CENTRAL BANK OF NIGERIA

MONETARY POLICY REVIEW

AUGUST, 2015

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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

"By 2015: 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

MONETARY POLICY DEPARTMENT

Mandate

To Facilitate the Conceptualization and Design of Monetary Policy of the Central Bank of Nigeria

Vision

To be Efficient and Effective in Promoting the Attainment and Sustenance of Monetary and Price Stability Objective of the Central Bank of Nigeria

Mission

To Provide a Dynamic Evidence-based Analytical Framework for the Formulation and Implementation of Monetary Policy for Optimal Economic Growth

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STATEMENT BY THE GOVERNOR

The monetary policy environment in the first half of 2015 was characterized by sustained weakness in global oil and other commodity prices, heightened prospects of normalization of US monetary policy, and continued fragility of the euro zone economies. These were further exaberated by the Greek debt crisis and continued geopolitical tensions in the Russian–Ukrainian axis and the Middle East. The weak external environment spilled over to the domestic economy, through declining foreign receipts and accretion to external reserves, as well as sustained pressure on the exchange, culminating in slower output growth. Consequently, the economy slowed to 2.35 per cent in the second quarter of 2015 from 3.96 per cent in the preceding quarter and 6.54 per cent in the corresponding period of 2014. The spate of capital reversals, coupled with speculative activities in the foreign exchange market, led to the substantial depreciation of the naira from N180/US$ at end-December 2014 to N196.95/ US$ at end-June, 2015. Also the pass-through from import prices and energy costs led to a gradual rise in inflation rate to 9.20 from 8.0 per cent during the period.

Monetary policy remained proactive so as to address the prevalence of high levels of liquidity in the banking system, which had accentuated demand pressure by allowing banks to seek arbitrage opportunities in the foreign exchange market. Also, the discriminatory cash reserve requirement policy intended to tackle the perverse incentives of DMBs towards public sector deposits, was creating moral hazards among market participants with the potential of constraining policy space. Furthermore, with the foreign reserve levels at critically low levels, bold and innovative measures were taken to curtail speculative activities in the market, stem the depreciation of the naira and prevent the emergence of a multiple exchange rate regime. Accordingly, the MPR was retained at 13.0 per cent with a corridor of +/- 200 bases throughout the period, while the CRR on public and private sector deposits were harmonized at 31.0 per cent. These measures were supported by the closure of the official foreign exchange window on February 18, 2015, and the expansion of the list of import items not eligible for foreign exchange. In addition, sustained Open Market Operations (OMO) and discount window operations helped to manage liquidity surfeit within the banking system.

The measures stabilized the financial markets and calmed expectations. As a result, the interbank market rates remained within the policy rate corridor towards the end of the review period. The depreciation of the exchange rate moderated and the bearish trend in the capital market subsided.

The short-to-medium term outlook for the domestic economy indicates that inflation would rise moderately, and breach the upper band of the Bank's inflation target range of 6-9 per cent, towards the end of the second half of 2015. The uptick in inflation would be due mainly to the combined effect of the pass-through from import prices, and rise in food prices due to supply shortages, occasioned by adverse weather conditions and disruptions in distribution channels, arising from the effects of the insurgency in the northern parts of the country. Nevertheless, monetary policy would remain proactive to minimize threats to the sustenance of efforts towards the achievement of price stability conducive to growth.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
August 2015

CHAPTER ONE

1.0 OVERVIEW

In the first half of 2015, the Bank's monetary policy was shaped largely by continuing market expectations of the normalization of US monetary policy, weak global growth and falling crude oil prices in the international market with its negative impact on foreign exchange reserves and the exchange rates, as well as the heightened risks from geopolitical tensions in some part of the world. The fall in the level of external reserves and the depreciation of the exchange rate, as well as the liquidity impact of election-related and post-election spending, put immense pressure on the domestic price level, despite the tight monetary policy stance of the Bank. Consequently, headline inflation rose to 9.20 per cent in June 2015 from 8.0 per cent in December 2014. The price of food remained the major driver of headline inflation in the first half of 2015. Other factors included the prices of housing; water; electricity; transport; clothing and foot wear.

The lower oil prices in the international market, coupled with reduced demand for Nigeria's crude oil abroad led to reduced accretion to the foreign reserves. The sustained demand pressure on the foreign exchange market following the reversals of capital flows from the normalization of US monetary policy, despite the increased funding of the market, led to the depreciation of the exchange rate. Data from the National Bureau of Statistics (NBS) showed that the Gross Domestic Product (GDP) moderated to 2.35 per cent (year-on-year) in the second quarter of 2015, from 3.96 per cent and 6.54 per cent in the preceding and corresponding quarters of 2014, respectively. The development was partly attributed to reduced public spending due to lower crude oil prices and receipts. The sectoral contributors to the second quarter GDP growth were services, agriculture and trade with 1.61, 0.73 and 0.85 percentage points, respectively.

There was intense pressure on the exchange rate in all segments of the foreign exchange market during the review period as a result of the crash of oil prices in the international market, lower demand for Nigeria's crude abroad, depletion of the foreign exchange reserves, and expectation of monetary policy normalization in the US. Consequently, the Bank in its effort to stem speculative activities, closed the official foreign exchange window but continued to intervene at the interbank foreign exchange market. This was followed up with administrative restrictions on access to foreign exchange for the importation of a list some items, which could easily be produced domestically.

The Nigerian financial landscape was significantly influenced by global economic developments, such as the gradual normalization of the US monetary policy, and the declining oil prices prompted by weak global economic growth as well as glut in crude oil supply at the international market. The tapering of QE3 and its conclusion in October 2014, led to a redirection of global capital flows out of emerging and developing markets, owing largely to rising sovereign risk in these countries, and the prospect of improved interest rate regime in the U.S.

The choice of monetary policy instruments in the review period was guided by the objectives of price stability and overall health of the macroeconomy. The Bank, accordingly, deployed a range of monetary policy instruments including: the monetary policy rate (MPR), Cash Reserve Ratio (CRR), Open Market Operations (OMO) and Discount window operations. During the period, the MPR was kept unchanged at 13 per cent with the symmetric corridor of +/- 200 basis points. The Monetary Policy Committee (MPC) harmonized the CRR on both private and public sector deposits at 31.0 per cent to improve the efficacy of monetary policy, curtail abuses, stem moral hazards and the tendency of overheating the economy. The Liquidity Ratio was also kept unchanged at 30.0 per cent to address liquidity surfeit in the banking system.

OMO remained the key tool of liquidity management in the review period. Actual OMO sales amounted to N4,261.72 billion, compared with N3,937.76 billion in the second half of 2014, and N4,484.94 billion in the corresponding period of 2014. As a complement to OMO, the CRR was also used to manage liquidity in the system in order to reduce volatility and pressure on the exchange rate. The performance of monetary aggregates in the first half of 2015 was weaker than projected, partly due to the sustained tight monetary policy stance and lower fiscal injections arising from falling crude oil prices. Also, there was a significant increase in credit to government, invariably crowding out private sector credit.

The money market remained active with transactions in CBN bills and government securities in the first half of 2015. Money market interest rates were largely influenced by changes in the CRR, FAAC statutory disbursements and NTB maturities/auctions. The OBB segment witnessed greater activity relative to the interbank call segment, due to enhanced confidence of DMBs in the collaterized segment of the market from the migration to the new

RTGS and Scripless Security Settlement System (S4). Nigeria's reference rate, the NIBOR, was relatively stable across tenors in the review period.

The performance of the capital market weakened in the review period when compared with the second and the corresponding halves of 2014. The all-Share Index (ASI) decreased by 3.46 per cent to 33,456.83 at end-June 2015, from its level of 34,657.15 at end-December 2014, and by 21.25 per cent, year-on-year. The decline was attributable to uncertainties surrounding the global and domestic economy as well as the outcome of the 2015 general elections, lower oil prices, and weak corporate earnings.

The Federal Government of Nigeria (FGN) bonds continued to dominate the fixed income securities market in Nigeria. Sub-national government and corporate bonds witnessed some activities, with the corporate bonds segment having the least share by market volume. The yield on the 10-year dollar-denominated bond decreased to 5.91 per cent at end-June 2015, from 6.23 per cent at end-December 2014 but was 4.80 per cent at end-June 2014. The development was attributed to improved investor confidence following a successful transition programme to a new government in the country.

Headline Inflation remained within single digit in the first half of 2015. It has been in single digit for thirty (30) consecutive months since January 2013, reaffirming the effectiveness of the sustained tight monetary policy stance. Headline inflation was, however, projected to accelerate to 9.6 per cent in 2015 and 10.7 per cent in 2016 (IMF). Staff estimates project a rise in year-on-year headline inflation to 9.3, 9.8 and 10.0 per cent, respectively in August, September, and October, respectively, which may decline to 9.9 per cent in December 2015.

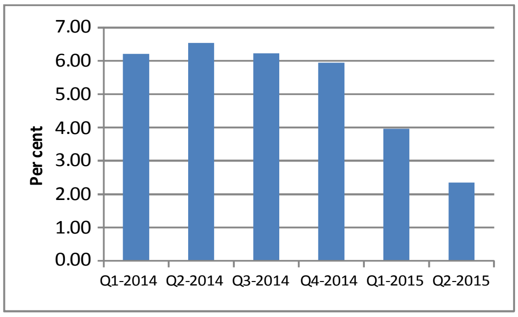
Output growth slowed to 2.35 per cent in the second quarter of 2015 from 3.96 and 6.54 per cent in the preceding and corresponding quarters of 2014, respectively. Overall, the economy is projected to grow by 5.5 per cent in 2015 (FGN 2015 Budget), which is broadly consistent with the African Development Bank (AFDB) growth forecast of 5 per cent. The IMF and World Bank, however, have a more subdued growth forecast of 4.5 and 5.0 per cent in 2015 and 2016, respectively, due to weaker growth outlook of the global economy and oil-price volatility. Staff estimates suggest that growth may regain momentum in the third quarter of 2015 with the onset of the rainy season that could boost agricultural production. Further, improvement in growth outlook would be hinged on stronger fiscal outlook,

CHAPTER 2

2.0 OUTPUT IN THE DOMESTIC ECONOMY

Growth in the Nigerian economy continued to moderate in the first half of 2015 in response to global developments, notably the continuing weakness in oil and other commodity prices. Real GDP growth declined by 1.98 percentage points to 3.96 per cent (year-on-year) in the first quarter of 2015, from 5.94 per cent in the preceding quarter and 6.22 per cent in the corresponding period of 2014. The decrease was partly attributed to reduced fiscal receipts arising from lower crude oil prices. The key drivers of the GDP growth were services, agriculture and trade with 2.49, 0.92 and 1.12 percentage points, respectively. The drag on growth was from the industrial sector, which contracted by 1.02 percentage points in the review period. Within the industrial sector, crude petroleum & natural gas and manufacturing sub-sectors contracted by 0.96 and 0.07 percentage point, respectively. The relative shares of the major sectors in the GDP were services (37.28%), industry (20.81%), agriculture (19.79%) and trade (17.77%).

Figure 2.1
Real GDP Growth (%) 2014 Q1 – 2015Q2



In the second quarter of 2015, real GDP growth weakened further by 1.61 percentage points to 2.35 per cent (year-on-year), from 3.96 per cent in the preceding quarter and 6.54 per cent in the corresponding period of 2014. The industrial sector, which contracted further by 1.11 percentage points, accounted for the slowdown. The development was largely due to crude petroleum & natural gas and manufacturing sub-sectors that contracted by 0.73 and 0.39 percentage point, respectively. The key drivers of the GDP growth during the quarter were services, agriculture and trade, contributing 1.61, 0.73 and 0.85 percentage points, respectively. The relative shares of the major sectors in the GDP were services (37.66%), industry (19.50%), agriculture (21.12%) and trade (17.22%).

2.1 Domestic Economic Activity

Activities in the non-oil sector remained the major driver of growth in the first half of 2015, as weakness in the oil sector persisted. The non-oil real GDP growth, however, moderated to 5.59 per cent in the first quarter of 2015, from 8.21 per cent in the corresponding quarter of 2014, representing a decline of 2.62 percentage points. It also declined by 0.85 percentage point compared with 6.44 per cent in the preceding quarter. Growth in the non-oil sector was largely driven by activities in information & communication (1.17%), crop production (0.87%), finance & insurance (0.34%) and accommodation & food services (0.31%). This compares with 0.64, 0.82, 0.23, and 0.12 percentage points, respectively, in the fourth quarter of 2014.

In the second quarter, the non-oil real GDP also slowed to 3.46 per cent from 5.59 per cent in the preceding quarter of 2015. Compared with the 6.71 per cent recorded in the corresponding quarter of 2014, it declined by 3.25 percentage points. At this rate, growth in the non-oil sector was largely driven by activities in information & communication (0.83%), crop production (0.67%), real estate (0.26%), and finance & insurance (0.23%). This compares with 1.17, 0.87, 0.24, and 0.34 percentage points, respectively, in the first quarter of 2015.

The oil sector GDP contracted by 8.15 per cent in the first quarter of 2015, representing a further decline of 1.55 percentage points compared with -6.60 per cent in the first quarter of 2014. It, however, grew by 1.18 per cent in the preceding quarter. The contraction in the oil sector was due to production challenges and depressed global oil prices, which lowered the average daily production to 2.17 million barrels per day (mbpd) from 2.26mbpd in the corresponding quarter of 2014. As a percentage of total real GDP, oil contributed 10.45 per cent, representing a decline of 1.38 percentage points from 11.83 per cent recorded in the corresponding quarter of 2014. In the second quarter of 2015, the oil sector GDP shrank by 6.79 per cent compared with 8.15 per cent in the first quarter, and 5.14 per cent in the corresponding period of 2014.

Figure 2.2
Non-oil Sector Performance 2014Q1 - 2015Q2

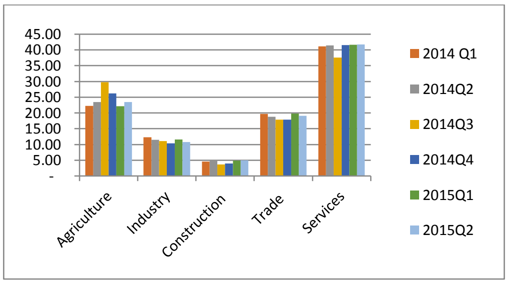
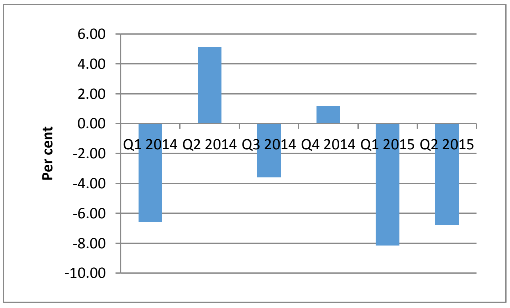


Figure 2:3
Performance of the oil sector 2014Q1 – 2015Q2



2.2 Sectoral Analysis

The sectoral performance of the economy is analysed in this section taking into consideration key institutional factors that shaped output growth in the review period.

2.2.1 Agriculture

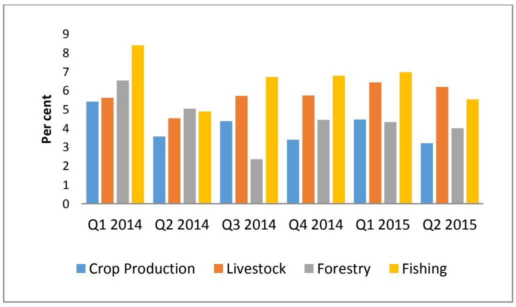
2.2.1.1 Agricultural Output

Real agricultural output decreased by 1.21 percentage points to 3.49 per cent (year-on-year) in the second quarter, from 4.70 per cent in the first quarter of 2015. It also decreased by 0.19 percentage point when compared with 3.68 per cent in the corresponding quarter of 2014.

Activity in the livestock sub-sector was the main driver of agricultural growth in the second quarter of 2015, as it grew by 6.20 per cent, while fishing, forestry and crop production grew by 5.53, 4.01 and 3.20 per cent, respectively. This compares with 4.54, 4.89, 5.04 and 3.56 per cent in the corresponding period of 2014 for livestock, fishing, forestry, and crop production, respectively. The percentage share of agriculture in real GDP was 21.12 per cent in the second quarter of 2015, compared with 19.79 per cent in the first quarter and 20.89 per cent in the corresponding quarter of 2014.

Real agricultural output decreased by 0.83 percentage point to 4.70 per cent (year-on-year) in the first quarter of 2015 from 5.53 per cent in the corresponding quarter of 2014. It, however, increased by 1.06 per cent when compared with 3.64 per cent in the fourth quarter of 2014. At 6.97 per cent, activity in the fishing sub-sector was the main driver of agricultural growth in the first quarter 2015. Livestock, crop production and forestry also grew by 6.44, 4.46 and 4.33 per cent, respectively. This compares with 8.40, 5.61, 5.42 and 6.53 per cent in the corresponding period of 2014 for fishing, livestock, crop production and forestry, respectively. Thus, apart from livestock, the growth rates of the other sub-sectors were lower in the review quarter. The percentage share of agriculture in real GDP was 19.79 per cent in the first quarter of 2015, compared with 23.86 per cent in the fourth quarter of 2014 and 19.65 per cent in the corresponding quarter of 2014.

Figure 2.4
Quarterly growth rates of Agricultural Sector Activity in 2015



2.2.1.2 Agricultural Policies and Institutional Support

The sector continued to benefit from a number of policies, reforms and institutional support such as:

- **The Agricultural Credit and Guarantee Scheme (ACGS)**

In the first half of 2015, a total of 28,702 loans valued at N5.44 billion were guaranteed under the ACG scheme, compared with 35,413 loans valued at N5.93 billion in the corresponding period of 2014. The total loans guaranteed were distributed across food crops (66.17%), livestock (14.6%), mixed crops (6.86%), fisheries (3.95%), cash crops (3.96%) and others (4.47%).

- **The N200 Billion Commercial Agriculture Credit Scheme (CACS)**

In the review period, the sum of N24.46 billion was released to 25 private projects and one (1) state government. The distribution of projects financed by value chain were: production (65.92%), processing (26.43%) and input supplies (7.69%).

- **The N200 Billion SME Credit Guarantee Scheme (SMECGS)**

In the first half of 2015, loans for two (2) projects valued at N140.0 million were guaranteed under the SMECGS, compared with loans for four (4) projects valued at N155.23 million in the corresponding period of 2014.

- **The Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)**

In the review period, six (6) credit risk guarantees (CRG), valued at N700.46 million were executed in favour of various counter parties. In addition, the sum of N50.45 million was paid as Interest Drawback (IDB) claims to 14 projects.

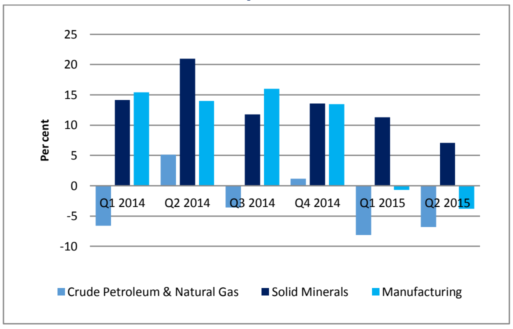
2.2.2 Industry

2.2.2.1 Industrial Output

In the second quarter of 2015, the industrial sector output contracted by 5.27 per cent in contrast to a growth of 9.34 per cent in the corresponding period of 2014. It decelerated by 0.76 percentage point when compared with a decline of 4.51 per cent in the preceding quarter of 2015. At -6.79 per cent, crude petroleum and natural gas largely accounted for the dwindling in the sector, followed by the manufacturing sub-sector, which contracted by 3.82 per cent. Solid minerals, however, grew by 7.09 per cent. Relative to the corresponding period of 2014, the crude petroleum & natural gas, manufacturing and solid minerals sub-sectors grew by 5.14, 14.01 and 20.95 per cent, respectively.

During the first quarter, the industrial sector output contracted by 4.51 per cent, in contrast to a growth of 2.76 per cent in the corresponding period of 2014 and 7.13 per cent in the preceding quarter. The development was largely attributed to crude petroleum & natural gas, which contracted by 8.15 per cent. The manufacturing sub-sector also declined marginally by 0.70 per cent, while solid minerals grew by 11.28 per cent. When compared with the corresponding period of 2014, the crude petroleum & natural gas sub-sector contracted by 6.60 per cent, while the manufacturing and solid minerals sub-sectors grew by 15.41 and 14.14 per cent, respectively.

Figure 2.5
Quarterly Growth Rates of Industrial Sector Activity in 2015



2.2.2.2 The Industrial Policy and Institutional support:

During the review period, the sector benefited from ongoing reforms, initiatives and incentives such as:

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

In the first half of 2015, the sum of N13.26 billion was disbursed to two projects namely, power (N9.924 billion) and airline (N3.335 billion).

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

Disbursements under the facility began in February, 2015 and by the end of the review period, the sum of N64.75 billion had been released to refinance eighteen (18) participants.

- **The N200 Billion SME Restructuring/Refinancing Fund (RRF)**

Under the RRF scheme, N23 billion was released to the Bank of Industry (BOI) for disbursement between January and June, 2015, compared with N17 billion released in the corresponding period of 2014.

2.2.3 Construction

The growth in the construction sector slowed to 6.42 per cent in the second quarter of 2015 from 10.70 and 11.17 per cent in the corresponding and preceding quarters, respectively, representing declines of 4.28 and 4.75 percentage points. The development was attributed largely to the decline in government capital expenditure from N331.214 billion in the preceding half of 2014, to N274.526 billion in the first half of 2015, due to dwindling fiscal revenues.

The sector grew by 11.17 per cent in the first quarter of 2015 down from

17.88 and 12.66 per cent in the corresponding and previous quarters, respectively, representing declines of 6.71 and 1.49 percentage points.

2.2.4 Trade Sector

In the second quarter of 2015, the growth in the trade sector moderated to 5.07 per cent down from 5.15 and 6.47 per cent in the corresponding quarter of 2014 and preceding quarter, respectively, representing decreases of 0.08 and 1.4 percentage points.

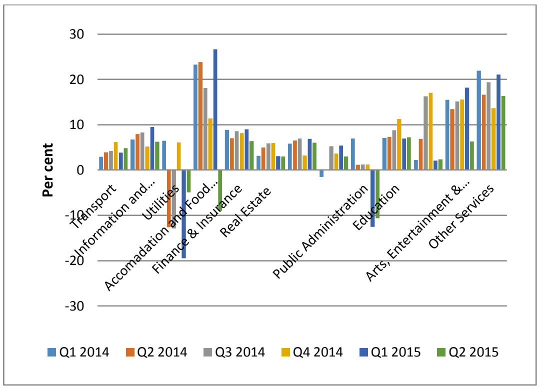
The sector grew by 6.47 per cent in first quarter of 2015, up from 6.28 and 5.32 per cent in the corresponding quarter of 2014 and preceding quarter, respectively, representing increases of 0.19 and 1.15 percentage points.

2.2.5 Services Sector

The services sector grew by 4.35 per cent in the second quarter of 2015 compared with 6.82 per cent in the corresponding quarter of 2014. This represented a declined of 2.50 percentage points below the preceding quarter growth of 6.85 per cent. The major drivers of growth in the sector were Education (7.27%), Finance and Insurance (6.41%), and Arts, Entertainment and Recreation (6.30%).

In the first quarter of 2015, the sector grew by 6.85 per cent down from 7.62 per cent in the corresponding quarter of 2014. Compared with the preceding quarter figure of 6.52 per cent, the sector grew by 0.33 percentage point. The major drivers of growth in the sector were accommodation and food services (26.66%), entertainment and recreation (18.19%), information & communication (9.49%) and education (6.94%).

Figure 2.6
Quarterly Growth Rates of Services Activity in 2015



2.2.6 Oil Sector

The weakness in the oil sector persisted in the first half of 2015. Average crude oil production in the second quarter declined to 2.05 mbpd from 2.21 and 2.17 mbpd in the corresponding quarter of 2014 and the preceding quarter, respectively. In the first quarter, average crude oil production declined to 2.17 mbpd from 2.26 and 2.21 mbpd in the corresponding quarter of 2014 and the preceding quarter, respectively.

Figure 2.7
Quarterly oil production in 2015

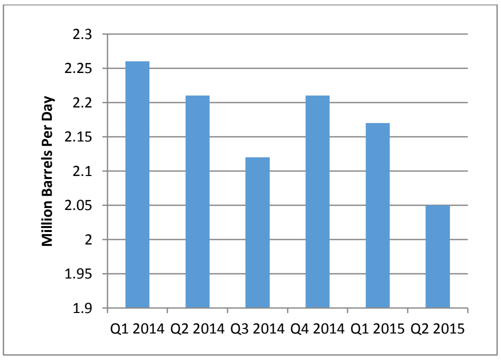
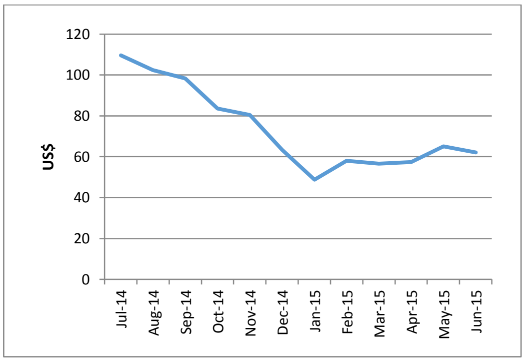


Figure 2.8
Monthly bonny light oil price July 2014 - June 2015



Developments in the international oil market during the review period indicated a gradual recovery in global oil prices. The price of Bonny Light (37^0 API), rose steadily from US$48.81 per barrel in January to US$65.08 per barrel in May 2015 but declined slightly in June 2015 to an average of US$58.03 per barrel. The gradual increase witnessed between January and May was attributed to significant divestments in the US shale oil industry, signaling the bottoming-out of the oil price decline. The subsequent decline in June 2015, came on the heels of increased supplies from some OPEC countries including Saudi Arabia, Iraq, Nigeria and the U.A.E. In addition, a bearish sentiment pervaded the oil market due to the impending nuclear deal between Iran and the P5+1(the five permanent members of the UN Security Council). However, average oil price remained above the Federal Government budget benchmark price of US$53.00 per barrel in the review period.

CHAPTER 3

3.0 PRICE DEVELOPMENTS

Inflationary pressures in the domestic economy intensified in the first half of 2015 despite the Bank's sustained tight monetary policy stance. Headline inflation trended upwards and exceeded the Bank's inflation band of 6-9 per cent towards the end of the review period. Both core and food inflation rates displayed an upward trajectory, suggesting that the driving factors were both from the supply and demand sides.

In the foreign exchange market, the naira witnessed significant volatility during the review period. The exchange rate continued to depreciate substantially in all segments of the foreign exchange market, leading to the closure of the official foreign exchange window on February 18, 2015. As a further measure to moderate the foreign exchange demand pressure, the Bank restricted access to foreign exchange for some 41 import items. The depreciation has been largely driven by reduced supply of foreign exchange, due to lower accretion to reserves from falling oil prices, as well as demand pressures arising from capital reversals, and the expected normalization of the US monetary policy.

In the money market, the Inter-Bank Call and Open Buy Back (OBB) rates fluctuated remarkably, with a wide range around the standing facilities corridor, indicating liquidity swings in the banking system during the period.

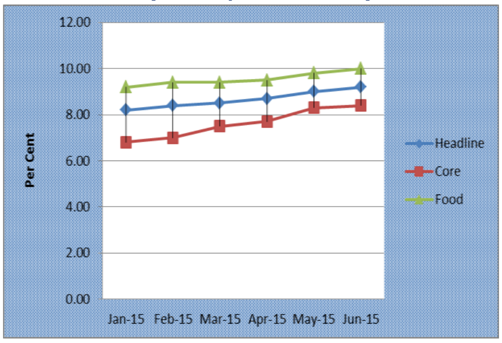
3.1 Trends in Inflation

All measures of inflation increased throughout the review period, despite the Bank's tight monetary policy stance. The core and food measures of CPI inflation increased progressively between January and June 2015, from 163.70 and 169.80 in January to 170.60 and 178.10 in June 2015. Food inflation (year-on-year) increased from 9.20 per cent in January to 10.00 per cent in June 2015. Core inflation (year-on-year) rose significantly from 6.80 to 8.40 per cent during the same period. As a result, headline inflation increased to 9.20 per cent in June 2015 from 8.20 per cent in January 2015. Both in terms of the weight of food in the consumer basket and its price level, the food component remained the major driver of headline inflation, even though the pressure of the core component in the review period has become significant. The major components that drove core prices included processed foods, housing; water; electricity; transport; and clothing & foot wear (Table 3.1 and figures 3.1 and 3.2).

Table 3.1
Inflation Rates, July 2014 – June 2015

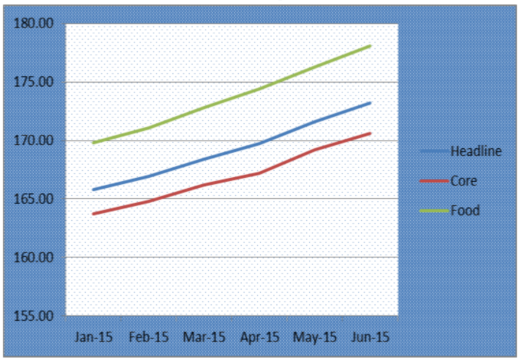
	Headline Inflation			Core Inflation			Food Inflation		
Year/Mon	CPI	Y-on-Y	12MMA	CPI	Y-on-Y	12MMA	CPI	Y-on-Y	12MMA
Jul-14	159.70	8.30	8.00	157.70	7.10	7.40	163.10	9.90	9.50
Aug-14	160.40	8.50	8.00	158.40	6.30	7.30	164.00	10.00	9.50
Sep-14	161.30	8.30	8.00	159.40	6.30	7.20	165.00	9.70	9.50
Oct-14	162.10	8.10	8.00	160.30	6.20	7.10	165.80	9.30	9.50
Nov-14	163.10	7.90	8.00	161.30	6.30	7.00	166.80	9.10	9.50
Dec-14	164.40	8.00	8.00	162.50	6.20	6.90	168.40	9.20	9.50
Jan-15	165.80	8.20	8.10	163.70	6.80	6.90	169.80	9.20	9.50
Feb-15	166.90	8.40	8.10	164.80	7.00	6.90	171.10	9.40	9.50
Mar-15	168.40	8.50	8.20	166.20	7.50	6.90	172.80	9.40	9.50
Apr-15	169.70	8.70	8.20	167.20	7.70	6.90	174.40	9.50	9.50
May-15	171.60	9.00	8.30	169.20	8.30	7.00	176.30	9.80	9.50
Jun-15	173.20	9.20	8.40	170.60	8.40	7.00	178.10	10.00	9.50

Figure 3.1
Headline, Core and Food Inflation Rates (January – June 2015)



In the first half of 2015, most components of core inflation experienced major increases compared with a general decrease in the second half of 2014. Processed food component exerted the most pressure on core inflation, rising by 0.58 percentage point to 3.08 per cent in June from 2.48 per cent in January 2015. Prices of other components of core inflation also increased, namely housing, water, electricity, gas & other fuels (0.28 percentage point); transport (0.19 percentage point) and clothing & footwear (0.15 percentage point) (Table 3.6).

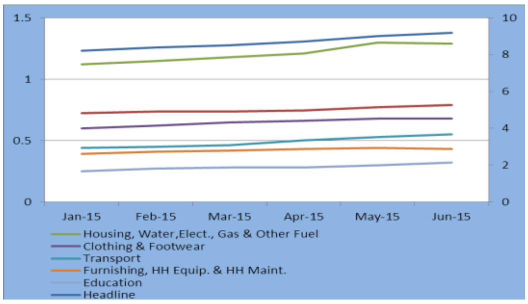
Figure 3.2
CPI Headline, Core and Food (January - June 2015)



3.1.2 Headline Inflation

The uptick in the major components of headline inflation was reflected in the upward trend in domestic prices during the first half of 2015. Food & non-alcoholic beverages, which continued to exert the greatest influence on headline inflation, increased to 5.27 per cent in June from 4.82 per cent in January 2015. This was followed by housing, water, electricity, gas and other fuels, which increased to 1.29 from 1.12 per cent over the same period (Table 3.2 and Figure 3.3).

Figure 3.3
Major Components of Headline Inflation (Y-on-Y), January-June 2015



In general, headline inflation increased as a result of the combined effects of the rise in the price of food and non-alcoholic beverages; housing; water, electricity, gas and other fuels; transport and clothing & foot wear.

Inflationary pressures witnessed during the period, despite the tight monetary policy stance of the Bank were attributable to several factors including the pass-through to domestic prices from the depreciation of the exchange rate; disruptions to the distribution chain due to continuing insurgency in the north east region of the country; the liquidity impact of election spending as well as shortages of petroleum products arising from the stand-off between oil marketers and the government on subsidy payments.

Table 3.2
Major Components of Headline Inflation (Y-on-Y), January-June 2015

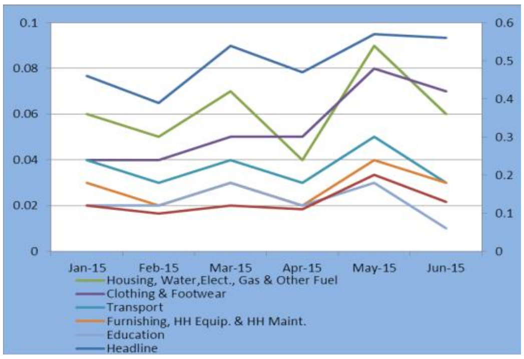
Date	Headline	Food & Non-Alcoholic Bev	Housing, Water, Elect. Gas & Other Fuel	Clothing & footwea	Transpor	Furnishings, Household Equip & HH Maint	Education
Jan -15	8.20	4.82	1.12	0.60	0.44	0.39	0.25
Feb-15	8.40	4.90	1.15	0.62	0.45	0.41	0.27
Mar- 15	8.50	4.92	1.18	0.65	0.46	0.42	0.28
Apr -15	8.70	4.98	1.21	0.66	0.50	0.43	0.28
May- 15	9.00	5.14	1.30	0.68	0.53	0.44	0.30
Jun -15	9.20	5.27	1.29	0.68	0.55	0.43	0.32

On a month-on-month basis, headline inflation fluctuated upwards during the period under review in contrast to the year-on-year rates. It fluctuated between 0.70 per cent in February and 1.10 per cent in May, 2015, but however, maintained an upward trend from 0.81 per cent in January to 0.90 per cent in June. The major components that accounted for the fluctuation were the prices of food and non-alcoholic beverages that ranged from 0.39 to 0.57 per cent; and housing, water, electricity, gas & other fuels, from 0.10 to 0.20 per cent (Table 3.3 and Figure 3.4).

Table 3.3
Major Components of Headline Inflation (M-on-M), January-June 2015

Date	Headline	Food & Non-Alcoholic Bev	Housing, Water, Elect. Gas & Other Fuel	Clothing & footwea	Transport	Furnishings, Household Equip & HH Maint	Education
Jan-15	0.81	0.46	0.12	0.06	0.04	0.04	0.03
Feb-15	0.70	0.39	0.10	0.05	0.04	0.03	0.02
Mar-15	0.90	0.54	0.12	0.07	0.05	0.04	0.03
Apr-15	0.80	0.47	0.11	0.04	0.05	0.03	0.02
May-15	1.10	0.57	0.20	0.09	0.08	0.05	0.04
Jun-15	0.90	0.56	0.13	0.06	0.07	0.03	0.03

Figure 3.4
Major Components of Headline Inflation (M-on-M), January-June 2015



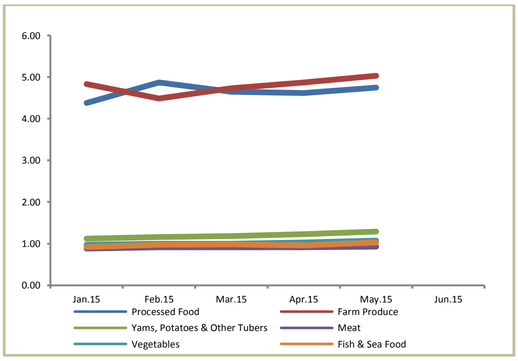
3.1.2 Food Inflation

Food inflation (year-on-year) trended upwards from 9.21 per cent in January to 10.04 per cent in June 2015 due to increases in the prices of its components, mainly processed food and farm produce. The price of processed food increased from 4.38 to 4.81 per cent, and farm produce from 4.83 to 5.23 per cent. Of the 0.83 percentage point increase in food inflation, processed food contributed a larger share of 0.43 percentage point, while farm produce contributed 0.40 percentage point. The key drivers of the increase in the processed food category were fish and sea food, which increased by 0.17 percentage point; and garri yellow by 0.15 percentage point. This was due to rain-related delay in harvests and hike in transport costs during the period (Table 3.4 and Figure 3.5).

Table 3.4
Major Components of Food Inflation (Y-on-Y), Jan - Jun 2015

	Jan.15	Feb.15	Mar.15	Apr.15	May.15	Jun.15	Change Jan - June 2015
FOOD	9.21	9.36	9.38	9.49	9.78	10.04	0.83
Processed Food	4.38	4.87	4.65	4.62	4.75	4.81	0.43
Farm Produce	4.83	4.49	4.73	4.87	5.03	5.23	0.40
Yams, Potatoes & Other Tubers	1.12	1.16	1.18	1.23	1.29	1.29	0.17
Meat	0.88	0.91	0.91	0.91	0.93	0.94	0.06
Vegetables	0.97	1.00	1.00	1.03	1.07	1.18	0.21
Fish & Sea Food	0.92	0.97	0.98	0.96	1.03	1.09	0.17

Figure 3.5
Major Components of Food Inflation (Y-on-Y), Jan - Jun 2015

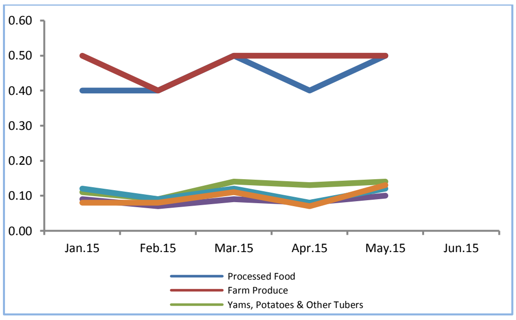


On a month-on-month basis, food inflation increased from 0.90 per cent in January to 1.06 per cent in June 2015, similar to its year-on-year trend. The price of processed food increased to 0.48 from 0.40 per cent and farm produce to 0.57 from 0.50 per cent during the review period. Accordingly, the 0.16 percentage point increase in food inflation was due to both components. The key drivers of the increase were fish & sea food and vegetable, which rose by 0.06 percentage points apiece (Table 3.5 and Figure 3.6).

Table 3.5
Major Components of Food Inflation (M-on-M), Jan-Jun 2015

	Jan.15	Feb.15	Mar.15	Apr.15	May.15	Jun.15	Change Jan - June 2015
FOOD	0.90	0.70	1.00	0.90	1.10	1.06	0.16
Processed Food	0.40	0.40	0.50	0.40	0.50	0.48	0.08
Farm Produce	0.50	0.40	0.50	0.50	0.50	0.57	0.07
Yams, Potatoes & Other Tubers	0.11	0.09	0.14	0.13	0.14	0.12	0.01
Meat	0.09	0.07	0.09	0.08	0.10	0.08	-0.01
Vegetables	0.12	0.09	0.12	0.08	0.12	0.18	0.06
Fish & Sea Food	0.08	0.08	0.11	0.07	0.13	0.14	0.06

Figure 3.6
Major Components of Food Inflation (M-on-M), Jan - Jun 2015



3.1.3 Core Inflation

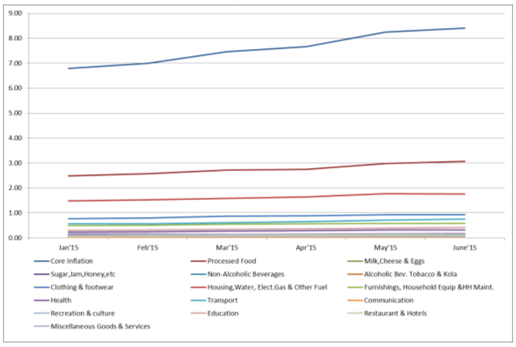
Core inflation (year-on-year) rose by 1.60 percentage points from 6.80 per cent in January to 8.40 per cent in June 2015. Of the 1.60 percentage point increase in core inflation, processed food contributed the largest share of 0.58 percentage point, followed by housing, water, electricity, gas and other fuels (0.28 percentage point); and transport (0.19 percentage point). Thus, the major contributors to the increase in core inflation were processed food (2.48 to 3.10 per cent point); housing, water, electricity, gas and other fuel (1.48 to 1.76 per cent); transport (0.56 to 0.75 per cent) clothing and footwear (0.77 to 0.93 per cent); and (Table 3.6).

In the processed food category, the key drivers of the increase were meat, which rose from 0.57 to 0.65 per cent, fish & sea foods (0.60 to 0.76 per cent), milk, cheese & egg (0.10 to 0.13 per cent), and oil & fats (0.32 to 0.39 per cent). The increase in core inflation during the period was mainly traceable to the effects of the shortage of petroleum products and the pass-through to domestic prices from the depreciation of the naira.

Table 3.6
Major Components of Core Inflation (Y-on-Y) January-June 2015

YEAR-ON-YEAR (CORE)	Weights	Jan'15	Feb'15	Mar'15	Apr'15	May'15	June'15	Change btw Jan. to Jun. 2015
ALL ITEMS LESS FARM PRODUCE CPI	730.50	6.79	6.99	7.46	7.7	8.3	8.4	1.62
Processed Food	237.53	2.48	2.56	2.71	2.75	2.98	3.06	0.58
Milk,Cheese & Eggs	12.75	0.10	0.09	0.11	0.11	0.12	0.13	0.03
Sugar,Jam,Honey,etc	11.10	0.13	0.14	0.14	0.15	0.15	0.15	0.02
Non-Alcoholic Beverages	10.97	0.10	0.11	0.11	0.11	0.11	0.11	0.01
Alcoholic Bev. Tobacco & Kola	10.87	0.10	0.10	0.11	0.11	0.12	0.12	0.02
Clothing & footwear	76.50	0.77	0.79	0.86	0.88	0.92	0.93	0.15
Housing,Water, Elect.Gas & Other Fuel	167.34	1.48	1.53	1.59	1.64	1.77	1.76	0.28
Furnishings, Household Equip &HH Maint.	50.27	0.49	0.51	0.55	0.56	0.58	0.58	0.09
Health	30.04	0.23	0.24	0.27	0.29	0.32	0.31	0.08
Transport	65.08	0.56	0.57	0.60	0.65	0.71	0.75	0.19
Communication	6.80	0.03	0.03	0.03	0.02	0.02	0.02	-0.01
Recreation & culture	6.91	0.06	0.06	0.06	0.06	0.06	0.06	0.00
Education	39.44	0.30	0.31	0.35	0.36	0.39	0.42	0.12
Restaurant & Hotels	12.12	0.07	0.07	0.09	0.10	0.11	0.12	0.04
Miscellaneous Goods & Services	16.63	0.11	0.12	0.14	0.15	0.17	0.18	0.07

Figure 3.7
Major Components of Core Inflation (Y-on-Y)
January-June 2015

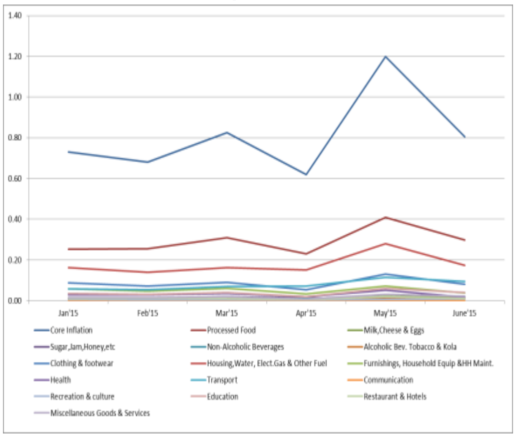


The month-on-month analysis showed that core inflation rose from 0.73 per cent in January to 0.80 per cent in June 2015. Processed food remained the major driver of core inflation, increasing from 0.25 to 0.30 per cent in the review period. Other drivers were: housing, water, electricity, gas & other fuels which increased from 0.16 to 0.17 per cent; transport (0.06 to 0.09 per cent) and miscellaneous goods & services (0.01 to 0.02 per cent) (Table 3.7 and Figure 3.8).

Table 3.7
Major Components of Core Inflation (M-on-M)
January-June 2015

MONTH-ON-MONTH (CORE)	Weight	Jan'15	Feb'15	Mar'15	Apr'15	May'15	June'15	Change btw Jan. to Jun. 2015
ALL ITEMS LESS FARM PRODUCE CPI	730.50	0.73	0.68	0.83	0.6	1.2	0.8	0.07
Processed Food	237.53	0.25	0.25	0.31	0.23	0.41	0.30	0.05
Milk,Cheese & Eggs	12.75	0.01	0.01	0.01	0.01	0.02	0.01	0.00
Sugar,Jam,Honey,etc	11.10	0.01	0.01	0.02	0.01	0.02	0.01	0.00
Non-Alcoholic Beverages	10.97	0.01	0.01	0.01	0.01	0.01	0.01	0.00
Alcoholic Bev. Tobacco & Kola	10.87	0.01	0.01	0.01	0.01	0.01	0.01	0.00
Clothing & footwear	76.50	0.09	0.07	0.09	0.05	0.13	0.08	-0.01
Housing,Water, Elect.Gas & Other Fuel	167.34	0.16	0.14	0.16	0.15	0.28	0.17	0.01
Furnishings, Household Equip &HH Maint.	50.27	0.06	0.05	0.06	0.03	0.07	0.04	-0.02
Health	30.04	0.03	0.03	0.04	0.02	0.05	0.02	-0.01
Transport	65.08	0.06	0.05	0.07	0.07	0.11	0.09	0.04
Communication	6.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Recreation & culture	6.91	0.01	0.00	0.00	0.00	0.01	0.01	0.00
Education	39.44	0.04	0.03	0.04	0.02	0.06	0.04	0.00
Restaurant & Hotels	12.12	0.01	0.01	0.01	0.01	0.02	0.01	0.00
Miscellaneous Goods & Services	16.63	0.01	0.02	0.02	0.01	0.03	0.02	0.01

Figure 3.8
Major Components of Core Inflation (M-on-M)
January-June 2015



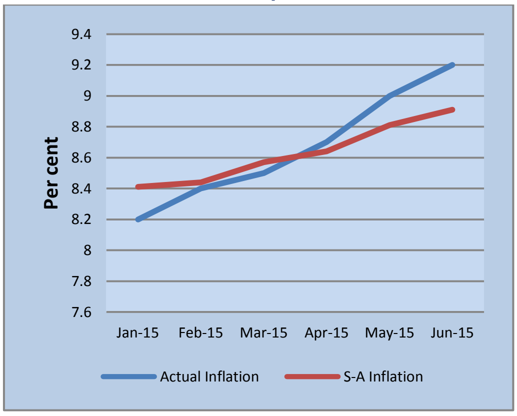
3.1.5 Seasonally-Adjusted Inflation

During the review period, both actual and seasonally-adjusted measures of headline inflation maintained upward trajectory, in continuation of the trends witnessed during the last quarter of 2014 (Table 3.8 and Figure 3.14). Actual headline inflation rate continued to trend upwards in the first half of 2015, reflecting the general price levels in the economy. It trended below the seasonally-adjusted headline inflation during the first quarter and above it in the second quarter of 2015. The development indicated that seasonal effects attenuated inflation during the first quarter, and accentuated it during the second quarter of 2015. The general upward trend in both actual and seasonally-adjusted measures of inflation were attributable to increased spending during the 2015 elections, scarcity of petroleum products that resulted in increased energy and transport costs; as well as imported inflation due to significant depreciation of the naira during the period. The uptick in June, however, largely resulted increase in consumption spending associated with Islamic festivities, coupled with energy supply shock which affected retail prices.

Table 3.8
Actual and Seasonally Adjusted Headline Inflation Jan -June 2015

Date	Inflation	S-A Inflation
Jan-15	8.20	8.41
Feb-15	8.40	8.44
Mar-15	8.50	8.57
Apr-15	8.70	8.64
May-15	9.00	8.81
Jun-15	9.20	8.91

Figure 3.9
Actual and Seasonally Adjusted Headline Inflation January - June 2015



3.3 Key Factors that Influenced Domestic Prices

The upward trend in the general price level observed in the first half of 2015 was due to both supply and demand factors. Both core and food inflation rates (year-on-year) maintained an upward trajectory, suggesting the impact of structural and demand forces on aggregate price levels. This occurred despite the moderating effect of the sustained tight monetary policy stance of the Bank to rein-in liquidity surfeit in the banking system. The factors included the pass-through to domestic prices from the depreciation of the exchange rate; disruptions to the distribution chain due to continuing insurgency in the north east region of the country; the liquidity impact of election spending and shortages of petroleum products witnessed during the period.

3.3.1 Demand-side Factors

The election spending, coupled with excess liquidity in the banking system, exerted pressure on the exchange rate. This was in addition to the depreciation of the exchange rate, which stemmed from reversals of capital flows and the expected normalization of the US monetary policy during the period. The development was accentuated by declining accretion to external reserves arising from lower fiscal receipts occasioned by the sustained drop in crude oil prices. The overall effect of these developments was a substantial depreciation of the naira exchange rate from N168/US$ (rDAS) at end-January to N196.95/US$ (Interbank) at end-June 2015, following the closure of the rDAS segment of the market on February 18, 2015.

3.3.2 Supply-side Factors

A number of supply side factors affected the domestic price level during the review period. These factors were primarily related to production and distribution activities. Aggregate output growth declined to 3.96 per cent in the first quarter of 2015, compared with 5.53 and 5.94 per cent in the corresponding and preceding quarters of 2014, respectively. In the second quarter, growth further declined to 2.35 per cent. Production and distribution activities were hampered by the late commencement of rain, cattle rustling, the displacement of farmers due to insurgency as well as the shortage of petroleum products, leading to high transport cost and disruption to supply of goods and services. Other cost-related challenges were the depreciation of the naira exchange rate, resulting in higher cost of imported inputs and low level of electricity supply caused by inadequate gas-to-power.

3.3.3 Moderating Factors

A combination of factors moderated the rise in the general price level during the period. These included the continued decline in global inflation, low oil receipts and late passage of the 2015 budget which slowed down public spending. Others were the non-payment of workers' salary in many states of the federation, which partly accounted for a slowdown in private demand, and moderation in economic activities as economic agents awaited a transition to the new government. In addition, the sustained liquidity management and tight monetary policy stance of the Bank moderated inflationary pressures.

CHAPTER FOUR

4.0 MONETARY POLICY AND LIQUIDITY MANAGEMENT

Monetary policy in the first half of 2015 took cognizance of key developments in the global economy, including uncertainty about the expected commencement of the US monetary policy normalization, the expanded quantitative easing by the European Central Bank (ECB) as well as the protracted Greek debt crisis. Other factors were the geopolitical tensions in Ukraine and the Middle East, crude oil supply glut, sluggish growth in the Euro Area as well as low commodity prices. These developments affected government revenues, accretion to reserves, and the stability of exchange rates of emerging markets and developing economies.

In the domestic economy, the key challenges to monetary policy were the continuing liquidity surfeit in the banking system and the associated cost of liquidity management, sustained pressure on the naira exchange rate leading to divergence between the interbank and Bureau de change (BDC) rates, increasing risk of currency substitution as well as activities and spending in the run-up to the 2015 general elections. These developments were accentuated by continued security challenges in some parts of the country, thereby impacting on investor confidence. These considerations, and the need to sustain the achievement of the Bank's mandate of price and exchange rate stability, provided the context for monetary policy decisions in the review period.

4.1 Decisions of the Monetary Policy Committee (MPC)

The Monetary Policy Committee (MPC) decisions in the first half of 2015 were influenced by key global and domestic developments. Primarily, the issues of concern on the domestic front included: liquidity injections from electoral spending, liquidity surfeit in the banking system, the rising risk of currency substitution, declining external reserves and government revenues occasioned by low oil prices, insurgency activities in key agricultural regions, reemergence of demand pressure in the foreign exchange market, creeping inflationary pressure and rising credit to government. The considerations on the global front included: uneven and tepid recovery, divergence in monetary policy between the US and the Euro Area, the pace of US recovery and expected normalization of the US monetary policy, capital flow reversals leading to depreciation of emerging market exchange rates, declining commodity prices as well as the lingering Greek debt crisis.

4.1.1 January 2015 MPC Meeting

In January 2015, the MPC reviewed developments in the monetary policy environment, and expressed satisfaction with the economic growth performance and the outcome of inflation in 2014. The MPC noted the impact of security challenges on agricultural and associated activities and the continued decline in oil GDP. The impact of sustained banking system liquidity surfeit on inflation and exchange rate was emphasized, along with the implications of capital flow reversals on the depreciation of the exchange rate. The external environment was challenging with weak recovery in the Euro Area and Japan, and slowdown in emerging market economies. Although the IMF projected global growth in 2015 at 3.5 per cent, the MPC recognized high unemployment and debt levels, geopolitical tensions and declining commodity prices as significant downside risks to the projection. In addition, the devastating impact of the Ebola epidemic was a further source of risk in the West African sub-region. Monetary policy in the Euro Area and Japan remained accommodative as opposed to the US, while emerging market and developing economies generally maintained a tight monetary policy stance.

The key concerns were the adverse impact of security challenges on growth, the declining contribution of the oil sector to GDP growth and the sustained bearish condition of the capital market. The Committee noted that insurgency contributed to food supply bottlenecks in key agricultural zones. In addition, the challenge of excess liquidity in the banking system, the complications arising from capital reversals and demand pressures on the foreign exchange market, as well as the possible effects of expected normalization of US monetary policy were considered.

In the light of these developments, and recognizing the need to allow previous policy measures to work through the real economy, the Committee decided to retain the Monetary Policy Rate (MPR) at 13.0 per cent, with a symmetric corridor of +/- 200 basis points around the midpoint. The Liquidity Ratio, the Cash Reserve Ratio (CRR) on private sector deposits and the CRR on public sector deposits, were also retained at 30.0, 20.0 and 75.0 per cent, respectively.

4.1.2 March 2015 MPC Meeting

At the March 2015 meeting, the MPC reviewed developments in the global and domestic economy and financial markets, and noted the slow and uneven pace of global economic recovery, low commodity prices, and expectation of the normalization of US monetary policy fuelling speculations about the possible increase in US short-term rates. The Committee further observed the sluggish growth in oil exporting and developing economies, which stemmed from decreased oil receipts and low accretion to reserves, leading to capital reversals and weakening of their currencies. Other developments, which posed a downside risk to global growth were weak economic performance in the Euro Area, geopolitical tensions, structural factors, unfavourable weather conditions, poor external demand and moderate growth in emerging market and developing economies. The Committee noted that global inflation remained benign, although emerging and developing economies were expected to face imported inflationary pressures caused by currency depreciations. In view of these, global monetary policy stance remained largely accommodative.

On the domestic front, economic growth slowed in the last quarter of 2014 due to moderation in the non-oil sector. Headline inflation trended upwards but remained within the acceptable band of the CBN. The depreciation of the naira and its pass-through to domestic prices contributed to the observed increase in headline inflation. Developments in the money market indicated that on the average, short-term rates were stable despite episodes of sporadic volatility. The Committee noted with satisfaction the stability in the foreign exchange market due to recent measures, including the closure of the official window, to improve transparency and moderate arbitrage.

Arising from these developments, the Committee raised a number of concerns, including the negative impact of global commodity price declines, expected US monetary policy normalization, rising exchange rate premium between the BDC and interbank segments of the market, increasing risk of currency substitution, low oil prices and the adverse impact on accretion to reserves, government revenue, and capital flows. The Committee was also concerned about the moderate pace of economic growth and its near-term outlook as well as the gradual increase in year-on-year headline inflation, partly driven by the 2015 election spending, high import prices and adverse shocks to food supply. In addition, it was worried about the bearish state of the capital market.

Reflecting on both global and domestic developments, the Committee was of the view that the impact of existing monetary policy and subsequent administrative measures would require more time to fully permeate the economy. Consequently, the Committee decided to maintain the MPR at 13.0 per cent, with a symmetric corridor of +/- 200 basis points around the midpoint. The Committee also retained the Liquidity Ratio at 30.0 per cent, CRR on public sector deposits at 75.0 per cent and CRR on private sector deposits at 20.0 per cent.

4.1.3 May 2015 MPC Meeting

At the May 2015 meeting, the MPC observed that global economic recovery continued at a modest but uneven pace, with global growth in 2015 projected at 3.5 per cent by the IMF. Low commodity prices, particularly oil, contributed to the growth of oil importing countries but dampened prospects in oil exporting countries. In the Euro Area, the Committee observed that the massive quantitative easing of the ECB opened a new growth vista that may halt the slide in output and engender a more solid recovery. At 5.8 per cent in 2015, growth in emerging market and developing economies was dampened by structural and cyclical factors, monetary tightening, political tensions and currency depreciation. Global inflation was expected to remain subdued in 2015 due to the effects of the sharp drop in crude oil prices, excess capacity and appreciation of currencies of key advanced economies. However, emerging market and developing economies faced an upside risk to inflation due to depreciating exchange rates.

On the domestic scene, the deceleration in growth, which commenced in the third quarter of 2014 intensified in the first quarter of 2015 partly on account of weaker oil receipts. The Committee noted the build-up of inflationary pressures, which it considered transient and attributable to the shortage of petroleum products, rising food prices and the pass-through to prices from the depreciation of the exchange rate. Short-term interest rates were relatively volatile, reflecting fluctuations in banking system liquidity. The capital market showed slight improvements, as both market capitalization and the All Share Index (ASI) increased. The naira exchange rate was relatively stable in the two segments of the foreign exchange market, largely due to measures taken to calm the market and stabilize the exchange rate.

The above developments created a number of concerns for the Committee notably: slow global economic recovery, downside risks to the external sector due to the expected normalization of US monetary policy and anticipated increase in short-term rates, worsening effects of capital reversals, tighter financial market conditions and low oil prices. Other concerns were the decline in trade balance evidenced in low accretion to external reserves, as well as declining government revenue leading to growth in credit to government and its crowding out effect on private sector investments. The Committee was worried about the upward trend in inflation rates for four consecutive months to April 2015. The MPC considered that the current discriminatory CRR on private and public sector deposits, could constrain policy space, and inspire moral hazard by market participants.

The Committee was, however, optimistic about near term improvement in economic conditions, as progress was being made in resolving insecurity challenges, and the emergence of a conducive investment environment following the successful conclusion of the 2015 general elections.

In the light of the above considerations, the Committee decided to maintain the MPR at 13.0 per cent, with the symmetric corridor of +/- 200 basis points around the midpoint and to retain the Liquidity Ratio at 30.0 per cent. The Cash Reserve Ratio (CRR) on public and private sector deposits were, however, harmonized at 31.0 per cent.

4.2.0 Instruments of Liquidity Management

In line with the Bank's objectives of price stability and macroeconomic management, arrays of instruments were deployed in the conduct of monetary policy during the period under review. These included; the MPR, the CRR, Open Market Operations (OMO) and Discount Window Operations.

4.2.1 Monetary Policy Rate (MPR)

The Monetary Policy Rate (MPR) remained the prime instrument for monetary policy management. The MPR was retained at 13.0 per cent throughout the review period with the symmetric corridor of +/-200 basis points around the midpoint. This was mainly to help rein-in inflation and manage the liquidity surfeit in the banking system. With the MPR at 13.0 per cent and headline inflation rate of 9.2 per cent at end-June 2015, the real interest rate was positive, which encouraged capital inflow and accretion to external reserves.

4.2.2 Open Market Operations (OMO)

The Bank continued to rely on Open Market Operations (OMO) as the main tool for managing banking system liquidity in the first half of 2015. Actual OMO sales amounted to ₦4,261.72

billion compared with ₦3,937.76 billion and ₦4,484.94 billion recorded in the preceding and corresponding periods of 2014, respectively. This represented a decrease of 4.98 below the level in the first half of 2014 but an increase of 8.23 per cent above the level in the second half of 2014 (Table 4.1).

Table 4.1
OMO Bills Auction (January 2014 – June 2015)
(N'million)

Date	2014	2015	% Change
Jan	1,091.49	1,295.88	
Feb	307.40	217.33	
Mar	714.80	543.86	
Apr	285.94	933.74	
May	905.99	524.54	
Jun	1,179.54	746.37	
1st Half	4,485.17	4,261.72	-4.98
Jul	810.92		
Aug	654.53		
Sep	989.58		
Oct	652.50		
Nov	830.23		
Dec	0.00		
2nd Half	3,937.76		
Cumulative Figure	8,422.93	4,261.72	

4.3.3 Reserve Requirements

The Cash Reserve Ratio (CRR) continued to be employed to complement the MPR, OMO and other macroprudential instruments in liquidity management. During the review period, the MPC harmonized the CRR on private sector deposits of 20.0 per cent and public sector deposits of 75.0 per cent to 31.0 per cent of total reservable deposits. This led to the improvement in the efficacy of monetary policy transmission, effectiveness of liquidity management and curtailed abuses.

4.2.4 Standing Facilities

The Bank's standing facilities window (lending/deposit) remained open, and was accessed by Deposit Money Banks (DMBs) and discount houses (DH) to meet their daily liquidity requirements in the first half of 2015. The request for Standing Lending Facility (SLF), increased by 51.14 per cent from ₦1,664.00 billion in the second half of 2014 to ₦2,515.05 billion in the first half of 2015. The volume of SLF at end-June 2015 represented an increase of 24.43 per cent compared with the corresponding period of 2014 (Table 4.2). At the Standing Deposit Facility (SDF) window, the volume decreased significantly during the period. The cumulative volume of deposits stood at ₦9,257.46 billion, representing 68.52 per cent decrease below the ₦29,410.97 billion recorded in the second half of 2014. Similarly, the end-June 2015 figure represented 80.09 per cent decrease below the ₦46,496.63 billion recorded in the corresponding period of 2014 (see Table 4.3). The combination of liquidity management instruments deployed by the Bank in the period under review, effectively moderated the liquidity surfeit within the banking system. This resulted in increased lending at the SLF window and decreased deposit at the SDF window. Also, lower Federation

Accounts Allocation Committee (FAAC) distributions to the three tiers of government moderated liquidity in the banking system.

Table 4.2
CBN Standing Lending Facility (January 2014 – June 2015) (N'billion)

Date	2014	2015	% Change
Jan	615.59	104.75	
Feb	653.74	922.28	
Mar	560.27	541.13	
Apr	50.29	529.77	
May	44.88	229.36	
Jun	96.42	187.76	
1st Half	2,021.19	2,515.05	24.43
Jul	96.42		
Aug	55.46		
Sep	133.80		
Oct	23.84		
Nov	224.59		
Dec	1,129.89		
2nd Half	1,664.00		
Total	3,685.19	2,515.05	

Table 4.3
CBN Standing Deposit Facility (January 2014 – June 2015) (N'billion)

Date	2014	2015	% Change over the Preceding/ Corresponding Period
Jan	13,543.87	2,562.15	-81.1
Feb	4,953.72	862.15	-82.6
Mar	5,844.76	1,298.46	-77.8
Apr	8,190.69	864.11	-89.5
May	8,061.09	1,958.72	-75.7
Jun	5,902.5	1,711.87	-71.0
1st Half	**46,496.63**	**9,257.46**	**-79.6**
Jul	7,049.30		
Aug	4,309.30		
Sep	6,734.45		
Oct	7,436.35		
Nov	2,804.84		
Dec	1,076.73		
2nd Half	**29,410.97**		
Total	**75,907.60**	**9,257.46**	

4.3.5 Foreign Exchange Intervention

The Bank continued to intervene in the foreign exchange market to stabilize the naira exchange rate in the review period. Total supply of foreign exchange declined to US$13,974.27 million in the first half of 2015 from US$20,752.01 million in the corresponding period of 2014, representing a 32.66 per cent reduction. When compared with US$16,263.03 million in the second half of 2014, it declined by US$2,288.76 million or 14.07 per cent (Table 4.4).

The reduced supply of foreign exchange reflected the efficacy of the implementation of the administrative measures introduced. This moderated speculative demand in the foreign exchange market, limited arbitrage opportunities and the rate of depletion of foreign reserves. The administrative measures included the closure of the official window (rDAS) of the foreign exchange market, lower limit on weekly sales to BDCs and new directives on the monitoring, repatriation of export proceeds.

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

Date	2014			2015			
	Sales to rDAS	Sales to BDC	Total Supply (RDAS + BDC)	Sales to rDAS	Sales to interbank	Sales to BDC	Total Supply (rDAS+inter bank + BDC)
Jan	2,989.43	556.30	3,545.73	1,987.40	N/a	184.70	2,172.10
Feb	3,101.87	567.05	3,668.92	1,197.10	2,334.90	371.40	3,903.40
Mar	3,151.59	560.95	3,712.54		1,866.10	301.60	2167.7
Apr	2,663.92	712.80	3,376.72		1,375.70	370.40	1746.1
May	2,928.49	619.84	3,548.33		1,856.60	309.90	2166.5
Jun	2,398.55	501.22	2,899.77		1,448.50	369.97	1818.47
1st Half	**17,233.85**	**3,518.16**	**20,752.01**	**3,184.50**	**8,881.80**	**1,907.97**	**13,974.27**
Jul	2,494.76	184.94	2,679.70				-
Aug	3,201.10	169.08	3,370.18				-
Sep	2,598.45	143.24	2,741.69				-
Oct	3,498.48	178.86	3,677.34				-
Nov	2,296.93	145.71	2,442.64				-
Dec	1,241.13	110.35	1,351.48				-
2nd Half	**15,330.85**	**932.18**	**16,263.03**	**-**		**-**	**-**
Total	32,564.70	4,450.34	37,015.04	3,184.50		1,907.97	13,974.27

4.3 Developments in Monetary Aggregates

The performance of monetary aggregates in the first half of 2015 was weaker than projected: this could be explained by the maintenance of a tight monetary policy stance and lower fiscal injections into the system due to low public sector revenues. Further analysis revealed that credit to the public sector increased in the review period, thus crowding out the private sector.

4.3.1 Broad Money (M2)

Broad Money (M2) declined by 0.61 per cent to ₦18,811.64 billion at end-June 2015 from ₦18,927.79 billion at end-December 2014. Compared with the end-June 2014 level of ₦17,576.64 billion, M2 increased by 7.03 per cent. The decline in M2 as at end-June 2015, when annualized, indicated a contraction of 1.22 per cent, in contrast to the indicative growth target of 15.24 per cent.

Figure 4.1
Money Supply (M1) and (M2) (Dec 2014 – June 2015)

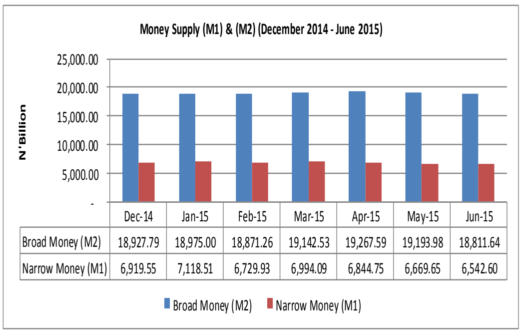
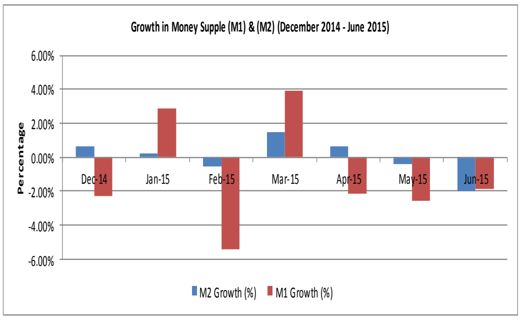


Figure 4.2
Growth in Money Supply (M1) and (M2) (Dec 2014 – Jun 2015)



4.3.2 Narrow Money (M1)

Narrow Money (M1) decreased by 5.45 per cent to ₦6,542.60 billion at end-June 2015 from ₦6,919.55 billion at end-December 2014. Compared with the end-June 2014 figure of ₦7,096.44 billion, M1 declined by 7.80 per cent. The growth rate of M1 as at end-June 2015, when annualized, indicated a decline of 10.90 per cent, in contrast to the indicative growth target of 9.91 per cent (Figures 4.1 and 4.2).

4.3.3 Net Foreign Assets (NFA)

Net Foreign Assets (NFA) decreased by 16.15 per cent to ₦5,951.45 billion at end-June 2015 from ₦7,098.10 billion at end-December 2014. Compared with the end-June 2014 figure of ₦7,673.10 billion, NFA declined by 22.44 per cent. The growth rate of NFA as at end-June 2015, when annualized, indicated a decline of 32.30 per cent, in contrast to the indicative growth target of 10.60 per cent. The continued weak performance of NFA was attributed to declining oil receipt due to a fall in oil prices, capital flow reversals due to improvements in some industrialized economies such as the US and the UK, and investor's anxiety about the 2015 general elections.

Figure 4.3
Net Domestic Asset (NDA) (Dec 2014 – Jun 2015)

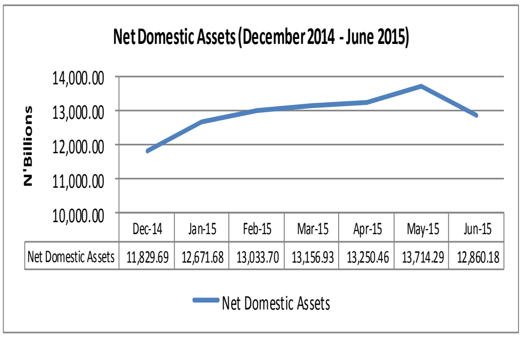
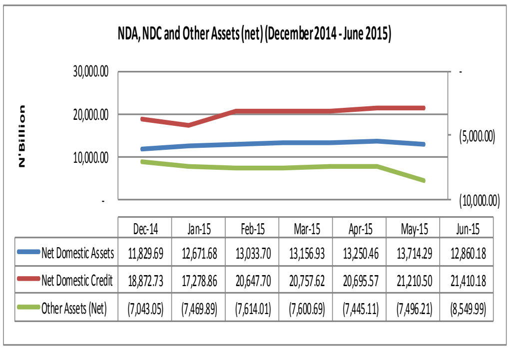


Figure 4.4
NDA, NDC and Other Assets (net) (Dec 2014 – Jun 2015)



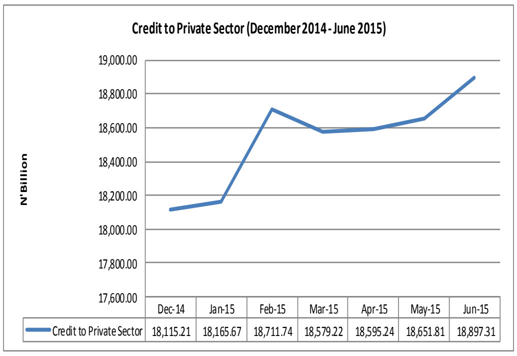
4.4.3 Credit to the Government (C_g)

Credit to government (Cg) grew by 231.72 per cent to ₦2,512.5 billion at end-June 2015 from ₦757.53 billion at end-December 2014. When compared with the end-June 2014 figure of negative ₦236.09 billion. The growth rate of Cg as at end-June 2015, when annualized, indicated an increase of 463.44 per cent, which was well above the indicative growth target of 36.05 per cent. In effect, the government sector moved from being a net creditor to the banking system to a net debtor, owing to a massive drop in revenues occasioned by the decline in crude oil prices in the international market.

4.4.4 Credit to the Private Sector (Cp)

Credit to the private sector (Cp) increased by 4.32 per cent to ₦18,897.31 billion at end-June 2015 from ₦18,115.21 billion at end-December 2014. Compared with the end-June 2014 figure of ₦16,925.58 billion, Cp rose by 8.31 per cent. The growth rate of Cp as at end-June 2015, when annualized, indicated an increase of 8.64 per cent, which was below the indicative growth target of 26.06 per cent for 2015.

Figure 4.5
Domestic Credit to Private Sector (Dec 2013 – June 2015)



4.4.5 Reserve Money (RM)

Reserve Money (RM), at ₦5,945.80 billion increased by 0.25 per cent at end-June 2015 from ₦5,930.90 billion at end-December 2014. Provisional figures showed that when annualized, RM as at end-June 2015 was below the 2015 indicative target of ₦7,095.49 billion. The increase in RM over the corresponding period of 2014 was due to the effects of the discriminatory CRR on private and public sector deposits, up to May when it was harmonized at 31 per cent. The marginal decline in CRR during the review period was partly due to the effect of the harmonization of the CRR, and active liquidity mop-up in the system through OMO. Table 4.5 below is a summary of the major monetary aggregates and provisional outcome as at end-June 2015.

Table 4.5
Monetary Aggregates Outcomes (Growth in % except otherwise stated)

						Change in H1 2015
	Actual June 2014	Actual Dec 2014	Actual June 2015	Bench mark 2015	Devi ation (N'b)	Actual
M2 (N'b)	17,576.64	18,927.79	18,811.64	20,769.04	-1,957.40	-116.15
M2 (%)	12.03	20.64	-0.61	15.20	-15.85	-21.25
M1 (N'b)	7,096.44	6,919.55	6,542.60	9,480.49	-2,937.89	-376.95
M1 (%)	0.9	-1.61	-5.45	9.91	-15.36	-3.84
RM (N'b)	4,786.36	5,964.76	5,945.97	7,095.49	-1,149.52	-18.79
RM (%)	-5.97	24.62	-0.32	16.78	-17.10	-24.94
NDC (N'b)	16,689.49	18,872.73	21,410.18	24,970.45	-3,560.27	2,537.44

NDC (%)	14.82	29.84	13.45	29.3	-15.85	-16.39
Cg (N'b)	-236.09	757.53	2,512.87	-642.91	3,155.78	1,755.34
Cg (%)	85.75	145.74	231.72	36.05	195.67	85.98
Cp (N'b)	16,925.58	18,115.21	18,897.31	25,613.36	-6,716.05	782.10
Cp (%)	4.53	11.88	4.32	26.06	-21.74	-7.56
NFA (N'b)	7,673.10	7,098.10	5,951.45	10,467.19	-4,515.74	-1,146.65
NFA (%)	-11.38	-18.02	-16.15	10.6	-26.75	1.87

CHAPTER FIVE

5.0 DEVELOPMENTS IN THE FINANCIAL MARKETS

The Nigerian financial environment was shaped largely by global economic developments notably: the weak commodity market particularly the continued decline in crude oil prices, heightened risks in the euro area following the Greek debt crisis, and continued slowdown in China. These required a broadly accommodative monetary environment, which was provided by the expansion of the ECB quantitative easing programme, and the quantitative and qualitative monetary easing by the Bank of Japan (BoJ). There was, however, a trend towards monetary policy divergence in the advanced economies following expectations about the prospects of US monetary policy normalization. These were compounded by the continued appreciation of the US dollar, as well as the depreciation of emerging market currencies, leading to capital flow reversals from emerging and developing markets, including Nigeria.

The money market remained active with fluctuations in banking system liquidity towards the later part of the review period, reflecting relative volatility in money market interest rates. In the foreign exchange market, the heightened demand for foreign exchange led to further depreciation of the naira, and in a bid to stem further depletion of the external reserves, the Bank closed the official foreign exchange window. This moderated the demand pressure and reversal of capital flows. As a result, the capital market witnessed a modest decline.

5.1 The Money Market

There were significant developments in the money market, which reflected active transactions in CBN bills and government securities in the first half of 2015. The observable fluctuations in banking system liquidity in the later part of the period under review, reflected the relative volatility in money market interest rates. Market activities along with substantial demand pressure in the foreign exchange market were impacted notably by the fluctuations in banking system liquidity. During the review period, the interbank and OBB rates occasionally soared above the MPR corridor of MPR +/-200 basis points. Market activities were dominated by persistent rebound of activities in the uncollateralized segment of the market, and frequent transactions in OMO/NTB deployed to regulate liquidity surfeits due to FAAC injections. More importantly, to further address the liquidity conditions in in the banking system, CRR on public and private sector deposits were harmonized at 31.0 per cent, and the MPR was retained at 13.0 per cent with a corridor of +/- 200 basis points around the midpoint. The low level of transactions previously recorded in the repo segment of the market, remained unchanged during the period.

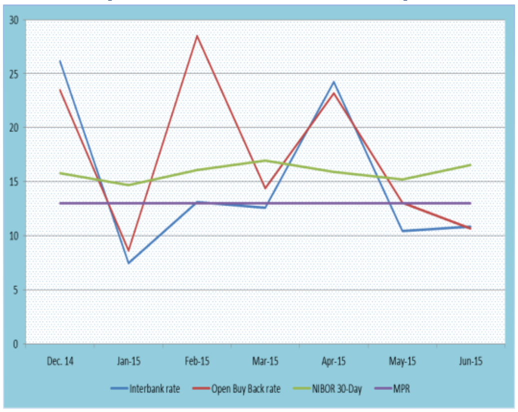
5.1.1 Short-term Interest Rate Developments

During the review period, money market interest rates largely reflected the liquidity levels in the banking system and were influenced by statutory FAAC disbursement, NTB maturities/auctions and the harmonization of the CRR for both private and public sector deposits. The MPR, however, was maintained at 13.0 per cent with the corridor of +/- 200 basis points to guide liquidity intervention in the system. Accordingly, a number of OMO auctions were conducted by the Bank to moderate the effects of liquidity surge associated with FAAC disbursements, and maturity of treasury securities. Various tightening measures were adopted in response to the liquidity surfeit, caused by AMCON Bond redemption in the last quarter of 2014. As a result, there was preference for collateralized financing by lenders, following the migration to the new Real Time Gross Settlement (RTGS) system and Scripless Securities Settlement System (S4), which were more transparent. Consequently, the OBB rate was higher than the interbank call rate for most of the period (table 5.1). The average OBB rate ranged between 8.65 and 28.52 per cent, while the interbank call rate ranged between 7.49 and 24.24 per cent. The 30-day NIBOR was between 14.67 and 16.99 per cent.

Table 5.1
Weighted Average Money Market Interest Rates (December 2014 – June 2015)

	Interbank rate	Open Buy Back rate	NIBOR 30-Day	MPR
Dec. 14	26.15	23.46	15.79	13
Jan. 15	6.99	8.69	13.7	13
Feb. 15	12.37	27.19	15.47	13
Mar. 15	12.7	14.31	15.89	13
Apr. 15	24.25	23.20	15.17	13
May.15	9.55	11.69	14.61	13
Jun. 15	11.19	10.64	15.45	13

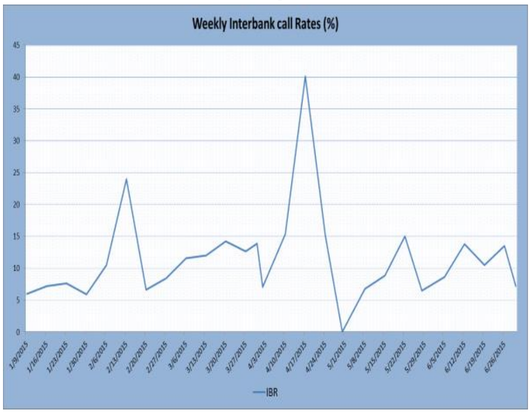
Figure 5.1
Weighted Average Money Market Interest Rates (December 2014 – June 2015)



(i) The Interbank Call Rate

In the review period, activity in the interbank market increased as the call rate rose from 6.99 per cent in January to 12.7 per cent in March 2015. The rate, further, increased significantly by 1155 basis points to 24.25 per cent in April 2015. The development in April was attributed to the reduction in net liquidity in the banking system, due to sale of CBN Bills and NTBs worth N61.37 billion and N95.00 billion on March 12, 2015 (Figure 5.2).

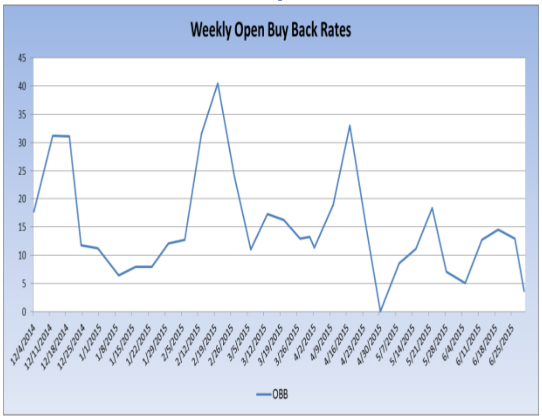
Figure 5.2
Interbank Call Rate (December 2014 – June 2015)



(ii) The Open Buy Back Rate

The weighted average OBB rate fluctuated between 8.69 and 27.19 per cent to an average of 15.95 per cent in the first half of 2015. It decreased from 23.20 per cent in April to 11.69 and 10.64 per cent in May and June, 2015, respectively. The relative stability in the OBB rate in the later part of the review period, was due to the harmonization of CRR on both private and public sector deposits at the MPC meeting of May 18 – 19, 2015 (Figure 5.3). Transactions in the OBB segment remained active in the review period. As in the interbank call segment, the spikes in the OBB rate were also due to low level of liquidity in the banking system, arising from the sale of CBN Bills and NTBs worth N61.37 billion and N95.00 billion on March 12, 2015. The improved activities at the OBB segment were largely traceable to availability of funds within the system from OMO and NTB maturities. There was also enhanced confidence by DMBs in the collateralized segment of the market, resulting from the migration to the new RTGS and Scripless Security Settlement System (S4), which encouraged transparency in the settlement of secured transactions.

Figure 5.3
Open Buy Back Rate (December 2014 – June 2015)



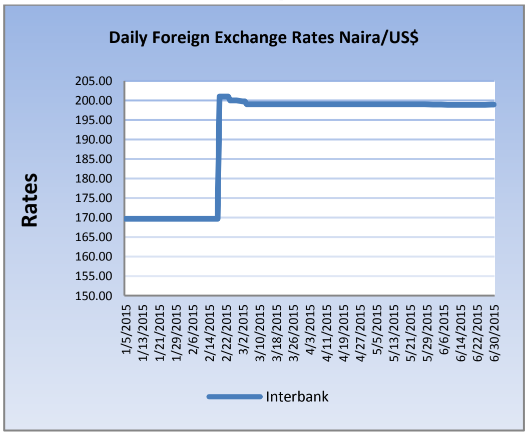
(iii) The Nigeria Interbank Offered Rate (NIBOR)

The reference rate in the Nigerian money market, the NIBOR, maintained relative stability across tenors during the review period. The weighted average 30-day NIBOR, rose from 13.7 per cent in January to 15.89 per cent in March 2015. It however declined to 14.61 per cent in May, owing largely to the harmonization of CRR on private and public sector deposits but subsequently closed at 15.45 per cent in June 2015 (Table 5.1).

5.2 Foreign Exchange Market

The Bank's policy of maintaining an official exchange rate, mid-point of ₦168/US$, with a widened intervention corridor of +/-5.0 per cent, became unsustainable in the face of increasing pressure on the naira. Consequently, the Bank closed the official foreign exchange window on February 18, 2015 and only intervened at the interbank foreign exchange market implying a further depreciation of the exchange rate to ₦197/US$. The further depreciation was targeted at halting the dwindling reserves occasioned by falling oil prices and capital reversals as well as curbing the heightened demand for foreign exchange in the market. The interbank exchange rate closed at ₦196.95/US$ at end-June, 2015.

Figure 5.4
Daily Naira-US Dollar Exchange Rate (Jan - June 2015)



5.2.1 Average Exchange Rates

The Interbank foreign exchange rate at an average of ₦194.04/US$ depreciated by 16.05 per cent to an in the first half of 2015 from ₦167.21/US$, in the second half of 2014. The BDC rate also depreciated by 23.16 per cent to an average of ₦213.58/US$ from ₦173.41/US$, over the same period (Table 5.2).

Table 5.2
Average Monthly Spot Exchange Rates (July 2014 – June 2015) (N/US$)

Month/Year	Interbank Rate	BDC 'B' Rate
2014: Jul	162.25	167.71
Aug	161.99	170.36
Sep	162.93	168.64
Oct	164.64	169.43
Nov	171.10	175.85
Dec	180.33	188.45
Average	167.21	173.41
2015: Jan	181.78	196.13
Feb	194.47	213.18
Mar	197.07	222.93
Apr	197.00	210.70
May	197.00	219.55
Jun	196.92	218.98
Average	194.04	213.58

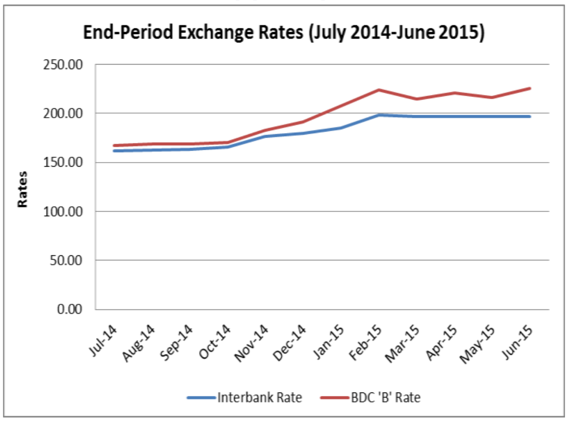
5.2.2 End-Period (Month) Exchange Rates

The naira depreciated in the two segments of the foreign exchange market at end-June 2015, compared with end-December 2014. At the interbank foreign exchange market, the naira depreciated by 9.42 per cent to ₦196.95/US$ at end-June 2015 from ₦180.00/US$ at end-December 2014. In the BDC segment, the naira also depreciated by 17.75 per cent to N225.50/US$ at end-June 2015 from N191.50/US$ at end-December 2014 (Figure 5.5 and Table 5.3).

Table 5.3
End-Month Exchange Rates (July 2014 – June 2015) (N/US$)

Month/Year	Interbank Rate	BDC 'B' Rate
2014: Jul	161.90	167.00
Aug	162.40	169.00
Sep	163.70	169.00
Oct	165.55	170.00
Nov	176.80	182.50
Dec	180.00	191.50
Average	**168.39**	**174.83**
2015: Jan	185.20	207.50
Feb	198.00	224.00
Mar	197.00	214.50
Apr	197.00	221.00
May	197.00	216.00
Jun	196.95	225.50
Average	**195.19**	**218.08**

Figure 5.5
End-Month Exchange Rates (July 2014-June 2015) (N/US$)



5.2.3 Nominal and Real Effective Exchange Rates

The Nominal Effective Exchange Rate (NEER) depreciated by 9.23 per cent to 104.90 in the first half of 2015 from 95.22 in the second half of 2014. It also depreciated by 8.56 per cent when compared with the corresponding period of 2014. The Real Effective Exchange Rate (REER) depreciated by 5.60 per cent from 58.62 in the second half of 2014 to 62.10 in the first half 2015. When compared with the corresponding period of 2014, the average REER depreciated moderately by 2.25 per cent (Table 5.4). Therefore, there was significant depreciation of the naira in both nominal and real terms relative to the currencies of Nigeria's major trading partners (table 5.4 and figure 5.6).

Figure 5.6
Nominal and Real Effective Exchange Rates Indices (July 2014 – January 2015)

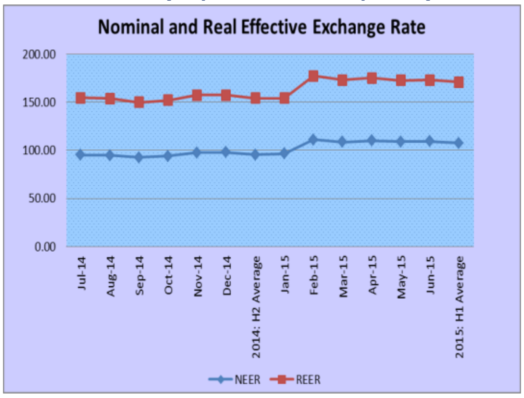


Table 5.4
Nominal and Real Effective Exchange Rates Indices (Jan 2014 – Jan 2015)

Months	NEER	REER
14-Jan	94.96	60.43
14-Feb	95.84	60.93
14-Mar	96.26	61.06
14-Apr	96.37	61.02
14-May	96.08	60.53
14-Jun	96.00	60.20
2014: H1 Average	95.92	60.70
14-Jul	95.23	59.47
14-Aug	94.84	58.96
14-Sep	92.68	57.32
14-Oct	92.75	57.07
14-Nov	97.70	59.62
14-Dec	98.10	59.27
2014: H2 Average	95.22	58.62
15-Jan	96.53	57.69
15-Feb	95.77	57.09
15-Mar	108.55	64.52
15-Apr	110.20	65.25
15-May	108.88	64.04
15-Jun	109.45	64.03
2015: H1 Average	104.90	62.10

5.2.5 Foreign Exchange Flows through the CBN

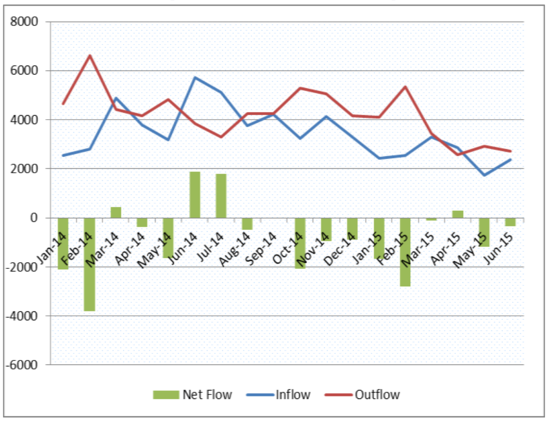
Foreign exchange inflows through the CBN on a gross basis, significantly declined by 35.59 per cent to US$15,283.00 million in the first half of 2015, from US$23,728.32 million in the second half of 2014. It also dropped by 33.23 per cent compared with US$22,888.75 million in the corresponding period of 2014. Similarly, gross foreign exchange outflows decreased by 19.97 per cent to US$21,070.36 million in the first half of 2015, from US$26,327.84 million in the second half of 2014. When compared with US$28,501.98 million in the corresponding period of 2014, it further decreased by 26.18 per cent. Thus, in the review period, there was a net outflow of US$5,787.40 million, compared with US$2,599.52 million and US$5,613.24 million in the preceding and corresponding halves of 2014 (see Table 5.5 and Figure 5.7).

Table 5.5
Monthly Foreign Exchange Flows through the CBN (Jan 2014 – June 2015)

Dates	Total Inflow	Total Outflow	Net Flow
Jan-14	2,543.55	4,652.19	-2,108.65
Feb-14	2,797.57	6,612.99	-3,815.41
Mar-14	4,880.32	4,430.48	449.83
Apr-14	3,779.45	4,155.76	-376.31
May-14	3,171.28	4,819.22	-1,647.94
Jun-14	5,716.58	3,831.34	1,885.24
2014: H1 Total	**22,888.75**	**28,501.98**	**-5,613.24**
Jul-14	5,103.82	3,299.90	1,803.92
Aug-14	3,760.04	4,254.45	-494.41
Sep-14	4,230.38	4,250.56	-20.17
Oct-14	3,228.46	5,298.36	-2,069.90
Nov-14	4,120.82	5,060.15	-939.34
Dec-14	3,284.80	4,164.42	-879.62
2014: H2 Total	**23,728.32**	**26,327.84**	**-2,599.52**
Jan-15	2,442.00	4,108.06	-1666.1
Feb-15	2,554.50	5,338.00	-2783.5
Mar-15	3,310.50	3,429.70	-119.2
Apr-15	2,859.50	2,569.10	290.3
May-15	1,744.50	2,916.40	-1171.8
Jun-15	2,372.00	2,709.10	-337.10
2015: H1 Total	**15,283.00**	**21,070.36**	**-5,787.40**

* Provisional figure is used for the month of June, 2015

Figure 5.7
Monthly Foreign Exchange Flows through the CBN (Jan 2014 – June 2015)



5.2.6 Foreign Exchange Flow through the Economy

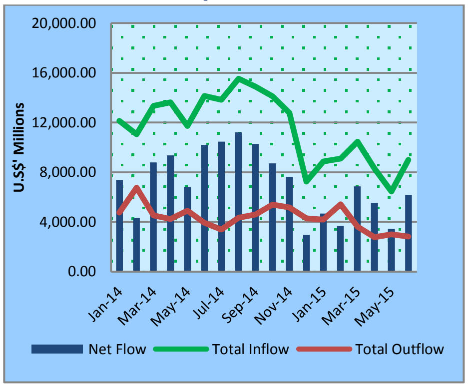
Gross foreign exchange inflow to the economy declined significantly by 33.43 per cent to US$52,172.80 million in the first half of 2015, from US$78,372.49 million in the second half of 2014. It also decreased by 31.32 per cent when compared with US$75,966.99 million in the corresponding period of 2014. Similarly, gross foreign exchange outflow declined by 19.60 per cent to US$21,837.20 million in the first half of 2015, from US$27,161.04 million in the second half of 2014. When compared with US$29,092.92 million in the first half of 2014, it declined significantly by 24.94 per cent.

Thus, during the review period, the total foreign exchange flows through the economy resulted in a lower net inflow of US$30,335.60 million, compared with US$51,238.62 million in the preceding period, and US$46,874.06 million in the corresponding period of 2014. This represented decreases of 40.80 and 35.28 per cent in the preceding and corresponding periods, respectively. The lower net inflow during the period reflected the impact of decreased earnings from oil, due largely to falling oil prices in the international market coupled with the decline in invisible inflows through autonomous sources (Table 5.6 and Figure 5.8).

Table 5.6
Monthly Foreign Exchange Flows through the Economy (Jan 2014 – Jun 2015) (US$ Million)

ate	Total Inflow	Inflow (CBN)	Inflow (Autonomous)	Total Outflow	Outflow (CBN)	Outflow (Autonomous)	Net Flow	Net Flow (CBN)	Net Flow (Autonomous)
an-14	12,126.18	2,543.55	9,582.63	4,756.04	4,652.19	103.85	7,370.13	-2,108.65	9,478.78
eb-14	11,057.50	2,797.57	8,259.93	6,745.36	6,612.99	132.38	4,312.14	-3,815.41	8,127.55
Iar-14	13,327.08	4,880.32	8,446.76	4,526.49	4,430.48	96.01	8,800.58	449.83	8,350.75
pr-14	13,610.72	3,779.45	9,831.27	4,245.80	4,155.76	90.04	9,364.93	-376.31	9,741.23
Iay-14	11,711.73	3,171.28	8,540.45	4,895.44	4,819.22	76.22	6,816.29	-1,647.94	8,464.23
un-14	14,133.78	5,716.58	8,417.20	3,923.79	3,831.34	92.45	10,209.99	1,885.24	8,324.75
014: H1 otal	**75,966.99**	**22,888.75**	**53,078.24**	**29,092.92**	**28,501.98**	**590.95**	**46,874.06**	**-5,613.24**	**52,487.29**
ul-14	13,837.28	5,103.82	8,733.47	3,377.44	3,299.90	77.54	10,459.85	1,803.92	8,655.93
ug-14	15,536.52	3,760.04	11,776.48	4,342.52	4,254.45	88.07	11,194.01	-494.41	11,688.42
ep-14	14,887.17	4,230.38	10,656.78	4,606.46	4,250.56	355.90	10,280.71	-20.17	10,300.88
ct-14	14,086.97	3,228.46	10,858.51	5,400.97	5,298.36	102.61	8,712.74	-2,069.90	10,755.90
ov-14	12,781.36	4,120.82	8,660.54	5,152.69	5,060.15	92.54	7,628.67	-939.34	8,568.00
ec-14	7,243.60	3,284.80	3,958.80	4,280.96	4,164.42	116.55	2,962.64	-879.62	3,842.25
014: H2 otal	**78,372.90**	**23,728.32**	**54,644.58**	**27,161.04**	**26,327.84**	**833.21**	**51,238.62**	**-2,599.52**	**53,811.38**
an-15	8,861.70	2,442.00	6,419.70	4,190.30	4,108.06	82.20	4,671.40	(1,666.10)	6,337.50
eb-15	9,091.50	2,554.50	6,537.00	5,415.20	5,338.00	77.19	3,676.30	(2,783.50)	6,459.81
Iar-15	10,470.40	3,310.50	7,159.90	3,620.80	3,429.70	191.10	6,849.60	(119.20)	6,968.80
pr-15	8,299.80	2,859.50	5,440.40	2,784.80	2,569.10	215.70	5,515.00	290.30	5,224.70
Iay-15	6,447.50	1,744.50	4,702.90	3,002.40	2,916.40	86.10	3,445.10	(1,171.80)	4,616.80
un-15	9,001.90	2,372.00	6,629.90	2,823.70	2,709.10	114.60	6,178.20	-337.10	6,515.30
015: H1 otal	**52,172.80**	**15,283.00**	**36,889.80**	**21,837.20**	**21,070.36**	**766.89**	**30,335.60**	**-5,787.40**	**36,122.91**

Figure 5.8
Monthly Foreign Exchange Flows through the Economy (Jan 2014 – Jun 2015) (US$ Million)



BOX 1

THE MANAGED-FLOATING EXCHANGE RATE REGIME IN NIGERIA

An exchange rate is theoretically defined as the value of a country's currency relative to another currency such as the U.S. dollar. Exchange rate regimes are broadly classified into two, namely fixed and floating regimes. Under the fixed regime, the reference currency has a fixed exchange value in relation to another currency. This is called a fixed peg. A variant of this regime is the crawling peg, which allows the fixed position to depreciate or appreciate periodically by a pre-agreed percentage.

In floating regimes, the forces of demand and supply of foreign exchange are allowed to determine the value of a currency in relation to another. There are three forms of floating, namely: pure floating, independent floating, and managed floating. In a pure float regime, the exchange rate is market determined with no foreign exchange market intervention by the monetary authority. In the independent float regime, the exchange rate is also market determined and any foreign exchange market intervention is aimed at moderating the rate of change to prevent undue fluctuations in the rate instead of setting a level for it. In other words, some intervention may be required from the monetary authority to pull the rate back towards a desired level, if it strays far away from the level considered optimal for macroeconomic stability.

In a managed float, the monetary authority allows the market forces to operate while actively intervening to influence the movement of the exchange rate without specifying, or pre-committing to, a pre-announced path. A variation of this managed float system is one where the monetary authority announces a mid-point with a floating band around the mid-point, that could range from a minimum of 1.0 per cent to a maximum of15.0 per cent on either side of the mid-point. This band operates like a filter, shielding the economy from transitory shocks. It provides the exchange rate, the flexibility to accommodate short-term fluctuations in the foreign exchange market, as well as transitory shocks associated with fluctuations in external demand.

The broad consensus among economists suggests that purely floating or completely fixed exchange rates are only practicable among few countries. The intermediate regimes, among which is the managed-float have found relevance, especially in a number of emerging market and developing economies, considering the fact that their financial systems lack depth, liquidity and maturity

(Bordo, 2003)[1]. Another rationale for the adoption of the managed float regime is the lack of a stable relationship between macroeconomic fundamentals and the exchange rate (Bofinger and Wollmershauser, 2003)[2].

In Nigeria, the central bank has experimented with various frameworks of exchange rate management since independence, ranging first, from a fixed targeting regime, to a single currency and later to a basket of currencies, in the 1960s and 1970, to the managed floating regime. Under the regime, while the CBN does not fix the exchange rate of the naira, it has over the years, actively intervened in the foreign exchange market through various strategies. These included: the Second-Tier Foreign Exchange Market (SFEM), First Tier Foreign Exchange Market (IFEM), Wholesale Dutch Auction System (wDAS), and Retail Dutch Auction System (rDAS). The objective of the Bank's intervention has been to smoothen short-term fluctuations in the exchange rate. The exchange rate band provides a mechanism that defines the conditions for intervention and flexibility in the exchange rate. It is reviewed as the need arises to ensure that it remains consistent with the underlying fundamentals of the economy. The current band of +/- 5 per cent around the mid-point of N197/US$ was widened from an earlier band of +/-3% to make room for more flexibility in the exchange rate and to reduce the frequency of intervention by the Bank.

Any exchange rate framework adopted needs to be supported by vibrant institutions as well as strong and complementary policy measures. Accordingly, when the exchange rate came under severe pressure from speculative activities, the Bank closed the official foreign exchange window, and followed it up by increasing the list of import items not eligible for accessing foreign exchange funding from formal sources.

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[1] Bordo, M.D. (2003) ''Exchange Rate Choice in Historical Perspective", *IMF Working Paper,* WP/03/160, August

[2] Bofinger, P. and Wollmershauser, T. (2003) "Managed Floating as a Monetary Policy Strategy". Presentation at BOFIT Workshop on Transition Economics, Helsinki, April.

5.3 Capital Market

The decline in the capital market continued in the first half of 2015. This was traceable to domestic and external factors, including: (i) low crude oil prices and accretion to external reserves; (ii) foreign portfolio capital reversals and significant depreciation of the exchange rate; (iii) continued insurgency in the North-Eastern part of the country; and (iv) uncertainty surrounding the 2015 general elections. In particular, the level of uncertainty in the Nigerian capital market in the first half of 2015 was a major source of concern to global investors, leading to increase in capital outflows.

5.3.1 Equities Market

The All-Share Index (ASI) declined by 3.46 per cent to 33,456.83 at end-June 2015, from its level of 34,657.15 at end-December 2014, and by 21.25 per cent compared with 42,482.48 at end-June 2014. Market Capitalization (MC) of equities also declined by 0.52 per cent to ₦11.42 trillion at end-June 2015, from ₦11.48 trillion at end-December 2014, and by 18.60 per cent when compared with ₦14.03 trillion at end-June 2014 (Table 4.8 and Figure 4.9).

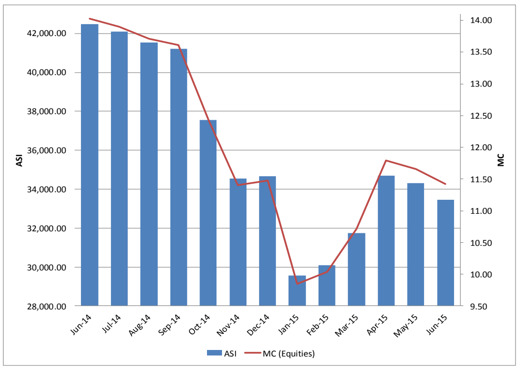
The ASI's 21.25 per cent year-on-year decrease was driven mainly by weak performance in the Consumer Goods, Insurance and Oil and Gas sectors, which declined by 6.7, 4.0 and 3.0 per cent, respectively, below their levels at end-December 2014. The NSE Banking index, however, grew by 4.8 per cent.

Table 5.7
NSE All-Share Index (ASI) and Market Capitalization (MC) (June 2014 – June 2015)

Date	ASI	MC (Equities) (N' Trillion)
Jun-14	42,482.48	14.03
Jul-14	42,097.46	13.90
Aug-14	41,532.31	13.71
Sep-14	41,210.10	13.61
Oct-14	37,550.24	12.44
Nov-14	34,543.05	11.40
Dec-14	34,657.15	11.48
Jan-15	29,562.07	9.85
Feb-15	30,103.81	10.04
Mar-15	31,744.82	10.72
Apr-15	34,708.11	11.79
May-15	34,310.37	11.66
Jun-15	33,456.83	11.42

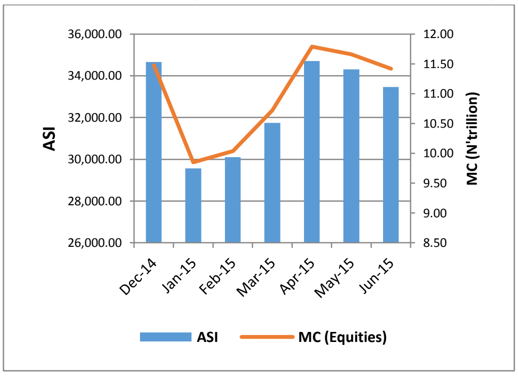
Source: NSE

Figure 5.9
NSE ASI and MC (June 2014 – June 2015)



Source: NSE

Figure 5.10
NSE ASI and MC (December 2014 – June 2015)



Source: NSE

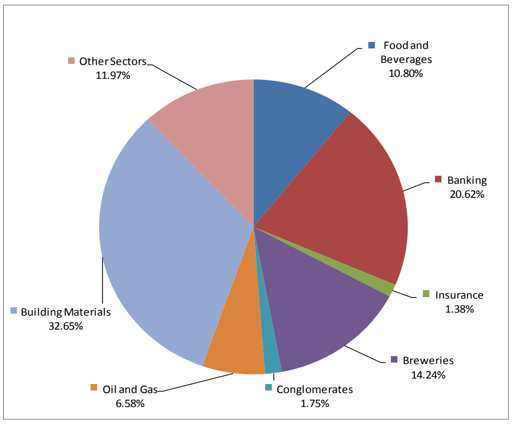
5.3.2 Market Turnover

Aggregate stock market turnover in the first half of 2015 decreased by 8.92 per cent to 50.72 billion shares, valued at N557.00 billion, in 534,624 deals, compared with 50.50 billion shares, valued at N758.24 billion, in 591,755 deals in the second half of 2014. Relative to the first half of 2014, market turnover however, decreased by 3.87 per cent from 52.76 billion shares valued at N579.30 billion, in 623,155 deals. Foreign portfolio investment outflows exceeded inflows by 18.19 billion in the first half of 2015. This can be attributed to the continued fall in oil prices and divestments due to the sell-off pressure being encountered at the stock market.

5.3.3 Sectoral Contribution to Equities Market Capitalization

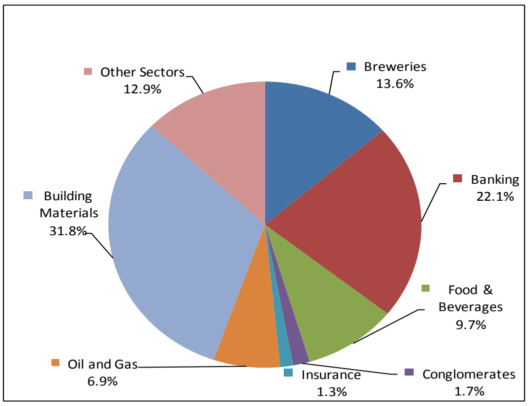
The construction sector remained the most capitalized primarily due to the valuation of the building materials sub-sector. The sub-sector's share in overall market capitalization declined to 31.8 per cent at end-June 2015 from 32.7 per cent in the second half of 2014. Other leading sub-sectors were banking, breweries, and food & beverages, with respective market shares of 22.1, 13.6 and 9.7 per cent, at end-June 2015 (Figure 4.12).

Figure 5.11
NSE Market Capitalisation by Sector as at End-December 2014



Source: NSE

Figure 5.12
NSE Market Capitalisation by Sector as at End-June 2015

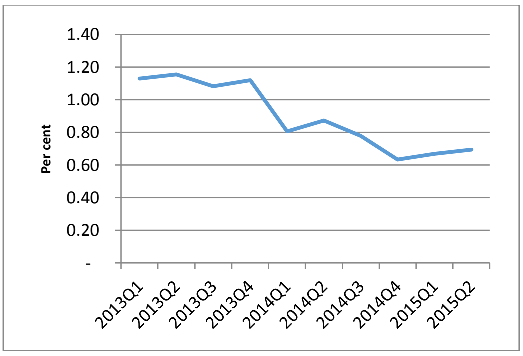


Source: NSE

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

The Warren Buffett valuation metric for the Nigerian stock market stood at 69.0 per cent in the second quarter of 2015, indicating an undervaluation, as it fell below the threshold of 75.0 to 115.0 per cent. The undervaluation can be attributed to a number of developments, including sell-off by foreign portfolio investors, capital reversals and low crude oil prices resulting in the depreciation of the exchange rate, anxiety surrounding the 2015 general elections, perceived sovereign risk of the Nigerian economy and improvements in the economy of some advanced countries such as the US and the UK. The undervaluation of equities provided enormous opportunities for investors to take advantage of the Nigerian market.

Figure 5.13
Warren Buffet Valuation of Nigerian Equities Market



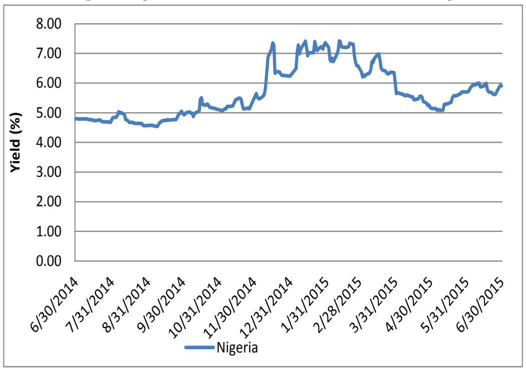
5.3.5 Bond Market

The bond market was dominated by Federal Government of Nigeria (FGN) securities. Sub-national government and corporate bonds recorded some activities, with the corporate bonds segment having the least share by market volume.

5.3.5.1 FGN Eurobond

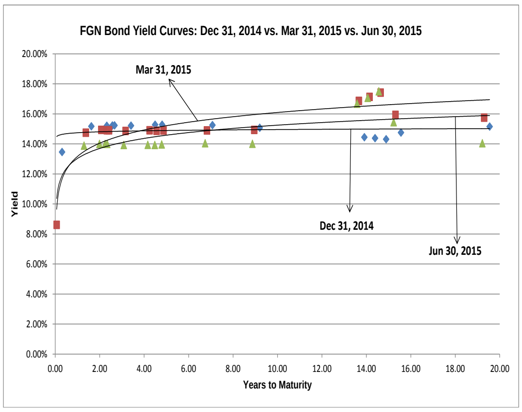
The yield on the 10-year dollar-denominated bond decreased to 5.91 per cent at end-June 2015, from 6.23 per cent at end-December 2014, largely due to improved investor confidence in the economy following the successful election and transition to a new government. It was, however, higher than the 4.80 per cent recorded in the corresponding period of 2014 when election issues were not key risks to stability (Figure 5.14).

Figure 5.14
10-Year U.S. Dollar-denominated Bond Yield for Nigeria (June 30, 2014 – June 30, 2015)



The FGN bond yield curve as at end-June 2015 trended downwards by 34 basis points to 11.33, compared with 11.67 at end- December 2014, and by 20 basis points compared with 11.53 at end-June 2014 (Figure 5.15). At this level, FGN bond yields were positive and exceeded the June 2014 – June 2015 rates of inflation, reflecting the sustained tight monetary policy stance of the Bank.

Figure 5.15
FGN Bonds Yield Curves: end-Dec. 2014 vs. end-Mar. 2015 vs. end- Jun. 2015



5.3.5.2 State/Local Government Bonds

There was low activity in the sub-national bonds market segment during the review period. The total value of outstanding state/local governments bonds at end-June 2015 was ₦544.43 billion, compared with ₦524.67 billion at end- December 2014 and ₦528.87 billion at end-June 2014.

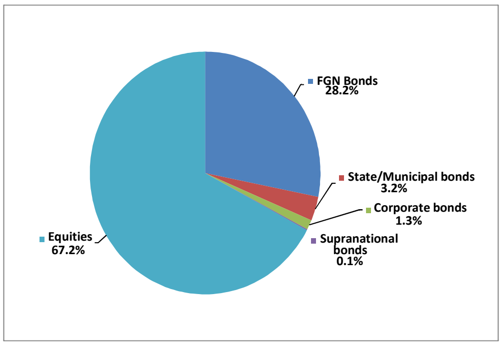
5.3.5.3 Corporate Bonds

There was heightened activity in the corporate bond segment in the review period. The value of outstanding corporate bonds at end-June 2015 was ₦220.39 billion, compared with ₦144.96 billion at end-December 2014 and N169.90 billion at end-June 2014. The surge in activities was due to restored investor confidence, following the successful political transition programme in the country and the weak equities performance, which encouraged preference for fixed income securities by the corporate sector.

5.3.5.4 Overall Analysis of the Nigerian Capital Market

The value of FGN bonds increased by 1.91 per cent to ₦4.79 trillion at end-June 2015 from ₦4.70 trillion at end-December 2014, and by 10.11 per cent over the level at end-June 2014. FGN bonds accounted for 28.2 per cent of aggregate capital market capitalization as at end-June 2015. Also, the value of state/municipal bonds, corporate bonds and supranational bonds were ₦544.43 billion, ₦220.39 billion and ₦24.95 billion, accounting for 3.2, 1.3 and 0.1 per cent of aggregate market capitalization, respectively. The equity market accounted for 67.2 per cent of aggregate market capitalization at end-June 2015, while the combined shares of FGN bonds, state/municipal bonds, corporate bonds and supranational bonds accounted for the remaining 32.8 per cent (Figure 5.16).

Figure 5.16
Structure of the Nigerian Capital Market (June, 2015)



Box 2

The Greek Debt Crisis

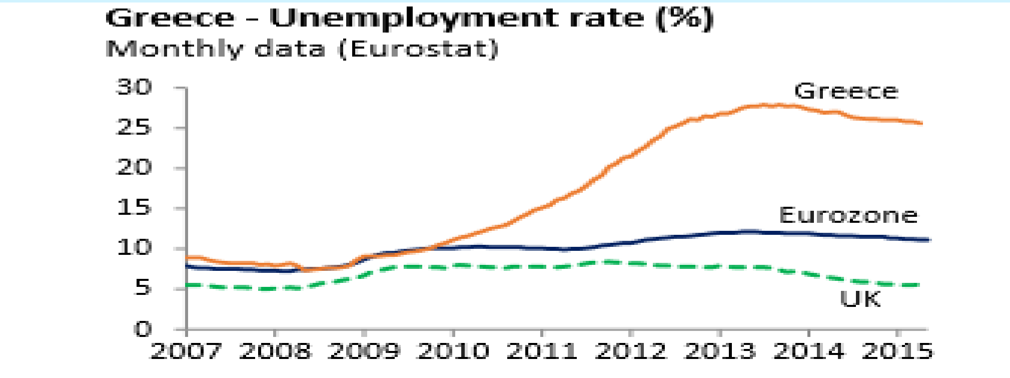
The global economic and financial crisis of 2007/08 triggered economic fragilities in many regions of the world. The crisis accentuated the Greek debt problem and heightened financial market risks in the euro area. The Greek Debt Crisis, which started in late 2009 has persisted, becoming the first of five sovereign debt crises in the Eurozone, collectively referred to as the European Debt Crisis.

The Greek Debt Crisis was accentuated by some structural weaknesses in the country's economy. The weaknesses included lower GDP growth rates, huge fiscal imbalances that developed during the years preceding the crisis, and escalating government debt-level due to the higher than expected government deficit and high debt-service costs. Others were poor budget compliance as well as gross credibility problems in official statistics. Also, there was a sudden loss of confidence among creditors as Greece failed to meet its debt obligations. This situation worsened because of revelations about the inaccuracy of government data on debt levels and deficits, leading to a further crisis of confidence. Consequently, there was an unprecedented widening of bond yield spreads and increased cost of risk insurance on credit default swaps compared with other Eurozone countries.

Due to the escalation in its debt-servicing costs, the country sought international financial assistance and in April 2010, received its first loan of €110 billion (£79 billion) from the Eurozone and International Monetary Fund (IMF). The agreement specified strict conditions on macroeconomic policy reforms, which were designed to enhance the competitiveness of the Greek's economy. During the crisis, the Greek Government could not meet its obligations to its international creditors, including the IMF. As a result, Greece sought additional financial assistance from the European Commission and the ECB, its major financiers. The ECB offered Greece emergency funding, which was mainly used to support the already weakened Greek banking system. In March 2012, the crisis intensified, prompting the need for a second bail-out, of an even larger loan. In January 2015, a total of €142.7 billion had been granted to Greece as part of the second bail-out. Consequently, Greece's government debt became the second highest in the world at over 175 per cent of GDP, or €317 billion (£226 billion). The majority of the debts were owed the Eurozone and the IMF.

The latest round of financial assistance was prompted by Greece's inability to meet its financial obligations. Given the nature of the austerity measures required and the unsustainability of Greek debts for the euro, the ECB and Euro Zone offered a new set of terms for a loans-for-reforms deal. The government held a referendum on the terms offered by creditors, and the Greek electorate decisively backed its government and voted against the terms of the proposal. The other Eurozone countries viewed this as Greece's reluctance to negotiate. In the interim, funds for the second Eurozone bailout programme ceased, exacerbating Greece's problems, culminating in its default on a €1.5 billion debt to the IMF at the end of June, 2015. The European Central Bank froze its emergency funding of Greece's banks, leading Greece to introduce capital controls on withdrawals from its banks.

The Greek Debt Crisis has affected its economy, its people and the Eurozone. Since the crisis began six years ago, Greece's economy has undergone severe recession, with persistent contraction in economic activity until 2014, when growth finally resumed. In all, Greece's real GDP has fallen by over 27 per cent. The fall in output has led to plummeting living standards and worsening social conditions. Greece unemployment rate increased from about 8 per cent in 2008 to 28 per cent in mid-2013. The youth unemployment rate rose to nearly 60 per cent in 2013 and remained at about 53 per cent in mid-2015.



Consequently, Greek wages declined, resulting in poverty and deprivation. This development has been largely blamed for the stringent conditions of the bail-outs from the IMF, the European Commission and the ECB.

In addition, the Greek Debt crisis has reverberated through most of the euro area, weakening its currency, the euro, which depreciated in relation to the dollar for most of the crisis period. Recent escalation of the crisis indicates major implications for the European Union, culminating in the debate on Greek's continued membership of the Union.

Nigeria is a major trading partner with the European Union countries, especially the UK, Ireland and France. Developments in the Union would impact on Nigeria's trade balance with these countries. European banks are highly exposed to Greek sovereign debt, with Germany, France and the UK being the most vulnerable. In the event of a Greece default, European banks may experience significant losses and, could cut their credit lines to developing countries to restore their capital adequacy ratios. Already, growing uncertainties in Greece, in the event of default, are limiting bank liquidity in the euro area, thereby worsening developing countries' access to credit lines.

In addition, the European stock markets suffered huge losses, with Germany, Italy and France, being the most affected. The volatility of the stock markets in these economies portend grave consequences for developing countries; sell-offs are imminent and this may trigger withdrawals that may impact on emerging markets.

Also, the spate of austerity measures aimed at mitigating the debt crisis in several European economies have slowed growth, with the attendant rise in unemployment. The cuts in spending in these economies adversely affected aid to developing countries, adding to concerns, as several European countries were already struggling to meet aid targets after the global financial crisis. The worsening unemployment problem in Europe would lead to reduced migrants' remittances, an important source of financing for developing countries.

The debt-induced exchange rate depreciation and volatility in Europe presents opportunities and challenges for developing economies. Commodity exporters may actually benefit from a weaker euro that makes their exports more competitive in world markets. The economies that hold their reserves in euro would suffer depreciation in real terms. Trade in services may also be affected by a weaker euro, which is also likely to reduce the value of remittances originating from Europe to the developing countries.

The Greek Debt Crisis still remains a waiting time bomb. Developing countries should consider policies that limit their vulnerability to the Eurozone debt crisis and encourage alternative drivers of growth. Policy options include fiscal consolidation and macroeconomic stability, diversification with respect to trading partners and products, increased capital buffers for banks, and effective management of capital inflows.

5.4 Global Financial Market Developments

The global financial market remained relatively stable, although risks heightened in the euro area, following the Greek debt crisis and continuing slowdown in China. Monetary policy remained broadly accommodating both in the developed and emerging market economies. Liquidity concerns were shaped by market expectations about the prospects of US monetary policy normalization, the expansion of the ECB quantitative easing programme, continuing quantitative and qualitative monetary easing by the Bank of Japan (BoJ) as well as the need to stimulate growth in emerging market and developing economies. The capital markets improved globally, partly fuelled by capital reversals from emerging market and developing economies and stronger performance of the US economy. The weakness in the commodity market persisted on account of continuing appreciation of the US dollar, weak demand and ample supply.

5.4.1 Money Market and Central Bank Policy Rates

Liquidity concerns in the global financial market were shaped by market expectations about the prospects of US monetary policy normalization, and the ECB quantitative easing programme involving monthly injections of €60 billion over an 18 month period, as well as continuing quantitative and qualitative monetary easing by the Bank of Japan (BoJ). Accordingly, monetary conditions in the advanced economies remained broadly accommodating, as the policy rates were largely unchanged in the review period. Most emerging market and developing economies lowered their policy rates to stimulate growth in response to the dampening effect of weak external demand and commodity prices. These included China, Russia and India, while South Africa held rates constant throughout the review period. A few countries, including Brazil, Ghana and Kenya raised their policy rates in response to inflationary concerns and exchange rate depreciation.

5.4.2 Capital Market

The performance of major world stock markets improved during the review period. Major European indices such as French CAC 40, German DAX and Russian MICEX indices increased by 12.1, 11.6 and 18.5 per cent, respectively. In the UK, the FTSE 100, however, decreased marginally by 0.7 per cent. In North America, the S&P 500 and Mexican Bolsa indices increased by 0.2 and 4.4 per cent, respectively, while the Canadian S&P/TSX Composite Index decreased by 0.5 per cent.

Major markets in Asia were bullish during the review period. The Japanese Nikkei, the Chinese Shanghai SE A and the Indian BSE Sensex rose by 16.0, 32.0 and 1.0 per cent, respectively.

In Africa, the Nigerian NSE ASI, Kenyan NSE 20 and Egyptian EGX Case 30 indices decreased by 3.5, 4.0 and 6.2 per cent, respectively, while the South African JSE and Ghanaian GSE All Share Indices increased by 4.1 and 4.0 per cent, respectively.

Table 5.8
Selected International Stock Market Indices as at June 30, 2015

Index	End-June, 2014	End-Dec, 2014	End-June, 2015	% Change Dec 14 - Jun 15	% Change Jun 14 - Jun 15
ASI	42,482.48	34,657.15	33,456.83	-3.5	-21.2
JSE African AS	50,945.26	49,770.60	51,806.95	4.1	1.7
Nairobi NSE 20	4,885.04	5,112.65	4,906.07	-4.0	0.4
EGX CSE 30	8,162.20	8,926.58	8,371.53	-6.2	2.6
GSE All Share	2,373.38	2,261.02	2,352.23	4.0	-0.9
S&P 500	1,960.23	2,058.90	2,063.11	0.2	5.2
S&P/TSX Composite	15,146.01	14,632.44	14,553.33	-0.5	-3.9
Mexico Bolsa (IPC)	42,737.17	43,145.66	45,053.70	4.4	5.4
Bovespa Stock	53,168.22	50,007.41	53,080.88	6.1	-0.2
Merval	6,537.61	7,830.30	11,656.81	48.9	78.3
COLCAP	1,705.99	1,512.98	1,331.35	-12.0	-22.0
FTSE 100	6,743.94	6,566.09	6,520.98	-0.7	-3.3
CAC 40	4,422.84	4,272.75	4,790.20	12.1	8.3
DAX	9,833.07	9,805.55	10,944.97	11.6	11.3
MICEX	1,476.38	1,396.61	1,654.55	18.5	12.1
NIKKEI 225	15,162.10	17,450.77	20,235.73	16.0	33.5
Shanghai SE A	2,144.74	3,389.39	4,479.90	32.2	108.9
BSE Sensex	25,413.78	27,499.42	27,780.83	1.0	9.3

5.4.3 Commodities

Globally, most commodity prices declined in the first half of 2015, due to weak demand from the appreciation of the US dollar, ample supply leading to the buildup of inventory as well as macroeconomic risks from Greece and China. Crude oil prices, however, rebounded in the later part of the review period on stronger demand but have since weakened owing to large global supply. These trends are expected to persist for the rest of the year, with a modest recovery in 2016.

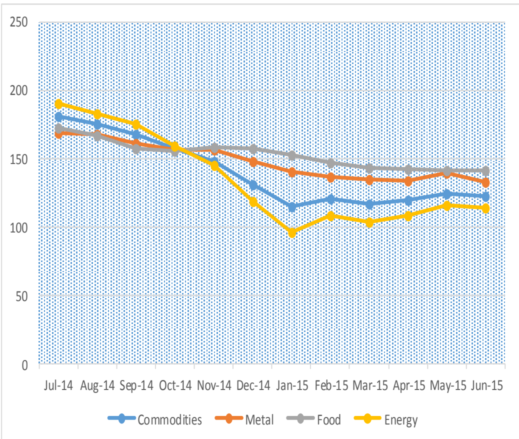
Energy prices rose by 17.89 per cent in the first half of 2015, due to a 29.26 per cent increase in oil prices, reflecting stronger demand and expected slack in supply. The increase in oil prices more than offset continued declines in natural gas and coal prices, due to weak demand and excess supply. Despite higher than expected demand, the oil market remained oversupplied with large inventories, especially in the United States. On a year-on-year basis, however, crude oil price fell from US$74.6 per barrel at end-June 2014 to US$61.3 at end-June of 2015, representing a decline of 17.83 per cent.

The FAO Food Price Index averaged 166.4 points in June 2015 from 185.8 in December 2014, representing a decline of 10.44 per cent. Compared with 208.9 points in the corresponding period of 2014, it declined by 20.34 per cent. All the sub-indices of meat, cereals, vegetable oils and sugar declined during the review period.

Metals prices declined by 10.42 per cent to 133.2 at end-June 2015 from 148.7 at end-December 2014, and by 17.67 per cent compared with 161.8 in the corresponding period of 2014. The development reflected concerns about weak demand in China, Greek debt crisis and increases in supply. Metal demand from China slowed in the first half of the year due to weaknesses in infrastructure spending, construction, manufacturing, and industrial sectors.

On the supply side, production continued to rise following large investments and high prices in earlier years.

Figure 5.17
Indices of Primary Commodity Prices July 2014 – June 2015 (2005=100 US$)



Source: IMF

5.4.4 Foreign Exchange market

Generally, most currencies across the world continued to depreciate against the US dollar in the period under review. This was largely due to sustained improvements in the US economy, resulting in increased investor appetite for dollar-denominated assets, fuelling capital reversals and decline in global commodity prices. In the advanced economies, the Japanese yen, the euro and the Canadian dollar depreciated by 1.92, 7.78 and 4.13 per cent, respectively.

In the emerging markets and developing economies, the Brazilian real recorded the highest depreciation of 14.19 per cent. Other emerging market currencies, including the Mexican peso, Indian rupee and South African rand depreciated by 5.99, 0.96, 4.77 per cent, respectively. In sub-Saharan Africa, the Nigerian naira and Kenyan shillings depreciated by 13.85 and 8.72 per cent, respectively, while the Ghanaian cedi recorded the largest depreciated of 25.98 per cent.

Table 5.9
Exchange Rates of Selected Countries (Value in currency units to US$)

	Currency	31-Dec-13	31-Dec-14	30-Jun-15	Dec 31, 2014 - June 30, 2015 %App/Dep
AFRICA		**a**	**d**	**d**	
Nigeria	Naira	157.27	169.68	196.95	-13.85
South Africa	Rand	10.52	11.57	12.15	-4.77
Kenya	Shilling	86.30	90.60	99.25	-8.72
Egypt	Pound	6.95	7.15	7.63	-6.29
Ghana	Cedi	2.38	3.22	4.35	-25.98
NORTH AMERICA					
Canada	Dollar	1.06	1.16	1.21	-4.13
Mexico	Peso	13.10	14.75	15.69	-5.99
SOUTH AMERICA					
Brazil	Real	2.36	2.66	3.10	-14.19
Argentina	Peso	6.52	8.47	9.09	-6.82
Colombia	Peso	1929.51	2376.51	2606.00	-8.81
EUROPE					
UK	Pound	0.60	0.64	0.64	0.00
Euro Area	Euro	0.73	0.83	0.90	-7.78
Russia	Ruble	32.87	60.74	55.27	9.90
ASIA					
Japan	Yen	105.26	119.78	122.12	-1.92
China	Yuan	6.05	6.21	6.20	0.16
India	Rupee	61.80	63.04	63.65	-0.96
Source: bloomberg					

CHAPTER 6
ECONOMIC OUTLOOK

6.1 OVERVIEW

Global economic growth in 2015 was revised downwards to 3.3 per cent from its earlier projection of 3.5 per cent by the IMF (WEO Update, July 2015). The revised estimate was lower than the growth of 3.4 per cent recorded in 2014, due mainly to the slowdown in activities in North America in the first quarter of 2015. Nevertheless, the fundamental drivers of growth in economic activity in the advanced economies remained intact. The downward revision to global growth was traceable to the dampening effects of lower commodity prices, tighter external financing conditions, and the ongoing rebalancing of the Chinese economy. Other factors that slowed growth, despite the broadly accommodating monetary policy in the review period included weak investment and ageing population in the advanced economies, structural bottlenecks and geo-political tensions in Europe and the Middle East.

In the advanced economies, growth was projected at 2.1 per cent in 2015 up from 1.8 per cent in 2014 largely due to acceleration in consumption and investment in the US, driven by improved labour market conditions, easing financing conditions, lower fuel prices as well as strengthening of the housing market. In the United States, growth was estimated at 2.5 per cent in 2015, up from 2.4 per cent in 2014. In the Euro area, growth was projected at 1.5 per cent in 2015 from 0.8 per cent in 2014, due to recovery in domestic demand and increase in inflation rates.

Growth in the emerging market and developing economies was projected to decline to 4.2 per cent in 2015 from 4.6 per cent in 2014. The projected decline was attributed to the dampening impact of lower commodity prices, tighter financial environment, economic rebalancing in China, structural bottlenecks as well as economic distress caused by geo-political tensions in the Commonwealth of Independent States (CIS) and some countries in the MENA region. Growth in China was projected to decline to 6.8 per cent in 2015 from 7.4 per cent in 2014, with indications of a further slowdown. In Russia, the year-on-year massive depreciation of the ruble following the drop in oil prices as well as continuing geopolitical tensions weakened economic activity during the review period. The contraction of the Russian economy by 3.4 per cent in 2015 from 0.6 per cent in 2014, affected the performance of other economies in the Commonwealth of Independent States (CIS).

In Sub-Saharan Africa (SSA), growth was projected to slow to 4.4 per cent in 2015, from 5.0 per cent in the preceding year with lower commodity prices and Ebola epidemic in affected regions accounting for the weaker performance. The Nigerian economy slowed to 2.35 per cent in the second quarter of 2015 from 6.22 per cent in 2014, and is projected to grow by 5.5 per cent in 2015 (FGN 2015 Budget). The growth slowdown was due to the continuing weakness in oil and other commodity prices. In South Africa, growth was projected to improve to 2.0 per cent in 2015 from 1.5 per cent in 2014, due to lower oil prices and more competitive rand exchange rate.

6.2 Outlook for Global Output

Global growth forecasts for 2015 was affected by a number of developments in the global economy. The weaker growth of 2.2 per cent in the first quarter of 2015 fell short of the 3.0 per cent forecast in the April 2015 WEO as a result of output contraction in the U.S, which had spillover effects on Canada and Mexico, as well as weak growth in output and domestic demand in emerging market and developing economies. Although oil prices rebounded in the second quarter of 2015, oil inventories remained high and this is expected to result in reduction in oil investment.

Global economic growth was forecast to rise to 3.3 per cent in 2015 and 3.8 per cent in 2016 from an annual rate of 3.4 per cent in 2014. Growth was projected at 2.1 per cent in 2015 and 2.4 per cent in 2016 for the advanced economies. In the emerging market and developing economies (EMDEs), growth was projected at 4.2 per cent for 2015, while that of Sub-Saharan Africa was 4.4 per cent (Table 6.1). Despite the moderation in the outlook, growth in 2015 is expected to be driven by gradual acceleration in economic activity in advanced economies on account of easy financial condition, lower fuel prices, more neutral fiscal policy, and improving confidence and labour market conditions.

In the US, growth is expected to rise slightly to 2.5 per cent in 2015 and to 3.0 per cent in 2016. The underlying drivers of acceleration in growth in the U.S included, improvement in wage growth and labour market conditions, strengthening housing market, easy financial conditions and lower fuel prices. In the Euro Area, growth projections for 2015 and 2016 are 1.5 and 1.7 per cent, respectively, up from 0.8 per cent in 2014. The improved outlook came from the generally robust recovery in domestic demand and the gradual uptick in inflation. However, the unfolding developments in Greece are expected to continue to weigh heavily on economic activities. The forecast for the United Kingdom is comparatively robust at 2.4 and 2.2 per cent in 2015 and 2016, respectively. Growth forecast for Japan is 0.8 and 1.2 per cent in 2015 and 2016, respectively. The improved forecast was anchored on the stronger than expected performance in the first quarter of 2015. However, the underlying momentum of real wages and consumption spending, remained weak.

In the EMDEs, growth was forecast at 4.2 per cent in 2015, down from 4.6 per cent in 2014, owing to the negative impact of lower commodity prices and tighter external financing conditions, especially for oil exporters, and structural bottlenecks and economic distress related to geopolitical factors in the MENA and the CIS regions. Growth for EMDEs was forecast at 4.7 per cent for 2016 on account of expected improvement in economic conditions in a number of countries, including Russia and a number of economies in the MENA region. For oil importers, lower oil prices may reduce inflation pressure and external vulnerabilities, and provide some fiscal policy space. Oil exporters would have to adjust to the terms-of-trade shocks with greater fiscal and external vulnerabilities. Growth in China was forecast to moderate to 6.8 per cent in 2015, as the economy continues to undergo a rebalancing towards a growth pattern that is less reliant on investment. The reforms, along-side lower oil and commodity prices, are expected to boost consumer-oriented activities. However, slower growth in China is expected to have implications in much of emerging Asia. Brazil is forecast to contract by 1.5 per cent in 2015, owing to tighter financial conditions, as oil prices remain low and weakness in business and consumer confidence continues.

In Sub-Saharan Africa, growth is projected at 4.4 per cent in 2015, down from 5.0 per cent in 2014, as a result of headwinds from declining commodity prices and the epidemic in Ebola-affected countries. Growth in the oil-exporting economies in the region will be severely affected by lower oil prices, but the effect of that on the region's growth prospect is expected to be offset by the favourable impact of lower oil price on oil importing countries in the region. The region's growth projection for 2016 is 5.1 per cent, due largely to the expected recovery, as headwinds to growth wane. Growth in South Africa is projected at 2.0 and 2.1 per cent in 2015 and 2016, respectively.

Growth in the Middle East and North Africa (MENA) region is projected at 2.6 per cent in 2015, down from 2.7 per cent in 2014. The downward revision was accounted for by the region's oil exporting economies, mostly as a result of the decline in oil prices. Growth was, however, projected at 3.8 per cent in 2016 as economic activity in the region's oil importers is expected to strengthen.

6.3 Downside Risks to Global Outlook

The possibility of disruptive asset price shifts and a further increase in financial turmoil, remain a key risk to global economic outlook in the near to medium-term. This is because term and risk premium on longer-term bonds have continued to remain low, with the possibility of markets reacting strongly as accommodative monetary policies in the major advanced economies start changing in 2015. Such asset price shifts also bear the risk of capital flow reversals from emerging market and developing economies.

In advanced economies, oil also presents a downside risk, if prices rise faster than expected, especially, if the negative supply response to low oil prices is strong. In that case, the expected boost to global demand from low oil price will be short-lived and smaller. Other risks to output growth in advanced economies include a low return to full employment amid a very low inflation.

In the Euro area, the recent increases in sovereign bond yields in some economies have reduced the upside risks to economic activity in these economies. There is also the risk of re-emergence of financial stress in the region. In the emerging market and developing economies, the balance sheet and fund risks remain, especially if US dollar appreciation continues. This is, in addition to the fiscal stress that oil and other commodity exporting economies are already going through. The risk of sharper slow-down in China, reflecting the difficulty in transiting to a new growth model, and still-lower potential output growth in emerging markets remain.

In sub-Saharan Africa, the downside risks to output growth in the region include the continuing plunge in oil and other commodity prices, which translate to low reserves and fiscal revenue to finance capital budgets, exchange rate pressure and risks associated with capital reversals, as market conditions in advanced economies improve. Others include the disruption of farming and other commercial activities and increase in the number of internally displaced persons, as a result of insurgency in some parts of the region.

To overcome the downside risks, the IMF recommends demand management and structural reforms in the advanced economies, in order to tackle crisis legacies and raise potential output. Similarly, advanced economies should continue to implement accommodative monetary policy to support economic activity and lift inflation back to target. In countries with fiscal space, increase in infrastructure investment should be the near-term objective.

In emerging market and developing economies, structural reforms should also be a policy priority as investment in infrastructure necessary to close output gaps. Macroeconomic policy space to support demand is generally more limited, but should come from fiscal policy rebalancing aimed at boosting longer-term growth, through tax reform and spending reprioritization. For oil exporting economies, adjusting public spending to lower oil revenue will be necessary. Exchange rate depreciation can help to offset the demand impact of oil-related terms-of-trade losses in countries with flexible exchange rate regimes. In oil importing economies, lower oil prices have reduced price pressures and external vulnerabilities, which will ease the burden of monetary policy. The situation presents an opportunity for savings from low oil prices to be ploughed into growth-enhancing activities.

Table 6.1
Global Output and Inflation Outlook

	2013	2014	2015	2016
A. World Output				
World Output	**3.4**	**3.4**	**3.5**	**3.8**
Advanced Economies	**1.4**	**1.8**	**2.1**	**2.4**
USA	2.2	2.4	2.5	3.0
Euro Area	-0.4	0.8	1.5	1.7
Japan	1.6	-0.1	0.8	1.2
UK	1.7	2.9	2.4	2.2
Canada	2.0	2.4	1.5	2.1
er Advanced Economies	2.2	2.8	2.7	3.1
Emerging & Developing Economies	**5.0**	**4.6**	**4.2**	**4.7**
Commonwealth of Independent States	2.2	1.0	-2.2	1.2
Latin America and the Caribbean	2.9	1.3	0.5	1.7
Middle East and North Africa	2.4	2.7	2.6	3.8
Sub-Saharan Africa	5.2	5.0	4.4	5.1
B. Commodity Prices (US' Dollars)				
Oil	-0.9	-7.5	-38.8	9.1
Non-fuel	-1.2	-4.0	-15.6	-1.7
C. Consumer Prices				
Advanced Economies	1.4	1.4	0.0	1.2
Emerging & Developing Economies	5.9	5.1	5.5	4.8

Source: IMF WEO Update, July 2015

6.5 Global Inflation Outlook

Global inflation continued to be subdued in the first half of 2015. This reflected the decline in energy prices, and weak global demand. The trend is likely to continue, with the possibility of a further fall in commodity prices as demand slows.

In the US, falling oil prices and a strengthening U.S. dollar have pushed headline inflation temporarily below zero in the first quarter of 2015. Core inflation is projected to stay below the Fed's 2 percent target until the end of 2015, but gradually increase during 2016.

In the Euro area, inflation was negative in the first half of 2015, but could edge up to 1. 5 per cent as the effects of lower energy prices dissipate and monetary easing is stepped up. In Japan, inflation, which has fallen close to zero, is projected to begin rising in the second half of 2015, reaching 1.5 per cent by end-2016.

In the emerging and developing economies, inflation is projected to rise to 5.4 per cent in 2015 from 5.1 per cent in 2014. China's consumer-price index rose 1.2 per cent in May, the lowest in four months, and well within China's target of keeping consumer inflation below 3 per cent this year, renewing concerns about deflationary pressure in the world's second largest economy. In India, inflation is projected to drop to 6.3 percent in 2015 from 6.7 percent in 2014. The trend of lower inflation would provide further headroom for monetary policy easing to support growth.

In Sub-Saharan Africa (SSA), inflation is forecast to marginally edge up to 6.6 per cent in 2015, up from 6.3 per cent in 2014. This development reflects the net effects of factors that serve to exacerbate and attenuate inflationary pressures in the region. On the one hand, dollar appreciation makes imports more expensive in the region, in addition to lower investment and slowing growth, which fuel inflationary pressures. On the other, low global food and fuel prices, is expected to contain inflation, albeit with a small uptick in 2015.

Outlook for Domestic Output Growth

In real terms, Gross Domestic Product (GDP) grew by 2.35 per cent (year-on-year) in the second quarter of 2015, compared with 3.96 per cent in the preceding quarter. The decline in global oil prices as well as other commodity prices was in part, responsible for the slowdown in growth across major sectors of the economy, especially the oil sector, which contracted significantly by 6.79 per cent in the second quarter of 2015. The non-oil sector, which grew by 3.46 per cent in real terms compared with 6.71 per cent in the corresponding quarter of 2014, continues to be the driver of growth.

The outlook for growth for the rest of 2015, according to the Federal Government Budget estimate, remains at 5.5 per cent. This weaker outlook when compared to 6.22 per cent achieved in 2014, is occasioned primarily by the lower than anticipated global oil prices. The African Development Bank (AfDB) has projected output growth in 2015 at 5.0 per cent, which is close to the FGN projection. The IMF, however, released a moderate forecast of 4.5 and 5.0 per cent in 2015 and 2016, respectively, due to perceived vulnerabilities in the global economy, which may transmit to the domestic economy.

The inception of the new government is considered a stabilizing factor for improvements in the outlook, as fiscal shocks are expected to moderate to make room for the accumulation of revenue and building of buffers, to help insulate the economy from the adverse effects of oil price shocks.

The key risk to the outlook remains the slowdown in global oil prices, which has had adverse impacts on global commodity prices, global inflation and accretion to external reserves.

Outlook for Domestic Inflation

Headline inflation (year-on-year) increased throughout the first half of 2015, despite the tight monetary policy stance of the Bank. Although within a single digit range, it, however, exceeded the upper limits of the Bank's inflation threshold of 6 – 9 per cent during the review period.

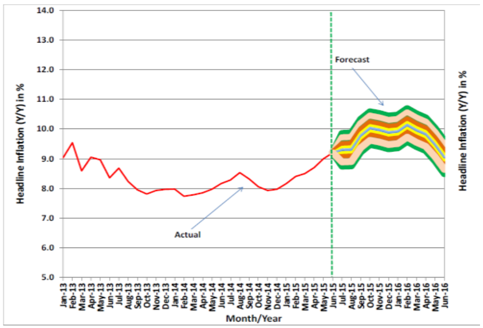
The IMF projects headline inflation in Nigeria to accelerate to 9.6 per cent in 2015 and 10.7 per cent in 2016 (WEO Update, April 2015). Staff estimates indicate that headline inflation (year-on-year) is expected to rise for most of the second half of 2015. It is expected to increase to 9.3 and 9.8 per cent in August and September, 2015, respectively, and stabilize at 10.0 per cent in October and November, 2015. Thereafter, it would decline marginally to 9.9 per cent in December 2015 (Table 6.2 and Figure 6.1). The anticipated rise in inflation would be mainly due to the combined effects of the depreciation of the naira and its pass-through and disruptions to food supply chain due to insurgency, which is expected to impact on food prices. On the upside, receding global inflation is expected to ameliorate the impact of import costs on domestic prices.

On the other hand, the gradual normalization of petroleum products supply, reflected in the availability of PMS at official pump prices, is expected to cushion the impact of transient factors on domestic prices. The Bank's tight monetary policy stance may help to rein-in excess liquidity and moderate inflationary pressures.

Table 6.2
Inflation Forecasts (Staff Estimates)

	YEAR-ON-YEAR INFLATION RATE			
Status	**Month**	**Headline**	**Food**	**Core**
Actual	Jan-15	8.2	9.2	6.8
	Feb-15	8.4	9.4	7.0
	Mar-15	8.5	9.4	7.5
	Apr-15	8.7	9.5	7.7
	May-15	9.0	9.8	8.3
	Jun-15	9.2	10.0	8.4
Forecast	Jul-15	9.3	10.1	8.6
	Aug-15	9.3	10.6	8.6
	Sep-15	9.8	11.1	8.4
	Oct-15	10.0	11.8	8.1
	Nov-15	10.0	12.0	7.7
	Dec-15	9.9	11.7	7.8
	Jan-16	9.9	11.4	8.1
	Feb-16	10.1	12.0	7.9
	Mar-16	10.0	11.5	8.0
	Apr-16	9.8	11.4	7.9
	May-16	9.5	11.1	7.6
	Jun-16	9.0	11.8	7.2

Figure 6.1
Fan Chart for Inflation from 2015:6 -2016:6



Outlook for Monetary Policy in 2015

Developments in the domestic and global economy would continue to shape the formulation and outcomes of monetary policy in the second half of 2015 and beyond. The policy instruments available to monetary authority seems almost stretched to its limit and thus, would require complementary fiscal policies to define the path of growth and create the basis for stabilization. Continuous reassessment and evaluation of the previous policy pronouncements is needed, to respond to the ever-changing economic and financial environment.

The continued decline in global crude oil prices and its negative impact on the fiscal position of government poses a great challenge to monetary policy. In addition to the low prices, the market share of Nigerian crude continued to be threatened by sustained global over-supply, leading to non-availability of buyers for the country's crude, a situation that forced the authority to offer further discount in order to attract buyers. Crude oil receipts accounted for over 90 per cent of the country's foreign exchange earnings, and with the price of the bonny light below US$50 per barrel, compared with over US$100 per barrel in the corresponding period of 2014, accretion to reserves continued to be threatened, resulting in a sustained pressure on the exchange rate with high pass-through to domestic prices.

Furthermore, the expected normalization of the US monetary policy could accentuate capital flow reversals from emerging market and developing economies, and further tighten global monetary conditions, thus exerting greater pressure on exchange rates. Also, the improvements in growth performance of some advanced economies could further compound the problem of capital flow reversals, and make the monetary policy environment more challenging in the coming months.

The continued excess liquidity in the banking system despite the various tightening measures by the monetary authority, remained a source of concern. The direct consequence is that real sector activity continued to be stifled by high cost of loan able fund. The Bank would continue to formulate proactive policies that would encourage DMBs to lend to the real sector, in addition to its various interventions in the critical sectors such as power, manufacturing and SMEs. However, the recent upticks in inflation and a forecast of further rise in the domestic price level would continue to be closely watched, and appropriate policy measures deployed to counter the risks of inflation.

Overall, there is optimism that investor confidence on the economy will improve as the new government unfolds its economic plans and improve the business environment. In addition, some of the reassuring measures of the administration including efforts aimed at resolving fiscal challenges at the sub-national levels, the fight against corruption and counter insurgency in some parts of the country are expected to unlock economic recovery and boost capital inflows. Nonetheless, improved coordination between the fiscal and monetary policies would be necessary to minimize risks in the short-to-medium term.

Appendices

Central Bank of Nigeria Communique No. 99 of the Monetary Policy Committee Meeting of Monday 19th and Tuesday 20th January, 2015

The Monetary Policy Committee (MPC) met on January 19 and 20, 2015 against the backdrop of challenging external conditions and downside risks in the domestic economic environment. In attendance were all the eleven members of the Committee. The Committee reviewed key external developments as well as domestic economic and financial conditions and outlook for 2015.

International Economic Developments

The Committee noted the tepid recovery of the global economy in 2014. The major impetus for global growth in 2014 came from the U.S, and supported later in the year by the drop in oil prices. However, both developments fell short of returning the global economy to the pre-crisis growth path. This was mainly due to the weakness in Europe and the much slower pace of expansion in the emerging market economies in particular. Specifically, global growth continues to be constrained by a number of old and new adversities including high debt and rising unemployment in many countries; geopolitical tensions and conflicts; the negative impact of commodity price shocks on commodity exporting countries; weak external demand; and the tapering and eventual exit of the US Federal Reserve Bank from quantitative easing; triggering sharp corrections in the financial markets. Consequently, global output rose by about 3.3 per cent in 2014, which was the same rate of growth attained in 2013. It is estimated to strengthen to about 3.5 per cent in 2015.

The Committee, however, noted many downside risks to the outlook. The Euro Area and Japan appear trapped in low inflation and low growth conditions. High unemployment and debt could persist much longer in the Euro Area in particular while a possible deflation is likely if inflation continues on the downward trend. The Committee also acknowledged the high likelihood of an increase in interest rates in the United States; which portends negative consequences for emerging and frontiers economies. Already, growth is moderating in most industrial countries and could further be dampened by the strengthening of the U.S dollar, more volatile capital flows and financial system vulnerabilities arising from currency depreciations. All of these could be compounded by increased geopolitical risks arising from the Ukrainian stand-off, militant terrorism, armed insurgency and the aftermath of the Ebola epidemic in some countries in the West African sub-region. Furthermore, the divergence between the US and Euro Area monetary policy stance, non-inclusive growth and the regional impact of falling oil prices with acute revenue shortages in countries like Nigeria, Venezuela and Russia add to the risk factors.

Evidently, the outlook for growth in the various economic clusters continued to be shaped by the identified risks and opportunities. The IMF projects the major advanced economies to grow at a modest pace of about 2.3 per cent in 2015, premised on the sustained growth in the U.S and some improvements in Europe. The decision of the European Central Bank (ECB) to continue with the existing provision of unlimited short-term liquidity as well as the implementation of new programmes will be critical to the global economic performance in 2015. For the emerging markets and developing economies, , growth could be modestly maintained in 2015 at about 4.3 per cent, driven essentially by domestic consumption and increased investment as net exports continue to moderate in response to softening commodity prices.

Inflation is not an immediate global priority as most of Europe and Japan grapples instead with potential deflation and high unemployment. The outlook for monetary policy suggests continued divergence amongst the various economic blocs. The Euro Area and Japan are expected to sustain this accommodative monetary policy stance while the U.S authorities appear to be leaning towards monetary tightening. Similarly, monetary policy is likely to remain restrictive amongst developing and emerging economies in order to stabilize their local currency, and to rein-in potential inflation pressures. The Committee was generally of the view that monetary policy play a pivotal role in restoring economic activity to optimum levels globally, especially when complemented by structural reforms, fiscal adjustments and better coordination of policy actions. In fact, current conditions call for engagement of multiple macroeconomic and structural policy levers.

Domestic Economic and Financial Developments Output

The National Bureau of Statistics (NBS) estimated real Gross Domestic Product (GDP) growth rate at 6.23 per cent in the third quarter of 2014 compared with 6.54 per cent in the second quarter. The Committee noted the continued dominance of the non-oil sector, particularly Services which contributed 2.53 percentage points, Agriculture (1.21 per cent) and Trade (1.08 percentage point). The Committee noted with satisfaction the Federal Government's efforts to boost power generation and supply, among others, which would improve the economy's job creation prospects in the medium- to long-term.

The Committee was, however, concerned about the weakening contribution of the oil sector to overall growth, which is now being exacerbated by the rapid drop in oil prices since June 2014. In addition, the Committee noted that the security challenges in some parts of the country might also be contributing to the dampening effects on overall growth in the country.

Prices

Headline inflation at end-December 2014 was 8.0 per cent, which was within the range of 6.0-9.0 per cent benchmark for inflation set by the Central Bank of Nigeria. The inflation recorded in December 2014 reflects a reduction in core inflation, seasonal factors related to the Yuletide celebrations, as well as the stabilization in food prices. The Committee, however, recognized some upside risks to inflation in the near-term including the likely higher import prices on the strength of an appreciating dollar and possible food supply bottlenecks linked to insurgency and insecurity in some major agricultural zones of Nigeria.

Monetary, Credit and Financial Market Developments

Broad money supply (M2) grew by 7.29 per cent at end-December 2014 over the level in 2013. This represented a marked improvement over the 1.32 per cent increase in 2013, but lower than the benchmark of 15.02 per cent for 2014. The relatively slower growth of total monetary liabilities (M2) reflected developments in both credit to government and the net foreign assets (NFA). During the period, credit to government contracted by 21.8 per cent, far below the growth benchmark of 28.4 per cent. Similarly, the NFA declined by 15.02 per cent. Credit to the private sector, however, grew by about 12.1 per cent, essentially pushing aggregate domestic credit growth of about 11.0 per cent. The weak performance of NFA was largely due to the lower oil prices with the attendant consequence of reduced accretion to external reserves. The Committee welcomed the posture of fiscal policy, which reflected in the decline in credit to government coming especially at a time when government revenue was greatly pressured by adverse oil price developments. The Committee noted that this orientation of fiscal policy would have an overall beneficial effect by leaving DMBs with greater room to support the real sector with the much-needed credit. The Committee encouraged the Management of the Bank to continue to implement measures aimed at providing support to enable increased flow of credit to the private sector.

Interest rates in all segments of the money market trended upward between 26th November 2014 and 13th January 2015. The interbank call rate opened at 8.98 per cent on 26th November 2014 and closed at 26.15 per cent on 16th January 2015. Similarly, the OBB and 30-day NIBOR increased from 10.2 and 11.38 to 23.46 and 11.63 per cent, respectively, during the period. The significant increase in these rates particularly for interbank and OBB was mainly due to the further tightening measures introduced at the November 2014 meeting of the MPC.

The Committee observed that the bearish conditions in the capital market continued as the equities market indicators trended downwards in the review period. The All-Share Index (ASI) declined by 16.1 per cent from 41,329.19 to 34, 657.15 between December 31, 2013 and end-December 2014. Similarly, Market Capitalization (MC) decreased by 13.2 per cent from ₦13.23 trillion to ₦11.48 trillion during the same period. The Committee noted that the downward trend has continued into January 2015 as, year-to-date, both have declined by 16.2 and 15.7 per cent, respectively. Although this phenomenon is driven by global economic conditions, in Nigeria in particular, the situation is exacerbated by the declining oil prices as foreign portfolio investors divest from the country. These developments call for closer monitoring and proactive interventions by all institutions concerned. The Committee reiterated its commitment to sustaining and deepening measures aimed at fostering confidence and stability in the financial system.

External Sector Developments

The Committee noted that significant pressure persisted in the foreign exchange market during 2014 resulting in further weakening of the Naira across the three segments of the market. The exchange rate at the rDAS-Spot opened at N157.34/US$ (including 1% commission) and closed at N164.08/US$, representing a depreciation of N12.34 or 4.28 per cent. The inter-bank selling rate opened at N165.7/US$ and closed at N180/US$, representing a depreciation of N14.73 or 8.63 per cent in the period, while at the BDC segment, the selling rate opened at N170/US$ and closed at N191.50/US$ representing a depreciation of N21.50k or 12.64 per cent.

Gross official external reserves as at December 31, 2014 stood at $34.25 billion compared with $42.85 billion at the corresponding period of 2013. The decrease in the reserves level was driven largely by increased funding of the foreign exchange market interventions to stabilize the exchange rate in the face of decline in reserve accretion. The country's external reserves as at the end of December, 2014 could finance 7.44 months of imports, which we considered very good given the average of 3 months of import that is the standard.

Considerations

The Committee noted with satisfaction the growth performance of the economy as well as the year-end inflation outcome. It was, however, concerned about a number of risks including the security challenge in parts of the country, which has continued to disrupt farming and related activities; and the sustained decline in oil GDP. With regard to inflation, the Committee noted the recurring challenge of excess liquidity in the banking system and the possible complications arising from capital flow reversal, as well as the demand pressure in the foreign exchange market.

On the external front, falling oil prices, slowing global output recovery, divergent monetary policy postures between the US and Euro Area as well as non-inclusive growth remain very important risks. The gradual normalization of monetary policy by the US Fed could exacerbate the current retrenchment of portfolio flows and increase pressure on currencies in emerging and developing countries including Nigeria.

In the light of the above considerations, the Committee observed that its decisions of November 2014 needed sometime for the effects to crystallize in the economy and therefore, voted to retain the current position.

Consequently, the Committee decided as follows:

Decision

(1) All eleven members voted to retain the MPR at 13 per cent; retain the CRR on Private Sector deposits at 20 per cent; retain CRR on Public Sector deposits at 75 per cent; and retain the liquidity ratio at 30 per cent.

(2) One member, however, voted for an asymmetric corridor around the MPR.

I thank you all for Listening

Godwin I. Emefiele, *CON*
Governor
Central Bank of Nigeria

20th January, 2015

Central Bank of Nigeria (CBN) Communiqué No. 100 of the Monetary Policy Committee Meeting of Monday 23rd and Tuesday 24th March, 2015

The Monetary Policy Committee (MPC) met on 23rd and 24th March, 2015, against the backdrop of harsh external economic environment and significant risks in the domestic economy. In attendance were eleven (11) out of the twelve (12) members, including Dr. O. J. Nnanna, who assumed duty as Deputy Governor (Financial System Stability) at the end of January 2015. The Committee analyzed key developments in the global and domestic economic and financial conditions as well as the outlook for the rest of 2015.

International Economic Developments

The Committee noted that the pace of global economic recovery had remained moderate and uneven. In particular, the Committee noted that lower commodity prices were weighing heavily on output growth, especially in the oil exporting countries. In addition, expectations of a rise in US short-term interest rates continue to fuel capital outflows and currency weaknesses in the emerging markets and developing countries. Against the backdrop of sustained weakness in the Euro zone and softening growth in the emerging markets, global output has remained largely tapered.

During the first quarter of 2015, the United States led the global impetus to output growth as consumer demand strengthened on the heels of falling oil prices, lower US oil imports and accommodative monetary policy. In contrast, in the Euro area, continued output decline, in the face of positive oil price shocks, made the European Central Bank (ECB) to introduce a massive €1.1 trillion asset purchase programme, commencing in March 2015, involving a €60 billion monthly asset purchase. The programme, although open-ended, is expected to last at least until September 2016 by which time inflation may have gained reasonable traction.

The Committee, however, noted a number of important downside risks to global outlook in 2015 including geopolitical tensions and conflicts; the negative impact of commodity price declines; weak external demand and the possibility of Monetary Policy normalization in the US. Growth could, however, remain subdued in most of the Euro Area and Japan, in the short-to-medium term. Growth in the emerging markets may exhibit wide variations with sharp deceleration in most of the large emerging market economies, especially in Latin America and Eastern Europe, due to the headwinds from softening commodity prices and slowdown in external demand from the advanced economies. In addition, country specific risks, such as political crisis, structural factors, adverse weather conditions, and large swings in currencies may continue to slow aggregate demand in a number of countries.

Global inflation continues to be low due to declining oil prices and continuing slack in global output. Core inflation has continued to sag due amongst other things to the dampening effect of low oil prices and lack of appreciable wage gains. Average inflation for the developed economies is projected to remain flat at 1.5 per cent in 2015 due to the increasing output gap, weak recovery, and strong regional currencies. This development appears to be offsetting the risk of imported inflation in the emerging and developing countries, most of which have experienced moderate to severe depreciation in their local currencies. Developing economies are thus expected to have moderate inflation in the medium term.

The Committee observed that the outlook for global monetary policy suggested a predominantly easy stance. The Euro Area and Japan are expected to remain in the accommodative mode. Even in countries where growth appears to be strengthening like the US, UK and Canada, there are indications of delayed switch to tight monetary policy stance. Owing to currency concerns, however, the Committee further noted that some emerging and developing economies may experience moderate tightening in the short to medium term. Growth in sub-Saharan Africa is projected to average 4.9 per cent in 2015.

Domestic Economic and Financial Development Output

The National Bureau of Statistics (NBS) estimated real Gross Domestic Product (GDP) growth rate at 5.94 per cent in Q4 of 2014 lower than the 6.77 per cent recorded in the corresponding period of 2013 and the 6.23 per cent recorded in Q3 2014. The Committee noted that the slowdown in growth resulted mainly from the non-oil sector, which grew by 6.44 per cent in Q4, 2014 compared with 8.78 per cent in Q3 2014. Agriculture, industry, construction, trade and services contributed, 0.89, 1.30, 3.64, 0.87 and 2.45 percentage points, compared with 1.21, 1.04, 0.36, 1.08 and 2.53 percentage points, respectively, in Q3 2014. The softening non-oil GDP was partly traced to the spill over effects of low oil prices which negatively impacted agricultural output, trade and services.

Oil-GDP on the other hand, grew by 1.18 per cent in Q4, 2014 compared with a decline of 3.60 per cent in the preceding quarter. The growth in oil-GDP is particularly noteworthy because it came at a time when the sector was experiencing external negative price shocks.

Prices

Headline inflation remained within the 6.0—9.0 per cent band established by the CBN. However, the Committee noted with concern, the gradual increase in the year on year headline inflation during the first two months of the year from 8.0 per cent in December 2014 to 8.2 per cent in January and further to 8.4 per cent in February 2015. The underlying inflationary pressures came largely from food (particularly imported food) and the core components. Food inflation rose from 9.2 per cent in December 2014 to 9.4 per cent in February 2015 while core inflation increased from 6.2 to 7.0 per cent during the same period. The major risks to inflation, the Committee noted, include elevated aggregate spending in the run-up to the 2015 general elections, the likely higher import prices on the strength of an appreciating dollar and possible food supply shocks linked to insurgency and insecurity in some major agricultural zones of the country.

Monetary, Credit and Financial Markets' Developments

Broad money supply (M2) declined by 1.70 per cent in February 2014 over the level at end-December 2014. This translated to an annualized decline of 10.23 per cent compared with the provisional growth benchmark of 15.24 for fiscal 2015. The decline in M2 primarily reflected the contraction of 18.14 and 8.22 per cent in net foreign assets (NFA) and other assets (net), respectively, during the period. The fall in NFA is attributed to the combined effects of weakening oil price and reversal of portfolio capital flows. During the period, net domestic credit (NDC) grew by 9.89 per cent in February 2015, annualized to a growth rate of 59.31 per cent, compared with a growth rate 7.89 per cent recorded in the corresponding period of 2014 and an indicative benchmark of 29.3 per cent for 2015. The credit-to-government (net) component grew sharply by 54.69 per cent relative to a decline of 21.81per cent at end-December 2014.

The Committee noted that money market interest rates were relatively volatile in the intervening period but stabilized on average during the first two months of 2015, as banking system liquidity fluctuated. Thus, average inter-bank call and OBB rates, which opened at 10.58 and 10.52 per cent on 5th and 6th January 2015, closed at 11.00 and 9.23 per cent, respectively, on February 27, 2015. Average inter-bank call and OBB rates for the period were 15.21 and 18.36 per cent, respectively.

The Committee observed that the bearish conditions in the capital market continued in the review period. The All-Share Index (ASI) decreased by 13.1 per cent from 34,657.15 at end-December 2014 to 30,103.81 by February 27, 2015. Market capitalization also moved in the same direction, falling by 12.5 per cent from N11.48 trillion to N10.04 trillion during the period. The Committee noted that the situation, though reflecting current trends globally, needed to be monitored closely.

External Sector Developments

Following the closure of the Retail Dutch Auction System (rDAS) window of the foreign exchange market on 18th February 2015, the foreign exchange market is now unified. Consequently, the naira exchange rate opened at N180.1/US$ and closed at N198.0/US$, with a daily average rate of N198.0/US$. This represented a depreciation of N17.9k or 9.04 per cent for the period.

Considerations

The Committee expressed satisfaction with the impact of the decisions taken to harmonise the foreign exchange market. As a consequence of those actions, the interbank exchange rate has stabilized after an initial adjustment. The Committee, however, expressed concern about the wide divergence between the interbank and the bureau-de-change exchange rates, which provides an avenue for arbitrage and speculative activities in the market. The Committee noted with concern the phenomenon of currency substitution and partial dollarization in the economy, a development which may have significantly fuelled the high demand for foreign exchange. The Committee, therefore, reiterated that the naira remained the currency of transaction in the economy and advised the Bank to take all possible measures to address this development. The Committee also expressed concern about the outlook for growth, which had moderated partly due to the effects of low oil prices, naira exchange rate depreciation, and election-related concerns. The Committee was however, optimistic that the situation would improve once elections were successfully conducted with the expected improvement in business confidence.

The Committee took note that while adverse developments in international oil prices had affected government revenues and reserves accretion and impacted negatively on capital flows, the financial system remained stable with key banking stability indicators showing robustness. In the light of this, the Committee directed the Bank to take all necessary measures to improve the resilience of the financial system as well as the overall economic environment and functioning of the financial markets.

The Committee also took note of the administrative measures implemented by the Bank since the last meeting of the MPC to achieve stability in the foreign exchange market. The Bank had on 18th February 2015 taken the bold supply management measures to close the official window of the foreign

exchange market in order to create transparency and minimize arbitrage opportunities in the foreign exchange market. Furthermore, to deepen the market and enhance the efficacy of the demand management measures, the Bank gave specific directives on the effective monitoring and repatriation of both oil and non-oil export proceeds. In addition, the utilization of export proceeds has been restricted to eligible transactions only, to minimize leakages. The Committee enjoined the Bank to continue to fine-tune demand management measures as well as implement appropriate supply-enhancing strategies to ensure effective demand and utilization of foreign exchange in the country.
The Committee noted the gradual rise in headline inflation, driven mainly by exchange rate-induced high prices of imported (processed) food and output supply shocks. However, the Committee was of the view that the prevailing tight monetary policy stance and some of the recent administrative measures would among others help to lock-in inflation expectations and further stabilize the naira exchange rate.

Decision

In the light of the above considerations, the Committee observed that its previous decisions needed time for their effects to fully permeate the economy and therefore, voted to maintain the current position.

Consequently, the Committee decided as follows:

All eleven members unanimously voted to retain the MPR at 13 per cent; retain the CRR on Private Sector deposits at 20 per cent; retain CRR on Public Sector deposits at 75 per cent; and retain the liquidity ratio at 30 per cent.

I thank you all for Listening

Godwin I. Emefiele, *CON*
Governor,
Central Bank of Nigeria

24th March, 2015

Central Bank of Nigeria Communiqué No. 101 of the Monetary Policy Committee Meeting of Monday and Tuesday, May 18 and 19, 2015

The Monetary Policy Committee met on 18th and 19th May, 2015 against the backdrop of fragile but moderate growth and accentuating discrepancies in global output across regions and intensification of weaknesses in the domestic economy. In attendance were 11 out of the 12 members. The Committee reviewed the fragilities in the global economic and financial environment in the first four months of 2015, and reassessed the short to medium-term policy options for the domestic economy.

International Economic Developments

The Committee noted that global economic recovery continued at a modest but uneven pace partly because most countries were just shedding the deadweights of 2014. The IMF has projected a marginal increase in global output from 3.4 per cent in 2014 to 3.5 per cent in 2015, although with considerable variation across regions and major economies. The softening oil prices have continued to support an uptick in growth of oil importing countries but dampening growth prospects in major oil exporting economies. Overall, economic activities have gained some traction particularly in the US, underpinned by sustained monetary easing, ebbing fiscal consolidation, improvements in housing market conditions, lower financing cost, rising private consumption and increase in real household income. Elsewhere, low commodity prices continued to boost higher aggregate demand in addition to creating conditions for accommodative monetary policy especially in Japan and the euro area where recovery appears to suffer severe setbacks due to structural bottlenecks and the threat of deflation. For the Eurozone, however, the massive quantitative programme of the ECB opens a new growth vista, halting the slide in potential output and engendering a more solid recovery.

Global growth is expected to accelerate to 3.8 per cent in 2016 but with significant downside risks. Protracted stagnation in the Euro area could constrain global trade while the anticipated end of monetary easing in key industrial countries could limit investment growth. In addition, stronger currencies in both the US and UK may likely moderate net exports coupled with lower capital expenditure in the energy sector due to the softening oil prices. Furthermore, the huge asset purchase program by the UK Treasury and the Bank of Japan is an indication of divergent monetary policy stance among key advanced economies with the attendant widening of long-term interest rate differentials. We are of the view that with the UK inflation at -0.1 per cent in April, the size of its asset purchase programme of £385 billion may be revisited by the Treasury.

For many emerging markets, the outlook for growth is less optimistic, reflecting cyclical factors, domestic policy tightening, political tension, and structural factors. In China, growth is expected to decline below the long run target of 7.0 per cent in 2015 owing to financial market vulnerabilities, declining productivity, excess capacity, and weakening domestic demand. It is however, envisaged that recent policy stimuli by both government and the Peoples Bank of China would help unwind the excess capacity and strengthen the financial system with the ultimate goal of restoring growth to the historical path in the long run.

Developing economies as a group continue to show relative resilience with growth projected to accelerate from 4.4 per cent in 2014 to 4.8 per cent in 2015. Growth in the developing economies is also expected to remain uneven in the near term, reflecting the pattern in the advanced economies. Countries with high trade exposure to US and UK would likely gain substantial momentum while those depending on the Euro Area may experience continuing slow down in export demand in the near to medium-term.

Key risks to growth in the developing countries include the possible tightness in the global financial markets and the diverging stance of monetary policy in the advanced economies which portend grave consequences for capital flows, exchange rate stability, and inflation expectations. In addition, sudden deterioration in liquidity conditions, volatility in commodity and financial markets, narrowing fiscal space, and rising geopolitical tensions are headwinds that could constrain global output growth. Thus, monetary policy in a number of developing countries has to contend with the delicate choice among supporting growth, reining in inflation and stabilizing currencies and the financial systems.

Global inflation remains benign and is expected to be moderate in 2015-16 due to the tailwinds from the sharp drop in the prices of crude oil, excess capacity and appreciation of currencies in key advanced economies.

Domestic Economic and Financial Developments Output

The deceleration in growth, which commenced in the third quarter of 2014, intensified in the first quarter of 2015 in the aftermath of declining crude oil prices. The National Bureau of Statistics (NBS) estimated Real GDP growth at 3.96 per cent in the first quarter of 2015, which is significantly lower than the 5.94 and 6.21 per cent in the preceding quarter and the corresponding period of 2014, respectively. Real GDP growth is projected to decline to 5.54 per cent in 2015 from 6.22 per cent in 2014. In line with trend, the non-oil sector remained the main driver of growth in the first quarter of 2015, recording 5.59 per cent. The key growth drivers in the non-oil sector during the period were services, trade, and agriculture which contributed 2.82, 1.27, and 1.05 percentage points, respectively. The modest improvements recorded in the oil sector in the fourth quarter of 2014 appear to have been reversed as oil GDP contracted by 8.15 per cent in the first quarter of 2015 compared with an increase of 1.2 per cent in the preceding quarter.

The Committee expressed concern about the weakening economic momentum but recognized the relative similarity in the condition to the evolving economic environment in virtually all oil exporting economies, suggesting the need for acceleration of various ongoing initiatives to diversify the economic base of the country.

With the successful completion of the 2015 general elections and the progress recorded so far in the fight against insurgency, the Committee was optimistic that the slow pace of economic momentum would reverse in the near term.

Prices

The Committee noted that the year-on-year headline inflation crept upwards for the fourth consecutive month in April 2015. The inflation rate rose from 8.2 per cent in January 2015 to 8.5 per cent in March and further to 8.7 per cent in April. The increase in headline inflation in April reflected increases in both the core and food components. Core inflation rose to 7.7 per cent in April from 7.5 per cent in March, while food inflation increased to 9.5 per cent from 9.4 per cent over the same period.

The Committee noted that the uptick in inflationary pressures, year-to-date, was largely traceable to transient factors such as high demand for transportation, food and energy, especially in the period around the general elections as well as the Easter festivities. It also noted the roles played by system liquidity and the pass-through effects of the recent depreciation of the naira exchange rate. When the transient causes are isolated, the Committee observed the decline in month-on-month inflation across all the measures in April as headline inflation moderated to 0.8% from 0.9% in March; core inflation moderated to 0.6% from 0.8% and food inflation moderated to 0.9% from 1.0%.

The Committee reiterated its commitment to price stability noting that given the already tight stance of monetary policy and the transient nature of the incubators of the current inflationary trend, which are outside the direct control of monetary policy, the space for maneuver remains constrained, necessitating the intervention of fiscal and structural policies to stimulate output growth.

Monetary, Credit and Financial Markets Developments

Broad money supply (M2) increased by 1.80 per cent in April 2015, over the level at end-December 2014. When annualized, M2 increased by 5.39 per cent, which is lower than the growth benchmark of 15.24 per cent for 2015. The modest increase in money supply reflected the growth in the net domestic credit (NDC) of 9.66 per cent. Annualized, net domestic credit grew by 28.98 per cent over the end-December, 2014 level, which was within the provisional benchmark of 29.3 per cent for 2015. The significant growth in aggregate credit was traced mainly to Federal Government borrowing which increased by 177.26 per cent in April 2015 or 531.78 per cent on annualized basis.

In the period under review, money market interest rates were relatively volatile, reflecting the fluctuations in liquidity in the banking system. Average inter-bank call and OBB rates, which opened at 11.92 and 10.75 per cent on 2nd March 2015, closed at 15.00 and 13.26 per cent, respectively, on April 17, 2015. Average inter-bank call and OBB rates for the period were 19.02 and 17.45 per cent, respectively.

The Committee noted a modest improvement in the equities segment of the capital market during the review period. The All-Share Index (ASI) rose by 9.3 per cent from 31,744.82 on March 31, 2015 to 34,708.11 on April 30. Similarly, Market Capitalization (MC) increased by 10.0 per cent from N10.72 trillion to N11.79 trillion in the same period. However, relative to end-December 2014, the indices increased marginally by 0.1 and 2.7 per cent, respectively. The recovery in share prices particularly in April 2015 was largely due to improvements in earnings and sentiments, amid successful conclusion of the 2015 general elections.

External Sector Developments

The average naira exchange rate was relatively stable at both the interbank and Bureau-de-Change segments of the foreign exchange market during the review period. The exchange rate at the interbank market opened at N197.80./US$ and closed at ₦197.00/US$, with a daily average of ₦197.04/US$. This represented an appreciation of ₦0.80k for the period. At the Bureau-de-Change segment, the exchange rate opened at ₦225.00/US$ and closed at ₦217.50/US$, with a daily average of ₦216.75/US$. This represented an appreciation of N7.50k for the period.

The stability and modest appreciation in the two segments of the market was largely due to the closure of the rDAS market and the modified two-way quote trading at the inter-bank segments of the market. Gross official reserves rose from US$29.34 billion at end-March 2015 to US$30.05 billion on May 15, 2015.

Committee's Consideration

The Committee noted the salutary effects of the successful conduct of the 2015 general elections on the macroeconomic environment. The Committee expressed optimism that the confidence and goodwill arising from the successful elections would stem the spate of capital reversal, reduce pressure in the foreign exchange market and stabilize the financial markets in the short to medium term. A combination of the renewed confidence and recent administrative measures around the foreign exchange market have eased pressure on the naira, resulting in relative stability in all segments of the foreign exchange market.

The Committee was concerned about the creeping headline inflation since January 2015 but noted that the causal factors were largely transient and outside the purview of monetary policy. Furthermore, the significant rising trend in credit to government was regarded as potential headwinds to growth with negative spillovers to the already elevated lending rates, credit to the private sector and aggregate domestic investment including inflationary pressures.

The Committee expressed deep concern over the lackluster performance of the external sector arising from a number of significant global shocks.

First, the prospects of monetary policy normalization in the US with attendant increase in global interest rates and accentuating capital flow reversal which could further exacerbate tightness in global financial conditions and create further pressure on the naira.

Second, the continued glut in crude oil supplies amidst softening prices, anchored by sluggish global output expansion could further threaten foreign exchange earnings and accretion to external reserves over a much longer period. A near- term rally in oil prices is further undermined by the diminishing market power of the Organization of the Petroleum Exporting Countries (OPEC).

Third, the anemic recovery in the Euro Area and Japan and tepid growth conditions in China constitute an additional drag on crude oil exports prospects. Consequently, the decline in trade balance, which commenced in the second half of 2014, could persist over a much longer period with further implications for public revenues and external reserves.

In the light of these developments, the Committee stressed the need for proactive measures to protect the reserve buffer to safeguard the value of the domestic currency and engender overall stability of the banking system. It was, however, noted that monetary policy is gradually approaching the limits of tightening and would, therefore, require complementary fiscal and structural policies.

Furthermore, the Committee considered that the current discriminatory CRR on public and private sector deposits has not only constrained the policy space but could inspire moral hazard by private market participants. Consequently, it was recognized that while additional tightening measures may not be appropriate now to avoid overheating the economy, a harmonization of the CRR was imperative in order to curb abuses and improve the efficacy of monetary policy.

The Committee's Decisions

In view of these developments, the Committee decided by a unanimous vote to retain the current tight stance of monetary policy. One member voted to increase CRR on private sector deposits from 20 to 25 per cent and retain CRR on public sector deposits at 75 per cent while another member voted to retain the CRR on private sector deposits at 20 per cent and increase CRR on public sector deposits from 75 to 100 per cent. Nine members, voted to harmonize the public and private sector CRR at 31 per cent. Two members voted to remunerate a portion of the CRR. All members voted to retain all other decisions taken at the last meeting of the MPC while improving the implementation of the CRR regime. Consequently, the MPC voted to:

(i) Retain the MPR at 13 per cent with a corridor of +/- 200 basis points around the midpoint;

(ii) Retain the Liquidity Ratio at 30 per cent; and

(iii) Harmonize the CRR on public and private sector deposits at 31.0 per cent.

Thank you.

Godwin I. Emefiele
Governor, Central Bank of Nigeria

19th May 2015