Federal Government incentives in the real sector. However, inflation is expected to moderate in the medium-term during 2022 owing to the increased output of some agricultural products and the effective implementation and monitoring of various CBN intervention schemes in the real sector. The depreciation of the naira, insecurity in major food-producing areas, large fiscal deficits and debt overhang, upward pressure on the price of diesel, and high cost of electricity could, however, dampen the rate of moderation in prices in the medium term.

Supply chain disruptions in farming communities owing to banditry and kidnapping; lingering supply chain interruptions as a result of insecurity along major logistic channels and poor road networks connecting farming communities to major towns and cities; the general increase in insecurity in both urban and rural areas; and seasonal shocks could also impact on prices. The anticipation of a further increase in the pump prices of premium motor spirit (PMS), as well as the exchange rate pass-through effect could also exert pressure on the overall price level.

APPENDICES

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 137 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 26th AND TUESDAY 27th JULY, 2021

1.0 Background

The Monetary Policy Committee (MPC) met on the 26th and 27th July, 2021 faced with cautious optimism for the recovery of both the global and domestic economies. The performance of the global economy in the first two quarters of the year had been favourable and is expected to continue for the rest of the year. There is, however, renewed downside risk to this optimism associated with the fast spread of new and deadlier strains of the COVID-19 virus. The high rate of vaccination across the globe seems promising to drive herd immunity to reduce mortality rates. In the domestic economy, the continued support by both the monetary and fiscal authorities, is expected to yield favourable outcomes and hopefully return the economy to a strong recovery path in the next few quarters. The Committee reviewed the developments in the global and domestic economic and financial environments over the second quarter of 2021 and the outlook for the rest of the year.

Nine (9) members of the Committee were in attendance at this meeting.

Global Economic Developments

The Committee noted that while there has been reasonable gains in subduing the Pandemic, lowering of restrictions and reopening of several economies, the fast pace of mutation of new and deadlier strains of the virus is posing a downside risk to the full recovery of the global economy. In addition, the uneven access of vaccines across several countries is a significant risk to the attainment of global herd immunity. Despite the above challenges, governments all over the world have continued to ease restrictions to enable the recovery of supply chain networks and enhance aggregate demand. The expected rebound in global output growth is dependent, therefore, on the efficient deployment of COVID-19 vaccines with the expectations that the evolving deadlier strains would be subdued. Even with the current outlook, the International Monetary Fund (IMF) projects global growth at 6.0 per cent in 2021, compared with the last projection of 5.5 per cent. In line with this, the Advanced Economies are projected to grow at 5.1 per cent while the Emerging Markets and Developing Economies are projected to grow at 6.7 per cent.

Price development across several economies is expected to remain moderate in the short to medium term with some prospects of a mild uptick. The Committee further noted the rise in inflation above the long run objectives of some key Advanced Economies, although reported as transient and therefore not expected to lead to an adjustment of the stance of monetary policy. There however, remains the lingering risk of an early return to monetary policy normalization, should price development continue to trend upwards. Across several Emerging Market and Developing Economies, inflationary trend was on average mixed, with some of the economies recording higher rates, compared with their peers. This was largely due to exchange rate pressures, capital flow reversals, high energy costs, weak supply chains and poor response to policy stimulus to combat the macroeconomic slowdown associated with the Pandemic.

In the global financial markets, the Committee noted the increased demand for equity securities, an indication of improved investor confidence in the global recovery. In addition, it observed the progressive weakening of long-term sovereign bond yields, as the demand for equities pick up. The MPC further noted the moderation in the price of gold, signaling reduced demand, as investors return to the financial markets. The unprecedented stimulus provided by monetary and fiscal authorities to ease the impact of the Pandemic has, however, heightened the risks of global financial crisis post-Pandemic and calls for central banks across the globe to remain vigilant, should the need for sudden policy adjustments arise.

Domestic Economic Developments

Real Gross Domestic Product (GDP) grew by 0.51 per cent in the first quarter of 2021, compared with 0.11 per cent in the preceding quarter. In the non-oil sector, Agriculture and Industry sub-sectors, were the major drivers of growth, with growth rates of 2.28 and 0.94 per cent, respectively. The oil sector, year-on year, contracted by -2.21 per cent in first quarter of 2021, compared with -19.76 per cent in the previous quarter. The weak performance in the oil sector was attributed to several factors, including the declining quality of oil infrastructure, lack of new investment in the sector and the need to comply with the OPEC+ production quota.

The Committee noted that the Manufacturing Purchasing Managers' Index (PMI), improved to 46.6 index points in July 2021, compared with 45.5 index points in June 2021. Though it remained below the 50-index point mark, the improvement is an indication of gradual recovery of output growth in the economy. The Non-Manufacturing Purchasing Managers' Index (PMI) also increased to 44.8 index points in July 2021, compared with 43.0 index points in June 2021.

The employment level index for July 2021 stood at 46.5 index points, relative to the preceding month's figure of 45.0, but, remained below the 50.0-index point threshold. The Committee welcomed the sustained monetary and fiscal stimulus to revamp the domestic economy and hoped that the distribution of vaccines to subdue the Pandemic will continue unabated.

The Committee noted the continued moderation in headline inflation (year-onyear) to 17.75 per cent in June 2021 from 17.93 per cent in May 2021, the third consecutive month of decline. The decrease was attributed to a marginal decline in both the food and core components to 21.72 and 13.09 per cent in June 2021 from 22.28 and 13.15 per cent in May 2021, respectively. The MPC noted that, though, headline inflation remained well above the ceiling of the Central Bank's 6-9 per cent corridor, it expressed optimism that the current interventions by the Bank in various sectors of the economy will further depress inflationary pressure as output growth improves and the negative output gap closes.

On the performance of monetary aggregates, the Committee noted that broad money supply (M3) declined to 2.02 per cent in June 2021, compared with 2.99 per cent in May 2021. This development was largely driven by a slowdown in the growth rate of Net Domestic Assets (NDA) and Net Foreign Assets (NFA). Net Foreign Assets contracted by 3.65 per cent due to the contraction of foreign asset holdings of the central bank, as well as non-interest, primary mortgage, and microfinance banks. The marginal decline in Net Domestic Assets reflected the slowdown in aggregate credit net, which decreased to 4.30 per cent in June 2021, from 4.79 per cent in May 2021.

Accordingly, aggregate credit at end-May 2021 stood at N24.23 trillion, compared with N22.68 trillion at end-December 2020. This represents a year-todate increase of N1.55 trillion.

Under the Bank's development finance initiatives, the Bank granted ₦756.51 billion to 3,734,938 small holder farmers cultivating 4.6 million hectares of land, of which N120.24 billion was extended for the 2021 Wet Season to 627,051 farmers for 847,484 hectares of land, under the Anchor Borrowers' Programme (ABP); for the Agribusiness/Small and Medium Enterprise Investment Scheme (AGSMEIS), the sum of ₦121.57 billion was disbursed to 32,617 beneficiaries; and for the Targeted Credit Facility (TCF), ₦318.17 billion was released to 679,422 beneficiaries, comprising 572,189 households and 107,233 Small and Medium Scale Enterprises (SMEs).

Under the National Youth Investment Fund (NYIF), the Bank released ₦3.0 billion to 7,057 beneficiaries, of which 4,411 were individuals and 2,646 SMEs. Under the Creative Industry Financing Initiative (CIFI), ₦3.22 billion was disbursed to 356 beneficiaries across movie production, movie distribution, software development, fashion, and IT verticals.

Under the ₦1.0 trillion Real Sector Facility, the Bank released ₦923.41 billion to 251 real sector projects, of which 87 were in light manufacturing, 40 in agrobased industry, 32 in services and 11 in mining. On the ₦100 billion Healthcare Sector Intervention Facility (HSIF), ₦98.41 billion was disbursed for 103 health care projects, of which, 26 are pharmaceuticals and 77 are in the hospital services. Similarly, the sum of ₦232.54 million was disbursed to 5 beneficiaries under the CBN Healthcare Sector Research and Development Intervention (Grant) Scheme (HSRDIS) for the development of testing kits and devices for Covid-19 and Lassa Fever.

On the National Mass Metering Programme (NMMP), ₦36.04 billion was disbursed to 17 Meter Asset Providers, to nine (9) DisCos, for the procurement and installation of 657,562 electricity meters. On the Nigerian Electricity Market Stabilization Facility - 2 (NEMSF-2), the CBN released ₦120.29 billion to 11 DisCos, to provide liquidity support and stimulate critical infrastructure investment needed to improve service delivery and collection efficiency.

On money market development, the net liquidity position and interest rates in the economy reflected the impact of the Bank's liquidity management operations. Accordingly, the monthly weighted average Inter-bank Call and Open Buy Back (OBB) rates rose to 16.87 and 16.39 per cent in June 2021 from 15.95 and 16.18 per cent in May 2021, respectively.

The Committee noted the weak performance of the equities market despite the recent increasing patronage by domestic investors. The All-Share Index (ASI) decreased by 1.28 per cent to 37,947.18 on July 16, 2021, from 38,437.88 on May 31, 2021. Similarly, Market Capitalization (MC) decreased by 1.30 per cent to N19.77 trillion on July 16, 2021, from N20.03 trillion on May 31, 2021.

The MPC noted that the Capital Adequacy Ratio (CAR) and the Liquidity Ratio (LR) both remained above their prudential limits at 15.5 and 41.3 per cent, respectively. The Non-Performing Loans ratio (NPLs) at 5.70 per cent in June 2021 showed progressive improvement, compared with 6.4 per cent in June 2020. The Committee, however, urged the Bank to sustain its tight prudential regime to bring Non-Performing Loans (NPLs) below the 5.0 per cent prudential benchmark.

The Committee noted the marginal increase in the external reserves which rose to $33.83 billion on 22nd July 2021 from US$32.78 billion as at 30th June 2021.

Outlook

The overall outlook for both the global and domestic economies, remain clouded with downside risks despite the upbeat forecast for a speedy recovery. These risks include lingering uncertainties surrounding the path to the termination of the Pandemic, as new and deadlier strains of the virus continue to pose a significant threat to the efficacy of the COVID-19 vaccines. In addition, the uneven access to the vaccines across the globe is undermining the realization of the current forecast.

Capital flows to emerging market economies, remain uncertain as the pace of price development in the advanced economies pick up. While the US Federal Reserve Bank and other major central banks have given indications that the current rise in inflation is transitory, and may not require policy adjustment, inflation is confronted with a significant upside risk. This may result in an early return to monetary policy normalization, with adverse consequences for financial system stability.

Available data and forecasts for key macroeconomic variables for the Nigerian economy suggest a broad improvement for the rest of the year. This is hinged on continued progress with the containment of the Pandemic, as well as ongoing monetary and fiscal support. As a result, the Nigerian economy is forecast to grow in 2021 by 3.15 per cent (CBN), 3.0 per cent (FGN) and 2.5 per cent (IMF).

The Committee's Considerations

The Committee noted the gradual recovery in output growth following positive growth in the first quarter and improving PMI in subsequent months, expressing confidence that the second quarter output result will show further improvement.

The MPC carefully accessed the options confronting it in the short to medium term, analysing the downside risks to growth and upside risks to inflation. It commended the continued effort by both the monetary and fiscal authorities as well as public health agencies in stemming the Pandemic and its impact, thus, returning the economy to a path of recovery. While the economy has been gradually reopening, Members noted that the Pandemic was far from over and therefore continued to hinder the recovery. It thus, urged the Presidential Task Force on COVID-19 to intensify efforts towards procurement of more vaccines to ensure that herd immunity is achieved in Nigeria.

The MPC was concerned about the broad level of insecurity across the country, noting its impact on business confidence and overall economic activities. It noted the persisting insecurity in key commodity producing areas and urged the Federal Government to intensify security surveillance in farming communities to ensure uninterrupted farming activities. Committee members expressed optimism about the likely moderating impact of the forthcoming harvests on food prices, as this would contribute to the ongoing broad reduction in headline inflation. The CBN will continue to release maize from its strategic maize reserve directly to feed-millers as part of its strategic response to address rising food prices and moderate the price of maize across the country.

Members further noted the contribution of poor infrastructure to rising domestic price levels, re-iterating their call to the Federal Government to prioritize investment in public infrastructure such as improved transportation networks, power supply and telecommunication facilities. Funding for such projects, the

Committee noted, could be sourced through Public-Private-Partnerships, as well as the issuance of diaspora bonds. It emphasized the complementary role these bonds would play to boost foreign exchange supply, improving accretion to reserves and easing the exchange rate pressure.

Notwithstanding, the moderate decline in market indices, the Committee noted that the equities market remained in a good place, indicating sustained investor confidence in the Nigerian economy.

The MPC applauded the continued resilience of the banking system in the face of severe shocks to both the domestic and global economies. Members noted Management's effort in maintaining a reasonably low level of non-performing loans ratio, even though aggregate credit moderated slightly. The Committee encourages Nigerian banks to extend more credit to consumers and firms to enhance consumption and production activities necessary to strengthen the recovery.

Committee members noted the persistent reduction in remittance of oil revenue to the Consolidated Revenue Fund, stemming largely from rising levels of cost under-recovery and other obligations, particularly to Joint Venture Contracts. The Committee thus, urged the Government to continue to explore additional sources of non-oil revenue, as this would reduce the over dependence on a single revenue source.

Members applauded the efforts by the Federal Government to encourage the use of gas in motor vehicles and the payment for conversion of 1 million Premium Motor Spirit (PMS)-driven vehicles to gas-driven, to reduce overall cost of PMS consumption. The Committee encouraged the participation of private sector initiatives to develop and expand modular refineries while it frowns at cross-border smuggling of PMS.

The Committee also noted the increased contribution of the non-oil sector to Government revenue in recent times which reflected the gradual diversification of the economy and reduce reliance on crude oil export proceeds and called for increased support for the non-oil sector in the country.

Overall, Members were confident that the Bank was taking the right steps toward the restoration of macroeconomic stability, while noting the downside risks to growth and the upside risks to price developments.

The Committee's Decision

At this meeting, the MPC was delighted that inflation had begun to trend downwards, while output growth had remained positive. Committee, however, was of the opinion that there was a need to continue to put in place policy measures that will further and faster drive down inflation, while at the same time accelerate output growth to levels above population growth rate.

Whereas, the arsenal at its disposal had almost become fully exhausted, MPC believe that there is the need to continue to use those tools that had been adopted so far, even in a more aggressive manner. MPC, therefore, encourage the Bank to continue using its existing administrative methods to rein-in inflation by the use of its discretionary CRR policy to mop-up liquidity from the banking system as the need arises.

The Committee also encouraged the Bank to continue the use of its intervention mechanism to deploy funds to output-stimulating and employment-generating sectors of the economy, such as, the Targeted Credit Facility, AGSMEIS, Agriculture and Manufacturing.

In the Committee's view, the current situation, neither gives room for tightening, as this will hurt output growth, nor, loosening, as this will exacerbate inflationary pressures.

On tightening, MPC feels that whereas this will limit excess liquidity available to attack the foreign exchange market, it nevertheless feels that tightening will reduce money supply and thus, inhibits the ability of Deposit Money Banks (DMBs) to create credit that is needed to stimulate manufacturing output which could also help to moderate prices.

On loosening, whereas MPC feels this should transmit into lower market interest rates which could improve the ability of obligors to repay their loans and reduce NPLs, it nevertheless feels loosening would not only exacerbate inflationary pressure, but this would increase negative real rate of return and discourage investments in the domestic economy.

Based on the above considerations, the MPC made the decision to hold all policy parameters constant; believing that a hold stance will enable the continued permeation of current policy measures in supporting the recorded growth recovery and macro-economic stability.

The Committee thus decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 11.5 per cent.
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
27th July 2021

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 138 OF THE 281ST MONETARY POLICY COMMITTEE MEETING HELD ON THURSDAY, 16th AND FRIDAY, 17th SEPTEMBER 2021

1.0 Background

The Monetary Policy Committee (MPC) met on the 16th and 17th September, 2021, on a relatively comforting note of a moderate global output growth recovery and improved global trade. The performance of the global economy in the first two quarters of the year and into the third quarter, remained favourable with positive outlook for the rest of the year. However, cautious optimism persists, driven primarily by mutating and more fatal strains of the COVID-19 virus and disparities in the progress of vaccinations across several countries. In the domestic economy, output growth performance continued to improve, signposting the positive impact of the unwavering fiscal and monetary support by both the fiscal and monetary authorities to revive and sustain economic growth, post pandemic. The Committee reviewed the developments in the global and domestic economic environments in the third quarter of 2021, as well as the outlook for the rest of the year.

Ten (10) members of the Committee attended this meeting.

Global Economic Developments

The Committee noted the continuing rebound in the global recovery as several advanced and emerging market economies posted promising second quarter output growth figures, despite the uneven progress in vaccination coverage. The MPC noted that the uncontained spread of the COVID-19 virus continues to pose downside risks to global recovery in 2021 and into 2022. The MPC further noted that despite the strong output growth identified in some Advanced Economies, several developing economies were still lagging in vaccination progress. Members, emphasized that the widespread availability of vaccines, remained vital to surmounting the Pandemic and attaining full and all-inclusive recovery of the global economy. Despite the challenges posed by the ongoing mutation of the coronavirus, governments across the globe remain focused on easing business restrictions and resuscitating economic activities. Consequently, the International Monetary Fund (IMF), maintained its aggregate projection for global growth in 2021 at 6.0 per cent, but increased its projection for the Advanced Economies to 5.6 per cent from a previous 5.1 per cent, while that for the Emerging Markets and Developing Economies (EMDEs) was downgraded to 6.3 per cent from 6.7 per cent.

Price development across several Advanced Economies has remained on a sustained uptrend and exceeding their long run objectives. This is expected to continue in the short to medium term as against earlier forecasts that the upward shift was transient.

Consequently, several central banks of advanced economies are currently considering early commencement of monetary policy normalization, even though policy rate adjustments are not expected in the medium term. Across several Emerging Market and Developing Economies, inflationary pressures remained mixed, as some economies had much higher rates than their peers, due to lingering exchange rate pressures, capital flow reversals, high energy costs, supply chain disruptions and poor response to policy stimulus resulting from structural bottlenecks.

In the global financial markets, the Committee noted that while demand for equities remained strong, an indication of renewed market confidence, gold price still maintained its post-Pandemic high, reflecting the hedging by investors against a possible rebound of the Pandemic. Long-term sovereign bond yields are expected to improve with the commencement of monetary policy normalization by central banks of advanced economy. Committee members, however, expressed cautious optimism for a gradual normalization of monetary policy by these central banks, as a sharp retreat of policy stimulus may plunge the global economy into a financial crisis again. This may also increase the uncertainty around the full recovery of several Emerging Market and Developing Economies. The MPC, therefore, called on the Bank to put in place measures to moderate the likely impact of the normalization of monetary policy on the domestic economy.

Domestic Economic Developments

In the second quarter of 2021, there was a significant improvement in the real Gross Domestic Product (GDP), which grew by 5.01 per cent compared with 0.51 and -6.10 per cent in the previous quarter and corresponding quarter of 2020, respectively. This recovery was attributed to the non-oil sector, driven by a rebound in services sector and continued growth in agriculture sector. The oil sector contracted further by -12.65 per cent (year-on year) in the second quarter of 2021, compared with -2.21 per cent in the previous quarter. This deeper contraction, was attributed to several factors: including declining crude oil production at two crude streams in the country, associated with leakages in two major pipelines; deteriorating oil production infrastructure; poor pipeline maintenance; and the need to comply with OPEC+ production ceiling.

The Committee noted the moderate improvement in both the Manufacturing and Non-Manufacturing Purchasing Manager's Indices (PMIs), though still below the 50-index point benchmark, showed a marked improvement over time. In August 2021, the Manufacturing and non-Manufacturing PMIs improved to 46.9 index points apiece, compared with 46.6 and 44.8 index points, respectively, in July 2021. This was attributed to an increase in new orders, driven largely by rising demand, uptrend in business activity and further normalization of economic activities. Similarly, the employment level index component of the Manufacturing and non-Manufacturing PMIs in August 2021 improved to 49.4 and 48.8 index points, respectively, compared with 46.5 and 47.0 index points in July 2021. The Committee expressed optimism that with the current level of monetary and fiscal stimuli, as well as efforts to increase vaccination and contain the Pandemic, the economy will continue to improve in the short-to medium term.

The Committee reviewed the performance of the Bank's interventions to sustain the recovery of output growth and address the downside risks to other external and domestic shocks to the economy. Interventions continued largely in Manufacturing, Agriculture, Energy/infrastructure and Micro, Small, and Medium Enterprises (MSMEs).

The Bank under its Anchor Borrowers Programme (ABP) has cumulatively released the sum of ₦798.09 billion to 3.9 million smallholder farmers cultivating 4.9 million hectares of land across the country. Out of this for the 2021 wet season farming, the Bank released the sum of ₦161.18 billion to 770,000 small-holder farmers cultivating seven (7) commodities on 1.10 million hectares across the country. While harvesting for the 2020 dry season under the Programme is rounding up, harvesting activities have commenced for the 2021 wet season cultivation. The Strategic Maize Reserve Programme of the CBN has been useful in moderating maize prices by directly targeting large feed mill producers. Under its Commercial Agriculture Credit Scheme (CACS), the CBN has supported 657 large-scale agricultural projects, to the tune of ₦708.39 billion.

To support MSMEs across the country, the Bank disbursed ₦134.57 billion to 38,140 beneficiaries under the Agribusiness/Small and Medium Enterprise Investment Scheme (AGSMEIS), and for the Targeted Credit Facility (TCF), the sum of ₦343.21 billion has been released to 726,198 beneficiaries, comprising 602,730 households and 123,468 Small and Medium Enterprises.

Under the Real Sector Facility, the Bank released the sum of ₦1.00 trillion to 269 real sector projects, of which 140 are in light manufacturing, 71 in agro-based industry, 47 in services and 11 in mining. Under the Healthcare Sector Intervention Facility (HSIF), ₦103.02 billion has been disbursed for 110 healthcare projects, of which 27 are pharmaceutical, 77 hospitals and 6 other healthcare service projects. The Bank has also disbursed a total of N145.99 billion under its Non-Oil Export Stimulation Facility (NESF). The CBN has revised the guidelines, working with Nigerian Export-Import Bank to improve access to the intervention and stimulate non-oil export growth in Nigeria.

Under the National Mass Metering Programme (NMMP), ₦41.06 billion has been disbursed to ten (10) DisCos, for the procurement and installation of 759,748 electricity meters. Under the Nigerian Electricity Market Stabilization Facility - 2 (NEMSF-2), the Bank has released the sum of ₦145.66 billion to 11 DisCos as loans to provide liquidity support and stimulate critical infrastructure investment to improve service delivery and collection efficiency.

In furtherance of its intervention in the energy sector, the Bank has disbursed ₦39.20 billion to six (6) beneficiaries to improve gas-based infrastructure to support the Federal Government's Auto-Gas Conversion Programme. The Bank has also encouraged Deposit Money Banks (DMBs) to participate in the Solar Connection Facility (SCF) to improve energy access in the rural areas.

To promote entrepreneurship development among Nigerian youth, the Bank recently approved the implementation of the Tertiary Institutions Entrepreneurship Scheme (TIES). The Scheme is designed to promote entrepreneurial activities and foster job creation among Nigerian youths.

The Committee applauded the continued moderation in headline inflation for the fifth consecutive month to 17.01 per cent (year-on-year) in August 2021 from 17.38 per cent in July 2021. The continued decrease was attributed to a marginal decline in the food component to 20.30 per cent in August 2021 from 21.03 per cent in July 2021. The core component, also, declined to 13.41 per cent in August 2021 from 13.72 per cent in July 2021. The MPC noted that headline inflation remained well above the Bank's benchmark corridor of 6 – 9 per cent, but expressed optimism that with sustained interventions by the Bank, food production will continue to improve, thus moderating headline inflation further. The Committee, thus, urged the fiscal authority to build on earlier efforts to articulate a clear strategy to attract private sector investment while resuscitating critical infrastructure to improve the ease of doing business in the country.

Members observed that broad money supply (M3) rose to 5.83 per cent in August 2021, compared with 2.91 per cent in July 2021. This was largely driven by the growth of Net Foreign Assets and Net Domestic Assets by 12.35 and 4.30 per cent in August 2021, compared with 1.84 and 3.17 per cent in July 2021, respectively. The growth in Net Foreign Assets was largely driven by increase in foreign asset holdings of commercial and merchant banks. The increase in Net Domestic Assets reflects the boost to aggregate credit net, which increased to 8.14 per cent in August 2021, from 5.71 per cent in July 2021.

In the money market, the monthly weighted average Inter-Bank Call and Open Buyback (OBB) rates increased to 13.45 and 12.97 per cent in August 2021 from 10.72 and 11.60 per cent in July 2021, respectively. This increase reflected the tight liquidity conditions in the banking system during the review period as the Bank curtailed excess system liquidity.

The MPC noted the moderate improvement in the equities market in the review period, as the All-Share Index (ASI) increased by 2.67 per cent from 37,907.28 on June 30, 2021, to 38,920.50 on September 14, 2021. Market Capitalization (MC) also increased by 2.63 per cent from N19.76 trillion to N20.28 trillion over the same period, reflecting improvement in investor confidence following the strengthening of output growth.

The MPC noted that the Capital Adequacy Ratio (CAR) and the Liquidity Ratio (LR) both remained above the prudential limits at 15.2 and 41.7 per cent, respectively at end-July 2021. The Committee, also, welcomed the improvement in the Non-Performing Loans (NPLs) ratio at 5.4 per cent in July 2021, compared with 5.7 per cent in June 2021. The Committee thus, urged the Bank to sustain current efforts to bring NPLs below the 5.0 per cent prudential benchmark.

The Committee noted the improvement in lending to the real sector following the introduction of the Loans-to-Deposit Ratio (LDR) in 2019. Industry gross credit increased by N6.63 trillion from N15.57 trillion at end-May, 2019 to N22.20 trillion at end-July, 2021. The credit growth was largely recorded in manufacturing, oil and gas and agriculture sectors.

The Committee noted the significant increase in the external reserves which rose to US$35.97 billion at end-August 2021 from US$33.49 billion at end-July 2021, representing an increase of 7.41per cent. It also welcomed the further increase to US$36.03 billion on September 13, 2021.

Outlook

The outlook for both the global and domestic economies appears mixed. This is due to lingering uncertainties over the end of the COVID-19 pandemic as well as continued mutation of the virus. The slow and uneven pace of vaccination in developing economies is also compromising the achievement of global herd immunity, thus imposing a considerable headwind to the attainment of the global growth forecast.

Some central banks in advanced economies have given guidance of intended commencement of monetary policy normalization as monetary and fiscal policy across major advanced and emerging market economies have remained robust. This would constitute a further headwind to the full and inclusive recovery of the global economy due to the likely rise in cost of capital. The global economy is confronted with more headwinds than tailwinds, evidenced by the multitude of conflicting signals emerging from various major economies.

Available data and forecasts for key macroeconomic variables for the Nigerian economy, suggest further rebound in output growth for the rest of the year. This will however be hinged on the continued stability in oil price and robust vaccination in Nigeria and across other countries. Foreign exchange market stability, further reduction in inflationary pressure in the economy and continued interventions by the monetary and fiscal authorities are very important factors to sustain the recovery momentum. Consequently, the Nigerian economy is forecast to grow in 2021 by 2.86 per cent (CBN), 3.0 per cent (FGN) and 2.5 per cent (IMF).

The Committee's Considerations

The Committee noted the recovery in output growth and improving PMIs in the second quarter and urged the Bank to maintain the momentum of its current policy measures to sustain positive and inclusive real GDP growth.

The increasing level of insecurity in parts of the country remained a crucial point of concern for the MPC as its persistence could adversely impact business confidence and derail the recovery. It continued to call on the Federal Government to prioritize security surveillance in farming communities as the increased supply of food would play a significant role in stabilizing macroeconomic fundamentals.

The Committee applauded the steady but moderate decline in domestic prices as inflation decelerated for the fifth consecutive month with forecast indicating a continued downward trend. The Committee also welcomed ongoing efforts towards revitalising the Nigeria Commodity Exchange (NCX) to improve the supply value chain, curtail the speculative activities of middlemen in the agricultural sector, and consequently drive down prices of key commodities such as paddy rice, maize, wheat and sorghum, amongst others.

Members applauded the relentless effort by the Bank and other collaborators in ensuring the eventual take off of the Nigerian Infrastructure Corporation (INFRACORP), as this will improve the business environment, attract new investment and create new jobs in the Nigerian economy. The MPC further emphasised the importance of investment in transportation networks, power supply and telecommunication as these have a multiplier effect on other sectors of the economy. In addition to the INFRACORP initiative, Members urged the fiscal authority not to relent on other complementary infrastructure initiatives such as Public-Private-Partnerships and engagement of Nigeria's huge diaspora through the issuance of diaspora bonds to fund specific projects.

The MPC noted the moderate improvement in the equities market and commended the sustained investor confidence in the Nigerian economy. The Committee however called on the Federal Government to continue to improve the ease of doing business in Nigeria to retain the current patronage of the Nigerian economy by foreign investors.

Members applauded the continued resilience of the banking system, noting the progressive decline in the non-performing loans ratio, and broad improvement in all banking system parameters, despite the downside risks posed by the Pandemic to the smooth running of businesses. While the Committee was cognizant of the credit risks associated with lending in the current economic climate, it urged Nigerian banks to extend more credit to businesses and consumers to facilitate a seamless recovery of output growth, reduce unemployment and stabilize prices.

On the management of the exchange rate, the Committee applauded the Bank for improving foreign exchange supply in the economy to meet legitimate business and consumer demand. Members thus, urged the Bank to take further steps to restrict the activities of unauthorised and illegal dealers in the foreign exchange market, stating that all foreign exchange transactions must be conducted at the I&E window to ensure transparency and stability. The Committee, thus, called on the Bank to intensify surveillance over foreign exchange sales and utilisation by commercial banks and customers, to ensure that operators adhere to stipulated guidelines set by the CBN. The Bank thus, maintains its resolve to continue to restructure the foreign exchange market and will pursue all recent policies targeted at sanitizing the market to improve transparency and proper functioning to eliminate illegal foreign exchange dealers in the economy.

On Government revenues, members urged the Federal Government to improve its tax collection in order to reduce its dependence on oil revenues and reduce its exposure to counter-cyclical shocks.

The Committee emphasised the growing need to improve the agricultural value chain, particularly in key commodity products like cocoa, palm oil and cashew to diversify the country's export receipts. It, therefore, called on the Bank to support manufacturing initiatives that could achieve this objective.

The Committee applauded the Bank for its resilience and robust efforts in managing the downside risks to growth and the upside risks to inflation since the outbreak of the Pandemic, while charting a stable path for the economy to continue to expand its potential capacity through investment in infrastructure.

Overall, the MPC assessed the headwinds and tailwinds to growth, as well as, the upside risks to inflation, noting the immense effort by both the monetary and fiscal authorities to achieve a substantial recovery in output growth and decrease in inflation. The Committee urged the Presidential Task Force on COVID-19 to intensify efforts toward procurement of more vaccines and the vaccination of more people to ensure that herd immunity is achieved.

The Committee's Decision

The MPC expressed delight at the robust recovery of output growth during the second quarter and the continued decline in inflation. Members, however, reiterated the need to put in place further measures to drive down inflation and improve real returns on investment. The MPC noted the unequivocal importance of credit growth to the sustained recovery of output and the moderation in price development as supply improves. It thus, called on the Bank to maintain adequate surveillance on banks to ensure compliance with its extant credit policy, while ensuring that they are not unduly exposed to credit risks.

The Committee also noted the relevance of the Bank's suite of interventions to the overall system credit, urging its continued use to fund sectors with high employment-generating capacity.

MPC weighed the pros and cons of tightening, holding or loosening the stance of policy, noting the impact on output growth, price development, unemployment and exchange rate.

Members felt that tightening will contract the current level of system liquidity, and thus reduce demand pressure in the foreign exchange market, given that the current MPR at 11.5 per cent, CRR at 27.5 per cent and liquidity ratio at 30.0 per cent is already a tightening stance. This will, however, raise the cost of credit and reduce the volume of credit to the private sector.
On loosening, the Committee felt that this would lower retail interest rates and improve the ability of obligors to repay their obligations, with a complementary reduction in NPLs. The gradual downward movement of inflation may, however, be compromised if policy accommodation is increased, leading to a further widening of the negative real interest rate and thus exacerbating capital outflows as investment in naira denominated assets become less attractive. Members considered that a hold stance would allow the current recovery of output growth and decline in inflation to continue smoothly, thus gradually moving the economy to a sustainable path before adjustments are made to the stance of policy. Based on the above considerations, the MPC made the decision to hold all policy parameters constant; believing that a hold stance will enable the continued permeation of current policy measures in supporting the recorded growth recovery and macro-economic stability.

The Committee thus decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 11.5 per cent. 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;
iv. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
17th September, 2021

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 139 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 22nd AND TUESDAY 23rd NOVEMBER 2021

1.0 Background

The Monetary Policy Committee (MPC) met on 22nd and 23rd November 2021, in light of the continued recovery of the global economy and improving output growth in the domestic economy. Though, the growth outlook for the global economy for the rest of the year and into 2022 remains favourable, the uneven pace of recovery across countries has persisted. This was driven primarily by country and regional disparities in COVID-19 vaccination rate, size of policy support and regional economic conditions. On the domestic front, the continued support by the monetary and fiscal authorities is sustaining the growth recovery, notwithstanding the persistence of security challenges and legacy infrastructural constraints. The Committee appraised the developments in the global economy, international financial environment and the domestic economy, as well as the outlook for the rest of the year and the first quarter of 2022.

Ten (10) members of the Committee attended this meeting.

Global Economic Developments

Global output growth has remained upbeat as economic agents defy the continued threat posed by the sharp rise in infection rates associated with new strains of the COVID-19 virus. Despite the forecast for a robust recovery of the global economy in 2021, the uneven pace of vaccination across the globe and the continued rise in infection rates by the more fatal and mutating strains of the COVID-19 virus, suggest that the current two-speed recovery of the global economy may persist longer than anticipated. This may, however, be remedied if governments across the globe rally to improve coordination in the distribution of vaccines to aid the early attainment of global herd immunity. The Committee noted that the downside risks to the recovery may persist if the spread of these new variants is not addressed urgently.

In light of the above dynamics and associated headwinds, the International Monetary Fund (IMF) downgraded its 2021 growth forecast for the global economy from 6.0 per cent to 5.9 per cent. It also revised the projection for the Advanced Economies downwards from 5.6 per cent to 5.2 per cent. The downgrade was, however, offset by an upgrade of the growth forecast for Emerging Markets and Developing Economies (EMDEs) in 2021. Thus, the forecast for the Emerging Markets and Developing Economies was revised upwards to 6.4 per cent from 6.3 per cent.

Inflation across several Advanced Economies is expected to continue its upward trend into 2022, contrary to earlier expectations of transiency, as commodity prices continue to recover and feeding into energy and goods prices. This is on the backdrop of rising demand, associated with the sustained rebound in global output growth, amid lingering supply constraints. In response to the persistence of price development, the US Federal Reserve Bank has announced its intention to commence tapering its monthly bond-buying programme by the end of November 2021. Other advanced economy central banks have also indicated the likelihood of following suit in the short to medium term. In key Emerging Market and Developing Economies, inflation remained relatively high compared with the Advanced Economies. This is mostly due to supply-side constraints associated with the Pandemic; exchange rate pressures; and other legacy structural problems. The severity of inflationary pressures in this group of economies, however, varies across countries in relation to the specific structure and dynamics of the individual economies.

In the global financial markets, equity prices largely maintained a strong postlockdown recovery, while investors continued to maintain a sizeable hedge in gold, possibly to ease the impact of a rebound of the Pandemic as infection rates continue to rise. The financial markets remained moderately bullish, an indication that investors remain cautious in view of the unabating Pandemic.

This is reflected by the price of Gold, which has remained well above prePandemic levels.

Domestic Economic Developments

According to the National Bureau of Statistics (NBS), real Gross Domestic Product (GDP) grew by 4.03 per cent (year-on -year) in the third quarter of 2021, compared with 5.01 and -3.62 per cent in Q2 2021 and Q3 2020, respectively. The growth trajectory has thus, been positive in the last four quarters following the exit from the recession in 2020. Quarter-on-quarter, real GDP grew by 11.07 per cent in Q3 2021 compared with -0.79 per cent in the preceding quarter. This improvement in real GDP was driven by growth in both the oil and non-oil sectors by 12.05 and 10.99 per cent, respectively. The Committee also noted the continued improvement in the Manufacturing Purchasing Managers' Index (PMI), which though, remained below the 50-index point benchmark, rose to 47.3 index points in October 2021 from 46.6 index points in September 2021. This improvement indicated a gradual recovery of output growth, driven largely by the increase in new orders associated with rising aggregate demand and upswing in business activities. The Non-Manufacturing PMI, however, declined to 47.5 index points in October 2021 from 47.8 index points in September 2021 as uncertainties persisted around the poor security situation.

The Committee noted the continued moderation in headline inflation (year-onyear) to 15.99 per cent in October 2021 from 16.63 per cent in the previous month, the seventh consecutive month of decline. The decrease was attributed to a marginal decline in both the food and core components to 18.34 and 13.34 per cent in October 2021 from 19.57 and 13.74 per cent, respectively in September 2021. Inflation, however, remained above the Bank's implicit tolerance corridor of 6 – 9 per cent and above its benchmark policy rate of 11.5 per cent despite its progressive decline. Observing developments in monetary aggregates, the Committee noted that broad money supply (M3) grew by 7.10 per cent in October 2021, compared with 4.72 per cent in September 2021. This was driven by growth in Net Domestic Assets (NDA) by 9.12 per cent in October 2021, compared with 10.71 per cent recorded in September 2021. Net Foreign Assets (NFA), on the other hand, contracted moderately by -1.50 per cent in October, compared with -20.85 per cent in the preceding month. The continued growth in Net Domestic Assets (NDA) was largely driven by increased claims on the Federal Government and other public nonfinancial corporations, private sector and state and local governments.

In the financial markets, money market rates oscillated within the standing facilities corridor, reflecting the prevailing liquidity conditions in the banking system. The monthly weighted average Open Buyback (OBB) rate increased to 12.18 per cent in October 2021 from 11.11 per cent in September 2021, while the monthly weighted average Inter-bank Call rate decreased from 13.21 per cent in September 2021, to 10.00 per cent in October 2021. The increase in the Open Buyback (OBB) rate reflected the tight liquidity condition in the banking system. The MPC noted the positive performance of the equities market in the review period, with the All-Share Index (ASI) and Market Capitalization(MC) increasing to 43,199.27 and ₦22.55 trillion on November 19, 2021, from 39,219.61 and ₦20.43 trillion on August 31, 2021. This depicts improved investor sentiment, following impressive corporate earnings of listed companies on the Exchange. This has led to a new bargain hunting drive by investors.

The MPC noted that the Capital Adequacy Ratio (CAR) and Liquidity Ratio (LR) both remained above their prudential limits at 15.2 and 41.2 per cent, respectively. The Non-Performing Loan ratio (NPL) at 5.3 per cent in October 2021, reflected progressive improvement, compared with 5.7 per cent in October 2020. The Committee, however, urged the Bank to sustain its tight prudential regime to bring the Non-Performing Loan (NPL) ratio below the 5.0 per cent prudential benchmark.

The gross external reserves stood at US$41.41 billion as at November 18, 2021, compared with US$41.34 billion in October 2021, a moderate increase of 0.17 per cent.

Outlook

The overall outlook for both the global and domestic economies remain upbeat but for the significant downside risks clouding the path to full recovery.

The key risks remain the unabating COVID-19 pandemic and uneven progress in vaccination. As the US Federal Reserve Bank commences scaling down of its monthly bond-buying programme, there is increased likelihood that other advanced economy central banks will follow in the same direction. With this impending development, external financial conditions will likely tighten for most EMDEs, in view of huge capital flow reversals to the Advanced Economies as yields rise. This will no doubt deepen the growth divergence between these two groups of economies.

Forecasts for key macroeconomic variables for the Nigerian economy, indicate continuing rebound in growth recovery for the rest of the year. This is expected on the back of continued support by both monetary and fiscal policy, sustained high crude oil prices and most importantly, availability of COVID-19 vaccines as well as high turnout for vaccination in Nigeria. Accordingly, the Nigerian economy is forecast to grow in 2021 by 3.10 per cent (CBN), 3.0 per cent (FGN) and 2.6 per cent (IMF). Inflation is expected to continue its downward trajectory as the harvest season sets in and the government works on improving the security situation to ease the bottlenecks constraining food supply.

The Committee's Considerations

The Committee commended the continued recovery in output growth following a positive outcome in the third quarter of 2021.

Based on the current outlook for price development and growth, Members carefully reviewed the options confronting the Committee in the short to medium term, taking into consideration, key downside risks to growth and upside risks to inflation. Members reiterated the need to remain cautious and urged both the monetary and fiscal authorities to sustain their support for the recovery, as the Pandemic was yet to be over. The Committee, however, noted that with the sustained intervention by the Bank, economic activities will normalize in the short to medium term, leading to improved output growth and lower inflationary pressure. The MPC also urged the fiscal authorities to sustain the current effort to revamp the economy through continued support to the critical sectors of the economy.

The continued security challenge across the country remained a major source of concern for Members, noting its impact on business confidence, foreign investment inflows and overall economic activities. The persistence of insecurity in major food producing areas, remained a key downside risk to the recovery. The Committee called on security agencies in the country to increase their presence in order to boost public confidence and facilitate the movement of people, goods and services across the country. With improved security, especially in these food producing areas, Members expressed optimism that food inflation will drop significantly following successful harvests and distribution.

The Committee also commended the gradual diversification of the economy with the increased contribution of the non-oil sector to Government revenues and called for more support to increase non-oil exports as a source of foreign exchange earnings into the economy.

Members also reiterated the impact of poor infrastructure on rising domestic price levels, urging the Federal Government to prioritize investment in public utilities to improve the business environment. These include transportation networks, power supply, education and health. Following the President's recent international call to investors to channel investments to Nigeria, Members were of the view that funding for such projects could be sourced through equitable partnerships with foreign investors and Nigerians in diaspora.

The Committee noted that the equities market remained in a strong position, signposting continued investor confidence in the Nigerian economy. Members thus urged the monetary and fiscal authorities to build on this sustained confidence to attract more Foreign Direct Investment into Nigeria.

The MPC welcomed the continued resilience of the banking system in the face of severe shocks to both the domestic and global economies, commending the Bank's Management for maintaining overall stability in the banking system. The Committee thus, called on the Bank to continue to push for increased intermediation as the way forward to reduce unemployment, enhance production, create wealth, and improve aggregate demand to strengthen the recovery. On this note, Members applauded the success achieved by the Bank's various intervention schemes, which have contributed to both the demand and supply sides of the economy.

The Committee reviewed the performance of the Bank's various interventions aimed at sustaining recovery of output growth and addressing the downside risks to other external and domestic shocks to the economy. Interventions continued largely in manufacturing/industries, agriculture, energy/infrastructure, healthcare and Micro, Small and Medium Enterprises (MSMEs). Under the Targeted Credit Facility, the Bank has disbursed a total of ₦363.49 billion to 766,719 beneficiaries, comprising 638,070 households and 128, 649 small businesses. Under its Agribusiness Small and Medium Enterprise Investment Scheme (AgSMEIS), the Bank has released ₦134.63 billion to 37,571 entrepreneurs.

Between September and October 2021, under the Anchor Borrowers' Programme (ABP), the Bank disbursed ₦43.19 billion to support the cultivation of over 250,000 hectares of maize, sorghum, soya beans and rice during the 2021 dry season; and ₦5.88 billion to finance six (6) large-scale agricultural projects under the Commercial Agriculture Credit Scheme (CACS).

Cumulatively the Bank has disbursed the total sum of ₦864 billion to 4.1 million farmers, cultivating 5.02 million hectares. The bank also disbursed the sum of ₦41.2 billion for the commencement of the brown revolution, a large-scale wheat program to wean us off imports by 35 per cent in the first year.

In addition, the Bank disbursed the sum of ₦261.92 billion for 42 additional projects under the ₦1 trillion manufacturing intervention. Cumulatively, the bank has disbursed the sum of N1.08 trillion under this Scheme. As part of its effort to support the resilience of the healthcare sector, the Bank disbursed ₦5.39 billion to Nine (9) healthcare projects under the Healthcare Sector Intervention Facility (HSIF). The Bank has also cumulatively disbursed the sum of ₦108.65 billion to hospitals and pharmaceutical industry. 54 of the 117 projects funded are for hospital services. Committee was gratified that the funding under Health sector has resulted in establishment of two(2) new Cancer Centers, over 59 MRI and more than 42 CT Scan Centers in Nigeria, within the last 18 months. To further promote entrepreneurship development among Nigerian youth, the Bank recently approved the implementation of the Tertiary Institutions Entrepreneurship Scheme (TIES). The Scheme is designed to create a paradigm shift among undergraduates and graduates of tertiary institutions in Nigeria, from white-collar jobs towards entrepreneurship development. The guidelines for the implementation of the Scheme was recently published, as Bank of Industry (BOI) is presently partnering with the Bank for the pilot implementation phase.

Under the National Mass Metering Programme (NMMP), ₦8.69 billion was disbursed to four (4) Distribution Companies (DisCos) under the scheme's Phase-0. The sum of ₦47.66 billion has been disbursed so far for the acquisition of 858,026 meters. Also, in furtherance of its intervention in the energy sector, the Bank released ₦27.03 billion to power sector players under the Nigeria Bulk Electricity Trading Payment Assurance Facility (NBET-PAF). This is in addition to the ₦37.69 billion disbursed to eight (8) Distribution Companies (DisCos) recently, under the Nigeria Electricity Market Stabilisation Facility (NEMSF-2).

The Bank has disbursed the sum of ₦39.2bn under the Nigerian gas expansion program to promote the migration to compressed natural gas (CNG) as the preferred fuel for transportation and liquefied petroleum gas (LPG) as the preferred cooking fuel. Furthermore, the Bank recently introduced the 100 for 100 Policy on Production and Productivity (PPP), designed to create the flow of finance and investments to enterprises with potential to kick-start a sustainable economic growth trajectory, accelerate structural transformation, promote diversification, and improve productivity in the country. It is geared to support private sector companies with the aim of reducing certain imports, increasing non-oil exports and improving the FX-generating capacity of the economy. The Bank will select and finance 100 of such companies at 100 day intervals, in line with detailed selection criteria as contained in the guidelines, and roll this over for another 100 companies for the next 100 days.

The Targeted Credit Facility (TCF) was particularly highlighted by the Committee for its contribution to alleviating poverty at the grassroot. The Committee thus urged the Bank to continue its support through the TCF to ensure that more people benefit from this programme.

With the announcement to commence monetary policy normalization by the US Fed and impending interest rate liftoff by central banks in some advanced economies, the MPC called on the Federal Government to intensify its drive towards a counter-cyclical fiscal policy in view of the imminent tightening of external financial conditions. Committee members, therefore, noted with concern that the gradual normalization of monetary policy by this group of economies would dampen the recovery of several Emerging Market and Developing Economies in the short to medium term due to the sharp reversal of capital flows.

The Committee also evaluated the developments in China relating to the reoccurring Pandemic, power outages and crisis in the property market, noting the likely impact these could have on Nigeria as a major trading partner. Members thus called on the Bank to ensure that the necessary buffers are put in place to shield the economy from the downside risks associated with these developments.

In general, Members expressed confidence in the ongoing policies of both the monetary and fiscal authorities which in their view was the hallmark of the current recovery and restoration of macroeconomic stability in Nigeria. They, therefore, called on both authorities to look beyond the current position and plan towards attracting sustainable investment flows to Nigeria.
The Committee's Decision.

At this meeting, MPC was gratified that its policy actions in the past had started to yield positive results given the remarkable improvement in GDP which stood at 4.03 per cent during Q3 of 2021 and the 6th consecutive month moderation in inflation to 15.99 per cent in October 2021.

Given the level of its conviction about the efficacy of its actions on macroeconomic variables, MPC felt that whereas tightening would further help to rein in inflation aggressively, it nevertheless feels that tightening will increase cost of funds and constrain output growth.

On the other hand, whereas loosening will lower policy rates, ease liquidity pressures, and stimulate additional credit creation which will boost output growth, MPC also thinks that loosening will further widen the negative real interest rate gap and compound the price distortions in the money markets which could fuel inflationary pressures. As for whether to hold its existing stance, MPC believes that the existing monetary policy stance has supported the growth recovery and should be allowed to continue for a little longer for consolidation to achieve the MPC mandate of price stability that is conducive for sustainable growth. The Committee also feels that a hold stance will enable it to carefully appraise the implications of the unfolding global development around policy tapering and normalization by advanced economies.

Based on the foregoing, the Committee decided to hold all policy parameters constant to support the enabling environment for sustained recovery.

The Committee thus, decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 11.5 per cent. 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
23rd November 2021