CENTRAL BANK OF NIGERIA

MONETARY POLICY REVIEW

AUGUST 2017

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Central Bank of Nigeria

Mandate

▪Ensure monetary and price stability

▪Issue legal tender currency in Nigeria

▪Maintain external reserves to safeguard the international value of the legal tender currency

▪Promote a sound financial system in Nigeria

▪Act as banker and provide economic and financial advice to the Federal Government

Vision

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

Mission Statement

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

Core Values

- Meritocracy
- Leadership
- Learning
- Customer - Focus

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STATEMENT BY THE GOVERNOR

During the first half of 2017, the focus of monetary policy was shaped by developments in the global and domestic economic environments. The key challenges to monetary policy-formulation on the global front were: the rising wave of protectionist sentiments in major advanced and emerging market economies, increasing monetary policy divergence in the advanced economies, and resumption of monetary policy normalization in the US with its spillover effects on global capital flows. In addition, commodity price movements remained disorderly, with tepid recovery in crude oil prices. These developments pressured the domestic economic environment considerably, manifesting in weak fiscal positions, low reserves accretion and a liquidity-challenged foreign exchange market.

The key domestic vulnerabilities were reflected in weak economic activity, persisting liquidity surfeit in the banking system, weakening financial stability indicators, contraction in private sector credit, expansionary fiscal policy and the rising debt profile of the general government. In the face of still low commodity prices and accretion to external reserves, the challenges in the foreign exchange market intensified in the review period, necessitating both policy and administrative measures to rein-in demand pressure and stabilize the exchange rate. As a result, the Bank introduced several complementary measures to fine-tune existing foreign exchange management practices. The measures were: the Investors' and Exporters' (I&E) Foreign Exchange Window for willing buyers and sellers of foreign currency, increased foreign exchange sales to BDCs, and special foreign exchange auctions to targeted sectors, among others. Following these measures, speculative practices were curbed and the depreciation of the naira moderated with favourable pass-through to consumer prices. Thus, headline inflation moderated during the period to 16.10 per cent in June 2017 from 18.72 per cent in January 2017, although it remained above the Bank's benchmark of 6-9 per cent. Also, with 1.0 improved foreign exchange supply, and the lowering of fiscal uncertainties following the launching of the Economic Recovery and Growth Plan and approval of the 2017 Federal Government Budget, the economy gradually exited recession towards the end of the review period. The economy grew by 0.55 per cent in the second quarter of 2017, after five successive quarters of output contraction. The modest growth reflected expansions in both the oil and non-oil sectors. The growth of the oil sector resulted from the moderate firming up of crude oil prices and restoration of production levels, while non-oil expansion was traceable to efforts at economic diversification and various real sector interventions of the Bank.

Monetary policy during the review period was designed to address the foregoing challenges, stimulate the economy out of recession, and achieve overall macroeconomic stability. The Bank sustained its tight monetary policy stance by maintaining the Monetary Policy Rate (MPR) at 14.0 per cent and the associated asymmetric corridor of +200/-500 basis points as well as the Cash Reserve Ratio (CRR) and Liquidity Ratio (LR) of 22.5 and 30.0 per cent, respectively.

Amidst cautious optimism, the short-to-medium term outlook for the domestic economy indicate further deceleration of inflation trends, although achieving the Bank's single-digit inflation objective is still far-fetched. Near term threats to inflation would include: high energy prices and supply; disruption of production and distribution chains in the economy arising from insurgency and farmer-herdsmen conflicts; liquidity injections from the expansionary 2017 Federal Government budget, and underlying threats to exchange rate stability. Monetary policy would, however, remain proactive to minimizing these threats.

GODWIN I. EMEFIELE
GOVERNOR, CENTRAL BANK OF NIGERIA

CHAPTER ONE

1.0 OVERVIEW

Monetary policy in the first half of 2017 was influenced by a number of challenges in the global and domestic economic and financial environments. On the global front, the key challenges included: the persistence of uncertainties in major advanced and emerging market economies such as the rising wave of populist and protectionist sentiments, aggravated by new United States policy direction, and the trigger of Article 50 of the Lisbon treaty in March 2017 to kick start BREXIT. Others were: divergent monetary policy stance in the advanced economies; increased US Shale oil production, despite Organisation of Petroleum Exporting Countries (OPEC)'s decision to cut output; weakening international cooperation following anti-globalization sentiments as well as disorderly commodity price movements, culminating in sluggish global output growth. In the emerging market and developing economies, the challenges were: continuing low commodity prices, rising inflation, currency instability, weak aggregate demand and subdued capital flows.

At the domestic scene, the economy witnessed a more promising development as the recession bottomed out into growth. There was also moderation in domestic price developments following measures taken to stabilize the foreign exchange market. Consequently, headline inflation declined from 18.72 per cent in January to 16.10 per cent in June 2017, principally on account of the moderation in the core component of inflation, although the food component remained the key driver of prices in the consumer basket. Notwithstanding this development, monetary policy was still plagued by persisting liquidity surfeit in the banking system, weakening financial stability indicators, contraction in private sector credit, expansionary fiscal policy and rising debt profile of the general government, including the emergence of the unhealthy phenomenon of accumulation of salary arrears by sub-national governments.

The Nigerian economy exited the recession which began in the first half of 2016. The development was due to improvements in fiscal receipts occasioned by the firming up of crude oil and other commodity prices as well as increased oil production owing to relative peace in the Niger Delta region. The increased fiscal receipts and accretion to external reserves resulted in improved fiscal activities including spending on infrastructure and payment of salary arrears by sub-national governments. In addition, the increased supply of foreign exchange aided the importation of intermediate goods and other productive inputs for manufacturers, with attendant positive effects on overall production activities in the economy. Accordingly, the economy grew by 0.55 per cent (year-on-year) in the second quarter of 2017, from contractions of 0.91 and 1.49 per cent in the first quarter of 2017 and the corresponding quarter of 2016. The exit from recession was largely due to the improved performance of both the oil and non-oil sectors. The oil sector grew by 1.64 per cent in the second quarter compared with contractions of 15.60 and 11.63 per cent in the preceding quarter of 2017 and the corresponding period of 2016. Similarly, the growth of the non-oil sector remained positive at 0.45 and 0.72 per cent in the second and first quarters of 2017, up from the contraction of 0.38 per cent in the corresponding quarter of 2016.

The challenges in the foreign exchange market intensified, warranting the Bank to implement a cocktail of both policy and administrative measures to rein-in demand pressure and stabilize the exchange rate. These measures included: the introduction of Investors' and Exporters' (I&E) Foreign Exchange Window for willing buyers and sellers of foreign currency, increased foreign exchange sales to BDCs, special foreign exchange auctions to targeted sectors, introduction of foreign exchange sales for small scale importation, reduction of import and export documentation requirements and processing timelines as well as reduction of the tenor of forward foreign exchange transactions from 180 to 60 day cycles. Others were: the directive to all banks to open foreign exchange retail outlets in major airports across the country as well as increase in the Foreign Exchange Net Open Position (NOP) limit of banks to 10.0 per cent. In addition, the Bank continued the implementation of existing policies and administrative measures such as: the restriction of access to foreign exchange for some 41 items, the use of bank verification number (BVN) in BDC transactions, as well as the restrictions on the use of naira debit cards abroad. As a result of these measures, speculative activities were curbed and the depreciation of the naira moderated in all segments of the market.

The Nigerian financial markets continued to be influenced by a number of global and domestic developments. The key global developments included: the persistence of uncertainties in major advanced and emerging market economies such as the rising wave of populist and protectionist sentiments, actions by the UK government to trigger BREXIT negotiations and the Left Wing electoral victory in France. The divergent monetary policy stance in the advanced economies, low global commodity prices and increased investment in U.S. shale oil production also influenced market activities. In order to moderate the impact of these uncertainties on global growth and ensure the resumption of the momentum of economic activities, monetary policy in the advanced economies remained broadly accommodative in the review period. However, emerging markets and developing economies reacted differently to these global uncertainties, in view of the need for monetary accommodation for those in recession or suffering from sluggish recovery; while others that had experienced severe currency depreciations from recent oil price shocks, required improved yields on domestic assets. Accordingly, domestic money market rates fluctuated with occasional spikes reflecting the level of liquidity in the banking system.

The Bank continued to deploy the instruments in its toolkit to conduct monetary policy in the review period, with the objective of price and macroeconomic stability. The key instruments were: the Monetary Policy Rate (MPR), the Cash Reserve Ratio (CRR), the Liquidity Ratio (LR), Open Market Operations (OMO) and Discount Window Operations. In addition, interventions in the foreign exchange market were sustained. The MPR was kept unchanged at 14.0 per cent, with the asymmetric corridor around the MPR retained at +200 and -500 basis points throughout the period. The Bank sustained its reliance on Open Market Operations (OMO) for managing system liquidity as total OMO sales increased by 66.17 per cent to N3,871.27 billion in the first half of 2017 compared with N2,329.75 billion recorded in the corresponding period of 2016. It was, however, 29.99 per cent lower than the sale of N5,529.87 billion in the preceding half year. The increase in OMO sale was traceable to liquidity surfeit in the banking system as a result of maturing government bills and the disbursement of Paris debt refund to sub-national governments. The monetary aggregates contracted and generally performed below their indicative benchmarks. The development was largely on account of the contraction in Net Foreign Assets (NFA) which was, however, unable to overwhelm the modest growth recorded in Net Domestic Assets (NDA) of the banking system during the review period.

Money market activities generally mirrored liquidity conditions in the banking system. The money market rates were volatile largely in response to developments in the foreign exchange market as the Bank intervened with measures to curb demand pressure. Accordingly, money market rates fluctuated with occasional spikes reflecting the effects of OMO transactions, maturing government securities and CBN bills, Joint Venture Cash (JVC) call payments and Paris Club debt refunds as well as the introduction of the

Investors' and Exporters' foreign exchange window. Following these developments, the Monetary Policy Committee (MPC) during the period maintained the Monetary Policy Rate (MPR) at 14.0 per cent and the associated asymmetric corridor of +200/-500 basis points as well as the Cash Reserve Ratio (CRR) and Liquidity Ratio (LR) at 22.5 and 30.0 per cent, respectively. The sustained tight monetary policy stance complemented by other liquidity management measures resulted in upward fluctuation of money market rates.

Activities in the Nigerian capital market were moderately bullish in the first half of 2017. The All-Share Index (ASI) rose by 23.23 per cent to 33,117.48 at end-June 2017, from 26,874.62 at end-December 2016. It, also, rose by 11.89 per cent from 29,597.79 at end-June 2016. The development was due largely to several factors including measures to exit the current recession and restart growth, improving corporate performance and relative stability in exchange rate arising from increased interventions in the foreign exchange market by the CBN. Furthermore, the uncertainties beclouding the domestic investment environment continued to wane following the launching of the Economic Recovery and Growth Plan (ERGP) by the Federal Government, and the curtailment of militancy and insurgency in different parts of the country. Also, the anti-corruption efforts of the government which led to the recovery of large sums of money boosted investor confidence in the economy. These factors were complemented by the sustained tight monetary policy stance of the Bank which helped to improve returns on domestic assets thereby encouraging both domestic and foreign investments.

Transactions in Federal Government of Nigeria (FGN) instruments dominated activities in the bonds market. Some activities were also recorded in the Sub-national government and corporate bond segments. At 4.80 per cent, the 10-year dollar-denominated bond yield for Nigeria decreased by 1.55 percentage point at end-June 2017 from 6.35 per cent at end-December 2016. When compared with the end-June 2016 yield of 6.74 per cent, it decreased by 1.94 percentage points, reflecting improved investor perception of Nigeria's sovereign risk.

Headline inflation moderated during the review period, although substantially above the Bank's benchmark of 6-9 per cent. The price development was, however, still within the moderate double digit range. Staff estimates suggest that year-on-year headline inflation is projected to decelerate further to 15.7, 15.6, 15.5 and 15.4 per cent in August, September, October and November 2017, respectively. This is predicated on a good harvest season and sustained stability of the exchange rate supported by the continued tight monetary policy stance of the Bank. Risks to inflation outlook in the near term, however, remain the relatively high energy prices, poor power supply, disruption of production and distribution chains due to lingering insurgency and herdsmen-farmer conflicts in some parts of the country.

Domestic output growth in the first half of 2017 turned positive following the negative trend which commenced in 2016. According to the National Bureau of Statistics (NBS), real Gross Domestic Product (GDP) contracted by 0.91 per cent in the first quarter of 2017, but became positive, growing by 0.55 per cent in the second quarter. Thus, the economy effectively exited recession in the review period.

The improvement in output growth was attributed to several factors including: higher oil prices; increased oil production, attributable mainly to the return of peace in the Niger Delta; as well as improved and stable production from OPEC's commitment to output cut. Furthermore, the passage of the Petroleum Industry Governance Bill (PIGB) is likely to attract new investments into the industry. The International Monetary Fund (IMF) projected Nigeria's growth at 0.8 per cent in 2017, confirming that the country will recover from its current recession based on improved oil production, continued growth in agriculture, and higher public investment spending.

The risk to the outlook, however, continues to come from developments in the external environment and the domestic economy. Externally, the weak global economic recovery, declining demand for crude oil globally in the face of the development of clean energy technologies and the continuing loss of market share for Nigeria's crude oil may dampen the fragile growth prospects. Also, growing social tensions reflected in the threats of resumption of militancy and herdsmen-farmer conflicts could further undermine investments and growth.

In the face of these developments, the risks to monetary policy for the rest of 2017 would include: the continuing low foreign exchange receipts with its attendant implications for foreign reserves and government expenditure; pressure on the exchange rate; and instability in the financial markets. In addition, although the economy has exited the recession, growth is likely to remain fragile as macro-fundamentals remain weak. Other challenges are: persisting liquidity surfeit in the banking system; weakening financial stability indicators; and the need for the emergence of positive real interest rate in the economy. The Bank would continue to monitor these indicators to ensure that the monetary policy

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environment delivers price stability conducive to economic growth in the second half of 2017 and beyond.

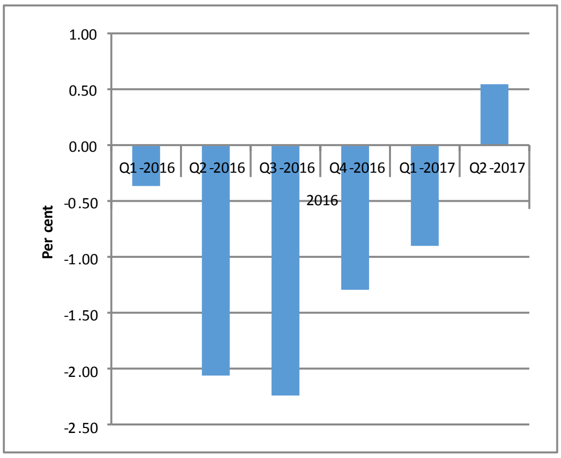
CHAPTER 2

2.0 OUTPUT IN THE DOMESTIC ECONOMY

In the first half of 2017, the Nigerian economy exited recession which began in early 2016. The development was due to improvements in fiscal receipts occasioned by the firming up of crude oil and other commodity prices as well as increased oil production owing to relative peace in the Niger Delta region. The increased fiscal receipts and accretion to external reserves resulted in improved fiscal activities including spending on infrastructure and payment of salary arrears by sub-national governments. In addition, the increased supply of foreign exchange aided the importation of intermediate goods and other productive inputs for manufacturers, with attendant positive effects on overall output in the economy. Accordingly, the contraction of real gross domestic product moderated to 0.91 per cent (year-on-year) in the first quarter of 2017 from 1.73 and 0.67 per cent in the fourth and the corresponding quarters of 2016, respectively. The moderation in contraction was largely due to the improved performance of both the oil and non-oil sectors. The oil sector contracted by 15.60 per cent compared with a contraction of 17.7 per cent in the previous quarter. Similarly, the performance of the non-oil sector improved as it grew by 0.72 per cent compared with contractions of 0.33 and 0.18 per cent recorded in the previous and corresponding quarters of 2016, respectively.

The moderation in contraction in the first quarter is also reflected in the performance of the primary sectors, as industry (-5.83%), services (-0.39%) and Trade (-3.08%) contracted, while construction and agriculture grew by 0.15 and 3.39 per cent, respectively. The relative shares of the key sectors to the GDP were services (38.18%), agriculture (21.43%), industry (18.36%), trade (17.10%) and construction (4.18%).

Figure 2.1
Real GDP Growth (%) 2016 Q1 – 2017 Q2



Source: NBS

In the second quarter, real gross domestic product (GDP) expanded by 0.55 per cent (year-on-year) from contractions of 0.91 and 1.49 per cent in the preceding quarter of 2017 and the corresponding quarter of 2016, respectively. The output growth was largely due to the improved performance of both the oil and non-oil sectors. The oil sector grew by 1.64 per cent compared with contractions of 15.60 and 11.63 per cent in the preceding quarter and the corresponding period of 2016, respectively. Similarly, the non-oil sector recorded a slower growth of 0.45 per cent from 0.72 per cent in the preceding quarter and a contraction of 0.38 per cent in the corresponding period of 2016. The performance of the primary sectors that contributed to the growth in the second quarter were Agriculture (3.01%), Industry (1.45%) and Construction (0.13%), while Services and Trade contracted by 0.85 and 1.62 per cent, respectively. The relative shares of the key sectors in the GDP were Services (37.26%), Agriculture (22.97%), Industry (18.42%), Trade (17.10%) and Construction (4.26%).

2.1 Domestic Economic Activities

In the first quarter of 2017, the moderation in output contraction was largely driven by activities in the non-oil sector, with a reduced drag from the oil sector performance. The non-oil real GDP grew by 0.72 per cent in the first quarter of 2017, reversing the negative growth of 0.33 and 0.18 per cent in the fourth and corresponding quarters of 2016, respectively. The growth of the non-oil sector was accounted for by the activities in solid minerals (31.47%); arts, entertainments and recreation (11.67%); transport (10.55%); fishing (5.49%); crop production (3.50%); information and communication (2.73%) and construction (0.15%) compared with their respective performance of -73.63, 8.41, 14.73, 3.25, 3.02, 4.07 and -5.37 per cent in the corresponding period of 2016.

In the same vein, the contraction in the oil sector moderated to 15.60 per cent (year-on-year) in the first quarter of 2017, from 17.70 per cent in the preceding quarter. It was however, 4.81 per cent in the corresponding quarter of 2016.

Average daily crude oil production in the first quarter fell to 1.69 million barrels per day (mbpd) from 1.76 and 2.05 mbpd recorded in the preceding and the corresponding quarters of 2016, respectively.

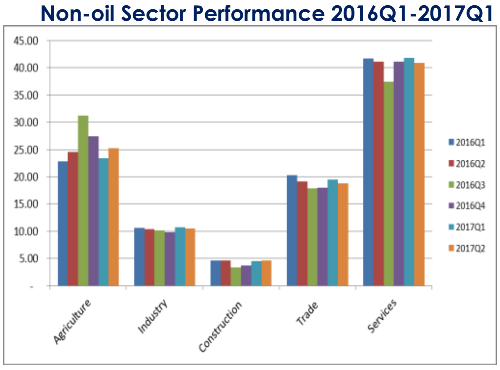
During the second quarter of 2017, non-oil real GDP recorded a slower growth of 0.45 per cent from 0.72 per cent in the first quarter of 2017 and a contraction of 0.38 per cent in the corresponding quarter of 2016. The growth of the non-oil sector was accounted for by the activities in crop production (3.21%); solid minerals (2.28%); finance and insurance (10.45%); forestry (3.89%); coal mining (4.92%) and livestock (2.28%); compared with their respective performance of 4.72, -10.82, 3.84, 2.68

and 6.32 per cent in the corresponding period of 2016.

Similarly, the oil sector grew by 1.64 per cent (year-on-year) in the second quarter of 2017 from contractions of 15.60 and 11.63 per cent in the preceding quarter and the corresponding period of 2016, respectively. Average daily crude oil production rose to 1.84 million barrels per day (mbpd) in the second quarter from 1.69 and 1.81 mbpd in the preceding quarter of 2017 and the corresponding period of 2016. The development was largely attributed to the restoration of the Forcados pipeline and reduced incidence of pipeline vandalism and other militant activities following on-going negotiations between the government and militants in the Niger Delta area.

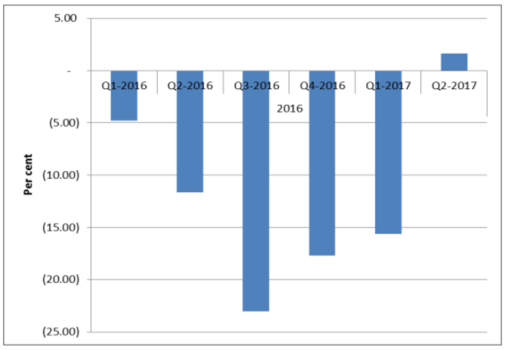
The contribution of the oil sector to GDP rose to 8.89 per cent in the second quarter from 8.53 per cent in the preceding quarter.

Figure 2.2
Non-oil Sector Performance 2016Q1-2017Q1



Source: NBS

Figure 2.3
Performance of the Oil Sector, 2016Q1 - 2017Q2



Source: NBS

2.2 Sectoral Analysis

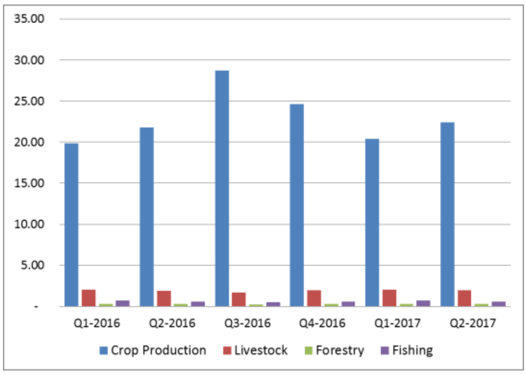
This section analyses the sectoral performance of the economy by reviewing key institutional factors that contributed to domestic output in the first half of 2017.

2.2.1 Agriculture

Real agricultural GDP grew by 0.30 percentage points to 3.39 per cent in the first quarter of 2017 from 3.09 per cent in the corresponding period of 2016. This however, represented a decline when compared with 4.03 per cent in the preceding quarter of 2016. The growth in Agricultural output was driven mainly by activities in fishing (5.49%) and crop production (3.50%), followed by forestry (2.59%) and livestock (1.72%). This compares with the respective growth rates of 3.25, 3.02, 2.31 and 3.86 per cent in the corresponding quarter of 2016. This trend indicates a general improvement in most of the activity sectors. The contribution of the sector to overall real GDP in the first quarter of 2017 slowed to 21.43 per cent from 25.60 per cent in the corresponding quarter of 2016 (Figure 2.2).

During the second quarter, real agricultural GDP grew slower by 0.38 percentage points to 3.01 per cent from 3.39 and 4.53 per cent in the preceding quarter and the corresponding period of 2016, respectively. The growth in agricultural output was driven mainly by activities in forestry (3.89%) and crop production (3.21%), followed by livestock (2.28%). This compares with their respective growth rates of 3.84, 4.72 and 6.32 per cent in the corresponding quarter of 2016. This trend indicates a general slowdown in most of the activity sectors. The contribution of the sector to overall real GDP in the first quarter of 2017 improved to 22.97 per cent from 21.43 per cent in the corresponding quarter of 2016 (Figure 2.2).

Figure 2.4
Agricultural Sector Contribution by Activity, 2016Q1 - 2017Q2



Source: NBS

2.2.1.2 Agricultural Policies and Institutional Support

The performance of the sector in the first half of 2017 was supported by a number of key policies, reforms and institutional support. These included:

The Agricultural Credit and Guarantee Scheme (ACGS)

In the first half of 2017, the volume and value of loans guaranteed under the Scheme were 21,073 and ₦3.07 billion, respectively, compared with 23,774 and ₦3.63 billion in the corresponding period of 2016. This outcome represented a decrease of 11.36 and 15.43 per cent in the volume and value of loans guaranteed, respectively. The analysis of loans by purpose showed that food crops accounted for 14,264 (57.88 %); mixed crops, 2,097 (8.00%); cash crops, 1,587 (8.93%); livestock, 1,867 (15.82%); fisheries 797 (7.19%); and other activities, 461 (2.24%). A total of 11,354 loans valued at ₦1.84 billion were repaid in the first half of 2017 compared with 29,519 loans valued at ₦4.03 billion repaid in the corresponding period of 2016. This represented a decrease of 61.54 and 54.32 per cent in the volume and value of loan repayments during the period.

N200 Billion Commercial Agriculture Credit Scheme (CACS)

Under the Scheme, ₦79.56 billion was disbursed for 35 projects in the review period, compared with ₦35.99 billion for 4 state government and 39 private projects in the corresponding period of 2016. This represented an increase of 121.06 per cent in value of disbursements. However, ₦19.78 billion was repaid for 185 projects in the review period, compared with ₦22.77 billion for 247 projects in the first half of 2016, representing decreases of 13.13 and 25.10 per cent in the value and volume of repayments.

Anchor Borrowers' Programme (ABP)

The implementation of the Anchor Borrowers' Programme continued in the review period with the disbursement of N12.57 billion for 27 projects, compared with N14.46 billion in the first half of 2016. The cumulative disbursement under the Scheme since inception is N31.52 billion for 80 projects. Accordingly, 183,026 small-holder farmers cultivating 217,750 hectares have been financed. The programme is being implemented in 27 states with the participation of 10 state-led anchors, 47 private-led anchors and 13 participating financial institutions (PFIs) (10 commercial banks, 1 development finance institution, 1 microfinance bank and 1 non-bank financial institution). The commodities financed so far under the scheme include: rice, maize, wheat, soya beans, cotton, cassava, fish and poultry.

Micro, Small and Medium Enterprise Development Fund (MSMEDF) Disbursements to SME and Micro Credit

A total sum of ₦1.59 billion was disbursed to 21 PFIs/State Governments for onward disbursement to beneficiaries in the review period, compared with ₦16.53 billion in the corresponding period of 2016. The sum of ₦15.52 billion was repaid in the review period.

2.2.2 Industry

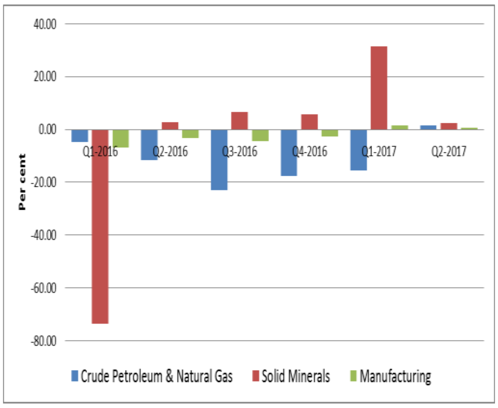
2.2.2.1 Industrial Production

The contraction in industrial output moderated to 5.83 per cent in the first quarter of 2017 from 6.68 and 8.73 per cent in the corresponding and preceding quarters of 2016. The moderation was driven largely by the manufacturing and solid minerals sub-sectors which grew by 1.36 and 31.47 per cent, compared with their respective contractions of 7.00 and 73.63 per cent in the corresponding quarter of 2016. The significant improvement in solid minerals was traceable to activities in quarrying and other mining, which recovered from a deep contraction of 88.87 per cent in the corresponding quarter to a growth of 52.54 per cent in the first quarter of 2017. Also, the substantial recovery of the manufacturing subsector was driven largely by food, beverage and tobacco (4.07%), oil refining (3.01%)

and wood & wood products (2.46%), owing to improved foreign exchange supply for the importation of raw materials and intermediate inputs.

In the second quarter, industrial output grew by 1.45 per cent in the second quarter of 2017 from contractions of 5.83 and 7.19 per cent in the preceding period and the corresponding quarter of 2016. The growth was driven largely by the crude petroleum and manufacturing sub-sectors which grew by 1.64 and 0.64 per cent, compared with their respective growth rates of -11.63 and -3.36 per cent in the corresponding quarter of 2016.

Figure 2.5
Industrial Sector's Contribution by Activity, 2016Q1-2017Q2



Source: NBS

2.2.2.2 Industrial Policy and Institutional Support

The performance of the sector during the review period was sustained by the existing institutional and policy framework as well as incentives and reform measures. These included:

- **N300 Billion Power and Airline Intervention Fund (PAIF)**

During the review period, ₦4.76 billion was disbursed to one power project, compared with N11.59 billion to two power and one airline projects in the first half of 2016. In addition, ₦13.01 billion was repaid in the first half of 2017, compared with ₦11.35 billion in the corresponding period of 2016.

- **Nigerian Electricity Market Stabilization Facility (N213 billion)**

There was no disbursement under this facility in the review period; however, ₦4.48 billion was repaid.

- **Real Sector Support Facility (RSSF)**

In the first half of 2017, the sum of ₦22.73 billion was disbursed to seven (7) projects, compared with ₦1.10 billion for one (1) project in the corresponding period of 2016.

- **Textile Sector Intervention Facility**

The amount released to 17 projects stood at ₦10.29 billion in the first half of 2017 compared with ₦15.19 billion for fourteen (14) projects in the first half of 2016.

2.2.3 Construction and Trade

2.2.3.1 Construction

In the first quarter of 2017, the construction sector grew by 0.15 per cent, up from contractions of 5.37 and 6.03 per cent in the corresponding and preceding quarters of 2016.

In the second quarter, the construction sector grew by 0.13 per cent, up from a fall of 6.28 per cent in the corresponding quarter of 2016 and a growth of 0.15 in the preceding quarter. The increased activity in construction during the period was attributable to improved capital spending arising from enhanced fiscal receipts.

2.2.3.2 Trade

In the first quarter of 2017, activities in the Trade sector further contracted by 3.08 per cent from 1.44 per cent in the preceding quarter of 2016. When compared with the growth of 2.02 per cent in the corresponding quarter of 2016, the sector contracted by 5.10 percentage points.

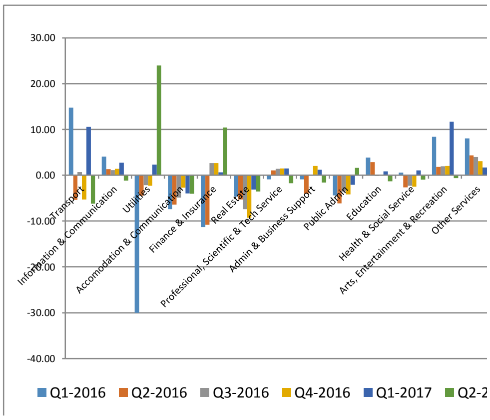
The contraction in the Trade sector moderated to 1.62 per cent in the second quarter of 2017 from 3.08 per cent in the preceding quarter of 2017 and -0.03 per cent in the corresponding quarter of 2016. The performance of this sector could benefit from more consistent trade policy.

2.2.4 Service Sector

In the first quarter of 2017, the sector contracted by 0.37 per cent from a contraction of 1.52 per cent in the preceding quarter and a growth of 0.80 per cent in the corresponding period of 2016. Activities of the sector were largely driven by arts; entertainment and recreation; transport; and information and telecommunication which grew by 11.67, 10.55 and 2.73 per cent, respectively. This compares with their respective growth rates of 8.41, 14.73 and 4.07 in the corresponding quarter of 2016. The performance of the sector was still weighed down by activities in accommodation and food services (-3.96%), real estate (-3.10%) and public administration (-2.07%).

In the second quarter of 2017, the sector further contracted by 0.85 per cent compared with contractions of 0.37 and 1.25 per cent recorded in the preceding quarter and the corresponding period of 2016. The contraction of the sector was moderated by activities in finance and insurance, other services and public administration, which grew by 10.45, 2.33 and 1.63 per cent, respectively. This compares with their respective growth rates of -10.82, 4.32 and -6.13 per cent in the corresponding quarter of 2016. The performance of the sector was weighed down by activities in transport, (-6.18%), real estate (-3.53%) and professional, scientific and technical services (-1.72%).

Figure 2.6
Services Sub-Sector Contribution, 2016Q1-2017Q2



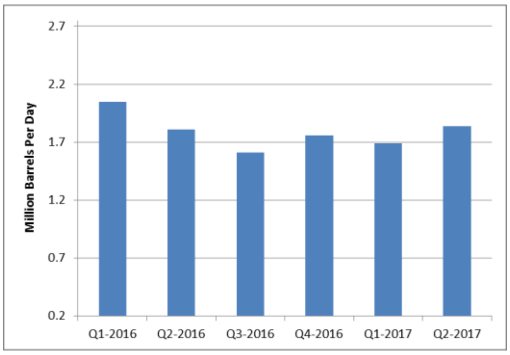
Source: NBS

OIL SECTOR

The oil sector remained weak, although there were signs of improvements in the key activities during the review period. The development stemmed largely from the modest firming up of oil prices in the international market and gradual return of stability in the Niger Delta region, following the suspension of militant activities. Nevertheless, average daily crude oil production fell to 1.69 million barrels per day (mbpd) in the first quarter of 2017, from 1.76 mbpd in the preceding quarter of 2016. This also represented a decline of 17.56 per cent when compared with 2.05 mbpd recorded in the corresponding period of 2016.

In the second quarter of 2017, average daily crude oil production rose to 1.84 million barrels per day (mbpd), from 1.69 and 1.81 mbpd in the preceding quarter of 2017 and the corresponding period of 2016.

Figure 2.7
Quarterly Oil Production (2016Q1-2017Q2)

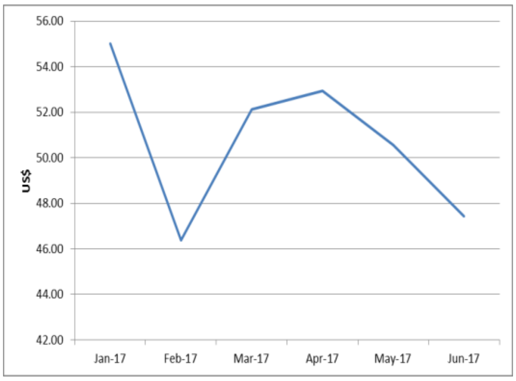


Source: NBS

In the review period, crude oil prices fluctuated downwards, owing to worries over massive build-up of the US crude petroleum inventory, despite the agreement by OPEC to cut production in order to support higher prices. The level of global supply glut, largely driven by US shale production clearly undermined the effectiveness of the actions by OPEC to support prices, particularly in the face of emerging global alternative energy sources. Consequently, the price of Nigeria's reference crude, the Bonny Light 37^{0}API, which stood at US$55.01 per barrel in January 2017, fell to US$46.39/barrel in February. Thereafter, it rose to US$52.13/barrel and US$52.94/barrel in March and April, respectively, before falling to

US$50.57/barrel and US$47.42/barrel in May and June 2017. The persistent weakness in oil prices depressed government fiscal operations as reflected in the accumulation of salary arrears by sub-national governments. Overall, the average price of Bonny Light of US$50.74/barrel in the first half of 2017 was above the Federal Government 2017 budget benchmark price of US$44.50/barrel.

Figure 2.8
Monthly Price of Bonny Light, January – June 2017



Source: Bloomberg

Box 2.1
THE ECONOMIC RECOVERY AND GROWTH PLAN (ERGP) OF THE FEDERAL GOVERNMENT OF NIGERIA

The sharp decline in crude oil prices from mid-June 2014 created serious challenges for most oil exporters including Nigeria. The development saw oil price falling by about 70 per cent from over US$100 per barrel in the preceding periods, thereby putting Nigeria's public finance under severe pressure. The resulting lower fiscal receipt, falling foreign exchange reserves, capital reversals and exchange rate depreciations, coupled with internal security challenges such as militancy in the Niger Delta region, farmer-herdsmen conflicts, and insurgency in the North-East pushed the Nigerian economy into recession in the second quarter of 2016. The development required proactive government policy to stimulate the economy and return it to the path of growth and recovery. It was within this context that the Federal Government developed a medium term economic blue print called the "*Economic Recovery and Growth Plan (ERGP)*", which it launched on April 5, 2017.

The ERGP covers the period of 2017 – 2020 and is an upgrade on the Strategic Implementation Plan (SIP) for the 2016 Budget of Change which was developed as a short-term intervention by the current administration. The ERGP was developed for the purpose of restoring economic growth while leveraging the ingenuity and resilience of the Nigerian people. The ERGP is also expected to rely on science, technology and innovation (STI) to help achieve a knowledge-based economy, and is consistent with the Sustainable Development Goals (SDGs), as it seeks to address economic, social and environmental sustainability challenges.

The ERGP is backed by strong political will to ensure that the Plan delivers on its objectives through focused implementation over the next four years. The Ministry of Budget and National Planning is expected to coordinate the implementation of the plan through monitoring and evaluation. The Plan targets a gross domestic product (GDP) growth rate of 2.19 per cent in 2017 and 7.0 per cent by 2020; oil production of 2.5 million barrels per day (mbpd) by year 2020, privatization of some assets, revamping of local refineries and cut in petroleum product imports by 60 per cent by 2018, and environmental restoration in the Niger Delta, amongst others. The Plan will enable the government maintain a close collaboration with businesses to deepen investments in the agriculture, power, manufacturing, solid minerals and services sectors, and support the private sector to become the engine of national growth and development. As a sign of seriousness, the government merged the Budget and Planning functions into one Ministry to create a stronger link between annual budgets and the ERGP. The ERGP is also expected to ensure collaboration and coordination with sub-national governments to guarantee purposeful delivery of services to the Nigerian people.

The major principle of the ERGP is to eliminate supply-side obstacles that constrain growth in the country, including fuel, power, foreign exchange, and business unfriendly regulations. In addition, the ERGP will leverage on the private sector, promote national cohesion and social inclusion, and allow the market to function, amongst others. The vision of the ERGP is both to achieve economic recovery in the short term and a growth plan outlining strategy for sustainable growth and development in the long term. The ERGP is expected to help the country achieve the national aspiration as contained in the 1999 Constitution by seeking to *promote national prosperity and an efficient, dynamic and self-reliant economy to secure the maximum welfare, freedom and happiness of every citizen on the basis of social justice and equality of status and opportunity*. To achieve this, the ERGP has 3 broad strategic objectives namely: restoring growth, investing in the Nigerian people, and building a globally competitive economy. The key execution priorities of the ERGP include:

i. Stabilizing the macroeconomic environment;

ii. Achieving agriculture and food security;

iii. Ensuring energy sufficiency (power and petroleum products);

iv. Improving transportation infrastructure; and

v. Driving industrialization focusing on Small and Medium Scale Enterprises.

The implementation of the ERGP is expected to support economic growth and overall macroeconomic stability thereby aiding the effectiveness of monetary policy in Nigeria.

CHAPTER 3

3.0 PRICE DEVELOPMENTS

In the first half of 2017, inflationary pressures in the domestic economy moderated, reflecting the effectiveness of the Bank's tight monetary policy. Accordingly, both the headline and core measures of inflation trended downwards, although food inflation increased. Nonetheless, headline inflation remained above the Bank's benchmark of 6.0 – 9.0 per cent. These price developments reflected the combined effects of supply and demand-related factors.

On the supply side, the pressure in the foreign exchange market moderated, following the implementation of further reform measures to boost foreign exchange liquidity. These measures included: the introduction of Investors' and Exporters' (I&E) Foreign Exchange Window for willing buyers and sellers of foreign currency; increased foreign exchange sales to BDCs; special foreign exchange auctions to targeted sectors; introduction of foreign exchange sales for small scale importation; reduction of import and export documentation requirements and processing timelines; and reduction of the tenor of forward foreign exchange transactions from 180 to 60 day cycles. Others were: the directive to all banks to open foreign exchange retail outlets in major airports across the country as well as the increase in the Foreign Exchange Net Open Position (NOP) limit of banks to 10.0 per cent. In addition, the Bank continued the implementation of existing policies and administrative measures to rein-in demand pressures. These policies included: the restriction of access to foreign exchange for 41 items, the use of bank verification number (BVN) in BDC transactions; mandating of international money transfer operators (IMTOs) to sell foreign exchange to BDCs; as well as restrictions on the use of naira debit cards abroad. Furthermore, the improvement in foreign exchange liquidity was also partly due to improved foreign exchange receipts, following the modest firming up of oil prices in the review period. Consequently, the naira exchange rate appreciated in both the parallel and BDC segments of the foreign exchange market, with substantial pass-through to lower domestic prices.

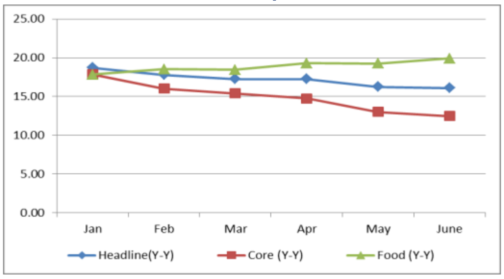
The demand side reflected developments in the money market during the review period. Money market rates remarkably trended upwards initially indicating signs of liquidity shortage in the banking system which, however, reversed towards the end of the period due to improved Federation Account Allocation Committee (FAAC) disbursements, maturing OMO bills, FGN capital releases and Paris Club debt refunds to sub-national governments.

3.1 Trend in Inflation

During the review period, all measures of inflation, except food, trended downwards.

The food and core measures of the consumer price index (CPI) increased consistently from 221.4 and 210.0 in January to 246.3 and 223.0, respectively, in June 2017. In consequence, the food inflation (year-on-year) rose by 2.09 percentage points from 17.82 per cent in January to 19.91 per cent in June 2017, while core inflation declined by 5.4 percentage points to 12.5 per cent from 17.9 per cent. As a result, headline inflation declined from 18.72 per cent in January to 16.10 per cent in June 2017 (Figure 3.1 and Table 3.1). Thus, the core component moderated consumer prices during the period, although the food component remained the key driver of headline inflation based on its weight in the consumer basket.

Table 3.1
Inflation Rates, January – June 2017



Source: NBS

Table 3.1
Inflation Rates, January – June 2017

	Headline Inflation			Core Inflation			Food Inflation		
	CPI	Y-on-Y	12MMA	CPI	Y-on-Y	12MMA	CPI	Y-on-Y	12MMA
Jan-17	215.7	18.7	16.4	210.0	17.9	16.0	221.4	17.8	15.5
Feb-17	218.9	17.8	17.0	212.3	16.0	16.4	225.8	18.5	16.1
Mar-17	222.7	17.3	17.3	215.1	15.4	16.7	230.8	18.4	16.6
Apr-17	226.3	17.2	17.6	217.5	14.8	16.8	235.5	19.3	17.1
May-17	230.5	16.3	17.6	220.0	13.0	16.6	241.5	19.3	17.5
Jun-17	234.2	16.1	17.6	223.0	12.5	16.2	246.3	19.9	17.9

Source: NBS

3.1.1 Headline Inflation

The decline in domestic prices during the review period was reflected in the drop witnessed in the major components of headline inflation. The major drivers of headline inflation during the period were housing, water, electricity, gas and other fuels which significantly dropped from 4.65 per cent in January to 2.02 per cent in June 2017. Similarly, transport decreased from 1.10 to 0.78 per cent during the period. Others were: clothing & footwear, furnishings, household, equipment & maintenance, and education which decreased from 1.34, 0.65 and 0.74 per cent in January to 1.17, 0.51 and 0.56 per cent in June 2017, respectively (Table 3.2 and Figure 3.4). Food and non-alcoholic beverages, however, exerted upward pressure on the composite index, rising from 9.43

per cent in January to 10.41 per cent in June 2017. Overall, headline inflation fell due to the combined effects of decrease in the prices of Housing, water, electricity, gas & other fuels; transport; education; and clothing & footwear.

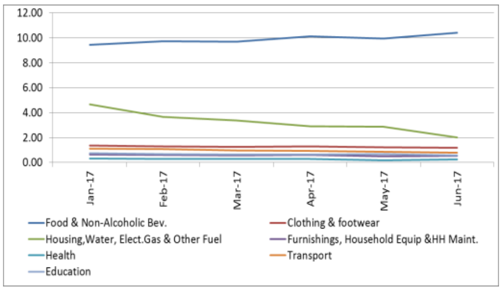
The downward trend in inflationary pressures during the period was traceable to the base effects and the return of stability to the foreign exchange market due to the implementation of a number of policy measures during the review period. Also, Governments' introduction of the Economic Recovery and Growth Plan (ERGP) provided a strategic roadmap to the economy which restored investor confidence and moderated inflation expectations. In addition, the sustained tight monetary policy stance of the Bank rein-in liquidity and dampen inflationary pressures.

Table 3.2
Major Components of Headline Inflation (Y-on-Y), January – June, 2017

	Headline	Food & Non-Alcoholic Bev.	Clothing & footwear	Housing,Water, Elect.Gas & Other Fuel	Furnishings, Household Equip &HH Maint.	Health	Transport	Education
Jan-17	18.72	9.43	1.34	4.65	0.65	0.30	1.10	0.74
Feb-17	17.78	9.73	1.30	3.65	0.61	0.29	1.06	0.68
Mar-17	17.26	9.70	1.24	3.37	0.57	0.28	0.98	0.65
Apr-17	17.24	10.13	1.27	2.92	0.59	0.29	0.94	0.64
May-17	16.25	9.94	1.23	2.87	0.48	0.16	0.85	0.67
Jun-17	16.10	10.41	1.17	2.02	0.51	0.25	0.78	0.56

Source: NBS

Figure 3.2
Major Components of Headline Inflation (Y-on-Y), January – June, 2017



Source: NBS

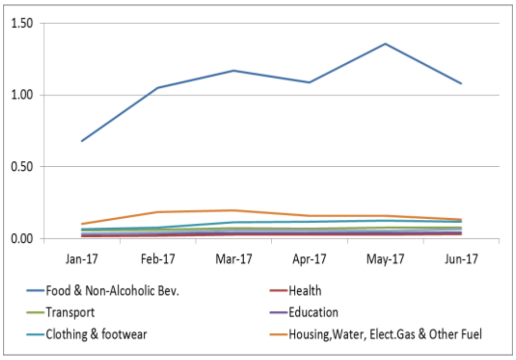
On a month-on-month basis, headline inflation trended upwards from 1.01 per cent in January to peak at 1.88 per cent in May, before declining to 1.58 per cent in June 2017. The major components that accounted for the increase were the prices of food and non- alcoholic beverage, which rose from 0.68 to 1.08 per cent; clothing and footwear rose from 0.07 to 0.12 per cent; and housing, water, electricity, gas and other fuels rose from 0.10 to 1.13 per cent in the review period (Table 3.3 and Figure 3.5).

Table 3.3
Major Components of Headline Inflation (M-on-M), January – June, 2017

	ALL-ITEM	Food & Non-Alcoholic Bev.	Health	Transport	Education	Clothing & footwear	Housing,Water, Elect.Gas & Other Fuel	Furnishings, Household Equip &HH Maint.
Jan-17	1.01	0.68	0.02	0.06	0.03	0.07	0.10	0.04
Feb-17	1.49	1.05	0.02	0.06	0.04	0.08	0.19	0.04
Mar-17	1.72	1.17	0.03	0.07	0.04	0.11	0.20	0.06
Apr-17	1.60	1.09	0.03	0.07	0.04	0.12	0.16	0.06
May-17	1.88	1.35	0.03	0.08	0.04	0.13	0.16	0.05
Jun-17	1.58	1.08	0.03	0.08	0.04	0.12	0.13	0.06

Source: NBS

Figure 3.3
Major Components of Headline Inflation (M-on-M), January – June, 2017



Source: NBS

3.1.2 Food Inflation

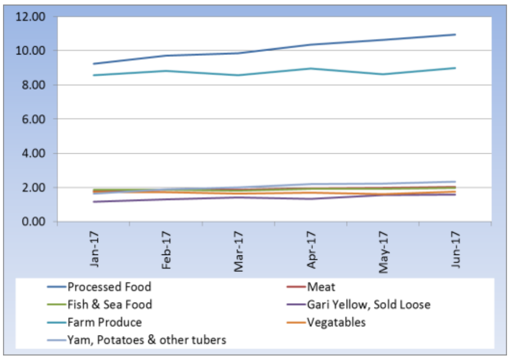
Food inflation (year-on-year) increased by 2.09 percentage points to 19.91 per cent in June 2017 from 17.82 per cent in January. The increase was largely attributed to the rise in the prices of its components, namely: processed food and farm produce. The price of processed food rose significantly by 1.69 percentage points from 9.24 to 10.93 per cent, while farm produce increased by 0.53 percentage point from 8.45 to 8.98 per cent in the review period. The major drivers of the increase in processed food category were meat; and fish & sea food, which rose from 1.73 to 2.02 per cent and 1.85 to 1.97 per cent, respectively. The rise in food prices was largely attributed to continuing food supply shortages occasioned by scarcity of foreign exchange for food imports as well as incessant herdsmen-farmer conflicts which affected farming activities. Other perennial factors that continued to undermine agricultural activities with inflationary consequences included: sporadic attacks by Boko Haram terrorist in the North-East, hikes in the price of farm inputs including fertilizer and pesticides as well as high cost of transportation due to bad roads (Table 3.4 and Figure 3.6).

Table 3.4
Major Components of Food Inflation (Y-on-Y), Jan - June 2017

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Change Jan. - June 2017
Food	17.82	18.53	18.44	19.30	19.27	19.91	2.10
Processed Food	9.24	9.71	9.86	10.34	10.63	10.93	1.69
Meat	1.77	1.85	1.87	1.96	1.99	2.02	0.25
Fish & Sea Food	1.87	1.87	1.82	1.92	1.92	1.97	0.09
Gari Yellow, Sold Loose	1.17	1.30	1.43	1.33	1.54	1.59	0.42
Farm Produce	8.58	8.82	8.57	8.96	8.63	8.98	0.41
Vegatables	1.73	1.74	1.65	1.69	1.61	1.75	0.03
Yam, Potatoes & other tubers	1.65	1.89	1.99	2.20	2.24	2.33	0.68

Source: NBS

Figure 3.4
Major Components of Food Inflation (Y-on-Y), Jan - Jun 2017



Source: NBS

Consistent with the year-on-year trajectory, food inflation on a month-on-month basis also rose from 1.29 per cent in January to 1.99 per cent in June 2017, an increase of 0.70

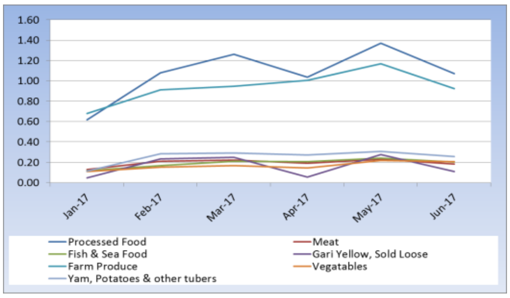
percentage point. The price of processed food rose by 0.45 percentage point from 0.62 to 1.07 per cent; and farm produce by 0.24 percentage point from 0.68 to 0.92 per cent, over the review period. Thus, the 0.70 percentage point increase in food inflation was due largely to the 0.45 percentage point increase in processed food and 0.24 percentage point increase in farm produce. The major drivers of the increase in processed food category were: fish & sea food; and meat, which increased from 0.11 and 0.13 per cent to 0.20 and 0.18 per cent, respectively, in the review period.

Table 3.5
Major Components of Food Inflation (M-on-M), Jan-Jun 2016

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Change Jan. - June 2017
Food	1.29	1.99	2.21	2.04	2.54	1.99	0.70
Processed Food	0.62	1.08	1.26	1.04	1.37	1.07	0.45
Meat	0.13	0.21	0.22	0.19	0.23	0.18	0.05
Fish & Sea Food	0.11	0.17	0.21	0.21	0.24	0.20	0.09
Gari Yellow, Sold Loose	0.05	0.23	0.25	0.06	0.27	0.11	0.06
Farm Produce	0.68	0.91	0.95	1.00	1.17	0.92	0.25
Vegatables	0.11	0.15	0.17	0.14	0.22	0.21	0.10
Yam, Potatoes & other tubers	0.11	0.28	0.29	0.27	0.31	0.26	0.14

Source: NBS

Figure 3.5
Major Components of Food Inflation (M-on-M), Jan - Jun 2017



Source: NBS

3.1.3 Core Inflation

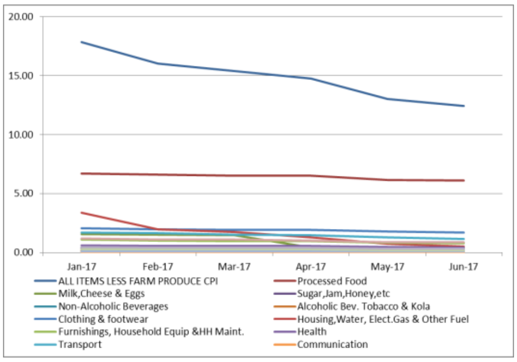
Core inflation (year-on-year) trended downwards from 17.87 per cent in January to 12.46 per cent in June 2017, reflecting a decrease of 5.41 percentage points. The decrease was largely accounted for by housing, water, electricity, gas & other fuels (2.85 percentage points); milk, cheese and eggs (1.17 percentage points), processed food (0.62 percentage point); and transport (0.54 percentage point). All components of core inflation declined over the review period except non-alcoholic beverages, which increased by 0.05 percentage point from 0.13 per cent in January to 0.18 per cent in June 2017. The major drivers of the processed food component were: milk, cheese and eggs (1.17 percentage points); and sugar, jam, honey, etc (0.20 percentage point). The decrease in core inflation was largely due to base effects and the Bank's recent policy measures to improve liquidity in the foreign exchange market and stabilize the exchange rate (Table 3.6 and Figure 3.8).

Table 3.6
Major Components of Core Inflation
(Y-on-Y) Jan – Jul. 2017

YEAR-ON-YEAR (CORE)	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Change btw Jan. to Jun. 2016
ALL ITEMS LESS FARM PRODUCE CPI	17.87	16.01	15.40	14.75	13.02	12.46	-5.41
Processed Food	6.70	6.61	6.51	6.50	6.14	6.09	-0.62
Milk,Cheese & Eggs	1.54	1.52	1.48	0.40	0.37	0.37	-1.17
Sugar,Jam,Honey,etc	0.38	0.39	0.41	0.18	0.19	0.18	-0.20
Non-Alcoholic Beverages	0.13	0.14	0.15	0.16	0.16	0.18	0.05
Alcoholic Bev. Tobacco & Kola	0.19	0.18	0.17	0.17	0.14	0.13	-0.06
Clothing & footwear	2.05	1.97	1.90	1.90	1.78	1.71	-0.34
Housing,Water, Elect.Gas & Other Fuel	3.35	1.98	1.76	1.30	0.75	0.50	-2.85
Furnishings, Household Equip &HH Maint.	1.08	1.02	0.97	0.95	0.82	0.80	-0.28
Health	0.60	0.56	0.55	0.53	0.45	0.43	-0.17
Transport	1.70	1.64	1.53	1.45	1.26	1.17	-0.54
Communication	0.03	0.03	0.03	0.03	0.02	0.02	-0.01
Recreation & culture	0.08	0.08	0.08	0.08	0.08	0.08	0.00
Education	1.21	1.11	1.08	1.03	0.89	0.87	-0.35
Restaurant & Hotels	0.30	0.28	0.29	0.26	0.21	0.20	-0.10
Miscellaneous Goods & Services	0.45	0.42	0.41	0.39	0.31	0.30	-0.14

Source: NBS

Figure 3.6
Major Components of Core Inflation
(Y-on-Y) Jan – Jul. 2017



Source: NBS

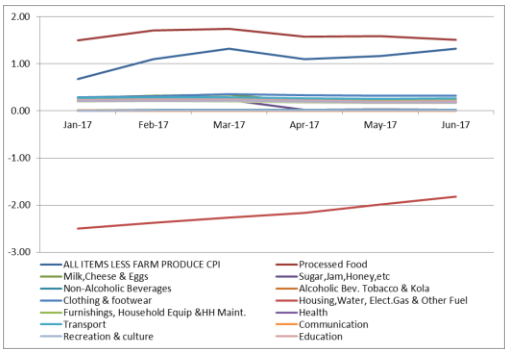
Core inflation on a month-on-month basis, however, rose from 0.68 per cent in January to 1.32 per cent in June 2017, an increase of 0.65 percentage point. Housing, water, electricity gas & other fuel remained the major drivers of core inflation, increasing from -2.50 per cent in January to -1.82 per cent in June 2017. This was followed by clothing and foot wear which increased from 0.28 per cent in January to 0.32 per cent in June 2017. Non-alcoholic beverages also increased from 0.01 per cent in January to 0.03 per cent in June 2017 (Table 3.7 and Figure 3.9).

Table 3.7
Major Components of Core Inflation
(M-on-M) Jan – Jul. 2017

MONTH-ON-MONTH (CORE)	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Change btw Jan. to Jun. 2016
ALL ITEMS LESS FARM PRODUCE CPI	0.68	1.10	1.32	1.10	1.17	1.32	0.65
Processed Food	1.50	1.70	1.74	1.58	1.59	1.50	0.01
Milk,Cheese & Eggs	0.28	0.32	0.34	0.20	0.19	0.19	-0.08
Sugar,Jam,Honey,etc	0.21	0.23	0.23	0.02	0.03	0.02	-0.19
Non-Alcoholic Beverages	0.01	0.02	0.02	0.02	0.02	0.03	0.02
Alcoholic Bev. Tobacco & Kola	0.01	0.01	0.01	0.01	0.01	0.01	0.00
Clothing & footwear	0.28	0.31	0.35	0.33	0.33	0.32	0.04
Housing,Water, Elect.Gas & Other Fuel	-2.50	-2.37	-2.26	-2.17	-1.99	-1.82	0.68
Furnishings, Household Equip &HH Maint.	0.24	0.26	0.27	0.25	0.22	0.25	0.00
Health	0.21	0.23	0.23	0.20	0.19	0.20	-0.01
Transport	0.27	0.29	0.29	0.27	0.25	0.26	-0.01
Communication	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Recreation & culture	0.00	0.01	0.01	0.01	0.01	0.00	0.00
Education	0.24	0.25	0.24	0.22	0.20	0.21	-0.02
Restaurant & Hotels	0.20	0.21	0.20	0.18	0.16	0.17	-0.03
Miscellaneous Goods & Services	0.21	0.21	0.22	0.20	0.17	0.18	-0.03

Source: NBS

Figure 3.7
Major Components of Core Inflation
(M-on-M) Jan – Jul. 2017



Source: NBS

3.1.5 Seasonally-Adjusted Inflation

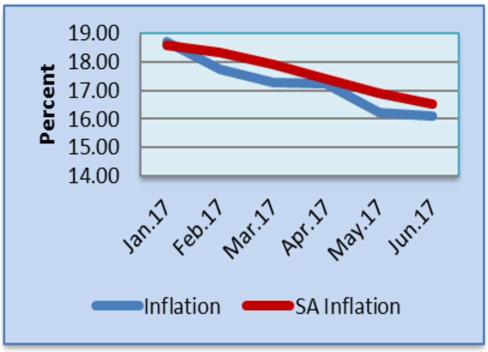
In the first half of 2017, both the actual and seasonally-adjusted headline inflation trended downwards (Table 3.8 and Figure 3.10). The movement in actual headline inflation reflected the general price developments in the economy. Actual headline inflation remained below the seasonally-adjusted headline inflation for most of the review period, due to the strong base effects, which could not be overwhelmed by the seasonal factors. Nonetheless, the general downward trend in both actual and seasonally-adjusted measures of inflation were ascribed to: the base effects; measures by the Bank to stabilize the foreign exchange market with pass-through to lower domestic prices; stable energy prices as well as improved accretion to reserves arising from the firming up of crude oil prices during the period.

Table 3.8
Actual and Seasonally Adjusted Headline Inflation Jan -June 2017

Date	Inflation	S-A Inflation
Jan.17	18.70	18.58
Feb.17	17.76	18.34
Mar.17	17.26	17.91
Apr.17	17.24	17.42
May.17	16.25	16.92
Jun.17	16.10	16.53

Source: NBS

Figure 3.8
Actual and Seasonally Adjusted Headline Inflation January - June 2017



Source: NBS

3.2 Key Factors that Influenced Domestic Prices

Price developments during the first half of 2017 were driven by a number of factors including strong base effects, appreciation of the naira following sustained interventions by the CBN in the foreign exchange market, weak consumer spending arising from many months of unpaid wages; some modest resumption in farming activities and the rebuilding of damaged distribution chains in the North-East. Others were the introduction of the Economic Recovery and Growth Plan, which provided a strategic roadmap for the economy and promoted investor confidence as well as the sustained tight monetary policy stance of the Bank that rein-in liquidity and dampened inflationary pressures. However, the above developments overwhelmed the following factors that continued to exert pressure on prices: the liquidity effect of the expansionary 2016 and 2017 Federal Government budgets as well as rising food shortages due to unfavourable agricultural season, and the herdsmen-farmer conflicts in some parts of the country. These factors are categorized into demand side, supply side and moderating factors as discussed below.

3.2.1 Demand-side Factors

The moderation in headline inflation was largely attributed to base effects and the tight monetary policy stance of the Bank. In addition, the relative stability in the foreign exchange market, due to measures by the Bank to improve liquidity in the market as well as weak aggregate demand, owing to the non-payment of salaries and pensions by sub-national governments, also moderated pressures on domestic prices.

3.2.2. Supply-side Factors

The supply side factors that exerted pressures on domestic price levels included the continuing food supply shortages occasioned by scarcity of foreign exchange for food imports, as well as unfavourable agricultural season and incessant herdsmen-farmer conflicts which affected farming activities and reduced productivity. Other perennial factors that continued to undermine economic activities with inflationary consequences were: sporadic attacks by Boko Haram in the North-East, hikes in the price of farm inputs including fertilizer and pesticides as well as costs of transportation due to bad roads. In addition, the current output contraction, which reduced aggregate supply in the face of foreign exchange scarcity for intermediate imports also put pressure on prices.

3.2.3 Moderating Factors

In the first half of 2017, the factors that moderated domestic prices included stable energy prices and transportation costs, indicating that the effect of the price adjustments in recent times had fully abated. Other factors were the modest resumption in farming activities and the rebuilding of damaged distribution chains in the North East following the success recorded in the campaign against insurgency. In addition, the introduction of the Economic Recovery and Growth Plan provided a strategic roadmap for the economy and restore investor confidence thereby moderating inflation expectations.

Box 3.1

Executive Orders and Economic Growth in Nigeria

Executive Orders are presidential directives that are signed by the President or Head of the Executive arm of government intended to rejuvenate and reinvigorate processes required to stabilize various aspects of governance including the economy, security, foreign relations and other issues. In the exercise of the foregoing presidential authorities conferred on the Executive arm of government, Acting President Yemi Osinbajo, on May 18, 2017, signed three executive orders; Viz: The Promotion of Transparency and Efficiency in the Business Environment; Support for Local Contents in Public Procurement by the Federal Government; and Timely Submission of Annual Budgetary Estimates by all Statutory and Non-statutory Agencies. A fourth executive order, titled Voluntary Assets and Income Declaration Scheme (VAIDS) was similarly signed on June 29, 2017.

The Executive Orders are part of government efforts at providing an enabling environment for the achievement of the key pillars of the Economic Recovery and Growth Plan (ERGP) to help restart and restore the recovering economy to its long-run growth path. To support this growth plan, government through the instrumentality of the Executive Orders sought to address major bottlenecks in conducting business as well as other options of raising revenue beyond dependence on oil revenue.

The Executive Order on Support for Local Contents in Public Procurement directs MDAs to give preference to local manufacturers of goods and service providers in their procurements. The Order signified the much-needed political will to promote the 'made in Nigeria' initiative through the public procurement process. The order mandated MDAs to give special preference to locally produced or made-in-Nigeria items by devoting at least 40.0 per cent of the procurement expenditure on them. Offers, bids or proposal for goods and services by MDAs must clearly state the preference to local manufacturers and service providers.

The Executive Order on the budget process was designed to improve the budgeting process, redress the challenges associated with delayed budget submission and passage, as well as the poor planning of estimates over the short- and medium-term. The Order set applicable timelines for the submission of the annual budget estimates of Ministries, Departments and Agencies (MDAs). It provided that MDAs should submit their schedule of revenue and expenditure estimates for the next three years to the Minister of Finance; and the Minister of Budget and National Planning on or before end of May, while their annual budget estimates were to be submitted on or before the end of July. It further forbids MDAs from making any payments with regards to any capital or recurrent liability, without an approved budget and the payment must be in conformity with the budget. In addition, the Order directed the accrual to the consolidated revenue fund of the Federal Government, all revenue or other funds of MDAs in excess of the amounts budgeted and duly expended.

One of the major thrusts of the Economic Recovery and Growth Plan is to create an enabling environment for business by improving the ease-of-doing-business in Nigeria for businesses to thrive. In pursuant of this, a 60-day National Action Plan was approved and implemented across Entry and Exit of goods; Entry and Exit of people and Government; and Transparency and Procurement by the Presidential Enabling Business Environment Council (PEBEC) in February 2017. The success of the Action Plan precipitated the issuance of the Executive Order on the Promotion of Transparency and Efficiency in the Business Environment, to build on the successes of PEBEC action plan and extend the gains to the entire public sector. The provisions of the Order, amongst others, mandated MDAs to publish a complete list of all requirements or conditions for obtaining products and services within their respective scope of responsibility. The Order provided for the issuance of default approvals to applications in instances when government officials fail to respond within stipulated timelines. Erring government officers will be subjected to appropriate disciplinary proceedings in accordance with the civil service law and regulations. Furthermore, the Order abolished bottlenecks and delays associated with multiple verifications by different government agencies. Applicants would only be required to provide photocopies of document while the verification of such document would be carried out by government agencies. The Order also directs immigration processes to be more transparent, while doing businesses at port of entry to be eased. All government agencies at the airports are to merge their respective departure and arrival formalities into a single customer interface and harmonize their operations into one single interface station domiciled in one location in the port and implemented by a single joint task force. Finally registration processes at the CAC are to be fully automated through the CAC website and online payment solutions provided where necessary.

The Executive Order on Voluntary Assets and Income Declaration Scheme (VAIDS) was designed to be a tax amnesty programme that offers a platform for tax defaulters to voluntarily regularize their tax compliance records by declaring and paying their tax liabilities that accrued from assets and income derived from sources both within and outside Nigeria for the preceding six (6) years. By so doing it provides opportunity for government to widen its tax base and improve tax efforts. The Scheme is intended to be operational for a 9 month period: between July 2017 and March 2018. The provisions of the executive order were applicable to all tax entities and in conformity with extant tax laws in Nigeria. It thus offers a leeway for individuals and corporate bodies that have earned income, but failed to register, or registered but, defaulted or underpaid their tax obligations to both the Federal and subnational tax authorities. The benefits of the tax amnesty also extend to businesses that are already under audit investigation by tax authorities or undergoing legal litigation over their tax liabilities, provided they are disposed to taking advantage of the amnesty for an out-of-court settlement.

The adoption and implementation of the Executive Orders by MDAs is expected to accelerate the attainment of the goals of the ERGP and stimulate growth of the domestic economy in several ways.

The Executive Order on the budgeting process will address challenges associated with the budget planning, approval and implementation processes in the country. This will facilitate the efficiency of resource mobilization into critical sectors and development of key infrastructure for economic growth.

The Executive Order on local content would drive the expansion of local small- and medium-scale enterprises and stimulate growth of employment generation. Also, the order would stimulate the growth of import-substitution industries, and support the policy of the Central Bank of Nigeria of denying access to foreign exchange for some items that could easily be produced locally, thereby saving scarce foreign exchange. In the long run, this policy would deepen the country's industrialization process as well as encourage the transfer of technology to the country.

The implementation of the Executive Order on the Promotion of Transparency and Efficiency in the Business Environment would make the Nigerian business and investment environment more friendly to attract the much needed foreign inflows, and make the country the prime investment destination in Africa. In addition, it would lead to the emergence of a competitive business climate that enhances the transmission mechanism of monetary policy.

CHAPTER FOUR

4.0 MONETARY POLICY AND LIQUIDITY MANAGEMENT

Developments in the global and domestic economic and financial environments continued to shape the design and implementation of monetary policy in the first half of 2017. The key developments in the global economy were the persistence of uncertainties in major advanced and emerging economies such as the rising wave of populist and protectionist sentiments, aggravated by the United States as well as the trigger of Article 50 of the Lisbon treaty in March 2017 to kick start BREXIT. Others were: the divergent monetary policy stance in the advanced economies; disorderly commodity price movements, culminating in sluggish global output growth; the increased US Shale oil production, despite OPEC's decision to cut output; as well as weakening international cooperation, following anti-globalization sentiments in major advanced economies. In the emerging market and developing economies, the challenges were: low commodity prices, rising inflation, currency instability, weak aggregate demand and subdued capital flows.

The domestic economy witnessed a more promising development as the recession bottomed out. There was also moderation in domestic price developments following measures undertaken to stabilize the foreign exchange market. However, the key challenges to monetary policy included persisting liquidity surfeit in the banking system, weakening financial stability indicators, contraction in private sector credit, expansionary fiscal policy, and rising debt profile of the general government, including the unhealthy phenomenon of accumulation of salary arrears by sub-national governments. The need to restore price stability conducive to economic growth and sustain confidence in the financial markets, were the key considerations underlying monetary policy decisions in the review period.

4.1 Decisions of the Monetary Policy Committee (MPC)

The decisions of the Monetary Policy Committee (MPC) were influenced by the nature of global and domestic economic developments during the review period. The primary issues of concern from the global front were: the economic and financial market uncertainties that surrounded the assumption of office of the new US President with the America-First policy, and the progress towards BREXIT negotiations in Europe. Others were the economic implications of the elections in France and the United Kingdom (UK) against the backdrop of rising protectionist and anti-globalization sentiments, monetary policy divergence across major advanced economies, and the generally weak commodity prices.

On the domestic front, the key challenges were persisting weaknesses in the economy reflected in continuing output contraction and high unemployment rate, which were exacerbated by weak fiscal activities, contraction in private sector credit, sustained demand pressure in the foreign exchange market and weakening financial system indicators. Added to these was the slowly abating inflationary pressure, largely driven by strong base effects.

4.1.1 January 2017 MPC Meeting

The January 2017 MPC meeting re-assessed the headwinds which confronted the Nigerian economy in 2016 and the opportunities for recovery in 2017. On the global front, the Committee observed that uncertainties in the external environment persisted due to a combination of recent political and economic developments, including: BREXIT, rising wave of populist and anti-globalization sentiments, divergent monetary policy stance in the advanced economies and disorderly commodity price movements, culminating in sluggish global output growth. The emerging market and developing economies continued to be confronted with strong headwinds from low commodity prices, rising inflation, currency instability, weak aggregate demand and subdued capital flows.

Developments on the domestic front indicated that the economy further contracted by 2.24 per cent in Q3 2016, having slipped into recession in the preceding quarter. The Committee noted that by their nature, the key undercurrents driving the output contraction, namely: scarcity of foreign exchange, low fiscal activity, high energy prices and accumulation of salary arrears were not directly amenable to monetary policy actions. Headline inflation (year-on-year) rose to 18.55 per cent in December 2016 from 18.48 and 18.33 per cent in November and October, respectively, thus sustaining its upward momentum. The Committee was concerned that the structural factors driving the sustained pressure on consumer prices, such as the high cost of power, energy, transport and production factors, as well as rising prices of imports, were yet to abate.

The Committee observed that the financial markets remained relatively calm, following measures by the Bank to restore stability in the foreign exchange market. As a result, the average naira exchange rate remained stable at the inter-bank segment of the foreign exchange market, although capital market indices: the All Shares Index and

Market Capitalization, fell by 2.04 and 2.05 per cent, respectively, relative to end-December 2016, reflecting the challenges confronting the economy.

The key considerations underlying MPC decisions were the implications of the rising wave of nationalistic sentiments across the West, the re-evaluation of trade agreements and the possibility of rapid monetary policy normalization in the United States, with adverse consequences for other countries, including Nigeria. Also, the uncertainties underpinning the implementation of BREXIT, and the apparent retreat from globalisation and free trade were taken into account. In recognition of the imminent structural shift in the global economy in the years ahead, the Committee reiterated the need for more inward looking policies and efforts towards the diversification of the domestic economy.

The MPC also reflected on most of its decisions in 2016, which were informed by the need to address the delicate balance between price stability and growth, however, economic recession persisted and inflationary pressures remained heightened. The Committee noted that the current situation was not amenable to simplistic analyses and quick fixes was increasingly expressed in various fora and the media. In the Committee's view, domestic economic challenges which included a chronically import dependent consumption culture, lack of competitiveness of many sectors and yawning infrastructural gap, combined with an unfavourable external environment had complicate macroeconomic policy management.

In terms of the outlook, the Committee noted the positive contribution of agriculture to GDP in the third quarter of 2016, largely attributable to the Bank's interventions in the sector. The MPC hoped that output growth would resume in the short-to-medium term, given the thrust of the 2017 Federal Government budget and accompanying sectoral policies. The Committee believed that Inflationary pressures would begin to subside as non-oil output recovered and the naira exchange rate stabilized. Until then, it stressed that a rate cut would worsen inflationary conditions and undermine the current outlook for stability in the foreign exchange market. Furthermore, it would further aggravate demand pressures, worsen the inflationary spiral and reduce confidence for foreign and domestic investments. From a financial stability standpoint, the Committee noted the possible impact of the inclement macroeconomic environment on the banking industry resilience. Accordingly, the MPC urged the Bank to engage industry operators on issues of asset quality, credit concentration and high foreign exchange exposures.

In consideration of the headwinds in the domestic economy and the uncertainties in the global environment, the Committee unanimously voted to retain the MPR at 14.0 per cent, alongside all other policy parameters. In summary, the MPC decided to: Retain the MPR at 14.0 per cent; Retain the CRR at 22.5 per cent; Retain the Liquidity Ratio at 30.00 per cent; and Retain the Asymmetric corridor at +200 and -500 basis points around the MPR.

4.1.2 March 2017 MPC Meeting

The March 2017 MPC meeting evaluated the prevailing global and domestic macroeconomic environments, noting that adverse external and domestic conditions continued to complicate the policy environment. The global economy witnessed greater momentum in Q4 2016, although the external environment continued to be plagued by political, economic and financial market uncertainties, which features were: BREXIT, growing protectionist and anti-globalization sentiments, divergent monetary policies in the advanced economies and volatile commodity price movements.

The MPC noted the slip in oil prices against the backdrop of fears of a global supply glut, likely from increased US Shale oil production, despite OPEC's decision to cut output. The Committee was also concerned about the resumption of the pace of US monetary policy normalization and the potential spillover effects on global capital flows and interest rates. The MPC observed that challenges in the emerging market and developing economies persisted, as they struggled to combat strong headwinds from low commodity prices, rising inflation, currency volatility, receding real income and capital reversals. It was, however, reassuring to the Committee that in spite of these constraints, the IMF projected improvement in global growth from 3.1 per cent in 2016 to 3.4 per cent in 2017.

On the domestic front, available data showed that the contraction of the economy moderated to 1.30 per cent in Q4 2016, which suggested that the recession may have bottomed out. Overall, in 2016, the economy contracted by 1.51 per cent. The Committee was still convinced that fiscal policy remained the most potent panacea to the key negative undercurrents of stunted economic activity, heightened unemployment and high inflation. The Committee reemphasized the necessity of diversifying the economy away from oil, and cautioned that despite the recent moderate recovery, the era of high oil prices was over.

The MPC also observed that headline inflation (year-on-year) declined for the first time in 15 months, dropping by 0.94 percentage point to 17.78 per cent in February, from 18.72 per cent in January 2017, and 18.55 per cent in December 2016, reversing the upward momentum. However, month-on-month inflation trended upwards, which the Committee attributed to the sustenance of the structural factors which mounted pressure on consumer prices, such as the high cost of power and energy, transport and production factors, as well as rising prices of imports. Nonetheless, the Committee was optimistic that the adopted policy stance and other ancillary measures, aimed at improving the agricultural and other key sectors of the economy, would restart growth and drive down prices in the short to medium-term.

The Committee was satisfied with the relative stability in the financial markets as the average naira exchange rate remained stable in the inter-bank foreign exchange market. It welcomed the improved implementation of the foreign exchange policy that resulted in the recent appreciation of the naira. The MPC, however, noted the decline in the equities segment of the capital market as the All-Share Index (ASI) and stock Market Capitalization (MC) decreased by 3.12 and 3.03 per cent, respectively, relative to end-December 2016. This development reflected the challenges still confronting the economy.

The Committee also evaluated other challenges confronting the domestic economy and the opportunities for achieving price stability conducive to growth in 2017. These were: persisting inflationary pressure; continued output contraction; high unemployment rate; elevated demand pressure in the foreign exchange market; low credit to the real sector and weakening financial system indicators.

The broad policy considerations the Committee faced with at the meeting in view of the delicate macroeconomic environment were to ease, tighten or hold policy. The argument for loosening the stance of monetary policy was premised on the need to stimulate aggregate demand through lower interest rates and cheaper credit to address the current recession. However, the arguments against loosening were anchored on the upward trending month-on-month inflation and its impact on the exchange rate as loosening would worsen the already negative real interest rate and reverse the positive outlook for the current account. Also, since interest rates are sticky downwards, loosening may not necessarily transmit to lower retail lending rates.

The argument for tightening was anchored on the need to address inflationary pressures and achieve positive real interest rates to attract foreign inflows to moderate demand pressures in the foreign exchange market. However, tightening at this time would portray the Bank as being insensitive to growth concerns. Also, deposit money banks may easily reprice their assets which could undermine financial system stability.

On balance, the Committee was on the opinion that it may not be necessary to change the course of policy in view of the fragile macroeconomic stability so far achieved. Also, the need to allow previous policy measures including the implementation of the newly introduced Economic Recovery and Growth Plan, the new foreign exchange policy to permeate the economy, so also is the current effort by the Federal Government to restore peace in the Niger Delta region, on order to revive economic growth and stabilize prices.

The Committee, in consideration of the headwinds in the domestic economy and the uncertainties in the global environment, decided by 9 out of 10 members, to retain the MPR at 14.0 per cent alongside all other policy parameters. One member voted to raise the MPR. In summary, the MPC decided to: Retain the MPR at 14 per cent; Retain the CRR at 22.5 per cent; Retain the Liquidity Ratio at 30.00 per cent; and Retain the Asymmetric corridor at +200 and -500 basis points around the MPR.

4.1.3 May 2017 MPC Meeting

At the May 2017 Monetary Policy Committee (MPC) meeting, the challenges confronting monetary policy from the global and domestic environments were assessed against the backdrop of slowly improving global growth prospects, and weakening international cooperation, which continued to be threatened by anti-globalization sentiments in major advanced economies. The challenges included: continued global uncertainties arising from the dwindling commitment to global cooperation, possibility of lower oil prices due to renewed investment in shale oil exploration and production, unsteady commodity prices as well as continued monetary policy normalization by the U.S. Fed, which may result in capital reversal from emerging market economies, including Nigeria.

The Committee observed that global output growth continued to gather momentum, and was estimated to expand by 2.8 per cent (annualized) in Q1 2017. In spite of the fairly optimistic global economic outlook, uncertainties surrounding the direction of macroeconomic policy in the advanced economies continued to cloud recovery prospects.

On the domestic front, data from the National Bureau of Statistics (NBS) showed that the economy contracted marginally by 0.52 per cent in Q1 2017, with about eighteen (18) economic activities recording positive growth, a much more promising development since Q1 2016, indicating that the economy was firmly on a path to recovery. In order to sustain the recovery, engender employment and restore confidence in the economy, the Committee urged the fiscal authorities to expeditiously commence the implementation of the recently approved 2017 Federal Government budget, especially, the capital expenditure component.

Headline inflation (year-on-year) moderated for the third consecutive month to 17.24 per cent in April, from 17.26 per cent in March, effectively reversing the monthly upward momentum since January 2016. Also, month-on-month inflation moderated to 1.60 per cent in April from 1.72 per cent in March 2017. The moderation in inflation reflected the decline in the core component. The Committee attributed these developments largely to the effects of the recent gains in the naira exchange rate, due to the Bank's interventions in the foreign exchange market, resulting in downward price adjustments on imported items and their derivatives. It urged the Bank to sustain and deepen these reform measures in order to fully reap the benefits of the lower pass-through to consumer prices.

The Committee noted the sustained stability in the financial market as reflected in the average naira exchange rate, which remained stable at the inter-bank segment of the foreign exchange market. The MPC also welcomed the growing investor confidence in the economy as the equities segment of the capital market became bullish, with the All-Share Index (ASI) and stock Market Capitalization (MC) rising by 4.60 and 5.10 per cent, respectively, relative to end-December 2016, due to improvements in the supply of foreign exchange.

Following the above developments, the broad policy considerations of the Committee was to either tighten or hold position. The argument for tightening was premised on the need to further rein-in inflation and attract foreign inflows from improved yields. In addition, the risks to banking system liquidity of the envisaged fiscal injections for the rest of the year from the implementation of the 2017 Federal Government budget, was factored-in. The MPC, however, noted that further tightening would widen the income gap, depress aggregate consumption and adversely affect credit to the real sector of the economy. The Committee also reasoned that the cost of capital in the economy remained high and not helpful to growth.

The MPC also muted the idea of easing to support growth but was concerned that loosening would exacerbate inflationary pressures and worsen the gains so far achieved in exchange rate management. It was also convinced that loosening would further increase the negative real interest rate as the gap between the nominal interest rate and inflation widens. The Committee, however, urged DMBs to step up credit to the private sector to support economic recovery.

Against the backdrop of the rather unclear outlook around key economic activities (food production especially) and some optimism about current deceleration in inflation, as well as relative stability in the naira exchange rate, the MPC was reluctant to alter the current policy configuration in any fundamental manner. This was intended to allow the existing policies to fully achieve set goals and objectives. The MPC was also of the view that whereas the downward trend in inflation in April 2017 was a welcome development, the rate was still significantly above the policy reference band. In addition, the Committee believed that the inflation outlook does not appear benign as the limit of the base effect driving the current moderation in prices may have been reached.

In consideration of the challenges weighing down the domestic economy and the uncertainties in the global environment, the Committee decided by a unanimous vote of the 8 members in attendance to retain the MPR at 14.0 per cent alongside all other policy parameters. One member was absent at the meeting. In summary, the MPC decided to: Retain the MPR at 14 per cent; Retain the CRR at 22.5 per cent; Retain the Liquidity Ratio at 30.00 per cent; and Retain the Asymmetric corridor at +200 and -500 basis points around the MPR.

4.2 Instruments of Liquidity Management

The Bank continued to deploy the instruments in its tool kit in the conduct of monetary policy in the review period, with the objective of price and macroeconomic stability. The key instruments were: the Monetary Policy Rate (MPR), the Cash Reserve Ratio (CRR), the Liquidity Ratio (LR), Open Market Operations (OMO) and Discount Window Operations. In addition, interventions in the foreign exchange market were sustained.

4.2.1 Monetary Policy Rate (MPR)

The MPR remained the key instrument for monetary policy management, and was unchanged at 14.0 per cent during the review period. Similarly, the asymmetric corridor around the MPR was retained at +200 and -500 basis points throughout the period. The maintenance of the MPR and the asymmetric corridor continued to signal the Bank's commitment to a tight monetary policy stance to achieve overall macroeconomic stability.

4.2.2 Open Market Operations (OMO)

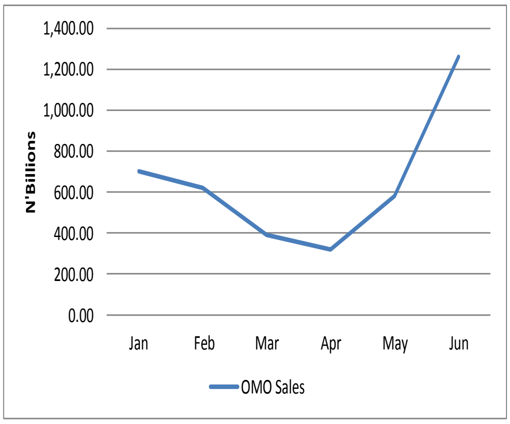
In the first half of 2017, the Bank increased its reliance on Open Market Operations (OMO) for managing system liquidity. Total OMO sales increased by 66.17 per cent to N3,871.27billion in the first half of 2017 compared with N2,329.75 billion recorded in the corresponding period of 2016. It was, however, 29.99 per cent lower than the sale of N5,529.87 billion in the preceding half year.

Table 4.1
OMO Bills Auction (January 2016 – June 2017) (₦'billion)

Date	2016	2017	% Change
Jan	698.42	700.52	-29.62%
Feb	509.23	619.14	-19.98%
Mar	394.63	391.16	-3.66%
Apr	363.72	319.09	-27.94%
May	64.63	580.08	369.31%
Jun	299.12	1,261.28	-63.53%
1st Half	2,329.75	3,871.27	66.17%
Jul	695.21		
Aug	1728.15		
Sep	1057.95		
Oct	807.02		
Nov	665.57		
Dec	575.97		
2nd Half	5,529.87		

Source: CBN

Figure 4.1
OMO Bills Auction (January 2016 – June 2017)



Source: Financial Market Department

4.2.3 Reserve Requirements

The Bank continued the use of the Cash Reserve Ratio (CRR) as a macro-prudential and liquidity management instrument to complement the MPR and OMO in the first half of 2017. The Monetary Policy Committee maintained the CRR at 22.5 per cent of total deposits throughout the review period, to address the persistence of excess liquidity in the banking system. The liquidity ratio also remained unchanged at 30.0 per cent during the period.

4.2.4 Standing Facilities Corridor

Deposit Money Banks (DMBs) and the Discount House (DH) utilized the standing facilities window in the period under review, to meet their daily liquidity requirements. With the asymmetric corridor of +200/-500 basis points maintained throughout the review period, the request under the Standing Lending Facility (SLF) increased by 15.02 per cent to N26,984.46 billion in the first half of 2017 from N23,459.89 billion in the second half of 2016. This also represented an increase of 425.23 per cent compared with N5,137.66 billion in the corresponding period of 2016 (Table 4.2).

Deposits at the Standing Deposit Facility (SDF) window stood at N5,175.05 billion, a decrease of 13.24 and 60.53 per cent below the respective levels of N5,964.93 billion and N13,113.23 billion in the preceding and the corresponding half years (Table 4.3). Thus, transactions at the two windows resulted in a net lending position of N21,809.41 billion, up from N9,520.11 billion in the preceding half year, in contrast to the net deposit of N7,974.57 billion in the corresponding period of 2016.

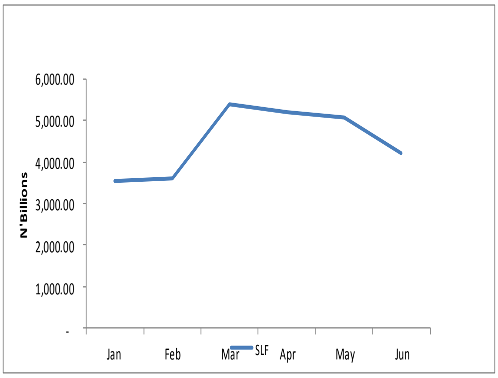
The combination of liquidity management instruments deployed by the Bank in the review period curtailed the liquidity surfeit within the banking system significantly, leading to an increase in lending at the SLF window and a marginal decrease in deposits at the SDF window. The reduced Federation Accounts Allocation Committee (FAAC) disbursements to the three tiers of government in the first half of 2017 also contributed to the moderation of liquidity in the banking system, resulting in a significant drop in OMO sales in the review period relative to the second half of 2016.

Table 4.2
CBN Standing Lending Facility (January 2016 – June 2017) (₦'billion)

Date	2016	2017	% Change
Jan	84.26	3,540.86	
Feb	4.11	3,591.58	
Mar	474.75	5,380.33	
Apr	942.66	5,203.28	
May	869.52	5,073.33	
Jun	2,762.36	4,195.09	
1st Half	**5,137.66**	**26,984.46**	**425.23%**
Jul	2,727.21		
Aug	4,255.97		
Sep	3,482.35		
Oct	4,132.39		
Nov	5,041.36		
Dec	3,820.61		
2nd Half	**23,459.61**		

Source: CBN

Figure 4.2
CBN Standing Lending Facility (January 2016 – June 2017)



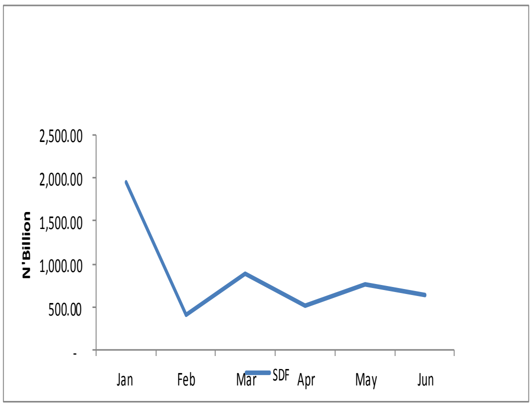
Source: CBN

Table 4.3
CBN Standing Deposit Facility (January 2016 – June 2017) (₦'billion)

Date	2016	2017	% Change
Jan	2,369.31	1,953.88	
Feb	2,553.89	411.68	
Mar	1,635.43	892.95	
Apr	2,971.33	508.10	
May	1,760.02	769.32	
Jun	1,822.25	639.13	
1st Half	**13,112.23**	**5,175.05**	**-60.53%**
Jul	934.29		
Aug	1,050.27		
Sep	826.94		
Oct	949.32		
Nov	744.3		
Dec	1,459.81		
2nd Half	**5,964.93**		**-13.24%**

Source: CBN

Figure 4.3
CBN Standing Deposit Facility (January 2016 – June 2017)



Source: CBN

4.2.5 Foreign Exchange Intervention

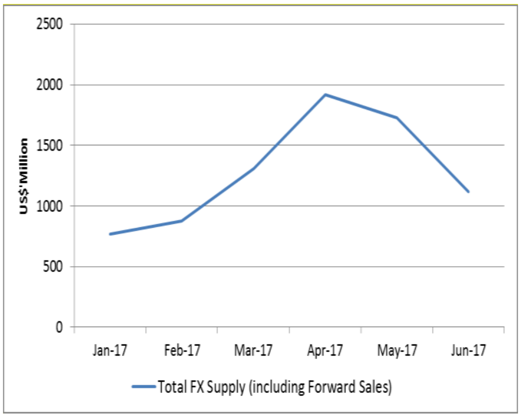
In order to further restore stability in the foreign exchange market, the Bank complemented the new flexible foreign exchange regime with additional measures aimed at boosting foreign exchange liquidity, moderating the widening exchange rate premium, addressing speculative pressures as well as guarding against the evolution of multiple exchange rates in the market. These measures included: the introduction of Investors' and Exporters' (I&E) Foreign Exchange Window for willing buyers and sellers of foreign currency; increased foreign exchange sales to BDCs; special foreign exchange auctions to targeted sectors; introduction of foreign exchange sales for small scale importation; reduction of import and export documentation requirements and processing timelines; and reduction in the tenor of forward foreign exchange transactions from 180 to 60 day cycles. Others were: the directive to all banks to open foreign exchange retail outlets in major airports across the country as well as increase in the Foreign Exchange Net Open Position (NOP) limit of banks to 10.0 per cent. Furthermore, the Bank continued the implementation of existing policies and administrative measures including the restriction of access to foreign exchange for 41 items and the use of bank verification number (BVN) in BDC transactions, to rein-in demand pressures in the market. Consequently, the pressure in the foreign exchange market moderated. Accordingly, total supply of foreign exchange, increased remarkably by 162.48 per cent, to US$7,717.11 million in the first half of 2017 from US$2,940.05 million in the second half of 2016. This also represented a 34.65 per cent increase when compared with US$5,731.39 million in the corresponding period of 2016 (Table 4.4). The increased supply of foreign exchange was largely traceable to the modest accretion to foreign reserves following the firming up of crude oil prices, as well as improved capital inflows from the sustained tight monetary policy stance of the Bank.

Table 4.4
Foreign Exchange Supply by the CBN (US$ Million)

Date	2016	2017	% Change
	Total FX Supply (including Forward Sales)	Total FX Supply (including Forward Sales)	
Jan	973.57	768.76	
Feb	895.77	876.48	
Mar	1093.05	1309.44	
Apr	727.69	1919.3	
May	617.5	1727.73	
Jun	1,423.81	1,115.40	
1st Half	**5,731.39**	**7,717.11**	**34.65%**
Jul	470.00		
Aug	576.15		
Sep	105.00		
Oct	343.92		
Nov	363.11		
Dec	1,081.87		
2nd Half	**2,940.05**		

Source: CBN

Figure 4.4
Foreign Exchange Supply by the CBN (US$ Million)



Source: CBN

4.3 Developments in the Monetary Aggregates

In the first half of 2017, most of the monetary aggregates contracted and performed below their indicative benchmarks. The development was traceable to the contraction in Net Foreign Assets (NFA) which was, however, unable to overwhelm the modest growth in Net Domestic Assets (NDA) of the banking system. The contraction of NFA was, however, an improvement when compared with the programme benchmark, due to improved foreign exchange receipts following the firming up of crude oil prices. Net Domestic Credit (NDC) increased, largely on account of growth in credit to government.

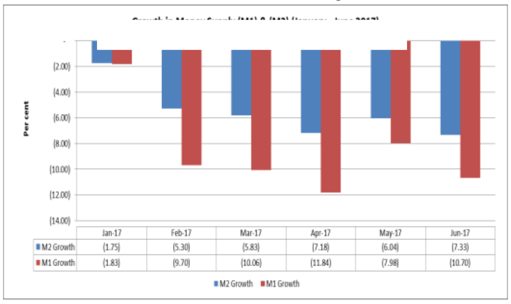
4.3.1 Broad Money (M2)

Broad Money (M2) contracted by 7.33 per cent to ₦21,674.21 billion at end-June 2017, from ₦23,388.33 billion at end-December 2016. Compared with ₦22,078.01 billion, at end-June 2016. M2 contracted by 1.83 per cent, in contrast to the indicative growth target of 10.29 per cent for 2017.

Figure 4.5
Money Supply (M1) and (M2) (January – June 2017, 2017)

Source: CBN

Figure 4.6
Growth in Money Supply (M1) and (M2) (June - December, 2016)



Source: CBN

4.3.2 Narrow Money (M1)

Narrow Money (M1) contracted by 10.75 per cent to ₦9,883.82 billion at end-June 2017, from ₦11,068.11 billion at end-December 2016. Compared with ₦9,518.98 billion at end-June 2016, M1 increased by 3.83 per cent. The year-on-year increase in M1 was below the indicative growth target of 11.07 per cent for 2017. The year-on-year increase in narrow money came from 23.8 per cent increase in the foreign currency deposits of merchant and non-interest banks as a result of the CBN's interventions in the foreign exchange market to stabilize the naira.

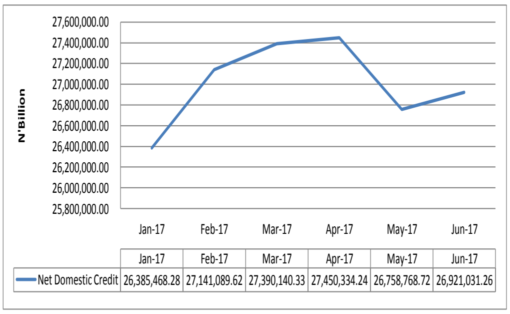
4.3.3 Net Foreign Assets (NFA)

Net Foreign Assets (NFA) contracted by 7.45 per cent to ₦8,468.08 billion at end-June 2017, from ₦9,149.66 billion at end-December 2016. When compared with the end-June 2016 level of ₦7,105.66 billion, NFA, however, increased by 19.17 per cent. The year-on-year increase in NFA was in contrast to the indicative benchmark of -29.31 per cent for 2017 due to improved foreign exchange receipts as a result of the modest rise in crude oil prices from an average of US$40.51 per barrel in the first half of 2016 to US$50.74 per barrel in the review period.

4.3.2 Net Domestic Assets (NDA)

Net Domestic Credit (NDC) grew marginally by 1.02 per cent to ₦26,921.03 billion at end-June 2017, from ₦26,649.02 billion at end-December 2016. When compared with the end-June 2016 level of N24,623.62 billion, NDC increased by 9.33 per cent largely on account of growth in credit to the government. The year-on-year increase of 9.33 per cent was, however, substantially below the indicative growth benchmark of 17.93 per cent.

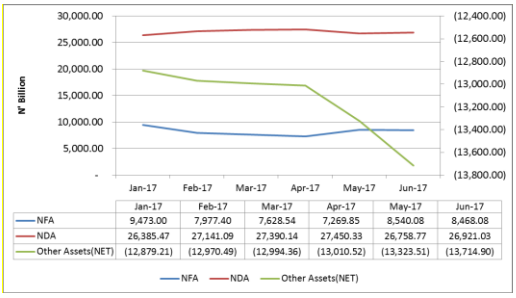
Figure 4.7
Net Domestic Asset (NDA) (January – June 2017)



	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Net Domestic Credit	26,385,468.28	27,141,089.62	27,390,140.33	27,450,334.24	26,758,768.72	26,921,031.26

Source: CBN

Figure 4.8
NFA, NDA and Other Assets(net) (Jan. – Jun. 2017)



	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
NFA	9,473.00	7,977.40	7,628.54	7,269.85	8,540.08	8,468.08
NDA	26,385.47	27,141.09	27,390.14	27,450.33	26,758.77	26,921.03
Other Assets(NET)	(12,879.21)	(12,970.49)	(12,994.36)	(13,010.52)	(13,323.51)	(13,714.90)

Source: CBN

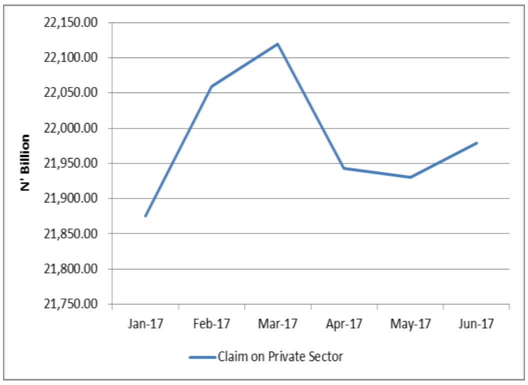
4.4.3 Credit to the Government (C_g)

Credit to government (Cg) grew by 1.02 per cent to ₦4,942.46 billion at end-June 2017, from ₦4,509.81 billion at end-December 2016. When compared with ₦3,171.44 billion, at end-June 2016, Cg increased substantially by 58.84 per cent, due largely to government borrowing to finance the expansionary budget in the face of dwindling oil revenue. The year-on-year increase in Cg was above the indicative benchmark of 33.12 per cent for 2017.

4.4.4 Credit to the Private Sector (Cp)

Credit to the private sector (Cp) contracted by 0.02 per cent to ₦21,978.57 billion at end-June 2017, from ₦21,982.15 billion at end-December 2016. When compared with the end-June 2016 level of ₦21,452.18 billion, Cp increased marginally by 2.54 per cent. The year-on-year increase in Cp was, however, substantially below the growth benchmark of 14.88 per cent for 2017. The marginal increase in credit to private sector in the face of remarkably high credit to the government, indicates DMBs preference for sovereign instruments and cautious approach to lending to the real sector. The development calls for policies aimed at de-risking the real sector in order to facilitate the flow of credit to the real economy to promote recovery.

Figure 4.9
Domestic Credit to Private Sector (January – June 2017)



Source: CBN

4.4.5 Reserve Money (RM)

Reserve Money (RM) contracted by 6.13 per cent to ₦5,489.63 billion at end-June 2017, from ₦5,847.92 billion at end-December 2016. When compared with the end-June 2016 level of ₦5,371.86 billion, RM, however, showed an increase of 2.19 per cent. The growth in RM was due largely to the 11.2 per cent increase in currency-in-circulation (CIC) during the period. The modest year-on-year increase in RM was still substantially below the indicative growth benchmark of 11.41 per cent for 2017.

A summary of the major monetary aggregates and provisional outcome as at end-June 2017 is presented in (Table 4.5).

Table 4.5

Monetary Aggregates Outcomes (Growth in % except otherwise stated)

						Change in H1 2017
	Actual	Actual	Actual	Benchmark		
	June	Dec	June	2017		
Varaibles	2016	2016	2017		Deviation (N'b)	Actual
M2 (N'b)	22,078.01	23,388.33	21,674.21	24,517.13	2,842.92	-403.80
M2 (%)	10.23	16.77	-7.33	10.29	17.62	1.83%
M1 (N'b)	9,518.98	11,068.11	9,883.82	8,478.84	-1,404.98	364.84
M1 (%)	11.05	29.12	-10.7	11.07	21.77	3.83%
RM (N'b)	5,371.86	5,847.92	5,489.64	7,331.09	1,841.45	117.78
RM (%)	-7.58	0.61	6.13	11.41	7.08	2.19%
NDC (N'b)	24,623.62	26,649.02	26,921.03	30,060.63	3,139.60	2297.41
NDC (%)	13.93	23.3	1.02	17.93	16.91	9.33%
Cg (N'b)	3,171.44	4,666.87	4,942.46	5,678.32	735.86	1771.02
Cg (%)	9.66	61.37	5.91	33.12	27.21	55.84%
Cp (N'b)	21,452.18	21,982.15	21,978.57	24,382.31	2,403.74	526.39
Cp (%)	14.59	17.42	-0.02	14.88	14.9	2.45%
NFA (N'b)	7,105.66	9,149.66	8,468.08	2,889.08	-5,579.00	1362.42
NFA (%)	25.69	61.85	-7.45	-29.31	-21.86	19.17%

Source: CBN

Box 4.1

TAX EFFORT AND ECONOMIC GROWTH: THE VOLUNTARY ASSET AND INCOME DECLARATION SCHEME (VAIDS)

Tax effort had been identified as an important factor in sustainable growth and poverty reduction in many countries. It is defined as the ratio of tax revenue to gross domestic product (GDP), and thus measures how much of a country's taxable capacity is utilized. The low tax effort observed in the Nigerian fiscal space had been ascribed to weak tax compliance and feeble enforcement of tax laws over the years. Available Statistics show that only 14 million out of 69.9 million economically-active individuals in Nigeria are tax payers. About 96.0 per cent of these tax payers are compelled to pay through the 'Pay As You Earn' (PAYE) system that automatically deduct their taxes at source, with only 4.0 per cent of voluntary compliance.

Towards redressing this state of affairs, the Federal Government of Nigeria in February 2017 approved the National Tax Policy, which prescribed the promotion of a tax culture, improving tax compliance, curbing tax evasion and widening the tax net as well as improving the tax to Gross Domestic Product (GDP) ratio as core objectives of fiscal policy. The Federal Ministry of Finance, in pursuance of this mandate, instituted the Voluntary Assets and Income Declaration Scheme (VAIDS).

VAIDS was introduced on June 29, 2017 by the Executive Order number 004 signed by the Acting President, Yemi Osinbajo. VAIDS is designed to be a tax amnesty programme that offers a platform for tax defaulters to voluntarily regularize their tax compliance records by declaring and paying their tax liabilities accrued from assets and income derived from sources both within and outside Nigeria in the last six (6) years. The Scheme therefore, provides opportunities for government to widen its tax base and improve its tax collection efforts. It is intended to be operational for a 9 month period, from July 2017 to March 2018.

The provisions of the executive order were applicable to all tax entities and in conformity with extant tax laws in Nigeria. It thus provides a leeway for individuals and corporate bodies that have earned income, but failed to register; or registered, but defaulted; or underpaid their tax obligations to both the Federal and subnational tax authorities. The benefits of the tax amnesty were also extend to businesses that are already under audit investigation by tax authorities or undergoing legal litigation over their tax liabilities, provided they are disposed to taking advantage of the amnesty for an out-of-court settlement.

The Voluntary Asset and Income Declaration Scheme (VAIDS) offers such benefits to willing beneficiaries, which include immunity from tax audit and prosecution for tax infractions, interest and penalty waivers on accrued tax liabilities, along with the option of agreeing with the respective tax authorities on the terms of payment of outstanding liabilities over a maximum period of three years. The tax immunity will, however, not invalidate accrued penalty already imposed by a court as a consequence of prior litigations. On the other hand, section 8 of the Executive Order details the consequences of not taking the benefits offered by VAIDS to include payment of the outstanding tax liability in full, with penalty and interests where applicable as well as criminal prosecution. In addition, where the tax liabilities are not fully declared, whatever amount paid will be considered as part payment of the outstanding total liability.

To complement the VAIDS, the Federal Inland Revenue Service (FIRS) will implement the Standard for Automatic Exchange of Information (AEOI) on Tax Matters from January 1, 2018. The AEOI would enable the Agency to work in partnership with the Global Forum on Transparency and Exchange of Information for Tax Purposes under the auspices of the Organisation for Economic Co-operation and Development (OECD). The AEOI Standard will enable the FIRS cooperate with tax authorities globally in order to implement measures against tax evasion, where Nigerians have failed to declare income and assets abroad.

The implications of enhanced tax effort on government revenue, which VAIDS represent, arise from the widening of the tax base of the economy. This will lead to the diversification of government revenue away from the current dependence on oil. In effect, periodic shocks to government revenue usually associated with fluctuations in oil price will be minimized and subsequently smoothen out. Consequently, government will be in a better position to increase investment in public infrastructure.

CHAPTER FIVE

5.0 DEVELOPMENTS IN THE FINANCIAL MARKETS

In the review period, the performance of the Nigerian financial market continued to be influenced by a number of global and domestic developments. The key global developments included: the persistence of uncertainties in major advanced and emerging market economies such as the rising wave of populist and protectionist sentiments, actions by the UK government to trigger BREXIT negotiations, and Left Wing electoral victory in France. The divergent monetary policy stance in the advanced economies, low global commodity prices and increased investment in U.S. shale oil production also influenced market activities. In order to moderate the impact of these uncertainties on global growth and ensure the resumption of the momentum of economic activities, monetary policy in the advanced economies remained broadly accommodative in the review period. Developments in the emerging market and developing economies were mixed in view of the need for monetary accommodation for those in recession or experiencing sluggish recovery, while others, particularly oil exporters that had severe currency depreciations from recent oil price shocks, required improved yields on domestic assets.

The money market rates were volatile, largely in response to developments in the foreign exchange market. Accordingly, the rates fluctuated with occasional spikes reflecting the effects of OMO transactions, maturing government securities and CBN bills, Joint Venture Cash (JVC) call payments and Paris Club debt refunds. As a result, the Bank intervened in the foreign exchange market with measures to curb demand pressure and speculative activities including the introduction of the Investors' and Exporters' foreign exchange window. These measures were able to stabilize the foreign exchange market and return confidence to the economy. Accordingly, capital inflows resumed, leading to a bullish trend in the equities market.

5.1 The Money Market

During the review period, the money market remained active with the market rates mirroring liquidity conditions in the banking system. The money market rates were volatile largely in response to developments in the foreign exchange market as the Bank intervened with measures to curb demand pressure. Accordingly, money market rates fluctuated with occasional spikes reflecting the effects of OMO transactions, maturing government securities and CBN bills, Joint Venture Cash (JVC) call payments and Paris Club debt refunds as well as the introduction of the Investors' and Exporters' foreign exchange window. Notwithstanding these developments, the Monetary Policy Committee (MPC) during the period maintained the Monetary Policy Rate (MPR) at 14.0 per cent and the associated asymmetric corridor of +200/-500 basis points as well as the Cash Reserve Ratio (CRR) and Liquidity Ratio (LR) of 22.5 and 30.0 per cent, respectively. The sustained tight monetary policy complemented by other liquidity management measures resulted in upward fluctuation in money market rates. As such, both the interbank call and OBB rates fluctuated above the upper band of the asymmetric corridor, reflecting liquidity stress in the market during the period. Liquidity cycles in the market were addressed by the deployment of OMO and NTB auctions to manage injections associated with the monthly Federation Account Allocation Committee (FAAC) disbursements, Paris Club debt refunds and OMO maturities. There was, however, a slowdown in activities in May and June, particularly in the uncollateralized segment, reflecting weak confidence.

5.1.1 Short-term Interest Rate Developments

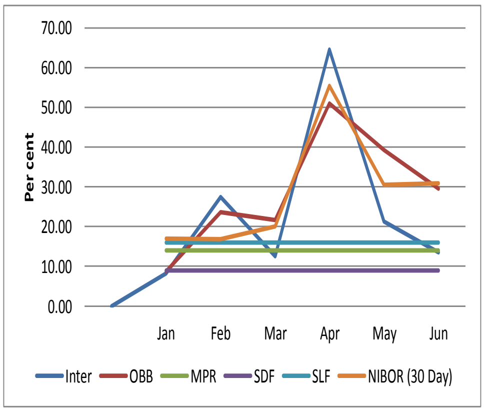
During the review period, the money market rates largely reflected liquidity conditions in the banking system. As usual, money market liquidity was driven mainly by the effects of OMO transactions, maturing government securities and CBN bills, monthly FAAC disbursements, Joint Venture (JVC) cash call payments and Paris Club debt refund to sub-national governments. In addition, the Bank's interventions to moderate foreign currency liquidity also affected liquidity in the money market. Both segments of the money market remained active, recording increased transactions. Accordingly, the average interbank call rate rose from 8.15 per cent in January to 27.46 per cent in February, and thereafter fell to 12.56 per cent in March. It, however, rose remarkably to 64.58 per cent in April, falling to 21.29 and 13.46 per cent in May and June, respectively. Similarly, the average OBB rate rose from 8.69 per cent in January to stabilize at 23.60 and 21.60 per cent in February and March, respectively. It, thereafter, spiked at 51.04 per cent in April, falling to 29.57 per cent in June 2017. The interbank call rate ranged between 8.15 and 64.58 per cent, averaging 24.58 per cent, while the OBB rate ranged lower between 8.69 and 51.04 per cent, averaging 28.97 per cent in the period. Thus, on average, the OBB rate was generally higher than the interbank call rate, reflecting some distortions in the market.

Table 5.1
Weighted Average Monthly Money Market Interest Rates (January – June 2017)

MONTHS	Interbank	OBB	MPR	SDF	SLF	NIBOR - 30DAYS
Jan-17	8.15	8.69	14	9	16	16.95
Feb-17	27.46	23.60	14	9	16	16.37
Mar-17	13.11	22.67	14	9	16	16.88
Apr-17	64.58	51.04	14	9	16	55.47
May-17	21.29	39.29	14	9	16	30.48
Jun-17	13.46	29.57	14	9	16	30.84
2017 Average	**24.68**	**29.14**	**14.00**	**9.00**	**16.00**	**27.83**

Source: CBN

Figure 5.1
Weighted Average Monthly Money Market Interest Rates (Jan.–Jun. 2017)

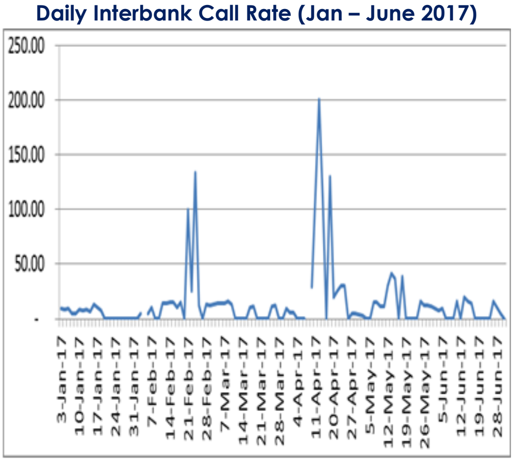


Source: CBN

(i) The Interbank Call Rate

The interbank call segment was volatile with the rate fluctuating upwards in the first half of 2017. It rose from 8.15 per cent in January to 27.46 per cent in February, dropping to 12.56 per cent in March, before rising remarkably to 64.58 per cent in April. The development reflected the sustained tight monetary policy stance of the Bank, which led to occasional liquidity crunch in the money market. In particular, the spike in April was triggered by huge withdrawal of liquidity through OMO auctions and foreign exchange interventions by the CBN. The rate, however, declined to 21.29 per cent in May and further closed lower at 13.46 per cent in June, on account of liquidity flows from maturing CBN bills and government instruments.

Figure 5.2
Daily Interbank Call Rate (Jan – June 2017)



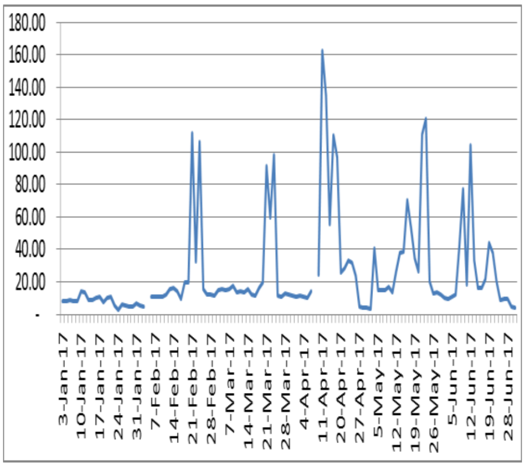
Source: CBN

(ii) The Open Buy Back Rate

Activities at the OBB segment were less volatile in comparison with the interbank call segment, although the rate also fluctuated upwards in the first half of 2017. This was largely on account of the securitized nature of transactions in this segment of the market. The OBB rate rose from 8.69 per cent in January to 23.60 and 21.60 per cent in February and March, respectively, and further to 51.04 per cent in April 2017. The rate, however, moderately declined to 39.29 per cent in May and further to 29.57 per cent in June, on account of liquidity flows from maturing CBN bills and government instruments. The moderate decline was due to the fact that liquidity in the segment was largely committed and therefore unavailable for transactions, particularly in response to the introduction of the investors' and exporters' foreign exchange window.

Figure 5.3

Daily Open Buy Back Rate (January-June 2017)



Source: CBN

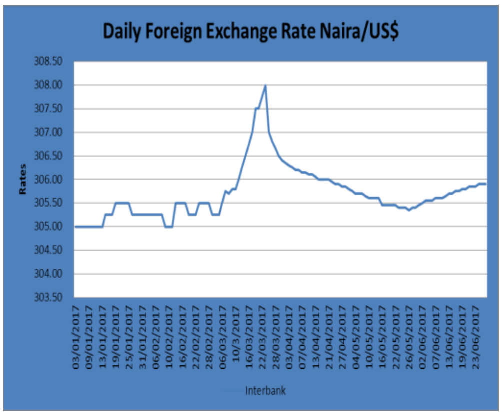
(iii) The Nigeria Interbank Offered Rate (NIBOR)

The Nigerian money market reference rate, the NIBOR, fluctuated significantly across all tenors following the liquidity challenges experienced in the review period, including the introduction of the Investors' and Exporters' (I&E) foreign exchange window. The weighted average 30-day NIBOR remained fairly stable at 16.95, 16.87 and 19.99 per cent in January, February and March, respectively. The 30-day NIBOR, like other money market rates, also rose dramatically to 55.47 per cent in April owing to activities to curb liquidity surfeit in the market. It, thereafter fell to 30.48 per cent in May, and closed at 30.84 per cent in June 2017, due to liquidity inflows into the market from maturing instruments and disbursement of Paris Club debt refund to sub-national governments. The average NIBOR rate was 28.43 per cent in the review period, up from 13.61 per cent in the preceding half year (Table 5.1).

5.2 Foreign Exchange Market

During the review period, the challenges in the foreign exchange market intensified, warranting the Bank to implement a cocktail of policy and administrative measures to rein-in demand pressure and stabilize the exchange rate. These measures included: the introduction of Investors' and Exporters' (I&E) Foreign Exchange Window for willing buyers and sellers of foreign currency, increased foreign exchange sales to BDCs, special foreign exchange auctions to targeted sectors, introduction of foreign exchange sales for small scale importation, reduction of import and export documentation requirements and processing timelines as well as reduction of the tenor of forward foreign exchange transactions from 180 to 60 day cycles. Others were: the directive to all banks to open foreign exchange retail outlets in major airports across the country as well as the increase in the Foreign Exchange Net Open Position (NOP) limit of banks to 10 per cent. In addition, the Bank continued the implementation of existing policies and administrative measures such as: the restriction of access to foreign exchange for 41 items, the use of bank verification number (BVN) for BDC transactions, mandating international money transfer operators (IMTOs) to sell foreign exchange to BDCs as well as the restrictions on the use of naira debit cards abroad. As a result of these measures, speculative practices were curbed and the depreciation of the naira moderated in all segments of the market.

Figure 5.4
Daily Naira/US Dollar Exchange Rate (January - June 2017)



Source: CBN

5.2.1 Average Exchange Rates

The Interbank foreign exchange rate depreciated by 0.49 per cent to an average of ₦305.70/US$ in the first half of 2017 from ₦304.19/US$ in the second half of 2016. During the same period, the BDC rate depreciated by 1.43 per cent, from an average of ₦420.73/US$ to ₦426.85/US$ (Table 5.2).

Table 5.2
Average Monthly Spot Exchange Rates
(July 2016 – June 2017) (₦/US$)

Period	Interbank Rate	BDC Rate
2016: Jul	294.57	364.47
Aug	309.73	396.15
Sep	305.23	431.10
Oct	305.21	462.03
Nov	305.18	415.36
Dec	305.22	455.26
Average	**304.19**	**420.73**
2017: Jan	305.20	493.29
Feb	305.31	494.70
Mar	306.40	429.48
Apr	306.05	392.89
May	305.54	384.48
Jun	305.72	366.25
Average	**305.70**	**426.85**

Source: CBN

Table 5.3
End-Month Exchange Rates
(July 2016 – June 2017) (₦/US$)

Period	Interbank Rate	BDC Rate
2016: Jul	313.00	379.00
Aug	306.00	420.00
Sep	305.25	464.00
Oct	305.00	469.00
Nov	305.00	400.00
Dec	305.00	490.00
Average	**306.54**	**437.00**
2017: Jan	305.25	497.00
Feb	305.50	450.00
Mar	306.35	385.00
Apr	305.85	390.00
May	305.40	376.00
Jun	305.90	366.00
Average	**305.71**	**410.67**

Source: CBN

5.2.2 End-Period (Month) Exchange Rates

The naira depreciated at the interbank segment of the foreign exchange market, while it appreciated at the BDC segment at the end of the first half of 2017. At the interbank foreign exchange market, the naira depreciated by 0.29 per cent to ₦305.90/US$ at end-June 2017 from ₦305.00/US$ at end-December 2016. At the BDC segment, it, however, appreciated by 33.88 per cent to N366.00/US$ at end-June 2017 from N490.00/US$ at end-December 2016. The development showed a trend towards convergence of the rates in the market due to the Bank's policy measures (Figure 5.5 and Table 5.3).

5.2.3 Nominal and Real Effective Exchange Rates

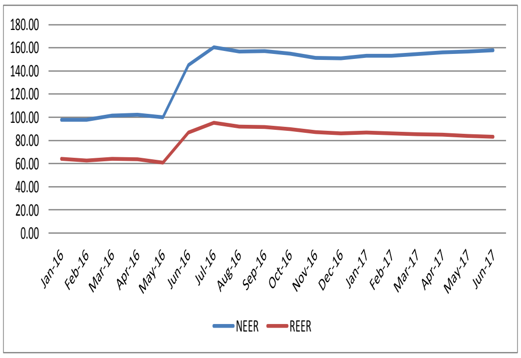
The Nominal Effective Exchange Rate (NEER) depreciated by 0.08 per cent to an average of 155.35 in the first half of 2017 from an average of 155.22 in the second half of 2016. It also depreciated significantly by 30.88 per cent when compared with the corresponding period of 2016. The Real Effective Exchange Rate (REER) appreciated by 6.25 per cent from an average of 90.32 in the second half of 2016 to an average of 85.01 in the first half of 2017. When compared with the corresponding period of 2016, the average REER depreciated by 21.10 per cent (Table 5.4). Thus, the naira appreciated in real terms relative to the currencies of Nigeria's major trading partners in the review period (Table 5.4 and figure 5.6).

Table 5.4
Nominal and Real Effective Exchange Rates Indices (Jan 2016 – Jun 2017)

DATE	NEER	REER
Jan-16	97.7	63.98
Feb-16	97.79	62.78
Mar-16	101.65	64.11
Apr-16	102.19	63.66
May-16	100	60.89
Jun-16	144.94	87
2016:H1 Average	**107.38**	**67.07**
Jul-16	160.52	95.33
Aug-16	156.75	92.08
Sep-16	157.06	91.57
Oct-16	154.88	89.78
Nov-16	151.21	87.02
Dec-16	150.87	86.16
2016: H2 Average	**155.22**	**90.32**
Jan-17	153.29	86.93
Feb-17	153.33	85.91
Mar-17	154.7	85.34
Apr-17	155.92	84.9
May-17	156.87	83.88
Jun-17	157.98	83.08
2017: H1 Average	**155.35**	**85.01**

Source: CBN

Figure: 5.5
Nominal and Real Effective Exchange Rates Indices (January 2016 – June 2017)



Source: CBN

5.2.4 Foreign Exchange Flows through the CBN

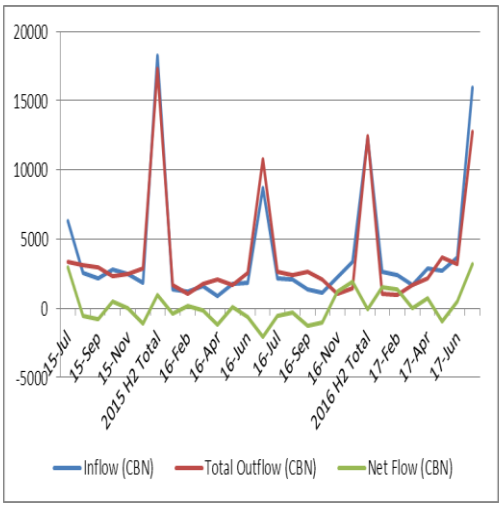
Foreign exchange inflows through the CBN increased by 28.98 per cent to US$15,933.36 million in the first half of 2017, from US$12,353.06 million in the preceding period. It also increased by 82.87 per cent compared with US$8,713.12 million in the corresponding period of 2016. Foreign exchange outflow also rose by 2.69 per cent to US$12,755.62 million in the first half from US$12,421.35 million in the preceding period. On a year-on-year basis, foreign exchange outflows increased by 18.74 per cent, from US$10,742.86 million, resulting in a net outflow of US$3,177.74 million in the first half of 2017, compared with US$68.29 million in the second half of 2016, and US$2,029.74 million in the corresponding half of 2016 (Table 5.5 and Figure 5.7).

Table 5.5
Monthly Foreign Exchange Flows through the CBN
(July 2015 – June 2017)

Dates	Inflow (CBN)	Total Outflow (CBN)	Net Flow (CBN)
15-Jul	6312.16	3383.08	2929.08
15-Aug	2598.05	3153.98	-555.93
15-Sep	2180.69	2987.06	-806.37
15-Oct	2821.22	2341.09	480.13
15-Nov	2481.21	2499.76	-18.55
15-Dec	1832.98	2916.65	-1083.67
2015 H2 Total	**18,226.31**	**17,281.62**	**944.69**
16-Jan	1329.4	1687.59	-358.19
16-Feb	1221.53	1025.73	195.8
16-Mar	1611.38	1764.89	-153.51
16-Apr	900.51	2053.33	-1152.82
16-May	1779.42	1690.29	89.13
16-Jun	1870.88	2521.03	-650.15
2016 H1 Total	**8,713.12**	**10,742.86**	**-2,029.74**
16-Jul	2126.36	2671.08	-544.72
16-Aug	2112.69	2,430.54	-317.85
16-Sep	1,379.97	2,669.87	-1289.9
16-Oct	1,096.83	2,119.19	-1022.36
16-Nov	2,251.90	1,061.94	1189.96
16-Dec	3,385.31	1,468.73	1916.58
2016 H2 Total	**12,353.06**	**12,421.35**	**-68.29**
17-Jan	2,605.50	1,055.84	1549.66
17-Feb	2374.48	978.56	1395.92
17-Mar	1693.4	1672.59	20.81
17-Apr	2874.86	2164.4	710.46
17-May	2712.38	3676.12	-963.74
17-Jun	3672.74	3208.11	464.63
2017 H1 Total	**15,933.36**	**12,755.62**	**3,177.74**

Source: CBN

Figure 5.6
Monthly Foreign Exchange Flows through the CBN (Jul 2015 – Jun 2017)



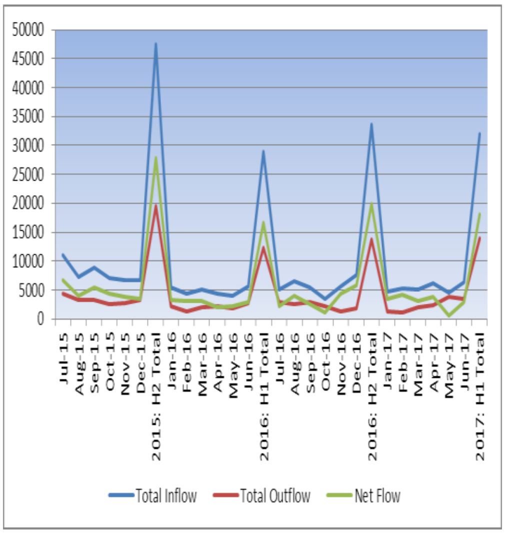
Source: CBN

5.2.5 Foreign Exchange Flow through the Economy

Gross foreign exchange inflow to the economy decreased by 4.69 per cent to US$32,019.83 million in the first half of 2017, from US$33,594.00 million in the second half of 2016. It, however, increased by 10.85 per cent when compared with US$28,885.87 million in the corresponding period of 2016. On the other hand, gross foreign exchange outflow increased by 1.98 per cent to US$13,943.19 million in the first half of 2017, from US$13,673.02 million in the second half of 2016. When compared with US$12,254.96 million in the corresponding period of 2016, it surged by 13.78 per cent.

Thus, during the first half of 2017, total foreign exchange flows through the economy resulted in 8.70 per cent lower net inflow of US$18,076.64 million, compared with US$19,920.98 million in the preceding half year. The net inflow was, however, 9.26 per cent higher than the US$16,630.91 million in the corresponding period of 2016. The increased net inflow through the economy during the period reflected improved foreign exchange receipts, owing to modest firming up of crude oil prices and increase in capital importation, due to the sustained tight monetary policy stance of the Bank.

Figure 5.7
Monthly Foreign Exchange Flows through the Economy (Jul 2015 – Jun 2017) (US$ Million)



Source: CBN

Table 5.6
Monthly Foreign Exchange Flows through the Economy
(July 2015 – June 2017) (US$ Million)

Dates	Inflow(CBN)	Inflow (Autonomous)	Total Inflow	Outflow(CBN)	Outflow(Autonomous)	Total Outflow	Net Flow	Net Flow (CBN)	Net Flow (Autonomous)
Jul-15	4,313.26	6,764.42	11,077.68	3,383.08	930.18	4,313.26	6,764.42	930.18	5,834.24
Aug-15	3,266.24	3,949.22	7,215.46	3,153.98	112.25	3,266.23	3,949.23	112.26	3,836.97
Sep-15	3,360.96	5,506.42	8,867.38	2,987.06	373.90	3,360.96	5,506.42	373.90	5,132.52
Oct-15	2,821.22	4,212.73	7,033.95	2,341.09	262.33	2,603.42	4,430.53	480.13	3,950.40
Nov-15	2,481.21	4,144.54	6,625.75	2,499.76	267.91	2,767.67	3,858.08	(18.55)	3,876.63
Dec-15	1,832.90	4,801.79	6,634.69	2,916.65	331.70	3,248.35	3,386.34	(1,083.75)	4,470.09
2015: H2 Total	**18,075.79**	**29,379.12**	**47,454.91**	**17,281.62**	**2,278.27**	**19,559.89**	**27,895.02**	**794.17**	**27,100.85**
Jan-16	1,301.80	4,078.86	5,380.66	1,941.97	235.72	2,177.69	3,202.97	(640.17)	3,843.14
Feb-16	1,228.34	3,096.19	4,324.53	1,030.74	189.61	1,220.35	3,104.18	197.60	2,906.58
Mar-16	1,391.97	3,669.51	5,061.48	1,773.75	187.71	1,961.46	3,100.02	(381.78)	3,481.80
Apr-16	1,142.49	3,209.39	4,351.88	2,129.67	135.74	2,265.41	2,086.47	(987.18)	3,073.65
May-16	1,505.51	2,555.46	4,060.97	1,720.07	178.35	1,898.42	2,162.55	(214.56)	2,377.11
Jun-16	1,870.88	3,835.47	5,706.35	2,521.03	210.60	2,731.63	2,974.72	(650.15)	3,624.87
2016: H1 Total	**8,440.99**	**20,444.88**	**28,885.87**	**11,117.23**	**1,137.73**	**12,254.96**	**16,630.91**	**(2,676.24)**	**19,307.15**
Jul-16	2,126.36	2,913.56	5,039.92	2,671.08	177.25	2,848.33	2,191.59	(544.72)	2,736.31
Aug-16	2,112.69	4,420.69	6,533.38	2,430.54	118.26	2,548.80	3,984.58	(317.85)	4,302.43
Sep-16	1,379.97	4,115.34	5,495.31	2,669.87	299.53	2,969.40	2,525.91	(1,289.90)	3,815.81
Oct-16	1,096.83	2,277.93	3,374.76	2,119.19	130.19	2,249.38	1,125.38	(1,022.36)	2,147.74
Nov-16	2,251.90	3,306.69	5,558.59	1,061.94	194.96	1,256.90	4,301.69	1,189.96	3,111.73
Dec-16	3,385.31	4,206.73	7,592.04	1,468.73	331.48	1,800.21	5,791.83	1,916.58	3,875.25
2016: H2 Total	**12,353.06**	**21,240.94**	**33,594.00**	**12,421.35**	**1,251.67**	**13,673.02**	**19,920.98**	**(68.29)**	**19,989.27**
Jan-17	2,605.50	2,142.96	4,748.46	1,055.84	179.12	1,234.96	3,513.50	1,549.66	1,963.84
Feb-17	2,374.48	2,935.28	5,309.76	978.56	224.32	1,202.88	4,106.88	1,395.92	2,710.96
Mar-17	1,693.40	3,345.00	5,038.40	1,672.59	255.20	1,927.79	3,110.61	20.81	3,089.80
Apr-17	2,874.86	3,203.72	6,078.58	2,164.39	129.90	2,294.29	3,784.29	710.47	3,073.82
May-17	2,712.38	1,786.77	4,499.15	3,676.12	162.59	3,838.71	660.44	(963.74)	1,624.18
Jun-17	3,672.74	2,672.74	6,345.48	3,208.11	236.45	3,444.56	2,900.92	464.63	2,436.29
2017: H1 Total	**15,933.36**	**16,086.47**	**32,019.83**	**12,755.61**	**1,187.58**	**13,943.19**	**18,076.64**	**3,177.75**	**14,898.89**

Source: CBN

Box 5.1

RESTORING FOREIGN EXCHANGE STABILITY: THE INVESTORS' AND EXPORTERS' FOREIGN EXCHANGE WINDOW

As part of the Central Bank of Nigeria's effort to boost liquidity in the foreign exchange market; ensure timely execution and settlement of eligible transactions; as well as stabilize the exchange rate of the naira; the Bank introduced a new window called the Investors' and Exporters' (I&E) Foreign Exchange Window on 24th April, 2017. The window was designed to specifically serve eligible Bills for collection and invisible transactions. Until the establishment of this window, small business owners and exporters had decried the closure of several investments due to lack of access to foreign exchange to procure foreign input to support their operations. The supply of foreign exchange to this window is expected to come from portfolio investors, exporters, Authorized Dealers (i.e. Deposit Money Banks) and 'other' parties with foreign currency to exchange for naira.

In order to ensure price discovery, the exchange rate of transactions at this window is as agreed by Authorized Dealers and their counterparties on a willing buyer and willing seller basis, thus, introducing more flexibility and transparency in the foreign exchange market. The Financial Market Dealers Quotes (FMDQ) is charged with polling buying and selling rates and other relevant information from participants in the market to drive price discovery. Trading at the window is conducted via recorded telephone conversations, owing to the slow progress by corporates in on-boarding the Financial Markets Dealers Quotes Over-The-Counter (FMDQ OTC) Securities Exchange.

The expectation here is that with improved transparency, key constraints around liquidity which have deterred strong foreign participation in the markets, despite attractive fixed income yields and equity valuations would be minimized. Beside Authorized Dealers and their counterparties, the CBN is also a participant at this window as a buyer or seller, as it deems fit, in order to ensure that the market remains liquid and transactions at this window are conducted professionally, according to laid down rules.

Eligible transactions at this new window include:

Bills for collection which are documents presented by banks on behalf of exporters to enable them receive money abroad. It means exporters can now sell their goods via this window;

Loan repayments by companies to repay principal obligations in dollars;

Loan interest payments by companies to repay interest obligations in dollars;

Dividend/income remittances with respect to foreign investors who need to remit dividend from Nigerian companies in dollars;

Capital repatriation by foreign investors who want to repatriate their capital out of Nigeria;

Management service fees for businesses to pay service fees to their foreign service providers in dollars;

Consultancy fees for businesses to pay their foreign consultants in foreign exchange;

Software subscription fees being subscription fees for accounting software, programming license and other software licenses, for example, in foreign currency;

Technology transfer agreements management fees, technical agreement fees etc; and Personal home remittances and any such other eligible invisible transactions including miscellaneous payments.

The implementation of this new window had attracted more investment, increased the supply of foreign exchange into the Nigerian economy and brought about relative stability in the foreign exchange market.

5.3 Capital Market

In the review period, activities in the Nigerian capital market were moderately bullish, owing to several factors including: measures to exit the recession and restart growth, improving corporate performance and relative stability in the exchange rate arising from increased interventions in the foreign exchange market by the CBN. Furthermore, the uncertainties beclouding the domestic investment environment continued to wane following the launching of the Economic Recovery and Growth Plan by the Federal Government, and the curtailment of militancy and insurgency in different parts of the country. Also, the anti-corruption efforts of the government which led to the recovery of large sums of money fostered investor confidence in the economy. These factors, complemented by the sustained tight monetary policy of the Bank, improve returns on domestic assets.

5.3.1 Equities Market

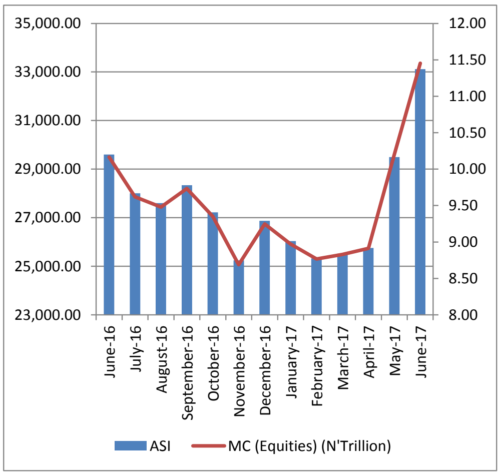
The All-Share Index (ASI) rose by 23.23 per cent to 33,117.48 at end-June 2017, from 26,874.62 at end-December 2016. Similarly, it grew by 11.89 per cent from 29,597.79 in the corresponding period of 2016. Likewise, Market Capitalization increased by 23.78 per cent to ₦11.45 trillion at end-June 2017, from ₦9.25 trillion at end-December 2016, and by 12.59 per cent compared with N10.17 trillion at end-June 2016 (Table 5.7 and Figure 5.9). The year-on-year ASI grew by 11.89 per cent, driven mainly by strong performance in the banking and conglomerates sectors, which rose by 18.57 and 0.87 per cent, respectively, above the levels at end-June 2016.

Table 5.7
NSE All-Share Index (ASI) and Market Capitalization (MC) (June 2016 –June 2017)

Date	ASI	MC (Equities) (N'Trillion)
Jun-16	29,597.79	10.17
Jul-16	28,009.93	9.62
Aug-16	27,599.03	9.48
Sep-16	28,335.40	9.73
Oct-16	27,220.09	9.35
Nov-16	25,241.63	8.69
Dec-16	26,874.62	9.25
Jan-17	26,036.24	8.97
Feb-17	25,329.08	8.77
Mar-17	25,516.34	8.83
Apr-17	25,758.51	8.91
May-17	29,498.31	10.20
Jun-17	33,117.48	11.45

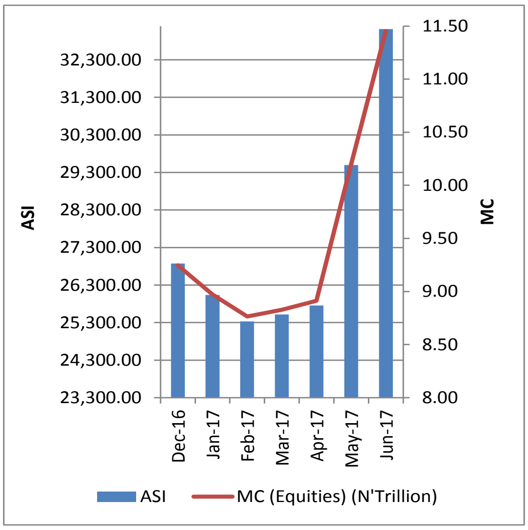
Source: NSE

Figure 5.8
NSE ASI and MC (June 2016 – June 2017)



Source: NSE

Figure 5.9
NSE ASI and MC (December 2016 – June 2017)

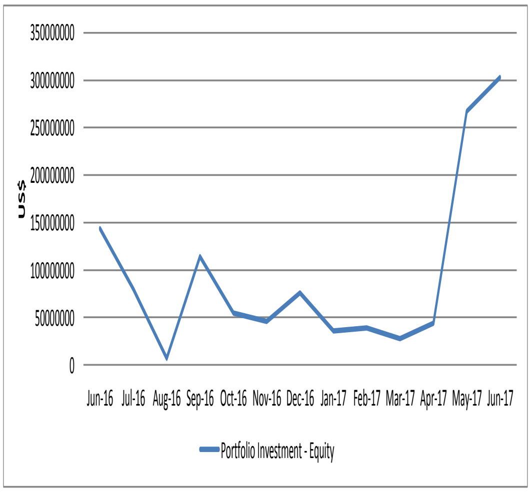


Source: NSE

5.3.2 Market Turnover

During the review period, aggregate stock market turnover increased by 30.50 per cent to 44.16 billion shares (valued at N467.67 billion in 448,950 deals) compared with 33.84 billion shares (valued at N263.50 billion in 380,997 deals) in the second half of 2016. On a year-on-year basis, this, however, reflected a decline of 28.74 per cent in market turnover from 61.97 billion shares (valued at N312.21 billion in 454,290 deals). Notwithstanding the development, foreign portfolio investment inflow exceeded outflow by N15.18 billion in the first half of 2017, indicating continued investor confidence in the economy.

Figure 5.10
Portfolio Inflows (May 2016 – May 2017)

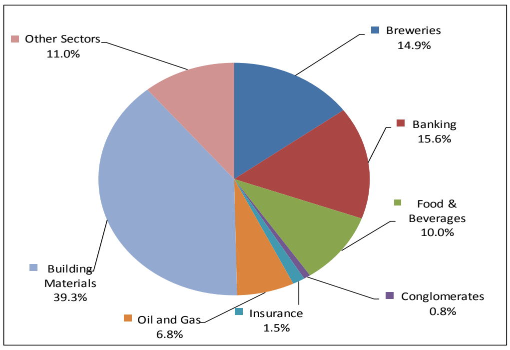


Source: NSE

5.3.3 Sectoral Contribution to Equity Market Capitalization

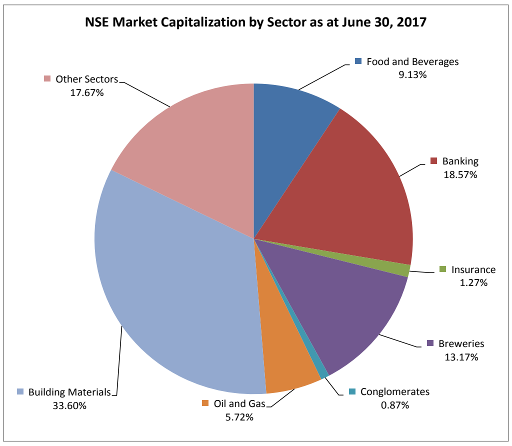
The construction sector continued to dominate overall market capitalization, driven by activities in the building materials sub-sector. The contribution of the building material sub-sector to market capitalization, however, declined to 33.60 per cent at end-June 2017 from 39.3 per cent at end-December 2016. The development was largely attributed to the share of Dangote cement in the market. Other major sub-sectors were banking; breweries; and food & beverages; with respective market share of 18.6, 13.2 and 9.1 per cent, at end-June 2017 (Figures 5.12 and 5.13).

Figure 5.11
NSE Market Capitalisation by Sector as at End-December 2016



Source: NSE

Figure 5.12
NSE Market Capitalisation by Sector as at End-June 2017

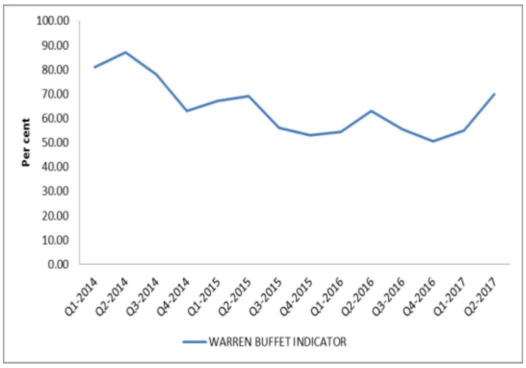


Source: NSE

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

The Nigerian equities market remained under-valued in the review period, based on the Warren Buffett valuation metric. At 55.66 and 70.00 per cent in the first and second quarters of 2017, respectively, the metric was below the threshold of 75.0 to 115.0 per cent. This development was attributable to a number of factors including the fragile exit from economic recession; still weak but improving corporate earnings; continuing capital reversals, heightened by the pace of US monetary policy normalization as well as weak external receipts. All of these impacted negatively on investor confidence. As in preceding periods, the undervaluation of equities presented attractive investment opportunities for domestic and foreign investors.

Figure 5.13
Warren Buffett Valuation of Nigerian Equities Market (Q12014 –Q22017)



Source: Bloomberg

5.3.5 Bond Market

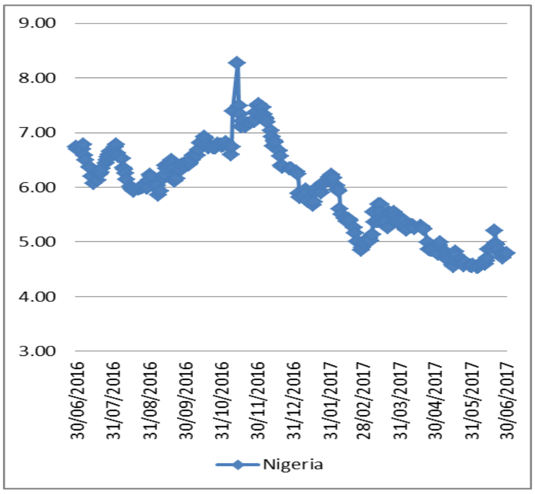
During the review period, transactions in Federal Government of Nigeria (FGN) debt instruments dominated activity in the bond market. Some activity was also recorded in the sub-national government and corporate bond segments, with the later recording the least share by market volume.

5.3.5.1 FGN Eurobond

At 4.80 per cent, the 10-year dollar-denominated bond yield for Nigeria fell by 1.55 percentage points at end-June 2017 from 6.35 per cent at end-December 2016. When compared with the end-June 2016 yield of 6.74 per cent, it declined by 1.94 percentage points, reflecting improved investor perception of the country's sovereign risk (Figure 5.14).

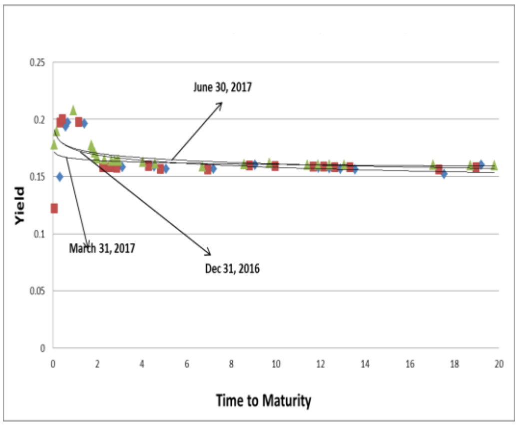
At 16.71 per cent, the FGN bond yield curve at end-June 2017 was upward trending by 31 basis points compared with the yield of 16.40 per cent at end-December 2016. Compared with the yield of 13.31 per cent in the corresponding period, however, the curve trended downwards by 339 basis points. With this development, the bond yield was positive and above the end-June 2017 inflation figure of 16.10 per cent.

Figure 5.14
10-Year U.S. Dollar-denominated Bond Yield for Nigeria (June 30, 2016 – June 30, 2017)



Source: NSE

Figure 5.15
FGN Bonds Yield Curves: End-Dec. 2016 vs. End March 2017 vs. end-June 2017



Source: NSE

5.3.5.2 State/Local Government Bonds

Activity at the sub-national bonds market improved during the review period. Total value of outstanding state/local government bonds increased to ₦563.58 billion at end-June 2017, from ₦516.58 billion at end-December 2016 and ₦535.08 billion at end-June 2016.

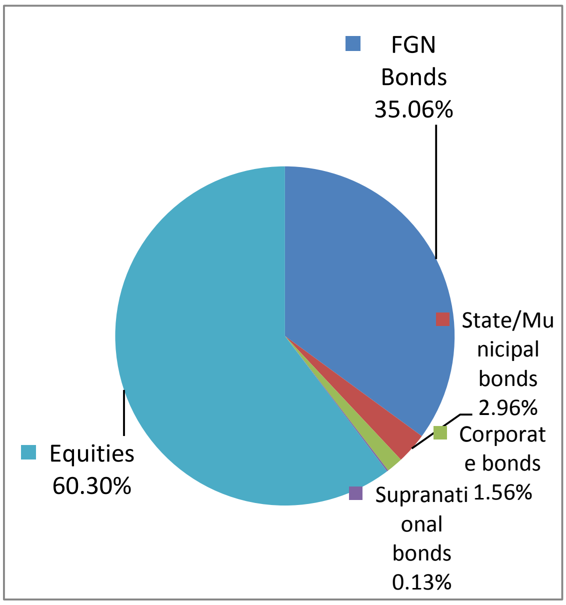
5.3.5.3 Corporate Bonds

In the review period, activity in the corporate bonds segment increased marginally, owing to the current weaknesses in the domestic economy. The value of outstanding corporate bonds at end-June 2017 was ₦297.44 billion, compared with ₦281.97 billion at end-December 2016 and ₦224.91 billion at end-June 2016. The modest increase was due largely to the preference by the corporate bodies for domestic borrowing in the face of heightened foreign exchange risks from the depreciation of the local currency.

5.3.5.4 Overall Analysis of the Nigerian Capital Market

The value of FGN bonds increased by 9.34 per cent to ₦6.67 trillion at end-June 2017 from ₦6.10 trillion at end-December 2016, and by 5.54 per cent year-on-year. FGN bonds accounted for 35.06 per cent of aggregate market capitalization at end-June 2017. The value of state/municipal bonds, corporate bonds and supranational bonds were ₦563.58 billion, ₦297.44 billion and ₦24.95 billion, representing 2.96, 1.56 and 0.13 per cent of aggregate market capitalization, respectively. The equities market contributed 60.3 per cent to aggregate market capitalization at end-June 2017, while the others including FGN bonds, state/municipal bonds, corporate bonds and supranational bonds accounted for the balance of 39.7 per cent (Figure 5.16).

Figure 5.16
Structure of the Nigerian Capital Market (June 2017)



5.4 Global Financial Markets Developments

The global financial market in the review period was shaped by key developments in the global economy including: the persistence of uncertainties in major advanced and emerging economies such as the rising wave of populist and protectionist sentiments being led by the United States and the trigger of Article 50 of the Lisbon treaty in March 2017 to kick start BREXIT negotiations. Others were: the divergent monetary policy stance in the advanced economies; disorderly commodity price movements, culminating in sluggish global output growth as well as the increased US Shale oil production, despite OPEC's decision to cut output. As such, monetary policy remained broadly accommodative in the advanced economies, occasioned by the need for resumption in the momentum of economic activities. Owing to improved macroeconomic developments, most currencies in the advanced economies appreciated against the US dollar. In addition, recovery in global commodity prices was sustained although overall, the commodity index fell by 6.64 per cent, largely on account of the decline in energy and metal prices.

In the emerging market and developing economies, the picture appeared mixed. Many economies in recession or suffering from sluggish recovery required sustained monetary accommodation to restart growth, while others, particularly oil exporters that had experienced severe currency depreciation from recent oil price shocks opted for improved yields on domestic assets. Following the developments above, the performances of major stock markets across the globe improved.

5.4.1 Money Market and Central Bank Policy Rates

Global liquidity conditions were largely shaped by financial markets' reactions to uncertainties clouding political and economic developments in the review period. The initial reaction to protectionism following the assumption of the Trump Presidency in the U.S. was priced-in by the market in the wake of the triggering of Article 50 of the Lisbon Treaty by the UK as well as the Left Wing electoral victory in France. Consequently, market nervousness to political developments in Europe waned, leading to the decline in volatility and risk premia. Thus, monetary policy remained broadly accommodating in the advanced economies, occasioned by the need for resumption in the momentum of economic activities. On the back of expectations of improvement in economic activities, including exports, investment and domestic demand, the Bank of Japan sustained its highly accommodative monetary policy through quantitative and qualitative monetary easing aimed at achieving its price stability target of 2.0 per cent. The European Central Bank (ECB) continued its QE at a slower pace of 60.0 billion euros monthly, from March 2017, to sustain the return of inflation towards its long term objective of 2.0 per cent. On the other hand, the Federal Open Market Committee (FOMC) raised its policy rate as various lag indicators suggested the likelihood of rising inflation in the medium term. It also gave forward guidance of more rate hikes in 2017.

In the emerging market and developing economies, the picture appeared mixed. For many economies in recession or suffering from sluggish recovery, monetary accommodation was sustained to restart growth, while others, particularly oil exporters that have seen severe currency depreciation from recent oil price shocks needed to improve yields on domestic assets. Accordingly, China, India, Nigeria, South Africa and Kenya maintained their policy rates, while Brazil and Russia lowered theirs in order to stimulate growth and exit their current recession. Ghana also lowered her policy rate to address growth concerns, following the policy headroom gained from the moderation in inflation.

Table 5.8
Policy Rates of Selected Countries January – June 2017

Country	Jan 17	Feb. 17	Mar. 17	Apr. 17	May. 17	Jun 17
Kenya	10.00	10.00	10.00	10.00	10.00	10.00
S. Africa	7.00	7.00	7.00	7.00	7.00	7.00
Ghana	25.50	25.50	25.50	23.50	22.50	22.50
Nigeria	14.00	14.00	14.00	14.00	14.00	14.00
Brazil	13.75	12.25	12.25	11.25	10.25	10.25
USA	0.5 - 0.75	0.5 - 0.75	0.75 -1.00	0.75 -1.00	0.75 -1.00	1.00 -1.25
Japan	0- 0.10	0- 0.10	0- 0.10	0- 0.10	0- 0.10	0- 0.10
Euro Area	0.00	0.00	0.00	0.00	0.00	0.00
India	6.25	6.25	6.25	6.25	6.25	6.25
Russia	10.00	10.00	10.00	9.25	9.25	9.00
China	4.35	4.35	4.35	4.35	4.35	4.35
UK	0.25	0.25	0.25	0.25	0.25	0.25
Indonesia	4.75	4.75	4.75	4.75	4.75	4.75

Source: Bloomberg

5.4.2 Capital Market

In the review period, the performances of major stock markets across the globe were positive. In Europe, the DAX, CAC 40 and FTSE 100 indices increased by 7.4, 5.3 and 2.4 per cent, respectively, while the Russian MICEX index decreased by 15.8 per cent. In North America, the Mexican Bolsa and United States S&P 500 indices increased by 9.2 and 8.2 per cent, respectively, while the Canadian S&P/TSX Composite index decreased by 0.7 per cent. In South America, the Argentine Merval, Colombian COLCAP and Brazilian Bovespa indices increased by 29.5, 8.2 and 4.4 per cent, respectively.

In Asia, India's BSE Sensex, Japan's Nikkei 225 and China's Shanghai Stock Exchange-A indices increased by 16.1, 4.8 and 2.9 per cent, respectively. In Africa, the Nigerian NSE All-Share, Ghanaian GSE All-Share, Kenyan Nairobi NSE 20, Egyptian EGX CASE 30 and South African JSE All-Share indices increased by 23.2, 16.3, 13.2, 9.7 and 1.9 per cent, respectively.

Table 5.8:
Selected International stock market indices as at June 30, 2017

Country	Index	30-Dec-16	31-Mar-17	30-Jun-17	Dec 31, 2016 -June 30, 2017 % Change	March 31, 2017 - June 30, 2017% Change
AFRICA						
Nigeria	NSE All-Share Index	26,874.62	25,516.34	33,117.48	23.2	29.8
South Africa	JSE All-Share Index	50,653.54	52,056.06	51,611.01	1.9	-0.9
Kenya	Nairobi NSE 20 Share index	3,186.21	3,112.52	3,607.18	13.2	15.9
Egypt	EGX CASE 30	12,290.61	12,912.27	13,487.36	9.7	4.5
Ghana	GSE All-Share Index	1,689.18	1,865.01	1,964.55	16.3	5.3
NORTH AMERICA						
US	S&P 500	2,238.83	2,362.72	2,423.41	8.2	2.6
Canada	S&P/TSX Composite	15,287.59	15,547.75	15,182.19	-0.7	-2.4
Mexico	Bolsa	45,642.90	48,541.56	49,857.49	9.2	2.7
SOUTH AMERICA						
Brazil	Bovespa Stock	60,227.29	64,984.07	62,899.97	4.4	-3.2
Argentina	Merval	16,917.86	20,265.32	21,912.63	29.5	8.1
Columbia	COLCAP	1,351.68	1,365.61	1,462.90	8.2	7.1
EUROPE						
UK	FTSE 100	7,142.83	7,322.92	7,312.72	2.4	-0.1
France	CAC 40	4,862.31	5,122.51	5,120.68	5.3	0.0
Germany	DAX	11,481.06	12,312.87	12,325.12	7.4	0.1
Russia	MICEX	2,232.72	1,995.90	1,879.50	-15.8	-5.8
ASIA						
Japan	NIKKEI 225	19,114.37	18,909.26	20,033.43	4.8	5.9
China	Shanghai SE A	3,249.59	3,374.67	3,343.39	2.9	-0.9
India	BSE Sensex	26,626.46	29,620.50	30,921.61	16.1	4.4

Source: Bloomberg

5.4.3 Commodities

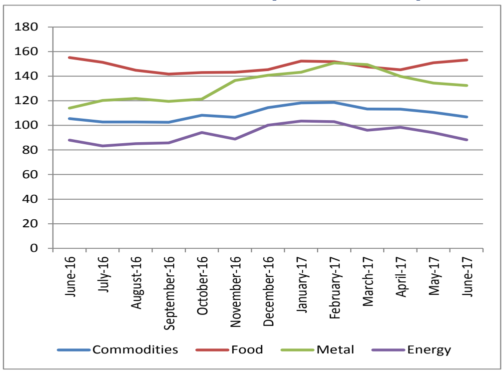
Global commodity prices sustained recovery, moderating in the second quarter of 2017, largely traceable to the decline in energy and metal prices. Energy, particularly crude oil prices softened in response to the build-up of U.S. petroleum inventories. It, however, rebounded in mid-May as the market priced in the extension of the subsisting OPEC production freeze through March 2018. Crude oil prices declined following sustained U.S. supplies and production recovery in some OPEC countries. The decrease in metal prices was due mainly to the efforts to rein-in shadow banking in the Chinese economy. In China, the majority of off-balance sheet credit goes to the metal sector in the form of wealth management products. Accordingly, following the tightening of credit, China's economy including demand for metal slowed down.

The Energy Price Index fell by 11.89 per cent to 88.2 points in June 2017 from 100.1 points in December 2016. This was driven largely by the average price of oil which fell by 7.21 per cent to US$50.2 per barrel in the second quarter of 2017, down from US$54.1 in the first quarter.

Also, non-fuel commodity price index fell marginally by 0.07 per cent to 138.6 points in June 2017 from 138.7 points in December 2016, reflecting slow global demand. Metal prices fell by 5.9 per cent to 132.4 points in June 2017 from 140.7 points in December 2016.

In contrast, food prices rose during the period. The Food and Agriculture Organization (FAO) Food Price Index rose by 2.88 per cent to 175.2 points in June 2017 from 170.3 points in December 2016. The development was driven by the rise in the sub-indices of meat, dairy and cereals, while vegetable oil and sugar fell. Overall, the commodity index fell by 6.64 per cent to 106.8 points in June 2017 from 114.3 points in December 2016.

Figure 5.17:
Indices of Primary Commodity Prices December 2016 – June 2017 (2005=100 US$)



Source: IMF

5.4.4 Foreign Exchange Market

During the first half of 2017, the movements of currencies against the US dollar, were mixed owing to improved macroeconomic developments. These included the recovery of output growth in the Euro area, slowdown in U.S. output growth due to uncertainties surrounding its fiscal policy and modest recovery in oil and other commodity prices as well as moderation in the outlook on the pace of U.S. monetary policy normalization. In the emerging markets, currency instabilities were moderated by some efforts to address the policy constraints underlying the weaknesses in these economies. Consequently, in North America, the Canadian dollar and the Mexican peso appreciated against the U.S. dollar by 3.08 and 14.40 per cent, respectively. In South America, the Colombian peso, Brazilian real and Argentine peso depreciated against the U.S. dollar by 1.35, 1.51and 4.51 per cent, respectively.

In Europe, the Russian ruble, British pound and euro appreciated against the U.S. dollar by 4.41, 5.19 and 7.95 per cent, respectively. In Asia, the Chinese yuan, Japanese yen and Indian rupee appreciated against the U.S. dollar by 2.51, 4.07 and 5.17 per cent, respectively.

In Africa, the Egyptian pound and South African rand appreciated against the U.S. dollar by 0.06 and 5.13 per cent, respectively, while the Nigerian naira, Kenyan shilling and Ghanaian cedi depreciated against the U.S. dollar by 0.29, 1.20 and 3.85 per cent, respectively.

Table 5.10:
Exchange Rates of Selected Countries (value in currency units to US$)

	Currency	30-Dec-16	30-Jun-17	YTD % Change App/Dep
AFRICA				
Nigeria	Naira	305.00	305.90	-0.29
South Africa	Rand	13.74	13.07	5.13
Kenya	Shilling	102.51	103.75	-1.20
Egypt	Pound	18.14	18.13	0.06
Ghana	Cedi	4.24	4.41	-3.85
NORTH AMERICA				
Canada	Dollar	1.34	1.30	3.08
Mexico	Peso	20.73	18.12	14.40
SOUTH AMERICA				
Brazil	Real	3.26	3.31	-1.51
Argentina	Peso	15.88	16.63	-4.51
Colombia	Peso	3002.00	3043.11	-1.35
EUROPE				
UK	Pound	0.81	0.77	5.19
Euro Area	Euro	0.95	0.88	7.95
Russia	Ruble	61.54	58.94	4.41
ASIA				
Japan	Yen	116.96	112.39	4.07
China	Yuan	6.95	6.78	2.51
India	Rupee	67.92	64.58	5.17
Source: bloomberg				
YTD = Year to Date				

CHAPTER 6

ECONOMIC OUTLOOK

6.1 OVERVIEW

Global economic activity was estimated to rise to 3.5 per cent in 2017 up from 3.2 per cent in 2016 (IMF, July 2017), premised on recovery in manufacturing and trade as well as buoyant financial market activity arising from the reduction in political risks in Europe. These were supported by expected macroeconomic improvements in Japan and the euro area as well as continued fiscal activity and strong credit growth in China. The downside risks to these developments included: binding structural constraints such as low productivity growth, high income inequality and pressures from inward-looking policies, particularly in the advanced economies. Other growth moderating factors were: the expected tightening in global financial conditions due to U.S. monetary policy normalization and headwinds to potential growth in the advanced economies from ageing populations, weak investment and sluggish productivity.

In the advanced economies, growth was estimated at 2.0 per cent in 2017 up from 1.7 per cent in 2016, due largely to low commodity prices and accommodating monetary policy. Growth in the United States was projected at 2.1 per cent in 2017 up from 1.6 per cent in 2016. In the Euro area growth was estimated to marginally increase to 1.9 per cent in 2017 from 1.8 per cent in 2016, due to sustained private consumption, increased manufacturing activity and strong exports. The growth projection for the United Kingdom was revised downward to 1.7 per cent in 2017 from 1.8 per cent in 2016, owing to uncertainties arising from BREXIT.

In the emerging market and developing economies growth was estimated to pick up to 4.6 per cent in 2017 from 4.3 per cent in 2016, due to rise in commodity prices, that would support recovery from recession of commodity exporters such as Brazil and Russia. Among the emerging markets, growth in China would remain flat at 6.7 per cent in 2017, arising from policy easing measures and reforms to supply-side constraints. Despite the demonetization policy in India, growth would remain robust at 7.2 per cent up from 7.1 per cent in 2016. Expectedly, growth in Latin America and the Caribbean would pick up to 1.0 per cent from a contraction of 0.1 per cent in 2016, as Brazil and Argentina were projected to exit recession. In addition, Mexico was projected to grow to 1.9 per cent in 2017 from 1.7 per cent in 2016, despite uncertainties about the US trade policy with Mexico.

In Sub-saharan Africa (SSA), growth was estimated at 2.7 per cent in 2017 up from 1.3 per cent in 2016, predicated on improvement in commodity prices and economic reforms to address structural impediments. The growth of the Nigerian economy was estimated at 0.8 per cent in 2017 up from a contraction of 1.6 per cent in 2016, owing to some recovery in crude oil prices and production, even as the country continued to grapple with unemployment and social tensions. The South African economy was projected to grow by 1.0 per cent in 2017 up from 0.3 per cent in 2016, due largely to improvements in mining and agricultural output.

6.2 Outlook for Global Output

Global growth is expected to maintain its momentum for the rest of 2017 and 2018. The development would be driven by stronger recovery in a number of advanced and emerging market and developing economies. The factors expected to sustain the growth momentum would include: continued monetary policy accommodation in the advanced economies, gradual recovery in large commodity exporters like Brazil and Russia due to recovery of oil prices, and prospect of substantial fiscal stimulus in the United States. Others are: further actions to resolve uncertainties surrounding BREXIT, as well as domestic policy reforms to improve competitiveness, investments, and the business environment. However, in the advanced economies, growth would continue to be weakened by their exposure to downside risk factors such as low labour productivity growth and high political uncertainties. Consequently, global growth was projected at 3.5 and 3.6 per cent in 2017 and 2018, respectively.

In the advanced economies, growth is projected to rise to 2.0 and 1.9 per cent in 2017 and 2018, respectively, up from 1.7 per cent in 2016, due largely to expected strong consumer demand, investment and exports. Moreover, inflation remains subdued and generally below targets set by the central banks in most advanced economies. Growth in the Euro area is forecasted at 1.9 and 1.7 per cent in 2017 and 2018, respectively, compared with 1.8 per cent in 2016. The lower projection for 2018 was influenced by lingering uncertainties associated with BREXIT. In the other advanced economies including Japan, the United Kingdom, Spain and Italy, growth projections for 2017 and 2018 are expected to be slower than earlier forecast, arising from their weaker performance in the first quarter of 2017.

In the emerging market and developing economies (EMDEs) growth is forecast to rise to 4.6 and 4.8 per cent in 2017 and 2018, respectively, from 4.3 per cent in 2016, predicated on the firming up of crude oil and other commodity prices, bottoming-out of economic recessions in some countries and recovery of commodity exports. China is forecast to grow by 6.7 and 6.4 per cent in 2017 and 2018, respectively. The forecast for growth in India shows it is to rebound to 7.2 and 7.7 per cent in 2017 and 2018, respectively from 7.1 per cent in 2016, owing to stronger fiscal stimulus. In Brazil, growth is projected to rise to 0.3 and 1.3 per cent in 2017 and 2018, respectively, from a contraction of 3.6 per cent in 2016.

In sub-Saharan Africa, growth is projected to rise to 1.6 and 3.5 per cent in 2017 and 2018, respectively, from 1.3 per cent in 2016, anchored on the recovery of Nigeria and South Africa economies. Growth in Nigeria is projected to expand by 0.8 per cent in 2017 and further to 1.9 per cent in 2018, from a contraction of 1.5 per cent in 2016. In South Africa, growth is forecast at 1.0 and 1.2 per cent in 2017 and 2018, respectively, from 0.3 per cent in 2016.

Growth in the Middle East and North Africa (MENA) region is forecast to decelerate from 5.0 per cent in 2016 to 2.6 per cent in 2017, before its recovery to 3.3 per cent in 2018, reflecting the slowdown in oil sector activity and political instability in the region.

6.3 Downside Risks to Global Outlook

There are downside risks to the global outlook in the short-to-medium term. These include: uncertainties surrounding the BREXIT negotiations, unsustainable debt levels, uncertain fiscal policy stance of the US government and the tendencies towards protectionism and nationalism, possibility of rise in global interest rates propelled by the increased pace of U.S. monetary policy normalization, weak bank balance sheets in the euro area, higher global oil and other commodity prices with negative implications on commodity importers, as well as rising geo-political tensions in some regions of the world. In addition, the sustained normalization of U.S. monetary policy would further intensify capital flow reversals from emerging markets and developing economies with attendant pressure on exchange rates. Also, the persisting policy divergence amongst the advanced economies could worsen global imbalance and undermine growth and weigh down the medium-term outlook for the global economy.

In the advanced economies, while the United States sustained its monetary policy normalization, other countries like Japan, the United Kingdom and the Euro area kept their policy rates at long-term historical low. The policy divergence along with quantitative easing (QE) might continue to fuel market risks and other vulnerabilities such as disorderly asset price movements.

In the emerging market and developing economies, sustaining on-going reforms is key to achieving the growth projections as it is in China, where failure to curb excessive credit growth could dampen output with adverse spillovers to other countries. Also, balance sheet problems are likely to arise in this group of countries if capital flow reversals are heightened by U.S. monetary policy normalization.

In the Middle East and North Africa (MENA), the ongoing armed conflict along with the sanctions on Qatar, could halt the flow of new investments and in some cases trigger divestments capable of undermining growth in the region.

Table 6.1
Global Output and Inflation Outlook

	2015	2016	2017	2018
A. World Output				
World Output	3.4	3.2	3.5	3.6
Advanced Economies	**2.1**	**1.7**	**2.0**	**1.9**
USA	2.6	1.6	2.1	2.1
Euro Area	2.0	1.8	1.9	1.7
Japan	1.1	1.0	1.3	0.6
UK	2.2	1.8	1.7	1.5
Canada	0.9	1.5	2.5	1.9
Advanced Economies	2.0	2.2	2.3	2.4
Emerging & Developing Economies	**4.3**	**4.3**	**4.6**	**4.8**
Commonwealth of Independent States	-2.2	0.4	1.7	2.1
Latin America and the Caribbean	0.1	–1.0	1.0	1.9
Middle East and North Africa	2.7	5.0	2.6	3.3
Sub-saharan Africa	3.4	1.3	2.7	3.5
B. Commodity Prices (US' Dollars)				
Oil	-47.2	-15.5	16.4	16.4
Non-fuel	-17.5	-3.8	-0.6	-0.6
C. Consumer Prices				
Advanced Economies	0.3	0.8	1.9	1.8
Emerging & Developing Economies	4.7	4.3	4.5	4.6

Source: IMF WEO Update, July 2017

6.4 Global Inflation Outlook

Global inflation is expected to sustain an upward trend in 2017, largely on account of firming crude oil and other commodities prices, easy monetary policy in major advanced economies as well as the depreciation of currencies of most emerging market and developing economies. In the advanced economies, the expected rise in headline inflation could breach central banks' targets in some countries. The inflation outlook in the emerging market and developing economies, would, on balance, maintain an upward trend. Oil exporters may witness moderation in prices of goods and services, while oil importers could experience rising inflation from the recovery of oil and other commodity prices.

The forecast for inflation in the advanced economies, shows it would to rise to 1.9 and 1.8 per cent in 2017 and 2018, respectively, from 0.8 per cent in 2016, due to modest recovery of oil and other commodity prices and the ongoing quantitative easing programme in the Euro area, the United Kingdom and Japan.

In the United States, inflation was forecast to rise to 2.7 and 2.4 per cent in 2017 and 2018, respectively, up from 1.3 per cent in 2016. In the Euro area, headline inflation is expected to rise to 1.7 and 1.5 per cent in 2017 and 2018, respectively from 0.2 per cent in 2016. Headline inflation is also expected to rise in Japan to 1.0 and 0.6 per cent in 2017 and 2018, respectively, from -0.1 per cent in 2016, driven by the impact of the sustained quantitative easing rising oil and prices other commodity.

In the emerging market and developing economies, inflation is forecast to rise to 4.5 and 4.6 per cent in 2017 and 2018, respectively, from 4.3 per cent in 2016, largely due to the recovery of oil and other commodity prices, as well as currency depreciations. Inflation in China is forecast to rise to 2.4 and 2.3 per cent in 2017 and 2018, respectively, from 2.0 per cent in 2016. In India, inflation is forecast to fall slightly to 4.8 per cent in 2017 from 4.9 per cent in 2016 and thereafter, rise to 5.1 per cent in 2018. Projection for inflation in Brazil shows it would moderate to 4.4 and 4.3 per cent in 2017 and 2018, respectively, from 8.7 per cent in 2016, on the back of a gradually closing negative output gap and return of political stability. In Russia, inflation is forecast to fall to 4.5 and 4.2 per cent in 2017 and 2018, respectively, from 7.0 per cent in 2016, which is expected to have an overall moderating effect on inflation in the Commonwealth of Independent States.

In sub-Saharan Africa, inflation is expected to moderate to 10.7 and 9.5 per cent in 2017 and 2018, respectively from 11.4 per cent in 2016, largely on account of the waning effect of the previous currency depreciations in the sub-region.

Box 6.0

CLIMATE CHANGE AND THE TREND TOWARDS RENEWABLE ENERGY

Climate change has gained increased attention amongst scientists and non-scientists alike as the continued incidence of emission of greenhouse gases has been identified as the main culprit for the recent high rate of flooding of mainland areas. Traditional waterways are breached more frequently than has been the case in the last half century. The argument is mainly that greenhouse gases have contributed significantly to the melting of icebergs due to rising global temperatures. The rise in temperatures are the result of industrial activities, increasing temperature above the melting point of ice. This causes ice to melt and flow into traditional water bodies, which overflow their banks resulting in rising water levels and flooding across plain lands. The latest in this chain of flooding was seen in Texas, United States where water levels in the mainland rose to about the height of an adult male. Other remarkable incidences have been recorded in Nigeria where entire communities were displaced by flood waters. Recently, in Freetown, Sierra Leone, over 300 persons were feared dead when moving flood waters resulted in a massive mud slide across an entire community, burying people in its path alive.

A school of thought argues that climate change and its consequences are fictional developments. This perspective is, however, becoming increasingly unpopular as the evidence of changing climatic conditions become only too apparent. Others argue that while climate change does in fact exist, its cause and acceleration is not entirely due to greenhouse gases generated by the burning of traditional fossil fuels, carbon-dioxide (CO_2) emissions and aerosols but may be down to non- carbon-dioxide greenhouse gases, which have so far been ignored in the attempt to slowdown and reverse climate change. Such gaseous substances as chlorofluorocarbons, methane and Nitrous oxide may also play a significant role in changing climatic conditions. This school of thought thus argues that over the next half century, as the emission of non-CO_2 gases are reduced alongside reduction of traditional burning of fossil fuels, climate change and its effects will be reduced and eventually reversed.

Reversing climate change requires reducing dependence on non-renewable energy sources that lead to greenhouse gas emissions. Non-renewable energy sources or fossilized fuels are generated from sources that cannot be replenished naturally in our life time such as natural gas, products from the fractional distillation of petroleum products and coal. The trend towards renewable energy has been on the increase as the need to cut down on the emission of greenhouse gases generated primarily from carbon-dioxide related sources has been on the front burner. Renewable energy is defined as energy generated from renewable sources such as sunlight (solar power), geothermal heat, biofuels, wind, rain and water (hydroelectricity). These forms of energy, although also from natural sources, do not emit greenhouse gases. Solar power which is generated from sunlight has become increasingly popular in producing electricity in homes and small industries. The process requires a minimal level of technological installation in private homes to harvest solar energy, which is converted to electrical energy. In other instances, solar farms are built in wide expanses of desert land or on the sea to harvest the sun rays, which are channeled directly to inverters that changes the solar energy to electrical energy. The main advantage with this source of energy is that it is clean and does not require any fuels to generate. Wind turbines are used to harness and convert wind energy to electrical energy, while biomass involves the use of natural products such as wood, manure and other decaying plants to produce fuels. Hydro energy is generated from water power by building dams to create reservoirs which are used to harness hydro energy/power for conversion to electrical energy. Incidentally, the adoption of renewable energy sources has been embraced more by advanced economies such as the US and the UK, than developing economies particularly in Africa where natural resources such as sunlight is in abundance. In 2015 for example, the US adopted various forms of renewable energy sources such as hydropower (25%), biomass wood (21%), biomass waste (5%), biomass fuels (22%), wind (19%), geothermal (2%) and solar (5%). Renewable energy, due to its clean state, is extremely friendly to mankind as it is devoid of emission of poisonous gases associated with fossil fuels. The gases emitted by traditional fuels tend to cause direct health problems such as heart attacks; bronchitis and other breathing problems; irritation of the eyes and skin; and various forms of cancer. This is in addition to environmental hazards such as flooding. Compared with non-renewable energy sources (NRS), renewable energy sources (RES) are unable to generate very large volumes of energy required to satisfy the consumption requirements of society they are dependent on weather sources such as sunlight and rainfall, which are seasonal and thus limited in supply. They can, however, compliment non-renewable sources to a very large extent, thus significantly reducing the harmful effects of NRS.

Recent developments towards the entrenchment of renewable energy include new projects in France, such as the adoption of electric cars that will be recharged by solar panels embedded in road pavements. This project is currently being developed by engineers in France who are designing paper-thin and impact resistant solar panels to be embedded in the middle of road pavements. In the United Kingdom, car manufacturers have been enjoined to step down the production of petrol and diesel cars over the next twenty five years and produce only electric cars for use in the country. High speed train links are now powered by renewable energy sources compared with the older coal powered engines. Legislation in certain countries also urges homes to use solar energy to heat their homes and boil water as opposed to traditional natural gas heating systems.

In general, experts suggest that by 2050, many countries across the globe could run on renewable energy, with serious implications for the demand for crude oil as a source of energy globally. This development is likely to affect oil producing countries including Nigeria.

6.5 Outlook for Domestic Output Growth

Domestic output growth in the first half of 2017 returned to positive territory as the economy exited recession in the second quarter of 2017. According to the National Bureau of Statistics (NBS), real Gross Domestic Product (GDP) contracted by 0.91 per cent in the first, but grew by 0.55 per cent in the second quarter of 2017. The GDP growth was 1.46 percentage points higher than -0.91 per cent recorded in the preceding quarter and 2.04 percentage points higher than -1.49 per cent recorded in the corresponding quarter of 2016.

The improvement in output growth has been attributed to several factors including: higher oil prices; increased oil production, attributable mainly to the return of peace in the Niger Delta; as well as improved and stable production from OPEC's commitment to output cut. Furthermore, the passage of the Petroleum Industry Governance Bill (PIGB) is likely to attract new investments into the industry. As a result, the economy is projected to sustain the exit from recession for the rest of the year, supported by positive developments in the oil sector and other government initiatives conducive to growth.

The International Monetary Fund (IMF) projected Nigeria's growth at 0.8 per cent in 2017, indicating that the country will recover from the recession based on improved oil production, continued growth in agriculture, and higher public investment spending. This is reflected in the renewed focus of the 2017 Federal Government budget of N7.44 trillion favouring capital expenditure with the commitment to timely release funds for capital projects. Also, the Economic Recovery and Growth Plan (ERGP), the implementation of the Executive Orders of the Federal Government, particularly the Voluntary Assets and Income Declaration Scheme (VAIDS), and the anti-corruption campaign are expected to boost investor confidence and attract foreign capital to grow the economy. In addition, the CBN's commitment to make foreign exchange available, coupled with other development finance initiatives, would aid output recovery.

The risk to the outlook, however, continues to come from developments in the external environment and the domestic economy. Externally, the weak economic recovery, declining demand for crude oil globally in the face of the development of clean energy technologies, and the continuing loss of market share for Nigeria's crude oil, may dampen output growth prospects. Also, growing social tension reflected in the threats of resumption of militancy and herdsmen-farmer conflicts could further undermine investment and growth.

6.6 Outlook for Domestic Inflation

Headline inflation moderated during the review period, although still substantially above the Bank's benchmark of 6-9 per cent. The price development was, however, still within the moderate double digit range. Staff estimates suggest that year-on-year headline inflation is projected to decelerate further to 15.99, 15.80, 15.61 and 15.42 per cent in August, September, October and November 2017, respectively, but increase slightly to 15.46 per cent in December 2017. The expected moderation in headline inflation is predicated on continued improvement in supply of petroleum products, narrowing the supply gap which usually feed into cost of transportation and other domestic prices. Similarly, the current foreign exchange management interventions of the Bank is expected to moderate demand pressure in the foreign exchange market and soften prices of imported food items. In addition, the moderation in inflation is expected to persist over the forecast period as the harvest season kicks in. This will be supported by the continued tight monetary policy stance of the Bank. However, the seasonal factors around December and January may give rise to slight uptick in inflation.

The outlook for core inflation also suggest a moderation premised on sustained intervention in the foreign exchange market, increased inflows and accretion to reserves, thus signaling convergence between the interbank and parallel market rates.

Food inflation is projected to remain high owing to high cost of transporting goods and persons, especially in the rural areas. The strong association between commuting in rural areas, owing to poor roads infrastructure, and food inflation is expected to keep food inflation high.

From the global scene, risk to inflation outlook in the near term is the faster-than-expected increase in interest rate in the United States, which could stoke a sharp dollar appreciation with implication of slowing or reversing capital inflows. At the domestic level, the risks factors include; the relatively high energy prices, poor power supply, disruption of production and distribution chains due to continued insurgents activities against soft targets in the North-East, and herdsmen-farmers conflicts in some parts of the country. In addition, the expected huge injections from the expansionary 2017 Federal Government budget could stoke inflation.

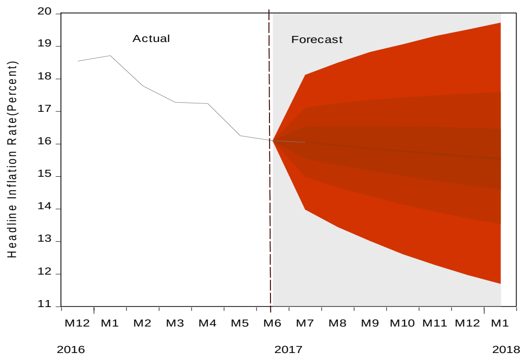
Nonetheless, the Bank would continue to manage liquidity conditions in the domestic economy to rein-in inflationary pressures and ensure that upside risks to inflation are contained.

Summary of Inflation Forecast for Year-On-Year Change (per cent)

Year/Month	Headline Inflation	Core Inflation	Food Inflation
2017M01	18.7	17.9	17.8
2017M02	17.8	16.0	18.5
2017M03	17.3	15.4	18.4
2017M04	17.2	14.8	19.3
2017M05	16.3	13.0	19.3
2017M06	16.1	12.5	19.9
2017M07	16.1	12.2	20.3
2017M08	15.99	12.00	20.35
2017M09	15.80	11.94	19.85
2017M10	15.61	11.85	19.33
2017M11	15.42	11.76	18.74
2017M12	15.46	11.70	18.81
2018M01	15.51	11.61	18.84

Source: CBN Monetary Policy Dept.

Fan Chart of Realistic Scenario for Headline Inflation Forecast (2017M06-2017M12)



Source: CBN Monetary Policy Dept.

6.7 Outlook for Monetary Policy in 2017

The medium term growth outlook for the economy indicated a modest recovery from the current recession. This will be substantially driven by the implementation of the Federal Government ERGP in the context of an expansionary fiscal policy. The agricultural sector is expected to still play a major role in the growth prospect in view of the sustained development finance initiatives of the CBN and other strategies by government to diversify the economy. Also, the prospects for continuing moderation in inflation outcomes would be strengthened by the commitment of the monetary authorities to continue to provide supportive foreign exchange policies.

Nevertheless, the risks to monetary policy for the rest of 2017 would include: the continuing low foreign exchange receipts with its attendant implications for foreign reserves and government expenditure, pressure on the exchange rate and instabilities in the financial markets. In addition, although the economy is projected to exit recession, the envisaged growth is likely to remain fragile as macro-fundamentals remain weak. Government borrowing at both national and sub-national levels had expanded considerably in recent times even as private sector credit contracted. The challenge will be for monetary policy strategy to ensure the provision of enough resources to the private sector to support sustained recovery, without necessarily undermining public sector investment. Other challenges are: persisting liquidity surfeit in the banking system;

weakening financial stability indicators; and the need for the emergence of positive real interest rates in the economy.

The challenges from the external environment are largely those related to the continuing divergence of monetary policies in the advanced economies with implications for financial markets' vulnerabilities that could spill-over to the domestic economy. In addition, the increasing pace of U.S. monetary policy normalization has implications for capital reversals from emerging markets including Nigeria. These issues would continue to be monitored by the Bank to ensure that the monetary policy environment delivers price stability conducive to economic growth in the second half of 2017 and beyond.

Appendices

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 111 OF THE MONETARY POLICY COMMITTEE MEETING OF 23RD AND 24TH JANUARY 2017.

1.0 Background

The Monetary Policy Committee held its first statutory meeting of fiscal 2017 on 23rd and 24th January, 2017 against the backdrop of increased uncertainty arising from political and economic developments around the world. Over the last few weeks the pillars of the old order - free trade, multilateralism and globalization have come under intense pressure, and seemingly giving way to an era of enlightened national interest in the conduct of international economic relations. On the domestic front, the economy remains in recession and inflation pressures have yet to recede. Both external and domestic conditions have blended to significantly complicate the policy environment.

In attendance at the meeting were all 10 members of the Committee. The Committee reviewed the global and domestic economic and financial environments in 2016 and the outlook for the short to medium term in 2017.

External Developments

The uncertainty in the external environment persisted owing to a combination of recent political and economic developments. The key issues include: Brexit, the rising wave of populist and anti-globalization sentiments anchored by emerging bilateralism, divergent monetary policy stance of the advanced central banks and disorderly commodity price movements. With global output growth improving sluggishly, the outlook for 2017 remains unchanged owing to persisting uncertainties in commodity prices and volatility in the financial markets as well as slowing demand in the advanced economies and the emerging markets.

The MPC welcomed the modest increase in oil prices following the last OPEC decision to cut output and noted the increase in the policy rate of the US Federal Reserve Bank in December 2016 and the potential implications of that decision for international interest rates and capital flows. While noting the materiality of the output cut on oil prices, the Committee cautioned that the effect could rapidly wane, given the likelihood of a supply glut from non-OPEC members, low level of global economic activity and weak growth. Emerging markets and developing economies, in particular, have continued to confront strong headwinds such as low commodity prices, rising inflation, currency instability, intractable low aggregate demand and subdued capital flows.

Overall, the Committee noted that whereas improved commodity prices may provide modest tailwinds for resource-dependent economies in 2017, the medium-term outlook continues to be muffled by stagnation and uncertainty in the prospects for global trade, subdued investment and heightened policy uncertainty, especially in some major economies. Nevertheless, the IMF estimates that these constraints would decline; paving way for mild improvements in economic growth from 3.1 per cent in 2016 to 3.4 per cent in 2017.

Global inflation commenced a moderate but steady rise on the backdrop of improvements in oil prices and currency depreciation in several emerging markets. However, amongst the major advanced economies, only the U.S Fed has commenced policy tightening[1] while the Bank of Japan (BOJ), the Bank of England and the European Central Bank, all retained their accommodative policy stance at their most recent meetings.

[1] The Federal Reserve raised its benchmark Federal Fund rate by 25 basis points in December 2016, to a range of 0.50 to 0.75 per cent, and also provided indication of rate hikes in 2017

Domestic Output Developments

Data released by the National Bureau of Statistics (NBS) in November 2016 showed that the economy contracted further by 2.24 per cent in Q3 2016, having slipped into recession following another contraction in output in Q2, 2016. Although the overall contraction in Q3 was greater than was observed in Q1 and Q2, the non-oil sector grew by 0.03 per cent in Q3, driven mainly by agriculture, which grew by 4.54 per cent. The Committee is of the view that the key undercurrents i.e. scarcity of foreign exchange, low fiscal activity, high energy prices and the accumulation of salary arrears - cannot be directly ameliorated by monetary policy actions. The Committee hopes that the recent increase in oil prices would be complemented by production gains to provide the needed tailwinds to sustainable economic activity. In that regard, the Committee commends the commitment of the fiscal authorities to step up efforts to fill the aggregate demand gap through a speedy resolution of the domestic indebtedness of the Federal government to states and local contractors. The Committee believes that doing so will aid the effort towards economic recovery.

Developments in Money and Prices

The Committee noted that money supply (M2) grew by 19.02 per cent in

2016, being 8.0 percentage points higher than its programmed limit. It underscored the necessity of keeping the economy adequately lubricated in the face of declining output. Growth in Net Domestic Credit (NDC) was 24.79 per cent at end-December 2016, being 17.94 per cent above its provisional benchmark for 2016. Likewise growth in net credit to government, at 58.84 per cent, surpassed its programmed target of 47.4 per cent. In effect, all the major monetary aggregates exceeded their programmed provisional benchmarks for fiscal 2016.

Headline inflation (year-on-year) continued to rise, creeping up in December 2016 to 18.55 per cent from 18.48 per cent in November, and 18.33 per cent in October, thus sustaining the upward momentum since January 2016. The increase in headline inflation in December 2016 was driven by increase in the food component, which inched up from 17.19 per cent in November to 17.39 per cent in December. Core inflation, on the other hand, moderated slightly to 18.05 per cent in December 2016 from 18.24 per cent in November.

The Committee observed the increases in the month-on-month inflation rate in November and December, in contrast to successive declines between June and September 2016. It noted that the structural factors driving the sustained pressure on consumer prices, such as the high cost of power and energy, transport, production factors, as well as rising prices of imports are yet to abate. Nonetheless, the Committee estimates that the current policy stance and other measures directed at improving food production would combine with base effect to usher-in some moderation in consumer prices in the short to medium term.

Money market interest rates fluctuated in tandem with the level of liquidity in the banking system. Thus, average inter-bank call rate, which stood at 15.34 per cent on 21st November 2016, closed at 9.90 per cent on December 30, 2016. Between these periods, the interbank call rate averaged 13.59 per cent. The average interbank call rate however, fell to 3.00 per cent on December 9, 2016, due to an increase in net banking sector liquidity to N495.48 billion on December 8, 2016, following the payment of statutory revenue to states and local governments as well as maturity of CBN bills during the period.

The Committee welcomed improvements in the equities segment of the capital market as the All-Share Index (ASI) rose by 2.84 per cent from 25,499.00 on November 21, 2016, to 26,223.54 on January 20, 2016. Similarly, Market Capitalization (MC) increased by 2.5 per cent from N8.80 trillion to 9.02 trillion during the same period. Relative to end-December 2016, the capital market indices, however, fell by

2.04 and 2.05 per cent, respectively, reflecting the challenges confronting the economy.

Total foreign exchange inflows through the CBN increased significantly by 82.45 per cent in December 2016 owing mainly to the increase in oil prices. Total outflows, however, spiked during the same period. The Committee noted that the average naira exchange rate remained stable at the inter-bank segment of the foreign exchange market in the review period.

2.0 Overall Outlook and Risks

The medium term outlook based on available data and forecast of key economic variables indicate a more resilient economy in 2017. Growth is expected to turn positive in fiscal 2017, as prior policy lags converge and the fiscal space becomes more accommodative. In addition, the agricultural sector is expected to play a bigger role in driving growth, given the expansion of the Anchor Borrower Program, as well as other developmental initiatives of the Government. Likewise, the prospects for moderation of price developments appear to be strengthening on the heels of positive developments in the food sub-sector.

The Committee identified the downside risks to this outlook to include the possibility of a slower-than-expected rate of global economic activity, fluctuating oil prices and production shut-ins due to vandalism of oil installations.

3.0 Summary of Considerations

The Committee re-assessed the headwinds which confronted the economy in 2016 and the opportunities for recovery in 2017. In particular, the MPC evaluated the implications of the rising wave of nationalistic ideologues across the West, the re-evaluation of trade agreements and the possibility of rapid monetary policy normalization in the United States, with adverse consequences for other countries, including Nigeria. The uncertainties underpinning the implementation of Brexit and the apparent retreat from globalisation and free trade were also important points of reflection.

In recognition of the seemingly inevitable structural shift in the global economy, the Committee reiterated the need to be more inward looking and hasten efforts towards economic diversification to support the domestic economy and improve life for the Nigerian people. Consequently, members acknowledged the imperative of sectoral policies and greater coordination of monetary and fiscal policy.

Conscious of the prevailing market sentiments in favour of a rate cut, the Committee reasoned that most of its decisions in 2016 were informed by the need to address the delicate balance between price stability and growth. Noting that the pressures on consumer prices were yet to abate and even as the economy continued to be in recession despite the intervention support by the Central Bank, the Committee stressed that it was not oblivious of the full ramifications of the economic challenges facing the country.

The MPC was concerned that the current situation was not amenable to simplistic analyses and quick fixes such as have found expression and increased attention at different fora and the media. The domestic economic challenges which include a chronically import dependent consumption culture, lack of competitiveness of many sectors of the economy and yawning infrastructural gap, have combined with an unfavorable external environment to complicate the macroeconomic policy environment. The Monetary Authority had on many occasions, and to the extent feasible, taken extra-ordinary steps to support other policies as well as compensate for aspects of structural gaps in the economy even at the expense of its core mandate.

The Committee specifically noted the positive contribution of agriculture to GDP in the third quarter, mostly attributable to the Bank's interventions in the sector. The Committee hopes that given the thrust of the 2017 budget and accompanying sectoral policies, output growth should resume in the short to medium term. The MPC, therefore, lends its voice to efforts for an early finalization of the 2017 Federal Budget by the authorities concerned, and the resolve to pursue a non-oil driven economy, as these will go a long way in stimulating aggregate demand and restoring confidence in the economy. The Committee also urged the authorities to seriously consider using the Public Private Partnership (PPP) model in its infrastructure development programme as a means of cushioning any possible shocks to budgeted revenue.

The Committee further noted that Inflationary pressures would begin to subside as non-oil output recovers and the naira exchange rate stabilizes. Until then, it stressed, a rate cut would worsen the inflationary conditions and undermine the current outlook for stability in the foreign exchange market. The Committee also feels that doing so would further aggravate demand pressures while undermining existing income levels in the face of the already expansionary monetary policy and increasing inflationary pressure which will make the economy unattractive for foreign and domestic investment. Given these limitations, the Committee was reluctant to lower the policy rate on this occasion but remained committed to doing so when the conditions permit.

From a financial stability standpoint, the Committee noted the possible impact of the inclement macroeconomic environment on banking sector resilience. The MPC urged the Management of the Bank to engage industry operators to discuss likely issues of asset quality, credit concentration and high foreign exchange exposures.

Given the growth in money supply arising from unconventional monetary policy operations of the Bank and implications for price and exchange rate developments, the Committee is committed to moderating growth in narrow money in the 2017 fiscal year in line with the Bank's monetary growth benchmarks.

4.0 The Committee's Decisions

The Committee, in consideration of the headwinds in the domestic economy and the uncertainties in the global environment, decided by a unanimous vote to retain the MPR at 14.0 per cent alongside all other policy parameters. In summary, the MPC decided to:

1. Retain the MPR at 14 per cent;
2. Retain the CRR at 22.5 per cent;
3. Retain the Liquidity Ratio at 30.00 per cent; and
4. Retain the Asymmetric corridor at +200 and -500 basis points around the MPR.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
24th January, 2017

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 112 OF THE MONETARY POLICY COMMITTEE MEETING OF 20TH AND 21ST MARCH 2017

1.0 Background

The Monetary Policy Committee met on the 20th and 21st March, 2017, against the backdrop of persistent uncertainty in the global economy, stemming from economic and socio-political developments around the world. On the domestic front, while the Q4 2016 GDP figure was better than the last two consecutive quarters, the economy remained in recession with inflationary pressures continuing unabated. These adverse external and domestic conditions continued to complicate the policy environment.

In attendance at the meeting were 10 members of the Committee. The Committee assessed the global and domestic economic and financial environments in Q1 2017 as well as the outlook for the medium-term.

External Developments

The global economy witnessed greater momentum in Q4 2016, facilitated by gains in both developed, emerging markets and developing economies which propelled global GDP growth to 2.7 per cent year-on-year in Q4, 2016, a 0.2 percentage point improvement over Q3 2016.

In spite of this improvement, the external environment continued to be plagued by political, economic and financial market uncertainties, with the defining issues being: Brexit, growing protectionist and anti-globalization sentiments, divergent monetary policies of the advanced economies' central banks and volatile commodity price movements. The protectionist stance of the new U.S. administration could impact negatively on global trade and economic recovery.

The MPC noted the slip in oil prices against the backdrop of fears of a supply glut, fuelled by increased activities in US Shale oil production, which threatens to undermine the rebalancing effects of the last OPEC decision to cut output. The Committee also noted the increase in the target range of the US Fed funds rate at the last meeting of the FOMC and the potential spillover effects on global capital flows and interest rates, especially given the still tepid global economic activity and weak demand. Challenges in the emerging markets and developing economies persist, as they struggle with strong headwinds from low commodity prices, rising inflation, currency volatility, receding real income and capital reversals.

Overall, the Committee noted the dampening effects of economic stagnation and uncertainty on global trade and investment. In spite of these constraints, however, the IMF estimates that the global economy would witness a slight improvement in growth from 3.1 per cent in 2016 to 3.4 per cent in 2017.

Global inflation continued its moderate but steady rise against the backdrop of improved oil prices and depreciated currencies in several emerging markets. Amongst the major advanced economies, the U.S Fed maintained its tightening stance, with a further upward adjustment[2] in March 2017. Meanwhile the Bank of Japan (BOJ), Bank of England and the European Central Bank, maintained the soft policy stance at their most recent meetings.

Domestic Output Developments

Data released by the National Bureau of Statistics (NBS) in February 2017 showed that the economy contracted marginally by 1.30 per cent in Q4 2016, effectively remaining in recession since Q2 2016. Overall, in 2016, the economy contracted by 1.51 per cent, with the contraction in Q4 being the least since Q2 2016. The non-oil sector grew by 0.33 per cent in Q4, largely reflecting the slowdown in the agricultural sector, which decelerated to 4. 03 per cent in Q4 2016 from the 4.54 per cent recorded in Q3 2016. The Committee remains of the conviction that fiscal policy remained the most potent panacea to most of the key negative undercurrents i.e. stunted economic activity, heightened unemployment and high inflation.

In spite of the recent moderate recovery in oil prices, the Committee approached developments in commodity prices cautiously. It noted that the era of high oil prices was over, thus making diversification away from oil more imperative today than ever.

Developments in Money and Prices

The Committee noted that money supply (M2) contracted by 5.73 per cent in February 2017, annualized at -34.38 per cent in contrast to the provisional growth benchmark of 10.29 per cent for 2017. Similarly, Net Domestic Credit (NDC) contracted by 1.41 per cent in February, 2017, annualized to 8.46 per cent, being significantly below the 17.93 per cent provisional growth benchmark for 2017. Likewise, net credit to government contracted at an annualized rate of 49.74 per cent, representing 82.86 per cent below its programmed target of 33.12 per cent. In effect, all the major monetary aggregates contracted by end-February and underperformed their programmed provisional benchmarks for fiscal 2017.

[2] The Federal Reserve again raised its benchmark Federal Fund rate by 25 basis points in March 2017, to a range of 0.75 to 1.00 per cent, having raised rates by the same margin in December, 2016, and also provided indication of further rate hikes in 2017

Headline inflation (year-on-year), however, declined for the first time in 15 months, dropping by 0.94 percentage point to 17.78 per cent in February, from the 18.72 per cent recorded in January 2017, and 18.55 per cent in December, 2016 seemingly reversing the monthly upward momentum recorded since January, 2016. The moderation in headline inflation in February, 2017 reflected base effect as well as decline in the core component, which fell by 1.90 percentage points from 17.90 per cent in January to 16.0 per cent in February, 2017. The food index, however, rose to 18.53 per cent in February, a 0.71 percentage point increase over the 17.87 per cent recorded in January, 2017.

The Committee, similarly, observed a continuous upward trend in the month-on-month inflation rate in February, having slightly moderated between December 2016 and January, 2017. It noted the sustenance of the structural factors mounting pressures on consumer prices, such as the high cost of power and energy, transport and production factors, as well as rising prices of imports. Nonetheless, the Committee remains optimistic that the adopted policy stance and other ancillary measures directed at improving the agricultural and other relevant sectors of the economy would combine to restart growth and drive down prices in the short to medium-term.

Money market interest rates moved in tandem with the level of liquidity in the banking system. Rates were relatively stable during the review period, the interbank call rates opened at 6.25 per cent on January 25, 2017 and closed at 13.14 per cent on February 28, 2017. However, the average inter-bank call rate rose to 100.00 and 133.84 per cent on January 21 and January 23, 2017, respectively, following the withdrawal of liquidity from the banking system through the sale of foreign exchange worth N137.00 billion on February 21, 2017.

The Committee noted the decline in the equities segment of the capital market as the All-Share Index (ASI) fell by 3.07 per cent from 26,036.24 on January 31, 2017, to 25,238.01 on March 10, 2017. Similarly, Market Capitalization (MC) decreased by 2.68 per cent from N8.97 to N8.73 trillion during the same period. Relative to end-December 2016, the capital market indices, fell by 3.12 and 3.03 per cent, respectively, reflecting the challenges still confronting the economy.

Total foreign exchange inflows through the CBN decreased by 8.87 per cent in February, 2017 compared with the previous month, as foreign exchange market receipts were significantly lower. Total outflows, also declined by 7.32 per cent during the same period. The Committee noted that the average naira exchange rate remained stable at the inter-bank segment of the foreign exchange market in the review period.

2.0 Overall Outlook and Risks

Available data and forecasts of key economic variables as well as the newly released Federal Government's Economic Recovery and Growth Plan (ERGP), indicate prospects of output recovery in 2017. The Committee expects that the implementation of this plan, the new foreign exchange policy as well as the current effort by the Federal Government to restore peace in the Niger Delta region would help revive economic growth and stabilize prices. The Committee identified the downside risks to this outlook to include the possibility of a slower-than-expected rate of global economic activity, tight monetary policy stance by the U.S. Fed, resulting in strengthening U.S dollar, and low oil prices.

3.0 The Considerations of the Committee

The Committee re-evaluated the implications for Nigeria of the continuing global uncertainties as reflected in the unfolding protectionist posture of the United States and some European countries; sustenance of the OPEC-Russian agreement to cut oil production beyond July 2017; sluggish global recovery and the strengthening U.S. dollar.

The Committee also evaluated other challenges confronting the domestic economy and the opportunities for achieving price stability, conducive to growth in 2017. In particular, the Committee noted the persisting inflationary pressures; continuing output contraction; high unemployment rate; elevated demand pressure in the foreign exchange market; low credit to the real sector and weakening financial system indicators, amongst others. Nonetheless, members welcomed the improved implementation of the foreign exchange policy that resulted in naira's recent appreciation. Similarly, the Committee expressed satisfaction on the release of the Economic Recovery and Growth Plan, and urged its speedy implementation with clear timelines and deliverables. On the strength of these developments, the Committee felt inclined to maintain a hold on all policy parameters.

Nevertheless, the Committee noted the arguments for tightening policy which remained strong and persuasive. These include: the real policy rate which remains negative, upper reference band for inflation remains substantially breached and elevated demand pressure in the foreign exchange market. The reality of sustained pressures on prices (consumer prices and the naira exchange rate) cannot be ignored, given the Bank's primary mandate of price stability. It noted that the moderation in inflation in February was due to base effect as other parameters, particularly; month-on-month CPI continued to rise. However, tightening at this time would portray the Bank as being insensitive to growth. Also, the deposit money banks may easily reprice their assets which would undermine financial stability. Besides, the Committee noted the need to create binding restrictions on growth in narrow money and structural liquidity and the imperative of macroeconomic stability to achieving price stability conducive to growth.

The Committee also considered the arguments for loosening the stance of monetary policy, noting its desirability in stimulating aggregate demand if credit increased with lower rates of interest. It noted the arguments that loose monetary policy was capable of delivering cheaper credit, making it more attractive for Nigerians to acquire assets, thus increasing wealth and stimulating aggregate spending and confidence by economic agents, which would eventually lead to lower Non-performing loans in the system. However, the counterfactual arguments against loosening were anchored on the upward trending month-on-month inflation and its impact on the exchange rate. Loosening would thus worsen the already negative real interest rate, widen the interest rate spread and reverse the positive outlook for the current account position.

On outlook for financial stability, the Committee noted that the banking sector was becoming less resilient as a result of the adverse macroeconomic environment. Nevertheless, the MPC reiterated its resolve to continue to pursue financial system stability. To this end, the Committee enjoined the Management of the Bank to work with DMBs to promptly address rising NPLs, declining asset quality, credit concentration and high foreign exchange exposures.

The Committee also noted the benefits of loosening at this time which will be in line with the needs of fiscal policy to restart growth. The MPC, however, noted that loosening would exacerbate inflationary pressures, worsen the exchange rate and further pull the real interest rate into negative territory. Since interest rates are sticky downwards, loosening may not necessarily transmit into lower retail lending rates.

The Committee noted the consecutive positive contribution of agriculture to GDP in Q4 2016, a development partly traceable to the Bank's interventions in the sector. The Committee remains optimistic that, if properly implemented, the newly released Economic Recovery and Growth Plan (ERGP) coupled with innovative, growth-stimulating sectoral policies would help fast track economic recovery.

4.0 The Committee's Decision

The Committee, in consideration of the headwinds in the domestic economy and the uncertainties in the global environment, decided by 9 out of 10 members to retain the MPR at 14.0 per cent alongside all other policy parameters. One member voted to raise the MPR. In summary, the MPC decided to:

(i) Retain the MPR at 14 per cent;
(ii) Retain the CRR at 22.5 per cent;

(iii) Retain the Liquidity Ratio at 30.00 per cent; and
(iv) Retain the Asymmetric corridor at +200 and -500 basis points around the MPR

Godwin I. Emefiele
Governor, Central Bank of Nigeria
21st March, 2017

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 113 OF THE MONETARY POLICY COMMITTEE MEETING OF 22nd AND 23rd May 2017

Background

The Monetary Policy Committee (MPC) met on the 22nd and 23rd of May, 2017, against the backdrop of slowly improving global growth prospects even as international cooperation continues to be threatened by anti-globalization sentiments in major advanced economies. On the domestic front, the economy has shown greater resilience in the intervening period since the last meeting of the Committee, anchored on more focused macroeconomic policies and improvements in oil prices. While the general economic outlook seems cautiously optimistic for the remainder of fiscal 2017, emerging indicators suggest that economic policy must remain circumspect.

In attendance were 8 out of 12 members of the Committee. The MPC assessed the global and domestic economic and financial environments in the first five months of 2017 and the outlook for the rest of the year.

External Developments

The global economy continued to gather momentum in Q1, 2017, aided by gradual recovery in the emerging markets on the back of a pick-up in global demand and higher commodity prices, coupled with fairly robust domestic demand in the advanced economies. Accordingly, global output growth in Q1 2017 is estimated to expand by 2.8 per cent annualized. In spite of the fairly optimistic global economic outlook, uncertainty surrounding the direction of macroeconomic policy in the advanced economies continues to cloud the prospects of sustained recovery. Global inflation appears to be upward trending on the back of improved commodity prices and depreciated currencies in several emerging markets.

Domestic Output Developments

Data from the National Bureau of Statistics (NBS) showed that the economy contracted marginally by 0.52 per cent in Q1 2017, a much more positive development since Q1 2016. The data also shows that about eighteen (18) economic activities recorded positive growth in Q1 2017; indicating that the economy was firmly on the path of recovery. The key growth activities were led by quarrying (52.54%), metal ores (40.79%), road transportation (12.35%), water supply and sewage (12.63%), fishing (5.49%), crop production (3.5%), oil refining 93.01%), motion pictures (2.95%), telecommunication (2.89%), forestry (2.59%), amongst others. The Committee noted the positive effects of improved foreign exchange management on the performance of the manufacturing sector and other economic activities. The non-oil sector grew by 0.72 per cent in Q1 2017, largely reflecting the growth recorded in agriculture and solid minerals, and recovery in manufacturing, construction and services sectors. The Committee urged the fiscal authorities to expeditiously commence the implementation of the recently approved 2017 budget, especially, the capital expenditure portion, in order to sustain the momentum of recovery, engender employment and restore confidence in the Nigerian economy.

Developments in Money and Prices

The committee noted that money supply (M2) contracted by 8.48 per cent in April 2017, annualized to a contraction of 25.44 per cent in contrast to the provisional growth benchmark of 10.29 per cent for 2017. Net Domestic Credit (NDC) grew by 1.40 per cent in April, 2017, annualized to 4.21 per cent, which is significantly below the 17.93 per cent provisional growth benchmark for 2017. However, net credit to government grew by 24.08 per cent over end-December 2016, representing an annualized growth of 72.0 per cent. The Committee was concerned that credit to government continued to outpace the programmed target of 33.12 per cent for fiscal 2017, while credit to the private sector declined considerably far below the programmed target of 14.88 per cent.

Headline inflation (year-on-year) moderated for the third consecutive month, falling to 17.24 per cent in April, from 17.26 per cent in March, 17.78 per cent in February and 18.72 per cent in January 2017, effectively reversing the monthly upward momentum since January, 2016. The food index component, however, rose to 19.30 per cent in April, from 18.44 per cent in March and 18.53 per cent in February, 2017. The moderation in headline inflation in April, 2017 thus reflected the decline in the core component to 14.80 per cent in April from 15.40, 16.01, and 17.87 per cent, respectively in March, February and January, 2017. Similarly, month-on-month inflation moderated to 1.60 per cent in April from 1.72 per cent in March, 2017.

The Committee attributed these developments in part to the effects of the recent gains in the naira exchange rate, brought about by the Bank's interventions in the foreign exchange market and the resulting downward price adjustments on imported items and their derivatives. Against this background, the Committee emphasized the need to sustain and deepen the Bank's foreign exchange management policies and measures in order to reap the benefits of the pass-through to consumer prices. The MPC recognized the continued influence of structural factors such as high energy and transportation costs, production bottlenecks on prices and hoped that the ongoing reforms by the

Government would address some of these constraints.

Money market interest rates moved in tandem with the level of liquidity in the banking system. Rates were relatively stable during the review period. The interbank call rate opened at 11.40 per cent on March 22, 2017 and closed at 38.94 per cent on May 18. The movement in net liquidity position was influenced by sales at the Open Market Operations, foreign exchange interventions, the payment of statutory revenues to States and Local Governments as well as maturing CBN Bills.

The MPC noted the bullish trend in the equities segment of the capital market as the All-Share Index (ASI) rose by 10.20 per cent from 25,516.34 on March 31, 2017, to 28,113.38 on May 19, 2017. Similarly, Market Capitalization (MC) increased by 10.10 per cent from N8.83 to N9.72 trillion during the same period. Relative to end-December 2016, the capital market indices rose by 4.60 and 5.10 per cent, respectively, reflecting growing investor confidence following improvements in foreign exchange supplies reflected in the over US$1 billion injected through the investor window and exchange rate management. Total foreign exchange inflows through the CBN increased by 69.77 per cent in April, 2017 compared with the previous month. Total outflows, however, rose, but less significantly, at 29.35 per cent during the same period. Consequently, the Committee observed that the average naira exchange rate remained stable at the inter-bank segment of the foreign exchange market in the review period.

2.0 Overall outlook and Risks

Available data and various forecasts of key economic variables as well as assessment of government initiatives, including the recently released Federal Government Economic Recovery and Growth Plan (ERGP), all point to prospects of recovery in 2017. The Committee expects that the timely implementation of this plan, judicious execution of the approved 2017 Budget and sustenance of the new foreign exchange implementation regime supported by the restoration of security in different parts of the country, especially, in the Niger Delta region, would help accelerate growth and restore confidence in the economy. The MPC however, identified the downside risks to this outlook to include the possibility of low oil prices due to renewed investments in shale oil exploration and production, continuing monetary policy normalization by the U.S. Fed which may result in strengthening of the U.S dollar, and consequent capital reversal from Nigeria and other emerging market economies. Also, the MPC believes that the inflation outlook does not appear benign as the limit of the base effect driving the current moderation in prices may have been reached.

3.0 The Considerations of the Committee

Notwithstanding the improved outlook for the economy, the Committee weighed the implications of continuing global uncertainties arising from the dwindling commitment to global cooperation, the strengthening of the U.S. dollar, and the unsteady commodity prices. The Committee similarly evaluated other challenges confronting the domestic economy and the opportunities for achieving economic growth and price stability in 2017. The MPC was of the view that whereas the downward trend in inflation in April 2017 is a welcomed development; the rate was still significantly above the policy reference band.

The MPC is particularly pleased with the gradual retreat in inflation, the relative stability in the Naira exchange rate across all segments of the foreign exchange market and the improved prospects of foreign investment inflow. The Committee also welcomes the passage of the 2017 Budget and called on the relevant authorities to ensure its judicious implementation, especially, the capital budget in line with the Economic Recovery and Growth Plan. It, however, noted the associated risks to banking system liquidity of the envisaged fiscal injections during the remainder of the year. Against this risk, the Committee contemplated the prospects of further tightening of monetary policy should the need arise. The MPC however, noted that further tightening would widen the income gap, depress aggregate consumption and adversely affect credit to the real sector of the economy.

Nevertheless, against the backdrop of the rather unclear outlook around key economic activities (food production especially) and some optimism about current deceleration in inflation as well as relative stability in the naira exchange rate, the MPC was reluctant to alter the current policy configuration in any fundamental manner. This is intended to allow the existing policies to fully achieve their intended goals and objectives. On the other hand, the Committee noted that the cost of capital in the economy remains high and not helpful to growth. The MPC was however, concerned that loosening would exacerbate inflationary pressures and worsen the gains so far achieved in the exchange rate of the naira. It was also convinced that loosening would further increase the negative real interest rate as the gap between the nominal interest rate and inflation widens.

On the financial stability outlook, the Committee noted that in spite of the banking sector's resilience, the weak macroeconomic environment has continued to exert pressure on the banking system. The MPC urged the

CBN to intensify its surveillance, in order to address emerging vulnerabilities. The Committee also called on the DMBs to step up credit to the private sector to support economic recovery and convey a positive feedback to the financial system.

4.0 The Committee's Decisions

In consideration of the challenges weighing down the domestic economy and the uncertainties in the global environment, the Committee decided by a unanimous vote of the 8 members in attendance to retain the MPR at 14.0 per cent alongside all other policy parameters. One member was absent at the meeting. In summary, the MPC decided to:

(i) Retain the MPR at 14 per cent;

(ii) Retain the CRR at 22.5 per cent;

(iii) Retain the Liquidity Ratio at 30.00 per cent; and

(iv) Retain the Asymmetric corridor at +200 and -500 basis points around the MPR

Godwin I. Emefiele
Governor, Central Bank of Nigeria
23rd May, 2017