CENTRAL BANK OF NIGERIA ECONOMIC REPORT

July 2021

ABOUT THE REPORT

The Economic Report of the Central Bank of Nigeria (CBN) is a periodic publication by the Research Department of the Bank. The Report, which is published on a monthly and quarterly basis, provides a review and insights on developments in the real, fiscal, financial and external sectors of the Nigerian economy and global issues of interest. It also discusses the policy initiatives of the Bank during the review period.

The Report is directed at a wide spectrum of readers, including economists, policymakers, and financial analysts in government circles and the private sector, and the general public. Subscription to the Report is available without charge to institutions, corporations, embassies, and development agencies. The Report is also available for free download from the CBN website: *www.cbn.gov.ng. All inquiries on the publication should be addressed to the Director of Research, Central Bank of Nigeria, P.M.B. 187, Garki, Abuja, Nigeria.*

Contents

Tables

Figures

Box Information

EXECUTIVE SUMMARY

Global economic recovery was sustained in July 2021, supported by a combination of fiscal stimuli and monetary policy accommodation and improved administration of COVID-19 vaccines. Growth remained robust in the Advanced Economies (AEs), as ongoing fiscal and monetary interventions boosted economic activities. Emerging Markets and Developing Economies (EMDEs) and Sub-Saharan African (SSA) countries showed varying circumstances and pandemic-induced shocks. Consumer prices remain elevated across several economies, driven by a bumpy reopening of global supply chains and significant systemic liquidity from the various fiscal and monetary interventions that followed the COVID-19 pandemic. Investors' sentiment in the equities market remained largely positive, while fixed-income yields plummeted. Crude oil prices sustained an upward trend due to lower-than-expected crude oil supply from OPEC+ and rising demand propelled by the economic recovery and travel resurgence.

In the domestic economy, the real sector developments reveal that aggregate demand is gaining momentum, following sustained, targeted interventions to businesses and households, as the economy continues to grapple with the lingering effects of the COVID-19 health crisis. With the sustained recovery of the non-oil sector, improved crude oil receipts, the continued impact of higher demand, and favourable base effects from the significant contraction in economic activity in 2020, growth would maintain a positive trajectory. The inflation rate sustained a four-month consecutive decline, due to the increased supply of food items. However, persisting security challenges and long-standing structural bottlenecks negatively weigh domestic prices, hence keeping inflation elevated. The headline inflation rate, on a year-on-year basis, stood at 17.38 per cent in July 2021. Although higher-than-expected, food inflation has continued to decline for four consecutive months since April 2021. The pace of increase in aggregate food prices (year-on-year) slowed marginally, by 0.80 percentage points to 21.03 per cent in July 2021, as food supply improved from the early harvest of staples. However, core inflation remained above trend, as it rose to 13.72 per cent, from 13.09 per cent in the previous month, because of supply chain disruptions that accompanied persisting security challenges and the longstanding impact of infrastructural deficit.

Despite the rally in crude oil prices on the fiscal front, the spread of more virulent strains of COVID-19 and uncertainties in the global oil market further constrained fiscal space. Nevertheless, federally collected revenue rose in July 2021, relative to June 2021, propelled by increases in oil and non-oil revenue components. Improved statutory earnings positively impacted the Federal Government of Nigeria (FGN), as its retained revenue rose by 24.9 per cent. On the expenditure side, FGN's provisional aggregate spending contracted by 39.3 per cent.

The domestic financial system was relatively sound and stable in the review month, amidst the prospects of global economic recovery, arising from the growing optimism of flattening the COVID-19 incidence curve and increased accessibility to vaccines. The system's resilience was supportive of economic recovery, despite the protracting effects of the COVID-19 pandemic-related shocks. Monetary policy stance remained accommodative, easing banking system liquidity conditions, driving key interest rates southward, and strengthening the recovery process. Activities on the Nigerian Exchange (NGX) Limited were bullish in July 2021, following positive investors' sentiments in anticipation of the firm's 2021 half-year earnings and dividends declaration.

In the external sector, trade activities decelerated in July 2021, owing to the spread of the Delta-variant of COVID-19 in some trading partner economies. However, the trade balance improved, resulting from subdued imports, arising from risk sentiments emanating from the spread of the Delta-variant of COVID-19. In the review period, the fall in import demand reflected supply chain disruptions triggered by COVID-19 containment measures in some trading partner economies. Non-oil export earnings rose in response to growing global demand, especially from Sub-Saharan Africa. Nigeria's crude oil and gas export receipts decreased due, largely, to lower-than-expected gas export. However, competitive yields on domestic financial assets led to further improvement in capital inflow. The increase in receipts from oil-related taxes, combined with the purchase and revaluation of gold, resulted in accretion to external reserves. The external reserves could cover 6.3 months of import for goods and services or 8.4 months of import for goods only. Furthermore, the stoppage of sales to BDC operators provided staying power for effective demand.

The domestic output is expected to improve on account of sustained fiscal and monetary policy supports. The tailwinds to the growth outlook include an improved rate of vaccination and sustained policy interventions, particularly the expansion of credit to households and businesses. Inflationary pressures would continue to ease further in the short-to-medium term, amid increased food supply, occasioned by the kickoff of the harvest season. However, persisting insecurity and subsisting structural rigidities could be headwinds to the inflation outlook in the coming months.

The fiscal policy outlook is optimistic on the back of a sustained recovery in crude oil prices, robust implementation of the Strategic Revenue Growth Initiatives (SRGIs) of the FGN, and widespread availability and administration of COVID-19 vaccines. However, downside risks remain, due to the rising debt-service-revenue ratio, lingering security challenges, and COVID-19-related distortions. The prospect of the external sector remains positive, as anticipated increases in Foreign Portfolio Investment (FPI) inflow improved Diaspora remittances, and higher crude oil prices would improve foreign exchange inflow. However, demand pressure and lingering insecurity could slow down economic recovery, exacerbate food deficit, and encourage food imports, thereby exerting further pressure on the naira.

1.0 GLOBAL ECONOMIC DEVELOPMENTS

1.1 Global Output

Although at a slower pace, global economic recovery was sustained in July 2021, supported by a combination of fiscal stimuli and monetary policy accommodation and improvement in the administration of COVID-19 vaccines. The J.P. Morgan's Global Composite Purchasing Managers Index (PMI), an indicator of global output, though above the 50-point threshold, moderated slightly to 55.7 index points in July 2021, compared to 56.6 index points in June 2021 (Table 1). In addition, the world trade index declined slightly from 130.0 in June 2021 to 128.2 in July 2021. These developments were due largely to concerns surrounding the rising infection rates of Delta-variant in some countries during the review period. Notably, manufacturing was affected by strained global supply chains, which delayed input deliveries, affected the cost of inputs, and ultimately production lines.

Table 1: Global Purchasing Managers' Index (PMI)

	May-21	Jun-21	Jul-21
Composite	*58.4*	*56.6*	*55.7*
Manufacturing	*56*	*55.5*	*55.4*
Services (Business Activity)	*59.4*	*53.0*	*52.6*
World Trade Index	*129.1*	*130*	*128.2*

Source: JP Morgan & CPB World Trade Monitor
Note: 50-Point threshold was adopted for the analysis

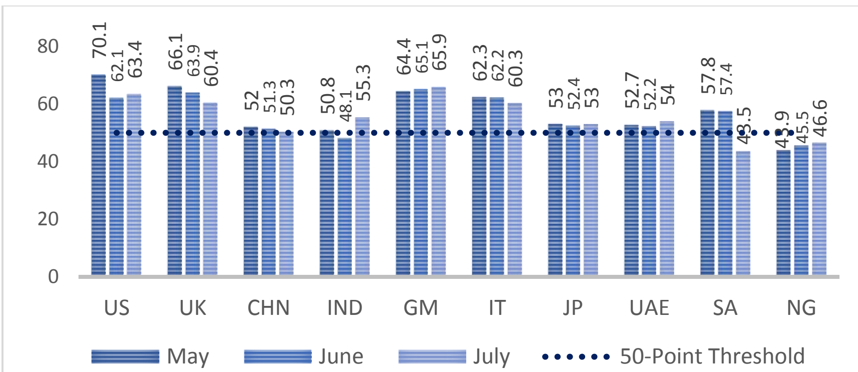
Advanced Economies

Growth remained robust in the Advanced Economies (AEs), as ongoing fiscal and monetary interventions boosted economic activities. The PMI across several major economies in AEs remained above the 50-point threshold, suggesting a rebound in manufacturing activities above their pre-pandemic levels (Table 1). Specifically, the euro area led growth, steered by Germany, in July 2021, as PMI rose to 65.9 index points from 65.1 index points in June 2021. Similarly, the United States recorded an increase in PMI from 62.1 index points in June 2021 to 63.4 index points. The combined monetary and fiscal supports stimulated economic activities and engendered a sustained surge in personal consumption. In the UK and Italy, business activities improved, albeit slower, as the growth in new orders and export business slowed, following supply chain issues and staff shortages, due to the emergence of the highly transmissible COVID-19 Delta-variant. Specifically, manufacturing PMI fell to 60.4 index points in the UK, from 63.9 index points in June 2021. In the same vein, PMI fell to 60.3 index points in Italy in the same period.

Emerging Markets and Developing Economies

EMDEs and SSA countries are marked by divergent circumstances and have varying degrees of pandemic-induced shocks. As a result, the upturn in the manufacturing sector lost further momentum in July 2021, as output growth decelerated in several major markets, including China. Specifically, the PMI for China fell to 50.3 index points in July 2021, from 51.3 index points in June 2021. However, industrial activity in India improved, as the COVID-19 situation abated and business activities resumed, resulting in a rise in PMI to 55.3 index points in July 2021, from 48.1 index points in the preceding month. In the SSA region, production activities were tepid in July 2021, indicated by a PMI below the 50-point threshold. In South Africa, manufacturing PMI fell to 43.5 index points in July 2021, below the 57.4 index points recorded in June 2021. The fall was due to the adverse effects of the civil unrest, associated with former President Jacob Zuma's detention on business activities. The slow rise in PMI continued in Nigeria, despite disruptions induced by insecurity and persisting power outages. Although the PMI rose to 46.6 index points from 45.5 index points in July 2021, it was below the 50-point threshold.

Figure 1: Selected Countries PMIs



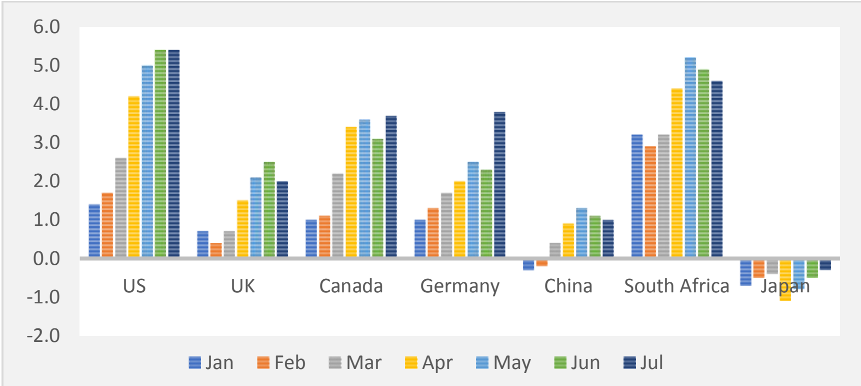
Source: Trading Economics/Various Country Websites, CBN Staff compilation.
Note: US, UK, CHN, IND, GM, IT, JP, UAE, SA, and NG represent United States, United Kingdom, China, India, Germany, Italy, Japan, United Arab Emirates, South Africa, and Nigeria, respectively.

1.2 Global Inflation

Global Inflation

Consumer prices remain elevated across several economies, driven by a bumpy reopening of global supply chains and significant systemic liquidity arising from the various fiscal and monetary interventions in response to the COVID-19 pandemic. In July 2021, Germany and Canada's inflation rates increased to 3.8 per cent and 3.7 per cent, from 2.3 per cent and 3.1 per cent, respectively, in June 2021, owing largely to base effects, and rising shelter costs, and gasoline prices. Japan’s deflation rate moderated to 0.3 per cent in July 2021, from 0.5 per cent in June 2021, stemming from reflationary activities. US inflation remained unchanged during the month at 5.4 per cent, halting four consecutive months of acceleration. On the other hand, the UK, China, and South Africa recorded slight moderation in inflation rates to 2.0 per cent, 1.0 per cent, and 4.6 per cent, from 2.5 per cent, 1.1 per cent, and 4.9 per cent, respectively. In addition, fear of possible pent-up savings from the lockdown period, released into the economy, could further heighten inflationary pressure. Despite the fear, inflationary pressure would be transitory, given most central banks' tightening of monetary policy.

Figure 2: Inflation Trend in Selected Countries



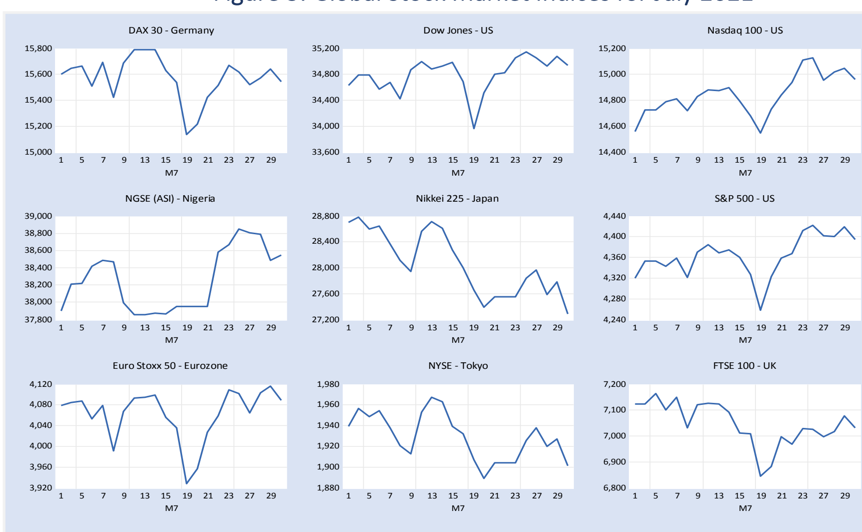
Source: Trading Economics data, CBN compilation

1.3 Global Financial Markets

Global Financial Markets

Investors' sentiment in the equities market remained positive in July 2021, while fixed-income yields plummeted. The equity market in the US and Europe ended positively, supported by optimistic expectations for recovery and impressive corporate earnings in the second quarter of 2021. The Dow Jones Industrial Index, S&P 500 Index, and the Euro Stoxx 50 Index rose by 1.3 per cent, 2.3 per cent and 0.6 per cent month-on-month, respectively.

Figure 3: Global Stock Market Indices for July 2021



Source: Bloomberg, CBN compilation
Note: M7 refers to July 2021

Yields in the fixed income space declined across several countries during the month, as investors continued to prioritize safety. Furthermore, mounting COVID-19 uncertainty surrounding the global economic environment contributed to the flight-to-safety behaviour and the renewed interest in less-risky assets.

Figure 4: 10-Year Government Bond Yields for July 2021

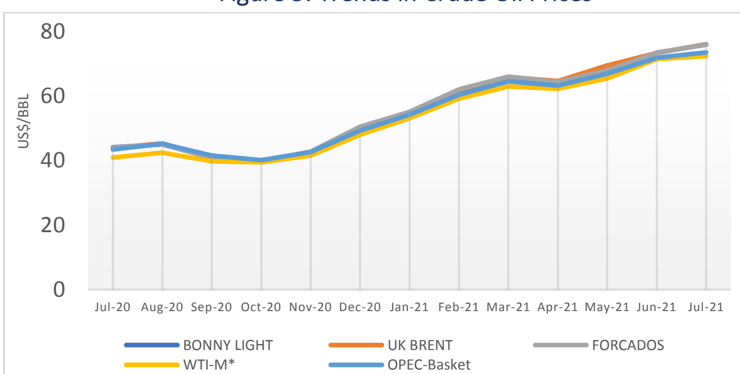
Source: Bloomberg, CBN compilation
Note: M7 refers to July 2021

1.4 Global Oil Market

World Crude Supply and Demand

World crude oil supply increased in July 2021, stemming from increased production from non-OPEC countries. Despite the fall in global oil demand, the global oil supply fell short of demand by 1.55 mbpd. OPEC's aggregate crude oil production increased to 32.08 mbpd in July 2021, representing an increase of 2.5 per cent, compared with 31.31 mbpd recorded in the preceding month. Both the crude and non-crude portions of OPEC's production increased by 2.6 per cent and 1.3 per cent, to 26.73 mbpd and 5.35 mbpd, respectively. In the aggregate, the total world crude oil supply increased by 1.8 per cent to 97.13 mbpd. Of the total, OECD supply rose by 2.3 per cent to 31.54 mbpd from 30.84 mbpd in June 2021. On the other hand, non-OECD supply for the month under review rose to 65.59 mbpd, an increase of 1.6 per cent relative to June 2021. Thus, the increase in total world supply was due to the rise in supply from non-OECD producing countries.

Figure 5: Trends in Crude Oil Prices



Source: Refinitiv Eikon IV (Thomson Reuters)

On the other hand, total world demand fell by 0.9 per cent to 97.81 mbpd, compared with 98.68 mbpd recorded in the preceding month. Specifically, total OECD crude oil demand declined by 0.64 mbpd to 44.70 mbpd in July 2021, while non-OECD crude oil demand declined by 0.23 mbpd to 53.11 mbpd in the same period. Crude oil demand declined, as market participants expected OPEC+ to boost its production levels. However, Crude oil demand would grow by 6 million barrels per day (mbpd), while crude oil forecast would average $76 per barrel in the second half of 2021[1]. The return of crude oil production and export will cap gains in the short term if the US lifts its sanctions on Iran.

[1] OPEC World Oil Outlook, 2021

1.5 Commodity Market Developments

Agricultural Commodity Prices

On average, prices of major agricultural export commodities moderated in July 2021. At 81.08 index points (December 2010=100), the average prices of agricultural export commodities declined by 0.28 per cent from its level of 81.31 points in June 2021 but 18.67 per cent higher than the corresponding period of 2020. Declines were recorded in the prices of groundnut, cotton, and wheat by 12.62 per cent, 3.24 per cent, and 1.32 per cent, respectively (Table 2). Wheat prices dropped because of improved production prospects in many key producing regions.

On the other hand, the prices of oil palm, soybean, coffee, cocoa, and rubber increased by 6.33 per cent, 4.82 per cent, 2.87 per cent, 1.13 per cent, and 0.57 per cent, respectively. Oil palm prices rose due to labour shortages in Southeast Asian countries, which adversely affected production. The soybean price was mainly influenced by strong export demand, especially from China, and rising demand from the biodiesel sector. Price movement around coffee was due to the expectations of reduced supply from some origins, disruptions in trade flows, rebound in demand, and the relaxation of lockdown measures in major consuming markets.

Table 2: Agricultural Export Commodities, July 2021

Indices of Average World Prices of Nigeria's Major Agricultural Export Commodities for July 2021 (in dollars; Dec. 2010=100)

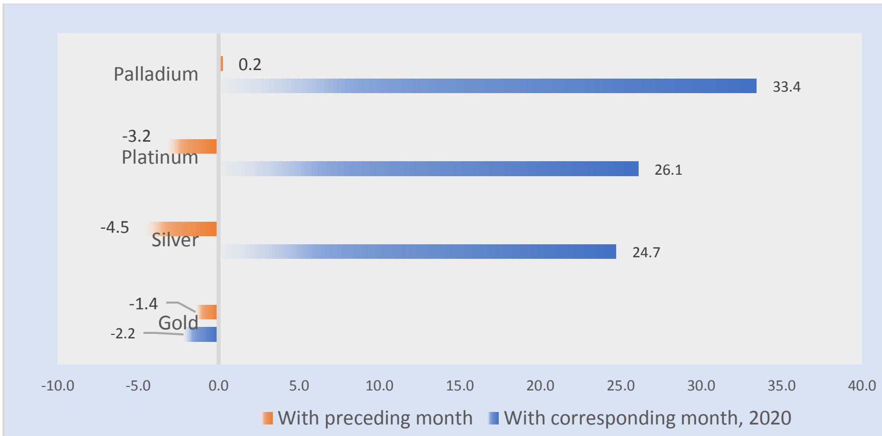
Commodity	Jul-20	Jun-21	Jul-21	% Change (1) & (3)	% Change (2) & (3)
	1	*2*	*3*	*4*	*5*
Cocoa	68.68	77.33	78.21	13.87	1.13
Cotton	40.79	56.2	54.37	33.3	-3.24
Coffee	71.94	90.03	92.61	28.74	2.87
Wheat	68.93	89.14	87.96	27.62	-1.32
Rubber	25.6	34.93	35.13	37.25	0.57
Groundnut	144.6	105.64	92.31	-36.16	-12.62
Palm Oil	56.22	82.41	87.63	55.86	6.33
Soyabeans	69.83	114.84	120.37	72.39	4.82

Sources: World Bank Pink Sheet and Staff Estimates

Other mineral commodities

Available data from Thomson Reuters indicated a decrease in the average spot prices of mineral commodities in July 2021, as investors sought higher yields in sovereign instruments and equities. The average spot prices of gold, silver, and platinum fell by 1.4 per cent, 4.5 per cent, and 3.2 per cent, month-on-month, to sell at US$1,805.65, US$25.69, and US$1,085.54, respectively. The decline in gold, silver, and platinum was due to a rise in yields of dollar-denominated US treasury bills. Furthermore, the gradual recovery in global equity markets helped reduce the appeal of gold as a safe-haven asset. Conversely, the average spot price of palladium rose by 0.2 per cent to US$2,725.71, from US$2,719.13 in the preceding month (Figure 6), due to increased demand from the automotive sector, following the tightening of auto emission rules and the current push by the United States for greener policies.

Figure 6: Price Changes in Selected Metals for July 2021 (per cent)



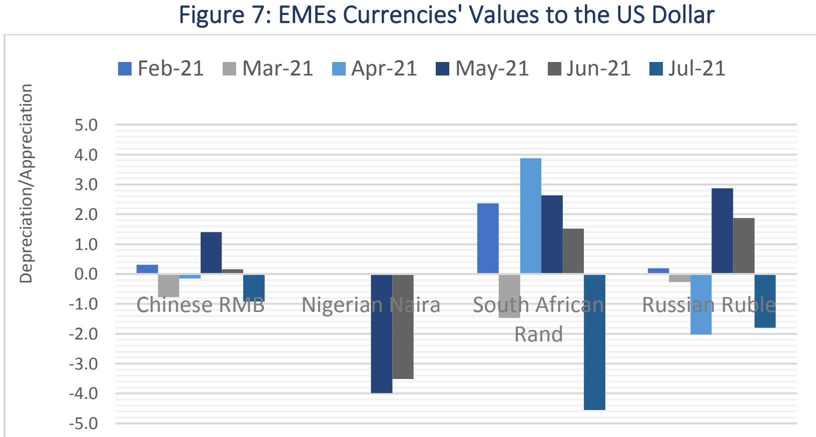
Source: Refinitiv Eikon IV (Thomson Reuters)

1.6 Selected Emerging Markets' Currencies

Emerging markets currencies

Concerns over surging cases of the COVID-19 Delta-variant weighed on the performance of emerging market currencies against the US dollar. At the end of July 2021, the average exchange rate of the South African rand, the Russian ruble, and the Chinese RMB to the US dollar depreciated by 4.6 per cent, 1.8 per cent, and 0.9 per cent, respectively, against the values in June 2021.

Figure 7: EMEs Currencies' Values to the US Dollar



Source: CBN & Exchange Rates UK.

Table 3: EMEs Currencies' Rates to the US Dollar

Period	Chinese RMB	Nigerian Naira	South African Rand	Russian Rouble
Jul-20	6.97	377.19	17.01	75.22
Jun-21	6.42	411.29	13.85	72.60
Jul-21	6.48	411.39	14.51	73.93

Source: CBN & Exchange Rates UK.

2.0 DOMESTIC ECONOMIC DEVELOPMENTS

2.1 Real Sector Developments

2.1.1. Domestic Output and Business Activities

Aggregate demand gained momentum, following sustained, targeted interventions to businesses and households, as the economy continues to cope with the lingering effects of the COVID-19 health crisis.

Growth maintained its positive trajectory in July 2021, buoyed by sustained recovery of the non-oil sector, improved crude oil receipts, and strong policy support. In addition, the continued impact of higher demand and favourable base-effects from the significant contraction in economic activity in 2020 impacted growth. On the supply side, sustained recovery in output is reflected in the Composite Manufacturers' Purchasing Managers' Index (PMI), which rose to 46.6 index points in July 2021, from 45.5 index points in the previous month. Improvements in manufacturing activities were due to the increased demand for new orders, higher employment levels, and improved raw material inventory positions. Similarly, the non-manufacturing (services) sector improved, as composite Non-manufacturing PMI rose to 44.6 index points from 43.0 index points in June 2021 (Table 4).

Table 4: Manufacturing and Non-Manufacturing Sector Purchasing Managers' Index

Components	Jun-21	Jul-21
Composite Manufacturing PMI	**45.5**	**46.6**
Production Level	44.7	45.5
New Orders	41.6	43.8
Supplier Delivery Time	57.5	54.5
Employment Level	45.0	46.5
Raw Material Inventory	42.5	46.6
Composite Non-Manufacturing PMI	**43.0**	**44.6**
Business Activity	43.4	42.7
New Orders	40.8	42.7
Employment Level	45.0	47.0
Inventory	42.7	46.0

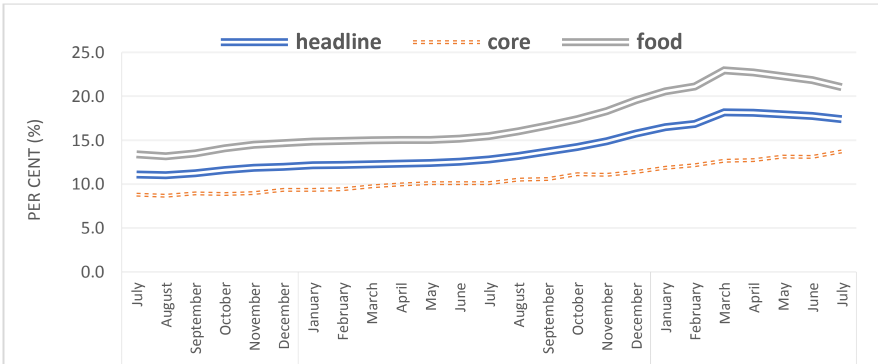
Source: Central Bank of Nigeria

Headline Inflation

Inflation sustained a four-month consecutive decline in July 2021, owing to the effects of an increased supply of food items. However, persisting security challenges and long-standing structural bottlenecks negatively weigh domestic prices, hence keeping inflation rates elevated. On a year-on-year basis, the headline inflation rate moderated to 17.38 per cent in July 2021, from 17.75 per cent in June 2021. The slower rate in headline inflation was due, largely, to the drop in the food component of the Consumer Price Index (CPI). The major contributors to headline inflation were: food and non-alcoholic beverages (12.06 percentage points);

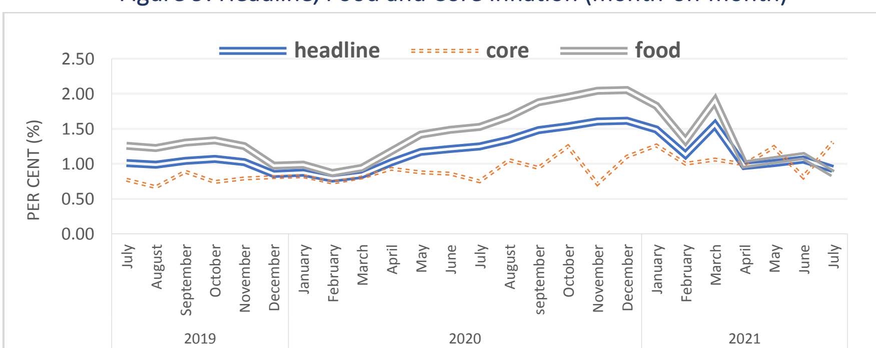
housing, water, electricity, gas, and other fuel (1.59 percentage points); clothing and footwear (1.01 percentage points); and transportation (0.88 percentage points). On a month-on-month basis, the headline inflation also declined to 0.93 per cent in July 2021 from 1.06 per cent in June 2021 (Figure 8).

Figure 8: Headline, Food and Core Inflation (year-on-year)



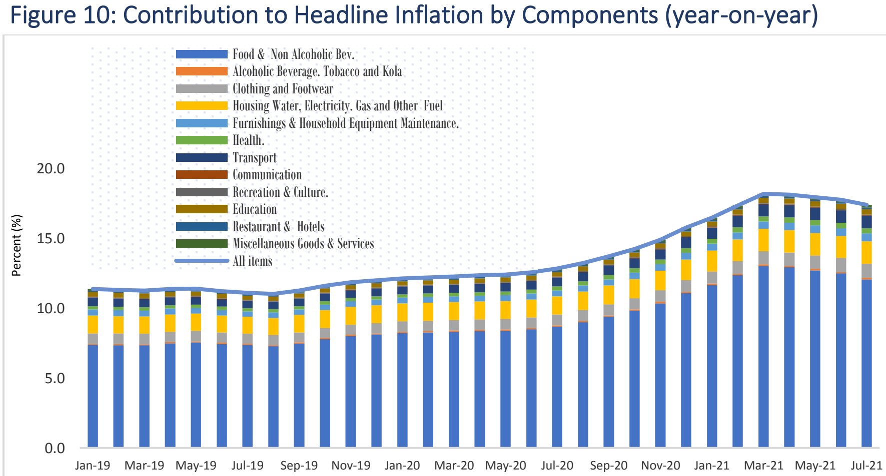
Source: National Bureau of Statistics

Figure 9: Headline, Food and Core Inflation (month-on-month)



Source: National Bureau of Statistics

Figure 10: Contribution to Headline Inflation by Components (year-on-year)



Source: Data from National Bureau of Statistics

Food Inflation

Although elevated, the pace of food inflation has continued to decline for four consecutive months since April 2021. Food inflation (year-on-year) slowed, marginally, by 0.80 percentage points to 21.03 per cent in July 2021. The slow pace was attributed, mainly, to the increased supply of food items, following the early harvest of some food crops (including yams and cassava) in the southern part of the country. The continued release of maize by the CBN from its strategic maize reserve to feed millers under the Anchor Borrowers' Programme also contributed to the fall in food prices. Besides, the continued strong policy support by the CBN in the real sector, especially in agriculture, further moderated aggregate food prices.

On a month-on-month basis, food inflation declined to 0.86 per cent in July 2021, compared with 1.11 per cent in the previous month.

Box Information 1

Monthly Domestic Food Price Watch for July 2021

Prices of the domestic agricultural commodities monitored rose on average, above the level in June 2021. *On average, prices of agricultural commodities monitored increased by 0.86 percentage point to 1.66 per cent in July 2021, compared with the preceding month. The highest increases were recorded for garri (white and yellow), maize (white and yellow), beans (white and brown), and yam tubers at 4.94 per cent and 4.69 per cent, 4.65 per cent and 3.61 per cent, 4.58 per cent, 4.48 per cent and 2.71 per cent, respectively (Table 6). However, prices of five of the monitored commodities decreased, ranging from 3.99 for onion bulb to 0.16 per cent for Rice (medium grained).*

Table 6: Domestic Prices of Selected Agricultural Commodities in July 2021

		Jul. 2020/1	Jun. 2021/1	Jul. 2021/2	% Change	% Change
	UNIT	1	2	3	(1) & (3)	(2) & (3)
Agric eggs medium size	*1kg*	*474.1*	*556.5*	*577.5*	*21.8*	*3.8*
Beans: brown, sold loose	"	*300.3*	*471.2*	*485.4*	*61.7*	*3.0*
Beans: white black eye, sold loose	"	*268.4*	*431.8*	*444.2*	*65.5*	*2.9*
Gari white, sold loose	"	*222.5*	*324.3*	*329.2*	*48.0*	*1.5*
Gari yellow, sold loose	"	*255.1*	*339.0*	*347.7*	*36.3*	*2.6*
Groundnut oil: 1 bottle, specify bottle	"	*623.1*	*728.4*	*768.8*	*23.4*	*5.5*
Irish potato	"	*328.1*	*356.4*	*380.2*	*15.9*	*6.7*
Maize grain white, sold loose	"	*190.0*	*262.8*	*275.8*	*45.2*	*5.0*
Maize grain yellow, sold loose	"	*191.6*	*271.4*	*280.6*	*46.4*	*3.4*
Onion bulb	"	*238.7*	*315.6*	*322.1*	*35.0*	*2.0*
Palm oil: 1 bottle, specify bottle	"	*486.3*	*609.2*	*635.3*	*30.7*	*4.3*
Rice agric, sold loose	"	*406.0*	*449.4*	*462.3*	*13.9*	*2.9*
Rice local, sold loose	"	*363.0*	*401.8*	*412.0*	*13.5*	*2.5*
Rice, medium grained	"	*410.7*	*447.6*	*456.0*	*11.0*	*1.9*
Rice, imported high quality, sold loose	"	*490.4*	*558.0*	*552.8*	*12.7*	*-0.9*
Sweet potato	"	*177.2*	*191.3*	*199.9*	*12.8*	*4.5*
Tomato	"	*304.0*	*335.5*	*414.8*	*36.5*	*23.7*
Vegetable oil: 1 bottle, specify bottle	"	*576.9*	*713.0*	*739.3*	*28.2*	*3.7*
Wheat flour: prepackaged (Golden Penny)	*2kg*	*713.0*	*803.9*	*830.6*	*16.5*	*3.3*
Yam tuber	*1kg*	*256.4*	*287.5*	*308.7*	*20.4*	*7.4*

Sources: National Bureau of Statistics and Staff estimates

Core Inflation

However, core inflation rose to 13.72 per cent in the review period, from 13.09 per cent in the previous month. The rise in core inflation (year-on-year) was because of supply chain disruptions that accompanied persisting security challenges and the effect of infrastructural constraints on domestic price developments. On a month-on-month basis, it also increased to 1.31 per cent, from 0.81 per cent in the previous month.

2.1.2 Crude Oil Market Developments

Spot Oil Prices

Spot crude oil prices rose in July 2021, due to increased global fuel demand, particularly in the US and Europe. A fall in US crude oil inventories was witnessed in the first few weeks of July 2021, as crude oil demand rose due to increased summer travels. The resultant rise in fuel demand increased prices further in July 2021. Consequently, the monthly average spot price of Nigeria's reference crude oil, the Bonny Light (34.9° API), rose by 3.4 per cent to US$75.93 per barrel (pb) in July 2021, compared with US$73.46 pb recorded in the preceding month. Similarly, the prices of Brent, at US$76.06 pb, Forcados, at US$76.00 pb, OPEC Reference Basket (ORB) at US$73.52 pb, and WTI, at US$72.34 pb, also exhibited upward trends.

Crude Oil production and Export

Domestic crude oil production and export improved in July 2021, following routine maintenance. Scheduled maintenance of some pipelines, including the Nembe Creek Trunk Line, Trans Ramos Pipeline, and Bonga pipeline, and repairs of some leaked pipelines, helped revive Nigeria's production levels through June and July 2021 from the low levels experienced in May 2021. Nigeria's crude oil production rose by 2.0 per cent to 1.50 mbpd, from 1.47 mbpd in the preceding month. Out of the 1.50 mbpd produced in July 2021, exports accounted for the average of 1.05 mbpd, while domestic consumption accounted for the balance.

2.1.3 Development Financing

Development Financing

The Bank continued with her intervention programmes towards stimulating production in the real sector, particularly sectors with high growth impact. As of June 25, 2021, the Bank disbursed ₦153.47 billion in ten (10) intervention programmes.

ABP

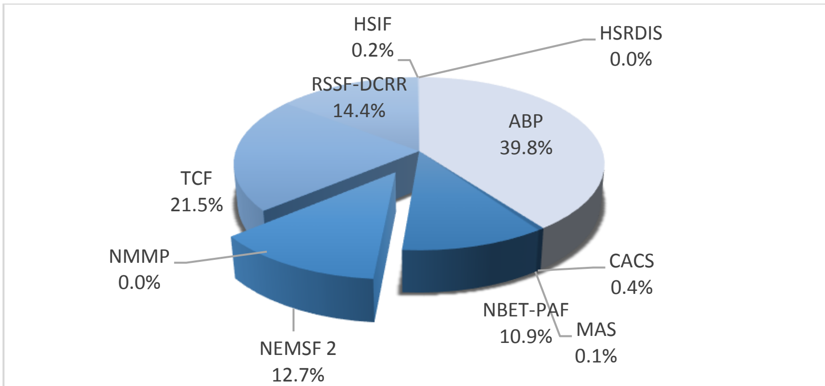
Under the Anchor Borrowers' Programme (ABP), the Bank disbursed ₦61.13 billion to cultivate rice, maize, and cassava. Cumulatively, the total amount disbursed from inception under ABP stood at ₦696.67 billion to 3,038,899 farmers cultivating 3,801,397 hectares of 21 commodities through 23 Participating Financial Institutions (PFIs).

In a bid to halt the persistent rise in the price of maize, given its importance in the agriculture value chain, the CBN approved the release of 50,000 metric tonnes of maize to 12 significant processors from the CBN strategic maize reserve under the ABP.

CACS

Under the Commercial Agriculture Credit Scheme (CACS), beneficiaries received ₦632 million for two projects as of June 25, 2021, bringing the cumulative disbursements to ₦697. 75 billion in respect of 651 projects.

Figure 11: Summary of Disbursement by Intervention as at June 2021 (per cent)



Source: Central Bank of Nigeria

MAS-ABP

Under the Maize Aggregation Scheme (MAS), ₦176.25 million was disbursed for one project as of 25 June 2021, bringing the cumulative disbursements to ₦6.35 billion in June 2021.

NEMSF 2

For the Nigeria Electricity Market Stabilization Facility 2 (NEMSF 2), the Bank disbursed ₦19.44 billion in June 2021. Cumulative disbursement since inception stood at ₦120.29 billion, disbursed through NESI-SS Ltd to refinance 38 projects, while Nigeria Bulk Electricity Trading-Payment Assurance Facility (NBET-PAF) received ₦16.77 billion in June 2021.

NMMP

Similarly, ₦45.83 million was disbursed in June 2021 to finance the procurement and installation of 810 meters. From inception to date, the sum of ₦36.04 billion had been disbursed under the National Mass Metering Programme (NMMP) to procure and install 657,562 meters across the country.

TCF

Under the Targeted Credit Facility, the sum of ₦32.98 billion was released to NIRSAL Microfinance Bank (NMFB) for on-lending to 65,161 beneficiaries (comprising of ₦16.15 billion for 21,641 SMEs and ₦16.83 billion for 43,520 households).

RSSF-DCRR

Also, the Real Sector Support Facility – Differentiated Cash Reserve Requirement (RSSF-DCRR) received ₦22.03 billion for eight projects in June 2021. Cumulatively, 237 beneficiaries benefited ₦862.83 billion, while ₦3.65 billion of non-interest facilities disbursed through Jaiz Bank for three projects.

Agriculture

In addition, the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL plc) granted ADT Russet Limited a 50 per cent Credit Risk Guarantee (CRG) on a working capital facility of ₦1.15 billion for cocoa export. The facility would spur activities in the cocoa sub-sector and further improve cocoa export earnings.

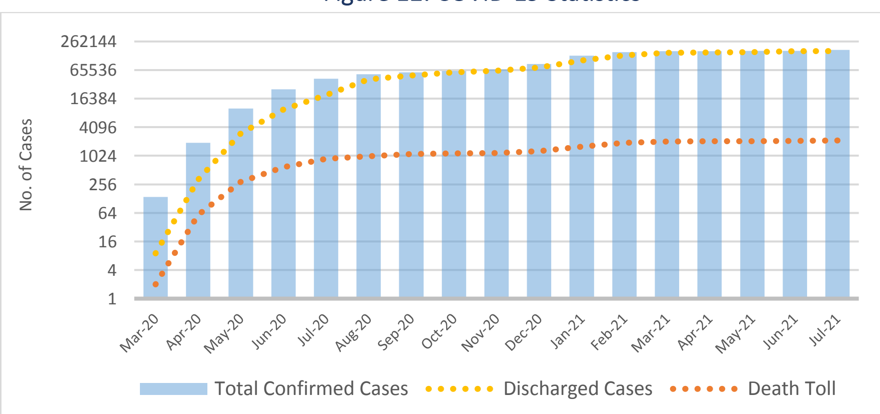
In its bid to encourage farmers, the UN's International Fund for Agricultural Development (IFAD) kickstarted the Private Sector Financing Program (PSFP) to support private smallholder ranchers and agribusinesses. The programme was in line with the subtle push towards increased ranching and reduced open grazing, especially in the country's southern parts. In a similar development, the Federal Government approved the sum of ₦6.25 billion to construct ranches in Katsina state.

2.1.4 Socio-Economic Developments

Health: COVID-19 Update

Figures from the National Centre for Disease Control (NCDC) indicated a rise in the COVID-19 infection rate in Nigeria, heightening fears about a possible third wave of the pandemic after months of low cases. The number of confirmed cases in Nigeria rose by 3.75 per cent as of July 31 2021, to 173,908 from 167,618 recorded in June 2021. Discharged cases increased to 164,994, from 164,244; while deaths rose to 2,140 (Figure 12).

Figure 12: COVID-19 Statistics[2]



Source: Nigeria Centre for Disease Control

[2] Covid-19 data as at July 31, 2021.

Ahead of the arrival of more vaccine doses in Nigeria, the National Agency for Food and Drug Administration and Control (NAFDAC) vaccine committee recommended Moderna (Rovi Pharma Madrid, Spain); AstraZeneca AZD1222 (South Korea Bioscience Co Limited); Sputnik V (Gamaleya National Centre of Epidemiology and Microbiology, Russia) as additional vaccines for emergency use in Nigeria. Moderna and AstraZeneca AZD1222 vaccines received WHO Emergency Use Listing (EUL); hence, they were given expedited approvals, while the Russian Sputnik V was subjected to a six-month review by NAFDAC.

Following the detection of the Delta-variant of COVID-19 in the country and the consequent rise in the number of new cases and hospitalisations, the Federal Government, through the Presidential Steering Committee (PSC) on COVID-19, placed six states of the Federation and the Federal Capital Territory (FCT) on red alert. The affected states are Lagos, Oyo, Rivers, Kaduna, Kano, Plateau, and the FCT. The PSC further advised all other states of the Federation to heighten their preparedness and continue to enforce all protocols put in place.

Education

The Federal Government approved a take-off grant of ₦1 billion to establish Nigeria's first aviation and aerospace university in Abuja, named the 'African University of Aerospace and Aviation'. The university would focus on research and development in civil aviation and aerospace technology. The establishment of the University would fill some knowledge gaps hindering the growth and development of the aviation sector.

Transportation

During the review period, the construction of the US$1.2 billion 204 kilometres (km) Kano-Kaduna standard gauge railway line commenced. Upon completion in the next eighteen months, the railway project would link the Lagos-Ibadan railway project via Abuja, Minna, Ilorin, and Oshogbo. Ibadan to Lagos on one end, and Maradi, the Niger Republic on the other. The railway connection would strengthen international trade activities, using the ports in Lagos, and provide a viable option for the landlocked Niger Republic.

In a bid to upscale the quality of road infrastructure, the Federal Executive Council (FEC) approved the construction of five concrete roads worth ₦309 billion. The roads are in Borno, Kaduna, Lagos, and Ogun States. The roads, totalling 274.9 km, would be constructed by Dangote Industries Limited under the Nigerian government's Road Infrastructure Tax Credit policy.

2.2 FISCAL SECTOR DEVELOPMENTS

Summary

Despite the rally in crude oil prices, the fiscal space was further constrained by risks emanating from the spread of more virulent strains of COVID-19 and uncertainties in the global oil market. Nevertheless, federally collected revenue rose in July 2021, relative to June 2021, propelled by increases in oil and non-oil revenue components. Improved statutory earnings positively impacted the fiscal operations of the Federal Government of Nigeria (FGN), as its retained revenue rose by 24.9 per cent. On the expenditure side, provisional aggregate spending of the FGN grew by 8.9 per cent, driving a 1.6 per cent expansion in its fiscal deficit, relative to June. FGN's debt obligation at the end-June 2021 also jumped by 8.1 per cent, compared to end-March 2021. The rise in its debt profile was due to new borrowings for infrastructural development, COVID-19 vaccine procurement and administration, and internal security.

2.2.1 Federation Account Operations

Drivers of Federation Revenue

Improved earnings from petroleum profit tax and corporate income tax-induced a significant rise in federation earnings in the review period. At ₦1,064.54 billion, federation receipt surpassed the level in June 2021 and the budget benchmark by 38.5 per cent and 3.9 per cent, respectively, driven by non-oil receipts. The growth in non-oil receipts above the proportionate budget was an indication that the Strategic Revenue Growth Initiatives (SRGIs[3]) of the FGN was beginning to yield the desired outcome.

Non-oil revenue constituted 61.3 per cent of the gross federally collected revenue, while oil revenue accounted for 38.7 per cent. Non-oil earnings in July, at ₦652.44 billion, exceeded both the proportionate budget estimate and June earnings by 25.8 per cent and 35.5 per cent, respectively. The significant increase in non-oil revenue was spurred, largely, by a 145.8 per cent increase in collections from corporate income tax, over the level in June. The increased corporate income tax receipt was due to the seasonal effect of the June 30th deadline for filing tax returns by companies in Nigeria and the efficiency brought about by the TaxPro-Max solution[4].

The contribution of oil at ₦412.10 billion was its strongest since May 2020, despite zero remittance from crude oil sales/exports (absorbed by the cost

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[3] The SRGIs seeks to diversify the revenue base of the government and enhance non-oil contribution to total revenue, among other objectives.

[4] The TaxPro-Max is an automated tax administration tool introduced by the Federal Inland Revenue Service (FIRS) in June 2021, for online filling of tax returns.

of petrol subsidy). It was driven by a 102.2 per cent surge in receipts from petroleum profit tax and royalties, following the rebound in crude oil prices.

Disbursements to the three tiers of government increased to ₦733.09 billion, from ₦605.96 billion in the preceding month. The sums of ₦304.95 billion, ₦267.04 billion, and ₦161.10 billion were allocated to the Federal, State, and Local governments, respectively. Although disbursements to the three tiers of government significantly exceeded allocations in June and the corresponding period in 2020, they remained below their budgetary targets (Table 5).

Table 5: Federally-collected Revenue and Distribution to the Three-tiers of Government (₦' Billion)

	Jul-20	Jun-21	Jul-21	Budget
Federation Revenue (Gross)	**783.35**	**768.44**	**1,064.54**	**1,024.72**
Oil	**262.38**	**287.04**	**412.10**	**505.93**
Crude Oil & Gas Exports	40.14	0.00	0.00	52.50
PPT & Royalties	145.24	173.62	351.13	276.88
Domestic Crude Oil/Gas Sales	68.42	104.47	52.64	84.29
Others	8.58	8.95	8.33	18.46
Non-oil	**520.97**	**481.40**	**652.44**	**518.79**
Corporate Tax	249.04	121.41	298.47	124.71
Customs & Excise Duties	81.53	102.81	107.31	94.38
Value-Added Tax (VAT)	128.83	181.08	154.47	153.20
Independent Revenue of Fed. Govt.	54.45	73.34	89.16	88.49
*Others**	7.13	2.76	3.02	58.01
Total Deductions/Transfers**	***256.81***	***242.15***	***335.13***	247.57
Federally-Collected Revenue *Less Deductions & Transfers*	526.54	526.29	729.40	777.15
plus:				
Additional Revenue	**42.83**	**79.67**	**3.69**	**56.42**
Excess Crude Revenue	*0.00*	*0.00*	*0.00*	*0.00*
Non-oil Excess Revenue	*0.00*	*77.94*	*0.00*	*56.42*
Exchange Gain	*42.83*	*1.73*	*3.69*	*0.00*
Total Distributed Balance	***569.37***	***605.96***	***733.09***	***811.15***
Federal Government	*239.79*	*242.12*	*304.95*	*346.47*
State Government	*172.41*	*194.20*	*215.57*	*235.90*
Local Government	*128.67*	*143.74*	*161.10*	*176.83*
13% Derivation	*28.50*	*25.90*	*51.47*	*51.96*

Source: Office of the Accountant General of the Federation and Central Bank of Nigeria Staff Estimates

Note: * Includes Education Tax, Customs Special Levies (Federation Account), National Technology Development, Customs Special Levies, Solid Mineral & Other Mining revenue, and other Non-regular earnings; ** Deductions include cost of revenue collections and JVC cash calls; while transfers entail provisions for FGN Independent revenue and other Non-Federation revenue.

Table 6: Allocation to Subnational Governments

	State Government			Local Government		
	Statutory	VAT	Total	Statutory	VAT	Total
Jul-20	141.01	59.90	200.91	86.74	41.93	128.67
Jun-21	135.90	84.20	220.10	84.80	58.94	143.74
Jul-21	195.22	71.83	267.04	110.82	50.28	161.10
Benchmark	***216.89***	***70.96***	**287.85**	***127.16***	***49.67***	**176.83**

Source: Staff compilation based on data from the Office of the Accountant-General of the Federation (OAGF).

2.2.2. Fiscal Operations of the Federal Government

Overall Balance of the FGN

The impact of improved revenue out-turn in July 2021 was weakened by 8.9 per cent growth in expenditure, triggering an expansion of the fiscal deficit. Payoffs from expenditure rationalisation and revenue mobilisation efforts appeared subdued by new and rising non-discretionary spending, particularly on security and COVID-19 mitigation measures. Consequently, the provisional fiscal deficit[5] of the FGN, at ₦699.48 billion, exceeded the position in June 2021 and the budget benchmark by 1.6 per cent and 49.8 per cent, respectively.

Table 7: Fiscal Balance (₦' Billion)

	Jul-20	Jun-21	Jul-21	Benchmark
Retained revenue	299.66	315.46	394.11	665.53
Aggregate expenditure	898.56	1,004.25	1,093.59	1,132.34
Primary balance	-257.83	-255.08	-276.52	-189.77
Overall balance	**-598.90**	**-688.79**	**-699.48**	**-466.80**

Source: Staff compilation and estimates using data from OAGF
Note: Aggregate expenditure and the fiscal balances are provisional.

FGN Retained Revenue

Growth in FGN retained revenue was owing to the 60.4 per cent rise in receipt from the Federation Account. Retained revenue of the Federal Government increased by 24.9 per cent to ₦394.11 billion, relative to June 2021. Nonetheless, FGN receipts in July 2021 fell below the benchmark of ₦665.53 billion by 40.8 per cent, suggesting the prevalence of revenue challenge in the review period (Table 8).

[5] This figure is provisional pending updates from the Office of the Accountant-General of the Federation (OAGF).

Table 8: FGN Retained Revenue (₦' Billion)

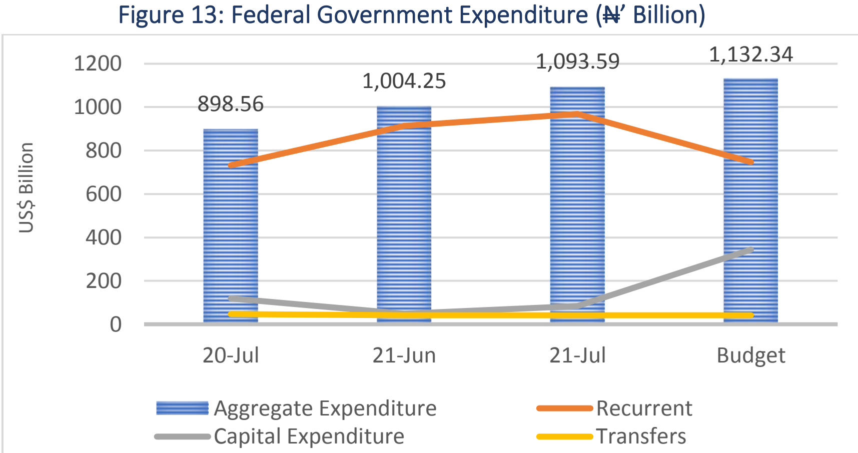
	Jul-20	Jun-21	Jul-21	Benchmark
FGN Retained Revenue	**299.66**	**315.46**	**394.11**	**665.53**
Federation Account	201.24	175.54	281.62	*295.46*
VAT Pool Account	17.97	25.26	21.55	*21.29*
FGN Independent Revenue	54.45	73.34	89.16	*88.49*
Excess Oil Revenue	0.00	0.00	0.00	*0.00*
Excess Non-Oil	0.00	40.52	0.00	*29.72*
Exchange Gain	20.58	0.80	1.78	*0.00*
*Others**	5.42	0.00	0.00	*230.58*

Source: Compiled from OAGF figures
Note: * Others include revenue from Special Accounts and Special Levies

FGN expenditure

Provisional aggregate expenditure of the FGN, at ₦1,093.59 billion, rose by 8.9 per cent, relative to June 2021, but remained below the 2021 proportionate benchmark of ₦1,132.34 billion by 3.4 per cent. The increase was due to a 5.9 per cent rise in recurrent expenditure. Disaggregation of the expenditure reveals the dominance of recurrent spending, constituting 88.6 per cent of total government expenditure in July 2021, while capital expenditure and transfers accounted for the balance of 7.6 per cent and 3.8 per cent, respectively. Compared with the projected expenditure composition of 61.9 per cent [6] (recurrent expenditure), 28.3 per cent (capital expenditure), and 6.7 per cent (transfers), the largely disproportionate share of recurrent expenditure in July 2021 is indicative of lags in capital releases.

Figure 13: Federal Government Expenditure (₦' Billion)



Source: CBN Staff Estimates and compilation from OAGF data

[6] Out of which 22.3 per cent is assigned to debt servicing and 39.6 per cent to non-debt recurrent expenditure, in the 2021 budget.

Table 9: Federal Government Expenditure[1] (₦' Billion)

	Jul-20	Jun-21	July-21	Budget
Aggregate Expenditure	**898.56**	**1,004.25**	**1,093.59**	**1,132.34**
Recurrent	732.01	914.39	968.53	747.20
of which:				
Personnel Cost	263.62	294.73	281.85	281.03
Pension and Gratuities	29.90	29.54	29.54	42.02
Overhead Cost	87.27	140.80	210.40	147.12
Interest Payments	341.06	433.71	422.96	277.03
Domestic	*40.80*	*84.72*	*83.48*	*78.41*
External	*300.26*	*348.99*	*339.48*	*198.62*
Special Funds & others	*10.17*	*15.61*	*23.78*	*0.00*
Capital Expenditure	119.84	48.47	83.68	343.76
Transfers	46.71	41.38	41.38	41.38

Source: CBN Staff Estimate
Note: 1/ The estimates are provisional.

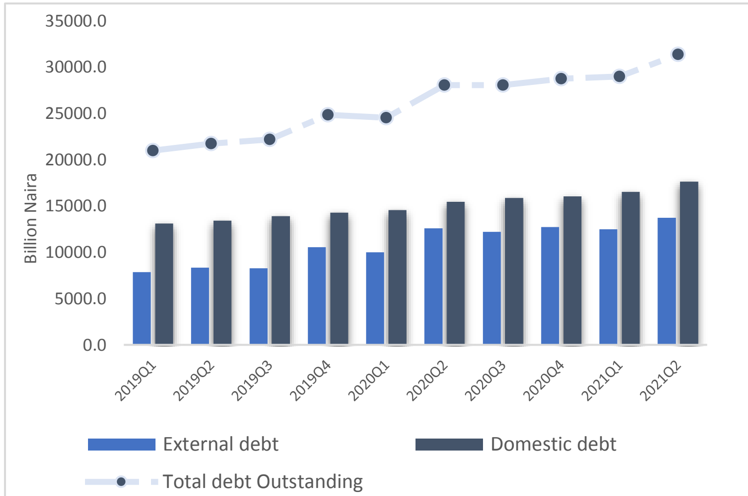
FGN Debt

Driven by new debt issues in FGN Bond, FGN Savings Bond, Promissory Notes, and the loan from the World Bank, FGN debt outstanding at the end-June 2021 rose to ₦31,342.68 billion. It represents 8.1 per cent and 11.8 per cent increase relative to end-March 2021 and the corresponding period in 2020. Domestic debt accounted for 56.3 per cent of FGN total debt, while external debt obligations constituted 43.7 per cent. This compares with a mix of 70:30 for domestic-external debt target in the 2020-2023 Medium-Term Debt Strategy of the FGN. External debt stock increased by 9.9 per cent, relative to end-March 2021. Comparatively, domestic debt outstanding rose by 6.8 per cent.

FGN bond issues maintained its dominance in the composition of the domestic debt portfolio, accounting for 75.1 per cent of the total domestic debt. Followed by Treasury Bills (16.9 per cent); Promissory Notes (5.1 per cent) and others (7.9 per cent) - FGN Sukuk (2.1 per cent); Treasury bonds (0.6 per cent), Green bond (0.2 per cent) and Special FGN Savings bond (0.1 per cent). The distribution was in tandem with the FGN's objective to hold more long-term domestic debt instruments than short (75:25). In the composition of the holders of Nigeria's external debt, Multilateral, Commercial, and Bilateral loans accounted for 54.9 per cent, 32.4 per cent, and 12.7 per cent of the total external debt stock, respectively.

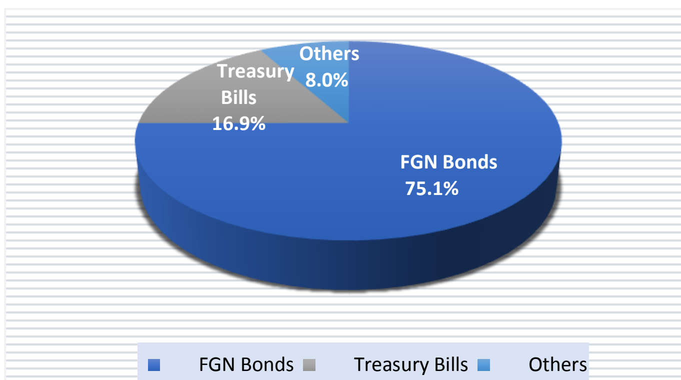
Debt service obligations as of the second quarter of 2021 amounted to ₦445.22 billion, compared with ₦416.43 billion and ₦1,032.29 billion in the second quarter, 2020, and the first quarter of 2021, respectively.

Figure 14: FGN External and Domestic Debt Composition (₦' Billion)



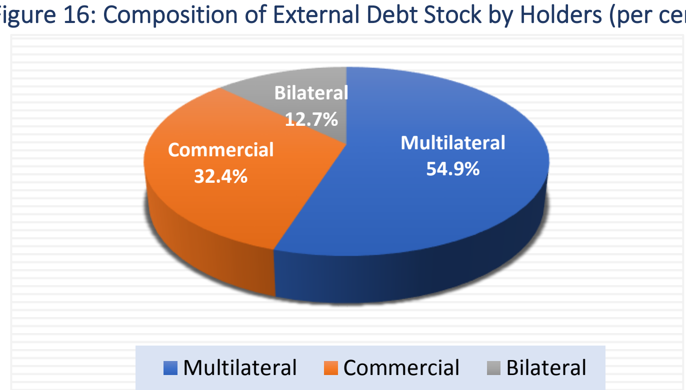
Source: Compiled from DMO figures

Figure 15: Composition of Domestic Debt Stock by Instrument (per cent)



Source: Compiled using data from the Debt Management Office (DMO)

Figure 16: Composition of External Debt Stock by Holders (per cent)



Source: Staff compilation using data from the Debt Management Office (DMO)

2.3 THE MONETARY AND FINANCIAL SECTOR

Summary

The Nigerian financial system remained resilient and supportive of the economic recovery, despite the lingering effects of the COVID-19 pandemic-related shocks. Monetary policy stance remained accommodative to support the recovery process, as monetary policy rate, cash reserve ratio, and liquidity ratio were retained at 11.5 per cent, 27.5 per cent, and 30.0 per cent, respectively, during the July 2021 monetary policy committee meeting. The banking system liquidity improved in the review period, compared with the levels in the preceding month. These developments contributed in driving key interest rates southward.

2.3.1 Monetary Developments

Reserve Money

Reserve money inched up in July 2021, compared with its level in June 2021, due to increased currency-in-circulation and liabilities to other depository corporations. Matured CBN bills in July 2021 amounted to ₦231.19 billion, which outweighed ₦37.00 billion new issues, triggering a 2.6 percent increase in the amount of currency-in-circulation of ₦2,812.10 billion at end-July 2021 (Table 10). In the same vein, liabilities to other depository corporations grew by 4.4 per cent, due to the increase in deposits of other depository corporations. Resultantly, reserve money grew by 4.0 per cent to ₦12,830.88 billion at end-July 2021.

Table 10: Components of Reserve Money

	Dec. 20	21-Jun	21-Jul
Monetary Base	13,103.09	12,333.79	12,830.88
Currency-In-Circulation	*2,908.46*	*2,741.26*	*2,812.10*
Liabilities to ODCs	*10,194.63*	*9,592.53*	*10,018.77*

Source: Central Bank of Nigeria
Note: ODCs = Other Depository Corporations

Drivers of Money Supply

Growth in broad money in July 2021 was driven, largely, by the increase in domestic claims, particularly credit to the private sector, thus, supporting the push for higher growth and employment generation. Credit extended to the private sector increased by 15.7 per cent, leading to a 5.7 per cent rise in domestic claims on the economy. The increase in bank credit to the private sector was attributed to an uptick in economic activities, as shown by a rise in both the manufacturing and non-manufacturing PMI, to 46.6 index points and 44.6 index points at end-July 2021, from 45.5 index points and 43.0 index points in June 2021, respectively.

Claims on the domestic economy grew by 5.7 per cent to ₦44,985.37 billion, compared with the growth of 3.8 per cent at end-June 2021. The growth was due to an increase in claims on 'other' sectors, which contributed 7.0 percentage points to the growth in broad money (M3). The various interventions schemes reinforced the sustained growth in domestic claims by the CBN.

Net Foreign Assets (NFA) also grew by 1.8 per cent to ₦7,472.44 billion at the end-July 2021, driven majorly by the 37.2 per cent reduction in short-term foreign liabilities. In terms of contributions, domestic claims and NFA contributed 6.3 percentage points and 0.4 percentage points to the growth in M3, respectively, during the review period.

Accordingly, M3 grew by 2.9 per cent to ₦39,752.89 billion at end-July 2021, annualised to 5.0 per cent. The annualised growth was below the provisional benchmark of 10.0 per cent for the 2021 fiscal year, suggesting room for monetary expansion to support the fragile growth in the economy.

Table 11: Money and Credit Aggregates Growth over preceding December (per cent)

	Contribution to M3 growth (Jul-21)	Dec-21	Jun-21	Jul-21
Net Foreign Assets	0.35	23.44	-0.62	1.84
Claims on Nonresidents	-0.76	11.39	-6.2	-1.49
Liabilities to Nonresidents	1.11	5.24	-9.55	-3.49
Net Domestic Asset	2.56	8.24	2.73	3.17
Domestic Claims	6.29	15.91	3.75	5.71
Net Claims on Central Government	-0.73	22.84	-7.14	-2.26
Claims on Central Government	*2.21*	*24.53*	*2.32*	*4.1*
Liabilities to Central Government	*-2.94*	*27.1*	*16.23*	*13.46*
Claims on Other Sectors	7.02	13.27	8.22	8.99
Claims on Other Financial Corporations	*-1.43*	*11.02*	*-4.53*	*-6.47*
Claims on State and Local Government	*0.43*	*10.64*	*3.57*	*7.98*
Claims on Public Nonfinancial Corporations	*0.43*	*2.51*	*24.79*	*20.68*
Claims on Private Sector	*7.6*	*15.16*	*13.87*	*15.68*
Broad Money (M3)	2.91	10.84	2.09	2.91
Currency Outside Depository Corporations	-0.33	23.38	-9.91	-5.05
Transferable Deposits	1.06	56.29	2.2	3.04
Narrow Money (M1)	0.74	50.04	0.31	1.78
Other Deposits	4.52	19.19	4.76	8.03
Broad Money (M2)	5.25	30.57	2.87	5.38
Securities Other Than Shares	-2.34	-84.56	-29.79	-97.9
Broad Money Liabilities (M3)	2.91	10.84	2.09	2.91

Source: Central Bank of Nigeria

Correspondingly, growth in total monetary liabilities was due to growth in transferable deposits and 'other' deposits of depository corporations. This was driven by the desire of economic agents to hold less cash, supported by the decline of 5.1 per cent in currency outside depository corporations

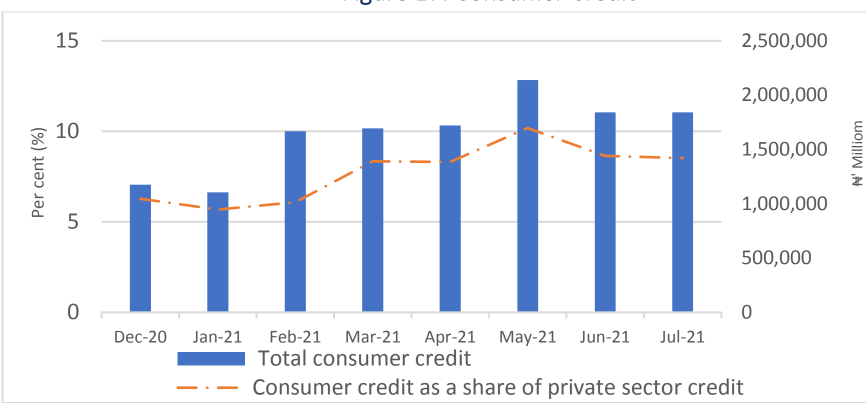
(CODCs). While transferable and 'other' deposits contributed 1.1 percentage points and 4.5 percentage points, respectively, to the growth in M3, CODCs (-0.3 percentage point) and 'securities other than shares' (-2.3 percentage points) pulled growth in M3.

2.3.2 Consumer Credit

Consumer Credit

The ease in monetary conditions, owing to the accommodative policy stance of the Bank, contributed to sustaining the growth of consumer credit. Consumer credit outstanding rose marginally, by 0.1 per cent to ₦1,842.55 billion in July 2021, from ₦1,840.24 billion in June 2021. This value represents 8.5 per cent of the total credit to the private sector in July 2021. The increase was hinged, mainly, on the decline in prime lending rates, precipitating an increase in the quantum of loans.

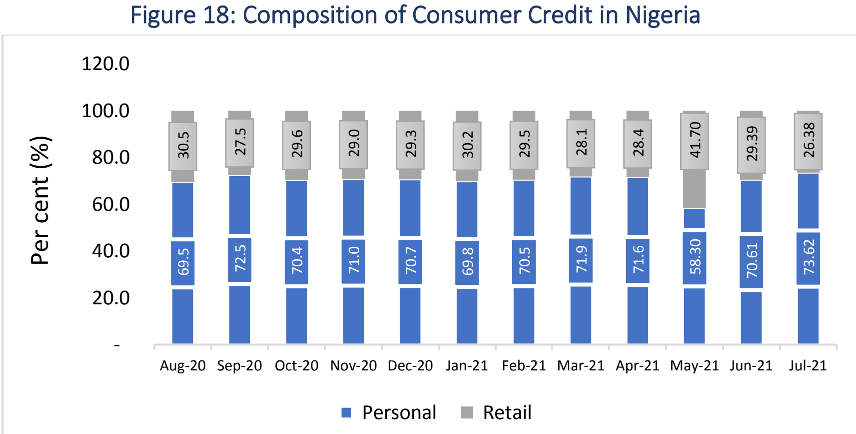
Figure 17: Consumer Credit



Source: Central Bank of Nigeria

A breakdown of consumer loans showed that personal loans accounted for the largest share of 73.6 per cent, while retail loans made up the balance of 26.4 per cent.

Figure 18: Composition of Consumer Credit in Nigeria



Source: Central Bank of Nigeria

2.3.3 Financial Market Developments

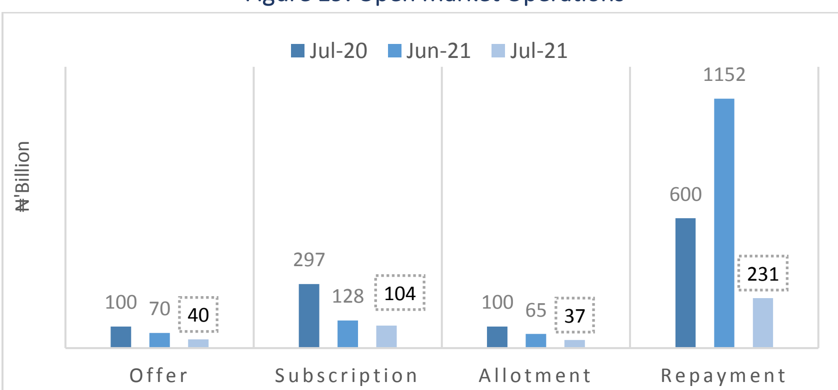
The financial market remained relatively stable, buoyed by improved returns and turnover in the stock and foreign exchange markets.

i. Money Market Developments

In line with the Bank's core mandate of delivering price stability, consistent with economic growth, excess liquidity was mopped up through Open Market Operations (OMO). The average net industry liquidity position grew by 23.9 per cent to ₦192.07 billion in July 2021, compared with ₦154.98 billion in June 2021. The increase in liquidity was buoyed by the repayment of matured CBN bills and fiscal disbursements to the three tiers of government. Nonetheless, the auctioning of CBN bills, FGN Bonds and Nigerian Treasury Bills (NTBs), provisioning and settlement of foreign exchange purchases, as well as Cash Reserve Requirements (CRR) debits, moderated liquidity in the banking system.

The tenors of CBN bills used in conducting Open Market Operations (OMO) in the review month ranged from 103 to 355 days. The total amount offered, subscribed to, and allotted to, were ₦40.00 billion, ₦104.20 billion, and ₦37.00 billion, respectively, with a bid rate of 6.98 per cent (±1.64), while the stop rate was 7.00 per cent (±1.55). Repayment of matured CBN bills was ₦231.19 billion, translating to a net injection of ₦194.19 billion through this medium.

Figure 19: Open Market Operations



Source: Central Bank of Nigeria

Nigerian Treasury Bills (NTBs) and long-term FGN Bonds were issued at the primary market on behalf of the Debt Management Office (DMO) in July 2021. NTBs of 91-, 182- and 364-day tenors amounted to ₦407.36 billion, ₦1,472.61 billion, and ₦578.86 billion, were offered and subscribed and allotted, respectively, at the auctions held in July 2021. The tenors of the NTBs were 91-, 182- and 364-day with bid-to-cover ratios of 3.8, 4.3, and 2.7, respectively. The bid-to-cover ratios reflected rising demand by investors, following the attractive yield exhibited by the asset class.

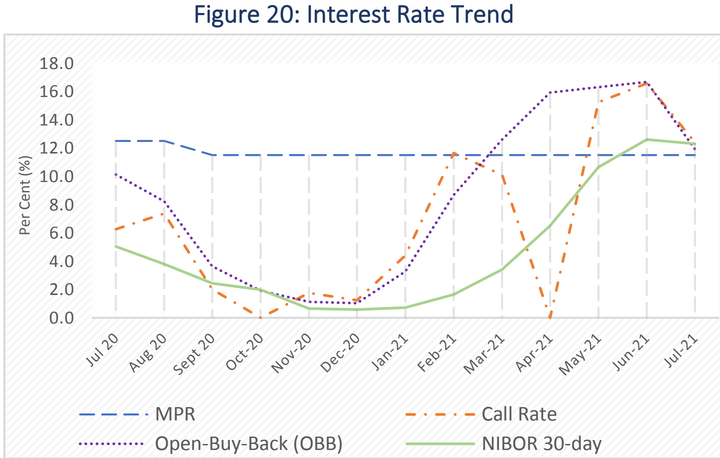
FGN Bonds of 10-, 20- and 30-year tranches were offered for sale during the review period. The term to maturity of the bonds ranged from 6 years 7 months to 28 years and 8 months. The total amount offered, subscribed, and allotted to, were ₦150.00 billion, ₦286.11 billion, and ₦138.07 billion, respectively. The bid rate on all tenors was 11.00 per cent (±1.75), while the marginal rate stood at 12.35 per cent (±0.4).

ii. Interest Rate Developments

Key deposit and lending rates trended southward, reflecting liquidity conditions in the banking system. Daily inter-bank call and OBB rates stood at 11.6 per cent (±5.5) and 12.1 per cent (±6.2), respectively. Other rates such as the 90- and 30-day NIBOR traded at averages of 13.5 per cent and 12.3 per cent, respectively, compared with 13.81 per cent and 12.6 per cent in the preceding month.

Relative to their levels in the preceding month, average prime and maximum lending rates declined by 0.10 percentage points and 1.06 percentage points to 11.57 per cent and 27.99 per cent, respectively, in July 2021. Furthermore, the average term-deposit rate tapered by 0.72 percentage points to 4.24 per cent. Consequently, the spread between the average term deposit and maximum lending rates narrowed by 0.33 percentage points to 23.75 percent in July 2021. Despite the moderation in inflation to 17.38 per cent in July 2021, deposit and prime lending rates remained negative in real terms, while the maximum lending rate was positive.

Figure 20: Interest Rate Trend



Source: Central Bank of Nigeria

iii. Financial Sector Soundness

The domestic financial system was relatively sound and stable in the review month, amidst the prospects of global economic recovery, arising from the growing optimism of flattening the COVID-19 incidence curve and increased accessibility of vaccines. Regardless of the impact of insecurity and elevated inflation on the financial system, financial soundness indicators were generally stable, despite marginal declines. The Capital Adequacy Ratio (CAR) fell slightly by 0.3 percentage points to 15.2 per cent at end-July 2021, relative to the 15.5 per cent at end-June 2021. The development reflected the increase in risk-weighted assets and the decline in total qualifying capital. The ratio, however, exceeded the regulatory benchmark of 10.0 per cent and 15.0 per cent for banks with national and international authorization, respectively.

Asset quality, measured by the ratio of Non-Performing Loans (NPLs) to industry total outstanding loans, improved to 5.4 per cent at end-July 2021, from 5.7 per cent at end-June 2021, due to sustained loan recoveries, write-offs, and disposal of pledged collaterals. At that level, the ratio remained above the 5.0 per cent regulatory threshold. Liquidity ratio at 63.0 per cent in July 2021 declined by 0.9 percentage points, compared with the level in June 2021. The development was due to a decrease in the stock of liquid assets held by banks. The ratio was, however, above the 30.0 per cent benchmark.

iv. Capital Market Developments

Activities on the Nigerian Exchange (NGX) Limited were bullish in July 2021, following positive investors' sentiments in anticipation of the firm's 2021 half-year earnings and dividends declaration. Consequently, the NGX All-Share Index (ASI) and the aggregate market capitalisation rose in the review month. The ASI, which opened at 37,898.56 at the beginning of the review month, rose by 1.7 per cent to 38,547.08 at the end-July 2021, relative to the level at the end-June 2021.

NSE All-Share Index

Analysis of the stock performance revealed that while five sector indices fell in the review month, other sector indices appreciated in July 2021, with the Oil & Gas Index recording the highest positive movement at 20.4 per cent, followed by a gain of 6.6 per cent for NGX Premium.

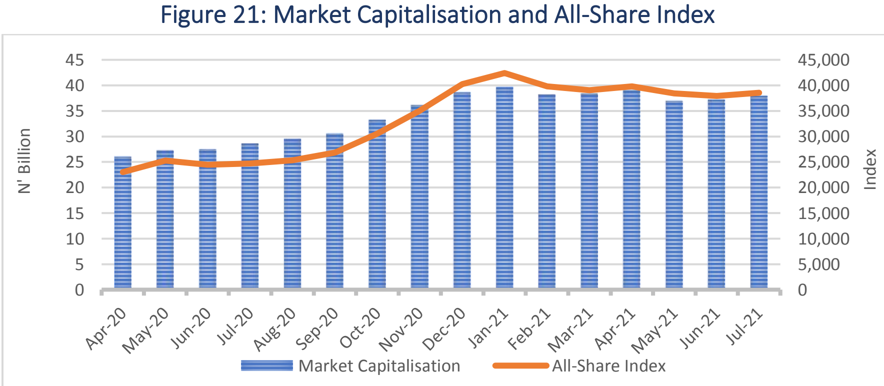
Table 12: Nigerian Exchange (NGX) Sectors

Sector	Jul-21 Index	% Change over Jun-21
NGX-Oil/Gas	376.95	20.4
NGX-Premium	3,795.92	6.6
NGX-Industrial	1,975.31	4.6
NGX-Afri Div Yield	2,427.21	4.2
NGX-Banking	381.35	4.1
NGX-Sovereign Bond	822.93	3.8
NGX-Pension	1,525.88	3.1
NGX-30	1,639.22	2.8
NGX-CG	1,226.94	2.3
NGX-Meri Value	1,840.97	2.2
NGX-Lotus	2,818.57	2.1
NGX-Afri Bank	1,070.34	1.3
NGX-Meri	1,806.78	0.9
NGX-Growth	1,026.97	-0.2
NGX-ASeM	701.75	-0.3
NGX-Consumer Goods	597.66	-0.5
NGX-Main Board	1,556.44	-2.8
NGX-Insurance	197.77	-3.0

Source: Nigeria Exchange (NGX) Limited

Gains recorded in many blue-chip stocks led to the appreciation in market capitalisation by 2.0 per cent to ₦37.91 trillion at end-July 2021, compared with ₦37.17 trillion at end-June 2021. Equities, which constituted 53.0 per cent of the aggregate market capitalisation, rose by 1.6 per cent to ₦20.09 trillion, compared with the ₦19.77 trillion at the end-June 2021.

Figure 21: Market Capitalisation and All-Share Index

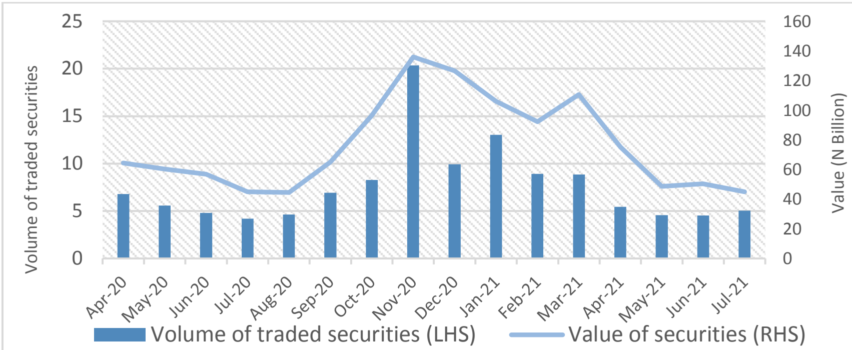


Source: Nigeria Exchange (NGX) Limited

Turnover volume rose by 11.0 per cent to 5.04 billion shares, while turnover value fell by 10.9 per cent to ₦44.87 billion, in 80,377 deals at end-July 2021, compared with 4.54 billion shares worth ₦50.37 billion, in

74,888 deals at end-June 2021. There were three (3) new and four (4) supplementary listings in the review period. The listings created an avenue for price discovery and an additional source of liquidity for existing and new investors and boosted investor confidence.

Figure 22: Volume and Value of Traded Securities



Source: Nigeria Exchange (NGX) Limited

Table 13: New/Supplementary Listings on the Nigerian Exchange (NGX) Limited at end-July 2021

Company	Additional Shares (Units)	Reasons	Listing
Coronation MB Funding SPV Plc: Listing of Bonds	₦25 Billion 5 years 6.25% Series One (1) Fixed Rate Subordinated Unsecured Bonds due 2025 under the Coronation MB Funding SPV Plc's ₦100 Billion Bond Issuance Program.	Bond Issuance	New
16.29% FGN MAR 2027	74,443,853	Bond Issuance	Supplementary
14.80% FGN APR 2049	113,954,700	Bond Issuance	Supplementary
12.50% FGN MAR 2035	171,093,317	Bond Issuance	Supplementary
12.98% FGN MAR 2050	171,093,317	Bond Issuance	Supplementary
8.35% FGS July 2021	341,012	Bond Issuance	New
9.35% FGS July 2024	620,986	Bond Issuance	New

Source: Nigeria Exchange (NGX) Limited.

2.4 EXTERNAL SECTOR DEVELOPMENTS

Summary

Trade activities decelerated in July 2021, owing to the spread of the Delta-variant of COVID-19 in some trading partner economies. However, competitive yields on domestic financial assets led to further improvement in capital inflow. The increase in receipts from oil-related taxes, combined with the purchase and revaluation of gold, resulted in accretion to external reserves. Furthermore, the stoppage of sales to BDC operators provided staying power for effective demand.

2.4.1 Trade Performance

Trade balance improved in July 2021, resulting from risk sentiments emanating from the spread of the Delta-variant of COVID-19, which subdued imports. A lower trade deficit of US$0.34 billion was recorded in July 2021, compared with US$2.40 billion in June 2021. Aggregate export increased marginally by 0.2 per cent to US$4.45 billion, while total import declined significantly by 30.0 per cent to US$4.80 billion, compared with US$4.44 billion and US$6.85 billion, respectively, in June 2021.

Figure 23: Export, Import and Trade Balance (US$ Billion)

Source: Central Bank of Nigeria

Crude Oil and Gas Export

Nigeria's crude oil and gas export receipts decreased due largely to lower-than-expected gas export. The value of crude oil and gas export decreased by 1.0 per cent to US$3.99 billion, compared with US$4.04 billion in June 2021. A breakdown indicates that the value of gas export decreased by 17.9 per cent to US$0.46 billion. The decline in gas export was due, majorly, to the lower export of liquefied petroleum gas (LPG) in the review period. The value of crude oil export, on the other hand, increased by 1.7 per cent to US$3.53 billion in July 2021. The increase in crude oil receipts was due, majorly, to improvement in both price and production to US$75.93 pb and 1.50 mbpd in July 2021, relative to US$73.46 pb and 1.47 mbpd in June 2021. Crude oil and gas exports component remained dominant, contributing 89.7 per cent of total exports, with oil accounting for 79.3 per cent and gas export 10.4 per cent.

Non-Oil Export

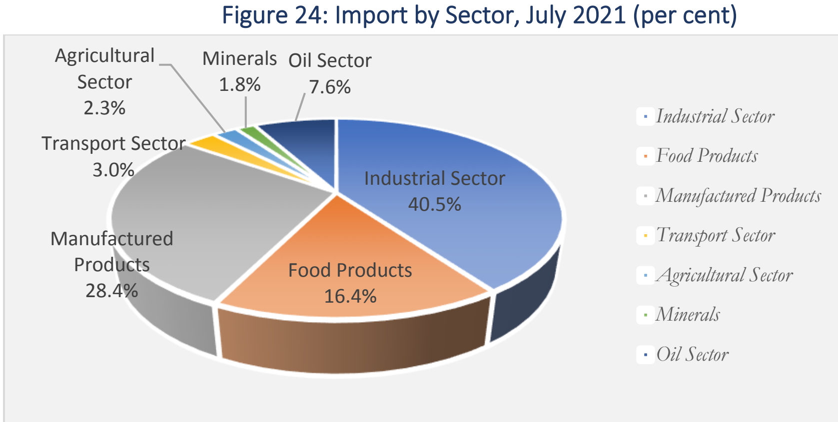
Earnings from non-oil export increased, owing to growing global demand, especially from sub-Saharan Africa. Non-oil export grew by 11.7 per cent to US$0.46 billion in July 2021, relative to US$0.41 billion in June 2021. A disaggregation of non-oil export shows that the value of electricity export remained at US$0.07 billion, while other non-oil increases by 13.3 per cent to US$0.44 billion, from US$0.39 billion in June 2021, as a result of increased export of agricultural produce, particularly sesame seeds. As a share of total export, non-oil constituted 10.3 per cent.

Import

Import demand fell in the review period, reflecting supply chain disruptions, due to containment measures to stem the spread of the COVID-19 in some trading partner economies. Available data show that aggregate import decreased by 30.0 per cent to US$4.80 billion in July 2021, compared with US$6.85 billion in June 2021. A disaggregation indicates that the importation of non-oil products decreased by 31.7 per cent to US$4.03 billion, while that of petroleum products fell by 23.0 per cent to US$0.77 billion in July 2021. Non-oil import continued to dominate total import, accounting for 77.9 per cent of the total, while oil import accounted for the remaining 22.1 per cent.

A breakdown of import by sector shows that industrial sector import, mainly, chemicals and machinery, constitutes 40.5 per cent of the total, followed by manufactured and food products, with 28.4 per cent and 16.4 per cent, respectively. The oil sector accounted for 7.6 per cent; transport 3.0 per cent; agriculture, 2.3 per cent; and minerals, 1.8 per cent of the total, respectively.

Figure 24: Import by Sector, July 2021 (per cent)



Source: Central Bank of Nigeria

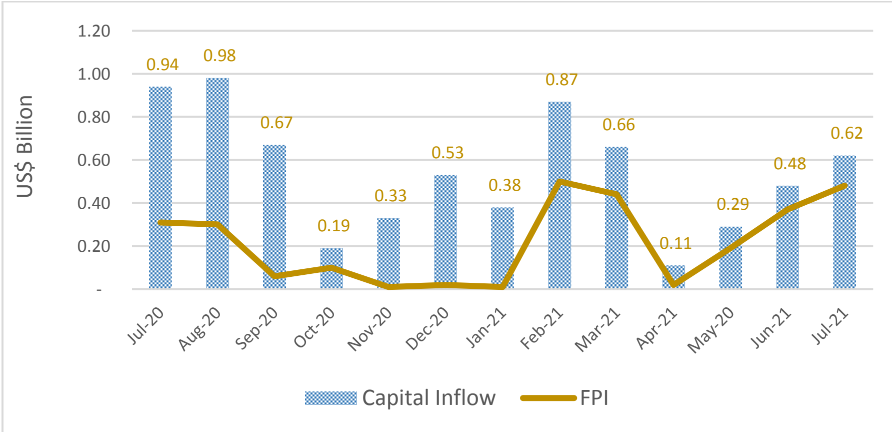
Capital Importation

Capital inflow was further boosted by improved global financial conditions and attractive returns on domestic money market instruments during the review period. The new capital of US$0.62 billion was imported into the Nigerian economy in July 2021, 29.2 per cent higher than the US$0.48 billion in June 2021. A disaggregation of capital importation by type of investment indicates that foreign portfolio investment (FPI) inflow of US$0.48 billion accounted for 76.6 per cent of the total. Of the FPI inflow, the purchase of bonds, at US$0.29 billion, accounted for 46.3 per cent, while money market instruments worth US$0.16 billion or 25.8 per cent were purchased. The inflow of other investments (OI) was US$0.11 billion, representing 17.7 per cent of the total, consisting mainly, loans. The inflow of foreign direct investment (FDI) stood at US$0.04 billion or 5.7 per cent of the total.

Analysis of capital importation by nature of business shows that investment in shares (FDI and portfolio equities) maintained a downward trend since May 2021, accounting for 17.8 per cent of the total capital. However, investment in other forms of businesses (non-share capital) was, majorly, into banking, which accounted for 48.8 per cent, followed by trading and financing with 12.4 per cent and 10.3 per cent, respectively. Investment in telecommunication constituted 5.2 per cent; production/manufacturing, 4.8 per cent; and servicing, 0.3 per cent. Other types of businesses accounted for the balance.

A breakdown of capital importation by originating country indicates that the United Kingdom was the foremost source of capital, followed by the United States of America, Republic of South Africa, United Arab Emirates, and Denmark, with shares of 53.6 per cent, 14.6 per cent, 14.4 per cent, 4.1 per cent and 3.8 per cent, respectively, of the total inflow. Other countries accounted for the balance. By destination of capital, Lagos State and Abuja (FCT) were the recipients of the inflow, with US$0.52 billion (83.5 per cent) and US$0.10 billion (16.5 per cent), respectively.

Figure 25: Capital Inflow and Foreign Portfolio Investment (US$ Billion)

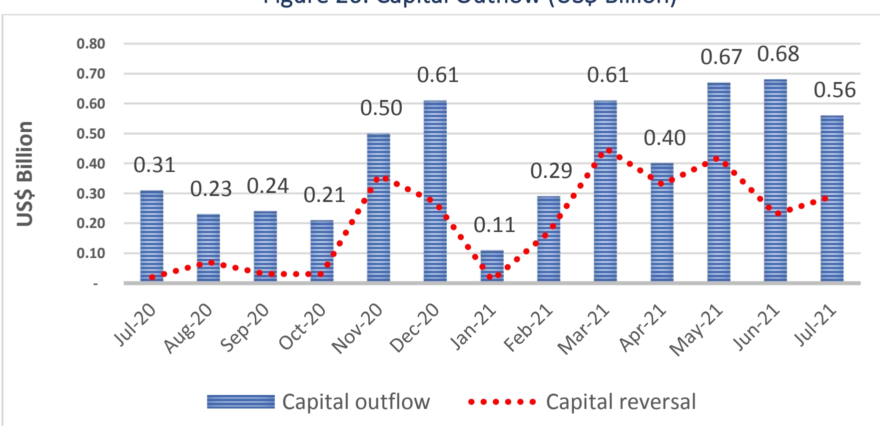


Source: Central Bank of Nigeria

Capital Outflow

In July 2021, capital outflow moderated due to lower repatriation of dividends in the telecommunication sector and a decline in capital reversal, particularly in the financing sector. Capital outflow decreased by 17.1 per cent to US$0.56 billion, from US$0.68 billion in June 2021. A disaggregation showed that outflow in the form of capital at US$0.29 billion accounted for 51.2 per cent of the total, driven, largely, by the outflow from financing, banking, and production/manufacturing sectors. Repatriation of dividends at US$0.18 billion represented 32.4 per cent of total outflow, with payment of dividends by the telecommunications sector accounting for 31.2 per cent. The outflow of loans amounted to US$0.08 billion or 13.6 per cent of the total, majorly from the production/manufacturing and financing sectors. Other outflows accounted for the balance.

Figure 26: Capital Outflow (US$ Billion)



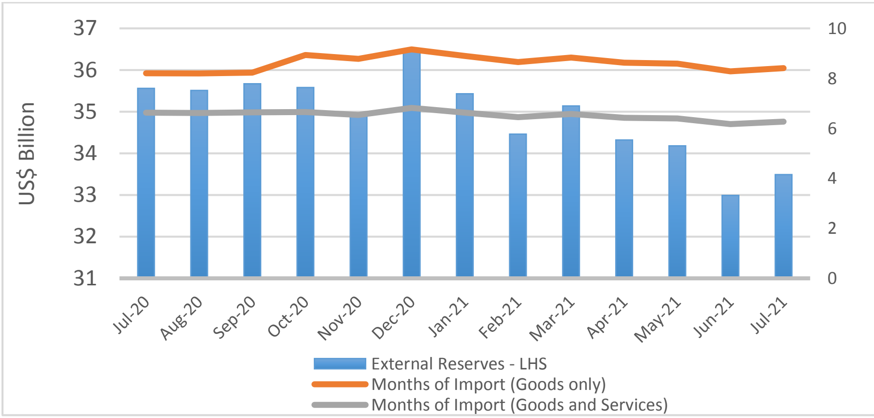
Source: Central Bank of Nigeria

2.4.2 International Reserves

International Reserves

Increased receipts from oil-related taxes, combined with purchase and revaluation of gold, resulted in accretion to external reserves. The external reserves improved by 1.5 per cent to US$33.49 billion at the end-July 2021, compared with US$32.99 billion at end-June 2021. The external reserves could cover 6.3 months of import for goods and services or 8.4 months of import for goods only.

Figure 27: External Reserves and Months of Import Cover for Nigeria



Source: Central Bank of Nigeria

2.4.3 Foreign Exchange Flow through the Economy

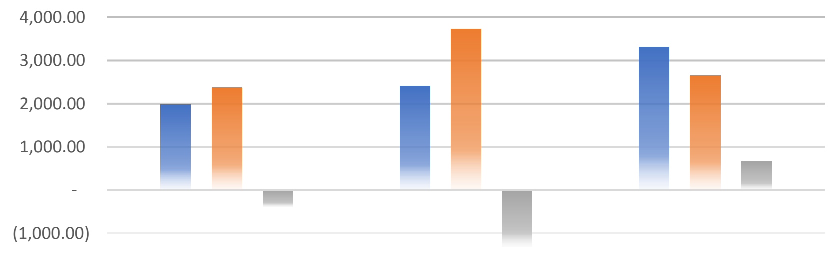
Foreign Exchange flows through the economy

Despite the contraction in autonomous inflow, the upward trajectory in crude oil prices improved foreign exchange inflow through the Bank, resulting in an overall net inflow in July 2021. Aggregate foreign exchange inflow into the economy declined by 7.4 per cent and 8.7 per cent to US$6.10 billion, compared with the level in June 2021 and July 2020, respectively. The decrease reflected, mainly, the contraction in inflow through the autonomous sources, which fell by 33.3 per cent to US$2.79 billion in July 2021. However, foreign exchange inflow through the Bank increased by 37.7 per cent to US$3.31 billion in July 2021, as oil-related inflow increased due to the upward trajectory in oil prices.

Foreign exchange outflow through the economy fell by 23.0 per cent to U$3.33 billion in July 2021. The fall in outflow was due, mainly, to a decrease in the Bank’s intervention in the foreign exchange market and lower direct payments, which reduced the outflow through the Bank. However, outflow through autonomous sources inched up by 12.4 per cent to US$0.67 billion in July 2021, due, majorly, to the 13.2 per cent increase in payments for invisible import.

Overall, foreign exchange flows resulted in a higher net inflow of US$2.77 billion in July 2021, compared with US$2.27 billion in June 2021. From this number, net inflow through the Bank was US$0.66 billion, while through autonomous sources amounted to US$2.11 billion.

Figure 28: Foreign Exchange Transactions through the bank (US$ Million)



	July 20	June 21	July 21
Inflow	1,977.68	2,407.78	3,314.47
Outflow	2,371.01	3,724.15	2,655.77
Netflow	(393.33)	(1,316.37)	658.70

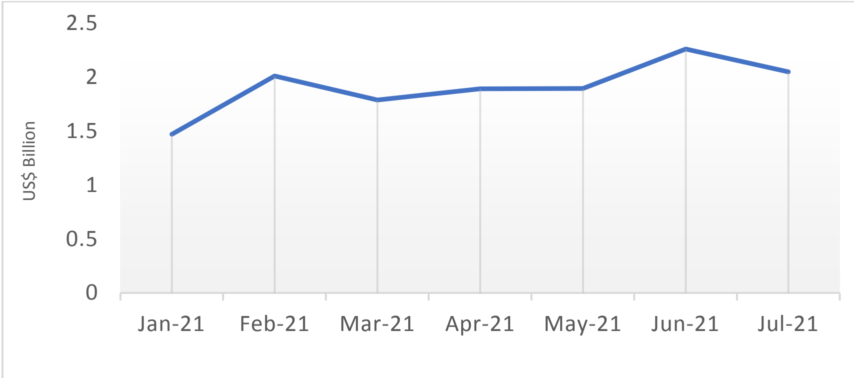
Source: Central Bank of Nigeria

2.4.4 Foreign Exchange Market Developments

The Bank maintained a low profile in its intervention activities in the foreign exchange market, due, majorly, to the stoppage of sales to BDC operators. In exercise of its statutory obligation of maintaining the foreign exchange reserves, safeguarding the value of the naira, and curtailing sharp practices, the Bank announced the cessation of its weekly sale of foreign exchange to BDCs at the MPC meeting of July 27, 2021. Furthermore, the Bank suspended licensing of BDC operators in the country and re-channelled forex sales to commercial banks to meet Personal Travel Allowance (PTA), Business Travel Allowance (BTA), and other customers' retail needs.

Consequently, total foreign exchange sales to authorised dealers by the Bank decreased by 9.3 per cent to US$2.05 billion in July 2021, compared with US$2.26 billion at the end-June 2021. Disaggregation shows that foreign exchange intervention sales at the Secondary Market Intervention Sales (SMIS) and Investors' and Exporters' (I&E) windows rose by 17.6 per cent and 34.8 per cent to US$0.78 billion and US$0.26 billion, respectively. The Bank's interventions at the Interbank, SMEs, and Swaps fell by 26.4 per cent, 22.6 per cent, and 47.2 per cent to US$0.17 billion, US$0.12 billion, and US$0.27 billion, respectively, compared with the previous months' level. Similarly, foreign exchange sales to BDC fell by 11.8 per cent to US$0.44 billion in the review period.

Figure 29:: Foreign Exchange Sales to Authorised Dealers in July 2021



Source: Central Bank of Nigeria

Average Exchange Rate

2.4.5 Exchange Rate Movement

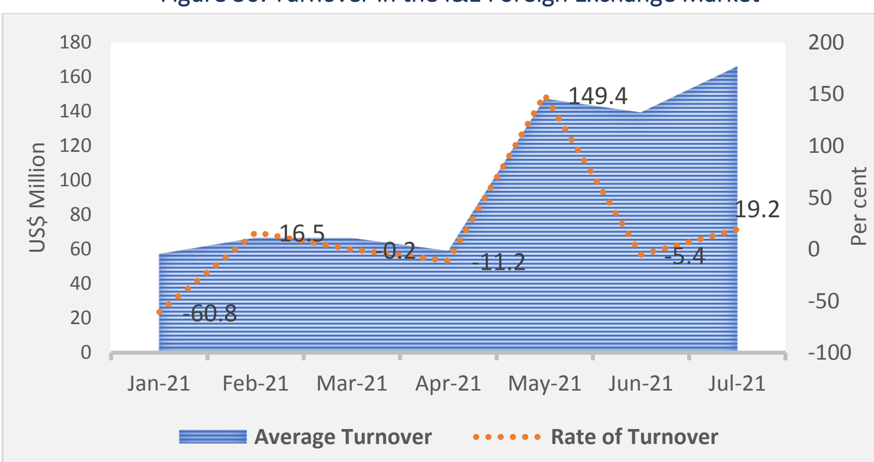
The Bank's decision to suspend the sale of foreign exchange to the BDCs permeated the foreign exchange market, leading to an initial reaction of a fall in rates in all the segments. Hence, the naira depreciated by 0.2 per cent, and 0.02 per cent at the interbank, and the I&E window of the foreign exchange market, respectively, in July 2021.

2.4.6 Foreign Exchange Turnover at the I&E Window

Available data show that average foreign exchange turnover at the Investors' and Exporters' window rose by 19.2 per cent to US$161.16 million in July 2021, from US$139.35 million in June 2021.

Foreign Exchange Turnover

Figure 30: Turnover in the I&E Foreign Exchange Market



Source: Financial Markets Derivatives Quotes (FMDQ)

2.5 Domestic Outlook

The domestic output forecast is to improve on account of sustained fiscal and monetary policy supports. Although GDP growth in the second quarter of 2021 was impressive, the negative output gap persisted due to the lagged effects of the COVID-19 crisis. Nevertheless, domestic economic activities would rebound further in the third and fourth quarters of 2021, hinged on increased vaccination and sustained fiscal and monetary policy support, particularly the expansion of credit to households and businesses.

Inflationary pressure would moderate further in the short-to-medium term amid increased food supply, which is occasioned by the kickoff of the harvest season. Inflation has maintained a downward trend since April 2021. The trend is expected to persist, following improvement in the food supply chain, arising from sustained interventions in the agricultural sector by the Bank. However, persisting insecurity and other structural rigidities could heighten inflationary pressure in the coming months.

On the fiscal front, the outlook is optimistic on the back of the sustained recovery in crude oil prices, robust implementation of the Strategic Revenue Growth Initiatives (SRGIs) of the FGN, and widespread availability and administration of COVID-19 vaccines. In addition, further releases of ₦2.3 trillion in the Economic Sustainability Plan (ESP) would boost private consumption and investment and strengthen the economic recovery. The take-off of the Infrastructure Corporation of Nigeria Limited (InfraCo) would drive investments in cutting-edge infrastructure projects. The ₦983 billion 2021 supplementary budget would provide critical funding for military equipment to tackle persistent insecurity challenges, medical infrastructure, and COVID-19 vaccines. However, downside risks include rising debt-service-revenue ratio, lingering security challenges, and the emergence of new variants of COVID-19.

The external sector outlook is optimistic, as anticipated FPI inflow, improved Diaspora remittances, and higher crude oil prices would improve foreign exchange inflow. Over the medium-to-long term, competitive rates in the domestic money market and improved investors' confidence, following the recent strides in COVID-19 vaccination across the globe, and a better global growth outlook, present a positive outlook for the external sector. Increased Diaspora remittances and higher crude oil revenues occasioned by the increase in crude oil prices would enhance accretion to external reserves. However, lingering insecurity could slow the economic recovery, exacerbate the food deficit, and encourage food imports, thereby exerting further pressure on the foreign exchange.