CENTRAL BANK OF NIGERIA
ECONOMIC REPORT

August 2020

FORWARD

The Central Bank of Nigeria (CBN) Economic Report is a monthly publication of economic developments in Nigeria, intended for dissemination to the public. The Report provides insights on current economic developments in the real, fiscal, financial, and external sectors of the Nigerian economy, as well as on global issues of interest. It also reflects the policy initiatives of the CBN in pursuit of its mandate.

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EXECUTIVE SUMMARY

Recovery in global economic activities continued through August 2020, with noticeable momentum, as the adverse effects of the COVID-19 pandemic waned. Global output, measured by the JP Morgan Global Composite Index, rose to 52.4 points from 51.0 points in July. Economic activity in most advanced economies improved in August 2020, with Purchasing Manager's Index (PMI) rising above the index benchmark of 50-points. Inflation exhibited mixed dynamics across regions, owing to the reopening of economies amid easing of lockdowns. In advanced economies, the euro area, and emerging market and developing economies, inflation trended upward. Global financial conditions broadly eased across all markets, due to positive market sentiments on the back of relaxed containment measures and decisive actions by central banks to ease monetary policy and provide liquidity to the financial system. However, prospects of global economic growth remained highly uncertain in the face of the twin shocks of the COVID-19 pandemic and slow recovery in crude oil price.

In the review month, the Nigerian economy deteriorated due to demand and supply shocks. Domestic demand was constrained as consumers experienced declines in income on account of job losses, pay cuts and closure of businesses. Inflationary pressure remained high as headline inflation rose to 13.22 per cent in August 2020, compared with 12.82 per cent in July 2020. This was due to rising food prices and increases in the pump price of PMS.

Real domestic output contracted by 6.1 per cent in 2020Q2, attributed, mainly, to the disruptions in economic activities caused by the COVID-19 pandemic. Oil and non-oil GDP contracted, by 6.05 per cent and 6.63 per cent, respectively. Crude oil prices rose slightly in August 2020, with the average spot price of Nigeria's reference crude oil, the Bonny Light (37° API), up by 2.2 per cent to US$45.07/barrel, due to increased demand.

Total Federally collected revenue in August 2020 rose by 2.7 per cent to ₦767.55 billion, compared with its level in July 2020, but was below the budget benchmark by 9.4 per cent. The increase was attributed to improved receipts from oil revenue sources. Retained revenue of the Federal Government in August 2020 was ₦290.31 billion, while total expenditure stood at ₦699.70 billion, resulting in a deficit of ₦409.39 billion. Total FGN debt outstanding at end-June 2020, stood at ₦31,008.64 billion, with the domestic and external components accounting for 63.4 per cent and 36.6 per cent, respectively.

Growth in broad money supply (M_3) improved in the review period. M_3 rose by 6.9 per cent at end-August 2020, over the level at end-December 2019. The growth in monetary assets followed the drive to stimulate growth in the economy. Banks' credit to the private sector grew by 11.7 per cent, as medium and small-scale businesses and households accessed more credit to improve productivity and livelihoods. Similarly, total bank reserves grew in August 2020, due to improved credit delivery in the banking system. As a result, reserve money rose by 57.9 per cent to ₦13,692.39 billion at end-August 2020.

The financial sector remained stable in the review period, as shown by the key financial soundness indicators. The banking system recorded adequate liquidity levels to enhance financial intermediation. This was reflected in the decline in the reference money market rates in the review period. Capital market activities on the Nigerian Stock Exchange (NSE) were bullish in August 2020, due to improved half-year earnings of quoted companies.

The external account exhibited mixed developments in August 2020. The trade sector recorded improved performance, which resulted in higher foreign exchange inflows. Foreign capital inflows, however, shrank significantly by 72.9 per cent on account of tepid and bearish global investment sentiments. The value of aggregate external trade increased by 12.1 per cent to US$5.70 billion in August 2020, compared with US$5.08 billion in July 2020, as a result of increased exports.

The demand pressure witnessed in the foreign exchange market in July continued in August, particularly at the interbank and BDC segments. The average exchange rate of the naira at the interbank segment of the foreign exchange market depreciated by 1.0 per cent to ₦381.00/US$ from ₦377.19/US$ in July 2020. Similarly, at the BDC segment, the naira depreciated by 1.9 per cent to ₦473.48/US$, compared with the level in the preceding month. However, the I&E window recorded a marginal appreciation of 0.3 per cent to ₦386.26/US$. The stock of reserves declined, marginally, in August 2020 by 0.1 per cent, relative to its position in the preceding month, due, mainly, to the Bank's interventions in the foreign exchange market.

The outlook for the domestic economy remains uncertain, shaped by the twin shocks of the COVID-19 pandemic and the slow recovery in oil prices. However, upside risks exist on the back of judicious government intervention programmes. Growth is expected to remain subdued for the rest of the year, consequent on tepid economic activity. Projections show that real gross domestic product would contract in the third and fourth quarters, although, the degree of contraction would be moderate, relative to that recorded in the second quarter. Inflationary pressure is expected to linger as headline inflation would likely maintain an upward trajectory till the end of the year, on the back of supply shortages in food and non-food items.

The fiscal outlook for the rest of the year is expected to be less precarious, considering the gradual easing of restrictions, improved revenue collection due to an uptick in economic activities and the rebound in oil exports. The financial sector is expected to remain stable, as key financial soundness indicators continue to show resilience. The moderate recovery in the financial markets was expected to be sustained.

With respect to the external sector outlook, though global demand for oil is expected to remain below pre-pandemic levels by 5 to 10 per cent, the recovery in oil prices is expected to have some salutary effects on the external balance position of Nigeria in the remaining part of the year. Given the prevailing socio-economic conditions in the global sphere, there is no likelihood of oil price recovery anytime soon. This might compound the foreign exchange crisis faced by most major oil producers. The depreciation of developing countries' currencies is expected to persist if the advanced economies continue to remain a haven for investors. Heightened pressure on Nigeria's foreign reserves would be expected for the rest of the year, if global trade growth becomes more negative than earlier predicted. This would trigger weak economic fundamentals to re-surface post-COVID-19, thereby undermining export competitiveness and diversification drive. Thus, the Nigerian economy may enter a recession that would require robust proactive fiscal, trade and foreign exchange policies.

1.0 GLOBAL ECONOMIC DEVELOPMENTS

Global Economic Conditions

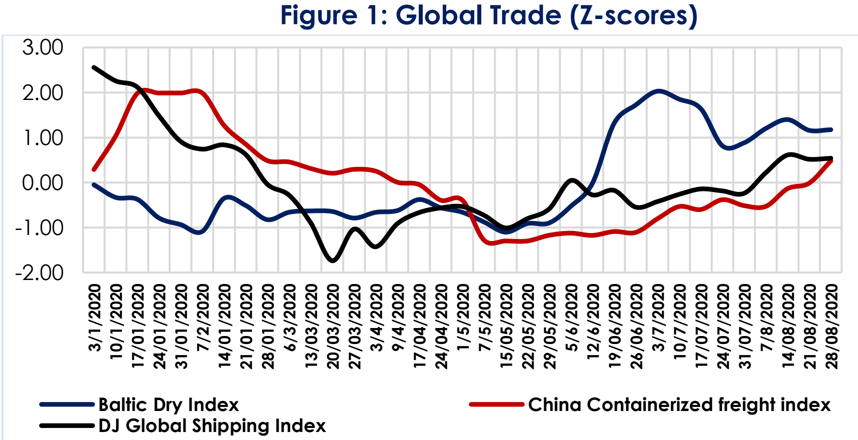
The recovery in global economic activity continued through August with noticeable momentum, as adverse effects of the COVID-19 pandemic waned. However, uncertainty around a second wave of spread persists. Global output expanded sharply in August 2020, as indicated by the JP Morgan Global Composite Index, which rose to 52.4 points (its highest level since March 2019), from 51.0 in July 2020. The development, which reflected expansion for the second successive month in 2020, was driven, largely, by a steeper pace of expansion in both the manufacturing and services sectors (particularly financial services) (Table 1). Moreover, global trade indices showed an upturn in international trade flows, due to the reopening of export businesses globally (Figure 1).

Table 1: Global Purchasing Managers' Index (PMI)

	Jun-20	Jul-20	Aug-20
Composite	47.8	51.0	52.4
Manufacturing	47.9	50.6	51.8
Services (Business Activity)	48.0	50.6	51.9
Employment Level	46.5	48.0	49.8

Source: JP Morgan, Reuters

Figure 1: Global Trade (Z-scores)



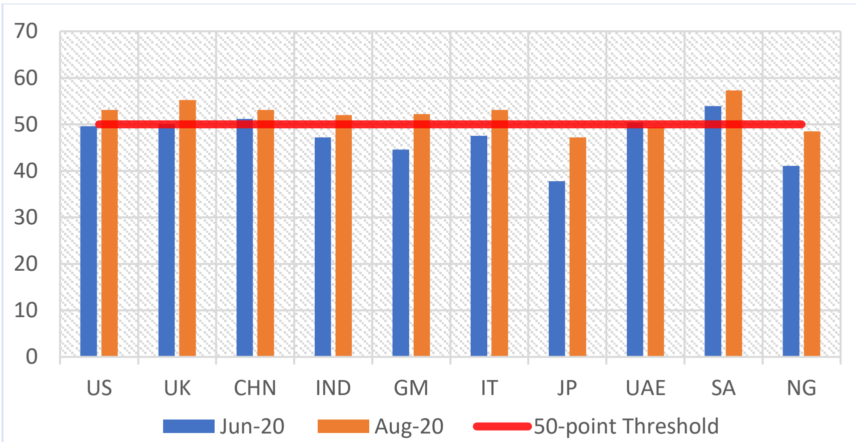
Source: Reuters, S&P Global Ratings, CBN Staff Compilation

1.1. Global Output Growth

Economic Activity by Region

The impact of the COVID-19 pandemic on most advanced economies and emerging markets has waned, resulting in some degree of normalcy. Economic activity in most advanced economies improved in August 2020. Specifically, the Purchasing Managers Index (PMI) for the advanced economies of the United States, the United Kingdom, Germany and Italy stood above the 50.0 points benchmark, reflecting significant recovery (Figure 2). This was due to significant expansion in factory activity, following the easing of coronavirus restrictions and the reopening of large sections of the manufacturing sub-sector. The Japanese economy also expanded with PMI at 47.2 points in August 2020, compared with 46.6 points in July 2020, but remained below the 50.0 points benchmark. Production and new orders declined as manufacturing remained under pressure amid the ongoing COVID-19 pandemic. On the price front, input costs rose modestly, while output charges fell slightly.

Figure 2: Selected Countries PMIs in July and August, 2020



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

The Chinese economy continued to experience strong recovery in August 2020, with Manufacturing PMI at 53.1, above the 52.8 in the previous month. On the price front, both input costs and output charges increased moderately. Business optimism fell to a three-month low. South Africa's Manufacturing PMI rose sharply to 57.3 in August 2020, above the 51.2 in the previous month, and above pre-pandemic levels. This indicated a fourth consecutive month of expansion, as business activity improved and export orders were increased due to the easing of the nationwide lockdown. Meanwhile, the rate of employment continued to decrease, although at a slower pace. Manufacturers were more confident and optimistic about the future, as business sentiment rose to its highest level in 18 months.

1.2. Global Inflation

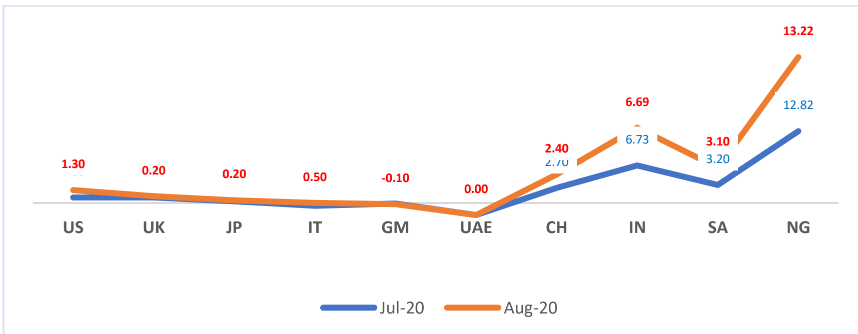
Global Inflation

Inflation rates in August 2020 exhibited mixed dynamics across regions, owing to the reopening of economies. Inflation in advanced economies, the euro area, and emerging market and developing economies exhibited a similar trend. In the United States, inflation rose to 1.3 per cent in

August 2020, above 1.0 per cent in July 2020. Conversely, inflation in the United Kingdom slowed to 0.2 per cent in August 2020, below 1.0 per cent in July 2020. Japan's inflation rate decelerated to 0.2 per cent in August 2020 from 0.3 per cent in July 2020.

In China, inflation eased to 2.4 per cent in August 2020, from 2.7 per cent in July 2020. Inflation in South Africa eased to 3.1 per cent in August 2020, from 3.2 per cent in July 2020. The developments were driven, mainly, by increases in the cost of food, medical care commodities, shelter, medical care services, alcohol beverages, tobacco and transportation (Figure 3).

Figure 3: Selected Countries' Inflation Rate (July and August 2020)



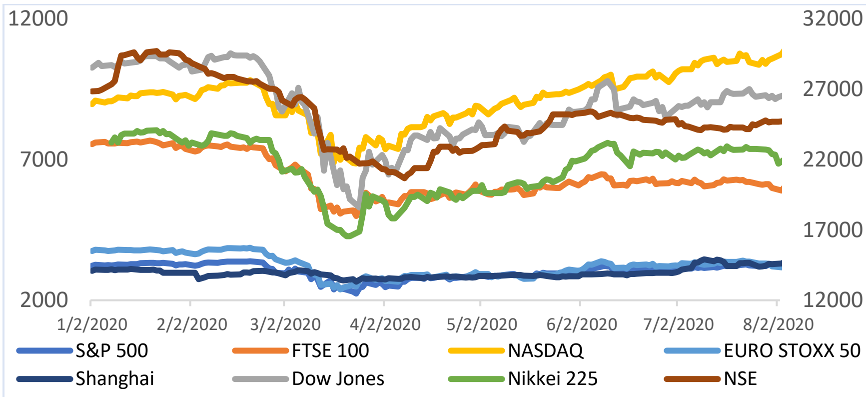
Source: Trading Economics/Various Country Websites, CBN Staff Compilation
Note: US – United States; UK – United Kingdom; CHN – China; IND – India; GM – Germany; IT – Italy; JP – Japan; UAE – United Arab Emirates; SA – South Africa; and NG – Nigeria.

1.3. Global Financial Markets

Global Financial Markets

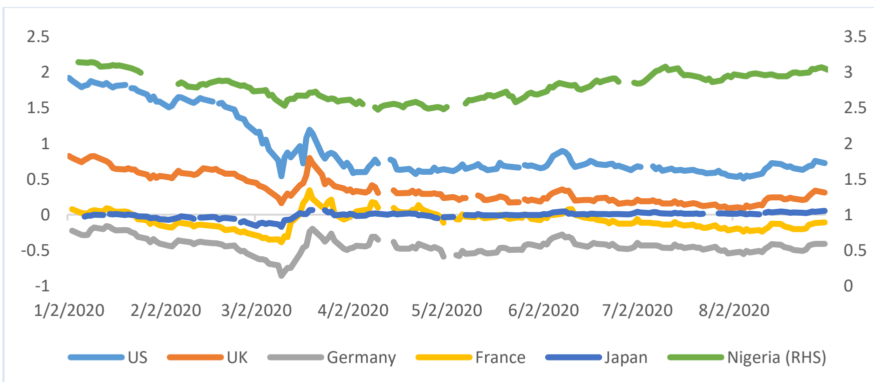
Despite the severe tightening earlier in the year, global financial conditions have broadly eased across all markets, due to positive market sentiments on the back of the gradual easing of lockdowns and central banks' expansionary monetary policy and provision of liquidity to the financial system. In August 2020, equity prices gained momentum, globally, although with varying degrees across regions. Broad stock price indices improved with significant gains in the USA and China, returning to pre-crisis levels in August 2020 (Figure 4). In addition, borrowing costs plummeted as indicated by credit spreads, which have narrowed since May 2020 and remained flat. These developments were attributed to sustained zero bound policy rates maintained in most advanced economies, which further relaxed global financial market conditions and lowered the cost of external borrowing. Despite the signs of moderate recovery across markets, financial conditions were yet to peak as investors remained cautious of the lingering risk of a second wave of the Pandemic (Figure 5 & 6). Furthermore, continued accommodative financial conditions might facilitate further buildup of vulnerabilities, which could be exposed in the event of subsequent monetary policy tightening.

Figure 4: Selected Equity Market Indices



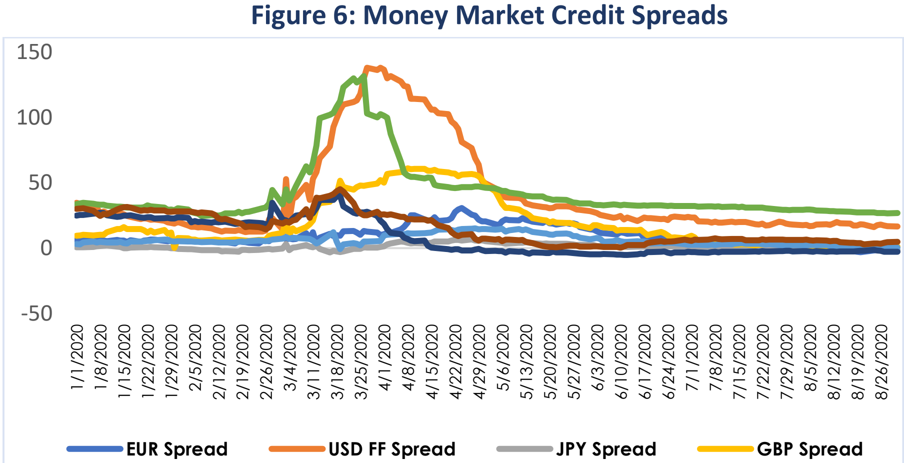
Source: Bloomberg data, CBN Staff compilation

Figure 5: 10-year Sovereign Bond Yield curve



Source: Bloomberg data, CBN Staff Compilation

Figure 6: Money Market Credit Spreads



Source: Bloomberg Data, CBN Staff Compilation

2.0. DOMESTIC ECONOMIC DEVELOPMENTS

2.1. THE REAL SECTOR

2.1.1. Economic and Business Activities

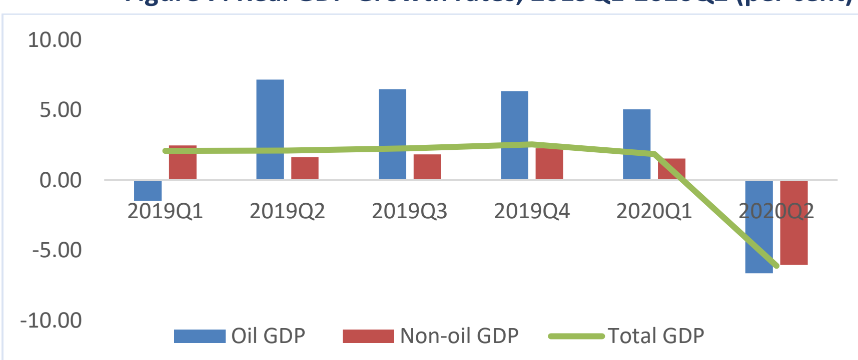
Domestic Output and Economic Activities

In the review month, the economy deteriorated due to the lingering effect of demand and supply shocks and the increase in the price of Premium Motor Spirit (PMS). Domestic demand was still curtailed as consumers experienced declines in income on account of job losses and pay cuts and closure of businesses. Headline inflation rose to 13.22 per cent in August 2020, compared with 12.82 per cent in July 2020. This was a seventh consecutive monthly increase.

Gross Domestic Product (GDP) in the second quarter of 2020 contracted by 6.10 per cent in real terms, in contrast to the moderate growth of 1.87 per cent and 2.12 per cent in the preceding quarter and the corresponding periods of 2019, respectively. The contraction in the economy was attributed, largely, to the effect of the COVID-19 pandemic.

On a year-on-year basis, non-oil GDP contracted by 6.05 per cent (the first decline in the sector since 2017 Q3), and oil GDP also contracted by 6.63 per cent. Similarly, on a quarter-on-quarter basis, the non-oil sector declined by 7.60 percentage points and 7.70 percentage points, compared with its levels in 2020 Q1 and 2019 Q2, respectively. The Oil sector similarly declined by 11.69 percentage points and 13.80 percentage points, compared with its levels in 2020 Q1 and 2019 Q2, respectively (Figure 7).

Figure 7: Real GDP Growth rates, 2019Q1-2020Q2 (per cent)



Source: National Bureau of Statistics

Industrial Activities

Industrial activities improved in August 2020, although the PMI remained below the 50.0 points benchmark. The slow recovery was attributed to currency adjustment and illiquidity in the foreign exchange market, which drove up input and product prices. Thus, the manufacturing and non-manufacturing PMI contracted for the fourth and fifth consecutive months.

The composite manufacturing PMI improved to 48.5 index points in August 2020, above 44.9 points recorded in July 2020. The development was attributed to significant improvements witnessed in six subsectors (non-metallic mineral products, cement, plastic & rubber products, chemical & pharmaceutical products, transport equipment and textile, apparel, leather & footwear). The growth in these sub-sectors was attributed, partly, to the removal of the ban on interstate movement and increased consumer demand.

Similarly, the non-manufacturing composite PMI witnessed a slight improvement to 44.7 index point in August 2020, above 43.3 index points in July 2020, although it was below the threshold of 50.0 index points. This was attributed to relative improvement in all the sub-sectors.

Table 2: Manufacturing and Non-Manufacturing Sector Purchasing Managers' Index for August 2020

Components	26-Jul	26-Aug
A. Composite Manufacturing PMI	**44.9**	**48.5**
Production Level	*44.7*	*49.2*
New Orders	*43.1*	*49.2*
Supplier Delivery Time	*56.4*	*53.0*
Employment Level	*40.0*	*44.6*
Raw Material Inventory	*43.2*	*46.1*
B. Composite Non-Manufacturing PMI	**43.3**	**44.7**
Business Activity	*46.1*	*47.4*
New Orders	*43.4*	*44.0*
Employment Level	*41.1*	*44.3*
Inventory	*42.7*	*43.1*

Source: Central Bank of Nigeria

New Orders

The gradual easing of the lockdown and improvement in demand led to a rise in new orders and production, although still below the 50-point threshold. In the manufacturing sector, six sub-sectors witnessed expansion, owing to an increase in consumer demand, with non-metallic mineral products and the cement subsectors expanding with a lower magnitude. The growth in the cement subsector was due to increased activities in the construction sector. In the non-manufacturing sector, only three subsectors witnessed growth (agriculture, art, entertainment & recreation and water supply, sewage & waste management). The growth in these sub-sectors was attributed to increased demand and expanding operations by firms, as lockdown restrictions were eased.

Inventories

The rise in new orders and production prompted a marginal increase in inventories. Consequently, inventories for manufacturing and non-manufacturing in August 2020 stood at 46.1 index point and 43.1 index point, respectively, compared with 43.2 index point and 42.7 index point in July. Meanwhile, inventories for cement, nonmetallic mineral products, and chemical and pharmaceutical products sector increased. This was expected, due to a rise in new orders in these sub-sectors.

2.1.2. Employment

Employment

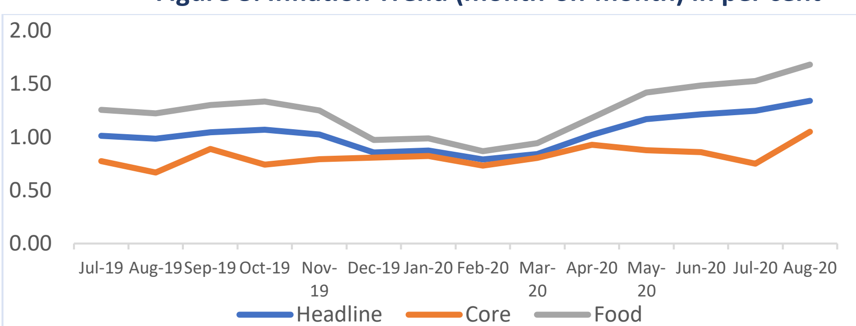
The level of employment, as indicated by PMI, continued to improve during the review period, although at a slower pace. At 44.6 index point and 44.3 index point in August 2020, both manufacturing and non-manufacturing PMI, rose, compared with 40.0 index point and 41.1 index point, respectively, recorded in the preceding month. The development was as a result of increase in the level of operations by firms, following ease in restrictions. Consequently, there was a significant improvement in employment in the cement and primary metal subsector.

2.1.3. Consumer Prices

Headline Inflation

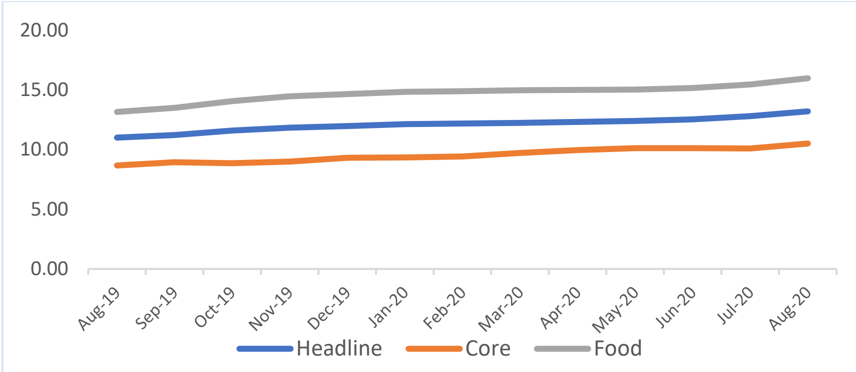
Inflationary pressure remained on an upward trajectory in the review period due to rising food prices, increases in the pump price of PMS to ₦145.0, and seasonal food supply shocks, which followed the outset of the farming season in some parts of the country. Headline inflation rose to 13.22 per cent in August, compared with 12.82 per cent in July 2020, reflecting a seventh consecutive month increase.

Figure 8: Inflation Trend (month-on-month) in per cent



Source: National Bureau of Statistics Data, Central Bank of Nigeria Staff Compilation

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



Source: National Bureau of Statistics Data, Central Bank of Nigeria Staff Compilation

Food Inflation

Month-on-month food inflation increased by 1.67 per cent in August, compared with 1.52 per cent in July 2020. It also rose to 16.00 per cent, from 15.48 per cent recorded in the preceding month (year-on-year). The rise in food prices was driven by increases in the prices of bread and cereals, potatoes, yam and other tubers, meat, fruits, oils and fats and fish.

Core Inflation

Similarly, core inflation rose to 10.52 per cent in August 2020, indicating a 0.33 percentage point rise, over the level in the preceding month. The rise was due to increase in demand for non-food items, following the easing of lockdown measures and increases in the pump price of PMS. The prices of items such as bicycles, passenger transport by road, passenger transport by sea and inland waterways, paramedical services, hospital services, pharmaceutical products, medical services, motorcycles and major household appliances rose significantly due to energy cost.

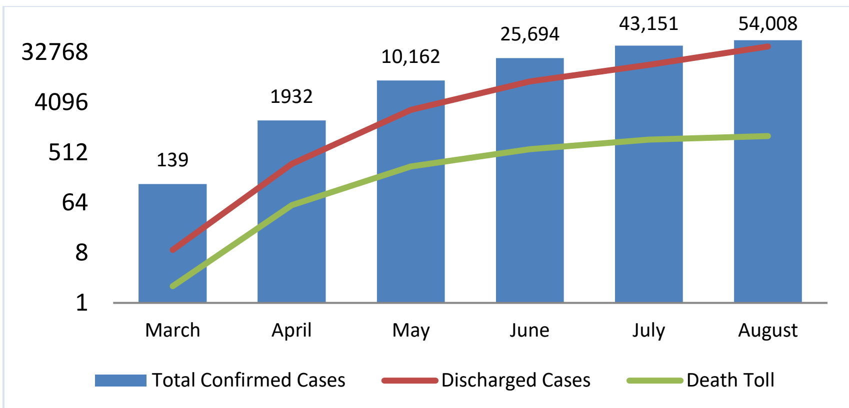
2.1.4. Socio-Economic Developments

Health

The curtailment of the spread and socio-economic consequences of the COVID-19 pandemic remained in focus in August 2020, as the CBN issued guidelines for accessing the Healthcare Sector Research and Development Intervention Scheme (HSRDIS) grant. The Scheme is designed to help strengthen the public healthcare system with innovative financing of research and development (R&D) in new and improved drugs, vaccines, and diagnostics of infectious diseases in Nigeria. Also, the Federal Executive Council (FEC) approved ₦8.49 billion for the purchase of testing equipment to combat the COVID-19 Pandemic. Furthermore, the United States redeemed its pledge to assist Nigeria to combat the spread of the COVID-19 pandemic with the donation of 200 ventilators.

The number of confirmed COVID-19 pandemic cases increased by 25.2 per cent to 54,008 at end-August 2020, compared with the 43,151 recorded at the end of the preceding month. The number of active cases declined by 50.0 per cent to 11,357, from 22,707 in the preceding month, as the number of discharged cases rose by 112.8 per cent to 41,638, above the 19,565 recorded in July 2020. The number of COVID-19-related deaths so far was 1,013. The increase in the number of cases continued to put pressure on the already strained healthcare system. With the level of attention already shown by the Government and international donors, and commitment to continue to offer support to the sector, some respite is expected for the sector in the near term.

Figure 10: COVID-19 Statistics



Source: Nigeria Centre for Disease Control

Transport

During the review period, the Federal Government signed the instrument of ratification to the African Trade Insurance (ATI) Agency's treaty, a major institutional and regulatory initiative that enhances risk mitigation measures in Nigeria. This is expected to lead to increases in investment and trade flows, especially in the post-COVID-19 era. In the same vein, to boost investments in infrastructure, the CBN, in collaboration with the Nigeria Sovereign Investment Authority (NSIA) and the Africa Finance Corporation (AFC), secured the Federal Government’s approval to set up a ₦15.0 trillion infrastructure development company, to invest in critical parts of the transport network for the country. The venture, which is for an initial 5-year period, was expected to leverage local and international funds.

The entity will be jointly owned by the CBN, the NSIA and the AFC, with an independent infrastructure fund manager that would mobilise foreign and local capital to support the Federal Government in building the transport infrastructure (road network and railway lines) required to move raw materials, agricultural produce and finished goods.

The Abuja to Kaduna train service recorded low passenger turnout since its resumption. This has been linked to the 100 per cent increase in train fares, owing to the reduction in the passengers to 50 per cent capacity, in compliance with social distancing guidelines to minimise the spread of COVID-19.

Aviation

The aviation industry received a boost in August 2020, the Federal Government's endorsement of a bilateral air transport agreement between Nigeria and the United States. The agreement was expected to promote an international aviation system based on competition among airlines from both countries, with minimum government interference and regulation. It is also meant to facilitate the expansion of international air transport opportunities and strengthen economic and socio-cultural relations between the two countries. Also, plans to resume international flights from September 5, 2020 and protocols to minimise the risk of spread of the COVID-19 pandemic were introduced. The resumption of flights would pave the way for recovery of the sector and the economy at large.

Education

To restart the education sector, the Federal Government released a schedule for various national examinations for exit classes to hold from August 17 to November 18, 2020. The West African Senior School Certificate Examination (WASSCE) began on August 17, while the Senior Secondary Certificate Examination (SSCE), conducted by the National Examination Council (NECO), would commence on October 5, 2020 and end on November 18, 2020. Similarly, secondary schools in the country would reopen from August 4, 2020 for exit classes only, in preparation for the national examinations. This was aimed at minimising the spread and impact of the COVID-19 pandemic. To improve learning in the sector, UNESCO, in the review period, donated customised mobile devices under its "School Meet the Learner Approach Programme", to the Bauchi State Government. This was expected to enhance performance of pupils and boost the educational capability of the beneficiaries at the basic education level, as well as curtail the number of out-of-school children with a view to advancing the education sector.

2.1.5. Commodity Market Developments

Agricultural Commodity Prices

The prices of most agricultural commodities monitored at both the international and domestic markets trended upwards in August 2020. With the pick-up in economic activities, owing to the global easing of lockdowns and the attendant improvement in demand, the all-commodity price index, at 92.73 (2010=100) in dollar terms, increased by 4.27 per cent, compared to the level in the preceding month at the international market. Further analysis showed that the prices of coffee, cotton, sorghum, cocoa, and wheat increased by 3.98 per cent, 3.67 per cent, 2.39 per cent, 1.98 per cent, and 0.34 per cent, respectively. However, the prices of palm oil, soya beans, rubber, and groundnut declined by 0.67 per cent, 1.56 per cent, 2.70 per cent, and 3.16, per cent, respectively. The price of palm oil declined, mainly, due to increasing anxieties about the possibility of a second wave of the COVID-19 pandemic in key importing countries, while that of soya beans was as a result of high supply expectations from the United States (Table 3).

Table 3: Agricultural Export Commodities for August 2020 (dollar based) (2010 = 100)

Commodities	Aug-19	Jul-20	Aug-20	%change	
	-1	-2	-3	(1&3)	(2&3)
All - commodities	69.07	88.93	92.73	34.25	4.27
Cocoa	71.72	68.58	69.94	-2.48	1.98
Cotton	42.16	40.81	42.31	0.35	3.67
Coffee	50.83	59.85	62.23	22.43	3.98
Wheat	59.1	64.73	64.95	9.9	0.34
Rubber	31.58	31.15	30.31	-4.02	-2.7
Groundnut	82.39	130.61	126.48	53.52	-3.16
Palm oil	47.73	56.52	56.14	17.62	-0.67
Soya bean	66.31	69.66	68.57	3.41	-1.56
Sorghum	66.76	78.95	80.84	21.09	2.39

Source: Trading Economics and Staff Estimates

Domestically, prices of most food items continued to rise despite the easing of lockdown around the country. Transportation fares increased, owing to the social distancing measures, as well as the variable fuel price regime. To this end, 16 out of the 23 domestic agricultural commodities monitored, recorded increased prices. The increase ranged from 0.5 per cent for sweet potatoes to 6.2 per cent for yam tubers. However, the price of beans, broken rice, onion bulb, palm oil, and rice (agric. loose and local loose) declined, due, largely, to adequate supply (Table 4).

Table 4: Domestic Prices of Selected Agricultural Commodities, August 2020

FOOD ITEM	UNIT	Aug-19 (1)	Jul-20 (2)	Aug-20 (3)	% Change (1) & (3)	% Change (2) & (3)
Agric eggs(medium size price of one)	1kg	461.9	474.1	480.0	3.9	1.2
Beans brown,sold loose	"	307.3	300.3	293.6	-4.4	-2.2
Beans:white black eye. sold loose	"	273.7	268.4	258.9	-5.4	-3.5
Broken rice (Ofada)	"	366.2	426.4	423.2	15.6	-0.7
Gari white,sold loose	"	154.1	222.5	234.7	52.3	5.5
Gari yellow,sold loose	"	167.3	255.1	270.0	61.3	5.8
Groundnut oil: 1 bottle, specify bottle	"	557.4	623.1	634.4	13.8	1.8
Irish potato	"	271.5	328.1	336.8	24.0	2.7
Maize grain white sold loose	"	138.3	190.0	192.7	39.3	1.4
Maize grain yellow sold loose	"	142.0	191.6	195.4	37.6	1.9
Onion bulb	"	206.0	238.7	234.5	13.8	-1.7
Palm oil: 1 bottle,specify bottle	"	454.6	486.3	483.6	6.4	-0.6
Plantain (ripe)	"	225.0	245.0	255.3	13.4	4.2
Plantain (unripe)	"	210.3	237.2	248.1	18.0	4.6
Rice agric sold loose	"	310.0	406.0	405.5	30.8	-0.1
Rice local sold loose	"	272.8	363.0	359.4	31.7	-1.0
Rice Medium Grained	"	309.3	410.7	412.7	33.4	0.5
Rice,imported high quality sold loose	"	356.6	490.4	492.7	38.2	0.5
Sweet potato	"	137.6	177.2	180.6	31.2	1.9
Tomato	"	223.9	304.0	316.7	41.5	4.2
Vegetable oil:1 bottle,specify bottle	"	491.4	576.9	588.9	19.8	2.1
Wheat flour: prepacked (golden penny 2kg)	"	663.3	713.0	721.4	8.8	1.2
Yam tuber	"	190.0	256.4	272.3	43.3	6.2

Source: National Bureau of Statistics

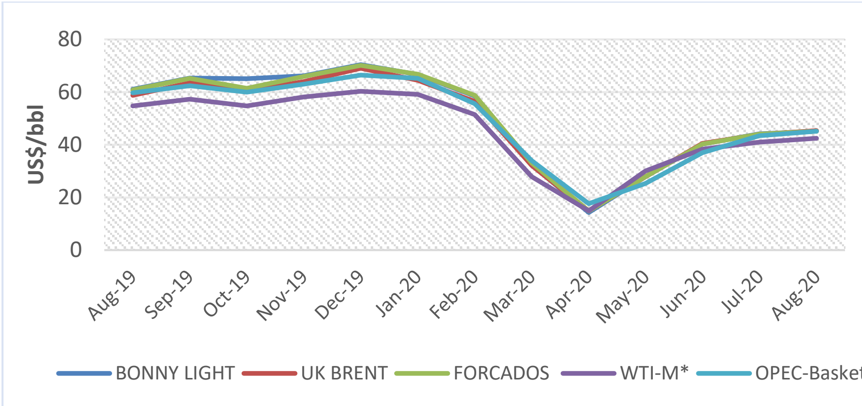
Oil Prices

Crude oil prices rose slightly in August 2020, due to increased demand relative to the supply level, though there were concerns about the effect of a prolonged wave of the COVID-19 pandemic.

The average spot price of Nigeria's reference crude oil, the Bonny Light (37° API) rose by 2.2 per cent, month-on-month, to US$45.07/barrel, compared with US$44.10/barrel in July 2020. The price increase was, however, at a declining rate but was 22.8 per cent below the level in the corresponding period of 2019. Similarly, the UK Brent, at US$45.35 pb, Forcados at US$45.07 pb, WTI at US$42.41 pb and the OPEC basket of thirteen selected crude streams at US$45.15 pb, exhibited upward price trends (Figure 11). The slight rise in crude oil prices was due, largely, to increases in demand relative to supply in the global market. The demand was driven, mainly, by increased consumption by the U.S., which led to declines in commercial and motor gasoline inventories (EIA Report). Gasoline consumption increased, mainly in the US and most countries in Europe, as a result of the summer driving season.

The summer crude oil utilisation was expected to impact positively on crude oil prices in the short-run, as the global crude oil market continued to rebound from the devastating effects of the COVID-19 pandemic. However, in the long-term, prices of crude oil might possibly be impacted negatively over concerns of a prolonged wave of the COVID-19 pandemic. This might lead to build-up in inventory as a result of weak road and air transport fuel demand, as well as supply side factors including the easing of production adjustment by OPEC and non-OPEC producers participating in the Declaration of Cooperation (DoC).

Figure 11: Trends in Crude Oil Prices



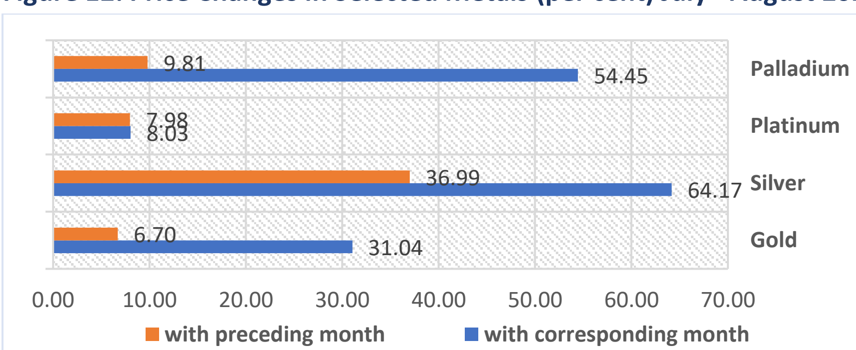
Source: Thomson Reuters

Other Mineral Commodities

The average spot prices of gold, silver, platinum and palladium increased in August 2020 (Thomas Reuters)

The prices of gold and silver recorded an average gain of 6.7 per cent and 37.0 per cent, month-on-month, to sell at US$1,969.75 per ounce and US$28.22 per ounce, respectively, compared with US$1,846.00 per ounce and US$20.60 per ounce in July 2020. Platinum and Palladium also recorded average gain of 8.0 per cent and 9.8 per cent and sold at US$929.59 per ounce and US$2,243.10 per ounce, compared with US$860.93 per ounce and US$2,042.73 per ounce in July 2020 (Figure 12).

Figure 12: Price Changes in Selected Metals (per cent) July - August 2020



Source: Thomas Reuters

The rise in the prices of gold and silver were driven, largely, by investors' preference for the commodities as safe havens to guard against asset value diminution, arising from low real interest rates, rising inflation in the U.S. and a weakened dollar.

The increase in demand for the commodities was aided to a large extent by the massive financial stimulus from central banks and governments around the world meant to propel economic activities disrupted by the COVID-19 pandemic. The demand for palladium relative to platinum was driven, largely, by the increasing demand for the former in the automobile industry, due to tighter emission standards for cars, particularly, in China.

Domestic Crude Oil Production and Export

Domestic crude oil production and export decreased, month-on-month, due to Nigeria's commitment to compensate for its overproduction in May-June 2020.

Nigeria's crude oil production, including condensates and natural gas liquids, recorded a decrease of 0.03 mbpd or 1.9 per cent, month-on-month, to average 1.52 million barrel per day (mbpd). Of the 1.52 mbpd, exports accounted for an average of 1.07 mbpd, while allocation for domestic consumption, at 0.45 mbpd, accounted for the balance in the review month. The decrease in crude oil production followed the country's commitment to compensate for its overproduction in May-June 2020. Nigeria achieved 74.0 per cent compliance in August and further committed to compensate fully by cutting an additional 0.11 mbpd in September 2020. Crude oil exports in the period decreased by 2.7 per cent, at the same rate with the decrease in the total production output of 0.03 mbpd. Aggregate crude oil production, including Natural Gas Liquids (NGLs) and condensates by OPEC was estimated at 28.43 mbpd in August 2020, representing an increase of 2.6 per cent, compared with 27.72 mbpd in July 2020. The increase in OPEC supply was due, mainly, to the increase in crude production, as its Joint Ministerial Monitoring Committee relaxed the production cut from 9.7 mbpd to 7.7 mbpd in August 2020. OPEC's crude supply increased by 0.68 mbpd, whereas NGLs increased by 0.03 mbpd in August 2020.

World Crude Supply and Demand

Total world crude oil supply and demand in August 2020, recorded an estimated increase of 3.1 per cent and 12.5 per cent, month-on-month, to an average of 91.53 mbpd and 92.22 mbpd, compared with 88.77 mbpd and 81.95 mbpd, respectively, in July 2020. The increase in world crude oil supply was driven, mainly, by non-OPEC supplies, while the increase in global demand was driven, largely, by the gradual improvement in demand for crude oil, as many countries continued to ease restrictions on movement. Other factors included, the decline in the United States commercial and gasoline inventory, following increased refinery utilisation and the onset of the summer driving season. However, due to the slower-than-anticipated demand recovery and the growing risks of a prolonged wave of COVID-19 pandemic, the Joint Ministerial Monitoring Committee (JMMC) of OPEC+ emphasised 100 per cent compliance from all participating countries in the Declaration of Cooperation (DoC). This would include compensating for the shortfall in May, June and July 2020, which is vital for the ongoing rebalancing efforts at delivering the long-term goal of oil market stability.

2.1.6. Domestic Outlook

The outlook remained uncertain, shaped by the twin shocks of COVID-19 pandemic and dwindling oil prices. However, upside potential exists on the back of judicious government intervention programmes. Growth is expected to remain subdued for the rest of the year, consequent on tepid economic activity, emanating from the COVID-19 pandemic and lingering structural challenges. Specifically, on a year-on-year basis, projected real gross domestic product is projected to contract in the third and fourth quarters, though at a lesser degree than that of the second quarter.

In addition, inflationary pressures are expected to linger as headline inflation maintained an upward trajectory till the end of the year on the back of supply shortages in food and non-food items, occasioned by increased cases of flooding, security challenges and legacy structural hindrances.

Given these developments, the upside potential lies in the proper implementation of the Economic Sustainability Plan (ESP) alongside other fiscal and monetary measures which are expected to stimulate the economy and reduce the devastating impact of the crisis.

2.2 FISCAL SECTOR DEVELOPMENTS

The total Federally collected revenue in August 2020[1] rose by 2.7 per cent relative to its level in July 2020. It, however, decreased by 16.2 per cent below its level in the corresponding period of 2019. The retained revenue of the Federal Government in August was ₦290.31 billion, while the provisional aggregate expenditure amounted to ₦699.70 billion, resulting in an estimated fiscal deficit of ₦409.40 billion. Total FGN debt outstanding[2] at end-June 2020, stood at ₦31,008.64 billion; with the domestic and external components accounting for 57.6 per cent and 42.4 per cent of the total debt stock, respectively.

2.2.1 Federation Account Operations

Federation Account Operations

As a result of the improved oil revenue, coupled with the easing of COVID-19 restrictions, federally collected revenue in August 2020, amounted to ₦767.55 billion. This exceeded the collections of ₦747.09 billion in July by 2.7 per cent but fell below the ₦915.59 billion receipt in August 2019, by 16.2 per cent. The marginal increase in Federation receipts in August was above the preceding month's level. This was attributed largely to improved collection from oil revenue sources, especially Petroleum Profit Tax (PPT) & Royalties. However, relative to the benchmark revenue of ₦846.84 billion, the receipt in August was 9.4 per cent short. After statutory deductions and transfers, a net balance of ₦649.65 billion was distributed among the three tiers of government (Table 5).

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[1] The fiscal figures quoted in this report, beginning from Jan. 2020 up to August. 2020, are provisional pending updates from the Office of the Accountant General of the Federation (OAGF). However, the revenue components reflect actual distributions at the August 2020 meeting of the Federation Account Allocation Committee, as published by the OAGF.

[2] This includes the external debt of states and the FCT guaranteed by the FGN which constitutes about 6.7 per cent of the total

Table 5: Federally Collected Revenue and Distribution (₦' Billion)

	Aug-19	Jul-20	Aug-20	Benchmark
Federation Revenue (Gross)	**915.59**	**747.09**	**767.55**	**846.84**
Oil	**484.75**	**262.38**	**401.98**	**295.39**
Crude Oil & Gas Exports	28.44	40.14	24.28	54.74
PPT & Royalties	321.36	145.24	296.17	102.45
Domestic Crude Oil/ Gas Sales	130.52	68.42	70.15	35.55
Others	4.43	8.58	11.38	102.65
Non-oil	**430.84**	**484.71**	**365.57**	**551.45**
Corporate Tax	196.26	249.04	135.98	149.88
Customs & Excise Duties	76.73	81.53	72.30	83.69
Value-Added Tax (VAT)	94.16	128.83	132.62	182.55
Independent Revenue of Fed. Govt.	21.74	18.19	17.12	77.74
*Others**	41.95	7.13	7.54	57.59
Total Deductions/Transfers**	***239.93***	***220.55***	***117.90***	***226.67***
Federally Collected Revenue (Net)	**675.66**	**526.54**	**649.65**	**620.17**
plus:				
Additional Revenue	**1.00**	**42.83**	**0.00**	**0.00**
Excess Crude Revenue	*0.00*	*0.00*	*0.00*	*0.00*
Exchange Gain	*1.00*	*42.83*	*0.00*	*0.00*
Total Amount Disbursed	***676.67***	***569.37***	***649.65***	***621.12***
Federal Government	299.80	239.79	273.19	239.13
State Government	190.38	172.41	190.85	192.98
Local Government	143.57	128.67	142.76	142.78
13% Derivation	42.92	28.50	42.85	46.22

Source: Compiled from the Federation Account Allocation Committee (FAAC) Report and Central Bank of Nigeria Staff Estimates
Note: * Includes Education Tax, Customs Special Levies (Federation Account), National Technology Development, Customs Special Levies, Solid Mineral & Other Mining revenue, and other Non-regular earnings; ** Deductions includes cost of revenue collections and JVC cash calls; while transfers entails provisions for FGN Independent revenue and other Non-Federation revenue.

The distributable balance in August 2020, increased by 4.6 per cent, relative to the benchmark. The disbursements to States and Local governments stood at ₦192.98 billion and ₦142.78 billion below their benchmarks (Table 6).

Table 6: Allocations to Subnational Governments (₦' Billion)

	State Government			Local Government		
	Statutory	VAT	Total	Statutory	VAT	Total
Aug-19	145.18	45.20	190.38	111.93	31.64	143.39
July-20	112.51	59.90	172.41	86.74	41.93	128.67
Aug-20	**129.18**	**61.67**	**190.85**	**99.59**	**43.17**	**142.76**
Benchmark	*108.43*	*84.56*	*192.98*	*83.59*	*59.19*	*142.78*

Source: Compiled from Office of the Accountant General of the Federation (OAGF) figures and CBN Staff Estimates

Drivers of Federation Revenue

The Accretion to the Federation Account in August was driven by the oil and non-oil revenue components, both of which accounted for 52.4 per cent and 47.6 per cent of the total Federally collectable revenue, respectively. Oil revenue increased substantially in August due to improved collection from Petroleum Profit Tax (PPT) & Royalties, which rose by 103.9 per cent and 7.8 per cent, compared with receipts in July 2020 and collections in August 2019, respectively. Domestic Crude Oil and Gas Sales also increased marginally by 2.5 per cent, relative to its level in July but fell by 46.3 per cent below the level in the corresponding period of 2019. With regard to non-oil revenue performance, collections fell below their levels in July 2020 and August 2019 by 24.6 per cent and 15.1 per cent, respectively. Notably, receipts from Corporate Tax declined by 45.4 per cent and 30.7 per cent vis-à-vis July 2020 and August 2019 positions, respectively. Value Added Tax (VAT), however, increased by 2.9 per cent and 40.8 per cent in comparison with receipts in July 2020 and August 2019, respectively.

2.2.2. Fiscal Operations of the Federal Government

Fiscal Operations of the Federal Government

The fiscal operations of the Federal Government in August 2020 resulted in a provisional estimated deficit of ₦409.4 billion, compared with the ₦414.63 billion benchmark and its levels of ₦461.13 billion and ₦341.90 billion in July 2020 and August 2019, respectively. The observed moderation in the overall fiscal deficit in August, relative to the preceding period was attributed to the 12.5 per cent increase in revenue (Table 7).

Table 7: Fiscal Balance (₦' Billion)

	Aug-19	Jul-20	Aug-20	Benchmark
Retained revenue	353.84	257.98	290.31	486.25
Aggregate expenditure	695.73	719.11	699.70	900.88
Primary balance	-103.79	-253.27	-234.88	-168.65
Overall balance	**-341.90**	**-461.13**	**-409.40**	**-414.63**

Source: Compiled from Office of the Accountant General of the Federation (OAGF) figures and CBN Staff Estimates

Note: The figures in July and August 2020, are provisional pending the receipt of consolidated data from the OAGF

Federal Government Retained Revenue

The revenue profile of the FGN (Table 8), reveals subsisting revenue challenges arising from subdued economic activities. The total retained revenue of ₦290.31 billion recorded in August 2020, was significantly below the budget benchmark by 40.3 per cent. A breakdown of the revenue components showed that all the revenue heads fell short of their benchmarks, except Federation Account receipts, which exceeded its target by 19.1 per cent. Despite the low receipt in August, oil revenue exceeded receipt in the preceding month by 12.5 per cent, a reflection of the easing of economic conditions and the mild recovery in crude oil prices, relative to July 2020 (Table 8).

Table 8: FGN Retained Revenue (₦' Billion)

	Aug-19	Jul-20	Aug-20	Benchmark
FGN Retained Revenue	**353.84**	**257.98**	**290.31**	**486.25**
Federation Account	285.77	201.24	254.69	*213.77*
VAT Pool Account	13.56	17.97	18.50	*25.37*
FGN Independent Revenue	21.74	18.19	17.12	*77.74*
Excess Oil Revenue	0.00	0.00	0.00	*0.0*
Excess Non-Oil	*0.00*	*0.00*	*0.00*	*0.0*
Exchange Gain	*0.47*	*20.58*	*0.00*	*0.0*
*Others**	*32.30*	*0.00*	*0.00*	*169.38*

Source: Compiled from Office of the Accountant General of the Federation (OAGF) figures and CBN Staff Estimates
Note: * Others include FGN Special Accounts and Special Levies

Federal Government Expenditure

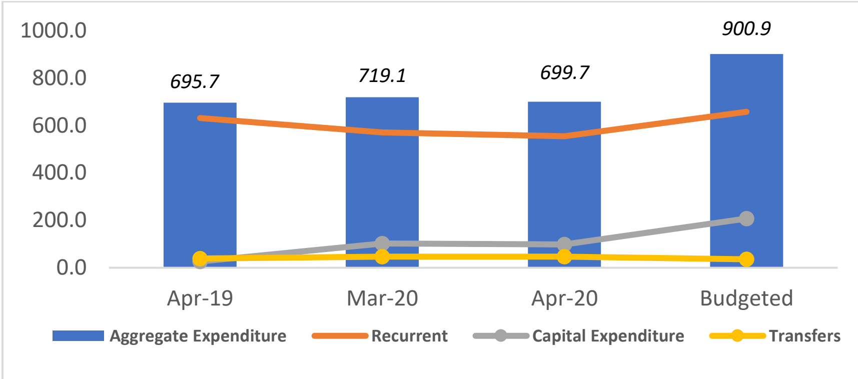
At ₦699.70 billion, the provisional estimated aggregate expenditure of the Federal Government, in August 2020, fell below the budget benchmark of ₦900.88 billion. However, it rose marginally above the ₦695.73 billion recorded in the corresponding period of 2019 by 0.6 per cent (Table 5). The decline was due largely to a reduction in interest payments and capital spending. The total Federal Government expenditure in August 2020 was below the budget benchmark and the level in July 2020, by 22.3 per cent and 2.7 per cent, respectively. It was, however, 0.6 per cent higher than the level in the corresponding period of 2019 (Table 9, Figure 13).

Table 9: Federal Government Expenditure (₦' Billion)

	Aug-19	Jul-20	Aug-20	Benchmark
Aggregate Expenditure	**695.73**	**719.11**	**699.70**	**900.88**
Recurrent	630.88	570.72	554.78	657.83
of which:				
Personnel Cost	202.47	232.33	241.61	253.87
Pension and Gratuities	24.17	29.89	29.89	44.73
Overhead Cost	142.52	77.09	87.37	84.09
Interest Payments	238.11	207.87	174.51	245.98
Domestic	*203.74*	*167.12*	*133.72*	*178.85*
External	*34.37*	*40.75*	*40.79*	*67.12*
Special Funds	23.62	23.53	21.40	29.17
Capital Expenditure	26.42	101.69	98.21	207.38
Transfers	38.43	46.71	46.71	35.67

Source: Staff Estimates and Compilation from the Fiscal Liquidity Assessment Committee engagement

Figure 13: Federal Government Expenditure (₦' Billion)



Source: Central Bank of Nigeria Staff Estimates

Federal Government Debt

Total public debt outstanding was driven by rising fiscal deficits and associated borrowings, induced by low revenue receipts. Total outstanding debt[3], as at end-June 2020, stood at ₦31,008.64 billion or 22.3 per cent of GDP, and reflected an increase of 20.6 per cent over its level in the corresponding period in 2019. The increase was attributed, largely, to new borrowings, including an IMF Budget Support Loan and domestic borrowings to finance the revised 2020 Appropriation Act, such as the issuance of ₦162.56 billion worth of Sukuk bonds and Promissory Notes. The Federal Government accounted for 81.5 per cent of the total debt outstanding, while the States owed the balance of 18.5 per cent. The FGN guarantees the external debt of State governments, as prescribed in section 47 (3) of the Fiscal Responsibility Act, 2007. Thus, the latter's share of the total external debt (13.5 per cent) constitutes a contingent liability to the FGN (Table 10, Figure 14).

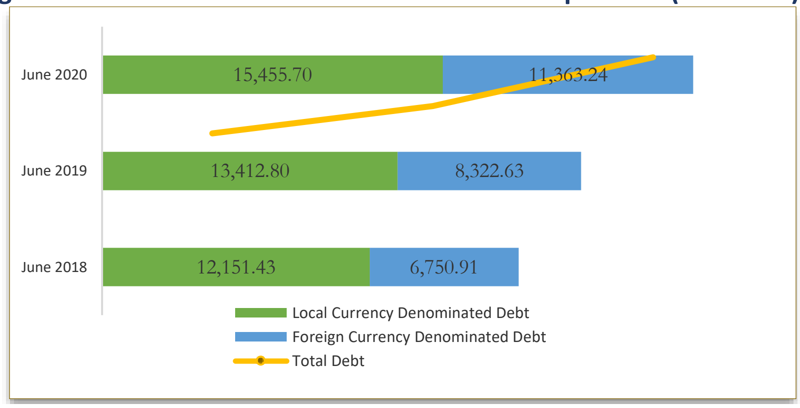
Table 10: Total Public Debt (₦' Billion)

Type	June 2018	June 2019	June 2020
External Debt	**6,750.91**	**8,322.63**	**11,363.24**
Of which:			
FGN	5,452.09	7,012.87	9,824.28
States and FCT	1,298.82	1,309.76	1,538.96
Domestic Debt	**15,628.76**	**17,379.02**	**19,645.40**
Of Which:			
Federal Government	12,151.43	13,412.80	15,455.70
States and FCT	3,477.32	3,966.22	4,189.70
Total	**22,379.66**	**25,701.65**	**31,008.64**

Source: Compiled from Debt Management Office (DMO) Data

[3] Including Federal and States' debt obligations.

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



Source: Compiled from Debt Management Office (DMO) figures

With regards to the debt composition, domestic debt represented 57.6 per cent of the total debt outstanding, while external debt accounted for the balance of 42.4 per cent. In terms of the domestic debt portfolio mix, short-term Nigerian Treasury Bills (NTBs), constituted 17.9 per cent of the total domestic debt stock, while 72.7 per cent was in the form of medium-to-long-term instruments.

The foreign debt portfolio mix comprised loans from Commercial (35.5 per cent of total external debt stock), Multilateral (52.0 per cent) and Bilateral sources (12.5 per cent). This composition reflected government's preference for financing sources with favourable terms.

2.2.3. Fiscal Outlook

Fiscal Outlook

Considering the gradual easing of restrictions, improved revenue collection, due to an uptick in economic activities in some Advanced Economies, and a gradual recovery in oil price, oil exports are expected to rebound with an attendant boost in government revenue. Furthermore, with the several COVID-19 vaccines at different stages of trials, the prospect of ending the Pandemic before the end of the year is cautiously high, thereby, increasing optimism about the sustainability of fiscal policy in the near-term.

2.3. MONETARY AND FINANCIAL DEVELOPMENTS

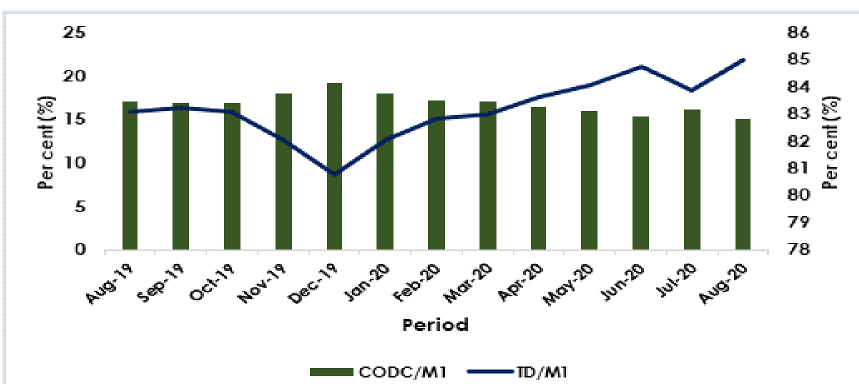
The Nigerian economy contracted by 6.1 per cent in 2020Q2, attributed, mainly, to the adverse effects of the disruptions caused by the COVID-19 pandemic and crash in oil prices on the economy. However, the CBN has been the pivot by which the economy remains buoyant, through its sustained interventions and continued implementation of its Loan-to-Deposit Ratio policy, to guarantee the extension of credit to the real sector.

2.3.1. Monetary Developments

Monetary Aggregates

The monetary policy stance remained accommodative, driven, largely, by the need to improve credit flow to key productive sectors that would bolster growth in the economy. Net foreign assets (NFA) grew by 49.2 per cent and contributed 6.9 per cent to broad money (M_3). This could be attributed to the relative improvement in oil revenue receipts in the review period. Claims on the domestic economy grew by 6.9 per cent at end-August 2020, compared with 9.4 per cent at end-July 2020. The growth in domestic claims reflected, mainly, the 12.9 per cent rise in claims on other sectors. The growth in M_1 (driven solely by the increase in transferable deposits) reflected economic agents' increased demand for transactions balances (Figure 15, Table 11).

Figure 15: The Ratio of Currency Outside Depository Corporations (CODC) and Transferable Deposits (TD) to Narrow Money (M_1)



Source: Central Bank of Nigeria

Table 11: Money and Credit Aggregates (Growth Rates)

	Apr-20	May-20	Jun-20	Jul-20	Aug-20
		Growth Over Preceding December (%)			
Domestic Claims	8.4	7.5	5.8	9.4	6.9
Claims on Central Government (Net)	10.0	1.8	-6.6	0.4	-9.8
Claims on Other Sectors	7.8	9.5	10.3	12.6	12.9
Claims on Other Financial Corporatins	13.4	18.0	20.3	19.6	20.0
Claims on State and Local Government	-3.6	-4.5	-3.1	2.0	3.6
Claims on Public Non-Financial Corporations	-7.6	-11.6	-13.8	-5.3	-8.0
Claims on Private Sector	7.3	8.1	8.1	11.4	11.7
Foreign Assets (Net)	1.9	11.5	30.5	31.6	49.2
Other Items (Net)	79.9	96.3	98.9	102.6	93.5
Currency Outside Depository Corporations	**-5.9**	**-2.3**	**-7.6**	**0.2**	**-2.5**
Transferable Deposits	**14.2**	**22.3**	21.9	23.7	31.2
Money Supply (M1)	10.4	17.6	16.2	19.2	24.7
Other Deposits	10.8	10.2	**10.7**	**12.7**	**15.5**
Broad Money Liabilities (M2)	**10.6**	**12.9**	12.7	15.1	18.9
Securities other than shares	-34.3	-46.1	**-47.0**	**-42.0**	**-50.5**
Broad Money Liabilities (M3)	**2.9**	**2.7**	2.4	5.2	6.9
Memorandum Items:					
Reserve Money (RM)	41.3	49.6	52.9	54.8	57.9
Currency in Circulation (CIC)	-5.6	-3.7	-5.8	-1.9	-3.0
Liabilities to other Depository Corporations	59.7	70.5	76.0	77.1	81.8
		Growth Over Preceding Month (%)			
Domestic Claims	3.1	-0.8	-1.5	3.4	-2.3
Claims on Central Government (Net)	7.1	-1.9	3.0	4.3	2.5
Claims on Other Sectors	1.7	1.5	0.7	2.2	0.2
Claims on Other Financial Corporatins	3.9	4.1	1.9	-0.6	0.3
Claims on State and Local Government	-3.6	-0.9	1.5	5.3	1.5
Claims on Public Non-Financial Corporations	2.7	-4.4	-2.4	9.8	-2.8
Claims on Private Sector	0.9	0.7	0.1	3.0	0.2
Foreign Assets (Net)	-7.6	9.5	17.0	0.8	13.4
Other Items (Net)	6.7	9.1	**1.3**	**1.9**	**-4.5**
Currency Outside Depository Corporations	**0.6**	**3.8**	-5.4	8.5	-2.7
Transferable Deposits	**5.6**	**7.1**	-0.4	1.5	6.0
Money Supply (M1)	4.8	6.6	-1.2	2.6	4.6
Other Deposits	2.1	-0.6	0.5	1.7	2.5
Total Monetary Liabilities (M2)	3.1	2.0	-0.1	2.1	3.3
Securities other than shares	-17.7	-17.9	-1.7	9.5	-14.7
Total Monetary Liabilities (M3)	0.3	-0.2	-0.3	2.7	1.6
Memorandum Items:					
Reserve Money (RM)	**20.7**	**5.9**	2.2	1.2	2.0
Currency in Circulation (CIC)	0.5	2.0	**-2.2**	**4.1**	**-1.0**
Liabilities to other Depository Corporations	26.6	6.8	**3.2**	**0.6**	**2.7**

Source: Central Bank of Nigeria

Sectoral Utilisation of Credit

Following the implementation of the loan-to-deposit ratio (LDR) policy and the increased demand for loans by SMEs, credit to the private sector soared in August 2020. Bank credit to the private sector grew by 11.7 per cent in August, compared with 11.4 per cent in July. The development was due to an uptick in economic activities, as shown by a rise in PMI to 48.5 index points at end-August 2020, compared with 44.9 index points at end-July 2020 and growing household demand. Sectoral credit utilisation by the ”other” sectors of the economy, at ₦19,246.13 billion, rose by 0.7 per cent at end-August 2020, above its level at end-July 2020. A breakdown of the credit showed that the industry and services sectors constituted 37.9 per cent apiece of the total disbursement, compared with 38.1 per cent and 37.8 per cent, respectively, in July 2020. The agricultural sector accounted for 4.8 per cent at end-August 2020, below 4.9 per cent in July 2020, while construction and Government sectors increased by 0.1 percentage point apiece to 4.7 per cent and 8.1 per cent, respectively, in August 2020 (Table 12).

Table 12: Sectoral Credit Utilization

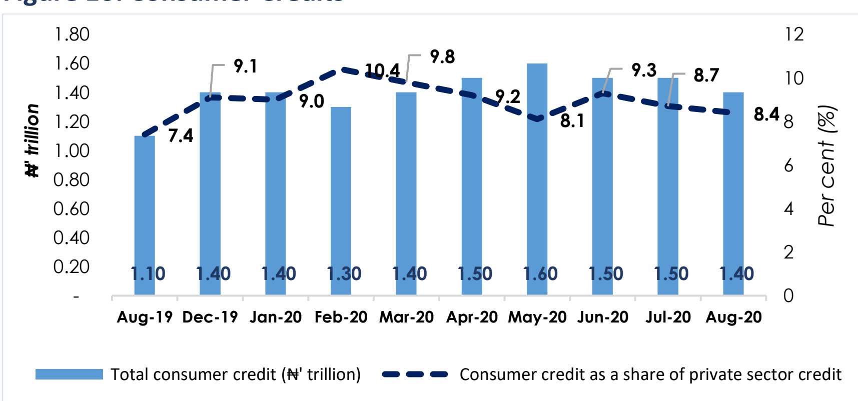
	Dec-19	May-20	Jun-20	Jul-20	Aug-20
Agriculture	4.6	4.6	4.8	4.9	4.8
Industry	37.3	37.5	37.7	38.1	37.9
Construction	4.1	4.5	4.6	4.6	4.7
Trade/General Commerce	7.2	6.7	6.5	6.6	6.5
Government	8.8	8.2	8.0	8.0	8.1
Services	37.9	38.5	38.4	37.8	37.9

Source: Central Bank of Nigeria

Consumer Credit

Consumer credit outstanding, at ₦1,433.25 billion in August 2020, fell by 6.7 per cent below the level at the end of the preceding period. It, however, showed a growth of 27.3 per cent relative to the level in the corresponding period of 2019. The decline in the ratio was due, mainly, to the fall in the rate of loans and advances disbursed to businesses and individuals by banks, owing to the adverse effect of the COVID-19 pandemic (Figures 16, 17).

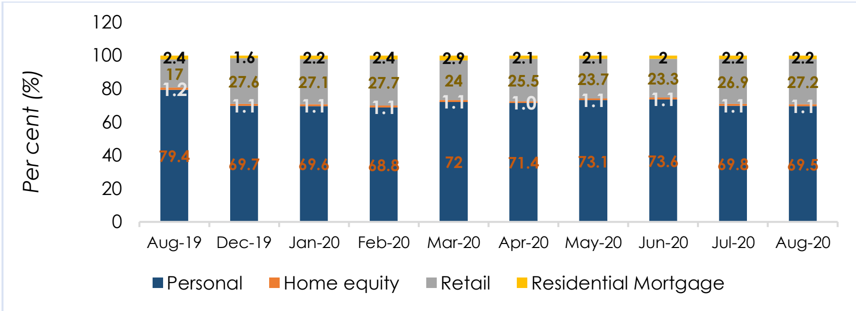
Figure 16: Consumer Credits



Source: Central Bank of Nigeria

A breakdown of consumer loans showed that retail loans rose by 1.1 per cent, making it the only component of consumer credit to increase at end-August 2020.

Figure 17: Composition of Consumer Credit in Nigeria (per cent)



Source: Central Bank of Nigeria

Change in Monetary Liabilities

Intermediation efficiency in the banking sector improved as economic agents continued to express confidence in the banking system. On month-on-month basis, Depository Corporations' transferable and 'other' deposits grew, on account of increased deposits by economic agents. Demand for cash abated as economic activities normalized. Thus, currency outside depository corporations declined by 2.7 per cent with concomitant improvement in intermediation efficiency, as the ratio of currency outside depository corporations to broad money declined by 0.3 percentage point to 5.8 per cent, below the level at end-July 2020. The increase in transferable deposits of depository corporations resonated in narrow money supply (M_1) as the latter expanded by 24.7 per cent at end-August 2020.

Reserve Money

Total bank reserves grew in August 2020 due to ample liquidity in the banking system which resulted in a rise in reserve money. Reserve money grew by 57.9 per cent to ₦13,692.39 billion at end-August 2020, compared with growth of 54.8 per cent at end-July 2020. At ₦11,321.50 billion, liabilities to Other Depository Corporations grew by 81.8 per cent at end-August 2020, above the growth of 77.1 per cent at end-July 2020, leading to a slight decrease in the currency reserve ratio to 20.9 per cent at end-August 2020 from 21.7 per cent at the end of the preceding month. Currency-in-circulation (CIC) declined by 3.0 per cent to ₦2.370.89 billion at end-August 2020, compared with a decline of 1.9 per cent in the preceding month.

2.3.2. Financial Developments

Financial Soundness Indicators

Global financial markets remained volatile amidst the lingering COVID-19 pandemic. Although financial markets have shown signs of moderate recovery, financial conditions were still relatively tight, as investors remain cautious of a possible second round of lockdowns. However, the financial sector remained stable in the review period as the key financial soundness indicators improved. The health of banks was, generally, sound as their assets quality, measured by the ratio of Non-Performing Loans (NPLs) to industry total outstanding loans, stood at 6.1 per cent at end-August 2020, below the 6.4 per cent recorded at end-July 2020, but was above the 5.0 per cent prudential requirement. The industry Capital Adequacy Ratio (CAR) rose by 0.7 percentage point to 15.3 per cent at end-August 2020, relative to 14.6 per cent at end-July 2020. The ratio exceeded the regulatory benchmark of 10.0 per cent by 5.3 percentage points. At 61.3 per cent, the liquidity ratio, decelerated relative to the preceding month's level, but remained above the 30.0 per cent benchmark. The development was attributed to the continued implementation of the Bank's Loan-to-Deposit ratio (LDR) policy.

2.3.2.1 Money Market Developments

The banking system recorded adequate liquidity levels, moderate enough to enhance financial intermediation. This was buoyed by the decline in key lending and money market rates in the review period. Adequate liquidity levels arose from payments of fiscal disbursements to the three tiers of Government (FAAC), CBN bills and treasury bills maturities in the banking system during the review period. Other sources of liquidity were from the sustained interventions by the CBN to the healthcare sector of the economy.

Open Market Operations

The Bank conducted OMO and discount window activities to moderate liquidity in August 2020. The tenors of the instruments were from 96 to 362 days. Total amounts offered, subscribed and alloted, were ₦130.00 billion, ₦213.07 billion and ₦117.86 billion, respectively, with a bid rate of 6.4 per cent, while the stop rate was 6.9 per cent. Repayment of matured CBN bills stood at ₦571.40 billion, a net injection of ₦453.54 billion through this medium.

Primary Market

At the Government securities market, NTBs and long-term FGN Bonds were issued at the primary market on behalf of the Debt Management Office (DMO). NTBs of 91-, 182- and 364-day tenors, amounting to ₦254.38 billion, ₦340.11 billion and ₦254.38 billion, respectively, were offered, subscribed and allotted. The bid-cover ratio of 1.5 for 91-day and 1.3 apiece for 182-day and 364-day tenors, showed that investors were risk averse, as the short-term instrument was more patronised than the longer-term instruments.

FGN Bonds of 10-, 15- and 30-year tranches were reopened and offered for sale, while a 25-year new issue was offered for sale in the review period. Term to maturity of the Bonds were 5 years, 5 months to 29 years, 7 months. Total amounts offered, subscribed and allotted, were ₦150.00 billion, ₦242.14 billion and ₦116.65 billion, respectively. Allotment on non-competitive basis was ₦9.50 billion. The oversubscription in the 30-year tenored instrument was due to renewed confidence by investors in the market and optimism in a more stable and improved economy on a longer horizon. The bid and marginal rates on all tenors were 8.7 per cent and 8.3 per cent, respectively.

Standing Facilities Window Operation

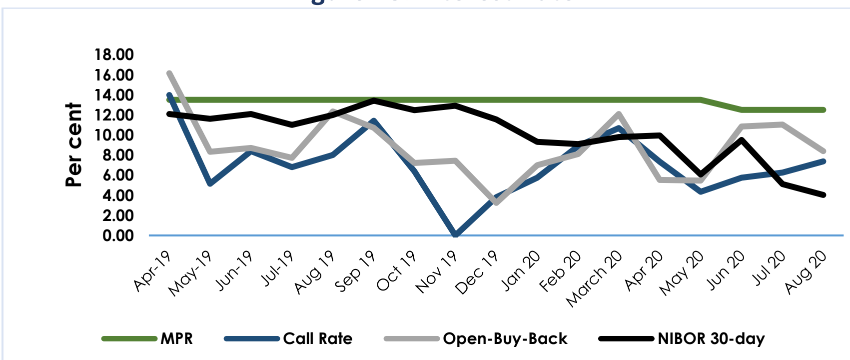
Deposit Money Banks (DMBs) and merchant banks continued to access the Standing Facilities window to square liquidity positions in August 2020. The trend at the CBN standing facilities window showed more frequency at the Standing Deposit Facility (SDF) window, due to improved liquidity in the banking system. Banks took advantage of the situation to scale up operations in the face of the COVID-19 pandemic. Applicable rates for the SLF and SDF remained at 14.5 per cent and 7.5 per cent, respectively. The total request for the SLF granted, in August 2020, was ₦112.73 billion, made up of ₦83.30 billion direct SLF and ₦29.43 billion Intraday Lending Facilities (ILF) converted to overnight repo. The daily average was ₦9.39 billion in 12 transaction days from August 3 to 25, 2020. Total interest earned at 14.5 per cent was ₦0.06 billion. The total SDF granted, during the review period, was ₦441.65 billion with a daily average of ₦25.98 billion in 17 transaction days from August 3 to 25, 2020. Daily requests ranged from ₦6.00 billion to ₦41.40 billion. The cost incurred on SDF in the month stood at ₦0.12 billion.

Interest Rate Developments

Key interest rates, prime and maximum lending rates, recorded significant declines at end-August 2020, due, mainly, to the sustained intervention by the CBN. The resultant liquidity surfeit led to a decline in the Open Buy Back rate at the end of the review period. Consequently, money market rates, generally, trended downwards and moved in tandem with the level of liquidity in the review period. Short-term money market rates traded below the MPR of 12.50 per cent for a major part of the period. Average interbank and OBB rates were 7.38 per cent and 8.39 per cent, respectively, in August 2020. Other rates such as, the 7-day and 30-day NIBOR traded at averages of 9.01 per cent and 4.03 per cent, respectively. From their levels in the preceding month, average prime and maximum lending rates fell by 3.23 percentage points and 0.61

percentage points to 11.76 per cent and 29.51 per cent, respectively, in August 2020. The average term-deposit rate also fell by 0.27 percentage point to 4.42 per cent. The spread between the average term-deposit and average maximum lending rates narrowed by 0.34 percentage point to 25.09 percentage points at end-August 2020. With inflation at 13.22 per cent at end-August 2020, this signified negative real rates for deposits and prime lending rates, but positive real rate for maximum lending rate.

Figure 18: Interest Rate

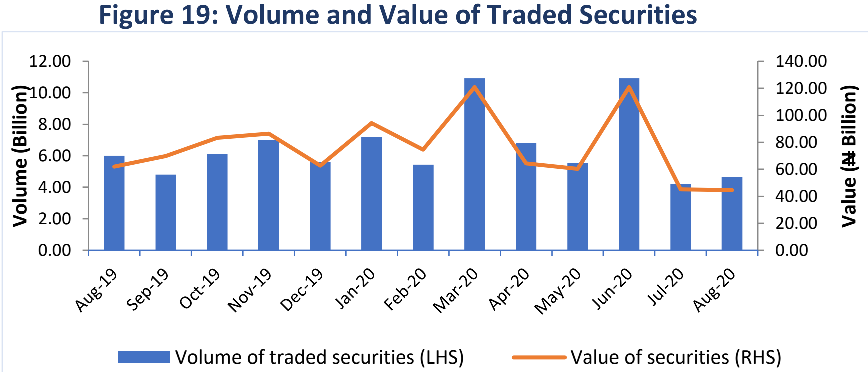


Source: Central Bank of Nigeria

2.3.2.1 Capital Market Developments

Capital market activities on the Nigerian Stock Exchange (NSE) were bullish in August 2020, due to the disclosure and publication of positive half-year earnings of most quoted companies, as well as, increased patronage of blue-chip stocks. The All Share Index (ASI) and aggregate market capitalisation rose, relative to their levels in the preceding month. Transactions by volume on the NSE rose by 10.0 per cent to 4.63 billion shares at end-August 2020, while the value of transactions fell by 1.2 per cent to ₦44.52 billion, in 76,026 deals, compared with 4.21 billion shares worth ₦45.07 billion, in 76,946 deals at end-July 2020 (Figure 19). There was one supplementary listing in the review period (Table 13).

Figure 19: Volume and Value of Traded Securities



Source: Nigerian Stock Exchange

Table 13: Supplementary Listings on the Nigerian Stock Exchange August 2020

Company	Additional Shares (Units)	Reasons	Listing
Consolidated Hallmark Insurance Plc	2.03 Billion Ordinary Shares	Right Issue	Supplementary Listing

Source: Nigerian Stock Exchange

Market Capitalisation

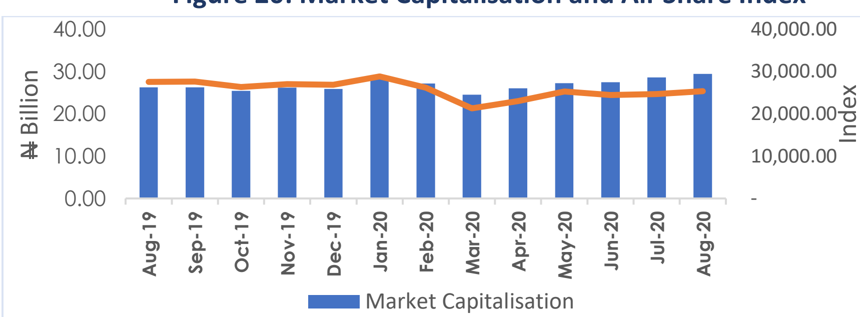
Increased demand for undervalued high capital stocks, and positive anticipations of dividend payments by some quoted companies propelled investors' fortunes to rise, causing the market capitalisation to appreciate in the review month. Aggregate market capitalisation rose by 3.0 per cent to ₦29.46 trillion in August 2020, compared with ₦28.59 trillion recorded at end-July 2020. The equities market capitalisation also rose by 2.6 per cent to ₦13.22 trillion and constituted 44.9 per cent of the total market capitalisation, compared with ₦12.89 trillion and 45.1 per cent at the end of the preceding month.

NSE All-Share Index

Price appreciation of blue-chip stocks that improved investors' fortune caused the ASI to finish on a positive note in the review month. Consequently, the ASI which closed at 24,693.73 at end-July 2020, rose by 2.6 per cent to close at 25,327.13 at end-August 2020.

Relative to the levels in the preceding month, all sectoral indices trended upwards, except for the NSE-Industrial, NSE Premium and the NSE Lotus indices, which fell by 1.9 per cent, 0.5 per cent and 0.1 per cent, respectively, in the review period. The NSE-Oil and Gas, NSE-Insurance, NSE-Consumer Goods, NSE-Banking and NSE-Pension indices rose by 12.2 per cent, 7.6 per cent, 6.1 per cent, 4.7 per cent and 4.5 per cent, respectively, at end-August 2020, while the NSE-AseM index closed flat (Figure 20).

Figure 20: Market Capitalisation and All-Share Index



Source: Nigerian Stock Exchange

2.4. EXTERNAL SECTOR DEVELOPMENTS

External Sector Performance

The external account exhibited mixed developments in August 2020 in the face of the continued gradual relaxation of lockdown measures to contain the spread of the COVID-19 pandemic. The trade sector recorded improved performance, which resulted in higher foreign exchange inflows. Foreign capital inflows, however, shrank significantly by 72.9 per cent on account of tepid and bearish global investment sentiments.

Trade Performance

The value of aggregate external trade increased by 12.1 per cent to US$5.70 billion in August 2020, compared with US$5.08 billion in July 2020, as a result of increased export volumes. It, however, indicated a decline of 45.5 per cent, below the US$10.46 billion in the corresponding period of 2019. Following the improvement in economic activities as the global economy gradually reopened, data showed that exports increased by 2.5 per cent to US$2.15 billion over its level in July 2020, due largely to improvements in crude oil prices in the international oil market. Similarly, merchandise imports increased to US$3.20 billion in August 2020. A higher trade deficit of US$1.39 billion was recorded in August 2020, compared with US$0.88 billion in July 2020, on account of increased business activities amidst relaxation of restrictions imposed during the lockdown.

Crude Oil and Gas Exports

Relative improvements in crude oil prices and production resulted in an increase in crude oil exports by 9.7 per cent to US$1.58 billion in August 2020, compared with US$1.44 billion in July 2020. However, they declined by 60.6 per cent, relative to the US$4.01 billion recorded in the corresponding period of 2019. The price of Nigeria's reference crude, the Bonny Light, averaged US$45.06 per barrel in August 2020, compared with US$44.10 per barrel in July 2020, as global energy demand inched up, due to the easing of lockdown measures across countries. In the same vein, crude oil production increased to 1.75 mbpd, in the review period, compared with 1.55 mbpd in July 2020. Gas exports, on the other hand, decreased by 2.0 per cent to US$0.30 billion in August 2020, relative to US$0.31 billion in July 2020. The crude oil and gas component remained dominant and accounted for 85.1 per cent of total exports.

Non-oil Exports

Despite the gradual pick-up of economic activities, the Nigerian borders remained closed resulting in a decrease in the value of non-oil exports by 11.1 per cent to US$0.32 billion in August 2020, compared with US$0.36 billion in July 2020. A disaggregation showed that earnings from other non-oil and electricity exports to Benin Republic and Togo increased by 1.0 and 0.6 per cent to US$0.17 billion and US$ 0.01 billion in August 2020, above their respective levels in July 2020. Re-exports, however, declined by 25.0 per cent to US$0.15 billion in August 2020, relative to US$0.20 billion in July 2020.

Export Receipts by Top Ten Exporters

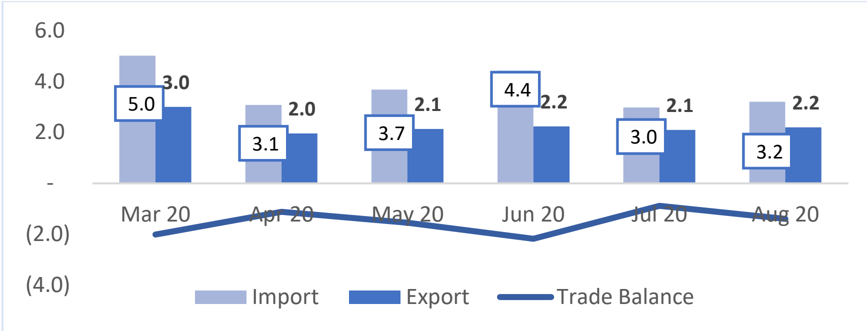
The aggregate value of export proceeds of the top ten exporters decreased by 22.8 per cent to US$57.74 million in August 2020, compared with US$74.78 million in July 2020. A breakdown showed that Olam Nigeria Limited topped the list with a value of US$15.11 million or 26.2 per cent of the total, from the export of cocoa beans, cashew nuts, and sesame seeds to Turkey and China. The second major non-oil exporter was Starlink Global and Ideal Limited, with a value of US$6.79 million (11.8 per cent), from the export of cocoa beans to Malaysia. The third major non-oil exporter was Dangote Cement Plc at US$5.71 million (9.9 per cent), realised from the export of Dangote Portland limestone cement to Togo and Niger Republic.

The fourth major non-oil exporter was Aak Nigeria Oils and Fats Limited with a value of US$5.50 million (9.5 per cent), from the export of vegetable oils and fats to India, Saudi Arabia and other Asian and Middle East countries. British American Tobacco Nigeria Limited with a value of US$5.39 million (9.3 per cent), followed with export of cigarettes to Liberia, Guinea, Ghana, Cameroun, Cote d'Ivoire and Niger. The sixth, seventh, eighth, ninth and tenth positions were taken by Atlantic Shrimpers Limited, ETC Agro Company Nigeria Limited, Metal Recycling Industries Limited, Valency Agro Nigeria Limited and Plantation Industries Limited, respectively, with export earnings of US$4.90 million (8.5 per cent), US$3.99 million (6.9 per cent), US$3.62 million (6.3 per cent), US$3.49 million (6.0 per cent) and US$3.24 million (5.6 per cent), respectively. Their major export products were sea frozen shrimps, sesame seeds, aluminum, cocoa beans and pure prime pressed cocoa butter to Vietnam, Japan, India, Malaysia and France, respectively.

Imports

Merchandise imports increased to US$3.20 billion in August 2020, compared with US$2.72 billion in July 2020, but were lower than US$5.00 billion recorded in August 2019. Non-oil imports, constituting 96.9 per cent of total imports, increased to US$3.10 billion in the review period, compared with US$2.62 billion in July 2020. In the same vein, the importation of petroleum products, which represented 3.1 per cent of total import, increased marginally to US$0.10 billion in August 2020, above the level in July 2020.

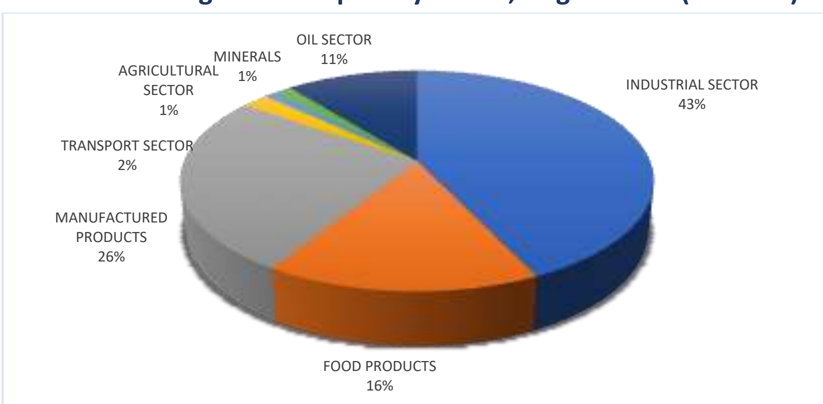
Figure 21: Export, Import and Trade Balance (US$ billion)



Source: Central Bank of Nigeria

A breakdown of visible imports by sector indicated that industrial sector imports accounted for the largest share of 30.3 per cent in August, reflecting a steady improvement in business activities in the country, followed by manufactured products with a share of 18.3 per cent on account of greater access to foreign exchange. Food imports remained high at 11.2 per cent, due to ecological and insecurity challenges. Others included: oil sector, 7.6 per cent; transport sector, 1.6 per cent; mineral sector, 0.9 per cent; and agricultural sector, 0.7 per cent.

Figure 22: Import by Sector, August 2020 (Per cent)



Source: Central Bank of Nigeria

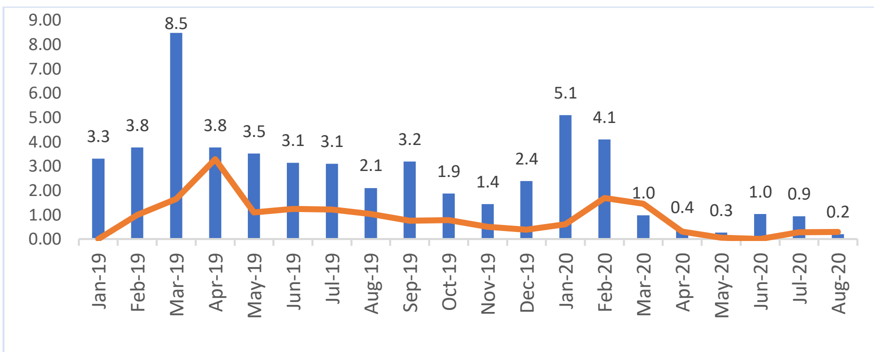
2.4.1. Capital Importation and Capital Outflow

Capital Importation

Capital inflows fell by 73.0 per cent, month-on-month, to US$0.17 billion in August 2020, compared with US$0.63 billion in July 2020, due to a significant decrease in the inflows of FPI and loans for the month. A breakdown of capital inflows showed that foreign direct investment (FDI), at US$0.05 billion, accounted for 32.2 per cent, foreign portfolio investment (FPI) was US$0.03 billion or 19.3.0 per cent, while other investments, in form of loans, was US$0.08 billion or 45.6 per cent. These were lower than the US$0.06 billion, US$0.25 billion and US$0.31 billion reported for FDI, FPI and Other Investment inflows, respectively, in July 2020.

An analysis of capital importation by nature of investment showed that shares accounted for 35.8 per cent, while financing and telecommunication accounted for 8.6 and 4.6 per cent of the total, respectively, with production/manufacturing and oil and gas simultaneously at 14.2 per cent, apiece. A breakdown of capital importation by originating country showed that the United Kingdom, Singapore and Republic of South Africa accounted for 6.1 per cent, 13.7 per cent and 3.4 per cent of the total, respectively. Major contributions were from The Netherlands, United Arab Emirates and Isles of Man with 22.3 per cent, 13.1 per cent and 11.0 per cent, respectively. Inflows by destination showed that Lagos State and Abuja received US$0.11 billion and US$0.05 billion, respectively, of capital inflows to States.

Figure 23: Capital inflow and FPI (US$ Billion)

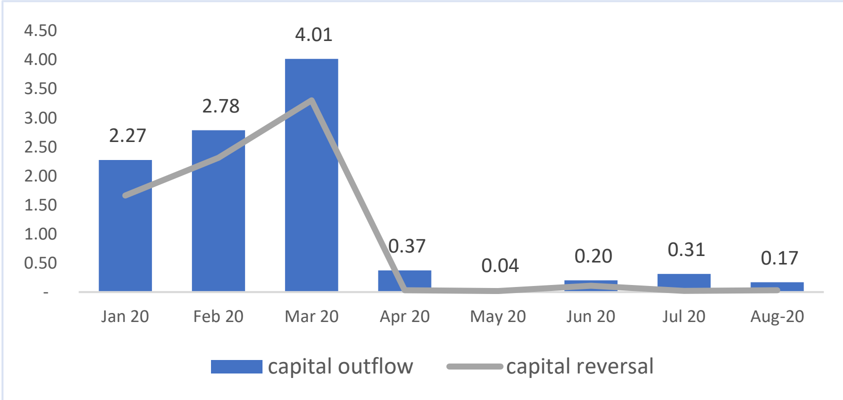


Source: Central Bank of Nigeria

Capital Outflows

Capital outflows fell by 45.2 per cent, month-on-month, to US$0.17 billion in August 2020, relative to US$0.31 billion in July 2020, attributed to a suitable macroeconomic environment, particularly a stable exchange rate. A disaggregation of the total capital outflow in August 2020 revealed that, outflows in form of loan repayments, was US$0.12 billion, which accounted for 67.5 per cent of the total. Payment of dividends and capital reversal amounted to US$0.01 billion or 8.6 per cent and US$0.03 billion or 18.4 per cent, respectively, with other capital outflows accounting for the balance.

Figure 24: Capital outflow (US$ Billion)



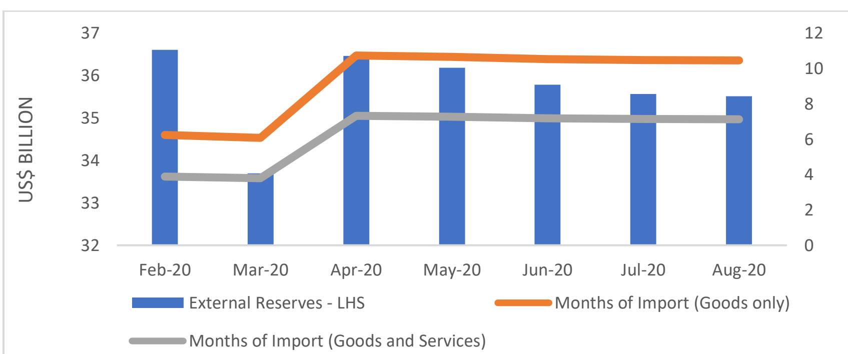
Source: Central Bank of Nigeria

2.4.2. International Reserves

International Reserves

The stock of foreign reserves declined, marginally, in August 2020 by 0.1 per cent relative to its position in the preceding month due, mainly, to increased foreign exchange supply to stabilise the naira exchange rate and payments to external creditors. Consequently, external reserves at end-August 2020 stood at US$35.51billion, compared with US$35.56 billion and US$42.06 billion at end-July 2020 and end-August 2019, respectively. The external reserves position would cover 7.1 months of import for goods and services and 10.4 months of import for goods only, using the provisional average import figure for the first half of 2020 (Figure 25).

Figure 25: External Reserves and Months of Import Cover for Nigeria



Source: Central Bank of Nigeria

Currency and Ownership Composition

A breakdown of the external reserves by ownership showed that the CBN had the largest share of US$30.66 billion (86.3 per cent), followed by the Federal Government with US$4.78 billion (13.5 per cent), while the Federation accounted for the balance of US$0.07 billion (0.2 per cent). In terms of currency composition, the US dollar, at US$28.90 billion, constituted 81.4 per cent of the total; Chinese yuan, US$4.11 billion (11.6 per cent); special drawing rights, US$2.13 billion (5.9 per cent); GB Pounds, US$0.24 billion (0.7 per cent); Euro, US$0.12 billion (0.3 per cent); Japanese Yen, US$0.01 billion (0.03 per cent) and other currencies accounted for the balance.

2.4.3. Foreign Exchange Flow through the Economy

Foreign Exchange Flow through the Economy

The Nigerian economy exhibited a gradual recovery from the effects of the COVID-19 pandemic, as reflected by the increase in aggregate foreign exchange flows in August 2020. Provisional data indicated that aggregate foreign exchange inflows to the economy were US$7.39 billion, compared with US$6.68 billion in the preceding month. This indicated an increase of 10.6 per cent over the level in the preceding month, but a decline of 24.6 per cent in the corresponding month of 2019. The increase in foreign exchange inflows was mainly attributed to enhanced foreign exchange earnings from non-oil receipts.

On the other hand, foreign exchange outflows through the economy, driven, largely, by outflows through the CBN, rose by 15.0 per cent to US$2.83 billion in the review period, over the level in the preceding month, but declined by 58.7 per cent below that in the corresponding period of 2019. The development, relative to the preceding month was attributed, mainly, to the increased tempo in economic activities as a result of the gradual opening of land and air borders globally. Consequently, foreign exchange transactions through the economy resulted in a net inflow of US$4.56 billion, an increase of 8.0 per cent and 54.8 per cent, compared with the net inflow of US$4.22 billion and US$2.95 billion in the preceding month and corresponding month of 2019, respectively.

2.4.4. Foreign Exchange Flow through the Central Bank of Nigeria

Foreign Exchange Flow through the CBN

The non-oil sector remained the major source of foreign exchange inflows to the economy through the CBN. Aggregate foreign exchange inflow through the CBN stood at US$2.58 billion, an increase of 30.3 per cent above the level in the preceding month, but a decline of 25.5 per cent below the corresponding month of 2019**.** This was attributed, largely, to the 48.1 per cent and 4.7 per cent increase in the non-oil and oil receipts through the Bank to US$1.73 billion and US$0.08 billion, respectively, in the review period. The development was due to the increased demand for oil and the opening of international borders by most countries, which led to the gradual recovery of global economic activities. In the domestic economy, the partial relaxation of lockdown measures also impacted economic activities positively.

A further analysis of non-oil receipts showed that inflows from Interbank/Institutional Swaps increased by 140.0 per cent to US$0.60 billion, other official receipts rose by 35.0 per cent to US$0.42 billion, while interest on reserves & investments amounted to US$0.03 billion with a 77.3 per cent increase. Similarly, the TSA & third-party receipts and unutilised funds from foreign exchange transactions rose by 104.9 per cent and 7.7 per cent to US$0.36 billion and US$0.03 billion, respectively, compared with their respective levels in the preceding month.

Furthermore, foreign exchange purchases, DMB cash receipts, returned payments and unutilised IMTO funds, declined below the preceding month's levels by 4.6 per cent, 89.2 per cent, 57.4 per cent and 2.8 per cent to US$0.19 billion, US$0.01 billion, US$0.003 billion and US$0.07 billion, respectively.

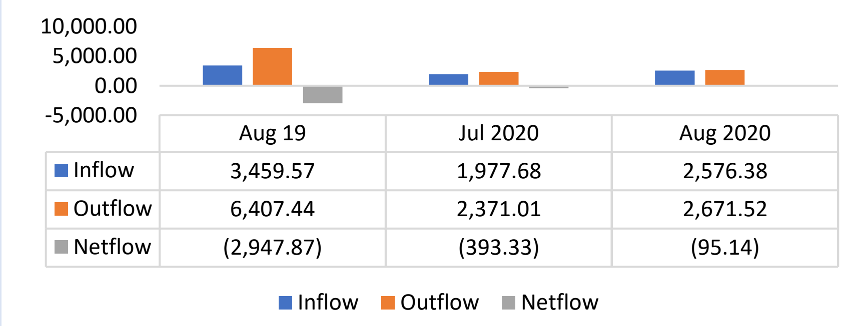
Aggregate foreign exchange outflow through the CBN increased by 12.7 per cent to US$2.67 billion, compared with US$2.37 billion in the preceding month. The development was due to increased demand necessitated by the uptick in economic activities as a result of the reopening of factories and businesses. A breakdown of the outflows through the Bank during the review period showed that: interbank utilisation, amounted to US$1.65 billion; public sector/direct payment, US$0.35 billion; third party MDA transfers, US$0.38 billion; external debt service, US$0.22 billion; foreign exchange special payment, US$0.02 billion; and drawings on L/Cs, US$0.06 billion. The decline of 73.1 per cent in the drawings on letters of credit was attributed to the Bank's directive of discontinuation of third-party payments, using Form M.

Interbank Utilisation

The interbank utilisation, which constituted 61.9 per cent of total outflow through the CBN, increased by 19.1 per cent due, largely, to resumption in sales to the I&E window. There was no supply to the I&E window in July 2020 to gauge market reactions and also conserve foreign exchange reserves. A further disaggregation showed that, SMIS intervention, matured swaps transactions and sales to the SME segment increased to US$0.78 billion, US$0.61 billion and US$0.09 billion, respectively. However, interbank sales decreased by 11.7 per cent to US$0.04 billion below the level in the preceding month.

The Bank maintained its policy of no sales to the BDCs due to closure of land and air borders. Overall, foreign exchange flows through the Bank during the review period resulted in a net outflow of US$ 0.09 billion, compared with US$0.39 billion and US$2.95 billion in the preceding month and the corresponding month of 2019, respectively (Figure 26).

Figure 26: Foreign Exchange Transactions through the Bank (US$ Million) August 2020



	Aug 19	Jul 2020	Aug 2020
Inflow	3,459.57	1,977.68	2,576.38
Outflow	6,407.44	2,371.01	2,671.52
Netflow	(2,947.87)	(393.33)	(95.14)

Source: Trade and Exchange Department

2.4.5. Foreign Exchange Flow through Autonomous Sources

Foreign Exchange Flow through Autonomous Sources

Aggregate Inflow through autonomous sources amounted to US$4.82 billion, indicating an increase of 2.4 per cent, but a decrease of 24.1 per cent, compared with the levels in July 2020 and the corresponding month of 2019, respectively. This accounted for 65.2 per cent of the total inflow through the economy. Other sources of foreign exchange inflows through autonomous sources included external accounts purchase, US$0.006 billion and invisible purchases, US$4.59 billion.

Non-oil Receipts by Banks

Non-oil export receipts by banks, at US$0.23 billion, indicated a decline of 57.3 per cent in August 2020, below the US$0.53 billion in the preceding month. The development was due, largely, to weak global demand, on account of a phased re-opening of global economies, particularly Nigeria's major trading partners.

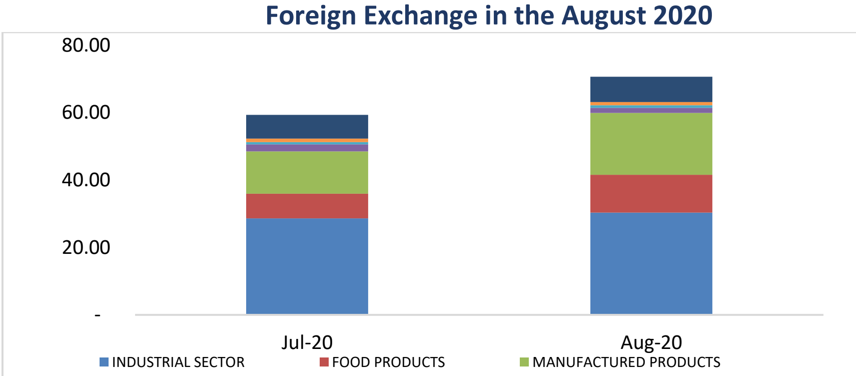
Outflows through autonomous sources, at US$0.16 billion, increased by 76.9 per cent over the level in the preceding month. This was due to the 87.4 per cent rise in invisible imports, which included financial, communication, and business services, among others, to US$0.12 billion above US$0.06 billion in the preceding month. These, however, decreased by 64.6 per cent below the level in the corresponding period of 2019. Overall, foreign exchange flows through autonomous sources resulted in a net inflow of US$4.66 billion, reflecting an increase of 0.9 per cent when compared with the US$4.62 billion in the preceding month, but a decline of 21.0 per cent, below the US$5.89 billion in the corresponding period of 2019.

2.4.6. Sectoral Utilisation of Foreign Exchange

Sectoral Utilisation of Foreign Exchange

Available data for August 2020 showed that total foreign exchange utilisation by sectors declined by 1.5 per cent to **US$1.09 billion,** ***from the preceding month's level, reflecting the slow recovery of activities across the globe.*** Visible imports rose by 17.3 per cent to US$0.77 billion, while invisible imports fell by 28.9 per cent to US$0.32 billion, constituting 70.7 per cent and 29.3 per cent of the total foreign exchange utilisation, respectively. A disaggregation of foreign exchange utilisation for visible transactions showed that the amount utilised for industrial, manufactured products, food products, oil, transport, mineral and agriculture subsectors amounted to US$0.33 billion, US$0.20 billion, US$0.12 billion, US$0.08 billion, US$0.02 billion, US$0.01 billion and US$0.008 billion, respectively, compared with US$0.32 billion, US$0.14 billion, US$0.08 billion, US$0.08 billion, US$0.02 billion, US$0.01 billion and US$0.006 billion, respectively, in July 2020 (Figure 27).

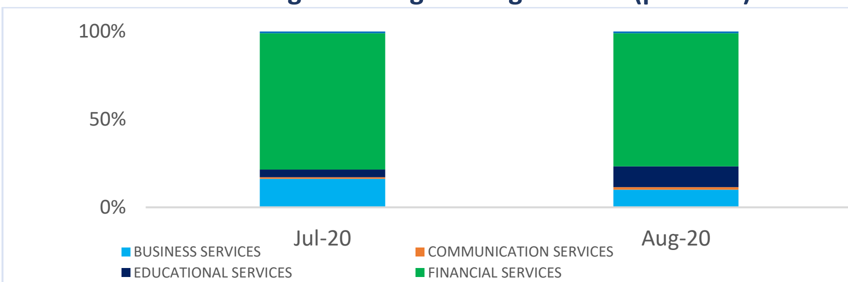
Figure 27: Major Visible Import as Per cent of Total Utilisation of Foreign Exchange in the August 2020



Source: Trade and Exchange Department

A disaggregation of the foreign exchange utilisation under the invisible component showed that: financial services was US$0.24 billion and accounted for 21.9 per cent of the total; educational services, US$0.04 billion (3.4 per cent); business services, US$0.03 billion (2.9 per cent); transport services, US$0.003 billion (0.3 per cent); and other services was US$0.001 billion (0.2 per cent). Furthermore, communication services were US$4.47 million; construction and related engineering services, US$0.08 million; health related and social services, US$0.35 million (Figure 28).

Figure 28: Major Invisible Imports as Per cent of Total Utilisation of Foreign Exchange in August 2020 (per cent)



Source: Central Bank of Nigeria

2.4.7. Foreign Exchange Market Developments

Foreign Exchange Policy

Foreign exchange measures introduced by the Bank to stabilise the exchange rate and boost external reserves in July 2020 were sustained in August 2020. In addition, as part of efforts to enhance the prudent use of foreign reserves and eliminate incidence of over invoicing, transfer pricing, double handling charges and avoidable costs, which were ultimately passed on to consumers, the Bank directed all authorised dealers to desist from opening Form M with payments routed through a third party. Furthermore, the Bank introduced a Product Price Verification mechanism to forestall overpricing and/or mispricing of goods and services imported into the country. The policy was aimed at plugging the leakages associated with Form M and boosting external reserves.

Following the announcement of the resumption of international flights, the Bank, during the review period, also officially informed the public of the resumption of sales of foreign exchange to BDCs, which would commence on September 7, 2020 to enhance accessibility to foreign exchange to travellers.

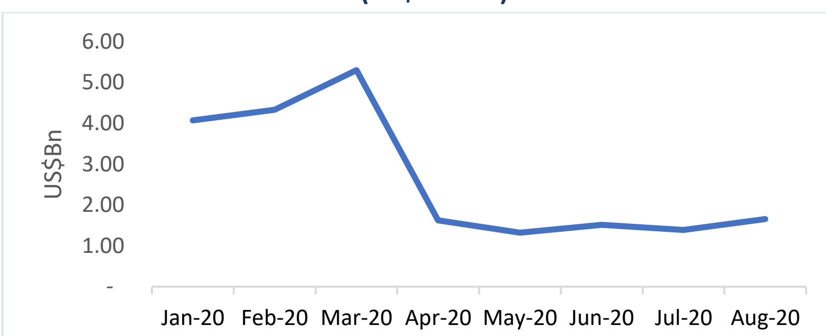
Spot Transactions

2.4.8. Spot Transactions in the Foreign Exchange Market

The gradual reopening of major economies in the world impacted the demand side of the foreign exchange market in August 2020. Hence the Bank, through its periodic interventions in the foreign exchange market, continued to augment the supply side of the market, in a bid to mitigate the negative effects of the COVID-19 pandemic. The total foreign exchange supplied to authorised dealers stood at US$1.65 billion, indicating an increase of 19.1 per cent over the level in the preceding month, but a decline of 55.9 per cent below its level in the corresponding period of 2019. Of the total, interbank sales amounted to US$0.04 billion, compared with US$0.05 billion and US$0.09 billion in the preceding and the corresponding period of 2019, respectively. During the review month, foreign exchange supply under the Secondary Market Intervention Scheme (SMIS) increased by 21.7 per cent to US$0.78 billion, while intervention in the Small and Medium Enterprises (SMEs) increased by 3.1 per cent to US$0.09 billion. In addition, the Bank resumed sales to the I&E window, amounting to US$0.13 billion, in contrast to nil sale in the preceding month (Figure 29).

As in the preceding period, there was no sale of foreign exchange to the BDC segment during the review period. The Bank, however, announced the resumption of sales to the BDCs, effective September 7, 2020.

Figure 29: Foreign Exchange Sale to Authorised Dealers in August 2020 (US$ billion)



Source: Central Bank of Nigeria

Forwards and Swaps

2.4.9. Forwards and Swaps Transactions

The Bank sustained its proactive reserve management policy in August 2020 to shore up external reserves through Forwards and Swaps transactions. Thus, the matured swaps transactions rose by 0.5 per cent to US$0.613 billion, compared with US$0.610 billion and US$0.03 billion in the preceding period and the corresponding month of 2019, respectively. There was no wholesale forwards intervention in the review period.

2.4.10. Exchange Rate Movement

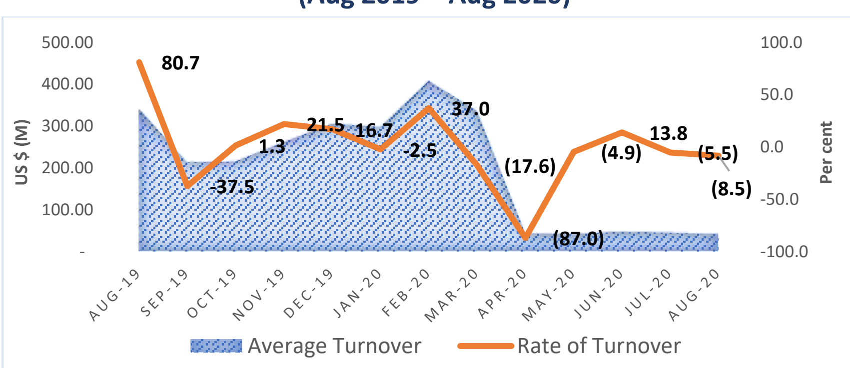
Exchange Rate Movement

The demand pressure witnessed in the foreign exchange market in July continued in the review month, particularly at the interbank and BDC segment. In August 2020, the average exchange rate of the naira at the interbank segment of the foreign exchange market depreciated by 1.0 per cent to ₦381.00/US$ from ₦377.19/US$ in July 2020. The BDC segment exhibited a similar trend as the naira depreciated by 1.9 per cent to ₦473.48/US$, below the level in the preceding month. This was attributed to the Bank's policy stance on temporary suspension of foreign exchange supply to the BDC segment. This development led to the widening of the premium between the average interbank/BDC rate by 1.1 percentage points from 23.2 per cent to 24.3 per cent in August 2020. The I&E window recorded a marginal appreciation of 0.3 per cent to ₦386.26/US$ due, partly to ease of pressure on this segment of the market by Investors and Exporters in the review period.

However, the daily average foreign exchange turnover at the Investors and Exporters' market fell by 8.5 per cent, from US$0.044 billion in July 2020 to US$0.040 billion in August 2020. This represented a decrease of 88.0 per cent below the level in the corresponding period of 2019 (Figure 30).

The end-period exchange rate of the naira to the US dollar at the interbank segment remained unchanged at ₦381.00/US$ in the review month. However, at the BDC segment, the end-period exchange rate appreciated by 2.4 per cent to ₦462.00/US$, compared with ₦473.00/US$ at the end of July 2020 due, largely, to announcement effect of the Bank's resumption of sales at the BDC window.

Figure 30: Turnover in the I&E Foreign Exchange Market (Aug 2019 – Aug 2020)



Source: Financial Markets Dealers Quotations (FMDQ)

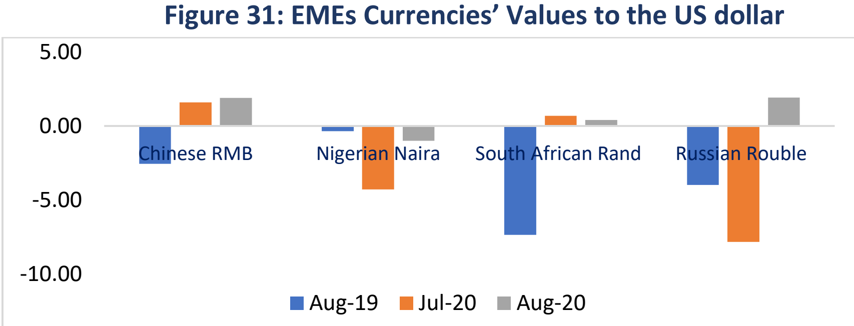
Naira against Selected International Currencies

The naira continued to slide against major global currencies due, largely, to lowered oil export earnings and unabated demand pressure. An analysis of the average exchange rate of the naira against selected major international currencies in the review period indicated that, the naira depreciated by 4.8 per cent, 4.3 per cent and 1.7 per cent, against the British pound, the euro and the Japanese yen, respectively, compared with their levels in the preceding month. This was attributed to low export earnings and increased demand pressure. A similar trend was exhibited at the sub-regional level as the naira depreciated against the CFA franc and WAUA by 20.6 and 17.5 per cent, relative to its value in July 2020.

Emerging Market Currencies

An analysis of the emerging market currencies in August 2020 showed that the negative impact of the COVID-19 pandemic and low oil prices on majority of currencies is gradually easing out. This was attributed to the weakening dollar and a rising demand for assets denominated in emerging markets currencies. Consequently, the average exchange rate of the South African rand against the U.S. dollar appreciated by 0.4 per cent, compared with the level in July 2020. Similarly, the Russian rouble recovered from the falling oil price shock and the outbreak of the COVID-19 pandemic, as it appreciated by 1.9 per cent in the review period. The Chinese RMB, maintained its gains against the dollar, as it also appreciated by 1.9 per cent to RMB6.97/US$. This followed the People's Bank of China injection of liquidity into the financial system and the expansion of manufacturing activities in the Asian giant. The average exchange value of the naira at the interbank segment of the foreign exchange market in August 2020, however, depreciated marginally by 1.0 per cent, from ₦377.19/US$ in July 2020 to ₦381.00/US$ in August 2020 (Figure 31, Table 15).

Figure 31: EMEs Currencies' Values to the US dollar



Source: Central Bank of Nigeria and Thomas Reuters.

Table 14: EMEs Currencies' Rates to the US dollar

Period	Chinese RMB/US$	Nigerian Naira/US$	South African Rand/US$	Russian Rouble/US$
Aug-19	7.06	306.93	15.18	65.87
Jul-20	6.97	377.19	17.01	75.22
Aug-20	6.84	381.00	16.94	73.80

Source: CBN & Reuters.

2.4.11. External Sector Outlook

Global Oil Demand in Slow Recovery

The global oil demand has recovered slowly, following the reopening of economic activities across the globe. However, according to the Economic Intelligence Unit, global oil demand will still be 5 – 10 per cent lower than pre-COVID-19 levels. There is, therefore, the likelihood of further declines in global oil demand as some countries take stricter restrictive measures to curtail spikes in COVID 19 infections.

Exchange Rate Pressure

Developing countries' currencies are depreciating because of the safe-haven role of advanced economies. This is not unexpected, especially during the COVID-19 pandemic, as developing countries do not have the infrastructure to cushion the impact of the COVID-19 pandemic, thereby leading to increased demand for foreign exchange by non-resident investors.

Weak Global Trade

According to the World Bank Global Economic Prospects report for June 2020, global trade growth would be more negative in 2020 than earlier predicted, which signifies further pressures on Nigeria's foreign reserves. It is therefore expected that weak economic fundamentals prior to the COVID-19 pandemic might re-surface post-COVID-19, thereby undermining export competitiveness and the drive for diversification.

COVID- 19 Crisis

With the delays in developing a vaccine and no news of immunity, alongside the rising number of COVID-19 cases, the pandemic might likely last longer than envisaged, causing more damage to economies. Thus, the Nigerian economy might enter a recession, which could only be halted by robust and proactive fiscal, trade and foreign exchange policies.