CENTRAL BANK OF NIGERIA

MONETARY POLICY REVIEW

AUGUST2021
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Aims and Scope

The Central Bank of Nigeria (CBN) Monetary Policy Review (MPR) is published bi-annually in February and August. The Publication is designed as part of the CBN communication channels to enhance public understanding of the basis for monetary policy decisions in the review period. The contents of the publication are intended for general information only, and not necessarily to serve as basis for predicting the future course of monetary policy. While adequate care was taken to ensure the accuracy of information contained in this publication, the Bank shall not be liable for any wrong interpretation or application of any piece of data contained herein.

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Central Bank of Nigeria

Mandate

- Ensure Monetary and Price Stability
- Issue Legal Tender Currency in Nigeria
- Maintain External Reserves to safeguard the international value of the Legal Tender Currency
- Promote a Sound Financial System in Nigeria
- Act as Banker and Provide Economic and Financial Advice to the Federal Government

Vision

"To be a people-focused Central Bank promoting confidence in the economy and enabling an improved standard of living"

Mission Statement

"To **ENSURE** Monetary, Price and Financial System Stability as a Catalyst for Inclusive Growth and Sustainable Economic Development."

Core Values

Integrity
Partnership
Accountability
Courage
Tenacity

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STATEMENT BY THE GOVERNOR

Monetary policy in the first half of 2021 was confronted by the continued COVID-19 related challenges including the rapid spread and high infection rate of the Delta variant of the Coronavirus, accompanied by spike in fatalities and the re-introduction of containment measures across several economies. Other challenges included weak aggregate demand associated with less than full employment in labour markets in some economies and the partially functioning supply chain networks. While vaccination against COVID-19 had gained significant grounds in major advanced economies, some emerging market and developing economies were at the commencement stage of vaccination, which could result to an uneven recovery in global growth.

Notwithstanding the above developments, the Nigerian economy sustained its gradual recovery in the first half of 2021. The recovery was hinged on the easing of the COVID-19 induced restrictions, vaccine rollouts to contain the spread and fatality rate, and further reopening of businesses and other economic activities in the country. The sustained economic stimulus packages from both monetary and fiscal authorities also drove recovery in output growth. Accordingly, real Gross Domestic Product (GDP) which grew by 0.51 per cent (year-on-year) in the first quarter of 2021 improved to 5.01 per cent in the second quarter of 2021, owing to sustained implementation of stimulus package by the Government.

Inflationary pressure persisted with inflation rate high above the Bank's implicit target range of 6-9 per cent, amidst ongoing debate on the possibility of a reversal of under-recovery of cost of Premium Motor Spirit (PMS) by the Nigeria National Petroleum Corporation (NNPC). Exchange rate pressure also persisted due to the decline in oil earnings owing to the global supply glut, worsened by the COVID-19 shock. The Nigerian financial market witnessed considerable volatility owing to lingering shocks from the COVID-19 pandemic and drop in oil production. This resulted to bearish trend in the capital market as investors' confidence in the market waned. The development in the market was also affected by security concerns and the relatively weak macroeconomic fundamentals such as uptick in inflation and declining reserves, as well as significant capital outflows. Consequently, the All-Share Index (ASI) decreased by 5.87 per cent from 40,270.72 at end- December 2020 to 37,907.28 at end-June 2021. Nonetheless, the money market remained broadly active with market rates oscillated in the review period, reflecting liquidity conditions in the banking system.

In view of the above developments, monetary policy design and implementation was geared towards moderating inflationary pressure and supporting output growth. Accordingly, the Bank adopted a broadly accommodative monetary policy stance as the Monetary Policy Rate (MPR) was retained at 11.5 per cent. Also, the asymmetric corridor of +100/-700 basis points around the MPR, the CRR of 27.5 per cent and Liquidity Ratio of 30.0 per cent were maintained throughout the period. These were complemented by the intensification of the Bank's development finance interventions targeted at critical sectors of the real economy.

The outlook for the domestic economy over the short-to-medium term indicates that inflationary pressure would moderate owing to a combination of conventional and heterodox policy measures to manage liquidity conditions in the domestic economy, while output growth is expected to sustain its recovery to pre-pandemic levels as both monetary and fiscal authorities sustain stimulus packages. Monetary policy formulation and implementation will, therefore, be geared towards moderating inflation and supporting output growth, while dealing with existing and emerging macroeconomic risks.

GODWIN I. EMEFIELE
Governor, Central Bank of Nigeria
August 2021.

CHAPTER ONE

1.0 OVERVIEW

This chapter presents a summary of the entire document by highlighting key developments that shaped monetary policy during the first half of 2021 and the attendant policy responses by the Bank. The developments cover global and domestic output, prices, monetary and financial developments as well as the outlook.

Monetary policy in the first half of 2021 was significantly shaped by the resurgence and the second wave of the COVID-19 pandemic which posed significant threats to the efficacy of the COVID-19 vaccines. The spill-over effect of the pandemic also ensured that capital flows to developing economies remained slow as the advanced economies gradually recovered. On the domestic front, monetary policy continued to face challenges arising from rising fiscal and monetary stimuli to strengthen output growth, achieve and sustain exchange rate stability, reduce high cost of liquidity management, financial market volatility and constrained credit growth. Inflation rate remained high above the Bank's implicit target range of 6-9 per cent, amidst ongoing debate on the possibility of a reversal of under-recovery of cost of the premium motor spirit (PMS) by the Nigeria National Petroleum Corporation (NNPC). Consequently, headline inflation rose from 16.47 per cent in January to 17.75 per cent in June 2021.

The Nigerian economy sustained its gradual recovery in the first half of 2021. The recovery was hinged on the easing of the COVID-19 induced restrictions, vaccine rollouts to achieve herd immunity, and further reopening of businesses and other economic activities in the country. The sustained economic stimulus packages from both monetary and fiscal authorities also drove recovery in output growth. Data from the National Bureau of Statistics (NBS) showed that growth in real Gross Domestic Product (GDP) slowed to 0.51 per cent (year-on-year) in the first quarter of 2021 compared with 1.87 per cent in the corresponding period of 2020, but an improvement over the 0.11 per cent growth recorded in the fourth quarter of 2020. The main driver of the first quarter growth was the non-oil sector which grew by 0.79 per cent. This was, however, a moderation compared with growth rates of 1.55 and 1.69 per cent in the corresponding period and the preceding quarter of 2020, respectively. The key drivers of the non-oil growth were Agriculture (2.20%), Services (1.57%) and Industry (0.46%). The oil sector, however, contracted by 2.21 per cent (year-on-year) in Q1 2021 indicating a decrease of –7.27 percentage points relative to the growth of 5.06 per cent recorded in the corresponding quarter of 2020. It was however, a lower contraction compared with -19.76 per cent in Q4 2020.

The sustained implementation of stimulus package by both fiscal and monetary authorities along with the gradual return of economic activity, vaccines roll-out against COVID-19 as well as increase in local and international travels, led to the improved growth performance relative to the corresponding period of 2020. Growth in real GDP strengthened further to 5.01 per cent in the second quarter of 2021 in contrast to the contraction of 6.10 per cent in the corresponding period of 2020 and growth of 0.51 per cent in the preceding quarter of 2021. As usual the growth was driven by the non-oil sector which grew by 6.74 per cent in the second quarter of 2021 in contrast to the contraction by 6.05 per cent in the corresponding period of 2020, and growth of 0.79 per cent in the preceding quarter of 2021. The key drivers of growth in the sector were Services (9.27%), Industry (6.65%) and Agriculture (1.30%). The oil sector contracted further by 12.65 per cent in the second quarter of 2021 compared with contractions of 6.63 and 2.21 per cent in the corresponding period of 2020 and the preceding quarter of 2021, respectively.

The pressure on the exchange rate persisted due to the decline in oil earnings owing to the global supply glut, worsened by the COVID-19 shock. The pass-through of exchange rate to domestic prices has been significant, causing core inflation to accelerate. The external reserves declined owing to the significant speculative demand pressure. Thus, the naira weakened at the Investor and Exporter (I&E) window of the foreign exchange market. The development elicited decisive action from the Bank, leading to the adjustment of the naira exchange rate from N381/US$ to N397.78/US$ and N404.19/US$ in May and June 2021, respectively. These adjustments were made to align the exchange rates with market realities, curtail unnecessary demand pressure and achieve the unification of exchange rates in Nigeria. The Bank introduced other reforms which included: the Naira4Dollar scheme to attract diaspora remittances, and the strategic suspension of sales of foreign exchange to BDCs, as well as continued restriction of access to foreign exchange for 43 items.

Also, during the review period, the Nigerian financial market witnessed considerable volatility owing to lingering shocks from the COVID-19 pandemic and drop in oil production. In order to achieve its objective of price and monetary stability, the Bank continued the use of the following liquidity management instruments: Monetary Policy Rate (MPR); Cash Reserve Ratio (CRR); Liquidity Ratio (LR); Open Market Operations (OMO); and Discount Window Operations. These were periodically complemented with interventions in the foreign exchange market. The Bank's key instrument for signalling monetary policy stance, the Monetary Policy Rate (MPR) remained unchanged at 11.5 per cent in the review period. Also, the asymmetric corridor of +100/-700 basis points around the MPR was maintained throughout the period. The retention of MPR and the asymmetric corridor, showed the Bank's commitment to an accommodative policy stance.

Liquidity Management in the first half of 2021 was conducted primarily through Open Market Operations (OMO). OMO sales, however, decreased by 72.38 per cent to ₦1,793.25 billion in the review period from ₦6,492.30 billion in the corresponding period of 2020. The development also represented a decrease of 70.79 per cent compared with ₦6,138.58 billion, in the preceding period. The reduced OMO sales was attributed to the Bank's deliberate effort to encourage lending to the real sector by Deposit Money Banks (DMBs).

Amidst the gradual recovery of the economy from the devastating effects of Covid-19 pandemic, the money market experienced considerable level of activities in the first half of 2021. However, the money market rates oscillated in the review period, reflecting the liquidity conditions in the banking system. The contributing factors to the development included statutory monthly disbursement to both States and Local governments by the Federation Account Allocation Committee (FAAC); government securities maturities, sale of OMO bills and the various CBN interventions. The interbank call segment of the market experienced less trading days in the period under review, which resulted in lower transaction volumes compared with the Open Buy Back (OBB) segment. The preference for collateralized OBB instrument was attributed to the continuing high-risk perception and risk aversion by money market participants to open market lending due to counterparty risk.

The performance of the Nigerian capital market in the first half of 2021 was bearish, driven primarily by the equities segment. This reflected waning investor confidence mainly attributable to security concerns and weak macroeconomic fundamentals such as uptick in inflation and declining reserves, as well as significant capital outflows. Attractive yield in the money market also influenced activities in the equity market. These factors led to significant sell-off in the Nigerian Capital Market, as several investors exited the market. Consequently, All-Share Index (ASI) decreased by 5.87 per cent from 40,270.72 at end- December 2020 to 37,907.28 at end-June 2021. This, however, represented an increase of 54.85 per cent from 24,479.22 at end-June 2020. Similarly, market capitalization (MC) decreased by 6.17 per cent from ₦21.06 trillion at end-December 2020 to ₦19.76 trillion at end-June 2021. However, compared with the corresponding period of 2020, the market capitalization increased by 54.74 per cent from ₦12.77 trillion at end-June 2020 to ₦19.76 trillion at end-June 2021.

Activities in the bond market were dominated by Federal Government of Nigeria (FGN) securities in the first half of 2021. There were also some activities in the State/ Municipal bonds and corporate bond segments of the market, with the former recording the least share by market volume.

In terms of outlook, the domestic economy is expected to consolidate on its recovery trajectory through the second half of 2021. This is premised on the gradual return to normalcy as more non-pharmaceutical approaches and restrictions to control the spread of the COVID-19 pandemic are relaxed, coupled with sustained monetary and fiscal stimulus. Also, the prospects of continuing recovery in global commodity prices, particularly the oil market are promising, although substantial headwinds subsist. Headwinds to output growth in the second half of 2021 include: COVID-19 pandemic related issues such as new strains and variants of the Virus, as well as associated risk of a resurgence in the COVID-19 infections. This risk is further heightened by the limited supply of vaccines as well as vaccinations hesitancy among the populace. Other downside risks include rising levels of insecurity; foreign exchange rate pressures and pass-through; capital flow reversals; deficit in critical infrastructure; rising public debt and narrow fiscal space. Based on these developments, the Central Bank of Nigeria (CBN) forecasts real GDP to grow by 2.18 and 2.62 per cent for the third and fourth quarters of 2021, respectively, while annual real GDP growth for 2021 is estimated at 1.70 per cent in contrast to the contraction of 1.92 per cent in 2020. Staff estimates suggest that the year-on-year headline inflation is expected to moderate from 17.75 per cent in June 2021 to 16.08 and 13.98 per cent in September and December 2021, respectively. This is premised on projected return to normalcy of economic activities, following various CBN and Federal Government interventions in the real sector, especially agriculture. The downside risks, would however, include heightened security challenges which have continued to undermine agricultural production and investor sentiment, increasing energy and transportation costs, and infrastructure deficits. As the Bank intensifies its effort to rein in inflation using its conventional and heterodox policy measures to manage liquidity conditions in the domestic economy, the risks to inflation and growth would be monitored and minimized.

Monetary policy formulation and implementation will, therefore, continue to be directed towards ameliorating these challenges to achieve stable prices conducive to sustainable economic growth.

CHAPTER TWO

THE GLOBAL ECONOMY

2.1 Global Output

Global growth was estimated to expand by 6.0 per cent in 2021 from a contraction of 3.2 per cent in 2020 (IMF WEO July 2021). The increase in global output projection in 2021 was driven largely by stronger than anticipated improvements in the economies of both the USA and China which together accounted for about 40 per cent of global output. According to the IMF, the estimate was based on a number of factors which included: the efficient and successful deployment of COVID-19 vaccines, and the continuous accommodative fiscal, financial and monetary conditions, which combined to boost policy support across economies thereby strengthening the recovery of global output. The global economy is, thus, expected to revert to its pre-pandemic levels of output by the end of 2021 and early 2022.

In the advanced economies GDP is estimated to expand by 5.6 per cent in 2021 compared with a contraction of 4.6 per cent in 2020, owing to sustained fiscal stimulus, monetary accommodation and increased vaccines rollout. In the United States, output was estimated to peak at 7.0 per cent in 2021 from -3.5 in 2020, due largely to supportive financing condition and fiscal support. Output in Euro Area was estimated to grow at 4.6 per cent in 2021 up from -6.5 per cent in 2020. The growth was driven by sharp rebound in activities and demand following the reopening of economies in the group, and which was also supported by the rapid pace of COVID-19 vaccination and on-going fiscal stimulus, which saw major economies in the group: Germany, France, Spain and the Netherlands returning to growth. In the United Kingdom, output growth was estimated at 7.0 per cent in 2021 from the contraction of 9.8 per cent in 2020, driven by rebound in economic activities, with household consumption and public spending rising, as government eased restrictions associated with the COVID-19 pandemic. In Japan, output was estimated to grow by 2.8 per cent in 2021 from the contraction of 4.7 per cent in 2020, driven by rebound in domestic demand and private consumption, bolstered by increase in government spending and sustained growth in exports.

In the Emerging Market and Developing Economies (EMDEs), output growth was estimated at 6.3 per cent in 2021, up from -2.1 per cent in 2020, resulting from the moderating effect of the pandemic and as EMDEs benefit from improved commodity prices and external demand. In many other EMDEs, recoveries are expected to be dampened by elevated COVID-19 caseloads and obstacles to vaccine procurement and acceptance, as well as the likely commencement of monetary policy normalisation by central banks in the advanced economies and the attendant capital outflow from EMDEs. In China, output growth was estimated to improved significantly by 8.1 per cent in 2021 from 2.3 per cent in 2020, driven by sustained stimulus and external demand. Output growth in India was estimated at 9.5 per cent in 2021 compared with the contraction of 7.3 per cent in 2020, driven by fiscal and monetary stimulus. In Brazil, output was estimated to grow by 5.3 per cent in 2021 from the contraction of 4.1 per cent in 2020 as the economy continue to recover from the COVID-19 related slowdown.

In Sub-Saharan Africa, growth was estimated at 3.4 per cent in 2021 up from -1.8 per cent in 2020, supported by improved commodity prices, along with recovery in both private consumption and investment. Despite a more buoyant external environment, Sub-Saharan Africa in 2021 will be the world's slowest growing region. In Nigeria, the economy was estimated to grow at 2.5 per cent in 2021 from -1.8 per cent in 2020, driven by sustained fiscal and monetary stimuli, as well as rising commodity prices. Similarly, the South African economy was estimated to grow by 4.0 per cent in 2021 from -7.0 per cent in 2020, as the economy continue to re-open leading to improvement in demand.

2.2 GLOBAL INFLATION

The pandemic-induced global recession was preceded by a decade of extremely low global inflation (2 per cent), driven by generally low inflation rates in most advanced economies. This contrasts with previous global recessions when inflation ranged from 6 percent (2008) to 16 percent (1975). This may be attributed to more joint and cohesive policy response to the 2020 COVID-19 induced global recession than in the earlier ones.

Global inflation has rebounded quicker than expected, after remaining low in the first half of 2020, a trend that is most likely to continue for the remaining part of the year, according to IMF and World Bank. There are also indications that price pressures in advanced economies and the likely monetary policy normalisation may raise inflation above targeted ranges in Emerging Market and Developing Economies (EMDEs), as capital flows out, thus, exerting exchange rate pressure. Although, such pressure may not warrant a monetary policy response in the event, that they are temporary and inflation expectations remain well-anchored.

Global inflation is expected to increase to 3.5 per cent in 2021 from 3.2 per cent in 2020. In the advanced economies, inflation is expected to rise to 2.4 per cent in 2021 from 0.7 per cent in 2020. Inflation in the US is projected to rise to 2.3 per cent in 2021 from 1.2 per cent in 2020. Similarly, in the Euro Area, changes in consumer price or inflation development is expected to rise to 1.4 per cent in 2021 from 0.3 per cent in 2020. In Japan, inflation is estimated to follow the same trend, rising to 0.1 per cent in 2021 from 0.0 per cent in 2020.

In the Emerging Market and Developing Economies, inflation is expected to rise to 5.4 per cent in 2021 from 5.1 per cent in 2020. In China, inflation is expected to drop to 1.2 per cent in 2021 from 2.4 per cent in 2020 (WEO, April 2021). In Russia, inflation is projected to increase to 4.5 per cent in 2021 from 3.4 per cent in 2020. While in India inflation is expected to decrease to 4.9 per cent in 2021, from 6.2 per cent in 2020.

Inflation for Sub-Sahara Africa is projected to decline to 9.8 per cent in 2021 from 10.8 per cent in 2020. While inflation in Nigeria is estimated to increase to 16.0 per cent in 2021, from 13.2 per cent in 2020. Ghana's headline inflation is estimated to drop to 9.0 per cent in 2021, from 9.9 per cent in 2020. Inflation in Angola is projected to remain unchanged from the 2020 figure of 22.3 per cent. However, inflation for the Low-Income Countries (LIC) is projected to decline to 8.6 per cent from 14.2 in the year 2020. In Ethiopia, for instance, inflation is projected to drop to 13.1 per cent from 20.4 per cent in 2020.

The rise in inflation rate across the globe is due to strong recovery in aggregate demand following the reopening of economies and resumption of business activities coupled with massive fiscal and monetary policy stimuli to drive economic recovery. In most economies, production has not been able to keep pace with rising aggregate demand. Further to this is the political unrest in most of the Sub-Saharan African countries as well as insecurity and political crises bedevilling the African region, resulting in food insecurity and high incidence of budget deficit.

2.3 Global Financial Market Developments

2.3.1 Money Market and Central Bank Policy Rates

A total of fourteen (14) central banks were surveyed in the review period. The survey showed a strong trend towards continued monetary accommodation by central banks in both the advanced and emerging market economies. While all these central banks continued to undertake monetary accommodation without policy rate adjustment, two major oil-exporting economies, Brazil and Russia, hiked their policy rates again to address inflationary pressures from depreciating exchange rates. The Central Bank of Brazil hiked the policy rate from 2.0 per cent to 2.75, 3.5 and 4.25 per cent in April, May and June 2021, respectively, while the Central Bank of Russia also hiked its policy rate thrice in the review period from 4.25 per cent to 4.5, 5.0 and 5.5 per cent in April, May and June 2021, respectively. The Bank of Ghana eased its policy rate in the review period from 14.5 per cent to 13.5 per cent in May 2021.

Several central banks in the advanced economies continued to struggle with the loss of policy headroom as their economies recovered, though inflationary developments may suggest the need for policy normalisation, as GDP growth is still fragile. Quantitative easing remains the policy instrument of choice amongst major central banks in the advanced economies and in some cases, direct liquidity injections have been used to jumpstart growth. With inflation rising appreciably, early normalization of monetary policy is now taking centre stage amongst policy makers. Concerns, however, remain as such a shift in policy may trigger a chain of defaults and a new financial crisis.

With the US Federal Reserve Bank progressing with plans to taper its bond-buying programme in the fourth quarter of 2021 and indications from the Bank of Canada that it will soon commence a move towards normalization, other central banks may soon follow in synchrony (see Table 2.1).

Table 2.1: Policy Rates of Selected Central Banks Dec 2020 – Jun 2021

ountry	ec-20	ın-21	ɜb-21	pr-21	pr-21	lay)21	ıne)21
gypt	.25	.25	.25	.25	.25	.25	.25
enya							
Africa	.5	.5	.5	.5	.5	.5	.5
hana	4.5	4.5	4.5	4.5	4.5	3.5	3.5
igeria	1.5	1.5	1.5	1.5	1.5	1.5	1.5
razil					.75	5	.25
SA	.00-.25	.00-.25	.00-.25	.00-.25	.00-.25	.00-.25	.00-.25
ıpan	).1	).1	).1	).1	).1	).1	).1
ıro							
rea							
ıdia							
ussia	.25	.25	.25	.5			.50
hina	.85	.85	.85	.85	.85	.85	.85
K	.1	.1	.1	.1	.1	.1	.1
ıdonesi		.75	.5	.5	.5	.5	.5

Source: www.cbrates.com

2.3.2 Global Capital Market

The performance of major global stock markets in the review period was mixed. Improved economic activities occasioned by widespread rollout and administration of Covid-19 vaccines positively influenced performance. However, inflationary pressures and weak economic fundamentals negatively impacted performance in some stock markets.

In Europe, the UK FTSE 100, French CAC 40 and the German DAX indices increased by 10.1 per cent, 18.1 per cent and 13.6 per cent, respectively. In North America, the United States S&P 500, Canadian S&P/TSX Composite and Mexican Bolsa indices increased by 14.8 per cent, 15.7 per cent and 14.1 per cent, respectively. In South America, the Brazilian Bovespa stock and Argentine Merval indices increased by 6.5 per cent and 21.8 per cent, respectively. However, the Colombian COLCAP index declined by 12.5 per cent, during the review period. In Asia, the Japanese Nikkei 225, Chinese Shanghai SE and Indian BSE Sensex indices increased by 4.6 per cent, 3.3 per cent, and 9.2 per cent, respectively. In Africa, the South African JSE All-Share, Kenyan Nairobi NSE 20 and Ghanaian GSE All Share indices increased by 12.2 per cent, 3.2 per cent and 36.8 per cent, respectively. On the other hand, the Nigerian Exchange NGX All-Share and Egyptian EGX CASE 30 indices decreased by 5.9 per cent and 5.4 per cent, respectively, during the review period

Table 2.2: Selected International Stock Market Indices as at June 30, 2021

Selected International Stock Market Indices as at June 30, 2021						
Country	**Index**	**30-Jun-20**	**31-Dec-20**	**30-Jun-21**	**Jun 30, 2020 - Jun 30, 2021 % Change**	**December 31, 2020 - June 30, 2021 % Change**
AFRICA						
Nigeria	NSE All-Share Index	24,479.22	40,270.72	37,907.28	54.9	-5.9
South Africa	JSE All-Share Index	54,093.40	59,408.68	66,634.38	23.2	12.2
Kenya	Nairobi NSE 20 Share index	1,952.26	1,868.39	1,927.53	-1.3	3.2
Egypt	EGX CASE 30	10,764.59	10,845.26	10,256.62	-4.7	-5.4
Ghana	GSE All-Share Index	1,899.90	1,939.14	2,652.21	39.6	36.8
NORTH AMERICA						
US	S&P 500	3,083.01	3,756.07	4,310.47	39.8	14.8
Canada	S&P/TSX Composite	15,389.72	17,433.36	20,165.58	31.0	15.7
Mexico	Bolsa	37,871.09	44,066.88	50,289.75	32.8	14.1
SOUTH AMERICA						
Brazil	Bovespa Stock	95,735.40	119,017.20	126,801.70	32.5	6.5
Argentina	Merval	38,972.80	51,226.49	62,371.95	60.0	21.8
Columbia	COLCAP	1,108.90	1,437.89	1,257.73	13.4	-12.5
EUROPE						
UK	FTSE 100	6,200.89	6,460.52	7,114.22	14.7	10.1
France	CAC 40	4,935.99	5,551.41	6,555.14	32.8	18.1
Germany	DAX	12,246.62	13,718.78	15,583.24	27.2	13.6
ASIA						
Japan	NIKKEI 225	22,288.14	27,444.17	28,707.04	28.8	4.6
China	Shanghai SE A	3,128.46	3,640.46	3,761.68	20.2	3.3
India	BSE Sensex	34,915.80	47,905.84	52,318.60	49.8	9.2

Source: Bloomberg

2.3.3 Global Commodity Prices

In the period under review, global commodity prices sustained their uptrend due largely to rising demand following resumption of production activities as the roll-out of COVID-19 vaccines helped to improve herd immunity from the virus. As a result, the IMF primary commodity price index rose further by 29.11 per cent to 161.9 points at end-June 2021 from 125.4 points at end-December 2020. Consequently, all the commodity sub-indices recorded increases. The commodity sub-indices of energy, metals, industrial inputs, edibles and non-fuel all increased by 44.53, 31.96, 27.77, 20.63 and 19.31 per cent, respectively, to 171.7, 237.4, 203.8, 129.8 and 155.1 points at end-June 2021 from 118.8, 179.9, 159.5, 107.6 and 130.0 points at end-December 2020. Under the petroleum sector, actual prices per barrel of the OPEC Reference Basket rose by 46.50 per cent to US$73.6 at end-June 2021 from US$50.24 at end-December 2020.

The Food and Agriculture Organization (FAO) Food Price Index rose by 14.84 per cent to 124.6 points at end-June 2021 from 108.5 points at end-December

2020. The sub-indices of sugar, vegetable oils, meat, cereals and dairy all increased by 23.61, 20.05, 15.61, 14.84 and 9.80 per cent, respectively, to 107.7, 157.5, 109.6, 133.1 and 119.9 points from 87.1, 131.2, 94.8, 115.9 and 109.2 points at end-December 2020.

2.3.4 Global Foreign Exchange Market

The first half of 2021 saw depreciations in major global currencies against the US dollar which could be connected to the upturn in economic activities in the U.S, resulting from easing of restrictions imposed to contain the spread of the virus. Some of the development in the selected international currencies are explained as follows:

- **Africa:** The Nigerian naira (I & E), remained stable during the review period. The Kenya shilling, Egyptian pound and Ghanaian cedi appreciated by 1.86, 0.58 and 0.35 per cent, respectively between December 2020 and June 2021, while the South African rand depreciated by 1.19 per cent.

- **North America:** The Canadian dollar appreciated 4.10 per cent while the Mexican peso depreciated by 0.95 per cent in the review period.

- **South America:** The Brazilian peso, Colombian peso and Argentina peso all depreciated by 1.52,10.28 and 10.22 per cent, respectively.

- **Europe:** The British pound, the Euro and the Russian ruble all depreciated against the dollar by 47.48, 1.20 and 0.12 per cent, respectively in the review period.

- **Asia:** The Chinese yuan appreciated by 1.18 per cent while Japanese yen and the Indian rupee depreciated by 5.36 and 0.71 per cent, respectively (see table 2.3)

Table 2.3
Exchange Rates of Selected Countries (value in currency units to US$)

Exchange Rates of Selected Countries (Value in currency units to US$)					
	Currency	**31-Dec-19**	**31-Dec-20**	**31/06/2021**	**Dec 20 - June 21 (% App/Dep)**
AFRICA					
Nigeria	Naira	307.00	381.00	381.00	0.00
South Africa	Rand	14.00	14.09	14.26	-1.19
Kenya	Shilling	101.36	109.24	107.25	1.86
Egypt	Pound	16.04	15.74	15.65	0.58
Ghana	Cedi	5.75	5.79	5.77	0.35
NORTH AMERICA					
Canada	Dollar	1.30	1.27	1.22	4.10
Mexico	Peso	18.94	19.88	20.07	-0.95
SOUTH AMERICA					
Brazil	Real	4.02	5.19	5.27	-1.52
Argentina	Peso	59.87	84.15	93.79	-10.28
Colombia	Peso	3286.84	3430.77	3821.25	-10.22
EUROPE					
UK	Pound	0.75	0.73	1.39	-47.48
Euro Area	Euro	0.89	0.82	0.83	-1.20
Russia	Ruble	62.00	74.05	74.14	-0.12
ASIA					
Japan	Yen	108.65	103.30	109.15	-5.36
China	Yuan	6.96	6.53	6.45	1.18
India	Rupee	71.35	73.07	73.59	-0.71
Source: bloomberg					

CHAPTER THREE

THE DOMESTIC ECONOMY

3.1 Output in the Domestic Economy

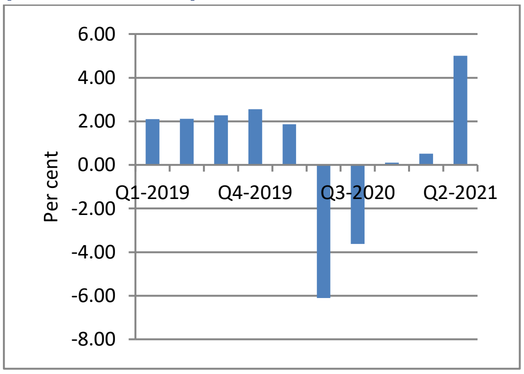
The Nigerian economy in the first half of 2021 sustained its gradual recovery. The recovery was driven by the easing of the COVID-19 induced restrictions, vaccines rollout to achieve herd immunity, further reopening of businesses and pickup of other economic activities. In addition, the sustained economic stimulus packages from both monetary and fiscal authorities as well as real sector intervention initiatives also drove the recovery in output growth. Consequently, data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew slower by 0.51 per cent (year-on-year) in the first quarter of 2021 compared with 1.87 per cent in the corresponding period of 2020, but an improvement when compared with 0.11 per cent growth recorded in the fourth quarter of 2020. The main driver of growth was the non-oil sector which grew by 0.79 per cent. This was a moderation compared with the growth rates of 1.55 and 1.69 in the corresponding period and the preceding quarter of 2020, respectively. The key drivers of the non-oil sector growth were Agriculture (2.20%), Services (1.57%) and Industry (0.46%). The sector's contribution to real GDP improved marginally to 90.75 per cent from 90.50 per cent in the corresponding period but a decline compared with 94.13 per cent in the fourth quarter of 2020.

The oil sector, however, contracted by 2.21 per cent (year-on-year) in Q1 2021 indicating a decrease of 7.27 percentage points relative to the 5.06 per cent growth rate recorded in the corresponding quarter of 2020. However, it was a lower contraction when compared with 19.76 per cent in Q4 2020. In the first quarter of 2021, average daily crude oil production stood at 1.72 million barrels per day (mbpd), a 0.35 mbpd lower than the average daily production of 2.07 mbpd recorded in the corresponding quarter of 2020, but higher than the production volume of 1.56 mbpd recorded in the fourth quarter of 2020.

The sustained implementation of stimulus packages by both fiscal and monetary authorities along with the gradual return of economic activity, vaccines roll-out against COVID-19 as well as increase in local and international travels, led to a significant increase in growth performance relative to the corresponding period of 2020. Accordingly, real Gross Domestic Product (GDP) strengthened further to 5.01 per cent in the second quarter of 2021 in contrast to the contraction of 6.10 per cent in the corresponding period of 2020 and a growth of 0.51 per cent in the preceding quarter of 2021. As usual, the growth was driven by the non-oil sector in the review period. The non-oil sector grew significantly by 6.74 per cent in the second quarter of 2021 in contrast to the contraction of 6.05 per cent in the corresponding period of 2020, and a growth of 0.79 per cent in the preceding quarter of 2021. The key drivers of growth in the non-oil sector were Services (9.27%), Industry (6.65%) and Agriculture (1.30%). The sector contributed 92.58 per cent to total real GDP in the second quarter of 2021 compared with 91.07 per cent in the corresponding period of 2020 and 90.75 in the preceding quarter.

On the other hand, the oil sector contracted further by 12.65 per cent in the second quarter of 2021 compared with the contractions of 6.63 and 2.21 per cent in the corresponding period of 2020 and the preceding quarter of 2021, respectively. A combination of production caps by Organization of the Petroleum Exporting Countries and its allies (OPEC+) as well as under production domestically accounted for the poor performance of the oil sector in the review period. Accordingly, oil production declined to 1.61 million barrels per day (mbpd) in the second quarter of 2021 compared with 1.81 and 1.72 mbpd in the corresponding period of 2020 and the preceding quarter of 2021, respectively.

Figure 3.1: Gross Domestic Product Growth Rate (2019Q1 – 2021Q2)



Source: National Bureau of Statistics (NBS)

3.1.1 DOMESTIC ECONOMIC ACTIVITIES

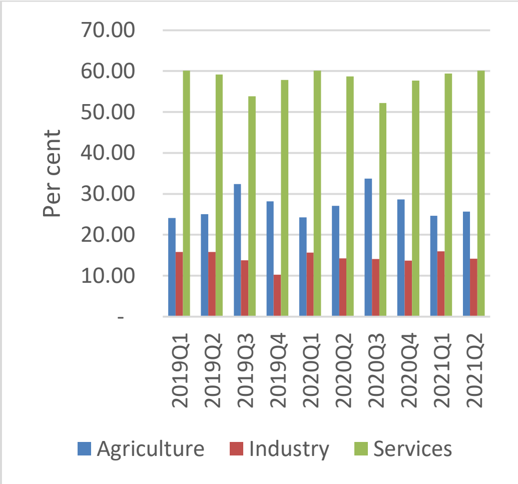
Real GDP was driven by activities in both oil and non-oil sectors in the first half of 2021. The non-oil sector grew by 0.79 per cent. This was moderations by 0.76 and 0.9 percentage points compared with the growth rates of 1.55 and 1.69 in the corresponding period and the preceding quarter of 2020, respectively. Activities in the non-oil sector was driven mainly by Water supply, sewage, waste management (14.75%), Electricity, gas, steam & Air conditioning (8.66%), Information & Communication (6.47%), Human Health and Social Services (4.65%), Mining and Quarrying (3.79%), Manufacturing (3.40%), Fishing (3.24%) and Crop production (2.31%), compared with their respective growth rates of -0.18, -2.31, 7.65, 1.06, -53.55, 0.43, 1.49 and 2.38 per cent. Growth in the non-oil sector was moderated by contractions in Transport & Storage (-21.89%), Education (-6.20%), Accommodation and Food Services (-4.60) and Trade (-2.43%). These compares with their respective growth rates of 2.82, 0.69, -2.99 and -2.82 per cent in the corresponding period of 2020.

Growth in the oil sector output, however, contracted by 2.21 per cent (year-on-year) in Q1 2021 indicating a decrease of 7.27 percentage points relative to the 5.06 per cent growth rate recorded in the corresponding quarter of 2020. However, the outcome was a lower contraction when compared with -19.76 per cent in Q4 2020. In the first quarter of 2021, average daily oil production stood at 1.72 million barrels per day (mbpd), a 0.35 mbpd lower than the average daily production of 2.07mbpd recorded in the corresponding quarter of 2020, but higher than the production volume of 1.56 mbpd recorded in the fourth quarter of 2020.

During the second quarter of 2021, the non-oil sector grew further by 6.74 per cent in contrast to the contraction of 6.05 per cent in the corresponding period of 2020, and a growth of 0.79 per cent in the preceding quarter of 2021. The growth in non-oil sector activities were driven mainly by Electricity, Gas, Steam & Air conditioning (78.16%), Transport & Storage (76.81%), Trade (22.49%), Water Supply, Sewage, Waste Management (18.48%), Mining and Quarrying (9.79%), Information & Communication (5.55%), Human Health and Social Services (4.92%), Administrative and Support Services (4.79%), Real Estate (3.85%), Construction (3.70%), Manufacturing (3.49%) and Fishing (2.27%). These compared with their respective growth rates of -3.0, -49.23, -15.59, 5.79, -4.81, 15.09, 1.89, -2.39, -21.99, -31.77, -8.78 and 5.68 per cent in the corresponding period of 2020. The growth of the non-oil sector was moderated by contractions in Finance & Insurance (-2.48%) and Public Administration (-1.68%), compared with their respective growth rates of 18.49 and 2.02 per cent in the corresponding period of 2020.

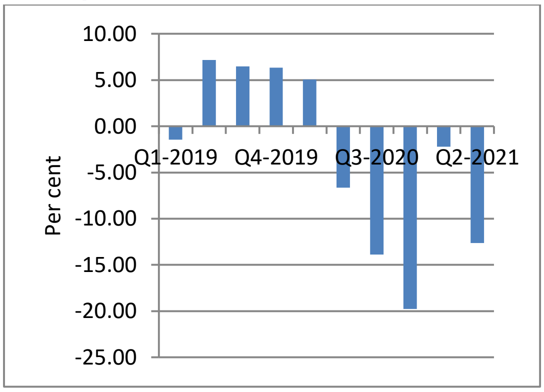
During the second quarter of 2021, the oil sector contracted further by 12.65 per cent, compared with the contractions of 6.63 and 2.21 per cent in the corresponding period of 2020 and the preceding quarter of 2021, respectively. Daily average oil production declined to 1.61 million barrels per day (mbpd) compared with 1.81 and 1.72 mbpd in the corresponding period of 2020 and the preceding quarter of 2021, respectively.

Figure 3.2: Non-oil Sector Performance (2019Q1 – 2021Q2)



Source: NBS

Figure 3.3: Performance of oil Sector (2019Q1 – 2021Q2)



Source: NBS

3.1.2 Sectoral Analysis

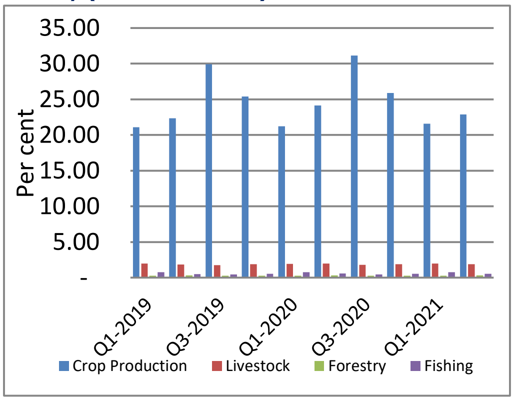
The key factors that contributed to output performance in major sectors in the review period are analysed in this section.

3.1.2.1 Agriculture

During the first quarter of 2021, growth in real agricultural output improved marginally to 2.28 per cent, compared with 2.20 per cent in the corresponding period, but a moderation when compared with 3.42 per cent recorded in the preceding quarter of 2020. This was driven mainly by growth in the Fishing sub-sector by 3.24 per cent compared with 1.49 per cent in the corresponding period of 2020 and in contrast to the contraction of 3.60 per cent in the preceding quarter. The crop production sub-sector also grew by 2.31 per cent, a moderation compared with 2.38 and 3.68 per cent in the corresponding period and the preceding quarter of 2020, respectively. Similarly, the Livestock sub-sector grew by 1.65 per cent, an improvement compared with 0.63 per cent in the corresponding period, but a moderation compared with 2.38 per cent in the preceding quarter of 2020. The Forestry sub-sector moderated to 1.28 per cent from 1.71 per cent in the corresponding period, but a slight improvement compared with 1.24 per cent in the preceding quarter of 2020.

In the second quarter of 2021, real agricultural output growth moderated to 1.30 per cent from 1.58 and 2.28 per cent in the corresponding period and the preceding quarter of 2020, respectively. Growth in the sector was driven mainly by the Fishing sub-sector, which grew by 2.27 per cent, a moderation compared with 5.68 and 3.24 per cent in the corresponding period and the preceding quarter of 2020, respectively. The Crop production sub-sector moderated to 1.38 per cent from 1.44 and 2.31 per cent in the corresponding period of 2020 and the preceding quarter, respectively. Furthermore, the Forestry sub-sector also moderated to 1.06 per cent from 1.08 and 1.28 per cent in the corresponding period of 2020 and the preceding quarter, respectively. The Livestock sub-sector moderated significantly to 0.13 per cent from 2.26 and 1.65 per cent in the corresponding period of 2020 and the preceding quarter, respectively. The share of the agriculture sector in overall GDP decreased to 23.78 per cent from 24.65 per cent in the corresponding period of 2020, but an improvement compared with 22.35 per cent in the preceding quarter of 2021.

Figure 3.4: Agricultural Sector Contribution by Activity (2019Q1-2021Q2)



Source: Statistics Department

3.1.2.2 Agricultural Policies and Institutional Support

The agricultural sector in the second half of 2021 benefited from several existing and new policies, reforms and institutional support, as highlighted below:

3.1.2.2.1 The Agricultural Credit Guarantee Scheme (ACGS)

In the first half of 2021, a total of 9,719 loans, valued at ₦2.17 billion were guaranteed under the scheme compared with 20,626 loans, valued at ₦2.83 billion in the second half of 2020. The development represented a decrease of 52.88 and 23.32 per cent, respectively, in the number and value of loans guaranteed. Also, 17,742 loans valued at ₦1.75 billion were repaid, compared with 11,319 loans valued at ₦1.69 billion in the second half of 2020. This represented increases of 56.75 per cent in the number and 3.55 per cent in the value of loans repaid, respectively.

3.1.2.2.2 N200 Billion Commercial Agriculture Credit Scheme (CACS)

Under the Scheme, ₦16.25 billion was disbursed in the first half of 2021, representing a decrease of 54.02 per cent, compared with ₦35.34 billion in the second half of 2020. On the other hand, a total of ₦20.01 billion was repaid in the review period, which represented a decrease of 22.95 per cent over the repayment of ₦25.97 billion in the second half of 2020.

3.1.2.2.3 Micro, Small and Medium Enterprises Development Fund (MSMEDF)

In view of the contribution of the MSME to job creation, financial inclusion and poverty reduction, the threshold for the Micro, Small and Medium Enterprises Development Fund (MSMEDF) was increased from ₦200.00 billion to ₦1.00 trillion in 2020. The sum of ₦50.00 million was disbursed during the first half of 2021. Repayments during the review period stood at ₦2.91 billion, compared with ₦1.68 billion in the second half of 2020, reflecting an increase of 73.21 per cent.

3.1.2.2.4 Anchor Borrowers' Programme (ABP)

In the first half of 2021, the sum of ₦176.30 billion was disbursed to 1,008,457 smallholder farmers across the country for the production of rice, maize, cassava, cotton, ginger, fish, onion, cocoa, soya beans and sesame. The disbursement represented an increase of 155.54 per cent over the ₦68.99 billion, as well as 392.42 per cent increase in the number of beneficiaries, compared with 204,796 farmers in the preceding period. Furthermore, a total of 1,061,892 hectares of land were cultivated, compared with 605,279 hectares in the second half of 2020, representing an increase of 75.31 per cent. Repayments under the Programme increased by 29.05 per cent to ₦47.49 billion in the review period, compared with ₦36.80 billion in the preceding period.

3.1.2.2.5 Accelerated Agriculture Development Scheme (AADS)

The sum of ₦1.50 billion was disbursed in the first half of 2021 compared with ₦2.94 billion disbursed in the second half of 2020. There was no repayment in the two comparative periods as the projects were under moratorium. The projects financed with the disbursement included cassava and rice production.

3.1.2.2.6 Agribusiness/ Small and Medium Enterprises Investment Scheme (AGSMEIS)

In the review period, ₦9.79 billion was disbursed to 1,067 projects, compared with ₦62.70 billion released to 15,724 projects in the second half of 2020. This represents 84.39 and 93.21 per cent decrease in value and numbers of projects, respectively, compared with the second half of 2020. Repayment in the review period was ₦135.47 million, compared with ₦102.89 million in the preceding second half of 2020, representing an increase of 31.67 per cent.

3.1.2.2.7 Paddy Aggregation Scheme (PAS)

The sum of ₦4.17 billion was released to one (1) project in the review period, compared with ₦0.50 billion released to one (1) project in the second half of 2020. The financing enabled small and medium-scale rice millers procure paddy for all-year round rice production. There was no repayment during the review period due to extension granted to the beneficiaries, compared with ₦51.81 billion repaid in the second half of 2020.

3.1.2.2.8 Rice Distribution Fund (RDF)

Under the scheme, the sum of ₦0.35 billion was released for two (2) projects in first half of 2021, compared with ₦0.20 billion released to one (1) project in the second half of 2020. There was no repayment as all facilities were under moratorium.

3.1.2.2.9 National Food Security Programme (NFSP)

There was no disbursement in the review period or in the preceding period under the scheme. Repayment stood at ₦8.31 billion at end-June 2021, compared with ₦2.36 billion at end-December 2020, representing 252.12 per cent increase.

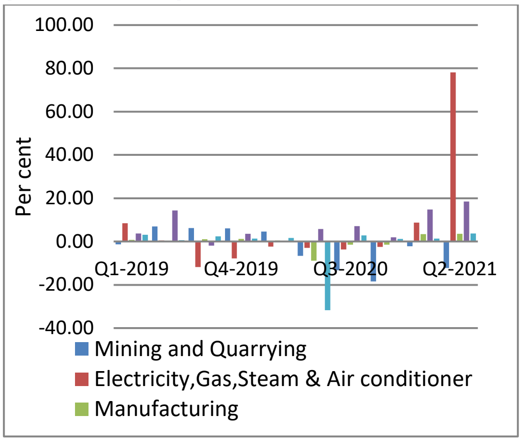
3.1.2.2 Industry

3.1.2.2.1 Industrial Production

The Industrial sector output growth was sluggish during the first half of 2021. In the first quarter of 2021, growth of the sector moderated by 0.94 per cent from 2.26 per cent in the corresponding period of 2020, but a significant improvement when compared with the contraction of 7.30 per cent in the preceding quarter. The performance of utilities was the main driver of growth in the industrial sector. At 14.75 per cent, Water Supply, Sewage & Waste Management sub-sector was the main driver of growth in the review period in contrast to the contraction of 0.18 per cent in the corresponding period of 2020, and growth of 1.92 per cent in the preceding quarter of 2020, respectively. The Electricity, Gas, Steam & Air Conditioner sub-sector also grew by 8.66 per cent in contrast to contractions of 2.31 and 2.51 per cent in the corresponding and preceding quarters of 2020, respectively. Other sub-sectors that contributed to the Industrial sector growth were the manufacturing and construction sub-sectors. The Manufacturing sub-sector grew by 3.40 per cent compared with 0.43 per cent in the corresponding period in contrast to the contraction of 1.51 per cent in the preceding quarter of 2020. Similarly, the Construction sub-sector grew by 1.42 per cent compared with 1.69 and 1.21 per cent in the corresponding and preceding quarters of 2020, respectively. The growth of the industrial sector was moderated by the Mining and Quarrying sub-sector, which contracted by 2.19 per cent in contrast to the growth of 4.58 per cent in the corresponding period of 2020. The development was, however, an improvement compared with the contraction of 18.44 per cent in the preceding quarter. Under the sub-sector, activity in the crude petroleum & natural gas contracted by 2.21 per cent in contrast to the growth of 5.06 per cent in the corresponding period of 2020, but an improvement compared with the contraction of 19.76 per cent in the preceding quarter. The share of the industrial sector in overall GDP increased to 23.75 per cent from 23.65 and 18.77 per cent in the corresponding period and the preceding quarter of 2020, respectively.

In the second quarter of 2021, the industrial sector however, contracted moderately by 1.23 per cent compared with 12.05 per cent in the corresponding period of 2020 and growth of 0.94 per cent in the preceding quarter. The main driver of the contraction in the sector was the Mining & Quarrying sub-sector which recorded deeper contraction by 12.29 per cent compared with -6.60 and -2.19 per cent in the corresponding period of 2020 and the preceding quarter. All other sub-sectors in the industrial sector recorded growth during the review period. Electricity, Gas, Steam & Air Conditioner grew significantly by 78.16 per cent in contrast to the contraction of 3.0 per cent in the corresponding period of 2020 and a growth of 8.66 per cent in the preceding quarter, respectively. Similarly, Water Supply, Sewage and Waste Management sub-sector grew by 18.48 per cent compared with 5.71 and 14.75 per cent in the corresponding period of 2020 and the preceding quarter of 2021, respectively. Furthermore, the Construction sub-sector grew by 3.70 per cent in contrast to the contraction of 31.77 per cent in the corresponding period of 2020. The development was also an improvement compared with 1.42 per cent in the preceding quarter of 2021. The Manufacturing sub-sector grew significantly by 3.49 per cent in contrast to the contraction of 8.78 per cent in the corresponding period of 2020 and a growth of 3.40 per cent in the preceding quarter. Consequently, the share of the industrial sector in overall GDP declined to 20.57 per cent from 21.87 and 23.75 per cent in the corresponding period of 2020 and the preceding quarter, respectively.

Figure 3.5: Industrial Sector Contribution by Activity (2019Q1-2021Q2)



Source: Statistics Department

3.1.2.2.2 Industrial Policy and Institutional Support:

During the first half of 2021, the industrial sector benefited from several existing and new policy measures, reforms and incentives as highlighted below:

3.1.2.2.2.1 Real Sector Support Facility (RSSF) Using Differentiated Cash Reserve Ratio (RSSF-DCRR)

The sum of ₦199.69 billion was disbursed to 32 projects in the first half of 2021, compared with ₦167.03 billion disbursed to 41 projects in the second half of 2020, representing an increase of 19.55 per cent in disbursements and a decrease of 21.95 per cent in volume of projects. The sum of ₦1.97 billion was repaid in the first half of 2021, compared with ₦28.35 billion in the preceding period.

3.1.2.2.2.2 Non-Oil Export Stimulation Facility (NESF)

The sum of ₦0.58 billion was repaid, compared with ₦0.76 billion in the preceding period. This facility was aimed, amongst other objectives, to support local companies to enhance capacity and take advantage of the opportunities presented by the Africa Continental Free Trade Agreement (AfCFTA).

3.1.2.2.2.3 Export Development Facility (EDF)

The Facility was established to improve access of exporters to concessionary finance to expand and diversify the non-oil export basket. Total investment in the project stood at ₦100.00 billion. However, there was no disbursement or repayment in the first half of the 2021.

3.1.2.2.2.4 Creative Industry Financing Initiative (CIFI)

In the first half of 2021, the sum of ₦70 million was disbursed to 21 projects, compared with ₦1.64 billion to 151 projects in the second half of 2020. This represents 95.73 per cent decrease compared with the preceding period. The sum of ₦12.91 million was repaid in the first half of 2021 compared with

₦33.14 million repaid in the previous half year.

3.1.2.2.2.5 Targeted Credit Facility (TCF)

During the period under review, the sum of ₦144.93 billion was disbursed to 323,654 projects compared with ₦134.68 billion disbursed to 319,051 projects at end-December 2020. This represented 7.61 and 1.44 per cent increase in the value and number of projects, respectively. There was no repayment as all the facilities were under moratorium.

3.1.2.2.2.6 Health Sector Intervention Fund (HSIF)

The sum of ₦25.16 billion was disbursed to 23 projects in the first half of 2021, compared with ₦50.68 billion disbursed to 56 projects in the second half of 2020. This represented 50.36 and 58.93 per cent decrease in the value and number of projects in the period under review. The sum of ₦12.50 million was repaid for 3 projects in the first half of 2021, compared with ₦3.39 billion in the second half of 2020. Significant proportion of the facilities were under moratorium.

3.1.2.2.2.7 COVID-19 Intervention Facility for the Manufacturing Sector (CIFMS)

In the review period, the sum of ₦35.99 billion was disbursed to 16 projects, compared with ₦152.57 billion for 26 projects in the second half of 2020, indicating a decrease of 76.41 per cent. All the facilities were still under moratorium.

3.1.2.2.2.8 Nigeria Youth Investment Fund (NYIF)

The Fund was introduced in the second half of 2020, in collaboration with the Federal Ministry of Youth and Sports Development, as a built-in strategy to respond effectively to the youth unemployment challenge in Nigeria. During the period under review, the sum of ₦2.81 billion was disbursed, compared with ₦191.70 million in the second half of the 2020. There were no repayments as the fund was under moratorium.

3.1.2.2.2.9 Healthcare Sector Research and Development Intervention Scheme (HSRDIS)

The sum of ₦145.40 million was disbursed to five (5) projects in the first half of 2021 to support the Healthcare Sector Research and Development Intervention Scheme introduced in March 2020 with a view to encouraging the development and production of indigenous drugs and vaccines against COVID-19 and other infectious diseases.

3.1.2.2.2.10 SME/Rediscounting & Refinancing Facility (SMERRF)

In the period under review, there was no disbursement under this scheme as well as in the second half of 2020. The sum of ₦21.29 billion was repaid in the first half of 2021, compared with no repayment in the second half of 2020.

3.1.2.2.2.11 Textile Sector Intervention Facility (TSIF)

In the review period, the sum of ₦0.39 billion was disbursed to one (1) project, compared with ₦4.00 billion disbursed to two (2) projects in the second half of 2020, representing a decrease of 90.25 per cent.

3.1.2.2.2.12 Power and Airline Intervention Fund (PAIF)

In the period under review, the sum of ₦890.27 million was disbursed compared with ₦3.03 billion in the preceding period. This represented a 70.62 per cent decrease compared with the preceding half of 2020. The sum of ₦20.20 billion was repaid in the first half of 2021 compared with ₦22.01 billion repaid in the second half of 2020.

3.1.2.2.2.13 Nigerian Bulk Electricity Trading - Payment Assurance Programme (NBET-PAF)

In the period under review, the sum of ₦88.99 billion was disbursed to Nigeria Bulk Electricity Trading Plc. (NBET) through the Bank of Industry (BOI). This represented 3.98 per cent increase compared with ₦85.58 billion disbursed in the second half of 2020. There was no repayment in both periods.

3.1.2.2.2.14 Nigerian Electricity Market Stabilization Facility (NEMSF 1 & 2)

Nigerian Electricity Market Stabilization Facility 2 was introduced in January 2021 by signing debenture agreement with NESI Stabilization Strategy Ltd (NESISS Limited) to provide liquidity support to the DisCos to enable them meets their financial obligation to the upstream market participants (NBET and TCN). In the first half of 2021, the sum of ₦120.29 billion was disbursed. The scheme is under 24 months moratorium. Similarly, the sum of ₦189.19 billion was disbursed under phase 1 to finance 11 projects compared with preceding half with no disbursement. In the first half of 2021, the sum of ₦11.91 billion was repaid by 11 projects compared with ₦10.78 billion in the preceding second half of 2020.

3.1.2.2.2.15 National Mass Metering Programme (NMMP)

The National Mass Metering Programme was introduced in the review period to fast track the bulk manufacturing and installation of electricity meters across the country. In the first half of 2021, the sum of ₦21.69 billion was disbursed, compared with ₦14.35 billion disbursed in the second half of 2020, representing an increase of 50.87 per cent. The disbursement was to support the procurement and installation of 8,541 meters as against 263,860 in the second half of 2020. All the facilities were under moratorium.

3.1.2.2.2.16 Solar Connection Facility (SCF)

The Solar Connection Facility was introduced to: expand access to affordable and clean off-grid energy to a larger share of households and businesses; enhance national energy sufficiency; and address the energy distribution and transmission challenges in Nigeria. The sum of ₦7.0 billion was disbursed in the first half of 2021, for the procurement and installation of 100,000 solar home systems across the country.

3.1.2.2.2.17 Intervention Facility for National Gas Expansion Programme (IFNGP)

The scheme was introduced to improve the supply of Compressed Natural Gas (CNG), the fuel of choice for transportation, and Liquefied Petroleum Gas (LPG), the fuel of choice for domestic cooking, captive power and small industrial complexes. Equally, gas-based industries, most especially the petrochemical (fertilizer, methanol, etc.) are to be enabled to support large industries, such as agriculture, industrial applications, textile and so on. The first disbursement under the programme stood at ₦15.20 billion in the period under review.

3.1.2.2.2.18 Shared Agent Network Expansion Facility

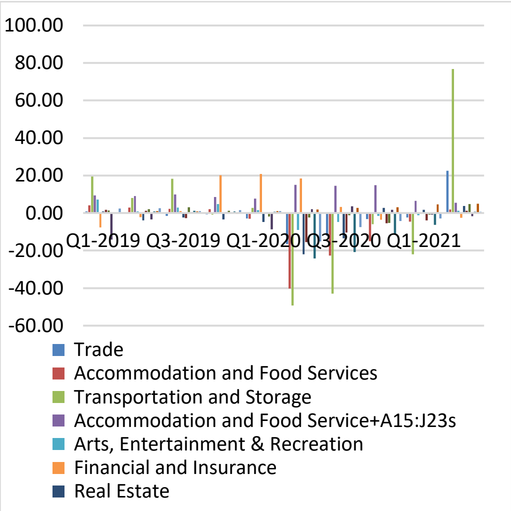
The long-term facility was designed to enable licensed super agents and Mobile Money Operators (MMOs) expand capacity and increase access points across the country. The sum of ₦500 million was disbursed to one (1) project and ₦401.28 million was repaid in the first half of 2021. There was no disbursement and repayment in the preceding period.

3.1.2.3 Services Sector

In the review period, growth in the Services sector contracted by 0.39 per cent in contrast to the growth of 1.57 and 1.31 per cent in the corresponding and preceding quarters of 2020, respectively. The outcome was driven by Transportation & Storage (-21.89%), Education (-6.20%), Accommodation & Food Services (-4.60%), Professional, Scientific & Technical Services (-3.84%), Other Services (-2.95%) and Trade (-2.43%). These compared with their respective growth rates of 2.82, 0.69, -2.99, -0.39, 1.06 and -2.82 per cent in the corresponding period of 2020. The contraction in the sector during the review period was, however, moderated by growth in Information & Communication (6.47%), Human Health & Social Services (4.65%), and Real Estate (1.77%) compared with their respective growth rates of 7.65, 1.06 and -4.75 per cent in the corresponding period of 2020. The share of the Sector in overall GDP, therefore, declined to 53.90 per cent compared with 54.39 and 54.28 per cent in the corresponding and preceding quarters of 2020, respectively.

Growth in the Services sector during the second quarter of 2021 recovered significantly by 9.27 per cent, in contrast to the contractions of 6.78 and 0.39 per cent in the corresponding period of 2020 and the preceding quarter of 2021, respectively. The growth in the sector was driven by Transportation & Storage (76.81%), Trade (22.49%), Information & Communication (5.55%), Human Health & Social Services (4.92%), Administrative and Support Services (4.79%) and Real Estate (3.85%). These compared with their respective growth rates of -49.23, -16.59, 15.09, 1.89, -2.39 and -21.99 per cent in the corresponding period of 2020. The growth was, however, moderated by contraction in Finance & Insurance (-2.48%) and Public Administration (-1.68%) sub-sectors compared with their respective growth rates of 18.49 and 2.02 per cent in the corresponding period of 2020. As a result, the share of the Sector in overall GDP increased to 55.66 per cent compared with 53.49 and 53.90 per cent in the corresponding period of 2020 and preceding quarter of 2021, respectively.

Figure 3.6: Services Sub-Sector Contribution, 2019Q1-2021Q2



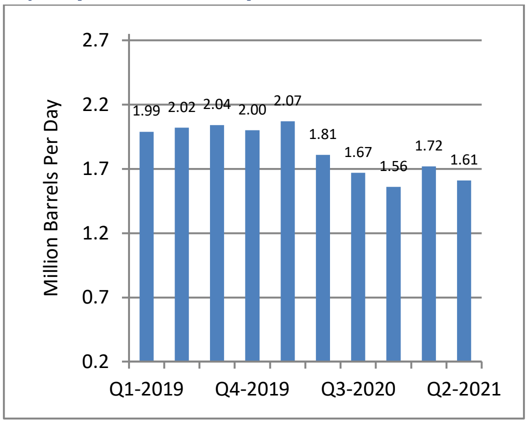
Source: Statistics Department

3.1.2.4 Oil Sector

During the first half of 2021, the performance of the oil sector was positive. The development was due to the re-opening of the economy and production activities across the globe as well as easing of lockdown measures worldwide. The uptick in oil prices was supported by a gradual firming up of demand amid continued cautious production restraint among OPEC+ as the market recovers. However, the pickup in oil prices was partly dampened by uncertainty regarding the evolution of the pandemic and its potential impact on future oil demand. In the first quarter of 2021, average daily oil production stood at 1.72 million barrels per day (mbpd), 0.35 mbpd lower than the average daily production of 2.07 mbpd recorded in the corresponding quarter of 2020 but higher than the production volume of 1.56 mbpd in the fourth quarter of 2020. During the second quarter, average daily oil production declined to 1.61 million barrels per day (mbpd) in the second quarter compared with 1.81 mbpd and 1.72 mbpd in the corresponding period of 2020 and preceding quarter of 2021, respectively. Crude oil prices oscillated upwards during the period under review, primarily due to the increased demand by major economies around the world. Consequently, the price of Nigeria's reference crude, the Bonny Light 37^{0}API, which stood at US$54.90 per barrel (pb) in January 2021 rose to US$62.50 pb and US$65.62 pb in February and March 2021, respectively. The price then declined slightly to US$64.30 in April, before rising to US$67.83 in May 2021. Increased demand for oil as a result of further relaxation of COVID-19 related restrictions as well as OPEC+ actions to restrict supply of crude oil pushed oil prices to close high at US$73.46 pb in June 2021.

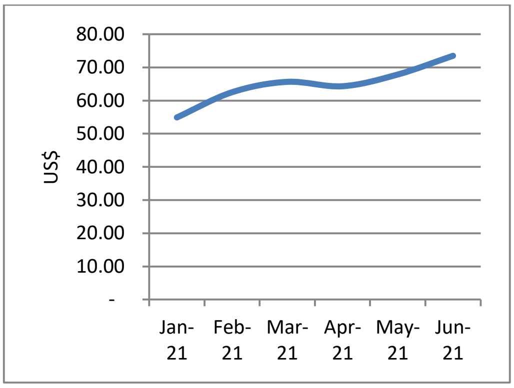
Overall, the average price of Bonny Light of US$64.77 pb in the first half of 2021 was above the Federal Government of Nigeria's 2021 revised budget benchmark of US$57.0 pb.

Figure 3.7: Quarterly Domestic Oil Production and Export (2019Q1-2021Q2)



Source: NBS

Figure 3.8: Monthly Bonny Light Oil Price, January 2021 - June 2021



Source: Statistics Department

3.2 Domestic Price Developments

Inflationary pressure resurged in the review period, due, largely, to the lingering effects of the border protection policy and the impact of COVID-19 pandemic. All measures of inflation, namely the headline, food, and core inflation, generally trended upward in the first quarter of 2021, but slowed down during the second quarter, with the headline inflation exceeding the upper band of the Bank's indicative benchmark of 6-9 per cent. Price developments during the review period reflected the impact of the increase in food prices arising from supply chain disruptions across key food producing belts, the effects of the adjustments of petroleum pump price and electricity tariff, lingering impact of the second wave of COVID-19 pandemic, and the consequent disruption to global supply chain.

On the supply side, the pressure on the exchange rate was precipitated by decline in oil earnings resulting from the global supply glut, and worsened by the COVID-19 shock, with its effect lingering till end of the review period. The pass-through effect of exchange rate to domestic prices has been significant, causing the core inflation to accelerate. Thus, the naira weakened in the official segment of the market. The development elicited drastic actions from the Bank, resulting in the adjustment of the naira exchange rate from N381/US$ to N397.78/US$ and N404.19/US$ in May and June 2021, respectively. These adjustments have been necessitated by the desire to align the exchange rate with market realities and curtail unnecessary demand pressure.

In addition, the external reserves declined owing to the significant demand pressure. The Bank introduced reforms which included the Naira4Dollar scheme to attract diaspora remittances, continued restriction of access to foreign exchange for 43 items, and the strategic suspension of sale of foreign exchange to BDCs by the Bank and International Money Transfer Operators (IMTOs).

On the demand-side, price developments continued to be impacted by activities in the money market, where the Inter-Bank Call and Open Buy Back (OBB) rates remained relatively low, even as the cash reserve requirements for both private and public funds were increased, reflecting the liquidity conditions in the banking system. Maturity of securities and the low credit growth also contributed to the ample state of banking system liquidity.

3.2.1 Trends in Inflation

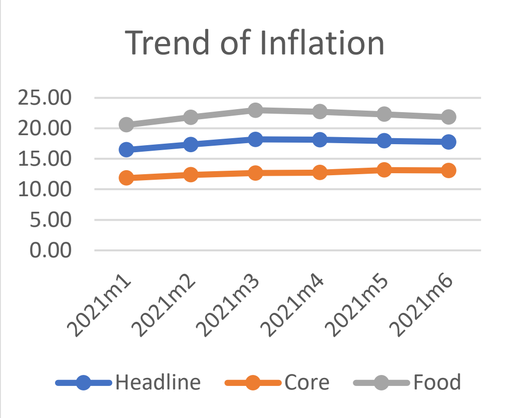
Headline, food and core measures of inflation trended upward in the first quarter, with a moderation in the second quarter of 2021. The three measures of the consumer price index (CPI) stood at 384, 333.6 and 443.4 in June 2021 compared with 361.2, 316.5 and 413.8, respectively, in January 2021. Food inflation (year-on-year) increased notably by 1.26 percentage point from 20.57 per cent in January to 21.83 per cent in June 2021. Core inflation also rose by 1.24 percentage points from 11.85 per cent in January to 13.09 per cent in June 2021. Consequently, headline inflation increased by 1.28 percentage point from 16.47 per cent in January to 17.75 per cent in June 2021 (Figure 3.9 and Table 3.1). Thus, the major driver of consumer prices during the period was food inflation, even though some sub-components of the core measure also contributed (Table 3.1).

Table 3.1: Inflation Rates, January – June 2021

	Headline Inflation			Core Inflation			Food Inflation		
Months	CPI	YOY	MMA	CPI	YOY	MMA	CPI	YOY	MMA
Jan-21	361.2	16.47	13.62	316.5	11.85	10.52	413.8	20.57	16.66
Feb-21	366.8	17.33	14.05	320.3	12.38	10.77	421.6	21.79	17.25
Mar-21	372.5	18.17	14.55	323.7	12.67	11.01	429.7	22.95	17.93
April-21	376.1	18.12	15.04	326.9	12.74	11.25	433.9	22.72	18.58
May-21	379.9	17.93	15.50	331.0	13.15	11.50	438.5	22.28	19.18
Jun-21	384.0	17.75	15.93	333.6	13.09	11.75	443.4	21.83	19.72

Source: National Bureau of Statistics data base

Figure 3.9: Headline, Core and Food Inflation Rates (January – June 2021)



Source: Nigerian National Bureau of Statistics data base

3.2.1.1 Headline Inflation

The major components of headline inflation were on the upward trajectory during the first quarter and remained relatively stable in most part of the second quarter. The main driver of headline inflation in the review period was Food, and Non-Alcoholic Beverages which increased from 11.65 per cent to 12.48 per cent. The prices of Housing, Water, Electricity, Gas and Other Fuels also increased from 1.50 per cent to 1.59 per cent between January and June, 2021, while the price of restaurant and communications remained constant at 0.10 and 0.04 per cent, respectively, over the same period (Table 3.2 and Figure 3.10). In general, headline inflation rose from 16.47 per cent in January to 17.75 per cent in June 2021.

The price developments reflected the joint impact of the COVID-19 pandemic, and hikes in pump price of Premium Motor Spirit (PMS), and electricity tariff, among others. Besides, following the softening in oil price, the naira exchange rate experienced depreciation, resulting in upward pressure on prices. The Bank's fairly loose monetary policy, in addition to a number of supply-side constraints, namely partial land border protection policy and the worsening insecurity, adversely affected the food supply chain, thereby stoking domestic prices.

Table 3.2 Major Components of Headline Inflation ((Y-on-Y), January - June 2021

Months	ALL-ITEM	Food &	Housin	Clothin	Transp	Furnish	Educati	Health	Miscell	Restau	Alcoho	Recrea	Communication
Jan-21	16.47	11.65	1.50	0.87	0.80	0.49	0.35	0.35	0.17	0.10	0.10	0.05	0.04
Feb-21	17.33	12.35	1.56	0.90	0.83	0.50	0.36	0.37	0.17	0.10	0.10	0.05	0.04
Mar-21	18.17	37.17	-1.41	-2.09	-2.15	-2.50	0.37	-2.64	0.18	-2.92	-2.91	-2.96	0.04
Apr-21	18.12	12.91	1.61	0.95	0.88	0.53	0.37	0.38	0.18	0.10	0.11	0.06	0.04
May-21	17.93	12.70	1.60	0.97	0.88	0.54	0.37	0.38	0.18	0.10	0.11	0.06	0.04
Jun-21	17.75	12.48	1.59	0.99	0.88	0.55	0.38	0.38	0.19	0.10	0.11	0.06	0.04

On a month-on-month basis, headline inflation, however, decreased from 1.49 per cent in January to 1.06 per cent in June 2021. The major moderating factors on month-on-month headline inflation were the prices of food and non-alcoholic beverages, which decreased from 1.07 per cent in January to 0.66 per cent in June; and Housing which declined from 0.13 per cent in January to 0.11 per cent in June, 2021 (Table 3.3 and Figure 3.11).

Figure 3.10 Major Components of Headline Inflation (Y-on-Y), July - December 2020

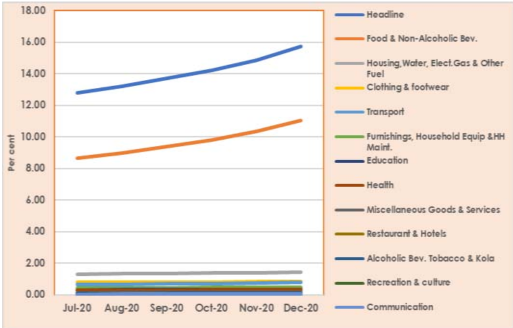
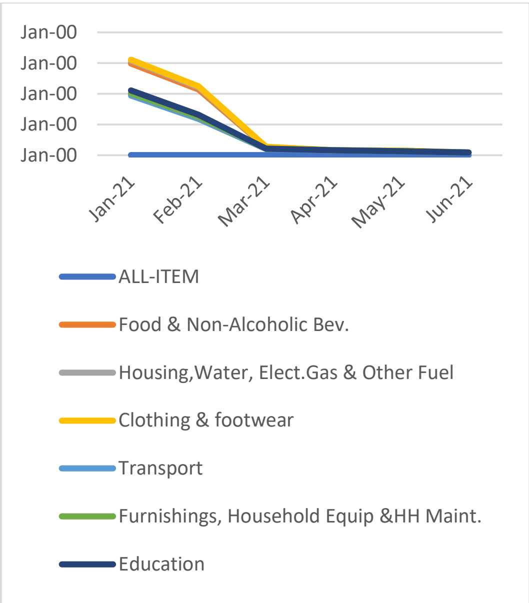


Table 3.3 Major Components of Headline Inflation (M-on-M), January – June 2021

Months	ALL-ITEM	Food &	Housin	Clothin	Transp	Furnish	Educati	Health	Miscell	Restau	Alcoho	Recrea	Communication
Jan-21	1.49	1.07	0.13	0.08	0.07	0.04	0.03	0.03	0.01	0.01	0.01	0.00	0.00
Feb-21	1.54	1.11	0.13	0.08	0.07	0.04	0.03	0.03	0.01	0.01	0.01	0.00	0.00
Mar-21	1.56	1.12	0.14	0.08	0.07	0.04	0.03	0.03	0.01	0.01	0.01	0.00	0.00
Apr-21	0.97	0.59	0.10	0.08	0.06	0.05	0.03	0.03	0.01	0.01	0.01	0.00	0.00
May-21	1.01	0.62	0.10	0.08	0.06	0.05	0.03	0.03	0.01	0.01	0.01	0.00	0.00
Jun-21	1.06	0.66	0.11	0.08	0.06	0.05	0.03	0.03	0.01	0.01	0.01	0.00	0.00

Figure 3.11 Major Components of Headline Inflation (M-on-M), January – June 2021



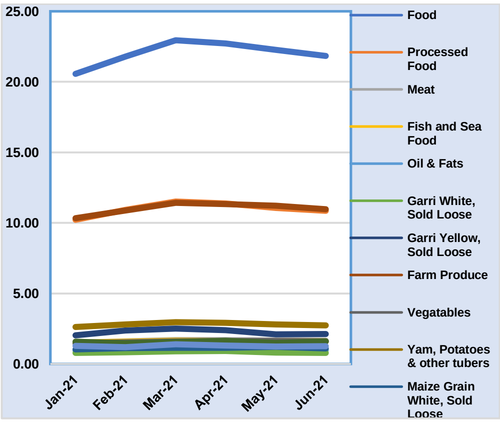
3.2.1.2 Food Inflation

Food inflation (year-on-year) rose from 20.57 per cent in January to 21.83 per cent in June 2021, an increase of 1.26 percentage point. The main drivers were the price of both processed food and farm produce. The price of processed food rose by 0.64 percentage point from 10.22 to 10.86 per cent, while the price of farm produce also rose by 0.63 percentage point from 10.34 per cent in January to 10.97 per cent in June 2021. The increase in the price of processed food was accounted for by the increases in prices of meat (0.13 per cent), and gari yellow, sold loose (0.08 per cent). On the other hand, vegetables (0.13 per cent) and yam, potatoes, and other tubers (0.11) were the major factors responsible for the increase in the price of farm produce. The major factors responsible for the increase in price of farm produce were: restrictions on productive activities precipitated by lockdown measures due to Covid-19 pandemic, worsening insecurity and banditry, especially in the food producing areas of the North, and exchange rate pressures, following the Bank's adjustment of the naira exchange rate during the period.

Table 3.4: Major Components of Food Inflation (Y-on-Y), January–June 2021

Year	Food	Processed Food	Meat	Fish and Sea Food	Oil & Fats	Garri White, Sold Loose	Garri Yellow, Sold Loose	Farm Produce	Vegatables	Yam, Potatoes & other tubers	Maize Grain White, Sold Loose	Rice Agric, Sold Loose	Rice Local, Sold Loose
Jan-21	20.57	10.22	1.51	1.52	0.95	0.77	2.03	10.34	1.47	2.61	1.04	1.58	1.27
Feb-21	21.79	10.92	1.60	1.58	0.99	0.84	2.37	10.87	1.54	2.80	1.13	1.47	1.20
Mar-21	22.95	11.52	1.69	1.65	1.03	0.90	2.51	11.42	1.61	2.97	1.15	1.55	1.39
Apr-21	22.72	11.38	1.69	1.63	1.03	0.91	2.39	11.34	1.62	2.91	1.15	1.64	1.31
May-21	22.28	11.05	1.67	1.61	1.01	0.81	2.09	11.23	1.61	2.81	1.22	1.49	1.23
Jun-21	21.83	10.86	1.65	1.60	0.99	0.77	2.11	10.97	1.60	2.72	1.10	1.61	1.27
Change btw Jan & Jun	1.26	0.64	0.13	0.08	0.03	0.00	0.08	0.63	0.13	0.11	0.07	0.03	-0.01

Figure 3.12: Major Components of Food Inflation (Y-on-Y), January–June 2021

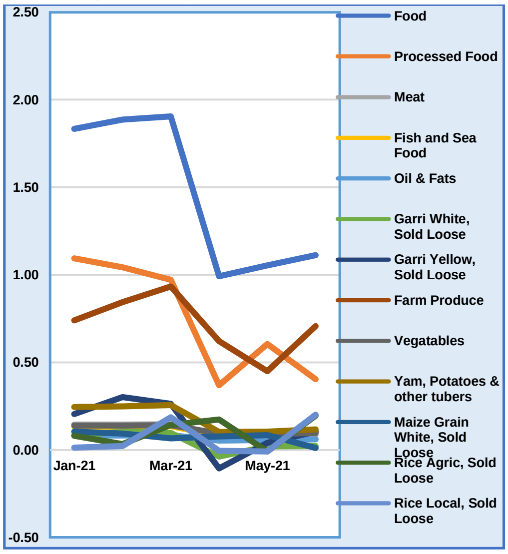


On the other hand, the month-on-month food inflation trended downward by 0.72 percentage point from 1.83 per cent in January to 1.11 per cent in June 2021. The price of processed food declined by 0.69 percentage point from 1.09 per cent in January 2021 to 0.40 per cent in June 2021. Similarly, the price of farm produce declined albeit marginally by 0.03 percentage points from 0.74 per cent to 0.71 per cent in the same period. Thus, the decrease in food inflation was due to the decreases in the prices of both processed food and farm produce components. The key drivers of the decrease in the processed food category were gari yellow (sold loose), meat and gari white (sold loose), which declined by 0.10, 0.06 and 0.06 per cents respectively, while those of farm produce were yam, potatoes & other tubers 0.13 per cent and maize grain sold loose (0.09 per cent).

Table 3.5: Major Components of Food Inflation (M-on-M), January – June 2021

Year	Food	Processed Food	Meat	Fish and Sea Food	Oil & Fats	Garri White, Sold Loose	Garri Yellow, Sold Loose	Farm Produce	Vegatables	Yam, Potatoes & other tubers	Maize Grain White, Sold Loose	Rice Agric, Sold Loose	Rice Local, Sold Loose
Jan-21	1.83	1.09	0.14	0.13	0.08	0.08	0.20	0.74	0.14	0.24	0.11	0.08	0.01
Feb-21	1.89	1.04	0.14	0.13	0.08	0.10	0.30	0.84	0.14	0.25	0.09	0.03	0.02
Mar-21	1.90	0.97	0.15	0.14	0.08	0.10	0.26	0.93	0.14	0.25	0.07	0.14	0.19
Apr-21	0.99	0.37	0.08	0.08	0.05	-0.04	-0.11	0.62	0.09	0.10	0.08	0.17	-0.01
May-21	1.05	0.61	0.08	0.09	0.06	0.02	0.04	0.45	0.09	0.10	0.08	-0.01	-0.01
Jun-21	1.11	0.40	0.09	0.10	0.06	0.02	0.10	0.71	0.10	0.12	0.01	0.20	0.20
Change btw Jul & Dec	-0.72	-0.69	-0.06	-0.04	-0.02	-0.06	-0.10	-0.03	-0.04	-0.13	-0.09	0.11	0.19

Figure 3.13: Major Components of Food Inflation (M-on-M), January – June 2021



3.2.1.3 Core Inflation

Core inflation (year-on-year) rose from 11.85 per cent in January 2021 to 13.09 per cent in June 2021, an increase of 1.24 percentage points. The rise in core inflation was driven by Processed Food (0.40 percentage point), Housing, water, electricity and other fuels (0.27 percentage point), Transport (0.16 percentage points), Clothing and Footwear (0.15 percentage point) and Education (0.09 percentage points). All components of core inflation increased in the reviewed period. The rise in processed food, housing, water, electricity and other fuel, transport, and clothing and footwear which drove the upsurge in core inflation was due to higher domestic prices arising from the lingering effects of the COVID-19 pandemic, legacy structural factors, adverse developments in the external sector and depreciating domestic currency.

Table 3.6: Major Components of Core Inflation (Y-on-Y), January – June 2021

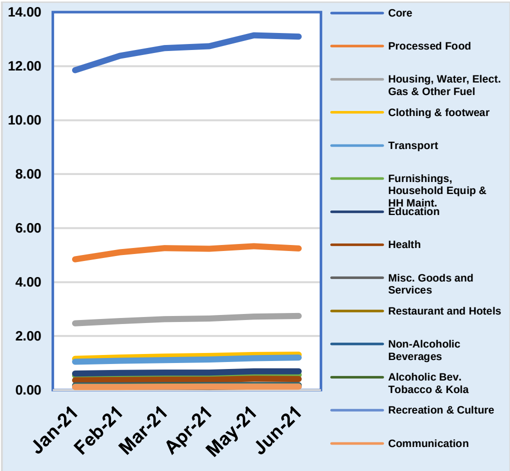
Year	Core	Processed Food	Housing, Water, Elect. Gas & Other Fuel	Clothing & footwear	Transport	Furnishings, Household Equip & HH Maint.	Education	Health	Misc. Goods and Services	Restaurant and Hotels	Non-Alcoholic Beverages	Alcoholic Bev. Tobacco & Kola	Recreation & Culture	Communication
Jan-21	11.85	4.84	2.47	1.16	1.05	0.54	0.61	0.36	0.12	0.15	0.17	0.15	0.12	0.12
Feb-21	12.38	5.10	2.56	1.21	1.09	0.55	0.63	0.38	0.13	0.16	0.18	0.15	0.13	0.12
Mar-21	12.67	5.26	2.63	1.24	1.11	0.55	0.64	0.38	0.12	0.15	0.18	0.16	0.13	0.12
Apr-21	12.74	5.23	2.66	1.26	1.14	0.55	0.65	0.39	0.12	0.15	0.19	0.16	0.14	0.13
May-21	13.15	5.33	2.72	1.30	1.19	0.57	0.69	0.42	0.14	0.17	0.19	0.16	0.14	0.13
Jun-21	13.09	5.24	2.74	1.31	1.21	0.56	0.70	0.41	0.13	0.17	0.19	0.16	0.14	0.13
Change btw Jul & Dec	1.24	0.40	0.27	0.15	0.16	0.03	0.09	0.05	0.01	0.02	0.02	0.02	0.02	0.02

On a month-on-month basis, core inflation, however, decreased by 0.44 percentage point from 1.26 per cent in January to 0.81 per cent in June 2021. Processed food was the major driver of the decline in core inflation, decreasing from 0.52 per cent in January to 0.27 per cent in June 2021. This is reflective of increased intervention in the agricultural sector, continuous implementation of the CRR regime, partial relaxation of the border protection policy and base effects (Table 3.7 and Figure 3.15).

Table 3.7: Major Components of Core Inflation (M-on-M), January – June 2021

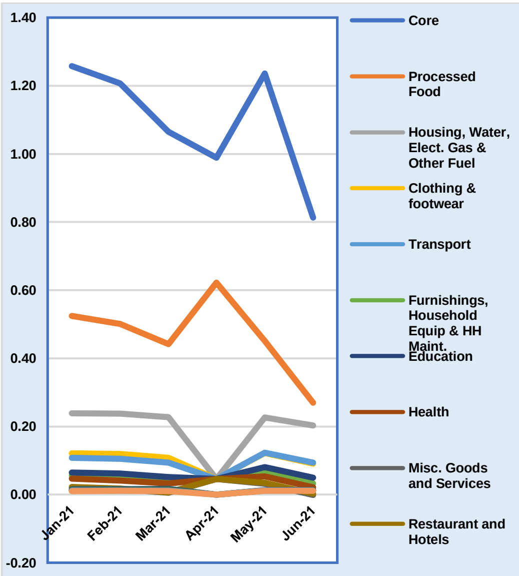
Year	Core	Processed Food	Housing, Water, Elect. Gas & Other Fuel	Clothing & footwear	Transport	Furnishings, Household Equip & HH Maint.	Education	Health	Misc. Goods and Services	Restaurant and Hotels	Non-Alcoholic Beverages	Alcoholic Bev. Tobacco & Kola	Recreation & Culture	Communication
Jan-21	1.26	0.52	0.24	0.12	0.11	0.06	0.07	0.05	0.02	0.02	0.02	0.01	0.01	0.01
Feb-21	1.21	0.50	0.24	0.12	0.11	0.05	0.06	0.04	0.02	0.02	0.02	0.01	0.01	0.01
Mar-21	1.06	0.44	0.23	0.11	0.09	0.04	0.05	0.03	0.01	0.01	0.02	0.01	0.01	0.01
Apr-21	0.99	0.62	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.00	0.00	0.00	0.00
May-21	1.24	0.45	0.23	0.12	0.12	0.06	0.08	0.05	0.03	0.04	0.01	0.01	0.01	0.01
Jun-21	0.81	0.27	0.20	0.09	0.09	0.03	0.05	0.02	0.00	0.00	0.01	0.01	0.01	0.01
Change btw Jul & Dec	-0.44	-0.26	-0.04	-0.03	-0.01	-0.02	-0.02	-0.03	-0.02	-0.02	0.00	0.00	0.00	0.00

Figure 3.14: Major Components of Core Inflation (Y-on-Y), January – June 2021



Source: National Bureau of Statistics data base

Figure 3.15: Major Components of Core Inflation (M-on-M), January – June 2021



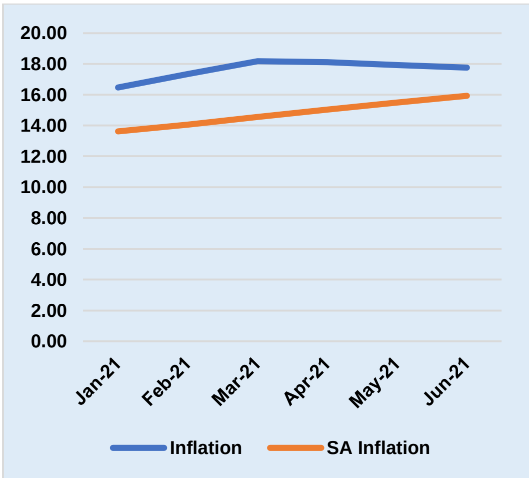
3.2.2 Seasonally-Adjusted Inflation

The actual and seasonally adjusted measures of headline inflation trended upward between January and March before declining in April and sustained the trend till June 2021 (Table 3.8 and Figure 3.16). Actual headline inflation continued to reflect the general price level in the economy, trending above the seasonally adjusted headline inflation for the entire period. The overall trend in both actual and seasonally-adjusted measures of inflation were attributed, mainly, to the COVID-19 pandemic, capital flow reversals, adjustment of the naira exchange rate by the Bank, low food and industrial production due to lockdown in Nigeria, and loose monetary policy stance.

Table 3.8: Actual and Seasonally Adjusted Headline Inflation, January – June 2021

Year	Inflation	SA Inflation
Jan-21	16.47	13.62
Feb-21	17.33	14.05
Mar-21	18.17	14.55
Apr-21	18.12	15.04
May-21	17.93	15.50
Jun-21	17.75	15.93
Change in Inflation	1.28	2.31

Figure 3.16: Actual and Seasonally Adjusted Headline Inflation, January – June 2021



3.2.3 Key Factors that Influenced Domestic Prices

During the review period, inflationary pressure was primarily influenced by cost-push, demand-pull and moderating factors. Inflation increased marginally during the period owing to the net effect of these forces. The key highlights of these factors included: the impact of measures to contain the Covid-19 pandemic, supply side bottlenecks as well as exchange rate demand pressures. Others included the sustained increase in food prices as a result of insecutrity in key food producing belts leading to decrease in agricultural output, liquidity effects of the continued efforts by the Bank to improve real sector activities through several intervention programmes, and relative instability in energy prices.

3.2.3.1 Demand-side Factors

The trend in headline inflation was partly influenced by demand side factors in the review period. Capital releases for infrastructural projects, real sector intervention programmes and the Bank's accommodative monetary policy stance boosted naira liquidity in the economy and aggregate demand. Demand pressure on foreign exchange for tradable goods, despite sustainance of measures by the Bank in managing foreign exchange demand, exerted pressure on the exchange rate. The pass-through effect of the resulting exchange rate adjustment intensified inflationary pressures. The recovery in aggregate demand as Government implemented fiscal stimulus measures, contributed to uptick in domestic prices.

3.2.3.2. Supply-side Factors

Supply-side factors exacerbated inflationary pressures during the review period. They included, mainly, supply chain disruptions due to the Covid-19 pandemic and key security challenges, despite sustained agricultural sector interventions. As a result, food prices rose.

3.2.3.3 Moderating Factors

Inflationary pressures during the review period were moderated by a host of factors, including the Bank's sustained interventions that ensured adequate liquidity in the economy. Other factors included the improved performance of the non-oil sector, especially, agriculture and manufacturing, which were supported through various intervention programmes of the Bank. In addition, the effective implementation of Nigeria's Medium-Term National Development Plan (MTNDP) - 2021-2025 provided a strategic roadmap for the economy and helped restore the economy on a growth path following the 2020 economic recession. Government's support of the real sector including efforts aimed at improving ease of doing business and implementation of policies to boost productivity enhanced aggregate demand and confidence in the Nigerian economy.

3.3 Monetary Policy and Liquidity Management

The stance of monetary policy in the first half of 2021 was significantly shaped by the second wave of the COVID-19 pandemic amid reports of virus mutations which posed significant threats to the efficacy of the COVID-19 vaccines. The spill over effect of the pandemic also ensured that capital flows to developing economies remained slow, as the pace in the advanced economies picked up gradually.

On the global front, uncertainties faced by the global economy forced most central banks to review their perception of the behaviour of inflation from being a systemic phenomenon to one that is transitory, and may not require policy adjustment to address its dynamic behaviour. As a result, the global economy was confronted with the possibility of an early return to monetary policy normalization, but with adverse consequences for financial system stability as it would trigger capital outflows from emerging markets.

At the domestic front, the fiscal-monetary policy coordination that ensured intervention in priority sectors of the economy was expected to reduce inflationary pressures as output growth improved with the aim of reducing the output gap. The Nigerian economy was therefore, projected to witness a moderate, but consistent growth in the second half of 2021.

Despite the challenges posed by the pandemic, developments in the money market remained positive, reflecting efforts by the CBN at ensuring adequate liquidity in the market through its various windows.

3.3.1 Monetary Policy Response to Evolving Economic Conditions

During the first half of 2021, the global economy gradually emerged from the six-quarter long COVID-19 pandemic on account of widespread vaccinations that drastically reduced fatalities across several economies and led to the easing of restrictions and reopening of economies. The recovery, however, remained uneven, tilted towards the developed economies with better access to vaccines. Accordingly, the International Monetary Fund (IMF) revised global output growth for 2021 from 5.5 to 6.0 per cent, with the assumption that there will be an efficient deployment of COVID-19 vaccines and sustained policy support across economies. Inflation has, however, remained high globally but higher in Emerging Market and Developing Economies (EMDEs) and is expected to breach the long-term objective of several central banks in the medium-term. On the other hand, oil prices had an upward trend and global financial markets remained relatively stable as central banks sustained monetary accommodation.

The domestic economy grew by 0.51 per cent in the first quarter of 2021, compared with 0.11 and -3.62 per cent in Q4 2020 and Q3 2020, respectively. Although the economy successfully exited recession, the recovery was weak and far below the population growth rate of 2.5 per cent (World Bank, 2020). Headline inflation (year-on-year) peaked at 18.17 per cent in March 2021 but moderated to 17.75 per cent in June 2021. Nevertheless, the headline inflation within the period remained well above the Bank's upper band of 9.00 per cent.

The current account balance though still in deficit, improved by 66.74 per cent in Q1 2021, resulting from a 32.30 per cent improvement in the goods account, 9.90 per cent improvement in the services account, 52.26 per cent improvement in primary income and a 7.54 per cent increase in the secondary income. Due to increased exchange rate pressures, the naira depreciated by 24.12 and 13.24 per cents between January and June 2021 at the Interbank and the I&E windows, respectively. This resulted from capital flow reversals associated with the COVID-19 shock, as investors sought for safe-havens. The external reserve decreased from US$36.48 billion in January 2021 to US$32.78 billion in June 2021.

Broad money supply (M3) grew consistently within the period, largely driven by growth in Net Domestic Assets (NDA), which reflects the growth in aggregate credit emanating from the ongoing broad-based monetary and fiscal stimuli. In the equities market, both the All-Share Index (ASI) and Market Capitalization (MC) decreased. The Capital Adequacy Ratio (CAR) and the Liquidity Ratio (LR) both remained above their prudential limits. Also, the ratio of Non-Performing Loans (NPLs) decreased significantly due largely to forbearances granted obligors whose businesses were adversely affected by the pandemic, improvement in deposit money bank's risk management and strengthened regulatory supervision by the Central Bank of Nigeria.

The Bank's desire to achieve its objective of price stability conducive to sustainable and inclusive growth was constrained by low optimism for medium-term macroeconomic recovery in both the global and domestic economies due to the unabating COVID-19 pandemic in some countries and the unequal supply of the vaccines to the developing countries. Thus, these were the key considerations that shaped monetary policy decisions and actions in the first half of 2020.

During the period, the policy decisions were to retain the MPR at 11.5 per cent; retain the asymmetric corridor of +100/-700 basis points around the MPR; retain the CRR at 27.5 per cent and retain the Liquidity Ratio at 30 per cent. However, the Bank continued its interventions to boost aggregate demand and investments, as well as diversifying the economy through FX restrictions for the importation of goods and food products that can be produced in Nigeria. The intervention facilities under the Anchor Borrowers Programme was ₦631.4 billion granted to 3,107,949 smallholder farmers cultivating 3.8 million hectares of land;

for the AGSMEIS, ₦111.7 billion to 29,026 beneficiaries; and for the Targeted Credit Facility, ₦253.4 billion to 548,345 beneficiaries - comprising 470,969 households and 77,376 SMEs. Under the National Youth Investment Fund, ₦2.04 billion was disbursed to 7,057 beneficiaries, of which 4,411 were individuals and 2,646 were SMEs. Under the Creative Industry Financing Initiative, the CBN disbursed ₦3.19 billion to 341 beneficiaries across movie production, movie distribution, music and software development.

Under the ₦1 trillion Real Sector Intervention, N856.3 billion had been disbursed to 233 real sector projects of which 77 are in light manufacturing, 36 in agro-based industry, 30 in services and 11 in mining. On the Healthcare Support Intervention fund, ₦97.4 billion has been disbursed for 91 health care projects, of which 26 are pharmaceutical and 65 hospital services. Also, ₦232.5 million has been disbursed to 5 beneficiaries under the CBN Health Care Grant for Research on Covid-19 and Lassa Fever. Under the National Mass Metering program, ₦35.9 billion has been disbursed to 9 distribution companies (DisCos) for the acquisition of 656,752 electricity meters. Under the Nigerian Electricity Stabilization Facility 2 (NEMSF-2), ₦93.8 billion has also been disbursed to 11 DisCos.

The Bank also maintained its collaboration with the fiscal authority to improve the investment climate towards attracting sustainable Foreign Direct Investment (FDI). On the financial system, the Bank increased its efforts in ensuring a reasonably low level and steady reduction in Non-Performing Loans (NPLs), and to ensure a continued expansion of aggregate credit through the crisis period. There was also support to the Federal Government's commitment to tackle insecurity in a bid to improve the business environment and encourage economic activities.

3.3.2 Monetary Policy Committee Meetings

In the first half of 2021, the Monetary Policy Committee (MPC) met three times: in January, March, and May. The following issues were discussed at the January meeting: restrictive measures and lockdowns used by the government to avert the health crisis caused by the COVID-19 pandemic, risks to sustained recovery; the need for increased collaboration between the Bank and the fiscal authority to accelerate the pace of economic recovery; and the negative impact of insecurity on food prices. Others included: the need to explore other sources of foreign exchange in order to improve forex supply and ease exchange rate pressure; and the trend of broad-based stimulus package by other central banks and the need to sustain the Bank's interventions.

Based on these considerations, the Committee unanimously voted to maintain the MPR at 11.5 per cent; the asymmetric corridor at +100/-700 basis points around the MPR; the CRR at 27.5

per cent; and the Liquidity Ratio at 30 per cent throughout the reviewed period.

The Committee noted during the March Meeting the need to consolidate both monetary and fiscal stimuli, which were largely responsible for the moderate recovery recorded in the fourth quarter of 2020, following the debilitating effect of the COVID-19 pandemic; the persistent rising trend of domestic prices and the need for fiscal and monetary collaboration to boost aggregate supply and lower prices; the constrained and fragile fiscal headroom occasioned by twin shocks of the Pandemic and oil price volatility; the continued build-up of public debt; and the overarching need to address the twin challenges of taming inflation and sustaining growth recovery, while being mindful of the domestic risks associated with injections. Confronted with the policy dilemma of tightening to contain inflation or loosening to support the fragile recovery, the Committee concluded that, because the current inflation largely resulted from supply-side shortages and constraints, the focus should be on consolidating the recovery process. As a result, while three members voted to raise MPR, six members voted to keep MPR constant. However, all members voted to keep all other parameters constant.

At the May 2021 meeting, the Committee acknowledged the twin problems associated with stagflation-rising inflation with a simultaneous contraction in output- confronting the Nigerian economy that need to be addressed. It however, recognized that the strategies employed to tame inflation by the Bank to control money supply through liquidity mop-up in the banking industry had begun to yield results. It also recognized the positive results of the Bank's intervention programmes in stimulating employment and output growth. The Committee noted that, although the economy had exited recession, the growth of 0.51 per cent was still weak and far below the population growth of 2.5 per cent. The MPC, therefore, considered the strong need to consolidate on all measures taken to tackle inflation and support output recovery. The Committee applauded Government's effort at mitigating the risks associated with the Pandemic and advised the avoidance of a total lockdown as was experienced in 2020, as this had the potential of reversing the weak gains made over the past months. The Committee also encouraged the intensification of efforts at tackling insecurity in the country so as to ease supply bottlenecks and moderate prices.

The recent developments in the economy presented two broad options to the MPC: either to aggressively address high inflationary pressure or continue to pursue measures aimed at supporting recovery. In view of the foregoing, the Committee decided by a unanimous vote to retain the: MPR at 11.5 per cent; Asymmetric Corridor at +100/-700 basis points around the MPR; CRR at 27.5 per cent; and liquidity ratio at 30 per cent. The decision was to allow previous policy measures to continue to work through the economy while observing domestic and global developments.

The Communiqués of the MPC meetings are contained in the Appendix.

3.3.3 Instruments of Liquidity Management

In the review period, the Bank continued to deploy the following instruments to achieve its objective of price and monetary stability. These instruments were: the Monetary Policy Rate (MPR); the Cash Reserve Ratio (CRR); Liquidity Ratio; Open Market Operations (OMO); and Discount Window Operations. These were periodically complemented with interventions in the foreign exchange market.

3.3.3.1 Monetary Policy Rate (MPR)

The Bank's key instrument for signalling monetary policy stance and management in the first half of 2021 was the Monetary Policy Rate (MPR). It remained unchanged at 11.5 per cent during the review period. Similarly, the asymmetric corridor around the MPR was maintained at +100/-700 basis points throughout the period. The retention of MPR and the asymmetric corridor, showed the Bank's commitment to an accommodative monetary policy stance.

3.3.3.2 Open Market Operations (OMO)

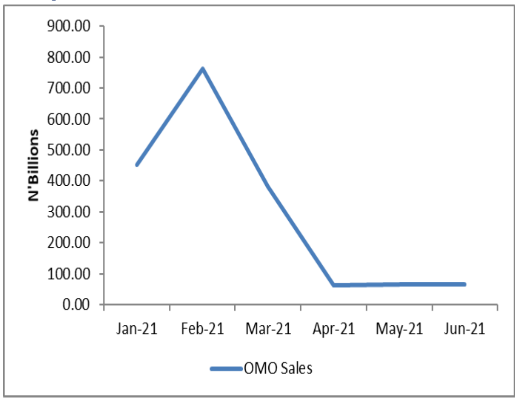
Liquidity Management in the review period was conducted primarily through Open Market Operations (OMO). Total OMO sales decreased by 72.38 per cent to ₦1,793.25 billion in the first half of 2021 from ₦6,492.30 billion in the corresponding period of 2020. The outcome was also a decrease of 70.79 per cent from ₦6,138.58 billion in the preceding half year (Table 3.9). The reduced OMO sales was attributed to the Bank's deliberate effort to encourage lending to the real sector by Deposit Money Banks (DMBs).

Table 3.9: OMO Bills Auction (January – June, 2021) (₦'billion)

Date	2020	2021	% Change
Jan	2,193.52	452.67	-79%
Feb	1,575.64	763.23	-52%
Mar	673.38	381.92	-43%
Apr	676.19	63.19	-91%
May	114.00	66.64	-42%
Jun	1,259.57	65.60	-95%
1st Half	**6,492.30**	**1,793.25**	-72%
Jul	392.76		
Aug	1,037.67		
Sep	1,171.79		
Oct	988.67		
Nov	1,022.11		
Dec	1,525.58		
2nd Half	**6,138.58**		
Cumulative Figure	**12,630.88**		

Source: CBN, Financial Market Department

Figure 3.17: OMO Bills Auction (January – June, 2021)



Source: CBN, Financial Market Department

3.3.3.3 Reserve Requirements

In the review period, Reserve Requirements, namely: the Cash Reserves Ratio (CRR) and Liquidity Ratio (LR) were deployed to complement the MPR and OMO auctions as macro-prudential and liquidity management instruments. The CRR and LR were maintained at 27.5 and 30.0 per cent, respectively, due to the high liquidity levels in the banking system.

3.3.3.4 Standing Facilities

In the first half of 2021, the Standing Facilities window was active as Deposit Money Banks (DMBs) continued to access the (lending/deposit) window to meet their daily liquidity requirements. The asymmetric corridor was maintained at +100/-700 basis points around the MPR.

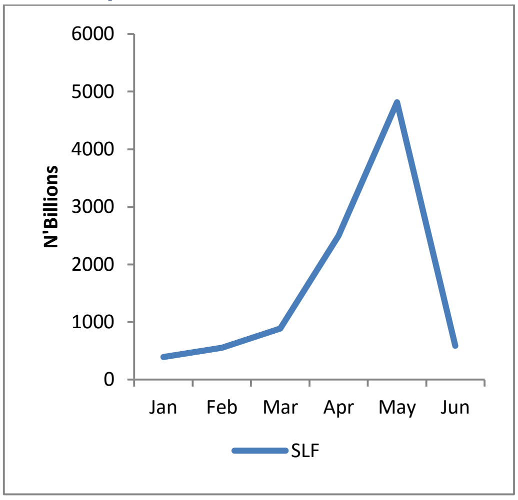
The requests for Standing Lending Facility (SLF) significantly increased by 433.19 per cent to ₦9,741.84 billion in the first half of 2021 from ₦1,827.09 billion in the preceding period of 2020. The development also reflected an increase of 193.66 per cent from ₦3,317.40 billion in the corresponding period of 2020 (Table 3.10). In contrast, the volume of deposits under the Standing Deposit Facility (SDF), declined by 56.06 per cent to ₦1,829.90 billion in the first half of 2021 from ₦4,164.78 billion in the preceding period of 2020. This also represented a decrease of 40.81 per cent when compared with ₦3,091.78 billion in the corresponding period of 2020 (Table 3.11). Transactions at the Window resulted in a net lending of ₦7,911.94 billion in the first half of 2021 compared with a net deposit of ₦2,337.69 billion in the preceding half year and a net lending of ₦225.64 billion corresponding half year. The development signalled that there is high risk in the interbank market due to perceived counter party risk, hence the recourse to the CBN lending window.

Table 3.10: CBN Standing Lending Facility (January 2020 – June 2021) (N'billion)

Date	2020	2021	% Change
Jan	580.77	395.77	
Feb	510.27	552.66	
Mar	957.34	886.51	
Apr	277.93	2,498.55	
May	398.84	4,818.91	
Jun	592.25	589.44	
1st Half	**3,317.40**	**9,741.84**	**193.66%**
Jul	1,570.18		
Aug	112.72		
Sep	14.39		
Oct	37.11		
Nov	22.94		
Dec	69.75		
2nd Half	**1,827.09**		
Total	**5,144.49**	**9,741.84**	

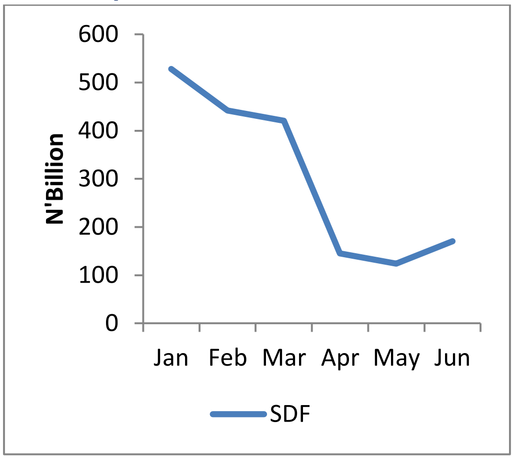
Source: CBN, Financial Market Department

Figure 3.18: Standing Lending Facility (January – June 2021)



Source: CBN, Financial Market Department

Figure 3.19: Standing Deposit Facility (January - June, 2021)



Source: CBN, Financial Market Department

Table 3.11: CBN Standing Deposit Facility (January 2020 – June 2021) (N'billion)

Date	2020	2021	% Change
Jan	618.49	528.33	
Feb	523.41	441.51	
Mar	356.80	420.36	
Apr	601.53	145.52	
May	549.50	123.89	
Jun	442.05	170.29	
1st Half	**3,091.78**	**1,829.90**	**-40.81%**
Jul	459.49		
Aug	593.42		
Sep	838.22		
Oct	734.51		
Nov	794.31		
Dec	744.83		
2nd Half	**4,164.78**		
Total	**7,256.56**	**1,829.90**	

Source: CBN, Financial Market Department

3.3.3.5 Foreign Exchange Intervention

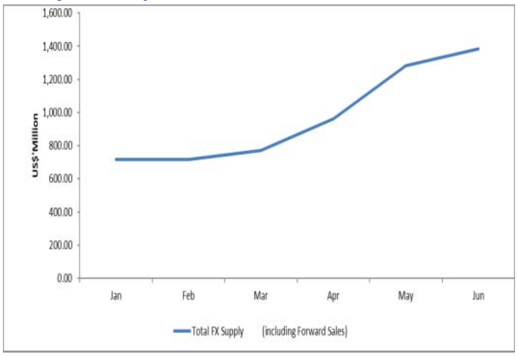
In the first half of 2021, pressure in the foreign exchange market persisted due to the resurgence of various variants of COVID-19 that affected the global commodity market and oil receipts. However, the exchange rate unification policy helped in easing the pressure on the supply of foreign exchange that was severely affected by the dwindling crude oil earnings and reduction in foreign portfolio inflows. Consequently, the CBN, adopted the Nigerian Autonomous Foreign Exchange Rate Fixing, Investors & Exporters (NAFEX I&E) window rate as the official rate leadingly to a 7.3 per cent depreciation of the naira from ₦380/US$ to ₦410/US$. Total foreign exchange supply decreased by 16.18 per cent to US$5,831.59 million in the first half of 2021 from US$6,957.28 million in the second half of 2020. Similarly, it decreased by 43.43 per cent when compared with US$10,308.01 million in the corresponding period of 2020 (Table 3.12). The decreased supply was largely due to the combined impact of the oil price shock and the containment measures of the COVID-19 pandemic.

Table 3.12: Foreign Exchange Supply by the CBN (US$ Million)

Date	2020	2021	% Change
	Total FX Supply (including Forward Sales)	Total FX Supply (including Forward Sales)	
Jan	1,604.27	717.05	
Feb	3,364.39	714.55	
Mar	3,344.29	770.08	
Apr	674.87	962.80	
May	639.76	1,283.74	
Jun	680.43	1,383.37	
1st Half	**10,308.01**	**5,831.59**	**-43.43%**
Jul	593.33		
Aug	699.92		
Sep	1,229.16		
Oct	1,492.34		
Nov	1,119.27		
Dec	1,823.26		
2nd Half	**6,957.28**	**0.00**	**-100.00%**

Source: CBN, Financial Market Department

Figure 3.20: Total FX Supply (including Forward Sales) January – June, 2021



Source: CBN, Financial Market Department

3.3.4 Developments in Monetary Aggregates

In the first half of 2021, the monetary aggregates underperformed when compared with their benchmarks. Broad money supply (M3) grew below its indicative benchmark for 2021. Also, the narrower measure of broad money (M2) performed below its benchmark reflecting weak multiplier and sluggish growth of credit to government. The weak growth in money stock may not be sufficient to propel the economy on the desired growth trajectory, which is a reflection of weak aggregate demand. Nonetheless, the developments would contribute towards moderating inflationary pressures in the short run. As economic activities continue to pick up due to the targeted development finance interventions, growth in M3 is expected to improve.

Net Domestic Assets (NDA) performed well relative to its benchmark in the review period. Its key component, Net Domestic Credit (NDC) grew moderately, driven by growth in both private sector credit and government credit. Net Foreign Asset (NFA) grew below its benchmark in the review period, driven primarily by the monetary authority's foreign liabilities, mostly the COVID-19 loans and grants from abroad.

3.3.4.1 Broad Money (M3, M2)

The broad measures of money supply (M3 & M2) grew in the review period. M3 grew by 2.02 per cent to ₦39,406.65 billion at end-June 2021from ₦38,627.35 billion at end-December 2020. When compared with the end-June 2020 level of ₦35,345.80 billion, it increased by 11.49 per cent. The M3 annualised growth rate of 4.03 at end-June 2021 was below the 2021 indicative growth target of 9.64 per cent. Similarly, M2 grew by 2.80 per cent to ₦38,759.14 billion at end-June 2021 from ₦37,704.98 billion at end-December 2020. Compared with the end-June 2020 level of ₦32,171.34 billion, it increased by 20.48 per cent. The annualized M2 growth rate of 5.60 per cent was also lower than the 2021 indicative growth benchmark of 10.26 per cent.

The increase in M2 was primarily driven by increase in M1 by 31.24 per cent and quasi money by 18.56 per cent.

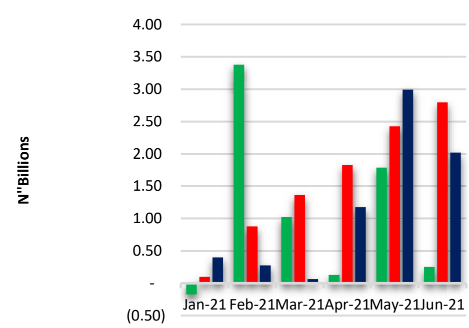
Figure 3.21: Money Supply (M1), (M2) and (M3) (December 2020 – June 2021)

	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
MONEY SUPPLY (M1)	15,976	15,948	16,516	16,139	15,997	16,262	16,016
MONEY SUPPLY (M2)	37,704	37,741	38,036	38,218	38,393	38,619	38,759
MONEY SUPPLY (M3)	38,627	38,780	38,733	38,651	39,081	39,783	39,406

MONEY SUPPLY (M1) MONEY SUPPLY (M2)
MONEY SUPPLY (M3)

Source: CBN, Statistics Department

Figure 3.22: Growth in Money Supply (M1), (M2) and (M3) (December 2020 – June 2021)



	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
MONEY SUPPLY (M1)	(0.18)	3.38	1.02	0.13	1.79	0.25
MONEY SUPPLY (M2)	0.10	0.88	1.36	1.83	2.42	2.80
MONEY SUPPLY (M3)	0.40	0.28	0.06	1.18	2.99	2.02

MONEY SUPPLY (M1) MONEY SUPPLY (M2)
MONEY SUPPLY (M3)

Source: CBN, Statistics Department

3.3.4.2 Narrow Money (M1)

Narrow Money (M1) increased marginally by 0.25 per cent to ₦16,018.75 billion at end-June 2021 from ₦15,976.62 billion at end-December 2020. Compared with ₦12,204.25 billion, at end-June 2020, M1 increased by 31.24 per cent. The annualised M1 growth rate of 0.50 per cent is significantly lower than the 2021 indicative growth benchmark of 15.72 per cent (Figures 3.21 and 3.22). The under-performance of M1 was attributable to the decline in currency in circulation and demand deposits on account of the lull in economic activities as a result of the impact of Covid-19.

3.3.4.3 Net Foreign Assets (NFA)

Net Foreign Assets (NFA) declined by 3.65 per cent to ₦7,070.09 billion at end-

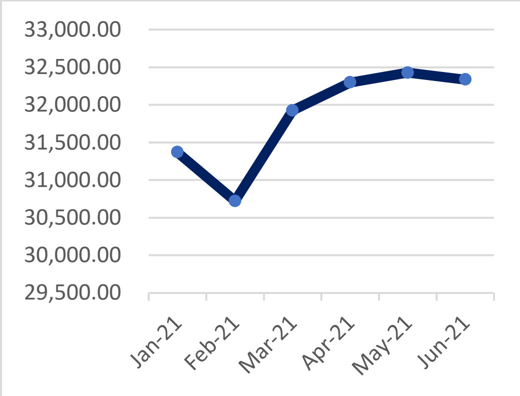
June 2021 from ₦7,337.63 billion at end-December 2020. Compared with the end-June 2020 figure of ₦7,576.75 billion, NFA decreased by 6.69 per cent. The annualized decline in NFA was in contrast to the 2021 indicative growth target of 32.79 per cent. The performance of NFA below its benchmark in the review period was due to the contraction of foreign asset holdings of the Central Bank.

3.3.4.4 Net Domestic Assets (NDA)

Net Domestic Assets (NDA) grew by 3.35 per cent to ₦32,336.56 billion at end-June 2021 from ₦31,289.73 billion at end-December 2020. Compared with the end-June 2020 figure of ₦27,769.05 billion, NDA grew by 16.45 per cent. The annualised growth rate of 6.69 per cent in NDA was higher than the 2021 indicative growth benchmark of 4.21 per cent.

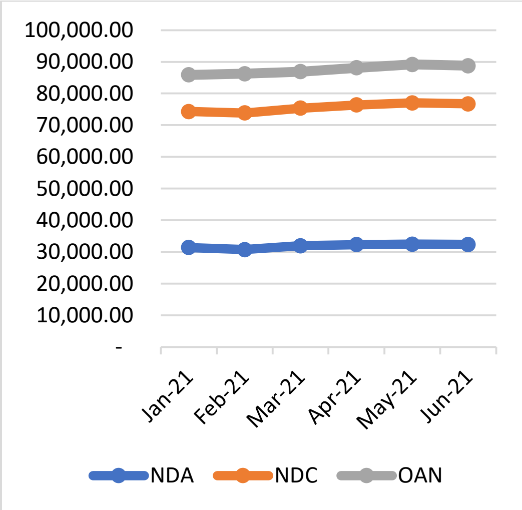
Net Domestic Credit (NDC) grew by 4.30 per cent, driven largely by credit to the private sector which increased by 8.25 per cent owing to the Bank's sustained development finance interventions as well as improved lending to the real sector. Critical sectors of the economy such as the health and manufacturing were targeted with the intention to improve the flow of credit, in light of weak performance and heightened uncertainties associated with the COVID-19 pandemic. Also, targeted credit facilities were similarly extended to households and small and medium enterprises. However, Credit to Government decreased by 5.30 per cent, compared with the growth target of 5.20 per cent, which showed that the banking system is focused more on financing the private sector.

Figure 3.23: Net Domestic Asset (NDA) (January - June 2021)



Source: Statistics Department

Figure 3.24: NDA, NDC and Other Assets (Net) (January - June 2021)



Source: Statistics Department

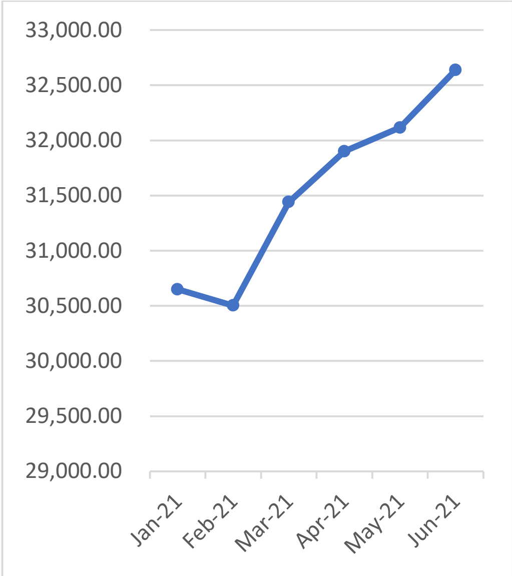
3.3.4.5 Credit to the Government (Cg)

Credit to Government (Cg) decreased by 5.30 per cent to ₦11,747,37 billion at end-June 2021 from ₦12,404.82 billion at end-December 2020. Compared with the end-June 2020 figure of ₦8,863.20 billion, it grew by 32.54 per cent. The annualised decrease in Cg of 10.60 per cent at end-December 2021 was in contrast to the indicative growth target of 5.20 per cent. Developments during the period suggest that government has been meeting its funding need through issuance of debt instruments. This is a positive development as it enables the banking system focus on financing the private sector.

3.3.4.6 Credit to the Private Sector (Cp)

Credit to the private sector (Cp) increased by 8.25 per cent to ₦32,638.18 billion at end-June 2021 from ₦30,149.60,183.70 billion at end-December 2020. Compared with the end-June 2020 figure of ₦29,183.70 billion, it grew by 11.48 per cent. The annualised growth of 16.51 per cent in Cp was close to the 2021 indicative growth target of 16.79 per cent. The increase in the credit to the private sector will further stimulate demand and promote growth in the economy. The full implementation of the Bank's Loan-to-Deposit Ratio (LDR) policy has also supported the enhanced performance of the Cp.

Figure 3.25: Domestic Credit to Private Sector (January - June 2021)



Source: CBN, Statistics Department

3.3.4.7 Reserve Money (RM)

Reserve Money (RM) decreased by 5.87 per cent to ₦12,333.75 billion at end-June 2021 from ₦13,103.09 billion at end-December 2020. Compared with its end-June 2021 level of N13,257.04 billion, RM decreased by 6.96 per cent. The annualised decrease in RM of 11.74 per cent is in contrast to the indicative growth target of 3.33 per cent. The performance of RM was largely due to the decline in the total deposit liability and partly to the weakening implicit cost of cash holding which reflected in the movement of reserve requirement. A summary of the major monetary aggregates and their provisional outcomes as at end-June 2021 is presented in Table 3.13.

Table 3.13a: The Performance of Monetary Aggregates and their Implications

Variables	Actual H1 2020	Actual H2 2020	Actual H1 2021	Benchmark 2021	H1:2020 Deviation from Benchmark	Change in H1, 2021 over H2, 2020
M3 (N'b)	35,345.80	38,627.35	39,406.65	42,349.68	-2,943.03	779.30
M3 (%)	1.64%	10.84	2.02	9.64	-7.62	-0.81
M2 (N'b)	32,171.34	37,704.98	38,759.14	41,574.09	-2,814.95	1,054.16
M2 (%)	11.77%	0.31	2.80	10.26	-7.46	8.03
M1 (N'b)	12,204.25	15,976.62	16,016.75	18,487.59	-2,470.84	40.13
M1 (%)	15.86%	0.50	0.25	15.72	-15.47	-0.5
RM (N'b)	13,257.04	13,103.09	12,333.75	12,141.20	192.55	-769.34
RM (%)	52.91%	0.51	-5.87	3.33	-9.20	-12.51
NDC (N'b)	38,046.91	42,554.42	44,385.56	48,260.60	-3,875.05	1,831.13
NDC (%)	5.16%	15.91	4.30	13.41	-9.11	-0.73
Cg (N'b)	8,863.20	12,404.82	11,747.37	13,049.45	-1,302.08	-657.45
Cg (%)	-6.54%	22.84	-5.30	5.20	-10.50	-1.23
Cp (N'b)	29,183.70	30,149.60	32,638.18	35,211.15	-2,572.97	2,488.58
Cp (%)	9.32%	13.27	8.25	16.79	-8.54	-0.38
NFA (N'b)	7,576.75	7,337.63	7,070.09	9,743.43	-2,673.34	-267.54
NFA (%)	30.54%	23.44	-3.65	32.79	-36.44	-1.16
NDA (N'b)	27,769.05	31,289.73	32,336.56	32,606.25	-269.69	1,046.83
NDA (%)	-4.15%	8.24	3.35	4.21	-0.86	-0.59

Source: CBN, Statistics Department

Table 3.13b: The Performance of Monetary Aggregates and their Implications

S/N	Monetary Aggregates	Performance	Implication
1	Overall Monetary Aggregates	Underperformed	The underperformance reflects the level of uncertainties and weakening economic fundamentals. The weak performance of NFA was driven by Claims on Non-Residents in the Monetary Authority's Account.
2	Broad Money (M3, M2)	Below target	Both M3 and M2 performed below their benchmarks. The weak growth of M2 is due to weak multiplier and sluggish growth of credit to government
3	Narrow Money (M1)	Below target	The weak performance is an indication of feeble economic activities because of a portfolio shift arising from the inability of DMBs to reinvest matured OMO bills on behalf of the non-bank public. This concern is further amplified by the weak signals from other monetary aggregates, consistent with weakening economic activities.
4	Net Foreign Assets (NFA)	Below target	The downward performance of NFA was driven largely by Claims on Non-Residents in the Monetary Authority's Account.
5	Net Domestic Assets (NDA)	Above target	The performance in NDA reflects growth in private sector credit.
6	Credit to the Govt (Cg)	Below target	The performance of credit to government reflects that government has been meeting its funding need through issuance of debt instruments. This frees up loanable resources to the private sector.
7	Credit to the Private Sector (Cp)	Close to target	The performance demonstrates the increasing role of the private sector in driving economic activities. Growth in output and employment is as a result of credit made available to the real sector.

Source: CBN, Statistics Department

3.4 Domestic Financial Markets Developments

In the first half of 2021, the Nigerian financial markets witnessed considerable volatility in response to developments from both the global and domestic economic and financial environments. On the global front, the outbreak of new and deadlier variant of

COVID-19 led to imposition of further restrictions in some parts of the world.

In the money market, the net liquidity position and interest rates in the economy reflected the impact of the Bank's liquidity management operations. Accordingly, the monthly average Inter-bank Call and Open Buy Back (OBB) rates rose to 11.55 and 12.19 per cent in June 2021 from 3.40 and 4.35 per cent in December 2020, respectively. The money market remained active in the review period, with market rates reflecting liquidity conditions in the banking system. Foreign exchange market stability was accentuated by CBN interventions to stabilize the naira amid increased foreign exchange demand pressures. The All-Share Index (ASI) and Market Capitalization (MC) decreased during the first half of 2021; likely reflecting the bearish sentiments of investors and flight to safety such as US treasury bills due to the continued impact of the pandemic.

3.4.1 The Money Market

Amidst the gradual recovery of the economy from the devastating effects of Covid-19 pandemic, money market experienced a considerable level of activities in the first half of 2021. However, the money market rates oscillated in tandem with liquidity levels in the banking system. Contributing factors to this development included statutory monthly disbursement to both States and Local governments by the Federation Account Allocation Committee (FAAC); government securities maturities, sale of OMO bills and the various CBN interventions.

The interbank segment of the market experienced less trading days in the period under review, which resulted in lower transaction volumes compared with the OBB segment. For instance, zero transaction was recorded in the month of April 2021. Prominence of collateralized OBB instrument is due to the continuing high-risk perception and aversion of money market participants to open market lending occasioned by counterparty risk.

In a bid to support the market during the first half of 2021, the Monetary Policy Committee (MPC) held most of its policy tools constant. Thus, the Monetary Policy Rate (MPR) was maintained at 11.50 percent with its asymmetric corridor at +100/-700 basis points around the MPR. The Cash Reserve Ratio (CRR) and Liquidity Ratio (LR) were also maintained at 27.5 and 30.0 per cent, respectively, during the period.

3.4.1.1 Short-term Interest Rate Developments

The short-term rates reflect the prevailing liquidity conditions in the banking system. In addition to the various Monetary Policy Committee decisions, the CBN's intervention aimed at moderating foreign exchange demand pressures also played a role in money market liquidity and the short-term interest rates.

In the period under review, the interbank call segment recorded lower average rate as compared to the Open

Buy Back (OBB) segment. However, rates in both segments increased significantly. Specifically, the OBB rate increased from 2.93 per cent in January 2021 to 16.67 per cent in June 2021, while the interbank call rate increased from 4.4 per cent in January 2021 to 16.57 per cent in June 2021.

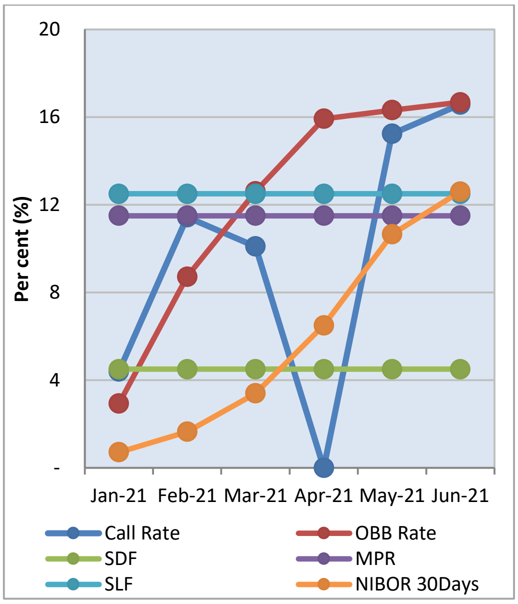
The NIBOR-30 rate which reflects the Nigerian interbank short-term lending rates for some selected banks rose throughout the period under review.

Table 3.14: Weighted Average Monthly Money Market Interesr Rates (Jan-June, 2021)

Period	Call	OBB	SDF	MPR	SLF	NIBOR
Jan-21	4.40	2.93	4.50	11.50	12.50	0.71
Feb-21	11.43	8.72	4.50	11.50	12.50	1.65
Mar-21	10.10	12.61	4.50	11.50	12.50	3.40
Apr-21	0.00	15.92	4.50	11.50	12.50	6.50
May-21	15.23	16.31	4.50	11.50	12.50	10.65
Jun-21	16.57	16.67	4.50	11.50	12.50	12.60
Average	11.55	12.19	4.50	11.50	12.50	5.92

Source: CBN, Statistics

Figure 3.26: Weighted Average Monthly Money Market Interest Rates (Jan-June, 2021)



Source: Statistics Department, CBN

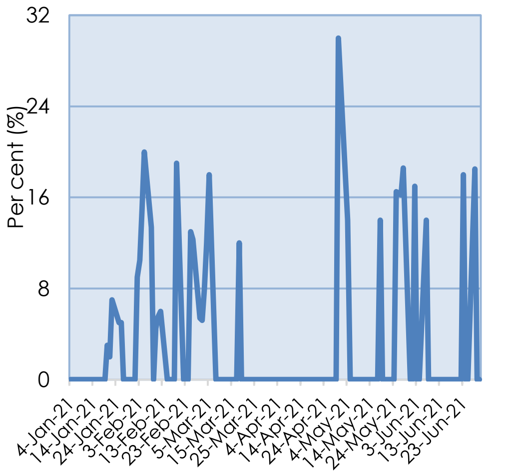
3.4.1.1.1 The Interbank Call Rate

Transaction volumes in the uncollateralized interbank call segment continued to reflect market participants' strong preference for the collateralised OBB instrument. During the period under review, the interbank call segment was characterised by low trade volumes as well as several days without trading activities, compared with the OBB segment.

The monthly average interbank call rate increased from 4.40 per cent in January 2021 to 16.57 per cent by end-June 2021 indicating a strain in system liquidity (Table 3.14). Specifically, the monthly average interbank call rate rose from 4.40 per cent in January 2021 to 11.43 per cent in February 2021 representing a 7.03 percentage points increase. However, the rate slightly dropped to 10.10 per cent in March 2021, driven by a more buoyant system liquidity. No transaction was recorded in April 2021. The rate further rose from 15.23 per cent in May to 16.57 per cent at end-June 2021; implying that the overall outflows from activities affecting banking system liquidity (i.e., OMO sales and maturity, FX interventions, CRR debits, the Bank's intervention facilities to stimulate growth and fiscal disbursement) outweighed the inflows. Notwithstanding, the gradual economic and financial recovery, the upward trend of the interbank call rate is largely associated with uncertainties about the emergence of a third wave of COVID-19 pandemic and concerns about the efficacy of the vaccines in mitigating the spread of the variants.

The analysis of the daily interbank call rate presented in Figure 3.27 showed that for days when trading activities took place, the call rate ranged from 2.0 per cent in January 2021 to 30.0 per cent in April 2021. The peak of 30.00 per cent in April was largely due to a drop in activities, which is hinged on the Bank's mopping up activities through OMO sales worth ₦47billion at the end of the month. The average interbank call rate for the period January – June 2021 was 11.55 per cent representing an increase compared with 7.11 per cent in the corresponding period of 2020 and 3.40 per cent in the second half of 2020.

Figure 3.27: Daily Interbank Call Rate (Jan. – Jun. 2021)



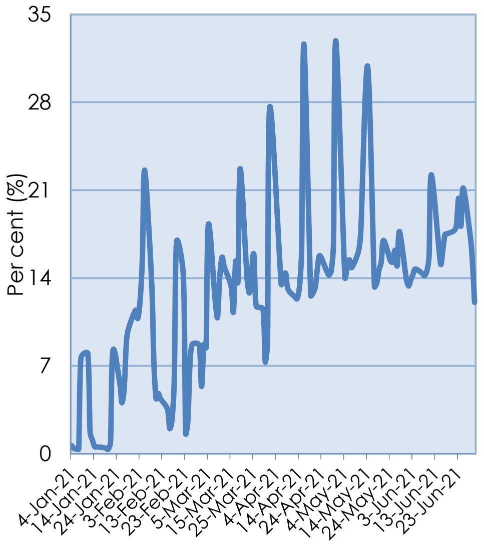
3.4.1.1.2 The Open Buy Back (OBB) Rate

The OBB segment of the market recorded higher trading activities compared with the interbank call segment. However, both OBB rate and interbank call rate followed similar trend during the period under review. The monthly average rate showed upward trends indicating consistent tightening of system liquidity. Within a spread of 2.93 per cent and 16.67 per cent, the monthly average OBB rate rose significantly during the period. It rose from 2.93 per cent in January 2021 to 8.72 per cent in February 2021. The rate further increased by 3.31 percentage points from 12.61 per cent in March 2021 to 15.92 per cent in April 2021. Amidst security challenges and investors' concern about the lingering COVID-19 shock, the OBB rate witnessed additional increase from 16.31 per cent in May 2021 to close at 16.67 per cent by the end of first half of 2021.

In terms of the daily activities presented in Figure 3.28, the OBB rate ranged from 0.36 per cent and 32.91 per cent between January and June 2021. Similar to the interbank call rate, the observed spike of 32.91 per cent at the end of April 2021 was associated with the increase in the net OMO sales during the period, while the low rate in January 2021 reflected the Bank's drive to stimulate economic activities through monetary stimulus.

The average OBB rate for the first half of 2021 (i.e., January – June 2021) stood at 12.19 per cent, which is higher than the 8.12 per cent recorded in the corresponding half-year of 2020 (i.e., January – June 2020) and the 4.35 per cent recorded in the second half of 2020 (i.e., July – December 2020).

Figure 3.28: Daily Open Buy Back Rate (Jan. – Jun. 2021)



Source: CBN Satistics Database

3.4.1.1.3 The Nigeria Interbank Offered Rate (NIBOR)

The Nigerian money market reference rate (NIBOR) also followed an upward trend in the period under review. From low levels at the beginning of the year (i.e., 0.71 per cent in January and 1.65 per cent in February 2021 respectively), the average monthly rate increased to 3.40 per cent in March 2021. As shown in Table 3.14, it consistently increased reaching 12.60 per cent by June 2021 from 11.65 per cent in May 2021.

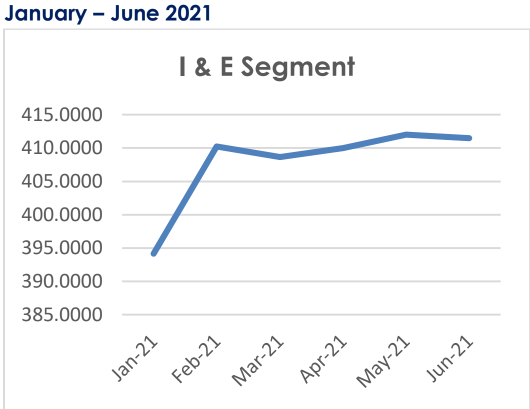
3.4.2 Foreign Exchange Market

The Bank sustained its interventions in the foreign exchange market during the review period. This was intended to maintain stability and ultimately safeguard the value of the naira and external reserves. Notwithstanding, the market witnessed substantial volatility as demand pressure continued to mount resulting in further depreciation in the interbank segment of the foreign exchange market.

The inability of the OPEC and OPEC plus group to agree on a significant oil output cut in addition to the continuing unfavourable global macro-economic environment due to the COVID19 pandemic which further distressed the world's economic and financial activities, thus impacting negatively on exchange rate stability.

Consequently, the Bank adjusted the naira exchange rate to N410 in March from N390 in January 2021.

Figure 3.29: Daily Naira/US Dollar Exchange Rate, January – June 2021



Source: CBN, Statistics Department

The Bank remained resolute to strengthen the Naira by increasing liquidity supply to the FOREX market. The Bank also relaxed further restrictions by allowing the International Money Transfer Operators (IMTOs) customers' access their remittances in foreign currencies. The Bank in June 2021 adopted the Importer and Exporter window (I&E) as the reference exchange rate for official transactions in the country.

The Bank's I&E window is also fundamental to the accessibility of FOREX for importation of essential items. In addition, the Bank maintained its existing foreign exchange policies which include:

- Restriction to FOREX sales for 43 items; and
- Adoption of Bank Verification Number (BVN) in BDC transactions as well as systematic monitoring of DMBs to ensure that they do not engage in speculative trading.

3.4.2.1 Average Exchange Rates

At the Interbank window, naira depreciated against the dollar by an average of 1.88 per cent from ₦380.37/US$ in the second half of 2020 to ₦387.66/US$ in the first half of 2021. The exchange rate adjustment by the CBN in May 2021 led to the further depreciation of the naira rates.

Table 3.15: Average Monthly Spot Exchange Rate (N/US$), Jul 2020 – Jun 2021

MONTH	Interbank / MDA
July (2020)	377.19
August	381.00
September	381.00
October	381.00
November	381.00
December	381.00
Average	**380.37**
January (2021)	381.00
February	381.00
March	381.00
April	381.00
May	397.75
June	404.19
Average	**387.66**

Source: CBN Statistics Department

3.4.2.2 End-Period (Month) Exchange Rates

During the period under review, the naira depreciated by 5.65 per cent to N403.80/US$ at end-June 2021 from N381.00/US$ at end-December 2020. This development was attributed to the foreign exchange adjustment in May 2021.

Though the policy direction of the Bank was to ensure exchange rate stability, persistent pressures have continued to mount in the foreign exchange market.

Table 3.16: End-Month Exchange Rate (N/US$), Jul 2020 – Jun 2021

MONTH	Interbank / MDA
July (2020)	381.00
August	381.00
September	381.00
October	381.00
November	381.00
December	381.00
Average	**381.00**
January (2021)	381.00
February	381.00
March	381.00
April	381.00
May	404.97
June	403.80
Average	**388.80**

Source: CBN Statistics Department

3.4.2.3 Nominal and Real Effective Exchange Rates

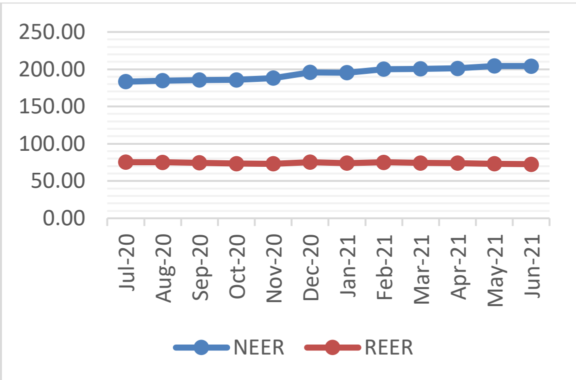
Nominal Effective Exchange Rate (NEER) depreciated by 12.00 per cent to an average of 200.92 in the first half of 2021 from an average of 176.80 in the corresponding period of 2020. It depreciated by 6.81 percent when compared with the average of 187.24 recorded in the preceding half year. On the other hand, the Real Effective Exchange Rate (REER) appreciated by 2.04 per cent to 73.86 in the first half of 2021 compared with an average of 75.37 in the corresponding period of 2020. Furthermore, when compared with the average of 74.57 recorded in the second half of 2020, the REER also appreciated by 0.88 per cent (Table 3.17). The continuous depreciation of the NEER signifies weakening of the domestic currency against the currencies of trading partners, while the appreciation of the REER implies a loss of trade competitiveness with Nigeria's trading partners.

Table 3.17: Average Nominal and Real Effective Exchange Rates Indices (Jan 2020 – Jun 2021)

PERIOD	NEER	REER
20-Jan	176.39	76.97
20-Feb	174.69	75.79
20-Mar	175.12	75.16
20-Apr	176.50	74.89
20-May	176.99	74.17
20-Jun	181.08	75.22
2020: H1 Average	**176.80**	**75.37**
20-Jul	183.31	75.43
20-Aug	184.74	75.2
20-Sep	185.61	74.53
20-Oct	185.68	73.49
20-Nov	188.21	73.2
20-Dec	195.86	75.23
2020: H2 Average	**187.24**	**74.51**
21-Jan	195.41	74.13
21-Feb	200.06	75.05
21-Mar	200.49	74.29
21-Apr	201.12	74.05
21-May	204.31	73.12
21-Jun	204.13	72.52
2021: H1 Average	**200.92**	**73.86**

Source: CBN Statistics Department

Figure: 3.30: Nominal and Real Effective Exchange Rates Indices (July 2020 – June 2021)



Source: CBN Statistics Department

3.4.2.4 Foreign Exchange Flows through the CBN

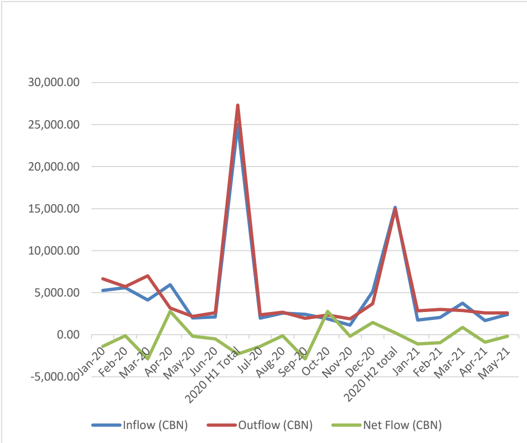
Foreign exchange inflow through the CBN window stood at a total of **US$14,060.38** million as at end of first half of 2021. The inflow diminished by 43.85 per cent from the US$25,039.55 million recorded in the first half of 2020. This was also a decline of $ 1,089.39 million when compared with the US$15,149.77 million recorded in the second half of 2020. Similarly, outflows declined from $27,324.79 million in the first half of 2020 to $17,646.13 million in first half of 2021, indicating a fall in the foreign exchange outflows by $9,678.66 million or 35.42 per cent. The development, however, represented increase of 18.29 percent when compared with the $14,917.55 recorded during the second half of 2020. The result indicated a net outflow of US$-3,585.75 million in the review period compared with the net outflow of US$-2,296.80 million in the corresponding period of 2020 and of $232.22 million in the second half of 2020. The significant and continuous contraction in inflows is influenced by the negative impact of the Covid-19 virus around the world which led to shocks in global markets and fall in forex earnings. On the other hand, outflows of forex during the review period is majorly linked to the continuous pressure on foreign exchange, external debt servicing taking huge portion of the outflow, despite the recovery in crude oil earnings.

Table 3.18: Monthly Foreign Exchange Flows through the CBN (Jan 2020 – Jun 2021)

Period	Inflow CBN	Outflow CBN	Netflow
Jan-20	5,271.65	6,652.58	(1,380.93)
Feb-20	5,594.29	5,722.81	(128.52)
Mar-20	4,121.73	6,997.01	(2,875.28)
Apr-20	5,940.18	3,164.66	2,775.52
May-20	2,006.29	2,187.25	(180.96)
Jun-20	2,105.41	2,600.48	(495.06)
2020H1 Total	**25,039.55**	**27,324.79**	**(2,285.24)**
Jul-20	1,977.68	2,371.01	(393.33)
Aug-20	2,576.38	2,671.52	(95.14)
Sep-20	2,423.87	1,956.65	467.22
Oct-20	1,885.82	2,346.49	(460.67)
Nov-20	1,148.11	1,874.29	(726.17)
Dec-20	5,137.91	3,697.60	1,440.31
2020H2 Total	**15,149.77**	**14,917.55**	**232.22**
Jan-21	1,739.28	2,832.54	(1,093.26)
Feb-21	2,049.31	3,006.56	(957.25)
Mar-21	3,758.90	2,882.18	876.72
Apr-21	1,686.73	2,586.14	(899.41)
May-21	2,418.38	2,614.58	(196.19)
Jun-21	2,407.78	3,724.15	(1,316.37)
2021H1 Total	**14,060.38**	**17,646.14**	**(3,585.75)**

Source: CBN Statistics Department

Figure 3.31: Monthly Foreign Exchange Flows through the CBN (Jan 2020 – Jun 2021)



3.4.2.5 Foreign Exchange Flow through the Economy

Gross foreign exchange inflow through the economy dropped sharply by 32.46 per cent to US$43,460.60 million in the first half of 2021 from US$64,349.51 million in the corresponding first half of 2020. It also decreased by 19.51 per cent when compared with US$51,243.94 million in the second half of 2020. Gross foreign exchange outflows also declined by 34.54 per cent to US$19,051.87 million from US$29,105.12 million in the corresponding period of 2020. Compared with US$15,828.80 million in the second half of 2020, it decreased by 20.36 per cent. This development resulted in a net inflow of US$24,408.73 million in the first half of 2021 compared with US$35,244.39 million in the first half of 2020, and US$35,415.14 million in the second half of 2020.

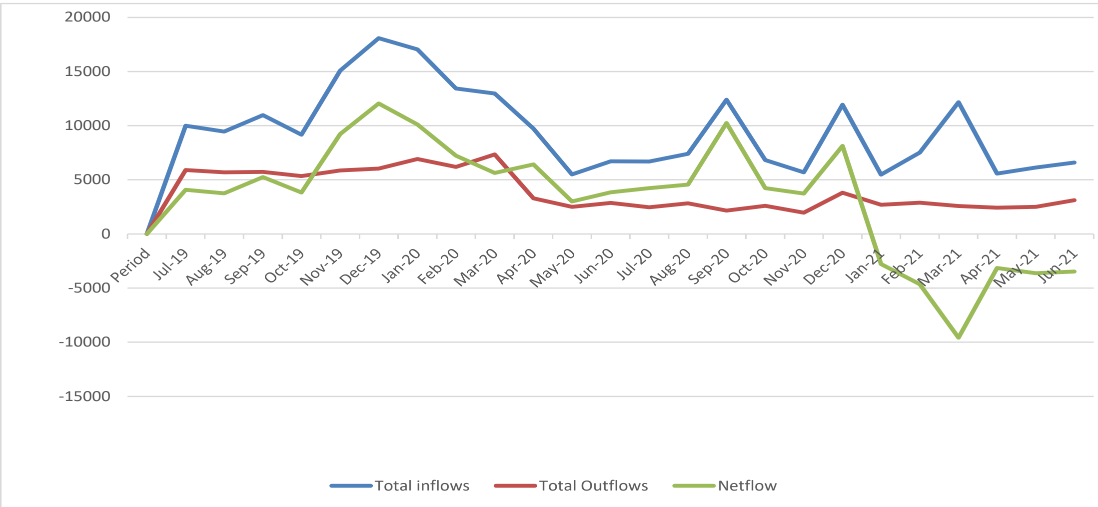
The fall in the gross foreign exchange flows in the economy is attributable to the recent global economic headwinds caused by the Covid-19 pandemic.

Table 3.19: Monthly Foreign Exchange Flows through the Economy (Jan 2020 – Jun 2021) (US$ Million)

Period	Inflow CBN	Outflow CBN	Netflow CBN	Total Inflow	Total Outflow	Total netflow	Inflow Autonomous	Outflow Autonomous	netflow Autonomous
Jan-20	5,271.65	6,652.58	(1,380.93)	17,035.14	6,920.80	10,114.34	11,763.49	268.22	11,495.27
Feb-20	5,594.29	5,722.81	(128.52)	13,395.60	6,196.06	7,199.53	7,801.30	473.25	7,328.05
Mar-20	4,121.73	6,997.01	(2,875.28)	12,096.05	7,333.72	4,762.33	7,974.32	336.71	7,637.61
Apr-20	5,940.18	3,164.66	2,775.52	9,550.81	3,290.00	6,260.81	3,610.63	125.34	3,485.30
May-20	2,006.29	2,187.25	(180.96)	5,564.05	2,503.34	3,060.72	3,557.77	316.09	3,241.68
Jun-20	2,105.41	2,600.48	(495.06)	6,707.86	2,861.21	3,846.65	4,602.44	260.73	4,341.72
2020H1 Total	**25,039.55**	**27,324.79**	**(2,285.24)**	**64,349.51**	**29,105.12**	**35,244.39**	**39,309.96**	**1,780.33**	**37,529.63**
Jul-20	1,977.68	2,371.01	(393.33)	6,684.89	2,461.50	4,223.39	4,707.21	90.49	4,616.72
Aug-20	2,576.38	2,671.52	(95.14)	7,395.38	2,831.65	4,563.74	4,819.01	160.13	4,658.88
Sep-20	2,423.87	1,956.65	467.22	12,393.08	2,158.20	10,234.88	9,969.21	201.55	9,767.65
Oct-20	1,885.82	2,346.49	(460.67)	7,132.53	2,602.91	4,529.63	5,246.72	256.42	4,990.30
Nov-20	1,148.11	1,874.29	(726.17)	5,697.34	1,963.09	3,734.25	4,549.23	88.80	4,460.42
Dec-20	5,137.91	3,697.60	1,440.31	11,940.72	3,811.45	8,129.26	6,802.81	113.86	6,688.95
2020H2 Total	**15,149.77**	**14,917.55**	**232.22**	**51,243.94**	**15,828.80**	**35,415.14**	**36,094.17**	**911.25**	**35,182.92**
Jan-21	1,739.28	2,832.54	(1,093.26)	5,477.94	2,970.63	2,507.31	3,738.67	138.09	3,600.57
Feb-21	2,049.31	3,006.56	(957.25)	7,518.68	3,134.56	4,384.13	5,469.37	128.01	5,341.36
Mar-21	3,758.90	2,882.18	876.72	12,161.33	3,175.42	8,985.91	8,402.43	293.24	8,109.18
Apr-21	1,686.73	2,586.14	(899.41)	5,569.94	2,744.48	2,825.46	3,883.21	158.34	3,724.87
May-21	2,418.38	2,614.58	(196.19)	6,140.01	2,701.34	3,438.67	3,721.62	86.76	3,634.86
Jun-21	2,407.78	3,724.15	(1,316.37)	6,592.70	4,325.45	2,267.26	4,184.92	601.29	3,583.63
2021H1 Total	**14,060.38**	**17,646.14**	**(3,585.75)**	**43,460.60**	**19,051.87**	24,408.73	**29,400.22**	**1,405.75**	**27,994.47**

Source: CBN Statistics Department

Figure 3.32: Monthly Foreign Exchange Flows through the Economy (Jul 2020 – Jun 2021) (US$ Million)



Source: CBN Statistics Department

3.4.3 Capital Market

In the first half of 2021, the Nigerian capital market was bearish, primarily driven by the equities segment of the market, which was a reflection of waning investors' confidence. This was mainly attributable to security concerns and weak macroeconomic fundamentals such as, uptick in inflation and declining reserves, which caused significant capital outflow. Attractive yield in the money market also caused investors to take precautionary measures. These factors led to significant selloffs in the Nigerian Capital Market, as several investors exited the market. In the bonds market, real yields declined progressively, as inflation inched up.

3.4.3.1 Equities Market

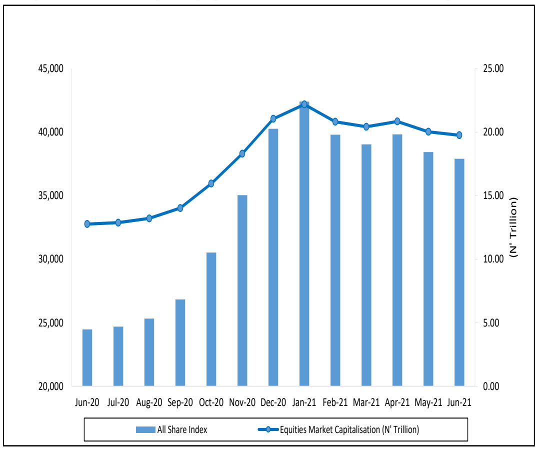
The All-Share Index (ASI) decreased by 5.87 per cent from 40,270.72 at end-December 2020 to 37,907.28 at end-June 2021. However, this represented an increase of 54.85 per cent from 24,479.22 at end-June 2020. Market capitalization (MC) also decreased by 6.17 per cent from ₦21.06 trillion at end-December 2020 to ₦19.76 trillion at end-June 2021. When compared with the corresponding period of 2020, MC increased by 54.74 per cent from ₦12.77 trillion.

Table 3.20: NSE All-Share Index (ASI) and Market Capitalization (MC) (June 2020 – June 2021)

Date	ASI	MC(Equities) N'Trillion)
Jun-20	24,479.22	12.77
Jul-20	24,693.73	12.88
Aug-20	25,372.13	13.21
Sep-20	26,831.76	14.02
Oct-20	30,530.69	15.96
Nov-20	35,042.14	18.31
Dec-20	40,270.72	21.06
Jan-21	42412.66	22.19
Feb-21	39799.89	20.82
Mar-21	39045.13	20.43
Apr-21	39834.42	20.85
May-21	38437.88	20.03
Jun-21	37907.28	19.76

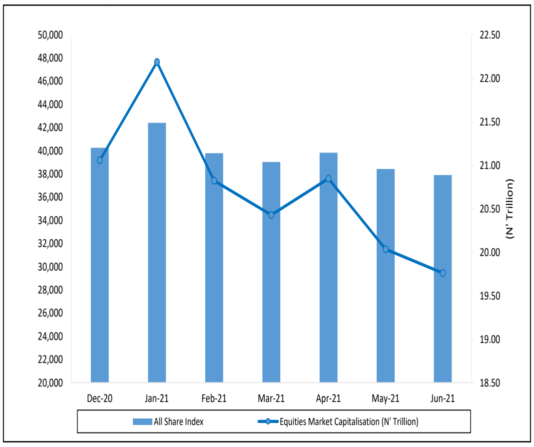
Source: Nigerian Exchange Group

Figure 3.33: NSE All Share Index (ASI) and Market Capitalization (MC) (June 2020 - June 2021)



Source: Nigerian Exchange Group

Figure 3.34: NSE ASI and MC (December 2020 – June 2021)



Source: Nigerian Exchange Group

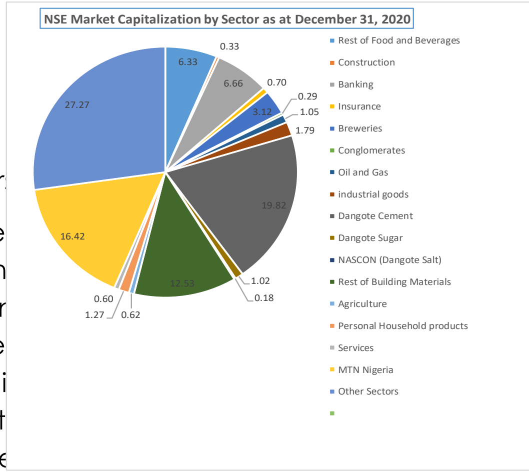
3.4.3.1.2 Market Turnover

Aggregate stock market turnover in the fir half of 2021 stood at 48.37 billion share valued at ₦483.57 billion in 553,828 deals. Th represents a decrease of 12.05 per cer when compared to 55.00 billion share valued at ₦534.07 billion in 586,534 deals i the second half of 2020. However, aggregat stock market turnover increased by 15.41 pe cent on a year-on-year basis from 41.91 billion shares, valued at ₦495.65 billion in 567,184 deals as at end June 2020.

3.4.3.1.3 Sectoral Contribution to Equity Market Capitalization

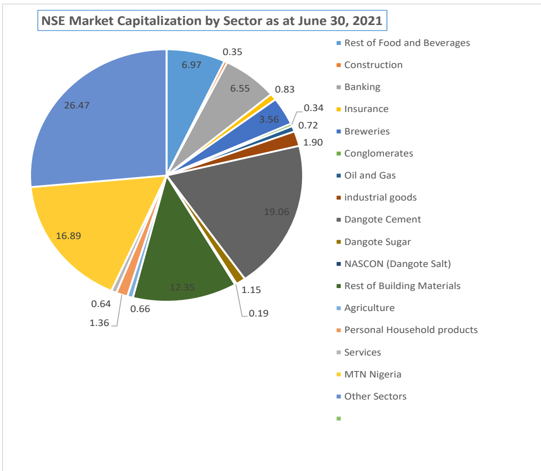
In the review period, market capitalization was dominated by 'Other Sectors', which comprise a few major participants trading on the Nigerian Stock Exchange. However, the sector's contribution decreased from 27.27 per cent of market capitalization as at end-December 2020 to 26.47 per cent at end-June 2021. The dominance of 'Other Sectors' could be attributable to the introduction of telecommunications companies on the exchange, as they are categorized in this sector. In addition, sectors that contributed significantly to overall market capitalization were Banking and Food & Beverages, with market shares of 6.55 per cent and 6.97 per cent respectively, at end-June 2021.

Figure 3.35: NSE Market Capitalization by Sector as at End-December 2020



Source: Nigerian Exchange Group

Figure 3.36: NSE Market Capitalization by Sector as at End-June 2021



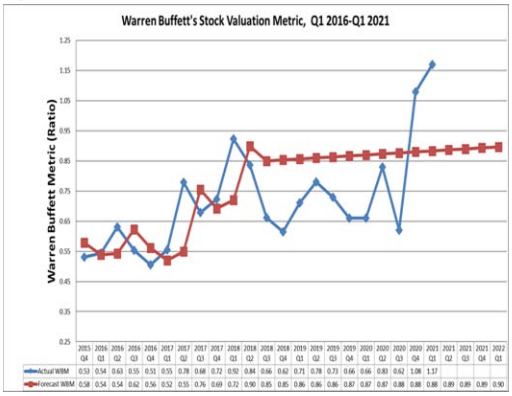
Source: Nigerian Exchange Group

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

The Nigerian equities market was moderately undervalued during the review period, based on the Warren Buffett valuation metric.

The average valuation metric from 2016Q1 to 2021Q1 is 0.73, indicating that the stock market in Nigeria is modestly undervalued. The average forecast valuation metric from 2016Q1 to 2022Q1 is 0.78, which suggests that the stock market is fairly undervalued for the forecast period. The variation of the actual from forecast for Q12021 was 0.29, which is within the tolerance level.

Figure 3.37: Warren Buffett Valuation of Nigerian Equities Market



Source: NGX, NBS

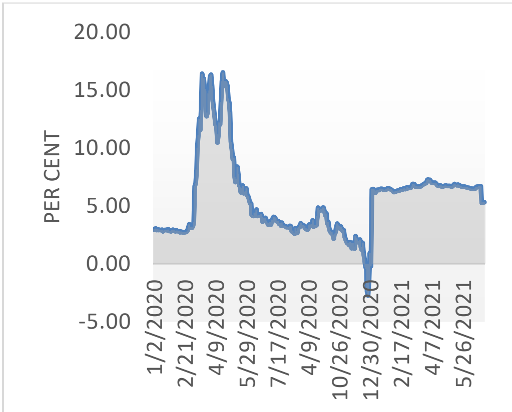
3.4.3.2 Bond Market

Activities in the bond market were dominated by Federal Government of Nigeria (FGN) securities in the first half of 2021. There were also some activities in the State/Municipal bonds and corporate bond segments of the market, with the former recording the least share by market volume.

3.4.3.2.1 FGN Bonds

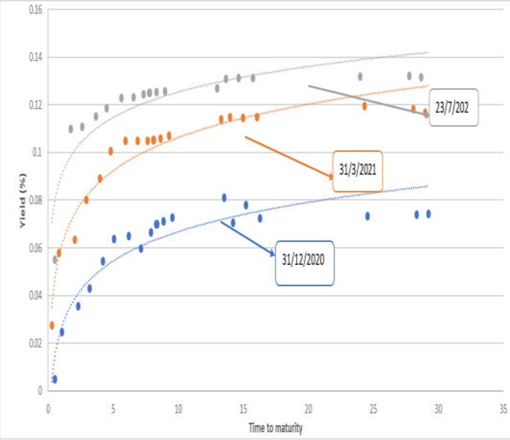
The 10-year dollar-denominated bond yields for Nigeria increased by 511 basis points to 5.31 per cent at end-June 2021, from 0.20 per cent at end-December 2020. It increased by 157 basis points when compared with 3.74 per cent at end-June 2020 (Figure 3.38).

Figure 3.38: 10-Year U.S. Dollar-denominated Bond Yield for Nigeria (January 2020 – June 2021)



The yield curve for June 2021 increased at both the short and long ends of the curve. However, in comparison with the preceding period, the long end of the curve increased at a slower pace, as shown by the somewhat flattened long end. The positive development at the short end reflects high liquidity level within the banking system. On the other hand, the flat long end suggests that investors find the long-term bonds less attractive.

Figure 3.39: FGN Bond Yield Curves: December 31st, 2020 Vs. March 31st, 2021 and July 23rd, 2021



Data Source: FMDQ

3.4.3.2.2 State/Local Government Bonds

The sub-national bonds market continued to record low activities during the review period. The total value of outstanding state/local governments bonds decreased by 23.36 per cent from ₦270.80 billion as at end-December 2020 to ₦207.55 billion at end June 2021. Similarly, it was lower, when compared with ₦369.69 billion recorded at end-June, 2020.

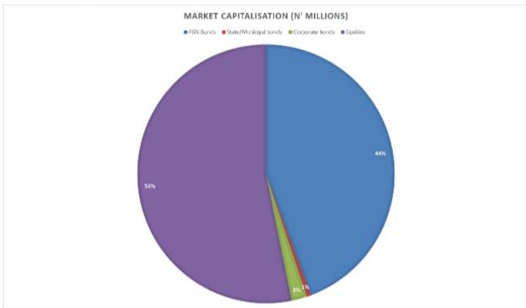
3.4.3.2.3 Corporate Bonds

Activities in the corporate bonds segment increased during the review period. The value of outstanding corporate bonds increased by 41.23 per cent from ₦507.75billion to ₦717.08 billion in the first half of 2021. This development could be associated with increased activities in the sovereign bond market.

3.4.3.3 Overall Analysis of the Nigerian Capital Market

The value of FGN bonds decreased by 1.57 per cent to ₦16.46 ₦ trillion at end-June 2021 from ₦16.72 trillion at end-December 2020 and higher than the ₦13.78 trillion recorded as at end-Dec 2020. FGN bonds accounted for 44.30 per cent of aggregate market capitalization as at end-June 2021. The value of state/municipal bonds and corporate bonds were ₦207.55 billion and ₦717.08 billion accounting for 0.56 and 1.93 per cent of aggregate market capitalization, respectively. Supranational bond was however, not reported during the review period. The equities market contributed 53.20 per cent of aggregate market capitalization as at end-June 2021, while FGN bonds, state/municipal bonds, corporate bonds and supranational bonds accounted for the balance of 46.80 per cent (Figure 3.40).

Figure 3.40: Structure of the Nigerian Capital Market (June 2021)



CHAPTER FOUR

ECONOMIC OUTLOOK AND RISKS

4.1 Outlook for Global Output

Recovery levels across regions and nations remained uneven mainly because of differences in policy measures across countries and regions, the disparity in levels of income damage incurred as well as the severity of the public health pandemic. Global growth forecast for 2022 is expected to moderate to 4.9 per cent from 6.0 per cent in 2021. In the medium term, supply chain challenges as well as labor market constraints resulting from an ageing population in the advanced economies will shape the growth outlook for the global economy. GDP levels are projected to remain well below the pre-pandemic trajectory through 2024 for most countries.

In the advanced economies, output is forecast to moderate to 4.9 per cent in 2022 from 6.0 per cent in 2021. Within the group, different economies are confronted with various headwinds which affect the path to recovery. In the United States, output growth is projected to moderate to 4.4 per cent in 2022 from 5.6 per cent, as activities begins to return to pre-pandemic level. In the euro area, growth is forecast to moderate 4.3 per cent in 2022 from the estimated 4.6 per cent in 2021. Similarly, output growth in the United Kingdom is projected to moderate to 4.8 per cent in 2022 from 7.0 per cent in 2021, while the Japanese economy is forecast to improve to 3.0 per cent in 2022 from estimated growth of 2.8 per cent in 2021. In the Emerging Markets and Developing Economies (EMDEs), output is forecast to moderate at 5.2 per cent in 2022 from 6.3 per cent in 2021. The projection is premised on slow level of vaccination against COVID-19, expectation for tighter global financial conditions as central banks of advanced economies forge ahead with monetary policy normalization, amongst others. Consequently, the Chinese economy is projected to grow at 5.7 per cent in 2022, a moderation compared with the estimated growth of 8.1 per cent in 2021. Similarly, output growth in India for 2022 is forecast at 8.5 per cent from 9.5 per cent in 2021. The Brazilian economy is also projected to moderate to 1.9 per cent in 2022 from 5.3 per cent in 2021.

In Sub-Sahara Africa, growth is forecast to improve 4.1 per cent in 2022 from 3.4 per cent in 2021, owing to strong commodity prices, improvement in non-oil sector, rising public and private demand as well as increased vaccination against COVID-19 and other variants. Strong demand and prices of commodity is expected to boost output growth in Nigeria at 2.6 per cent in 2022 from 2.5 per cent in 2021. The South African economy is, however, forecast to moderate to 2.2 per cent from 4.0 per cent in 2021.

Table 4.1 Global Output and Inflation Outlook

	2017	2018	2019	2020	2021*	2022*
A. World Output						
World Output	3.7	3.6	2.8	-3.2	6.0	4.9
Advanced Economies	**2.3**	**2.2**	**1.6**	**-4.6**	**5.6**	**4.4**
USA	2.2	2.9	2.2	-3.5	7.0	4.9
Euro Area	2.4	1.9	1.3	-6.5	4.6	4.3
Japan	1.7	0.3	0.3	-4.7	2.8	3.0
UK	1.7	1.3	1.4	-9.8	7.0	4.8
Canada	3	2	1.9	-5.3	6.3	4.5
Other Advanced Economies	2.6	2.7	1.8	-2.0	4.9	3.6
Emerging & Developing Economies	**4.7**	**4.5**	**3.6**	**-2.1**	**6.3**	**5.2**
Latin America and the Caribbean	1.3	1.1	0.2	-7.0	5.8	3.2
Middle East and Central Asia Africa	2.2	2.4	0.8	-2.6	4.0	3.7
Sub-Saharan Africa	2.7	3.2	3.2	-1.8	3.4	4.1
B. Commodity Prices (US' Dollars)						
Oil	23.3	29.4	-10.2	-32.7	56.6	-2.6.3
Non-fuel	6.8	1.3	0.8	6.7	26.5	-0.8.9
C. Consumer Prices						
Advanced Economies	1.4	2	1.4	0.7	2.4	2.1.7
Emerging & Developing Economies	4.3	4.8	5.1	5.1	5.4	4.7.4

Source: IMF WEO, July 2021
***Forecast**

4.2 Outlook for Global Inflation

According to the IMF's World Economic Outlook (July 2021 update), global price pressures reflect unusual pandemic-related developments and transitory supply-side constraints. Inflation is expected to return to its pre-pandemic ranges in most countries in 2022 once these supply side distortions ease and pent-up demand is resolved.

In the advanced economies, inflation is expected to rise to 2.4 per cent in 2021 from 0.7 per cent in 2020 and then moderate to 2.1 per cent in 2022. In the US, inflation is projected to rise from 2.3 per cent in 2021 to 2.4 per cent in 2022. In the Euro area, inflation was expected to rise to 1.4 per cent in 2021 from 0.3 per cent in 2020 and moderate to 1.2 per cent in 2022. In Japan, inflation was estimated rise to 0.1 per cent in 2021 from 0.0 per cent in 2020 then to 1.0 per cent in 2022.

In the emerging market and developing economies, inflation is expected to rise to 5.4 per cent in 2021 from 5.1 per cent in 2020 before moderating to 4.7 per cent in 2022 (WEO, July 2021). In China, inflation is projected to moderate to 1.2 per cent in 2021 from 2.4 per cent in 2020 then rise to 1.9 per cent in 2022 (WEO, April 2021). In Russia, inflation was projected to rise to 4.5 per cent in 2021 from 3.4 per cent in 2020 and decline to 3.4 per cent in 2022. Inflation in India was expected to moderate to 4.9 per cent in 2021 from 6.2 per cent in 2020 and further to 4.1 per cent in 2022.

The projections for Inflation in Sub-Saharan Africa shows that inflationary pressure would moderate due largely to rising commodity prices, with attendant positive impact on exchange rate stability. Consequently, inflation was projected to decline to 9.8 per cent in 2021 from 10.8 per cent in 2020 and further to 7.8 per cent in 2022. Inflation in Nigeria was, however, projected to rise to 16.0 per cent in 2021 from 13.2 per cent in 2020 before moderating to 13.5 per cent in 2022. Similarly, inflation in South Africa was estimated to rise to 4.3 per cent in 2021 from 3.3 per cent in 2020 and further to 4.5 per cent in 2022.

4.3 Outlook for Domestic Output Growth

The domestic economy is expected to consolidate on its recovery through the second half of 2021. This is premised on the gradual return to normalcy as restrictions to control the spread of the COVID-19 pandemic are relaxed, following the commencement of the vaccination programme. In addition to this, monetary and fiscal stimuli have continued unabated with improved global oil and other commodities prices helping to boost government revenue and spending capacity. The major headwind to output growth in the second half of 2021 is the persistence of the COVID-19 pandemic as new variants of the virus continue to emerge. This risk is further heightened by the limited supply of vaccines as well as hesitancy to get vaccinated by a large number of people. Other downside risks to growth include: the rising level of insecurity; unabating foreign exchange pressure and inflation pass-through to domestic prices; capital flow reversals; infrastructure deficit; rising public debt; and narrowing fiscal space.

Based on these developments, the Central Bank of Nigeria (CBN) forecasts real GDP to grow by 2.18 and 2.62 per cent in the third and fourth quarters of 2021, respectively, while annual real GDP growth for 2021 is estimated at 1.70 per cent from a contraction of 1.92 per cent in 2020. The projection for real GDP growth was based on an assumption of US$65 per barrel crude oil prices.

Table 4.2: Scenarios of Nigeria's GDP growth outlook

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7
2020 Q2	(6.10)	(6.10)	(6.10)	(6.10)	(6.10)	(6.10)	(6.10)
2020 Q3	(3.62)	(3.62)	(3.62)	(3.62)	(3.62)	(3.62)	(3.62)
2020 Q4	0.11	0.11	0.11	0.11	0.11	0.11	0.11
2021 Q1	0.51	0.51	0.51	0.51	0.51	0.51	0.51
2021 Q2f	0.97	1.16	1.33	1.49	1.64	1.77	1.90
2021 Q3f	1.83	1.96	2.07	2.18	2.28	2.37	2.46
2021 Q4f	2.33	2.44	2.53	2.62	2.70	2.78	2.85

Source: CBN Staff Estimates

4.4 Outlook for Domestic Inflation

CBN Staff estimates suggest that year-on-year headline inflation is expected to moderate in the short-term, falling from 17.75 per cent in June 2021 to 16.08 and 13.98 per cent in September and December 2021, respectively.

The forecast suggests that near-term upside risks to inflation remains a combination of monetary and structural factors, including the continuing impact of the COVID-19 pandemic on the economy, exchange rate pressures, capital flow reversals, food shortages due mainly to insecurity/banditry in agricultural producing areas of the country and increasing fiscal deficits. Other factors which could potentially impart upward pressure on inflation include: increased fiscal/quasi fiscal interventions, loose stance of monetary policy, lingering effects of upward adjustment of fuel pump price and electricity tariffs, implementation of the new minimum wage and VAT increase. As the Bank continues to manage liquidity conditions in the domestic economy, inflationary developments will be monitored to ensure that the risks to inflation and growth are minimized.

Table 4.3: Inflation Forecast

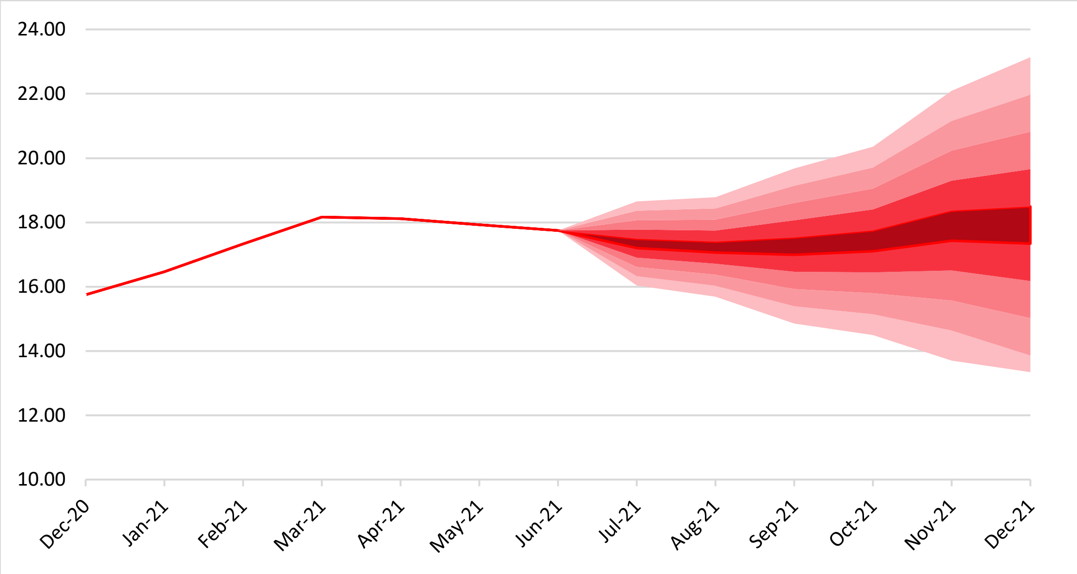
YEAR-ON-YEAR INFLATION RATE

Status	Month	Headline inflation	Food inflation	Core inflation
Actual	Jan-20	16.47	11.85	20.57
	Feb-20	17.33	12.38	21.79
	Mar-20	18.17	12.67	22.95
	Apr-20	18.12	12.74	22.72
	May-20	17.93	13.15	22.28
	Jun-20	17.75	13.09	21.83
Forecast	Jan-2021	16.52	11.70	12.63
	Feb-2021	16.81	12.10	13.06
	Mar-2021	17.09	11.79	13.01
	Apr-2021	17.01	11.98	13.39
	May-2021	17.16	12.06	13.45
	Jun-2021	17.15	12.09	13.54
	Jul-20	17.55	12.94	21.50
	Aug-20	17.28	12.73	21.11
	Sep-20	17.03	12.62	20.65
	Oct-20	16.76	12.40	20.33
	Nov-20	16.41	12.17	19.97
	Dec-20	16.03	11.94	19.64

12-MMA INFLATION RATE

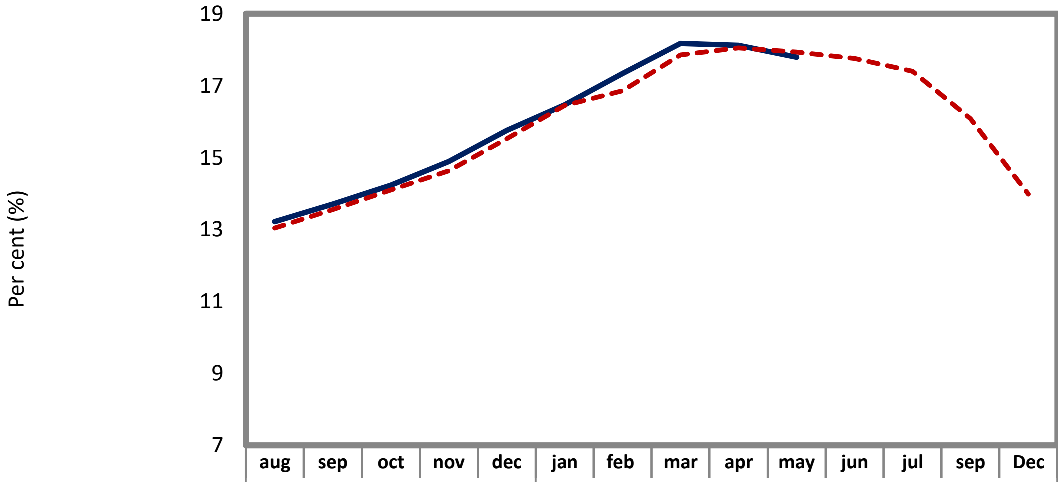
Status	Month	Headline inflation	Food inflation	Core inflation
Actual	Jan-20	1.49	1.26	1.83
	Feb-20	1.54	1.21	1.89
	Mar-20	1.56	1.06	1.90
	Apr-20	0.97	0.99	0.99
	May-20	1.01	1.24	1.05
	Jun-20	1.06	0.81	1.11
Forecast	Jan-2021	1.54	1.12	1.62
	Feb-2021	1.04	1.09	0.96
	Mar-2021	1.08	0.53	1.54
	Apr-2021	0.95	1.09	1.09
	May-2021	1.29	0.95	1.49
	Jun-2021	1.20	0.89	1.37
Forecast	Jul-20	1.08	0.61	1.25
	Aug-20	1.11	0.86	1.35
	Sep-20	1.26	0.85	1.49
	Oct-20	1.30	1.04	1.69
	Nov-20	1.30	0.51	1.74
	Dec-20	1.29	0.90	1.77

Figure 4.1: Fan Chart of Inflation Forecast



Source: CBN Staff Estimates

Figure 4.2: Inflation Forecast



	aug	sep	oct	nov	dec	jan	feb	mar	apr	may	jun	jul	sep	Dec
						2021								
Actual	13.22	13.71	14.23	14.89	15.75	16.47	17.33	18.17	18.12	17.79				
Inflation forecast	13.04	13.55	14.10	14.63	15.52	16.44	16.86	17.85	18.05	17.93	17.76	17.4	16.08	13.98

Source: CBN Staff Estimates

4.5 The Outlook for Monetary Policy in the Second Half of 2021

Monetary Policy formulation and implementation by the Bank in the second half of 2021 will continue to be shaped by the short to medium-term outlook for price development. This is to help the Bank manage market expectations. The short to medium-term outlook will also serve as a guide to ensure that the Bank strikes a balance between the price stability objective and its developmental functions.

The Bank will continue to monitor developments in the global economy so as to fine-tune the direction of monetary policy in the short to medium term. The continued slower-than-anticipated roll-out of COVID-19 vaccines, is a huge downside risk to global output recovery as it could provide the environment for further mutation of the virus. Global financial conditions may also tighten with the persistent rise in consumer price levels, particularly among the advanced economies. The outcome of this would be an increase in borrowing costs for a significant number of emerging markets and developing economies. The IMF, projects global growth at 6.0 per cent in 2021 and 4.9 per cent in 2022 (WEO, July 2021). In the advanced economies, the recovery is projected to remain significantly upbeat due to the high rate of vaccination which has aided the full reopening of economic activities. In the EMDEs, there is a projected decline in output growth as the rollout of vaccines remains modest. Equitable distribution of vaccines and their administration is therefore required to achieve a more balanced global recovery.

In the domestic economy, both food and core inflation remain high, owing to the high cost of food associated with supply chain disruptions, insecurity and legacy structural issues including the high cost of energy, transport, and production inputs. In addition to this, monetary policy is expected to continue to face challenges due to the high level of fiscal and monetary stimuli deployed to ease the impact of the pandemic. The persisting exchange rate pressure, high cost of liquidity management, financial market volatility and constrained credit growth are also significant constraints to the smooth transmission of monetary policy. The rising cost of energy and the expectation of continued rise in the medium to long term, also have adverse consequences for price stability. Monetary policy however, remains focused on achieving stable prices conducive for economic growth.

4.6 The Risks to the Outlook

4.6.1 Risks to The Global Output Projection

Global economic output growth is confronted with numerous risks and uncertainties in the first half of 2021. The major risk is associated with the extent to which countries can manage the re-occurrence of new waves of the COVID-19 pandemic. Most of economies recorded a rebound in output growth, after several quarters of recession.

Over 3 billion doses of COVID-19 vaccines are already administered globally as at the end of June 2021, thus improving the prospect of sustained output recovery towards the end of the year. As such, global output is projected to grow at 6.0 per cent in 2021 and moderate to 4.9 per cent in 2022. The improved recovery across various economies has, however, been uneven, depending on policy responses of individual countries and the progress of COVID-19 vaccination.

In the emerging markets and developing economies, the pickup in economic growth was constrained, essentially by the high incidence of COVID-19 and reduced macroeconomic support to ease the impact of the pandemic. The risk of the emergence of new variants of the virus is likely to extend the duration of the pandemic in this group of economies. In addition, the growing likelihood of an early return to monetary policy normalization by the advanced economies poses a significant threat to financial stability.

In Sub-Sahara Africa, output is confronted with significant downside risks due to the weak policy response in combating the pandemic. While the facilities required for the distribution of COVID-19 vaccines have been upgraded in Nigeria, South Africa and Ghana, most countries in the region are still experiencing delays in procurement and logistics. Another prevalent risk in the region is the scepticism to the vaccine expressed by a large number of people.

4.6.2 Risks to Domestic Output

According to the IMF (July 2021 WEO update), the Nigerian economy is forecast to grow by 3.4 per cent in 2021 and improve to 4.1 per cent in 2022, following a contraction of 1.8 per cent in 2020. The projection is anchored on improved performance of both the oil and non-oil sectors of the economy. The oil sector is expected to improve based on an expectation of rising global demand as the economies continue to re-open and production picks up. The non-oil sector is expected to sustain its recovery due to sustained intervention by both the fiscal and monetary authorities to support the recovery. However, the risk to the outlook remains the re-emergence of new and more deadly strains of the COVID-19 virus, legacy structural factors and security challenges which continued to hamper the full recovery of output growth.

4.6.3 Risks to Domestic Inflation Outlook

Headline inflation has remained consistently above the upper band of the Central Bank of Nigeria's inflation target range of 6.0-9.0 per cent, despite the Bank's monetary policy measures and interventions.

Supply shortages in farming communities, resulting from banditry and kidnapping; lingering supply chain disruptions as a result of insecurity along major logistic channels and poor road networks connecting farming communities to markets in major towns and cities; the general increase in insecurity in both urban and rural areas; and seasonal shocks are some of the factors putting upward pressure on domestic prices. The expectation of further increases in petrol pump prices, as well as the exchange rate pass-through, are also exerting upward pressure on the general price level.

Rising unemployment and future uncertainty associated with the pandemic, Nigeria's deteriorating security situation, poor state of public infrastructure, and other structural issues, are further depressing consumer confidence and business expectations. The risks to domestic prices would be regularly assessed and managed to ensure that the Bank's objective of price stability conducive to sustainable economic growth is achieved.

APPENDICES

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 134 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 25th AND TUESDAY 26th JANUARY 2021

1.0 Background

The Monetary Policy Committee (MPC) held its first statutory meeting for the year 2021 on the 25th and 26th January on the backdrop of dampened optimism for improvement in global output recovery, associated with the resurgence of the COVID-19 pandemic and mild success with vaccinations across several countries. On the domestic front, recovery is expected to progress reasonably, following the mild contraction recorded during the third quarter of 2020 and with fourth quarter output growth figures expected to show further improvement. The Committee reviewed the developments in the global and domestic economic and financial environments in 2020 and the outlook for 2021 as well as the risks to this outlook.

Ten (10) members of the Committee were in attendance.

Global Economic Developments

The Committee noted a better-than-expected recovery in most economies towards the end of 2020, leading to moderation in the contraction of global output. It, however, observed that the rapid spread of the new variant of the Coronavirus, seemingly associated spike in fatalities and the recent re-introduction of containment measures across several economies, may dampen the recovery in 2021. In the Advanced Economies, headwinds largely associated with the COVID-19 pandemic such as vaccination-related challenges, weak aggregate demand associated with less than full employment in labour markets, partially functioning supply chain networks, the rapid spread of the new variant of the Coronavirus and a high infection rate dampened the initial rebound in economic recovery towards the end of 2020.

Output growth in the Emerging Market and Developing Economies (EMDEs) remained uneven across countries. In China, output slowed marginally in the third and fourth quarters of 2020, following a faster-than-expected rebound in the second quarter of 2020. Following the lull in the second quarter, India's economy grew sharply in the third quarter, reflecting welcome adjustment to the stimulus measures. Accordingly, the International Monetary Fund (IMF) estimated global growth in 2020 as a contraction of 4.4 per cent and forecast growth in 2021 to improve to 5.2 per cent. This forecast is however, hinged on the successful vaccination of a significant number of people to create the much-desired herd immunity. On price developments, the MPC noted that inflation, in most Advanced Economies, is likely to remain subdued in the short to medium term as the recent rise in COVID-19 infection and mortality rates have resulted in sub-optimal employment and weakened labour markets, which dampened aggregate demand across these economies. In the EMDEs, however, inflation remains relatively high compared with the Advanced Economies, with some economies confronted with stronger upside risks than others, as a result of weak accretion to reserves, persisting exchange rate pressures, poor inflow of capital as well as longstanding structural issues.

The MPC noted the steady build-up of systemic liquidity across the global economy, arising from the support by fiscal authorities and central banks to bolster the recovery and return confidence to the financial markets. It noted that the response to the pandemic has heightened the risk of debt accumulation, raising concerns of debt sustainability and vulnerability of the global economy to financial crisis once central banks commence normalization of monetary policy.

Domestic Economic Developments

Real Gross Domestic Product (GDP), according to the National Bureau of Statistics (NBS), contracted by 3.62 per cent in Q3 2020, compared with 6.10 per cent in Q2 2020 and a growth of 2.28 per cent in the corresponding period of 2019. The real GDP contraction in Q3 2020 was largely driven by the decline of 13.89 per cent in the oil sector from 6.63 per cent in Q2 2020. The non-oil sector also contracted by 2.51 per cent in Q3 2020, compared with 6.05 per cent in Q2 2020. The weak performance observed in both the oil and non-oil sectors was largely attributed to the lag effects of the lockdown, persisting weak global demand for crude oil and security challenges across the country.

The MPC noted with concern the continuing sluggish recovery in the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMIs), which remained below the 50-index point benchmark in December 2020, at 49.6 and 45.7 index points, respectively, compared with 50.2 and 47.6 index points during the previous month. This weak performance was attributed to the resurgence of the pandemic, foreign exchange pressures, increased costs of production, general increase in prices and decline in economic activities. Similar trend was also observed in the employment level index component of the manufacturing and non-manufacturing PMIs, which contracted for the ninth consecutive month in December 2020 to 46.3 and 45.1 index points, respectively, compared with 50.2 and 46.7 index points in the previous month. The Committee, however, noted that current growth headwinds would likely moderate in the short to medium term, as the containment measures and the sustained implementation of economic stimulus permeate the domestic economy.

The Committee expressed concerns on the persisting uptick in inflationary pressure for the sixteenth consecutive month, with headline year-on-year inflation moving further to 15.75 per cent in December 2020 from 14.89 per cent in November 2020. This uptick was attributed to the increase in both the food and core components of inflation, which rose to 19.56 and 11.37 per cent in December 2020, respectively, from 18.30 and 11.01 per cent in November 2020. This continued upsurge in food inflation was attributed to the logistical bottlenecks, spurred by the increasing security challenges in many parts of the country, which disrupted food production and supply to the market. Other factors driving the core inflation, include the recent deregulation of the downstream sector of the oil industry, which led to hikes in the price of Premium Motor Spirit (PMS) and the upward adjustment in electricity tariff. The Committee, however, noted that as output rebounds, supported by the suites of stimulus packages by both the Federal Government and the Central Bank, inflationary pressure would likely begin to moderate in the near term.

On the performance of monetary aggregates, the Committee noted the further growth in broad money supply (M3) to 10.97 per cent in December 2020 from 5.02 per cent in November 2020, driven largely by the growth in Net Foreign Assets. It also noted the expansion in Net Domestic Assets (NDA) to 4.96 per cent from -0.45 per cent in the previous period. Aggregate domestic credit, also moved further up by 13.40 per cent in December 2020, compared with 9.48 per cent in the previous month. This was largely attributed to the Bank's policy on Loan-to-Deposit Ratio (LDR), complemented by its interventions in various sectors of the economy. Consequently, banking sector gross credit as at end-December 2020 stood at N25.02 trillion compared with N24.25 trillion at the end of November 2020, representing an increase of N774.28 billion.

Under the Bank's real sector interventions, under the Anchor Borrowers Programme (ABP), N554.63 billion had been disbursed to 2,849,490 beneficiaries since the inception of the programme, of which N61.02 billion was allocated to 359,370 dry season farmers.

In light of the on-going synchronized efforts by the monetary and fiscal authorities to mitigate the impact of the COVID-19 pandemic, the Bank has committed substantial amount of money towards this objective. Indeed, total disbursements as at January 2021 amounted to N2.0 trillion. COVID-19 Targeted Credit Facility (TCF) meant for household and small businesses, wherein we have disbursed N192.64 billion to 426,016 beneficiaries. We have also disbursed N106.96 billion to 27,956 beneficiaries under the Agri-Business Small and Medium Enterprises Investment Scheme (AGSMEIS), while in the Health Care Support Intervention Facility, we have disbursed N72.96 billion to 73 project that comprise 26 pharmaceutical projects and 47 Hospitals and Health Care Services Project in the country. To support the provision of employment opportunities for the Nigerian youth, the Central Bank of Nigeria also provided financial support through the Creative Industry Financing Initiative and Nigerian Youth Investment Fund amounting to N3.12

billion with 320 beneficiaries and N268 million with 395 beneficiaries, respectively. On enhancing power supply, the Bank has so far, provided N18.58 billion for the procurement of 347,853 electricity reading meters to Discos in support of the National Mass Metering Programme.

The Committee urged the Bank to sustain its current drive to improve access to credit to the private sector while exploring other complementary initiatives, in collaboration with the Federal Government, to improve funding to critical sectors of the economy.

During the period under review, money market rates remained low, reflecting the prevailing liquidity conditions in the banking system. Overall, the monthly weighted average Open Buy Back (OBB) rates declined further from the 1.13 per cent in November 2020 to 1.09 per cent in December 2020.

On the equities market, the Committee noted the positive performance, particularly the sustained patronage by domestic investors largely driven by the prevailing low yields in the money market. The All-Share Index (ASI) increased by 1.82 per cent to 41,001.99 points as at 22nd January, 2021 from 40,270.72 points on 31st December, 2020. Similarly, Market Capitalization (MC) grew by 1.80 per cent to N21.44 trillion from N21.06 trillion over the same period. This improved performance was largely attributed to gains recorded in medium and large capitalized companies, notably in consumer goods, banking, insurance and oil and gas sectors.

The Monetary Policy Committee (MPC), however, noted the marginal increase in the Non-Performing Loans (NPLs) ratio which rose to 6.01 per cent at end-December 2020 from 5.88 per cent at end-November 2020 and above the prudential maximum threshold of 5.0 per cent. While noting that this development is not unexpected under the prevailing circumstances, it urged the Bank to strengthen its macroprudential framework to bring NPLs below the prescribed benchmark.
On the external reserves position, the Committee noted the increase in the level of external reserves, which stood at US$36.23 billion as at 21st January, 2021 compared with US$34.94 billion at the end of November 2020. This reflected improvements in crude oil prices, partial global economic recovery amid optimism over the discovery and distributions of COVID-19 vaccines by most developed economies.

Outlook

Overall, the medium-term outlook for both the domestic and global economies continued to show improved prospects of recovery, supported by the recent moderate uptick in crude prices and increased optimism over the procurement and distribution of COVID-19 vaccines.

Available data and forecasts for key macroeconomic variables for the Nigerian economy suggest further improvement in output growth in the first quarter of 2021. This would be supported by the coordinated and sustained interventions of the monetary and fiscal authorities, including the broad-based stimulus and liquidity injections. Inflationary pressure is also expected to commence moderation as the economy's negative output gap closes. However, underlying uncertainties in the oil market and current uptick in the second wave COVID-19 infection rate may pose some downside risks to this forecast.

The Committee's Considerations

The Committee noted the moderation in output contraction in the third quarter of 2020, associated with news of the discovery of COVID-19 vaccines and rising oil prices. The outlook for the recovery, however, appears to be dampened by the second wave of the pandemic considering its intensity.

In the Committee's consideration, it noted that the COVID-19 pandemic and the necessary measures put in place by the Government to forestall its public health impact, such as the lockdown and other associated restrictions, contributed to the Nigerian economy going into recession, much like almost every other country in the world. Members thus agreed that the Committee's current priority remains to quicken the pace of the recovery through sustained and targeted spending by the fiscal authority supported by the Bank's interventions. In this light, it was thought necessary to increase collaboration with the fiscal authority by providing complementary spending to finance productive ventures in a bid to improve aggregate supply and reduce prices. This is in addition to effectively collaborating with the Presidential Task Force on COVID-19 through the existing private sector Coalition against COVID-19 (CACOVID) to procure and distribute vaccines to fast-track the pick-up of business activities and economic recovery.

Members reiterated the adverse impact of insecurity on food production, stressing that the current uptick in inflationary pressure could not be solely associated to monetary factors, but due mainly to legacy structural factors across the economy, including major supply bottlenecks across the country. The Committee, thus called on the Government to redouble efforts at strengthening infrastructural efficiency and address the emerging security challenges in the country. In addition to this, the Committee called on the Government to explore the option of effective partnership with the private sector to improve funding sources necessary to address the huge infrastructural financing deficit. The Committee expressed concern over the rising public debt stock, as recurrent expenditure remained relatively high, compared with capital expenditure, thus, signalling future debt servicing challenges.

To improve Government revenue sources and investment in capital, the Committee called on the Government to take advantage of the take-off of the

African Continental Free Trade Area (AfCFTA), which could boost domestic production and generate sizeable revenues for Government, as well as improve domestic productivity and competitiveness.

The Committee commended the Bank's effort of improving liquidity in the foreign exchange market, but noted the need to continue to explore avenues to improve inflow from sources such as the International Money Transfer Operators (IMTO), diaspora remittances and non-oil export promotion, given the current trajectory of crude oil prices. These sources, in the view of the Committee, would boost foreign exchange supply and ease the current exchange rate pressure.

The Committee noted the continued improvement in the equities market as a lead indicator of medium-term macroeconomic recovery, thus, urging the Bank to maintain its collaboration with the fiscal authority to improve the investment climate towards attracting sustainable Foreign Direct Investment (FDI).

The Committee commended the Bank for maintaining a sound regulatory surveillance over the banking system by ensuring a reasonably low level of non-performing loans (NPLs), even with the aggressive credit expansion programme during this crisis period. Though, NPLs remained slightly above the prudential benchmark, members noted that the banking system remained stable, strong and resilient. Given the success recorded under the LDR policy, it thus urged the Bank to sustain its risk surveillance approach and ensure the continued soundness of the banking system.

In the Committee's consideration, it noted the broad-based global stimulus packages, including expanded credit lines, asset purchase programme, corporate bond purchase, additional funding facilities for financial system, commercial paper purchases, special central bank lending, increase in the Ways and Means limits introduced by the central banks of different countries to support economic recovery in their various economies and to prevent further distortions to the economy caused by the devastating impact of the pandemic. The Committee noted the large stimulus packages deployed by many countries to fast-track growth recovery and restore livelihoods across the world. For instance, Japan provided stimulus package valued at 66.9 per cent of its 2019 GDP; UK, 45.04 per cent; USA, 28.4 per cent; Brazil, 27.6 per cent; South Africa, 12.6 per cent; China, 11.5 per cent; India, 10.0 per cent; and Russia 7.1 per cent compared with Nigeria's paltry 4.0%. The MPC, therefore, urged the Bank to further expand its current stimulus packages to support the fiscal interventions to reflate and boost recovery in the economy.

The Committee's Decision

At this meeting, MPC was, as in the last meeting, confronted with a policy dilemma as to whether to aggressively combat the inflationary pressure or support measures currently aimed at stimulating growth and reversing the recession.

Although the economy is currently in a stagflation environment with simultaneous occurrence of inflationary pressures and contracting output, the MPC resolved to reverse both developments and continue pursuing price stability in growing the economy.

MPC was of the view, that whereas there may be wisdom in loosening, given that the impact of the global Covid-19 pandemic has resulted in constrained activities, disruption to supply chain and suppress aggregate demand, an accommodative stance may be required to stimulate credit expansion and boost recovery in the short term.

The Committee was also of the view that an expansionary policy would enable the monetary authorities convince the financial institutions to reduce loan pricing and defer interest and principal repayments to critically affected obligors in a sustainable manner.

On the flip side, MPC also opined that an aggressive expansionary stance may worsen both inflation and the negative real interest rate, thereby resulting in negative consequences on exchange rate.

With regard to tightening, MPC concluded that this may run contrary to its objectives of providing affordable credit to households, MSMEs, Agriculture, and other output growth and employment stimulating sectors of the economy.

MPC was therefore of the view that it should pursue its current stance of systematic synchronization of monetary and fiscal policy accommodation through its developmental finance initiatives, aimed at mitigating the impact of the COVID-19 pandemic on Nigerians.

While expressing understanding of the public health dilemma of the recent spike in infections, MPC encouraged Government not to consider a wholesome lockdown of the economy so as not to reverse the current gains of the stimulus earlier provided in 2020. It also encouraged the Central Bank of Nigeria Management to intensify its efforts in the targeted credit facility to household, SMEs, the Health Sector, as well as Agric and manufacturing sectors which would not only boost consumer spending but result in manufacturing output thereby positively impacting the GDP. On this basis, the MPC agreed to hold all policy parameters constant.

The Committee thus decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 11.5 per cent.

In summary, the MPC voted to:

I. Retain the MPR at 11.5 per cent;
II. Retain the asymmetric corridor of +100/-700 basis points around the MPR;
III. Retain the CRR at 27.5 per cent; and
IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
26th January 2021

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 135 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 22ND AND TUESDAY 23RD MARCH 2021

1.0 Background

The Monetary Policy Committee (MPC) met on the 22nd and 23rd of March 2021 confronted with downside risks to the optimism for significant improvement in global output recovery in 2021. The risks stem largely from the uncertainty surrounding the efficacy of the COVID-19 vaccines in surmounting the new variants of the novel coronavirus, as well as speedy deployment of the vaccines across the globe. In the domestic economy, the exit from recession in the fourth quarter of 2020 brought about a renewed hope for full recovery in 2021, notwithstanding the obvious downside risks to the entire global economy. The Committee appraised the developments in both the global and domestic economic and financial environments in the first quarter of 2021 and the outlook for the rest of the year. Nine (9) members of the Committee were in attendance.

Global Economic Developments

The Committee noted that while vaccination against COVID-19 had gained significant grounds in major advanced economies, some emerging market and developing economies were yet to commence any form of vaccination. This development portends an uneven recovery to global growth, as barriers to trade and the global supply chain are likely to remain in place much longer than anticipated to prevent re-infection in countries that have achieved significant vaccination and some form of herd immunity. The growing concerns associated with the efficacy of these vaccines, especially in the face of new variants of the virus, however, poses a significant threat to the overall recovery of the global economy. The broad direction of the expected rebound in global output recovery, therefore, varies across countries depending on the headwinds confronting individual economies.

Consequently, the International Monetary Fund (IMF) projects a growth rate of 4.3 per cent for the advanced economies and 6.3 per cent for the emerging and developing economies, with a global growth rate of 5.5 per cent in 2021. The downside risks to this projection are associated with concerns that the existing vaccines being deployed may not effectively subdue the new and existing variants of the virus and thus, restrictions may remain in place which may hamper the speed of the expected recovery globally.

Price developments across major advanced economies remain subdued alongside the expectation that output gaps will remain negative into the medium term. In the Emerging Market and Developing Economies (EMDEs), price development was, on average, mixed, with some economies recording inflation rates that were significantly higher than those seen in the Advanced Economies. This was mostly due to continued capital outflows, poor accretion to reserves and exchange rate depreciation, which has a pass-through effect to domestic prices.

In the global financial markets, conditions remain relatively stable, as central banks continue to maintain expansionary monetary policy and sizeable stimulus packages. The huge level of monetary and fiscal injections may heighten the risk of financial instability, especially when central banks commence adjustment of policy rates.

Domestic Economic Developments

Real Gross Domestic Product (GDP), according to the National Bureau of Statistics (NBS), recorded a growth rate of 0.11 per cent (year-on-year) in the fourth quarter of 2020, in contrast to -3.62 per cent in Q3 2020 and 2.55 per cent in the corresponding period of 2019. The Q4 2020 performance, was a sharp rebound in contrast to the two previous quarters of negative growth (-3.62 per cent in the third quarter and -6.10 per cent in the second quarter). The improved performance was driven by the non-oil sector, which grew by 1.69 per cent in Q4 2020 from -2.51 and -6.05 per cent in Q3 and Q2 2020, respectively. The major drivers were Quarrying and Other Minerals, which grew by 48.42 per cent and the ICT subsector, which grew by 17.64 per cent. The oil sector, however, contracted further by -19.76 per cent in Q4 2020, from -13.89 and -6.63 per cent in Q3 and Q2 2020, respectively. This was attributed largely to the decrease in oil production in compliance with the OPEC+ production cut agreement.

The Committee noted the moderation in the Manufacturing, and Nonmanufacturing Purchasing Managers' Indices (PMI), which, however, remained below the 50 index points in February 2021, but improved to 48.70 index points apiece, compared with 44.9 and 43.3 index points, respectively, in January 2021. The GDP growth in the fourth quarter of 2020 and expected recovery in Q1 2021, were signposted by this observed improvement in the PMIs.

The employment level index component of the manufacturing and nonmanufacturing PMIs also improved moderately in February 2021 to 45.6 and 48.0 index points, compared with 44.2 and 45.0 index points, respectively, in the previous month. The Committee, however, expressed some optimism that the legacy growth headwinds, attributed largely to the resurgence in infection rate of COVID-19 pandemic, may likely recede in the short-to-medium term, as the successful deployment of the COVID-19 vaccines and the various stimulus packages to revamp the domestic economy are sustained.

The Committee noted with concerns the continued uptick in inflationary pressure for the eighteenth-consecutive month, as headline inflation (year-on-year) continued on an upward trend, to 17.33 per cent at end-February 2021 from 16.47 per cent in January 2021. This increase continued to be attributed to the increase in both the food and core components of inflation which rose to 21.79 and 12.38 per cent in February 2021, respectively, from 20.57 and 11.85 per cent in January 2021. This persisting uptick in food inflation, however, was the major driving factor to the uptick in headline inflation. This was due to the worsening security situation in many parts of the country, particularly, the food producing areas, where farmers face frequent attacks by herdsmen and bandits in their farms. While the Bank is intervening significantly in the agricultural sector, the rising insecurity in some food producing areas, is limiting the expected outcomes in terms of supply to the market, thus contributing to the rise in food prices. The Committee further noted that the key drivers of the increase in core inflation included, the hike in the price of Premium Motor Spirit (PMS), upward adjustment in electricity tariffs and the depreciation of the domestic currency (naira).

The Committee observed that broad money supply (M3) grew marginally by 0.30 per cent in February 2021, following a substantial growth of 13.54 per cent in December 2020. This was driven largely by the contraction in Net Foreign Assets (NFA). The Committee also noted that Net Domestic Assets (NDA) grew by 3.02 per cent in February 2021, from 2.22 per cent in December 2020.

Provisional data showed that banking system credit to the economy increased by 1.75 per cent to N43.67 trillion in February 2021 from N42.92 trillion in January 2021, reflecting the ongoing broad-based monetary and fiscal stimulus to various sectors of the economy. The Committee thus, enjoined the Bank to maintain its current drive to improve access to credit to the private sector, while exploring other initiatives with the fiscal authorities to improve funding to critical sectors of the economy.

Conscious of the persisting inflationary pressure fuelled largely by continued uptick in food prices, the Committee noted the Bank's interventions to boost food production particularly through its various Agricultural programmes. Other complementary measures included, increase in disbursement for the dry season agricultural programme to increase output, the adoption of high yield seeds to improve productivity and the adoption of harvested produce as a means of loan repayment, which has stemmed hoarding and the activities of middlemen and rent seekers. The establishment of the strategic grain reserves for staple crops has also helped in addressing seasonality of agricultural commodities.

In terms of funding, the Committee noted that the Bank has disbursed funds under its various agricultural interventions towards improving food supply in Nigeria. The Committee noted the disbursement of ₦107.60 billion to 548,109 farmers cultivating 703,619 hectares of land between Q4 2020 and Q1 2021 to boost dry season output in support of agricultural value chain development. Total disbursements as at end-February 2021 amounted to ₦1.487 trillion under the various agricultural programmes, of which N686.59 billion was disbursed under the Commercial Agricultural Credit Scheme (CACS) and ₦601.75 billion under the Anchor Borrowers Programmes (ABP) to 3,038,649 farmers to support food supply and dampen inflationary pressures.

Under the Targeted Credit Facility, the Bank has disbursed N218.16 billion to 475,376 beneficiaries, of which 34 per cent of beneficiaries are SMEs. Under AGSMEIS, N111.62 billion has been disbursed to 28,961 beneficiaries, 70 percent of which are in the agricultural sector. Under the Creative Industry Financing Initiatives mainly targeted at youths, N3.19 billion has been disbursed to 341 beneficiaries, of which 53 percent is to the movie industry.

Under the National Mass Metering Programme, N33.45 billion has been disbursed to 9 distribution companies for the procurement of 605,852 meters, while N89.89 billion has been disbursed under the Nigeria Electricity Market Stabilisation Facility (NEMSF 2) to 11 distribution companies to improve the electricity supply industry in Nigeria.

Under the N100 billion Health Care intervention Fund, the Bank has disbursed N94.34 billion, and is willing to expand the facility, to 85 projects in the pharmaceutical industry, hospitals and State governments for both brown field and green field projects, mostly to expand pharmaceutical drug lines, acquire MRI and other equipment and upgrade laboratories and other hospital services.

Under the N1.0 trillion Manufacturing Intervention Stimulus, the total of N803.36 billion has been disbursed to 228 projects across various sectors in agro-allied, mining, steel production and packaging industries, amongst others.

The monthly weighted average Inter-bank call and Open Buy Back (OBB) rates fell to 1.80 and 1.50 per cent in February 2021 from 3.50 and 2.30 per cent in January 2020, respectively, reflecting the continued liquidity surfeit in the banking system.

The Committee noted the weak performance in the equities market despite the recent increased patronage by domestic investors. The All-Share Index (ASI) and Market Capitalization (MC) continued to decline due to portfolio switching from equities to fixed income securities, reflecting the perception of improved yields at the long end of the yield curve.

All-Share Index (ASI) decreased by 1.17 per cent to 39,799.89 points on February 26, 2021 from 40,270.72 on December 31, 2020. Similarly, Market Capitalization (MC) fell by 1.11 per cent to N20.82 trillion on February 26, 2021 from N21.06 trillion on December 31, 2020. This was attributed largely to investor sell-off, which continued to cause price depreciation of large and medium capitalized stocks.

The MPC noted the performance of the Financial Soundness Indicators (FSIs) of the DMBs which showed a Capital Adequacy Ratio (CAR) of 15.2 per cent, Non-Performing Loans (NPL) ratio of 6.3 per cent and Liquidity Ratio (LR) of 40.5 per cent, as at February 2020. On non-performing loans (NPLs), the MPC noted that the ratio remained above the prudential benchmark of 5.0 per cent and urged the Bank to sustain its regulatory measures to bring it below the prudential benchmark.

The Committee noted with satisfaction the improvement in the level of external reserves, which stood at US$36.46 billion at end-February 2021, compared with US$34.94 billion at end-January 2021. This reflects the recent upsurge in crude oil prices on the backdrop of the renewed optimism on the successful deployment of COVID-19 vaccines across the globe.

Outlook

The medium-term outlook for both the domestic and global economies indicates cautious optimism. This is premised on the expectation of sustained policy support and successful deployment of the COVID-19 vaccines around the globe and its effectiveness in ensuring herd immunity.

Available data and forecasts for key macroeconomic variables for the Nigerian economy suggest further rebound in output growth for the rest of 2021. This is predicated on the sustained, as well as additional interventions by the monetary and fiscal authorities to keep up the recovery momentum in the economy, favourable upsurge in crude oil prices, foreign exchange market stability and successful deployment of the new COVID-19 vaccines that could further stimulate economic activities and ultimately boost output growth. Given the potential rebound in output growth, bolstered by the resumption of economic activities post COVID-19, inflationary pressure in the economy is projected to moderate in short-to-medium term. The underlying risks of the efficacy of the COVID-19 vaccines against known and newly emerging strains of the virus, the uncertainty that the existing vaccines could lead to herd immunity and unequal access to COVID-19 vaccine, however, are some of the headwinds that could undermine this forecast.

The Committee's Considerations

The Committee noted the moderate recovery in output growth in the fourth quarter of 2020, associated mainly to the positive impacts of the several monetary and fiscal measures implemented to reflate the economy, following the negative consequences of the Covid-19 pandemic. This, in the Committee's consideration, provides an opportunity for further consolidation as most projections suggest substantial recovery in several economies across the globe. However, the Committee was not oblivious of the downside risks to the broad outlook for recovery in 2021, as efforts to achieve herd immunity continued to face significant headwinds.

The Committee welcomed the current efforts by the government and other support agencies in procuring vaccines and thus, urged the quick and efficient deployment of the vaccines to support ongoing monetary and fiscal stimulus towards full recovery of the economy in 2021 and into 2022.

Members expressed concerns about the unabated rising trend of domestic prices and re-emphasized the exigency for monetary and fiscal policy collaboration to finance productive ventures, improve aggregate supply and push down prices.

The MPC reiterated its concerns on the activities of persons and groups causing security challenges in the food producing areas of the country, as this has contributed to the major uptick in food prices across the country. The Committee, thus called for a collaborative and coordinated efforts by all the relevant agencies and stakeholders towards addressing the prevailing insecurity issues and social challenges. The Committee also called on the government to explore the option of effective partnership with the private sector to improve funding sources necessary to address the huge infrastructural financing deficit.

Considering the foregoing, the MPC noted that fiscal headroom remained constrained and fragile, following the twin shocks of the pandemic and oil price volatility and the continued build-up of public debt.

The MPC noted the Bank's innovative efforts towards maintaining exchange rate stability. It also impressed on the Management to remain focused on its drive to increase accretion to reserves, especially in its recent incentives to attract diaspora remittances into the country.

The Committee welcomed the relative strengthening of the money market compared from its position at the end of the lockdown. Mindful of the risks confronting the economy, it emphasised the need for the fiscal authority to improve the investment climate towards attracting sustainable Foreign Direct Investment (FDI).

The Committee commended the Bank for maintaining a robust regulatory environment despite these challenging times by ensuring that non-performing loans (NPL) ratio is driven down to prudential level, even as aggregate credit continue to grow in a market confronted with relative uncertainties.
In summary, the MPC noted the overarching need to address the twin major challenges of taming the rising inflation and sustaining growth recovery in the economy, while focusing on the downside risks associated with the injections.

The Committee's Decision

At this meeting, the dilemma that confronted the MPC relates to whether to continue to focus on efforts to stimulate outputs or whether to focus on reining in inflation, which(at 17.33 per cent) is almost attaining the January

2017 inflation level of 18.72 per cent. MPC was also worried that the level of unemployment must be addressed swiftly to moderate the restiveness among the populace. Again, members were generally of the view that given that the exit from recession is fragile, any decision to tighten or rein-in inflation, may reverse the fragile recovery and return the economy into recession.

In the light of the foregoing, the consensus among MPC members was that, given that inflation is substantially a supply side phenomenon, there is need to continue to focus on consolidation of the recovery process, by taking those actions that would continue to stimulate output growth, create employment, but at the same time have an eye on effort to moderate the inflationary pressure; using the current administrative measures being adopted by the Bank in controlling monetary aggregates in the banking system.

In its consideration of whether to tighten, hold or loosen, therefore, the Committee felt that with inflation at a 3-year high and price stability being the Bank's core mandate, a contractionary policy stance may be required to tame the rising trend. It nevertheless feels that tightening will hike the cost of capital and hamper investments required to create employment and continue to boost recovery.

On the other hand, MPC thinks that whereas loosening would lower rate and improve access to credit which will drive investment, reduce unemployment and stimulate aggregate demand, it feels that loosening will create excess liquidity, which will intensify demand pressure on the foreign exchange market, thereby leading to further depreciation in the currency.

It, therefore, feels that a hold position which encourages Management to continue to use its various intervention mechanisms to deploy liquidity into employment generation and output stimulating sectors of the economy would be desirable as this would help consolidate the country's recovery process.

The Committee, therefore, decided by a vote of 3 members to increase MPR by 50, 75 and 50 basis points respectively, and 6 members voted to hold all parameters constant.

In summary, the MPC voted to:

I. Retain the MPR at 11.5 per cent;
II. Retain the asymmetric corridor of +100/-700 basis points around the MPR;
III. Retain the CRR at 27.5 per cent; and
IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
23rd March 2021

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 136 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 24th AND TUESDAY 25th MAY 2021

1.0 Background

The Monetary Policy Committee (MPC) met on the 24th and 25th of May 2021 as the global economy gradually emerges from the six-quarter long COVID-19 pandemic with lingering uncertainties. The recovery is on account of widespread vaccinations, easing of restrictions, reopening of economies and gradual return to international travels. India and Brazil however continue to battle high levels of infections and fatalities resulting from mutating strains of the virus. In the domestic environment, the economy is expected to remain on the current trajectory of recovery in 2021, mirroring the cautious optimistic trend in global output recovery. The Committee reviewed the developments in the global and domestic economic and financial environments in the second quarter of 2021 and the outlook for the rest of the year.

Ten (10) members of the Committee were present at this meeting.

Global Economic Developments

The Committee noted that while the vaccination against COVID-19 is drastically reducing fatalities across several economies, the recovery remains uneven and is tilted against developing economies compared with the developed economies with better access to vaccines. Other emerging markets economies with strong manufacturing capabilities like China are also on the verge of full recovery.

Accordingly, the International Monetary Fund (IMF) revised global output growth for 2021 to 6.0 per cent. This represents an upward revision of 0.5 percentage point, compared with the earlier projection of 5.5 per cent. The projection is, however, dependent on the efficient deployment of COVID-19 vaccines and sustained policy support across economies to strengthen the recovery of global output growth.

Prices, however, are expected to rise globally due to the massive monetary and fiscal injections in several countries to mitigate the impact of the Pandemic. The MPC noted the gradual recovery of prices, especially amongst some developed economies as inflation continued a steady movement towards the long-term objective of their central banks. It is expected that inflation may breach the long-term objective of several central banks in the medium-term, as economic activities continue to recover with more people being vaccinated. In several Emerging Market and Developing Economies (EMDEs), inflation has remained relatively high, with some economies confronted with significantly higher inflationary pressures than others, because of legacy structural issues, capital flow reversals and unabating exchange rate pressures.

The prevailing conditions in the global financial markets remained relatively stable, as central banks sustain monetary accommodation. There are, however, growing indications that monetary policy normalization may commence amongst some key central banks by the fourth quarter of 2021. The timing and pace of this normalization must, however, be carefully managed to mitigate the risk of a financial crisis post-Pandemic.

Domestic Economic Developments

Available output data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 0.51 per cent in the first quarter of 2021, compared with 0.11 and -3.62 per cent in Q4 2020 and Q3 2020, respectively. Real GDP was driven largely by the non-oil sector, which grew by 0.79 per cent in Q1 2021 compared with 1.69 and -2.51 per cent in Q4 2020 and Q3 2020, respectively. The major drivers of the non-oil GDP were Agriculture and Industry with sectoral growth rates of 2.28 and 3.05 per cent, respectively in Q1 2021. Whereas Agriculture declined by 1.14 percentage points from 3.42 per cent in Q4 2020, Industry, supported by growth in Manufacturing and Construction, grew by 3.30 percentage points from -0.25 per cent in Q4 2020. The sectoral contribution of Services to GDP, however, contracted from 1.31 per cent in Q4 2020 to -0.39 per cent in Q1 2021. The oil sector, contracted by -2.21 per cent in Q1 2021, from -19.76 and -13.89 per cent recorded in Q4 2020 and Q3 2020, respectively. The weak performance in the oil sector is largely attributable to the decline in production, in compliance with the OPEC+ production cut agreement.

The Committee noted the marginal growth in the Manufacturing Purchasing Managers' Index (PMI) to 49.0 index points in April 2021 from 48.8 index points in March 2021. This increase is a lead indicator of recovery of output growth following the easing of restrictions to curtail the spread of the Pandemic. The Non-manufacturing PMI, however, declined marginally to 47.3 index points in April 2021, compared with 47.9 index points in March 2021.

The employment level component of the manufacturing and non-manufacturing PMIs rose moderately in April 2021 to 46.5 and 48.2 index points from 45.9 and 47.7 index points in March 2021, respectively.

The Committee noted the moderate decline in headline inflation (year-on-year) to 18.12 per cent in April 2021 from 18.17 per cent in March 2021, following nineteen consecutive months of continuous rise. The decrease was driven by a marginal slowdown in food inflation to 22.72 per cent in April 2021 from 22.95 per cent in the previous month. This was partly attributed to the Bank's massive interventions in various sectors of the economy to stimulate aggregate demand and boost production, particularly for Small and Medium Scale Enterprises. The MPC, however, noted that headline inflation remained well above the ceiling of the

Bank's 6-9 per cent inflation corridor as a result of a combination of factors, including: the heightened security tensions in the country and deteriorating public infrastructure. As a result, the Bank expressed its support to the Federal Government's commitment to tackle insecurity as this will improve the business environment and encourage economic activities to reduce inflation. The MPC was also mindful of the impact of exchange rate pressures resulting from capital flow reversals associated with the COVID-19 shock, as investors sought for safe havens. It, however, applauded extant measures by the Bank in ensuring both liquidity and stability in the Foreign Exchange market as well as moderating the exchange rate pass-through to inflation.

On the performance of monetary aggregates, the Committee noted that broad money supply (M3) grew by 1.15 per cent in April 2021, compared with 0.04 per cent in March 2021. This development was largely driven by growth in Net Domestic Assets (NDA), while Net Foreign Assets (NFA) contracted. The growth in Net Domestic Assets reflects the growth in aggregate credit supported by the ongoing broad based monetary and fiscal stimulus. Accordingly, gross banking sector credit at end-March 2021 stood at N23.53 trillion compared with N22.68 trillion at end-December 2020. This represents an increase of N0.85 trillion (year-to-date), of which commercial & merchant banks disbursed (N0.66 trillion), microfinance banks (N0.13 trillion), development finance institutions (N0.05 trillion), and primary mortgage banks and finance companies (N0.01 trillion).

The liquidity condition in the banking system in the review period was determined by several factors including; fiscal disbursements and withdrawals by states and local governments, periodic CRR debits, foreign exchange interventions, Open Market Operations, and maturing CBN bills, the net effect of which imposed liquidity constraints on the banking system.

The Committee noted the moderate decline in the equities market (year to date) as the All-Share Index (ASI) decreased by 1.97 per cent to 38,287.58 on May 24, 2021 from 39,045.13 on March 30, 2021. Similarly, Market Capitalization (MC) decreased by 4.30 per cent to N19.96 trillion on May 24, 2021 from N20.82 trillion on February 26, 2021.

The MPC noted that the Capital Adequacy Ratio (CAR) and the Liquidity Ratio (LR) both remained above their prudential limits at 15.8 and 38.9 per cent, respectively. The Non-Performing Loans (NPLs) at 5.89 per cent in April 2021, showed progressive improvement compared with 6.6 per cent in April 2020. The MPC, however, urged the Bank to sustain its tight prudential regime to further reduce the level of Non-Performing Loans in the industry.

The Committee noted the external reserves declined marginally to US$34.17 billion as at May 21, 2021, from US$34.29 billion as at end-April 2021. This reflects sales to the foreign exchange market and third-party payments.

Outlook

The optimism for medium-term macroeconomic recovery in both the global and domestic economies is slow, but steadily growing, even as some level of uncertainty are still present. This is due to the unabating COVID-19 pandemic in some countries such as India and Brazil caused by mutation of the virus into more fatal strains. In addition, the recovery is uneven and seem to be more tilted towards countries that have high vaccination rate than those less vaccinated or that are still suffering from the effects of more fatal strain of COVID-19 disease. As conditions improve however, central banks of Advanced Economies are beginning to signal the possible shift to monetary policy normalization by the fourth quarter of 2021.

Available data and forecasts for key macroeconomic variables for the Nigerian economy, suggest that output growth will continue to recover for the rest of 2021. This is premised on the continued support for agriculture to improve food supply, reduce inflation and improve employment. Others include efforts of both the monetary and fiscal authorities to improve infrastructure challenges in the country. The forecast for the Nigerian economy for 2021 is, thus, strong domestic push to support recovery particularly to ensure an end to insecurity in the country.
Consequently, as the productive capacity of the economy improves and the supply chain fully restored, we expect inflationary pressure to ease further, as the supply of goods and services offset demand.

The Committee's Considerations

At this meeting, the MPC recognized that the twin problems confronting the Nigerian Economy that must be addressed relates to stagflation, reflected in rising inflation with simultaneous contraction in output.

Committee further recognized that the strategies put in place to rein in inflation through the use of series of administrative measures by the Bank to control money supply through liquidity mop up in the banking industry had started to yield results. It also recognized that measures put in place to stimulate output growth through the use of its intervention facilities to inject liquidity into employment generating and output stimulating initiatives like the Anchor Borrower Program, Targeted Credit Facility and Agri-Business Small and Medium Enterprise Investment Scheme (AGSMEIS) had started to yield results.

In the view of the MPC, although the economy had successfully exited the recession, the recovery was very fragile given that the GDP of 0.51 per cent was still far below population growth rate. Committee therefore was of the view that, there is a strong need for the Monetary Authorities to consolidate on all administrative measures taken not only to rein in inflation, but also on the actions so far taken to grow output.

In the Committee's view, such measures should include boosting consumption and investments, as well as diversifying the base of the economy through FX restrictions for the importation of goods and food products that can be produced in Nigeria. It also urged the Bank to continue to put in place measures that will boost export earnings. On consumption and investment, MPC noted that the intervention facilities under the Anchor Borrowers was N631.4 billion granted to 3,107,949 small holder farmers cultivating 3.8 million of land hectares; for the AGSMEIS, N111.7 billion to 29,026 beneficiaries; and for the Targeted Credit Facility, N253.4 billion to 548,345 beneficiaries - comprising 470,969 households and 77,376 SMEs.
Notwithstanding that all these have helped in boosting output, the Bank should continue to aggressively increase its interventions in these subsectors, including agricultural processing and manufacturing. Under the National Youth Investment Fund, N2.04 billion was disbursed to 7,057 beneficiaries, of which 4,411 were individuals and 2,646 were SMEs. Under the Creative Industry Financing Initiative, the CBN has disbursed N3.19 billion to 341 beneficiaries across movie production, movie distribution, music and software development.

Under the N1 trillion Real Sector Intervention, N856.3 billion had been disbursed for 233 real sector projects, of which 77 are in light manufacturing, 36 in agro-based industry, 30 in services and 11 in mining. Under the N100 billion Healthcare Support Intervention fund, N97.4 billion has been disbursed for 91 health care projects, of which 26 are pharmaceutical and 65 hospital services. Also, N232.5 million has been disbursed to 5 beneficiaries under the CBN Health Care Grant for Research on Covid-19 and Lassa Fever. Under the National Mass Metering program, N35.9 billion has been disbursed to 9 DisCos for the acquisition of 656,752 electricity meters. Under the Nigerian Electricity Stabilization Facility 2 (NEMSF-2), N93.8 billion has also been disbursed to 11 DisCos.

The Committee members applauded Government's efforts in combating the headwinds imposed by the Pandemic and urged that going forward, Government should avoid an entire nationwide lockdown like was experienced in 2020, as this will reverse the wholesome gains jointly achieved between the Government and the Central Bank in response to the outbreak of the Pandemic.

The MPC carefully assessed the options on direction of policy in the short to medium term. It re-appraised current measures by the Government to purchase COVID-19 vaccines and the general preparedness of relevant public health agencies to guard against the spread of the mutating strains of the virus. To this end, the Committee noted the appropriate steps taken by the Government to ensure that up to 70 per cent of the populace get vaccinated to drastically drive down the infection rate in the country and hence, sustain economic activities.

The Committee noted the persisting security crisis, especially in major food producing regions of the country and the severe toll on food supply and prices. It noted that inflation had moderated marginally due to the unrelenting effort of the Bank in supporting agriculture to boost food supply and prices. The Committee, thus, re-iterated its call to the Government to intensify effort towards addressing the security situation in the country to ease supply bottlenecks and bring down food prices. The MPC further noted Government's commitment towards investing in public infrastructure despite constrained fiscal position and urged a continued focus on this objective, while exploring the option of effective partnership with the private sector, as improved road networks, telecommunications and power supply will greatly and proactively impact the supply chain and moderate price increments. It further noted the need for collaboration with Nigeria's huge diaspora, through the issuance of diaspora bonds targeted at specific infrastructure projects. Even as the Committee noted that the public debt stock was currently high, it was of the view that project specific diaspora bond issues could conveniently pay itself back without imposing a burden on Government finances. It noted the complementary role this would play in boosting foreign exchange supply, accretion to reserves and easing of the current exchange rate pressure.

The Committee noted that the equities market remained stable, an indication of investor confidence in the Nigerian economy in the medium-term. The MPC thus urged the Bank to maintain its collaboration with the fiscal authority to improve the investment climate towards attracting sustainable Foreign Direct Investment (FDI).

With the developments in the Banking system, the Committee applauded the efforts of the CBN in ensuring a reasonably low level and steady reduction in Non-Performing Loans (NPLs), even as aggregate credit continued to expand through the crisis period. While NPLs remained marginally above the Bank's regulatory threshold, members noted that it was in line with the current state of macroeconomic imbalances occasioned by the Pandemic.

The Committee's Decision

The recent developments in the domestic economy presented two broad options to the MPC, which were to either aggressively address the high inflationary pressure or continue to pursue measures aimed at supporting the recovery.

Whereas the Committee remained overwhelmingly committed to supporting the efforts of the Federal Government in ensuring full restoration of the productive capacity of the economy, members remained much more focused towards achieving price stability in the short to medium-term. The MPC noted that economic growth could be hampered in an environment of unstable prices. To this end, the choice therefore was between loosening the stance of policy to ease credit further or tighten to moderate price development or maintain a hold stance in order to allow previous policy measures continue to permeate the economy while observing global and domestic developments.

The Committee noted that an expansionary stance of policy could transmit to reduced pricing of the loan portfolios of Deposit Money Banks and result, therefore, in cheaper credit to the real sector of the economy. On the converse, this expected transmission may be constrained by persisting security challenges and infrastructural deficits.

On the other hand, while a contractionary stance will only address the monetary component of price development, supply side constraints such as the security crisis and infrastructural deficits can only be addressed by policies outside the purview of the Central Bank. A tight stance in the view of members, will also hamper the Bank's objectives of providing low cost credit to households, Micro Small and Medium Enterprises (MSMEs), Agriculture, and other output growth and employment stimulating sectors of the economy.

Based on the above considerations, the MPC made the decision to hold all policy parameters constant.

The Committee thus decided by a unanimous vote to retain the Monetary Policy Rate (MPR).

In summary, the MPC voted to:

I. Retain the MPR at 11.5 per cent;
II. Retain the asymmetric corridor of +100/-700 basis points around the MPR;
III. Retain the CRR at 27.5 per cent; and
IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
25th May 2021