CENTRAL BANK OF NIGERIA ECONOMIC REPORT

August 2021

ABOUT THE REPORT

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

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

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EXECUTIVE SUMMARY

Global economic recovery slowed in August 2021 as evolving variants of COVID-19 impacted supply chains and weighed down the growth of the manufacturing and services sectors. Shortages of materials and labour drove up input costs and undercut recovery in most Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) as the latest wave of COVID-19 infections swept through the globe. Tight labour market conditions, energy price fluctuations, and increased input costs exerted inflationary pressures across regions, except in the US and China. Despite the fragile global recovery, performance of financial markets generally improved on the back of accommodative monetary policy stance of central banks in major economies. Crude oil prices declined marginally in August, as demand dropped, following new measures to tame the rising cases of the COVID-19 Delta-variant.

On the domestic front, real economic activity continued to strengthen in August, as manufacturing and non-manufacturing sectors' Purchasing Managers' Index (PMI) improved. Non-manufacturing PMI rose by 2.3 points to 46.9 index points, compared with 44.6 index points in July. At this level, it was higher than the manufacturing PMI, which improved by 0.3 points during the period. Inflationary pressures continued to ease as the headline inflation rate decelerated for the fifth consecutive month, to 17.01 per cent (y-o-y), reflecting developments in the food component of inflation. Though higher-than-expected, food inflation fell to 20.30 per cent (y-o-y), driven by the improved supply of staples during the harvest season, and availability of processed food items, as the global supply chain disruption abates. Core inflation dropped to 13.41 per cent (y-o-y), due to improvements in manufacturing and non-manufacturing activities, as well as in product supply chains. The Bank sustained its drive to improve credit conditions and boost growth, through its interventions in the critical sectors of the economy.

The fiscal operations of the Federal Government in the review period was anchored on the 2021 Appropriation Act and the Medium-Term Expenditure Framework & Fiscal Strategy Papers (MTEF&FSP 2021-2023), which seek to achieve macroeconomic stability, job creation, and to mitigate the impacts of the COVID-19 pandemic, among others. With shortfalls in non-oil receipts, federation earnings declined by 17.1 per cent, relative to its July level. The retained revenue of the Federal Government (FGN) also fell by 10.4 per cent and 43.5 per cent, compared with receipts in July and the revenue target, respectively; an indication of persisting revenue challenges. However, the 18.8 per cent drop in Federal Government expenditure recorded in August was more than offset the fall in revenue, resulting in a 25.2 per cent improvement in overall deficits.

Monetary and financial developments in August reflected the underlying fluctuations in money and credit conditions. Broad money, M3 grew by 6.0 *per cent, explained, largely, by the increase in domestic claims, particularly credit to the private sector. When annualized, broad money growth stood at 9.0 per cent, lower than the benchmark of 9.9 per cent, indicating ample room for further expansion. The recent monetary policy stance of the Bank is geared towards robust credit expansion to the private sector to boost growth. Claims on the private sector rose by 17.8 per cent and led to 8.3 per cent growth in domestic claims. Key money market and lending rates trended upwards in August, in tandem with prevailing liquidity conditions in the banking system. The financial system remains resilient, as financial soundness indicators stayed within the regulatory thresholds, while activities on the Nigerian Exchange Limited were bullish in August, following bargain hunting in blue-chip companies.*

In the external sector, declining demand and tight labour market conditions in most Advanced Economies that followed the resurgence of the COVID-19 infections, slowed global demand in August 2021. The development, coupled with rising US crude oil inventories, affected the price of crude oil, thus, reducing crude oil receipts. Consequently, the trade deficit widened relative to the preceding month. Capital flows were also affected by the risk sentiments of the COVID-19 resurgence, leading to a decline in capital inflow. However, external reserves registered an accretion due to the IMF's additional allocation of US$3.34 billion SDRs.

On the balance of risks, domestic growth outlook remains positive for the rest of 2021, on the back of stable crude oil prices, increased production by the Organisation of the Petroleum Exporting Countries plus (OPEC+), sustained policy support, and further easing of supply chain bottlenecks. Nonetheless, supply chain constraints in the forms of lingering insecurity affecting agricultural output, infrastructural challenges that inhibit economic activities, and rising food prices, amongst others, could undermine growth prospects.

1.0 GLOBAL ECONOMIC DEVELOPMENTS

Global economic recovery slowed in August 2021, as emerging variants of COVID-19 impacted supply chains and encumbered the growth of the manufacturing and services sectors. The momentum of economic recovery declined mildly in most Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) due to materials and labour shortages, surging input costs. Constrained labour market conditions, energy price fluctuations, and increases in input costs exerted inflationary pressures across regions, except in US and China. Despite the fragile global recovery, financial markets' general performance improved, due to the accommodating monetary policy stance of central banks in major economies. Crude oil prices declined marginally in August; as demand dropped due to newly imposed restrictions aimed at containing rising cases of the Delta-variant COVID-19.

Global Economic Condition

Continued emergence of new variants of COVID-19 obstructed supply chains and constrained growth of the manufacturing and services sectors, thereby slowing the pace of global recovery. Output growth slowed in major economies, like the US, UK, EU, and China, due to declining demand and constrained labour market conditions, which was driven by the resurgence in the pace of COVID-19 infections. The general slowdown was marked by declining momentum in the manufacturing and services sectors, with the leisure and hospitality sectors crushed the hardest. Thus, the global composite index declined to a seven-month low of 52.6 index points in August, after recording 55.8 index points in July. Services was also impaired as the global business activity index recorded a seven-month low, falling to 52.9 index points in August from 56.3 index points in the preceding month,.

Table 1: Global Purchasing Managers' Index (PMI)

	21-Jun	21-Jul	21-Aug
Composite	56.6	55.8	52.6
Manufacturing	55.5	55.4	54.1
Services (Business Activity)	53.0	56.3	52.9
Employment Level	57.5	52.6	51.6

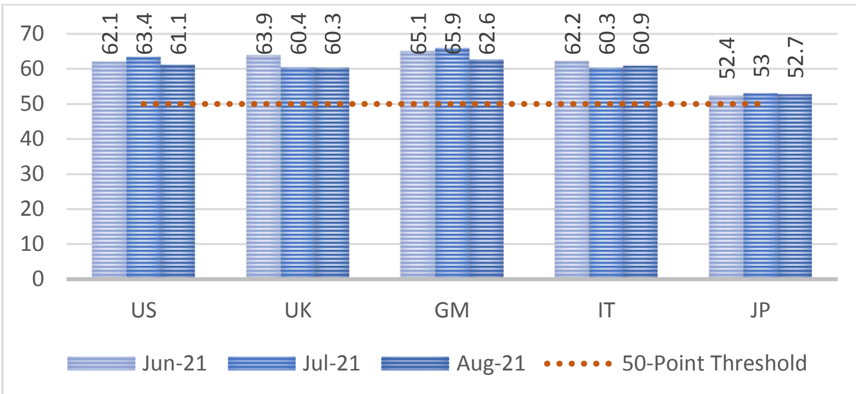
Source: JP Morgan, IHS Markit

1.1 Global Output Growth

Advanced Economies

The pace of economic recovery slowed in most Advanced Economies (AEs) due to materials and labour shortages, as the latest wave of COVID-19 infections swept the globe. In Japan, the manufacturing PMI declined in August but remained above the 50-point benchmark. Also, the services PMI contracted to the lowest level in fourteen months, as businesses grapple with the effects of the fourth wave of infections and restrictions. Similarly, the leisure and hospitality industry in the US witnessed a significant contraction in demand due to public health measures to curb the spread of the virus. Manufacturing activities in the US eased mildly in August, relative to July. Staff shortages and supply chain disruptions weighed on the services and manufacturing sectors in the UK, parallel with the trend in Eurozone.

Figure 1: PMI in Selected Advanced Economies

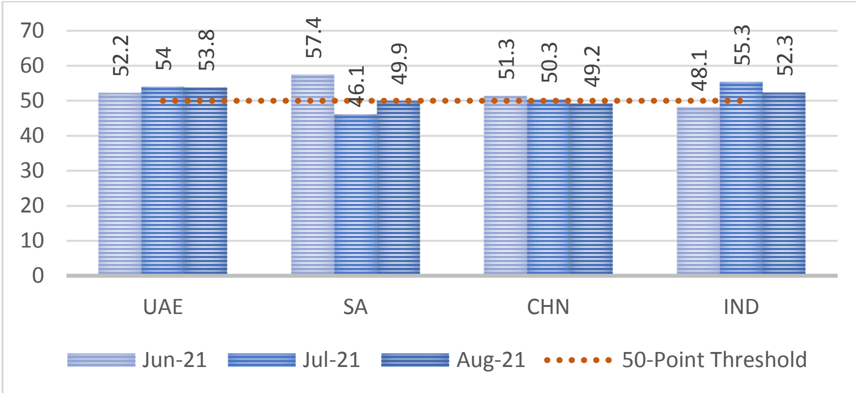


Source: Trading Economics/Various Country Websites, CBN Staff compilation.

Note: US, UK, GM, IT and JP represent United States, United Kingdom, Germany, and Japan, respectively.

The fragile recovery in Emerging Markets and Developing Economies (EMDEs) was slowed by the resurgence in COVID-19 infections and rising input costs. Virus-propelled disruptions encumbered economic activities in several EMDEs, as the emerging markets' manufacturing PMI declined. For instance, in China, growth weakened due to the lull in factory activities and the services sector, due to restriction measures to curb the spread of the virus. Consequently, the manufacturing PMI in China contracted to 49.2 index points in August from 50.3 index points in July. A slower-than-expected recovery was recorded in India due to fears about the adverse impact of the spread of the virus and rising input costs, as the manufacturing PMI fell to 52.3 from 55.3 in the previous month. Conversely, the easing of lockdown measures and the quelling of unrest in South Africa propped up output expansion, raising the manufacturing PMI in August to 49.9, from 46.1 index points in July.

Figure 2: PMI in Selected EMDEs



Source: Trading Economics/Various Country Websites, CBN Staff compilation.
Note: CHN, IND, UAE and SA represent China, India, United Arab Emirate and South Africa, respectively.

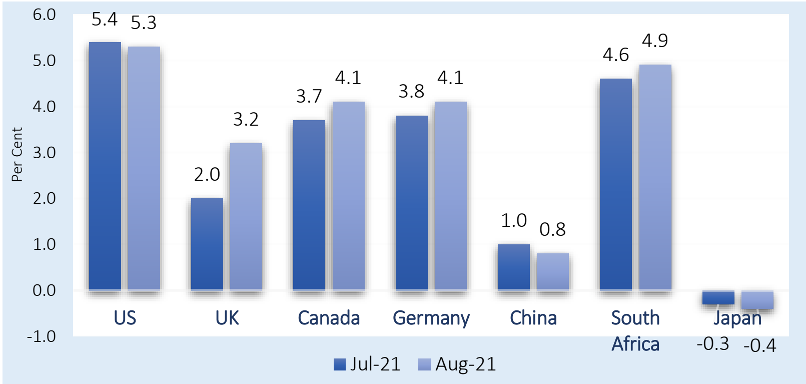
1.2 Global Inflation

Global Inflation

Constrained labour market conditions, energy price fluctuations, and increases in input costs exerted inflationary pressures across regions in August 2021, except in US and China. Higher transport costs, rising motor fuel prices and input costs, labour supply shortages, and increase in demand fuelled inflationary pressures in most advanced economies. Specifically, inflation in the UK rose to 3.2 per cent in August, from 2.0 per cent in the preceding month, as prices of used cars resulted in the largest single contribution to the inflation rate. Likewise, in Germany, inflation rose to 4.1 per cent in August, from 3.8 per cent in July, reflecting base effects and changes in the value-added tax (VAT) rates. In addition, the inflation rate in Canada rose to a 10-year high of 4.1 per cent in August, against 3.7 per cent in July, stemming mainly from the surge in shelter prices. However, US inflation moderated to 5.3 per cent in August, with a slight decline in food and vehicle prices.

In EMDEs, excluding China, inflationary pressures elevated, owing to rising input costs and food prices. In South Africa, prices rose to 4.9 per cent in August from 4.6 per cent in the preceding period, on account of a marginal increase in fuel prices and transportation costs. Prevailing inflationary pressures are expected to be transitory, dependent on rapid and equitable vaccine deployment, and retort to cautious implementation of monetary policy measures. However, consumer prices declined in China to 0.8 per cent in August from 1.0 per cent a month earlier, due to weak demand, amid measures to contain the resurgence of the virus.

Figure 3: Inflation Rates in Selected Countries, August 2021 (per cent)



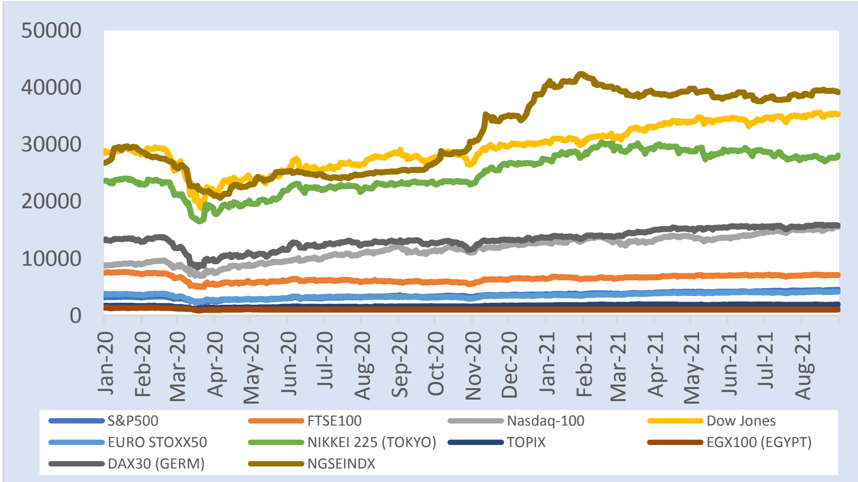
Source: Organisation for Economic Cooperation and Development (OECD) and the National Bureau of Statistics (NBS)

1.3 Global Financial Market

Despite the fragile global recovery, the general performance of financial markets improved due to the accommodative monetary policy stance of central banks in major economies. The global stock markets recorded gains across regions in August. The momentum was bouyed by increased liquidity ease by many central banks. The US Fed's delay in tightening its policy stance, as well as the European Central Bank's acceleration of its emergency purchase programme signpost the continued accomodative stance of key central banks.

Notably, stock markets in the US and Europe ended on a positive note in August. Specifically, the S&P 500, FTSE 100 and NASDAQ 100 indices rose to averages of 4,450.95, 7,139.87 and 15,153.50, compared to 4,363.20, 7,047.63 and 14,844.12 in July, respectively. In EMDEs, performances were mixed, as the EGX 100 (Egypt) and the NSEI (India) rose from 685.53 and 212.05 in the previous month to 712.06 and 234.86, respectively. On the other hand, JSE (South Africa) and SSE (China) fell to 4,206.36 and 223.08, compared to 4,316.13 and 246.28 in July, respectively. The bullish sentiments in the Nigerian equity market reflected investors' preference for bonds and other securities, in their quest for higher returns.

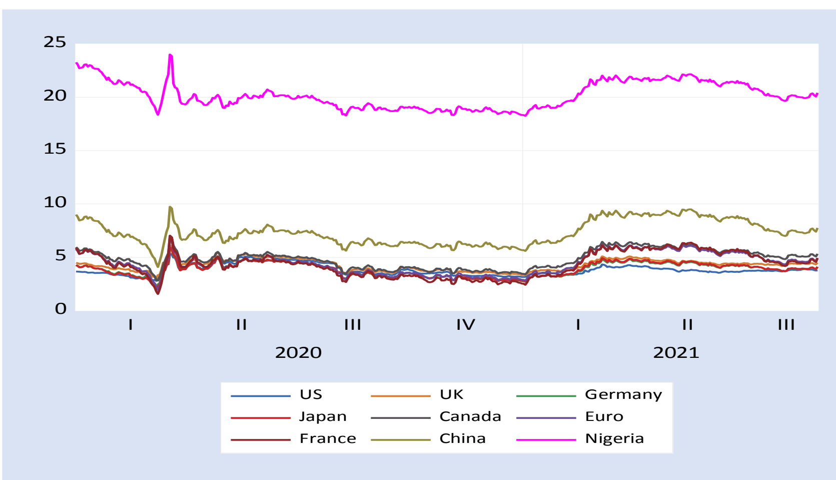
Figure 4: Global Stock Market Equity Indices, Jan. 2020- -Aug. 2021



Source: Bloomberg data and Central Bank of Nigeria (CBN) Staff computation.

In the fixed income space, yields on the 10-year government bond declined across several regions in the review month, as investors divest towards safer assets due to rising uncertainties in the global market.

Figure 5: 10-Year Government Bond Yields, 2020Q1-2021Q3



Source: Bloomberg data, CBN Staff computation. **Note**: US, UK represent United States, United Kingdom

1.4 Global Oil Market

World Crude Supply and Demand

World crude oil supply declined due to disruptions caused by the fire incident in Mexico's offshore platform and Hurricane Ida. Total supply fell by 1.0 per cent to 96.12 mbpd, from 97.13 mbpd in the previous month. Of the aggregate, OECD supply declined by 2.6 per cent to 30.71 mbpd from 31.54 mbpd in the previous month, while non-OECD supply was

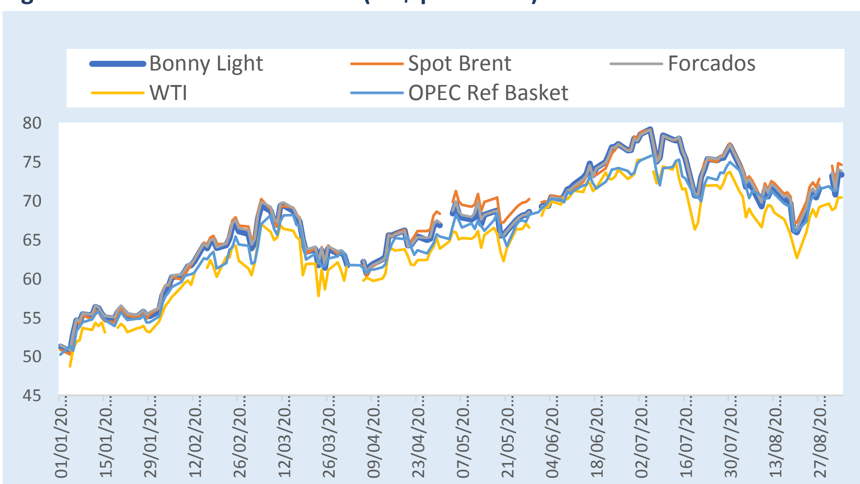
65.41 mbpd, indicating a decrease of 0.18 mbpd (0.3 per cent) from the previous month.

On the other hand, overall, total world demand increased by 0.7 per cent to 98.48 mbpd compared with 97.81 mbpd in July. Of this, OECD crude oil demand rose by 2.5 per cent or 1.10 mbpd to 45.80 mbpd in August, while non-OECD crude oil demand decreased by 0.43 mbpd to 52.68 mbpd in the same period. This was in response to rising mobility and travelling activities in OECD countries and increase in world demand on the heels of pent-up demand.

OPEC

OPEC reference basket averaged US$70.83 pb in August, from US$73.53 pb in July, while the Brent averaged US$75.57 pb, down from US$76.06 pb in the preceding month. Meanwhile, OPEC's total production increased by 210,000 bpd from the July estimate to 26.93 million bpd in August, reflecting, largely, supply boost in Saudi Arabia, Iraq, and the United Arab Emirates. Nonetheless, in August, OPEC+ fell short of the targeted 400,000 bpd, due to lower production from Nigeria and Iran.

Figure 6: Global Crude Oil Prices (US$ per barrel)



Source: Reuters data, CBN staff compilation.

1.5 Global Commodity Market Developments

Agricultural Commodity Prices

Prices of the major agricultural export commodities recorded increases in August 2021, spurred by the continued recovery of the Chinese economy and supply constraints. Provisional data showed that the prices of the majority of the agricultural export commodities monitored rose in the review period. The price indices of cotton, palm oil, rubber, cocoa, wheat, and groundnut oil increased by 2.64, 2.23, 1.41, 0.48, 0.27, and 0.26 index points, respectively. The increases were attributed, largely, to firm demand from key importers, such as China, and supply constraints occasioned by an increase in COVID-19 cases.

Specifically, the price of cotton rose, on the expectation of increased demand from the global textile industry. This is amid limited supply, as global cotton stock for 2021/2022 was projected at 89.3 million bales, the lowest in three years. In addition, cotton output in China is expected to decline on the back of rising labour costs.

The price of palm oil was also affected by inventory build-up in importing countries, such as China. Similarly, the price of rubber rose on the back of the expected increase in demand from key importers, like Japan. However, the prices of coffee and soya beans fell by 3.64 per cent and 1.19 per cent, respectively, compared to the previous month. The decline in the prices of coffee and soybean emanated from increased supply by major producers, such as Brazil and Argentina.

Table 2: Agricultural Export Commodities, August 2021

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

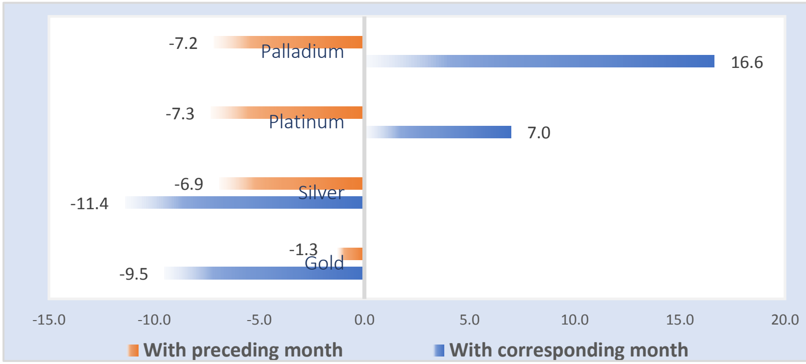
Commodity	Jul-20	Jun-21		% Change	
				(1) & (3)	(2) & (3)
	1	2	3	4	5
Cocoa	76.75	76.05	76.41	-0.44	0.48
Cotton	41.63	58.16	59.70	43.38	2.64
Coffee	77.25	100.49	96.83	25.36	-3.64
Wheat	67.70	81.28	81.51	20.40	0.27
Rubber	28.18	34.78	35.27	25.15	1.41
Groundnut	140.59	106.23	106.51	-24.24	0.26
Palm Oil	61.58	85.65	87.56	42.19	2.23
Soybeans	70.46	109.92	108.61	54.14	-1.19

Sources: World Bank Pink Sheet and Staff Estimates

Other Mineral Commodities

Average spot prices of gold, silver, platinum, and palladium decreased in August 2021, driven, partly, by the continuous rise in yields of dollar-denominated US treasury bills, amid worries over the rapid spread of the Delta-variant of the coronavirus. As of August 27, 2021, the average spot prices of gold, silver, platinum and palladium fell by 1.29 per cent, 6.89 per cent, 7.30 per cent, and 7.15 per cent month-on-month to sell at US$1782.33, US$23.92, US$1,006.32, and US$2530.72, respectively (Figure 7).

Figure 7: Price Changes in Selected Metals, August 2021 (per cent)

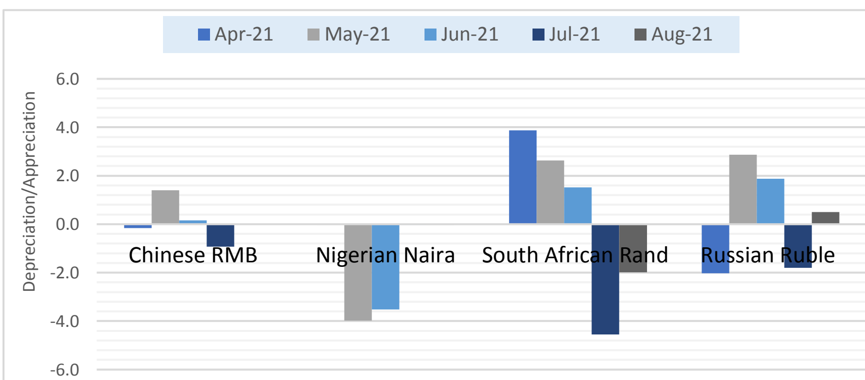


Source: Refinitiv Eikon IV (Reuters)

Emerging markets currencies

The continued surge in the COVID-19 Delta-variant infections weighed on the performance of emerging market currencies against the US dollar. The average exchange rate of the South African rand, the Chinese RMB to the US dollar, and Nigerian naira depreciated by 2.0 per cent, 0.01 per cent, and 0.02 per cent, respectively, while the Russian ruble appreciated by 0.5 per cent, against the value in July.

Figure 8: EMEs Currencies' Values to the US Dollar



Source: Central Bank of Nigeria & Exchange Rates UK

Table 3: EMEs Currencies' Rates to the US Dollar

Period	Chinese RMB	Nigerian Naira	South African Rand	Russian Ruble
Aug-20	*6.84*	*381*	*16.94*	*73.8*
Jul-21	*6.48*	*411.39*	*14.51*	*73.93*
Aug-21	*6.48*	*411.5*	*14.8*	*73.56*

Source: Central Bank of Nigeria & Exchange Rates UK.

2.0 DOMESTIC ECONOMIC DEVELOPMENTS

2.1 REAL SECTOR DEVELOPMENTS

2.1.1. Domestic Output and Business Activities

Recovery of domestic economic activities continued in August, as further improvement in the Purchasing Managers' index (PMI) was recorded in both the manufacturing and non-manufacturing sectors. The non-manufacturing PMI improved by 2.3 points to 46.9 index points from 44.6 index points in the previous month. At this level, it coincided with manufacturing PMI, which improved by 0.3 points to 46.9 index points. Expansions in the services sector derived from increases in new orders, which resulted in extra staff hire, as service providers accumulated inventories (Table 4). In the manufacturing sector, the composite index improved to 46.9 index points, from 46.6 points in July. This development reflected, largely, the stocking of raw materials by manufacturing firms and increased employment in the sector, as firms strive to meet potential demand.

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

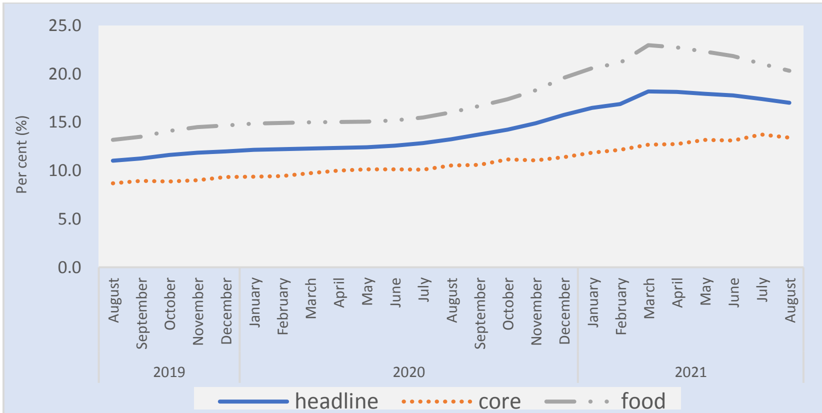
Components	*Jul-21*	*Aug-21*
Composite Manufacturing PMI	**46.6**	**46.9**
Production Level	*45.5*	*43.8*
New Orders	*43.8*	*43.8*
Supplier Delivery Time	*54.5*	*54.7*
Employment Level	*46.5*	*49.4*
Raw Material Inventory	*46.6*	*47.4*
Composite Non-Manufacturing PMI	**44.6**	**46.9**
Business Activity	*42.7*	*44.6*
New Orders	*42.7*	*44.1*
Employment Level	*47.0*	*48.8*
Inventory	*46.0*	*49.9*

Source: Central Bank of Nigeria

Headline Inflation

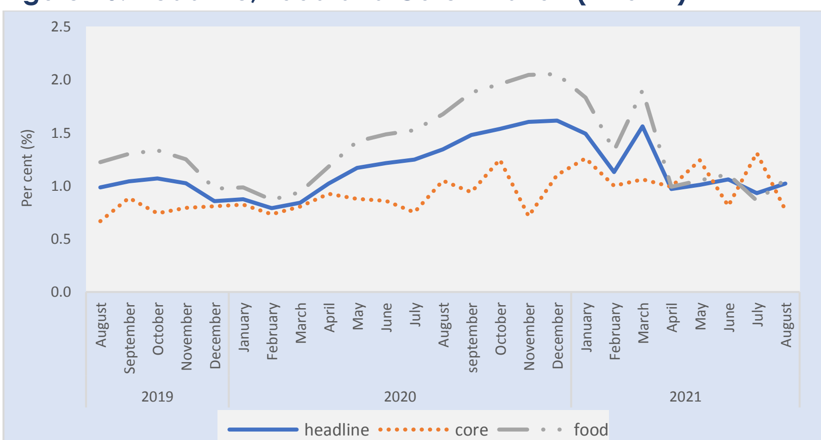
Inflationary pressures moderated further in August following increased supply of processed food and staples as the harvest season kicks off. Headline inflation rate for August slowed to 17.01 per cent (year-on-year) from 17.38 per cent in July (Figure 9). The moderation in headline inflation reflected the decline in the food component of the CPI basket and improvement in the supply chain across the country. However, on a month-on-month basis, headline inflation inched up to 1.02 per cent, above the 0.93 per cent in the preceding month (Figure 10).

Figure 9: Headline, Food and Core Inflation (y-o-y)



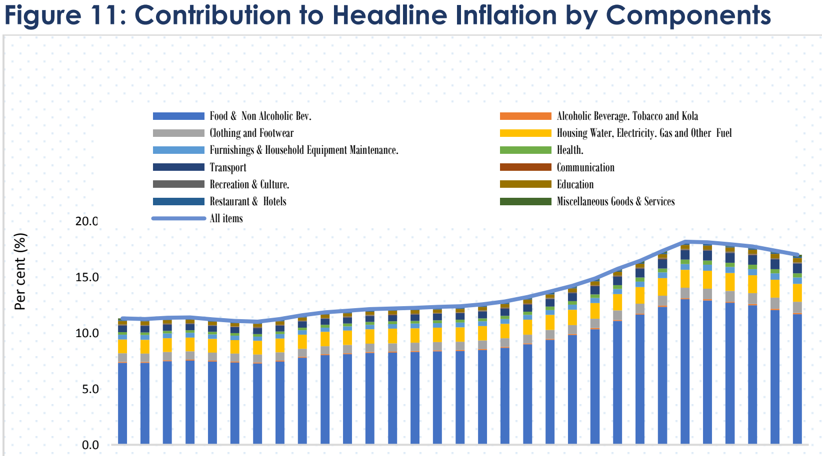
Source: National Bureau of Statistics (NBS)

Figure 10: Headline, Food and Core Inflation (m-o-m)



Source: National Bureau of Statistics (NBS)

Figure 11: Contribution to Headline Inflation by Components



Source: Data from National Bureau of Statistics

Core Inflation

Core inflation dropped to 13.41 per cent (y-o-y) in the review period from 13.72 per cent in the preceding month. The decline was attributable to improvements in manufacturing and non-manufacturing activities and product supply network. On a month-on-month basis, core inflation also decreased to 0.77 per cent, below the 1.31 per cent in July.

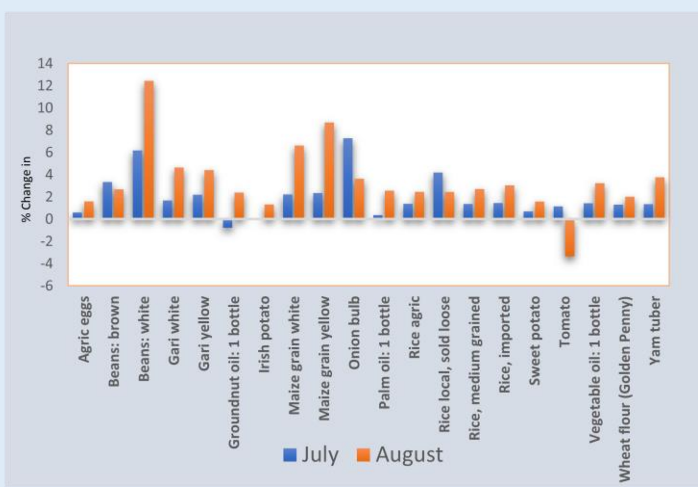
Food Inflation

Food inflation moderated to 20.30 per cent (y-o-y) in August, from 21.03 per cent in July. The decrease in food inflation was driven by an improvement in the supply of staples, following the gradual return of economic activities after the lockdown. However, on a month-on-month basis, food inflation rose to 1.06 per cent in August, compared with 0.86 per cent in the preceding month, due, mainly to, obstructions of agricultural activities caused by persisting security challenges in some food-producing communities.

Box Information 1

Monthly Domestic Food Price Watch
August 2021

Domestic food prices maintained an upward trend in August. *Provisional data from the National Bureau of Statistics (NBS) showed that the prices of major domestic food commodities recorded increases in the review period. It ranged from 12.42 per cent for beans (white) to 1.31 per cent for Irish potato. Other commodities that recorded the major price increases were maize (yellow), maize (white), gari (white), gari (yellow) and yam tubers, which increased by 8.70 per cent, 6.61 per cent, 4.64 per cent, 4.40 per cent and 3.76 per cent, respectively. This suggests that staples and tubers provided the underlying contribution to food prices in the review period.*



Source: National Bureau of Statistics

2.1.2. Crude Oil Market Developments

Crude Oil production and Export

Domestic crude oil production and export declined in August as infrastructural challenges encumbered key production terminals. Crude oil production declined by 10.0 per cent (m-o-m) to 1.35 million barrels per day (mbpd) from 1.50 mbpd in the preceding month. Out of the 1.35 mbpd produced in August, exports accounted for 0.90 mbpd, while the balance of 0.45 mbpd was allocated for domestic consumption. The decline was attributable to pipeline leakages, fire incidents, and declaration of *force majeure* on Forcados, Qua Iboe, and Agbami facilities.

Aggregate crude oil production, including Natural Gas Liquids (NGLs) and condensates by OPEC, was 32.16 mbpd in August, representing an increase of 0.3 per cent, compared with 32.08 mbpd recorded in the preceding month. Both OPEC's crude and non-crude portions increased by 0.2 per cent and 0.6 per cent, to 26.78 mbpd and 5.38 mbpd, respectively.

Spot Oil Prices

Crude oil spot prices fell in August, due to lower oil demand in Asia, as lockdown measures were reinstated in China and Japan, and inventory stockpiled in the US. The average spot price of Nigeria's reference crude, the Bonny Light (34.9° API), fell by 6.9 per cent to US$70.72 per barrel (pb) in August from US$75.93 pb in July.

2.1.3 Development Financing

Development Financing

The Bank sustained its drive to boost credit conditions and stimulate growth through its interventions in critical sectors of the Nigerian economy in August. As such, the Bank disbursed ₦150.75 billion as interventions to critical sectors of the economy. The industrial sector was the highest recipient of the intervention funds, accounting for 40.7 per cent. Specifically, the Real Sector Support Facility (using the Differentiated CRR) was the main intervening window, as 35.79 per cent of total interventions was done through that outlet. 25.23 per cent of total interventions in August was allocated to small and medium-sized enterprises to stimulate growth and employment in the sector.

The power sector received 17.41 per cent of total interventions in order to improve access to power and deepen the quality of infrastructure. This is expected to reduce infrastructural bottlenecks in the near term and improve the ease of doing business in the country. Finally, the agriculture and health sectors received 13.74 per cent and 2.89 per cent of total interventions, respectively, to improve the welfare of the populace.

Table 5: Intervention Funds, August 2021

Sector	21-Aug			Cumulative			
	Disburs (₦'bn)	Share (%)	Beneficiaries	Disburs. (₦'bn)	Share (%)	Repayments (₦'bn)	Beneficiaries
Agriculture	20.71	13.74		1496.42	35.44		
Anchor Borrowers' Programme	*17.56*	11.65	*N.A*	788.03	18.66	235.26	*3,793,529 farmers*
₦200 Billion Commercial Agricultural Credit Scheme (CACS)	*3.15*	2.09	*3 projects*	708.39	16.78	483.3	*657 projects*
Energy/Infrastructure	26.24	17.41		1160.05	27.48	-	
Nigeria Electricity Market Stabilization Facility 2 (NEMSF 2)	*19.63*	13.02	-	*145.66*	3.45	-	*38 projects*
Nigeria Bulk Electricity Trading-Payment Assurance Facility (NBET-PAF)	*1.59*	1.05	-	*973.33*	23.05	-	-
National Mass Metering Programme (NMMP)	*5.02*	3.33	*Procurement and Installation of 123,277 meters*	*41.06*	0.97	*Procurement and Installation of 780,839 meters*	-
MSMEs	38.03	25.23		477.78	11.32	-	
Agribusiness/Small and Medium Enterprises Investment Scheme (AGSMEIS)	*12.99*	8.62	*5,523*	*134.57*	3.19	*436.5*	-
Targeted Credit Facility (TCF)	*25.04*	16.61	*46,776*	*343.21*	8.13	-	*726,198*
Industries	61.42	40.74		985.24	23.33	-	
COVID-19 Intervention Facility for the Manufacturing Sector (CIFMS)	*7.46*	4.95	*3*	*277.37*	6.57	*27.45*	-
RSSF Using Differentiated Cash Reserve Ratio (RSSF-DCRR)	*53.96*	35.79	*10*	*707.87*	16.77	*83.08*	*261*
Health	4.35	2.89		102.7	2.43		
Health Care Sector Intervention Fund (HSIF)	*4.35*	2.89		*102.7*	2.43	*8.29*	-
Total	*150.75*	100		*4222.19*	100		

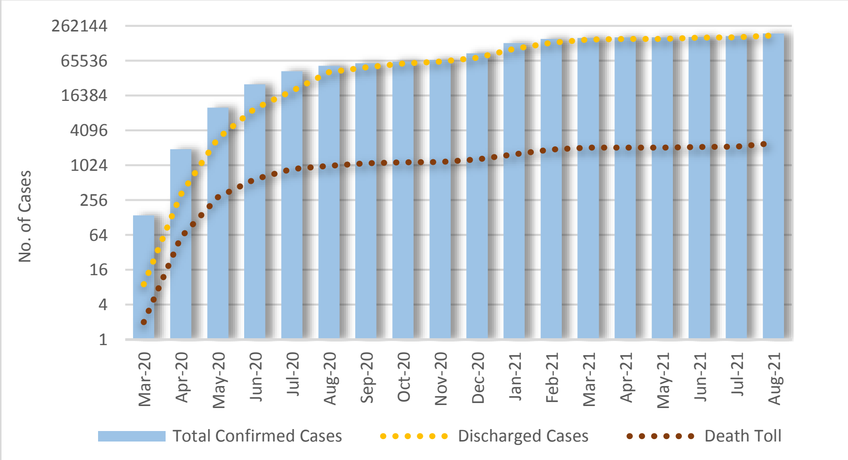
Source: Central Bank of Nigeria

2.1.4 Socio-Economic Developments

Health: COVID-19 Update

Official data from the National Centre for Disease Control (NCDC) showed that the total number of confirmed cases in the country rose by 10.7 per cent to 192, 431 as of end-August, from 173,908 recorded in the previous month. The number of discharged cases increased to 178,759 from 164,994, while the number of deaths rose to 2,469 from 2,149. Efforts to expand the administration of the COVID-19 vaccine continued in the review period. By the end of August, a total of 4.2 million vaccine doses had been administered in Nigeria.

Figure 12: COVID-19 Statistics, August 2021[1]



Source: Nigeria Centre for Disease Control (NCDC)

Federal Government took delivery of 177,600 doses of Johnson and Johnson COVID-19 vaccines as part of the 29,850,000 doses procured through a facility provided by the African Export-Import Bank (AFREXIMBANK). The government also received four million doses of the Moderna vaccine and 699,760 doses of the AstraZeneca vaccine from the United States and UK governments. Donations of 26 ventilators and 3,560 fingertip oxygen pulse oximeters were received from the World Health Organisation to manage COVID-19 patients in isolation and treatment facilities and home-based patients.

Transportation

The Federal Government approved the Federal Roads and Bridges Tolling Policy and Regulations during the period. The policy provided for the reintroduction of tolls on motorable dual carriage Federal roads. Proceeds from the tolls are designated for maintaining current roads, constructing new ones and paying private investors who build or complete a road.

Air transport service delivery received a boost with as two airline business entered the industry. During the period, Cally Air was launched by the Cross-River State Government, while Green Africa Airways commenced flight operations, following the Air Operators' Certificate from the Nigerian Civil Aviation Authority. To improve the quality of air transport infrastructure in the country, the Federal Government approved ₦6.3 billion for the construction of Wachakal Airport in Yobe and post-construction services for the same airport at the cost of ₦219.8 million,

[1] Covid-19 data as at August 31, 2021.

2.2 FISCAL SECTOR DEVELOPMENTS

Summary

The fiscal operations of the Federal Government in August 2021 was anchored on the 2021 Appropriation Act and the Medium-Term Expenditure Framework and Fiscal Strategy Papers (MTEF&FSP 2021-2023). This seeks to achieve macroeconomic stability, food security, job creation, and mitigation of the immediate impact of COVID-19, among other objectives. Following shortfalls in non-oil receipts, federation earnings in August declined by 17.1 per cent relative to July. The retained revenue of the Federal Government (FGN) also fell by 10.4 per cent and 43.5 per cent, compared with receipts in July and the revenue target, respectively; an indication of persisting revenue challenges. The 18.8 per cent drop in Federal Government expenditure recorded in August more than offset the fall in revenue, resulting in a 25.2 per cent narrowing of overall deficits.

2.2.1 Federation Account Operations

Despite the sustained rise in the contribution of oil to total federation receipts in August, the Federation Account receipts was subdued by poor non-oil revenue outcome following declines in Corporate Income Tax and non-tax revenue of the FGN[2]. At ₦903.63 billion, accrued federation revenue was 17.1 per cent and 11.8 per cent below earnings in July and the budget benchmark, respectively (Table 6). Movements in the Federation Account was dictated, largely, by shortfalls in non-oil revenue. Regardless, non-oil receipts out-performed oil receipts, contributing 53.2 per cent to the gross federally collected revenue. The outcome of non-oil receipts relative to oil revenue indicates that the initiatives to diversify the revenue base of the government is effective.

At ₦480.56 billion, non-oil earnings in August was 29.2 per cent below its level in the preceding month, following declines in all its components. However, the largest declines were recorded in receipts from CIT and FGN independent revenue sources, both of which dropped by 42.5 per cent and 52.2 per cent, respectively. The shortfall, particularly in CIT receipts, was attributed to the seasonality bias associated with companies filing tax returns, which largely explained the leap in CIT collections in July. Notably, when compared to the corresponding period in 2020, CIT in August rose by 26.2 per cent, indicating improvements in the business environment and tax administration.

Amidst strains from petrol subsidy from crude oil and gas exports proceeds, oil revenue rose by 2.7 per cent to ₦423.17 billion, compared

[2] Refers to the Independent Revenue of the FGN

to July, though it remained below the monthly target by 16.4 per cent. Relative to July, oil revenue benefitted from strengthening domestic consumption, which drove up receipts from domestic crude and gas sales by 73.3 per cent. Receipts from petroleum profit tax (PPT) and royalties dropped by 9.2 per cent, compared to the July level, but was above projected receipts by 15.1 per cent of ₦276.88 billion.

Federation revenue allocation

Regardless of the shortfall in the federation collection in August, disbursements to the three tiers of government rose to ₦760.72 billion from ₦733.09 billion in July. The higher disbursement was due to the lower statutory deductions of ₦145.47 billion in August, compared to ₦361.27 billion in the preceding period. Federal, State, and Local governments received allocations of ₦321.23 billion, ₦222.51 billion, and ₦166.56 billion, respectively.

Table 6: Federally Collected Revenue and Distribution (₦ Billion)

	20-Aug	21-Jul	21-Aug	Budget
Federation Revenue (Gross)	826.41	1,090.63	903.73	1,024.72
Oil	401.98	412.1	423.17	505.93
Crude Oil & Gas Exports	24.28	0.00	0.00	52.5
PPT & Royalties	296.17	351.13	318.57	276.88
Domestic Crude Oil/Gas Sales	70.15	52.64	91.25	84.29
Others	11.38	8.33	13.35	92.26
Non-oil	424.43	678.53	480.56	518.79
Corporate Tax	135.98	298.47	171.67	124.71
Customs & Excise Duties	72.3	107.31	99.76	94.38
Value-Added Tax (VAT)	132.62	154.47	151.13	153.2
Independent Revenue of Fed. Govt.	75.98	115.25	55.1	88.49
*Others**	7.54	3.02	2.89	58.01
Total Deductions/Transfers**	*176.76*	*361.23*	*145.47*	*213.56*
Federally Collected Revenue *Less Deductions & Transfers*	649.65	729.4	758.26	811.15
plus:				
Additional Revenue	0.00	3.69	2.46	0
Excess Crude Revenue	0.00	0.00	0.00	0.00
Non-oil Excess Revenue	0.00	0.00	0.00	0.00
Exchange Gain	*0.00*	*3.69*	*2.46*	*0.00*
Total Distributed Balance	*649.65*	*733.09*	*760.72*	*811.15*
Federal Government	*273.19*	*304.95*	*321.23*	*346.47*
State Government	*190.85*	*215.57*	*222.51*	*235.9*
Local Government	*142.76*	*161.1*	*166.56*	*176.83*
13% Derivation	*42.85*	*51.47*	*50.42*	*51.96*

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

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

Table 7: Disbursement to Subnational Governments (₦ Billion)

	State Government			Local Government		
	Statutory	VAT	Total	Statutory	VAT	Total
20-Aug	172.03	61.67	233.7	99.59	43.17	142.76
21-Jul	195.22	71.83	267.04	110.82	50.28	161.1
21-Aug	202.65	70.28	272.93	117.37	49.19	166.56
Benchmark	216.89	70.96	287.85	127.16	49.67	176.83

Source: Compiled using data from the Office of the Accountant-General of the Federation (OAGF)

2.2.2. Fiscal Operations of the Federal Government

The significant drop in aggregate expenditure, due to a fall in overhead cost and capital expenditure, outweighed the impact of low revenue outcome on the fiscal balance in August. At ₦405.28 billion, the provisional overall fiscal balance of the FGN reduced by 25.2 per cent from ₦541.85 billion in July. The lower deficit increases the latitude for the manoeuvring of fiscal policy (Table 8).

Overall Balance of the FGN

Table 8: Fiscal Balance (₦ Billion)

	Aug-20	Jul-21	Aug-21	Benchmark
Retained revenue	372.12	420.20	376.33	665.53
Aggregate expenditure	917.66	962.05	781.61	1,132.34
Primary balance	-314.27	-241.84	-153.53	-189.77
Overall balance	-545.54	-541.85	-405.28	-466.80

Source: CBN Staff Estimates
Note: The figures are provisional pending the receipt of consolidated data from the OAGF

FGN Retained Revenue

With a 52.2 per cent drop in FGN independent revenue in August 2021, FGN retained revenue fell by 10.4 per cent to ₦376.33 billion from ₦420.2 billion a month ealier. The Federal Government recorded reductions in all its revenue components. Significant decline in independent revenue sources reflected lower remittances from ministries, departments, and agencies (MDAs) and government business interests. However, FGN statutory receipt from the Federation Account rose by 6.2 per cent to ₦299.00 billion on the back of larger federation allocation.

Table 9: FGN Retained Revenue (₦ Billion)

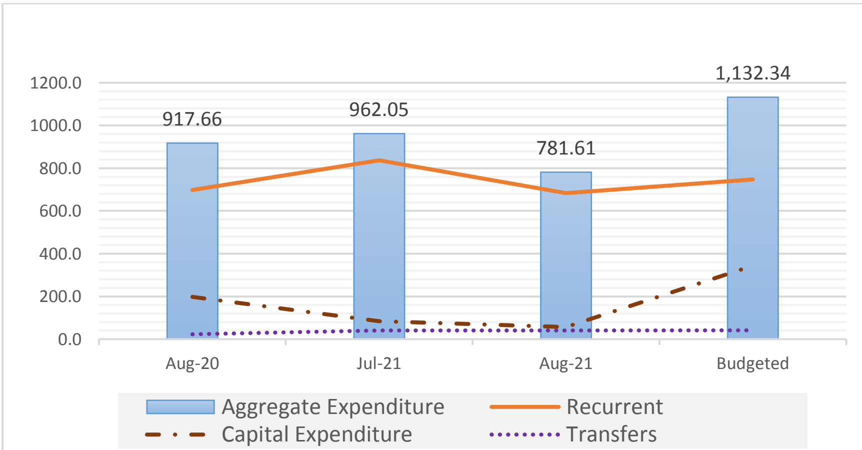
	Aug-20	Jul-21	Aug-21	Benchmark Revenue
FGN Retained Revenue	**372.12**	**420.2**	**376.33**	**665.53**
Federation Account	*254.69*	*281.62*	*299.00*	*295.46*
VAT Pool Account	*18.50*	*21.55*	*21.08*	*21.29*
FGN Independent Revenue	*75.98*	*115.25*	*55.1*	*88.49*
Excess Oil Revenue	*0.00*	*0.00*	*0.00*	*0.00*
Excess Non-Oil	*0.00*	*0.00*	*0.00*	*29.72*
Exchange Gain	*0.00*	*1.78*	*1.14*	*0.00*
*Others**	*22.95*	*0.00*	*0.00*	*230.58*

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

FGN expenditure

Provisional aggregate expenditure of the FGN, at ₦781.61 billion, fell by 18.8 per cent due to a reduction in overhead cost and disproportionately low capital expenditure. Although recurrent expenditure shrunk by 18.3 per cent to ₦683.46 billion following a 48.9 per cent decline in overhead cost, it maintained its dominance in total spending. Recurrent expenditure accounted for 87.4 per cent of total spending in August, while capital expenditure and transfers constituted 7.3 per cent and 5.3 per cent, respectively. The low allocation to capital expenditure was attributed to the lag in capital releases in the period.

Figure 13: Federal Government Expenditure (₦ Billion)



Source: CBN Staff Estimates and compilation from OAGF data

Table 10: Federal Government Expenditure (₦ Billion)

	Aug-20	Jul-21	Aug-21	Budget
Aggregate Expenditure	917.66	962.05	781.61	1,132.34
Recurrent	*697.50*	*836.99*	*683.46*	*747.20*
Personnel Cost	247.18	273.27	269.42	281.03
Pension and Gratuities	29.90	29.54	29.54	42.02
Overhead Cost	144.76	210.40	107.62	147.12
Interest Payments	231.27	300.01	251.75	277.03
Domestic	190.47	211.57	163.31	198.62
External	40.80	88.44	88.44	78.41
Special Funds	44.39	23.78	25.13	29.20
Capital Expenditure	*197.19*	*83.68*	*56.78*	*343.76*
Transfers	*22.97*	*41.38*	*41.38*	*41.38*

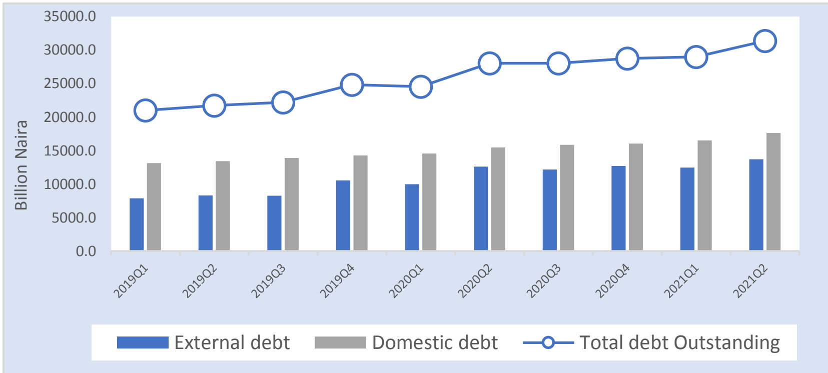
Source: CBN Staff Estimate

FGN Debt

Driven by new domestic and external borrowing, FGN debt outstanding at the end-June 2021, rose by 8.1 per cent to ₦31,342.68 billion, relative to end-March 2021. Domestic debt accounted for 56.3 per cent of FGN total debt, while external debt obligations constituted 43.7 per cent. This is disparate with the 70:30 domestic-external debt mix contained in the

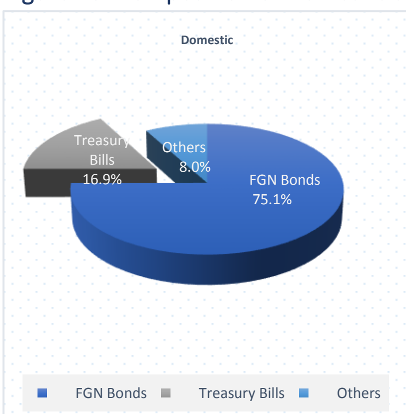
2020-2023 Medium-Term Debt Strategy of the FGN. External debt stock increased by 9.9 per cent, relative to end-March 2021. Comparatively, domestic debt outstanding rose by 6.8 per cent.

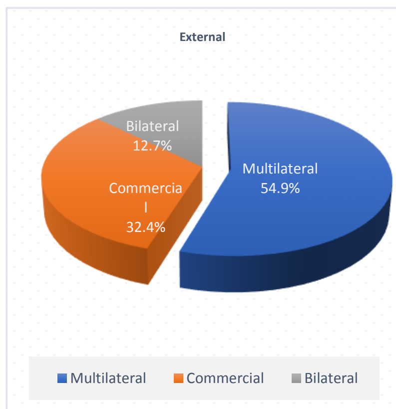
Figure 14: FGN External and Domestic Debt Composition (₦ Billion)



Source: Compiled from Debt Management Office (DMO) figures

Figure 15: Composition of Domestic and External Debt Stock (Per cent)





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

2.3 THE MONETARY AND FINANCIAL SECTOR

Reserve Money

Growth in broad money continued in August 2021, driven largely by the increase in domestic claims, particularly credit to the private sector. Expansion of credit to the private sector was supported by the recent monetary policy stance to prop credit supply to key sectors of the economy. Anticipated excess liquidity arising from maturing CBN bills and fiscal injections, was curtailed through open market operations. However, settlement for foreign exchange and CBN bills purchases coupled with Cash Reserve Ratio (CRR) debits translated into a net withdrawal from the banking system. Hence, key money market and lending rates trended upwards in August. The financial system remains safe and sound, as portayed by financial soundness indicators, while activities on the Nigerian Exchange Limited remained bullish in August, following bargain hunting in blue-chip companies.

2.3.1 Monetary Developments

Monetary conditions strengthened in the review period as credit supply to key sectors of the economy grew. Reserve money increased by 0.3 per cent to ₦12,866.70 billion at end-August reflecting the marginal increase in liabilities to other depository corporations (ODCs). Ample growth in excess reserve, which outweighed the decline in currency-in-circulation, led to a 0.7 per cent increase in liabilities to other depository corporations. Currency-in-circulation declined by 1.2 per cent to ₦2,778.71 billion during the review period (Table 11).

Table 11: Components and uses of Reserve Money (₦ Billion)

	20-Dec	Jul-21	Aug-21
Monetary Base	**13,103.09**	**12,830.88**	**12,866.70**
Currency-In-Circulation	*2,908.46*	*2,812.10*	*2,778.71*
Liabilities to ODCs	*10,194.63*	*10,018.77*	*10,088.00*

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

Monetary Aggregates

Broad money growth in August was steered by the increase in domestic claims, particularly credit to the private sector. Claims on the private sector rose by 17.8 per cent, culminating to an 8.3 per cent growth in domestic claims on the economy to ₦46,075.84 billion. The development illustrates the enhanced lending to the private sector by the banking system to strengthen the economy. In the same vein, Net Foreign Assets (NFA) grew by 12.4 per cent to ₦8,245.12 billion at end-August 2021, following a 5.0 per cent decline in liabilities to non-residents.

In terms of contributions, Net Domestic Assets (NDA) contributed 3.6 percentage points to broad money growth during the period, while Net Foreign Asset (NFA) contributed 2.4 percentage points. Broad money grew by 6.0 per cent to ₦40,930.53 billion at end-August annualised to 9.0 per cent. This was below the provisional benchmark of 9.9 per cent for the year 2021, suggesting more room for monetary expansion to support economic growth.

Table 12: Money and Credit Growth over preceding December (per cent)

	Contribution to M3 growth (Aug-21)	20-Dec	21-Jul	21-Aug	Benchmark
Net Foreign Assets	**2.35**	**23.44**	**1.84**	**12.37**	**27.98**
Claims on Nonresidents	0.77	11.39	-1.49	1.52	N/A
Liabilities to Nonresidents	1.58	5.24	-3.49	-4.98	N/A
Net Domestic Asset	**3.62**	**8.24**	**3.17**	**4.46**	**N/A**
*** Domestic Claims**	**9.12**	**15.91**	**5.71**	**8.28**	**13.41**
Net Claims on Central Government	*0.66*	*22.84*	*-2.26*	*2.02*	20.62
Claims on Central Government	5.39	24.53	4.1	9.99	N/A
Liabilities to Central Government	-4.72	27.1	13.46	21.63	N/A
Claims on Other Sectors	*8.45*	*13.27*	*8.99*	*10.83*	N/A
Claims on:					N/A
Other Financial Corporations	-1.53	11.02	-6.47	-6.88	N/A
State and Local Government	0.51	10.64	7.98	9.46	N/A
Public Nonfinancial Corporations	0.87	2.51	20.68	42.17	N/A
Private Sector	8.6	15.16	15.68	17.75	N/A
Broad Money (M3)	**5.97**	**10.84**	**2.91**	**5.97**	**9.99**
* Currency Outside Depository Corporations	-0.49	23.38	-5.05	-7.35	N/A
* Transferable Deposits	1.64	56.29	3.04	4.71	N/A
Narrow Money (M1)	**1.17**	**50.04**	**1.78**	**2.38**	**17.88**
* Other Deposits	6.84	19.19	8.03	12.15	N/A
Broad Money (M2)	**8**	**30.57**	**5.38**	**8.2**	N/A
* Securities Other Than Shares	-2.04	-84.56	-97.9	-85.36	N/A
Broad Money Liabilities (M3)	**5.97**	**10.84**	**2.91**	**5.97**	**9.99**

N/A = Not available

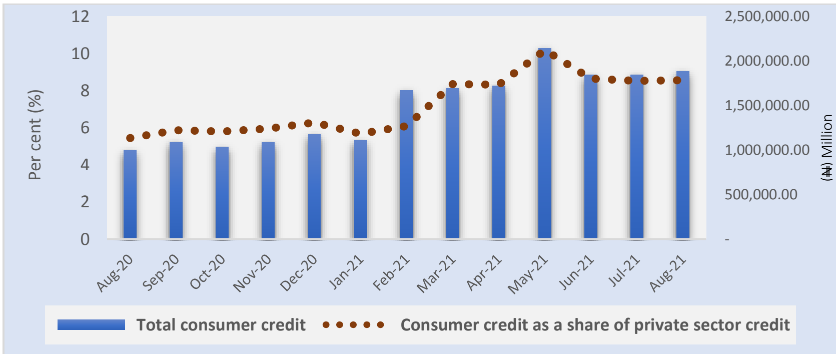
Source: Central Bank of Nigeria

Correspondingly, growth in total monetary liabilities was driven by the 4.7 per cent and 12.2 per cent growth in transferable deposits and other deposits of depository corporations, respectively, which accounted for the contribution of 1.6 and 6.8 percentage points to the growth in broad monetary liabilities. On the other hand, currency outside banks (-0.5 percentage point) and securities other than shares (-2.0 percentage points) contributed negatively to M3 growth, reflecting investors' preferences for higher yield and the use of alternative payment channels in preference to cash transaction.

Consumer Credit

Consumer credit outstanding increased following rising personal loans. Total consumer credits extended by the ODCs grew by 2.1 per cent to ₦1,880.38 billion in August from ₦1,842.55 billion in July. This value represents 8.6 per cent of the total credit to the private sector in August and 0.1 percentage points higher than its share in the preceding month.

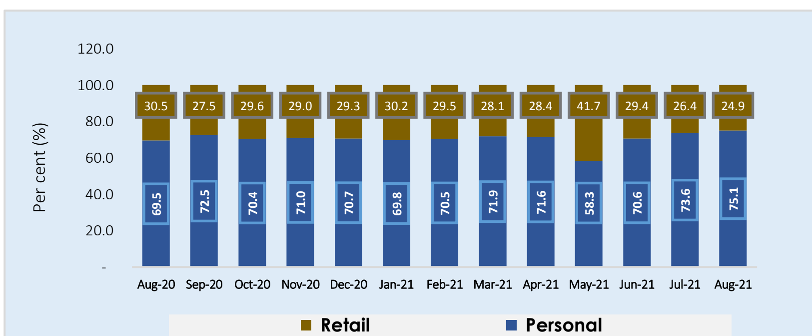
Figure 16: Consumer Credit



Source: Central Bank of Nigeria

A breakdown of consumer loans showed that personal loans continued to dominate, accounting for 75.1 per cent, an increase of 1.5 percentage points, above the level in the preceding month, while retail loans accounted for the balance of 24.9 per cent, representing a decline of 1.5 percentage points, compared with its level in July.

Figure 17: Composition of Consumer Credit in Nigeria



Source: Central Bank of Nigeria

2.3.2 Money Market Developments

The anticipated excess liquidity arising from maturing CBN bills and fiscal injections was counteracted with the issuance of CBN bills. The average net industry liquidity position declined by 23.3 per cent to ₦146.15 billion in August from ₦190.62 billion in July, owing to provisioning and settlements of foreign exchange and CBN bills purchases, as well as CRR debits. Consequently, the trend at the standing facility window indicated more patronage at the lending window than the deposit window, with applicable rates for the Standing Lending Facility (SLF) and Standing Deposit Facility (SDF) remaining at 12.5 per cent and 4.5 per cent, respectively.

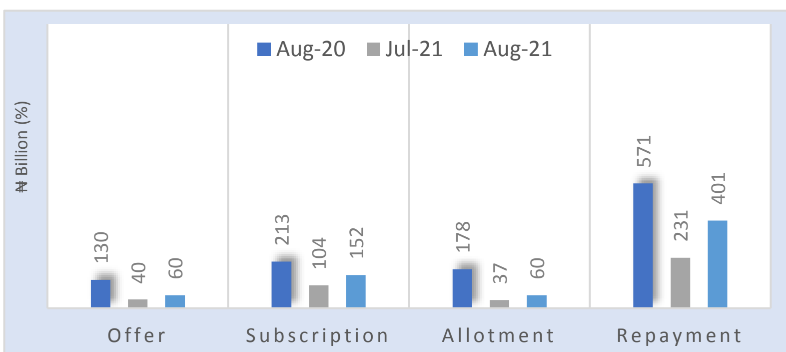
Primary market Activities

The total request for the SLF in August was ₦453.92 billion (made up of ₦198.68 billion direct SLF and ₦255.23 billion ILF converted to overnight SLF). Daily request ranged from ₦0.41 billion to ₦99.69 billion and averaged ₦28.37 billion in the 16 transaction days, with total interest earned at ₦0.22 billion. On the other hand, the total SDF granted during the review period was ₦177.88 billion, with a daily average of ₦8.89 billion in 20 transaction days. The cost incurred on SDF in the review month stood at ₦0.27 billion.

Open Market Operation

Investment in CBN bills in August increased owing to the attractive yield. A total of ₦60.00 billion, ₦152.07 billion and ₦60.00 billion of CBN bills were, respectively, offered, subscribed and allotted, higher than the ₦40.00 billion, ₦104.20 billion and ₦37.00 billion recorded in July. The tenors of CBN bills used in conducting Open Market Operations (OMO) auctions in the review month ranged from 89 to 355 days, with bid rates averaging 8.45 (±1.65) per cent, while the stop rates averaged 8.55 (±1.55) per cent. Repayment of matured CBN bills was ₦401.24 billion, translating to a net injection of ₦341.24 billion through this medium.

Figure 18: Open Market Operations (OMO) in (N Billion)



Source: Central Bank of Nigeria

Nigerian Treasury Bills and long-term FGN Bonds were issued at the primary market on behalf of the Debt Management Office in August. A total of ₦208.69 billion, ₦792.49 billion and ₦463.66 billion were, respectively, offered, subscribed, and allotted at the auctions held in August with 91-, 182- and 364-day tenors. At the 91-day auction, total subscription and allotment were ₦10.99 billion and ₦8.34 billion, respectively, with bid rates averaging 6.25 (±3.76) per cent, while the stop rate was 2.50 per cent. For the 182-day auction, the total subscription and allotment were ₦29.27 billion and ₦26.61 billion, respectively. The bid rates averaged 7.74 (±4.26) per cent, while the stop rate was 3.50. At the 364-day auction, total subscription and allotment were ₦752.23 billion and ₦428.71 billion with bid rates averaging 7.98 (±2.03) per cent, while stop rates averaged 7.08 (±0.28) per cent.

FGN Bonds of 10-, 20- and 30-year tranches were re-opened during the review month. The term to maturity of the bonds ranged from 6 years and 6 months to 28 years and 7 months. The total amount offered, subscribed and allotted, were ₦150.00 billion, ₦360.02 billion and ₦260.09 billion, respectively. The bid rate on all tenors averaged 12.25 (±1.75) per cent, while the marginal rates averaged 12.20 (±0.60) per cent.

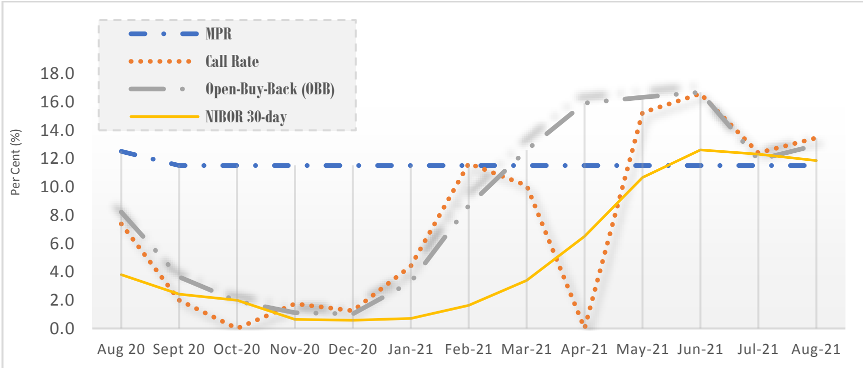
Interest Rate Developments

The banking system liquidity fluctuated and ended low in August, reflecting the provisioning and settlement for foreign exchange and CBN bills' purchases vis-à-vis varied liquidity injection through FAAC and CBN bills repayment. Hence, key money market and lending rates rose above their trend levels. Daily inter-bank call and Open-Buy-Back rates averaged 13.45 per cent (±4.06) and 13.19 per cent (±8.15), respectively. Other rates such as the 7-, 30- and 90-day NIBOR[3], averaged 14.01 per cent, 11.86 per cent, and 12.94 per cent, respectively, compared with 13.39 per cent, 12.30 per cent and 13.50 per cent in the preceding month.

Relative to their levels in the preceding month, average term deposit rate rose 0.04 percentage point to 4.28 per cent. Similarly, average prime and maximum lending rates increased by 0.05 percentage point and 0.01 percentage point to 11.62 per cent and 28.00 per cent, respectively. Consequently, the spread between the average term-deposit and average maximum lending rates narrowed by 0.02 percentage point to 24.39 per cent at end-August.

[3] Nigeria Inter Bank Offered Rate

Figure 19: Interest Rate Trend (per cent)



Source: Central Bank of Nigeria

2.3.3 Financial Sector Soundness

The banking system remains safe and sound, as the financial soundness indicators reveal general stability, despite marginal declines in August. The Capital Adequacy Ratio (CAR) fell by 0.01 percentage point to 15.21 per cent at end-August, relative to end-July. This decline was due to an increase in credit, resulting in the rise of total risk-weighted assets. CAR exceeded the regulatory benchmark of 10.0 per cent for banks with national authorisations and 15.0 per cent for banks with international authorisations. Liquidity ratio, at 63.4 per cent in August, rose by 0.4 percentage point over the level in July and was also above the 30.0 per cent benchmark. The development was due to an increase in the stock of liquid assets held by banks.

The ratio of Non-Performing Loans (NPLs) to the industry total outstanding loans, deteriorated to 6.0 per cent at end-August from 5.4 per cent at end-July. The ratio was above the 5.0 per cent regulatory threshold by 1.0 percentage point. The rise in NPLs was due to poor outturn of construction sector non-performing loans, owing to the rise in the prices of building materials, which complicated the ability contractors to service debt obligations.

2.3.4 Capital Market Developments

Activities on the Nigerian Exchange Limited (NGX) remain bullish in August 2021, following bargain hunting in blue-chip companies. Market performance was driven by the optimism that followed the positive half-year 2021 financial results. Gains recorded by major blue-chip stocks led to the appreciation of market capitalisation by 1.8 per cent to ₦38.59 trillion at end-August, compared with ₦37.91 trillion at end-July. The equities market capitalisation, which constituted 53.0 per cent of the aggregate, rose by 1.7 per cent to ₦20.44 trillion, compared with the ₦20.09 trillion at end-July.

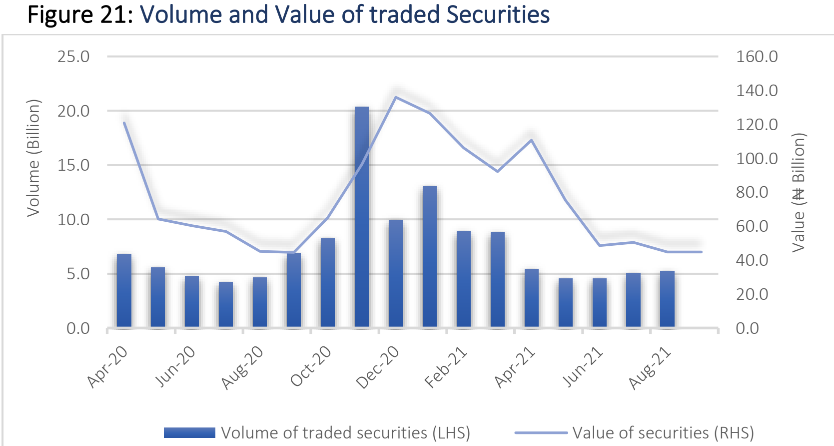
The All Share Index (ASI), which opened at 38,604.72 at the beginning of the review month, rose by 1.6 per cent to 39,219.61 at end-August, owing to price appreciation in capitalised stocks. However, sectoral indices trended downward, except for the NGX-Main Board index (at 1,606.39), NGX-Sovereign Bond index (at 835.90) and NGX-Premium index (at 3,807.00) indices, which, respectively, grew by 3.2 per cent, 1.6 per cent and 1.3 per cent at end-August.

Figure 20: Market Capitalisation and All-Share Index

Source: Nigeria Exchange Limited (NGX)

Transactions on the Exchange increased, as total deals and turnover volume rose by 3.04 per cent and 3.8 per cent to 82,899 deals and 5.23 billion shares, respectively. Turnover value, however, fell by 0.4 per cent to ₦44.71 billion, at end-August, compared with ₦44.87 billion at end-July.

Figure 21: Volume and Value of traded Securities



Source: Nigeria Exchange Limited (NGX)

There were three new and one supplementary listing in the review period. The new listings created an avenue for price discovery and additional source of liquidity for existing and new investors, as well as improving investor confidence.

Table 13: Listing on the Nigerian Exchange Limited (NGX) at end-August 2021

Company	Additional Shares (Units)	Reasons	Listing
Dangote Cement PLC SPV Plc: Listing of Bonds	(1) N50 Billion 3 years 11.25% Tranche A Senior Unsecured Fixed Rate Bond due 2024 (2) N50 Billion 5 years 12.50% Tranche B Senior Unsecured Fixed Rate Bond (3) N50 Billion 7 years 13.50% Tranche C Senior Unsecured Fixed Rate Bond due 2028. due 2026.	N300b Debt Issuance programme	New
8.864% FGNSB AUG 2023	204,965	Bond Issuance	New
9.864% FGNSB AUG 2024	683,248,000	Bond Issuance	New
12.98% FGN MAR 2050	104,814,900	Bond Issuance	Supplementary

Source: Nigeria Exchange Limited (NGX).

2.4. EXTERNAL SECTOR DEVELOPMENTS

Major Highlights

Global demand slowed in August 2021, due to declining demand and tight labour market conditions, in most Advanced Economies, driven by the resurgence of the COVID-19 infections. The development, in combination with the rising US crude oil inventories, affected the price of crude oil at the international market, thus, reducing crude oil receipts. Consequently, the trade deficit widened in the review period relative to the preceding month. Capital flows dwindled as a result of unfavourable risk sentiments that followed the COVID-19 resurgence. However, external reserves still registered an accretion reflecting the IMF's additional allocation of US$3.34 billion SDR. Despite accretion to reserves, the naira depreciated marginally at all market segments, in the aftermath of the Bank's stoppage of foreign exchange sales to BDCs.

2.4.1 Trade Performance

Higher import demand, following an uptick in domestic economic activities and a decline in crude oil receipts, resulted in a higher trade deficit during the review period. A higher trade deficit of US$0.82 billion was recorded, compared with US$0.34 billion in July, due largely, to higher import bills. Aggregate export receipts decreased by 4.7 per cent to US$4.24 billion in the review period, compared with US$4.45 billion in the preceding period, owing to lower receipts from crude oil export. Merchandise import grew by 5.5 per cent to US$5.06 billion in August, from US$4.80 billion in the preceding month, reflecting increased domestic demand for both petroleum and non-oil-related products, occasioned by an uptick in domestic economic activities.

Figure 22: Export, Import and Trade Balance (US$ Billion)

Source: Central Bank of Nigeria

Crude Oil and Gas Export

Crude oil export receipts fell, due to US inventory build-up, reinforced by the resurgence of the COVID-19 infections. The value of crude oil and gas export decreased by 5.4 per cent to US$3.78 billion, compared with US$3.99 billion in July. A breakdown of activities showed that crude oil export receipts declined by 6.2 per cent to US$3.31 billion, relative to USS$3.53 billion in July. The decline was driven, majorly, by the 6.9 per cent fall in crude oil prices to an average of US$70.72 pb from US$75.93 pb in July. Gas export receipts, on the other hand, increased by 1.3 per cent to US$0.47 billion due to higher export of propane liquefied petroleum gas. Crude oil and gas export constituted 89.2 per cent of total exports, with oil accounting for 78.1 percentage points and gas export accounting for the balance of 11.1 percentage points.

Non-Oil Export

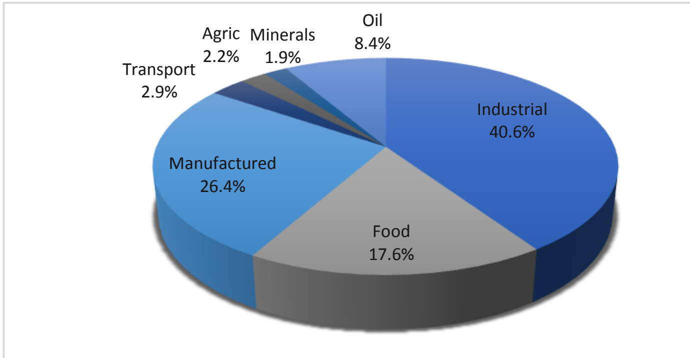
Non-oil export earnings improved further during the review period, though still below the pre-pandemic levels. Receipts from non-oil export increased by 2.5 per cent to US$0.46 billion in August, relative to US$0.45 billion in July. Disaggregation showed that the value of electricity export remained at US$0.07 billion, while re-exports increased by 12.2 per cent to US$0.12 billion. Other non-oil export decreased marginally by 0.8 per cent to US$0.33 billion.

Import

As aggregate demand continues to gain momentum, the demand for merchandise import increased, resulting in higher import bills. Aggregate import increased by 5.5 per cent to US$5.06 billion in August, compared with US$4.80 billion in July, occasioned by higher demand for both petroleum products and raw materials for production. Import of non-oil products increased by 6.3 per cent to US$3.97 billion in the review period, relative to US$3.73 billion in July. Similarly, the importation of petroleum products increased by 19.2 per cent to US$0.92 billion, relative to US$0.77 billion in July. The dominance of non-oil import was evident in the review period, as it accounted for 81.8 per cent of total import bills, while oil import constituted the balance of 18.2 per cent.

Data on sectorial utilisation of foreign exchange for import spotlighted the dominance of industrial sector import, mainly chemicals and machinery, which accounted 40.6 per cent of the total. This was followed by manufactured products and food products with 26.4 per cent and 17.6 per cent, respectively. The oil sector accounted for 8.4 per cent; transport sector, 2.9 per cent; agriculture, 2.2 per cent; and mineral, 1.9 per cent of the total.

Figure 23: Import by Sector, August 2021 (per cent)



Source: Central Bank of Nigeria

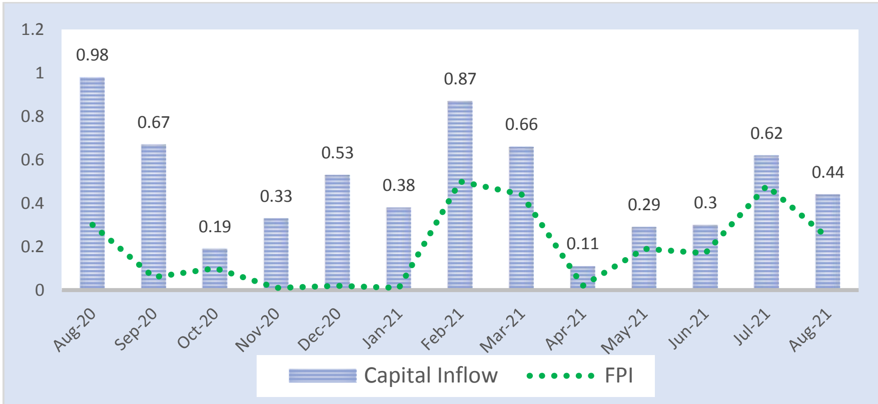
Capital Importation

Foreign capital inflow moderated in August 2021 due to weakening risk sentiments that followed the COVID-19 resurgence. New capital imported into the domestic economy decreased by 29.0 per cent to US$0.44 billion, compared with the US$0.62 billion recorded in July. A disaggregation of capital imported by type of investment indicated that foreign portfolio investment inflow (mainly money market instruments), at US$0.24 billion, accounted for 53.8 per cent of the total. The inflow of other investments, mainly loans, was US$0.16 billion, constituting 36.9 per cent of the total. Foreign direct investment, at US$0.04 billion, constituted the balance of 9.3 per cent.

A further analysis of capital imported, based on the nature of business, showed that the bulk of the capital was channelled to non-share activities, with production/manufacturing accounting for the largest share of 36.5 per cent, followed by banking with 24.5 per cent. Similarly, trading accounted for 13.6 per cent; financing, 10.7 per cent; and telecommunications, 4.1 per cent. Investment in shares (FDI and portfolio equities) was 4.0 per cent, while other sectors accounted for the balance.

By country of origin, the United Kingdom remained the major source of capital inflow, followed by the United States of America, United Arab Emirates, Republic of South Africa, Congo, Denmark, and British Virgin Island, with shares of 41.5 per cent, 20.6 per cent, 17.1 per cent, 7.7 per cent, 4.5 per cent, 1.7 per cent, and 1.4 per cent, respectively, of the total. In the domestic economy, the main recipients of capital were Lagos state (US$0.37 billion or 83.9 per cent of the total) and the FCT (US$0.07 billion or 16.1 per cent of the total).

Figure 24: Capital Inflow and Foreign Portfolio Investment (US$ Billion)

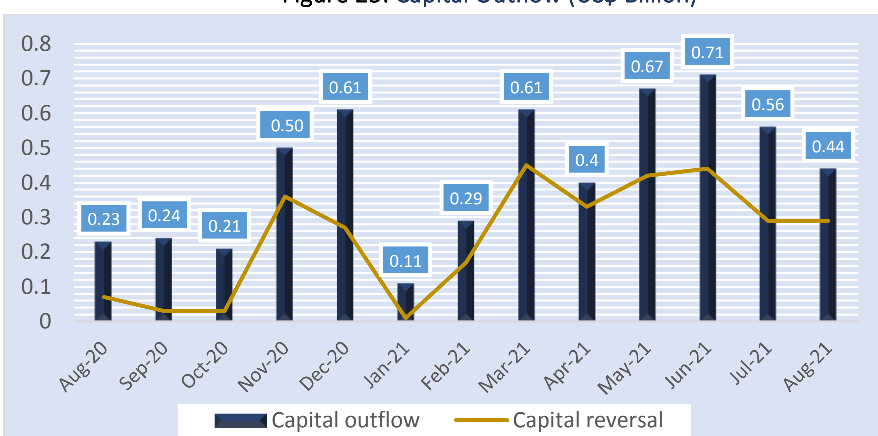


Source: Central Bank of Nigeria

Capital Outflow

Capital outflow remained subdued during the review period, due to lower repatriation of capital and dividends. Capital outflow declined by 26.5 per cent to US$0.44 billion in August, compared with US$0.60 billion in the earlier month. A disaggregation revealed that the outflow of capital (mainly from banking, financing, and trading sectors) was US$0.29 billion, constituting 65.8 per cent of the total. Outflow of loans stood at US$0.14 billion or 30.9 per cent of the total. Dividends worth US$0.01 billion accounted for 1.4 per cent, while other outflows accounted for 1.9 per cent of the total.

Figure 25: Capital Outflow (US$ Billion)



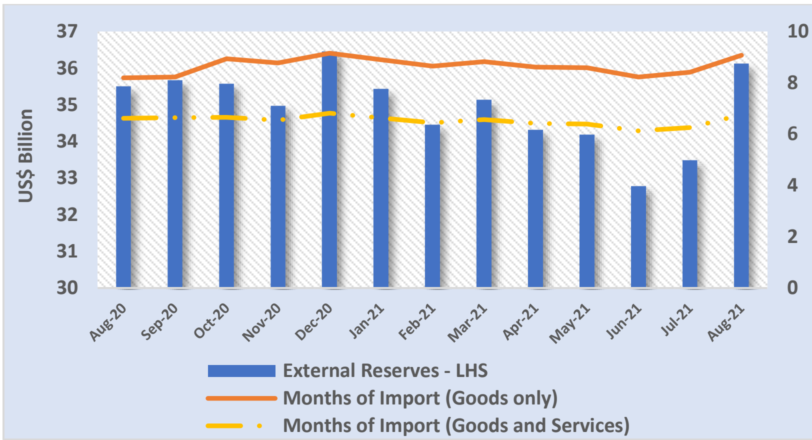
Source: Central Bank of Nigeria

2.4.2 International Reserves

International Reserves

The IMF's disbursement of Special Drawing Rights (SDRs) to member countries, including Nigeria, in proportion to their quota, significantly boosted the external reserve position during the review period. External reserves grew by 7.9 per cent to US$36.13 billion at end-August from US$33.49 billion at end-July. The external reserves could cover 6.3 months of import for goods and services or 9.4 months of import for goods only.

Figure 26: External Reserves and Months of Import Cover (US$ Billion)



Source: Central Bank of Nigeria

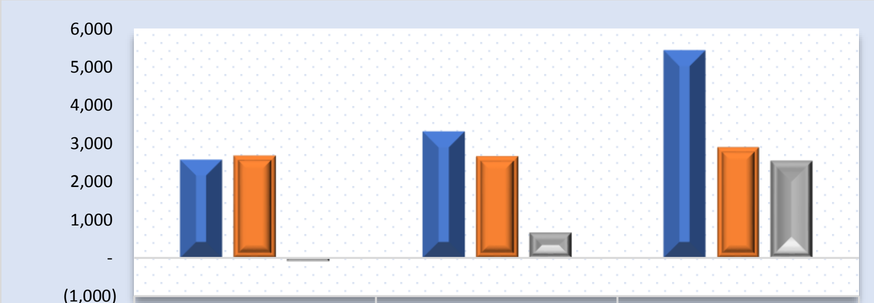
2.4.3 Foreign Exchange Flows into the Economy

Foreign Exchange Flows through the Economy

The foreign exchange inflow to the economy increased due to improved inflow through the Bank. Aggregate foreign exchange inflow into the economy increased by 48.2 per cent to US$9.85 billion in August, relative to the US$6.98 billion in July. The increase reflected higher inflow through the CBN, due to the additional SDR allocation of US$3.34 billion from the IMF. The 20.7 per cent rise in autonomous inflow also contributed to the increase in aggregate inflow in August, driven, majorly, by increased invisible purchases.

Foreign exchange outflow through the economy increased by 3.3 per cent to U$3.54 billion in August, due, mainly, to the 8.8 per cent rise in the outflow through the Bank, on account of increased interbank sales and Swap transactions. Autonomous outflow dropped by 15.6 per cent to US$0.65 billion in August, compared with US$0.77 billion in the preceding month, due to a decline in both visible and invisible imports. Consequently, the economy recorded a net inflow of US$6.31 billion in August, compared with US$3.55 billion in the preceding month. A higher net inflow of US$2.54 billion was recorded through the Bank, compared with US$0.66 billion in July.

Figure 27: Foreign Exchange Transactions through the Bank (US$ Million)



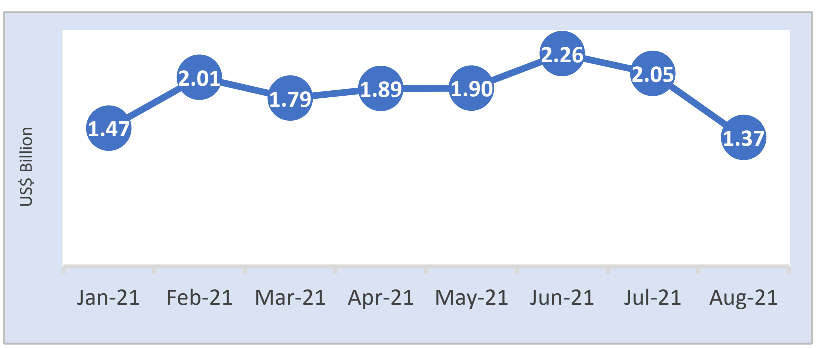
	August 20	July 21	August 21
Inflow	2,576.38	3,314.47	5,427.64
Outflow	2,671.52	2,655.77	2,888.67
Netflow	(95.14)	658.70	2,538.97

Source: Central Bank of Nigeria

2.4.4 Foreign Exchange Market Developments

The Bank continued to intervene in the foreign exchange market to ensure systemic stability and adequate liquidity. Total foreign exchange sales to authorised dealers by the Bank was US$1.65 billion in August, representing a decrease of 19.3 per cent, relative to US$2.05 billion in July. A breakdown shows that foreign exchange sales to interbank, Swap transactions, and SME interventions rose by 63.5 per cent, 72.3 per cent, and 42.5 per cent to US$0.28 billion, US$0.46 billion, and US$0.17 billion, respectively. The Bank's interventions at the Secondary Market Intervention Sales (SMIS) and Investors' and Exporters' (I&E) fell by 33.8 per cent and 14.7 per cent to US$0.52 billion and US$0.23 billion, respectively, compared with the levels in the previous month. In the review period, the Bank directed all commercial banks to publish the names and Bank Verification Number (BVN) of all defaulting customers that presented fake travel documents to purchase BTA/PTA to curb unwholesome practices.

Figure 28: Foreign Exchange Sales to Authorised Dealers, August 2021 (US$ Billion)



Source: Central Bank of Nigeria

Average Exchange Rate

2.4.5 Exchange Rate Movement

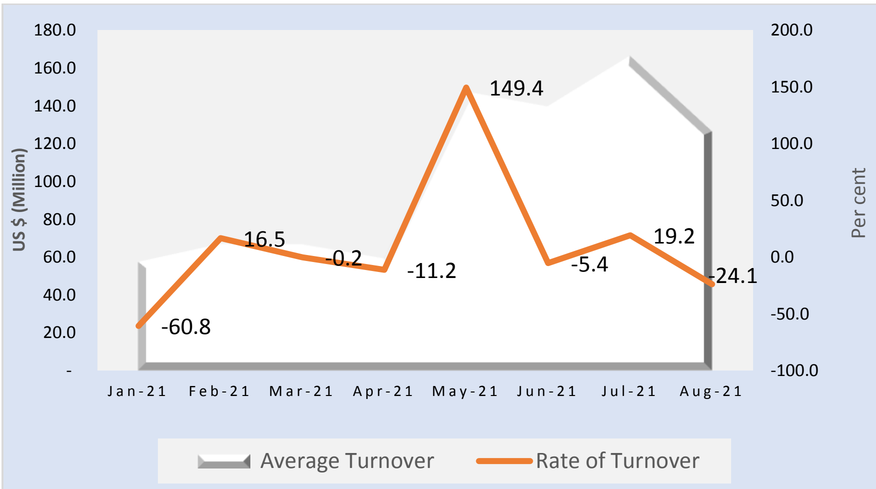
The naira recorded marginal depreciation in all the market segments, reflecting the effects of the previous month's policy on stoppage of foreign exchange sales to BDCs and the perceived supply shortages.

Foreign Exchange Turnover

2.4.6 Foreign Exchange Turnover at the I&E Window

Available data shows that average foreign exchange turnover at the investors and exporters' window was US$126.18 million in August 2021 indicating a decline of 24.1 per cent, compared with US$166.16 million in July.

Figure 29: Turnover in the I&E Foreign Exchange Market (US$ Million)



Source: Financial Markets Derivatives Quotations (FMDQ)

3.0 ECONOMIC OUTLOOK

3.1 Global Economic Outlook

The near-term global economic outlook remained optimistic as the COVID-19 vaccine rollout progresses and economies gradually open up. Global GDP is projected to grow by 6.2 per cent and 4.7 per cent in 2021 and 2022, respectively. This is owing to the expectation that economic activities in advanced economies and emerging market economies could surpass pre-pandemic levels by end-2021. Despite the short-term supply disruptions, global trade is also expected to grow by 6.0 per cent in 2021 through 2022, further supporting the rebound of the global economy. However, new, and more transmissible versions of the COVID-19 virus pose a threat to economic recovery.

Headline inflation rates are elevated in the United States, as well as in some emerging markets and developing economies, owing to supply-demand mismatches and higher commodity costs caused by the pandemic. Price pressures are expected to persist in some emerging markets and developing economies, due to an increase in food costs, delayed effects of higher oil prices, and exchange rate depreciation, which affects the pricing of imported commodities. Consequently, according to World Economic Outlook (WEO), global inflation is expected to peak at 3.6 per cent during the year, decelerate to 3.2 per cent by the end of 2021, and decline further to about 2.0 per cent by mid-2022.

Despite some initial setbacks, global trade recovered from the pandemic faster than expected in 2021. Trade volumes are anticipated to increase by about 10 per cent, before slowing to around 7 per cent in 2022. The expected trade recovery conceals a gloomy picture for tourism-dependent economies and cross-border services in general. In comparison to pre–COVID-19 estimates, nations where tourism and travel account for a bigger share of GDP are expected to experience a larger decline in activity.

As the world emerges from the COVID-19 pandemic, a jump in costs has swept through the whole global energy network, fuelled by the economic growth recovery process. Additionally, growing mobility and a decrease in the number of new COVID-19 cases are supporting oil demand. Consequently, the IEA forecasts global oil demand to rise by 5.5 mb/d in 2021 and 3.3 mbpd in 2022 when it reaches 99.6 mbpd, slightly above pre-Covid levels. Output is projected to rise 2.7 mbpd with OPEC+ accounting for 1.5 mb/d and non-OPEC+ pumping the rest. Brent crude oil prices are expected to average US$82 pb for the rest of 2021 and US$71.91 pb in 2022 while the US WTI is projected to average US$69.02 pb in 2021 and US$68.28 pb in 2022.

3.2 Domestic Economic Outlook

Growth prospect for the domestic economy remains positive for the rest of 2021, on the back of stable crude oil prices, increased production by OPEC+ and allies, sustained policy support, and further easing of supply chain bottlenecks. GDP is expected to record positive growth in 2021Q3 and 2021Q4. This positive outlook is hinged on the sustained improvement in manufacturing activities, stable crude oil prices and production, expansion of the fiscal space through the implementation of the Petroleum Industry Act (PIA), strengthening the supply chain, and sustained fiscal and monetary policy interventions. Nonetheless, supply chain disruptions in the form of lingering insecurity affecting agricultural output, power supply challenges inhibiting manufacturing activities, and rising food prices, amongst others, could impede growth prospects.

Inflationary pressures are expected to moderate further as monetary policy interventions continue to correct supply deficiencies. Inflation is projected to trend downward, hinged on the positive impacts of the harvest season on food prices, stability of PMS prices, and various interventions in the real sector. However, this moderation is threatened by several upside risks, including a possible hike in electricity tariff and PMS price, and lingering insecurity in food-producing regions.

In the near term, the prospect of strong fiscal policy intervention is positive, riding on the expectations of high and rising global crude oil prices and the continued implementation of fiscal reforms. However, COVID-19 uncertainties may heighten existing risks on global demand and dampen the prospect of improved fiscal space. This may be exacerbated by the lingering insecurity in parts of the country, which has the potential of disrupting taxable economic activities and creating new expenditure needs.

The outlook for the external sector is positive as rising global demand and business optimism would boost trade balance and external reserves. External reserves are projected to increase in the near term, due to improvement in the global oil market, occasioned by sustained global recovery, rise in portfolio inflows, on the back of the recent exchange rate management policies, attractive returns in the money and stock markets, and savings from the discontinued allocations to BDC. However, potential inhibitors to this outlook include an unforeseen slowdown in global oil demand due to continued mutations of COVID-19, weakening of investors' confidence, domestic insecurity challenges, and rise in imports.