CENTRAL BANK OF NIGERIA ECONOMIC REPORT

Fourth Quarter 2020

ABOUT THE REPORT

The Central Bank of Nigeria (CBN) Economic Report presents economic developments in Nigeria, intended for dissemination to the public. The Report, which is published on monthly and quarterly basis, provides insights on current 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.

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

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EXECUTIVE SUMMARY

The recovery of the global economy continued in the fourth quarter of 2020, amidst the second wave of the COVID-19 pandemic, albeit at a slow pace across Advanced Economies (AEs) and the Emerging Market and Developing Economies (EMDEs). The growth outcome was reinforced by stronger financial flows, rising employment and improved business optimism. Also, the production and distribution of COVID-19 vaccines boosted investors' confidence. Business activity of service providers rose at the fastest pace, with expansion across the business, consumer and financial services industries. Accordingly, the average J.P. Morgan Global Composite Purchasing Managers' Index (PMI) accelerated in the fourth quarter of 2020, compared with slowed economic activity in the third quarter of 2020, and the corresponding fourth quarter of 2019. However, the rate of expansion in manufacturing production eased, as downturn in the intermediate and investment goods sub-industries offset the growth in the production of consumer goods. Overall, business outlook remained positive in the United States, the United Kingdom, Germany, India, United Arab Emirates and Italy, but was negative for Japan and South Africa.

In the domestic economy, industrial and business activities witnessed slight improvement over the levels in the preceding quarter, due to increased consumer demand and business confidence, following the full reopening of most economies. Preparations towards the end of year festivity also contributed to the increase in business activities and demand. The average composite manufacturing Purchasing Managers' Index (PMI) improved to 49.6 index point, above the 46.8 index point in the preceding quarter. The increase was driven by expansion in four sub-sectors, namely: transportation equipment; non-metallic mineral products; paper products; and food, beverages and tobacco products. Following the easing of restrictions on travels, delivery time for supplies improved. Similarly, the average composite non-manufacturing PMI rose to 46.4 index point in the review quarter, compared with the 43.3 index point recorded in the preceding quarter. Increases were observed in some subsectors, particularly arts, entertainment & recreation, electricity, gas, steam & air conditioning supply, water supply and sewage & waste management. However, despite the relative improvement in both manufacturing and non-manufacturing PMIs, the indices remained below the 50.0 index point threshold.

Inflationary pressures persisted in the review quarter, amid heightened demand and supply shocks. This was attributed to the lingering effect of the COVID-19 pandemic containment measures, supply disruptions occasioned by the 'EndSARS' protests and exchange rate pass-through effect on domestic prices. Other factors included increase in the pump price of Petroleum Motor Spirit (PMS), food supply shortages, due to the persistent insecurity in some parts of the country and incidences of floods in some food-growing regions. Consequently, headline inflation, year-on-year, rose to 15.8 per cent in the fourth quarter of 2020, over the 13.7 per cent and 11.9 per cent in the third quarter of 2020 and the fourth quarter of 2019, respectively. Similarly, on a quarter-on-quarter basis, headline inflation rose by 1.6 per cent, above the 1.5 per cent in the preceding quarter.

The prices of most agricultural commodities in the international market maintained an upward trend in the fourth quarter of 2020, influenced, generally, by firmer demand. Intervention schemes by the Bank continued to focus on enhanced credit delivery to critical sectors, in a bid to boost productivity and stimulate the real sector of the economy. Crude oil spot prices rose slightly, following increased demand from Asia, particularly China and India, in addition to the optimism that the COVID-19 vaccine rollout would revive global fuel demand. Additionally, the OPEC+ slowed the pace of a planned increase in supplies by 2021 to support the spot prices.

At ₦2,208.10 billion, federally collected revenue in the fourth quarter of 2020 fell by 13.1 per cent and 8.3 per cent below the budget benchmark and the level in the preceding quarter, respectively. It was also 16.8 per cent below collections in the corresponding period of 2019. Oil receipts accounted for 44.6 per cent of the total collection, while non-oil constituted the balance of 55.4 per cent. The relatively low receipts recorded in the review period underscored the lingering effect of the COVID-19 pandemic on domestic and global economic activities. Similarly, the retained revenue of the Federal Government of Nigeria (FGN) stood at ₦903.52 billion, while provisional aggregate expenditure was ₦2, 387.46 billion. This resulted in an estimated deficit of ₦1,483.93 billion. Total FGN debt outstanding at end-September 2020 stood at ₦28, 032.58 billion, with domestic and external components accounting for 56.5 per cent and 43.5 per cent, respectively. The external debt constituted 7.7 per cent of GDP, which was within the sustainable threshold of 40.0 per cent of GDP.

The second wave of the COVID-19 pandemic, the 'EndSARS' protests and implementation of curfew in some states, decline in crude oil prices, negative emerging markets sentiments and slowdown in economic activities were the major headwinds against monetary policy in the review period. These factors caused reversals of Foreign Portfolio Investments (FPI) as investors' confidence in the domestic economy waned. However, key financial market indicators remained moderately stable, due to effective liquidity management by the Bank. Broad money supply (M3) grew by 11.0 per cent to ₦38,673.64 billion at end-December 2020, which was below the target of 13.1 per cent for fiscal 2020. Claims on the domestic economy and narrow money supply (M1) also followed similar growth trajectory. Monetary policy remained accommodative, during the period, driven, largely, by the need to improve credit flows to key productive sectors to bolster growth in the economy. Capital market activities on the Nigerian Stock Exchange (NSE) were bullish, amidst the good corporate performance released for the third quarter of 2020, showing the resilience of the market in the face of the lingering economic downturn and challenges associated with the COVID-19 pandemic. The market performance was driven by better-than-expected earnings and investors' insight on taking position ahead of 2021 corporate actions.

The performance of the external sector improved in the fourth quarter of 2020, despite the challenging global environment, characterised by less-than-expected global recovery, weakened demand, amidst the second wave of the COVID-19 pandemic and uncertain political environment in the U.S.A – Nigeria's major trading partner. Thus, an estimated overall balance of payments surplus of US$0.79 billion was recorded in the fourth quarter of 2020, compared with the US$0.14 billion recorded in the third quarter. The deficit in the current account, however, widened to US$5.27 billion, compared with US$3.34 billion in the preceding quarter. A net disposal of US$2.50 billion was recorded in the financial account, relative to US$2.66 billion in the preceding quarter. The external reserves at end-December 2020 was US$36.46 billion, compared with US$35.67 billion at end-September 2020. This showed an accretion of US$0.79 billion. At this level, the foreign reserves could finance 8.4 months of import of goods or 6.3 months of import of goods and services. The improvement in external reserves was attributed to the reforms undertaken by the Bank to block leakages and ensure enhanced inflow of remittances from Nigerians in Diaspora. In the foreign exchange market, the average naira exchange rate at the I&E and the BDC windows depreciated to ₦389.04/US$ and ₦468.17/US$ in the fourth quarter of 2020, from ₦386.60/US$ and ₦461.94/US$ in the third quarter of 2020, respectively.

Growth prospects for the Nigerian economy remained weak, as the macroeconomic instability associated with the COVID-19 pandemic and weak crude oil prices, amidst other structural factors, dampen the near-term outlook. Staff projections indicated growth of GDP in the fourth quarter of 2020, given current economic fundamentals. The growth is expected to be more resilient in the first quarter of 2021, following continuous monetary and fiscal policies, including the expected roll-out of the COVID-19 vaccine to contain the spread of the virus.

1.0 GLOBAL ECONOMIC DEVELOPMENTS

1.1. Overview of Global Economic Conditions

Global Economic Conditions

The recovery of the global economy continued in the fourth quarter of 2020, amidst the second wave of the COVID-19 pandemic, albeit at a slow pace across Advanced Economies (AEs) and the Emerging Market and Developing Economies (EMDEs). The recovery was reinforced by larger inflows, rising employment and improved business optimism, as the production and distributions of the COVID-19 vaccines boosted investors' confidence. Business activity of service providers rose at the fastest pace, with expansion across the business, consumer and financial services industries. Accordingly, the average J.P. Morgan Global Composite Purchasing Managers' Index (PMI) accelerated in the fourth quarter of 2020, compared with the levels in the third quarter of 2020 and the corresponding quarter of 2019 (Table 1). All the activity sectors contributed to the development. The overall business outlook remained positive for the United States, United Kingdom, China, Germany, India, United Arab Emirates and Italy, but negative for Japan, South Africa and Nigeria.

Table 1: Global Purchasing Managers' Index (PMI)

	2019Q4	2020Q3	2020Q4
Composite	51.27	51.83	52.70
Manufacturing	50.07	51.57	53.53
Services (Business Activity)	51.53	51.37	52.20
Employment Level	50.93	49.33	51.40

Sources: JP Morgan, CBN Staff compilation.

Table 2: Quarterly GDP in Selected Countries

	4Q 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
US	2.1	0.3	-9.0	-2.9	*-2.4*
UK	-1.7	-1.7	-21.5	-9.6	*-7.8*
CHN	6.0	-6.8	3.2	4.9	*6.5*
IND	4.7	3.1	-23.9	-7.5	*0.4*
GM	0.4	-2.1	-11.3	-4.0	*-3.7*
IT	0.1	-5.6	-17.7	-5.0	*-6.6*
JP	1.7	-1.8	-10.2	-5.0	*-1.2*
SA	-0.5	-0.1	-17.1	-6.0	*na*
NG	2.6	1.9	-6.1	-3.6	0.11

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

1.2. Developments in Advanced Economies (AEs) and the Emerging Market and Developing Economies (EMDEs)

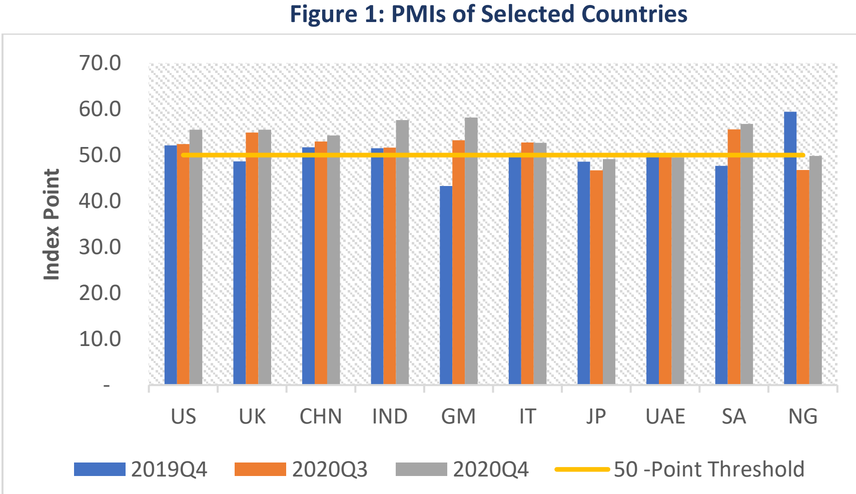
Economic Activity in Advanced Economies

Economic activities in Advanced Economies (AEs) continued to experience gradual recovery in the fourth quarter of 2020, following the discovery of COVID-19 vaccines, signing of the Brexit deal and other positive policy measures taken by both the fiscal and monetary authorities. These measures improved operating conditions of corporates, culminating in the expansion in factory activities, such as production processes and output. Consequently, the PMI of the United States, the United Kingdom, Germany and Italy, in the fourth quarter of 2020, improved. Moreover, the Japanese economy experienced slower pace of contraction in the fourth quarter of 2020, compared with the level in the preceding quarter and the corresponding fourth quarter of 2019. However, Japanese PMI remained below the 50-index point benchmark since the fourth quarter of 2019 (Figures 1 and 2). This made manufacturing to remain under pressure, amid the COVID-19 pandemic. Production fell, as new orders declined. On the price front, input costs rose only marginally, while output charges fell slightly.

Economic Activity in Emerging Market and Developing Economies

In the Emerging Market and Developing Economies (EMDEs), the momentum of economic recovery was modest, as the PMI of China, India and South Africa improved. Factory activities maintained their recovery from the impact of the COVID-19 pandemic, with new export business expanding at the fastest rate on the back of the discovery and distribution of the COVID-19 vaccines and easing of lockdown restrictions in these countries. Looking ahead, the momentum of the recovery is expected to vary across countries, depending on the quantum and effectiveness of policy interventions, structural characteristics of the countries, access to COVID-19 vaccines and their effectiveness to contain the renewed waves and new variants of the virus.

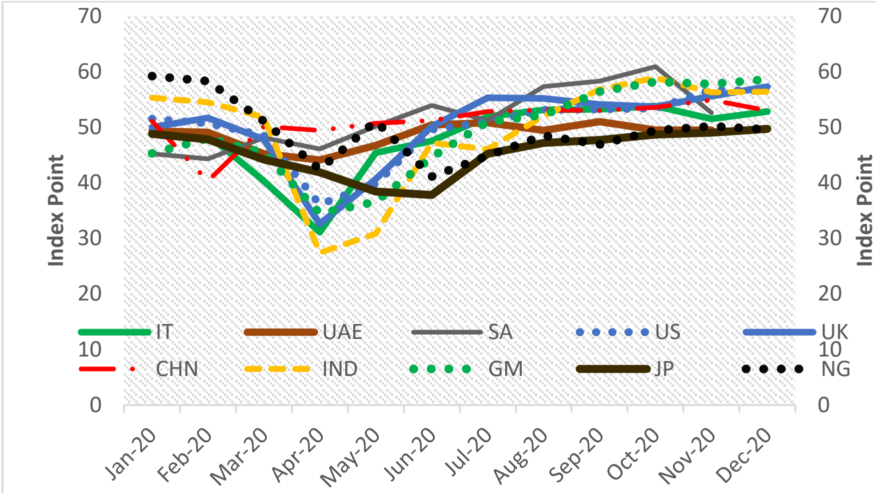
Figure 1: PMIs of Selected Countries



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

Note: US, UK, CHN, IND, GM, IT, JP, UEA, SA and NG represent United States, United Kingdom, China, India, Germany, Italy, Japan, United Arab Emirates, South Africa and Nigeria, respectively.

Figure 2: PMIs of Selected Countries (January - December 2020)



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

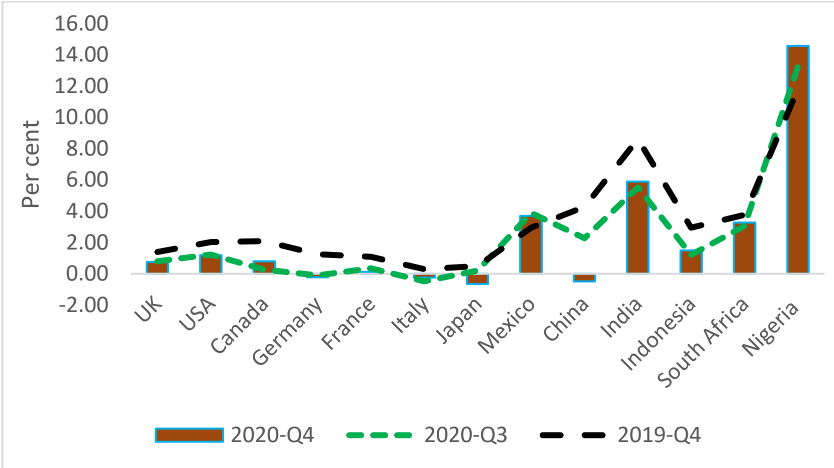
1.3. Global Inflation

Global Inflation

In the fourth quarter of 2020, consumer prices remained muted and below the pandemic levels amongst most AEs, while inflationary pressures mounted unevenly amongst EMDEs. The subdued price level in most AEs was attributed to dampened aggregate demand emanating from the second wave of COVID-19 lockdown measures. On the other hand, inflationary pressures in several EMDEs, remained relatively high, compared with AEs counterparts, reflecting higher food prices, persistence of exchange rate pressures, dwindling capital flows and weak accretion to reserves, as well as other structural issues.

Specifically, consumer prices in the US remained the same in the third and fourth quarters of 2020, at an average of 1.2 per cent. However, this was relatively lower, when compared with 2.0 per cent witnessed in the fourth quarter of 2019, owing largely to decline in the cost of medical care products, energy prices and transportation services. Similarly, in the UK, inflation fell to 0.7 per cent from 0.8 per cent and 1.4 per cent in the third quarter of 2020 and the fourth quarter of 2019, respectively. The marginal decrease was attributed, mainly, to downward pressures from clothing, furnishing and food prices. Meanwhile, the fall in food, transport and energy prices in China continued to dampen inflationary pressures, with average inflation declining to negative 0.5 per cent in the fourth quarter of 2020, from 2.3 and 4.3 per cent in the preceding quarter and fourth quarter of 2019, respectively. In contrast, Nigeria and South Africa, on the average, recorded higher rates of inflation in the fourth quarter of 2020, due to elevated prices of food and core inflation components in Nigeria, while higher energy and utility prices accounted for the trend in South Africa (Figure 3, Table 3).

Figure 3: Inflation Rates in Selected Countries



Sources: OECD, National Bureau of Statistics (NBS) and Staff Compilation.

Table 3: Summary of Inflation Rates in Selected Countries

Country	2019-Q4	2020-Q1	2020-Q2	2020-Q3	2020-Q4
UK	*1.4*	*1.7*	*0.8*	*0.8*	*0.75*
USA	*2.03*	*2.12*	*0.36*	*1.22*	*1.18*
Canada	*2.09*	*1.81*	*0.02*	*0.27*	*0.81*
Germany	*1.24*	*1.64*	*0.76*	*-0.09*	*-0.24*
France	*1.09*	*1.19*	*0.3*	*0.35*	*0.13*
Italy	*0.29*	*0.29*	*-0.13*	*-0.48*	*-0.25*
Japan	*0.49*	*0.53*	*0.07*	*0.2*	*-0.65*
Mexico	*2.94*	*3.39*	*2.77*	*3.9*	*3.71*
China	*4.27*	*4.97*	*2.73*	*2.27*	*-0.5*
India	*8.62*	*6.61*	*5.2*	*5.53*	*5.9*
Indonesia	*2.95*	*2.92*	*2.11*	*1.2*	*1.5*
South Africa	*3.76*	*4.34*	*2.36*	*3.04*	*3.27*
Nigeria	*11.81*	*12.2*	*12.43*	*13.25*	*14.56*

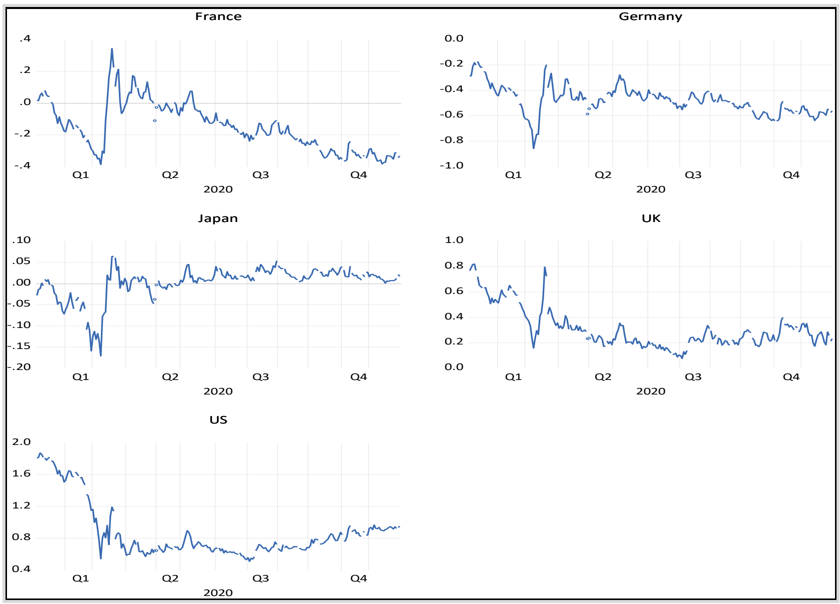
Sources: OECD, National Bureau of Statistics (NBS) and Staff Compilation.

1.4. Global Financial Markets

Global Financial Markets

The outlook for the global financial market appears positive, as the giant stride around the COVID-19 vaccines continued to spur investors' confidence. The global financial market recorded improved investors' confidence in the review period, compared with the third quarter of 2020, with several economies recovering from the depths reached during the COVID-19 shutdown and thus, engendering improved outlook for corporate earnings, as business activities across the globe experienced significant normalisation. News of remarkable strides in the development of vaccines for the COVID-19 also contributed immensely to the bullish sentiment in the capital market. However, the positive performance of global financial market could be dampened by extended period of subdued inflation and interest rates, even as there was sustained interest in equities over bonds and money market instruments in the short run. Yields on fixed income instruments were expected to remain low in the nearest future, especially in advanced economies, as central banks were not eager to have a policy shift from their current expansionary stance, especially as the second wave of the COVID-19 pandemic continues to gain momentum. However, the financial markets in emerging markets and developing economies could experience slower recovery, as the pandemic could intensify risks-off sentiments and reduce the pace of foreign portfolio inflows from the advanced economies (Figures 4 and 5).

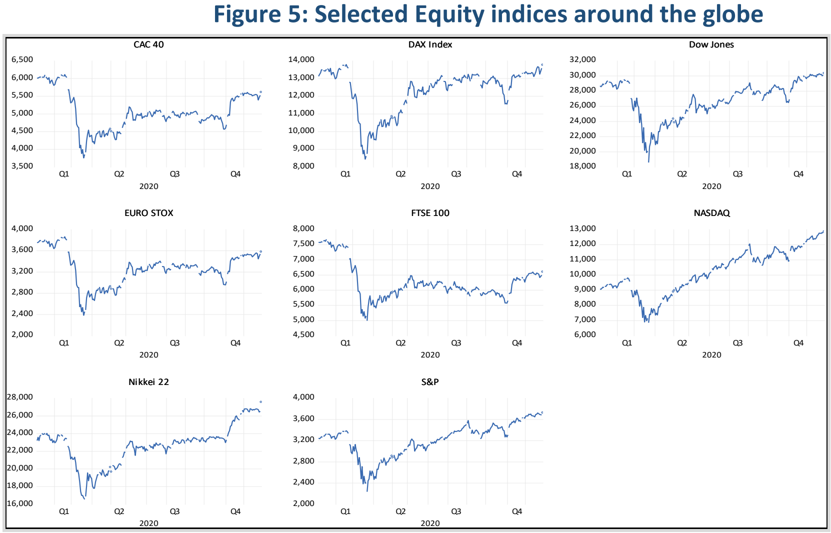
Figure 4: 10-year Bond Yield Curve of Selected Countries



Source: Bloomberg

Note: US, UK represent United States and United Kingdom, respectively.

Figure 5: Selected Equity indices around the globe



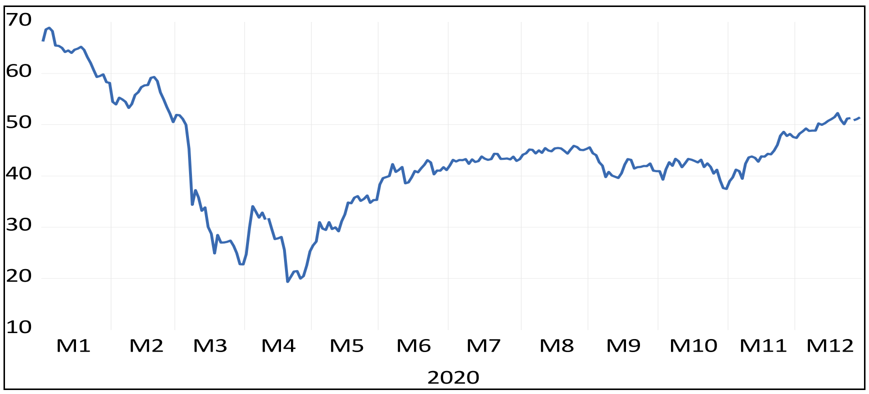
Source: Bloomberg

1.5. Global Oil Market

Global Oil Market

Crude oil prices showed significant improvements in the fourth quarter of 2020 and could maintain an upward trajectory going forward. Crude oil prices remained elevated above US$40pb through the fourth quarter of 2020, driven by sustained production cut by OPEC and its allies, modest recovery in consumption, following the easing of lockdown measures, as well as renewed optimism on the back of the COVID-19 vaccine distribution (Figure 6). Going forward, crude oil price was expected to move upwards, due to the producers' concerted effort, albeit below pre-COVID-19 levels, as the resurgence of the pandemic continued to threaten global economic activities. On the supply side, OPEC and its allies have continued to show willingness and capacity to move the market in the desired direction through production cuts and other agreements in the face of the second wave of the pandemic.

Figure 6: Global Crude Oil Prices (US$)



Source: Bloomberg

World Crude Oil Supply and Demand, Production and Export

World crude oil supply in the fourth quarter of 2020 increased by 3.6 per cent, to an average of 94.35 mbpd from the 91.03 mbpd in the preceding quarter. However, it declined by 7.3 per cent against the 101.73 mbpd in the fourth quarter of 2019. Of the total world crude oil supply, non-OECD countries accounted for 63.70 mbpd, while OECD countries accounted for the balance of 30.65 mbpd, indicating higher levels than the 61.33 mbpd and 29.70 mbpd supplied by non-OECD and OECD countries, respectively, in the third quarter of 2020. The increase in world crude oil supply in the review period was indicative of a clear drop in world stockpiles in the fourth quarter of 2020.

Similarly, the OPEC's aggregate supply, including non-crude and other liquids, increased by 1.4 mbpd (4.9%) to 29.85 mbpd in the fourth quarter of 2020, compared with the 28.45 mbpd in the third quarter of 2020. The development was driven, largely, by the increase in Libya's crude oil production to 1.3 mbpd, after the lifting of the initial force majeure imposed on its production and export. The OPEC's aggregate supply represented 31.6 per cent of the total world supply in the fourth quarter of 2020.

World crude oil demand increased by 2.75 mbpd (2.9%), to an estimated average of 97.50 mbpd in the fourth quarter of 2020, compared with the 94.75 mbpd in the preceding quarter. However, it declined by 4.30 mbpd compared with the 101.84 mbpd in the fourth quarter of 2019. The increase relative to the preceding quarter was driven, largely, by upswing in demand from OECD countries by 1.64 mbpd from the 43.03 mbpd recorded in the third quarter of 2020. Overall, the global crude oil market recorded an estimated lower deficit of 3.15 mbpd in the fourth quarter of 2020, compared with a deficit of 3.72 mbpd in the third quarter of 2020.

2.0. DOMESTIC ECONOMIC DEVELOPMENTS

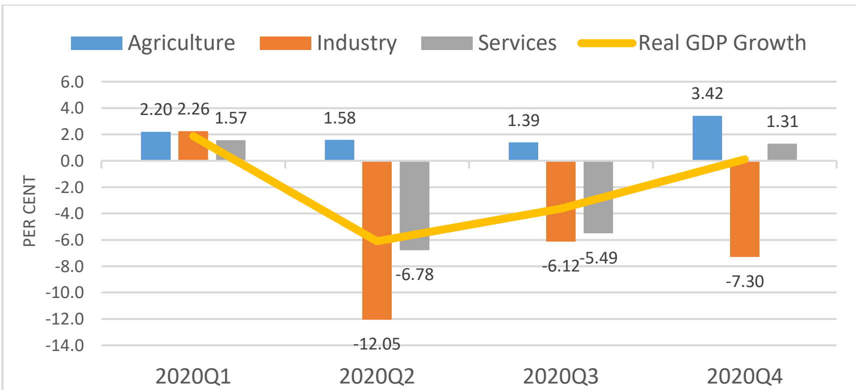
2.1. REAL SECTOR DEVELOPMENTS

2.1.1. Domestic Output and Business Activities

Domestic output and economic activities

Domestic output returned to growth in 2020Q4, following gradual resumption of global and domestic economic activities, as well as sustained fiscal and monetary policy interventions, particularly, in the real sector. The expansion in output was, largely, driven by the non-oil sector, with strong performances in the Agriculture and Services sectors, which grew by 3.42 per cent and 1.31 per cent, respectively. The growth in the agricultural sector was driven by crop production, which grew by 3.68 per cent; and increased demand for food items during the end-of-year activities.

Figure 7: Sectoral Growth Rate of real GDP 2020Q1-2020Q4



Source: National Bureau of Statistics

Growth in services was driven, mainly, by the performance of the ICT subsector, which grew by 17.64 per cent in the review period. ICT performance increased as a result of productivity gains arising from the adoption of remote work and virtual engagements, and associated rise in demand for broadband data services by individuals and businesses. However, industry contracted by 7.30 per cent in 2020Q4, compared with a contraction of 6.12 per cent in 2020Q3. The contraction was driven by 18.44 per cent decline in mining and quarrying activities, owing to a large contraction of 19.76 per cent in the crude petroleum & natural gas subsector; and 1.51 per cent contraction in manufacturing activities, due to 56.5 per cent reduction in oil refining activities.

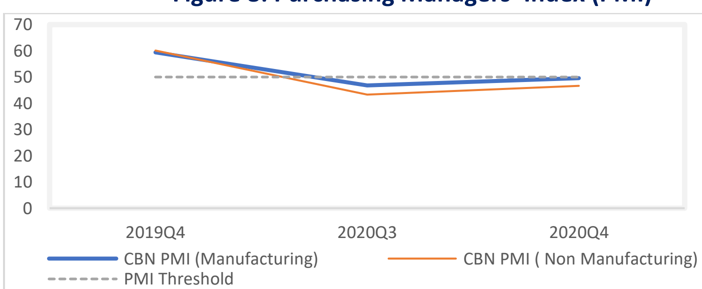
Subsequently, real GDP grew by 0.11 per cent in 2020Q4, compared with a contraction of 3.62 per cent recorded in 2020Q3 and a growth of 2.55 per cent in the corresponding period of 2019. Consequently, annual GDP for 2020 contracted by 1.92 per cent, compared with the growth of 2.27 per cent recorded in 2019. Also, oil and non-oil GDP in 2020 contracted by 8.89 per cent and 1.25 per cent respectively, compared with growths of 4.59 per cent and 2.06 per cent in 2019, respectively.

Purchasing Managers' Index

Despite the general rise in the cost of raw materials and shortage of foreign exchange, industrial and business activities in the fourth quarter of 2020 witnessed slight improvement from the preceding quarter, due to increased consumer demand and business confidence. The full reopening of the economy and preparations towards the end of year festivity further increased business activities and demand. The average composite manufacturing Purchasing Managers' Index (PMI) for the fourth quarter of 2020, increased to 49.6 index point, above the 46.8 index point in the preceding quarter. However, it was below the 59.4 index point in the fourth quarter of 2019. The rise in the index was a result of the expansion in the sub-sectors of transportation equipment, non-metallic mineral products, paper products, and food, beverages and tobacco products. Also, there was improvement in the delivery time for supplies occasioned by the easing of restrictions on travels.

Likewise, the average composite non-manufacturing PMI rose to 46.4 index point in the fourth quarter of 2020, compared with the 43.3 index point in the preceding quarter, but was below the 60.1 index point in the fourth quarter of 2019. Increases were observed in some subsectors, particularly arts, entertainment & recreation, electricity, gas, steam & air conditioning supply, and water supply, sewage & waste management. However, despite the relative growth in both the manufacturing and non-manufacturing PMIs, the indices remained below the 50.0 point threshold (Figure 8, Table 4).

Figure 8: Purchasing Managers' Index (PMI)



Source: Central Bank of Nigeria

Table 4: Purchasing Managers' Index for the Fourth Quarter of 2020.

COMPONENTS	2019 Q4	2020 Q3	2020Q4
A. Composite Manufacturing PMI	**59.4**	**46.8**	**49.6**
Production level	60.4	47.1	51.1
New orders	59.6	46.2	50.6
Supplier Delivery Time	59.3	54.3	51.7
Employment level	57.5	42.9	46.5
Raw material Inventory	60.5	44.1	47.2
B. Composite Non-manufacturing PMI	**60.1**	**43.3**	**46.4**
Business Activity	60.5	45.7	48.1
New Orders	60.4	42.3	46.9
Employment level	58.8	42.3	44.5
Inventories	61.3	43.0	46.1

Source: Central Bank of Nigeria

New Orders

Improvement in business activities, coupled with increased consumers' demand led to the growth in new orders and production level in the review period. New orders rose to an average of 50.6 index point and 46.9 index point for both manufacturing and non-manufacturing PMIs in the fourth quarter of 2020, compared with their respective levels of 46.2 index point and 42.3 index point in the third quarter of 2020.

Inventories

The rise in new orders and production level prompted an increase in voluntary inventories for both manufacturing and non-manufacturing sectors. Raw material inventories for Manufacturing PMI rose to 47.2 index point and the inventories for non-manufacturing also increased to 46.1 index point in the review period from their respective levels of 44.1 index point and 43.0 index point in the preceding quarter.

Employment

Employment rose in the review quarter, following increased production activities by firms and improved consumers' confidence in the economy. Consequently, the employment level for both manufacturing and non-manufacturing sectors increased to 46.5 index point and 44.5 index point, when compared with the 42.9 index point and 42.3 index point, respectively, recorded in the preceding quarter. During the review period, electricity, gas, steam & air conditioning supply and transportation equipment recorded higher staffing level.

Industrial Production

In the review period, the fall in mining activities, especially the decrease in crude oil and gas production, led to the decline in the index of industrial production. The estimated index of industrial production fell to 100.8 (2010=100) in the fourth quarter of 2020, reflecting a 6.0 per cent decrease from the level in the third quarter of 2020, but an increase of 1.6 per cent when compared with the level in the fourth quarter of 2019.

Manufacturing

Improvement in economic activities and increase in consumer demand, due to the full reopening of the economy and preparations for the end of year festivity, contributed to the positive trend in the manufacturing sector during the review quarter. Thus, the estimated index of manufacturing production grew to 181.1 (2010=100) in the fourth quarter of 2020, indicating an increase of 1.5 per cent, compared with the level in the third quarter of 2020, but contrasted to the decline of 1.3 per cent in the fourth quarter of 2019.

Capacity Utilisation

Increase in manufacturing activities to meet up with the rising demand, as well as improvement in the supply chain, led to higher capacity utilisation in the review period. Consequently, the estimated average capacity utilisation for the fourth quarter of 2020 was 45.4 per cent, representing 1.6 percentage points increase, compared with the level in the preceding quarter, but a decrease of 15.3 percentage points against the corresponding quarter of 2019.

Mining

Reduction in crude oil production led to the decline in activities in the mining sector during the review period. The estimated index of mining production in the fourth quarter of 2020 at 66.3 (2010=100) declined by 12.1 per cent, relative to the level in the third quarter of 2020. However, it increased by 9.2 per cent, when compared with the level in the fourth quarter of 2019.

Electricity Generation

The electricity sector witnessed improvement within the review period, due to enhanced gas supply to gas-fired power plants and deployment of solar mini grids to various states in the country. The improvement in gas supply followed increased interventions by government to expand gas production. In addition, Service Based Tariff (SBT), which was suspended in September 2020, later took off in November 2020. Overall, there was improved electricity generation, transmission, and distribution. Consequently, the average estimated electricity generation for the fourth quarter of 2020 rose to 3,744.95 MW/h, reflecting an increase of 6.6 per cent and 6.1 per cent, compared with the levels in the third quarter of 2020 and fourth quarter of 2019, respectively.

Electricity Consumption

At 3,264.49 MW/h, the average estimated electricity consumption for the review quarter increased by 1.0 per cent and 5.2 per cent, compared with the levels recorded in the third quarter of 2020 and fourth quarter of 2019, respectively.

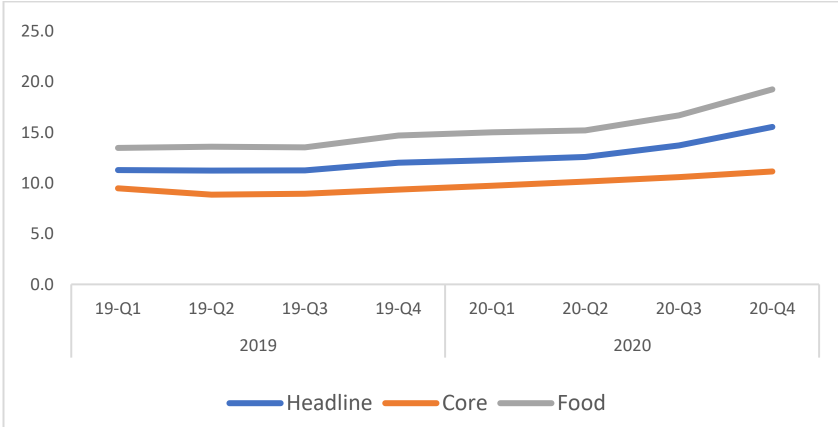
2.1.2. Consumer Prices

Inflationary pressures persisted in the review quarter amid heightened demand and supply shocks. This was driven, mainly, by the lingering effect of the COVID-19 pandemic containment measures, supply disruptions, occasioned by the 'EndSARS' protest, and exchange rate pass-through effect on domestic prices. Other factors included increase in the pump price of PMS, food supply shortages, due to the persistent insecurity in some parts of the country and incidences of floods in some food-growing regions.

Headline Inflation

Headline inflation, year-on-year, rose to 15.8 per cent in the fourth quarter of 2020, from the 13.7 per cent and 11.9 per cent in the third quarter of 2020 and fourth quarter of 2019, respectively. On a month-on-month basis, headline inflation, at 1.6 per cent in the fourth quarter of 2020, increased slightly, compared with the 1.5 per cent recorded in the preceding quarter. The rise in headline inflation was driven by increases in the indices of all the components of the headline index (Figure 9).

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



Source: National Bureau of Statistics

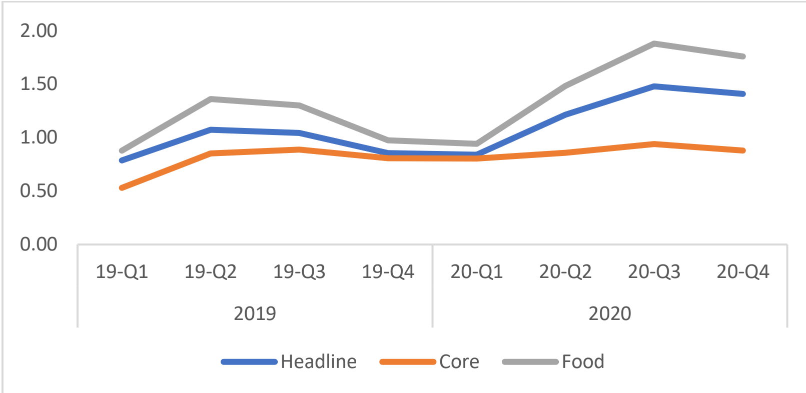
Food Inflation

Food inflation remained the major driver of headline inflation in the country. On year-on-year basis, food inflation, in the review period, maintained an upward trend to 19.6 per cent, from the 16.7 per cent in the preceding quarter. Similarly, on month-on-month basis, it increased by 2.1 per cent, from 1.9 per cent recorded in the preceding quarter. The rise in the food index was caused by increase in the prices of bread and cereals, potatoes, yam and other tubers, meat, fish, fruits, oils and fats, and vegetables.

Core Inflation

Core inflation (all items less farm produce) was estimated at 11.4 per cent in the review period, up from the 10.6 per cent recorded in the preceding quarter. On month-on-month basis, core inflation also increased, slightly, to 1.1 per cent, from 0.9 per cent in the preceding quarter. The highest increase in the prices of the components of core inflation were recorded in passenger transport by air; hospital services; medical services; pharmaceutical products; maintenance and repair of personal transport equipment; vehicle spare parts; motor cars; passenger transport by road, as well as housing utilities (water, electricity and gas).

Figure 10: Headline, Food and Core Inflation (Month-on-Month) (Per cent)



Source: National Bureau of Statistics

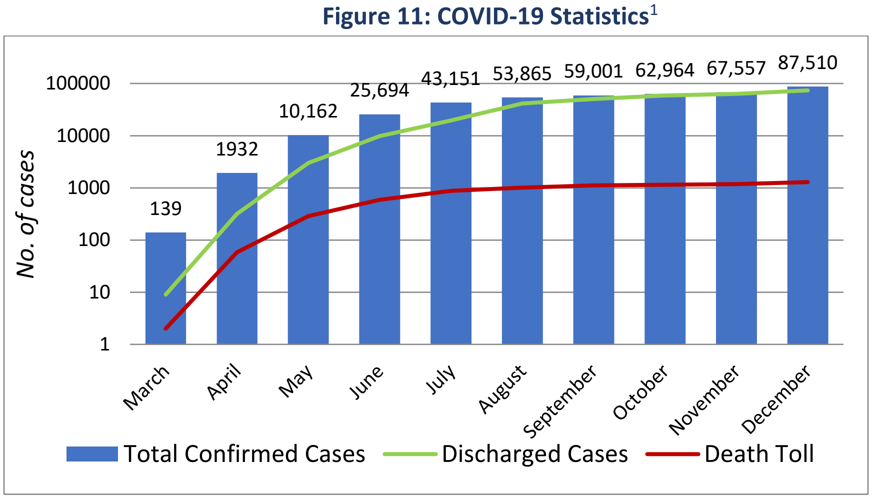
2.1.3 Socio-Economic Development

COVID-19 Update

As the second wave of the COVID-19 pandemic continued to gain momentum, the total number of confirmed cases in Nigeria rose by 29.7 per cent to 87,607 as at December 31, 2020, from 67,557 cases recorded in November 30, 2020. Accordingly, the number of active cases increased to 12,516 from 3,102, while recorded fatalities rose to 1,289 from 1,173 in the same period (Figure 11). Besides the spike in new cases, there were also growing concerns of new variants of the virus, which stressed the need for extra caution and stricter surveillance and enforcement of containment measures. Consequently, some state governments shut down schools to contain further spread of the virus.

Furthermore, at the national level, new COVID-19 guidelines and restrictions were announced in December 2020. These included closure of schools, bars, clubs, and restriction on human capacity at religious and social gatherings and number of passengers in public transportation systems to only 50.0 per cent.

Figure 11: COVID-19 Statistics[1]



Source: The Nigeria Centre for Disease Control (NCDC)

[1] COVID-19 data as at December 31, 2020

Building Resilience

As the effect of the COVID-19 pandemic lingers, effort to sustain the recovery path of the economy received a boost with the approval of US$1.5 billion support loan by the World Bank, through a five-year Country Partnership Framework (CPF). The loan was approved under two projects, namely, the Nigeria COVID-19 Action Recovery and Economic Stimulus-Programme for Results (Nigeria CARES) and the State Fiscal Transparency, Accountability, and Sustainability Program of Results (SFTAS) additional financing. These projects are expected to support a resilient recovery and enhance access to social transfers and basic services to the poor and vulnerable households. It would further strengthen the food supply chain, while enhancing the capabilities of micro, small and medium enterprises (MSMEs).

In addition, as part of the Federal Government's efforts to boost economic recovery, four land borders were re-opened, namely; Seme in South-West, Illela in the North-West, Maigatari in the North-West and Mfum in the South-South. This policy was expected to benefit the economy, particularly, in consonance with the recently ratified African Continental Free Trade Area (AfCFTA), as well as contribute to driving down food prices and, consequently, headline inflation.

Transportation

The transportation sector witnessed increased activities in the review period, as skeletal operations commenced on the Lagos-Ibadan rail line. The rail line was expected to provide an alternative means of transportation in the covered areas, boost commercial activities, as well as reduce road congestion. Similarly, the Federal Executive Council (FEC) approved roads and aviation contracts worth ₦59.35 billion across the country to improve the quality of transport facilities and services, which would bolster economic activities.

The aviation sector also witnessed a boost in international operations, following the removal of all reciprocity fees imposed on visa applications for Nigerians by the United States, as well as the launch of flight operations to Johannesburg, South Africa by Air Peace. These are expected to increase the level of economic ties between Nigeria and South Africa and improve revenue to the aviation sector, while improving the global competitiveness of local carriers. However, some operators in the sector suffered from slow recovery, leading to constrained ability to complete maintenance requirements and return to full operations, thereby limiting their revenue against increasing operational costs. Consequently, Arik air laid off 300 staff over redundancy, following the airline's inability to cover its operational costs.

Social Interventions

The Federal Government sustained its efforts in supporting the recovery of businesses, SMEs, as well as individual households during the review quarter. This included the launch of a Transport Track Fund of ₦30,000 grant to each commercial driver including bus and taxi drivers, motorcycle riders and operators of ride-hailing cabs such as Bolt and Uber. The initiative was a component of the Survival Fund, under the Federal Government's Economic

Sustainability Plan (ESP), put in place to support small businesses and cushion the effect of the COVID-19 pandemic.

Similarly, efforts were made to reduce the level of poverty and bolster household welfare in the country through the modification of certain key government socio-economic initiatives. Thus, the number of N-Power beneficiaries was expanded from 500,000 to 1,000,000, the number of Government Enterprise and Empowerment Programme (GEEP) beneficiaries was increased by 1,000,000, while the number of beneficiaries of the Home-Grown School Feeding Programme was raised to 5,000,000. The Federal Government also unveiled a portal for the exited N-Power Volunteers to access CBN Empowerment options.

Furthermore, the portal for the Social Housing Scheme, under the Federal Government's Economic Sustainability Plan (ESP), was launched in the review period. The Scheme, which aimed at providing 300,000 low-income houses to the most vulnerable households, was expected to create about 1.8 million jobs in the process. The portal was also intended to support the transparent housing allocation to registered individuals. Furthermore, it was also expected to provide an opportunity for young professionals with qualifications, skills, or experience in building and construction to participate as SME Partners, as well as provide market opportunities for local manufacturers of building materials through participation in bulk supply into the Project.

2.1.4 Commodity Market Developments

Agricultural Commodity Prices

Prices of most agricultural export commodities maintained an upward trend in the fourth quarter of 2020, influenced generally by surge in demand. Provisional data showed that prices in the international market of majority of the agricultural commodities monitored increased, compared with the level in the previous quarter. The price increases ranged from 1.2 per cent for cocoa to 34.7 per cent for rubber. The increase in the price of rubber reflected increased demand from the automobile industry as economic activities picked-up, as well as low supply from rubber-producing countries, such as Thailand, due to drought. In addition, the prices of soya beans, palm oil, wheat and cotton increased, during the review quarter, by 22.3 per cent, 18.0 per cent, 15.6 per cent and 10.0 per cent, respectively. The increases were due to the surge in demand resulting from improved economic activities globally. However, the prices of groundnut and coffee decreased by 16.6 per cent and 0.1 per cent, respectively, due to increased involuntary inventories (Table 5).

Table 5: Prices of Agricultural Export Commodities for the Fourth Quarter of 2020

Indices of Average World Prices of Nigeria's Major Agricultural Export Commodities for 2020Q4 (in dollars; 2010 = 100)

Commodity	19-Q4	20-Q3	20-Q4	% Change (1) & (3)	% Change (2) & (3)
	(1)	(2)	(3)	(4)	(5)
Cocoa	*80.61*	*75.25*	*76.14*	*-5.54*	*1.18*
Cotton	*44.59*	*41.53*	*45.68*	*2.42*	*9.98*
Coffee	*57.11*	*63.11*	*63.08*	*10.46*	*-0.06*
Wheat	*66.90*	*69.27*	*80.04*	*19.64*	*15.55*
Rubber	*32.49*	*35.37*	*47.65*	*46.65*	*34.72*
Groundnut	*92.30*	*135.47*	*112.95*	*22.37*	*-16.63*
Palm Oil	*55.39*	*60.76*	*71.68*	*29.41*	*17.96*
Soya Bean	*69.49*	*72.46*	*88.62*	*27.52*	*22.30*

Source: Staff Estimates based on data from Index Mundi and the World Bank Pink Sheet

On the domestic front, steeper growth in food prices were recorded in the fourth quarter of 2020. Prices of the selected food crops monitored increased, significantly, in the review quarter, compared with prices in the preceding quarter and the corresponding quarter of 2019. The highest increases were recorded for onion bulbs and beans (white) whose prices rose by 41.9 per cent and 10.8 per cent, respectively. The supply of onion bulbs was subdued by flooding and the purple blotch disease, which affected some onion producing states, such as Kebbi, Sokoto, and Gombe. In addition, the prices of beans (brown), rice and palm oil increased during the review quarter by 8.5 per cent, 7.2 per cent, and 7.4 per cent, respectively. This development was attributed to the supply and demand shocks occasioned by the 'EndSARS' protest, flooding, as well as the land border protection policy. On the other hand, prices of sweet potato and yam tubers decreased in the review quarter by 5.9 per cent and 5.6 per cent, respectively. The price decrease was attributed, largely, to increased supply associated with the harvesting season of the products (Table 6).

Table 6: Domestic Prices of Selected Agricultural Commodities in the Fourth Quarter of 2020

Food Items	Unit	2019Q4	2020Q3	2020Q4	% Change	% Change
		(1)	(2)	(3)	(1) & (3)	(2) & (3)
Agric eggs medium size	*1kg*	*461.39*	*477.95*	*492.42*	*6.7*	*3.0*
Beans: brown, sold loose	"	*305.24*	*306.12*	*332.07*	*8.8*	*8.5*
Beans: white black eye, sold loose	"	*286.08*	*276.02*	*305.70*	*6.9*	*10.8*
Gari white, sold loose	"	*160.62*	*227.59*	*242.49*	*51.0*	*6.5*
Gari yellow, sold loose	"	*180.05*	*257.23*	*270.37*	*50.2*	*5.1*
Groundnut oil: 1 bottle, specify bottle	"	*574.36*	*627.72*	*653.18*	*13.7*	*4.1*
Irish potato	"	*285.99*	*319.21*	*319.31*	*11.6*	*0.0*
Maize grain white, sold loose	"	*147.92*	*192.17*	*204.05*	*37.9*	*6.2*
Maize grain yellow, sold loose	"	*147.79*	*195.13*	*204.50*	*38.4*	*4.8*
Onion bulbs	"	*223.16*	*241.79*	*343.13*	*53.8*	*41.9*
Palm oil: 1 bottle, specify bottle	"	*467.02*	*497.08*	*533.65*	*14.3*	*7.4*
Rice agric, sold loose	"	*371.50*	*414.96*	*444.86*	*19.7*	*7.2*
Rice local, sold loose	"	*331.22*	*376.24*	*403.23*	*21.7*	*7.2*
Rice, medium-grained	"	*366.65*	*416.38*	*441.61*	*20.4*	*6.1*
Rice, imported high quality, sold loose	"	*429.30*	*502.76*	*543.42*	*26.6*	*8.1*
Sweet potato	"	*144.17*	*171.86*	*161.76*	*12.2*	*-5.9*
Tomato	"	*249.50*	*293.60*	*313.32*	*25.6*	*6.7*
Vegetable oil: 1 bottle, specify bottle	"	*510.39*	*583.31*	*621.56*	*21.8*	*6.6*
Wheat flour: prepackaged (Golden Penny)	*2kg*	*675.00*	*720.52*	*746.96*	*10.7*	*3.7*
Yam tuber	*1kg*	*196.59*	*252.71*	*238.45*	*21.3*	*-5.6*

Source: *National Bureau of Statistics (NBS)*

2.1.5. Development Financing

Development Financing

Intervention schemes by the Bank continued to focus on enhanced credit delivery to critical sectors, in a bid to enhance productivity and stimulate the real sector of the economy. In a bit to further strengthen its intervention into the agricultural sector, the CBN, amended the Agricultural Credit Guarantee Scheme Fund (ACGSF). The amendment allowed for increase in the share capital of the Fund from ₦3.0 billion to ₦50.0 billion, as well as increase the maximum amount granted to both collateralised and non-collateralised loans under the scheme. The amendment also allowed the scheme to finance all aspects of the agricultural value chain.

Similarly, to further increase agricultural productivity and ensure sustained income for farmers, the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL Plc), in collaboration with the Royal Exchange General Insurance Company (REGIC), developed a Hybrid Multi-Peril Crop Indemnity-Index Insurance (HM-II). The new product, which was an outcome of NIRSAL's long-term commitment to the development of innovative agricultural insurance products and expanding coverage for agricultural lending across the entire agricultural value chain, was designed to protect farmers from losses during planting season caused by bad weather, pest outbreak, disease outbreak, fire outbreak and permanent disability or death of farmers.

The improved credit delivery and intervention programmes are expected to stimulate output, thereby easing inflationary pressure, particularly, food inflation. The intervention effort by the Bank is crucial and commendable, given the prevailing macro-economic development and is capable of further sustaining the goal of the Bank towards ensuring price stability from the supply side of the economy (Table 7).

Table 7: Cumulative Disbursement and Repayments of CBN Interventions Schemes from Inception to November 2020

Intervention/Initiative	Cumulative projects	Disbursements (₦ billion)	Repayments (₦ billion)
Commercial Agricultural Credit Scheme (CACS)	*636*	*672.9*	*443.9*
Paddy Aggregation Facility (PAS)	*21*	*95.5*	*93.5*
Rice Distribution Facility (RDF)	*1*	*1*	*0*
Anchor Borrowers' Programme (ABP)	*2,504,690*	*497.2*	*118.70*
Accelerated Agricultural Development Scheme (AADS)	*9,983*	*14.9*	*0.00*
Micro, Small and Medium Enterprises Development Fund (MSMEDF)	*216,704*	*83.9*	*34.70*
Shared Agents Network Expansion Facility (SANEF)	*13*	*5.5*	*0.64*
SME/Rediscount & Refinancing Facility (SMERRF)	*604*	*300.9*	*151.10*
Real Sector Support Facility (RSSF)	*25*	*166.2*	*22.50*
Covid-19 Intervention for the Manufacturing Sector (CIMS)	*111*	*228.2*	*0.00*
Textile Sector Intervention Facility (TSIF)	*41*	*78*	*3.10*
CBN-BOI Industrial Facility (CBIF)	*60*	*100*	*0.00*
Power and Airline Intervention Fund (PAIF)	*74*	*311.2*	*194.60*
Nigerian Electricity Market Stabilization Facility (NEMSF)	*37*	*189.2*	*70.30*
Nigerian Bulk Electricity Trading-Payment Programme (NBET-PAF)	*1*	*866*	*0.00*
National Food Security Programme (NFSP)	*4*	*59.1*	*11.40*
Presidential Fertilizer Initiative (PFI)	*18*	*35*	*10.80*
Non-Oil Export Stimulation Facility (NESF)	*13*	*44*	*12.00*
Export Development Fund (EDF)	*1*	*50*	*0.00*
Agribusiness/SME Investment Scheme (AGSMEIS)	*22,057*	*83.5*	*0.21*
Targeted Credit Facility (TCF)	*317,949*	*149.2*	*0.00*
Maize Aggregation Scheme (MAS)	*7*	*6*	*6.00*
Healthcare Sector Intervention Facility (HSIF)	*62*	*60.7*	*0.78*
Youth Entrepreneurship Development Programme (YEDP)	*67*	*173.4*	*0.51*

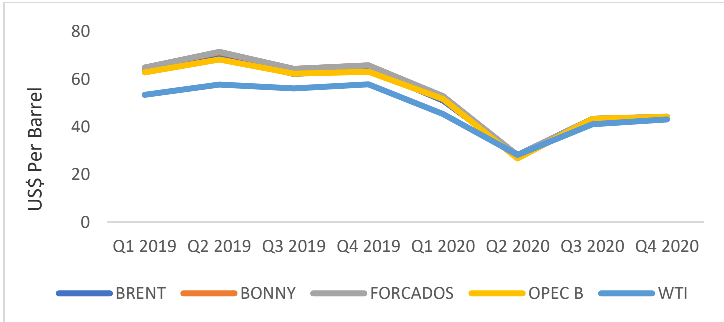
Source: Development Finance Department, Central Bank of Nigeria

Crude Oil Spot Market

Crude oil spot prices rose slightly in the fourth quarter of 2020, following increased demand from Asia, particularly, China and India, coupled with the optimism that the COVID-19 vaccine rollout would revive global fuel demand. Additionally, the OPEC+ slowed the pace of a planned increase in supplies by 2021 to support the spot prices. The average spot price of Nigeria's reference crude oil, the Bonny Light (32.9° API) rose by 2.1 per cent, quarter-on-quarter, to US$44.19 pb in the fourth quarter of 2020, compared with the US$43.29 pb in the third quarter of 2020. However, compared with the level in the fourth quarter of 2019, at US$65.72 pb, the price declined by 32.8 per cent. The

Forcados at US$44.23pb, WTI at US$43.01 pb, UK Brent at US$43.94 pb and OPEC Basket of thirteen selected crude streams at US$44.03 pb, all exhibited similar upward trend as the Bonny Light (Figure 12).

Figure 12: Trends in Crude Oil Prices



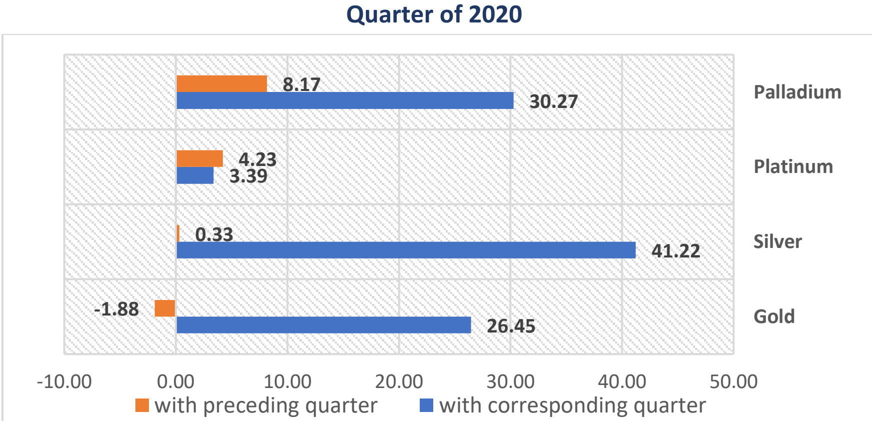
Source: Refinitiv (Thomson Reuters)

The increase in crude oil spot prices was driven largely by investors' optimism on the rollout of the COVID-19 vaccine, which was expected to ease travel restrictions and revive global fuel demand, coupled with reports of increased refining demand in China and India. The scenario was also supported by the decision of OPEC+ to slow the pace of a planned increase (2mbpd) in supplies in 2021. OPEC+ agreed to increase supplies by 0.5 mbpd in January 2021 (from a production cut of 7.7 mbpd to 7.2 mbpd), in a first step towards the gradual return of 2.0 mbpd agreed in the Declaration of Cooperation (DoC) by participating countries on April 12, 2020.

Prices of Other Mineral and Other Commodities

Available data from Refinitiv (Thompson Reuters) indicated that significant increases were recorded in the prices of silver, platinum and palladium, while gold recorded a decline in the fourth quarter of 2020. Average spot price of gold in the review quarter declined by 1.9 per cent to US$1,875.03 per oz, compared with the US$1,911.01 per oz in the third quarter of 2020. However, when compared to the fourth quarter of 2019, the price of gold rose by 26.5 per cent, compared with US$1,482.77 per oz (Figure 13).

Figure 13: Price Changes (%) of Selected Precious Metals for the Fourth Quarter of 2020



Source: Refinitiv (Thomson Reuters)

The decline in the prices of gold was due to investors' optimism amid news of the rollout of the COVID-19 vaccines and its success rate, as well as the rising US treasury real yields, which provoked more risk taking in financial markets and portfolio diversification. This optimism, however, proved detrimental to some safe-haven assets.

Unlike gold, the average spot prices of silver, platinum and palladium recorded respective gains of 0.3 per cent, 4.2 per cent and 8.2 per cent to US$24.46 per oz, US$939.09 per oz and US$2,342.70 per oz in the fourth quarter of 2020 compared to the US$24.38 per oz, US$901.02 per oz and US$2,165.85 per oz in the third quarter of 2020. Additionally, when compared with the levels in the fourth quarter of 2019, the average prices of the three metals represented increase of 41.2 per cent, 3.4 per cent and 30.3 per cent at US$17.32 per oz, US$908.32 per oz and US$1,798.33, respectively. A major factor that supported the prices of platinum and palladium was the increase in Chinese demand for these industrial metals, amid the shutdown of mines in South Africa. Both metals are used in automobiles, batteries, electronics and solar panel industries, thus, benefiting from the renewed economic optimism. The increase in the price of silver was as a result of an increase in the US Mints. The sharp rebound in China's economy underpinned much of the rally in the prices of industrial metals.

Domestic Crude Oil Production and Export

Domestic crude oil production and export recorded a slight decrease in the fourth quarter of 2020, as the OPEC+ sustained its agreed production cuts with improved compliance from Nigeria and other countries participating in the Declaration of Cooperation (DoC). Nigeria's crude oil production, including Agbami, recorded an estimated decline of 0.01 million barrels per day (mbpd) or 0.7 per cent, to an average of 1.52 mbpd in the fourth quarter of 2020, compared with the 1.53 mbpd produced in the third quarter of 2020. Also, Nigeria's crude oil production declined by 19.6 per cent, when compared with the 1.89 mbpd in the fourth quarter of 2019. Of the 1.52 mbpd produced in the fourth quarter of 2020, an average of 1.07 mbpd was exported, while the balance was allocated for domestic consumption. The decline in production was as a result of Nigeria's commitment to the OPEC+ production cuts agreement aimed at supporting the rebalancing of the crude oil market and hence prices. However, Nigeria's production was expected to increase from January 2021, as OPEC+ agreed to increase total production by 0.50 mbpd by January 2021, until it gradually reaches its 2.00 mbpd target agreed at the DoC.

2.1.6. Economic Outlook for the Real Sector

Domestic Economic Outlook

Growth prospect is weak as the macroeconomic instability associated with the COVID-19 pandemic and weak crude oil prices, amidst other structural factors, continue to dampen the near-term outlook for the Nigerian economy. The performance of the economy continued to be weighed down largely by the headwinds associated with the resurgence in COVID-19 pandemic and weak crude oil prices. Consequently, growth is expected to remain subdued as economic activities remain tepid and lingering structural challenges continue to accentuate the impact of the COVID-19 pandemic. Staff estimates showed that real GDP would record higher growth in the first quarter of 2021, given current economic fundamentals. However, by the first quarter of 2021, the economy is expected to be more resilient, following continuous monetary and fiscal policies interventions, including the judicious execution of the stimulus package of ₦2.3 trillion and the likely roll-out of the COVID-19 vaccine. These, coupled with possible rebound in crude oil prices and improved consumer demand, are expected to moderate the rate of contraction in the near-term and speed up recovery in 2021.

Inflation is expected to maintain its upward trajectory, despite a relatively low interest rate environment. Inflationary pressure is expected to linger due to food supply shortages, arising from heightened level of insecurity, persisting supply and demand shocks, exacerbated by the second wave of the COVID-19 pandemic, the adjustment in electricity tariffs and PMS prices. Consequently, headline inflation is expected to rise marginally in January 2021. However, the reopening of the land borders is expected to enhance food supply and dampen the pressures from food price inflation in the coming months.

The Prospects for a crude oil price rally in the near term remains subdued, due mainly to concerns around a second wave of the COVID-19 pandemic and its anticipated containment measures, despite expected production cuts by OPEC+ in February 2021.

2.2 FISCAL SECTOR DEVELOPMENTS

2.2.1 Federation Operations

Summary

At ₦2,208.10 billion, federally collected revenue in the fourth quarter of 2020 fell by 13.1 per cent and 8.3 per cent below the budget benchmark and the level in the preceding quarter, respectively, and was also 16.8 per cent below the collections in the corresponding period of 2019. Oil receipts accounted for 44.6 per cent of the total collection, while non-oil constituted the balance of 55.4 per cent. The relatively low receipts recorded in the review period underscored the lingering effect of the COVID-19 pandemic on domestic and global economic activities. Similarly, the retained revenue of the Federal Government of Nigeria (FGN), at ₦903.52 billion, fell by 38.1 per cent and 39.0 per cent below its quarterly benchmark and collections in the fourth quarter of 2019, respectively. Also, the provisional aggregate expenditure of the FGN declined from ₦2,541.97 billion in the third quarter of 2020 to ₦2,387.46 billion in the review period, reflecting decreases in government spending, in the light of the current revenue challenge. Consequently, the fiscal operations of the FGN resulted in an estimated deficit of ₦1,483.93 billion. Total FGN debt outstanding[2] at end-September 2020 stood at ₦28,032.58 billion[3], with domestic and external components accounting for 56.5 per cent and 43.5 per cent, respectively, of the total debt stock.

Federation Account Operations

Shortfalls in oil receipts, due to the subsisting OPEC+ agreed oil production cut and decline in global crude oil demand, following the resurgence of the COVID-19 pandemic in Europe and the Americas, led to the decline in federally collected revenue in the fourth quarter of 2020. Federally collected revenue amounted to ₦2,208.10 billion, with oil and non-oil revenue sources contributing 44.6 per cent and 55.4 per cent, respectively. The collection was 13.1 per cent, 8.3 per cent and 16.8 per cent below the budget benchmark, and the levels in the third quarter of 2020 and the fourth quarter of 2019, respectively. Of the total receipts ₦2,208.10 billion, the sum of ₦756.86 billion was deducted as statutory and non-federation transfers, leaving a net balance of ₦1,451.24 billion. An additional revenue of ₦264.80 billion was realised from Excess Oil revenue, Non-Oil Excess revenue, and Exchange Gain, bringing the total distributable balance to ₦1,716.04 billion. Consequently, the total sum of ₦1,716.04 billion was disbursed among the three tiers of government. The disbursement was 13.1 per cent lower than that of the corresponding period of 2019 and 7.9 per cent below the quarterly benchmark. The decline in disbursements, exacerbated fiscal burden, particularly at the subnational level, owing to sub-national government expenditures dependence on central allocations (Table 8). Notably, allocations to the lower tiers of government (state and local governments) have steadily declined since the fourth quarter of 2019, as a result of the crippling effect of the COVID-19 pandemic on federation revenue (Table 9).

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[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.

[3] Pending update from the Debt Management Office (DMO)

Table 8: Federally Collected Revenue and Distribution (₦' Billion)

	2019Q4	2020Q3	2020Q4	Budget
Federation Revenue (Gross)	**2,654.96**	**2,408.47**	**2,208.10**	**2,540.51**
Oil	**1,563.65**	**953.09**	**985.57**	**886.16**
Crude Oil & Gas Exports	117.29	79.27	43.10	164.22
PPT & Royalties	896.71	660.48	514.81	307.34
Domestic Crude Oil/ Gas Sales	485.79	185.99	401.62	106.65
Others	63.86	27.36	26.04	307.95
Non-oil	**1,091.32**	**1,455.37**	**1,222.53**	**1,654.35**
Corporate Tax	355.97	586.46	285.94	449.65
Customs & Excise Duties	220.70	239.76	251.51	251.06
Value-Added Tax (VAT)	287.95	411.68	425.11	547.65
Independent Revenue of Fed. Govt.	133.97	195.98	200.89	233.21
*Others**	92.72	21.50	59.07	172.77
Total Deductions/Transfers*	***744.37***	***583.42***	***756.86***	***679.97***
Federally Collected Revenue *Less Deductions & Transfers***	**1,910.60**	**1,825.05**	**1,451.24**	**1,860.53**
plus:				
Additional Revenue	**64.55**	**42.83**	**264.80**	**2.81**
Balance in Special Account from 2019	*0.00*	*0.00*	*0.00*	*2.81*
Excess Crude Revenue	*0.00*	*0.00*	*144.00*	*0.00*
Non-oil Excess	*8.70*	*0.00*	*66.00*	*0.00*
Exchange Gain	*55.85*	*42.83*	*54.80*	*0.00*
Total Distributed Balance	***1,975.15***	***1,867.88***	***1,716.04***	***1,863.35***
Federal Government	*857.42*	*785.88*	*702.63*	*717.40*
State Government	*552.08*	*560.91*	*523.98*	*578.95*
Local Government	*415.82*	*418.86*	*389.94*	*428.35*
13% Derivation	*149.82*	*102.23*	*99.48*	*138.65*

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

Table 9: Allocations to Subnational Governments

	State Government			Local Government		
	Statutory	VAT	Total	Statutory	VAT	Total
2019Q4	563.69	138.22	701.90	319.07	96.75	415.82
2020Q3	471.71	191.43	663.14	284.86	134.00	418.86
2020Q4	**425.79**	**197.68**	**623.46**	**247.45**	**138.37**	**385.82**
Benchmark	*463.93*	*253.67*	*717.60*	*250.77*	*177.57*	*428.35*

Source: Compiled from OAGF figures

Drivers of Federation Revenue

The dynamics in the federally collected revenue in the fourth quarter of 2020 was dictated, largely, by developments in crude oil revenue. Oil revenue, at ₦985.57 billion, accounted for 44.6 per cent of the total federation receipt and fell below receipts in the fourth quarter of 2019 by 37.0 per cent. The low contribution was attributed to weakening global crude oil demand, due to the COVID-19 pandemic, and low domestic crude oil production, sequel to the subsisting OPEC+ production cut agreement. Although crude oil price remained on a path of recovery, with the Bonny Light rallying from an average of US$40.80 per barrel in September 2020, to US$51.70 per barrel as at December 23, 2020, the revenue effect of the price increase was overwhelmed by reductions in production and export.

Furthermore, receipt from crude oil and gas sales, at ₦43.10 billion, was 73.8 per cent and 63.3 per cent below its benchmark and earnings in the corresponding quarter of 2019. Contrarywise, domestic crude oil and gas sales, at ₦401.62 billion, accounted for 52.2 per cent of oil revenue in the review period, and more than doubled the budget benchmark. The significant contribution of domestic crude oil sales, compared with oil export, reflected the disproportionate impact of the COVID-19 pandemic on global and domestic crude oil demand. On the other hand, receipts from Petroleum Profit Tax (PPT) was above the revised budget benchmark but lower than the proceeds in the preceding quarter and the corresponding period of 2019, an indication of low crude oil production activity.

The contribution of non-oil revenue to the federation revenue was relatively low, owing to the lull in economic activity, following the gradual extension of the COVID-19 pandemic mitigating measures. At ₦1,222.53 billion, non-oil revenue constituted 55.4 per cent of the gross federation revenue in the fourth quarter of 2020. Although the receipt was 26.1 per cent and 16.0 per cent below the budget benchmark and collections in the third quarter of 2020, respectively, it was 12.0 per cent above the receipt in the corresponding period of 2019. A disaggregation of non-oil revenue revealed that Value-Added Tax (VAT), at ₦425.11 billion, accounted for 34.8 per cent of the total non-oil revenue, while Corporate Tax, Customs & Excise Duties, FGN Independent Revenue and Others, accounted for 23.4 per cent, 20.6 per cent, 16.4 per cent and 4.8 per cent, respectively. VAT returns exceeded its quarterly benchmark and receipt in the fourth quarter of 2019, by 47.6 per cent and 28.8 per cent, respectively. The high VAT collection, relative to comparable periods, was attributed to the increased implementation of the Finance Act 2019, that raised the VAT rate from 5.0 per cent to 7.5 per cent. This was in addition to the effect of the December 31st deadline issued by the Federal Inland Revenue Service (FIRS) to defaulting taxpayers, to settle outstanding tax liabilities, after which interests and penalties, would apply.

2.2.2. Fiscal Operations of the Federal Government

Fiscal Balance

Against the backdrop of declining government revenue vis-à-vis a sticky downward expenditure, exacerbated by the COVID-19 pandemic emergency spending, the fiscal deficit of the FGN expanded in the fourth quarter of 2020. At ₦1,483.93 billion, the provisional overall fiscal deficit of the FGN grew by 19.3 per cent and 29.7 per cent, relative to the quarterly budget benchmark and the level in the fourth quarter of 2019, but contracted by 3.9 per cent, relative to the level in the preceding quarter. Given the imperative of fiscal consolidation, in the light of the adverse economic conditions created by the COVID-19 pandemic, aggregate expenditure in the fourth quarter of 2020 fell by 11.7 percent, 9.1 per cent and 6.1 per cent, relative to the budget benchmark, the levels in the preceding quarter and the corresponding period of 2019, respectively. However, the decline in expenditure could not compensate for the significant drop in revenue, thus resulting in fiscal deficit expansion in the review period (Table 10).

Table 10: Fiscal Balance for Fourth Quarter of 2020 (₦' Billion)

	2019Q4	2020Q3	2020Q4	Benchmark
Retained revenue	1,480.87	997.49	**903.52**	1,458.75
Aggregate expenditure	2,625.09	2,541.97	**2,387.46**	2,702.64
Primary balance	(614.11)	(571.53)	**(811.45)**	(505.96)
Overall balance	(1,144.22)	(1,544.48)	**(1,483.93)**	(1,243.89)

Source: Compiled from Office of the Accountant General of the Federation (OAGF) figures and Central Bank of Nigeria Staff Estimates
Note: The figures in third and fourth quarters of 2020 are provisional.

Federal Government Retained Revenue

The perennial revenue challenge of the FGN lingered in the review period, as the estimated retained revenue of the Federal Government, at ₦903.52 billion, fell by 38.1 per cent below the budget benchmark of ₦1,458.75 billion. The shortfall in the retained revenue of the FGN was attributed, largely, to the decline in allocation from the federation account, which fell by 26.9 per cent, from ₦707.88 billion in the third quarter of 2020 to ₦517.45 billion in the review period. Receipts from the VAT Pool Account and the FGN Independent Revenue, were marginally above their levels in the preceding quarter, but remained considerably below their quarterly budget estimates, by 22.1 per cent and 13.9 per cent, respectively. Also, the projected receipts of ₦508.14 billion from 'Other' sources, including revenues from Special Account and Special Levies, were not realised in the review period (Table 11).

Table 11: FGN Retained Revenue for Fourth Quarter of 2020 (₦' Billion)

	2019Q4	2020Q3	2020Q4	Benchmark
FGN Retained Revenue	**1480.87**	**997.49**	**903.52**	**1458.75**
Federation Account	*786.35*	*707.88*	*517.45*	*641.30*
VAT Pool Account	*41.46*	*57.43*	*59.30*	*76.10*
FGN Independent Revenue	*133.97*	*195.98*	*200.89*	*233.21*
Excess Oil Revenue	*0.00*	*0.00*	*66.00*	*0.00*
Excess Non-Oil	*3.99*	*20.58*	*25.12*	*0.00*
Exchange Gain	*25.62*	*0.00*	*34.77*	*0.00*
*Others**	*489.48*	*15.62*	*0.00*	*508.14*

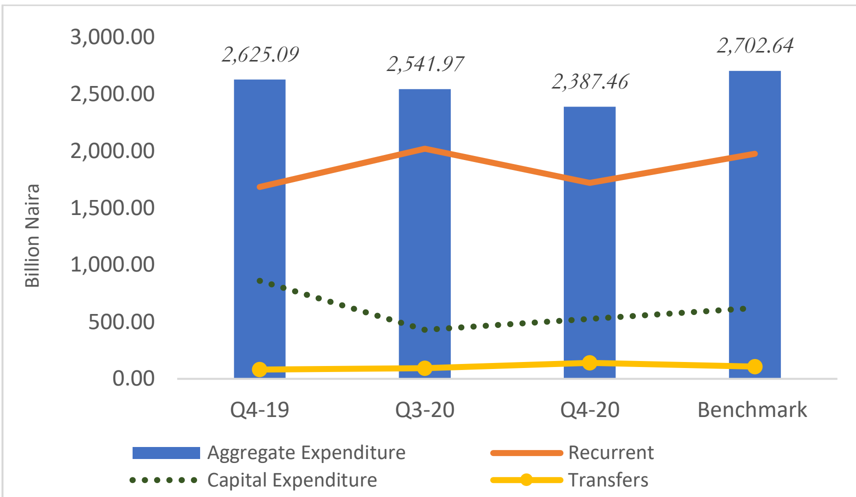
Source: Compiled from the Office of the Accountant General of the Federation (OAGF) figures
Note: * Others include revenue from Special Accounts and Special Levies
The figures for 2020 are provisional.

Federal Government Expenditure

Amidst the declining revenue and deteriorating fiscal balance, the provisional aggregate expenditure of the FGN, at ₦2,387.46 billion, declined by 11.7 per cent, in the review period, relative to the budget benchmark. Also, the level was 6.1 per cent and 9.1 per cent lower than the levels recorded in the third quarter of 2020 and the fourth quarter of 2019, respectively. The decline in aggregate expenditure in the review period, reflected the need to consolidate the country's fiscal policy in the face of a rising fiscal burden, worsened by the COVID-19 pandemic.

A breakdown of the aggregate expenditure of the FGN in the fourth quarter of 2020, revealed that recurrent expenditure maintained its dominance, accounting for 72.0 per cent of the total, out of which 39.1 per cent, 36.4 per cent, 21.9 per cent, and 2.6 per cent, were expended on interest payments, personnel cost, overhead cost and special transfers to the FCT, respectively. As a share of the provisional aggregate expenditure, capital expenditure accounted for 22.1 per cent, while transfers made up the balance of 5.9 per cent (Figure 14, Table 12).

Figure 14: Federal Government Expenditure (₦ Billion) Fourth Quarter 2020



Source: Central Bank of Nigeria Staff Estimates and compilation from Office of the Accountant General of the Federation (OAGF) data

Table 12: Federal Government Expenditure for Fourth Quarter of 2020 (₦' Billion)

	2019Q4	2020Q3*	2020Q4*	Benchmark
Aggregate Expenditure	**2,625.09**	**2,541.97**	**2,387.46**	**2,702.64**
Recurrent	1,683.52	2,019.22	1,720.09	1,973.49
of which:				
Personnel Cost	549.08	728.76	625.45	761.61
Pension and Gratuities	87.51	89.69	0.00	134.18
Overhead Cost	447.94	213.78	377.26	252.27
Interest Payments	530.10	972.96	672.49	737.93
Domestic	*396.78*	*836.39*	*530.68*	*536.56*
External	*133.32*	*136.56*	*141.80*	*201.37*
Special Funds & others	68.89	14.05	44.90	87.50
Capital Expenditure	860.08	430.11	527.24	622.13
Transfers	81.49	92.64	140.13	107.01

Source: Central Bank of Nigeria Staff Estimate

Note: * Aggregate expenditure in 2020Q3 and 2020Q4 are provisional

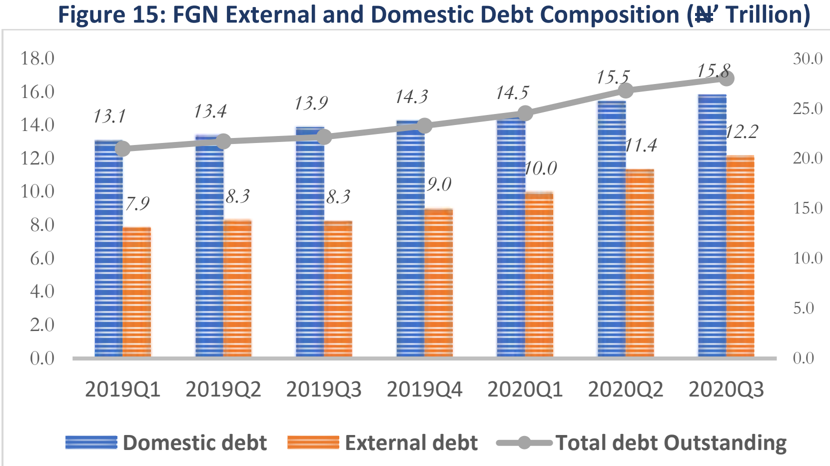
Federal Government Debt

The exclusion of the subnational government's external debt component from the consolidated debt liability of the FGN led to a marginal increase in FGN debt, relative to the level in the preceding quarter. At ₦28,032.58 billion[4], the total debt stock of the FGN as at end-September 2020 rose by 4.5 per cent and 26.4 per cent, relative to the ₦26,818.95 billion and ₦22,172.59 billion at end-June 2020 and corresponding period of 2019, respectively. Domestic and external debts accounted for 56.5 per cent and 43.5 per cent of the total debt stock, respectively, as against the target of 70:30 ratio, projected in the 2020-2023 Debt Management Strategy (DMS) of the FGN (Figure 15).

FGN bond issues dominated domestic debt instruments and accounted for 73.5 per cent of the total domestic debt, while Treasury bills, Promissory Notes, FGN Sukuk and Others[5], accounted for 17.2 per cent, 6.1 per cent, 2.3 per cent, and 0.9 per cent, respectively. The dominance of FGN bond in the domestic debt mix, reflected government's preference for long-term debts. External debt comprised Multilateral (52.0 per cent), Bilateral (12.5 per cent) and Commercial (35.5 per cent) (Figures 16 and 17).

Interest payment obligations in the reporting period, amounted to ₦797.41 billion, compared with ₦416.43 billion and ₦752.37 billion in the second quarter of 2020 and third quarter of 2019, respectively. The increase in interest payment was due, largely, to the maturity of FGN bonds, Eurobonds, and loans from Export-Import (EXIM) Bank of China. The adjustment in the naira/dollar exchange rate, which depreciated the domestic currency, increased debt service obligations on the external portion of the debt stock (Eurobonds and loans from the EXIM Bank of China).

Figure 15: FGN External and Domestic Debt Composition (₦' Trillion)

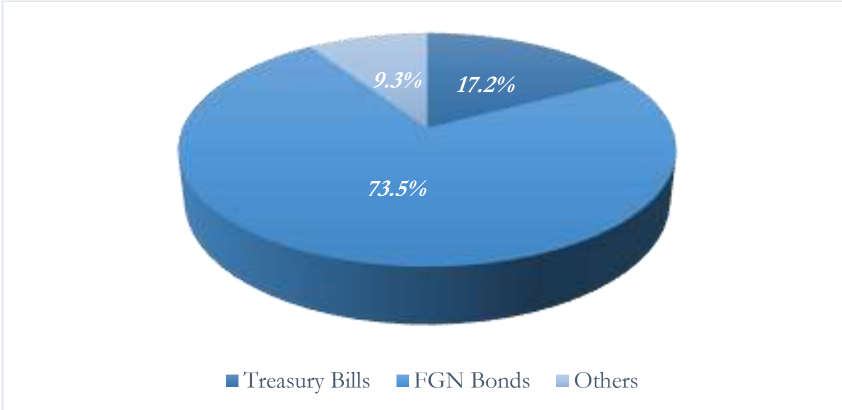


Source: Compiled from DMO figures

[4] In the review period, States and FCT external debt guaranteed by the FGN was zero.

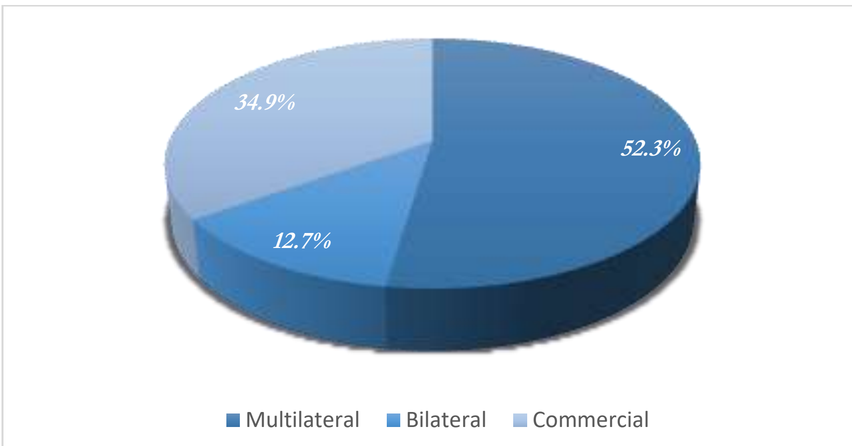
[5] Includes Treasury Bond, 0.6 per cent; Green Bond, 0.2 per cent; and Special FGN Savings Bond, 0.1 per cent.

Figure 16: Composition of Domestic Debt Stock by Instrument



Source: Compiled from Debt Management Office (DMO) figures

Figure 17: Composition of External Debt Stock by Holders



Source: Compiled from Debt Management Office (DMO) figures

2.2.3. Fiscal Outlook

Fiscal Outlook

In the near-to-medium-term the fiscal sector performance, is expected to be moderate, on account of the rebound in crude oil prices, owing to gradual recovery in global demand and the decision of OPEC+ to raise production by 500,000 barrels per day. In addition, the release and the increase in the distribution of the COVID-19 vaccines, and the introduction of less restrictive measures, to mitigate the COVID-19 pandemic, are expected to support sustained rebound in economic activities, and ease fiscal challenges. However, the incidence of a second wave and the emergence of variants of the coronavirus, heightens global uncertainty and exacerbates fiscal risks.

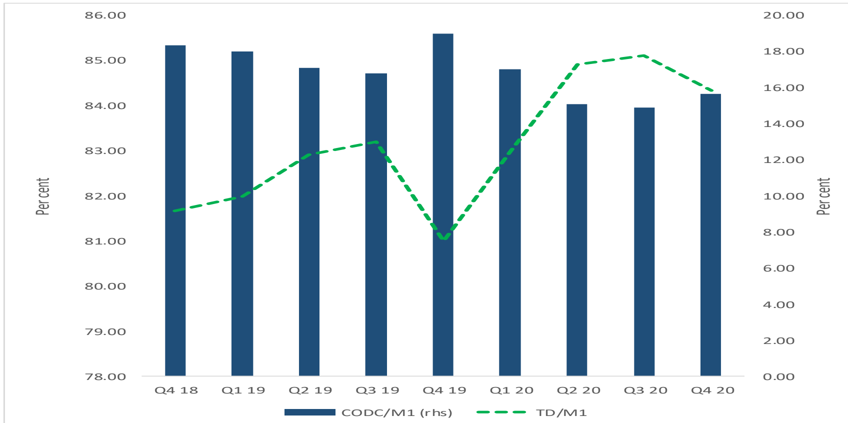
2.3. MONETARY AND FINANCIAL DEVELOPMENTS

Growth in Monetary Aggregates

Monetary policy was beset with a lot of headwinds, which moderated the growth of monetary aggregates during the fourth quarter of 2020. Major amongst them included the second wave of the COVID-19 pandemic, 'EndSARS' protests and implementation of curfews in some states, coupled with the decline on crude oil prices, negative emerging markets sentiments and economic recession. These factors caused reversals of foreign portfolio investments (FPI), as investors' confidence waned. However, key financial market indicators remained moderately stable due to effective liquidity management by the Bank. Monetary policy remained accommodative during the period, driven, largely, by the need to improve credit flow to key productive sectors that would bolster growth in the economy. Broad money supply (M_3) stood at ₦38,673.64 billion at end-December 2020, representing a growth rate of 11.0 per cent, slightly below the target of 13.1 per cent for 2020 fiscal year. The development was due to the 40.2 per cent rise in net foreign assets (NFA), following significant decline in liabilities to non-residents and the strong growth in claims by the banking system. Net foreign assets of the CBN grew by 22.4 per cent from the 6.6 per cent increase in claims on non-residents, relative to the decline of 11.6 per cent in liabilities. CBN's claims reflected, largely, the 9.1 per cent rise in official reserve assets, partially monetary gold, which grew by 12.5 per cent at end-December 2020. The decline in liabilities was due to significant reduction in short term foreign liabilities and holdings of CBN bills. Similarly, net foreign assets of other depository corporations (ODCs) stood at 34.8 per cent and reflected the 52.9 per cent growth in assets, which was more than off-set the 19.8 per cent growth in liabilities. At that level, the contribution of NFA of depository corporations (DCs) to the growth in broad money supply stood at 6.9 percentage points, compared with the contribution of 4.7 percentage points at the end of the preceding quarter.

Claims on the domestic economy grew by 13.4 per cent at the end of the review period, compared with 7.4 per cent at end-September 2020. This reflected the 13.6 per cent rise in net claims on the Federal Government, and the 13.3 per cent growth in claims on other sectors, particularly, the productive (private) sector, which grew by 15.4 per cent. Narrow money supply (M_1), driven solely by the increase in transferable deposits, reflected economic agents' increased demand for transactions balances (Figure 18, Table 13).

Figure 18: Currency outside depository corporations and transferable deposits as shares of narrow money (M_1)



Source: Central Bank of Nigeria

Table 13: Money and Credit Aggregates (Growth Rates %)

	19-Dec	20-Sep	20-Dec 1/
Net Foreign Assets	**-49.79**	**27.5**	**40.2**
Claims On Nonresidents	-14.72	0.3	14.68
Liabilities To Nonresidents	32.59	-13.6	1.64
Domestic Claims	**29.04**	**7.39**	**13.4**
Net Claims On Central Government	105.38	-4.1	13.58
Claims On Central Government	*33.24*	*13.7*	*20.88*
Liabilities To Central Government	*-3.17*	*40.79*	*31.99*
Claims On Other Sectors	13.09	11.76	13.34
Claims On Other Financial Corporations	*-1.02*	*10.46*	*11.08*
Claims On State And Local Government	*7.07*	*5.8*	*10.64*
Claims On Public Nonfinancial Corporations	*1.81*	*-5.48*	*0.24*
Claims On Private Sector	*22.85*	*13.88*	*15.35*
Broad Money Assets	**6.45**	**3.28**	**10.97**
Currency Outside Depository Corporations	**6.04**	**-0.21**	**23.37**
Transferable Deposits	**1.54**	**33.75**	**55.68**
Other Deposits	**13.56**	**17.45**	**20.87**
Securities Other Than Shares	**-4.95**	**-82.76**	**-88.01**
Deposits Excluded From Broad Money	*31.24*	*112.36*	*147.08*
Securities Other Than Shares Excluded From Broad Money	*-9.98*	*1.13*	*1.38*
Loans	*33.84*	*-2.3*	*-1.05*
Financial Derivatives	*-3.14*	*310.36*	*252.82*
Insurance Technical Reserves			
Shares And Other Equity	*30.4*	*18.06*	*41.27*
Other Items (Net)	*-38.23*	*118.33*	*70.52*
Total Monetary Liability (M_3)	**6.45**	**3.28**	**10.97**

Source: Central Bank of Nigeria

1/ Provisional

Growth in credit to the private sector reflected the loan-to-deposit ratio (LDR) policy and other policies to increase private sector credit. Congruent with the 13.4 per cent growth in domestic claims, net claims on the Federal Government grew by 13.6 per cent, in contrast to a decline of 4.1 per cent at the end of the preceding quarter. This reflected direct loans to the Federal Government by the CBN. Similarly, credit to other sectors grew by 13.3 per cent to ₦30,167.1 billion at end-December 2020, compared with 11.8 per cent at the end of the preceding quarter. The sector's positive performance was dominated by the (productive) private sector with growth rate of 15.4 per cent to ₦18,744.6 billion, compared with 13.9 per cent at end-September 2020. The development was due to an uptick in economic activities, following the Bank's support to boost economic growth in the wake of the second wave of the COVID-19 pandemic, the impact of 'EndSARS' protest and economic recession.

Sectoral Utilisation of Credit

Sectoral credit utilisation by 'other' sectors of the economy grew by 16.5 per cent to ₦20,373.45 billion at end-December 2020, compared with 10.7 per cent at end-September 2020. A breakdown of the credit showed that the industrial and services sectors contributed 37.2 per cent and 37.6 per cent, respectively, compared with 37.2 per cent and 38.4 per cent in September 2020. The agricultural and government sectors accounted for 5.2 per cent and 8.7 per cent, respectively, at end-December 2020, compared with their respective levels of 4.8 per cent and 8.3 per cent at end-September 2020 (Table 14).

Table 14: Sectoral Credit Utilisation (per cent)

	19-Dec	20-Sep	20-Dec
Agriculture	4.6	4.82	5.15
Industry	37.3	37.18	37.19
Construction	4.1	4.86	4.74
Trade/General Commerce	7.2	6.53	6.59
Government	8.8	8.25	8.71
Services	37.9	38.37	37.62

Source: Central Bank of Nigeria

Consumer Credit

Consumer credit outstanding, at ₦1,663.07 billion at end-December 2020, rose by 9.9 per cent and 17.7 per cent above the levels at the end of the preceding quarter and the corresponding period of 2019, respectively. Also, consumer credit as a percentage of private sector credit increased to 8.9 per cent at end-December 2020 from 8.1 per cent at end-September 2020. The growth in consumer credit reflected the expansionary monetary policy stance of the Bank, as well as the effectiveness of the loan-to-deposit ratio policy, aimed at reflating the economy. A breakdown of consumer loans showed that retail loans rose by 1.8 percentage points, over the level at the end of the preceding quarter, while personal loans dipped by 1.8 percentage points.

Economic agents continued to express confidence in the banking system in the fourth quarter of 2020, as shown by demand for bank deposits. There was a 10.7 per cent growth in broad monetary liabilities, accounted for by the significant growth in quasi money, currency outside depository corporations and transferable deposits. Aggregate savings grew by 57.0 per cent, slightly below the 59.5 per cent observed in the preceding quarter. This was accounted for, largely, by foreign currency deposits at commercial and merchant banks, which rose by 52.7 per cent, compared with 59.5 per cent at end-September 2020, while the significant growth in currency outside depository corporations and transferable deposits reflected seasonal factors. Consequently, a slight decline in intermediation efficacy was observed with the ratio of currency outside depository corporations to broad money at 6.5 per cent, a 0.8 percentage point decline from the 5.8 per cent observed in the preceding quarter.

Reserve Money

Reserve money grew in the fourth quarter of 2020 due to ample liquidity in the banking system. It grew by 50.9 per cent to ₦13,103.1 billion at end-December 2020, compared with the growth of 56.4 per cent at the end of preceding quarter. This was accounted for by liabilities to Other Depository Corporations, which grew by 63.4 per cent to ₦10,194.6 billion, compared with 78.7 per cent at end-September 2020. Currency-in-circulation rose by 19.1 per cent to ₦2,908.5 billion at the end of the review period, in contrast to 0.6 per cent decline at end-September 2020.

2.3.1 Financial Developments

2.3.1.1 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 remained cautious of a possible second round of lockdown. However, the financial sector remained stable in the review period, as key financial soundness indicators improved. The industry Capital Adequacy Ratio (CAR) fell marginally to 15.1 per cent at end-December 2020, relative to the 15.4 per cent level at end-September 2020. The ratio, however, exceeded the regulatory benchmark of 10.0 per cent by 5.1 percentage points. The health of banks was generally sound, although 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-December 2020, compared with 6.06 per cent at end-December 2019 and above the 5.0 per cent prudential requirement.

The moderation in GDP growth, due to the second wave of the COVID-19 pandemic and diminished positive prospects of near-term oil price rally are possible headwinds to the positive outlook on the NPLs of the banking system. However, the stimuli packages by both the monetary and fiscal authorities, aimed at cushioning the impact of the COVID-19 pandemic on businesses and households, and the expected production cuts by OPEC+ in February 2021 to boost crude oil price, could bolster the economy and moderate the vulnerabilities and credit risks to the banking system.

2.3.2 Money Market Developments

Liquidity Flows

The banking system maintained adequate liquidity level in the fourth quarter, sufficient to keep rates generally low. Liquidity was buoyed by the repayment of matured financial instruments, including CBN bills, Federal Government (FGN) Bonds and Nigerian Treasury Bills (NTBs); and fiscal disbursements to the three tiers of government. It was, however, moderated by provisioning and settlement of foreign exchange purchases, auctioning of CBN bills, FGN Bonds and NTBs. The industry opening liquidity position in the period ranged from a low of ₦100.66 billion on October 26, 2020 to a high of ₦1,360.92 billion on December 23, 2020.

Open Market Operations

The Bank conducted OMO and discount window activities to moderate liquidity in the review period. Open Market Operations (OMO) was conducted in the period under review using CBN bills of tenors ranging from 96 days to 362 days in the period October 2 - December 24, 2020. Total amount offered, subscribed and allotted were ₦900.00 billion, ₦3,990.55 billion and ₦890.90 billion, respectively. Range of bid rates was from 1.35 per cent to 9.25 per cent, while the stop rates were from 1.61 per cent to 8.50 per cent. Matured CBN bills repaid amounted ₦3,608.54 billion, translating to a net injection of ₦2,717.64 billion through this medium.

Standing Facilities Window Operations

The Bank's discount window was open to banks to enable them square up their positions at the end of each business day. However, the requests for deposit placements were more predominant than lending, due to the liquidity surfeit in banks. In addition, Intraday Liquidity Facility (ILF) was accessible as a temporary credit, granted to deposit money banks to meet their funding needs during the operating hours of the CBN Inter-bank Funds Transfer System (CIFTS). Total standing deposit facility (SDF) and standing lending facility (SLF) stood at ₦2,143.80 billion and ₦136.13 billion, respectively, in the fourth quarter of 2020 in comparison with ₦1,884.92 billion and ₦1,700.46 billion in the third quarter.

At the fixed income market, the Federal Government of Nigeria (FGN) short- and long-term debt instruments, NTBs and FGN Bonds, were issued at the primary market. NTBs of 91-, 182- and 364-day tenors, amounting to ₦655.60 billion, ₦2,713.14 billion and ₦655.60 billion, were offered, subscribed and allotted respectively, during the fourth quarter of 2020. At the 91-day auction, total subscription and allotment were ₦341.42 billion and ₦66.32 billion, respectively, with bid rates ranging from 0.00 per cent to 2.22 per cent, while the stop rates ranged from 0.02 per cent to 1.00 per cent. For the 182-day auction, total subscription and allotment were ₦255.75 billion and ₦49.18 billion, respectively. The bid rates ranged from 0.01 per cent to 2.98 per cent, while the stop rates ranged from 0.09 per cent to 1.00 per cent. At the 364-day tenor, total subscription and allotment were ₦2,115.97 billion and ₦540.10 billion, respectively, with bid rates from 0.29 per cent to 25.00 per cent, while stop rates were from 0.15 to 3.20 per cent. Altogether, the stop rates ranged from 0.02 per cent to 3.20 per cent.

Primary Market

NTBs of 91-day, 182-day and 364-day tenors amounting to ₦1,003.05 billion, ₦1,794.78 billion and ₦1,003.05 billion, respectively, were offered, subscribed and allotted, respectively, at the auctions held in the fourth quarter of 2020 on behalf of the Debt Management Office. At the 91-day auction, total subscription and allotment were ₦221.46 billion and ₦115.25 billion, respectively, with bid rates ranging from 1.00 per cent to 9.00 per cent, while the stop rates ranged from 1.09 to 1.79 per cent. For the 182-day auction, total subscription and allotment were ₦406.54 billion and ₦189.43 billion, respectively. The bid rates ranged from 0.01 to 4.21 per cent, while the stop rates ranged from 1.39 per cent to 1.91 per cent. At the 364-day auction, total subscription and allotment were ₦1,166.79 billion and ₦698.37 billion, with bid rates from 2.99 per cent to 12.80 per cent, while stop rates were from 3.05 per cent to 3.39 per cent. Altogether, the stop rates ranged from 1.09 per cent to 3.39 per cent.

FGN Bonds of 15- and 25-year tranches were offered for sale during the quarter under review. The term-to-maturity of the bonds ranged from 14 years 3months to 24 years 9months. Total amount offered, subscribed and allotted were ₦170.00 billion, ₦554.67 billion, and ₦150.00 billion, respectively. The amount allotted on non-competitive basis was ₦5.00 billion. The bid rates on all tenors ranged from 3.15 per cent to 13.00 per cent, while the marginal rates were from 4.97 per cent to 7.00 per cent.

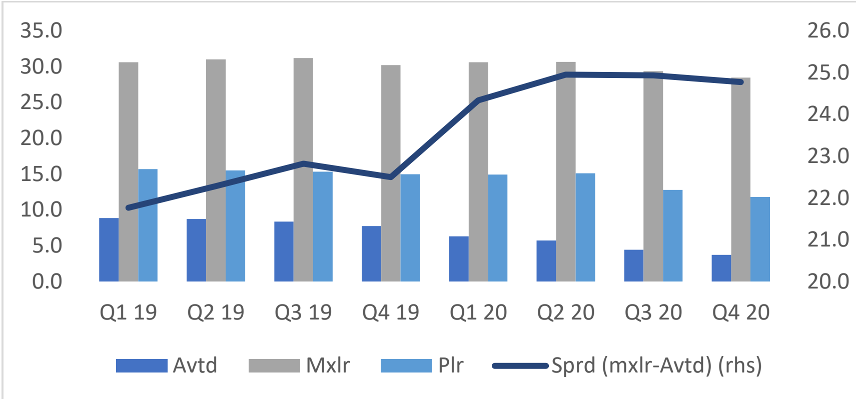
In the previous quarter, tranches of the 5-, 15-, 25- and 30-year bonds were offered for sale. The term to maturity of the bonds ranged from 5 years 4months to 29 years 8months. Total amount offered, subscribed and allotted were ₦425.00 billion, ₦1,072.58 billion, and ₦397.46 billion, respectively. Allotment on non-competitive basis was ₦13.36 billion. The bid rates on all tenors ranged from 4.00 per cent to 13.25 per cent, while the marginal rates were from 6.00 per cent to 9.95 per cent.

Interest Rate Developments

Key interest rates, prime and maximum lending rates, declined at end-December 2020, following ample liquidity levels in banks. Daily interbank call and OBB rate ranged from 1.00 per cent to 1.75 per cent and 0.37 per cent to 8.42 per cent, respectively. There was no transaction recorded for interbank call in October 2020, while the average for November and December were 1.75 per cent and 1.25 per cent, respectively. Average OBB rates for October, November and December were 1.88 per cent, 1.12 per cent and 1.09 per cent, respectively, while 30-day NIBOR traded at averages of 1.83 per cent, 0.64 per cent and 0.57 per cent in October, November, and December, respectively.

From their levels in the preceding quarter, average prime and maximum lending rates fell by 0.99 percentage point and 0.88 percentage point to 11.78 per cent and 28.48 per cent, respectively, in the fourth quarter of 2020. Average term-deposit rate also fell by 0.72 percentage point to 3.70 per cent. The spread between the average term-deposit and average maximum lending rates narrowed by 0.16 percentage point to 24.77 percentage point in the quarter under review. With inflation at 15.75 per cent at end-December 2020, this signified negative real rates for deposits and prime lending rates, but positive real rate for maximum lending rate (Figure 19).

Figure 19: Interest Rates

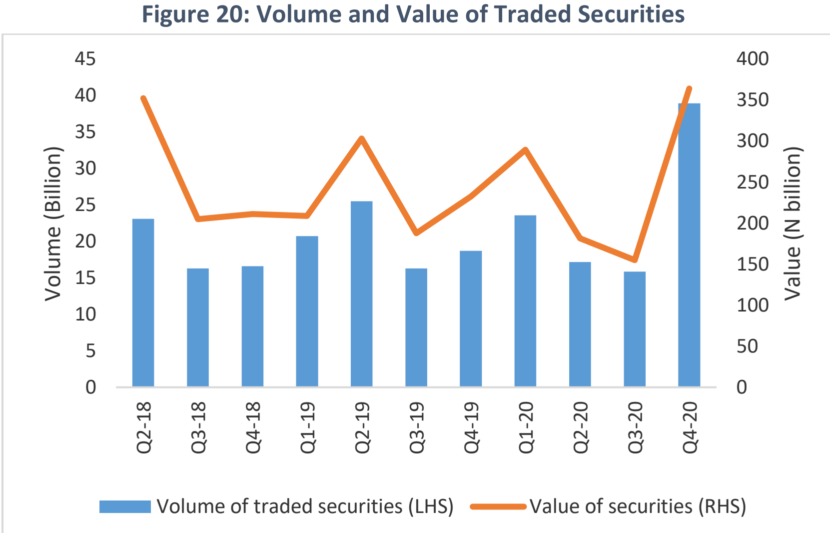


Source: Central Bank of Nigeria (CBN)
Note: Avt – Average term deposit; Mxlr – Maximum lending rate; Plr – Prime lending rate; Sprd – Spread.

Capital Market Developments

Capital market activities on the Nigerian Stock Exchange (NSE) were bullish in the fourth quarter of 2020, amidst the good corporate performance results released for the third quarter, which showed resilience of the market in the face of the lingering economic downturn and the challenges associated with the COVID-19 pandemic. Also, the market performance was driven by better than expected earnings and investors' insight on taking position ahead of 2021 corporate actions. The All Share Index (ASI) and aggregate market capitalisation rose in the review quarter. Similarly, the volume and value of traded securities on the Exchange rose by 145.7 per cent and 134.9 per cent, to 38.92 billion shares and ₦363.97 billion, respectively, in 351,998 deals, compared with the 15.84 billion shares worth ₦154.95 billion, in 236,526 deals, at the end of the third quarter (Figure 20). There were ten (10) new/supplementary listings in the review period (Table 15).

Figure 20: Volume and Value of Traded Securities



Source: Nigeria Stock Exchange (NSE)

Table 15: New/Supplementary Listings on the Nigerian Stock Exchange at end-December 2020

Company	Additional Shares (Units)	Reasons	Listing
3.501% FGS SEP 2022	91,619 Ordinary Shares	New Issue	New Listing
4.501% FGS SEP 2023	202,665 Ordinary Shares	New Issue	New Listing
FGN Savings Bond	October 2020 Issues	Rights Issue	New Listing
NEWGOLD ETF	687,142 Units	Rights Issue	Supplementary Listing
12.50% FGN MAR 2035 Bonds	384,580,778 Units	Rights Issue	Supplementary Listing
9.8% FGN JUL 2045 Bonds	125,401,697 Units	Rights Issue	Supplementary Listing
1.759% FGS NOV 2022 Bonds	27,920 Units	Rights Issue	New Listing
2.759% FGS NOV 2023 Bonds	295,632 Units	Rights Issue	New Listing
AIICO Insurance Plc	4.36 Billion Ordinary Shares	Rights Issue	Supplementary Listing
Prestige Insurance Plc	6.89 Billion Ordinary Shares	Rights Issue	Supplementary Listing

Source: Nigeria Stock Exchange (NSE)

Market Capitalisation

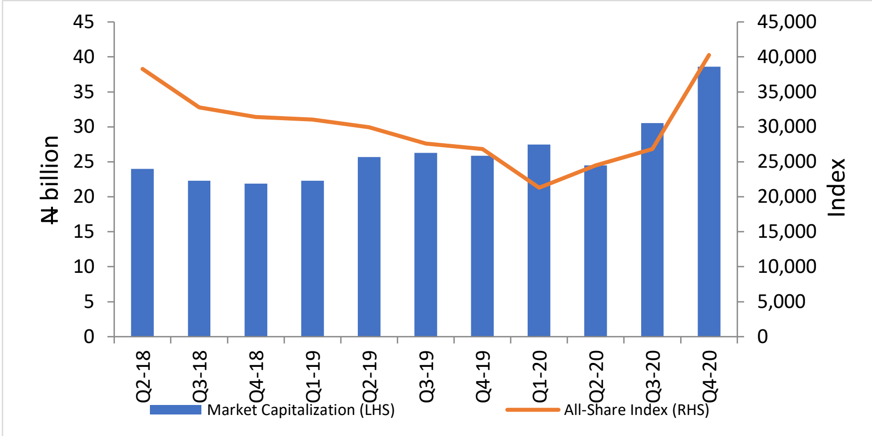
Increased patronage of domestic investors in the equities market caused the market capitalisation to appreciate in the fourth quarter 2020. Thus, aggregate market capitalisation rose by 26.4 per cent to ₦38.59 trillion at end-December 2020, compared with the ₦30.53 trillion recorded at end-September 2020. The equities market capitalisation also rose by 50.1 per cent to ₦21.06 trillion and constituted 54.6 per cent of the aggregate market capitalisation, compared with the ₦14.04 trillion (46.0 per cent of aggregate market capitalisation) at end-September 2020.

The return to normalcy in economic activities and increased domestic investors' confidence in the equities market were the main drivers of the ASI growth in the fourth quarter of 2020. Consequently, the ASI, which opened at 26,985.77 at the beginning of the review quarter, rose by 49.2 per cent to 40,270.72 at end-December 2020.

NSE All-Share Index

All the sectoral indices trended upward in the review period. The NSE-Industrial, NSE-Lotus, NSE-Premium, NSE-Insurance, NSE-Pension, NSE-Banking, NSE-Consumer Goods, NSE-Oil and Gas and NSE-ASeM indices rose by 71.9 per cent, 47.2 per cent, 46.4 per cent, 36.5 per cent, 32.1 per cent, 26.6 per cent, 26.3 per cent, 15.9 per cent and 0.2 per cent to 2,052.33, 2,846.19, 3,470.77, 189.5, 1,388.64, 393.02, 573.35, 226.2 and 729.87, respectively, at end-December 2020 (Figure 21).

Figure 21: Market Capitalisation and All-Share Index



Source: Nigeria Stock Exchange (NSE)

2.4. EXTERNAL SECTOR DEVELOPMENTS

2.4.1. External Balance

Nigeria's External Balance

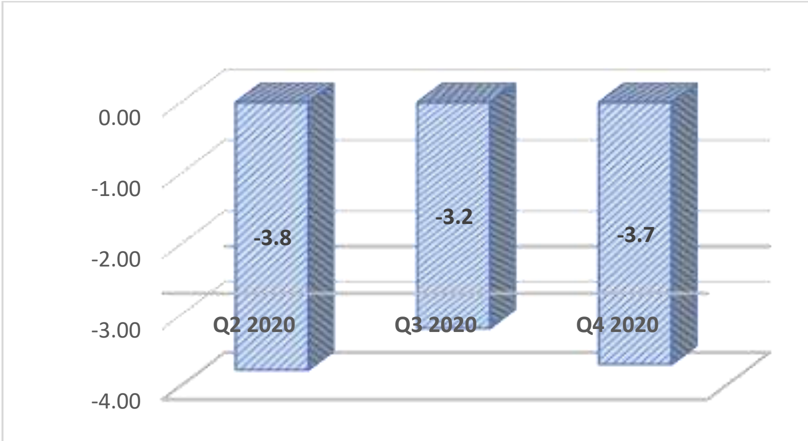
The performance of the external sector improved in the review quarter, despite the challenges of sluggish global recovery, weakened global demand, soaring second wave of the COVID-19 pandemic and tense political environment in the U.S.A. Thus, an estimated overall balance of payments surplus of US$0.79 billion was recorded in the fourth quarter of 2020, from the US$0.14 billion recorded in the third quarter of 2020. The deficit in the current account widened to US$5.27 billion in the review period, compared with US$3.34 billion in the previous quarter. A net disposal of US$2.50 billion was recorded in the financial account, relative to US$2.66 billion in the preceding quarter. The external reserves at end-December 2020 was US$36.46 billion, compared with US$35.67 billion at end-September 2020, indicating an accretion of US$0.79 billion. This could finance 8.4 months of import of goods or 6.3 months of import of goods and services. The improvement in external reserves stock was attributed, mainly, to foreign exchange reforms undertaken by the Bank to block leakages and ensure enhanced inflow of remittances from Nigerians in Diaspora. Public external debt stock stood at US$31.99 billion or 7.7 per cent of GDP at end-September 2020, which was within the sustainable threshold of 40.0 per cent of GDP. In the Foreign exchange market, the average naira exchange rate at the I&E and the BDC windows depreciated to ₦389.04/US$ and ₦468.17/US$, in the fourth quarter of 2020, from ₦386.60/US$ and ₦461.94/US$ in the third quarter of 2020, respectively.

2.4.2. Current and Capital Account

Current and Capital Account Developments

In the review period, the partial return to normalcy and gradual pick up in domestic economic activities exerted pressure on the current account, as demand for import of services inched up, thus, a relatively higher deficit in the current and capital accounts was recorded. The estimated deficit in the current account widened by 57.9 per cent to US$5.27 billion (5.1% of GDP), compared with US$3.34 billion (3.2% of GDP) in the previous quarter, owing largely to higher services import bills. The goods account witnessed a higher deficit of US$5.26 billion, resulting from increased import of both petroleum product and non-oil import. The deficit in the services account also increased significantly to US$3.49 billion (3.3% of GDP), occasioned by higher payments for transportation and travels as economic activities gradually improved during the review period (Figure 22).

Figure 22: Current Account Balance (Percentage of GDP)



Source: Central Bank of Nigeria

Export Performance

Export performance in the fourth quarter of 2020 was dampened by the resurgence of the COVID-19 pandemic towards the end of 2020, in the face of the sustained OPEC cap on crude oil production and export in member countries. Aggregate export earnings declined by 2.9 per cent decline to US$7.78 billion in the fourth quarter of 2020, from US$8.01 billion in the third quarter of 2020. Similarly, a decrease of 45.3 per cent was recorded when compared with the US$13.33 billion earning in the corresponding quarter of 2019. Further disaggregation showed that crude oil and gas exports decreased by 2.2 per cent to US$7.20 billion, from US$7.36 billion in the preceding quarter. This was attributed, mainly, to the marginal decline in gas exports during the review period, though, crude oil exports receipts increased marginally, as a result of the improvement in the average price of Nigeria's reference crude, the Bonny Light, to US$44.19 per barrel in the fourth quarter of 2020, compared with US$43.29 per barrel in the previous quarter. Non-oil export receipts also declined by 11.4 per cent to US$0.58 billion, relative to the US$0.65 billion in the third quarter of 2020, owing, largely, to downswing in re-export and other non-oil export during the review period. This was also below the US$2.14 billion in the corresponding quarter of 2019. Crude oil and gas exports accounted for 92.6 per cent, while non-oil export accounted for the balance of 7.4 per cent of total export.

Merchandise Import

Aggregate imports increased marginally by 0.9 per cent during the review period, as non-oil import increased by 1.4 per cent. The value of merchandise import increased by 0.9 per cent to US$13.04 billion in the fourth quarter of 2020, relative to US$12.92 billion in the third quarter. This was attributed, largely, to the 1.4 per cent growth in non-oil imports that brought its value to US$11.52 billion in the review period, from US$11.36 billion in the preceding quarter. Import of petroleum products, on the other hand, declined by 2.8 per cent to US$1.52 billion, below US$1.56 billion in the preceding quarter. When compared with US$2.23 billion in the corresponding quarter of 2019, it indicated a decline of 18.4 per cent. Non-oil imports remained dominant, accounting for 88.3 per cent of the total import, while petroleum products accounted for the balance of 11.7 per cent.

A breakdown of non-oil imports by sector revealed that importation of raw materials and machinery for industrial use accounted for the highest share of 45.5 per cent, followed by manufactured products at 21.0 per cent and food products and petroleum products, at 16.1 per cent and 10.5 per cent, respectively. Others included transport, agricultural and mineral sectors with 4.0 per cent, 1.7 per cent and 1.3 per cent, respectively.

Services

The resumption of activities in Nigeria's airspace during the quarter induced increased inward services particularly transportation, travels, and other business services. Consequently, the deficit in services sub-account widened significantly by 92.0 per cent to US$3.49 billion in the fourth quarter of 2020, from US$1.82 billion in the preceding quarter. Payments for these services constituted 88.7 per cent of the total in the review period.

Primary Income

Repatriation of dividends and interest by non-resident investors on account of economic uncertainty, insecurity and 'EndSARS' protest, dipped the primary income sub-account into a higher deficit. The deficit in the primary income sub-account widened by 36.7 per cent or US$0.35 to US$1.32 billion in the fourth quarter of 2020, from US$0.97 billion in the third quarter. The development reflected increase in payment of dividends by 39.1 per cent to US$1.70 billion.

Secondary Income

Inflow of personal transfers, including workers' remittances, increased the surplus in the secondary income sub-account in the review period. The secondary income account recorded a higher surplus of US$4.80 billion, compared with US$4.35 billion in the third quarter. Inflow of personal transfers in the form of workers' remittances increased by 10.6 per cent to US$4.31 billion, relative to US$3.89 billion in the third quarter of 2020. This reflected improved economic conditions in the host economies of migrant workers. General government receipts increased marginally by 0.7 per cent to US$0.63 billion in the review period.

2.4.3. Financial Account

Financial Account Developments

The financial account recorded a net disposal of financial assets during the review period, driven, largely, by a drawdown of foreign currency by the private sector. A lower disposal of US$2.50 billion (2.4 per cent of GDP) was recorded, compared with US$2.66 billion (2.0 per cent of GDP) in the third quarter of 2020.

Net Incurrence of Liability

Foreign capital inflow improved during the review period, driven, largely by inflow for the purchase of money market instruments, signifying renewed confidence in Nigeria's money market. As a result of this development, the net liability incurred during the review period increased to US$1.78 billion, relative to US$0.33 billion in the third quarter of 2020. This was a result of the boost in portfolio inflow, particularly for the purchase of short-term money market instruments. Foreign direct investment inflow declined to US$0.65 billion, relative to US$0.78 billion in the previous quarter, as both equity and reinvested earnings declined during the review period, occasioned by the lingering insecurity challenges and uncertainty surrounding the second wave of the COVID-19 pandemic. Other investment liabilities recorded an outflow of US$0.61 billion, due, mainly, to the repayment of loans by banks and the private sector during the review period.

Net Acquisition of Asset

The estimated aggregate financial assets showed lower reduction of US$0.72 billion during the review period, compared with US$2.23 billion in the preceding quarter. A further disaggregation showed that external reserves asset increased by US$0.79 billion in the review period, higher than the accretion of US$0.14 billion in the third quarter of 2020. FDI in foreign entities increased by 13.6 per cent to US$0.35 billion, relative to third quarter of 2020. However, portfolio investment asset decreased to US$0.04 billion in the review period, compared with US$0.07 billion in the preceding quarter. Other investments registered further disposal of US$1.91 billion in the review quarter, lower than the US$2.86 billion in the third quarter of 2020, due, largely, to the drawdown of foreign currency holdings of the private sector in the review period.

2.4.4. External Debt

Public Sector External Debt

Nigeria's public sector external debt stock remained at US$31.99 billion (7.7% of GDP) by end-September 2020. A breakdown showed that loan from multilateral sources, mainly the World Bank, IMF and African Development Bank Groups, was US$16.74 billion, constituting 52.3 per cent of the total. Loan from commercial sources, in the form of Euro and Diaspora Bonds, was US$11.17 billion (34.9 per cent), while that from bilateral sources, mainly the China EXIM Bank, accounted for the balance of US$4.08 billion (12.8 per cent).

2.4.5. International Investment Position (IIP)

International Investment Position

At end-December 2020, Nigeria's International Investment Position (IIP) posted a higher net financial liability of US$76.22 billion, compared with US$74.83 billion in the preceding period and US$69.21 billion in the corresponding period of 2019. This was due, largely, to the reduction in the stock of the country's foreign currency deposits of the private sector. The country's stock of financial assets increased by 0.4 per cent to US$100.25 billion at end-December 2020, from US$99.90 billion at end-September 2020. This was due, mainly, to the decline in the stock of other investments during the review period by 3.7 per cent, though an increase of 1.4 per cent was posted in the stock of external reserves asset. This indicated a reduction in claims on the rest of the world, as the effect of the COVID-19 pandemic continued to weigh on the country's financial position. The stock of financial liabilities, representing claims of foreign investors on the domestic economy, increased by 1.0 per cent to US$176.51 billion at end-December 2020, compared with US$174.73 billion at end-September 2020. The development reflected an increase in the stock of money market instrument held by foreign investors, thereby leading to an increase in the stock of portfolio investment liabilities to US$30.40 billion, from US$28.66

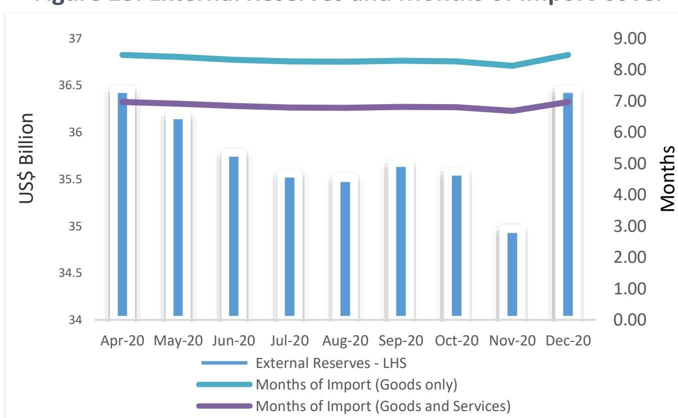
billion at end-September 2020. This reflected renewed investors' confidence in the domestic economy, following improved performance of the domestic stock market. The stock of FDI liabilities also increased by 0.7 per cent, to US$101.21 billion, compared with US$100.56 billion at end-September 2020. The stock of other investment liabilities, however, declined by 1.3 per cent to US$44.86 billion, relative to US$45.47 billion at end-September 2020, as a result of the repayment of loans by banks and the private sector during the review period.

2.4.6. International Reserves

International Reserves

As a result of the gradual return of economic activities to normalcy after the COVID-19 pandemic lockdown, as well as, the Bank's policy to encourage diaspora remittance flows to the economy, foreign exchange inflows improved, leading to a marginal increase in external reserves during the review quarter. Consequently, Nigeria's international reserve increased to US$36.46 billion at end-December 2020, from US$35.67 billion at end-September 2020. At this level, the external reserves position could cover 6.3 months of import for goods and services and 8.4 months of import for goods only (Figure 23).

Figure 23: External Reserves and Months of Import Cover



Sources: Central Bank of Nigeria & Reuters

A comparative analysis showed that Nigeria's reserves per capita was US$176.9 in December 2020, compared with US$927.6, US$391.5 and US$395.9 for South Africa, Egypt and Angola, respectively (Table 16).

Table 16: International Reserves of Selected Countries in Africa (End-December 2020)

	Reserve (US$bn)	Reserve/ Capita (US$)	Reserve (US$bn)	Reserve/ Capita (US$)
Nigeria	35.67	171.40	36.46	176.89
South Africa	52.32	882.16	55.01	927.57
Egypt	22.98	224.57	40.06	391.49
Angola	13.19	401.41	13.01	395.88

Sources: Central Bank of Nigeria (CBN) and Reuters

Currency Composition

A breakdown of the external reserves by ownership showed that, the CBN had the largest share of US$30.95 billion (84.9 per cent), followed by the Federal Government with US$5.44 billion (14.9 per cent). The Federation share accounted for the balance of US$0.07 billion (0.2 per cent). In terms of currency composition, the US dollar, at US$29.70 billion, was 81.5 per cent; Chinese yuan, US$4.23 billion (11.6 per cent); special drawing rights, US$2.12 billion (5.8 per cent); GB Pounds, US$0.24 billion (0.6 per cent); Euro US$0.16 billion (0.4 per cent); Japanese Yen, US$0.01 billion (0.03 per cent) and other currencies accounted for the balance of 0.07 per cent.

2.4.7 Foreign Exchange Flows through the Economy

Foreign Exchange Flows through the Economy

Though there was an increase in foreign exchange flows through the economy in the review quarter compared with the preceding quarter due to the reopening of most economies including Nigeria, the second wave of COVID-19, hampered a return to the levels experienced in the corresponding quarter of 2019. Consequently, aggregate foreign exchange inflow in the fourth quarter of 2020 was US$23.60 billion, compared with US$21.46 billion and US$36.32 billion in the third quarter of 2020 and corresponding quarter of 2019, respectively. This indicated an increase of 10.0 per cent over the previous quarter, but a decline of 35.0 per cent below the level in the corresponding quarter.

Similarly, foreign exchange outflow through the economy rose by 13.1 per cent above the third quarter of 2020 to US$8.38 billion in the review period but declined by 51.5 per cent below the level in the corresponding quarter of 2019. Accordingly, foreign exchange flow through the economy resulted in a net inflow of US$15.22 billion in Q42020, compared with the net inflow of US$14.05 billion and US$19.05 billion in the preceding quarter and corresponding quarter of 2019, respectively.

2.4.8 Foreign Exchange Flows through the Central Bank of Nigeria

Foreign Exchange Flows through the CBN

Foreign exchange inflow through the CBN increased in the fourth quarter of 2020 due, largely, to an increase in global demand, on account of gradual recovery of economic activities from the effect of the COVID-19 pandemic. In the review period, foreign exchange inflow through the CBN was US$8.17 billion, an increase of 17.2 per cent above the level in the third quarter of 2020, but a decline of 39.4 per cent below the corresponding quarter of 2019. The development, compared with the level in the preceding quarter of 2020, was attributed to a rise of 48.3 per cent in non-oil receipts.

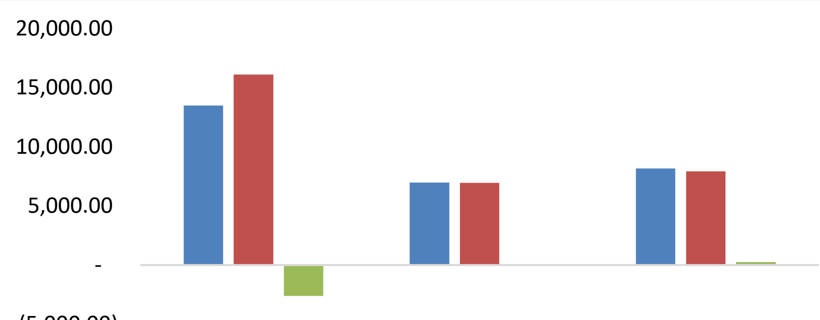
A disaggregation of inflow through the Bank indicated that oil and non-oil receipts were US$1.32 billion and US$6.85 billion, respectively. Further analysis of non-oil receipts showed that foreign exchange purchases, Treasury Single Account (TSA) & third-party receipts and DMBs cash receipts increased by 121.8 per cent, 11.1 per cent, and 165.5 per cent to US$1.25 billion, USS$1.06 billion, and US$0.28 billion, respectively, over the levels in the preceding quarter. Interbank Swaps, and other official receipts, however, declined by 21.9 per cent and 32.7 per cent, to US$1.25 billion, and US$0.67 billion, respectively, below the levels in the preceding quarter. Similarly, unutilised International Money Transfer Operator (IMTO) funds, unutilised funds from FX transactions, and interest on reserves & investments fell to US$0.09 billion, US$0.06 billion and US$0.04 billion, respectively, compared with the levels in the preceding quarter. Proceeds from securities lending cash collateral and Returned payments were US$2.00 billion and US$0.16 billion, respectively, during the fourth quarter of 2020.

The aggregate foreign exchange outflow through the Bank increased by 13.9 per cent to US$7.92 billion in the fourth quarter of 2020, from US$6.95 billion in the third quarter. A breakdown of the outflow through the Bank during the review period showed that: interbank utilisation was US$5.62 billion, third party MDA transfers (US$0.86 billion), public sector/direct payments (US$0.77 billion), external debt service (US$0.29 billion), funds returned to remitter (US$0.15 billion), drawings on L/Cs (US$0.15 billion), forex special payment (US$0.04 billion) Bank & SDR charges/fees (US$0.04 million) and national priority projects (US$0.004 billion).

The interbank utilisation, which constituted 71.0 per cent of outflow through the Bank, rose by 28.7 per cent to US$5.62 billion in the fourth quarter of 2020. The increase was due to sustained interventions by the Bank, aimed at reducing demand pressure and stabilising exchange rates in the foreign exchange market, particularly at the I&E and BDC markets. Further disaggregation showed that SME intervention and interbank sales rose by 3.1 per cent and 12.2 per cent to US$0.31 billion and US$0.16 billion, respectively, from the levels in the preceding quarter. Foreign exchange cash sales to I&E window and BDCs were US$1.62 billion and US$1.36 billion, respectively, in the review quarter. However, matured swap transactions and Secondary Market Intervention Sales (SMIS) interventions fell by 62.9 per cent and 12.8 per cent to US$0.46 billion and US$1.71 billion, relative to the respective levels in the preceding quarter.

Overall, foreign exchange flow through the Bank during the review period resulted in a net inflow of US$0.25 billion, higher than the net inflow of US$0.02 billion in the preceding quarter of 2020. This, however, contrasted the net outflow of US$2.60 billion in the corresponding quarter of 2019 (Figure 24).

Figure 24: Foreign Exchange Transactions through the Bank (US$ Billion) in the Fourth Quarter of 2020



	Q4 2019	Q3 2020	Q4 2020
Inflow	13,494.34	6,971.01	8,171.83
Outflow	16,097.19	6,954.18	7,918.35
Netflow	(2,602.85)	16.83	253.48

Source: Reserves Management Department, CBN.

Foreign Exchange Flow through Autonomous Sources

2.4.9 Foreign Exchange Flow through Autonomous Sources

The rise in invisibles purchases in the fourth quarter of 2020 impacted positively on the foreign exchange flows through autonomous sources. The development was due to the rise in repatriation of export and investment proceeds, despite the resurgence of the COVID-19 pandemic and partial lockdown of some economies, especially, the U.S.A and Europe.

Aggregate inflow through autonomous sources amounted to US$15.43 billion, which accounted for 65.4 per cent of the total inflow through the economy. This represented an increase of 6.5 per cent above the level in the preceding quarter of 2020 but declined by 32.4 per cent, compared with that of the corresponding quarter of 2019. The increase in inflow was due to 8.7 per cent rise in proceeds from invisible purchases to US$14.79 billion, relative to the preceding quarter. Invisible purchases comprised total over-the-counter (OTC) purchases and ordinary domiciliary account valued at US$10.61 billion and US$4.19 billion, respectively. Total OTC purchases comprised capital importation (US$1.05 billion) and home remittances (US$0.11 billion), which decreased below the levels in the preceding quarter by 28.5 per cent and 55.7 per cent, respectively. The decline in capital importation indicated the loss of investment appetite by non-resident investors on account of uncertainty around the resurgence of COVID-19 pandemic. Due to the decline in home remittances, the Bank issued a policy directive to encourage the flow of diaspora remittances on November 30, 2020. Consequently, remittances inflow slightly improved in December 2020. Other OTC purchases (US$9.45 billion) increased by 16.5 per cent, compared with the level in the preceding quarter. The inflow through ordinary domiciliary accounts, increased by 10.8 per cent to US$4.19 billion, due to rise in repatriation of export and investment proceeds. Non-oil export inflow to banks amounted to US$0.61 billion, indicating a decline of 29.8 per cent compared with US$0.87 billion in the preceding quarter. However, external account purchases increased from US$0.01 billion in the third quarter of 2020 to US$0.02 billion in the fourth quarter of 2020.

Outflow through autonomous sources at US$0.46 billion rose by 1.5 per cent over the level in the preceding quarter of 2020 but declined by 60.8 per cent below the level in the corresponding quarter of 2019. The positive development was due to an increase of 13.5 per cent in invisible imports to US$0.40 billion from US$0.35 billion in the preceding quarter. However, the visible imports fell by 40.9 per cent to US$0.06 billion from US$0.10 billion in the preceding quarter.

Overall, a net inflow of US$14.97 billion was recorded in the review quarter, compared with US$14.03 billion and US$21.65 billion in the preceding quarter and the corresponding quarter of 2019, respectively.

Sectoral Utilisation of Foreign Exchange

2.4.10 Sectoral Utilisation of Foreign Exchange

Visible Transactions

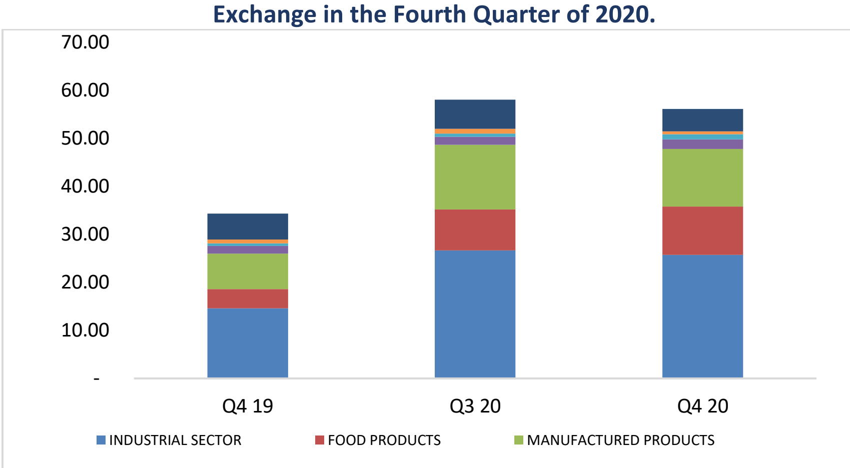
The Federal Government, through the Bank, continued its COVID-19 induced interventions in the real sector to boost non-oil activities and earnings, and thus cushion the negative impact of the pandemic. This was reflected in the increase in sectoral utilization of foreign exchange during the review quarter. In addition, the re-opening of the air and land borders and the return to normalcy of economic activities boosted foreign exchange utilization during the review period. Provisional data on the sectoral foreign exchange utilisation in the fourth quarter of 2020 showed an increase of 74.6 per cent above the level in the preceding quarter to US$6.68 billion. Of this, visible and invisible imports rose by 68.8 and 82.8 per cent to US$3.75 billion and US$2.93 billion, constituting 56.1 and 43.9 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 sector, manufactured products, food products, oil, transport, agricultural and mineral sub-sectors were US$1.72 billion, US$0.80 billion, US$0.67 billion, US$0.31 billion, US$0.13 billion, US$0.07 billion and US$0.04 billion, respectively (Figure 25).

Invisible Transactions

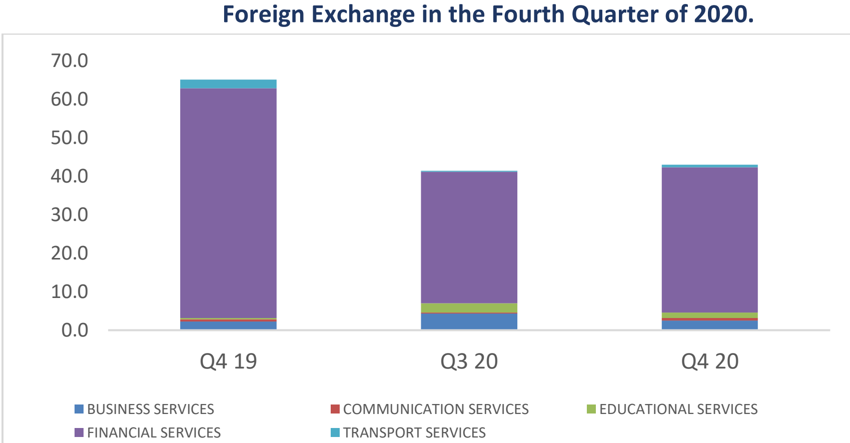
Further analysis of the foreign exchange utilisation under the invisibles component showed that financial services was US$2.52 billion (37.8 per cent of the total); business services, US$0.17 billion (2.5 per cent); educational services, US$0.09 billion (1.4 per cent); other services not included elsewhere, US$0.05 billion (0.8 per cent); and transport services, US$0.04 billion (0.7 per cent). Furthermore, communication services was US$45.80 million (0.7 per cent), while health related and social services gulped US$0.32 million (0.01 per cent) (Figure 26).

Figure 25: Major Visible Import as Per cent of Total Utilisation of Foreign Exchange in the Fourth Quarter of 2020.



Source: Central Bank Nigeria (CBN)

Figure 26: Major Invisible Imports as Per cent of Total Utilisation of Foreign Exchange in the Fourth Quarter of 2020.



Source: Central Bank of Nigeria (CBN)

2.4.11 Foreign Exchange Market Developments

Foreign Exchange Market Developments

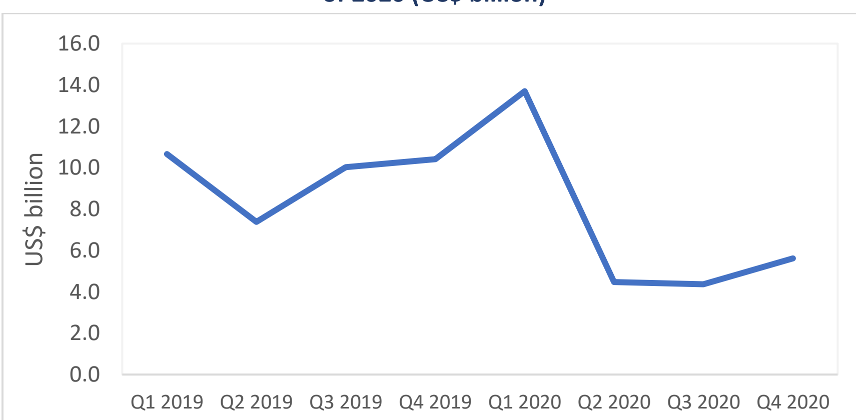
Foreign exchange inflow into the economy improved, following the Bank's policy directive of November 30, 2020, instructing banks to transfer all diaspora remittances to the domiciliary accounts of the beneficiaries or pay the customers in foreign currency, as well as the closure of all Naira ledger accounts opened specifically for the purpose of receiving IMTO (foreign transfers from diaspora Nigerians) with immediate effect.

2.4.12 Transactions in the Foreign Exchange Market

Spot Transactions

The Bank maintained its periodic interventions in the foreign exchange market to boost liquidity, enhance access to foreign exchange, curb unbridled demand and ensure stable exchange rate. During the fourth quarter of 2020, total foreign exchange sales to authorised dealers by the Bank stood at US$5.62 billion, an increase of 28.7 per cent above the level in the preceding quarter. This was attributed, largely, to the increased interventions in the BDC and I&E windows during the quarter. The total foreign exchange sales, however, saw a decrease of 46.1 per cent below the level in the corresponding quarter of 2019. Further disaggregation showed that BDC sales and I&E sales rose to US$1.36 billion and US$1.62 billion from US$0.34 billion and US$0.39 billion, respectively, in the preceding quarter. Similarly, Interbank sales and SME intervention increased by 12.2 per cent and 3.1 per cent to US$0.16 billion and US$0.31 billion, respectively, from the levels in the preceding quarter. The Secondary market Intervention Sales (SMIS) and matured swap transactions, however, fell by 12.8 per cent and 62.9 per cent to US$1.71 billion and US$0.46 billion, relative to the levels in the preceding quarter (Figure 27).

Figure 27: Foreign Exchange Sales to Authorised Dealers in the Fourth Quarter of 2020 (US$ billion)



Source: Central Bank of Nigeria (CBN)

2.4.13 Exchange Rate Movement

Average Exchange Rate

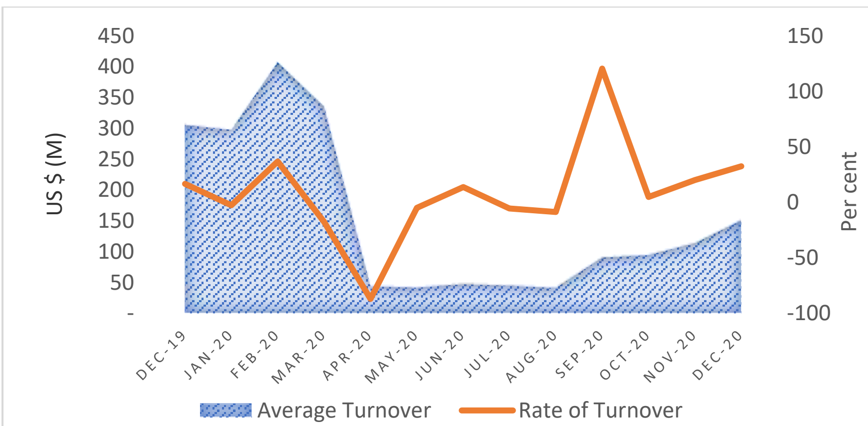
The average exchange rate of the naira depreciated at the interbank, BDC and I&E windows, due to increased demand pressure in the foreign exchange market during the quarter. Accordingly, the average exchange rate of the naira, against the US dollar, at the interbank segment was ₦381.00/US$, a depreciation of 0.3 per cent and 19.4 per cent, relative to ₦379.73/US$ and ₦306.96/US$ in the preceding quarter and corresponding quarter of 2019, respectively. At the

BDC segment, the average exchange rate depreciated by 0.7 per cent and 23.2 per cent to ₦467.80/US$, against the levels in the preceding quarter and corresponding quarter of 2019, respectively. It is expected that the CBN policy directives on International Money Transfer Operations during the quarter would improve liquidity in the foreign exchange market and stabilise the exchange rate.

Similarly, at the I&E window, the average exchange rate depreciated by 0.7 per cent and 6.8 per cent to ₦389.24/US, compared with the respective levels in third quarter of 2020 and fourth quarter of 2019. The development was attributed to increased demand pressure in the foreign exchange market, as a result of dwindling resources from crude oil receipts and capital inflow. Consequently, the premium between the average interbank/BDC rates, widened from 22.3 per cent in the preceding quarter to 22.8 per cent in the fourth quarter of 2020.

The average turnover at the Investors and Exporters' (I&E) segment increased by 104.1 per cent to $0.12 billion during the review quarter, from $0.06 billion in the third quarter of 2020. This, however, indicated a decrease of 54.2 per cent below the level in the corresponding quarter of 2019 (Figure 28).

Figure 28: Turnover in the I&E Foreign Exchange Market (December 2019 – December 2020)



Source: Central Bank of Nigeria (CBN)

End-Period Exchange Rate

The end-period exchange rate of the naira to the US dollar at the interbank segment in the review quarter remained the same as in the preceding quarter at ₦381.00/US$. However, at the BDC segment, the end-period exchange rate depreciated by 0.4 per cent to ₦465.00/US$ compared with ₦463.00/US$ at the end of third quarter of 2020. Consequently, the end-period premium between the interbank/BDC rates, widened to 22.0 per cent in the review quarter from 21.5 per cent in the preceding quarter. Similarly, the rate at the I&E window depreciated by 5.9 per cent to ₦410.25/US$, compared with ₦386.00/US$ at the end of the preceding quarter. The development was a result of increased demand pressure as economic activities began to rebound.

Naira against Selected International Currencies

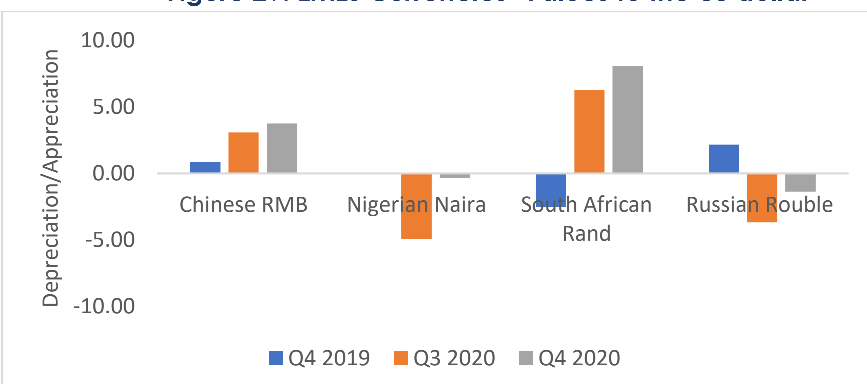
Analysis of the average exchange rate of the naira against selected major international currencies, in the review period, indicated that the naira depreciated by 2.3 per cent, 2.2 per cent and 1.9 per cent against the British pound sterling, the euro and the Japanese yen, respectively. At the regional level, the naira also depreciated against the CFA franc and WAUA by 8.8 per cent and 8.9 per cent, respectively, relative to the levels in the third quarter of 2020.

Emerging Market Currencies

Analysis of emerging markets' currencies in the fourth quarter of 2020 showed a sustained momentum of recovery, which could be attributed to the release of COVID-19 vaccines and the result of the US election, which boosted emerging markets' currencies. Also, the emerging markets gained from the weakening dollar, as a result of the disruptive impact of hurricane on Shale oil production in the USA, during the quarter.

However, the emerging markets could be affected by the second wave of the COVID-19 pandemic, which led to border closure and partial economic lockdown in Europe. Consequently, the South African rand strengthened further by 1.8 percentage point, from a 6.3 per cent appreciation in the preceding quarter to 8.1 per cent against the US Dollar in the quarter under review. Similarly, the Chinese RMB appreciated by 3.8 per cent in the quarter under review. However, the Russian rouble depreciated by 1.4 per cent in the review quarter (Figure 29, Table 17).

Figure 29: EMEs Currencies' Values to the US dollar



Sources: Central Bank Nigeria & Reuters

Table 17: EMEs Currencies' Rates to the US dollar

Period	Chinese RMB	Nigerian Naira	South African Rand	Russian Rouble
Q4 2019	6.96	306.96	14.70	63.66
Q3 2020	6.87	379.73	16.89	75.02
Q4 2020	6.62	381.00	15.63	76.06

Sources: Central Bank of Nigeria & Reuters

2.4.14 External Sector Outlook

Risks to the External Sector

The outlook for the external sector position is expected to remain stable for the foreseeable period, although highly susceptible to further external shocks.

COVID- 19 Crisis

Despite the commencement of COVID-19 vaccine trial and administration during the fourth quarter of 2020, the emergence of a second wave of the COVID-19 infection and the discovery of new strains could likely threaten the demand for crude oil and full return of economic activities globally.

Foreign Exchange Pressure and Exposure

The headwinds associated with the second wave of the COVID-19 pandemic led to net capital outflow as a result of investors' flight to safety investments. This could lead to increased pressure on the foreign exchange market with the consequence of further depreciation of the domestic currency. The depreciation of the currency could lead to increased foreign currency liability of both the private and public sector debt. These developments, along with foreign exchange challenges, may constitute threats to the sustainability of Nigeria's external debt, especially if oil prices remain lower-than-expected.

External Reserves Accumulation

According to a World Bank report, global trade growth could be more negative in 2021 than predicted. It is expected that weak economic and financial fundamentals, prior to the COVID-19 crisis, would lead to declines in foreign exchange reserves, as central banks try to stabilise their currencies. Thus, the conditions in the oil market, exchange rate pressure, the Bank's intervention in the foreign exchange market, as well as state of international financial market and productivity of the economy are factors that will continue to determine external reserve accumulation.