CENTRAL BANK OF NIGERIA

MONETARY POLICY REVIEW

AUGUST 2022
VOLUME XI, NUMBER 1

Central Bank of Nigeria
33 Tafawa Balewa Way
Central Business District
P.M.B. 0187, Garki,
Abuja
Phone: +234 (0)9 462 36011
Website: www.cbn.gov.ng
E-mail: info@cbn.gov.ng

ISSN: 2141-6281

Central Bank of Nigeria

Mandate

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

Vision

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

Mission Statement

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

Core Values

Integrity
Partnership
Accountability
Courage
Tenacity

CONTENTS

Table of Contents

List of Tables

List of Figures

STATEMENT BY THE GOVERNOR

Monetary policy in the first half of 2022 was targeted at easing the impact of shocks from both the global and domestic economic and financial environments. The Russia-Ukraine conflict, which complicated global vulnerabilities, increased uncertainties, and upset growth trajectories. It sparked food and energy insecurity in many countries, which further devitalised vulnerable households and deepened poverty. Macroeconomic challenges along with COVID-19 infections in China also impaired global conditions.

Recent undercurrents exposed the output-inflation dilemma in many countries as the inflation outcome and outlook soared strongly. The upshot of the Russia-Ukraine war amplified the lingering effects of the pandemic; thus, worsening supply-chain disruptions and accelerating inflation to levels far beyond the targets, especially in advanced economies. Soaring inflation is triggering monetary tightening that could push global interest rates upward and debilitate global demand. For Emerging Market and Developing Economies (EMDEs), rising yields in advanced economies could cause disruptive portfolio adjustments, thus heightening financial markets fragilities, imbalances, and vulnerabilities.

In the domestic economy, uncertainties persisted around the path to containment of the Pandemic, thus posing a challenge to the recovery of output growth. In addition, the slow pace of vaccination across the country remained a source of concern for monetary policy. Other factors were the lingering security challenges including: the disruption of farming activities by herdsmen, insurgency and banditry, legacy infrastructural deficits, high cost of energy, oil theft in the Niger Delta, as well as exchange rate pressures from the rising capital outflows with pass-through to domestic prices.

Nevertheless, the economy maintained a positive growth trajectory as data from the National Bureau of Statistics (NBS) showed that Real Gross Domestic Product (RGDP) grew by 3.11 per cent (year-on-year) in the first quarter and further improved to 3.54 per cent in the second quarter of 2022, bolstered by the implementation of Federal Government reforms and continuous policy support by the Central Bank of Nigeria (CBN) to ensure adequate provision of credit to key sectors of the economy. Inflationary pressure persisted while the foreign exchange market witnessed significant pressure, arising from low accretion to external reserves.

The money market remained active despite the impact of external shocks on the domestic economy, with market rates fluctuating slightly in response to changing liquidity levels in the banking system. The Nigerian capital market was generally bullish in the review period, driven primarily by improved activities at the equities segment of the market as investor confidence was gradually restored. Consequently, the All-Share Index (ASI) increased by 21.31 per cent from 42,716.44 at end-December 2021 to 51,817.59 at end-June 2022.

In view of the foregoing global and domestic macroeconomic developments, the monetary policy design and implementation was targeted at maintaining a delicate balance between the competing objectives of mitigating inflationary pressures and sustaining positive economic growth. Accordingly, monetary policy assumed a tightening mode to anchor inflation expectations, while the Bank sustained its various interventions in the real sector. During the first half of 2022, the Monetary Policy Committee raised the MPR to 13.0 per cent; retained other policy parameters at their extant levels, viz: asymmetric corridor of +100/-700 basis points around the MPR; the CRR at 27.5 per cent and the Liquidity Ratio at 30 per cent.

Outlook for the domestic economy over the short-to-medium term indicates that inflationary pressure would persist due to expectations of fuel subsidy removal, lingering insecurity/banditry issues in agricultural producing areas of the country causing food shortages, spillover effects from the Russian-Ukraine war, exchange rate pressures, and increased spending in preparation for the 2023 elections. Monetary policy will therefore aim at containing these challenges to achieve price and financial system stability as well as inclusive growth.

Godwin I. Emefiele
Governor, Central Bank of Nigeria

CHAPTER ONE

1.0 OVERVIEW

This chapter presents the summary of the entire document by highlighting key economic and financial challenges that influenced monetary policy as well as the attendant policy responses by the Bank during the first half of 2022. The challenges cover global and domestic output, prices, monetary policy and liquidity management as well as the financial market.

Monetary policy design and implementation in the first half of 2022 was influenced by various developments in the global and domestic economic and financial environments.

On the global front, while progress was made in subduing the pandemic, leading to the reopening of several economies, the Russian-Ukraine war posed new downside risks to the full recovery of the global economy. In the advanced economies, the rise in inflation above the long run objectives of some major central banks, re-enforced the fear that central banks in this bloc may soon return to a regime of monetary policy normalization, which may lead to capital outflow and exchange rate pressures. There was mixed inflationary pressure among the Emerging Market and Developing Economies, with some of the economies recording higher rates, compared with their peers, due largely to exchange rate pressures, capital flow reversals, high energy costs, weak supply chains and poor response to policy stimulus targeted at alleviating the macroeconomic slowdown associated with the pandemic.

In the domestic economy, uncertainties persisted around the path to containment of the pandemic thus posing a challenge to the recovery of output growth. In addition, the slow pace of vaccination across the country remained a source of concern for monetary policy. Other factors were the lingering security challenges including: the numerous clashes between herdsmen and farmers, insurgency and banditry; legacy infrastructural deficits; high cost of energy; oil theft in the Niger Delta; as well as exchange rate pressures from the rising capital outflows with pass-through to domestic prices.

During the first half of 2022, the recovery of the economy which gained momentum in the second quarter of 2021, moderated but maintained a positive growth trajectory. The recovery of output growth was bolstered by the implementation of Federal Government reforms including the Medium-Term National Development Plan (MTNDP), and the Economic Sustainability Plan targeted at providing support for businesses and households, among other schemes. In addition, the Central Bank of Nigeria (CBN) provided continuous policy support to ensure availability of credit to key sectors of the economy through the effective implementation of the Loan-to-Deposit Ratio (LDR) policy; and other direct interventions in the Agriculture, Industry, and Services sectors.

Data from the National Bureau of Statistics (NBS) showed that Real Gross Domestic Product (RGDP) grew by 3.11 per cent (year-on-year) in the first quarter of 2022 compared with 0.51 and 3.98 per cent in the corresponding period of 2021, and preceding quarter, respectively. This was mainly driven by the growth of 6.08 per cent in the non-oil sector, an improvement from 0.79 and 4.73 per cent in the corresponding and preceding quarters, respectively. The oil sector, however, contracted further by 26.04 per cent in the first quarter of 2022, compared with -2.21 and -8.06 per cent in the corresponding period of 2021, and preceding quarter, respectively.

On price development, headline inflation (year-on-year) increased by 3.00 percentage points to 18.60 per cent in June 2022, from 15.60 per cent in January 2022. Similarly, core inflation rose by 1.88 percentage points to 15.75 per cent in June 2022, from 13.87 per cent in January 2022. Food inflation also rose by 3.47 percentage points to 20.60 per cent in June 2022 from 17.13 per cent in January 2022. The prices of food and non-alcoholic beverages were the major drivers of headline inflation during the review period.

During the review period, the foreign exchange market was characterised by strong demand pressures arising from the sharp rise in capital outflows from the Nigerian economy as external financial conditions tightened. In response, the Bank sustained its interventions in the market to cushion demand pressures and maintain relative exchange rate stability. To enhance foreign exchange inflows, the Bank introduced the RT200 Non-oil Export Proceeds Repatriation Rebate Scheme to further diversify the sources of foreign inflows and ensure exchange rate stability. The Bank also continued the following schemes targeted at improving foreign currency liquidity: the Naira-4-Dollar Scheme; payment of remittances in foreign currencies by International Money Transfer Operators (IMTOs); Backward Integration Programmes (BIP) on sugar production; and the Pan African Payments and Settlements System (PAPSS).

In the first half of 2022, the Nigerian financial market witnessed heightened uncertainties following the spill-overs from the global economy, including the outbreak of the Russia-Ukraine war and receding COVID-19 Pandemic. Accordingly, the Bank deployed its monetary policy toolkit to achieve its objectives of price and macroeconomic stability. These instruments were: The Monetary Policy Rate (MPR); the Cash Reserve Ratio (CRR); Liquidity Ratio (LR); Open Market Operations (OMO) and Discount Window Operations (The Standing Deposit Facility and The Standing Lending Facility). In addition to this, the Bank maintained interventions in the foreign exchange market to improve the effectiveness of monetary policy instruments. The MPR remained the Bank's key instrument for signalling its monetary policy stance in the review period. The MPC adopted a contractionary stance by raising MPR by 150 basis points to 13.00 per cent at its May 2022 meeting, while maintaining the asymmetric corridor at +100/-700 basis points. This increase reflected the Bank's commitment to rein-in inflationary pressures.

Open Market Operations (OMO) was the primary instrument for Liquidity Management in the first half of 2022. Total OMO sales decreased substantially by 89.11 per cent to ₦688.12 billion in the first half of 2022 from ₦6,319.46 billion in the preceding half of 2021. The development was a decrease of 61.63 per cent compared with ₦1,793.25 billion in the corresponding period of 2021.

The money market remained active despite the impact of external shocks on the domestic economy. Money market rates fluctuated slightly in the first half of 2022 with changing liquidity levels in the banking system. This was driven by injections such as the statutory monthly disbursement of funds to both States and Local governments from the Federation Account Allocation Committee (FAAC); maturities of government securities; as well as the sale of OMO bills and various CBN interventions. The interbank segment of the market, however, witnessed few trading days compared with the collaterized OBB segment, signposting the continued perception of counterparty risk.

The performance of the Nigerian capital market in the first half of 2022 was generally bullish, driven primarily by increased activities in the equities segment of the market reflecting sustained investor confidence. The positive performance was largely attributed to improved foreign investor participation in the Nigerian capital market on account of increased corporate earnings and foreign exchange liquidity. In the bond market, real yields declined progressively, particularly for corporate, States, and Local government bonds, as inflation trended upwards. Consequently, the All-Share Index (ASI) increased by 21.31 per cent to 51,817.59 at end-June 2022 from 42,716.44 at end-December 2021. Market capitalization (MC) also increased by 25.29 per cent to ₦27.94 trillion at end-June 2022 from ₦22.30 trillion at end-December 2021. Compared with the corresponding period of 2021, it increased by 41.40 per cent from ₦19.76 trillion at end-June 2021.

Activities in the bond market were dominated by Federal Government of Nigeria (FGN) securities in the first half of 2022. There were also some activities in the State/Municipal bonds and corporate bond segments of the market, with the former recording the least share by market volume.

In terms of outlook, the domestic economy is expected to recover through the second half of 2022. The expectation is hinged on improved growth prospects on the back of sustained growth in non-oil GDP driven by agriculture and a robust recovery in services, mainly telecommunications, and financial services.. Additionally, the effective implementation of the Medium-Term National Development Plan (MTNDP); improvement in manufacturing activities; the positive impact of CBN interventions on growth-enhancing sectors; improvement in the business confidence index; and an average oil price of US100 per barrel, are all expected to drive the expected recovery in 2022. On the downside, however, supply chain disruptions arising from intermittent shortages of premium motor spirit (PMS) and diesel, rising energy prices owing to the Russia-Ukraine war, and legacy challenges such as poor power and transport infrastructure, could affect domestic production and distribution activities.. Based on these developments, staff forecasts indicate that real GDP could grow by 3.33 percent in 2022.

Staff forecasts also indicated that inflation is likely to increase to 19.09 percent in July 2022, which is still above the upper limit of the indicative benchmark of 6–9 percent. However, the year-on-year headline inflation is expected to decline to 18.89 percent in October 2022 and 18.29 percent in December 2022. Although upside risks to inflation in the near term remain due to a combination of monetary and structural factors, the contractionary monetary policy stance adopted is expected to moderate the inflationary outcome. The upside risks include expectations of fuel subsidy removal, lingering insecurity/banditry in agricultural-producing areas of the country causing food shortages, spillover effects from the Russian-Ukraine war, and increased spending for the upcoming 2023 general elections. Other factors which could potentially induce inflationary pressure are exchange rate pressures, capital inflow reversals, and an increase in fiscal deficits.. Nonetheless, as the Bank continues to manage liquidity conditions through a mix of conventional and unconventional policies in the domestic economy, inflationary developments would be monitored to ensure that the risks to inflation and growth are minimized.

Monetary policy formulation and implementation will therefore aim at containing these challenges to achieve objectives of price and financial system stability supportive of inclusive growth.

CHAPTER TWO

THE GLOBAL ECONOMY

2.1 Global Output

Global growth projection was revised downwards to 3.2 per cent in 2022 from the earlier figure of 4.4 per cent, compared with 6.1 per cent in 2021 (IMF WEO, July 2022). The downward revision was on account of several factors such as the continued COVID-19 pandemic which resulted in lockdowns in major industrial cities in China. The outbreak of war between Russia and Ukraine on 24th February 2022 and the sanctions imposed on Russia by the United States and NATO member countries, further aggravated supply chain disruptions and introduced a new dimension of risk to global output recovery. The increased supply chain disruptions and pent-up demand post-COVID-19 lockdown resulted in a sharp rise in inflationary pressure across several countries. In the meantime, policy support continued across several economies to mitigate the downside risks to the recovery. Fiscal policy maintained a strong momentum leading to rising public debt levels with growing concern by monetary authorities. Consequently, advanced economy central banks commenced the normalization of monetary policy in early 2022 to address these concerns.

Output growth in the Advanced Economies was projected to slow to 2.5 per cent in 2022 from 5.2 per cent in 2021. The slowdown is anticipated on account of supply chain disruptions and rising inflation, which are progressively weakening the global economic environment. The US was forecast to grow by 2.3 per cent in 2022 down from 5.7 per cent in 2021, driven by slowdown in private sector inventory and contraction in residential investment. The rise in interest rates as the Fed returned to aggressive monetary policy normalization to curb the rising inflation, is also expected to adversely impact investment and consumption.

In the Euro area, output growth was projected at 2.6 per cent in 2022 compared with 5.3 per cent in 2021. The moderation was due to reduced spending by households and businesses as rising inflation weakened purchasing power.

Real GDP in the United Kingdom was projected to grow by 3.2 per cent in 2022 down from 7.4 per cent in 2021. The moderation was informed by weakening economic conditions as a result of declining real wage growth and rising energy costs. The Japanese economy was forecast to grow by 1.7 per cent in 2022, same as in 2021 on the expectation of sustained demand driven by improvement in consumption and investment expenditures.

In the Emerging Markets and Developing Economies (EMDEs), growth is projected at 3.6 per cent in 2022, down from 6.8 per cent in 2021. This was premised on the impact of the disruption to the global supply chain due to Russia-Ukraine war and the residual impact of the COVID-19 pandemic which continued to exert adverse effect on China. Others factors included: the fiscal constraints faced by oil importing countries from the rising cost of crude oil and other commodities, and rising interest rates exacerbating the already huge public debt portfolios of some economies in the group.

The Chinese economy was forecast to grow by 3.3 per cent in 2022, a significant decline from 8.1 per cent in 2021. The development was premised on resurgence of the COVID-19 infections, which led to the re-imposition of lockdowns in some major industrial cities, resulting in supply chain bottlenecks, as well as increasing vulnerability in the country's real estate sector.The growth of key economies in the group such as India, Brazil and South Africa were forecast to moderate by 7.4, 1.7 and 2.3 per cent in 2022 from 8.7, 4.6 and 4.9 per cent, respectively, in 2021. The moderation in India was driven by less favourable external conditions and rapid policy tightening, while in South Africa, it was informed by legacy energy and labour market crisis resulting in weak economic fundamentals. In Brazil, extreme weather condition, high inflation and rising interest rates, constrained its recovery from the pandemic.

In sub-Saharan Africa, output growth was projected at 3.8 per cent in 2022 from 4.6 per cent in 2021. This projection was largely informed by adverse inflationary impact resulting from disruptive global supply chains and energy markets which continue to constrain economic activities in most countries in the region. The development was further accentuated by the limited fiscal space of most countries in the region to support the recovery.

2.2 GLOBAL INFLATION

In the first half of 2022, global inflation remained elevated largely driven by supply side factors. These include supply-side constraints associated with sanctions imposed on Russia and blockage of access to grains and other commodities from Ukraine; and the cut in gas supply to Europe by Russia leading to a sharp rise in energy prices.

In the advanced economies, the high cost of energy has led to an unprecedented rise in prices of goods and services. In the emerging market and developing economies, especially among the oil importing countries, there was a sharp rise in inflationary pressure, transmitted through the rising cost of importation of refined petroleum products. Other drivers of inflation included exchange rate pressures associated with a rise in capital outflows as well as the impact of legacy infrastructural deficits. Accordingly, global inflation was projected at 8.3 per cent in 2022 and was forecast at 6.6 and 9.5 per cent for the advanced and emerging market economies, respectively.

Advanced economy central banks' response to inflationary pressures was a synchronized return to monetary policy normalization, further aggravating exchange rate pressures in the emerging market economies. EMDEs equally responded by hiking policy rates, though at a slower pace, due to substantially weak recovery from the COVID-19 Pandemic.

In the advanced economies, inflation in the United States (US) averaged 7.68 per cent in 2022 compared with 4.69 per cent in 2021, reflecting rising cost of energy, transportation, food and shelter. Inflation in the Eurozone averaged 5.25 per cent in 2022 compared with 2.59 per cent in 2021 on account of surging energy and beverage prices, amongst others. In the United Kingdom, inflation averaged 7.40 per cent in 2022 from 2.59 per cent in 2021, driven largely by the sustained increase in global energy prices as well as rising cost of housing and utilities. Inflation in Japan averaged 0.98 per cent in 2022 from -0.26 per cent in 2021, as exchange rate pressure and rising cost of energy pushed prices upwards.

Among the Emerging Markets and Developing Economies, the Chinese inflation rose to 2.08 per cent in 2022 from 0.85 per cent in 2021. Average inflation in India nudged up to 6.08 per cent in 2022 compared with 5.52 per cent in 2021. In Russia, the ensuing depreciation of the currency as a result of the impact of the war against Ukraine led to a significant rise in inflation to 21.32 per cent in 2022 compared with 6.69 per cent in 2021.

In Latin America and the Caribbeans, the Brazilian inflation averaged 8.22 per cent in 2022 compared with 8.3 per cent in 2021, reflecting the stability of the currency as oil prices remained upbeat in the global market.

In Sub-Saharan Africa, inflation in South Africa averaged 5.73 per cent in 2022 compared with 4.55 per cent in 2021, driven by high energy prices and legacy labour market issues. In Nigeria, average inflation declined marginally to 16.14 per cent in 2022 from 16.95 per cent in 2021, driven by the impact of base effect. In Ghana, consumer price inflation averaged 16.21 per cent in 2022 from 9.98 per cent in 2021, driven by sustained exchange rate depreciation and rising cost of transportation, housing & utilities.

2.3 Global Financial Market Developments

In the review period, global financial conditions became less accommodative due to a multiplicity of developments. In the early stages, the post-COVID-19 lockdown expansionary policies of various governments, resulted in the build-up of a huge global debt portfolio which, following the weakening of recovery, created the risk of debt distress. Subsequently, monetary policy normalization by major central banks led to rising interest rates thus limiting access, particularly by the EMDEs, to the global financial markets.

2.3.1 Money Market and Central Bank Policy Rates

In the first half of 2022, major advanced economy central banks commenced monetary policy normalisation as inflationary pressures, earlier thought to be transitory, intensified. In response to this, several emerging market central banks also commenced policy rate hikes to slowdown the outflow of portfolio capital to advanced economy assets, as well as tame inflationary pressures. Most of the fourteen (14) central banks surveyed in the review period had commenced one form of monetary policy tightening or the other, with the US Federal Reserve Bank and the Bank of England taking the lead.

In the advanced economies, the key drivers of inflationary pressures which informed the commencement of monetary policy normalization were: the persistence of the COVID-19 Pandemic, which continued to disrupt the smooth functioning of the global supply chain especially in China; the rise in energy cost and further disruption of the global supply chain, associated with the Russia-Ukraine war; as well as the impact of sanctions on Russia and associated backlash, particularly on the price crude oil and other commodities. In response to these factors, the Bank of England (BoE) raised its monetary policy rate in February 2022 by 100 basis points, while the US Federal Reserve Bank followed suit in March 2022 with the policy rate hike of 25 basis points, in addition to tapering of liquidity injections. Other advanced economy central banks such as the European Central Bank (ECB) and the Bank of Japan (BoJ) kept their policy rates unchanged throughout the review period, however, both Central Banks began their monetary policy normalisation by significantly tapering their bond purchase programme.

In the EMDEs, monetary policy tightening became necessary to address the sharp rise in inflationary pressures mostly associated with depreciating currencies as portfolio investors sought advanced economy securities with improved yields. The Reserve Bank of India, South African Reserve Bank, the Central Banks of Brazil, Egypt, Kenya and Nigeria all raised their policy rates to address these concerns. The Peoples Bank of China was the only exception in this group, holding its policy rate constant throughout the period after it lowered in the previous half year. The Central Bank of Russia commenced the review period with a sharp policy rate hike to address the impact of the sanctions imposed on its economy, but returned to an accommodative regime mid-cycle.

Table 2.1
Policy Rates of Selected Countries December 2021 – June 2022

Country	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Egypt	**8.25**	8.25	8.25	9.25	9.25	11.25	11.25
Kenya	**7.00**	7.00	7.00	7.00	7.00	7.50	7.50
S. Africa	**3.75**	4.00	4.00	4.25	4.25	4.75	4.75
Ghana	**14.50**	14.50	14.50	17.00	17.00	19.00	19.00
Nigeria	**11.50**	11.50	11.50	11.50	11.50	13.00	13.00
Brazil	**9.25**	9.25	10.75	11.75	11.75	12.75	13.25
USA	**0.00-0.25**	0.00-0.25	0.00-0.25	0.25-0.50	0.25-0.50	0.75-1.00	1.50-1.75
Japan	**-0.10**	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euro Area	**0.00**	0.00	0.00	0.00	0.00	0.00	0.00
India	**4.00**	4.00	4.00	4.00	4.00	4.40	4.90
Russia	**8.50**	9.50	20.00	17.00	14.00	11.00	9.50
China	**3.80**	3.70	3.70	3.70	3.70	3.70	3.70
UK	**0.25**	0.25	0.50	0.75	0.75	1.00	1.25
Indonesia	**3.50**	3.50	3.50	3.50	3.50	3.50	3.50

Source: cbrates.com

2.3.2 Global Capital Markets

The performance of major stock markets across the globe in the first half of 2022, broadly reflected bearish trends. This was driven by the series of shocks to the global economy, necessitating the commencement of monetary policy normalization which resulted in improved yields on fixed income securities as central banks raised their policy rates.

In Europe, the United Kingdom FTSE 100, French CAC 40, and German DAX indices decreased by 3.2, 17.5 and 19.9 per cent, respectively, in the same period.

In North America, the United States S&P 500, Canadian S&P/TSX Composite and Mexican Bolsa indices all declined by 21.4, 11.7 and 10.9 per cent, respectively. The rise in policy rate by the US Fed, strongly improved the attractiveness of dollar denominated fixed income securities, thus resulting in the movement of capital from the stock market to treasury instruments.

In South America, the Brazilian Bovespa Stock and Colombian COLCAP indices both decreased by 6.7 and 4.6 per cent, respectively, while the Argentine Marvel increased by 4.2 per cent.

In Asia, the Chinese Shanghai Stock Exchange-A, Japanese Nikkei 225, and Indian BSE Sensex indices decreased by 8.3, 6.6 and 9.0 per cent, respectively.

In Africa, the South African JSE All-Share, Ghanaian GSE All-Share, Nairobi NSE 20 and Egyptian EGX Case 30 indices declined by 10.0, 15.2, 22.8 and 8.9 per cent, respectively, in the review period. The Nigerian NGX All-Share, however, grew by 21.3 per cent.

Table 2.2: Selected International Stock Market Indices as at June 30, 2022

Country	Index	30-Jun-21	31-Dec-21	30-Jun-22	June 30, 2021 - June 30, 2022 % Change	December 31, 2021- June 30, 2022 %
AFRICA						
Nigeria	NGX All-Share Index	37,907.28	42,716.44	51,817.59	36.7	21.3
South Africa	JSE All-Share Index	66,634.38	73,709.39	66,334.42	-0.5	-10.0
Kenya	Nairobi NSE 20 Sha	1,927.53	1,902.57	1,612.89	-16.3	-15.2
Egypt	EGX CASE 30	10,256.62	11,949.18	9,225.61	-10.1	-22.8
Ghana	GSE All-Share Index	2,652.21	2,793.24	2,545.79	-4.0	-8.9
NORTH AMERICA						
US	S&P 500	4,310.47	4,772.14	3,752.71	-12.9	-21.4
Canada	S&P/TSX Composite	20,165.58	21,198.03	18,713.62	-7.2	-11.7
Mexico	Bolsa	50,289.75	53,150.36	47,337.65	-5.9	-10.9
SOUTH AMERICA						
Brazil	Bovespa Stock	126,801.70	104,822.00	97,805.61	-22.9	-6.7
Argentina	Merval	62,371.95	83,500.11	87,023.10	39.5	4.2
Columbia	COLCAP	1,257.73	1,410.97	1,346.03	7.0	-4.6
EUROPE						
UK	FTSE 100	7,114.22	7,384.54	7,146.66	0.5	-3.2
France	CAC 40	6,555.14	7,153.03	5,898.63	-10.0	-17.5
Germany	DAX	15,583.24	15,884.86	12,724.61	-18.3	-19.9
ASIA						
Japan	NIKKEI 225	28,707.04	28,791.71	26,393.04	-8.1	-8.3
China	Shanghai SE A	3,761.68	3,814.30	3,561.90	-5.3	-6.6
India	BSE Sensex	52,318.60	58,253.82	53,018.94	1.3	-9.0

Source: Bloomberg

2.3.3 Bond Market and Sovereign Yields

The 10-year U.S. Treasury Bond was used as a benchmark to gauge the performance of similar bonds in other countries. Their outcome of the yield spread over the US treasury bond were as follows: Ghana, Nigeria, Brazil, Mexico, Canada, Greece and Italy with yield spreads of 1,758, 965, 334, 222, 31, 26 and 23 basis points, respectively, were considered higher credit risk countries than the US.

In contrast, Japan, Germany, France, UK, Portugal, Spain and China with yield spreads of minus 280, 179, 111, 79, 62, 61 and 20 basis points, respectively, suggest stronger credit worthiness than the US.

The yield spread of Nigerian sovereign bonds of 965 basis points, higher than the yield on the U.S 10-year benchmark bond indicates a high-risk premium and therefore attracts a high return for investors. However, Ghana with a yield spread of 1,758 basis points higher than the yield on the U.S. 10-year benchmark bond suggests a higher risk premium than the Nigerian sovereign bond.

Table 2.3: Sovereign Yields Spreads (Benchmark 10-Year Government Bonds) as at June 30, 2022

Country	December 31, 2021 Yield (%)	February 28, 2022 Yield (%)	April 29, 2022 Yield (%)	June 30, 2022 Yield (%)	Change in Yield (Basis Points)	June 30, 2022 Spread over the U.S. (Basis points)
AFRICA						
Nigeria (U.S. $)	3.99	7.40	9.03	12.67	8.68	965
Ghana (U.S. $)	11.12	14.32	15.87	20.60	9.48	1758
NORTH AMERICA						
Canada	1.46	1.85	2.85	3.33	1.87	31
Mexico	2.92	3.91	4.89	5.24	2.32	222
US	1.52	1.87	2.89	3.02	1.50	0
SOUTH AMERICA						
Brazil	4.47	4.99	5.56	6.36	1.89	334
EUROPE						
France	0.19	0.60	1.46	1.91	1.72	-111
Germany	-0.19	0.13	0.94	1.23	1.42	-179
Greece	1.29	2.50	3.32	3.28	1.99	26
Italy	1.17	1.70	2.78	3.25	2.08	23
Portugal	0.46	0.99	2.02	2.40	1.94	-62
Spain	0.56	1.11	1.98	2.41	1.85	-61
UK	0.96	1.41	1.90	2.23	1.27	-79
ASIA						
China	2.77	2.79	2.83	2.82	0.05	-20
Japan	0.06	0.18	0.21	0.22	0.16	-280

2.3.4 Global Commodity Prices

In the first half of 2022, global commodity prices increased sharply, reflecting the continued impact of the COVID-19 Pandemic, the Russia-Ukraine war and tightening external financial conditions associated with the commencement of monetary policy normalization.

Consequently, the IMF primary commodity price index rose by 20.70 per cent to 230.30 points at end-June 2022 compared with 190.80 points at end-December 2021. Nevertheless, the performance of the sub-indices under the primary commodity index were mixed. The sub-indices of energy, edibles and non-fuel rose by 35.92, 9.29 and 4.36 per cent to 328.10, 152.90 and162.7 points at end-June 2022 from 241.40 ,139.90 and 155.9 points at end-December 2021, respectively. Those of industrial inputs and metals, however, decreased by 1.63 and 4.11 per cent, respectively, to 180.40 and 200.30 points at end-June 2022 from 183.40 and 208.90 points at end-December 2021.

In the oil sector, actual prices per barrel of the OPEC Reference Basket rose by 27.34 per cent to US$108.55 per barrel at end-June 2022 from US$85.24 per barrel at end-December 2021.

The Food and Agriculture Organization (FAO) Food Price Index rose by 14.08 per cent to 154.70 points at end-June 2022 from 135.60 points at end-December 2021. The sub-indices of vegetable oils, sugar, cereals, dairy and meat all increased, by 13.93, 4.08, 18.19, 13.27 and 12.31 per cent, respectively, to 211.80, 117.30, 166.30, 150.20 and 125.90 index points at end-June 2021 from 185.90,112.70, 140.70, 132.60 and 112.10 points at end-December 2021.

2.3.5 Global Foreign Exchange Market

In the first half of 2022, most currencies surveyed depreciated against the US dollar, following the commencement of interest rate lift-off by the US Federal Reserve Bank. This development resulted in a sharp appreciation of US dollar denominated assets, causing investors to exit emerging markets in favour of higher yield US and other advanced economy treasury securities. The sustained increase in macroeconomic risk around the globe, arising from the continued spread of the COVID-19 Pandemic and the outbreak of war between Russia and Ukraine, further increased the desire by investors for low risk-high yield securities. In generally, there was a build-up of exchange rate pressures as portfolio and other investors moved into the US fixed income market. In Europe, the Euro and the British pound depreciated against the US dollar by 9.76 and 7.37 percent, respectively. However, the Russian ruble appreciated by 37.51 per cent following the Government's policy to only accept payments for its crude oil in Russian ruble thus spiking the demand for the currency.

In North America, the Canadian dollar depreciated by 2.33 per cent, while the Mexican peso appreciated by 1.99 per cent.

In South America, the Argentinian and Colombian peso both depreciated by 17.94 and 2.13 per cent, respectively. In contrast, the Brazilian real appreciated against the US dollar by 5.89 per cent due to the increase in crude oil prices.

In Asia, the Japanese yen, Chinese yuan and the Indian rupee all depreciated by 15.20, 5.07 and 5.96 per cent, respectively.

In Africa, the Nigerian Naira, at the Investors and Exporters (I&E) segment of the market, appreciated by 4.59 percent against the US dollar, while the South African rand, Kenyan shilling, the Egyptian pound, and Ghanaian cedi all depreciated by 2.09, 4.04, 16.44 and 23.33 per cent, respectively.

Table 2.4: Exchange Rates of Selected Countries (value in currency units to US$)

Exchange Rates of Selected Countries (Value in currency units to US$)						
Continent	**Currency**	**30-Jun-21**	**31-Dec-21**	**30-Jun-22**	**YTD* (% App/Dep)**	**YoY % App/Dep**
AFRICA	**a**	**b**	**c**	**d**	**YTD(%)**	**YoY(%)a/d**
Nigeria	Naira (I & E)	410.16	435.00	415.00	4.82	-1.17
South Africa	Rand	14.28	15.94	16.28	-2.09	-12.29
Kenya	Shilling	107.91	113.14	117.90	-4.04	-8.47
Egypt	Pound	15.68	15.71	18.80	-16.44	-16.60
Ghana	Cedi	5.89	6.18	8.06	-23.33	-26.92
NORTH AMERICA						
Canada	Dollar	1.24	1.26	1.29	-2.33	-3.88
Mexico	Peso	19.94	20.51	20.11	1.99	-0.85
SOUTH AMERICA						
Brazil	Real	4.94	5.57	5.26	5.89	-6.08
Argentina	Peso	95.72	102.75	125.22	-17.94	-23.56
Colombia	Peso	3,754.99	4,064.92	4,153.19	-2.13	-9.59
EUROPE						
UK	Pound	0.72	0.74	0.82	-9.76	-12.20
Euro Area	Euro	0.84	0.88	0.95	-7.37	-11.58
Russia	Ruble	73.15	75.22	54.70	37.51	33.73
ASIA						
Japan	Yen	111.10	115.11	135.75	-15.20	-18.16
China	Yuan	6.46	6.36	6.70	-5.07	-3.58
India	Rupee	74.34	74.30	79.01	-5.96	-5.91
Source: Bloomberg						

CHAPTER THREE

THE DOMESTIC ECONOMY

3.1 Output in the Domestic Economy

During the first half of 2022, the recovery of the economy which gained momentum in the second quarter of 2021, moderated but maintained a positive growth trajectory. The recovery of output growth was bolstered by the implementation of Federal Government reforms including the Medium-Term National Development Plan (MTNDP), and the Economic Sustainability Plan targeted at providing support for businesses and households, among other schemes. In addition to this, the Central Bank of Nigeria (CBN) provided continuous policy support to ensure adequate provision of credit to key sectors of the economy through the effective implementation of the Loan-to-Deposit Ratio (LDR) policy; and other direct interventions in the Agriculture, Industry, and Services sectors.

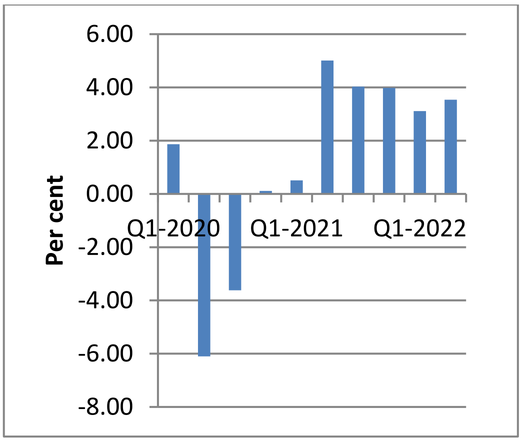
Data from the National Bureau of Statistics (NBS) showed that Real Gross Domestic Product (RGDP) grew by 3.11 per cent (year-on-year) in the first quarter of 2022 compared with 0.51 and 3.98 per cent in the corresponding and preceding quarters respectively. This was mainly driven by the growth of 6.08 per cent in the non-oil sector, an improvement from 0.79 and 4.73 per cent in the corresponding and preceding quarters, respectively. The key drivers of growth in the non-oil sector were Services (7.45%), Industry (5.46%) and Agriculture (3.16%). Accordingly, the contribution of the non-oil sector to real GDP rose to 93.37 per cent in the first quarter of 2022 from 90.75 per cent in the corresponding period of 2021. It, however, declined moderately compared with 94.81 per cent in the preceding quarter.

The oil sector, however, contracted further by 26.04 per cent in the first quarter of 2022, compared with -2.21 and -8.06 per cent in the corresponding period and preceding quarter, respectively. Consequently, average daily oil production fell to 1.49 million barrels per day (mbpd) in the first quarter of 2022, compared with 1.72 mbpd and 1.50 mbpd in the corresponding and preceding quarters, respectively. This decline resulted from ongoing operational inefficiencies and production short-ins. In addition, poor investment in the sector has affected exploration and production in Nigeria.

In the second quarter of 2022, real Gross Domestic Product strengthened to 3.54 per cent (year-on-year) compared with 3.11 per cent in the preceding quarter, which was, however, lower than 5.01 per cent in the corresponding period of 2021. The growth was mainly driven by the non-oil sector which grew by 4.77 per cent. The key drivers of growth in the non-oil sector were Services (6.07%), Industry (3.05%) and Agriculture (1,20%). The non-oil sector contributed 93.67 per cent to real GDP in the second quarter of 2022 compared with 92.58 and 93.37 per cent in the corresponding and preceding quarters, respectively.

The oil sector, however, contracted by 11.77 per cent (year-on-year) in the second quarter of 2022, an improvement, compared with the deeper contractions of 12.65 and 26.04 per cent in the corresponding and preceding quarters, respectively. Average daily oil production fell further to 1.43 million barrels per day (mbpd) in the review period from 1.61 and 1.49 mbpd in the corresponding and preceding quarters, respectively.

Figure 3.1: Gross Domestic Product Growth Rate (2020Q1 – 2022Q2)



Source: National Bureau of Statistics (NBS)

3.1.1 DOMESTIC ECONOMIC ACTIVITIES

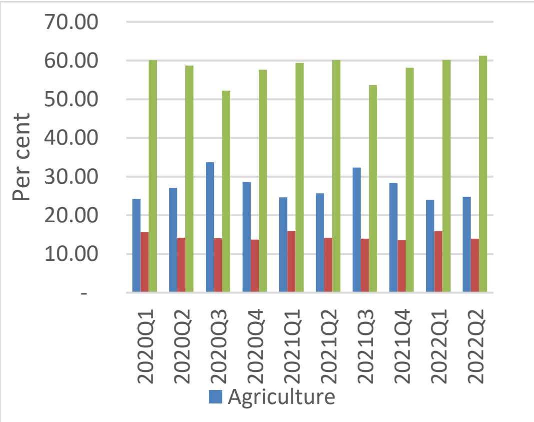
*I*n the first half of 2022, real GDP was driven by activities in both the non-oil and oil sectors. The non-oil sector grew by 6.08 per cent in the review period, 5.29 percentage points above the growth of 0.79 per cent in the corresponding period of 2021 and 1.35 percentage points above the 4.73 per cent growth in the preceding quarter. The non-oil sub-sectors which drove overall growth were: Financial and Insurance (23.24%); Mining and Quarrying (14.16%); Water Supply, Sewage, and Waste Management (13.22%); Information and Communication (12.07%); Trade (6.54%); Human Health & Social Services (5.91%); Manufacturing (5.89%); Livestock (5.55%); and Construction (4.83%). These compare favourably with their respective growth rates of -0.46, 3.79, 14.75, 6.47, -2.43, 4.65, 3.40, 1.65 and 1.42 per cent in the corresponding period of 2021.

Output in the oil sector, however, recorded a deeper contraction of 26.04 per cent in the first quarter of 2022 compared with -2.21 and -8.06 per cent in the in the corresponding and preceding quarters, respectively. Consequently, average daily oil production fell to 1.49 mbpd in the first quarter of 2022, compared with 1.72 and 1.50 mbpd in the corresponding and preceding quarters, respectively.

In the second quarter of 2022, growth in the non-oil sector moderated to 4.77 per cent compared with 6.74 and 6.08 per cent in the corresponding and preceding quarters, respectively. The drivers of growth in the non-oil sector were: Transport & Storage (51.66%); Water Supply, Sewage & Waste Management (23.73%); Mining & Quarrying (20.95%); Financial & Insurance (18.48%); and Information & Communication (6.55%). These compare with their respective growth rates in the corresponding period of 76.81, 18.48, 9.79, -2.48 and 5.55 per cent.

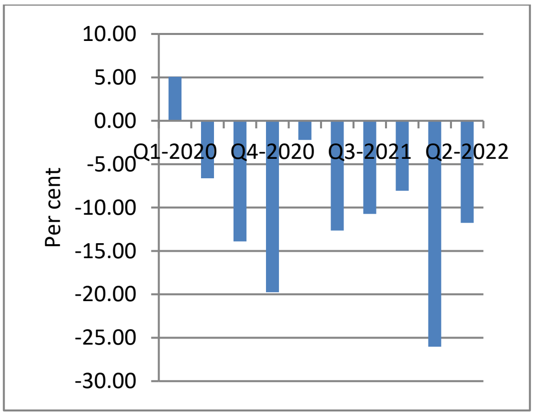
In the review period, the contraction in the oil sector moderated to -11.77 per cent (year-on-year) compared with -12.65 and –26.04 per cent in the corresponding and preceding quarters, respectively. In the same vein, average daily crude oil production fell further to 1.43 mbpd in the second quarter of 2022 from 1.61 and 1.49 mbpd in the corresponding and preceding quarters, respectively.

Figure 3.2: Non-oil Sector Performance (2020Q1 – 2022Q2)



Source: NBS

Figure 3.3: Performance of oil Sector (2020Q1 – 2022Q2)



Source: NBS

3.1.2 Sectoral Analysis

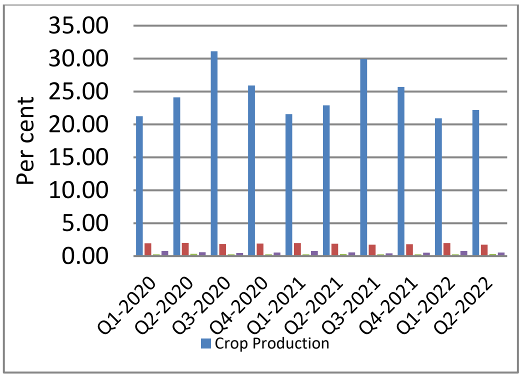
The key factors that contributed to output growth in major sectors in the review period are analysed in this section.

3.1.2.1 Agriculture

In the first quarter of 2022, growth in real agricultural output increased to 3.16 per cent, compared with 2.28 per cent in the corresponding period of 2021, but represented a decline compared with 3.58 per cent in the fourth quarter of 2021. Output growth in the sector was driven by livestock, which grew by 5.55 per cent in the first quarter of 2022, compared with 1.65 and 0.14 per cent in the corresponding and preceding quarters, respectively. This was followed by fishing which grew by 3.14 per cent in the first quarter of 2022, a moderation compared with 3.24 per cent in the corresponding quarter of 2021, but an improvement compared with 1.69 per cent in the preceding quarter. Crop production grew by 2.97 per cent in the first quarter of 2022, compared with 2.31 per cent in the corresponding period of 2021, but moderated relative to 3.87 per cent in the preceding quarter. The share of the agriculture sector in overall GDP declined from 26.84 per cent in the preceding quarter to 22.36 per cent in the first quarter of 2022, which compares with 22.35 per cent in the corresponding quarter of 2021.

During the second quarter of 2022, growth in real agricultural output moderated to 1.20 per cent compared with 1.30 and 3.16 per cent in the corresponding and preceding quarters, respectively. Crop production grew by 1.54 per cent in the second quarter of 2022 compared with 1.36 and 2.97 per cent in the corresponding and preceding quarters, respectively. This was followed by Forestry which grew by 1.29 per cent compared with 1.06 and 1.37 per cent in the corresponding and preceding quarters, respectively. The fishing sub-sector also grew by 0.89 per cent in the second quarter from 2.27 and 3.14 per cent in the corresponding and preceding quarters, respectively. The moderation in performance of the sector was largely driven by the contraction of 2.87 per cent in the livestock sub-sector in contrast to the growth of 0.13 and 5.55 per cent in the corresponding and preceding quarters, respectively. The share of the agriculture sector in overall GDP improved from 22.36 per cent in the preceding quarter to 23.24 per cent in the second quarter compared with 23.78 in the corresponding quarter.

Figure 3.4: Sub-Components of Agricultural Sector Growth (2020Q1 – 2022Q2)



Source: Statistics Department

3.1.2.2 Agricultural Policies and Institutional Support

During the review period, the Bank continued its interventions in the agricultural sector to support economic recovery using a variety of existing policies, and institutional support, as highlighted below:

3.1.2.2.1 Commercial Agriculture Credit Scheme (CACS)

Under the Scheme, ₦28.30 billion was disbursed to twelve beneficiaries across large-scale agro-enterprises in the first half of 2022, compared with ₦13.27 billion in the second half of 2021. A total of ₦32.86 billion was, however, repaid in the review period compared with ₦48.14 billion in the second half of 2021.

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

Under the Fund, there was no disbursement in the first half of 2022, compared with ₦686.20 million in the second half of 2021. Repayments during the review period totalled ₦2.52 billion, compared with ₦2.82 billion in the second half of 2021.

3.1.2.2.3 Anchor Borrowers' Programme (ABP)

In the first half of 2022, the sum of ₦35.52 billion was disbursed to 28,876 smallholder farmers across the country to produce selected commodities such as rice, maize and wheat, compared with ₦246.67 billion to 679,776 smallholder farmers in the second half of 2021. In addition, a total of 128,579 hectares of land was cultivated, compared with 1,123,684 hectares in the second half of 2021. Repayments under the Programme stood at ₦42.99 billion in the review period, compared with ₦196.48 billion in the preceding period.

3.1.2.2.4 Accelerated Agriculture Development Scheme (AADS)

The Scheme disbursed the sum of ₦1.50 billion in the first half of 2022, compared with ₦36.12 million in the second half of 2021. A total of ₦4.37 billion was repaid in the period under review, compared with ₦5.31 billion in the second half of 2021.

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

In the review period, ₦1.60 billion was disbursed to 2,720 projects under the Scheme, compared with ₦22.92 billion to 8,538 projects in the second half of 2021. Repayment in the review period was ₦0.766 billion, compared with ₦1.16 billion in the second half of 2021.

3.1.2.2.6 Paddy Aggregation Scheme (PAS)

The sum of ₦6.20 billion was channelled to three (3) projects under the Scheme in the first half of 2022, with no disbursement in the preceding period. Due to the extension of a moratorium to beneficiaries of the intervention, there was no repayment in the review period, compared with the repayment of ₦4.67 billion in the second half of 2021.

3.1.2.2.7 National Food Security Programme (NFSP)

Under the Programme, no disbursement was made in the review and preceding periods. Repayment in the first half of 2022 was ₦2.03 billion, compared with ₦2.30 billion at end-December 2021.

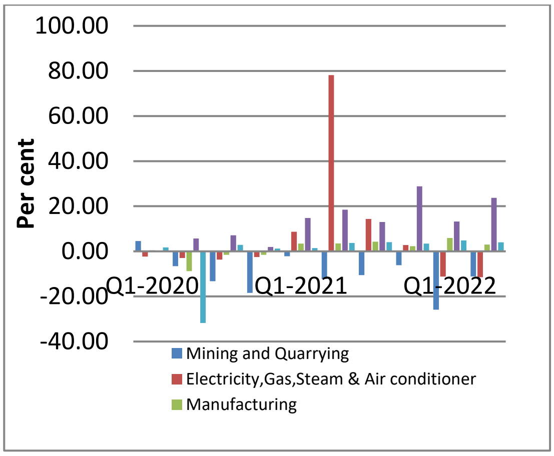
3.1.2.3 Industry

The industrial sector contracted by 6.81 per cent in the first quarter of 2022, following a milder contraction of 0.05 per cent in the fourth quarter of 2021. It, however, grew moderately by 0.94 per cent in the corresponding period of 2021. The contraction resulted from the weak performance of Mining & Quarrying which contracted by 25.89 per cent in the first quarter of 2022 following contractions of 2.19 and 6.16 per cent in the corresponding and preceding quarters, respectively. Electricity, Gas, Steam & Air conditioner also contracted by 11.20 per cent in the first quarter of 2021 in contrast to growth of 8.66 and 2.78 per cent in the corresponding and preceding quarters, respectively. The contraction in the sector was moderated by growth in Water Supply, Sewage & Waste Management, which grew by 13.22 per cent in the first quarter of 2022, compared with 14.75 and 28.84 per cent in the corresponding and preceding quarters, respectively. This was followed by the Manufacturing, and Construction sub-sectors which grew by 5.89 and 4.83 per cent in the first quarter of 2022, from 3.40 and 1.42 per cent in the corresponding period of 2021, and 2.28

and 3.46 per cent in the preceding quarter, respectively.

In the second quarter of 2022, the industrial sector contracted by 2.30 per cent compared with a contractions of 1.23 per cent and 6.81 per cent in the corresponding and preceding quarters, respectively. Electricity, Gas, Steam & Air Conditioner led the contraction by 11.48 per cent in the review period and 11.20 per cent in the preceding quarter in contrast to a growth of 78.16 per cent in the corresponding quarter of 2021. Mining & Quarrying also contracted by 11.09 per cent compared with contractions of 12.29 and 25.29 per cent in the corresponding and preceding quarters, respectively. Water Supply, Sewage & Waste Management, however, grew by 23.73 per cent in the second quarter of 2022 compared with 18.48 and 13.22 per cent in the corresponding and preceding quarters, respectively. This was followed by the Construction and Manufacturing sub-sectors which grew by 4.02 and 3.00 per cent in the second quarter of 2022 compared with 3.70 and 3.49 per cent in the corresponding period of 2021 and 4.48 and 5.89 per cent in the preceding quarter, respectively. The share of the Industrial sector in overall GDP in the review period was 19.40 per cent compared with 20.57 and 21.47 per cent in the corresponding and preceding quarters, respectively.

Figure 3.5: Sub-Components of Industry Sector Growth (2020Q1-2022Q2)



Source: Statistics Department

3.1.2.3 Industrial Policies and Institutional Support

The industrial sector benefited from several policy measures, incentives and programmes during the review period, some of which are highlighted below:

3.1.2.3.1 Real Sector Support Facility (RSSF)

There was no disbursement under this Facility in the review period, due to discontinuation of the intervention. Repayments totalling ₦21.65 billion was, however, made in the first half of 2022 compared with ₦6.62 billion in the preceding period.

3.1.2.3.2 RSSF Using Differentiated Cash Reserve Ratio (RSSF-DCRR)

The sum of ₦210.29 billion was disbursed to 34 projects in the first half of 2022, compared with ₦476.30 billion to 39 projects in the second half of 2021. Repayments of ₦18.50 billion was received in the first half of 2022, compared with ₦80.72 million in the preceding period.

3.1.2.3.3 Non-oil Export Stimulation Facility (NESF)

The primary aim of the facility, amongst others, is to support local companies to enhance capacity and take advantage of opportunities presented by the Africa Continental Free Trade Agreement (AfCFTA). There was no disbursement in the review period. Repayments totalling ₦2.00 billion was made in the first half of 2022, compared with ₦3.88 billion in the preceding period.

3.1.2.3.4 Export Development Facility (EDF)

The Facility was established to improve access of exporters to concessionary finance towards expansion and diversification of the non-oil export basket. A disbursement of ₦17.08 billion was made to 15 projects in the review period, while no disbursement was made in the preceding period. There was also no repayment in the review and preceding periods as some facilities were under moratorium.

3.1.2.3.5 Presidential Fertilizer Initiative (PFI)

Under this initiative, there was no disbursement in the review period, the sum of ₦3.00 billion was repaid, compared with ₦2.75 billion in the preceding period.

3.1.2.3.6 Creative Industry Financing Initiative (CIFI)

In the first half of 2022, there was no disbursement under this initiative. The sum of ₦280.24 million was, however, repaid in the first half of 2022 compared with ₦250.28 million in the previous half year.

3.1.2.3.7 Targeted Credit Facility (TCF)

During the period under review, the sum of ₦24.37 billion was disbursed to 50,302 projects, compared with ₦69.91 billion to 136,532 projects in the second half of 2021. There was no repayment in the review or preceding period, as Facility was under moratorium.

3.1.2.3.8 Shared Agent Network Expansion Facility (SANEF)

Under the Facility, no disbursement was made in the last two review periods. The sum of ₦369.25 million was repaid in the first half of 2022 compared with ₦136.88 million repaid in the second half of 2021.

3.1.2.3.9 Nigeria Youth Investment Fund (NYIF)

Under the Fund, there was no disbursement in the review period compared with ₦881.85 million in the second half of 2021. Repayments, however, totalled ₦278.50 million compared with ₦2.62 billion in the preceding period.

3.1.2.3.10 Health Sector Intervention Fund (HSIF)

The Fund disbursed the sum of ₦17.21 billion to 11 projects in the first half of 2022, compared with ₦11.05 billion to 23 projects in the second half of 2021. No repayment was made on the intervention in both periods as the facility remained under moratorium.

3.1.2.3.11 Healthcare Sector Research and Development Intervention Scheme (HSRDIS)

In the review period, the sum of ₦14.75 million was disbursed as additional tranche to one (1) of the five (5) projects/grants under the Scheme. This was in addition to ₦27.50 million disbursed to several recipients in the second half of 2021.

3.1.2.3.12 COVID-19 Intervention Facility for the Manufacturing Sector (CIMS)

In the review period, the sum of ₦413.89 billion was disbursed to 50 projects while a repayment of ₦12.00 billion was received. There were no disbursement or repayment in the preceding period.

3.1.2.3.13 SME/Rediscounting & Refinancing Facility (SMERRF)

In the period under review, there was no disbursement or repayment on the facility. In the preceding period, however, ₦2.00 billion was disbursed and no repayment received.

3.1.2.3.14 CBN-BOI Industrial Facility (CBIF)

In the first half of 2022, a disbursement of ₦50.00 billion was made to Bank of Industry (BOI) as a single obligor for on-lending to other borrowers, while there was no disbursement in the preceding half year. No repayment was received in the current or preceding periods.

3.1.2.3.15 Textile Sector Intervention Facility (TSIF)

There was no disbursement in the review period under the Scheme, while ₦900.00 million was disbursed to two (2) projects in the second half of 2021. A repayment of ₦8.62 billion was, however, made in the review period, compared with ₦3.72 billion in the preceding period.

3.1.2.3.16 100 for 100 Policy for Production and Productivity (100 for 100 PPP)

This initiative was introduced to reverse the country's heavy reliance on imports, by creating an ecosystem to target and supports projects with the potential to catalyse and transform the productive base of the economy. In the review period, the sum of ₦69.13 billion was disbursed to 51 projects across manufacturing, agriculture and healthcare. A total repayment of ₦1.32 billion was received in the same period.

3.1.2.3.17 Tertiary Institutions Entrepreneurship Scheme (TIES)

This intervention was recently introduced to enhance access to finance for undergraduates and graduates of Nigerian polytechnics and universities, who have technology driven innovative and entrepreneurial ideas. The sum of ₦264.04 million has so far been disbursed to 53 youth-led entrepreneurial projects in the period under review, compared with ₦29.13

million disbursed to 6 beneficiaries in the preceding.

3.1.2.3.18 Youth Entrepreneurship Development Fund (YEDP)

There was no disbursement under the Fund in the period under review but the sum of ₦116.94 million was repaid in the period, compared with ₦1.52 million in the preceding period.

3.1.2.3.19 Power and Airline Intervention Fund (PAIF)

In the review period, no disbursement was made under this facility compared with ₦991.84 million in the preceding period. The sum of ₦15.91 billion was repaid in the first half of 2022 compared with ₦6.57 billion in the second half of 2021.

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

In the period under review, ₦26.93 billion was disbursed under the Programme compared with ₦301.36 billion in the second half of 2021. A repayment of ₦322.87 billion was made in the review period while no repayment was made in the preceding period.

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

Under the Facility, the sum of ₦34.37 billion was disbursed in the first half of 2022, compared with ₦96.72 billion in the second half of 2021. A total of ₦10.91 billion was repaid in the review period compared with ₦14.54 billion in the preceding period.

3.1.2.3.22 National Mass Metering Programme (NMMP)

In the first half of 2022, the sum of ₦199.90 million was disbursed under the Programme, compared with ₦11.79 billion in the second half of 2021. No repayment was made as the facilities were under moratorium.

3.1.2.3.23 Intervention Facility for National Gas Expansion Programme (IFNGEP)

Under the Programme, the sum of ₦26.00 billion was disbursed in the first half of 2022 to a total of four (4) projects, compared with ₦24.00 billion to four (4) projects in the second half of 2021.

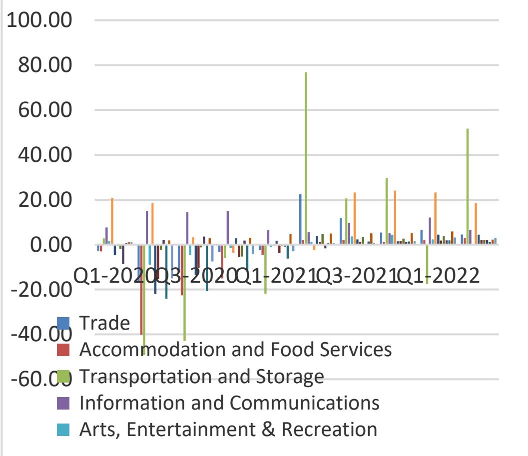
3.1.3 Services Sector

During the first half of 2022, the Services sector maintained an impressive growth trajectory. The sector grew by 7.45 per cent in the first quarter of 2022 compared with 5.58 per cent in the preceding quarter. It, however, contracted by 0.39 per cent in the corresponding quarter of 2021. Growth in the first quarter 2022 was driven by sub-sectors such as Financial & Insurance (23.24%); Information & Communication (12.07%); Trade (6.54%); Human Health & Social Services (5.91%); Real Estate (4.44%); Administration & Support Services (3.73%); other services (3.14%); Art, Entertainment & Recreation (2.30%); Accommodation & Food Services (1.93%); Public Administration (1.92%); Education (1.87%); and

Professional, Scientific & Technical Services (1.85%). These compare with their respective growth rates of -0.46, 6.47, -2.43, 4.65, 1.77, -0.77, -2.95, -1.13, -4.60, -0.88, -6.20, and -3.84 per cent in the corresponding period of 2021. Growth in the sector was, however, moderated by a contraction in the Transportation & Storage sub-sector of -17.41 per cent from -21.89 per cent in the corresponding period of 2021.

During the second quarter of 2022, the Services sector moderated to 6.70 per cent compared with 9.27 and 7.45 per cent in the corresponding and preceding quarters, respectively. Growth in the sector was driven by Transportation & Storage (51.66%); Financial & Insurance (18.48%); Information & Communication (6.55%); Trade (4.51%); Real Estate (4.42%); Other Services (3.05%); Accommodation & Food Services (3.03%); Human Health & Social Services (2.23%); Administration & Support Services (2.06%); and Public Administration (2.01%). These compare with their respective growth rates of 76.81, -4.54, 5.55, 22.49, 3.85, 0.64, 1.97, 4.92, 4.79 and -1.68 per cent in the corresponding period of 2021. The share of the sector in overall GDP rose to 57.35 per cent in the second quarter of 2022 from 55.66 and 56.17 per cent in the corresponding and preceding quarters.

Figure 3.6: Sub-Components of Services Sector Growth (2020Q1-2022Q2)



Source: Statistics Department

3.1.4 Oil Sector

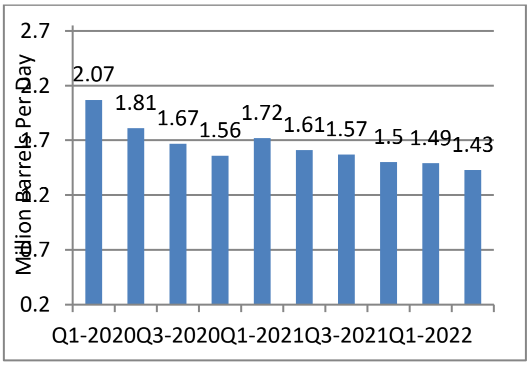
During the second half of 2022, oil sector performance was influenced by both global and domestic developments. Crude oil prices remained relatively high in the international market driven by disruptions to the global supply chain due to the ongoing war between Russia and Ukraine and the backlash of sanctions imposed on Russia by the international community. Nigeria was, however, unable to fully take advantage of the rise in crude prices due to incidences of oil theft, pipeline vandalism and poor investment in the sector. Accordingly, average daily crude oil production fell to 1.49 mbpd in the first quarter of 2022, compared with 1.72 mbpd and 1.50 mbpd in the corresponding and preceding quarters, respectively.

In the second quarter of 2022, the continued incidence of oil theft coupled with vandalization of oil facilities in the Niger Delta region affected oil output and export. Consequently, average daily crude oil production fell further to 1.43 mbpd from 1.61 and 1.49 mbpd in the corresponding and preceding quarters, respectively.

Crude oil prices trended upwards during the review period, primarily due to supply disruptions following the Russia-Ukraine war, alongside strong demand from refiners. Consequently, the price of Nigeria's reference crude, the Bonny Light 37^{0}API, stood at US$130.30 per barrel (pb) at end-June 2022 up from US$74.95 pb at end-December 2022, and US$54.87 pb in the corresponding period of 2021.

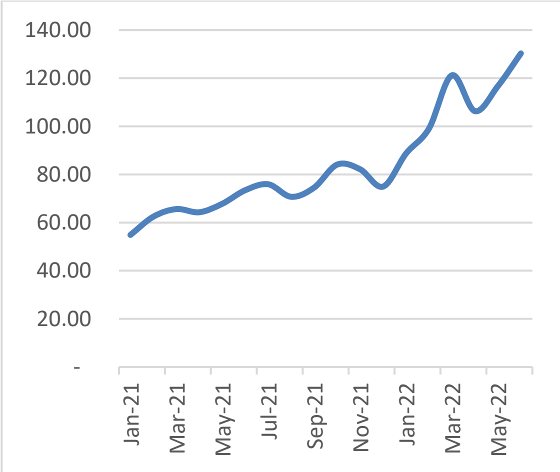
Overall, the average price of Bonny Light in the first half of 2022 was US$110.40 pb, which was above the Federal Government of Nigeria's 2022 budget benchmark of US$62.00 pb.

Figure 3.7: Quarterly Domestic Oil Production and Export (2021Q1-2022Q2)



Source: NBS

Figure 3.8: Monthly Bonny Light Oil Price, January 2021 - June 2022



Source: Statistics Department

Table 3.1
Growth Rates of Real GDP by Expenditure (%), 2020Q1 - 2022Q2

	Q1-2020	Q2-2020	Q3-2020	Q4-2020	Q1-2021	Q2-2021	Q3-2021	Q4-2021	Q1-2022	Q2-2022
GDP (Basic Price)	1.87	-6.10	-3.62	0.11	0.51	5.01	4.03	3.98	3.11	3.54
GDP (Market Price)	1.95	-6.04	-3.14	0.01	0.41	G5.36	4.07	4.64	3.60	3.40
Household Consumption	-10.04	-18.67	2.99	15.15	47.16	42.40	19.36	7.30	6.94	17.64
Gov. Consumption Expenditures	6.80	148.29	99.18	12.13	-4.57	-53.56	-39.51	-16.76	-9.91	-1299
Gross Fixed Capital Formation	-3.05	-32.52	-11.99	-9.44	-0.03	6.11	7.52	5.86	5.98	3.71
Net Exports	43.70	14.06	-40.84	-52.16	-91.74	-49.30	-38.27	1.35	-98.46	-92.76
National Disposable Income	3.57	2.12	0.32	-1.28	-6.46	-5.66	-1.48	2.84	2.0	2.0
Compensation of Employees	6.70	-6.47	-2.32	6.36	9.26	19.44	14.54	11.79	6.48	3.93
Operating Surplus	0.25	-5.93	-4.17	-2.34	-3.15	-4.45	-1.01	0.79	1.17	2.80
Other Current Transfers from RoW Net	10.24	53.45	11.07	-44.62	-63.70	-59.80	-46.12	-6.38	23.46	1.40

Source: NBS

3.2 Domestic Price Developments

In the review period, inflationary pressure intensified due largely to several factors. A key factor that stoked prices was the unexpected outbreak of war between Russia and Ukraine which significantly disrupted global supply chains, creating considerable uncertainties which spilled over to the domestic economy. Consequently, all three measures of inflation (headline, food, and core), trended upwards in the first half of 2022. Headline inflation remained above the upper band of the Bank's indicative benchmark of 6-9 per cent throughout the review period. In general, price development in the review period was driven by the combined impact of several supply- and demand-side factors. The overriding driver was, however, food inflation, accentuated mainly by the continued rise in food prices as a result of persisting insecurity in food producing areas amongst other legacy issues.

Foreign currency supply in the review period fell short of demand due to rising speculative demand pressures. This led to a sharp depreciation of the currency with a significant pass-through of inflationary pressure to domestic prices. Consequently, the naira weakened in all segments of the market, with a significant divergence between the official and parallel market rates. The Bank thus maintained its foreign currency interventions at the I&E window to ease demand pressure and slowdown the rate of depreciation. This resulted in increased pressure on the external reserves. Policy reforms were introduced to improve medium-term FOREX supply to the economy. One of such reforms, was the RT200 aimed at promoting the repatriation of export proceeds through official channels. The Bank also, continued the policy on restriction of access to foreign exchange for 43 items, and suspension of sale of foreign exchange to BDCs.

On the demand-side, the high level of banking system liquidity resulted in relatively low interest rates in both the Inter-Bank Call and Open Buy Back (OBB) segments of the money market. This prevailing high level of liquidity resulted from the substantial interventions by both the monetary and fiscal authorities during the Pandemic. In addition, maturing securities and Federation Account Allocation Committee (FAAC) disbursements also influenced liquidity conditions in the banking system.

3.2.1 Trends in Inflation

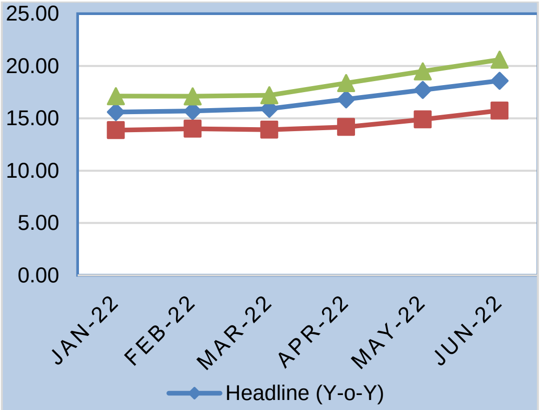
The headline, core, and food measures of inflation maintained steady upward trajectories in the review period. The three measures of the consumer price index (CPI) stood at 455.4, 386.2, and 534.7 points, respectively, in June 2022 compared with 417.6, 360.4, and 484.7 points in January 2022, a remarkable increase across all three measures. Headline inflation (year-on-year) increased by 3.00 percentage points to 18.60 per cent in June 2022, from 15.60 per cent in January 2022. Similarly, core inflation rose by 1.88 percentage points to 15.75 per cent in June 2022, from 13.87 per cent in January 2022. Food inflation also rose by 3.47 percentage points to 20.60 per cent in June 2022 from 17.13 per cent in January 2022 (Table 3.2 and Figure 3.9). The prices of food and non-alcoholic beverages were the major drivers of headline inflation during the review period (Table 3.2).

Table 3.2: Inflation Rates, January – June 2022

Month	Headline			Core			Food		
	CPI	YoY	12MMA	CPI	YoY	12MMA	CPI	YoY	12MMA
January	417.6	15.60	16.87	360.4	13.87	13.33	484.7	17.13	20.09
February	424.4	15.70	16.73	365.2	14.01	13.46	493.8	17.11	19.69
March	431.8	15.92	16.54	368.8	13.91	13.56	503.6	17.20	19.21
April	439.4	16.82	16.45	373.3	14.18	13.68	513.6	18.37	18.88
May	447.2	17.71	16.45	380.3	14.90	13.83	524.0	19.50	18.68
June	455.4	18.60	16.54	386.2	15.75	14.06	534.7	20.60	18.62

Source: National Bureau of Statistics (2022)

Figure 3.9: Headline, Core and Food Inflation Rates (January – June 2022)



Source: Nigerian National Bureau of Statistics data base

3.2.1.1 Headline Inflation

The two major components of headline inflation (food and core) increased during the first half of 2022. The main driver of headline inflation in the review period was Food and Non-Alcoholic Beverages, which increased to 12.20 per cent in June 2022 from 10.07 per cent in January 2022. Similarly, the prices of housing, water, electricity, gas and other fuels increased to 2.14 per cent in June 2022, from 1.72 per cent in January 2022. The price of clothing and footwear rose to 1.20 per cent from 1.07 per cent, while the price of transport also rose to 0.97 per cent from 0.87 per cent over the same period (Table 3.2 and Figure 3.10). The prices of other components such as education, health, furnishing recorded mild increases during the period. In general, headline inflation increased to 18.60 per cent in June 2022 from 15.60 per cent in January 2022.

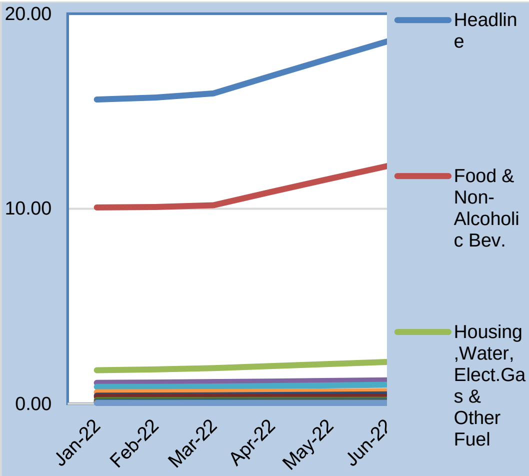
The uptick in headline inflation resulted largely from acute distortions to food supply due to high levels of insecurity in the country, especially in the farming communities; perennial scarcity of PMS and persistent rise in the price of automated gas oil (AGO) and electricity tariffs; and increased election-related spending as most political parties prepared for the 2023 general elections. This was further exacerbated by the net outflow of foreign capital, thus heightening demand pressure in the foreign exchange market.

Overall, the Bank maintained an accommodative monetary policy stance between January and May to support the post-Pandemic recovery but commenced monetary tightening towards the end of May 2022 to rein-in rising inflation.

Table 3.3a Major Components of Headline Inflation ((Y-on-Y), January - June 2022

Month	Headline	Food & Non-Alcoholic Bev.	Housing, Water, Elect.Gas & Other Fuel	Clothing & footwear	Transport	Furnishings, Household Equip &HH Maint.	Education	Health	Miscellaneous Goods & Services	Restaurant & Hotels	Alcoholic Bev. Tobacco & Kola	Recreation & culture	Communication
Jan-22	15.60	10.07	1.72	1.07	0.87	0.59	0.42	0.35	0.19	0.11	0.11	0.06	0.04
Feb-22	15.70	10.09	1.76	1.09	0.87	0.60	0.42	0.35	0.19	0.11	0.12	0.06	0.04
Mar-22	15.92	10.18	1.83	1.11	0.88	0.60	0.43	0.35	0.20	0.12	0.12	0.07	0.04
Apr-22	16.82	10.87	1.93	1.14	0.91	0.62	0.45	0.35	0.20	0.12	0.12	0.07	0.04
May-22	17.71	11.54	2.04	1.17	0.94	0.63	0.47	0.36	0.21	0.12	0.13	0.07	0.04
Jun-22	18.60	12.20	2.14	1.20	0.97	0.64	0.48	0.37	0.21	0.13	0.14	0.07	0.04
Change	**3.00**	**2.13**	**0.43**	**0.13**	**0.11**	**0.05**	**0.07**	**0.02**	**0.02**	**0.01**	**0.02**	**0.01**	**0.00**

Figure 3.10: Major Components of Headline Inflation (Y-on-Y), January – June 2022

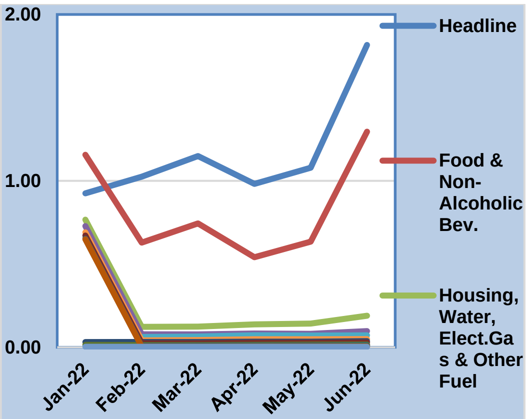


On a month-on-month basis, headline inflation increased to 1.82 per cent in June 2022 from 0.93 per cent in January. The major drivers of month-on-month headline inflation were: Transport, which rose to 0.07 per cent in June 2022 from a contraction of 5.09 per cent in January; and Food & Non-alcoholic Beverages, which increased to 1.30 per cent in June 2022 from 1.16 per cent in January 2022 (Table 3.3a and Figure 3.11).

Table 3.3b: Major Components of Headline Inflation (M-on-M), January - June 2022

Month	Headline	Food & Non-Alcoholic Bev.	Housing, Water, Elect.Gas & Other Fuel	Clothing & footwear	Transport	Furnishings, Household Equip &HH Maint.	Education	Health	Miscellaneous Goods & Services	Restaurant & Hotels	Alcoholic Bev. Tobacco & Kola	Recreation & culture	Communication
Jan-22	0.93	1.16	0.77	0.73	-5.09	0.69	0.03	0.67	0.01	0.65	0.65	0.65	0.00
Feb-22	1.02	0.63	0.12	0.08	0.06	0.04	0.03	0.02	0.01	0.01	0.01	0.00	0.00
Mar-22	1.15	0.74	0.12	0.08	0.06	0.04	0.03	0.02	0.01	0.01	0.01	0.00	0.00
Apr-22	0.98	0.54	0.14	0.08	0.07	0.05	0.03	0.03	0.01	0.01	0.01	0.00	0.00
May-22	1.08	0.64	0.14	0.08	0.07	0.05	0.03	0.03	0.02	0.01	0.01	0.00	0.00
Jun-22	1.82	1.30	0.19	0.10	0.07	0.05	0.04	0.03	0.02	0.01	0.01	0.01	0.00
Change	**0.89**	**0.14**	**-0.58**	**-0.63**	**5.17**	**-0.64**	**0.01**	**-0.64**	**0.00**	**-0.64**	**-0.64**	**-0.64**	**0.00**

Figure 3.11: Major Components of Headline Inflation (M-on-M January – June 2022



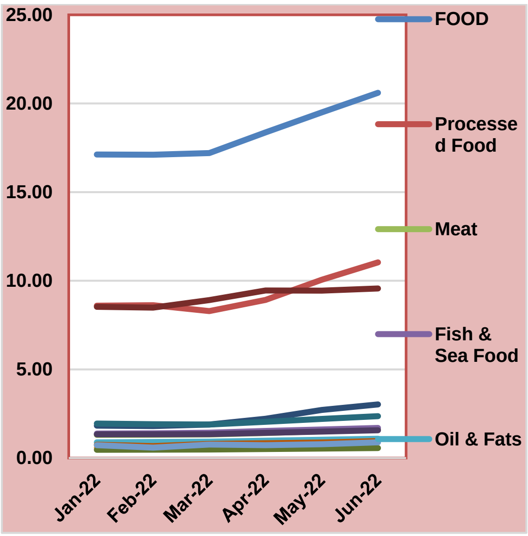
3.2.1.2 Food Inflation

Food inflation (year-on-year) rose to 20.60 per cent in June 2022 from 17.13 per cent in January 2022. The main driver was the price of processed food which increased to 11.04 per cent from 8.59 per cent. Similarly, farm produce rose to 9.57 per cent in June 2022, from 8.53 per cent in January 2022. The increase in the price of processed food was mainly accounted for by increases in the prices of garri, yellow and white (sold loose); fish & sea food; meat; and oil & fats. The increase in price of farm produce was mainly due to increases in the price of yam, potatoes & other tubers; vegetables; maize grain, white (sold loose); sorghum, white or brown (sold loose) and fruits. The general rise in food prices was attributed to acute food shortages caused by the deteriorating security situation, especially in the food producing areas of the north as well as the rise in cost of transportation.

Table 3.4: Major Components of Food Inflation (Y-on-Y), January - June 2022

	FOOD	Processed Food	Meat	Fish & Sea Food	Oil & Fats	Garri White, Sold Loose	Garri Yellow, Sold Loose	Farm Produce	Fruits	Vegatables	Yam, Potatoes & other tubers	Maize Grain White Sold Loose	Sorghum White or Brown, Sold Loose
Jan-22	17.13	8.59	1.31	1.38	0.89	0.58	1.83	8.53	0.47	1.34	1.95	0.75	0.72
Feb-22	17.11	8.62	1.31	1.40	0.90	0.58	1.80	8.49	0.47	1.34	1.91	0.67	0.59
Mar-22	17.20	8.29	1.33	1.43	0.92	0.54	1.89	8.91	0.48	1.35	1.89	0.80	0.76
Apr-22	18.37	8.92	1.42	1.53	0.98	0.64	2.21	9.45	0.51	1.42	2.05	0.83	0.73
May-22	19.50	10.06	1.51	1.62	1.04	0.81	2.71	9.44	0.54	1.50	2.21	0.88	0.78
Jun-22	20.60	11.04	1.60	1.70	1.09	0.92	3.03	9.57	0.57	1.57	2.36	0.96	0.89
Change	**3.48**	**2.44**	**0.30**	**0.32**	**0.20**	**0.34**	**1.20**	**1.03**	**0.10**	**0.23**	**0.41**	**0.21**	**0.16**

Figure 3.12: Major Components of Food Inflation (Y-on-Y), January - June 2022

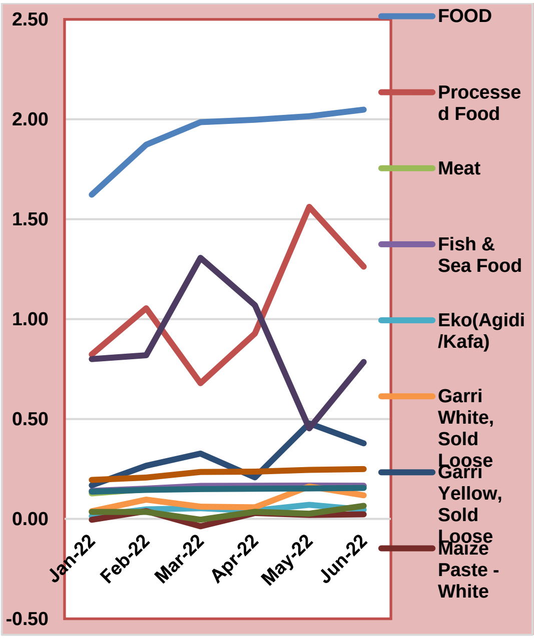


Consistent with the increasing year-on-year trend, month-on-month food inflation increased to 2.05 per cent in June 2022 from 1.62 per cent in January 2022. The price of processed food rose to 1.26 per cent in June 2022 from 0.82 per cent in January 2022. On the contrary, the price of farm produce fell to 0.79 per cent from 0.80 per cent. Thus, the increase in food inflation was due to the increase in the prices of processed food. The key drivers of the increase in the processed food category were garri yellow (sold loose); and garri white (sold loose), which rose by 0.21 and 0.08 percentage points, respectively, while that of farm produce were yam, potatoes & other tubers (0.05 percentage point).

Table 3.5: Major Components of Food Inflation (M-on-M), January - June 2022

	FOOD	Processed Food	Meat	Fish & Sea Food	Eko (Agidi/ Kafa)	Garri White, Sold Loose	Garri Yellow, Sold Loose	Maize Paste - White	Yam Flour, Sold Loose	Farm Produce	Vegatables	Yam, Potatoes & other tubers
Jan-22	1.62	0.82	0.13	0.14	0.01	0.04	0.17	0.00	0.03	0.80	0.14	0.19
Feb-22	1.87	1.05	0.15	0.15	0.05	0.10	0.27	0.04	0.03	0.82	0.15	0.21
Mar-22	1.99	0.68	0.16	0.17	0.05	0.06	0.33	-0.04	0.00	1.31	0.15	0.24
Apr-22	2.00	0.93	0.16	0.17	0.04	0.06	0.21	0.03	0.04	1.07	0.15	0.24
May-22	2.01	1.56	0.16	0.17	0.07	0.16	0.48	0.02	0.03	0.45	0.15	0.24
Jun-22	2.05	1.26	0.16	0.17	0.05	0.12	0.38	0.02	0.07	0.79	0.15	0.25
Change	**0.43**	**0.44**	**0.04**	**0.03**	**0.03**	**0.08**	**0.21**	**0.03**	**0.03**	**-0.01**	**0.02**	**0.05**

Figure 3.13: Major Components of Food Inflation January - June 2022



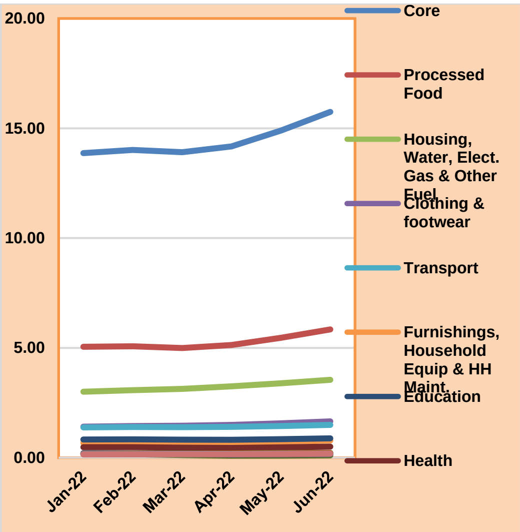
3.2.1.3 Core Inflation

Core inflation (year-on-year) rose to 15.75 per cent in June 2022 from 13.87 per cent in January 2022. The rise in core inflation was driven by Processed Food (0.79 percentage point); Housing, water, electricity & other fuel (0.54 percentage point); Clothing & Footwear (0.24 percentage point); Transport (0.11 percentage point); and Furnishings, Household Equipment & Household Maintenance (0.11 percentage point). In addition to these, all other components of core inflation increased marginally (Table 3.6 and Figure 3.14). The rise in core inflation may be attributed to supply-side factors such as the rising costs of energy and utilities.

Table 3.6: Major Components of Core Inflation (Y-on-Y) January - June 2022

Month	Core	Processed Food	Housing, Water, Elect. Gas & Other Fuel	Clothing & footwear	Transport	Furnishings, Household Equip & HH Maint.	Education	Health	Miscellaneous Goods & Services	Restaurant & Hotels	Non-Alcoholic Beverages	Alcoholic Bev. Tobacco & Kola	Recreation & culture	Communication
Jan-22	13.87	5.05	3.00	1.41	1.38	0.67	0.83	0.48	0.17	0.20	0.18	0.18	0.16	0.15
Feb-22	14.01	5.07	3.07	1.44	1.39	0.68	0.83	0.48	0.15	0.20	0.19	0.18	0.17	0.15
Mar-22	13.91	4.99	3.14	1.46	1.39	0.68	0.82	0.46	0.12	0.16	0.19	0.19	0.17	0.15
Apr-22	14.18	5.13	3.25	1.49	1.40	0.69	0.82	0.44	0.09	0.14	0.20	0.20	0.17	0.16
May-22	14.90	5.46	3.39	1.57	1.44	0.73	0.84	0.47	0.09	0.15	0.21	0.21	0.18	0.16
Jun-22	15.75	5.84	3.55	1.65	1.49	0.78	0.88	0.50	0.11	0.16	0.21	0.22	0.18	0.18
Change	**1.88**	**0.79**	**0.54**	**0.24**	**0.11**	**0.11**	**0.05**	**0.02**	**-0.06**	**-0.04**	**0.03**	**0.04**	**0.02**	**0.04**

Figure 3.14: Major Components of Core Inflation (Y-on-Y) January - June 2022

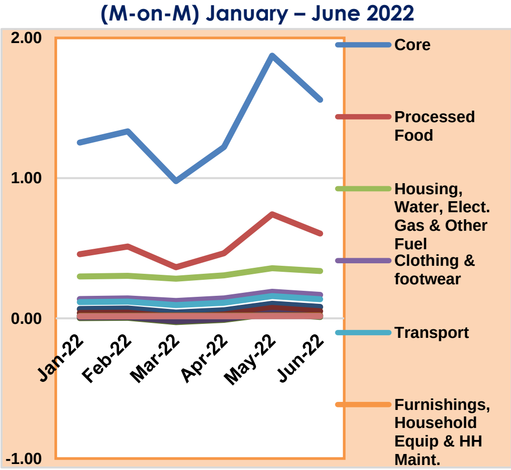


On a month-on-month basis, core inflation increased to 1.56 per cent in June 2022 from 1.25 per cent in January, driven by Processed food which increased to 0.61 per cent in June 2022 from 0.46 per cent in January (Table 3.7 and Figure 3.15).

Table 3.7: Major Components of Core Inflation (M-on-M) January – June 2022

Month	Core	Processed Food	Housing, Water, Elect. Gas & Other Fuel	Clothing & footwear	Transport	Furnishings, Household Equip & HH Maint.	Education	Health	Miscellaneous Goods & Services	Restaurant & Hotels	Non-Alcoholic Beverages	Alcoholic Bev. Tobacco & Kola	Recreation & culture	Communication
Jan-22	1.25	0.46	0.30	0.14	0.12	0.06	0.07	0.04	0.00	0.01	0.02	0.02	0.01	0.01
Feb-22	1.33	0.51	0.30	0.14	0.12	0.06	0.07	0.04	0.00	0.01	0.02	0.02	0.02	0.01
Mar-22	0.98	0.36	0.28	0.12	0.09	0.04	0.04	0.01	-0.03	-0.02	0.02	0.02	0.02	0.02
Apr-22	1.22	0.46	0.31	0.14	0.11	0.06	0.06	0.03	-0.01	0.00	0.02	0.02	0.02	0.02
May-22	1.87	0.74	0.36	0.19	0.16	0.10	0.10	0.07	0.03	0.04	0.02	0.02	0.02	0.02
Jun-22	1.56	0.61	0.34	0.17	0.14	0.08	0.08	0.05	0.01	0.02	0.02	0.02	0.02	0.02
Change	**0.30**	**0.15**	**0.04**	**0.03**	**0.02**	**0.02**	**0.01**	**0.01**	**0.01**	**0.01**	**0.00**	**0.00**	**0.00**	**0.00**

Figure 3.15: Major Components of Core Inflation (M-on-M) January – June 2022



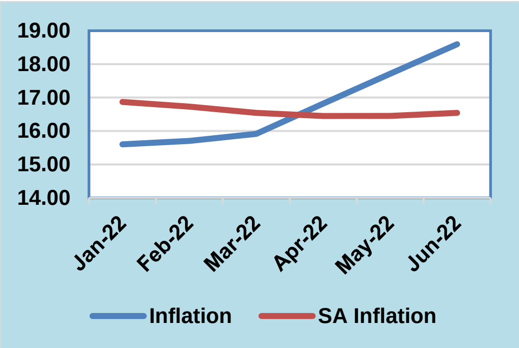
3.2.2 Seasonally Adjusted Inflation

Actual headline inflation maintained an upward trajectory between January and June 2022. On the other hand, the seasonally adjusted measure of headline inflation trended downwards between January and May before increasing marginally in June 2022 (Table 3.8 and Figure 3.16). Actual headline inflation continued to reflect the general price level in the economy and trended above the seasonally adjusted measure between April and June 2022. The overall trend in both actual and seasonally adjusted measures of inflation was attributed mainly to macroeconomic uncertainties arising from food shortages, expansion in money supply, exchange rate pressures, shortage of petroleum products, and the relatively loose monetary policy stance of the Bank.

Table 3.8: Actual and Seasonally Adjusted Headline Inflation (January – June 2022)

Year	Inflation	SA Inflation
Jan-22	15.60	16.87
Feb-22	15.70	16.73
Mar-22	15.92	16.54
Apr-22	16.82	16.45
May-22	17.71	16.45
Jun-22	18.60	16.54

Figure 3.16: Actual and Seasonally Adjusted Headline Inflation (January – June 2022)



3.2.3 Key Factors that Influenced Domestic Prices

During the review period, inflationary pressure was primarily influenced by the net impact of cost-push, demand-pull, and moderating factors. Some of these factors include: the Russia-Ukraine war; the unabating impact of the COVID-19 Pandemic; continuing insecurity; and rising cost of energy. Other factors include the continued pressure on the exchange rate, as well as sustained increase in food prices.

3.2.3.1 Demand-side Factors

In the review period, several demand-side factors influenced the trend of headline inflation. Some of these include capital releases for infrastructural projects, real sector intervention programmes, government payment of contractor obligations and the Bank's accommodative monetary policy stance, the combination of which boosted system liquidity and aggregate demand. Foreign exchange demand for transactions in tradable goods exerted pressure on the exchange rate, leading to mounting inflation pass-through to domestic prices. The net impact of these factors was considerable and led to high inflationary pressures.

3.2.3.2. Supply-side Factors

The supply-side factors which contributed to headline inflation in the review period were mainly: the residual impact of the COVID-19 Pandemic and the Russia-Ukraine war on the global supply chains; scarcity associated with seasonal nature of agricultural output; and limited harvests in the food-producing areas due to the high level of insecurity. The cumulative impact of these factors slowed down productivity in the review period.

3.2.3.3 Moderating Factors

The rise in energy prices and continued pressure on the naira in the first half of 2022 were major contributory factors for the rise in domestic prices in the review period. A key moderating factor to the upward movement of domestic prices was the support provided by both the fiscal and monetary authorities towards year-round cultivation of farm produce to ease the scarcity of agricultural produce associated with seasonal output. In addition, the effective implementation of the Economic Recovery and Growth Plan provided a strategic roadmap for the economy and helped restore investor confidence. Other factors were the government's support for the real sector to improve the ease of doing business as well as the implementation of other policies to boost productivity and enhance aggregate demand. This was targeted at improving confidence in the Nigerian economy as an avenue to tame inflationary pressures.

3.3 Monetary Policy and Liquidity Management

Monetary policy design and implementation in the first half of 2022 was influenced by various developments in the global and domestic economic and financial environments.

On the global front, while progress was made in subduing the Pandemic, leading to the reopening of several economies, the Russian-Ukraine war posed new downside risks to the full recovery of the global economy. In the advanced economies, the rise in inflation above the long run objectives of some major central banks, re-enforced the fear that central banks in this bloc may soon return to a regime of monetary policy normalization, which may lead to capital outflow and exchange rate pressures. There was mixed inflationary pressure among the Emerging Market and Developing Economies, with some of the economies recording higher rates, compared with their peers, due largely to exchange rate pressures, capital flow reversals, high energy costs, weak supply chains and poor response to policy stimulus targeted at alleviating the macroeconomic slowdown associated with the Pandemic.

In the domestic economy, uncertainties persisted around the path to containment of the Pandemic thus posing a challenge to the recovery of output growth. In addition, the slow pace of vaccination across the country remained a source of concern for monetary policy. Other factors were the lingering security challenges including: the numerous clashes between herdsmen and farmers, insurgency and banditry; legacy infrastructural deficits; high cost of energy; oil theft in the Niger Delta; as well as exchange rate pressures from rising capital outflows with pass-through to domestic prices.

3.3.1 Monetary Policy Response to Evolving Economic Conditions

In the first half of 2022, monetary policy formulation and implementation was targeted at easing the impact of shocks from both the global and domestic economic and financial environments. Some of these global shocks emanated from the continued spread of new strains of the coronavirus, thus prolonging the COVID-19 pandemic; supply-chain disruptions associated with the Russia-Ukraine war; as well as rising global inflation. In the light of these headwinds, the International Monetary Fund (IMF) downgraded its forecast for global output growth for 2022 to 3.6 per cent from 4.4 per cent, reflecting the severity of setbacks to the global recovery.

Major shocks impacting developments in the domestic economy were rising energy costs, exchange rate pressures and high levels of insecurity. These shocks resulted in slowing output growth, rising inflation and high unemployment. Consequently, real Gross Domestic Product (GDP) grew by 3.11 per cent in the first quarter of 2022, compared with 3.98 per cent in the fourth quarter of 2021 and 0.51 per cent in the corresponding period of 2021. This was the sixth consecutive quarter of real output expansion, following the economy's exit from recession in 2020. This steady positive performance, was driven largely by the growth in aggregate consumption, arising from the continued policy support at the onset of the Pandemic and gradual recovery of aggregate demand. Headline inflation (year-on-year) ticked up to 16.82 per cent in April 2022 from 15.92 per cent in March 2022, a 90-basis point increase. This was the third consecutive increase in inflation since January 2022, attributable to the rise in both the core and food components to 14.18 and 18.37 per cent in April 2022 from 13.91 and 17.20 per cent in March 2022, respectively.

Broad money supply (M3) rose significantly to 6.22 per cent in April 2022, compared with 4.19 per cent in March 2022. This was largely driven by strong growth in Net Domestic Assets (NDA) of 11.86 per cent in April 2022, compared with 8.82 per cent in the previous month. The growth in NDA was attributed to the increase in claims on the Federal Government and other sectors (public non-financial corporations, private sector, and state and local governments).

The performance of the equities market remained strong and positive in the review period, with the All-Share Index (ASI) and Market Capitalization (MC) increasing significantly from 46,965.48 and N25.31 trillion on March 31, 2022, to 52,979.48 and N28.56 trillion on May 20, 2022, respectively.

Money market rates oscillated within and outside the Standing Facilities Corridor (SFC), reflecting the prevailing liquidity conditions in the banking system. Consequently, the monthly weighted average Open Buyback (OBB) and Interbank Call rates increased to 7.49 and 8.67 per cent in April 2022, from 6.62 and 4.50 per cent in

March 2022, respectively. The increase in rates was an indication of the tight liquidity conditions in the banking system in the review period.

These challenges and the desire to achieve the Bank's objective of price stability conducive to economic growth, were the key considerations that shaped monetary policy in the first half of 2022.

During the first half of 2022, the Monetary Policy Committee raised the MPR to 13.0 per cent; retained the asymmetric corridor of +100/-700 basis points around the MPR; retained the CRR at 27.5 per cent and retained the Liquidity Ratio at 30 per cent.

The Bank continued with its intervention programmes to support the recovery of output growth, lower unemployment, ease supply chain challenges, and drive down prices. The Bank's interventions were primarily in manufacturing/industries, agriculture, energy/infrastructure, healthcare and Micro, Small and Medium Enterprises (MSMEs)[1].

3.3.2 Monetary Policy Committee Meetings

In the first half of 2022, the Monetary Policy Committee (MPC) met in January, March and May to consider key developments that shaped the course of monetary policy during the period.

At its January 2022 meeting, the Committee accessed the balance of risks confronting the domestic economy in the near term as they impact price stability and output growth. While the Committee noted the continued moderate recovery of the domestic economy, members agreed that further concerted policy effort was required by both the monetary and fiscal authorities to improve the momentum of the recovery.

On price development, Members expressed concerns about the impact of insecurity in farming communities on food inflation. The Committee believed that the recent uptick of headline inflation was associated with increased demand during the festive season and was thus of the view that prices will decline over time, given the Bank's ongoing interventions in the agriculture sector.

Members noted the ongoing debate around the removal of fuel subsidy, suggesting a gradual approach to moderate its impact on the cost of transportation and energy. The Committee also noted the need to encourage the take-off of private refineries across the country to provide alternative competitive local supply sources. In addition to this, Members called for the speedy conclusion of the Government Gas-Powered Vehicle

[1] Details of the interventions in the review period are contain in sections 3.1.2.2 and 3.2.2.2

Conversion Scheme as an alternative to PMS.

The Committee applauded the effort of the Bank's Management at maintaining relative exchange rate stability even as demand pressure increase as the economy continued to reopen. Members noted the dwindling proceeds from oil sales, despite rising crude oil prices. They thus highlighted the need to address the persistent reduction in remittance of oil revenue to the Consolidated Revenue Fund. The MPC welcomed the improvement in foreign capital inflow through diaspora remittances and urged the Bank to seek new policies to attract more remittances through official channels.

The Committee noted the rising government debt profile, stressing its implications for fiscal sustainability and macroeconomic stability. The MPC thus urged the Government to reduce its dependence on crude oil as a single revenue source by exploring improved avenues to generate tax revenues. In addition, it called on the Government to engage private sector infrastructure financing entities, such as InfraCorp, to ease the burden of its expenditure.

Members welcomed the improved performance of the equities market in the review period, noting that this signposts continued investor confidence in the Nigerian economy.

The Committee also applauded the Management's efforts in ensuring the continued downward trend of the Non-Performing Loans (NPLs) ratio. Nevertheless, Members emphasized the need for the Bank to closely monitor developments in the sector and swiftly respond to any emerging challenges.

Based on the foregoing considerations, the Committee thus decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 11.5 per cent; the Asymmetric Corridor around the MPR at +100/-700 basis points; the CRR at 27.5 per cent; and the Liquidity Ratio at 30 per cent.

During the March 2022 meeting, the MPC noted with concern the impact of the increase in crude oil price on all economies. The MPC thus urged the NNPC to take urgent steps to ensure adequate supply of petroleum products in Nigeria to mitigate the inflationary implications. In addition to this, the Committee noted with grave concerns, the unprecedented rate of oil theft in recent times and its impact on government revenue and accretion to reserves.

Members also noted that the rising price of diesel is compounded by the inadequate supply of electricity which was adversely impacting domestic prices.

The Committee noted the marginal decline in food inflation due to the recent harvest. Although some food scarcity is expected as the planting season approaches, members were optimistic that the strategic grain reserves of the CBN would improve food supply.

The Committee thus decided by a majority vote to retain the Monetary Policy Rate (MPR) at 11.5 per cent; the asymmetric corridor at +100/-700 basis points around the MPR; the CRR at 27.5 per cent; and the Liquidity Ratio at 30 per cent.

At its May 2022 meeting, the MPC observed that in addition to the risks confronting price development in the global economy, output growth was also weakening.

The Committee observed that whereas post-pandemic policy support remained broadly expansionary, at least, from a fiscal standpoint, the sharp rise in inflation across both the Advanced & Emerging Market Economies was generating growing concerns amongst central banks. Consequently, major central banks have provided strong guidance for a progressive shift from monetary policy accommodation, which may ultimately lead to capital outflow from Emerging Market Economies.

The MPC noted that the war between Russia and Ukraine has resulted in significant disruptions to the global supply chains, at a time when the global economy was still confronted with downside risks from the COVID-19 Pandemic. In addition, global trade had also been impacted by the series of restrictions imposed on trade with Russia.

The domestic economy remained confronted with challenges such as insecurity, poor infrastructure, high cost of energy, rising unemployment and dwindling oil receipts, but at this meeting, the Committee's key concern was the sharp rise in inflation by almost 90 basis points in April 2022.

Based on the foregoing considerations, the Committee decided by a unanimous vote to raise the Monetary Policy Rate (MPR). In summary, the MPC voted to raise the MPR by 150 basis points to 13.0 per cent; retain the asymmetric corridor at +100/-700 basis points around the MPR; the CRR at 27.5 per cent; and the Liquidity Ratio at 30.0 per cent.

The Communiques of the MPC meetings held in the review period are contained in the appendix.

3.3.3 Instruments of Liquidity Management

During the first half of 2022, the Bank deployed its monetary policy toolkit to achieve its objectives of price and macroeconomic stability. These instruments were: The Monetary Policy Rate (MPR); the Cash Reserve Ratio (CRR); Liquidity Ratio (LR); Open Market Operations (OMO) and Discount Window Operations (The Standing Deposit Facility and The Standing Lending Facility). In addition to this, the Bank maintained interventions in the foreign exchange market to improve the effectiveness of monetary policy instruments.

3.3.3.1 Monetary Policy Rate (MPR)

The MPR remained the Bank's key instrument for signalling its monetary policy stance in the review period. The MPC adopted a contractionary stance by raising MPR by 150 basis points to 13.00 per cent at its May 2022 meeting, while maintaining the asymmetric corridor at +100/-700 basis points. This increase reflected the Bank's commitment to rein-in inflationary pressures.

3.3.3.2 Open Market Operations (OMO)

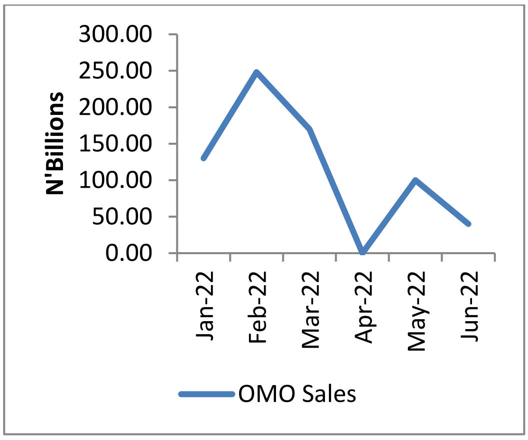
Open Market Operations (OMO) was the primary instrument for Liquidity Management in the first half of 2022. Total OMO sales decreased substantially by 89.11 per cent to ₦688.12 billion in the first half of 2022 from ₦6,319.46 billion in the preceding half of 2021 (Table 3.9). The development was a decrease of 61.63 per cent compared with ₦1,793.25 billion in the corresponding period of 2021.

Table 3.9: OMO Bills Auction (January – June 2022) (₦'billion)

Date	2021	2022	% Change
Jan	452.67	130.00	-71%
Feb	763.23	248.12	-67%
Mar	381.92	170.00	-55%
Apr	63.19	-	-100%
May	66.64	100.00	50%
Jun	65.60	40.00	-39%
1st Half	**1,793.25**	**688.12**	-62%
Jul	151.26		
Aug	1,411.89		
Sep	1,398.60		
Oct	772.66		
Nov	884.22		
Dec	1,700.83		
2nd Half	**6,319.46**		
Cumulative Figure	**8,112.71**	**688.12**	-92%

Source: CBN, Financial Market Department as at July 27, 2022

Figure 3.17: OMO Bills Auction (January - June 2022)



Source: CBN, Financial Market Department as at July 27, 2022

3.3.3.3 Reserve Requirements

During the first half of the year, the Bank continued its use of the Cash Reserve Requirement (CRR) and Liquidity Ratio (LR) to manage banking system liquidity. These were used to complement the MPR and OMO for macro-prudential and liquidity management. The CRR and LR remained unchanged at 27.5 and 30.0 per cent, respectively, throughout the period.

3.3.3.4 Standing Facilities Corridor

In the first half of 2022, the Bank continued to use the Standing Facilities Corridor to manage daily liquidity requirements of Other Depository Corporations (ODCs). The two windows of the Corridor (Standing Lending Facility, SLF and Standing Deposit Facility, SDF) remained asymmetric at +100/-700 basis points around the MPR. Requests for SLF increased by 32.68 per cent to ₦4,519.68 billion in the first half of

2022 from ₦3,406.46 billion in the preceding period of 2021, a decline of 53.61 per cent from ₦9,741.84 billion in the corresponding period of 2021 (Table 3.10).

Similarly, the volume of deposits under the SDF, increased by 73.21 per cent to ₦2,116.52 billion in the first half of 2022 from ₦1,221.95 billion in the preceding period of 2021, representing an increase of 15.66 per cent when compared with ₦1,829.90 billion in the corresponding period of 2021 (Table 3.11).

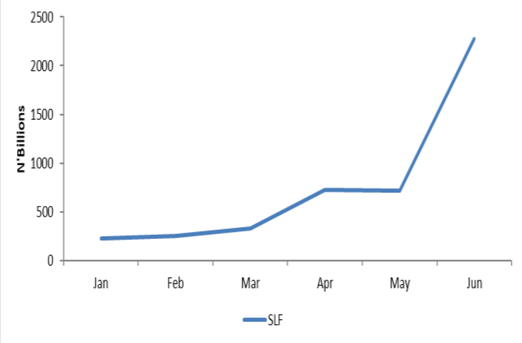
Transactions at the Standing Facilities Window resulted in a net lending of ₦2,403.16 billion in the first half of 2022, compared with a net lending of ₦2,184.51 billion in the preceding half year and ₦7,911.94 billion in the corresponding half year of 2021. The sharp rise in deposits at this Window is indicative of declining transactions at the Overnight Interbank Market.

Table 3.10: CBN Standing Lending Facility (January 2021 – June 2022) (N'billion)

Date	2021	2022	% Change
Jan	395.77	227.23	
Feb	552.66	253.44	
Mar	886.51	328.09	
Apr	2498.55	725.76	
May	4818.91	712.99	
Jun	589.44	2272.17	
1st Half	**9,741.84**	**4,519.68**	**-53.61%**
Jul	302.54		
Aug	472.57		
Sep	737.72		
Oct	513.22		
Nov	668.87		
Dec	711.54		
2nd Half	**3,406.46**		
Total	**13,148.30**	**4,519.68**	

Source: CBN, Financial Market Department as at July 27, 2022

Figure 3.18: Standing Lending Facility (January – June 2022)



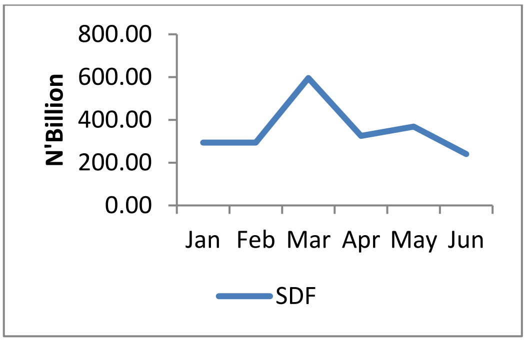
Source: CBN, Financial Market Department as at July 27, 2022

Table 3.11: CBN Standing Deposit Facility (January 2021 – June 2022) (N'billion)

Date	2021	2022	% Change
Jan	528.33	293.79	
Feb	441.51	293.79	
Mar	420.36	595.69	
Apr	145.52	324.89	
May	123.89	368.21	
Jun	170.29	240.15	
1st Half	**1,829.90**	**2,116.52**	**15.66%**
Jul	218.06		
Aug	207.58		
Sep	200.35		
Oct	128.10		
Nov	237.64		
Dec	230.22		
2nd Half	**1,221.95**		
Total	**3,051.85**	**2,116.52**	

Source: CBN, Financial Market Department as at July 27, 2022

Figure 3.19: Standing Deposit Facility (January - June 2022)



Source: CBN, Financial Market Department as at July 27, 2022

3.3.3.5 Foreign Exchange Intervention

During the review period, the foreign exchange market was characterised by strong demand pressures arising from the sharp rise in capital outflows from the Nigerian economy as external financial conditions tightened. In response, the Bank sustained its interventions in the market to cushion demand pressures and maintain relative exchange rate stability. To enhance foreign exchange inflows, the Bank introduced the RT200 Non-oil Export Proceeds Repatriation Rebate Scheme to further diversify the sources of foreign inflows and ensure exchange rate stability. The Bank also continued the following schemes targeted at improving foreign currency liquidity: the Naira-4-Dollar Scheme; payment of remittances in foreign currencies by International Money Transfer Operators (IMTOs); Backward Integration Programmes (BIP) on sugar production; and the Pan African Payments and Settlements System (PAPSS).

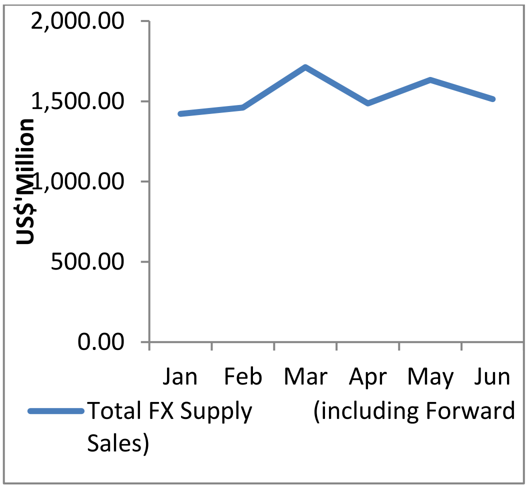
Total foreign exchange supply decreased by 12.47 per cent to US$9,228.81 million in the first half of 2022 from US$10,543.51 million in the second half of 2021 but increased by 58.26 per cent from US$5,831.59 million in the corresponding half of 2021 (Table 3.12). The decrease in supply in the review period was due largely to reduced foreign exchange receipts and dwindling external reserves. Although crude oil prices increased, the impact on reserves was minimal due to production challenges as Nigeria regularly fell short of its OPEC quota as a result of unprecedented levels of oil theft.

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

Date	2021	2022	% Change
	Total FX Supply (including Forward Sales)	Total FX Supply (including Forward Sales)	
Jan	717.05	1,421.68	
Feb	714.55	1,461.19	
Mar	770.08	1,712.77	
Apr	962.80	1,486.47	
May	1,283.74	1,632.90	
Jun	1,383.37	1,513.80	
1st Half	**5,831.59**	**9,228.81**	**58.26%**
Jul	1,764.80		
Aug	1,641.32		
Sep	1,405.29		
Oct	2,133.54		
Nov	1,717.77		
Dec	1,880.79		
2nd Half	**10,543.51**		

Source: CBN, Financial Market Department as at July 27, 2022

Figure 3.20: Total FX Supply (including Forward Sales) January – June 2022



Source: CBN, Financial Market Department as at July 27, 2022

3.3.4 Developments in Monetary Aggregates

During the review period, the broad measures of money supply performed close to their indicative benchmarks for the year. This was driven largely by the efforts of the Central Bank of Nigeria to moderate monetary accommodation in the face of rising inflationary pressures.

In the review period, Net Domestic Assets (NDA) performed above its benchmark. Its key component, Net Domestic Credit (NDC) grew significantly, driven by growth in both private sector and government credit. In the review period, Net Foreign Asset (NFA) contracted significantly below the benchmark, driven by the decline in foreign asset holdings of the Central Bank, attributable to reduced foreign receipts, primarily declining oil revenues, due to production challenges in the country. This resulted in increased liabilities to Non-residents during the period.

3.3.4.1 Broad Money (M3, M2)

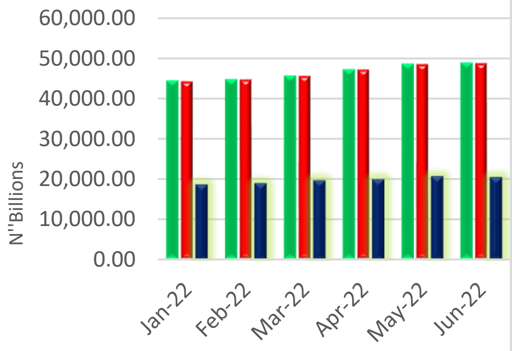
Both measures of broad money (M3 & M2) grew in the review period. M3 grew by 11.52 per cent to ₦48,865.82 billion at end-June 2022 from ₦43,818.47 billion at end-December 2021. Compared with the level at end-June 2021 of ₦39,510.56 billion, it increased by 23.68 per cent. The annualised growth rate of M3 of 23.04 per cent at end-June 2022 was above the 2022 indicative growth target of 14.92 per cent. This indicates an expansion in the volume of money stock in the economy.

Similarly, M2 grew by 11.37 per cent to ₦48,797.87 billion at end-June 2022 from ₦43,817.57 billion at end-December 2021. Compared with the level of ₦38,863.05 billion at end-June 2021, it increased by 25.56 per cent. The annualised growth rate of 22.73 per cent at end-June 2022 was above the annual indicative benchmark of 14.92 per cent. The increase in M2 was largely driven by increases in its components, namely narrow money (M1) and quasi money (QM). While M1 increased by 12.24 per cent from N18,169.30 at end-December 2021 to N20,392.54 at end-June 2022, an indication of expansion in economic activities, QM grew by 10.75 per cent from ₦25,648.26 billion at end-December 2021 to ₦28,405.33 at end-June 2022.

The marginal difference between M2 and M3 reflects the shift by investors from

OMO bills to ODC fixed deposit instruments in the half year.

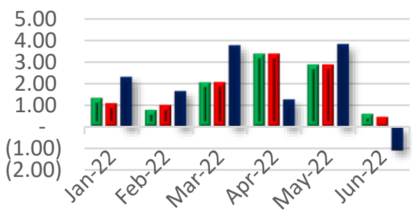
Figure 3.21: Money Supply (M1), (M2) and (M3) (January – June 2022)



	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
M3	44,400	44,744	45,664	47,214	48,577	48,865
M2	44,295	44,739	45,663	47,213	48,576	48,797
M1	18,589	18,897	19,610	19,859	20,619	20,392

Source: CBN, Statistics Department as at July 26, 2022

Figure 3.22: Growth in Money Supply (M1), (M2) and (M3) (January – June 2022)



	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
M3 Growth	1.33	0.77	2.06	3.39	2.89	0.59
M2 Growth	1.09	1.00	2.07	3.39	2.89	0.45
M1 Growth	2.31	1.65	3.77	1.27	3.83	(1.10

M3 Growth M2 Growth M1 Growth

Source: CBN, Statistics Department as at July 26, 2022

3.3.4.2 Narrow Money (M1)

Narrow Money (M1) increased by 12.24 per cent to ₦20,392.54billion at end-June 2022 from ₦18,169.30 billion at end-December 2021. Year-on-year, M1 increased by 27.26 per cent compared with ₦16,024.39 billion at end-June 2021. The annualised growth rate of 24.48 per cent was above the annual indicative benchmark of 15.48 per cent (Figures 3.21 and 3.22). The growth in M1, was primarily driven by the increase in transferable deposits over the review period, while Currency-In-Circulation (CIC), a key component of M1, witnessed a decline of 1.98 per cent as the adoption of eNaira continued to gain ground.

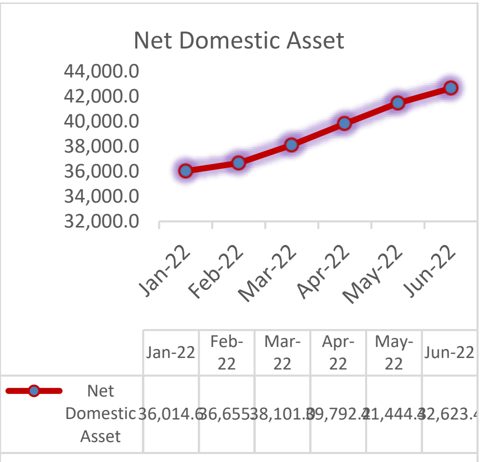
3.3.4.3 Net Foreign Assets (NFA)

Net Foreign Assets (NFA) decreased significantly by 29.18 per cent to ₦ 6,242.39 billion at end-June 2022 from ₦8,814.45 billion at end-December 2021. Compared with ₦7,292.25 billion in the corresponding period of 2021, NFA contracted by 14.40 per cent. Thus, in the first half NFA contracted significantly below the 2022 indicative growth target of 0.89 per cent. This was due to the decline in foreign asset holdings of the Central Bank, as Liabilities to Non-residents increased during the period. Consequently, Claims on Non-residents grew by 0.91 per cent while Liabilities to Non-resident increased by 23.00 per cent.

3.3.4.4 Net Domestic Assets (NDA)

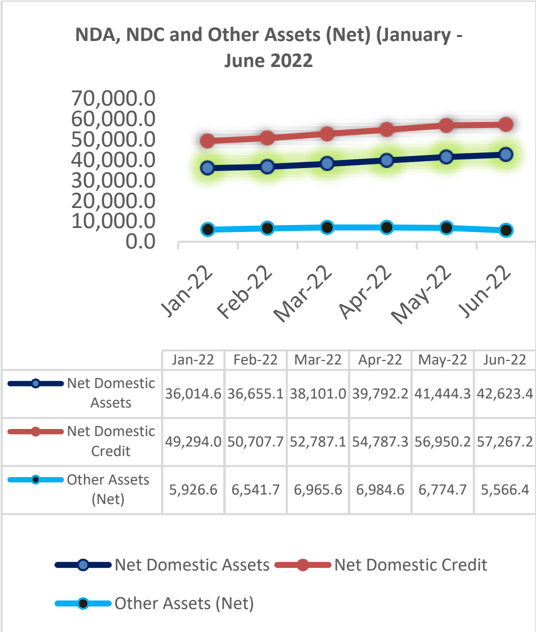
Net Domestic Assets (NDA) increased by 21.77 per cent to ₦42,623.43 billion at end-June 2022 from ₦35,004.03 billion at end-December 2021. Compared with ₦32,218.32 billion in the corresponding period of 2021, NDA grew by 32.30 per cent. The annualised growth rate of 43.53 per cent at end-June 2022 was significantly above the annual indicative benchmark of 1.79 per cent. This was attributed to the growth in Net Domestic Credit (NDC), and Other Items Net (OIN) of 18.02 and 20.92 per cent, respectively. The growth in NDC was largely driven by growth in Net Credit to Government (NCg) and Credit to the Private sector (CPs) of 35.04 and 11.58 per cent, respectively. The continuous increase in CPs reflects the operationalization of the Bank's policy on Loan-to-Deposit Ratio. Credit to government has, however, continued to expand due to declining government revenue.

Figure 3.23: Net Domestic Asset (NDA) (January - June 2022)



Source: CBN, Statistics Department as at July 26, 2022

Figure 3.24: NDA, NDC and Other Assets (Net) (January – June 2022)



Source: Statistics Department as at July 26, 2022

3.3.4.5 Credit to Government (Cg)

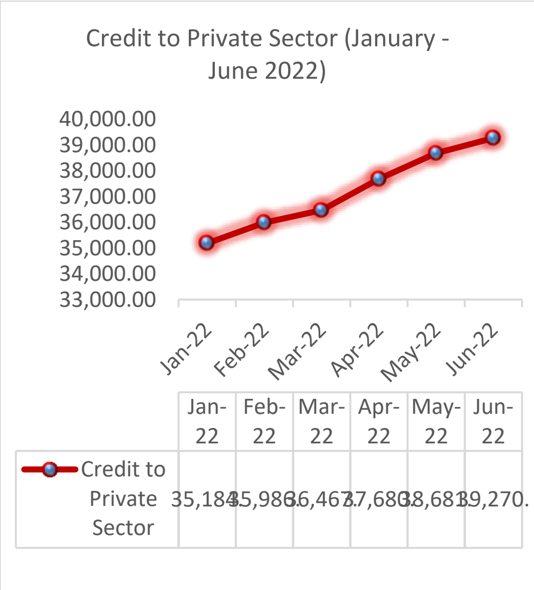
Credit to Government (Cg) increased by 35.04 per cent to ₦17,996.69 billion at end-June 2022 from ₦13,326.80 billion at end-December 2021. Compared with ₦11,593.88 billion in the corresponding period of 2021, it grew by 55.23 per cent. The annualised growth of 70.08 per cent was remarkably above the annual indicative benchmark of 12.26 per cent. Government has continued to rely heavily on borrowing to fund the 2022 budget deficit.

3.3.4.6 Credit to the Private Sector (Cp)

Credit to the private sector (Cp) increased by 11.58 per cent to ₦39,270.49 billion at end-June 2022 from ₦35,194.60 billion at end-December

2021. Compared with ₦32,625.54 in the corresponding period of 2021, it grew by 20.37 per cent. The annualised growth rate Cp stood at 23.16 per cent, above the annual indicative benchmark of 17.73 per cent. This increase in credit to the private sector is the result of the continued implementation of the policy on Loan to Deposit Ratio (LDR).

Figure 3.25: Domestic Credit to Private Sector (July – December 2021)



Source: CBN, Statistics Department as at July 26, 2022

3.3.4.7 Monetary Base (MB)

The Monetary Base (MB) increased by 9.66 per cent to ₦14,579.57 billion at end-June 2022 from ₦13,295.15 billion at end-December 2021. Compared with its end-June 2021 level of ₦12,333.85 billion, MB increased by 18.21 per cent. The MB at end-June 2022 was above its provisional indicative benchmark for Q2 of ₦13,343.42 billion by ₦1,236.15 billion.

This was largely due to an increase in total deposit liabilities of ODCs as economic activities increased.

A List of the monetary aggregates and their provisional outcomes as at end-June 2022 is presented in Table 3.13 below.

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

Variables	Actual H1 2021	Actual H2 2021	Actual H1 2022	Benchmark 2022	H1:2022 Deviation from Benchmark	Change in H1, 2022 over H2, 2021
M3 (N'b)	39,510.56	43,818.47	48,865.82	50,355.15	-1,489.32	5,047.35
M3 (%)	1.56%	12.63%	11.52%	14.92%	-3.40%	-1.11%
M2 (N'b)	38,863.05	43,817.57	48,797.87	50,355.15	-1,557.28	4,980.30
M2 (%)	2.73%	15.83%	11.37%	14.92%	-3.55%	-4.46%
M1 (N'b)	16,024.39	18,169.30	20,392.54	20,981.56	-589.02	8,641.40
M1 (%)	1.17%	14.72%	12.24%	15.48%	-3.24%	-2.48%
MB (N'b)	12,333.85	13,295.15	14,579.57	15,056.48	-476.91	1,284.42
MB (%)	-5.91%	1.43%	9.66%	13.25%	-3.59%	8.23%
NDC (N'b)	44,219.42	48,521.40	57,267.18	56,396.07	871.10	8,745.77
NDC (%)	6.85%	17.25%	18.02%	16.23%	1.79%	0.77%
Cg (N'b)	11,593.88	13,326.80	17,996.69	14,960.82	3,035.87	4,669.89
Cg (%)	0.88%	15.96%	35.04%	12.26%	22.78%	19.08%
Cp (N'b)	32,625.54	35,194.60	39,270.49	41,435.25	-2,164.76	4,075.89
Cp (%)	9.15%	17.75%	11.58%	17.73%	-6.15%	-6.17%
NFA (N'b)	7,292.25	8,814.45	6,242.39	8,892.91	-2,650.52	-2,572.06
NFA (%)	-18.73%	-1.77%	-29.18%	0.89%	-30.07%	-27.41%
NDA (N'b)	32,218.32	35,004.02	42,623.43	41,462.23	1,161.20	7,619.40
NDA (%)	11.94	21.61%	21.77%	1.79%	19.98%	0.16%

Source: CBN, Statistics Department

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

S/N	Monetary Aggregates	Performance	Implication
2	Broad Money (M3, M2)	Above the annual growth target	Both M3 and M2 performed above their annual benchmarks at end-June 2022, signifying a liquidity surfeit. The growth in money supply was due to the expansion in Transferable Deposits and Net Domestic Assets.
3	Narrow Money (M1)	Above the annual growth target	Increase in Transferable deposits was the major driver of the growth in M1 in the review period, indicating an expansion in business activities.
4	Net Foreign Assets (NFA)	Significantly below target	The poor performance of NFA, was mainly driven by the contraction of foreign asset holdings of the Monetary Authority especially in the second quarter of 2022. This reflects reduced accretion to reserves attributed to the increase in Liabilities to Non-residents in the review period.
5	Net Domestic Assets (NDA)	Significantly above target	The performance of NDA was largely driven by growth in credit to government, which is crowding out credit to the core private sector.
6	Credit to the Govt (Cg)	Significantly above target	The performance of Cg was significant in the review period, arising from increased borrowings by the government to fund the huge 2022 budget deficit.
7	Credit to the Private Sector (Cp)	Above target	The improved performance of credit to the private sector is attributed to the sustained implementation of the Bank's policy on Loan-to-Deposit Ratio, amongst other interventions by the Bank.

Source: CBN, Statistics Department

3.4 Domestic Financial Market Developments

In the first half of 2022, the Nigerian financial market witnessed heightened uncertainties following the spillovers from the global economy, including the outbreak of the Russia-Ukraine war and receding COVID-19 Pandemic. This resulted in disruptions to global supply chains, weak growth, high energy cost, and rising inflationary pressures. In response, many advanced economy central banks commenced monetary policy normalisation leading to the tightening of external financial conditions. The resultant reversal of capital as emerging market investors sought to rebalance their portfolios in favour of higher-yield-low-risk advanced economy securities, led to a build-up of exchange rate pressures among these economies. Accordingly, the Nigerian foreign exchange market witnessed strong demand pressures arising from the sharp rise in capital outflows from the economy.

The stock market remained resilient, owing to remarkable earnings post-COVID-19, reflecting investor confidence. The All-Share Index and

Market Capitalisation increased in the first half of 2022, driven primarily by improvements in economic activities and investor confidence. The money market was also active, with rates fluctuating within and outside the Standing Facilities Corridor, reflecting liquidity conditions in the banking system. Specifically, the monthly average Inter-bank Call rate fell to 11.10 per cent in June 2022 from 14.31 per cent in January 2022, while the OBB rate increased slightly to 10.89 per cent in June 2022 from 9.07 per cent in January 2022.

3.4.1 The Money Market

In the review period, the money market remained active despite the impact of external shocks on the domestic economy. Money market rates fluctuated slightly in the first half of 2022 with changing liquidity levels in the banking system. This was driven by injections such as the statutory monthly disbursement of funds to both states and local governments from the Federation Account Allocation Committee (FAAC); maturities of government securities; as well as the sale of OMO bills and various CBN interventions. The interbank segment of the market, however, witnessed few trading days compared with the collaterized OBB segment, signposting the continued perception of counterparty risk.

To curb the continued rise in inflation, the MPC raised the Monetary Policy Rate (MPR) by 150 basis points to 13.00 per cent in May 2022 and retained the asymmetric corridor at +100/-700 basis points around the MPR. The Cash Reserve Requirement (CRR) and Liquidity Ratio (LR) were retained at 27.5 and 30.0 per cent, respectively.

3.4.1.1 Short-term Interest Rate Developments

Short term interest rate developments in the review period were influenced by banking system liquidity. This was driven by: maturing government securities; CBN real sector intervention programmes; increased spending towards the 2023 general elections; amongst others. In addition, the CBN intervention aimed at moderating foreign exchange demand pressures also played a significant role in money market liquidity and short-term interest rates.

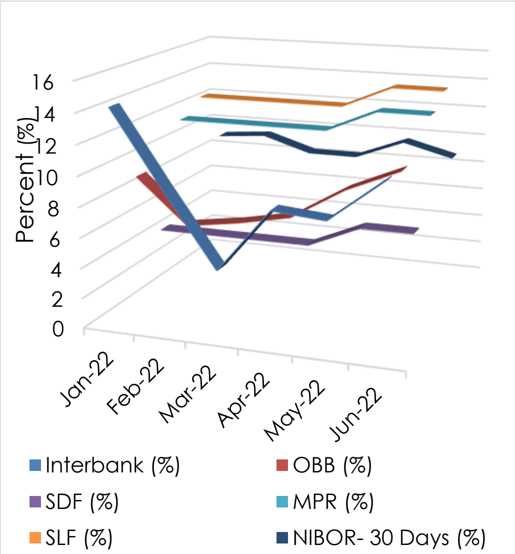
Consequently, the interbank call rate fell to 11.10 per cent in June 2022 from 14.31 per cent in January 2022 while, the OBB rate increased slightly to 10.89 per cent in June 2022 from 9.07 per cent in January 2022. The NIBOR-30-day rate which mirrors short-term interbank lending rates in Nigeria for some selected banks, decreased marginally to 8.52 per cent in June 2022 from 8.96 per cent in January 2022.

Table 3.14: Weighted Average Monthly Money Market Interest Rates (January-June, 2022)

Period	Interbank	OBB	SDF	MPR	SLF	NIB
Jan-22	14.31	9.07	4.5	11.5	12.5	8.
Feb-22	9.30	6.10	4.5	11.5	12.5	9.
Mar-22	4.50	6.62	4.5	11.5	12.5	8.
Apr-22	8.67	7.31	4.5	11.5	12.5	8.
May-22	8.38	9.39	6.0	13.0	14.0	9.
Jun-22	11.10	10.8	6.0	13.0	14.0	8.
Averag	**9.38**	**8.23**	**5.0**	**12.0**	**13.0**	**8.**

***Source:* CBN, Statistics**
***Note:* NIBOR figures are daily averages**

Figure 3.26: Average Weighted Monthly Money Market Interest Rates (January-June, 2022)



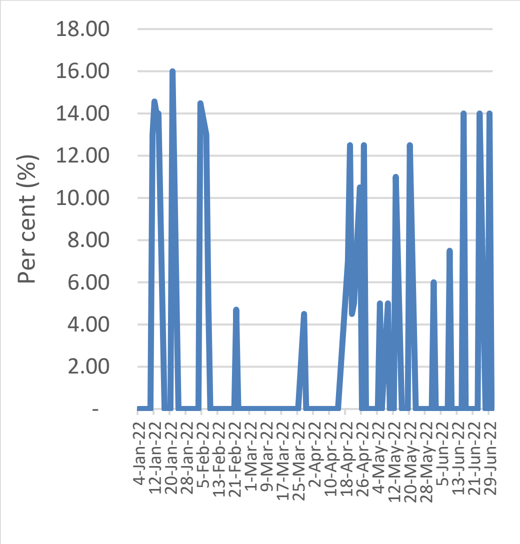
Source: Statistics Department, CBN

3.4.1.1.1 The Interbank Call Rate

As in preceding periods, the interbank call segment was relatively inactive in the first half of 2022, with several non-trading days, reflecting the lingering perception of counterparty risks. This was further evidenced by the higher rates in the interbank segment compared with the collaterised OBB segment. Accordingly, rates fluctuated during the trading months, ranging between 4.50 and 14.31 per cent. The average interbank call rate in the review period was 9.38 per cent, higher than 8.23 per cent in the OBB segment.

The weighted average interbank call rate was 14.31 per cent in January 2022 but declined to 11.10 per cent in June 2022. Specifically, the monthly weighted average interbank call rate declined by 5.01 percentage points from 14.31 per cent in January 2022 to 9.30 per cent in February 2022. The rate fell further to 4.50 per cent in March 2022 on account of increased liquidity. The interbank call rate, however, rose to 8.67 per cent in April 2022 before falling marginally to 8.38 per cent in May 2022. In June 2022, it rose to 11.10 per cent on account of liquidity squeeze in the market following OMO sales, foreign exchange intervention by the Bank and CRR debits. The analysis of the daily interbank call rate showed that for days where trading activities took place, the call rate ranged from 4.50 per cent recorded on trading days in March and April 2022 to 16.0 per cent in January 2022. The peak of 16.0 per cent in January 2022 was largely due to the Bank's mopping up activities. The average interbank call rate for the period January – June 2022 declined to 9.38 per cent compared with 9.62 per cent in the corresponding period of 2021 and 9.92 per cent in the second half of 2021.

Figure 3.27: Daily Interbank Call Rate (January – June 2022)



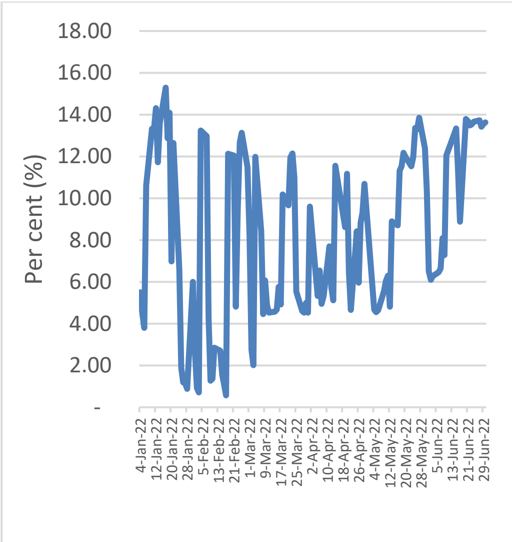
Source: Financial Markets Department, CBN

3.4.1.1.2 The Open Buy Back (OBB) Rate

The collaterised OBB segment of the market was more active in the review period, compared with the interbank segment, due to the reduction of counterparty risk in the segment. The average rate in the segment in the review period was 8.23 per cent, compared with 9.38 per cent in the interbank segment. The monthly average OBB rates fluctuated between a tightened and an improved banking system liquidity. Within a spread of 6.10 per cent and 10.89 per cent, the monthly average OBB rate declined from 9.07 per cent in January 2022 to 6.10 per cent in February 2022. The OBB rate then rose to 6.62 and 7.31 per cent in March and April 2022, respectively. The rate rose consistently due to the impact of tight liquidity from OMO sales, exchange rate intervention of the Bank and tightening financing conditions to 9.39 and 10.89 per cent in May and June 2022, respectively.

The daily analysis showed that OBB rate ranged from 0.57 per cent to 15.29 per cent between January and June 2022. The average OBB rate in the first half of 2022 stood at 8.23 per cent compared with 12.19 per cent in the corresponding half year and 11.81 per cent in the second half of 2021 (Table 3.14).

Figure 3.28: Daily Open Buy Back Rate (January– June 2022)



Source: Financial Markets Department, CBN

3.4.1.1.3 The Nigeria Interbank Offered Rate (NIBOR)

The Nigeria Interbank Offered Rate (NIBOR), the Nigerian money market reference rate, witnessed some fluctuations in the review period. The 30-day NIBOR rose from 8.96 per cent in January 2022 to 9.24 per cent in February

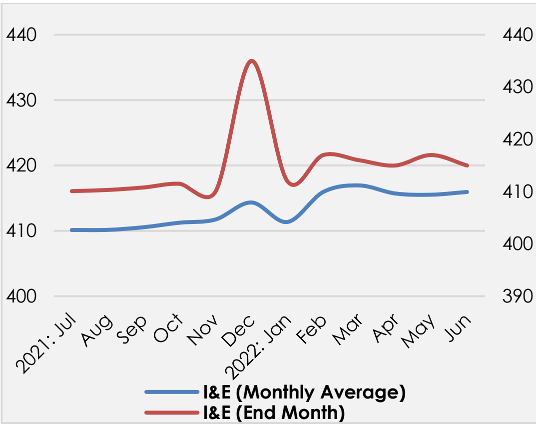
2022 but declined to 8.18 per cent in April. Thereafter, it rose to 9.51 per cent in May 2022 before declining to 8.52 per cent in June. Over the review period, the 30-day NIBOR averaged 8.77 per cent, compared with 10.97 per cent in the preceding period and 6.07 per cent in the corresponding period of 2021.

3.4.2 Foreign Exchange Market

In the review period, the foreign exchange market experienced considerable pressures arising from developments in the global environment and the spillovers into the domestic economy. The continued disruptions to the global supply chains associated with the lingering COVID-19 Pandemic, slowed down the recovery of production and trade. This was further aggravated by the outbreak of war between Russia and Ukraine which resulted in growing scarcity of grains and other inputs for the production of fertilizers. In addition, the commencement of monetary policy normalization by the US Fed and other major central banks, resulted in tightening external financial conditions. As a consequence, energy prices soared with crude oil prices reaching historical highs. Nigeria's dual role as an oil exporter and importer of refined petroleum products, exposed the economy to considerable shocks from the external sector. This resulted in a sharp rise in exchange rate pressure, driven primarily by increase in the cost of imports. The pressure on the exchange rate was further accentuated by the progressive exit of portfolio investors from the Nigerian market in response to higher yields in the advanced economies.

To mitigate the impact of these shocks, the Bank put in place policies to increase foreign currency liquidity, aimed at bridging the supply-demand gap. Some of these included: the Naira-4-Dollar policy; the RT200 policy on repatriation of export proceeds; as well as interventions in the foreign exchange market. In addition, the Bank continued its development finance interventions to boost domestic production and curb the demand for foreign exchange to import commodities which can be produced locally.

Figure 3.29: Daily Naira/US Dollar Exchange Rate July 2021 – June 2022



Source: CBN Statistics Department

3.4.2.1 Average Exchange Rates

The exchange rate at the I&E window depreciated moderately by 1.10 per cent to an average of ₦415.92/US$ in the first half of 2022 from ₦411.36/US$ in the preceding half (see table 3.15).

Table 3.15: Average Monthly Spot Exchange Rate (N/US$), July 2021 – June 2022

Period	I&E
2021: July	410.13
August	410.15
September	410.56
October	411.25
November	411.74
December	414.34
Average	**411.36**
2022: January	415.96
February	416.95
March	415.72
April	415.53
May	415.95
June	415.40
Average	**415.92**

Source: CBN Statistics Department

3.4.2.2 End-Period (Month) Exchange Rates

In the period under review, the exchange rate oscillated within the range of ₦412.00/US$ to ₦417.00/US$. However, despite the foreign exchange demands and anticipated foreign capital flows due to the stance of monetary policy globally, the naira remained relatively stable at the I&E window, depreciating only marginally. Consequently, the end-period exchange rate rose to ₦415.33/US$ at the end of the first half of 2022 from ₦414.62/US$ in the second half of 2021, a depreciation of 0.17 per cent.

Table 3.16: End-Month Exchange Rate (N/US$), July 2021 – June 2022

Period	I&E
2021: July	410.10
August	410.32
September	410.80
October	411.50
November	410.00
December	435.00
Average	**414.62**
2022: January	412.00
February	417.00
March	416.00
April	415.00
May	417.00
June	415.00
Average	**415.33**

Source: CBN Statistics Department

3.4.2.3 Nominal and Real Effective Exchange Rates

The Nominal Effective Exchange Rate (NEER) at the beginning of year 2022 stood at 197.81, compared with 197.89 in December 2021. In terms of the half year trend, the average NEER reflected a depreciation of 2.15 per cent, dropping to an average of 196.26 in the first half of 2022 from 200.57 in the preceding half. It also fell below the average of 202.98 in the corresponding half of 2021.

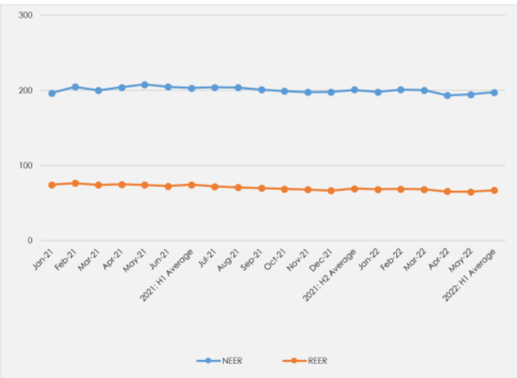
The Real Effective Exchange rate (REER) analysis reveals that average REER figures stood at 66.31 in the first half of 2022; a drop below the 69.23 recorded in the preceding half and 74.40 recorded in the corresponding half of 2021 (Table 3.17 and figure 3.30).

Table 3.17: Average Nominal and Real Effective Exchange Rates Indices (July 2021 – June 2022)

Period	NEER	REER
Jan	196.63	74.42
Feb	204.42	76.43
Mar	200.07	73.94
Apr	204.14	74.93
May	207.93	74.18
Jun	204.70	72.47
2021: H1 Average	**202.98**	**74.40**
Jul	204.17	71.89
Aug	203.84	70.92
Sep	201.03	69.65
Oct	198.88	68.82
Nov	197.59	67.74
Dec	197.89	66.38
2021: H2 Average	**200.57**	**69.23**
Jan	197.81	68.18
Feb	200.86	68.60
Mar	200.41	68.18
Apr	193.07	65.16
May	194.82	65.00
Jun	190.61	62.73
2022: H1 Average	**196.26**	**66.31**

Source: CBN Statistics Department

Figure: 3.30: Nominal and Real Effective Exchange Rates Indices (January 2021 – June 2022)



Source: CBN Statistics Department

3.4.2.4 Foreign Exchange Flows through the CBN

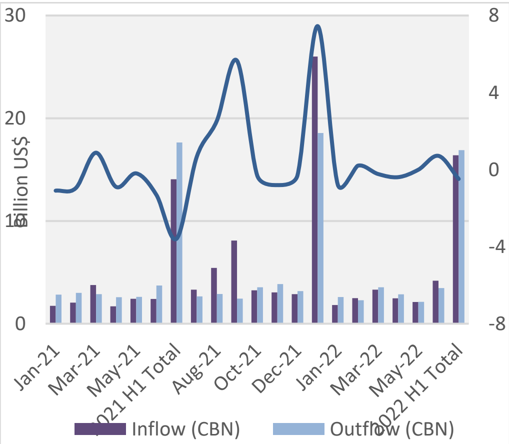
Foreign exchange inflows through the CBN totalled US$16,402.44 million at the end of the first half of 2022. This falls significantly below the US$26,007.93 million recorded in the preceding half-year (i.e., July-December 2021). However, it represents a 16.66 per cent increase compared with the corresponding period of 2021. Foreign exchange outflows through the Bank declined by 9.00 per cent to $16,888.19 million in the first half of 2022, from US$18,558.74 million in the second half of 2021 (previous half). Thus, a net negative foreign exchange flow of US$485.75 million was recorded in the first half of 2022; an improvement from a net negative of US$3,585.74 million recorded in the corresponding period of 2021, but a drastic fall from the credit of US$7,449.19 million in the preceding half-year.

Table 3.18: Monthly Foreign Exchange Flows through the CBN (January 2021 – June 2022)

Dates	CBN Inflow	CBN Outflow	Net Flow
Jan-	1,739.28	2,832.54	-
Feb-	2,049.31	3,006.55	-957.24
Mar-	3,758.90	2,882.18	876.72
Apr-	1,686.73	2,586.14	-899.41
May-	2,418.38	2,614.58	-196.19
Jun-	2,407.78	3,724.15	-
2021	**14,060.3**	**17,646.1**	**-**
Jul-	3,314.48	2,655.78	658.70
Aug-	5,427.65	2,888.68	2,538.9
Sep-	8,089.20	2,436.94	5,652.2
Oct-	3,247.73	3,547.67	-299.93
Nov-	3,048.99	3,852.52	-803.53
Dec-	2,879.88	3,177.15	-297.27
2021	**26,007.9**	**18,558.7**	**7,449.1**
Jan-	1,823.21	2,601.21	-778.00
Feb-	2,492.77	2,288.37	204.40
Mar-	3,316.66	3,545.00	-228.34
Apr-	2,468.19	2,860.86	-392.66
May-	2,118.72	2,123.01	-4.29
Jun-	4,182.88	3,469.74	**713.14**
2022	**16,402.4**	**16,888.1**	**-485.75**

Source: CBN Statistics Department

Figure 3.31: Monthly Foreign Exchange Flows through the CBN (January 2021 – June 2022)



Source: CBN Statistics Department

3.4.2.5 Foreign Exchange Flow through the Economy

Total foreign exchange inflow to the economy dropped sharply by 25.48 per cent to US$37,846.36 million in the first half of 2022 from US$50,785.23 million in the second half of 2021. It decreased by 13.11 per cent compared with US$43,559.02 million recorded in the corresponding half of 2021. Similarly, foreign exchange outflows in the first half of 2022 dropped by 2.54 per cent to US$ 22,006.41 million from US$22,581.43 million in the second half of 2021. Compared with the corresponding half of 2021, it increased by 15.57 per cent from US$19,041.59. Net inflows thus stood at US$15,839.95 million in the first half of 2022 compared with US$28,203.80 million in the second half of 2021 and US$24,517.43 million in the first half of 2021.

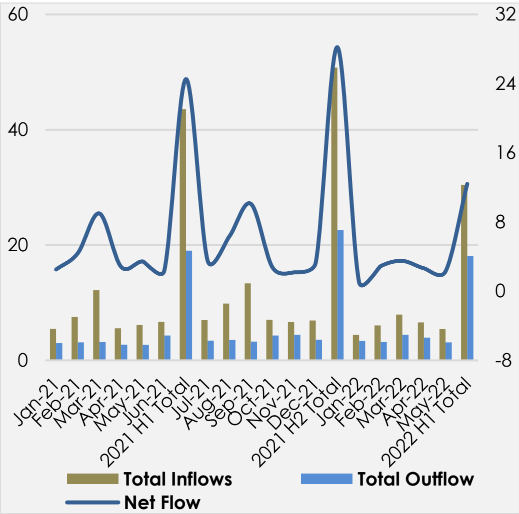
The observed decline in gross foreign exchange flows in the economy can be attributed to several shocks to the global economy, principal amongst which include: the decline in oil receipts due to production challenges in the oil sector, the commencement of monetary policy normalization by several advanced economy central banks, causing portfolio investors to seek higher yield fixed income securities in these economies and the overall tightening of global financial conditions.

Table 3.19: Monthly Foreign Exchange Flows through the Economy (January 2021 – June 2022) (US$ Million)

PERIOD	Inflows (CBN)	Inflows (Autonomous)	Total Inflows	Outflows (CBN)	Outflows (Autonomous)	Total Outflow	Net Flow	Net Flow (CBN)	Net Flow (Autonomous)
Jan-21	1,739.28	3,738.67	5,477.94	2,832.54	138.09	2,970.63	2,507.31	-1,093.26	3,600.57
Feb-21	2,049.31	5,469.37	7,518.68	3,006.55	128.01	3,134.56	4,384.13	-957.24	5,341.36
Mar-21	3,758.90	8,402.43	12,161.33	2,882.18	293.24	3,175.42	8,985.91	876.72	8,109.18
Apr-21	1,686.73	3,883.21	5,569.94	2,586.14	158.34	2,744.48	2,825.46	-899.41	3,724.87
May-21	2,418.38	3,721.62	6,140.01	2,614.58	86.76	2,701.34	3,438.67	-196.19	3,634.86
Jun-21	2,407.78	4,283.34	6,691.12	3,724.15	591.01	4,315.16	2,375.96	-1,316.37	3,692.33
2021 H1 Total	**14,060.38**	**29,498.63**	**43,559.02**	**17,646.13**	**1,395.46**	**19,041.59**	**24,517.43**	**-3,585.74**	**28,103.17**
Jul-21	3,314.48	3,663.42	6,977.90	2,655.78	772.86	3,428.63	3,549.26	658.70	2,890.56
Aug-21	5,427.65	4,421.94	9,849.59	2,888.68	652.08	3,540.76	6,308.82	2,538.97	3,769.86
Sep-21	8,089.20	5,266.70	13,355.89	2,436.94	818.26	3,255.21	10,100.69	5,652.26	4,448.43
Oct-21	3,247.73	3,806.18	7,053.92	3,547.67	760.32	4,307.99	2,745.93	-299.93	3,045.86
Nov-21	3,048.99	3,586.16	6,635.15	3,852.52	602.23	4,454.75	2,180.40	-803.53	2,983.93
Dec-21	2,879.88	4,032.91	6,912.79	3,177.15	416.94	3,594.09	3,318.70	-297.27	3,615.97
2021 H2 Total	**26,007.93**	**24,777.31**	**50,785.23**	**18,558.74**	**4,022.70**	**22,581.43**	**28,203.80**	**7,449.19**	**20,754.61**
Jan-22	1,823.21	2,607.04	4,430.25	2,601.21	763.03	3,364.24	1,066.01	-778.00	1,844.01
Feb-22	2,492.77	3,572.75	6,065.53	2,288.37	880.21	3,168.59	2,896.94	204.40	2,692.54
Mar-22	3,316.66	4,634.91	7,951.57	3,545.00	905.84	4,450.83	3,500.73	-228.34	3,729.07
Apr-22	2,468.19	4,123.89	6,592.08	2,860.86	1,087.83	3,948.69	2,643.39	-392.66	3,036.06
May-22	2,118.72	3,305.62	5,424.35	2,123.01	1,006.18	3,129.19	2,295.15	-4.29	2,299.45
Jun-22	4,182.88	3,199.71	7,382.59	3,469.74	475.13	3,944.87	3,437.72	713.14	2,724.57
2022 H1 Total	**16,402.44**	**21,443.92**	**37,846.36**	**16,888.19**	**5,118.22**	**22,006.41**	**15,839.95**	**-485.75**	**16,325.70**

Source: CBN Statistics Department

Figure 3.32: Monthly Foreign Exchange Flows through the Economy (January 2021 – June 2022) (US$ Million)



Source: CBN Statistics Department

3.4.3 The Capital Market

The performance of the Nigerian capital market in the first half of 2022 was generally bullish, driven primarily by increased activities in the equities segment of the market reflecting sustained investor confidence. The positive performance was largely attributed to improved foreign investor participation in the Nigerian capital market on account of increased corporate earnings and foreign exchange liquidity. In the bonds market, real yields declined progressively, particularly for corporate, state, and local government bonds, as inflation trended upwards.

3.4.3.1 Equities Market

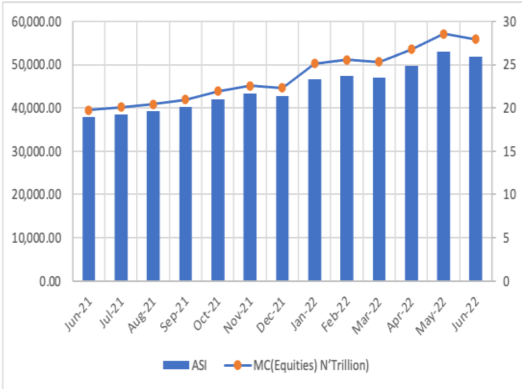
The All-Share Index (ASI) increased by 21.31 per cent to 51,817.59 at end-June 2022 from 42,716.44 at end-December 2021. Market capitalization (MC) increased by 25.29 per cent to ₦27.94 trillion at end-June 2022 from ₦22.30 trillion at end-December 2021. Compared with the corresponding period of 2021,MC increased by 41.40 per cent from ₦19.76 trillion at end-June 2021.

Table 3.20: NSE All-Share Index (ASI) and Market Capitalization (MC) (June 2021 – June 2022)

Date	ASI	MC(Equities) N'Trillion)
Jun-21	37,907.28	19.76
Jul-21	38,547.08	20.08
Aug-21	39219.61	20.43
Sep-21	40,221.17	20.96
Oct-21	42,038.60	21.94
Nov-21	43,248.05	22.57
Dec-21	42,716.44	22.30
Jan-22	46,624.67	25.12
Feb-22	47,394.53	25.54
Mar-22	46,965.48	25.31
Apr-22	49,638.94	26.76
May-22	52,990.28	28.57
Jun-22	51,817.59	27.94

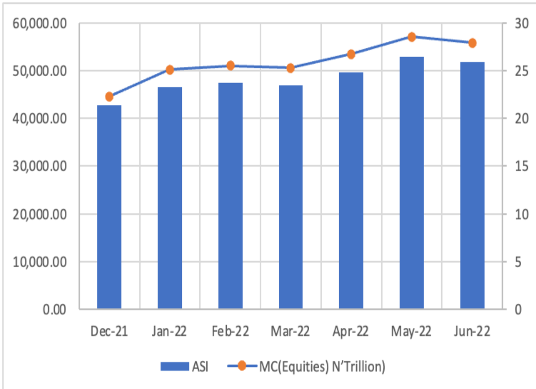
Source: Nigerian Exchange Group

Figure 3.33: NSE All Share Index (ASI) and Market Capitalization (MC) (June 2021 – June 2022)



Source: Nigerian Exchange Group

Figure 3.34: NSE ASI and MC (December 2021 – June 2022)



Source: Nigerian Exchange Group

3.4.3.1.2 Market Turnover

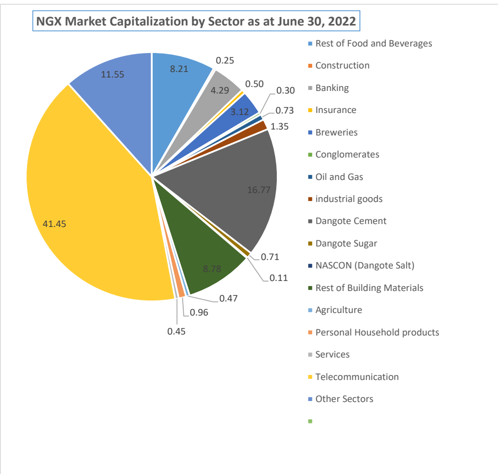
Aggregate stock market turnover in the first half of 2022 stood at 76.52 billion shares, valued at ₦831.83 billion in 616,334 deals. This represents an increase of 79.20 per cent compared with 42.70 billion shares, valued at ₦428.74 billion in 500,858 deals in the second half of 2021. Aggregate stock market turnover also increased by 58.20 per cent on a year-on-year basis from 48.37 billion shares, valued at ₦483.57

billion in 553,828 deals as at end-June 2021.

3.4.3.1.3 Sectoral Contribution to Equity Market Capitalization

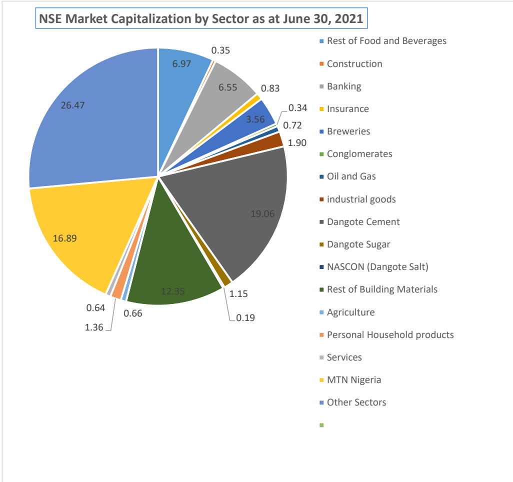
In the review period, market capitalization was dominated by the telecommunications sector whose share of market capitalization increased to 41.45 per cent at end-June 2022 from 17.98 per cent at end-December 2021. The dominance of 'Telecommunications' can be attributed to the listing of telecommunication companies on the exchange. Other sectors that contributed significantly to overall market capitalization were Dangote Cement, Building Materials and Food & Beverages, with market shares of 16.77 per cent, 11.55 per cent, 8.78 per cent and 8.21 per cent respectively, at end-June 2022.

Figure 3.35: NSE Market Capitalization by Sector as at End-June 2022



Source: Nigerian Exchange Group

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



Source: Nigerian Exchange Group

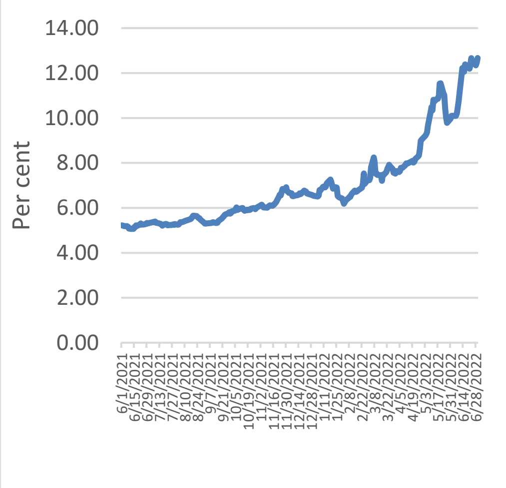
3.4.3.2 The Bond Market

Activities in the bond market were dominated by Federal Government of Nigeria (FGN) securities in the first half of 2022. There were also some activities in the State/Municipal bonds and corporate bond segments of the market, with the former recording the least share by market volume.

3.4.3.2.1 FGN Bonds

The 10-year dollar-denominated bond yield for Nigeria was positive in the first half of 2022. It increased by 594 basis points to 12.44 per cent at end-June 2022, from 6.50 per cent at end-December 2021. It also rose by 713 basis points compared with 5.31 per cent at end-June 2021 (Figure 3.37).

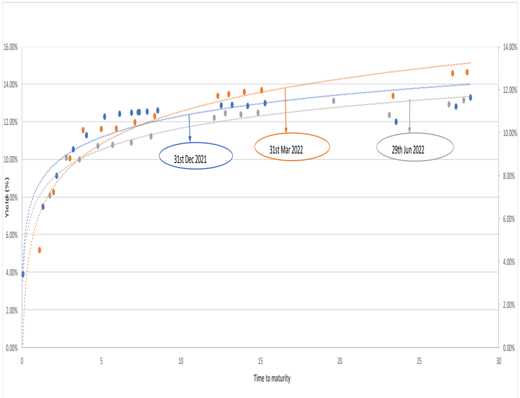
Figure 3.37: 10-Year U.S. Dollar-denominated Bond Yield for Nigeria (June 2019 – June 2022)



Source: Bloomberg

In the review period, the yield at end-June 2022 increased at the short end of the curve, but decreased at the long end, compared with end-March 2022. While the returns on long-term bonds reported at end-June 2022 dipped below that at the preceding periods of end-December 2021 and end-March 2022, they were higher than the short-term yields. The Central Bank of Nigeria raised the monetary policy rate by 150 basis points to 13.0 per cent in May 2022 which led to increase in bond yields. Nevertheless, the positive development at the short end of the curve reflects a high liquidity level within the banking system.

Figure 3.38: FGN Bond Yield Curves: December 31st, 2021, vs. March 31st, 2022, and June 29th, 2022



Data Source: FMDQ

3.4.3.2.2 State/Local Government Bonds

The sub-national bonds market recorded moderation in activities during the review period. The total value of outstanding state/local government bonds decreased by 28.25 per cent to ₦148.91 billion at end June 2022 from ₦207.55 billion as at end-December 2021. The moderation in activities in this segment of the market signifies further slowing of economic activities at the sub-national levels.

3.4.3.2.3 Corporate Bonds

Activities in the corporate bond segment improved during the review period. The value of outstanding corporate bonds increased by 2.88 per cent to ₦739.01 billion at end-June 2022 from ₦718.30 billion in December 2021 driven by increased trading in the sovereign bond market.

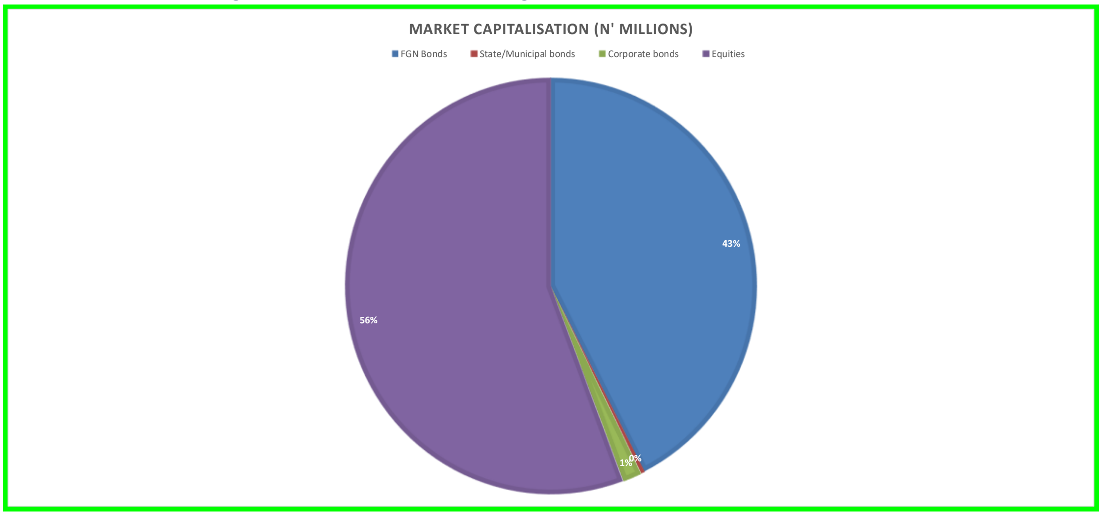
3.4.3.3 Overall Analysis of the Nigerian Capital Market

The value of FGN bonds increased by 13.39 per cent to ₦21.34 trillion at end-June 2022 from ₦18.82 trillion at end-December 2021 and higher than ₦16.46 trillion at end-June 2021. FGN bonds accounted for 42.53 per cent of aggregate market capitalization at end-June 2022.

The value of state/municipal bonds and corporate bonds were N148.91 billion and N739.01 billion accounting for 0.30, and 1.47 per cent of aggregate market capitalization, respectively.

In general, the equities market contributed 56.70 per cent of aggregate market capitalization at end-June 2021, while the bonds market accounted for the balance of 43.30 per cent (Figure 3.40).

Figure 3.39: Structure of the Nigerian Capital Market (June 2022)



Source: Nigerian Exchange Group

CHAPTER FOUR

ECONOMIC OUTLOOK AND RISKS

4.1 Outlook for Global Output

Global output is projected to slow from 6.1 percent recorded in 2021 to 3.2 percent in 2022. The slump in growth performance is predicated on downturns in China and Russia, further accentuated by the lower-than-expected performance of U.S. consumer spending. Several other shocks to global growth include: higher-than-expected global inflation outcomes, particularly in the United States and major European economies, which triggered tighter financial conditions; a resurgence of COVID-19 outbreaks and lockdowns that precipitated a slowdown in China; and further negative spillovers from the war in Ukraine.

In the United States, reduced household purchasing power and tighter monetary policy underlie the declining growth rate from the beginning of this year, resulting in a downward revision of 1.4 percentage points. In China, r lockdowns and the deepening real estate crisis have led to downward growth revision by 1.1 percentage points, with implications for major global spillovers. In Europe, significant downgrades reflect spillovers from the war in Ukraine and tighter monetary policy. With a few exceptions, employment and output will typically remain below pre-pandemic trends through 2026. Moreover, the war in Ukraine has increased the probability of broader social tensions because of higher food and energy prices, which would further weigh on the outlook (IMF WEO, July 2022 update).

In Advanced Europe, growth was revised downward to 2.5 percenton account of the negative terms-of-trade shock from global energy prices and energy insecurity resulting from the war in Ukraine and sanctions on Russia. Economies such as Germany and Italy, with relatively large manufacturing sectors and greater dependence on energy imports from Russia, witnessed the most significant downgrades.

In emerging markets and developing economies, growth is projected to contract to approximately 3.2 percent in 2022, with a prospect of expanding by 0.3 percent in 2023. The main drivers of the contraction are the impact of higher energy prices on domestic demand and trade disruption, especially for Baltic states, whose external demand will decline along with the contraction in Russia's economy.

Developments in China continue to dominate the outlook for Asia, especially emerging Asia. The combination of more transmissible variants and the strict zero-COVID strategy in China has led to repeated mobility restrictions and localized lockdowns that have weighed on private consumption. Recent lockdowns in crucial manufacturing and trading hubs such as Shenzhen and Shanghai will likely compound supply disruptions in the region and beyond. Moreover, real estate investment growth has slowed significantly. External demand is also expected to be weaker, considering the war in Ukraine.

Growth in Latin America and the Caribbeans is expected to moderate to 3.0 and 2.0 percent in 2022 and 2023, respectively. This is predicated on the back of spiraling inflation and associated policy tightening. Brazil, for instance, responded to higher inflation by increasing interest rates by 975 basis points over the past few years since the emergence of the pandemic, which is weighing down on domestic demand. This is also the case in Mexico although to an extent lesser.

Growth in sub-Saharan Africa is projected at 3.8 percent in 2022. Food prices are the most crucial transmission channel, although in slightly different ways. Higher food prices will hurt consumers' purchasing power, particularly among low-income households, and weigh on domestic demand. Social and political uproar, most notably in West Africa, also weighs on the outlook.

Table 4.1 Global Output and Inflation Outlook

	2017	**2018**	**2019**	**2020**	**2021**	**2022***	**2023***
A. World Output							
World Output	3.7	3.6	2.8	-3.1	6.1	3.2	2.9
Advanced Economies	**2.3**	**2.2**	**1.6**	**-4.5**	**5.6**	**2.5**	**1.4**
USA	2.2	2.9	2.2	-3.4	5.7	2.3	1.0
Euro Area	2.4	1.9	1.3	-6.4	5.3	2.6	1.2
Japan	1.7	0.3	0.3	-4.5	1.6	1.7	1.7
UK	1.7	1.3	1.4	-9.4	7.4	3.2	0.5
Canada	3	2	1.9	-5.2	4.6	3.4	1.8
Other Advanced Economies	2.6	2.7	1.8	-1.9	5.0	2.9	2.7
Emerging & Developing Economies	**4.7**	**4.5**	**3.6**	**-2.0**	**6.8**	**3.6**	**3.9**
Latin America and the Caribbean	1.3	1.1	0.2	-6.9	6.8	3.0	2.0
Middle East and Central Asia Africa	2.2	2.4	0.8	-2.8	5.7	4.8	3.5
Sub-Saharan Africa	2.7	3.2	3.2	-1.7	4.5	3.8	4.0
B. Commodity Prices (US Dollars)							
Oil	23.3	29.4	-10.2	-32.7	67.3	54.4	-12.3
Non-fuel	6.8	1.3	0.8	6.7	26.8	10.1	-3.5
C. Consumer Prices							
Advanced Economies	1.4	2	1.4	0.7	3.1	6.6	3.3
Emerging & Developing Economies	4.3	4.8	5.1	5.1	5.9	9.5	7.3

Source: IMF WEO, April 2022
****Forecast***

4.2 Outlook for Global Inflation

Global inflation is projected to continue to be high owing to war-related commodity price rises and spreading pricing pressures. Markets expect inflation to peak in mid-2022 and then decline but remain elevated even after these shocks subside. Inflation is projected to revert to pre-pandemic levels by the end of 2024. Several factors could allow it to sustain momentum and enhance long-term hopes. Further supply-related shocks to food and energy prices from the Ukraine inversion might dramatically raise headline inflation and flow through to core inflation, causing further monetary policy tightening.

Near-term inflation expectations in advanced economies have risen dramatically, while longer-term inflation pressures remain more restrained. If the current stagflation pressures worsen, EMDEs will confront new challenges due to weaker inflation expectations, increased financial vulnerabilities, and declining growth prospects.

Table 4.2 Global Inflation Outlook

	2021	2022*	2023*
Advanced Economies	**3.1**	**5.7**	**2.3**
USA	4.7	7.7	2.9
Euro Area	2.6	5.3	2.3
Japan	–0.3	1.0	0.8
Emerging & Developing Economies	**5.9**	**8.7**	**6.5**
China	**0.9**	**2.1**	**1.8**
Russia	**6.7**	**21.3**	**14.3**
India	**5.5**	**6.1**	**4.8**
Sub-Saharan Africa	11.0	12.2	9.6
Nigeria	**17.0**	**16.1**	**13.1**
Ghana	10.0	16.3	13.0
Angola	25.8	23.9	13.2
LIC	11.2	13.6	11.3
Ethiopia	26.8	234.5	30.5

Source: IMF WEO, April 2022
****Forecast***

4.3 Outlook for Domestic Output Growth

The domestic economy is expected to recover through the second half of 2022. This is hinged on improved growth prospects on the back of sustained growth in non-oil GDP driven by agriculture and a robust recovery in services, mainly telecommunications, and financial services. Additionally, the effective implementation of the Medium-Term National Development Plan (MTNDP); improvement in manufacturing activities; the positive impact of CBN interventions on growth-enhancing sectors; improvement in the business confidence index; and an average oil price of US $100 pb are all expected to drive growth in 2022.

On the downside, supply chain disruptions arising from intermittent shortages of PMS and diesel, rising energy prices owing to the Russia-Ukraine war, and legacy challenges including poor infrastructure in power and transport could affect domestic production and distribution networks. These factors signpost significant headwinds to Nigeria's expected output growth. Based on these developments, the Central Bank of Nigeria (CBN) forecasts real GDP to grow by 3.33 percent in 2022. The projection for real GDP growth was predicated on crude oil prices of US$100 per barrel.

Table 4.3: Possible Variations in Nigeria's GDP growth outlook

PERIOD/INDICATOR	PESSIMISTIC	BASELINE	OPTIMISTIC
2021Q1	0.51	0.51	0.51
2021Q2	5.01	5.01	5.01
2021Q3	4.03	4.03	4.03
2021Q4	3.98	3.98	3.98
2021	3.38	3.38	3.38
2022Q1	3.11	3.11	3.11
2022Q2f	1.21	3.34	4.96
2022Q3f	0.64	3.2	5.49
2022f	1.62	3.33	4.68
Crude oil price	US$73/b	US$100/b	US$120/b
Crude oil production	1.3mbpd	1.5mbpd	1.8mbpd
Govt Expenditure	10% lower than budget	MTEF (N17.31 trillion)	5% lower than budget
Economic Activity	1 index point decline in PMI	1 index point increase in PMI	2 index point decline in PMI

Source: CBN Staff Estimates

4.4 Outlook for Domestic Inflation

Headline inflation accelerated in the first half of 2022, from 15.60 percent in January to 18.60 percent in June 2022, the highest inflation rate since January 2017. Food inflation surged to 20.6 percent in June 2022 from 17.13 percent, while core inflation rose from 13.87 percent to 15.75 percent. Estimates from the forecast showed that inflation is likely to increase to 19.09 percent in July 2022, which is still above the upper limit of the indicative benchmark of 6–9 percent. However, the year-on-year headline inflation is expected to decline to 18.89 percent in October 2022 and 18.29 percent in December 2022. Although upside risks to inflation in the near term remain due to a combination of monetary and structural factors, the contractionary monetary policy stance adopted by the Bank is expected to moderate inflationary pressure in the near term. The upside risks include expectations of fuel subsidy removal, lingering insecurity/banditry issues in agricultural-producing areas of the country causing food shortages, spillover effects from the Russian-Ukraine war, and increased spending in preparation for the 2023 general elections. Other factors which could potentially induce inflationary pressure are exchange rate depreciations, capital inflow reversals, and an increase in fiscal deficits. Some attenuating factors, however, may include increase in the monetary policy rate and increased intervention in the agricultural sector. As the Bank continues to manage liquidity conditions through a mix of conventional and unconventional policies in the domestic economy, inflationary developments would be monitored to ensure that the risks to growth and financial system stability are minimized.

Table 4.4: Inflation Forecasts

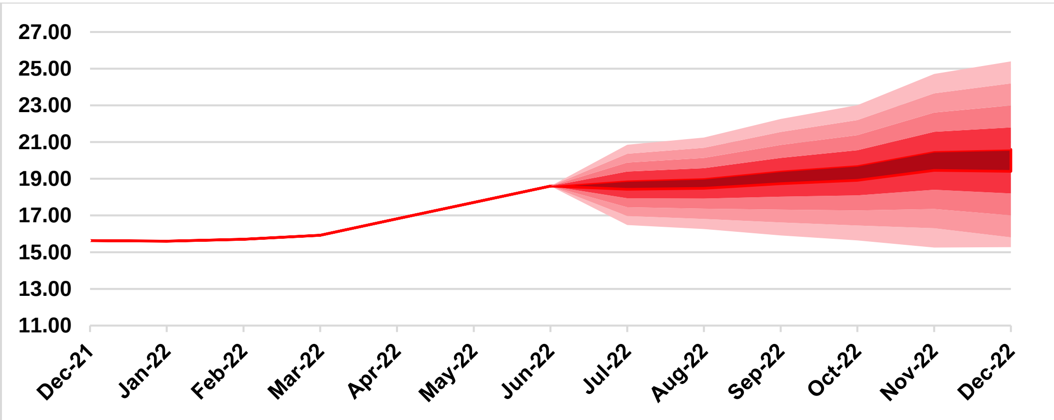
YEAR-ON-YEAR INFLATION RATE

Status	Month	Headline inflation	Food inflation	Core inflation
Actual	Jan-22	15.60	17.13	13.87
	Feb-22	15.70	17.11	14.01
	Mar-22	15.92	17.20	13.91
	Apr-22	16.82	18.37	14.18
	May-22	17.71	19.50	14.90
	Jun-22	18.60	20.60	15.75
Forecast	Jul-22	19.09	21.48	15.97
	Aug-22	19.18	21.57	15.81
	Sep-22	19.10	21.71	15.52
	Oct-22	18.89	21.44	15.25
	Nov-22	18.64	21.25	14.87
	Dec-22	18.29	20.95	14.48

12-MMA INFLATION RATE

Status	Month	Headline inflation	Food inflation	Core inflation
Actual	Jul-21	1.47	1.62	1.25
	Aug-21	1.63	1.87	1.33
	Sep-21	1.74	1.99	0.98
	Oct-21	1.76	2.00	1.22
	Nov-21	1.78	2.01	1.87
	Dec-21	1.82	2.05	1.56
Forecast	Jan-22	1.35	1.60	1.50
	Feb-22	1.10	1.14	0.63
	Mar-22	1.08	1.37	0.99
	Apr-22	0.80	0.69	0.56
	May-22	0.87	0.92	0.93
	Jun-22	1.51	1.94	0.78

Figure 4.1: Fan Chart of Inflation Forecast



Source: CBN Staff Estimates

4.5 The Outlook for Monetary Policy in The Second Half of 2022

Monetary Policy formulation and implementation by the Bank in the second half of 2022 would continue to be anchored on the Federal Government of Nigeria's Medium-Term Expenditure Framework (MTEF). The ultimate objective remains to achieve price and financial system stability with inclusive growth. In line with the MTEF, the CBN would manage expectations, provide time-consistent policies , react to temporary shocks to strengthen the ongoing recovery and maintain the external and internal balance of the economy.

As customary, the Bank will continue to observe global developments as they affect the Nigerian economy. Prospects for global economic growth remain confronted by growing headwinds. The International Monetary Fund (IMF) revised its global growth forecast for 2022 downwards by 0.8 percentage point to 3.6 percent (WEO, April 2022).

The revision in the projections was mainly due to the resurgence in COVID-19, the unabating war in Ukraine and the resultant disruption to the global supply chain, and rising food and energy prices. Although most countries have continued to relax COVID-19-related restrictions on the premise that they have moved past its acute phase, however, the re-introduction of restrictions in some key countries, continues to impose a drag on the global supply chain and economic recovery.

The uncertainties surrounding the pandemic and the war in Ukraine portend a bleak outlook for the recovery of the global economy in 2022. The development has exacerbated policy trade-offs between global growth and price stability. While most central banks in both advanced and emerging economies are prioritizing price stability by opting for a tight monetary policy stance and the withdrawal of monetary accommodation in a bid to fight rising price levels, fiscal policy remains saddled with driving the economic recovery process.

Equally, the uncertainty around crude oil prices, given the complex interplay of political and economic factors at the global level, has implications for reserve accretion and exchange rates.

With regards to the domestic economy, monetary policy may face challenges including unabating inflationary pressures; security challenges that continue to pose significant risks to medium-term growth with potential effect on other critical macroeconomic indicators; rising level of domestic debt which could dampen investor confidence, uncertainty around fuel subsidy and rising energy and logistics costs with potential implications on prices.

Monetary policy formulation and implementation will therefore aim at containing these challenges to achieve price and financial system stability as well as inclusive growth.

4.6 The Risks to the Outlook

4.6.1 Risks to The Global Output Projection

The outlook is vulnerable to adverse risks. Although a quick resolution of the Russian-Ukrainian conflict would boost confidence, relieve pressure on commodities markets, and eliminate supply bottlenecks, it is more likely that growth would drop further, and inflation would be higher than predicted. Overall, the risks are significant and generally akin to the scenario at the onset of the pandemic.. Many of the hazards outlined below are a ratcheting up of factors previously present in the baseline. Furthermore, recognizing near-term hazards might induce medium-term risks, making it more difficult to handle longer-term challenges.

The direct and indirect effects in the baseline forecast would be exacerbated if the war worsened. These primarily include an escalation of Ukraine's humanitarian problems and a flood of refugees into neighboring countries. Furthermore, tougher sanctions may result in additional economic disruptions, including critical energy ties between Russia and Europe, with negative consequences for cross-border investment. This would result in more significant supply interruptions, worldwide price increases, commodity market instability, and significant decreases in regional and global output. During the pandemic, most economies' inflation expectations remained well-anchored. Despite recent increases, investors anticipate that inflation will moderate in the medium term as central banks worldwide respond. Only a few emerging markets and developing economies have significantly increased inflation expectations. However, with high inflation and rising energy and food prices, increased inflation expectations may become more significant, leading to further price hikes. Furthermore, with nominal wage growth currently trailing price inflation in most countries, there is a possibility that previously unrealized wage rises will emerge, adding to total price pressures. In such a case, monetary policy would have to act more aggressively than anticipated, further weighing the outlook.

Higher interest rates cause widespread debt distress. As interest rates rise, public budgets will face difficult choices about fiscal consolidation in the medium term, as pressures for social and, in some cases, defense spending remain high. Credible budgetary structures will be required for a smooth transition. If adjustment fails and the credibility of these frameworks is compromised, a confidence crisis may occur, resulting in associated capital outflows, particularly from emerging countries, and the emergence of concurrent debt crises. The probability of this outcome would increase significantly if the monetary policy in advanced economies reacted even more strongly to inflation pressures than anticipated. Higher interest rates could lead to a disorderly correction of currently stretched asset prices, including housing.

If this risk materializes, the global economy will likely suffer through an unpredictable transition to a new political reality, with financial volatility, commodity price fluctuations, and dislocation of production and trade.

The risks to the outlook are predominantly on the negative side. The war in Ukraine could result in a sudden stoppage of European gas imports from Russia; inflation could be more difficult to bring down than expected, either because labour markets are tighter than expected or inflation expectations are unanchored; tighter global financial conditions could cause debt distress in emerging market and developing economies; renewed COVID-19 outbreaks and lockdowns, as well as an escalation of the property sector crisis, could further stifle Chinese growth.

4.6.2 Risks to Domestic Output

The continuous growth in the economy's real GDP has driven positive sentiments by economic agents, policymakers, and international economic institutions. Staff estimates by the Bank, International Monetary Fund, and the World Bank indicated that real GDP would grow by 3.33, 3.40, and 4.20 percent in 2022, respectively. This is an upward revision from the initial estimates of 3.24, 2.7, and 2.8 percent in 2022, respectively. This is hinged on improved growth prospects on the back of sustained growth in non-oil GDP driven by agriculture and a robust recovery in services.

Consequently, activity in the domestic economy is expected to expand, albeit at a moderate pace, given identified downside risks to the growth outlook. Thus, on the downside, supply chain disruptions arising from intermittent shortages of PMS and diesel, rising energy prices owing to the Russia-Ukraine war, and legacy challenges such as poor power and transport infrastructure could affect domestic production and distribution networks. These factors signpost significant headwinds to Nigeria's output growth.

Additionally, the effective implementation of MTNDP; improvement in manufacturing activities; the positive impact of CBN interventions on growth-enhancing sectors; improvement in the business confidence index; an average oil price of US100 pb are all expected to drive growth in 2022.

4.6.3 Risks to Domestic Inflation Outlook

Headline inflation remained above the upper band of the Bank's implicit inflation target range of 6.0-9.0 percent at 18.60 percent in June 2022and is expected to persist in the near term. Based on Staff projection, inflation is expected to accelerate further in the second half of 2022 given current trends in the global and domestic economy. From the global side, the continued impact of the Russian-Ukraine war on the price and supply of wheat, fertilizer, and oil; and the effect of monetary policy normalizations on capital flows.

On the domestic front, headline inflation forecast is anchored on the expected increase in production costs associated with the disruptions to the power supply and petroleum products; sustained security challenges in the food-producing areas; the burgeoning fiscal deficit, and foreign exchange pressures. These factors continue to undermine expectations of price stability and exert upward pressures on the general price level. Measures to address these factors would considerably moderate inflationary pressures in the domestic economy.

APPENDICES

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 140 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 24th AND TUESDAY 25th JANUARY, 2022

1.0 Background

The Monetary Policy Committee (MPC) held its first meeting for the year 2022 on the 24th and 25th of January 2022 in the light of waning optimism for a robust rebound in global recovery in 2021. This resulted from the persistence of the COVID-19 pandemic and emergence of new variants of the virus; persisting supply bottlenecks; global inflationary pressures; and the imminent commencement of monetary policy normalization by some major central banks. In the domestic economy, output growth recovery was relatively strong in 2021. It is however, expected to continue reasonably in 2022, following considerable improvement in the third quarter of 2021 and a positive outlook for the fourth quarter. This was hinged on the continued support of the monetary and fiscal authorities to sustain the current momentum. The Committee reviewed the developments in the global and domestic economic and financial environments in 2021, as well as the outlook and risks for 2022.

Ten (10) members of the Committee attended this meeting.

Global Economic Developments

The Committee noted that while the recovery of the global economy in 2021 fell below the initial forecast, final estimates showed considerable improvements over the 2020 outcome, evidence that the global economy was pulling out of the doldrum associated with the pandemic. Consequently, the recovery is gaining momentum with increasing consumer spending, upswing in investments and soaring world merchandise trade, above pre-pandemic levels. This reflects the resilience of economic agents in the face of new strains of the virus and rising infection rates. The Committee, however, took cognizance of significant headwinds confronting the global economy in 2022, largely associated with the persisting threats of new variants of the coronavirus. The Advanced Economies are however, in a strong position to offset the impact of these headwinds with stronger policy support and better access to COVID-19 vaccines. Consequently, this group of economies have shown better resilience towards disruptions to the recovery. In the medium term however, the rising inflationary pressures and the gradual withdrawal of both monetary and fiscal stimuli may dampen the recovery in 2022.

In the Emerging Market and Developing Economies (EMDEs), poor access to vaccines and limited policy support meant that this group of economies have been harder hit by the Covid-19 health crisis and its associated macroeconomic downturn. In China, one of the few countries that stayed out of recession in 2020, output weakened in the third quarter of 2021 and has continued to weaken as the Covid infections continue to rage amid power supply shortages and a turbulent property market. Following the containment of the infections in India, the economy has commenced a sharp recovery and is set to continue on an upward trajectory. Overall, growth in the EMDEs is expected to slow in 2022 due to the low level of vaccination and limited policy support in several economies in this group.

On price development, the MPC observed that inflation, in most Advanced Economies remained high and unlikely to abate in the short to medium term. This is driven by the persistence of supply side disruptions and pent-up demand associated with economic recovery. In the EMDEs, inflation has remained high due to a combination of persisting exchange rate pressures and supply bottlenecks associated with the lockdown restrictions. With the US Fed and central banks of other advanced economies now moving towards monetary policy normalization, the eventual interest rate hike may likely trigger huge capital outflow from the EMDEs which will further aggravate exchange rate pressures with a pass-through to domestic prices.

Global financial markets data show significant sell-off, as investors continued to rebalance their portfolios with the shift from assets such as gold and emerging market securities to securities of Advanced Economies suggesting market response to the impending interest rate hike. Thus, global financial conditions are expected to tighten as risk averse portfolio investors reassign their portfolios from perceived riskier emerging market securities, to less risky advanced economy securities with the expectation of improved yields.

Domestic Economic Developments

Staff projections showed that the economy is expected to remain on a path of positive growth, given the impressive performance in the third quarter of 2021 and continuing rebound in economic activities. The Committee noted with satisfaction, the significant improvement in the Manufacturing Purchasing Managers' Index (PMI), which rose to 52.0 index points in December 2021, compared with 50.8 index points in November reflecting the continuing economic recovery. This expansion was driven largely by increasing business activities in the economy, leading to increase in new orders and uptrend in employment and production levels. The Non-Manufacturing PMI, however, declined marginally to 48.0 index points in December 2021 from 48.6 points in November, largely reflecting a decline in services.

The Committee noted with concern, the slight increase in headline inflation (year-on-year) to 15.63 per cent in December 2021 from 15.40 per cent in November following seven consecutive months of decline. The unexpected increase was attributed to both the food and core components, which rose to 17.37 and 13.87 per cent in December 2021 from 17.21 and 13.85 per cent in November, respectively. The Committee, however, expressed confidence in the Bank's sustained intervention programmes, noting that inflation will continue to abate as food supply improves. Members also noted that the seasonal drive in price development associated with the December festive period was largely contributory to the marginal increase in price levels, and as such, believe that this episode of increase may be temporary.

Reviewing the developments in monetary aggregates, the Committee noted that broad money supply (M3) rose further to 13.77 per cent in December 2021, compared with 10.10 per cent in November 2021. This upthrust was largely driven by the growth in Net Domestic Assets (NDA) of 15.58 per cent in December 2021, compared with 9.40 per cent in November 2021. Net Foreign Assets (NFA), however decreased to 6.06 per cent in December 2021, compared with 14.98 per cent in November 2021. The sharp growth in Net Domestic Assets (NDA) was largely attributed to an increase in claims on the Federal government and other sectors. The slowdown in growth of Net Foreign Assets (NFA) resulted from a decrease in foreign assets holdings of the banking system in favour of more domestic investments.

The Committee reviewed the performance of the Bank's intervention programmes aimed at stimulating productivity in manufacturing/industries, agriculture, energy/infrastructure, healthcare and Micro, Small and Medium Enterprises (MSMEs). Between November and December 2021, under the Anchor Borrowers' Programme (ABP), the Bank disbursed ₦75.99 billion to support the cultivation of over 383,000 hectares of maize, rice and wheat during the 2022 dry season, bringing the cumulative disbursements under the Programme to ₦927.94 billion to over 4.5 million smallholder farmers cultivating 21 commodities across the country. All excess output aggregated from the financed farmers will be released to the Nigeria Commodity Exchange (NCX) to help moderate the prices of food in the market. The Bank also released ₦1.76 billion to finance two (2) large-scale agricultural projects under the Commercial Agriculture Credit Scheme (CACS).

In addition, the Bank disbursed the sum of ₦151.23 billion under the Real Sector Facility to 15 additional projects in agriculture, manufacturing, mining, and services. The funds were utilized for both greenfield and brownfield (expansion) projects under the Covid-19 Intervention for the Manufacturing Sector (CIMS) and the Real Sector Support Facility from Differentiated Cash Reserve

Requirement (RSSF-DCRR). Cumulative disbursements under the Real Sector Facility currently stood at ₦1.40 trillion disbursed to 331 projects across the country. As part of its effort to support the resilience of the healthcare sector, the Bank also disbursed ₦498.00 million to two (2) healthcare projects under the Healthcare Sector Intervention Facility (HSIF), bringing the cumulative disbursements to ₦108.85 billion for 118 projects, comprising of 31 pharmaceuticals, 82 hospital and 4 other services.

To support households and businesses affected by Covid-19, the Bank disbursed ₦20.29 billion to 40,521 beneficiaries, comprising 35,340 households and 5,181 small businesses under the Targeted Credit Facility (TCF) within the period. The cumulative disbursements under the TCF stood at ₦369.78 billion to 777,666 beneficiaries, comprising 648,052 households and 129,614 small businesses. To further promote entrepreneurship development among Nigerian youths, the Bank disbursed ₦293 million to 59 beneficiaries under the recently introduced Tertiary Institutions Entrepreneurship Scheme (TIES).

Under the National Mass Metering Programme (NMMP), the sum of ₦47.83 billion was disbursed for the procurement and installation of 858,026 electricity meters across the country under the Scheme's Phase-0. The Committee also noted the improved collections by DisCos as a result of increased meter installations. The Bank released ₦274.33 billion to power sector players, as part of its effort to support the sector under the Nigeria Bulk Electricity Trading Payment Assurance Facility (NBET-PAF). This was in addition to the ₦20.58 billion released to Distribution Companies (DisCos) under the Nigeria Electricity Market Stabilisation Facility – Phase 2 (NEMSF-2). To further support the development of enabling infrastructure in the gas industry, the Bank released additional ₦3.00 billion for the augmentation of an existing infrastructure, bringing the cumulative disbursements under the Intervention Facility for National Gas Expansion Programme (IFNGEP) to ₦42.20 billion for six (6) projects.

Furthermore, under the 100 for 100 Policy on Production and Productivity (PPP), which was introduced to stimulate the flow of finance and investments to enterprises and projects with potential to kick-start a sustainable economic growth trajectory, accelerate structural transformation, promote diversification, and improve productivity, the Bank has received 224 applications, valued at ₦294.91 billion for real sector projects in agriculture, energy, healthcare, manufacturing and services. The applications are currently being processed and the first batch of beneficiaries under the intervention will be announced on 31st January 2022, with their names published in national dailies. These projects have been carefully selected in line with the approved selection criteria as contained in the guidelines.

Money market rates fluctuated within and above the asymmetric corridor, reflecting prevailing liquidity conditions in the banking system. The monthly weighted average Open Buyback (OBB) rate increased to 12.75 per cent in December 2021 from 10.61 per cent in November 2021. The increase in the Open Buyback (OBB) rate reflected the tight liquidity conditions in the banking system.

The MPC noted the continuing positive performance in the equities market in the review period, with the All-Share Index (ASI) and Market Capitalization (MC) increasing by 1.61 and 1.63 per cent to 42,716.44 and N22.30 trillion on December 31, 2021, from 42,038.60 and N21.94 trillion on October 29, 2021, respectively. This positive performance reflected improved corporate earnings as investors participation increased in the market.

The MPC also noted the sustained resilience of the banking system, following the progressive improvement in the Non-Performing Loans (NPLs) ratio from 5.10 per cent in November 2021 to 4.85 per cent in December 2021- a first in a long time. The Committee also noted that the liquidity ratio remained well above its prudential limit at 41.3 per cent, though Capital Adequacy Ratio (CAR) declined marginally to 14.53 per cent in December 2021 from 14.90 per cent in the previous month. The Committee thus, urged the Bank to sustain its firm regulatory surveillance.

Members also noted the continued improvement in the external reserves despite ongoing foreign exchange market pressures. The reserves stood at US$40.20 billion as at December 2021.

Outlook

The broad outlook for the recovery in both the global and domestic economies is clouded with uncertainty such as the resurgence of the COVID-19 pandemic, driven by new and mutating strains of the coronavirus; persisting supply bottlenecks; high and rising inflationary pressures; and dwindling monetary and fiscal stimuli.

The Emerging Markets and Developing Economies are likely to experience a sharp downturn as a result of the identified headwinds confronting the outlook. This is hinged on the back of the ongoing two-speed recovery of the global economy, driven by continued disparities in the administration of vaccines between the Advanced Economies and the Emerging Markets and Developing Economies. While the Advanced Economies will also experience a downturn in 2022, this group of economies are expected to take a less severe hit as most of them have achieved significant high levels of vaccination.

Staff forecast project output growth at 3.10 per cent in 2021 with an expected better outcome in 2022, consistent with the expected improved macroeconomic performance. The economic recovery is therefore expected to progress gradually with the ongoing support by the monetary and fiscal authorities, progress in COVID-19 vaccinations and continued high crude oil prices.

After a moderate increase in December 2021, headline inflation is expected to trend marginally upwards in the short-term before moderating towards the end of the first quarter of 2022. This is expected as food harvests progress towards the end of the first quarter of 2022 and improve food supply. In general, with the Bank sustaining its intervention programmes through the year, food inflation is expected to trend downwards in 2022.

Available forecasts for key macroeconomic variables for the Nigerian economy, indicated expected rebound in output growth for most of 2022, sustained by ongoing broad monetary and fiscal stimuli. Accordingly, the Nigerian economy is forecast to grow in 2022 by 2.86 per cent (CBN), 4.20 per cent (FGN) and 2.76 per cent (IMF).

The Committee's Considerations

The Committee accessed the balance of risks confronting the domestic economy in the near term as they impact output growth and price stability. Members noted the unrelenting effort by the monetary and fiscal authorities in mitigating the impact of the virus on the economy. It observed the continued moderate recovery of the domestic economy but requires further concerted policy effort by both the monetary and fiscal authorities to improve the momentum and strengthen the recovery. Members were thus of the view that, building on the improved growth in the third quarter and the positive PMIs in the fourth quarter of 2021, output growth is expected to strengthen into 2022.

On the Pandemic, the MPC reviewed its continued impact on the domestic economy as Members collectively agreed that the downside risks were still hindering the recovery. In this light, it commended the efforts of the Presidential Task Force on COVID-19 for procuring vaccines and continuing the drive to ensure that most Nigerians are fully vaccinated.

On price development, Members continued to express concerns about the impact of insecurity in farming communities on food inflation. Whereas headline inflation had been moderating for several months, the committee believed that its recent uptick was associated with increased demand during the festive season and was thus of the view that prices will return to the downward trajectory given the Bank's ongoing interventions in the agriculture sector. On this note, Members applauded the efforts of the Bank with the recent launch of the rice pyramids, noting that these efforts to increase food supply and stem food inflation were in the right direction. Members, however, reiterated the key role of the Federal Government in providing the necessary security around the country, and particularly in the farming communities, to ensure that farmers and their produce remain safe, and food supply is both boosted and uninterrupted. The Committee noted that the ongoing dry season farming would further improve food supply and dampen prices.

Members noted the ongoing debate around the removal of fuel subsidy and suggested a robust engagement with relevant groups in the country, and afterward follow a stepwise and gradual approach, to ensure its moderate impact on cost of transportation and energy for individual, households and firms. The Committee also noted the need to encourage the take-off of private refineries across the country to provide alternative competitive local supply source and reduce the need for government intervention to manage fuel prices for domestic consumption. In addition to this, the Committee called for the speedy conclusion of the government gas-powered vehicle conversion scheme and other alternative sources of fuel.

On the exchange rate, the Committee applauded the Management's efforts at maintaining stability over the short term with increasing demand as the economy continues to reopen. Members noted the dwindling proceeds from oil sale, despite rising crude oil prices. They further noted the need to address the persistent reduction in remittance of oil revenue to the Consolidated Revenue Fund and urged the NNPC to urgently address this anomaly. The improved foreign exchange supply will thus support the Bank's demand management strategy in the foreign exchange market and consolidate macroeconomic performance, especially those that promote export, reduce dependence on import and reduce foreign exchange demand pressure. The MPC welcomed the improvement in foreign capital inflow through diaspora remittances and urged the Bank to further extend the incentive scope to attract more remittances to official channels.

The Committee noted the rising government debt profile and the concentration of the funding sources and its implications for fiscal sustainability and macroeconomic stability, including its impact on financial system performance and growth. The MPC continued to urge the Government on the need to harness other sources of revenue to reduce its dependence on oil as a single revenue source. In addition, it reiterated the need for government to seek alternative, more viable, and efficient infrastructure financing sources, in order to ease its expenditure burden. To this end, Members called on the fiscal authorities to take advantage of InfraCorp, the private sector driven infrastructural vehicle and transfer viable infrastructure projects for consideration by the Corporation as this would ease pressure on Government. that would otherwise have to raise revenue through taxes from an already burdened private and household sector.

The improved performance of the equities market in the review period, signposted continued investor confidence in the Nigerian economy. This in the view of Members was a positive sign that the economy remained on a path to a more robust medium-term recovery.

The banking sector indices, in the consideration of Members, showed no less resilience as other macroeconomic indicators reviewed; even as obvious downside risks associated with the Pandemic continued to impact the business environment. Members thus applauded the Management's efforts in ensuring the continued downward trend of Non-Performing Loans (NPLs) ratio, signifying improving conditions in the banking system. Nevertheless, Members emphasized the need for the Bank to closely monitor developments in the sector and swiftly respond to any emerging challenges.

The Committee's Decision

The MPC observed with concern the moderate rise in inflation in December 2021, noting that this was typical of increased aggregate demand associated with the end of year festive activities. Members, however, expressed their continued commitment to drive down domestic prices by putting in place relevant policy measures to curb the rise in inflationary pressures, while also supporting the fragile growth recovery.

In its determination as to whether to hold or loosen or tighten its policy stance, the MPC was mindful that, whereas the US and some Advanced Economies have signaled their intention to commence policy normalisation which may result in capital flow reversal for EMDEs, the major focus at these climes were targeted mainly at reining in the high level of inflation which had been unprecedent in the last four decades in those climes. For Nigeria, members were of the view that Nigeria is confronted with, not only inflation but also fragile output growth. As a result, MPC believes that its current stance of price and monetary stability conducive for growth remain desirable. The MPC is convinced that various measures being implemented were helping, not only in boosting output growth, but also in moderating inflation. The MPC therefore, enjoyed Management to continue to use its development finance tools to accelerate output growth, which will also help in boosting manufacturing output that would ultimately aid moderation in prices. It also requested Management to continue its use of administrative measures, including discretionary tools at its disposal through CRR to control money supply in the economy.

In its final consideration, the Committee was clear that a loosening option was not desirable because it would trigger liquidity surfeit and fuel inflationary pressure as available funds may outstrip the economy absorptive capacity or domestic capacity utilization. It also feels loosening could trigger foreign exchange demand pressure, as the excess liquidity would be channeled to either frivolous importations or speculative holding of foreign exchange as alternative investment channels narrow; leading to foreign exchange depreciation and or inflation.

The MPC also dropped a tightening option at this meeting in view of the fragile state of the current GDP growth rate and potential external and domestic headwinds confronting the economy. The Committee opined that tightening could truncate the steady improvement in credit performance, including other financial soundness indicators, and reverse the declining trend in NPLs. Moreover, tightening could counteract the CBN's credit expansion motive as a necessary condition for improved economic growth and employment generation.

The MPC, therefore, concluded that a HOLD stance remains desirable at this time, as this would indicate a conservative but cautious and consistent policy choice given the prevailing economic conditions and outlook, thus strengthening policy credibility and focus. It also feels that a hold would signal MPCs realisation of the fragility of the growth recovery and its sensitivity to emerging global and domestic uncertainties. Hence the need to sustain the current policy trajectory.

After a careful balancing of the benefits and downsides of each policy option, the MPC decided to hold all policy parameters constant; believing that a hold stance will enable the continued permeation of current policy measures in supporting the recorded growth recovery and further boost production and productivity, which would ultimately rein-in inflation in the short to medium term.

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

In summary, the MPC voted to retain:

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

Thank you.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
25th January 2022

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 141 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 21ST MARCH 2022

The Monetary Policy Committee (MPC) met on 21st March, 2022, in an environment of heightened geopolitical tensions and persisting macroeconomic uncertainties, associated with the recent Russia-Ukraine crisis and headwinds stemming from the lingering impact of the COVID-19 pandemic. The Committee reviewed developments in the global and domestic environments in the first quarter of 2022 and the outlook for the rest of the year. These include the likelihood of tightening external financial conditions associated with monetary policy normalization in the Advanced Economies, the cocktail of sanctions imposed on Russia, global supply chain disruption associated with the invasion of Ukraine, and increasing vulnerabilities associated with the burgeoning global private and public debt portfolio and risks to financial stability. Others include increased uncertainties across major financial markets and the increased risk of continuing rise in prices confronting central banks due to the huge monetary and fiscal stimuli injected into the global economy to subdue the downside risks to growth.

Ten (10) members of the Committee attended this meeting.

Global Economic Developments

The Committee noted with concern, the recent heightening of uncertainties confronting the recovery of the global economy as the Russia-Ukraine conflict and numerous sanctions against Russia, introduced a new dimension of risk to the tepid recovery of the global economy. It further took into cognizance, the lingering headwinds associated with the COVID-19 pandemic and global supply chain constraints; rising inflationary pressure; and more recently, the progression of an interest rate hike by the US Federal Reserve Bank and Bank of England (BOE). Members noted that the ongoing war and the resultant sanctions against Russia will continue to have a considerable impact on the global supply chain as both countries are major players in the global commodities market. With both countries significantly interconnected to the global financial markets, global capital flows are expected to experience some downturn, exacerbated by the increasing sanctions on Russia.

Consequently, the earlier projections by the International Monetary Fund (IMF) for global output growth in 2022 and 2023 of 4.4 and 3.8 per cent, respectively, are likely to be revised downwards due to the overarching downside risks identified on the horizon.

Price development across major Advanced Economies continued to trend upwards and is expected to be accentuated in the short to medium term, reflecting the persisting supply bottlenecks, rising food and energy prices, and the ongoing war which heightened the observed trend. In the Emerging Market and Developing Economies (EMDEs), inflation remained high, with some economies recording inflation rates well above the average in the Advanced Economies. This was mostly due to a mix of downside risks from the COVID-19 pandemic, capital flow reversals, legacy structural challenges, supply-side bottlenecks, and exchange rate market pressures.

In the global financial markets, investors maintained a substantial portion of their portfolios in gold and other precious metals, as the uncertainty around market securities persists alongside the Pandemic and the emergence of new risks following the imposition of sanctions on Russia. It is still unclear at the moment how the progression with monetary policy normalization by some key Advanced Economies will impact the recovery of the global economy, given the risks associated with this Crisis. Investors are however adopting a cautious approach in view of the impact of these developments on activities in the global markets. Global financial conditions are thus, expected to tighten in the short-term as the investment horizon gradually becomes clearer. This is expected to impact capital flows to emerging market economies as risk-averse portfolio investors adopt a wait-and-see approach. Consequently, the risks to the overall recovery of the global economy remain heightened and call for cautious policy maneuvering to avoid a sharp downturn such as experienced in 2020.

Domestic Economic Developments

According to the National Bureau of Statistics (NBS), Real Gross Domestic Product (GDP) grew by 3.98 per cent (year-on-year) in the fourth quarter of 2021, compared with 4.03 per cent in the third quarter of 2021 and 0.11 per cent in the corresponding period of 2020. On a quarter-on-quarter basis, GDP grew by 9.63 per cent in the fourth quarter of 2021 compared with 11.07 per cent in the preceding quarter. This indicates the fifth consecutive quarter of real output expansion, following the exit from recession in 2020. The positive performance was driven largely by the growth in the non-oil sector to 12.36 per cent in Q4 2021 from 10.99 per cent in Q3 2021. Quarrying, transportation & storage; education; financial & insurance services; information & communication; as well as a steady rebound in manufacturing and mining activities were key to the growth of the non-oil sector.

The Committee, however, noted that although the Manufacturing Purchasing Managers' Index (PMI), remained above the 50-index points benchmark in February 2022, it moderated slightly to 50.1 index points from 51.4 index points in January 2022. This sustained positive performance in the manufacturing PMI reflects the resilience of the economy in light of persisting headwinds to the recovery. The Non-Manufacturing PMI, however, remained below the 50 index points in February 2022 at 49.0 index points, with a slight moderation compared with 49.01 points in January 2022 as legacy headwinds such as the persisting insecurity and infrastructural constraints continued to impact production and the ease of doing business in Nigeria.

The Committee observed with concern, the marginal increase in headline inflation (year-on-year) to 15.70 per cent in February 2022 from 15.60 per cent in January 2022, a 0.10 percentage point uptick.

This increase was largely attributed to a rise in the core component to 14.01 per cent in February 2022 from 13.87 per cent in January 2022, while food prices moderated marginally. The rise in core inflation was mostly due to rising energy prices as a result of the current scarcity of Premium Motor Spirit (PMS), rise in the cost of Automotive Gas Oil (AGO), and hike in electricity tariff. The Committee, however, expressed cautious optimism, that with sustained interventions by the Bank in various sectors of the economy and broad fiscal support to tame these legacy structural constraints, price development will moderate as output growth improves. The MPC, therefore, urged the fiscal authorities to seek innovative ways of addressing the current critical supply-side challenges confronting the economy, to enable the unhindered transmission of all the recently deployed fiscal and monetary stimulus to the real economy.

Members noted that the growth rate of broad money supply (M3) increased to 2.12 per cent in February 2022, compared with 1. 74 per cent in January 2022. This was largely attributed to an increase in the growth rate of Net Domestic Assets (NDA) to 5.78 per cent in February 2022 from 2.62 per cent in the previous month.

On the developments in the money market, the Committee observed the movement in money market rates around the asymmetric corridor, reflecting the prevailing liquidity conditions in the banking system. Accordingly, the monthly weighted average Open Buyback (OBB) and Inter-bank Call rates decreased to 5.81 and 9.30 per cent in February 2022 from 6.00 and 16.00 per cent in January 2022, respectively. The decrease in the rates reflected the liquidity conditions in the banking system.

The MPC noted the sustained improvements in the equities market in the review period. The All-Share Index (ASI) and Market Capitalization (MC) both increased significantly from 42,716.44 and N22.30 trillion on December 31, 2021, to 47,282.67 and N25.48 trillion on March 18, 2022, respectively. This prevailing positive performance was attributed to gradually improving macroeconomic fundamentals which support improved outcomes and returns on investments from companies quoted on the Nigerian Exchange Limited.

The MPC also noted the continued resilience of the banking system, evidenced by the further moderation of the ratio of Non-Performing Loans (NPLs) to 4.84 per cent in February 2022 from 4.90 per cent in December 2021. The Committee also noted that Liquidity Ratio (LR) remained above its prudential limit at 43.5 per cent in February 2022, while the Capital Adequacy Ratio (CAR), moderated slightly to 14.4 per cent in February 2022 from 14.5 per cent in December 2021. Overall, Members expressed confidence in the Bank's regulatory regime and commitment to maintaining stability in the banking system, urging the Management to sustain its tight regulatory surveillance.
On the external reserves position, the Committee noted the decrease in the level of gross external reserves to US$39.44 billion as of March 17, 2022, from US$40.21 billion on January 25, 2022, indicating a decrease of 1.95 per cent during the review period. The moderate accretion to reserves reflects the duality of Nigeria's position as an oil exporter and importer of refined petroleum products.

The Committee reviewed the performance of the Bank's various interventions to stimulate productivity in manufacturing, industry, agriculture, energy, infrastructure, healthcare, and micro, small and medium enterprises (MSMEs). Between January and February 2022, the Bank disbursed N29.67 billion under the Anchor Borrowers' Programme (ABP) for the procurement of inputs and cultivation of maize, rice, and wheat, three crops that hitherto were significant concerns of FX demand. These disbursements bring the total under the programme to over 4.52 million smallholder farmers, cultivating 21 commodities across the country, comes to a total of ₦975.61 billion. The Nigeria Commodity Exchange (NCX) has also been restructured to effectively aggregate excess outputs from the Bank's ABP-financed projects, with the objective of moderating food prices. The Bank also released N19.15 billion to finance 5 large-scale agricultural projects under the Commercial Agriculture Credit Scheme (CACS), bringing the total disbursements under the Scheme to ₦735.17 billion for 671 projects in agro-production and agro-processing.

In addition to these, the Bank disbursed the sum of ₦428.31 billion under the ₦1.0 trillion Real Sector Facility to 37 additional projects in the manufacturing, agriculture, and services sectors. The funds sourced from the Real Sector Support Facility - Differentiated Cash Reserve Requirement (RSSF-DCRR), were utilized for both greenfield and brownfield (expansion) projects under the COVID-19 intervention for the Manufacturing Sector (CIMS). Cumulative disbursements under the Real Sector Facility currently stand at ₦1.75 trillion, disbursed to 368 projects across the country. Under the 100 for 100 Policy on Production and Productivity (PPP), the Bank has disbursed the sum of ₦29.51 billion to 31 projects, comprising 16 in manufacturing, 13 in agriculture, and 2 in healthcare.

As part of its effort to support the resilience of the healthcare sector, the Bank also disbursed ₦8.50 billion to 6 healthcare projects under the Healthcare Sector Intervention Facility (HSIF), bringing the cumulative disbursements to ₦116.72 billion for 124 projects, comprising of 31 pharmaceuticals, 56 hospitals, and 37 other services. An additional tranche of N14.7 million was disbursed to 5 researchers under the Healthcare Sector Research and Development (HSRD) Grant.

To support households and businesses affected by the COVID-19 Pandemic, the Bank disbursed N21.66 billion to 19,685 beneficiaries, comprising 12,044 households and 7,641 small businesses under the Targeted Credit Facility (TCF) within the period. The cumulative disbursements under the TCF stood at N390.45 billion to 797,351 beneficiaries, comprising 660,096 households and 137,255 small businesses.

The Bank disbursed ₦11.11 billion to power sector players, under the Nigeria Bulk Electricity Trading Payment Assurance Facility (NBETPAF), bringing the cumulative disbursements under this facility to ₦1.28 trillion. The sum of ₦12.64 billion was also released to Distribution Companies (DisCos) under the Nigeria Electricity Market Stabilisation Facility – Phase 2 (NEMSF-2). The cumulative disbursement under the NEMSF-2 thus stood at ₦232.93 billion. Both interventions were designed to improve access to capital and ease the development of enabling infrastructure in the Nigeria Electricity Supply Industry.

Outlook

The overall medium-term outlook for the global economy remains uncertain as the war between Russia and Ukraine persists, alongside the ongoing COVID-19 pandemic. The sanctions against Russia are expected to have a considerable backlash against the global economy as Russia is an interconnected economy both in the global commodity and financial markets. The extent of the backlash has, however, not fully crystallized but presents a significant downside risk to the recovery of the global economy if the crisis is not resolved immediately.

Additionally, the COVID-19 pandemic remains a significant downside risk to global recovery as the virus continues to mutate into highly infectious strains. This is imparting a high level of uncertainty on economic agents, thus, creating inhibitions towards making the required investments to set the recovery on a sustainable path. As part of the lifting of restrictions associated with the COVID-19 pandemic, the strong recovery of aggregate demand has continued to pose a strong upside risk to inflation, as supply bottlenecks persist. This has been further aggravated by sanctions imposed on trade with Russia and other blockages associated with supplies from Ukraine. Consequently, inflation is expected to remain considerably high in the short term, even as some Advanced Economies progress with interest rate lift-off. The rise in both corporate and public debt in the Advanced Economies and Emerging Market and Developing Economies, is also a major threat to global financial stability as the risk of sustainability is heightened in the currently tensed global environment. Capital flows are thus, expected to be restricted as global financial conditions tighten over the short to medium term.

In the domestic economy, available data on key macroeconomic indicators suggest the likelihood of subdued output growth for the Nigerian economy for most of 2022. This is hinged on the dampening impact to the growth of rising energy prices in the domestic economy; tightening external financial conditions as some Advanced Economies pursue interest rate lift-off; as well as the persistence of legacy security and infrastructural problems. It is, however, expected that monetary and fiscal stimuli will remain in place to continue to support the recovery until the downside risks to growth and the upside risks to inflation dissipate substantially. Accordingly, the Nigerian economy is forecast to grow in 2022 by 3.24 per cent (CBN), 4.20 per cent (FGN), and 2.70 per cent (IMF).

The Committee's Considerations

MPC noted with concern the impact which the global price increase in petroleum and other products is having practically on all economies. The Committee further noted that this has resulted in imported inflation on the Nigerian economy and believes that specific actions need to be taken to ensure that this trend does not continue given the adverse consequences and aggressive rising price level could have on the cost of living and purchasing power of Nigerians.

Before the Russia-Ukraine war, MPC was optimistic that the moderate decline in inflation was sustainable due to the positive impact of good harvest on price levels. The MPC worries that, whereas global prices have gone up, this has been compounded by the shortage of supply of petroleum products. In the short run, MPC urges NNPC to take urgent steps to ensure an adequate supply of petroleum products in Nigeria so as to reduce the rate of arbitrary increase in the price of petroleum products by oil marketers. The Committee noted, with grave concern, the unprecedented rate of oil theft recorded in recent time, and its debilitating impact on government revenue and accretion to reserves.

In the medium-term, MPC is hopeful that the proposed take-off of the Dangote Refinery in the course of the year would help to improve the supply of petroleum products in Nigeria. MPC also notes that the rising price of diesel is compounded by the problem of inadequate electricity supply which has adversely impacted domestic prices. MPC advises the CBN Management and the fiscal authorities to take specific and urgent actions to avoid many power generating stations shutdown for turn-around maintenance, resulting in the current unwarranted shutdown of generating assets.

MPC is relieved that food inflation declined marginally due to good harvest. Although some scarcity is expected as we approach the planting season, the Committee is optimistic that with the high level of strategic grain reserves of the CBN, it is relieved that food prices would remain relatively moderated. MPC further advised Management to redouble its developmental finance initiatives aimed at boosting domestic food output which would help in moderating food inflation going forward, thereby moderating headline inflation.

The Committee's Decision

While growth has continued to improve, members noted that inflation was confronted with upward pressure due to emerging risks within the domestic and external environment. The MPC, however, noted that the substantial upward push to price levels continued to be influenced by supply-side factors such as the scarcity of PMS, persisting insecurity and backlash from the Russia-Ukraine war. These require a careful and focused policy intervention to address and resolve. In this light, the MPC, urged the Bank to continue using the tools at its disposal, while increasing its collaboration with the fiscal authority to ensure that inflation is adequately reined in and growth is returned to a strong and sustainable path.

The Committee also encouraged the Bank to continue the use of its intervention mechanism to deploy funds to output-stimulating and employment-generating sectors of the economy.

In its consideration as to whether to hold, tighten, or loosen, MPC remained concerned that the global situation on rising prices may continue in the near term but may begin to moderate if deliberate and urgent actions are taken by both the monetary and fiscal authorities to correct the rising inflation. On another hand, Committee was satisfied that the use of the Bank discretionary CRR policy should be deployed more aggressively to control the level of money supply in the economy.

On tightening in order to rein in the rising price level, MPC was of the view that given the fragile state of the current GDP growth and the potential external and domestic headwinds from the Russia-Ukraine war, a contractionary policy stance would stifle the expected investment expansion needed to drive growth and absorb the shocks in Nigeria. MPC also feels that not only would tightening reverse the steady improvement recorded in credit expansion, it is also of the view that tightening would not necessarily tame the inflation, particularly where the marginal decline is relatively not yet sustainable.

In the case of whether to loosen, the Committee feels that loosening would trigger further liquidity surfeit and fuel inflationary pressure as available funds outstrip the economy's absorptive capacity. MPC also feels that loosening would trigger FX demand pressure, as the excess liquidity would exert demand pressure on the FX market and trigger a naira depreciation which would also fuel inflation.

Based on the foregoing, the Committee decided to adopt a hold stance as it would indicate a precautionary and consistent policy stance with the prevailing economic conditions particularly as further economic and financial shocks are exerted from the ongoing Russia-Ukraine war.

On the strength of the above considerations, three members voted to raise MPR by 25-basis points, one member voted to raise MPR by 50-basis points, while six members voted to hold all parameters constant.

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

In summary, the MPC voted to:

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

Thank you.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
21st March, 2022

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 142 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 23rd AND TUESDAY 24th May 2022

The Monetary Policy Committee (MPC) met on the 23rd and 24th of May 2022 confronted with declining global growth and heightened uncertainties associated with adverse price developments across the world. These developments partly reflect the aftermath of the ongoing war in Ukraine, the backlash from the numerous sanctions imposed on Russia by major Advanced Economies, as well as persisting supply chain disruptions in major trading routes. At the same time, the Chinese economy remained confronted with the lingering impact of the COVID-19 pandemic, total lockdown of major cities, significant distortions in the property market and modest inflationary pressures. Consequently, Advanced Economy and Emerging Market Economy central banks alike, are switching to monetary tightening to curb the sharp rise in inflation globally.

Even as global output growth recovery moderates, the domestic economy is expected to remain on the current path of recovery through 2022. This is hinged on the continued impact of stimulus by both the monetary and fiscal authorities to support the economy following the outbreak of COVID-19 pandemic. The Committee assessed these developments and the outlook for the rest of the year.

Eleven (11) members of the Committee attended this meeting.

Global Economic Developments

Global output growth commenced a broad slowdown in the first quarter of 2022, as a result of the conflict between Russia and Ukraine, after recovering considerably in 2021. This led to massive supply constraints, with the backlash of sanctions against Russia creating huge macro-economic imbalances for several countries. Consequently, the uncertainties that have arisen are buoyed by the resumption of the spread of the COVID-19 pandemic in China, a key hub of global manufacturing. This has given rise to upside risks to inflation and downside risks to growth.

In addition, the huge amount of stimulus deployed by various countries to ease the downsides of the COVID-19 pandemic, particularly in 2021, has predisposed the global economy to huge debt levels, considering the current burgeoning global private and public debt portfolios. Central banks in both the Advanced and Emerging Market Economies have thus commenced monetary policy tightening to curb rising prices. This could impact the recovery negatively and result in a rise in debt default as global financial conditions tighten. Furthermore, China has also re-introduced constraining measures to mitigate the spread of a new wave of the COVID-19 pandemic within its major industrial cities, resulting in a slowdown in production. In light of these headwinds, the International Monetary Fund (IMF) downgraded its forecast for global output growth for 2022 and 2023 to 3.6 per cent apiece from 4.4 and 3.8 per cent, respectively, reflecting the severity of setbacks to the global recovery.

Inflation continued to rise unabated across several Advanced Economies and is projected to remain high, at least in the medium term, as food and energy prices pushed higher to levels not previously recorded in four decades. This is due to tightening supply amidst closure of major trade routes that supply inputs for food and fertilizer, as well as the high price of energy. In the Emerging Market and Developing Economies (EMDEs), inflation also remained high due to a combination of persisting high food and energy prices; supply chain disruptions associated with the impact of sanctions against Russia; exchange rate pressure; capital flow reversals; as well as underlying legacy constraints.

In the global financial markets, investor confidence is gradually being restored, evidenced by portfolio rebalancing with the gradual decline in gold price. The demand for advanced economy equities and bonds has improved with the commencement of interest rate lift-off led by the US Fed and the Bank of England, resulting in the outflow of capital from emerging market securities. Global financial conditions are thus, expected to tighten in the near term, as risk-averse investors reassign substantial portions of their portfolios from perceived riskier, though more rewarding Emerging Market securities to less risky advanced economy securities. In general, the global economy and financial markets, are confronted with significant risks in the medium term as the huge build-up of both private and public debt may push several fragile economies into a new era of recession.

Domestic Economic Developments

According to the National Bureau of Statistics (NBS), Real Gross Domestic Product (GDP) grew by 3.11 per cent in the first quarter of 2022, compared with 3.98 per cent in the fourth quarter of 2021 and 0.51 per cent in the corresponding period of 2021. This is the sixth consecutive quarter of real output expansion, following the economy's exit from recession in 2020. This steady positive performance, was driven largely by the growth in aggregate consumption, arising from the continued policy support at the onset of the pandemic and gradual recovery of aggregate demand.

Headline inflation (year-on-year) ticked up to 16.82 per cent in April 2022 from 15.92 per cent in March 2022, 90 basis points increase. This is the third consecutive increase in inflation since the commencement of the year 2022, attributable to the rise in both the core and food components to 14.18 and 18.37 per cent in April 2022 from 13.91 and 17.20 per cent in March 2022, respectively. The rise in headline inflation resulted from rising energy prices associated with the epileptic supply of Premium Motor Spirit (PMS), high cost of

Automotive Gas Oil (AGO), mostly used in transportation and production as well as a progressive hike in electricity tariffs. The increase in the food component was driven by shocks to food prices associated with persisting security challenges in major food-producing areas and legacy infrastructural problems which continue to hamper food supply logistics and storage across the country.

Broad money supply (M3) rose significantly to 6.22 per cent in April 2022, compared with 4.19 per cent in March 2022. This was largely driven by strong growth in Net Domestic Assets (NDA) of 11.86 per cent in April 2022, compared with 8.82 per cent in the previous month. The growth in NDA was attributed to the increase in claims on the Federal Government and other sectors (public non-financial corporations, private sector, and state and local governments).

Money market rates oscillated within and outside the Standing Facilities Corridor (SFC), reflecting the prevailing liquidity conditions in the banking system. Consequently, the monthly weighted average Open Buyback (OBB) and Interbank Call rates increased to 7.49 and 8.67 per cent in April 2022, from 6.62 and 4.50 per cent in March 2022, respectively. The increase in rates was an indication of the tight liquidity conditions in the banking system during the review period.

The performance of the equities market remained strong and positive in the review period, with the All-Share Index (ASI) and Market Capitalization (MC) increasing significantly from 46,965.48 and N25.31 trillion on March 31, 2022, to 52,979.48 and N28.56 trillion on May 20, 2022, respectively.

In the Banking System, the Capital Adequacy Ratio (CAR) and the Liquidity Ratio (LR) remained above their prudential limits at 14.6 and 43.7 per cent, respectively. The Non-Performing Loan (NPL) ratio stood at 5.3 per cent in April 2022, compared with its prudential limit of 5.0 per cent, reflecting sustained stability in the banking system, though there remains a need to bring this down to the prudential limit.

Gross external reserves declined moderately to US$38.36 billion as at May 19th, 2022 from US$39.28 billion at end-March 2022. This was attributed to the weak accretion to the reserves from exports and the high cost of importation of refined petroleum products.

The Committee reviewed the performance of the Bank's intervention schemes targeted at stimulating productivity in agriculture; manufacturing/industries; energy/infrastructure; healthcare; exports; and micro, small and medium enterprises (MSMEs).

Between April and May 2022, the Bank released the sum of ₦57.91 billion under the Anchor Borrowers' Programme (ABP) to 185,972 new projects for the cultivation of rice, wheat, and maize, bringing the cumulative disbursement under the Programme to ₦1.01 trillion, disbursed to over 4.2 million smallholder farmers cultivating 21 commodities across the country.

The Bank further disbursed the sum of ₦1.50 billion, under the Accelerated Agriculture Development Scheme (AADS), to one (1) new youth-led project, piloted and funded through the Government of Ondo State for the acquisition of assets for oil-palm cultivation and the establishment of poultry farms. This brings the total disbursement under the Scheme to ₦21.23 billion for 10 state-led and three (3) private sector-led projects.

In addition, the Bank released ₦21.73 billion to finance seven (7) large-scale agricultural projects under the Commercial Agriculture Credit Scheme (CACS). The funds were utilized for the establishment of a ranch and milk processing facility; procurement of feed and medication for livestock/dairy production; construction of a 300 metric-tonne per day oil mill in Gusau, Zamfara State; acquisition and installation of an agrochemical factory; as well as purchase and stockpiling of homegrown maize for animal feed production. This brings the cumulative disbursement under this Scheme to ₦741.05 billion for 674 projects in agro-production and agro-processing.

Under the Paddy Aggregation Scheme (PAS), ₦6.20 billion was disbursed by the Bank to three (3) new projects for the purchase and mopping-up of home-grown rice paddy. This brings the total funds disbursed to 42 integrated rice millers under the PAS to ₦106.39 billion.

To support the growth of the manufacturing sector, the Bank disbursed the sum of ₦436.85 billion to 34 new projects under the ₦1.0 trillion Real Sector Support Facility (RSSF). This was utilized for both greenfield (new) and brownfield (expansion) projects under the COVID-19 Intervention for the Manufacturing Sector (CIMS) and the Real Sector Support Facility from Differentiated Cash Reserve Requirement (RSSF-DCRR). Cumulative disbursement under the RSSF for the financing of 402 real sector projects across the country, currently stands at ₦2.10 trillion.

The Bank disbursed ₦55.34 billion, under the 100 for 100 Policy on Production and Productivity (100 for100 PPP), to 44 projects, comprising 24 in manufacturing, 17 in agriculture, 2 in healthcare, and 1 in the services sector. In the healthcare sector, the Bank disbursed ₦17.70 billion to four (4) healthcare projects under the Healthcare Sector Intervention Facility (HSIF), bringing the cumulative disbursements to ₦130.49 billion for 126 projects, comprising 58 hospitals, 31 pharmaceuticals and 37 other healthcare services.

The Bank released the sum of ₦21.00 billion Under the Export Facilitation Initiative (EFI), for three (3) projects in domestic production and value addition of cocoa and sesame seed. This intervention is targeted at further expansion of the economy's non-oil export basket towards improving foreign exchange revenue earnings for the country.

To support micro, small and medium enterprises (MSMEs), the Bank disbursed ₦1.50 billion to 2,718 new projects through the Agri-Business Small and Medium Enterprises Investment Scheme (AgSMEIS) for activities in fish farming, rice processing, wheat farming, poultry farming, livestock farming, ICT and tailoring amongst others. This brings the cumulative disbursements under AgSMEIS to ₦136.13 billion.

Under the Micro, Small, and Medium Enterprises Development Fund (MSMEDF), the Bank disbursed ₦2.79 billion to support youths engaged at various nodes of the agricultural value chain, bringing the total disbursement under this intervention to ₦98.88 billion to 749 MSME projects across the country.

In energy/infrastructure, the Bank released ₦15.71 billion to power sector players including generation companies (GenCos) and gas companies (GasCos), under the Nigeria Bulk Electricity Trading Plc – Payment Assurance Facility (NBETPAF), bringing the cumulative disbursement under the facility to ₦1.30 trillion. The sum of ₦22.67 billion was also released to Distribution Companies (DisCos) for their Operational Expenditure (OpEx) and Capital Expenditure (CapEx), under the Nigeria Electricity Market Stabilisation Facility – Phase 2 (NEMSF-2). Cumulative disbursement under the NEMSF-2 currently stands at ₦251.93 billion.

Additionally, under the National Mass Metering Programme (NMMP), the Bank has disbursed ₦0.19 billion to DisCos for the procurement of electricity meters, bringing the cumulative disbursement for the procurement and installation of 865,956 meters across the country to ₦47.82 billion. Interventions in energy/infrastructure are designed to improve investment and develop enabling infrastructure in the Nigeria Electricity Supply Industry.

Outlook

The broad outlook for both the global and domestic economies in the mediumterm, remains clouded with uncertainties arising from the lingering war between Russia and Ukraine, the unfolding impact of the extensive sanctions imposed by several countries on Russia, and the downside risks from the continued spread of the COVID-19 Pandemic.

Global growth is thus confronted with significant headwinds which may derail the current projection further. The persisting rise in inflation, is also set to undermine the recovery of output growth, due to the associated build-up of uncertainties around the cost of inventory and other production inputs. The rise in global debt is also an unfolding dilemma which policy makers must carefully evaluate and address to avert a near-term global financial crisis. In summary, while global aggregate demand remains strong and growing, the numerous supply-side constraints will continue to undermine the recovery effort, at least in the short to medium term.

In the domestic economy, data on key macroeconomic variables indicate that the recovery of output growth will continue, probably at a more subdued pace, considering the unfolding domestic and external shocks to the economy. Domestic price development is, however, expected to maintain an upward pressure in the light of the build-up of increased spending related to the 2023 general elections.

Consequently, the Nigerian economy is expected to grow, in line with CBN forecast of 3.24 per cent in 2022. However, the FGN forecast is at 4.20 per cent, while the IMF projects Nigeria's growth in 2022 to be 3.40 per cent.

The Committee's Considerations

At this meeting, the MPC noted the risks confronting the global economy, as those associated with, not only inflation and prices, but also include risks associated with weakening growth prospects across the world.

The Committee observed that whereas post-pandemic policy support has remained broadly expansionary, at least, from a fiscal standpoint, the sharp rise in inflation across both the Advance & Emerging Markets Economies has generated growing concern amongst central banks, as the progressive rise in inflation, driven by rising aggregate demand and wage growth, is putting unsustainable upward pressure on price levels. Consequently, major central banks such as the US Fed, Bank of England, European Central Bank, and Bank of Canada have provided strong guidance for a progressive shift away from monetary policy accommodation to drive market interest rate upward, which may ultimately impact capital flow away from Emerging Market Economies.

On another hand, MPC noted that the war between Russia and Ukraine has resulted in significant disruption of the global supply chain, at a time when the global economy is still confronted with downside risks to growth associated with the Covid 19 pandemic. In addition to this, global trade has been impacted by the series of restrictions imposed by NATO countries and its allies against trade with Russia. This has increasingly fragmented the global economy, imposing huge strains on the tepid post-pandemic recovery. Only recently, China, the USA, and South Africa are seeing a renewed spike in COVID-19 infections. As a result, the Chinese government recently re-introduced lockdown in major industrial cities, to forestall the spread of the pandemic: further disrupting the supply chain crisis. In the view of the MPC, these two risks pose great challenges to rising inflation globally.

For the domestic economy, the MPC noted with delight that the GDP grew by 3.11 percent in Q1, 2022 (y-o-y), highlighting a steady recovery for the 6th consecutive quarter. Quarter on quarter real GDP grew by 9.36 percent, a slight moderation from 11.07 percent in the previous quarter. The MPC however was concerned about the somewhat aggressive rise in inflation by almost 90 basis points in April, 2022. To dampen the expectation of the inflationary pressure, MPC decided on the need to take a shift from its historically cautious approach on interest rate, to a policy rate hike, while still adopting an accommodative approach to development finance initiatives that have supported the growth of the economy and sustained recovery. The MPC is of the view that rates on the development finance initiatives of the Bank should remain at 5 percent till March, 2023.

Consequently, as regards the decision on whether to hold. tighten or loosen, MPC feels that loosening in the face of the rising policy rates in Advance economies may result in a sharp rise in capital outflow and faster dry-up of foreign credit lines. MPC also feels that loosening could lead to further liquidity surfeit and inflationary pressure. S to whether to hold, MPC feels its stance would strengthen the perception that the CBN has abandoned its primary mandate of taming inflation.

On the need to tighten, MPC feels that tightening would help moderate the inflationary trade-off from the steady growth recovery so far. MPC also feels that tightening would help rein in inflation before it assumes a galloping trend, considering the progressive increase in headline inflation (m-o-m), particularly with the sharp 90 basis point increase in April, 2022.

Furthermore, MPC feels that tightening would narrow the negative real interest rate margin, improve market sentiment and restore investor confidence. Equally, members believe tightening would moderate inflationary pressure pass-through to exchange rate depreciation and moderate the speed of capital flow reversal, provide incentives for foreign capital inflows and sustain remittances. Lastly, tightening could moderate government domestic borrowing, as government debt servicing to revenue ratio increased significantly in recent times, threatening debt sustainability.

The Committee's Decision

Members expressed deep concern about the continued uptrend of inflationary pressure. Despite the gradual improvement in output growth. The Committee noted that the current rise in inflation may be inimical to growth, and thus hinder the full recovery of the economy. While the MPC identified several supply-side factors which may be contributing to inflationary pressure, emerging evidence shows that money demand pressure is on the rise and is unlikely to abate until the 2023 general elections are concluded. The dilemma confronting the Committee at this meeting, therefore, is how best to drive down domestic prices while continuing to support the fragile recovery.

In the current circumstance, the Committee was of the view that it was confronted with the choice of either to hold all policy parameters constant to allow previous policy measures to continue to support growth or tighten the stance of policy to curb money demand growth and upward movement of domestic prices. A loosening option would likely result in an increased liquidity surfeit, rise in inflationary pressure, and further pressure on the exchange rate.

The choice of holding, in the view of Members, would not only continue to support growth, even though moderately, but will also allow the growth of money demand to continue at the current pace, leading to the uptick in inflationary pressure. While growth concerns remain paramount to the Committee, the persistent uptick in domestic price levels is clearly a downside risk to growth, that must be addressed urgently.

While it may seem contradictory to raise rates in the face of fragile growth, this is the dilemma that most Central banks around the world are grappling with at the moment. Yet, on balance, it is quite clear and compelling that tackling inflation is more urgent in the sequence of policy objectives. In this regard, the MPC urged the Bank to redouble its efforts at supporting the priority growthenhancing sectors of the economy while urging the Federal government to do more to provide a safe and secure environment for economic agents to boost activities and growth.

After carefully reviewing the developments of the last two months and the outlook for both the domestic and global economies, as well as the benefits and downsides of each policy option, the Committee decided to raise the Monetary Policy Rate (MPR) to rein in the current rise in inflation as Members were of the view that the continued uptrend would adversely affect growth. The Bank further reaffirmed its commitment to continue to provide support to priority sectors as the need arises to support growth until the current upward pressure in price development abates.

The Committee thus decided by unanimous vote to raise the Monetary Policy Rate (MPR). Six (6) members voted to raise the MPR by 150 basis points, four (4) members by 100 basis points, and One (1) member by 50 basis points.

In summary, the MPC voted to:

Raise the MPR to 13.0 per cent;

ii. Retain the asymmetric corridor of +100/-700 basis points around the MPR;

iii. Retain the CRR at 27.5 per cent; and IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
24th May, 2022