CENTRAL BANK OF NIGERIA ECONOMIC REPORT

Second Quarter
2022

ABOUT THE REPORT

The Central Bank of Nigeria (CBN) Economic Report is a compilation and analysis of economic developments in Nigeria within the review period. The Report, which is published monthly and quarterly, analyses current developments in the real, fiscal, financial, and external sectors of the Nigerian economy and the global economic developments. It also reflects the policy initiatives of the Bank within the period.

The Report is targeted at a wide range of readers, including economists, policymakers, financial analysts in the government and private sectors, and the public. Free copies of the Report, both current and past issues, can be obtained from the CBN website: ***www.cbn.gov.ng****. All inquiries concerning the report should be directed to the Director, Research Department, Central Bank of Nigeria, P.M.B. 187, Garki, Abuja, Nigeria.*

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EXECUTIVE SUMMARY

Global economic activity in the second quarter of 2022 was affected by a combination of factors, including accelerated energy and commodity prices, further supply chain disruptions, declining business and consumer sentiments and the re-imposition of COVID-19 containment measures in China. In some Advanced Economies (AEs), economic activities, though moderated, were above threshold levels, while there was a contraction in most Emerging Markets and Developing Economies (EMDEs) due to weak consumer demand and rising inflation, occasioned by the lingering supply chain disruptions. Accordingly, the average J. P. Morgan Global Composite Purchasing Manager's Index (PMI) reflected a slower pace of economic expansion as it marginally fell by 0.50 index points to 52.00 index points in the second quarter of 2022. However, the employment level rose to 53.23 index points from 52.00 index points in the preceding quarter, due to increased backlogs of work, especially among the largest industrial economies.

Despite the effects of the growth-sapping legacy COVID-19 pandemic that lingered since 2020, the domestic economy recorded growth for the seventh consecutive quarter in 2022Q2, supported by favourable fiscal and monetary conditions. Real GDP grew by 3.54 per cent (year-on-year), driven mainly by the non-oil sector, which expanded by 4.77 per cent. The growth in the non-oil sector reflected, mainly, the strong growth in the ICT sub-sector, following new investments and demand for ICT services. However, the oil sector contracted by 11.77 per cent owing to subdued investments in the sector and operational challenges, thus weakening the growth outcome.

Inflationary pressures remained elevated in the second quarter of 2022, driven by domestic and global supply chain disruptions and rising transportation and production costs. Headline inflation (year-on-year) rose to 18.60 per cent in 2022Q2, compared with 15.92 per cent, in the previous quarter. The major contributors to the uptick in prices were the cost of processed food, imported food items; energy; clothing and footwear; housing; water; health; and education.

Average world prices of Nigeria's major agricultural export commodities were mixed in the second quarter of 2022, despite the rise in the all-commodities price index by 7.3 per cent, above the previous quarter. The development was due to India's announcement of a wheat export ban amid global supply concerns. The Bank continued to support the Real sector of the economy towards sustaining the recovery of output growth and addressing the downside risks of external and domestic shocks to the economy. Crude oil spot prices rose in 2022Q2, due to heightened supply concerns because of supply disruptions in Libya and the European Union's decision to ban Russian crude oil imports.

Fiscal conditions in 2022Q2 improved, relative to the preceding quarter, following enhanced oil and non-oil receipts, although revenue targets fell short of their respective quarterly benchmarks. Provisional gross federation receipts *in 2022Q2, at ₦3,204.17 billion, exceeded the level in 2022Q1 by 40.8 per cent, but fell below the benchmark by 30.3 per cent. Non-oil revenue continued its dominance, constituting 59.5 per cent, while oil revenue accounted for the balance of 40.5 per cent. The higher revenue outcome was attributed to higher receipts from Petroleum Profit Tax (PPT) and Royalties, sustained rise in crude oil prices and the seasonal impact of corporate income tax receipts. However, the positive impact of the higher oil revenue on the allocations to the three tiers of government was subdued by rising deductions for Value Shortfall Recovery (VSR) for PMS by the NNPC. Despite improvement in the statutory receipts and the FGN Independent Revenue, the provisional retained revenue of the FGN declined by 2.7 per cent to ₦1,052.42 billion, while its provisional aggregate expenditure fell by 17.1 per cent to ₦3,792.91 billion, relative to the preceding quarter. This resulted in a contraction of the provisional fiscal deficit by 21.5 per cent, relative to the preceding quarter. At end-June 2022, the total public debt remained elevated but within the sustainable level, at ₦42, 845.8 billion or 23.7 per cent of GDP.*

Though geopolitical tensions and hawkish monetary policy stance from central banks threatened global financial conditions, the banking system remained resilient in the second quarter of 2022 but witnessed a tighter level of liquidity, compared with the preceding quarter. Broad money supply (M3) grew significantly by 11.5 per cent to ₦48,865.82 billion in the second quarter of 2022, compared to the provisional benchmark of 14.9 per cent, owing to the effects of net domestic assets, which outweighed the decline in net foreign assets, leading to credit expansion to the crucial sectors of the economy. Claims on the domestic economy and narrow money supply (M1) also followed a similar growth trajectory. The increase in the Monetary Policy Rate (MPR) to rein-in inflationary pressures, coupled with the low level of liquidity in the banking system, resulted to a mixed trend in key short-term interest rates, which were generally below the MPR. Activities on the Nigerian Exchange (NGX) Limited sustained a bullish run in 2022Q2, owing to gains by Blue-chip corporates, as aggregate market capitalisation appreciated by 7.3 per cent to ₦50,172.09 billion, relative to the ₦46,746.70 billion in 2022Q1.

The performance of the external sector in the second quarter of 2022 improved in the face of soaring commodity prices resulting from the lingering supply chain disruptions, occasioned by the Russia-Ukraine conflict. At an estimated surplus of US$6.61 billion (6.1 per cent of GDP), relative to US$2.58 billion (2.4 per cent of GDP) in the preceding quarter, the current account recorded an improvement owing to sustained high crude oil prices and lower import bills for goods, which improved the trade surplus and narrowed the deficit in the primary income account. Emanating from higher foreign currency holdings of the private sector, the financial account recorded a net acquisition of financial assets of US$1.32 billion (1.2 per cent of GDP), compared with US$1.67 billion (0.7 per cent of GDP) in the preceding quarter. The external reserves remained above the standard benchmark of 3.0 months of import cover and could finance 7.2 months of import for goods and services or 9.1 months of import for goods *only. In the foreign exchange market, the exchange rate of the naira was relatively stable. The average exchange rate of the naira per US dollar at the I&E window, appreciated by 0.2 per cent to ₦415.71/US$, compared with ₦416.34/US$, in the first quarter of 2022.*

Growth outlook remains positive as the economy is projected to grow by 3.51 per cent in 2022Q3 (year-on-year). The positive outlook is predicated on the assumption that the current trend in crude oil prices will be sustained. It is also founded on the effective implementation of the Medium-Term National Development Plan (MTNDP), and the positive impact of CBN interventions on growth-enhancing sectors, among others. However, persistent security challenges, as well as infrastructural deficit continue to cloud growth prospects. Inflationary pressures are expected to remain uptick in the near term, due to rising energy and food prices. The headline inflation rate is expected to maintain the upward trend of 19.21 per cent in July 2022. This outlook is driven further by an increase in production costs associated with the disruptions to the supply of electricity and petroleum products, coupled with security challenges in some parts of the country and the possible consequence of the Russia-Ukraine war.

Fiscal outlook in the near-term appears moderately optimistic, despite the increase in oil and non-oil revenue, amid the lingering Russia-Ukraine war that triggered global commodity price shocks. Gains from crude oil price increases are expected to be eroded by the huge subsidy payments on Premium Motor Spirit (PMS). Due to rising energy costs, the decrease in households' purchasing power and business profits may likely reduce tax revenue. Also, with rising public debt-to-GDP ratios exceeding pre-pandemic levels, borrowing costs continue to mount and keep fiscal costs elevated amid higher domestic and global interest rates. However, the continuous implementation of the Finance Act and other programmes under the Strategic Revenue Growth Initiatives (SRGIs) of the FGN, is expected to mitigate the associated fiscal risks. On the external front, Nigeria's external reserves are projected to hover around US$39.2 billion in the near-term. This upward movement is predicated on crude oil prices above US$100 per barrel. However, the payment of subsidies on petroleum, rising import bills, and increased external debt servicing remain possible impediments to reserves accretion.

1.0 GLOBAL ECONOMIC DEVELOPMENTS

1.1 Global Economic Activities

Global Economic Conditions

Supply chain disruptions emanating from the Russia-Ukraine war and China's re-imposition of COVID-19 containment measures weighed on global economic activity in the second quarter of 2022. The average J. P. Morgan Global Composite Purchasing Manager's Index (PMI) reflected a slower pace of economic expansion as it marginally fell by 0.50 index points to 52.00 index points in the second quarter of 2022. Also, the services PMI index fell to 52.67 index points from 52.90 index points in the preceding quarter. However, the employment level rose to 53.23 index points from 52.00 index points in the preceding quarter, due to increased backlogs of work, especially among the largest industrial economies.

Table 1: Global Purchasing Managers' Index (PMI)

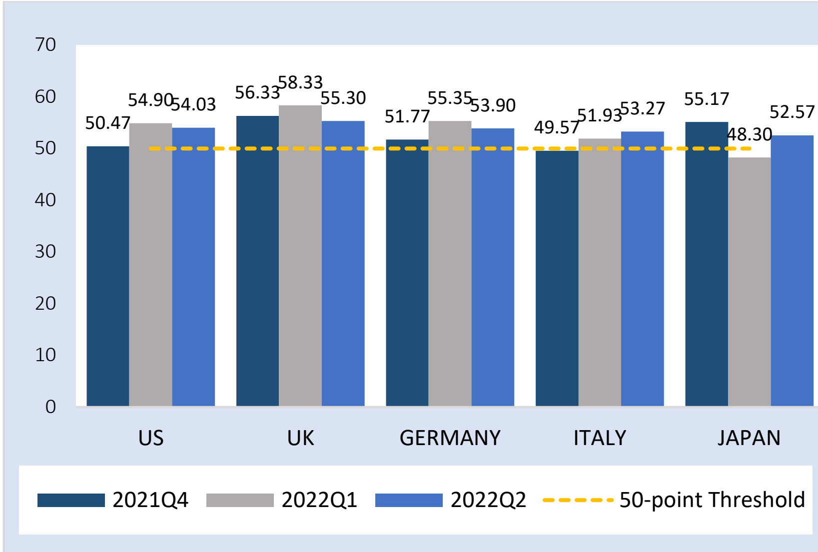
	2021Q4	2022Q1	2022Q2
Composite	54.53	52.50	52.00
Manufacturing	54.23	53.27	53.33
Services (Business Activity)	55.27	52.90	52.67
Employment Level	52.57	52.00	53.23

Source: *JP Morgan, IHS Markit, CBN Staff Compilation.*
Note: *50-point threshold was adopted for the analysis*

Economic Activity in Advanced Economies

Though moderated, economic activities in some Advanced Economies (AEs) were above threshold levels. In Japan, the PMI rose to 52.57 index points, from 48.30 index points in the preceding quarter, due to increased ease of movement restrictions that buoyed activities in manufacturing and services sectors. Similarly, Italy's stronger domestic and foreign demand for services resulted in economic expansion, as the PMI increased to 53.27 index points from 51.93 index points in the preceding quarter. However, economic expansion in the UK slowed in the second quarter of 2022, as the PMI fell to 55.30 index points from 58.33 index points in the preceding quarter, due mainly to the prevailing geopolitical uncertainty and rising inflationary pressures. In the same vein, the weak demand and supply shortages waned business confidence in Germany and the US, as their respective PMI indices moderated to 53.90 and 54.03 from 55.35 and 54.90, respectively.

Figure 1: Selected Advanced Economies' PMIs

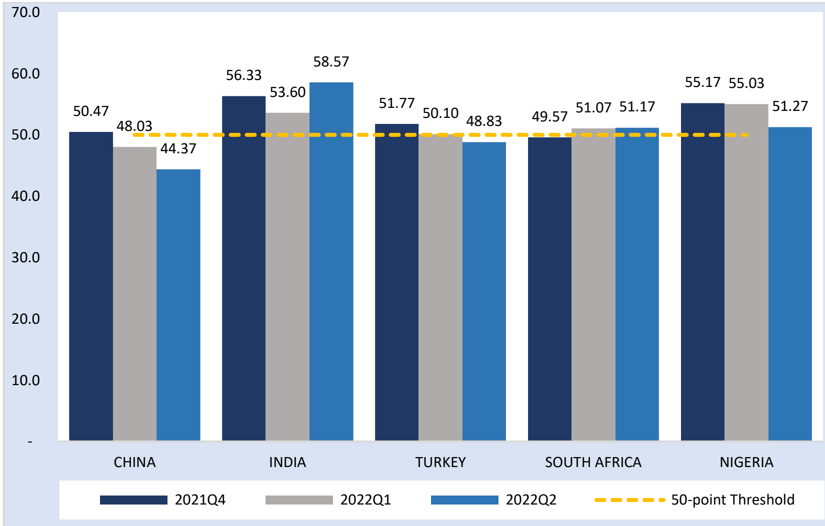


Source: *Trading Economics/Various Countries' websites, Staff Compilation.*
Note: *50-point threshold was adopted for the analysis. US and UK indicate United States and the United Kingdom respectively.*

Economic Activity in Emerging Markets and Developing Economies (EMDEs)

Economic activities in most Emerging Markets and Developing Economies (EMDEs) trended southward, due to supply chain disruptions, weak consumer demand and rising inflation. In China, economic activities contracted in the second quarter of 2022, relative to the preceding quarter, as the PMI fell to 44.37 index points, from 48.03 index points. This deceleration in economic activity was due to weak consumer demand occasioned by renewed movement restrictions in major economic cities, reacting to the new waves of COVID-19. Also, PMI in Turkey declined to 48.83 index points, from 50.10 index points in the preceding quarter. The development was due to a reduction in purchasing power, in the wake of rising energy and materials costs, and the lira's continuous depreciation. However, India recorded improvements in economic activity in the second quarter of 2022, as the PMI index rose to 58.57 index points from 53.60 index points in the preceding quarter. This was due to increased employment in the service and manufacturing sectors, and stable input prices. In South Africa, improved job creation and increased demand spurred an expansion in economic activity, as the PMI rose marginally to 51.17 index points from 51.07 index points in the previous quarter.

Figure 2: PMI in Selected EMDEs



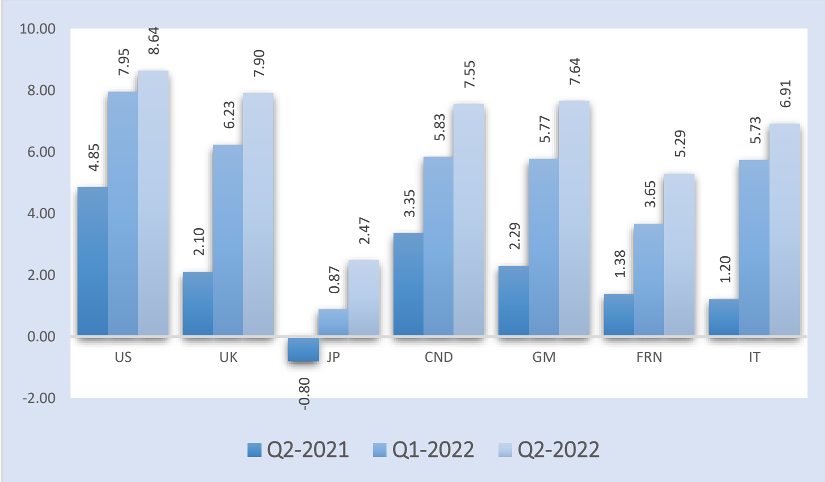
Source: *Trading Economics/Various Countries' websites, Staff Compilation.*
Note: *50-point threshold was adopted for the analysis.*

1.2 Global Inflation

Global Inflation

Inflation remained elevated in the second quarter of 2022 on account of rising energy costs and persisting supply chain disruptions. In several advanced economies, inflation pushed higher in the second quarter of 2022, reflecting the sustained increase in prices of food, energy, and other commodities, due to the persisting supply chain disruptions. Specifically, in the US, the inflation rate rose to 8.64 per cent, from 7.95 per cent in the first quarter of 2022, mainly driven by surging energy prices, particularly gasoline. In Germany, inflation rose to 7.64 per cent, from 5.77 per cent in the preceding period, due to an increase in the prices of heating oil, motor fuels and natural gas, and some food products. However, for the first time in five months, consumer prices were subdued as the fuel discount had a slight downward effect on the overall inflation rate in the last month of the quarter. Likewise, prices in the United Kingdom surged to 7.90 per cent, from the 6.23 per cent in the preceding quarter of the year, stemming from the high cost of motor fuels and food prices. In Japan, consumer prices rose amid surging fuel and food costs, coupled with a sharp weakening of the yen. Consequently, the average inflation rate rose to 2.47 per cent from 0.87 per cent in the first quarter of 2022.

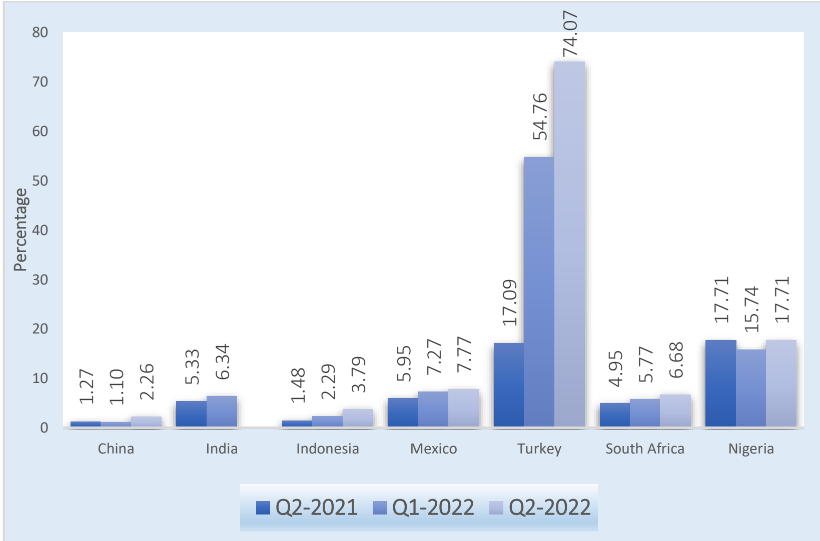
Figure 3: Inflation Rates in Selected Advanced Economies, Average (Per cent)



Source: *Organisation for Economic Co-operation and Development (OECD).*
Note: US = United States of America, UK = United Kingdom, JP = Japan, CND = Canada, GM = Germany, FRN = France, and IT = Italy

Increasing energy and food costs exert significant pressure on prices in Emerging Markets and Developing Economies (EMDEs). China's inflation rate rose to 2.26 per cent, from 1.10 per cent in the preceding quarter, driven by rising food prices, as consumption strengthened further, following reduced COVID-19 incidences. In India, headline inflation rose slightly to 6.48 per cent in the second quarter of 2022 from 6.34 per cent in the preceding quarter, driven mainly by rising prices of essential food items. Prices continued to surge in South Africa, as consumer prices rose to 6.68 per cent, from 5.77 per in the first quarter of 2022. The uptick in inflation was driven mainly by increased transportation costs, resulting from rising prices of fuels, and food & non-alcoholic beverages. Inflationary pressures in Turkey intensified as the inflation rate in Turkey rose to a record high of 74.07 per cent, compared with the 54.76 per cent recorded in the preceding quarter of the year, due to a weaker lira and rising energy prices.

Figure 4: Inflation Rates in Selected EMDEs, Average (Per cent)



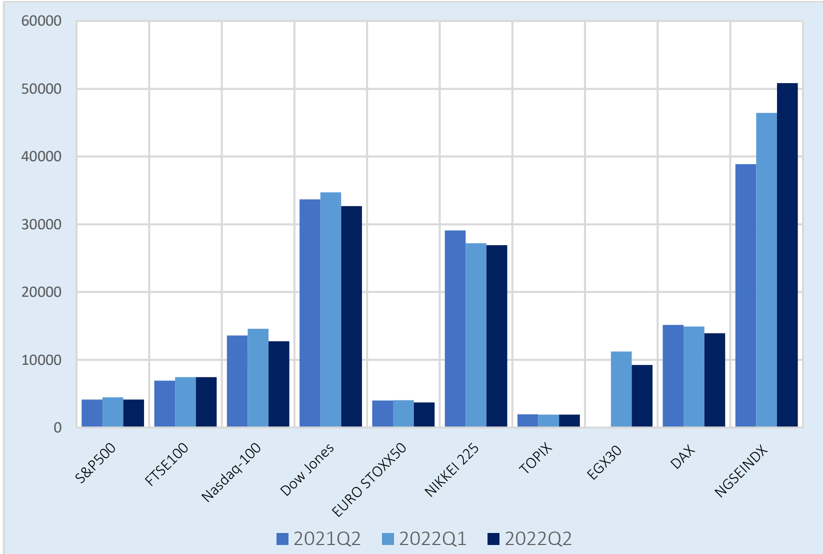
Source: *Organisation for Economic Co-operation and Development (OECD).*

1.3 Global Financial Markets

Global Financial Markets

Financial market activities in the second quarter of 2022 were influenced by sentiments arising from subdued growth prospects, elevated prices, and rising interest rates. Equity shares were under pressure as investors' confidence waned due to rising interest rates and the increased risk of recession. In the US, the NASDAQ, S&P500 and Dow Jones stocks declined by 12.73 per cent, 8.08 per cent and 5.79 per cent, respectively, because of heightened inflation and a hike in the policy rate by the Federal Reserve (Fed). Similarly, the NIKKEI 225 declined by 1.40 per cent in the second quarter of 2022, as the yen weakened sharply against the US dollar, over the concern of weakened growth in the US. Likewise, across Europe, the stock market performance fell as concerns mounted over higher inflation, the Russia-Ukraine conflict and gas shortages. The EURO STOXX50 dipped by 8.23 per cent, while in the UK, the FTSE 100 index, fell by 0.10 per cent. Similarly, Egypt’s EGX30 declined by 17.91 per cent in the second quarter of 2022, as the US dollar strengthened.

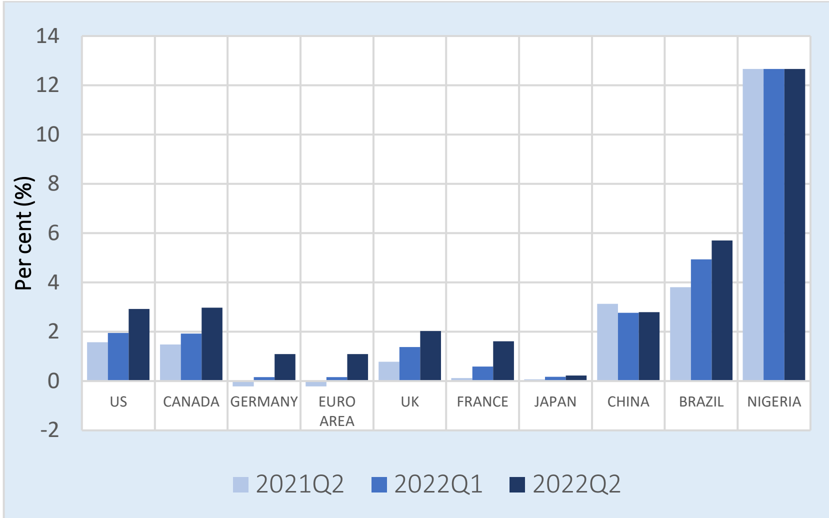
Figure 5: Global Stock Market Equity Indices



Source: *Bloomberg.*

Government bond yields rose markedly amid elevated inflation, hawkish central banks' stance, rising interest rates and growth concerns. The Euro area 10-year government bond yields rallied into quarter-end, reflecting a slight reversal from the negative returns recorded at the end of the preceding quarter. European yields were the most affected, following the announcement of the ECB to end asset purchases early in the third quarter of 2022 and likely hike of the policy rate. Consequently, the Euro Area 10-year government bond yield rose to 1.10 per cent in the second quarter of 2022 from 0.16 per cent in the preceding period. In the UK, the Bank of England (BoE) implemented further rate hikes, resulting in a subsequent increase in the UK 10-year yield from 1.38 per cent to 2.03 per cent in the second quarter of 2022. In the emerging markets, however, bond yields suffered significant declines, as EM currencies weakened against the US dollar.

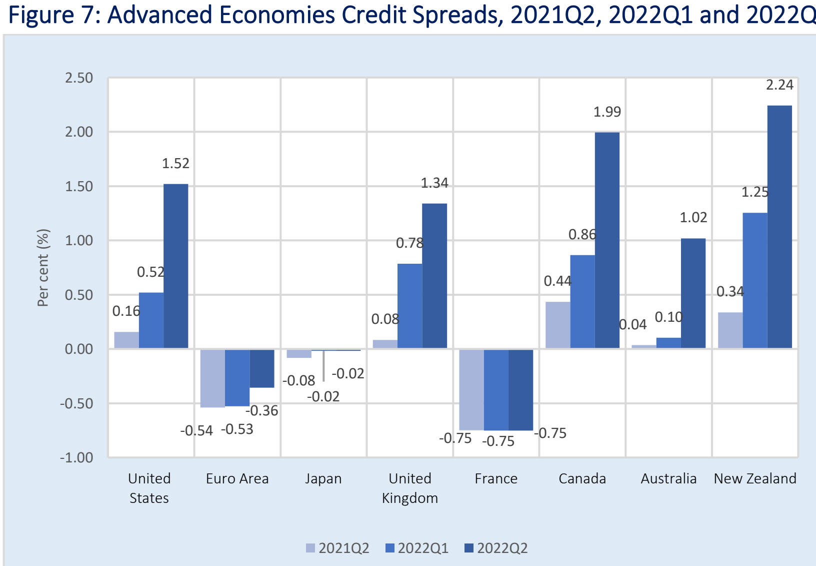
Figure 6: 10-Year Government Bond Yields, 2021Q2, 2022Q1 and 2022Q2



Source: *Bloomberg.*

During the quarter, credit spreads widened, as the effects of the Russia-Ukraine war on global credit conditions became more pronounced, suggesting increased investors' risk-aversion. Furthermore, rising inflation, lower growth prospects, and central bank policy tightening, led to wider spreads, particularly in more vulnerable commodity-importing countries. Defaults might rise from historically low levels, as these dynamics are expected to have adverse effects, particularly in countries with high-debt profiles. Spreads in the US, UK, and Canada widened to 1.52 per cent, 1.34 per cent and 1.99 per cent, respectively, from 0.52 per cent, 0.78 per cent and 0.86 per cent in the first quarter of 2022.

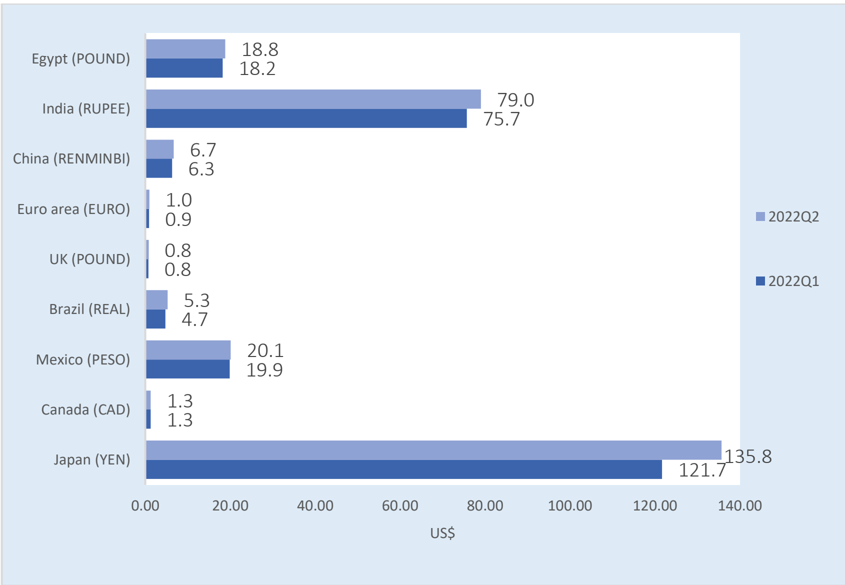
Figure 7: Advanced Economies Credit Spreads, 2021Q2, 2022Q1 and 2022Q2



Source: *Bloomberg.*

Against a challenging macroeconomic backdrop of high inflation and low growth, most major currencies weakened against the dollar amid high uncertainty from geo-political tensions. Several analysts have concluded that the USD has reached a record level of overvaluation, as the Fed aggressively combats inflation. The Canadian Dollar and Mexican Peso closed at CAD1.29/US$ and MEX$20.11/US$, at end-June 2022, from CAD1.25/US$ and MEX$19.87/US$, at end-March 2022, representing a 3.10 and 1.19 per cent depreciation, respectively. The Euro and British Pound also weakened against the Dollar, as both currencies depreciated by 7.32 per cent and 5.26 per cent, respectively, in the review period. The Egyptian Pound experienced a slight depreciation of 3.03 per cent against the dollar, in the second quarter of 2022.

Figure 8: Foreign Exchange Market, end-2022Q1 and end-2022Q2



Source: *Bloomberg.*

1.4 Central Banks' Policy Rates

The monetary policy environment sustained its hawkish stance during the second quarter of 2022, to tame rising inflationary pressures. Most central banks continued to tighten their monetary policy to rein in inflationary pressures. In advanced economies, the US Fed raised its policy rate by a cumulative 125 basis points (bps), to 1.75 per cent between the first and second quarter of 2022. Similarly, the Bank of England raised its policy rate by 50 bps in 2022Q2 to 1.25 per cent, while the Bank of Canada raised its policy rate to 1.50 per cent.

Several central banks in EMDEs tightened monetary policy to contain rising prices and remain competitive with foreign portfolio investors. Bank of Mexico increased its repo rate by 125bps, cumulatively, to 7.75 per cent between March and June 2022. Other emerging market central banks, such as South Africa, and Ghana, also raised their policy rates in 2022Q2. Conversely, China continued a dovish monetary stance, bringing down the rates to 2.85 per cent, from 3.75 per cent in the previous quarter.

Table 2: Central Bank Policy Rates (Per cent)

Country	2021Q2	2022Q1	2022Q2
United States	0.25	0.50	1.75
United Kingdom	0.10	0.75	1.25
Japan	-0.10	-0.10	-0.10
Canada	0.25	0.25	1.5
Euro Area	0	0	0
China	3.85	3.75	2.85
India	4.00	4.00	4.90
Mexico	4.25	6.50	7.75
Indonesia	3.50	3.75	3.50
Turkey	19.00	14.00	14.00
South Africa	3.50	4.25	4.70
Ghana	13.50	17.00	19.00
Nigeria	**11.50**	**11.50**	**13.00**

Source: *Various Central Banks' websites.*

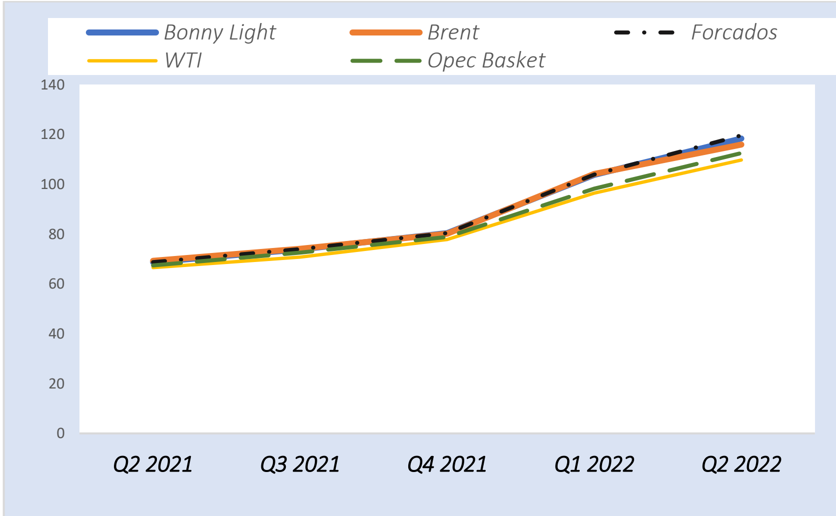
1.5 Global Oil Market

Crude Oil Prices

Crude oil spot prices rose in the second quarter of 2022, due to heightened supply disruptions in Libya, and the EU decision to ban Russian crude imports. The average spot price of Nigeria's reference crude oil, the Bonny Light (34.9° API), rose by 14.0 per cent to US$118.34 per barrel (pb) in 2022Q2, compared with US$103.81 pb in the preceding quarter. The prices of Brent, at US$115.91 pb, Forcados at US$119.60 pb, WTI at US$109.73 pb and OPEC Reference Basket (ORB) at US$112.50 pb, also exhibited a similar trend.

The rise in crude oil prices was largely attributed to heightened concerns about future supply availability following the European Union's (EU) decision to ban 90 per cent of crude oil imports from Russia by the end of the year. In addition, supply disruptions occasioned by political unrest in Libya, contributed to higher crude oil prices.

Figure 9: Trends in Crude Oil Prices (US$ per barrel)



Source: *Refinitiv Eikon (Thomson Reuters), CBN Staff Compilation.*

World Crude Supply and Demand

Total world crude oil supply increased in the second quarter of 2022, as OPEC+ supply rose in line with the continued implementation of the current production agreement. Total world crude oil supply increased by 1.0 per cent to 99.21 million barrels per day (mbpd) in 2022Q2, compared with 98.27 mbpd in 2022Q1. The rise was largely driven by increased supply from OECD-producing countries, following the agreement by the International Energy Agency (IEA) member countries to release 120 million barrels of crude oil from their strategic reserves for six months, beginning in April 2022. This was in addition to the US scheduled release of 180 million barrels of crude oil from its Strategic Petroleum Reserve over six months, starting from March 2022. OPEC's crude oil supply rose by 1.2 per cent to 28.56 mbpd in the second quarter of 2022, from 28.21 mbpd in the first quarter of 2022. The rise was mainly driven by increased supply from Saudi Arabia, Iraq, United Arab Emirates (UAE) and Iran.

On the demand side, total world demand declined by 0.2 per cent to 98.77 mbpd in the second quarter of 2022, compared with 98.92 mbpd in the preceding quarter. The decline in demand was due majorly to the imposition of COVID-19 lockdown restrictions in parts of China, which significantly reduced economic activity in the country.

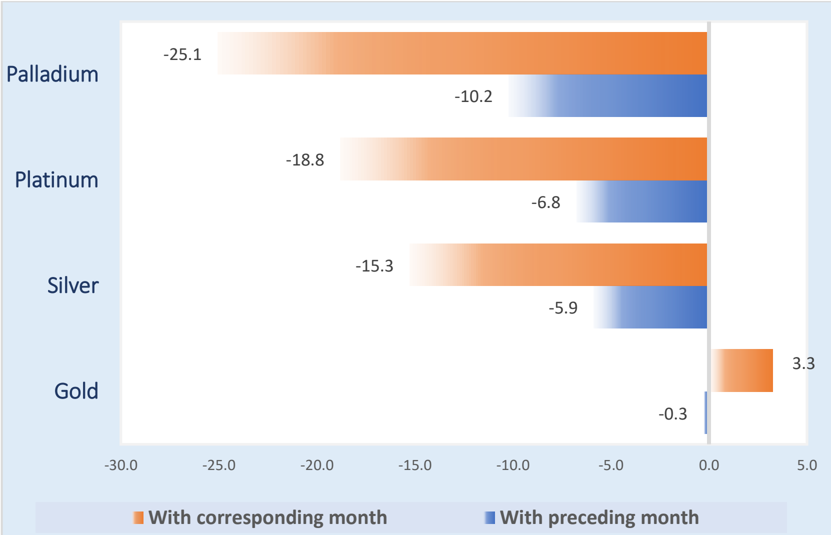
Other Mineral Commodities

Average spot prices of gold, silver, platinum, and palladium decreased in the second quarter of 2022, as investors' switch to more attractive interest-bearing investments. The average spot prices of gold and silver declined by 0.3 per cent and 5.9 per cent, quarter-on-quarter, to sell at US$1,872.98 per ounce and US$22.61 per ounce, compared with

US$1,878.12 per ounce and US$24.02 per ounce, respectively, recorded in the preceding quarter. The price development was due to lower demand for the precious metals as haven assets, occasioned by higher yields on US treasury bonds following the Federal Reserve hike in interest rates to curtail surging inflation.

Similarly, the prices of platinum and palladium declined by 6.8 per cent and 10.2 per cent to sell at US$957.26 per ounce and US$2,088.12 per ounce in the second quarter of 2022, compared with US$1,026.61 per ounce and US$2,325.43 per ounce, respectively, in the preceding quarter. The prices of industrial metals declined in response to pessimism about future demand as major central banks raised interest rates to tame inflation, which could slow global economic activity.

Figure 10: Price Changes in Selected Metals (Per cent) for 2022Q2



Source: *Refinitiv Eikon IV (Reuters).*

1.6 Global Commodity Market Developments

Other Mineral Commodities

The indices of the average world prices of Nigeria's major agricultural export commodities recorded mixed developments in the second quarter of 2022. Nevertheless, the all-commodities price index edged up, fuelled by stronger wheat and cotton prices. The average price index for all the monitored commodities at 108.2 (2010=100) rose by 7.3 per cent, above the level in the previous quarter. Prices of wheat, cotton, palm oil and soya bean rose by 24.3 per cent, 20.2 per cent, 9.2 per cent and 9.1 per cent, respectively. The development was due to India's announcement on the ban of wheat export, amid global supply concerns, fuelled by declining 2022 production prospects and disruptions to shipments owing to the war in Ukraine. Factors influencing the price increase included higher input costs, labour shortages, and unfavourable weather conditions.

In contrast, the prices of rubber (8.1 per cent), cocoa and coffee (4.2 per cent apiece) and groundnut (1.6 per cent) declined compared with the previous quarter, largely, on the back of improved exports from key suppliers.

Table 3: Indices of Average World Prices of Nigeria's Major Agricultural Export Commodities for the Second Quarter of 2022 (in US$; Dec. 2010=100)

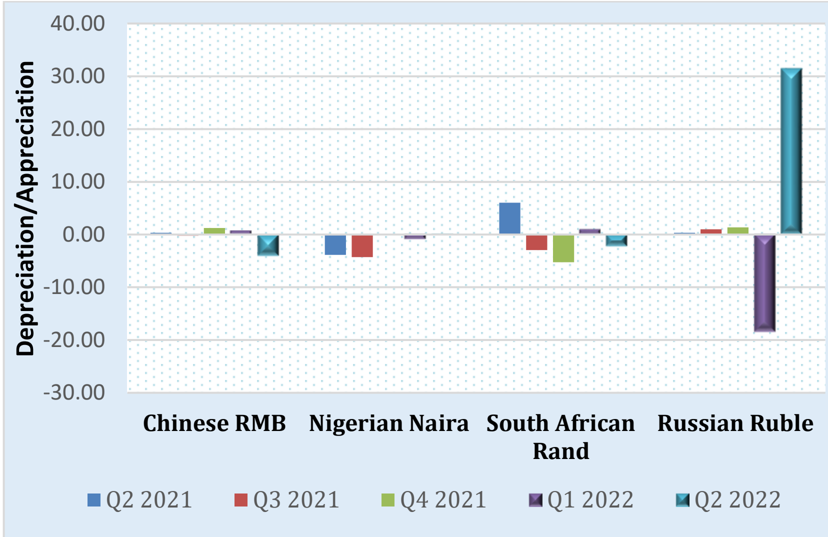
COMMODITY	2021Q2	2022Q1	2022Q2	% Change	
				(1) & (3)	(2) & (3)
	1	2	3	4	5
All Commodities	81.49	100.85	108.24	32.82	7.33
Cocoa	77.86	81.46	78.01	0.2	-4.2
Cotton	54.83	81.67	98.20	79.1	20.2
Coffee	84.67	114.52	109.67	29.5	-4.2
Wheat	93.93	136.05	169.16	80.1	24.3
Rubber	35.34	37.78	34.72	-1.7	-8.1
Groundnut	105.08	108.48	106.72	1.6	-1.6
Palm Oil	86.91	125.38	136.88	57.5	9.2
Soya Beans	113.34	121.45	132.56	17.0	9.1

Source: *(1 & 2) World Bank Pink Sheet (3) Staff Estimates*

Selected Emerging Market Currencies

The performance of emerging market currencies against the US dollar was mixed during the review period. The South African Rand and Chinese RMB depreciated by 2.2 per cent and 4.0 per cent, respectively, relative to the levels in the preceding quarter. However, the Russian Ruble appreciated against the dollar by 31.4 per cent, in the second quarter of 2022.

Figure 11: EMEs Currency Values to the US dollar



Source: *Central Bank of Nigeria & Reuters*

Table 4: EMEs Currency Rates to the US dollar

Period	*Chinese RMB*	*Nigerian Naira*	*South African Rand*	*Russian Ruble*
2021 Q2	*6.46*	*394.31*	*14.14*	*74.20*
2021 Q1	*6.35*	*416.34*	*15.23*	*88.83*
2022 Q2	*6.62*	*415.71*	*15.57*	*67.59*

Source: *Central Bank of Nigeria & Reuters*

2.0 DOMESTIC ECONOMIC DEVELOPMENTS

2.1 REAL SECTOR DEVELOPMENTS

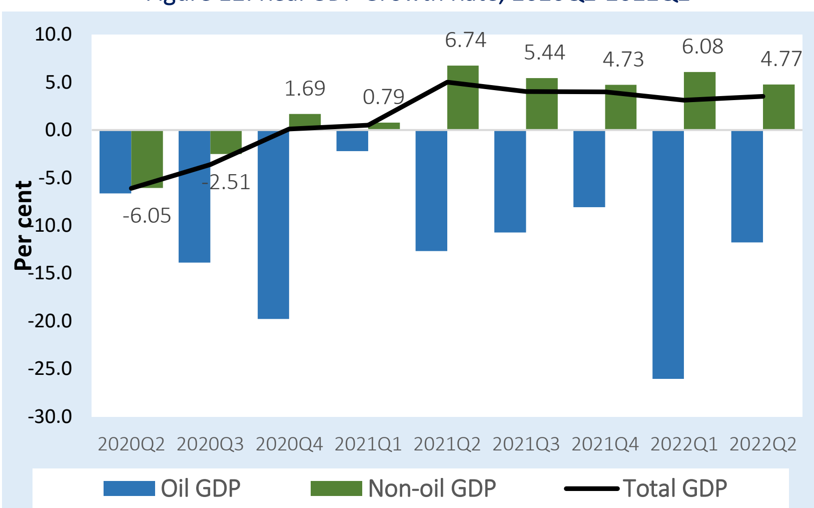
2.1.1 Domestic Output and Business Activities

Domestic Output and Economic Activities

In the second quarter of 2022, the economy recorded growth, for the seventh consecutive quarter, supported by favourable fiscal and monetary conditions. At ₦17,285.88 billion, real GDP grew by 3.54 per cent in the second quarter of 2022 (year-on-year), compared with 3.11 per cent and 5.01 per cent in first quarter of 2022 and the corresponding quarter of 2021, respectively. The growth in real GDP was driven mainly by the non-oil sector. However, compared with the preceding quarter, real GDP contracted by 0.37 per cent.

The non-oil sector grew by 4.77 per cent and contributed 4.28 percentage points to real GDP growth. The improvement largely reflected the strong growth in the ICT sub-sector, following new investments and demand for ICT services. In addition, the optimism surrounding the sustained administration of the COVID-19 vaccine boosted business sentiments. However, the growth outcome was significantly weakened by the lower-than-expected performance of the oil sector which contracted by 11.77 per cent and contributed -0.87 percentage point to the overall growth during the period. Subdued investments in the sector coupled with operational challenges were responsible for the poor performance.

Figure 12: Real GDP Growth Rate, 2020Q2-2022Q2

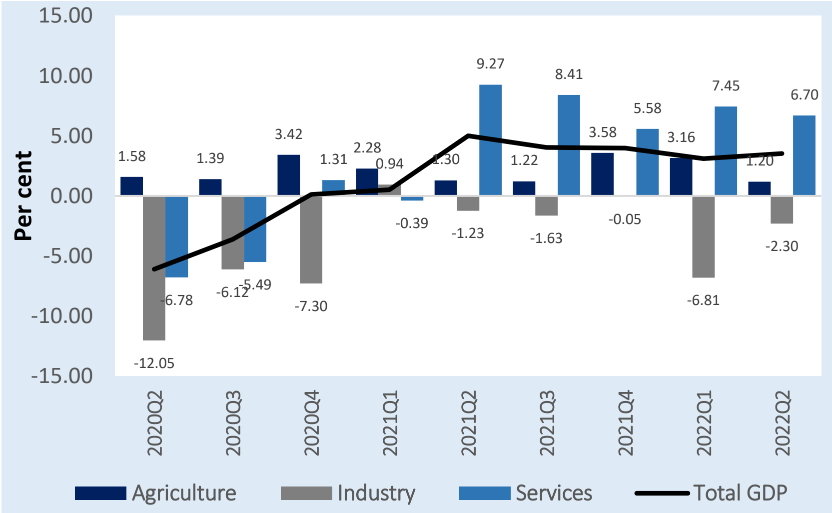


***Source**: National Bureau of Statistics (NBS)*

Sectoral Performance

In real terms, the Services and Agriculture sectors grew in the second quarter of 2022, while the industry sector continued to contract. The Services sector continued its impressive performance, growing by 6.70 per cent in 2022Q2, compared with 7.45 per cent and 9.27 per cent in 2022Q1 and the corresponding period of 2021, respectively. The sector contributed the most to GDP growth by 3.73 percentage points.

Figure 13: Sectoral Growth Rate of Real GDP, 2020Q2-2022Q2



***Source**: National Bureau of Statistics (NBS)*

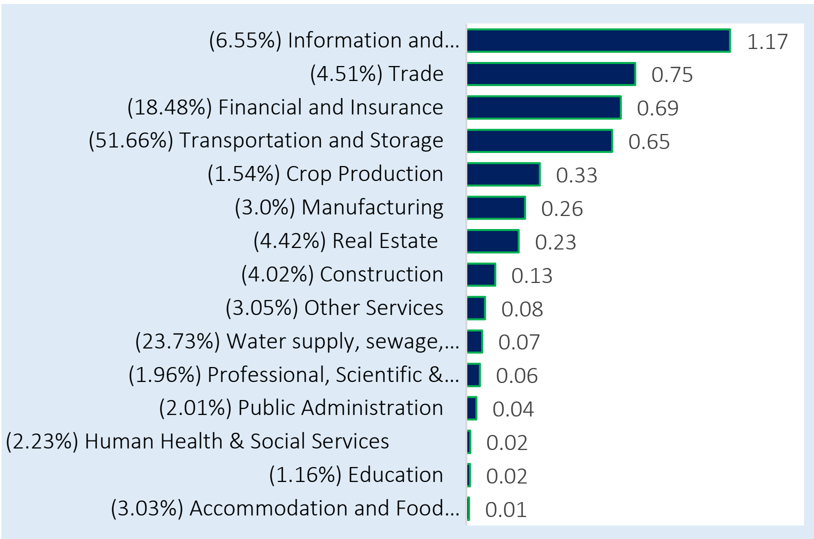
ICT, Trade, Financial & Insurance and Transport sectors drove overall growth within the Services sector, contributing 1.17, 0.75, 0.69 and 0.65 percentage points, respectively. The subsectors grew by 6.55 per cent, 4.51 per cent, 18.48 per cent and 51.66 per cent, respectively, compared with the second quarter of 2021.

The agriculture sector, at 1.20 per cent, sustained its recent growth trajectory, though at a slower pace, and contributed 0.29 percentage points to GDP growth. Security challenges and higher input costs continue to constrain the realisation of potential output in the sector. Sub-sectoral analysis shows that crop, forestry, and fishery production grew by 1.54 per cent, 1.29 per cent and 0.89 per cent, respectively, compared to 2.97 per cent, 1.37 per cent and 3.14 per cent, respectively, in 2022Q1. However, livestock production contracted by 2.87 per cent, against the growth of 5.55 per cent in 2022Q1 and 0.13 per cent a year ago.

The industry sector contracted by 2.30 per cent in the second quarter of 2022, an improvement from 6.81 per cent contraction in the first quarter of 2022. The sector's performance was due to the decline in

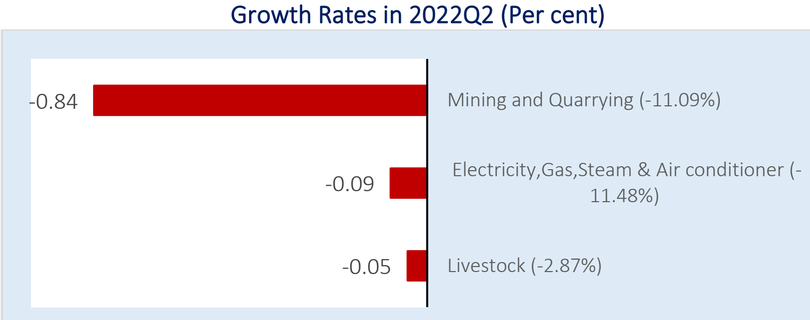
Metal Ores and Crude Petroleum & Natural Gas production by 25.48 per cent and 11.77 per cent, respectively. Specifically, crude oil production decreased to 1.28 mbpd from 1.45 mbpd and 1.46 mbpd produced in the first quarter of 2022 and the corresponding quarter of 2021, respectively. The development was attributed to the persisting damages to some key pipelines and terminals, the frequent shut-in, and the force majeure declared on Bonny and Brass terminals over increased cases of pipeline vandalism.

Figure 14: Top 15 Subsectors with largest Contribution to GDP Growth and their Growth Rates in 2022Q2 (Per cent)



***Source**: National Bureau of Statistics (NBS)*

Figure 15: Subsectors with Least Contribution to GDP Growth and their Growth Rates in 2022Q2 (Per cent)



***Source**: National Bureau of Statistics (NBS)*

2.1.2. Index of Industrial Production

Industrial Production

The not-too-impressive performance of the industry sector was further corroborated by the Index of Industrial Production at 94.9 (2010=100), as it declined by 7.2 per cent, attributed to declining crude oil and natural gas production and manufacturing activities.

Manufacturing

Similarly, the manufacturing and mining production index fell by 16.0 per cent and 4.8 per cent to 169.8 (2010) and 56.4 (2010=100), respectively, from their levels a quarter ago. The contraction witnessed in the manufacturing sector, impacted the capacity in the sector as the estimated average capacity utilisation declined by 1.6 percentage points to 51.3 (2010=100). The contraction arose from supply-side constraints that included persisting foreign exchange shortage which impacted imported raw materials, and the rising cost of local input as the price of diesel continued to increase.

2.1.3 Energy Sector

Electricity Generation & Consumption

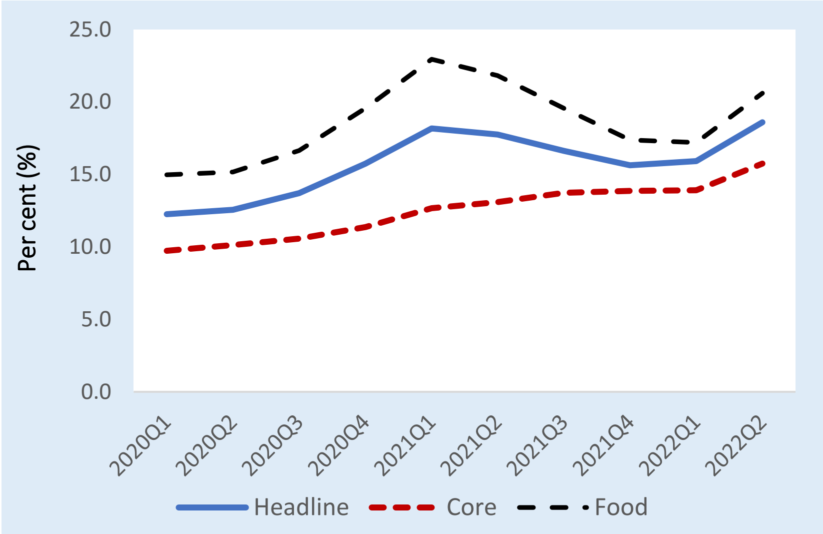
The energy sector suffered from incessant national grid collapse resulting from limited gas supply, the low water level at the generating plants, and the breakdown of the transmission network. The lower-than-expected supply of electricity was one of the factors that constrained industrial output. Consequently, the average electricity generation in the second quarter of 2022 declined by 13.1 per cent to 3,535.77 MW/h from 4,068.00 MW/h in the preceding quarter. Equally, the average electricity consumption for the second quarter of 2022 at 3,050.31 MW/h, fell by 15.6 per cent, compared with 3,615.82 MW/h in the preceding quarter.

2.1.4 Consumer Prices

Headline Inflation

Headline Inflation remained elevated in the second quarter of 2022, driven by domestic and global supply chain disruptions, heightening transportation, and production costs. Headline inflation (year-on-year) rose to 18.60 per cent in the second quarter of 2022, compared with 15.92 per cent, in the previous quarter. The cost of clothing and footwear; housing, water, energy; health; education; processed food; and imported food items were the major contributors to the increase in prices.

Figure 16: Headline, Food and Core Inflation (Year-on-Year)



Source: *National Bureau of Statistics (NBS) & Staff Estimates*

Core Inflation

Core inflation rose to 15.75 per cent in the second quarter of 2022, compared with 13.91 per cent in the previous quarter. The increase in core inflation was attributed to the rising cost of imported goods due to the global supply chain disruption occasioned by the Russia-Ukraine war. Also, the increase in the cost of processed food, clothing and footwear, health and transportation contributed to the uptick in core inflation.

Food Inflation

Food inflation also rose to 20.60 per cent (year-on-year) in the second quarter of 2022, compared with 17.20 per cent in the first quarter of 2022. The rise in food inflation was attributed to demand outweighing supply as the planting season kicked in during the quarter. Hence, the increase in the prices of potatoes, yam & other tubers in addition to those of other staples.

Box Information 1

The prices of major domestic food commodities increased in 2022Q2, compared with the previous quarter. The increase ranged from 0.4 per cent for garri (yellow) to 13.0 per cent for tomato. The development was attributed to below-average market availabilities resulting partly from the persisting security challenges, which hindered farm output and strong market demand. Increased transportation costs, driven by high diesel price added pressure on domestic food prices.

DOMESTIC PRICES OF SELECTED AGRICULTURAL COMMODITY PRICES SECOND QUARTER 2022

		2021Q2	2022Q1	2022Q2	% Change	% Change
	UNIT	1	2	3	(1) & (3)	(2) & (3)
Agric eggs medium size	*1kg*	*542.80*	*650.84*	*689.91*	*27.1*	*6.0*
Beans: brown, sold loose	*"*	*429.76*	*508.36*	*538.55*	*25.3*	*5.9*
Beans: white black eye, sold loose	*"*	*399.56*	*491.44*	*526.95*	*31.9*	*7.2*
Gari white, sold loose	*"*	*300.83*	*309.41*	*324.49*	*7.9*	*4.9*
Gari yellow, sold loose	*"*	*318.96*	*337.86*	*339.31*	*6.4*	*0.4*
Groundnut oil: 1 bottle, specify bottle	*"*	*706.99*	*957.60*	*1035.08*	*46.4*	*8.1*
Irish potato	*"*	*331.32*	*429.62*	*457.28*	*38.0*	*6.4*
Maize grain white, sold loose	*"*	*248.38*	*285.88*	*314.41*	*26.6*	*10.0*
Maize grain yellow, sold loose	*"*	*255.40*	*285.76*	*312.39*	*22.3*	*9.3*
Onion bulb	*"*	*306.00*	*368.65*	*386.33*	*26.3*	*4.8*
Palm oil: 1 bottle, specify bottle	*"*	*593.81*	*817.19*	*850.11*	*43.2*	*4.0*
Rice agric, sold loose	*"*	*445.68*	*487.48*	*508.83*	*14.2*	*4.4*
Rice local, sold loose	*"*	*399.56*	*433.30*	*445.64*	*11.5*	*2.8*
Rice, medium grained	*"*	*443.65*	*482.59*	*498.89*	*12.5*	*3.4*
Rice, imported high quality, sold loose	*"*	*547.55*	*588.31*	*620.89*	*13.4*	*5.5*
Sweet potato	*"*	*173.89*	*221.87*	*232.73*	*33.8*	*4.9*
Tomato	*"*	*305.41*	*381.77*	*431.49*	*41.3*	*13.0*
Vegetable oil: 1 bottle, specify bottle	*"*	*690.77*	*934.47*	*997.85*	*44.5*	*6.8*
Wheat flour: prepackaged (Golden Penny)	*2kg*	*786.78*	*1001.45*	*1063.94*	*35.2*	*6.2*
Yam tuber	*1kg*	*270.10*	*338.33*	*371.51*	*37.5*	*9.8*

Sources: National Bureau of Statistics

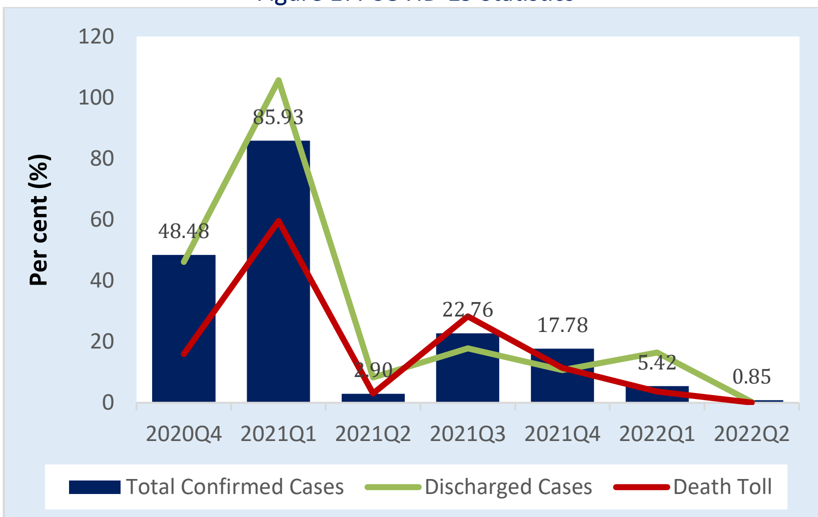
2.1.5 Socio-Economic Developments

Health/ COVID-19 Update

The increase in confirmed cases slowed following sustained surveillance and response activities by relevant health authorities. Data from the National Centre for Disease Control (NCDC) showed that at end-June 2022, the rate of confirmed cases slowed to 0.85 per cent, compared with 5.4 per cent in the first quarter of 2022. However, the rate of active cases increased by 54.9 per cent, while discharged cases decreased by 0.1 per cent. During the second quarter 2 deaths were reported, as against 111 deaths reported in the first quarter of 2022.

Available data from the National Primary Health Care Development Agency (NPHCDA) showed that 20.9 per cent of the target population had been fully vaccinated as at end-June 2022, compared with 11.2 per cent in the previous quarter, while 10.7 per cent had been partially vaccinated against COVID-19 infection.

Figure 17: COVID-19 Statistics[1]



Source: *National Centre for Disease Control (NCDC)*

2.1.6 Domestic Crude Oil Market Developments

Crude Oil Production & Export

Domestic crude oil production and export declined in the second quarter 2022, due to cases of pipeline vandalism and oil theft in the Niger-Delta region. Nigeria's average crude oil production and export declined by 11.7 per cent and 17.0 per cent to 1.28 mbpd and 0.83 mbpd in 2022Q2, respectively. Nigeria's production level fell short of its OPEC quota of 1.75 mbpd, by 470,000 bpd in the second quarter of 2022. The decline in crude oil production and export was due to Nembe Creek Trunk and the Trans-Niger pipeline vandalism and oil theft. Furthermore, the force majeures declared on Bonny and Brass crude streams in April 2022, also negatively impacted production levels in the se cond quarter of 2022.

[1] Covid-19 data as at end-June, 2022.

2.1.7 Development Financing

Development Financing

The Bank's support to the growth-enhancing sectors of the economy has continued to sustain the recovery of output growth towards its pre-recession and COVID-19 trajectory. A total of ₦139.46 billion was disbursed in the second quarter of 2022 to the industries, energy/manufacturing, MSMEs, Agriculture, and health sectors. Of the total disbursements, the industrial sector accounted for the highest share of 64.80 per cent, owing to improved activities under the RSSF-DCRR window for 11 projects aimed at stimulating output growth, enhancing value addition, and engendering productivity in the economy. This was followed by MSMEs (17.93 per cent), infrastructure (15.21 per cent), health (1.43 per cent), and agriculture (0.07 per cent).

Table 5: Intervention Funds, as of 24 June 2022

Sector	24-JUN			Cumulative			
	Disburs (N'bn)	Share (%)	Beneficiaries	Disburs. (N'bn)	Share (%)	Repayments (N'bn)	Beneficiaries
Agriculture	**0.87**	**0.63**		**1,750.35**	**31.18**		
Anchor Borrowers' Programme	*0.10*	0.07	*100 Smallholder farmers*	1,006.03	17.92	-	*4,209,622 farmers*
N1,006.03 billion Commercial Agricultural Credit Scheme (CACS)	*0.77*	0.55	*1 Rice mill project*	744.32	13.26	-	*678 projects*
Energy/Infrastructure	**21.21**	**15.21**		**1,619.69**	**28.85**	-	
Nigeria Electricity Market Stabilization Facility 2 (NEMSF 2)	*1.21*	0.87	-	*254.46*	4.53	-	*10 projects*
Nigeria Bulk Electricity Trading-Payment Assurance Facility (NBET-PAF)	*5.00*	3.59	-	*1,300.03*	23.15	-	-
Infrastructure facility for National Gas Expansion Programme (IFNGEP)	*15.00*	10.76	*9 projects*	*65.20*	1.16	-	*15 projects*
MSMEs	**25.00**	**17.93**		**415.74**	**7.41**	-	
Tertiary Institutions Entrepreneurship Scheme (TIES)	*N/A*	N/A	*N/A*	*0.29*	0.01		*59*
Targeted Credit Facility (TCF)	*25.00*	17.93	*48,485 Households & SMEs*	*415.45*	7.40	-	*797,351*
Industries	**90.38**	**64.80**		**1,694.45**	**30.18**	-	**403 Projects**
100 for 100 PPP	*7.32*	5.24	*4 Projects*	*133.42*	1.10	-	
RSSF Using Differentiated Cash Reserve Ratio (RSSF-DCRR)	*83.06*	59.56	*11 Projects*	*1,632.75*	29.09	-	*403 projects*
Health	**2.00**	**1.43**		**133.42**	**2.38**		**126**
Health Care Sector Intervention Fund (HSIF)	*2.00*	1.43	*1 healthcare project*	*130.49*	2.38		*128 healthcare projects*
Total	***139.46***	**100**		***5,613.65***	**100**		

Source: *Central Bank of Nigeria.*

2.2 FISCAL SECTOR DEVELOPMENTS

Summary

The fiscal operations of the Federal Government of Nigeria (FGN) in the second quarter of 2022 remained aligned with the extant fiscal frameworks[2], which seek to achieve macroeconomic stability, improve revenue generation, and create fiscal space to boost infrastructural development, among other objectives. Fiscal conditions in the second quarter of 2022 improved, relative to the preceding quarter, following enhanced oil and non-oil receipts. However, revenue targets fell short of the benchmarks. The increased earnings moderated the shortfall in FGN retained revenue from the target by 2.7 per cent, compared to a 17.1 per cent decline in FGN expenditure. Consequently, the provisional fiscal deficit contracted by 21.5 per cent, relative to the preceding quarter. Total public debt remained elevated but within the sustainable level, at ₦42,845.88 billion or 23.7 per cent of GDP, at end-June 2022.

2.2.1 Federation Account Operations

Drivers of Federation Revenue

Receipts into the Federation Account improved in the second quarter of 2022, following a boost in oil and non-oil revenue outcomes. Gross federation receipts in *the second quarter of* 2022, at ₦3, 204.17 billion, exceeded the level in *the first quarter of* 2022, by 40.8 per cent, but fell below the benchmark of ₦4,598.25 billion by 30.3 per cent. The higher revenue outcome was attributed to the sustained rise in crude oil prices and the seasonality effect on the corporate income tax receipt. However, the revenue performance remained subdued by rising petroleum (PMS) subsidy payments. In terms of contribution to total government revenue, non-oil revenue continued its dominance, constituting 59.5 per cent, while oil revenue accounted for the balance of 40.5 per cent.

Oil revenue, at ₦1,296.24 billion, outperformed receipts in the preceding quarter by 62.2 per cent. The improved performance was driven by the 79.5 per cent rise in collections from Petroleum Profit Tax and Royalties. However, it was below the quarterly target of ₦2,375.11 billion by 45.4 per cent.

Similarly, at ₦1, 907.93 billion, non-oil receipts, exceeded collections in the preceding quarter by 29.3 per cent, but fell short of the quarterly target by 14.2 per cent. The increased earnings relative to the first quarter of 2022Q1, was ascribed, largely, to the significant rise in receipts from corporate income tax, as the reporting period coincided

[2] *The 2022 Appropriation Act, the 2022-2024 Medium-Term Expenditure Framework and the Fiscal Strategy Papers (MTEF&FSP 2022-2024).*

with the end-June cut-off date for filing tax returns by registered companies in Nigeria.

Source: OAGF and CBN Staff Estimates

Table 6: Federally-Collected Revenue and Distribution to the Three-Tiers of Government (₦ Billion)

	2021-Q2	2022-Q1	2022-Q2 1/	Budget
Federation Revenue (Gross)	***2,501.60***	***2,274.93***	***3,204.17***	***4,598.26***
Oil	***965.16***	***799.10***	***1,296.24***	***2,375.11***
Crude Oil & Gas Exports	3.79	0.00	0.00	202.71
PPT & Royalties	736.80	610.94	1096.70	1592.74
Domestic Crude Oil/Gas Sales	190.83	162.70	176.42	126.13
Others	33.74	25.46	23.11	453.53
Non-oil	***1,536.44***	***1,475.83***	***1,907.93***	***2,223.15***
Corporate Tax	490.13	343.97	625.94	496.95
Customs & Excise Duties	277.46	385.72	403.65	464.64
Value-Added Tax (VAT)	539.50	570.35	611.51	610.45
Independent Revenue of Fed. Govt.	220.02	167.00	258.04	554.05
*Others**	9.33	8.79	8.79	97.06
Total Deductions/Transfers**	***820.34***	***607.72***	***1,267.37***	***1,049.22***
Federally-Collected Revenue *Less Deductions & Transfers*	***1,681.25***	***1,667.21***	***1,936.80***	***3,549.03***
plus:				
Additional Revenue	***105.41***	***197.83***	***106.16***	***52.44***
Balance in Special Account from 2019	***0.00***	***0.00***	***0.00***	***0.00***
Excess Crude Revenue	0.00	0.00	0.00	0.00
Non-oil Excess Revenue	98.50	187.48	106.16	52.44
Exchange Gain	6.91	10.35	0.00	0.00
Total Distributed Balance	***1,786.67***	***1,865.04***	***2,042.96***	***3,601.47***
Federal Government	***698.28***	***720.21***	***753.74***	***1,527.27***
Statutory	623.02	640.55	668.33	1,442.44
VAT	75.26	79.67	85.42	84.83
State Government	***566.87***	***590.45***	***664.94***	***1,036.62***
Statutory	316.00	324.89	380.22	753.86
VAT	250.87	265.55	284.72	282.76
13% Derivation	***102.29***	***118.01***	***135.30***	***260.33***
Local Government	***419.23***	***436.37***	***488.98***	***777.26***
Statutory	243.62	250.48	289.68	579.33
VAT	175.61	185.89	199.30	197.93

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

A net distributable balance of ₦2,042.96 billion was disbursed to the three tiers of government, after accounting for statutory deductions, transfers, and additional inflow from Non-oil Excess revenue. Of this amount, the Federal Government received ₦753.74 billion, while State and Local governments received ₦664.94 billion and ₦488.98 billion, respectively. The balance of ₦135.30 billion was distributed to the oil-producing states as 13.0% derivation fund. Disbursement in 2022Q2 was 9.5 per cent above the preceding quarter, and 43.3 per cent, below the target.

2.2.2 Fiscal Operations of the Federal Government

Federal Government Retained Revenue

Despite the rise in the FGN Independent Revenue, the retained revenue of the FGN declined, due to shortfalls in the non-stable components of the FGN revenue[3]. At ₦1, 052.42 billion, the estimated retained revenue of the FGN was below receipts in the preceding quarter and the budget by 2.7 per cent and 60.8 per cent, respectively.

Table 7:FGN Retained Revenue (₦ Billion), Second Quarter 2022

	2021Q2	2022Q1	2022Q2	Budget
FGN Retained Revenue	**1,329.95**	**1,082.05**	**1,052.42**	**2,685.20**
Federation Account	568.38	536.88	649.05	1,434.57
VAT Pool Account	75.26	79.67	85.42	84.83
FGN Independent Revenue	272.20	167.00	258.04	554.05
Excess Oil Revenue	0.00	0.00	0.00	0.00
Excess Non-Oil	3.29	98.76	19.27	0.00
Exchange Gain	51.35	4.90	0.00	0.00
*Others**	359.47	194.83	40.64	611.75

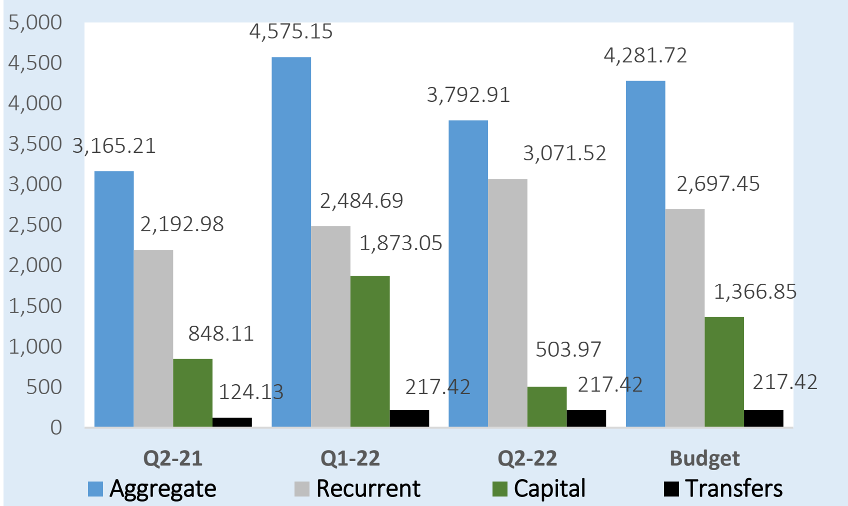
Source: *Compiled from OAGF figures*
*Note: * Others include revenue from Special Accounts, Special Levies and share of dividend.*
Note: The Budget figures are provisional.

Federal Government Expenditure

Driven by a reduction in capital spending, the provisional aggregate expenditure of the FGN fell by 17.1 per cent and 11.4 per cent, relative to the level in the first quarter of 2022 and the quarterly target, respectively. The provisional aggregate expenditure of the FGN amounted to ₦3,792.91 billion in the review period. A breakdown revealed that recurrent expenditure, capital expenditure, and transfers accounted for 81.0 per cent, 13.3 per cent and 5.7 per cent of total expenditure, respectively.

[3] Including Excess oil, Excess Non-oil, Exchange gain and Others.

Figure 18: Federal Government Expenditure (₦ Billion), Second Quarter 2022



Source: *CBN Staff Estimates and Compilation from OAGF data*

Overall Fiscal Balance

The drop in FGN expenditure, compared with the decline in FGN retained revenue, induced a contraction in fiscal deficits in the second quarter of 2022. At ₦2,740.49 billion, the provisional fiscal deficit of the FGN was 21.5 per cent below the level in the preceding quarter. However, fiscal deficits expanded by 71.7 per cent, when compared with the quarterly budget of ₦1,596.52 billion.

Table 8: Fiscal Balance (₦ Billion), Second Quarter 2022

	2021Q2	*2022Q1*	*2022Q2*	*Budget*
Retained revenue	*1,329.95*	*1,082.05*	*1,052.42*	*2,685.20*
Aggregate expenditure	*3,165.21*	*4,575.15*	*3,792.91*	*4,281.72*
Recurrent	*2,192.98*	*2,484.69*	*3,071.52*	*2,697.45*
Non-debt	*1,292.95*	*1,238.68*	*1,246.02*	*1,727.46*
Debt Service	*900.02*	*1,246.01*	*1,825.50*	*969.99*
Transfers	*124.13*	*217.42*	*217.42*	*217.42*
Capital	*848.11*	*1,873.05*	*503.97*	*1,366.85*
Primary balance	*-935.24*	*-2247.10*	*-914.99*	*-626.53*
Overall balance	*-1,835.27*	*-3,493.11*	*-2,740.49*	*-1,596.52*

Source: *Compiled from OAGF figures and CBN Staff Estimates*
Note: *The figures are provisional.*

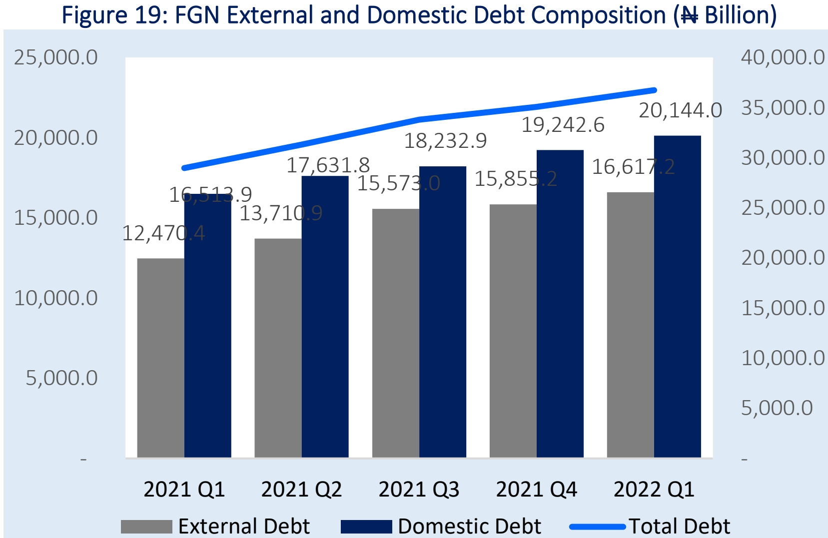
Federal Government Debt

Although public borrowing was in tandem with the Medium-Term Debt Strategy (2020-2023) of the FGN, debt levels remained sustainable in the review period. At ₦42,845.88 billion at end-June 2022, the total public debt outstanding rose by 3.0 per cent relative to the level at end-March 2022. Domestic debt accounted for 61.2 per cent of total debt, while external debt constituted 38.8 per cent. Of the consolidated public debt outstanding, FGN (including State governments' external debt, which forms part of the FGN's contingent liability) accounted for ₦37,564.60 billion (87.7 per cent), while the State governments' domestic debt stock accounted for the balance of ₦5,281.28 billion (12.3 per cent).

Further analysis shows that FGN domestic debt stood at ₦20,948.94 billion (55.8 per cent), compared with ₦16,615.66 billion (44.2 per cent) in external debt. FGN bond issues maintained its dominance, accounting for 72.5 per cent of the total domestic debt, followed by Treasury Bills (21.5 per cent), FGN Sukuk (2.9 per cent), Promissory Notes (2.5 per cent), and others[4] (0.6 per cent). Regarding holders of Nigeria's external debt, Multilateral, Commercial and Bilateral loans accounted for 47.8 per cent, 39.0 per cent and 11.7 per cent, respectively, while 'other' loans constituted 1.5 per cent.

Debt service obligations in 2022Q2, amounted to ₦912.71 billion, compared with ₦897.17 billion in 2022Q1. The rise was attributed to the principal repayments and redemption of matured debt obligations.

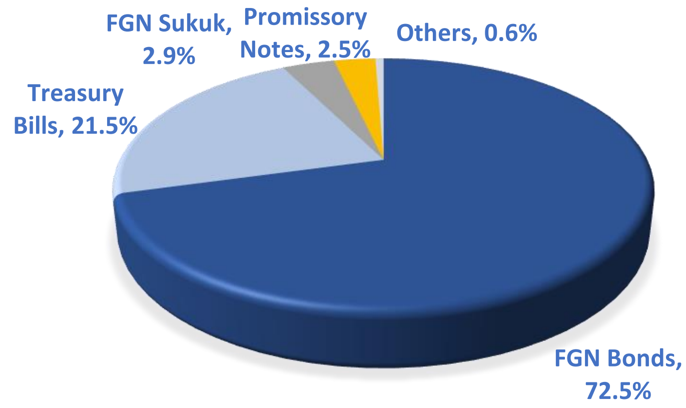
Figure 19: FGN External and Domestic Debt Composition (₦ Billion)



***Source**: Compiled from Debt Management Office (DMO) figures.*

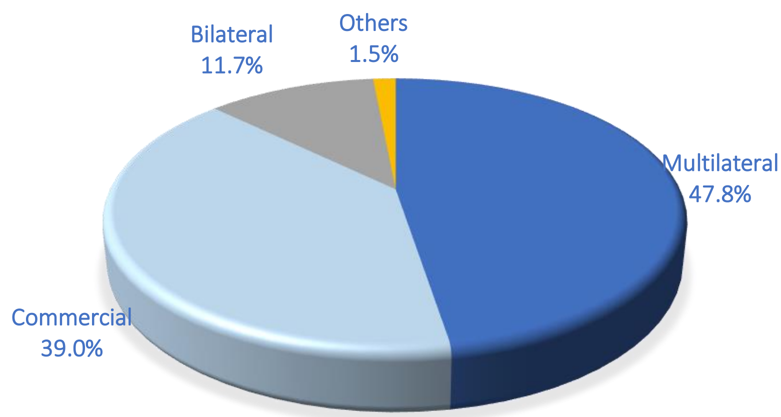
[4] This includes Treasury bonds (0.4 per cent), Green bond (0.1 per cent) and Special FGN Savings bond (0.1 per cent).

Figure 20: Composition of Domestic Debt Stock by Instrument



Source: *Compiled from Debt Management Office (DMO) figures.*

Figure 21: Composition of External Debt Stock by Holders



Source: *Compiled from Debt Management Office (DMO) figures.*

2.3 MONETARY AND FINANCIAL DEVELOPMENTS

Summary

Monetary aggregates grew in the second quarter of 2022 owing to credit expansion to the critical sectors of the economy. Despite increased credit, activities from open market operations and primary market sales subdued the level of banking system liquidity in the review quarter. The low level of liquidity, coupled with the increase in MPR, resulted in a mixed trend in key short-term interest rates. The financial sector remained stable, as the key financial soundness indicators were within regulatory thresholds. Activities on the Nigerian Exchange (NGX) Limited sustained bullish performance, owing to gains by Blue-chip corporates.

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2.3.1 Monetary Developments

Reserve Money

Reserve money grew in the second quarter of 2022, owing to the increase in liability to other depository corporations (ODCs). Higher deposits and penal debits on banks that defaulted on the minimum Loan-to-Deposit Ratio requirement, revved-up required reserves of ODCs in the review period, which, majorly, triggered a significant growth of 13.5 per cent in liabilities to the ODCs. The growth in reserve money was however, moderated by the slight decline in currency in circulation to ₦3,259.27 billion. Consequently, reserve money grew by 9.7 per cent to ₦14,579.57 billion at the end of the review quarter. With the money multiplier at 3.4, the pace of growth in the broad money supply continued in the second quarter of 2022.

Table 9: Components of Reserve Money (₦ Billion)

	2021Q2	2021Q4	2022Q1	2022Q2
Monetary Base	**12,333.85**	**13,295.15**	**14,301.77**	**14,579.57**
Currency-in-Circulation	*2,741.26*	*3,325.16*	*3,245.59*	*3,259.27*
Naira and coins	*2,741.26*	*3,324.22*	*3,244.59*	*3,257.91*
eNaira	*-*	*0.94*	*1.00*	*1.36*
Liabilities to ODCs	*9,592.59*	*9,969.99*	*11,056.17*	*11,320.30*
Money Multiplier (M3)	3.20	3.30	3.19	3.35

Source: *Central Bank of Nigeria*

Broad money Supply

Broad money (M3) grew significantly in the second quarter of 2022, owing to the effects of net domestic assets, which outweighed the decline in net foreign assets. The net domestic assets (NDA), grew by 21.8 per cent, mirroring the 18.0 per cent growth in domestic claims. The upward movement in domestic claims was hinged on the 10.7 and 9.3 percentage points contributions from net claims on central government and claims on other sectors, respectively.

Net claims on the central government grew considerably by 35.0 per cent, due to the increase in loans to the central government. The rise in claims on other sectors largely reflected the 11.8 per cent increase in claims on private sector, which contributed 6.5 percentage points to the growth in M3.

The growth in NDA pushed the broad money supply (M3) northward by 11.5 per cent (annualised at 23.0 per cent) to ₦48,865.82 billion at end-June 2022, compared to the provisional benchmark of 14.9 per cent. Conversely, the net foreign assets (NFA) of depository corporations declined by 29.2 per cent due to the rise in liabilities to non-residents, occasioned by increased deposits and foreign loans.

Table 10: Money and Credit Growth over preceding December (Per cent)

	Contribution to M_3 growth (June-22)	Jun-21	Mar-22	Jun-22	Annualised rate	2022 Benchmark
Net Foreign Assets	-5.87	-18.73	-14.19	-29.18	-58.36	-
Claims on Non-residents	0.43	-7.14	-2.74	0.91	1.81	-
Liabilities to Non-residents	6.30	2.49	5.66	23.00	46.00	-
Net Domestic Assets	17.39	7.64	8.82	21.77	43.53	-
Domestic Claims	19.96	6.85	8.59	18.02	36.05	16.23
Net Claims on Central Government	10.66	0.88	22.46	35.04	70.08	12.26
Claims on Central Government	12.72	6.76	12.48	22.49	44.98	-
Liabilities to Central Government	2.06	14.72	0.86	7.89	15.77	-
Claims on Other Sectors	9.30	9.15	3.35	11.58	23.16	17.73
Claims on Other Financial Corporations	0.52	-1.89	-0.82	2.89	5.78	-
Claims on State and Local Government	1.71	1.92	20.33	30.06	60.13	-
Claims on Public Nonfinancial Corporations	0.60	9.73	34.77	30.07	60.14	-
Claims on Private Sector	6.47	8.40	1.80	11.84	23.68	-
Total Monetary Assets (M_3)	**11.52**	**1.56**	**4.19**	**11.52**	**23.04**	**14.92**
Currency Outside Depository Corporations	-0.49	-7.61	-7.36	-7.34	-14.68	-
Transferable Deposits	5.57	3.67	10.87	16.01	32.03	-
Narrow Money (M_1)	5.07	1.89	7.92	12.24	24.47	-
Other Deposits	6.29	20.63	1.55	10.75	21.50	-
Broad Money (M_2)	11.37	1.21	4.19	11.37	22.73	14.92
Total Monetary Liabilities(M_3)	**11.52**	**1.56**	**4.19**	**11.52**	**23.04**	**14.92**

Source: *Central Bank of Nigeria*

The growth in total monetary liabilities was due to the rise in transferable deposits and other deposits by 16.0 and 10.8 per cent, respectively. In terms of relative contribution, other deposits at 6.3 percentage points contributed the most to the growth in total monetary liabilities, followed by transferable deposits with 5.6 percentage points. On the other hand, currency outside depository corporations declined by 7.3 per cent and contributed -0.5 percentage points to the growth in total monetary liabilities.

2.3.2 Credit Utilisation

Sectoral Utilisation of Credit

Softening financial conditions, driven by the sustained LDR policy and developmental initiatives, spurred growth in sectoral credit and continued to aid productivity and output in the economy. Total credit utilisation by sectors grew by 6.2 per cent to ₦26,846.40 billion in 2022Q2, from ₦25,282.72 billion in 2022Q1. By disaggregation, credit to the agriculture, industry and services sectors increased to ₦1,630.38 billion, ₦ 10,591.87 billion and ₦ 14,624.15 billion, respectively, relative to ₦1,604.72 billion, ₦10,016.88 billion and ₦13,660.76 billion, respectively, in the preceding quarter. An analysis of the relative share of the sectors in total credit revealed that, services and industry sectors sustained ascendancy with 54.5 and 39.5 per cent, respectively, while agriculture accounted for the balance.

Table 11: Relative Share in Total Sectoral Credit (Per cent)

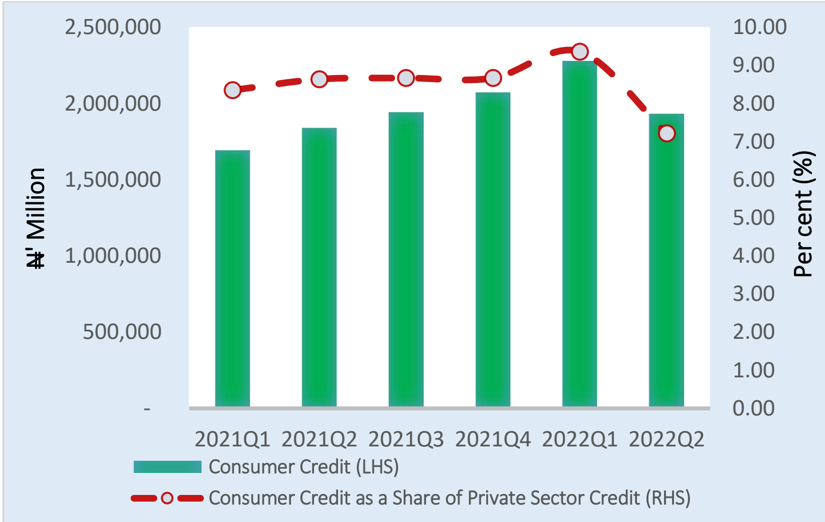
	2021Q2	2022Q1	2022Q2
Agriculture	**5.27**	**6.35**	**6.07**
Industry	**42.36**	**39.62**	**39.45**
Of which; Construction	*5.00*	*4.27*	*4.39*
Services	**52.37**	**54.03**	**54.47**
Of which; Trade/General Commerce	*6.29*	*7.05*	*7.13*

Source: *Central Bank of Nigeria*

Consumer Credit

Despite the softening financial conditions, consumer credit extended by the ODCs contracted below its level in the preceding quarter. Consumer credit outstanding declined by 15.2 per cent to ₦1,933.14 billion at end-June 2022, from ₦2,279.45 billion at the end-March 2022. The decline was partly due to decreased banking system liquidity and the ripple effect of the increase in the Monetary Policy Rate (MPR) to 13.0 per cent by the Monetary Policy Committee (MPC) of the CBN in its May 2022 meeting. The share of consumer credit in total private sector credit shrank by 2.1 percentage points to 7.2 per cent, from 9.4 per cent in the preceding quarter.

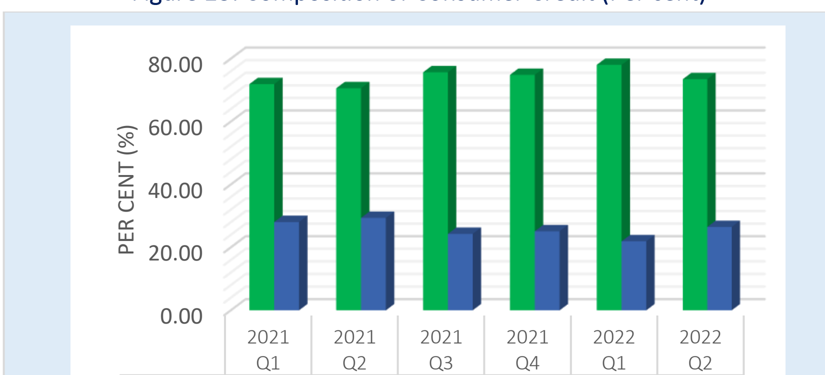
Figure 22: Consumer Credit Outstanding



Source: *Central Bank of Nigeria*

A disaggregation of consumer loans revealed that Personal loans, maintained dominance, accounting for 73.5 per cent of total loans, while retail loans accounted for the remaining 26.5 per cent.

Figure 23: Composition of Consumer Credit (Per cent)



	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2
Personal	71.92	70.61	75.69	74.87	78.05	73.49
Retail	28.08	29.39	24.31	25.13	21.95	26.51

Source: *Central Bank of Nigeria*

Liquidity Management

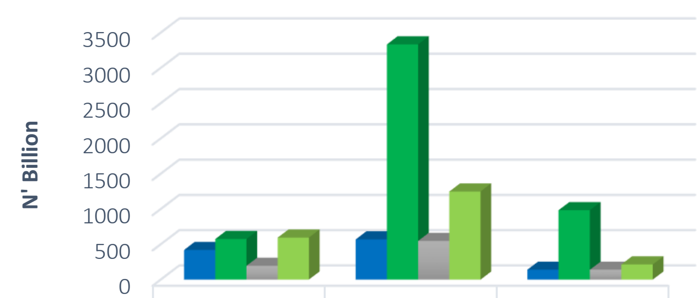
2.3.3 Money Market Developments

Activities in open market operations and primary market sales subdued the level of banking system liquidity in the review quarter. OMO auctions of ₦190.00 billion and primary market sales of ₦1,241.69 billion, culminated in a withdrawal of ₦1,431.69 billion from the banking system, which exceeded the injection of ₦1,037.45 billion from matured securities, resulting in a net withdrawal from the banking system. Consequently, the average banking system liquidity position declined by 25.3 per cent to ₦186.77 billion, from ₦250.15 billion in the preceding quarter.

Open Market Operations

The Bank carried out direct OMO auctions with maturities of 103 to 362 days in the review quarter. Total amount offered, subscribed and allotted dropped to ₦140.00 billion, ₦983.59 billion and ₦140.00 billion, respectively, from ₦570.00 billion, ₦3,333.67 billion and ₦548.12 billion in the preceding quarter.

Figure 24:Open Market Operation, Second Quarter



	2021Q2 (N'Billion)	2022Q1 (N'Billion)	2022Q2 (N'Billion)
Offer	420.00	570.00	140.00
Subscription	575.01	3,333.67	983.59
Allotment	195.43	548.12	140.00
Repayment	595.46	1,248.85	215.01

Source: *Central Bank of Nigeria*

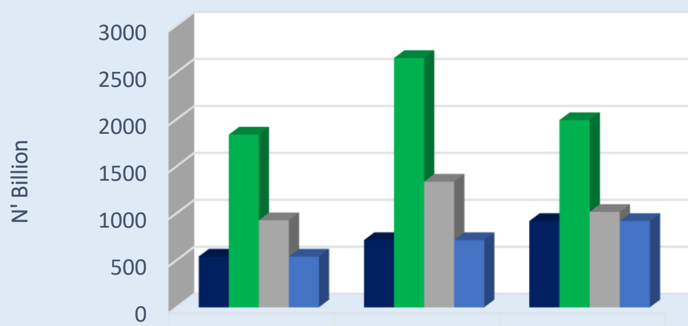
Standing Facilities

Activities at the standing facilities during the review quarter reflected the low level of liquidity in the banking system. Despite the increase in MPR by 150 basis points to 13.0 per cent, which propelled a hike in applicable rate for the Standing Lending Facility (SLF) to 14.0 per cent, total SLF rose significantly by 103.2 per cent to ₦3,619.12 billion, with a daily average of ₦77.00 billion, compared with ₦902.17 billion and a daily average of ₦26.53 billion in the preceding quarter. Other depository corporations resorted to this window to square up their customers' demands. Expectantly, transactions at the Standing Deposit Facility (SDF) window showed a reverse trend, with a decline of 34.4 per cent to ₦894.88 billion relative to ₦1,363.87 billion in the preceding quarter.

Primary Market

Investments in the Nigerian Treasury Bills (NTBs) decreased, while that of the FGN Bonds increased in the review quarter. Notwithstanding the increase in the NTB stop rate to 4.09 (±2.35) per cent, from 3.63 (±1.88) per cent in the preceding quarter, total subscriptions in NTBs declined by 24.94 per cent to ₦1,992.80 billion, from ₦2,654.78 billion, in the preceding quarter. Subscriptions for the Bills signified investors' preference for the 364-day tenored instruments, which accounted for ₦1,866.30 billion or 93.7 per cent of total subscriptions.

Figure 25:Primary Market NTBs, Second Quarter 2022



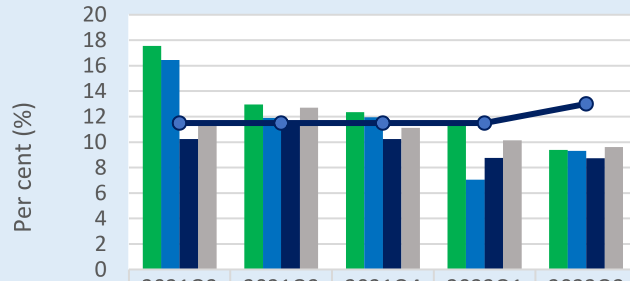
	2021Q2 (N'Billion)	2022Q1 (N'Billion)	2022Q2 (N'Billion)
Offer	540.56	715.72	918.92
Subsription	1,839.03	2,654.78	1,992.80
Allotment	927.62	1,337.60	1,015.56
Repayment	540.56	715.57	918.92

Source: *Central Bank of Nigeria*

Subscriptions for the FGN Bonds increased by 3.8 per cent to ₦1, 537.40 billion, compared with, ₦1,481.38 billion in the preceding quarter, reflecting investors' preference for longer-tenored instruments.

Key short-term interest rates exhibited mixed developments and were generally below the Bank's monetary policy rate. Average daily inter-bank call and Open-Buy-Back rates were 9.25 (±4.75) per cent and 9.24 (±4.69) per cent, respectively, compared with 10.25 (±5.75) per cent and 7.93 (±7.36) per cent in the preceding quarter. Other rates such as the 30-day and 90-day NIBOR traded at averages of 8.74 and 9.61 per cent compared with 8.77 and 10.2 per cent in the preceding quarter, respectively.

Figure 26: Developments in Short-term Interest Rates



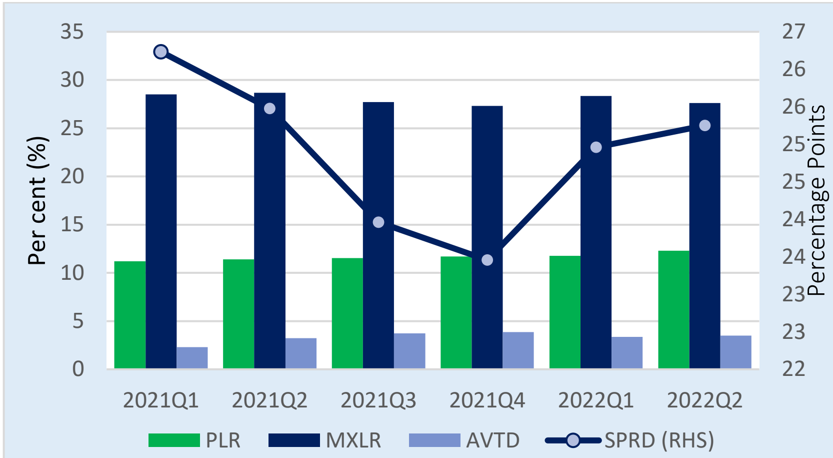
	2021Q2 (%)	2021Q3 (%)	2021Q4 (%)	2022Q1 (%)	2022Q2 (%)
Interbank Call Rate	17.56	12.96	12.36	11.33	9.40
OBB	16.46	11.89	11.96	7.05	9.31
NIBOR 30-day	10.24	11.63	10.24	8.77	8.74
NIBOR 90-day	11.43	12.70	11.13	10.15	9.61
MPR	11.50	11.50	11.50	11.50	13.00

***Source**: Central Bank of Nigeria*

Lending rates were relatively stable during the review quarter, though, trended upwards slightly, in response to an increase in the MPR. The average prime and maximum lending rate increased marginally by 0.5 and 1.0 percentage points to 12.3 per cent and 27.6 per cent in the review quarter, from 11.8 per cent and 26.6 per cent in the preceding quarter, respectively.

Likewise, the average term-deposit rate increased by 0.2 percentage points to 3.5 per cent, from 3.3 per cent in the preceding quarter, widening the spread between the average term deposit and maximum lending rates to 25.3 percentage points, from 24.4 percentage points in the preceding quarter.

Figure 27: Trend in Average Deposit and Lending Rates



***Source**: Central Bank of Nigeria; **Note:** PLR = Prime lending rate, MXLR = Maximum lending rate, AVTD = Average term deposit rate, SPRD = Spread between AVTD and MXLR.*

2.3.4 Capital Market Developments

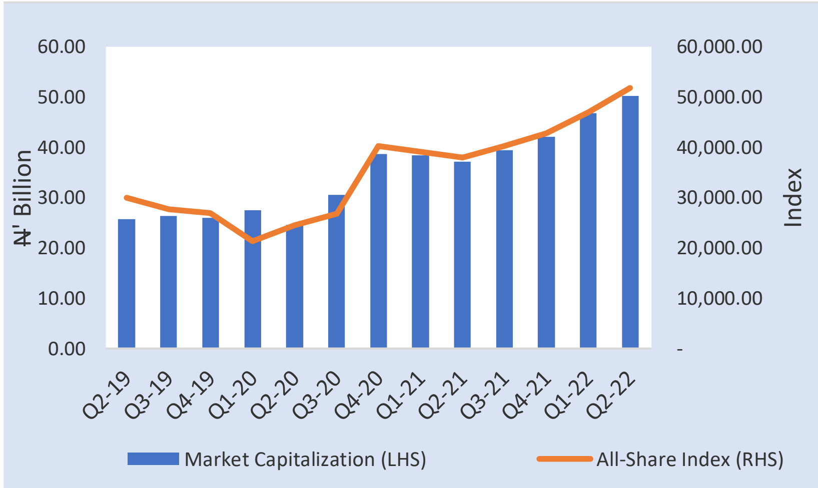
Market Capitalisation

Activities on the Nigerian Exchange (NGX) Limited sustained a bullish run in 2022Q2, owing to gains by Blue-chip corporates. The aggregate market capitalisation appreciated by 7.3 per cent to ₦50,172.09 billion, relative to ₦46,746.70 billion in 2022Q1. A breakdown of the aggregate shows that equities, debt and ETF, constituted 55.68 per cent, 44.31 per cent, 0.01 per cent, respectively. In the equities segment, market capitalisation rose by 10.4 per cent to ₦27,935.36 billion from ₦25,311.83 billion in the preceding quarter. Similarly, debt and ETF ended higher by 3.7 per cent and 5.8 per cent to 22,218.51 billion and 7.44 billion, respectively, from the previous level in the preceding quarter.

NGX All Share Index

The All-Share Index (ASI), which opened at 46,842.86 at the beginning of the quarter, closed at 51,817.59 at the end of the quarter, reflecting an increase of 10.3 per cent. The increase was attributed to gains by Blue-chip companies such as Guaranty Trust Holding Company Plc, Caverton Offshore Support Group Plc and United Bank for Africa Plc.

Figure 28: Aggregate Market Capitalisation and All-Share Index



Source: *Nigeria Exchange (NGX) Limited.*

In the review quarter, thirteen (13) sectoral indices trended upward, four (4) trended downward, and one (1) remained flat relative to their levels in the preceding quarter.

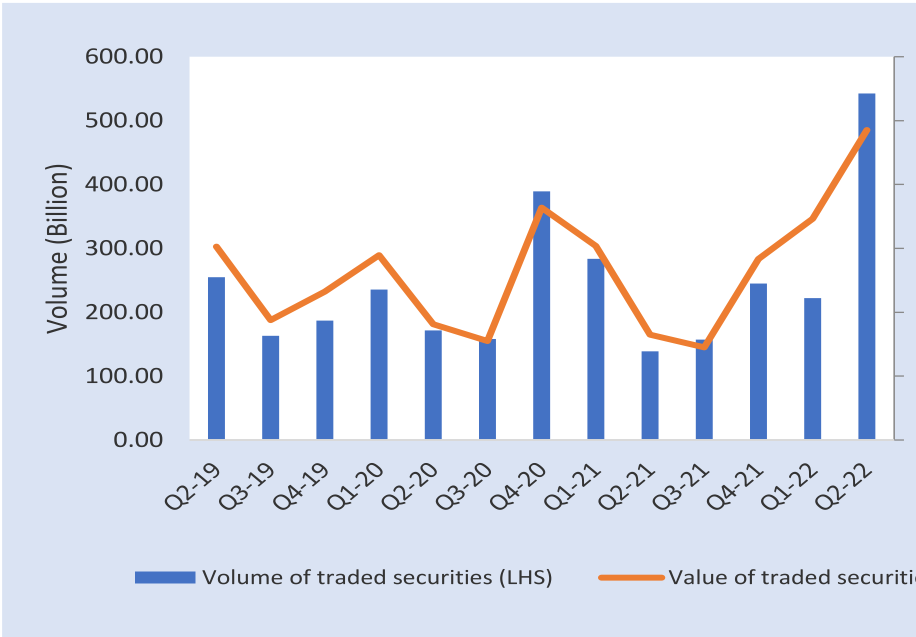
Table 12:Nigeria Exchange (NGX) Limited Sectoral Indices

NGX Indices	2022Q1	2022Q2	Changes (%)
NGX -OIL/GAS	440.44	545.34	23.8
NGX -MERI GROWTH	2,045.57	2,364.94	15.6
NGX -MAIN BOARD	1,973.01	2,274.79	15.3
NGX-CONSUMER GOODS	554.16	623.99	12.6
NGX -PREMIUM	4,494.12	4,924.13	9.6
NGX -AFR Div Yield	2,965.93	3,191.06	7.6
NGX -PENSION	1,704.43	1,823.58	7.0
NGX 30- INDEX	1,791.07	1,887.62	5.4
NGX -LOTUS	3,092.84	3,251.25	5.1
NGX-CG	1,276.56	1,319.70	3.4
NGX Growth Index	1,446.50	1,487.20	2.8
NGX- MERI VALUE	2,127.56	2,167.09	1.9
NGX -INDUSTRIAL	2,116.51	2,152.24	1.7
NGX -Asem	658.99	658.99	0.0
NGX Sovereign	858.28	854.22	-0.5
NGX -BANKING	409.28	397.79	-2.8
NGX -INSURANCE	186.16	178.33	-4.2
NGX -AFR BANK VALUE	968.26	925.95	-4.4

Source: *Nigeria Exchange (NGX) Limited*

The total turnover volume and value of the traded securities on the Exchange, rose by 144.0 per cent and 40.2 per cent, respectively, to 54.27 billion shares, and ₦485.41 billion, in 320,759 deals, relative to the 22.24 billion shares worth ₦346.24 billion, in 290,238 deals, at the end of 2022Q1.

Figure 29:Volume and Value of Traded Securities



Source: *Nigeria Exchange (NGX) Limited.*

There were three (3) new listings, eight (8) supplementary listings on the Exchange in 2022Q2.

Table 13: Listings on the Nigerian Exchange Limited in 2022Q2

Company/ Security	Shares Units	Remarks	Listing
NGX30 INDEX Future Contract		Derivatives	New
NGX PENSION INDEX Future Contract		Derivatives	New
12.50% FGN APR 2032	155,917,447	Bond	New
ABC Transport Plc	1,127,236,000 Ordinary Shares of 50 Kobo Each at ₦0.35	Right Issue	Supplementary
NPF Microfinance Bank Plc	3,107,001,335	Right issue	Supplementary
9.47% FGS MAR 2024	626,544	Bond	Supplementary
10.47% FGS MAR 2025	1,527,278	Bond	Supplementary
13.53% FGN MAR 2025	163,201,376	Bond	Supplementary
13.00% FGN JAN 2026	127,635,000	Bond	Supplementary
12.50% FGN APR 2032	118,494,199	Bond	Supplementary
13.00% FGN JAN 2042	458,753,401	Bond	Supplementary

Source: *Nigeria Exchange (NGX) Limited.*
Notes: *FGN=Federal Government of Nigeria, FGS=Federal Government of Nigeria Savings Bond.*

2.3.5 Financial Soundness Indicators

The financial sector remained stable, as the key financial soundness indicators were within regulatory thresholds. The Industry Capital Adequacy Ratio (CAR) fell by 0.5 percentage points to 14.1 per cent from 14.6 per cent in the preceding quarter. The decline was attributed to the increase in banks' risk-weighted assets, which offset the increase in their total qualifying capital. However, the ratio remained above the minimum threshold of 10 per cent.

Similarly, the non-performing loan ratio fell by 0.08 percentage point to 5.0 per cent, relative to the level in the preceding quarter, owing to banks' increase in loan recoveries. Similarly, the Industry Liquidity Ratio (LR) decreased by 1.6 percentage points to 54.2 per cent, from 55.8 per cent, reflecting a decrease in the stock of liquid assets held by banks, compared with 55.8 per cent recorded in the preceding quarter. However, the LR was above the regulatory benchmark of 30.0 per cent.

2.4. EXTERNAL SECTOR DEVELOPMENTS

2.4.1 External Balance

Summary

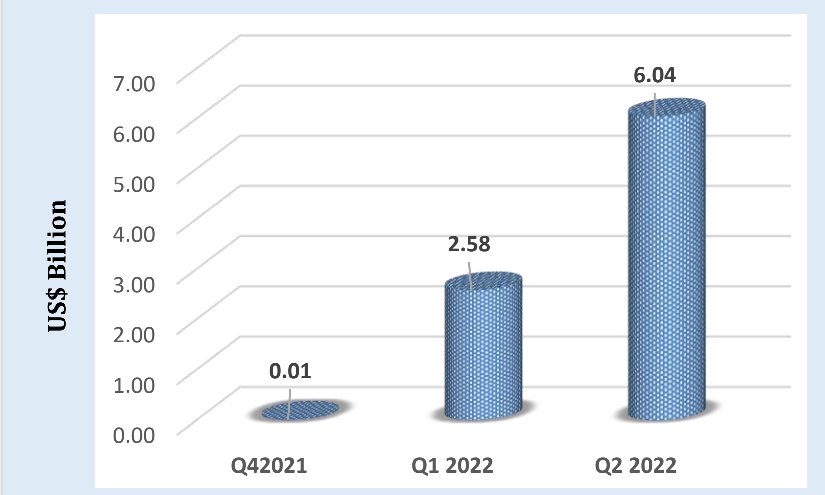
Soaring commodity prices resulting from the lingering supply chain disruptions, occasioned by the Russia-Ukraine conflict, improved export proceeds, and the surplus in the current account in 2022Q2. The financial account recorded a net acquisition of financial assets of US$1.32 billion, relative to US$1.67 billion in the preceding quarter. However, an estimated overall balance of payments deficit position of US$0.30 billion was recorded in the external account, relative to US$0.88 billion in the first quarter of 2022. The external reserves at end-June 2022 declined to US$39.22 billion, compared with US$39.52 billion at end-March 2022. The level could finance 9.1 months of goods only or 7.2 months of goods and services import. Public external debt at end-March 2022 stood at US$39.97 billion, compared with US$38.39 billion at end-December 2021. Following the Bank's sustained intervention in the foreign exchange market, the average exchange rate of the naira per US dollar at the I&E window, appreciated by 0.2 per cent to ₦415.71/US$, compared with ₦416.34/US$, in the first quarter of 2022.

2.4.2 Current & Capital Account Developments

Current and Capital Account Developments

The current account posted a higher surplus owing to sustained high crude oil prices, which improved the trade surplus and narrowed the deficit in the primary income account. The estimated current account recorded a surplus of US$6.61 billion (6.1 per cent of GDP), relative to US$2.58 billion (2.4 per cent of GDP) in the preceding quarter. The improvement was due to an increase in export earnings, lower import bills for goods, a narrower primary income account deficit on account of reduced repatriation of dividends, and the sustained surplus in the secondary income account.

Figure 30: Current Account Balance



Source: *Central Bank of Nigeria*

Export Performance

Aggregate export earnings were boosted by further commodity price improvement in the review period. Export earnings rose by 11.5 per cent to US$19.30 billion in the second quarter of 2022, compared with US$17.30 billion in the preceding period. A breakdown shows that crude oil and gas exports increased by 11.1 per cent to US$17.06 billion, relative to US$15.36 billion in the preceding quarter. The development was driven, majorly, by the increase in the average price of Nigeria's reference crude, the Bonny Light, to US$118.34 per barrel, relative to US$103.81 in the preceding quarter. Similarly, non-oil and electricity export receipts increased by 15.0 per cent to US$2.24 billion, from US$1.95 billion in the preceding quarter. In terms of share of total exports, crude oil and gas export receipts remained dominant, accounting for 88.4 per cent, while non-oil export accounted for the balance.

Merchandise Import

The challenges in global supply chains, arising from the lockdown in China and the Russia-Ukraine crisis, subdued merchandise import in the review period. Provisional data shows that merchandise import fell by 5.2 per cent to US$12.95 billion in the second quarter of 2022, relative to US$13.66 billion in the preceding quarter. This was occasioned majorly, by the decline in the importation of non-oil products by 10.6 per cent to US$8.45 billion, from US$9.45 billion in the preceding quarter. However, the import of petroleum products increased by 6.9 per cent to US$4.50 billion, from US$4.21 billion in the preceding quarter, to bridge the persisting supply gap in the economy. The share of non-oil import remained dominant, accounting for 65.3 per cent of total import, while petroleum products represented the balance of 34.7 per cent.

A breakdown of non-oil import by sector revealed that import of raw materials and machinery for industrial use accounted for the largest share of 50.3 per cent, reflecting the optimism of improved domestic business sentiments. Other sectoral import shares were: manufactured products, 20.8 per cent; food products, 13.2 per cent; oil, 7.3 per cent; transport, 3.6 per cent; mineral, 3.5 per cent; and agricultural products, 1.2 per cent.

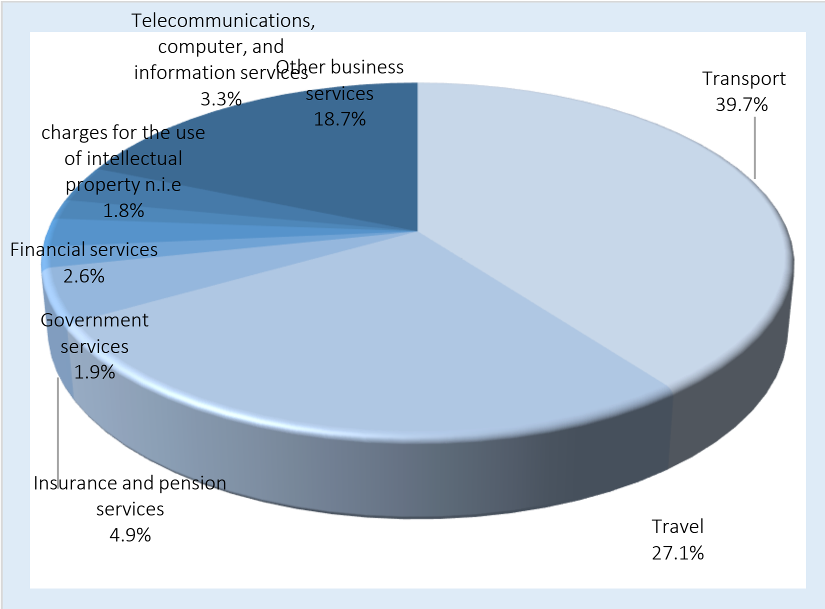
Services

The deficit in the services account widened as the demand for services increased, driven majorly by the payment for insurance & pension, and financial services during the review period. Payment for services amounted to US$3.50 billion, while services receipts was US$0.64 billion, resulting in an increased deficit by 1.0 per cent to US$2.86 billion in the second quarter of 2022, relative to the preceding quarter. The higher deficit was on account of the 5.3 per cent and 59.2 per cent increase in payments for insurance & pension and financial services, respectively.

Analysis by shares shows that payment for transportation and travel services stood at US$1.39 billion and US$0.95 billion, respectively, accounting for 39.7 per cent and 27.1 per cent of total services payment. Other business services at US$0.65 billion accounted for 18.7 per cent of the total. Payment for insurance and pension service was US$0.17 billion constituting 4.9 per cent of the total, while payment for telecommunication services, financial services, government goods and services, and charges for the use of intellectual properties were

US$0.12 billion or 3.3 per cent, US$0.09 billion or 2.6 per cent, US$0.07 or 1.9 per cent, 0.06 or 1.8 per cent of the total, respectively.

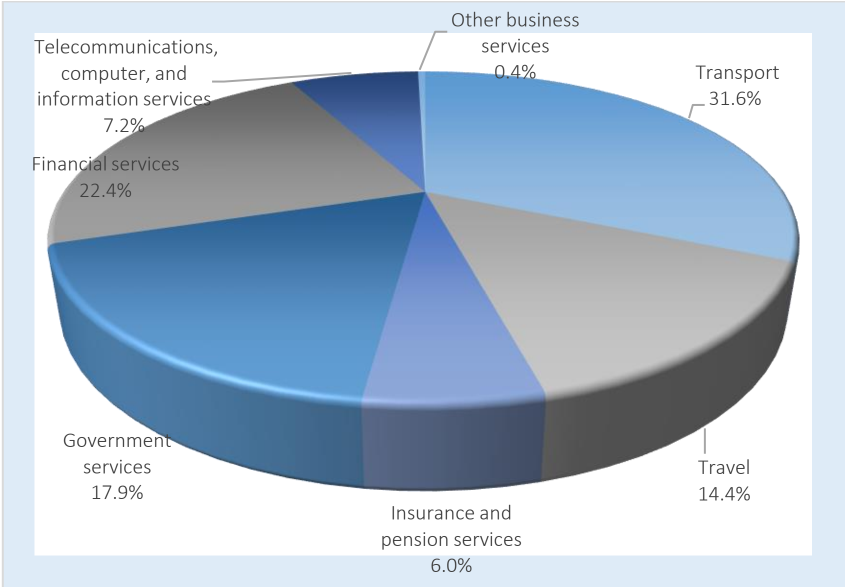
Figure 31: Share of Service Out-Payments (Per cent)



Source: *Central Bank of Nigeria*

Service receipts showed a substantial decrease of 32.8 per cent to US$0.64 billion, compared with the US$0.96 billion in the preceding quarter as transportation services fell considerably by 56.4 per cent. In terms of shares, receipts from transportation, financial and government services at US$0.20 billion, US$0.14 billion, and US$0.12 billion, accounted for 31.6 per cent, 22.4 per cent and 17.9 per cent, respectively. Receipts from travels and telecommunications services at US$0.09 billion and US$0.05 billion, represented 14.4 per cent and 7.2 per cent of the total, respectively.

Figure 32: Share of Services Receipts (Per cent)

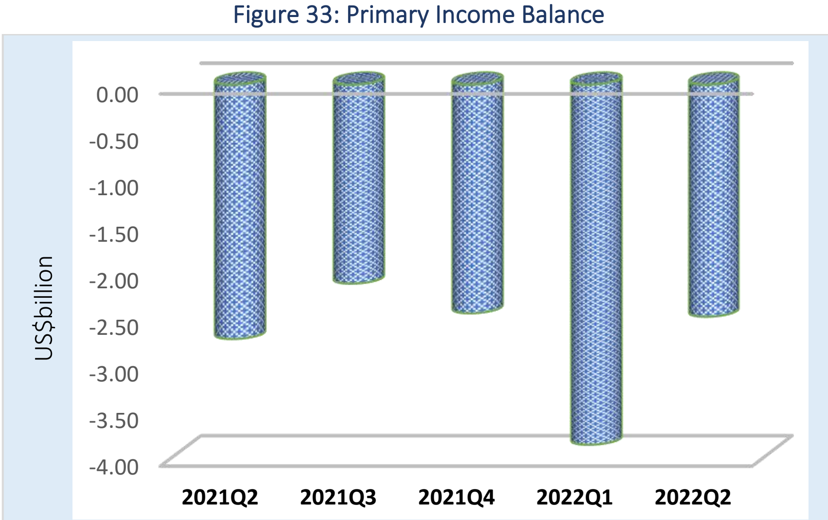


Source: *Central Bank of Nigeria*

Primary Income

The deficit in the primary income account narrowed as the repatriation of dividends by non-resident investors declined in the review period. The estimated deficit in the primary income account narrowed by 35.7 per cent to US$2.49 billion in the second quarter of 2022, compared with the US$3.87 billion in the preceding quarter. This reflected lower repatriation of dividends and profits, coupled with reduced interest payments on loans. The surplus in the compensation of employees sub-account decreased by 1.8 per cent to US$0.05 billion in the review period, compared with the level in the preceding quarter.

Figure 33: Primary Income Balance



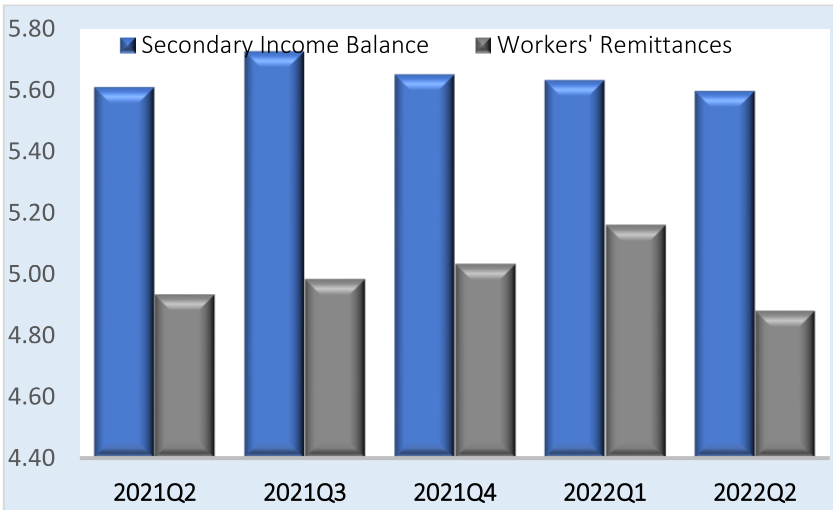
Source: *Central Bank of Nigeria.*

The impact of the unrest in Eastern Europe and the lingering effects of the COVID-19 pandemic negatively impacted the inflow of remittances.

Secondary Income

The surplus in the secondary income account decreased to US$5.60 billion in the review period, relative to US$5.63 billion in the preceding quarter. The development was due to the decline in the inflow of remittances to US$4.88 billion from US$5.16 billion in the preceding quarter. However, general government transfers in the form of aids and grants rose by 31.2 per cent to US$0.73 billion in the second quarter of 2022, compared with US$0.56 billion in the first quarter of 2022.

Figure 34: Secondary Income Balance and Remittances Inflow (US$ Billion)



Source: *Central Bank of Nigeria*

2.4.3 Financial Account

The financial account maintained a net acquisition of financial assets, emanating from higher foreign currency holdings of the private sector.

Financial Account Developments

The financial account recorded a net acquisition of financial assets of US$1.32 billion (1.2 per cent of GDP), compared with US$1.67 billion (0.7 per cent of GDP) in the preceding quarter.

Net Incurrence of Liability

An iinflow of US$3.86 billion was recorded in the second quarter of 2022, relative to US$5.18 billion in the preceding quarter. The development was due largely to a lower inflow of portfolio capital, and reduced placement of currency and deposits in Nigerian banks. FDI inflow stood at US$0.63 billion, against divestment of US$0.18 billion in the preceding quarter, resulting from higher investments in equity worth US$0.47 billion and debt instruments amounting to US$0.16 billion in the review period. Portfolio investment inflow declined marginally by 0.9 per cent to US$1.53 billion, following a 74.5 per cent reduction in investment in equities by non-resident investors. Similarly, "Other investment" inflow declined to US$1.71 billion, from US$1.97

billion in the preceding period, due to a reduction in the placement of currency and deposits in Nigerian banks.

Net Acquisition of Asset

Aggregate financial asset was US$4.88 billion in the second quarter of 2022, compared with US$4.99 billion in the preceding quarter, driven by the reduction in other investment assets, owing to a decline in foreign currency holdings and deposits in foreign banks by domestic investors. Foreign direct investments increased significantly to US$0.35 billion, relative to the disposal of US$0.05 billion in the preceding quarter, reflecting higher yields in the international financial market as countries continue to hike policy rates. Similarly, investments in portfolio assets increased to US$0.02 billion, relative to the disposal of US$0.09 billion in the preceding quarter. The rate hike boosted investors' confidence in the international debt market, leading to increased purchases of debt securities by resident non-financial corporations and households. However, "Other investment" assets fell to US$4.51 billion, relative to US$5.13 billion in the preceding quarter, owing to a significant decline in trade credits. Furthermore, reserve assets recorded a depletion of US$0.30 billion, lower than the US$0.88 billion in the preceding quarter.

2.4.4 External Debt

Public Sector External Debt

Nigeria's public external debt surged in the review period, owing to new borrowings. Nigeria's public sector external debt stock and external debt service payment at end-June 2022 stood at US$40.06 billion (9.2 per cent of GDP) and US$0.60 billion, respectively. A breakdown showed that the multilateral loans, from the World Bank, International Monetary Fund, and African Development Bank Groups, amounted to US$19.16 billion, accounting for 47.8 per cent of the total. A total of US$15.62 billion or 40.0 per cent of the total was borrowed from commercial sources in the form of Euro and Diaspora Bonds. Loans from bilateral sources was US$4.70 billion, or 11.7 per cent of the total, while promissory notes were US$0.59 billion, or 1.5 per cent of the total debt stock.

The external debt service payment stood at US$0.60 billion at end-June 2022, relative to US$0.69 billion in the preceding quarter. A breakdown showed that the principal repayment was US$0.38 billion, accounting for 55.1 per cent of the entire payment. Interest payment totalled US$0.20 billion, or 29.0 per cent of the total, while other payments made up the balance. An analysis of interest payments showed that interest payment on commercial borrowings accounted for 80.0 per cent of the total at US$0.16 billion, while multilateral institutions accounted for 10.0 per cent of the total or US$0.02 billion. Interest payments on bilateral loans accounted for the balance.

2.4.5 International Investment Position (IIP)

International Investment Position

Nigeria's International Investment Position (IIP) recorded a net financial liability of US$74.09 billion at end-June 2022. The stock of financial assets increased by 0.9 per cent to US$108.34 billion at end-June 2022, compared with US$107.36 billion at end-March 2022. This was due largely to increase in the stock of financial derivatives by 52.2 per cent to US$3.21 billion. Similarly, portfolio investment assets increased by 13.3 per cent to US$3.32 billion. Direct investment, however, decreased by 1.8 per cent to US$13.30 billion, driven by divestment of assets non-resident investors. Other investment also decreased by 0.3 per cent to US$49.35 billion in the review period, compared to the US$49.49 billion in the first quarter of 2022.

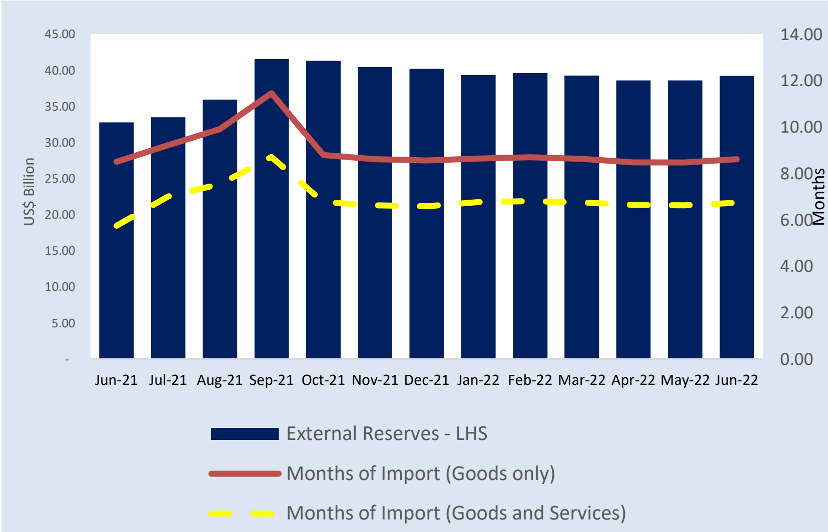
The stock of financial liabilities representing foreign investors' claims on the economy increased by 2.3 per cent to US$182.43 billion at end-June 2022, compared with US$178.31 billion at end-March 2022. The development reflected an increase in the stock of portfolio, financial derivatives, and other investment liabilities, relative to the levels at end-March 2021. The stock of direct investment liabilities, however, decreased by 1.6 per cent to US$87.28 billion, compared with US$88.71 billion at end-March 2022.

2.4.6 International Reserves

International Reserves

The international reserves remained above the benchmark of 3.0 months of import cover. The international reserves were US$39.22 billion at end-June, 2022, relative to US$39.28 billion at end -March 2022. The external reserves could cover 7.2 months of import for goods and services or 9.1 months of import for goods only.

Figure 35: External Reserves and Months of Import Cover



Source: *Central Bank of Nigeria*

Foreign Exchange Flows through the Economy

A breakdown of the external reserves by ownership shows that, the share of CBN was US$37.98 billion (96.85 per cent); Federal Government, US$1.20 billion (3.06 per cent); while the Federation accounted for the balance of US$0.04 billion (0.09 per cent). In terms of currency composition, the US dollar was US$30.06 billion, (76.6 per cent); Special Drawing Rights US$5.05 billion (12.9 per cent); Chinese Yuan US$3.65 billion (9.3 per cent); GB Pounds, US$0.22 billion (0.6 per cent); Euro US$0.25 billion (0.6 per cent); and other currencies accounted for the balance.

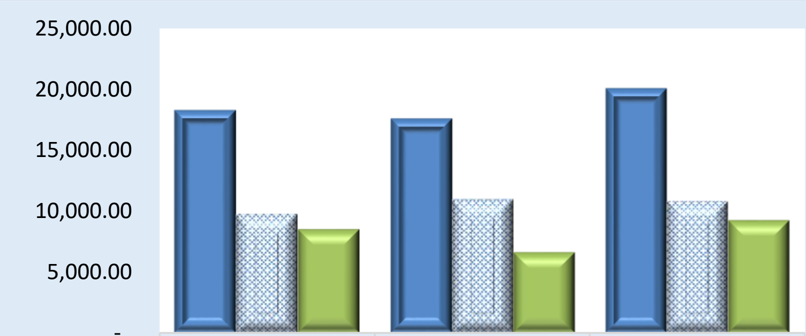
2.4.7 Foreign Exchange Flows through the Economy

The economy recorded a rise in the net foreign exchange inflow on account of increased receipts from crude oil, non-oil sources and invisible purchases. Foreign exchange inflow into the economy increased by 12.7 per cent to US$19.86 billion, compared with US$17.62 billion in the preceding quarter. The development was driven by the 14.9 per cent and 11.1 per cent increased inflow through the CBN and the autonomous sources, respectively. Foreign exchange inflow through the Bank at US$8.77 billion, rose above the US$7.63 billion in the preceding quarter. Disaggregation shows that receipts from oil-related sources increased by 70.3 per cent to US$2.50 billion, relative to the value in the first quarter. Similarly, receipts from non-oil sources rose to US$6.27 billion, compared with US$6.16 billion in the preceding quarter. Foreign exchange inflow through autonomous sources also increased to US$11.09 billion from US$9.99 billion in the preceding period, driven mainly by the rise in non-oil export receipts and Invisibles purchases.

Foreign exchange outflow through the economy increased by 5.6 per cent to US$11.59 billion, relative to the level in the first quarter. Outflow through the Bank at US$8.45 billion, increased by 0.2 per cent, relative to US$8.43 billion in the preceding quarter, attributed largely to increases in the public sector/direct payment and third-party MDA transfers. Similarly, autonomous outflow rose by 23.2 per cent to US$3.14 billion, on account of an increase in invisible imports.

Consequently, the economy recorded a net inflow of US$8.27 billion in the second quarter 2022, compared with US$6.64 billion in the preceding quarter. Similarly, a net inflow of US$0.32 billion was recorded through the Bank, in contrast to a net outflow of US$0.80 billion in the preceding quarter. Autonomous sources recorded a net inflow of US$7.95 billion in the review period, compared with US$7.44 billion in the first quarter.

Figure 36: Foreign Exchange Transactions through the Economy (US$ Million) in the Second Quarter of 2022



	Q2 2021	Q1 2022	Q2 2022
Inflow	18,302.56	17,619.48	20,077.11
Outflow	9,771.26	10,983.64	10,825.30
Netflow	8,531.30	6,635.84	9,251.81

Inflow Outflow Netflow

Source: *Central Bank of Nigeria*

2.4.8 Developments in the Foreign Exchange Market

Foreign Exchange Market Developments

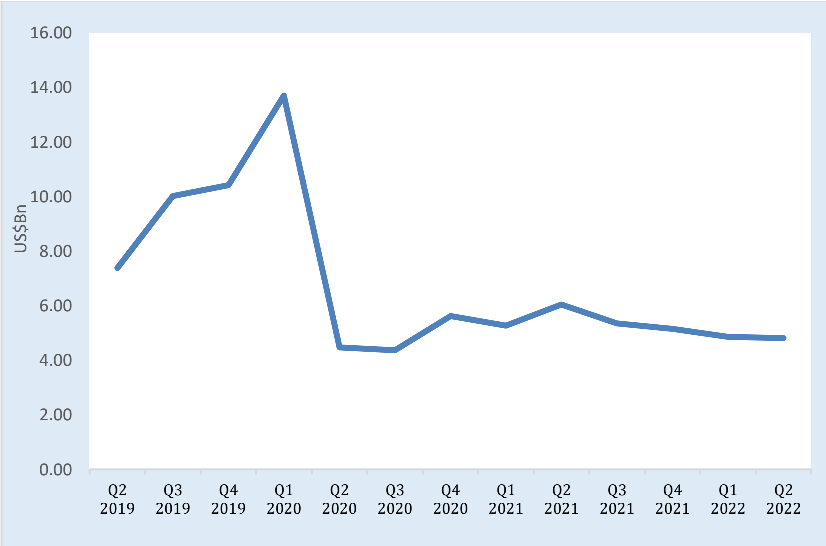
The Bank continued to strengthen its foreign exchange management regime by implementing the RT200 programme as a strategy to create an enabling environment for a stable exchange rate.

2.4.9 Transactions in the Foreign Exchange Market

Spot Transactions

Total foreign exchange sales to authorised dealers by the Bank at US$4.81 billion, decreased by 0.9 per cent, compared with the level in the preceding quarter. Disaggregation shows that SME interventions and sales at the investors & exporters window declined by 8.6 per cent and 41.3 per cent to US$0.34 billion and US$0.83 billion, respectively, relative to the preceding quarter. However, interbank/invisibles and SMIS windows, increased by 5.3 per cent and 14.7 per cent to US$0.48 billion and US$2.05 billion, compared with the amounts in the preceding quarter. Similarly, matured swap contracts rose by 34.6 per cent to US$1.11 billion, relative to the previous quarter's level.

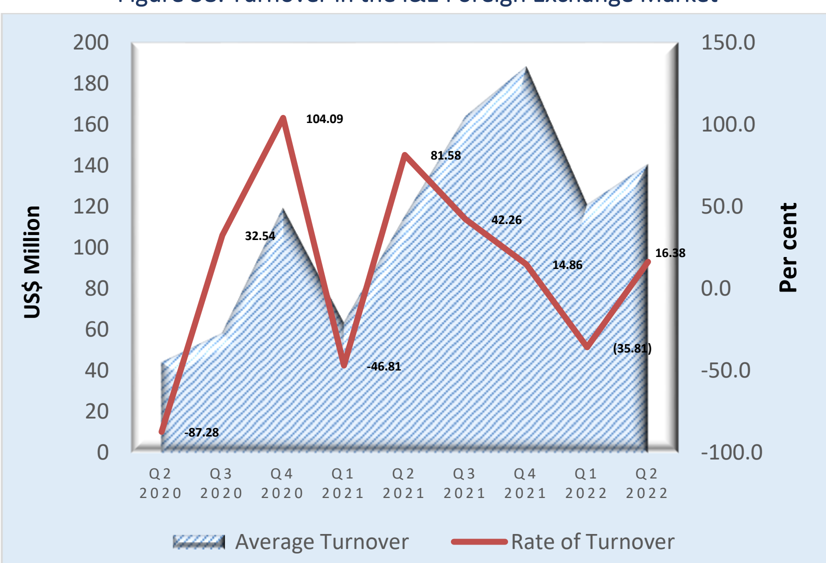
Figure 37:Foreign Exchange Sales to Authorised Dealers (US$ billion)



Source: *Central Bank of Nigeria*

The average turnover at the Investors and Exporters' (I&E) segment increased by 16.4 per cent to US$0.14 billion, relative to the level in the preceding quarter of 2022, reflecting increased liquidity in the window.

Figure 38: Turnover in the I&E Foreign Exchange Market



Source: *Central Bank of Nigeria.*

2.4.10 Exchange Rate Movement

Average Exchange Rate

The exchange rate of the naira at the I&E window, was relatively stable in the second quarter 2022. The average exchange rate of the naira per US dollar at the I&E window, appreciated by 0.2 per cent to ₦415.71/US$, compared with ₦416.34/US$, in the first quarter of 2022.

3.0 ECONOMIC OUTLOOK

3.1 Global Outlook

Economic Outlook

According to the IMF's revised outlook, the growth rate of the global economy is expected to fall to 3.2 per cent in 2022, from an estimated 6.1 per cent in 2021, reflecting a 0.4 percentage points decline from the previous IMF forecast. Advanced Economies (AEs) growth is predicted to slow to 2.5 per cent in 2022, from 5.2 per cent in 2021 while Emerging Market and Developing Economies (EMDEs) growth is projected to slow to 3.6 per cent from 6.8 per cent in 2021. The 0.2 percentage point downward revision from the previous IMF forecast is expected on account of the ongoing war in Ukraine, and the attendant sanctions imposed on Russia, which are expected to have a direct negative impact on both countries, with international spillovers. In addition, increased fiscal withdrawals, pandemic-induced supply disruptions, monetary tightening, and financial market volatility, are all expected to slow output growth. Furthermore, China's deceleration growth, due to the rigorous zero-COVID policy, is expected to dampen growth prospects across the world via trade contagion.

Global inflation is expected to remain high in the near term, rising to 6.6 per cent in advanced economies, and 9.5 per cent in emerging markets and developing nations, in 2022. According to the World Economic Outlook for July 2022, inflation persistence in the near term is hinged on the surge in commodity prices, heightened by the war in Ukraine, amid the escalation of the pre-existing supply disruptions. Robust demand for products and a tight labour market are also expected to induce inflationary pressures. While energy is expected to be the main driver of the price increases in advanced economies, rising food prices would also play a significant role in most emerging markets and developing economies, where food constitutes a larger share of consumption.

3.2 Domestic Outlook

Economic Outlook for the Third Quarter

The Nigerian economy is projected to grow by 3.51 per cent in 2022Q3 (year-on-year). The positive outlook is predicated on the assumption that the current trend in crude oil prices will be sustained. It is also founded on the effective implementation of the Medium-Term National Development Plan (MTNDP), and the positive impact of CBN interventions on growth-enhancing sectors, among others. However, persistent security challenges, as well as infrastructural deficits remain as headwinds to growth.

Due to rising energy and food prices, inflationary pressures are expected to remain elevated in the near term. This outlook is driven further by an increase in production costs associated with the disruptions to the supply of electricity and petroleum products, coupled with security challenges in some parts of the country and the possible consequence of the Russia-Ukraine war. Also, food prices are projected to rise marginally, before moderating during the upcoming harvest season.

The fiscal outlook in the near term appears moderately optimistic, despite the increase in both oil and non-oil revenue, amidst the lingering Russia-Ukraine war that triggered global commodity price shocks. Gains from the crude oil price increase is expected to be eroded by the huge subsidy payments on Premium Motor Spirit (PMS). Due to rising energy costs, the decrease in households' purchasing power and businesses' profits may likely reduce tax revenue. However, the continuous implementation of the Finance Act and other programmes under the Strategic Revenue Growth Initiatives (SRGIs) of the FGN, is expected to mitigate the associated fiscal risks.

Nigeria's external reserves are projected to hover around US$39.2 billion in the near term. This upward movement is predicated on oil prices above US$100 per barrel. However, the payment of subsidies on petroleum, rising import bills, and increased external debt servicing remain possible impediments to reserves accretion.