CENTRAL BANK OF NIGERIA

MONETARY POLICY REVIEW

FEBRUARY 2020

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Central Bank of Nigeria

Mandate

- Ensure monetary and price stability
- Issue legal tender currency in Nigeria
- Maintain external reserves to safeguard the international value of the legal tender currency
- Promote a sound financial system in Nigeria
- Act as banker and provide economic and financial advice to the Federal Government

Vision

"Be the model Central Bank delivering Price and Financial System Stability and promoting Sustainable Economic Development"

Mission Statement

"To be proactive in providing a stable framework for the economic development of Nigeria through effective, efficient and transparent implementation of monetary and exchange rate policy and management of the financial sector"

Core Values

- Meritocracy
- Leadership
- Learning
- Customer - Focus

CONTENTS

Page

Table of Contents

List of Tables

List of Figures

List of Boxes

STATEMENT BY THE GOVERNOR

Monetary policy in the second half of 2019 faced challenges from persisting imbalances in the global economy. These amongst others included: subdued output growth, rising financial market vulnerabilities, weakening multilateralism and growing unfair trade practices. Further manifestations of global uncertainties were: the lingering BREXIT negotiations, regional hostilities in the Middle East, increased political tensions between the US and Iran and rising public debt levels as well as the trade war between the US and China. In the the light of these developments, the major advanced economy central banks softened their monetary policy to support flagging growth. The Emerging Markets and Developing Economies (EMDEs) largely witnessed weakening commodity prices that precipitated exchange rate and inflationary pressures, necessitating a non-accommodating monetary policy regime.

On the domestic front, monetary policy contended with sluggish growth in an environment of heightened inflationary pressures, weak private sector credit growth, rising public debt and accommodative fiscal stance. The foreign exchange market experienced relative stability, indicating the effectiveness of measures under the prevailing flexible foreign exchange management policy of the Bank, including the Investors' and Exporters' Window. There was also moderate stability in the Banking system reflected in the reduction in non-performing loans and other macroprudential indicators. These developments were, however, unable to mask the underlying vulnerabilities in the domestic macroeconomy manifested in the bearish capital market during the period.

Nonetheless, the economy sustained a positive growth sentiment with real gross domestic product (GDP) improving to 2.28 per cent (year-on-year) in the third quarter of 2019, from 2.12 per cent in the preceding quarter, strengthening further to 2.55 per cent (year-on-year) in the fourth quarter.

The money market remained active, with relatively low rates that mirrored liquidity conditions in the banking system in the review period. The capital market remained bearish as political risk factors and weakening macroeconomic fundamentals continued to dampen investors' sentiments. Consequently, the stock market dipped during the review period as All-Share Index (ASI) decreased by 10.42 per cent from 29,966.9 at end-June 2019 to 26,842.07 at end- December 2019.

The trend towards rising political risk, which led to an increase in capital outflows towards the end of the review period, resulted in a resurgence of some exchange rate and inflationary pressures. The Bank however sustained its steady pace of intervention in the foreign exchange market, while providing forward guidance to sustain investor confidence in the naira.

Monetary policy gave careful considerations to the foregoing development, within the context of fast-tracking growth while maintaining a handle on its price stability mandate, Accordingly, the Bank sustained its tight monetary policy stance throughout the review period by retaining the Monetary Policy Rate (MPR) at 13.5 per cent as well as holding all other policy parameters constant. In summary, the Bank retained the MPR at 13.5 per cent, asymmetric corridor of +200/-500 basis points around the MPR, CRR at 22.5 per cent and Liquidity Ratio at 30.0 per cent.

Outlook for the domestic economy over the short-to-medium-term indicates that inflationary pressure could persist, being propelled by rising food prices that results from the combined impact of the security challenges in food producing areas and the current border protection policy of Government. Monetary policy will continue to prioritize the pursuit of price stability under an environment supportive of financial system stability and inclusive non-inflationary output growth.

GODWIN I. EMEFIELE
Governor, Central Bank of Nigeria
February 2020

CHAPTER ONE

1.0 OVERVIEW

In the second half of 2019, monetary policy was influenced by a number of major developments in the global and domestic economic and financial environments. These included: rising trade tensions, particularly between the US and its key trading partners; growing uncertainties around BREXIT; rising public debt levels in some Advanced Economies and Emerging Markets and Developing Economies (EMDEs); and growing political uncertainties across several regions. Other factors were: increasing political tensions between the US and Iran; heightened financial market fragilities; rising corporate and public debt levels; downturn in global manufacturing; sustained downward pressure on oil prices; subdued growth in the European Union and Japan; and dampening output growth in China. These challenges resulted in the depletion of the external reserves position, owing to sustained capital flow reversals compounded by sluggish global output growth. Accordingly, the Bank sustained its interventions in the foreign exchange market under the flexible foreign exchange management policy, leading to stability in both the Bureau-de-Change (BDC) and the Investors' and Exporters' (I&E) window. Nevertheless, headline inflation increased by 0.90 percentage point from 11.08 per cent in July to 11.98 per cent in December 2019.

The sluggish recovery of the domestic economy continued, although with positive growth sentiments. These sentiments derived largely from stability in government following the successful conclusion of the 2019 general elections and the subsequent strengthening of investor confidence in the economy. The recovery was supported by improved government finances arising from increased oil production and prices; improved credit delivery due to the Bank's new policy measures; sustenance of the Bank's development finance interventions in the real sector; as well as stability in the foreign exchange market. Consequently, growth in real gross domestic product (GDP) improved to 2.28 per cent (year-on-year) in the third quarter of 2019, from 1.81and 2.12 per cent in the corresponding period of 2018 and the preceding quarter, respectively. The oil sector was the main driver of growth in the third quarter, as it grew by 6.49 per cent up from the contraction of 2.91 per cent in the corresponding quarter of 2018. This was, however, a moderation compared with the growth of 7.17 per cent in the preceding quarter. The development was largely attributed to the resuscitation of Egina oil field, which contributed significantly to oil production, OPEC approval to increase production ceiling from 1.68 million barrels per day (mbpd) to 1.77 mbpd as well as improved export to China. Similarly, the non-oil sector expanded by 1.85 per cent in the third quarter of 2019, up from 1.64 per cent in the corresponding period of 2018. The growth outcome was, however, lower compared with 2.32 per cent in the preceding quarter.

In the fourth quarter of 2019, real gross domestic product (GDP) strengthened further to 2.55 per cent (year-on-year) from 2.38 and 2.28 per cent in the corresponding period of 2018 and the preceding quarter, respectively. The oil sector was still the main driver of growth at 6.36 per cent up from the contraction of 1.62 per cent in the corresponding quarter of 2018. This was, however, a moderation compared with the growth of 6.49 per cent in the preceding quarter. In the same vein, the non-oil sector grew by 2.26 per cent in the fourth quarter of 2019, down from 2.70 per cent in the corresponding period of 2018. It was, however, higher compared with 1.85 per cent in the preceding quarter. The key drivers of the non-oil growth were Services, (2.60%); Agriculture, (2.31%), and Industry, (0.81%).

The Nigerian financial market remained moderately stable despite the existence of several cross currents across the global and domestic economies and financial markets. In the global economy, the key issues were: the persistent weakening of global output growth and the risk of recession across several economies; declining but relatively strong job growth in the US; the moderating but strong trade tensions between the US and China; growing threat to central bank independence; persisting risk of some advanced economies being trapped at the zero lower bound; uneasy calm in the oil market; tensions between the European Union and the United Kingdom due to tense BREXIT negotiations which was later calmed by the UK General election in December 2019; rising levels of private debt in the advanced economies and public debt in some Emerging Market and Developing Economies (EMDEs); as well as a wave of volatility in major financial markets.

In the review period, the foreign exchange market continued to enjoy relative stability under the prevailing flexible foreign exchange management policy, supported by the continued intervention of the CBN in the market. It is noteworthy that during the preceding first half, the Bank made a strategic shift towards the long-term stability of the foreign exchange market by deepening the policy on restriction of access to foreign exchange for imports that can be produced locally. This was by extending the policy to include more items as well as encourage the local production of such items for export. In the review period, the policy was further strengthened by the Bank's support for the partial closure of Nigeria's land borders by the fiscal authority. The land border closure is expected to have a complementary effect on the Anchor Borrower's programme and other CBN initiatives intended to boost local production and relieve pressure on foreign exchange for imports. Additional foreign exchange measures were implemented to strategically support Nigeria's signing unto the AfCFTA and progress towards a single currency in the West African sub-region. These included the Bank's participation in several initiatives to improve trade facilitation and automation of the Nigerian Export Proceeds Form (Form 'NXP') for trade monitoring. Other existing measures by the Bank included the sustained use of the Investors' & Exporters' window, the use of Bank Verification Number (BVN) in BDC transactions, sale of foreign exchange to BDCs by the Bank and International Money Transfer Operators (IMTOs), and special foreign exchange auctions to the real sector.

To achieve its objectives of price and monetary stability, the Bank continued to deploy its policy instruments in the review period. These instruments were: the Monetary Policy Rate (MPR); the Standing Facilities window; the Cash Reserve Ratio (CRR); Liquidity Ratio; and Open Market Operations (OMO). It also intervened periodically in the foreign exchange market to complement these instruments. The MPR remained the key instrument for monetary policy management in the review period. It was maintained at 13.5 per cent along with, the asymmetric corridor of +200 and -500 basis points around the MPR throughout the period. The Liquidity Ratio and the Cash Reserve Ratio (CRR) were also retained at 30.0 and 22.5 per cent, respectively, over the period. The primary tool used for liquidity management in the second half of 2019 remained Open Market Operations (OMO).

The money market remained active, with market rates reflecting the changing liquidity conditions in the banking system. The money market rates fluctuated generally downwards and below the lower bound of the standing facility corridor for most of the period. Overall, liquidity in the system came from several sources including: statutory monthly disbursement by the Federation Account Allocation Committee (FAAC) to States and local governments; capital releases from the 2019 budget; election-related expenditures; maturities of government securities and OMO bills; and CBN interventions in the real economy. The MPC retained its policy rate to address growth concerns during the period.

The Nigerian capital market in the second half of 2019 was mostly bearish, driven primarily by the equities segment, reflecting waning investor confidence. This was attributable to the continued perception of political risk which resulted in some weakening of macroeconomic fundamentals. This perception arose from several lingering issues around: softening oil prices; weakening global demand; relatively strong US economy; and rising uncertainty in the global economy leading to a rush into gold as a safer asset. Domestically, insecurity in some parts of the country, weakening of macroeconomic fundamentals, pressure on external reserves as well as the increasing public debt stock heightened the vulnerabilities. As a result, the trend towards sell-off and profit taking seen in the previous half year persisted in the review period. Consequently, the All-Share Index (ASI) decreased by 10.42 per cent to 26,842.07 at end- December 2019 from 29,966.90 at end-June 2019. It decreased by 14.60 per cent compared with 31,430.50 at end-December 2018. Market capitalization (MC) also decreased by 1.87 per cent to ₦12.95 trillion at end-December 2019 from ₦13.20 trillion at end-June 2019. Compared with ₦11.72 trillion at end-Dec 2018, however, MC rose by 10.56 per cent.

Activities in the bonds market were dominated by transactions in Federal Government of Nigeria (FGN) securities, with some activity also recorded in the Sub-national government and corporate bond segments. The 10-year dollar-denominated bond yield for Nigeria decreased by 75 basis points to 3.04 per cent at end-December 2019, from 3.79 per cent at end-June 2019. Compared with 6.11 per cent at end-December 2018, the yield fell by 306 basis points.

The upward pressure on price levels which commenced in the second half of 2019 is expected to continue into 2020, driven mainly by food prices as the combined impact of the security challenges in food producing areas and the impact of the border protection policy has led to an uptick in food prices. The anticipated increase in electricity tariffs in 2020 may also contribute to price increases during the year. Staff projections indicate that headline inflation (year-on-year) is projected to increase to 12.09, 12.18, 12.21 and 12.04 per cent in January, February, March, and April 2020 before declining to 11.83 and 11.68 per cent in May and June respectively. The upside risks to inflation remain the combination of monetary and structural impediments, including poor transport infrastructure, food shortage due mainly to insecurity in the food producing areas of the country, the rising public debt profile of government, the upward pressure on imported food prices due to the land border closure and increased liquidity due to concurrent implementation of the 2019 and 2020 FGN budgets.

Growth remains a challenge in the review period. The recovery of Real Gross Domestic Product (GDP) has continued at a moderate pace, and the outlook is that the economy will continue to improve into 2020. Data from the National Bureau of Statistics (NBS) showed that real GDP grew by 2.55 in the fourth quarter of 2019 compared with 2.38 and 2.28 per cent in the corresponding quarter of 2018 and the preceding quarter of 2019, respectively. The outlook for 2020 is positive, as the recovery is expected to continue into the year. The IMF projection for output growth in Nigeria in 2020, at 2.5 per cent is expected to be an improvement over 2019. The CBN has also projected a positive outlook at 2.39 per cent. These projections are expected to be driven by improved oil production and prices, continued investment in the agricultural and manufacturing sectors, continued implementation of the Economic Recovery Growth Plan (ERGP) and sustained stability in the foreign exchange market. Key headwinds to the growth outlook are however: the persisting power generation and transmission challenges; dearth of infrastructure; continued security challenges across the country; continued herders' and farmers' conflicts; and the still low but improving credit to the private sector.

The Bank will continue to deploy its policy instruments and measures to ensure that liquidity in the banking system is effectively managed and channeled to the real economy to drive sustainable and inclusive non-inflationary output growth.

CHAPTER TWO

2.0 OUTPUT IN DOMESTIC ECONOMY

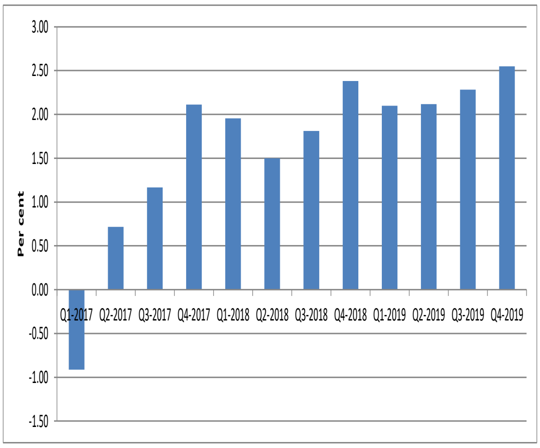
In the second half of 2019, the sluggish recovery of the domestic economy continued, although with positive growth sentiments. These sentiments derived largely from stability in government following the successful conclusion of the 2019 general elections and the subsequent strengthening of investor confidence in the economy. The recovery was supported by improved government finances arising from increased oil production and prices; improved credit delivery due to the Bank's new policy measures; sustenance of the Bank's development finance interventions in the real sector; as well as stability in the foreign exchange market. The recovery, however, continued to be hampered by: the effect of the partial land border closure; disruption of economic activities due to multiple security challenges across the country; growing infrastructure deficits; and declining external reserves. Accordingly, growth in real gross domestic product (GDP) improved to 2.28 per cent (year-on-year) in the third quarter of 2019, from 1.81and 2.12 per cent in the corresponding period of 2018 and the preceding quarter, respectively. The oil sector was the main driver of growth in the third quarter, as it grew by 6.49 per cent up from the contraction of 2.91 per cent in the corresponding quarter of 2018. This was, however, a moderation compared with the growth of 7.17 per cent in the preceding quarter. The development was largely attributed to: the resuscitation of Egina oil field which contributed significantly to oil production; OPEC approval to increase production ceiling from 1.68 million barrels per day (mbpd) to 1.77 mbpd; as well as improved export to China. Crude oil production in the third quarter of 2019 averaged 2.04 mbpd which was higher than 1.94 mbpd and 2.02 mbpd in the corresponding period of 2018 and the preceding quarter, respectively. However, the Oil sector's contribution to real GDP in Q3 2019 declined to 9.59 per cent from 10.53 per cent in the corresponding period of 2018, which was an improvement over the 8.74 per cent in the preceding quarter.

Similarly, the non-oil sector expanded by 1.85 per cent in the third quarter of 2019, up from 1.64 per cent in the corresponding period of 2018. It was, however, lower compared with 2.32 per cent in the preceding quarter. The key drivers of the non-oil growth were Services, (3.24%); construction, (2.37%); Agriculture, (2.28%), and Industry, (0.86%); while Trade contracted by 1.45 per cent. The contribution of the non-oil sector to real GDP in the third quarter of 2019 declined marginally to 90.23 per cent compared with 90.62 and 91.02 per cent in the corresponding period of 2018 and the preceding quarter, respectively.

In the fourth quarter of 2019, real gross domestic product (GDP) strengthened further to 2.55 per cent (year-on-year) from 2.38 and 2.28 per cent in the corresponding period of 2018 and the preceding quarter, respectively. The oil sector was also the main driver of growth in the fourth quarter, as it grew by 6.36 per cent up from the contraction of 1.62 per cent in the corresponding quarter of 2018. This was, however, a moderation compared with the growth of 6.49 per cent in the preceding quarter. Consequently, crude oil production in the fourth quarter of 2019 averaged 2.00 mbpd higher than 1.91 mbpd in the corresponding period of 2018 but slightly lower than the 2.02 mbpd recorded in the preceding quarter. The Oil sector's contribution to real GDP in fourth quarter of 2019 rose to 7.32 per cent from 7.06 per cent in the corresponding period of 2018, which was a moderation compared with 9.77 per cent in the preceding quarter.

In the same vein, the non-oil sector grew by 2.26 per cent in the fourth quarter of 2019, down from 2.70 per cent in the corresponding period of 2018. It was, however, higher compared with 1.85 per cent in the preceding quarter. The key drivers of the non-oil growth were Services, (2.60%); Agriculture, (2.31%), and Industry, (0.81%). The contribution of the non-oil sector to real GDP in the fourth quarter of 2019 declined to 92.68 per cent from 92.94 per cent in the corresponding period of 2018, but higher compared the 90.23 per cent recorded in the preceding quarter.

Figure 2.1
Gross Domestic Product Growth Rate (2017Q1 – 2019Q4)



Source: National Bureau of Statistics

2.1 DOMESTIC ECONOMIC ACTIVITIES

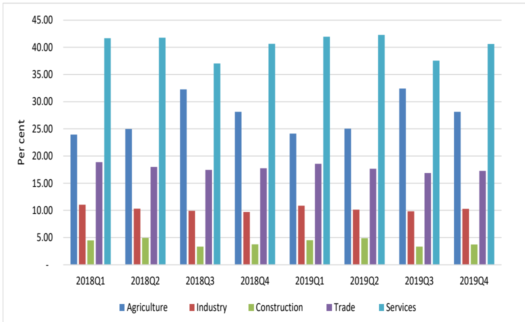
In the second half of 2019, real GDP growth was driven by activities in the oil and non-oil sectors. The oil sector contributed significantly to output, growing by 6.49 per cent, compared with a contraction of 2.91 per cent in the corresponding period of 2018. The performance was, however, lower by 0.68 percentage point compared with 7.17 per cent in the preceding quarter. Accordingly, average crude oil production in the third quarter of 2019 stood at 2.04 mbpd higher than 1.94 mbpd and 2.02 mbpd in the corresponding period of 2018 and the preceding quarter, respectively.

The non-oil sector grew by 1.85 per cent in the third quarter of 2019 compared with 2.32 per cent in the corresponding period of 2018. This was, however, higher than the growth of 1.64 per cent in the preceding quarter. Activities in the non-oil sector were driven by transportation (18.24%), forestry (3.78%), administrative and support services (3.05%), arts, entertainment and recreation (2.89%), crop production (2.41%) and accommodation and food services (2.28%), which grew higher compared with their respective growth rates of 11.95, 3.75, 2.02, 2.83, 1.87 and 2.66 per cent in the corresponding quarter of 2018. Over the same period, however, the growth of the information and communication sub-sector moderated to 9.88 from 12.09 per cent. Activities in solid minerals and utilities contracted by 12.85 and 9.10 per cent in contrast to their growth rates of 3.58 and 13.44 per cent, respectively.

In the fourth quarter of 2019, real GDP growth was driven by activities in the oil and non-oil sectors. The oil sector contributed significantly to output growth by 6.36 per cent, compared with a contraction of 1.62 per cent in the corresponding period of 2018. The performance was, however, lower by 0.13 percentage point compared with 6.49 per cent in the preceding quarter. Accordingly, average crude oil production in the fourth quarter of 2019 stood at 2.00 mbpd higher than 1.91 mbpd in the corresponding period of 2018, but lower than the 2.04 mbpd in the preceding quarter.

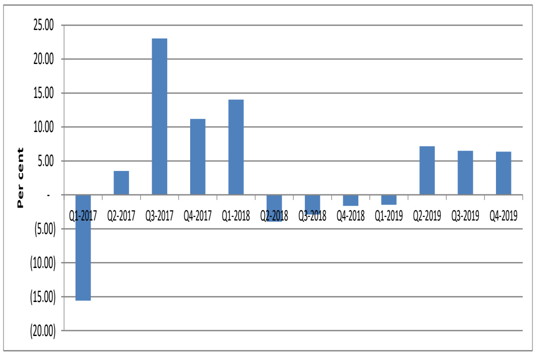
Similarly, the non-oil sector grew by 2.26 per cent in the fourth quarter of 2019, which was lower than 2.70 per cent in the corresponding period of 2018. This was, however, higher than the growth of 1.85 per cent in the preceding quarter. Activities in the non-oil sector were driven by Finance and Insurance (20.18%), information and communication (8.50%), arts, entertainment and recreation (4.85%), water supply, sewage & waste management (3.52%), crop production (2.52%), fishing (2.33%) and accommodation and food services (2.02%), compared with their respective growth rates of -1.76, 13.20, 4.18, 1.85, 2.48, 1.97 and 2.05 per cent in the corresponding quarter of 2018. Activities in electricity, gas, steam & air conditioner and mining & quarry contracted by 7.82 and 5.87 per cent in contrast to their growth rates of 0.95 and 17.68 per cent, respectively.

Figure 2.2
Non-oil Sector Performance (2018 Q1 – 2019 Q4)



Source: National Bureau of Statistics

Figure 2.3
Performance of the Oil Sector 2017Q1-2019Q4



Source: NBS

2.2 Sectoral Analysis

This section reviews the performance of key sectors of the economy, highlighting the institutional and policy factors which contributed to output growth in the second half of 2019.

2.2.1 Agriculture

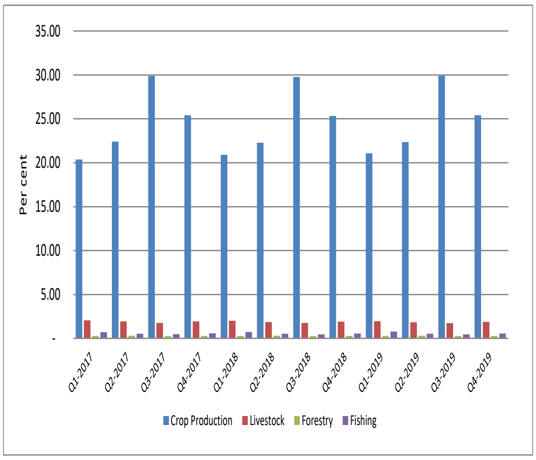
In the third quarter of 2019, real agricultural GDP expanded by 0.37 percentage point to 2.28 per cent over the 1.91 per cent in the corresponding quarter of 2018. The development was also an increase of 0.49 percentage point compared with 1.79 per cent in the preceding quarter. The growth of the sector was driven largely by forestry which grew by 3.78 per cent in the third quarter of 2019 from 3.72 and 3.23 per cent in the corresponding period of 2018 and the preceding quarter, respectively. The crop production sub-sector also recorded a growth of 2.41 per cent up from 1.87 and 1.94 per cent in the corresponding period of 2018 and the preceding quarter, respectively. Fishing and livestock also grew by 1.68 and 0.02 per cent compared with the growth of 0.84 and 2.56 per cent in the corresponding quarter of 2018 and 1.09 and -0.01 per cent, respectively, in the preceding quarter.

The overall contribution of the sector to real GDP in the third quarter of 2019 stood at 32.41 per cent, higher than 32.28 and 25.03 per cent in the corresponding period of 2018 and the preceding quarter.

In the fourth quarter of 2019, real agricultural output grew by 2.31 per cent compared 2.46 per cent in the corresponding quarter of 2018. The development was a slight improvement of 0.03 percentage point compared with 2.28 per cent in the preceding quarter. The growth of the sector was driven largely by crop production which grew by 2.52 per cent in the fourth quarter of 2019 from 2.48 and 2.41 per cent in the corresponding period of 2018 and the preceding quarter, respectively. The fishing sub-sector also recorded a growth of 2.33 per cent up from 1.97 and 1.68 per cent in the corresponding period of 2018 and the preceding quarter, respectively. This was followed by the forestry sub-sector which grew by 1.26 per cent compared with 1.73 and 3.78 per cent in the corresponding period of 2018 and the preceding quarter, respectively. Livestock sub-sector, however contracted by 0.20 per cent compared with the growth of 2.35 and 0.02 per cent in the corresponding quarter of 2018 and the preceding quarter, respectively.

The overall contribution of the sector to real GDP in the fourth quarter of 2019 stood at 28.15 per cent, compared with 28.13 and 32.41 per cent in the corresponding period of 2018 and the preceding quarter.

Figure 2.4
Agricultural Sector Contribution by Activity (2017Q1-2019Q4)



Source: NBS

2.2.1.2 Agricultural Policies and Institutional Support

During the review period, the agricultural sector continued to enjoy a number of existing and new policies, reforms and institutional support, as highlighted below:

2.2.1.2.1 The Agricultural Credit Guarantee Scheme (ACGS)

In the second half of 2019, a total of 16,922 loans, valued at ₦2.38 billion were guaranteed under the scheme compared with 11,981 loans valued at ₦1.68 billion in the first half. The development represented increases of 41.2 and 41.6 per cent, respectively, in the number and value of loans guaranteed. Also, 15,212 loans valued at ₦2.10 billion were repaid, compared with 8,676 loans valued at ₦1.32 billion in the first half. This reflected increases of 75.3 and 59.0 per cent in the number and value of loans repaid, respectively.

2.2.1.2.2 N200 Billion Commercial Agricultural Credit Scheme (CACS)

Under the Scheme, ₦14.85 billion was disbursed to 12 projects in the second half of 2019, an increase of 206.82 per cent compared with ₦4.84 billion to 6 projects in the first half. However, a total of ₦13.04 billion was repaid by135 projects in the review period, which was 45.46 per cent lower than the repayment of ₦23.91 billion by 139 projects in the first half.

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

In the second half of 2019, the sum of ₦2.00 billion was disbursed to one (1) State government-sponsored project, compared with ₦625.55 million for 1,103 projects in the first half of 2019. Repayments during the period amounted to ₦2.11 billion compared with ₦3.63 billion in the preceding period.

2.2.1.2.4 Anchor Borrowers' Programme (ABP)

In the review period, ₦54.32 billion was disbursed to 348,719 smallholder farmers in 35 States for the production of rice, tomatoes, cassava, cotton, maize, sorghum, soya beans and sesame. This level of disbursement represented an increase of 103.67 per cent over the ₦26.67 billion as well as 46.54 per cent increase in the number of beneficiaries compared with 237,967 farmers in the first half. Furthermore, a total of 404,842 hectares of land were cultivated, compared with 259,086 hectares in the preceding period. Repayments under the Programme amounted to ₦17.24 billion in the review period, compared with ₦2.89 billion in the first half.

2.2.1.2.5 Accelerated Agriculture Development Scheme (AADS)

Under the Scheme, the sum of ₦5.98 billion was disbursed to four (4) State government-sponsored projects in the review period compared with ₦1.37 billion disbursed to one (1) project in the first half of 2019. The projects include poultry, cassava, fish, maize and livestock. The AADS has both public and private windows, with the public window funding the provision of critical infrastructure for smallholder farmers in designated locations, while the private window provides credit facilities for the farmers at a single-digit interest rate.

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

In the review period, ₦10.83 billion was disbursed to 3,337 projects, compared with ₦1.29 billion to 595 projects in the first half of 2019. The huge disbursements was due to the commencement of operations of the NIRSAL National Microfinance Bank, whose strategic focus is to leverage on the AGSMEIS Fund for on-lending to customers spread across its wide and expanding network of branches. Repayment in the review period was ₦2.87 million, compared with ₦0.98 million in the preceding half year.

2.2.1.2.7 Non-Oil Export Stimulation Facility (NESF)

Under this Facility, ₦1.50 billion was disbursed to one (1) project in the second half of 2019 compared with ₦8.00 billion disbursed to two (2) projects in the first half. In addition, ₦2.47 billion was repaid compared with ₦1.00 billion in the preceding period.

2.2.1.2.8 Export Development Facility (EDF)

The Facility aims at deepening access to credit for export-oriented investments with a view to enhancing foreign exchange earnings for the economy. During the review period, ₦9.38 billion was disbursed to 28 projects across agriculture, industry and the services sectors. There was no repayment in both the review and preceding periods.

2.2.1.2.9 Paddy Aggregation Scheme (PAS)

Under the Scheme, ₦3.5 billion was released to three (3) projects in the review period, compared with ₦35.20 billion released to 12 projects in the first half of 2019. The financing enabled small and medium-scale rice millers procure paddy for all-year round rice production. The sum of ₦2.083 billion was repaid by two (2) projects.

2.2.1.2.10 Maize Aggregation Scheme (MAS)

The Maize Aggregation Scheme (MAS) is a working capital facility introduced to improve access to affordable credit for the purchase of home-grown maize by feed millers, poultry farmers, silo & warehouse operators, and confectionery companies. The broad objective is to promote national food security through increased domestic maize production, stable prices and improved profit for farmers. In the second half of 2019, ₦4.3 billion was disbursed to three (3) projects under the Scheme.

2.2.1.2.11 National Food Security Programme (NFSP)

Under the Programme, ₦14.50 billion was disbursed to three (3) projects in the review period, compared with ₦8.90 billion for two (2) projects in the first half of 2019. Repayment in the review period was ₦5.55 billion, compared with ₦2.60 billion in the preceding half year.

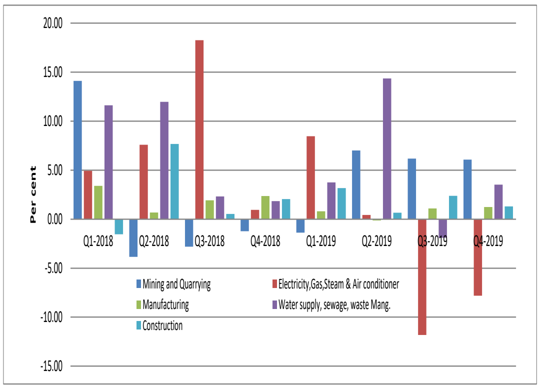
2.2.2 Industry

2.2.2.1 Industrial Production

The recovery of the industrial sector was sustained during the review period. In the third quarter, the sector grew by 3.74 per cent in contrast to a contraction of 0.59 per cent in the corresponding period of 2018. The sector, however, grew by 3.32 per cent in the preceding quarter. The main driver of growth in the sector was crude petroleum and natural gas which grew by 6.49 per cent in the review period, in contrast to the contraction of 2.91 per cent in the corresponding period of 2018. With a growth of 7.17 per cent in the preceding quarter, the sub-sector in the third quarter, recorded the second consecutive quarter of growth in 2019, having been in recession since the third quarter of 2018. The manufacturing sub-sector also grew by 1.10 per cent compared with 1.92 per cent in the corresponding period of 2018 but recorded a contraction of 0.13 per cent in the preceding quarter. The growth of the industrial sector was moderated by a deeper contraction of 12.85 per cent in the solid minerals sub-sector compared with 3.58 and -2.54 per cent in the corresponding period of 2018 and the preceding quarter, respectively. Nevertheless, the share of the industrial sector in overall GDP increased steadily to 18.64 per cent from 18.38 and 18.20 per cent in the corresponding period of 2018 and the preceding quarter, respectively.

In the fourth quarter, the sector grew by 2.75 per cent, higher than 0.95 per cent recorded in the corresponding period of 2018. It was, however, a moderation when compared with 3.21 per cent in the preceding quarter. The main driver of growth in the sector was mining and quarry which grew by 6.07 per cent in the review period, in contrast to the contraction of 1.23 per cent in the corresponding period of 2018. The performance was a moderation compared with the growth of 6.19 per cent in the preceding quarter. Water supply, sewage, and waste management sub-sector also grew by 3.52 per cent compared with 1.85 per cent in the corresponding period of 2018, in contrast to the contraction of 1.90 per cent in the preceding quarter. Similarly, the construction and manufacturing sub-sectors grew by 1.31 and 1.24 per cent compared with 2.05 and 2.35 per cent in the corresponding period of 2018, and 2.37 and 1.10 per cent in the preceding quarter, respectively. The growth of the industrial sector was moderated by the contraction of 7.82 per cent in the electricity, gas, steam & air conditioner sub-sector compared with 0.95 and -11.81 per cent in the corresponding period of 2018 and the preceding quarter, respectively. The share of the industrial sector in overall GDP stood at 20.27 per cent from 20.24 and 22.17 per cent in the corresponding period of 2018 and the preceding quarter, respectively.

Figure 2.5
Industrial Sector Performance by Activity (2017Q1-2019Q4)



Source: Statistics Department

2.2.2.2 Industrial Policy and Institutional Support

The sector benefited from a number of policy measures, reforms and incentives in the period under review as highlighted below:

2.2.2.2.1 Power and Airline Intervention Fund (PAIF)

In the second half of 2019, ₦3.76 billion was released to two (2) power projects, as against none in the preceding period. One of the releases was for a fresh captive project to increase capacity utilization in a manufacturing firm, while the other was augmented funding to catalyze the completion of an on-grid project. In the review period, ₦26.90 billion was repaid in respect of 68 projects, compared with ₦12.72 billion in the first half of 2019.

2.2.2.2.2 Federal Government of Nigeria's Special Presidential Fertilizer Initiative (PFI)

As in the first half of 2019, no disbursement was made under this Initiative in the review period. However, ₦1.75 billion was repaid while the number of functional blending plants increased to 22.

2.2.2.2.3 Textile Sector Intervention Facility (TSIF)

Under this Facility, there was increased momentum of activities due to the Textile Revival Policy of the Bank. The implementation of the policy recorded several milestones including the signing of Memoranda of Understanding (MOUs) between cotton producers, ginners and textile companies on the one hand, and the uniformed parastatals in the country on the other hand, for the procurement of their uniforms from the Nigerian textiles industry. Consequently, ₦19.67 billion was disbursed from the Facility to 10 projects. However, there was no disbursement in the first half of 2019. Repayment in the review period was ₦3.11 billion, compared with ₦884.38 million in the preceding period.

2.2.2.2.4 CBN-BOI Industrial Facility (CBIF)

In the review and preceding periods, there was no disbursement and repayments under the Facility, as all outstanding disbursements were still under moratorium.

2.2.2.2.5 Nigerian Electricity Market Stabilization Facility (NEMSF)

Under the Facility, there was a disbursement of ₦6.1 billion to the Nigeria Electricity Liability Management Limited (NELMCO). NELMCO is a service provider incorporated by the Federal Government of Nigerian to provide reassurance to investors on the safety of their investments in the Power Holding Company of Nigeria (PHCN) successor companies, especially with respect to freedom from encumbrances arising from possible future litigations on legacy debts, staff pensions, suppliers and third-party liabilities. There was no disbursement in the preceding period. In the period under review, ₦10.25 billion was repaid compared with ₦9.36 billion in the first half of 2019.

2.2.2.2.6 Nigeria Bulk Electricity Trading Payment Assurance Facility (NBET-PAF)

In the review period, ₦62.68 billion was disbursed under this Facility as assurance payments to power generating companies (gencos) compared with ₦248.40 billion disbursed in the first half of 2019. No repayment has been recorded under this Facility, which is still under moratorium.

2.2.2.2.7 Real Sector Support Facility (RSSF)

Under the Facility, ₦6.70 billion was released compared with ₦40.00 billion in the first half of 2019. In the review period, ₦218.36 million was repaid compared with ₦2.90 billion in the preceding half year.

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

In the period under review, ₦82.50 billion was disbursed to 46 projects, compared with ₦75.55 billion to 18 projects in the first half. There was no repayment in both the review and preceding periods, as the loans were still under moratorium.

2.2.2.2.9 Creative Industry Financing Initiative (CIFI)

The Creative Industry Financing Initiative (CIFI) commenced operations in the second half of 2019, with the disbursement of ₦410.62 million to 12 projects.

2.2.3 Construction

The construction sector grew remarkably to 2.37 per cent in the third quarter compared with 0.54 and 0.67 per cent in the corresponding period of 2018 and the preceding quarter, respectively. The development was driven by strong capital releases from the 2019 Federal Government budget. The share of Construction in real GDP, however fell from 4.45 per cent in the preceding quarter to 3.01 per cent in third quarter. It was also 3.01 per cent in the corresponding period of 2018.

The construction sub-sector[1] slowed to 1.31 per cent in the fourth quarter compared with 2.05 and 2.37 per cent in the corresponding period of 2018 and the preceding quarter, respectively.

2.2.4 Trade

The sluggish performance of the Trade sector continued in the review period. The contraction in the sector deepened from 0.25 per cent in the preceding quarter to 1.45 per cent in the third quarter, in contrast to the growth of 0.98 in the corresponding period of 2018. The development was partly due to the partial land border closure during the period. The share of Trade in real GDP declined marginally to 15.23 per cent in the third quarter of 2019 from 15.80 and 16.07 per cent in the corresponding period of 2018 and the preceding quarter, respectively.

In the fourth quarter, the contraction in the trade sub-sector moderated to 0.58 per cent from 1.45 per cent in the preceding quarter, in contrast to the growth of 1.02 in the corresponding period of 2018.

2.2.5 Services Sector

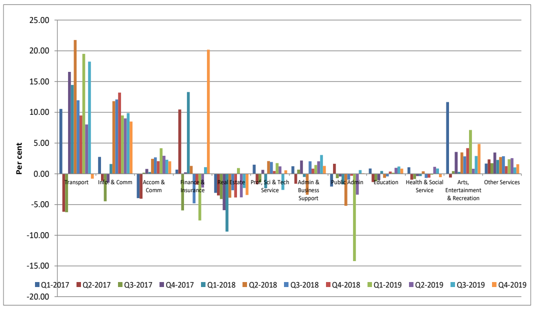
The Services sector sustained its growth for seven consecutive quarters. The sector grew by 3.24 per cent in the third quarter of 2019, compared with 3.60 and 2.93 per cent in the corresponding period of 2018 and preceding quarter, respectively. Growth in the sector was driven by transportation (18.24%), information and communication (9.88%), Administrative and Support Services (3.05%), Arts, Entertainment & Recreation (2.89%), accommodation and food services (2.28%), and finance and insurance (1.07%). These compares with their respective growth rates of 11.95, 12.09, 2.02, 2.83, 2.66 and -4.81 per cent in the corresponding period of 2018. However, the following sub-sectors contracted during the period: utilities (9.10%), Real Estate (2.31%), and Professional, Scientific & Technical Services (2.62%). The share of the

[1] Construction and Trade are sub-sectors under Industrial sector based on NBS classification of GDP

services sector in overall GDP improved marginally to 33.88 per cent in the third quarter of 2019 from 33.56 per cent in the corresponding period of 2018. This was, however, lower compared with 38.49 per cent in the preceding quarter.

In the fourth quarter of 2019, the sector grew by 2.60 per cent compared with 2.90 per cent in the corresponding period of 2018 and the revised growth of 1.87 per cent in the preceding quarter, respectively. Growth in the sector was driven by finance and insurance (20.18%), information and communication (8.50%), Arts, Entertainment & Recreation (4.85%) and accommodation and food services (2.02%). These compares with their respective growth rates of -1.76, 13.20, 4.18 and 2.05 per cent in the corresponding period of 2018. However, real estate contracted by 3.45 per cent in the review period. The share of the services sector in overall GDP improved marginally to 53.64 per cent in the fourth quarter of 2019 from 53.62 and 48.59 per cent in the corresponding period of 2018 and the preceding quarter.

Figure 2.6
Services Sub-Sector Contribution, 2017Q1-2018Q4



Source: CBN

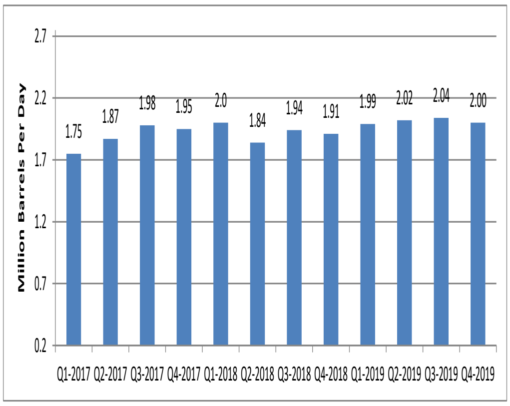
2.2.6 OIL SECTOR

During the review period, the oil sector witnessed relative stability due to improved production and reduced volatility in oil prices. The improved production was a result of relative peace in the oil producing areas, the resuscitation of Egina oil field and enactment of the Deep Off-shore and Inland Basin Production Sharing Contract Act 2019, which made changes to the royalty rates paid by firms operating under production sharing contracts. Consequently, average crude oil production grew to 2.04 mbpd in the third quarter of 2019 compared with 1.94 mbpd in the corresponding period of 2018. This represented an increase relative to the 2.02 mbpd in the preceding quarter. In the fourth quarter of 2019, crude oil production averaged 2.00 mbpd, higher than 1.91 mbpd in the corresponding period of 2018 but slightly lower than the 2.02 mbpd recorded in the preceding quarter.

Oil prices in the review period fluctuated moderately due to tensions in the Middle-East and the extension of the Organization for the Petroleum Exporting Countries (OPEC) production cut. As a result, global oil prices fluctuated largely within the range of US$51-70 per barrel (pb). The upward push on oil price levels in the third quarter of 2019 was however, moderated by the continued high investment in shale oil by the US. The average price of Nigeria's reference crude, the Bonny Light 37^{0}API which was at US$66.10 per barrel (PB) in July

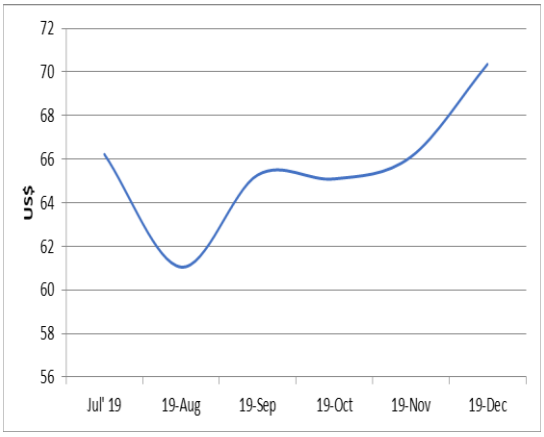
2019, declined marginally to US$65.27pb in September and peaked at US70.39pb in December. Overall, the average price of Bonny Light at US$64.98pb in the second half of 2019 was US$4.98pb above the Federal Government of Nigeria's 2019 budget benchmark of US$60.0pb. This compares with the average price of US$65.77pb in the preceding half year.

Figure 2.7
Quarterly Domestic Oil Production (2017Q1-2019Q4)



Source: NBS

Figure 2.8
Monthly Bonny Light Oil Price, July - December 2019



Source: CBN

BOX 1

IMPLICATIONS OF THE LAND BORDER CLOSURE FOR THE NIGERIAN ECONOMY

On 20 August 2019, Nigeria imposed restrictions on cross-border trade with its neighbors through the partial closure of its land borders with Benin, Togo, Niger, Cameroon and Chad. The decision was predicated on the need to address an array of trade-related and security concerns mostly emanating from these countries, whose economies had become dependent on Nigeria mostly through unrecorded cross-border activities.

On trade, the need arose to stem the irate spates of illicit smuggling of unauthorized goods into and out of the country, particularly facilitated by the lax in security and enforcement around the borders. In particular, unrestricted smuggling of cheap substitutes for staple food commodities into the country undermines significant investments made to boost local production and attain self-sufficiency in food production over the years. Another dimension of illicit trade practices across the neighboring borders was the perennial export of subsidized petroleum products and its subsequent resale in neighboring countries, thereby undermining the petroleum subsidy scheme of the Federal Government of Nigeria.

National security concerns formed another major reason underlying the decision to close the land borders. Existing protocols and provision of the Economic Community of West African States (ECOWAS) permit Intra–regional movement within West African sub region without a Visa. However, the informality and clandestine nature of movements of casual workers, traders, Professionals and refugees from one country to another though the land borders makes monitoring and documentation of such movements an intractable challenge to the Customs authority. However, the growing waves of criminality, kidnappings and banditry across the country had been linked to the unfettered movements of foreign nationals across Nigeria's land borders, hence the need to restrict such movement and divert them through the official air and sea ports of entry, where such can be properly monitored and documented. Relatedly, they had been recorded incidences of illicit smuggling of small arms and light weapons across the borders.

Analysis of the upsides and downside effects of the land border closure on the macroeconomy have since proliferated, making it difficult to ascertain the proper policy implications. However, consensus exists that the land border closure is a temporary and short term measure put in place pending when Nigeria and its frontier neighbors will find a common ground on the enforcement of regional protocols on the cross-border transit of persons and goods.

On the upsides, the land border closure had significantly curbed smuggling and illicit trade practices along the nation's border corridor, translating into higher customs revenue from the seaports, which became the most viable entry and exit points for trade between Nigeria and her neighbors. The Nigerian Customs Service (NCS) indicated that it has recorded an unprecedented levels of revenue generation since the land border closure. The NCS stated that daily customs revenue has remained at an unprecedented average of between N4.7 and N5.8 billion since the border was closed. This development supports the revenue generation drive to meet the yawning gaps in development financing needs of the Federal Government of Nigeria.

The land border protectionist policy holds potentials for bolstering domestic food production and national productivity levels in all sectors. The restriction of cheap imports of products for which local production capacities exist offers competitive advantage and expanded markets for local import substitution industries and agricultural output, across their respective value chains. This goes a long way to complement the non-oil export diversification drive of the government and the various development financing activities of the Central Bank of Nigeria towards developing the real sector of the economy to become a veritable source of foreign exchange earnings.

Another significant payoff of the land border closure is the drastic reduction in domestic consumption levels of petroleum products and the subsequent foreign exchange savings on payment of subsidies on imported refined petroleum products. Unrestrained cross border movements of refined petroleum products out of the country had implied Nigeria had hitherto been subsidizing fuel consumption in its neighboring countries. According to reports, sales of gasoline in Nigeria fell by 12.7% after the land border closure. Estimates of this reduction translate to monthly subsidy savings of about $37million or $445 million annually.

On the downsides, the implementation of the land border closure policy has witnessed an uptick in domestic inflation, mainly being fueled by increases in food prices. Available price statistics from National Bureau of Statistics indicated that following the implementation of the boarder closure policy in August 2019, the food component of the inflation index increased to 13.51% in September 2019 from 13.2% in August 2019 and then to 14.09% in October 2019. Food inflation further rose to 14.48% in November to close the year at 14.67% in December 2019. The NBS reports had indicated that staples like rice, poultry products, frozen fish, cooking oil/fats and bread/cereals which are the most smuggled products led the increase in prices nationally. This was likely due to the fact that local productive capacities for these food items were particularly not ready to cope with the sudden increase in demand that the land border closure occasioned and have not been able to expand inventories to take advantage of it in the short run, hence the spiral into food inflation.

Another major disadvantage of land border closure is the disruptions caused to the huge volume of informal trade and thus livelihood of people that depend on such trade along Nigeria's border corridor. While paucity of reliable data does not enable an accurate quantification of informal cross border trade, anecdotal evidence suggest that it might be twice as much as the size of the formal trade flows, and with thousands of the populace depending on such trade for daily livelihoods. Similarly, the closure has negatively affected many businesses that buy their raw materials from Nigeria's neighbors and others small scale enterprises (SMEs) that exports their output to neighboring countries through informal cross border trade. Thus, the persistence of the land border closure will worsen the already precarious unemployment situation in the country.

At the level of regional and international cooperation, unilateral border closure remains inconsistent with Nigeria's key multilateral commitments. Under the ECOWAS Protocol, member states have expressed their commitments to the establishment of a common market, including the liberalisation of trade by abolition of customs duties levied on imports and exports, and the abolition, among Member States, of non-tariff barriers in order to establish free trade. Also, Nigeria's membership of the World Trade Organization (WTO) since 1995, is obligated to comply with similar commitments at a multilateral level. More particularly, the action is being viewed negatively as an early warning signal that can undermine the realization of the lofty goals of recently signed African Continental Free Trade Agreement (AfCFTA).

CHAPTER THREE

3.0 PRICE DEVELOPMENTS

The benign inflation environment witnessed in the first half dramatically reversed during the second half of 2019 following a build-up of inflationary pressures in the domestic economy. There was a noticeable and consistent inflationary trajectory towards the upper band of the inflation threshold of 12 per cent[2], implying the need to prioritize price stability in the policy mix by the monetary authority. In effect, inflationary pressure in the domestic economy continued in the second half of 2019, despite the Bank's relatively tight monetary policy stance. All measures of inflation trended upwards, with headline inflation consistently above the upper limit of the Bank's indicative benchmark of 6 - 9 per cent. Overall, domestic price developments reflected the interplay of both supply and demand side factors.

On the supply side, closure of the country's land borders significantly influenced price developments in the second half of 2019. The announcement of the border closure introduced supply-side shocks owing to the high volume of imports through the land border and the relatively high import content in the consumption basket of households in Nigeria. Other structural factors were: the continued insurgency in the North-East region, armed banditry and kidnapping in rural communities across the country, as well as the activities of herders, all of which affected food production and distribution. The inflationary pressure was, however, moderated by continued stability in the foreign exchange market. The naira exchange rate remained stable in the two segments of the foreign exchange market, following sustained implementation of the Bank's existing measures and interventions to boost foreign exchange liquidity in the market. Other measures included the sustained use of the Investors' and Exporters' (I&E) window, restriction of access to foreign exchange for 43 items, the use of Bank Verification Number (BVN) in BDC transactions, and sale of foreign exchange to BDCs by the Bank and International Money Transfer Operators (IMTOs). Other factors were the build-up of expectations in relation to the impending increase in electricity tariff and the review of the Value Added Tax (VAT) rate as well as the implementation of the new national minimum wage.

On the demand-side, domestic prices were influenced by developments in the money market, characterized by high liquidity despite the Bank's relatively tight monetary policy stance during the review period. The Inter-Bank Call and Open Buy Back (OBB) rates generally trended downwards on

[2] Several studies indicated an inflation threshold of 12 per cent for Nigeria (see Doguwa, I.S. "Inflation and Economic Growth in Nigeria: Detecting the Threshold Level", CBN Journal of Applied Statistics Vol.3 No.2, pp 99-124).

account of excess liquidity in the banking system. The Bank's use of Open Market Operations (OMO) moderated money market liquidity and reined in inflation. The net effect of these developments was an upward trend in inflationary pressures.

3.1 Trends in Inflation

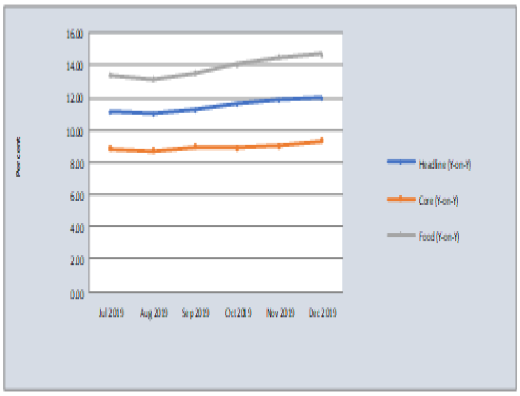
Headline, core and food inflation maintained an upward trend in the second half of 2019, predominantly driven by food inflation. The headline, core and food measures of the consumer price index (CPI) stood at 307.47, 280.63 and 339.88, respectively, in December 2019 compared with 292.62, 269.95 and 319.94 in July 2019. Food inflation (year-on-year) thus, rose by 1.28 percentage points from 13.39 per cent in July to 14.67 per cent in December 2019. Core inflation also rose by 0.53 percentage point from 8.80 per cent in July to 9.33 per cent in December 2019. As a result, headline inflation increased by 0.90 percentage point from 11.08 per cent in July to 11.98 per cent in December 2019 (Figure 3.1 and Table 3.1).

Table 3.1
Inflation Rates, July – Dec 2019

	Headline Inflation			Core Inflation			Food Inflation		
	CPI	Y-on-Y	12MMA	CPI	Y-on-Y	12MMA	CPI	Y-on-Y	12MMA
Jul 2019	292.62	11.08	11.29	269.95	8.80	9.52	319.94	13.39	13.46
Aug 2019	295.51	11.02	11.27	271.75	8.68	9.41	323.85	13.17	13.46
Sep 2019	298.59	11.24	11.27	274.16	8.94	9.34	328.07	13.51	13.47
Oct 2019	301.78	11.61	11.30	276.19	8.88	9.25	332.44	14.09	13.54
Nov 2019	304.87	11.85	11.35	278.38	8.99	9.19	336.60	14.48	13.65
Dec 2019	307.47	11.98	11.40	280.63	9.33	9.15	339.88	14.67	13.74

Source: NBS

Figure 3.1
Headline, Core and Food Inflation Rates (July–Dec 2019)



Source: NBS

3.1.1 Headline Inflation

Major components of headline inflation in the review period trended upwards, driven mainly by Food & Non-Alcoholic Beverages which rose from 7.36 per cent in July to 8.11 per cent in December 2019. This was followed by housing, water, electricity, gas & other fuels, which increased from 1.20 per cent to 1.28 per cent over the same period (Table 3.2 and Figure 3.4). Overall, headline inflation rose from 11.08 per cent in July to 11.98 per cent in December 2019.

The rising trend in headline inflation in the review period was largely due to supply-side factors which included: the Nigeria land border closure which put upward pressure on the prices of food and other imported items; continued insurgency in the North-East; increasing pace of armed banditry and kidnapping; and activities of herders in farming communities across the country, all of which adversely affected agricultural production and distribution, thus, pushing the general price level upwards. The demand-side factors were the increased fiscal liquidity from rising FAAC disbursements and liquidity surfeit in the banking system, both of which exerted demand pressure on domestic prices.

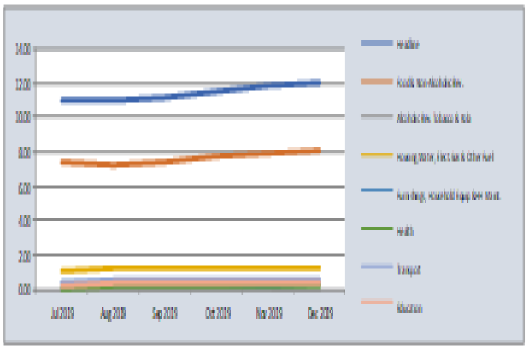
The Bank engaged in several policy and operational measures to moderate both the supply and demand side pressures on domestic price levels. Some of these were: sustained intervention in the real sector to improve the domestic supply of food; and restriction of individuals and local corporates from participation in Open Market Operation (OMO) auctions to curb the growth in money supply. In addition, the Bank's continued participation in the foreign exchange market helped to stabilize the exchange rate and moderate inflation pass-through.

Table 3.2
Major Components of Headline Inflation ((Y-on-Y), July – December 2019

	Headline	Food & Nor	Alcoholic Be	Clothing &	r, Elect.Ga	Furnishing	Health	Transport	Education
Jul 2019	11.08	7.36	0.09	0.72	1.20	0.40	0.23	0.53	0.30
Aug 2019	11.02	7.27	0.09	0.72	1.22	0.40	0.23	0.54	0.30
Sep 2019	11.24	7.46	0.09	0.72	1.25	0.40	0.23	0.54	0.30
Oct 2019	11.61	7.78	0.09	0.72	1.28	0.40	0.23	0.55	0.30
Nov 2019	11.85	8.01	0.08	0.72	1.29	0.39	0.23	0.56	0.30
Dec 2019	11.98	8.11	0.08	0.73	1.28	0.40	0.24	0.56	0.30
Change btw July & Dec. 2019	0.90	0.75	0.00	0.01	0.08	0.00	0.01	0.03	0.01

Source: NBS

Figure 3.2
Major Components of Headline Inflation (Y-on-Y), Jul – Dec 2019



Source: NBS

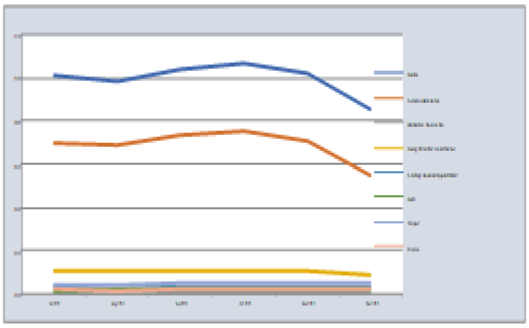
On a month-on-month basis, headline inflation declined from 1.01 per cent in July to 0.85 per cent in December 2019. The major drivers of the decline were the prices of food and non-alcoholic beverages, which fluctuated from 0.70 per cent in July to 0.55 per cent in December; and Housing, Water, Elect. Gas & Other Fuel, from 0.11 per cent in July to 0.08 per cent in December 2019 (Table 3.3 and Figure 3.5). The declining trend in month-on-month headline inflation contrasted with the rise in the year-on-year measure. This is, however, an indication that year-on-year inflation is expected to decline in the near term. This also implies that the current price pressure is driven by transient factors.

Table 3.3
Major Components of Headline Inflation (M-on-M), July - December 2019

	Headline	Food & Non-Alcoholic Bev.	Alcoholic Bev. Tobacco & Kola	Clothing & footwear	Housing, Water, Elect.Gas & Other Fuel	Furnishings, Household Equip &HH Maint.	Health	Transport	Education
Jul-19	1.01	0.7	0.01	0.06	0.11	0.03	0.02	0.04	0.02
Aug-19	0.99	0.68	0.01	0.06	0.1	0.03	0.02	0.04	0.02
Sep-19	1.04	0.73	0.01	0.06	0.11	0.03	0.02	0.05	0.02
Oct-19	1.07	0.75	0.01	0.06	0.11	0.03	0.02	0.05	0.02
Nov-19	1.02	0.71	0.01	0.06	0.1	0.03	0.02	0.05	0.02
Dec-19	0.85	0.55	0.01	0.06	0.08	0.03	0.02	0.05	0.03
Change btw July & Dec.	-0.16	-0.15	0	0	-0.02	0	0	0	0

Source: NBS

Figure 3.3
Major Components of Headline Inflation (M-on-M), July – December 2019



Source: NBS

3.1.2 Food Inflation

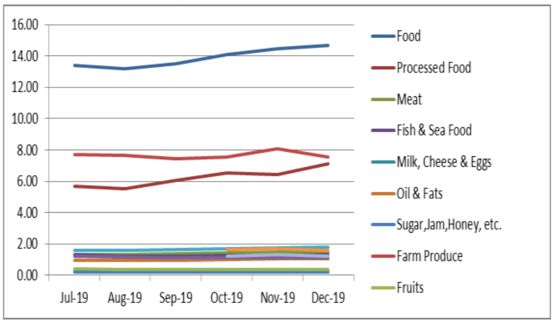
Food inflation (year-on-year) rose from 13.39 per cent in July to 14.67 per cent in December 2019, an increase of 1.28 percentage points. The major source of the increase was the price of processed foods, which increased by 1.41 percentage points from 5.69 to 7.10 per cent. Farm produce, however, declined by 0.14 percentage point from 7.70 per cent in July to 7.56 per cent in December 2019. The increase in the price of processed foods was accounted for by changes in the prices of meat; oil & fats; and sugar, jam, honey, etc. which rose by 0.16, 0.12 and 0.01 percentage points, respectively, during the review period. The main factors responsible for the increase in the price of processed food were largely the unfavourable weather conditions, effects of Nigeria's land border closure and seasonal spending related to end-of-year festivities, despite the Bank's sustained tight monetary policy stance.

Table 3.4
Major Components of Food Inflation (Y-on-Y), July - December 2019

	Food	Processed Food	Meat	Fish & Sea Food	Milk, Cheese & Eggs	Oil & Fats	Sugar,Jam,Honey, etc.	Farm Produce	Fruits	Vegetables	Yam,Potatoes & Other Tubers
Jul-19	13.39	5.69	1.34	1.34	0.24	0.92	0.22	7.70	0.40	1.21	1.59
Aug-19	13.17	5.51	1.34	1.21	0.23	0.92	0.21	7.66	0.38	1.15	1.57
Sep-19	13.51	6.06	1.38	1.24	0.23	0.95	0.21	7.44	0.37	1.12	1.62
Oct-19	14.09	6.54	1.44	1.27	0.23	1.00	0.22	7.55	0.36	1.12	1.70
Nov-19	14.48	6.41	1.49	1.29	0.22	1.03	0.23	8.07	0.36	1.11	1.76
Dec-19	14.67	7.10	1.50	1.29	0.22	1.04	0.23	7.56	0.36	1.11	1.77
Change btw Jul & Dec2019	1.28	1.41	0.16	-0.05	-0.02	0.12	0.01	-0.14	-0.04	-0.10	0.18

Source: NBS

Figure 3.4
Major Components of Food Inflation (Y-on-Y), July – December 2019



Source: NBS

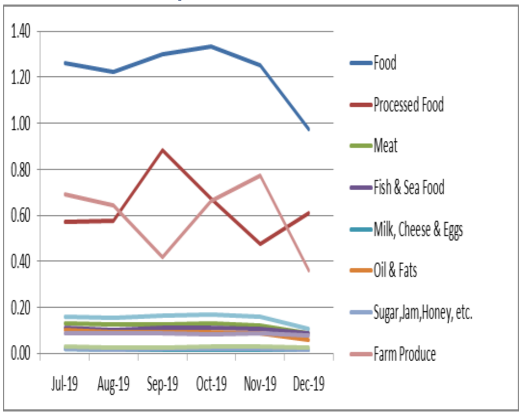
In contrast to the year-on-year trend, food inflation declined by 0.28 percentage point on a month-on-month basis, fluctuating between 1.26 per cent in July and 0.97 per cent in December 2019. The key driver of the decline was farm produce which fell by 0.33 percentage point from 0.69 to 0.36 per cent. Within the farm produce category, the decline was traceable to: rice; millet; and yam, potatoes & other tubers, which fell by 0.18, 0.14 and 0.05 percentage point, respectively. The price of processed food, however, rose by 0.04 percentage point from 0.57 per cent in July to 0.61 per cent in December 2019.

Table 3.5
Major Components of Food Inflation (M-on-M), July- December 2019

	Food	Processed Food	Meat	Fish & Sea Food	Milk, Cheese & Eggs	Oil & Fats	Sugar,Jam,Honey, etc.	Farm Produce	Fruits	Vegetables	Yam,Potatoes & Other Tubers
Jul-19	1.26	0.57	0.13	0.11	0.02	0.10	0.02	0.69	0.03	0.09	0.16
Aug-19	1.22	0.58	0.13	0.10	0.01	0.09	0.02	0.64	0.03	0.09	0.16
Sep-19	1.30	0.88	0.13	0.11	0.02	0.09	0.02	0.42	0.03	0.09	0.17
Oct-19	1.33	0.67	0.13	0.11	0.02	0.09	0.02	0.66	0.03	0.08	0.17
Nov-19	1.25	0.48	0.12	0.11	0.02	0.09	0.02	0.77	0.03	0.09	0.16
Dec-19	0.97	0.61	0.09	0.09	0.02	0.06	0.02	0.36	0.03	0.08	0.11
Change btw Jul & Dec2019	-0.29	0.04	-0.04	-0.02	0.00	-0.04	0.00	-0.33	0.00	-0.01	-0.05

Source: NBS

Figure 3.5
Major Components of Food Inflation (M-on-M), July - December 2019



Source: NBS

3.1.3 Core Inflation

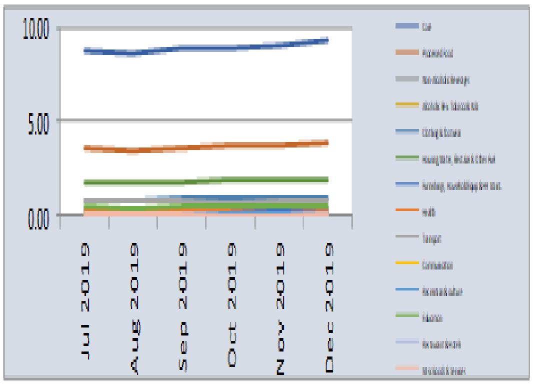
Core inflation (year-on-year) trended upwards from 8.80 per cent in July to 9.33 per cent in December 2019, an increase of 0.53 percentage point. The rise in core inflation was driven by increases in processed foods (0.33 percentage point), Housing, Water, Elect. Gas & Other Fuel (0.09 percentage point), Clothing & footwear (0.07 percentage point), Education (0.03 percentage point), and Transport (0.02 percentage point). Other components remained largely stable (Table 3.6 and Figure 3.8). The substantial rise in the prices of Processed Food and Clothing & Footwear were traceable to the supply shortage arising from the land border closure. This was, however, moderated by the Bank's intervention programmes to support domestic production, given the country's rich agro-ecology that enables the cultivation of a variety of agricultural substitutes. In addition, the stability in the exchange rate doused the inflation pass-through to domestic prices.

Table 3.6
Major Components of Core Inflation (Y-on-Y)July-December. 2019

	Core	Processed Food	Non-Alcoholic Beverages	Alcoholic Bev. Tobacco & Kola	Clothing & footwear	Housing,Water, Elect.Gas & Other Fuel	Furnishings, Household Equip &HH Maint.	Health	Transport	Communication	Recreation & culture	Education	Restaurant & Hotels	Misc Goods & Services
Jul 2019	8.80	3.58	0.13	0.13	0.87	1.82	0.45	0.25	0.79	0.09	0.10	0.48	0.04	0.05
Aug 2019	8.68	3.53	0.13	0.13	0.87	1.80	0.44	0.25	0.78	0.09	0.10	0.48	0.04	0.05
Sep 2019	8.95	3.67	0.13	0.13	0.90	1.85	0.45	0.25	0.79	0.09	0.10	0.49	0.05	0.06
Oct 2019	8.88	3.69	0.13	0.12	0.90	1.86	0.42	0.23	0.78	0.09	0.10	0.48	0.03	0.04
Nov 2019	8.99	3.78	0.13	0.12	0.91	1.87	0.42	0.23	0.78	0.10	0.10	0.49	0.03	0.04
Dec 2019	9.33	3.92	0.13	0.12	0.94	1.91	0.44	0.24	0.81	0.10	0.10	0.51	0.05	0.06
Change btw July & Dec. 2019	0.53	0.33	0.00	0.00	0.07	0.09	-0.01	-0.01	0.02	0.01	0.00	0.03	0.01	0.02

Source: NBS

Figure 3.6
Major Components of Core Inflation
(Y-on-Y) July - December 2019



Source: NBS

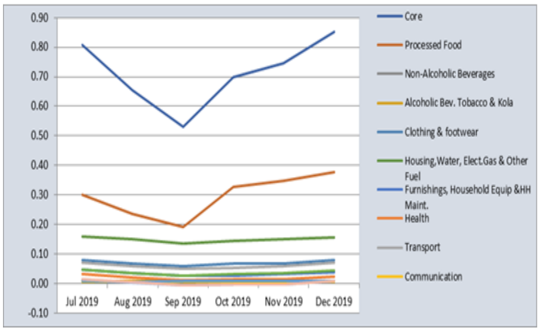
On a month-on-month basis, core inflation, increased by 0.04 percentage point from 0.77 per cent in July to 0.81 per cent in December 2019. Housing, Water, Elect. Gas & Other Fuel was the major driver, rising from 0.15 per cent in July to 0.17 per cent in December 2019. Others were Transport, Health and Education which rose by 0.01 percentage point a piece, while processed food declined by 0.04 percentage point (Table 3.7 and Figure 3.7).

Table 3.7
Major Components of Core Inflation
(M-on-M) July - December. 2019

	Core	Processed Food	Non-Alcoholic Beverages	Alcoholic Bev. Tobacco & Kola	Clothing & footwear	Housing,Water, Elect.Gas & Other Fuel	Furnishings, Household Equip &HH Maint.	Health	Transport	Communication	Recreation & culture	Education	Restaurant & Hotels	Misc Goods & Services
Jul 2019	0.77	0.34	0.01	0.01	0.08	0.15	0.03	0.02	0.07	0.01	0.01	0.04	0.00	0.01
Aug 2019	0.67	0.29	0.01	0.01	0.07	0.14	0.03	0.01	0.06	0.01	0.01	0.04	0.00	0.00
Sep 2019	0.89	0.38	0.01	0.01	0.09	0.17	0.04	0.03	0.07	0.01	0.01	0.05	0.01	0.01
Oct 2019	0.74	0.32	0.01	0.01	0.08	0.16	0.03	0.01	0.06	0.01	0.01	0.04	0.00	0.00
Nov 2019	0.79	0.34	0.01	0.01	0.08	0.15	0.03	0.02	0.07	0.01	0.01	0.05	0.01	0.01
Dec 2019	0.81	0.30	0.01	0.01	0.08	0.17	0.04	0.03	0.08	0.01	0.01	0.05	0.01	0.01
Change btw July & Dec. 2019	0.04	-0.04	0.00	0.00	0.00	0.02	0.01	0.01	0.01	0.00	0.00	0.01	0.01	0.01

Source: NBS

Figure 3.7
Major Components of Core Inflation
(M-on-M) July – December 2019



Source: NBS

3.1.4 Seasonally-Adjusted Inflation

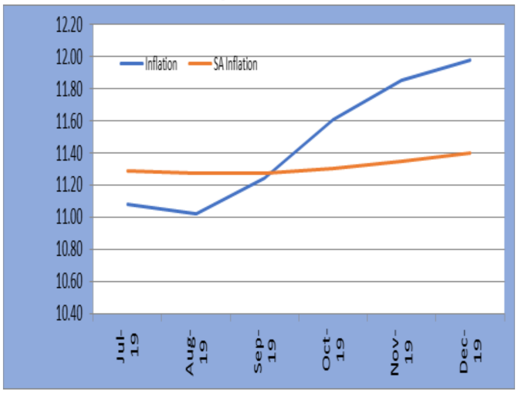
In the review period, actual and seasonally-adjusted measures of headline inflation trended upwards, in contrast to the downward trend in the first half of 2019 (Table 3.8 and Figure 3.8). Actual headline inflation in the second half of 2019, however, trended above the seasonally-adjusted measure, indicating the presence of seasonal price pressures. Prior to September 2019, actual headline inflation was below the seasonally-adjusted measure, indicating that the seasonal adjustment was effective in addressing seasonal factors. However, following the land border closure in August and its subsequent knock-on effect on prices, actual headline inflation rose above the seasonally-adjusted measure. Other contributory factors to the rise were: increased spending associated with end-of-year festivities; rising food prices due to production and distribution challenges in some parts of the country; as well as insurgency in the north-east region.

Table 3.8
Actual and Seasonally Adjusted Headline Inflation July – December 2019
2019

Date	Inflation	SA Inflation
Jul-19	**11.08**	11.29
Aug-19	**11.02**	11.27
Sep-19	**11.24**	11.27
Oct-19	**11.61**	11.30
Nov-19	**11.85**	11.35
Dec-19	**11.98**	11.40

Source: NBS

Figure 3.8
Actual and Seasonally Adjusted Headline Inflation July – December 2019



Source: NBS

3.2 Key Factors that Influenced Domestic Prices

A combination of cost-push, demand-pull and moderating factors influenced inflationary developments in the review period. The net effect of the interplay of these factors was a rise in headline inflation. A summary of the key factors included: the effect of the land border closure; production and distribution challenges due to insurgency in the North East, armed banditry & kidnapping; as well as herders attack on farming communities across the country. Others were: the persistent surfeit of liquidity in the banking system; fiscal injections due to FAAC allocations; and the impact of festive and other seasonal activities. To moderate these forces, the Bank continued its intervention in the real sector, while maintaing a tight monetary policy stance and stable exchange rate regime.

3.2.1 Demand-side Factors

The demand-side factors that drove headline inflation in the review period were: improved Federal Government capital spending supplemented by the effect of other injections such as payments of outstanding salaries and contractor obligations by Government and implementation of the new national minimum wage, amongst others. To moderate the impact of these factors, the Bank maintained a tight monetary policy stance and stable exchange rate regime to help rein-in inflation.

3.2.2. Supply-side Factors

The supply side factors which drove prices in the upward direction in the review period were largely the decision of the Federal Government to close her land borders with neighbouring countries and heightened security challenges in the country. Both factors affected supply thereby putting upward pressure on prices. In addition, unfavourable weather conditions in the review period affected agricultural output. Furthermore, the build-up of expectations in relation to the impending increase in electricity tariff and the review of the Value Added Tax (VAT) rate affected inflation outcomes.

3.2.3 Moderating Factors

The relative stability so far achieved in the foreign exchange market as well as the sustained tight monetary policy stance of the Bank helped to moderate pressure on domestic prices in the review period. In addition, the early passage and implementation of the 2019 budget improved investor confidence in the economy, thereby removing uncertainties about the policy direction of Government in the fiscal year.

CHAPTER FOUR

4.0 MONETARY POLICY AND LIQUIDITY MANAGEMENT

In the second half of 2019, monetary policy design and implementation was shaped by fundamental developments in the global and domestic economic and financial environments. These developments pointed to continuing imbalances in the global economy as reflected in sluggish output growth, rising vulnerabilities in the financial markets, weakening multilateralism and growing unfair trade practices. The imbalances and efforts to address them, further gave rise to uncertainties as reflected in the lingering BREXIT negotiations, regional hostilities in the Middle East, increased political tensions between the US and Iran and rising public debt levels as well as the trade war between the US and China. Consequently, in an environment of subdued growth and weak aggregate demand, major advanced economy central banks sustained the softening of monetary policy in order to support flagging growth. The EMDEs witnessed weakening commodity prices which, coupled with growing global uncertainties, fueled exchange rate and inflationary pressures leading a majority to maintain a non-accommodating monetary policy regime.

On the domestic scene, growth also remained sluggish in an environment of heightened inflationary pressure, weak credit growth, rising public debt and accommodative fiscal stance. These conditions were symptomatic of an economy transiting from recession to growth. Although the financial system experienced moderate stability as reflected in relative stability in the foreign exchange market and reduction in non-performing loans, the bearish capital market indicated underlying vulnerabilities. The need to support the financial system as well as achieve price stability consistent with non-inflationary output growth, informed monetary policy management by the Bank during the review period.

4.1 DECISIONS OF THE MONETARY POLICY COMMITTEE (MPC)

Monetary policy was influenced by a number of major developments in the global and domestic economic and financial environments during the second half of 2019. These included: rising trade tensions, particularly between the US and its key trading partners; growing uncertainties around BREXIT; rising public debt levels in some Advanced Economies and Emerging Markets and Developing Economies (EMDEs); and growing political uncertainties across several regions. Other factors were: increasing political tensions between the US and Iran; heightened financial market fragilities; rising corporate and public debt levels; downturn in global manufacturing; sustained downward pressure on oil prices; subdued growth in the

European Union and Japan; and dampening output growth in China.
On the domestic front, the challenges were: slow private sector credit growth; high unemployment; delayed fiscal policy intervention arising from low revenue and lack of fiscal buffers; high cost of energy, transport and production inputs; heightened insecurity across the country; mild resurgence of anticipated inflationary pressures towards the December festive season; rising public debt; and slow pace of oil price recovery.

These challenges and the need to achieve the Bank's objective of price stability conducive to sustainable and inclusive economic growth were the key considerations that shaped the design and implementation of monetary policy in the review period.

4.1.1 July 2019 MPC Meeting

The July 22 and 23, 2019 Monetary Policy Committee (MPC) meeting reviewed international and domestic economic developments in an environment of subdued global growth and fragile domestic economic recovery. On the global front, output growth remained weak, leading to the downgrade of 2019 global growth forecast to 3.3 per cent from 3.6 per cent by the International Monetary Fund (IMF). The weak growth outcome was traceable to a number of headwinds including rising trade tensions between the US and its key trading partners, rising public debt levels in many Advanced Economies and Emerging Markets and Developing Economies (EMDEs) as well as growing political uncertainties across several regions. Global inflation, particularly in the advanced economies, continued to trend downwards and significantly below the long-run objective, necessitating a gradual return to accommodative monetary policy. The Committee observed that if the trend persists, the global economy is poised for another round of loose monetary policy.

At the domestic scene, the Committee welcomed the continued output recovery, as data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 2.01 per cent in the first quarter of 2019 compared with 2.38 and 1.89 per cent in the preceding and corresponding quarters of 2018, respectively. The growth was driven by the non-oil sector. The MPC was also optimistic about the prospects of continued output expansion as indicated by the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI), which grew for the 27th and 26th consecutive months in June 2019, at 57.4 and 58.6 index points, respectively. It, however, noted the downside risks to the growth outlook to include: slow private sector credit growth; high unemployment; and delayed fiscal policy intervention arising from underlying challenges of low revenue and fiscal buffers; amongst others. The Committee believes that in the short run, the continued intervention by the Bank in the real sector would partly ameliorate these downside risks, while sound fiscal policy is expected to drive growth in the medium to long-run.

On price developments, the MPC was pleased with the moderation in headline inflation rate (year-on-year) to 11.22 per cent in June from 11.40 per cent in May 2019. This was attributed to the decline in both the Food and Core components to 13.56 and 8.80 per cent in June, from 13.70 and 9.03 per cent in May 2019, respectively. The Committee partly attributed this favourable outcome to the CBN's support to the real sector, particularly agricultural production, as well as the prevailing stability in the Nigerian foreign exchange market.

Developments in the financial market and financial stability indicators also received the attention of the MPC. In the financial market, the MPC was concerned about bearish trend in the equities segment of the capital market in spite of the sustained capital inflow into the economy, reflecting continued portfolio reallocation from equities to fixed income securities. As a result, the All-Share Index (ASI) declined by 9.11 per cent to 28,566.79 index points on July 12, 2019, from 31,430.50 index points at end-December 2018. Market Capitalization, however, grew by 18.77 per cent to N13.92 trillion from N11.72 trillion over the same period, due largely to the additional listing of new firms.

The Committee welcomed the continued stability in the foreign exchange market and the steady accretion to external reserves, which stood at US$44.88 billion as at July 19, 2019, representing a 0.38 per cent increase from US$44.71 billion at end-June 2019. In addition, the MPC noted the steady moderation in the Non-Performing Loan (NPL) ratio of the banking industry to 9.36 per cent in June from 10.95 per cent in May 2019.

The Committee's considerations centered on the need to stabilize the domestic macro-environment, while addressing emerging developments in the African region. Accordingly, the MPC emphasized the need to boost output growth through sustained increase in consumer and mortgage lending as well as loans to Small and Medium-scale Enterprises. In this regard, it observed the Bank's prescription of new benchmark for loan-to-deposit ratio in order to redirect the focus of deposit money banks (DMBs) to lending. The MPC further noted that although inflation moderated in June 2019, the pressure on prices continued to be associated with structural factors including the high cost of electricity, transport, and production inputs.

On the fiscal challenges, the Committee urged the fiscal authorities to expedite action to improve government revenue by expanding the economy's tax base to stem the growth in public borrowing. The Committee also called on the Bank to intensify efforts to encourage Nigerians in the diaspora to use official channels for home remittances, as this will complement other measures to improve Nigeria's current account balance.

On the African Continental Free Trade Agreement (AfCFTA), which the country recently signed, the Committee urged the Federal Government to put in place necessary measures aimed at realizing its full benefit and potentials for the economy. In particular, the MPC noted the need to resuscitate moribund industries in Nigeria and improve key infrastructure to strengthen the productive base of the economy, create job opportunities and boost exports. Relatedly, the Committee welcomed the positive developments towards the creation of a common currency in the West African sub-region by January 2020 and commended the Federal Government and the Central Bank of Nigeria for pushing forward the initiative.

The policy options for the MPC at this meeting were to tighten, loosen or hold policy. In this regard, the Committee was mindful of the emerging reality from its assessment that whilst the focus on growth was imperative, the mandate of price stability remains sacrosanct. The MPC believes that considering the developments in the external sector and the fact that inflation was moderating, tightening of monetary policy may not be an option as it could restrict DMBs' capacity to create money and credit to support the slowly recovering economy. On the other hand, the Committee believes that whilst loosening could increase money supply, stimulate aggregate demand and strengthen domestic production, the economy could be awash with liquidity especially if loosening drives growth in consumer credit without commensurate increase in aggregate output. The argument to hold was partly anchored on the recent actions of the Bank's management involving the prescription of minimum threshold of loan-to-deposit ratio for Deposit Money Banks (DMBs). The MPC was of the view that this action, targeted at stimulating credit growth to the real sector and accelerate investment, needs to be supported and sustained.

Based on the foregoing, the MPC decided by a vote of all eleven (11) members to keep the policy parameters unchanged. Thus, the MPC retained the MPR at 13.5 per cent; the asymmetric corridor of +200/-500 basis points around the MPR; the CRR at 22.5 per cent; and the Liquidity Ratio at 30 per cent.

4.1.2 September 2019 MPC Meeting

At the 19th and 20th September, 2019 MPC meeting, developments in the global and domestic economic environments were analyzed in the light of softening global output growth and weaker-than-anticipated domestic output recovery. On the global front, the Committee observed a buildup of vulnerabilities in major Advanced

Economies and the potential for spill-overs to the Emerging Markets and Developing Economies (EMDEs). Accordingly, the MPC noted that output growth across major advanced economies remained subdued, owing to legacy headwinds, including the subsisting trade war between the US and China, regional hostilities in the Middle-East, rising public debt levels, growing uncertainties around BREXIT and increasing political tensions between the US and Iran. In the EMDEs, output growth was broadly mixed. As a result, the International Monetary Fund (IMF) further revised its global growth forecast for 2019 downwards by 0.1 percentage point to 3.2 per cent. Price developments continued to soften across the major advanced and emerging market economies as aggregate demand weakened, resulting in a unified response by major central banks towards accommodative monetary policy.

On the domestic economy, data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 1.94 per cent in the second quarter of 2019, compared with 2.10 and 1.50 per cent in the preceding and corresponding quarters, respectively. The growth was driven mainly by the oil sector, which grew by 5.15 per cent, while the non-oil sector grew by 1.64 per cent. In September 2019, the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI) grew moderately to 57.7 and 58.0 index points, respectively. Overall, the MPC noted that the weak domestic growth was consistent with global trends of dampening output growth.

On price developments, the MPC noted the continued moderation in headline inflation (year-on-year) to 11.02 per cent in August 2019 from 11.08 per cent in July 2019, driven by decline in the food and core components to 13.17 and 8.68 per cent in August from 13.39 and 8.80 per cent in July 2019, respectively. The Committee observed that developments in the food and core components of inflation was partly due to improved agricultural production, supported by the Bank's sustained intervention in the sector as well as the continued stability in the foreign exchange market. The Committee, however, noted that rising insecurity in the food producing areas of the country, increased liquidity injection from FAAC disbursements and bunching of capital releases due to the late budget cycle were putting upward pressure on prices.

In the financial market, the MPC observed the continued bearish trend in the equities segment, while noting the increased activity in the sovereign bonds segment, reflecting investor preference for fixed income securities. Consequently, the All-Share Index (ASI) declined by 11.62 per cent to 27,779.00 index points on September 13, 2019, from 31,430.50 index points at end-December 2018. Market Capitalization (MC), however, grew by 15.37 per cent to N13.62 trillion from N11.72 trillion over the same period. The increase in market capitalisation was attributed to the listing of 2.75 billion ordinary shares by Airtel Africa in July 2019.

The Committee observed that broad money supply (M3) growth annualized to 8.48 per cent, but remained below the 2019 indicative benchmark of 16.08 per cent. The development was largely driven by the 24.36 per cent increase in Net Domestic Credit (NDC) by August 2019 from the level at end-December 2018. Further analysis showed that the growth in NDC stemmed from the significant increase of 94.33 per cent in credit to Government against 9.36 per cent increase in private sector credit. With this pattern of growth in monetary aggregates, the Committee urged the Management of the Bank to explore new initiatives to improve lending to the private sector, while urging Government to seek alternative funding options outside the banking sector.

In its considerations, the Committee noted the delay in implementation of the 2019 budget as partly responsible for the decline in output growth in the second quarter of 2019, although the growth was an improvement over that of the corresponding quarter of 2018. The MPC urged the Bank to sustain its intervention in the real sector of the economy to reduce the output gap and enable a moderation in price development.

On financial system stability, the Committee noted the improvements in the financial soundness indicators and urged the Bank to sustain its regulatory surveillance. On this note, it applauded the recent directives to deposit money banks to increase their Loan-to-Deposit Ratio (LDR), while underscoring the need to grow consumer, mortgage and corporate credit to reduce unemployment, drive aggregate demand and increase output growth. The MPC also commended the introduction of the Global Standing Instruction (GSI) initiative aimed at de-risking credit in the industry by committing bank customers to repay their loans.

The MPC further emphasized the critical need for urgent steps towards creation of more jobs in the country to reduce unemployment and insecurity. As an interim solution, the Committee called on Government at all levels to ratchet up public works programmes aimed at easing the threat of rising unemployment in the country. The MPC also noted the Government's current drive to increase Value Added Tax (VAT), adding that this will improve fiscal revenue, support Government expenditure and reduce the budget deficit. With projections from the oil futures market indicating that oil prices will remain tight around the budget oil price benchmark, the MPC urged the National Assembly to exercise restraint from increasing the oil price budget benchmark to avoid budgetary overruns at the implementation stage of the budget. The Committee further called on the Government to urgently build fiscal buffers by purposefully freeing-up redundant public assets through an efficient, effective and transparent privatization process.

In reaching its decision, the Committee assessed the options to tighten, loosen or hold. The MPC felt the imperative to tighten given that inflation at 11.02 per cent in August remained above the Bank's target range of 6-9 per cent and the relatively weak crude oil price had slowed accretion to reserves considerably. On the contrary, the Committee was of the view that with a fragile growth outlook, tightening would increase the cost of credit, contract investment and constrain output growth. The Committee felt that loosening will increase system liquidity and heighten inflationary pressures in the economy. On the option to hold, the MPC felt that this would allow a clear understanding of the volume and timing of liquidity injections into the economy, before deciding on possible adjustments to the stance of monetary policy. The Committee was also of the opinion that retaining the current position of policy offers a pathway to appraising the impact of the Bank's suit of heterodox monetary policies to encourage credit flow to the real sector, especially in the light of the subsisting implementation of the Loan-to-Deposit Ratio policy.

Consequently, the MPC decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 13.5 per cent and to hold all other policy parameters constant. Thus, the Committee voted to retain the MPR at 13.5 per cent; the asymmetric corridor of +200/-500 basis points around the MPR; the CRR at 22.5 per cent; and the Liquidity Ratio at 30.0 per cent.

4.1.3 November 2019 MPC Meeting

The MPC meeting of 25th and 26th November 2019 appraised developments in both the global and domestic economies as well as the outlook for the rest of 2019 and the first quarter of 2020. On the global front, output growth remained weak due to the impact of a number of factors which included: the trade war between the US and China; growing vulnerabilities in the financial markets; downturn in global manufacturing; slowdown in energy demand in China; sustained downward pressure on oil prices; and uncertainty around BREXIT. These headwinds resulted in slowing global trade, weakening aggregate demand and contraction in the aggregate supply chain. In the light of these developments, the IMF in October further revised global growth forecast for 2019 downwards to 3.0 per cent from its previous projection of 3.2 per cent in July 2019.

In the Advanced economies, inflation remained subdued and well below their long-run objectives with unemployment trending mostly below the Non-Accelerating Inflation Rate of Unemployment (NAIRU). As such, the recent trend towards monetary accommodation by key central banks is expected to continue into the foreseeable future. In major EMDEs, however, prices trended upwards with output gaps widening and unemployment remaining relatively high.

On the domestic front, data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 2.28 per cent in the third quarter of 2019, compared with 2.12 in the preceding quarter and 1.81 per cent in the corresponding quarter of 2018. The improved growth was driven largely by the performance of the oil sector, which grew by 6.49 per cent, while the non-oil sector grew by 1.85 per cent. The Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI) also expanded in October 2019. Headwinds to the growth outlook included: continued high level of unemployment, mild resurgence of inflationary pressures towards the December festive season, rising public debt, high level of insecurity, and slow pace of oil price recovery. Despite these headwinds, growth is expected to pick-up on the back of recent actions to boost credit to the private sector through the Loan-to-Deposit Ratio (LDR) and Global Standing Instruction (GSI) initiatives, sustained interventions by the Bank in selected employment and growth-enhancing sectors, as well as fiscal policy measures to support growth.

On price developments, the MPC noted the uptick in headline inflation (year-on-year) from 11.24 in September to 11.61 per cent in October 2019. The seasonal end-of-year uptick in price levels was accentuated by the border closure, but expected to ease off in the medium-to-long term as the economy increases investment in food production. Consequently, food inflation rose from 13.51 to 14.09 per cent in September and October 2019, respectively. Core inflation, however, declined marginally from 8.94 to 8.88 per cent in September and October 2019, respectively.

In the financial markets, the MPC noted that the persisting bearish trend in the equities market began to abate in November 2019. Consequently, the All-Share Index (ASI) grew by 2.41 per cent to 26,991.42 index points on November 22, 2019, from 26,355.35 index points at end-October 2019. Market Capitalization (MC) also grew by 1.54 per cent to N13.03 trillion from N12.83 trillion over the same period, due largely to portfolio shift from short-term Government securities to equities. The Committee also noted the increased patronage in the sovereign bonds market in response to recent policy measures.

The Committee equally noted the improved resilience of the banking system, as the Non-Performing Loan (NPL) ratio declined further to 6.56 per cent at end-October 2019 from 6.67 per cent at end-September 2019. It, however, noted that this figure remained above the prudential benchmark of 5.0 per cent, and thus urged the Bank to sustain its current prudential regime.

In its consideration, the MPC assessed the impact of the Bank's monetary policy measures in achieving macroeconomic and financial system stability. The Committee noted the success of home-grown heterodox policies such as the use of the GSI to address the activities of serial borrowers in the banking system; the LDR to improve credit delivery to the real sector by DMBs; the Differentiated Cash Reserve Requirement (DCRR) to boost investment in the economy; Development Finance Initiatives in agriculture, micro, small and medium-scale enterprises (MSMEs) and other real sector activities; as well as the restriction of local corporate and individual investors from CBN OMO auctions.

The MPC also took into consideration the improvements in output growth in the third quarter of 2019, noting that the current direction of the Purchasing Managers Index suggests stronger growth in the fourth quarter. It, however, re-emphasized the need for diversification to strengthen the productive base of the economy and reduce dependence on oil. As a key pillar of economic diversification, the MPC directed the attention of the fiscal authorities to the immense potentials of the gas sub-sector and the urgency to encourage horizontal integration through private sector participation. This, the Committee argued will improve domestic power supply and export earnings. The Committee, called on Government to urge the Pensions Commission to improve the prudential requirements for Pension Fund Administrators to refocus their investment portfolios away from Government securities to other viable long-term investments in real estate, manufacturing, agriculture and infrastructure. The Committee was mindful of the prevailing inflationary pressure from uptick in food prices resulting from the recent land border closure which constricts food supply, coupled with seasonal rise in demand. The MPC noted that the upward price movement arising from the land border closure was reactionary and temporary. Moreover, significant investments and interventions had been made over the last three years to sustainably increase domestic food supply.

On the fiscal sector, the Committee identified the need for institutional reforms through policies that would automate day-to-day processes of key revenue-generating and security agencies such as the Nigerian Customs. In reaching its decision, the MPC reviewed the upsides and the downsides of the options to tighten, loosen or hold. It was conscious that, while tightening may encourage capital inflows, it could constrain output growth. The Committee also noted that a reduction in the policy rate will improve growth prospects, but will also put upward pressure on inflation. The argument to hold was anchored on the positive outcome of actions already taken by the Bank, especially the current policy on loan-to-deposit ratio, which has resulted in aggregate loans and advances rising by over N1.1trillion between June and October 2019. These outcomes need to be supported and sustained as they have assisted in boosting credit to the agricultural and manufacturing sectors.

Consequently, the MPC decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 13.5 per cent and to hold all other policy parameters constant. In summary, the Committee retained the MPR at 13.5 per cent, asymmetric corridor of +200/-500 basis points around the MPR, CRR at 22.5 per cent and Liquidity Ratio at 30.0 per cent.

4.2.0 Instruments of Liquidity Management

To achieve its objectives of price and monetary stability, the Bank continued to deploy its policy instruments in the review period. These instruments were: the Monetary Policy Rate (MPR); the Standing Facilities window; the Cash Reserve Ratio (CRR); Liquidity Ratio; and Open Market Operations (OMO). It also intervened periodically in the foreign exchange market to complement these instruments.

4.2.1 Monetary Policy Rate (MPR)

The MPR remained the key instrument for monetary policy management in the review period. It was maintained at 13.5 per cent along with, the asymmetric corridor of +200 and -500 basis points around the MPR throughout the period. The retention signalled the Bank's commitment to sustain it existing policies to support the macroeconomic stability so far achieved.

4.2.2 Open Market Operations (OMO)

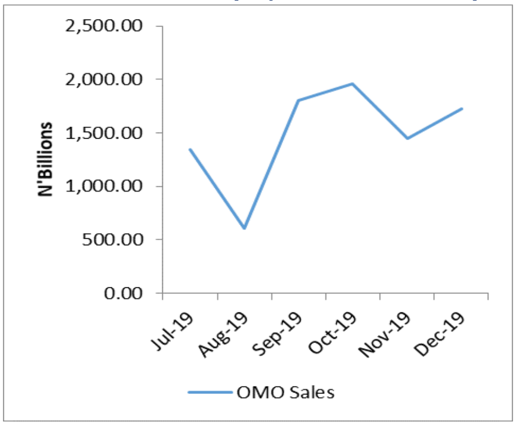
The primary tool for liquidity management in the review period remained the Open Market Operations (OMO). There was, however, a decrease in OMO sales by 24.79 per cent to ₦8,895.99 billion in the second half of 2019 from ₦11,827.64 billion in the preceding half of 2019 (Table 4.1). The development also represented a decrease of 30.0 per cent compared with the auction of ₦12,709.91 billion in the corresponding period of 2018.

Table 4.1
OMO Bills Auction (January – December, 2019)
(₦'billion)

Date	2018	2019	% Change
Jan	2,132.61	3,070.42	44%
Feb	845.28	3,474.13	311%
Mar	1,561.38	2,158.57	38%
Apr	2,084.46	841.21	-60%
May	2,033.42	1,152.67	-43%
Jun	1,086.61	1,130.64	4%
1st Half	**9,743.76**	**11,827.64**	21%
Jul	1,669.13	1,348.83	-19%
Aug	1,529.93	608.11	-60%
Sep	1,651.51	1,801.03	9%
Oct	1,743.64	1,962.21	13%
Nov	3,020.28	1,446.31	-52%
Dec	3,095.42	1,729.50	-44%
2nd Half	**12,709.91**	**8,895.99**	-30%
Cumulative Figure	**22,453.67**	**20,723.63**	-8%

Source: CBN

Figure 4.1
OMO Bills Auction (July – December, 2019)



Source: CBN

4.2.3 Reserve Requirements

In the second half of 2019, the Bank sustained the use of the Cash Reserve Ratio (CRR) and the Liquidity Ratio (LR) as macro-prudential and liquidity management tools to complement the MPR and OMO auctions. The CRR was maintained at 22.5 per cent and the Liquidity Ratio at 30.0 per cent to curb the persistent liquidity surfeit in the banking system.

4.2.4 Standing Facilities

In the second half of 2019, the Bank continued to deploy the standing facilities (lending/deposit) window to meet the daily liquidity requirements of the Deposit Money Banks. During the period, the asymmetric corridor remained unchanged at +200/-500 basis points around the MPR.

The value of request for Standing Lending Facility (SLF), decreased by 37.83 per cent to ₦7,548.37 billion in the second half of 2019 from ₦12,141.26 billion in the first half of 2019. This, however, represented an increase of 62.15 per cent compared with ₦4,655.06 billion in the corresponding period of 2018 (Table 4.2).

At the Standing Deposit Facility (SDF) window, the volume of deposits decreased by 49.52 per cent to ₦4,072.20 billion in the second half of 2019 from ₦8,067.22 billion in the first half of 2019. Compared with ₦10,194.71 billion in the corresponding period of

2018, it also decreased by 60.06 per cent (Table 4.3).

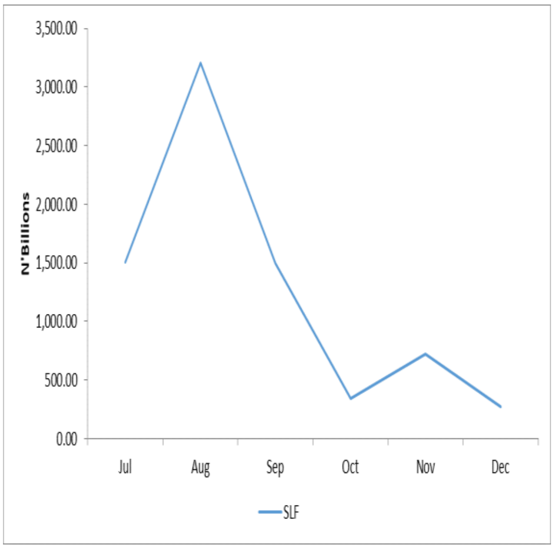
Transactions at the two windows resulted in a lower net lending of ₦3,476.17 billion in the second half of 2019 compared with the net lending of ₦4,074.04 billion in the preceding half year, in contrast to the net deposit of ₦5,539.65 billion in the corresponding half year.

Table 4.2
CBN Standing Lending Facility (January 2018 – December 2019) (N'billion)

Date	2018	2019	% Change
Jan	833.09	3,232.63	
Feb	1,020.15	3,328.80	
Mar	952.23	1,955.75	
Apr	1,145.52	2,011.93	
May	1,847.69	896.82	
Jun	1,228.78	715.33	
1st Half	**7,027.46**	**12,141.26**	**72.77%**
Jul	441.10	1,508.97	
Aug	53.04	3,201.93	
Sep	483.40	1,497.88	
Oct	864.80	343.57	
Nov	684.70	720.58	
Dec	2,128.02	275.44	
2nd Half	**4,655.06**	**7,548.37**	**62.15%**
Total	**11,682.52**		

Source: CBN

Figure 4.2
Standing Lending Facility (July – December 2019)



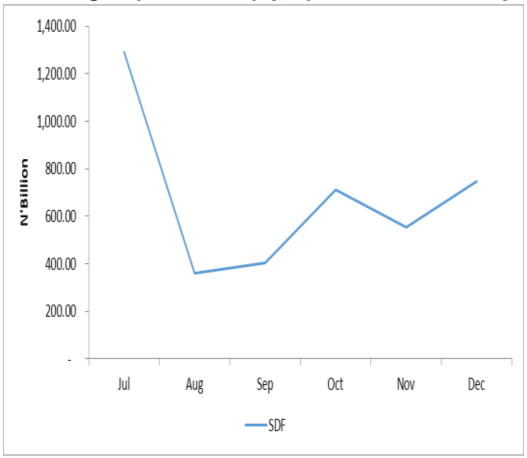
Source: CBN

Table 4.3
CBN Standing Deposit Facility (January 2018 – December 2019) (N'billion)

Date	2018	2019	% Change
Jan	1,919.78	976.66	
Feb	1,144.10	704.41	
Mar	1,508.75	1,402.26	
Apr	2,952.20	1,056.76	
May	1,527.04	2,178.21	
Jun	1,632.51	1,748.92	
1st Half	**10,684.38**	**8,067.22**	**-24.50%**
Jul	1,643.71	1,291.45	
Aug	2,073.10	361.43	
Sep	2,070.85	405.56	
Oct	1,345.34	710.75	
Nov	2,267.19	555.34	
Dec	794.52	747.67	
2nd Half	**10,194.71**	**4,072.20**	**-60.06%**
Total	**20,879.09**	**12,139.42**	

Source: CBN

Figure 4.3
Standing Deposit Facility (July - December 2019)



Source: CBN

4.2.5 Foreign Exchange Intervention

In the review period, the Bank sustained its interventions in the foreign exchange market under the flexible foreign exchange management policy, leading to stability in both the Bureau-de-Change (BDC) and the Investors' and Exporters' (I&E) window. Additional foreign exchange measures were implemented to strategically support the signing-on of Nigeria to AfCFTA and the progress towards a single currency in the West African sub-region. In this regard, the Bank participated in several initiatives to improve trade facilitation, and automated the Nigerian Export Proceeds Form (Form 'NXP') for trade monitoring of commercial exports. Other existing measures by the Bank included the sustained use of the Investors' & Exporters' window, restriction of access to foreign exchange for 43 items, the use of Bank Verification Number (BVN) in BDC transactions, and sale of foreign exchange to BDCs by the Bank and International Money Transfer Operators (IMTOs). The Bank also sustained the repatriation of export proceeds as well as return of unutilized foreign exchange sourced from foreign exchange auctions to the CBN. Accordingly, relative stability was maintained in the foreign exchange market in the review period.

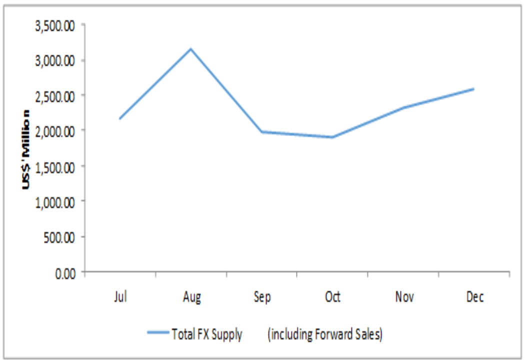
Total supply of foreign exchange increased by 68.25 per cent to US$14,113.31 million in the second half of 2019 from US$8,388.50 million in the first half of 2019. The development, however, represented a decrease of 32.43 per cent compared with US$20,887.20 million in the corresponding period of 2018 (Table 4.4). The increase in the supply of foreign exchange was largely due to the increased intervention in the review period. The softening of monetary policy stance in advanced economies in the second half of 2019 resulted in portfolio adjustments from equities to bonds. The associated decline in long-term yields in the advanced economies induced capital flows towards Emerging Markets and Developing Economies (EMDE) including Nigeria. These flows moderated the impact of declining oil prices on accretion to reserves in the second half of 2019.

Table 4.4
Foreign Exchange Supply by the CBN (US$ Million)

Date	2018	2019	% Change
	Total FX Supply (including Forward Sales)	Total FX Supply (including Forward Sales)	
Jan	1,343.12	1,480.92	
Feb	1,237.26	1,932.96	
Mar	1,300.93	1,159.78	
Apr	1,422.35	1,244.32	
May	2,039.51	1,455.05	
Jun	2,156.75	1,115.47	
1st Half	**9,499.92**	**8,388.50**	**-11.70 %**
Jul	2,966.31	2,160.21	
Aug	3,733.66	3,160.16	
Sep	3,868.67	1,985.79	
Oct	3,481.15	1,908.88	
Nov	3,617.03	2,317.46	
Dec	3,220.38	2,580.81	
2nd Half	**20,887.20**	**14,113.31**	

Source: CBN

Figure 4.4
Total FX Supply (including Forward Sales) (Jan - June, 2019)



Source: CBN

4.3.0 Developments in Monetary Aggregates

The major monetary aggregates generally underperformed relative to their benchmarks in the review period. The broad measures of money supply (M3) and (M2) growth rates were below their indicative benchmarks for 2019. The primary driver of the observed underperformance was the sharp contraction in Net Foreign Assets (NFA), which was moderated by the significant growth in Net Domestic Assets (NDA). The performance of NDA was largely driven by the growth of credit to government, as a result of expansionary fiscal operations in the face of revenue shortfalls. Sluggish crude oil prices in addition to profit taking and capital outflows contributed to the steady decline in NFA in the second half of 2019.

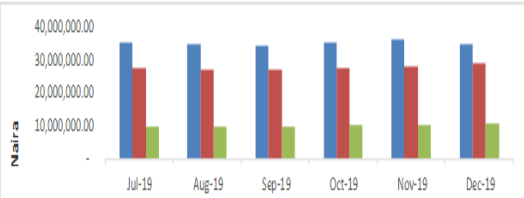
The underperformance of monetary aggregates is indicative of insufficient economic-wide liquidity to support the realization of Federal Government's output growth target, resulting in sluggish growth.

4.3.1 Broad Money (M3, M2)

The two broad measures of money supply (M3) and (M2) were below their indicative benchmarks for 2019. M3 grew by 2.10 per cent to ₦34,752.62 billion at end-December 2019 from ₦34,036.80 billion at end-June 2019. Compared with the end-December 2018 level of ₦32,717.20 billion, it increased by 6.22 per cent, which is below the 2019 indicative growth target of 16.08 per cent.

Similarly, M2 grew by 6.38 per cent to ₦28,759.33 billion at end-December 2019 from ₦27,034.54 billion at end-June 2019. Compared with the end-December 2018 level of ₦26,433.00 billion, it increased by 8.80 per cent, which is below the 2019 indicative growth target of 13.11 per cent.
The sluggish growth in the broad monetary aggregates below their target growth rates in the second half of 2019, is consistent with the pattern observed in the first half of 2019. The persistent under-performance clearly re-affirms the indication of insufficient money stock to support economic activities needed to achieve the non-inflationary growth objective of government, notwithstanding the liquidity surfeit in the banking system. This pattern of growth in broad monetary aggregates is indicative of weak growth in credit to support output growth.

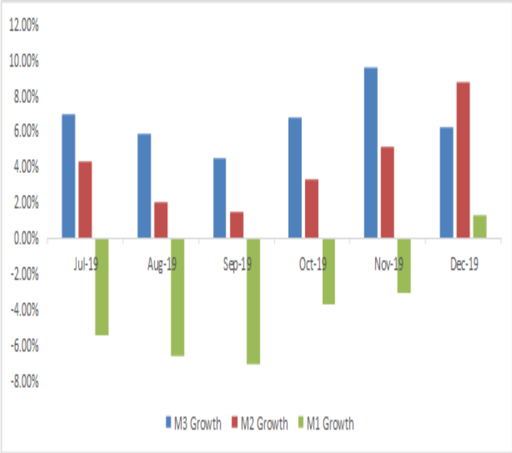
Figure 4.5
Money Supply (M1), (M2) and (M3) (July - December, 2019)



	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
M3	34,984,143.99	34,621,948.45	34,194,489.34	34,944,206.11	35,865,036.33	34,752,619.63
M2	27,581,865.29	26,970,272.41	26,826,271.07	27,310,285.55	27,795,145.10	28,759,337.33
M1	9,831,536.47	9,703,862.35	9,663,764.92	10,009,442.14	10,081,348.89	10,530,321.33

Source: CBN

Figure 4.6
Growth in Money Supply (M1), (M2) and (M3) (July – December, 2019)



Source: CBN

4.3.3 Narrow Money (M1)

Narrow Money (M1) grew by 10.82 per cent to ₦10,530.32 billion at end-December 2019 from ₦9,502.16 billion at end-June 2019. Compared with the end-December 2018 level of ₦10,397.70 billion, it grew by 1.28 per cent, which is below the indicative growth target of 17.20 per cent for 2019 (Figures 4.5 and 4.6). The performance of M1 is driven by growth in both Currency-in-Circulation (4.86 per cent) and Demand Deposits (28.38 per cent).

The trend is indicative of a slowdown in economic activities as well as increased use of e-payment channels. The volume of e-payment transactions increased by 4,408.1 per cent from 2,082.6 million at end-December 2018 to 93,885.1 million at end-December 2019. In terms of value, e-payment transactions increased by 342.3 per cent from N138,672.23 billion to

N613,401.95 billion over the same period.

4.3.4 Net Foreign Assets (NFA)

Net Foreign Assets (NFA) contracted by 41.62 per cent to ₦5,806.32 billion at end-December 2019 from ₦9,946.58 billion at end-June 2019. Compared with the end-December 2018 figure of ₦11,841.70 billion, it also contracted 50.97 per cent, significantly below the 2019 indicative growth target of 18.32 per cent. The under-performance of NFA in the review period was attributed to the huge decline of 163.17 per cent in net foreign assets held by commercial banks, and also the decline of 51.46, 15.57 and 10.71 per cent in the net foreign assets held by merchant banks, the monetary authorities and the non-interest banks, respectively.

The poor performance of NFA relative to its growth target can be attributed to the steady decline in foreign reserves in the second half of 2019. The decline is as a result of the slowdown in accretion to foreign reserves in the wake of declining oil prices leading to a build-up of pressure on the exchange rate. The need to diversify the Nigerian economy can no longer be over-emphasized.

4.3.5 Net Domestic Assets (NDA)

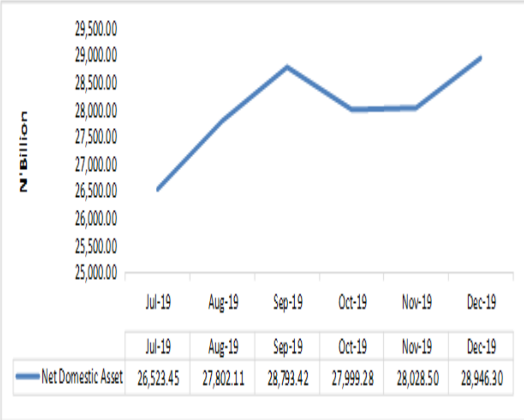
Net Domestic Assets (NDA) increased by 20.16 per cent to ₦28,946.30 billion at end-December 2019 from ₦24,090.22 billion at end-June 2019. Compared with the end-December 2018 figure of ₦20,875.51 billion, NDA grew by 38.66 per cent, significantly above the 2019 indicative growth target of 13.34 per cent.

Net Domestic Credit (NDC) increased by 12.93 per cent to ₦36,182.59 billion at end-December 2019 from ₦32,038.49 billion at end-June 2019. Compared with the end-December 2018 figure of ₦28,416.54 billion, NDC grew by 27.33 per cent, which is close to the 2019 indicative growth target of 29.41 per cent. The difference between the NDA and NDC is accounted for by the growth in 'net other liabilities'.

The revenue shortfalls as result of the drop in oil prices in the second half of 2019 and increased expenditure due to payments of outstanding contractor obligations were the major reasons for the huge increase in credit to government. Credit to the two tiers of government accounted for approximately 56 per cent of the increase in Net Domestic Credit. As was the case in the first half of 2019, the increased growth rate of NDA vis-à-vis its target in the second half of 2019 was primarily attributed to credit to the two main tiers of government.

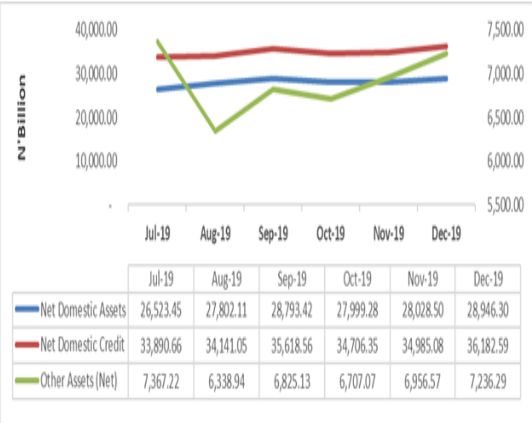
Credit to the private sector, however, improved considerably, accounting for approximately 44 per cent of the growth in NDC in the review period. This reflects the impact of the Bank's new policy on loan-to-deposit ratio introduced in July 2019.

Figure 4.7
Net Domestic Asset (NDA) (July – December, 2019)



Source: CBN

Figure 4.8
NDA, NDC and Other Assets (Net) (July – December, 2019)



Source: CBN

4.3.6 Credit to the Government (Cg)

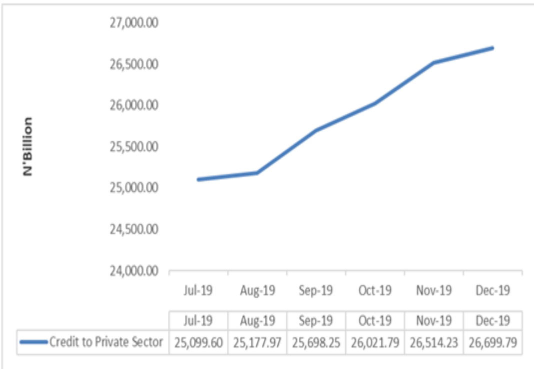
Credit to Government (Cg) in the second half of 2019 grew by 23.95 per cent to ₦9,482.79 billion at end-December 2019 from ₦7,650.62 billion at end-June 2019. Compared with the end-December 2018 figure of ₦4,914.71 billion, it grew by 92.95 per cent, significantly above the 2019 indicative growth target of 58.78 per cent. The significant rise in Cg is attributed to shortfalls in revenue and the need to fund the growing budget deficit of the Federal Government.

4.4.4 Credit to the Private Sector (Cp)

Credit to the private sector (Cp) in the review period, increased by 9.48 per cent to ₦26,699.79 billion at end-December 2019 from ₦24,387.86 billion at end-June 2019. Compared with the end-December 2018 figure of ₦23,501.83 billion, it grew by 13.61 per cent, which is slightly below the 2019 indicative growth target of 14.49 per cent.

Although both Cg and Cp grew, the huge increase in Cg above the benchmark in the review period indicated that government borrowing was still crowding out private sector credit. However, the CBN's initiatives and intervention programmes to improve credit to the real sector moderated the crowding out effect of Government borrowing.

Figure 4.9
Domestic Credit to Private Sector (July – December, 2020)



Source: CBN

4.4.5 Reserve Money (RM)

Reserve Money (RM) increased by 20.63 per cent to ₦8,669.83 billion at end-December 2019 from ₦7,187.18 billion at end-June 2019. Compared with its end-December 2018 level of ₦7,180.01 billion, it grew by 20.75 per cent, significantly below the 2019 indicative growth target of 56.74 per cent. The underperformance of RM was attributed to an increase in short-term foreign liabilities. While bank deposits increased by 28.38 per cent to N6,226.84 billion from N4,850.31 billion, the moderate growth of RM in the review period was due to the slow year-on-year increase in currency-in-circulation of 4.86 per cent from N2,329.71 billion to N2,442.99 billion.

A summary of the major monetary aggregates and their provisional outcomes as at end-December 2019 is presented in Tables 4.5 and4.6.

Table 4.5
The Monetary Aggregates Outcomes (Growth in % except otherwise stated)

Variables	Actual H2 2018	Actual H1 2019	Actual H2 2019	Benchmark 2019	H2:2019 Deviation from Benchmark	Change in H2, 2019 over H1, 2019
M3 (N'b)	32,717.21	34,036.80	34,752.62	38,796.93	-4,044.31	715.82
M3 (%)	16.36%	4.03%	2.10%	16.08%	-13.98%	-1.93%
M2 (N'b)	26,433.00	27,034.54	28,759.34	30,627.91	-1,868.57	1,724.80
M2 (%)	12.13%	2.28%	6.38%	13.11%	-6.73%	4.10%
M1 (N'b)	10,397.70	9,502.16	10,530.32	13,772.38	-3,242.06	1,028.16
M1 (%)	-4.25%	-8.61%	10.82%	17.20%	-6.38%	19.43%
RM (N'b)	7,180.01	7,187.18	8,669.83	9,166.04	-496.21	1,482.65
RM (%)	-1.91%	0.10%	20.63%	56.74%	-36.11%	20.53%
NDC (N'b)	28,416.54	32,038.49	36,182.59	33,747.18	2,435.41	4,144.10
NDC (%)	-3.25%	12.75%	12.93%	22.30%	-9.36%	0.19%
Cg (N'b)	4,914.71	7,650.62	9,482.79	7,728.53	1,754.26	1,832.17
Cg (%)	-22.92%	55.67%	23.95%	58.78%	-34.83%	-31.72%
Cp (N'b)	23,501.83	24,387.86	26,699.79	26,018.65	681.14	2,311.93
Cp (%)	-0.04%	3.77%	9.48%	14.49%	-5.01%	5.71%
NFA (N'b)	11,841.70	9,946.58	5,806.32	21,768.11	-15,961.79	-4,140.26
NFA (%)	18.15%	-16.00%	-41.62%	18.32%	-59.94%	-25.62%
NDA (N'b)	20,875.51	24,090.22	28,946.30	17,028.82	11,917.48	4,856.08
NDA (%)	-16.29	15.40%	20.16%	13.34%	6.81%	4.76%

Source: CBN

Table 4.6:
The Performance of Monetary Aggregates and their Implications

S/N	Monetary Aggregates	Performance	Implication
1	Overall Monetary Aggregates	Underperformed	The underperformance of monetary aggregates is indicative of insufficient economic-wide liquidity to support the realization of Government growth target, resulting in sluggish growth.
2	Broad Money (M3, M2)	Moderate and below target	The persistent under-performance clearly indicates insufficient money stock to support economic activities needed to achieve the non-inflationary growth objective of government notwithstanding the liquidity surfeit in the banking system.
3	Narrow Money (M1)	Moderate and below target	The trend is indicative of a slowdown in economic activities as well as increased use of e-payment channels.
4	Net Foreign Assets (NFA)	Significantly below target	The persistent weak NFA growth and the associated reserves depletion could lead to pressure on the naira and exacerbate current inflationary uptick.
5	Net Domestic Assets (NDA)	Above target	Largely driven by credit to government. Revenue shortfalls as result of the drop in oil prices in the second half of 2019 and increased expenditure due to payments of outstanding contractor obligations were the major reasons for the huge increase in credit to government.
6	Credit to the Govt (Cg)	Overperformed	The significant rise in Cg is attributed to shortfalls in revenue and the need to fund the growing budget deficit of the Federal Government.
7	Credit to the Private Sector (Cp)	Slightly underperformed	Although both Cg and Cp grew, the huge increase in Cg above the benchmark in the review period indicated that government borrowing was still crowding out private sector credit. However, the CBN's initiatives and intervention programmes to improve credit to the real sector moderated the crowding out effect of Government borrowing.

Source: CBN

BOX 2

IMPLICATIONS OF OMO RESTRICTIONS FOR MONETARY POLICY IN NIGERIA

Traditionally, Central Banks across the globe use Open Market Operations (OMO) as an instrument for liquidity management. A central bank can either use its OMO to increase system liquidity by buying OMO bills/short-tenored treasury securities from the banking system or reduce system liquidity by selling OMO bills/short-tenored treasury securities. These instruments are thus traded in a primary market organized by the central bank and beneficiaries are expected to hold them on their books to maturity to enable the central bank achieve its liquidity management objective. In other words, OMO securities by original design, are not tradeable in the secondary market.

At the Central Bank of Nigeria, OMO auctions have always been deployed as a liquidity management instrument. It, however, gained increased popularity when the Bank decided to allow Deposit Money Banks (DMBs) the privilege of discounting their OMO-bills in a secondary market to accommodate capital inflows from portfolio investors due to the shortage of viable securities in the Nigerian money market. In the light of this development, the secondary OMO market gained huge popularity not only with foreign portfolio investors but also with domestic Corporate and Individual investors who were also in search of short-term, low risk, highly liquid and viable securities to invest in.

Over time however, government treasury bills (T-Bills), a money market instrument with similar and often indistinguishable features from the OMO bills, was forced to trade at per with the OMO bills or loose popularity. The ensuing competition thus propped up the price of T-Bills, forcing government to borrow at a much higher cost than it's resources could accommodate.

With the Monetary Policy Rate at 14 per cent, the Standing Facilities Corridor at +200/-500 and inflation above the ceiling of the CBN's 6-9 per cent tolerance range, portfolio investors in Nigeria were unwilling to accept any yield below the current rate of inflation in order to maintain a positive real rate of return on their investments. The fundamental problem was thus identified to be inflation, which was driving the rate of return in the money market upwards. The high return attracted by these money market instruments was however, driving an increase in money supply due to the high activities of domestic Corporates and Individuals while this was in turn pushing up the cost of liquidity management for the CBN.

To address the high cost of borrowing by government and redirect investment from the secondary OMO market to other markets, the CBN came up with a regulation to restrict domestic Corporates and Individuals from investing in the secondary OMO market.

Impact on Monetary Policy

Because OMO auctions are designed to perform a liquidity management function, the discounting of the bills in a secondary market is at cross purpose with the original liquidity management objective. The intention to discount to portfolio investors only, was however expected to be managed and controlled as this would have impacted only a limited proportion of the outstanding OMO bills portfolio. With domestic Corporates and Individuals playing actively in the market, however, OMO lost its liquidity management ability, leading to a sharp rise in the growth of money supply and subsequent rise in monetary induced inflationary pressure. In addition to this, government treasury bills also came under intense pressure to yield a near similar rate as OMO bills discounted, to remain competitive. The combined impact of this development was a broad rise in the cost of capital as rate of return on money market instruments was pushed upwards.

In the wake of this development, traditional monetary policy instruments such as the Monetary Policy Rate (MPR) and the Cash Reserve Ratio (CRR) lost considerable potency as money supply was growing much faster than could be curbed. To address this anomaly therefore, the CBN released a circular to Domestic Money Banks to restrict the sale of OMO bills to foreign portfolio investors only while other domestic money market investors were to trade in the government treasury bill market. This had the twin impact of sharply slowing the growth in money supply and increasing the demand for government T-Bills. The slowdown in the growth rate of money supply implied that the rate of monetary induced inflation would be curbed as outstanding OMO bills attain maturity. To augment this, the recent increase in CRR was also to take out a substantial amount of liquidity from the banking system thus also reducing the cost of liquidity management.

On the demand for government securities, the sharp rise in demand has led to a rapid drop in rates in the money market, thus forcing the short end of the yield curve to come down rapidly. The current situation however, is that domestic money investors are now receiving a negative real return as inflation has remained well above the ceiling of the CBN's inflation band. Over time, however, as investors reallocate their investments across other markets such as the equity market, the government bond market and the real estate market, returns in the money market for government T-Bills is expected to trend upwards while inflation trends progressively downwards until equilibrium is achieved.

This adjustment mechanism may take some time but will eventually happen as investors seek a positive real return.

BOX 3

THE LOAN-TO-DEPOSIT RATIO AND MONETARY POLICY IN NIGERIA

The Credit market plays a significant role in the growth of an economy. Credit stimulates consumption, production and distribution activities, and therefore drives economic growth. There is generally a utility maximization constraint when economic agents – households, firms and government – rely only on their savings. Access to credit enables these agents to maximize their consumption/production possibility frontiers. Credit leads to increase in spending, thus increasing income levels which in turn leads to higher gross domestic product growth. Deposit money banks (DMBs), as financial intermediaries, are central in the provision of credit to facilitate the economic activity of households, firms and government. In their intermediation between surplus and deficit spending units, DMBs mobilize deposits from households, firms and government and channel them towards durable consumption spending and business investment in the form of loans. Thus, the transformation of liabilities into assets is the key function of DMBs. The role of monetary policy is to facilitate this liabilities-to-assets transformation as access to finance by consumers and producers is key to socio-economic growth.

The Central Bank of Nigeria, through its monetary policy pronouncements, has always encouraged commercial banks to ease access to credit to the micro, small and medium-scale enterprises in Nigeria. Yet, over the years, the growth in credit to the private sector has been abysmally low. It became noticeable that Nigeria's banks are some of the most reluctant lenders among major emerging markets, with an average loan-to-deposit ratio (LDR) below 60 per cent, compared with 76 per cent in Kenya, 90 per cent in South Africa and 78 per cent across Africa. On the other hand, the actual liquidity ratio of the Nigerian banking industry has been in excess of the 30 per cent prudential minimum, meaning that the banks have been holding a significant size of their assets in liquid form – predominantly in government securities, which is why they have been reluctant to extend credit to real sector activities. The observed weak flow of credit to the real sector was what informed the Bank's new policy on Loan-to-Deposit ratio to correct the anomaly. In other words, the policy became necessary because while banks liquidity ratio increases, there was also a noticeable increase in their investment in government securities, although lending to the private sector declines.

The Loan-to-Deposit Ratio (LDR) is the ratio of a bank's total outstanding loans for a period to its total deposit balance over the same period. An LDR ratio tells how much a bank lends out of the deposits it has mobilized. It indicates how much of a bank's core funds are being used for lending, which is the main banking function. A higher ratio indicates more use of deposit resources for lending and a very low ratio indicates that banks are not making full or appropriate use of their resources for lending. Similarly, if the ratio is above a certain level, it portends a pressure on resources. For example, an LDR of 50 per cent means that a bank lends N5 to customers for every N10 that it mobilizes as deposits, while an LDR of 100 per cent means that a bank lend a naira for every naira it mobilizes as deposits. This is however, not without some challenges because an LDR of 100 per cent also means that the bank does not have sufficient cash on hand for contingencies. A combination of prudence and regulatory requirements suggests that for a traditional bank, the LDR should be around 80-90 per cent.

The first circular on the regulatory measures to improve lending to the real sector of the Nigerian economy was issued on July 3, 2019, indicating that all DMBs were required to maintain a minimum LDR of 60 per cent by September 30, 2019, subject to quarterly reviews. The circular further noted that to encourage SMEs, Real Mortgage and Consumer lending, these sectors shall be assigned a weight of 150 per cent in computing the LDR for this purpose., and that the Bank shall provide a framework for classification of enterprises/businesses that shall fall under these categories. As a measure to enforce compliance, the circular made clear that failure to meet the stipulated minimum LDR by the specified date shall result in a levy of additional Cash reserve Requirement (CRR) equal to 50 per cent of the lending shortfall of the target LDR.

Following the policy initiative for DMBs to maintain a minimum 60 per cent LDR, there was an appreciable growth in the level of industry gross credit by N829.40 billion or 5.33 per cent from N15,567.66 billion at end-May 2019 to N16,397.06 billion at end-September 2019. To maintain the momentum, the Bank, through a circular on September 30, 2019, reviewed upwards the LDR from 60 to 65 per cent, with DMBs expected to meet the stipulated ratio by December 31, 2019. By end-December 2019, credit to the private sector had grown by 13.61 per cent and industry gross credit increased by N2.0 trillion.

It is necessary to sustain the momentum generated by this policy measure to improve the flow of credit to the private sector. The private sector is the most sustainable driver of growth, given its capacity to innovate, generate employment and create wealth. Innovative ideas often remain latent for lack of finance to realize and commercialize them. Most large-scale enterprises began as small-scale businesses and only grew over time. In an economy driven largely by micro, small and medium-scale enterprises, access to finance is the only way such businesses can grow, employ more hands and get formalized.

A key requirement in driving the LDR policy is the creditworthiness of borrowers because banks are known to be risk averse. The Central Bank of Nigeria has also continued to encourage banks not to relax their risk assessment policy and lending standards, with a commitment to fast-track the development of credit scoring system to promote increase intermediation. This is expected to complement the existing measures such as the Bank Verification Number (BVN) and the Global Standing Instruction (GSI) all of which are aimed at de-risking lending and ensuring the achievement of safe and sound financial system.

CHAPTER FIVE

5.0 DEVELOPMENTS IN THE FINANCIAL MARKETS

In the second half of 2019, the Nigerian financial market remained moderately stable despite the existence of several cross currents across the global and domestic economies and financial markets. At the global economy, the key issues were: the persistent weakening of global output growth and the risk of recession across several economies; declining but relatively strong job growth in the US; the moderating but strong trade tensions between the US and China; growing threat to central bank independence; persisting risk of some advanced economies being trapped at the zero lower bound; uneasy calm in the oil market; tensions between the European Union and the United Kingdom due to tense BREXIT negotiations which was later calmed by the UK General election in December 2019; rising levels of private debt in the advanced economies and public debt in some Emerging Market and Developing Economies (EMDEs); as well as a wave of volatility in major financial markets.

In the light of these developments, major Central Banks such as the US Federal Reserve Bank (US Fed), the Bank of England (BoE) and the European Central Bank (ECB), maintained a dovish stance, expected to remain in place throughout 2020, to support the recovery of the global economy. In some Emerging Market & Developing Economies, there was a trend towards rising political risk, which led to an increase in capital outflows towards the end of the review period. The resulting impact was the resurgence of some exchange rate and inflationary pressures.

The domestic money market remained active in the review period, with some volatility in market rates, reflecting the changing liquidity conditions in the banking system. At the long end of the yield curve, the All-Share Index (ASI) and Market Capitalization (MC) continued to decline, reflecting global sentiments in portfolio rebalancing from equities to fixed income securities. The foreign exchange market, however, remained mostly stable as the CBN maintained its intervention to stabilize the naira.

5.1 The Money Market

In the review period, the money market remained active, with market rates reflecting the changing liquidity conditions in the banking system. The money market rates fluctuated generally downwards and below the lower bound of the standing facility corridor for most of the period. This development which contrasted with the earlier trend where the market rates fluctuated above the upper band of the standing facilities corridor indicated the efficacy of monetary policy as well as reduced perception of counterparty risk by market participants in the review period. The rates were higher at the collateralized

OBB segment which witnessed more transactions than the uncollateralized Interbank segment as a result of counterparty risks and oligopolistic nature of the market as few banks control a large volume of the hedging instruments. Overall, liquidity in the system came from several sources such as: statutory monthly disbursement by the Federation Account Allocation Committee (FAAC) to States and local governments; capital releases from the 2019 budget; election-related expenditures; maturities of government securities and OMO bills; and CBN interventions in the real economy.

Accordingly, the Monetary Policy Committee (MPC) held all policy parameters unchanged during the period to allow earlier changes permeate the banking system and the real economy. The Monetary Policy Rate (MPR) was retained at 13.50 per cent during the review period with its asymmetric corridor of +200/-500 basis points. The Cash Reserve Ratio (CRR) and Liquidity Ratio (LR) were also maintained at 22.5 and 30.0 per cent, respectively.

5.1.1 Short-term Interest Rate Developments

Short-term interest rate developments in the review period were influenced by liquidity conditions in the banking system, arising from various sources such as: statutory FAAC disbursements; capital releases from the 2019 budget; election-related spending; maturing government securities and OMO bills; and CBN intervention programmes.

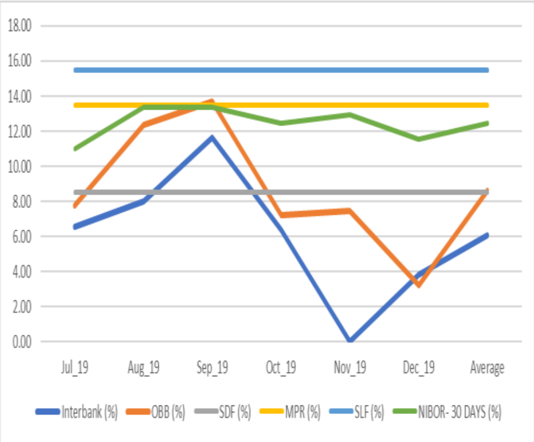
Both segments of the money market (OBB and interbank call) remained active with volatility in rates as liquidity conditions fluctuated, with more activities observed in the OBB segment. The interbank call rate oscillated between 3.82 and 11.61 per cent, averaging 6.05 per cent during the period. Similarly, the OBB rate fluctuated but more widely between 3.24 and 13.67 per cent, averaging higher at 8.61 per cent in the period.

Table 5.1
Weighted Average Monthly MoneyMarket Interest Rates (July – Dec, 2019)

PERIOD	Interbank	OBB	SDF	MPR	SLF	NIBOR - 30 DAYS
	(%)	(%)	(%)	(%)	(%)	(%)
Jul 19	6.52	7.73	8.50	13.50	15.50	11.01
Aug 19	8.00	12.35	8.50	13.50	15.50	13.37
Sep 19	11.61	13.67	8.50	13.50	15.50	13.34
Oct 19	6.37	7.22	8.50	13.50	15.50	12.46
Nov 19	0.00	7.44	8.50	13.50	15.50	12.91
Dec 19	3.82	3.24	8.50	13.50	15.50	11.55
Average	**6.05**	**8.61**	**8.50**	**13.50**	**15.50**	**12.44**

Source: CBN

Figure 5.1
Weighted Average Monthly Money Market Interest Rates (Jul. – Dec. 2019)



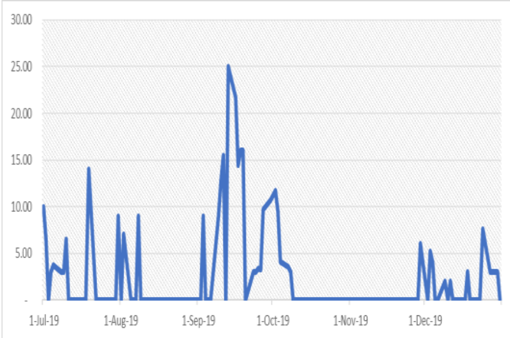
Source: CBN

(i) The Interbank Call Rate

The interbank call segment was moderately inactive with several non-trading days, reflecting continuing counterparty risks as evidenced by the preference of market participants for the collateralized OBB segment in the review period. Interbank call rates thus rose from a monthly average of 6.52 per cent in July 2019 to 11.61 per cent in September before decreasing sharply to 3.82 per cent in December 2019. The market was mostly quiet in November 2019.

Analysis of the daily rates in the review period showed that the call rate ranged between 2.00 and 25.00 per cent during the review period. The peak of 25.00 per cent recorded in September was largely the result of a contraction in liquidity conditions arising from CBN Open Market Operations and capital repatriation by foreign portfolio investors. In contrast, the trough of 2.00 per cent in December 2019 indicated increased system liquidity from: statutory FAAC disbursements; other FGN expenditures and maturing government securities and OMO bills. The interbank call rate oscillated between 3.82 and 11.61 per cent, averaging 6.05 per cent in the review period compared with 11.79 per cent in the preceding half year.

Figure 5.2
Daily Interbank Call Rate (July – December 2019)



Source: CBN

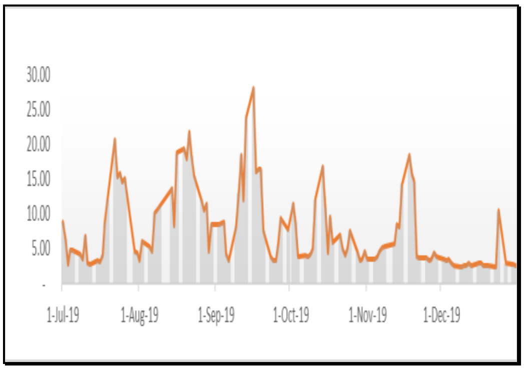
(ii) The Open Buy Back (OBB) Rate

As in the preceding half year, the OBB segment was more active compared with the interbank call segment. The preference for OBB transactions reflects continued perception of heightened interbank risks, arising from information asymmetry in the market. The average monthly OBB rate rose from 7.73 per cent in July to 13.67 per cent in September before decreasing to 3.24 per cent in December 2019.

As in the interbank call segment, the spike in the OBB rate in September was largely due to low levels of liquidity in the banking system following the issuance of short-term government securities, CBN OMO auctions and capital repatriation by foreign portfolio investors. The OBB rate fluctuated more widely between 3.24 and 13.67 per cent, averaging 8.61 per cent in the period compared with 13.56 percent in the preceding half year.

Analysis of the daily rates showed that the OBB rate fluctuated between 2.42 and 28.17 per cent in the review period. The spike of 28.17 per cent observed in mid-September 2019 was attributed to the withdrawal of liquidity from the banking system through OMO auctions, naira deposit by commercial banks for the purchase of foreign currency and remittances by government revenue generating agencies in preparation for FAAC distributions. The rate, however, closed at 2.42 per cent at end-December 2019 following improved liquidity conditions.

Figure 5.3
Daily Open Buy Back Rate (July - December 2019)



Source: CBN

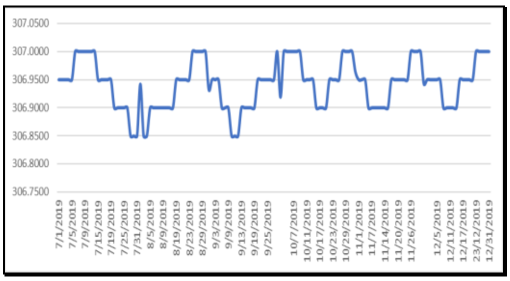
(iii) The Nigeria Interbank Offered Rate (NIBOR)

The Nigerian money market reference rate, the NIBOR, experienced slight fluctuations in the review period. The rate generally fluctuated to a high of 13.37 per cent in September 2019 from about 11.01 per cent in July 2019, mirroring the developments in the interbank call and OBB rates. The weighted average 30-day NIBOR, rose from 11.01 per cent in July to 13.34 per cent in September 2019, dropping to 12.91 per cent in November before closing at 11.55 per cent at end-December 2019. The average NIBOR rate for the review period was 12.44 per cent, a significant increase from 11.71 per cent in the preceding period, in contrast to the declining short-term rates observed in the interbank market (Table 5.1).

5.2 Foreign Exchange Market

In the second half of 2019, the foreign exchange market continued to enjoy relative stability under the prevailing flexible foreign exchange management policy, supported by the continued intervention of the CBN in the market. It is noteworthy that during the preceding first half, the Bank made a strategic shift towards the long-term stability of the foreign exchange market by deepening the policy on restriction of access to foreign exchange for imports that can be produced locally. This was by extending the policy to include more items as well as encourage the local production of such items for export. In the review period, the policy was further strengthened by the Bank's support for the partial closure of Nigeria's land borders by the fiscal authority. The land border closure is expected to have a complementary effect on the Anchor Borrower's programme and other CBN initiatives intended to boost local production and relieve pressure on foreign exchange for imports. Additional foreign exchange measures were implemented to strategically support Nigeria's signing unto the AfCFTA and progress towards a single currency in the West African sub-region. These included the Bank's participation in several initiatives to improve trade facilitation and automation of the Nigerian Export Proceeds Form (Form 'NXP') for trade monitoring. Other existing measures by the Bank included the sustained use of the Investors' & Exporters' window, the use of Bank Verification Number (BVN) in BDC transactions, sale of foreign exchange to BDCs by the Bank and International Money Transfer Operators (IMTOs), and special foreign exchange auctions to the real sector.

Figure 5.4
Daily Naira/US Dollar Exchange Rate (July – December 2019)



Source: CBN

5.2.1 Average Exchange Rates

The exchange rate at the Interbank segment depreciated by 0.01 per cent to an average of ₦306.94/US$ in the second half of 2019 from ₦306.90/US$ in the first half of the 2019, while the BDC rate appreciated by 0.41 per cent, from ₦360.76/US$ in first half 2019 to ₦359.28/US$ in the second half of 2019 (Table 5.2).

Table 5.2
Average Monthly Spot Exchange Rates (Jan 2019 – Dec 2019) (₦/US$)

Month / Year	Interbank Rate	BDC Rate
2019: Jan	306.85	360.94
Feb	306.77	359.69
Mar	306.92	359.24
Apr	306.96	359.00
May	306.95	359.75
Jun	306.95	359.94
Average	**306.90**	**359.76**
2019: Jul	306.94	359.44
Aug	306.95	359.00
Sept	306.92	359.00
Oct	306.96	359.00
Nov	306.94	359.00
Dec	306.95	360.25
Average	**306.94**	**359.28**

Source: CBN

5.2.2 End-Period (Month) Exchange Rates

During the review period, both segments of the foreign exchange market (the Interbank and BDC segments) experienced relative stability with minor movements in the exchange rate. The interbank segment recorded an end-period average of ₦306.98/US$ at the end of the second half of 2019, a depreciation of 0.03 per cent compared with ₦306.88/US$ in the first half of 2019. At the BDC segment, the naira appreciated by 0.06 per cent to an end-period average of ₦359.50/US$ at end-June 2019 from ₦359.71/US$ at end-December 2019 (Figure 5.5 and Table 5.3).

Table 5.3
End-Month Exchange Rates (Jan – Dec 2019) (₦/US$)

Month / Year	Interbank Rate	BDC Rate
2019: Jan	306.75	360.25
Feb	306.77	359.76
Mar	306.92	359.24
Apr	306.96	359.00
May	306.95	360.00
Jun	306.90	360.00
Average	**306.88**	**359.71**
2019: Jul	306.85	359.00
Aug	307.00	359.00
Sep	307.00	359.00
Oct	307.00	359.00
Nov	307.00	359.00
Dec	307.00	362.00
Average	**306.98**	**359.50**

Source: CBN

5.2.3 Nominal and Real Effective Exchange Rates

The Nominal Effective Exchange Rate (NEER) appreciated by 1.57 per cent, from an average of 180.36 in the first half of 2019 to an average of 177.56 in the second half. Compared with 182.07 in the corresponding period of 2018 it appreciated by 2.54 per cent. The Real Effective Exchange Rate (REER) also appreciated in the review period by 4.48 per cent from an average of 84.40 in the first half of 2019 to an average of 80.78 in the second half. Compared with 88.62 per cent in the corresponding period of 2018 the average REER appreciated by 9.71 per cent (Table 5.4). The appreciation of the NEER signifies strengthening of the domestic currency relative to currencies of trading partners, while the appreciation of the REER implies a loss of trade competitiveness with Nigeria's trading partners as exports become less profitable and imports cheaper (Table 5.4 and figure 5.6).

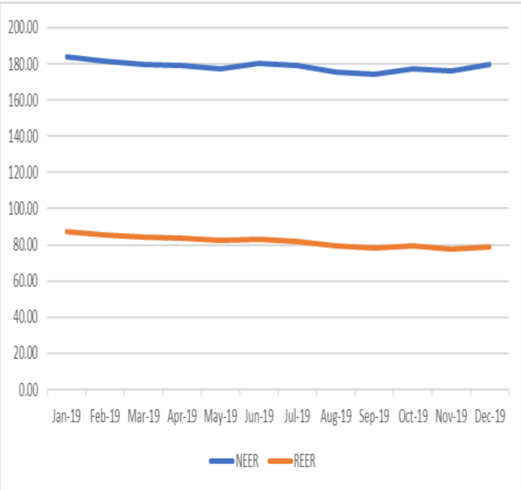
Table 5.4
Nominal and Real Effective Exchange Rates Indices (June 2018 – Dec 2019)

Period	NEER	REER
Jun-18	184.14	91.35
Jul-18	184.94	91.42
Aug-18	181.18	88.82
Sep-18	181.32	88.27
Oct-18	179.22	86.7
Nov-18	181.68	87.14
Dec-18	181.98	86.67
2018:H2 Average	**182.07**	**88.6249**
Jan-19	183.86	87.11
Feb-19	181.52	85.77
Mar-19	179.85	84.57
Apr-19	179.08	83.67
May-19	177.57	82.41
Jun-19	180.27	82.88

2019:H1 Average	**180.36**	**84.40**
Jul-19	179.16	81.79
Aug-19	175.26	79.41
Sep-19	174.54	78.37
Oct-19	177.56	79.20
Nov-19	175.80	77.77
Dec-19	179.62	78.92
2019:H2 Average	**177.56**	**80.78**

Source: CBN

Figure: 5.5
Nominal and Real Effective Exchange Rates Indices (Jan 2019 – Dec 2019)



Source: CBN

5.2.4 Foreign Exchange Flows through the CBN

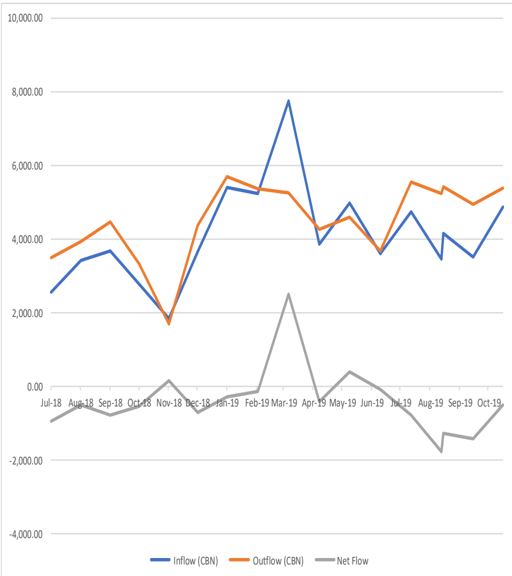
Foreign exchange inflow through the CBN decreased by 16.11 per cent to US$25,853.79 million in the second half of 2019, from US$30,819.73 million in the preceding period. It was, however, an increase of 44.22 per cent when compared with US$17,926.59 million in the corresponding period of 2018. Outflows also decreased by 11.97 per cent to US$32,300.86 million in the second half of 2019 from US$28,846.76 million in the preceding period. It was, however, an increase of 51.69 per cent when compared with US$21,293.59 million in the corresponding period of 2018. The development resulted in a net outflow of US$6,447.07 million in the second half of 2019 compared with a net inflow of US$1,972.97 million in the first half. This net outflow in the second half was largely attributed to divestments by foreign portfolio investors from Nigeria.

Table 5.5
Monthly Foreign Exchange Flows through the CBN (Jul 2018 – Dec 2019)

Period	Inflow (CBN)	Outflow (CBN)	Net Flow (CBN)
Jul-18	2,548.53	3,498.61	-950.08
Aug-18	3,411.80	3,927.11	-515.31
Sep-18	3,671.76	4,463.98	-792.22
Oct-18	2,784.31	3,325.66	-541.35
Nov-18	1,844.64	1,697.48	147.16
Dec-18	3,665.55	4,380.75	-715.2
2018 H2 Total	**17,926.59**	**21,293.59**	**-3,367.00**
Jan-19	5,397.41	5,690.85	-293.44
Feb-19	5,228.38	5,362.41	-134.03
Mar-19	7,758.24	5,248.48	2,509.76
Apr-19	3,852.66	4,271.03	-418.37
May-19	4,986.98	4,597.62	389.36
Jun-19	3,596.06	3,676.36	-80.30
2019 H1 Total	**30,819.73**	**28,846.76**	**1,972.97**
Jul-19	4,747.84	5,540.36	-792.51
Aug-19	3,459.58	5,237.95	-1,778.37
Sep-19	4,152.02	5,425.34	-1,273.32
Oct-19	3,520.49	4,952.03	-1,431.54
Nov-19	4,978.75	5,385.84	-407.09
Dec-19	4,995.11	5,759.35	-764.24
2019 H2 Total	**25,853.79**	**32,300.86**	**-6,447.07**

Source: CBN

Figure 5.6
Monthly Foreign Exchange Flows through the CBN (Jul 2018 – Dec 2019)



Source: CBN

5.2.5 Foreign Exchange Flow through the Economy

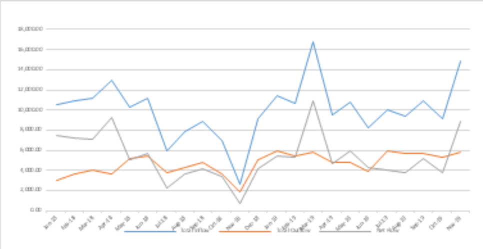
Gross foreign exchange inflow to the economy increased by 7.91 per cent to US$72,766.77 million in the second half of 2019, from US$67,433.55 million in the first half. When compared with US$41,552.52 million in the corresponding period of 2018, it increased by 75.12 per cent. Gross foreign exchange outflows also increased by 12.80 per cent to US$34,696.63 million in the second half of 2019, from US$30,759.51 million in the first half. Compared with US$23,364.83 million in the corresponding period of 2018, it increased remarkably by 48.50 per cent. The outcome resulted in a higher net inflow of US$38,170.14 million compared with US$36,674.04 million and US$18,187.69 million in the preceding half year and the corresponding period of 2018.

The increased inflow was largely attributable to the effectiveness of the Investors' and Exporters' (I&E) window and the sustained tight monetary policy stance of the Bank.

Table 5.6
Monthly Foreign Exchange Flows through the Economy
(Jan 2018 – Dec 2019) (US$ Million)

PERIOD	Inflow (CBN)	Inflow (Autonomous)	Total Inflows	Outflows (CBN)	Outflows (Autonomous)	Total Outflow	Net Flow	Net Flow (CBN)	Net Flow (Autonomous)
Jan-18	4,212.56	6,288.40	10,500.96	2,734.38	297.61	3,031.99	7,468.97	1,478.18	5,990.79
Feb-18	7,303.15	3,561.35	10,864.50	3,163.29	447.64	3,610.93	7,253.58	4,139.86	3,113.72
Mar-18	5,076.48	6,147.23	11,223.71	3,754.12	331.74	4,085.86	7,137.85	1,322.36	5,815.49
Apr-18	4,238.05	8,721.00	12,959.05	3,437.72	222.55	3,660.27	9,298.78	800.33	8,498.45
May-18	4,373.01	5,865.39	10,238.40	4,821.91	321.53	5,143.44	5,094.96	-448.90	5,543.86
Jun-18	5,211.73	5,932.93	11,144.66	5,030.91	365.18	5,396.09	5,748.58	180.82	5,567.76
2018 H1 Total	**30,414.98**	**36,516.30**	**66,931.28**	**22,942.33**	**1,986.24**	**24,928.57**	**42,002.71**	**7,472.65**	**34,530.06**
Jul-18	2,548.53	3,452.14	6,000.67	3,498.61	232.18	3,730.79	2,269.88	-950.08	3,219.96
Aug-18	3,411.80	4,461.65	7,873.45	3,927.11	349.01	4,276.12	3,597.33	-515.31	4,112.64
Sep-18	3,671.76	5,204.58	8,876.34	4,463.98	288.14	4,752.12	4,124.22	-792.22	4,916.44
Oct-18	2,784.31	4,229.03	7,013.34	3,325.66	312.95	3,638.61	3,374.73	-541.35	3,916.08
Nov-18	1,844.64	774.11	2,618.75	1,697.48	228.96	1,926.44	692.31	147.16	545.15
Dec-18	3,665.55	5,504.42	9,169.97	4,380.75	660.00	5,040.75	4,129.22	-715.20	4,844.42
2018 H2 Total	**17,926.59**	**23,625.93**	**41,552.52**	**21,293.59**	**2,071.24**	**23,364.83**	**18,187.69**	**-3,367.00**	**21,554.69**
Jan-19	5,397.41	6,000.11	11,397.52	5,690.85	209.55	5,900.40	5,497.12	-293.44	5,790.56
Feb-19	5,228.38	5,489.17	10,717.55	5,362.41	65.56	5,427.97	5,289.58	-134.03	5,423.61
Mar-19	7,758.24	9,061.45	16,819.69	5,248.48	615.57	5,864.05	10,955.64	2,509.76	8,445.88
Apr-19	3,852.66	5,675.93	9,528.60	4,271.03	597.85	4,868.88	4,659.71	-418.37	5,078.08
May-19	4,986.98	5,757.28	10,744.26	4,597.62	184.52	4,782.15	5,962.12	389.36	5,572.76
Jun-19	3,596.06	4,629.87	8,225.93	3,676.36	239.70	3,916.06	4,309.87	-80.30	4,390.17
2019 H1 Total	**30,819.73**	**36,613.82**	**67,433.55**	**28,846.76**	**1,912.75**	**30,759.51**	**36,674.04**	**1,972.97**	**34,701.07**
Jul-19	4,747.84	5,238.69	9,986.54	5,540.36	365.21	5,905.57	4,080.97	-792.51	4,873.48
Aug-19	3,459.58	5,991.19	9,450.76	5,237.95	452.92	5,690.87	3,759.90	-1,778.37	5,538.27
Sep-19	4,152.02	6,828.70	10,980.72	5,425.34	306.97	5,732.30	5,248.42	-1,273.32	6,521.73
Oct-19	3,520.49	5,654.47	9,174.96	4,952.03	402.30	5,354.33	3,820.63	-1,431.54	5,252.17
Nov-19	4,978.75	10,110.42	15,089.17	5,385.84	485.99	5,871.83	9,217.34	-407.09	9,624.43
Dec-19	4,995.11	13,089.51	18,084.62	5,759.35	282.38	6,041.73	12,042.89	-764.24	12,807.13
2019 H2 Total	**25,853.79**	**46,912.98**	**72,766.77**	**32,300.86**	**2,295.77**	**34,596.63**	**38,170.14**	**-6,447.07**	**44,617.21**

Figure 5.7
Monthly Foreign Exchange Flows through the Economy (Jan 2018 – Dec 2019) (US$ Million)



Source: CBN

5.3 Capital Market

The Nigerian capital market in the second half of 2019 was mostly bearish, driven primarily by the equities segment, reflecting waning investor confidence. This was attributable to the continued perception of political risk which resulted in some weakening of macroeconomic fundamentals. This perception arose from several lingering issues around: softening oil prices; weakening global demand; relatively strong US economy; and rising uncertainty in the global economy leading to a rush into gold as a safer asset. Domestically, insecurity in some parts of the country, weakening of macroeconomic fundamentals, pressure on external reserves as well as the increasing public debt stock heightened the vulnerabilities. As a result, the trend towards sell-off and profit taking seen in the previous half year persisted through the review period. The Treasury bond yields, even though still high, declined progressively, as inflation inched up.

5.3.1 Equities Market

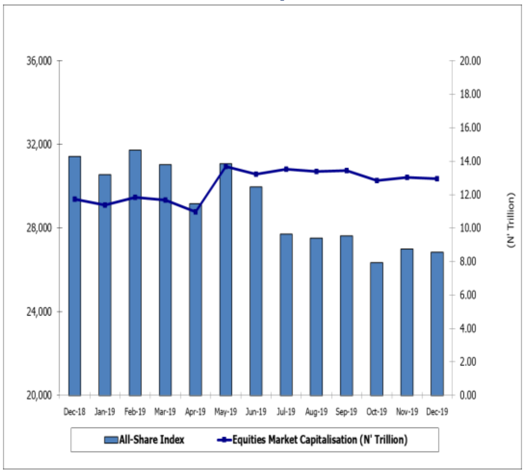
The All-Share Index (ASI) decreased by 10.42 per cent to 26,842.07 at end-December 2019 from 29,966.90 at end-June 2019. Similarly, it decreased by 14.60 per cent compared with 31,430.50 at end-December 2018. Market capitalization (MC) also decreased by 1.87 per cent to ₦12.95 trillion at end-December 2019 from ₦13.20 trillion at end-June 2019. Compared with ₦11.72 trillion at end-Dec 2018, however, MC rose by 10.56 per cent.

Table 5.7
NSE All-Share Index (ASI) and Market Capitalization (MC) (December 2018 – December 2019)

Date	ASI	MC(Equities) N'Trillion)
Dec-18	31,430.50	11.72
Jan-19	30,557.20	11.39
Feb-19	31,718.70	11.83
Mar-19	31,041.42	11.67
Apr-19	29,159.74	10.96
May-19	31,069.37	13.68
Jun-19	29,966.87	13.21
Jul-19	27,718.26	13.51
Aug-19	27,525.81	13.39
Sep-19	27,630.56	13.45
Oct-19	26,355.35	12.83
Nov-19	27,002.15	13.03
Dec-19	26,842.07	12.96

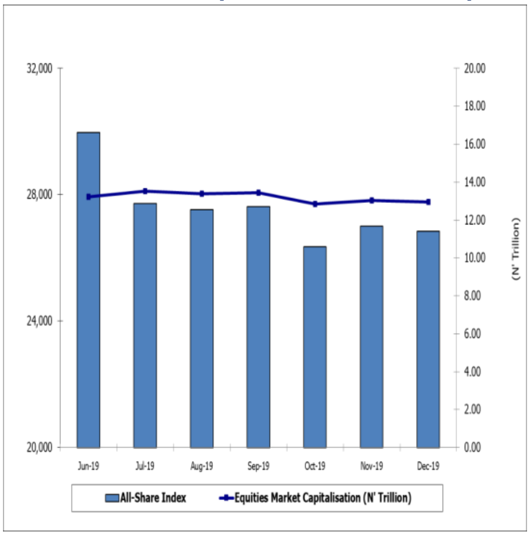
Source: Nigerian Stock Exchange (NSE)

Figure 5.8
NSE All Share Index (ASI) and Market Capitalization (MC) (December 2018 - December 2019)



Source: Nigerian Stock Exchange (NSE)

Figure 5.9
NSE ASI and MC (June – December 2019)



Source: Nigerian Stock Exchange (NSE)

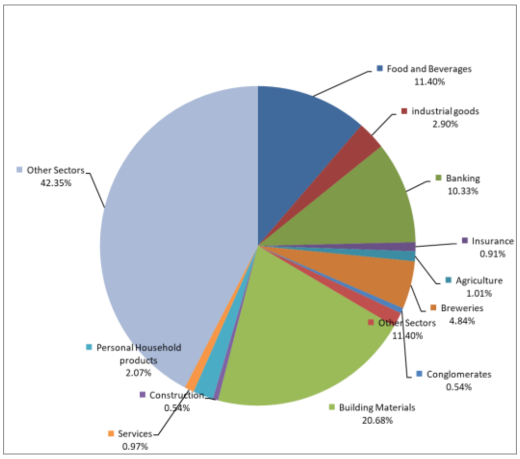
5.3.2 Market Turnover

Aggregate stock market turnover in the second half of 2019 decreased by 28.17 per cent to 33.20 billion shares, valued at N420.13 billion in 419,491 deals compared with 46.22 billion shares, valued at N538.57 billion in 463,313 deals in the first half of 2019. Market turnover also decreased by 3.94 per cent on a year-on-year basis from 34.56 billion shares, valued at N400.50 billion in 400,384 deals as at end December 2018. The significant decline in market turnover was consistent with the general bearish trend in the market in response to both foreign and domestic developments. In addition, the delay in setting up cabinet and policy agenda by the newly re-elected government and the slow recovery from recession created uncertainties for investors thereby undermining market activity.

5.3.3 Sectoral Contribution to Equity Market Capitalization

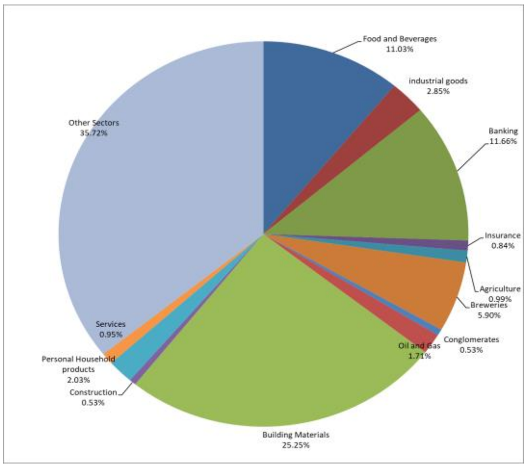
The sectoral classification of equities by the Nigerian Stock Exchange (NSE) are: agriculture; construction/real estate; consumer goods; financial services; health care; information and communications technology; industrial goods, natural resources; oil and gas; services; utilities; and conglomerates. In the review period, 'other sectors' dominated overall market capitalization. The contribution of 'other sectors' to market capitalization increased to 42.35 per cent at end-Dec 2019 from 35.72 per cent in the first half of 2019. The classification of 'other sectors' comprises of sectors with small individual market shares trading in the NSE. The dominance of 'other sectors' classification is mainly due to the listing of MTN Nigeria, a telecommunications company which was quoted on the NSE on Thursday, 16 May 2019. In addition, activities that contributed significantly to the overall market capitalization were Building Materials, Banking and Food & Beverages, with market shares of 20.68, 10.33 and 11.40 per cent, respectively, at end-December 2019 (Figure 5.12).

Figure 5.10
NSE Market Capitalization by Activities/Sectors as at End-Dec 2019



Source: Nigerian Stock Exchange (NSE)

Figure 5.11
NSE Market Capitalization by Activities/Sectors as at End June 2019

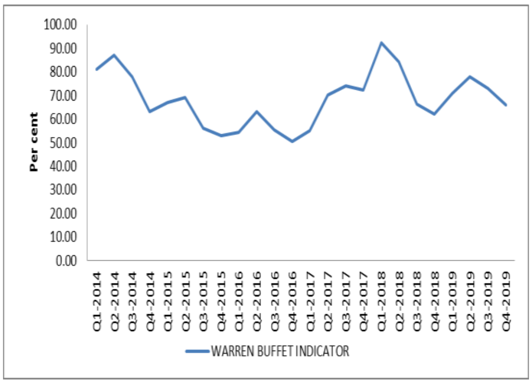


Source: Nigerian Stock Exchange (NSE)

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

The Warren Buffett valuation metric measures the ratio of the market value of securities to GDP as an indicator of market valuation. The metric showed that the Nigerian equities market was moderately undervalued in the review period. The valuation metric was 73.0 per cent in Q3 2019 below the threshold of 75.0 – 115.0 per cent of normal valuation. In Q4 2019, the valuation metric further declined to 66.0 per cent. The undervaluation in the review period was attributed to underlying macroeconomic vulnerabilities, weak corporate earnings, and political uncertainty which led to incidences of capital reversal. The current undervaluation is, however, an attractive opportunity for domestic and foreign investors.

Figure 5.12
Warren Buffett Valuation of Nigerian Equities Market



Source: bloomberg

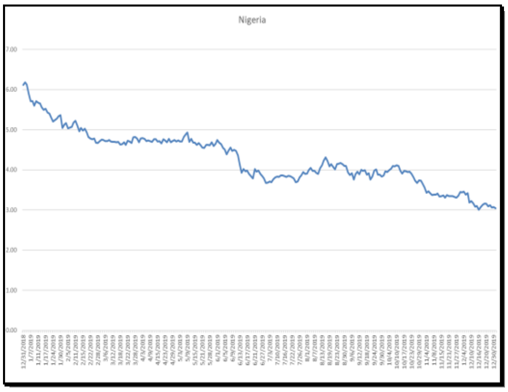
5.3.5 Bond Market

In the review period, activities in the bond market were dominated by transactions in Federal Government of Nigeria (FGN) securities, with some activity also recorded in the Sub-national government and corporate bond segments.

5.3.5.1 FGN Eurobond

The 10-year dollar-denominated bond yield for Nigeria decreased by 75 basis points to 3.04 per cent at end-December 2019, from 3.79 per cent at end-June 2019. Compared with 6.11 per cent at end-December 2018, the yield declined by 306 basis points (Figure 5.14). This implies that investors consider Nigerian sovereign instruments as becoming less risky.

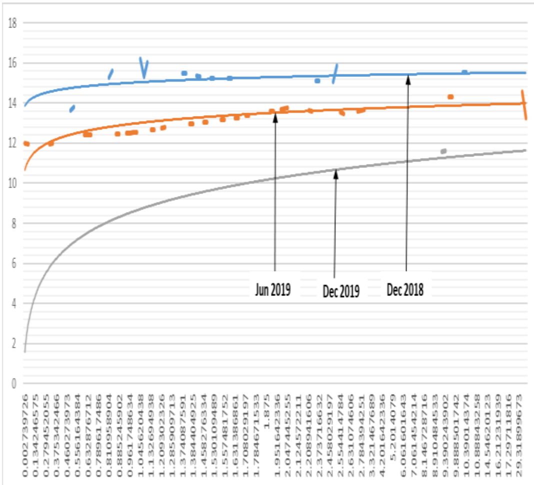
Figure 5.13
10-Year U.S. Dollar-denominated Bond Yield for Nigeria (December, 2018 – December, 2019)



Source: bloomberg

The yield on FGN bonds declined by 248 basis points to 10.76 per cent in December 2019 from 13.24 per cent at end-June and by 444 basis points when compared with 15.20 per cent at end-December 2018. The declining trend was due to increased liquidity in the market, partly reflecting the impact of the Bank's policy restricting participation in the OMO auctions. In addition, the development reflected the restructuring of Government debt portfolio in favour of foreign borrowing.

Figure 5.14
FGN Bonds Yield Curves: end-Dec. 2018 vs end-Jun 2019 vs. end-Dec. 2019



Source: bloomberg

5.3.5.2. State/Local Government Bonds

The sub-national bonds market continued to record low activity during the review period. The value of outstanding State/local government bonds decreased by 37.28 per cent to ₦354.90 billion at end-December 2019 from ₦565.82 billion at end-June. When compared with ₦515.26 billion at end-December 2018, it also decreased by 31.12 percent.

5.3.5.3 Corporate Bonds

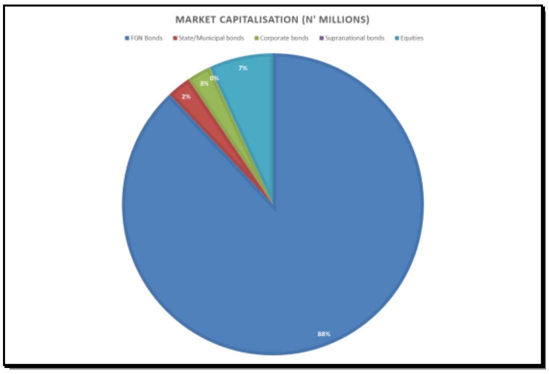
Activities in the corporate bonds segment increased in the review period with the value of outstanding corporate bonds at end-December 2019 increasing by 19.63 per cent to

₦355.82 billion in the second half of 2019, from ₦297.44 billion in the first half. Compared with ₦256.56 billion in the corresponding period of 2018, it increased by 38.69 per cent. This development supports the observed preference of investors for fixed income securities.

5.3.5.4 Overall Analysis of the Nigerian Capital Market

The value of FGN bonds increased by 31.75 per cent to ₦12.20 trillion at end-December 2019 from ₦9.26 trillion at end-June. Compared with the end-December 2018 value of ₦9.38 trillion, it increased by 30.06 per cent. At end-December 2019, FGN bonds accounted for 47.11 per cent of aggregate market capitalization while state/municipal bonds, corporate bonds and supranational bonds accounted for 1.37, 1.34 and 0.03 per cent valued at N354.90 billion, N355.82 billion and N8.09 billion, respectively. Overall, the bonds market accounted for 49.86 per cent of aggregate market capitalization, while the equities market represented 50.14 per cent in the review period (Figure 5.16). When compared with their shares of equities (56.59 per cent) and bonds (43.41 per cent) in the first half of 2019; there was a noticeable shift in investment portfolio towards bonds.

Figure 5.15
Structure of the Nigerian Capital Market (December 2019)



Source: NSE

5.4 Global Financial Market Developments

In the second half of 2019, some of the vulnerabilities witnessed in the first half continued while others appeared to be easing off. Overall, global financial markets continued to witness reasonable measure of volatility due to several legacy factors such as: the increasing complexities around BREXIT negotiations; moderating but unabating trade tensions between the US and China with implications for their key trading partners; indications of a broad slowdown of some advanced economies such as the US and the Euro Area; growing private and public sector debt in the advanced and emerging market economies; and intensified threats to central bank independence in a number of key economies. The weakening global output growth and the rising risk of near to medium term recession in major economies led several key central banks to sustain their earlier dovish stance. In the oil market, the OPEC reaffirmed commitment to sustain its earlier production ceiling to support market prices. This effort appeared to be undermined by the increased investment and production of Shale oil by the US.

Accordingly, liquidity conditions in the global economy remained accommodative as major central banks eased monetary policy to support recovery. Several currencies maintained their parity against the US dollar, while some appreciated. Capital flows to some emerging market economies also improved as yields increased on average, with the performance of major global stock markets remaining largely positive.

5.4.1 Money Market and Central Bank Policy Rates

Liquidity conditions in the global economy during the review period continued to be shaped by growth concerns which underpinned the tacit return to monetary accommodation in the preceding half-year. As such, a survey of fourteen (14) central banks between end-June and end-December 2019 indicated a broad trend towards monetary accommodation by both the advanced and emerging market economies.

In the wake of a slowing global economy with underlying threats to the US economy, the U.S Fed sustained an aggressive cycle of monetary accommodation, lowering its policy rate by 25 basis points in the review period after three successive adjustments in the previous half year. The ECB while retaining its policy rate at the zero-lower bound at its December 2019 meeting, also embarked on a new and indefinite monthly asset purchase programme of €20 billion. The Bank of England held its policy rate constant throughout the period as it was approaching the zero-lower bound with minimal response in output growth. The Bank of Japan also retained its policy rate in response to prevailing uncertainties in the global economy. Emerging market central banks such as Egypt, Kenya, South Africa, Brazil, China and Russia all lowered their policy rates in the review period in response to the broad weakening of the global economy. The Central Bank of Egypt cut its rate three consecutive times in the review period to address growth concerns as inflation trended down sharply, leaving ample headroom for further monetary accommodation. The Central Bank of Brazil after a 50 basis point rate cut in October 2019 also lowered further by another 50 basis points in December 2019 to 4.50 per cent, to boost output growth and support the economy's weak recovery. The successive rate cuts inadvertently resulted in a depreciation of its exchange rate with consequences for capital inflow to the Brazilian economy. In a similar manner, the Central Bank of Russia cut its policy rate three consecutive times in the review period to accommodate growth concerns. Other emerging market central banks such as the Reserve Bank of South Africa and the Reserve Bank of India also cut their rates in the review period to consolidate the gains from earlier downward adjustments. The Central Bank of Nigeria, however, held its rate constant throughout the review period to allow the effect of the 50 basis points rate cut in March 2019 to permeate the economy.

Table 5:8
Policy Rates of Selected Central Banks June 2019 – December 2019

Country	June 2019	July 2019	Aug. 2019	Sept. 2019	Oct. 2019	Nov. 2019	Dec. 2019
Egypt	15.75	15.75	14.25	13.25	13.25	12.25	12.25
Kenya	9.00	9.00	9.00	9.00	9.00	8.50	8.50
S. Africa	6.75	6.50	6.50	6.50	6.50	6.50	6.50
Ghana	16.00	16.00	16.00	16.00	16.00	16.00	16.00
Nigeria	13.50	13.50	13.50	13.50	13.50	13.50	13.50
Brazil	6.5	6.00	6.00	5.50	5.00	5.00	4.50
USA	2.25 - 2.50	2.00 - 2.25	2.00 - 2.25	1.75 - 2.00	1.75 - 2.00	1.50 - 1.75	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	5.75	5.75	5.75	5.40	5.15	5.15	5.15
Russia	7.50	7.50	7.50	7.00	6.50	6.50	6.25
China	4.35	4.35	4.20	4.20	4.20	4.15	4.15
UK	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Indonesia	**6.00**	**6.00**	**5.75**	**5.25**	**5.00**	**5.00**	**5.00**

Source: www.cbrates.com

5.4.2 Global Capital Market

The mixed signals from developments in the global economy impacted capital flows and stock market activity in the review period. The performance of major global stock markets was largely positive. In Europe, the, UK FTSE 100, the French CAC 40 and German DAX 30 indices increased by 1.60, 1.80 and 1.40 per cent, respectively. In North America, the United States S&P 500 and the Mexican Bolsa indices increased by 9.80 and 0.90 per cent, respectively, while the Canadian S&P/TSX Composite index decreased by 2.20 per cent. In South America, the Brazilian Bovespa and the Columbian COLCAP indices increased by 14.50 and 7.30 per cent, respectively, while, the Argentine Merval decreased by 0.31 per cent. In Asia, the Japanese Nikkei 225, the Chinese Shanghai SE and the Indian BSE Sensex indices increased by 11.20, 2.40, and 4.70 per cent, respectively. In Africa, the Kenyan Nairobi NSE 20 and the South African JSE All-Share indices increased by 2.70 and 0.80 per cent, respectively, while the Nigerian NSE All-Share Index, the Egyptian EGX CASE-30 and the Ghanaian GSE All Share indices all decreased by 9.10, 1.00 and 5.70 per cent, respectively.

Table 5.9
Selected International Stock Market Indices as at December 31, 2019

Table 2d: Selected International Stock Market Indices as at December 31, 2019						
Country	**Index**	**31-Dec-18**	**30-Jun-19**	**31-Dec-19**	**Dec 31, 2018 - Dec 31, 2019 % Change**	**June 30 - December 31, 2019 % Change**
AFRICA						
Nigeria	NSE All-Share Index	31,430.50	29,517.41	26,842.07	-14.6	-9.1
South Africa	JSE All-Share Index	52,736.86	55,572.25	57,084.10	8.2	2.7
Kenya	Nairobi NSE 20 Share index	2,833.84	2,632.48	2,654.39	-6.3	0.8
Egypt	EGX CASE 30	13,035.77	14,100.74	13,961.56	7.1	-1.0
Ghana	GSE All-Share Index	2,499.33	2,394.82	2,257.15	-9.7	-5.7
NORTH AMERICA						
US	S&P 500	2,506.85	2,941.76	3,230.78	28.9	9.8
Canada	S&P/TSX Composite	14,322.86	17,442.52	17,063.43	19.1	-2.2
Mexico	Bolsa	41,640.27	43,161.17	43,541.02	4.6	0.9
SOUTH AMERICA						
Brazil	Bovespa Stock	87,887.26	100,967.20	115,645.30	31.6	14.5
Argentina	Merval	30,292.55	41,796.36	41,671.41	37.6	-0.3
Columbia	COLCAP	1,325.93	1,548.98	1,662.42	25.4	7.3
EUROPE						
UK	FTSE 100	6,728.13	7,425.63	7,542.44	12.1	1.6
France	CAC 40	4,730.69	5,871.09	5,978.06	26.4	1.8
Germany	DAX	10,558.96	13,207.14	13,385.93	26.8	1.4
ASIA						
Japan	NIKKEI 225	20,014.77	21,275.92	23,656.62	18.2	11.2
China	Shanghai SE A	2,611.38	3,119.99	3,195.98	22.4	2.4
India	BSE Sensex	36,068.33	39,394.64	41,253.74	14.4	4.7

Source: bloomberg

5.4.3 Commodities

The lull in commodity prices persisted during the review period due to the broad slowdown in the global economy and the ongoing trade war between the US and some of her key trading partners. As a result, the IMF primary commodity price index decreased by 2.67 per cent to 116.6 points at end-December from 119.8 points at end-June 2019. The commodity sub-indices of energy, metals, and industrial inputs all decreased by 6.12, 7.08 and 6.92 per cent, respectively, over the same period. The edibles sub-index, however, increased by 0.61 per cent to 99.2 points at end-December 2019 from 98.6 points at end-June. The non-fuel price index increased slightly from 108.20 points at end-June 2019 to 109.20 points at end-December 2019. In the petroleum sector, actual prices per barrel based on the OPEC Reference Basket rose by 3.60 per cent to US$67.96 at end-December 2019 from US$65.60 at end-June 2019.

The Food and Agriculture Organization (FAO) Food Price Index increased by 4.62 per cent to 181.2 points in December 2019 from 173.2 points in June 2019. The sub-indices of meat, vegetable oils and sugar all rose while those of dairy and cereals fell. The supply of sugar continued to lag its demand due to production shortfalls in India, Brazil and Mexico thus pushing up its price substantially. Vegetable oil prices rose sharply as the supply of palm oil remained well behind the demand due to a substantial increase in demand from the biodiesel sector. Cereals and diary supply, however, improved reasonably during the review period thus shoring up their prices.

5.4.4 Global Foreign Exchange Market

During the second half of 2019, most currencies depreciated against the US dollar despite the return to monetary accommodation by the US Fed. On a broad basis, a number of countries also returned to some form of monetary accommodation thus neutralizing the anticipated impact of a weakening US dollar on capital flows. In South America, the Brazilian real, the Argentine peso and Colombian peso all depreciated by 4.23, 29.11 and 2.28 per cent, respectively, while in North America, the Canadian dollar and the Mexican peso appreciated by 0.77 and 1.48 per cent, respectively.

In Europe, the Euro depreciated by 1.12 per cent against the US dollar, while the British pound sterling and the Russian ruble both appreciated by 4.52 and 1.98 per cent, respectively.

In Asia, the Chinese yuan, Indian rupee and Japanese yen all depreciated by 0.66, 1.29 and 2.31 per cent, respectively. In Africa, the Nigerian naira and Ghanaian cedi both depreciated by 0.03 and 4.87 per cent, respectively, while the South African rand, Egyptian pound and the Kenyan shilling appreciated against the U.S. dollar by 0.57, 4.05 and 0.93 per cent, respectively.

Table 5.10

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

Exchange Rates of Selected Countries (Value in currency units to US$)				
	Currency	**28-Jun-19**	**31-Dec-19**	**Jun 19 - Dec 19 (% App/Dep)**
AFRICA				
Nigeria	Naira	306.90	307.00	-0.03
South Africa	Rand	14.08	14.00	0.57
Kenya	Shilling	102.30	101.36	0.93
Egypt	Pound	16.69	16.04	4.05
Ghana	Cedi	5.47	5.75	-4.87
NORTH AMERICA				
Canada	Dollar	1.31	1.30	0.77
Mexico	Peso	19.22	18.94	1.48
SOUTH AMERICA				
Brazil	Real	3.85	4.02	-4.23
Argentina	Peso	42.44	59.87	-29.11
Colombia	Peso	3211.86	3286.84	-2.28
EUROPE				
UK	Pound	0.78	0.75	4.52
Euro Area	Euro	0.88	0.89	-1.12
Russia	Ruble	63.23	62.00	1.98
ASIA				
Japan	Yen	107.93	108.65	-0.66
China	Yuan	6.87	6.96	-1.29
India	Rupee	69.70	71.35	-2.31
Source: bloomberg				

BOX 4

THE GLOBAL STANDING INSTRUCTION AND FINANCIAL STABILITY IN NIGERIA

In the aftermath of the global financial crisis, the banking sector was confronted with rising credit risk which worsened after the 2016 recession in Nigeria. To address this issue, the CBN introduced several initiatives to enhance credit administration within the Nigerian Banking sector such as: the introduction of the Bank Verification Number (BVN); the Credit scoring system under the auspices of the CRC Credit Bureau limited; as well as CBN's Credit Risk Management System (CRMS) initiative which is used to keep records of creditors in the banking system.

Despite these efforts, credit risk remained high and unabating, particularly amongst the sub class of other financial institutions in the Nigerian financial landscape. The problem of rising credit risk is highlighted by weakening Financial Soundness Indicators (FSIs) which show the deteriorating condition of the credit market as some borrowers simply take a loan from one bank and move on to another bank to open a fresh account and continue their business.

The percentage of Non-Performing Loans reflects the overall health of the banking system as it shows the volume and value of loans in default. In 2016, the NPL ratio was 12.8 per cent up from 4.9 per cent in 2015 and was above the prudential benchmark of 5.0 per cent. A rising trend of high NPLs thus reflects the difficulty banks are having in recovering principal and interest payments on their credit portfolios.

With the rising trend in credit growth and associated rise in the NPL ratio of the banking system, the Central Bank was at crossroads as to the best approach to de-risk the banking system within the limits of its financial system stability toolkit. Various system inefficiencies were identified as contributory to the growing credit risk such as the inability of DMBs to access a database which tracks the address and other records of their customers in a bid to monitor their locations and activities. The development of such a system will require a broader level of coordination anchored by the Federal Government and various agencies to develop a computerized database of addresses across the country. In the absence of such a system, the Central Bank came up with the innovation of the BVN which ultimately tracks individuals and Corporates as soon as they engage with the financial system. The Global Standing Instruction (GSI) was introduced as an initiative of the Central Bank of Nigeria and the Bankers Committee on August 26, 2019. The policy was designed to weed out serial defaulters from the Banking System by giving Deposit Money Banks (DMBs) the right of offset to access the deposits of such defaulters in other banks to net off borrowings using their Bank Verification Numbers (BVN). The initiative came to be in the wake of deteriorating performance of credit in the banking sector increasing problem of predatory serial defaulters in the financial sector. The GSI thus leverages on the power of the BVN to de-risk the banking system through the ability of the BVN to track the activities of persons of interest and net out their liabilities.

In the microfinance sector where the CBN is focusing a high volume of intervention capital, the effectiveness of the GSI initiative would resolve the high and rising incidence of loan default that has been prevalent in the sector. This would also translate to an increased supply of micro-credit to the Micro Small and Medium Enterprises (MSMEs) sector through Microfinance Banks (MFBs).

The GSI initiative has so far been successful, going by the declining ratio of NPLs which decreased from 14.1 per cent at October 2018 to 6.6 per cent as at October 2019. While this is still higher than the prudential benchmark of 5.0 per cent, the implementation of the policy will eventually eradicate the incidence of predatory serial borrowers in the banking system, and thus further reduce the ratio of Non-Performing Loans.

CHAPTER SIX
ECONOMIC OUTLOOK

6.1 OVERVIEW

Global growth in 2019, after two (2) successive downgrades, was estimated at 2.9 per cent down from 3.6 per cent in 2018 (IMF WEO, January 2020). The moderation in growth was traceable to several headwinds which included: the escalating trade war between the US and China; persisting uncertainties around BREXIT; increasing political tensions between the US and Iran; sustained volatility in oil prices; and growing political uncertainties across several regions. Other factors were: rising levels of public debt in some Advanced Economies and Emerging Markets and Developing Economies (EMDEs); downturn in global manufacturing, particularly pronounced in Germany; and rising corporate debt levels with heightened fragilities in the financial markets. Notwithstanding these challenges, growth was supported by the following factors: the continued expansion of the US economy; coordinated and supportive monetary policy environment; progress towards trade agreement between US and China; waning effect of temporary factors affecting the manufacturing industry in Europe towards the end of the year; and a gradual return to some stability in stressed EMDEs.

In the advanced economies, output growth was estimated at 1.7 per cent in 2019 down from 2.2 per cent in 2018. This was attributed to the policy uncertainty surrounding BREXIT negotiations, the knock-on effect of un-abating trade war between the US and China and weak recovery in the Euro area, UK and Japan. The United States economy slowed to 2.3 per cent in 2019 from 2.9 per cent in 2018 as a result of sustained trade war with key trading partners, increasing corporate debt levels and financial market fragilities. In the Euro area, weakening manufacturing industry and poor response to monetary stimulus resulted in the economy slowing to 1.2 per cent in 2019 from 1.9 per cent in 2018, while in the UK, growth remained flat at 1.3 per cent in 2019 compared with 2018, due primarily to difficult BREXIT negotiations. In Japan, growth increased to 1.0 per cent in 2019 compared with 0.3 per cent in 2018 owing to continued fiscal stimulus and improved business spending.

In the Emerging Market and Developing Economies, growth moderated to 3.7 per cent in 2019 from 4.5 per cent in 2018. The development was attributable to elevated uncertainties surrounding trade and other country-specific structural factors. Growth in China was estimated at 6.1 per cent in 2019, compared with 6.6 per cent in 2018, owing to slowing domestic demand and the effect of escalating tariffs. In India, growth slowed sharply to 4.8 per cent in 2019, from 6.8 per cent in 2018 due to the effect of rising corporate and environmental uncertainties on

demand. Output growth in Brazil moderated slightly to 1.2 per cent in 2019 compared with 1.3 per cent in 2018. Also, growth in Russia moderated to 1.1 per cent in 2019 from 2.3 per cent in 2018 due to softening oil prices.
In sub-Saharan Africa, growth was estimated at 3.3 per cent in 2019 up from 3.2 per cent in 2018, as inflationary and exchange rate pressures eased. This was driven largely by higher commodity prices and improved access to international markets. In Nigeria, growth was estimated at 2.3 per cent in 2019, up from 1.9 per cent in 2018 on the backdrop of a clearer direction for fiscal policy, reduced political tension and recovery of oil prices. Output growth in South Africa was estimated at 0.4 per cent in 2019, down from 0.8 per cent in 2018, as the economy continued to deal with labour market and power generation challenges.

6.2 Outlook for Global Output

The slowdown in global output growth in 2019 notwithstanding, the outlook indicates a build-up of positive growth sentiments. These sentiments are reflected in: the effect of the substantial monetary easing in 2019 expected to continue into 2020; recovery in trade and manufacturing as the US and China work towards some agreement; and the substantial resolution of the BREXIT conundrum. In addition, there is the reasonable prospect of relatively healthy EMDEs maintaining their robust performance even as the advanced economies and China continue to slow. Consequently, global growth is expected to improve to 3.3 and 3.4 per cent in 2020 and 2021, respectively, from 2.9 per cent in 2019.

Growth in the advanced economies is projected to slow to 1.6 per cent apiece in 2020 and 2021, from 1.7 per cent in 2019, on account of expected slowdown in growth in the United States and Japan. In the US, growth is forecast to moderate from 2.3 per cent in 2019 to 2.0 and 1.7 per cent in 2020 and 2021, respectively, reflecting the return to a neutral fiscal stance. In the Euro area, growth is expected to strengthen to 1.3 and 1.4 per cent in 2020 and 2021 from 1.2 per cent in 2019, owing to expected improvement in external demand. In the UK, output growth is expected to rise moderately from 1.3 per cent in 2019 to 1.4 and 1.5 per cent in 2020 and 2021, respectively, on the back of expectations of an orderly transition to a new economic relationship with the European Union. In Japan, output growth is forecast to decline to 0.7 and 0.5 per cent in 2020 and 2021, respectively, from 1.0 per cent in 2019, as the impact of fiscal stimulus wanes.

In the Emerging Market and Developing Economies, growth is projected to improve from 3.7 per cent in 2019 to 4.4 and 4.6 per cent in 2020 and 2021, respectively. This will be due largely to the expected recovery of underperforming economies in the group. Growth in China is forecast to decline to 6.0 and 5.8 per cent in 2020 and 2021, respectively, from 6.1 per cent in 2019, on the back of continuing slowdown from her economic rebalancing programme. In India, growth in 2020 and 2021 is expected to rise to 5.8 and 6.5 per cent, respectively, up from 4.8 per cent in 2019, supported by the lagged effect of monetary policy easing, corporate income tax reforms and recent policies to address regulatory uncertainties. Growth in Brazil is forecast to rise from 1.2 per cent in 2019 to 2.2 and 2.3 per cent in 2020 and 2021, respectively, on the back of accommodative monetary policy.

In the Middle East and Central Asia region (inclusive of former MENA countries), growth is forecast at 2.8 and 3.2 per cent in 2020 and 2021 from 0.8 per cent in 2019, as a result of relatively stable oil market.

In Sub-Saharan Africa, growth is expected to rise to 3.5 per cent apiece in 2020 and 2021, from 3.3 per cent in 2019. In Nigeria, growth is forecast to rise to 2.5 per cent apiece in 2020 and 2021, from 2.3 per cent in 2019, anchored on expected recovery in oil prices. In South Africa, growth is projected to rise from 0.4 per cent in 2019 to 0.8 and 1.0 per cent in 2020 and 2021, respectively, due to expected improvements in public finances to anchor business confidence and private investments.

6.3 Downside Risks to Global Outlook

In the present environment of elevated policy uncertainty, the risks to global growth remain skewed to the downside. These include: the possibility of disruptions in global oil supplies as geo-political tension between the US and Iran could resurface; the financial vulnerabilities built up over years of low interest rate regime could unravel if financial conditions tighten; the delay in the resolution of trade and technology tensions between the US and China could further dampen growth prospects; as well as weather-related factors such as tropical storms, flood, heat waves, droughts and wildfires which could impose severe humanitarian cost and livelihood losses across many regions.

In the advanced economies, the downside risks would emanate from the trend towards a neutral fiscal policy stance particularly in the US, slowdown in investment and lower productivity from an aging labour force. Additional risks could arise from continued protectionist policies and weakened support for multilateralism in the advanced economies as evident in the ongoing BREXIT negotiations and political developments towards nationalism. Furthermore, the disruption to global supply chains due to potential increases in tariff and non-tariff barriers by the US and China could adversely affect output forecasts in the medium term. In the emerging market and developing economies, downside risks include the effect of escalating trade tariff and weakening external demand; declining fiscal buffers and weak revenue growth which exposes these economies to tighter external financing conditions and low growth prospects; and the negative spillover effects of continued hostilities in the oil-rich Middle East.

In Sub-Saharan Africa, the nature of fiscal adjustments has been such that underlying vulnerabilities, in both the near and medium-term, are yet to be addressed to shield current recovery efforts against risks from both domestic and external shocks. In particular, inadequate revenue mobilization to create the fiscal space for investment and development spending continues to impose a drag on countries in the region. Countries with weak financial stability indicators risk capital reversals, as a result of further financial sector vulnerabilities.

Table 6.1
Global Output and Inflation Outlook

	2018	2019	2020*	2021*
A. World Output				
World Output	3.6	2.9	3.3	3.4
Advanced Economies	**2.2**	**1.7**	**1.6**	**1.6**
USA	2.9	2.3	2.0	1.7
Euro Area	1.9	1.2	1.3	1.4
Japan	0.3	1.0	0.7	0.5
UK	1.3	1.3	1.4	1.5
Canada	1.9	1.5	1.8	1.8
ced Economies	2.6	1.5	1.9	2.4
Emerging & Developing Economies	**4.5**	**3.7**	**4.4**	**4.6**
Latin America and the Caribbean	1.1	0.1	1.6	2.3
Middle East and North Africa	1.9	0.8	2.8	3.2
Sub-Saharan Africa	3.2	3.3	3.5	3.5
B. Commodity Prices (US' Dollars)				
Oil	29.4	-11.3	-4.3	-4.7
Non-fuel	1.6	0.9	1.7	0.6
C. Consumer Prices				
Advanced Economies	2.0	1.4	1.7	1.9
Emerging & Developing Economies	4.8	5.1	4.6	4.5

Source: IMF WEO Update, January 2020
***Forecast**

6.4 Global Inflation Outlook

Global inflation is projected to moderate to 3.4 per cent in 2020 from 3.5 per cent in 2019. Inflation in the advanced economies is expected to stabilize around 1.7 per cent in 2020, same as in 2019, due to softening energy prices and growth slowdown. In the US, inflation is projected to rise to 2.3 per cent in 2020 from1.8 per cent in 2019. Headline inflation in the euro area is expected to rise gradually to 1.4 per cent in 2020 from 1.2 per cent in 2019. Similarly, inflation in the UK is projected to increase slightly to 1.9 per cent in 2020 from 1.8 per cent in 2019. In Japan, inflation is expected to gain momentum to 1.3 per cent in 2020 from 1.0 per cent in 2019, largely attributable to the increase in the consumption tax rate in October 2019.

In the emerging market and developing economies, inflation is projected to remain almost flat at 4.6 per cent in 2020 compared with 4.7 per cent in 2019, due to mixed developments in the region. In Russia, inflation is expected to decline to 3.5 per cent in 2020 from 4.7 per cent in 2019. In Brazil, inflation is also forecast to decline to 3.5 per cent in 2020 from 3.8 per cent in 2019. Inflation in China is, however, projected to rise moderately from 2.3 per cent in 2019 to 2.4 per cent in 2020. Similarly, inflation in India is projected to rise to 4.1 per cent in 2020 from 3.4 per cent in 2019. In Sub-Saharan Africa, inflation is expected to decline to 7.4 per cent in 2020 from 8.9 per cent in 2019, due to declining energy prices and easing exchange rate pressure. In Angola, inflation is projected to decline to 15.0 per cent in 2020 from17.2 per cent in 2019. Inflation in Nigeria is, however, forecast to rise to 11.7 per cent in 2020 from 11.3 per cent in 2019, due to rising food prices and security challenges. Inflation is also forecast to rise in South Africa to 5.2 per cent in 2020 from 4.4 per cent in 2019.

6.5 Outlook for Domestic Output Growth

The recovery of Real Gross Domestic Product (GDP) has continued at a moderate pace, and the economy is expected to continue to improve into 2020. Data from the National Bureau of Statistics (NBS) showed that real GDP grew by 2.55 in the fourth quarter of 2019 compared with 2.38 and 2.28 per cent in the corresponding quarter of 2018 and the preceding quarter of 2019, respectively. The improvement in growth was driven, largely, by the performance of the oil sector, which grew by 2.26 per cent in the fourth quarter of 2019 compared with 2.70 and 1.85 per cent in the corresponding quarter of 2018 and the preceding quarter of 2019, respectively. Overall, the economy grew by 2.27 per cent in 2019 compared with 1.91 per cent in 2018.

The outlook for 2020 is positive, as the recovery is expected to continue. The IMF projection for output growth for Nigeria in 2020, at 2.5 per cent is an improvement over 2019. The CBN has also projected a positive growth outlook at 2.39 per cent. The projections are expected to be driven by improved oil production and prices, continued investment in the agricultural and manufacturing sectors, continued implementation of the Economic Recovery and Growth Plan (ERGP) and sustained stability in the foreign exchange market.

Key headwinds to the growth outlook are however: persisting power generation and transmission challenges; dearth of infrastructure; continued security challenges across the country; continued clashes between herders and farmers; and the still low but improving credit to the private sector.

6.6 Outlook for Domestic Inflation

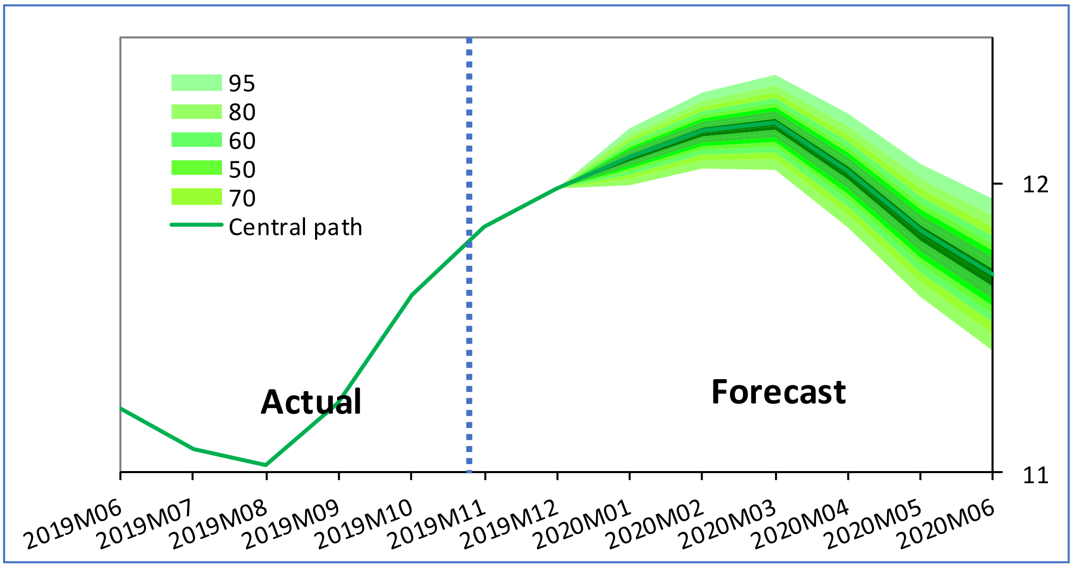
The upward pressure on price levels which commenced in the second half of 2019 is expected to continue into 2020, driven mainly by food prices as the combined impact of the security challenges in food producing areas and the impact of the border protection policy has led to an uptick in food prices. The anticipated increase in electricity tariffs in 2020 may also contribute to a shock in prices during the year. Staff projections indicate that headline inflation (year-on-year) is projected to increase to 12.09, 12.18, 12.21 and 12.04 per cent in January, February March and April before commencing a descent to 11.83 and 11.68 per cent in May and June respectively. These estimates suggest upward price trend, arising from a combination of monetary and structural impediments, including poor transport infrastructure, food shortage due mainly to insecurity in the food producing areas of the country and the rising public debt profile of government. Others include the upward pressure on imported food prices due to the land border closure and increased liquidity due to concurrent implementation of the 2019 and 2020 budgets. The Bank will continue to deploy its instruments to ensure that liquidity in the banking system is effectively managed and channelled to the real economy to drive non-inflationary growth.

Table 6.2: Inflation Forecast

YEAR-ON-YEAR INFLATION RATE					12-MMA INFLATION RATE				
Status	Month	Headline inflation	Food inflation	Core inflation	Status	Month	Headline inflation	Food inflation	Core inflation
Actual	Jul-19	11.08	13.39	8.80	Actual	Jul-19	1.01	1.26	0.77
	Aug-19	11.02	13.17	8.68		Aug-19	0.99	1.22	0.67
	Sep-19	11.24	13.51	8.94		Sep-19	1.04	1.30	0.89
	Oct-19	11.61	14.09	8.88		Oct-19	1.07	1.33	0.74
	Nov-19	11.85	14.48	8.99		Nov-19	1.02	1.25	0.79
	Dec-19	11.98	14.67	9.33		Dec-19	0.85	0.97	0.81
Forecast	Jan-20	12.09			Forecast	Jan-20			
	Feb-20	12.18				Feb-20			
	Mar-20	12.21				Mar-20			
	Apr-20	12.04				Apr-20			
	May-20	11.83				May-20			
	Jun-20	11.68				Jun-20			

Source: NBS/CBN

Figure 6.1: Fan Chart of Inflation Forecast



Source: CBN Staff Estimates

6.7 The Outlook for Monetary Policy in 2020

The Bank will continue its surveillance of macroeconomic conditions in 2020 to enable it deploy effective policies to anchor inflation expectations in the Nigerian economy. With a broadly fragile but positive outlook for the macroeconomy in 2020, monetary policy is faced with the task of minimizing shocks to the economy using its tool kit of heterodox policies.

The likely risks to monetary policy in 2020 from the global environment include: the likelihood of a continued decline in oil prices, leading to exchange rate pressures; continued capital outflows due to slowing accretion to reserves; rising public debt levels; and possible shock spillovers from the US-China trade war which, even though being contained, has the possibility that negotiations may become inconclusive. On the domestic front, monetary policy is confronted with the following risks: weak credit growth; continued downturn in the stock market; fragile economic recovery; rising inflation; high cost of liquidity management; and high unemployment.

Tailwinds to the implementation of monetary policy include: the CBN's sustained intervention in the agricultural sector to improve on food supply; improved security across the country to facilitate economic activities; the effective implementation of the Economic Growth Recovery Plan by the Federal Government; continued support for Small and Medium Size Enterprises to reduce unemployment and improve aggregate demand; and continued enforcement of the Bank's policy on Loan-To-Deposit Ratio (LDR).

As the Bank continues to manage liquidity conditions in the banking system, price developments will continue to be monitored, analyzed, and addressed to ensure the moderation in the upside risks to inflation and the downside risks to output growth in the Nigerian economy.

Appendices

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 125 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 22nd AND TUESDAY 23rd July, 2019

1.0 Background

The Monetary Policy Committee (MPC) met on the 22nd and 23rd of July, 2019, in an environment of subdued global growth and fragile domestic economic recovery. The Committee reviewed developments in the global and domestic macro-economy. It noted that the global environment is overwhelmed with vulnerabilities and financial fragilities. Inflation in the advanced economies is trending downwards and significantly below the long-run objective, necessitating the adoption of accommodative monetary policy, the global economy is poised to see another round of loose monetary policy. All Eleven (11) members of the Committee were at the meeting.

Global Economic Developments

Global output growth remained weak with persistent headwinds expected to continue for the rest of the year. Key amongst these headwinds is the rising trade tensions, particularly between the US and its key trading partners in Europe, Canada, China and India, rising debt levels in some Advanced Economies and Emerging Markets and Developing Economies (EMDEs) as well as growing political uncertainties across several regions. Consequently, the International Monetary Fund (IMF) downgraded its 2019 global growth forecast from 3.6 per cent to 3.3 per cent.

Price developments across the major advanced economies remained muted alongside softening output growth. In the Emerging Markets and Developing Economies (EMDEs), however, inflationary developments were mixed in response to challenging macroeconomic conditions. The Committee noted, that the return to monetary accommodation by the advanced economies could see a new wave of capital flows to the EMDEs as investors continue to search for higher yields.

Domestic Economic Developments

Available data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 2.01 per cent in the first quarter of 2019, driven by the non-oil sector, compared with 2.38 and 1.89 per cent in the preceding and corresponding quarters of 2018, respectively. The Committee noted the continued but moderate expansion in the economy as indicated by the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI), which grew for the 27th and 26th consecutive months in June 2019. The indices stood at 57.4 and 58.6 index points, respectively, in June 2019. Staff forecast indicate a 2.11, 2.39 and 2.56 per cent growth in GDP in Q2, Q3 and Q4 2019, respectively, expected to be driven largely by the non-oil sector.

The Committee, however, noted that the downside risks to the growth projections to include low credit to the private sector; high unemployment; delayed intervention of fiscal policy as well as low revenue and fiscal buffers, amongst others. The continued intervention by the Bank in the real sector is, however, expected to partly ameliorate the downside risks only in the short-run, while sound fiscal policy is expected to drive growth in the medium to the long-run.

The Committee observed that broad money supply (M3) grew by 4.97 per cent in June 2019 from the level at end-December 2018, at an annualized rate of 9.95 per cent. It was also below the indicative benchmark of 16.08 per cent for 2019. The growth in M3 was largely driven by the increase in Net Domestic Credit (NDC), which grew by 17.26 per cent in June 2019 from the level at end-December 2018. The growth in Net Domestic Credit (NDC) was accounted for by the significant increase in credit to Government, which grew by 55.80 per cent, while credit to the private sector grew by 9.0 per cent in June 2019. The Committee, however, noted that the constrained growth in the monetary aggregates as an indication of weak financial intermediation in the banking system and called on the Management of the CBN, to sustain the various initiatives of the Bank to improve lending to the private sector in Nigeria.

The Committee welcomed the moderation in headline inflation (year-on-year) to 11.22 per cent in June 2019 from 11.40 per cent in May 2019. This was attributed to the decline in the Food and Core components to 13.56 and 8.80 per cent in June 2019 from 13.70 and 9.03 per cent in May 2019, respectively. It noted the development as being partly due to the CBN's support to the agricultural sector and the prevailing stability in the Nigerian foreign exchange market. The MPC further noted that although inflation moderated in June 2019, the continued pressure on prices continues to be associated with structural factors such as the high cost of electricity, transport and production inputs. The MPC, however, expects that with the commencement of the harvest season, food prices will taper further downwards. It thus, however, advised that the security challenges in some parts of the country should be addressed urgently to increase agricultural produce in order to sustain the downward trend in inflation. The MPC reiterated its commitment to ensure the maintenance of price stability.

The net liquidity position and interest rates in the economy reflected the impact of liquidity injections and the Bank's liquidity management operations associated with fiscal federalism, transformation of maturing CBN Bills, Open Market Operations (OMO) auctions and foreign exchange interventions. Accordingly, the monthly weighted average Inter-bank call and Open Buyback (OBB) rates, oscillated within the MPR corridor, increasing to

8.38 and 8.71per cent in June 2019 from 5.14 and 8.34 per cent in May 2019, respectively.

The Committee noted with concern the continued bearish trend in the equities segment of the capital market in spite of the sustained capital inflow to the economy, reflecting continued portfolio reallocation from equities to fixed income securities. Consequently, the All-Share Index (ASI) declined by 9.11 per cent to 28,566.79 index points on July 12, 2019, from 31,430.50 index points at end-December 2018. Market Capitalization, however, grew by 18.77 per cent to N13.92 trillion on July 12, 2019, from N11.72 trillion at end-December 2018. This was due largely to the additional listing of new firms during the review period.

The Committee welcomed the continued stability in the foreign exchange market and the steady accretion to external reserves, which stood at US$44.88 billion as at July 19, 2019, representing a 0.38 per cent increase from US$44.71 billion at the end-June 2019. The MPC also noted the steady moderation in the Non-Performing Loans (NPLs) ratio of the banking industry to 9.36 per cent in June from 10.95 per cent in May 2019. While this remained above the prudential benchmark of 5.0 per cent, its continued moderation indicates the improved resilience of the banking system. The Committee thus emphasised its resolve to further drive down the Non-Performing Loans (NPLs) in the industry so as to strengthen the strategic health of banks in the Country.

Outlook

The overall medium-term outlook for the global economy remains mixed with indications of continued softening of global output due to persisting policy uncertainties and sustained macroeconomic vulnerabilities. These are likely to be accentuated by the increasing trade tensions between the US and its major trading partners, rising debt levels and geo-political tensions.
On the domestic economy, output growth in 2019 is expected to remain weak, peaking at 2.27 per cent, while inflation is projected at 11.37 per cent by the CBN staff projections by end-2019. The underlying arguments in favour of this forecast include: favourable oil prices; stable exchange rate; moderate inflationary pressures; enhanced flow of credit to the private sector; sustained CBN interventions in the real sector; effective implementation of the Economic Recovery and Growth Plan (ERGP); building fiscal buffers; and improved security in the food producing areas of the country.

Committee's Considerations

In its considerations, the Committee noted the need to boost output growth through sustained increase in consumer credit and mortgage loans and granting loans to our Small and Medium Enterprises companies. It also observed that the Management of the Bank had started the prescription of using benchmark loan-to-deposit ratios to redirect the banks focus to lending. To mitigate credit risk, the Committee enjoined the Management of the Bank to de-risk the financial markets, via the development of a reliable credit scoring system, similar to what applies in the advanced countries as this will encourage Deposit Money Banks (DMBs) to safely grow their credit portfolios.

The MPC called on the fiscal authorities to expedite action on expanding the tax base of the economy to improve government revenue and stem the growth in public borrowing. It further urged the fiscal authorities to build fiscal buffers to avert macroeconomic downturn in the event of a decline in oil prices.

The Committee also called on the Bank to intensify efforts to encourage Nigerians in the diaspora to use official sources for home remittances, noting that the effort will complement other measures geared towards improving Nigeria's current account balance. It enjoined the Bank to consider introducing incentives such as the reduction of charges on diaspora home remittances into Nigeria.

On the African Continental Free Trade Agreement (AfCFTA), the Committee urged the Federal Government to put in place measures to aid the economy in realising the benefits and full potentials of that Agreement. In particular, it noted the need to resuscitate moribund industries in Nigeria and improve key infrastructure in order to strengthen the productive base of the economy, create job opportunities as well as boost exports.
The Committee noted the positive developments towards the creation of a common currency in the West African Zone by January 2020 and commended Government and the Central Bank for pushing forward the initiative. The Committee, however, enjoined the Bank to ensure that Nigeria is properly positioned to maximise the benefits of monetary integration.

In consideration of the specific policy options to adopt; to hold, loosen or tighten, the MPC made the following observations:

(i) Whilst the focus on growth was imperative, the mandate of price stability remains sacrosanct;
(ii) Given the happenings in the external sector and the fact that inflation is moderating, tightening of monetary policy should not be an option at this time, as restriction of the capacity of the DMBs to create money could curtail their credit creation capabilities.

On the contrary, the Monetary Policy Committee (MPC) was of the view that, whilst loosening could increase money supply, stimulate aggregate demand and strengthen domestic production, the economy could be awash with liquidity especially if loosening drives growth in consumer credit without commensurate adjustment in aggregate output.

On holding the current monetary policy position, the Monetary Policy Committee (MPC) observed that given the recent actions of the Bank's management involving the prescription of minimum lending thresholds by the deposit money banks to our Deposit Money Banks (DMBs), it is safe to assume that this action, targeted at stimulating credit growth to the real sector would increase credit delivery to the real sector and accelerate investment and economic growth. It also observed that since interest rates were currently trending downwards, it is safer to await the full impact of these policy actions on the economy before a review of the position of monetary policy.

The Committee's Decision

In consideration of the foregoing, the Committee decided unanimously by a vote of all members present to retain the Monetary Policy Rate (MPR) at 13.5 per cent and to hold all other policy parameters constant. The decision was informed by the conviction of members that key macroeconomic indicators are trending in the right direction.

Consequently, the MPC unanimously voted to:

I. Retain the MPR at 13.5 per cent;
II. Retain the asymmetric corridor at +200/-500 basis points around the MPR;
III. Retain the CRR at 22.5 per cent; and
IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

23rd July, 2019

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 126 OF THE MONETARY POLICY COMMITTEE MEETING OF THURSDAY 19th AND FRIDAY 20th SEPTEMBER 2019

1.0 Background

The Monetary Policy Committee (MPC) met on the 19th and 20th of September 2019, in the light of softening global growth and weaker-than-anticipated domestic output recovery. The Committee evaluated developments in the global and domestic economies and examined the outlook for the rest of the year. It noted the buildup of vulnerabilities in major Advanced Economies and its spill-over to the Emerging Markets and Developing Economies (EMDEs). Nine (9) out of the eleven (11) members of the Committee were present at the meeting.

Global Economic Developments

Output growth across major advanced economies remained subdued, confronted by legacy headwinds, including the subsisting trade war between the US and China, regional hostilities in the Middle-East, rising debt levels, growing uncertainties around BREXIT and increasing political tensions between the US and Iran, including fragilities in the financial markets. In the EMDEs, output growth remained broadly mixed with some economies performing stronger than others. Consequently, the International Monetary Fund (IMF) revised its projected global growth forecast to 3.2 per cent in 2019 from 3.6 per cent.

Price developments continued to soften across the major advanced and EMDEs as aggregate demand continually weaken, resulting in softening monetary policy by major central banks to address downward trending prices and to strengthen aggregate demand.

Domestic Economic Developments

Data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 1.94 per cent in the second quarter of 2019, compared with 2.10 and 1.50 per cent in the preceding and corresponding quarters, respectively. This mediocre growth, we believe, is consistent with global trends of dampening output growth and was driven mainly by the oil sector, which grew by 5.15 per cent while the non-oil sector grew by 1.64 per cent. At 57.7 and 58.0 index points, the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI) grew moderately for the 30th and 29th consecutive months, respectively, in September 2019. Staff projections indicate that real GDP in Q3 and Q4 2019 would average 2.11 and 2.34 per cent, respectively, driven primarily by the non-oil sector. This optimism in growth prospects is anchored on the new momentum of rising credit to the private sector. However, the headwinds to the growth prospects remain high unemployment, rising public debt and heightening insecurity across the country.

The Committee noted the continued moderation in headline inflation (year-on-year) to 11.02 per cent in August 2019 from 11.08 per cent in July 2019, driven by decline in the food and core components to 13.17 and 8.68 per cent in August 2019 from 13.39 and 8.80 per cent in July 2019, respectively. The development in the food and core components of inflation was partly due to improved agricultural production in the current harvest season, supported by the Bank's sustained intervention in the agricultural sector as well as the continued stability in the foreign exchange market. The Committee, however, noted the upward pressure imposed on prices due to rising insecurity in the food producing areas of the country, increased liquidity injection from FAAC disbursements and late budget cycles. It also highlighted the imperative to address the economy's infrastructural deficits, such as power supply, upgrade of transport and production infrastructure as a means of reducing cost-push inflation.

The Committee observed that broad money supply (M3) grew by 5.65 per cent in August 2019, compared with the level at end-December 2018, annualized to 8.48 per cent, but remaining below the 2019 indicative benchmark of 16.08 per cent. The growth was largely driven by the increase in Net Domestic Credit (NDC), which grew by 24.36 per cent in August 2019 from the level at end-December 2018. The growth in NDC was accounted for by the significant increase in credit to Government, which grew by 94.33 per cent while credit to the private sector grew by 9.36 per cent in August 2019. The Committee urged the Management of the Bank to explore new initiatives to further improve lending to the private sector, while calling on Government to adopt other ways of funding its operations outside the banking sector.

In the review period, money market rates oscillated within the standing facilities corridor due to prevailing liquidity conditions in the banking system. The monthly weighted average Inter-bank Call and Open Buyback (OBB) rates increased to 8.00 and 13.37 per cent in August 2019 from 6.52 and 11.01 per cent in July 2019, respectively.

The Committee observed the continued bearish trend in the equities market, while noting the increased activity in the sovereign bonds market, reflecting global trends and investor preference for fixed income securities. In the light of this development, the All-Share Index (ASI) declined by 11.62 per cent to 27,779.00 index points on September 13, 2019, from 31,430.50 index points at end-December 2018. Market Capitalization (MC), however, grew by 15.37 per cent to N13.62 trillion on September 13, 2019, from N11.72 trillion at end-December 2018. This increase in market capitalisation was attributed to the listing of 2.75 billion ordinary shares by Airtel Africa in July 2019.

The MPC noted the improved performance and resilience of the banking sector, evidenced by the continued moderation in the ratio of

Non-Performing Loans (NPLs) from 11.2 to 9.4 per cent in May and August 2019, respectively. While noting that this was still above the prudential benchmark of 5.0 per cent, the Committee called on the Management of the Bank to drive this ratio below the prudential benchmark.

Outlooks

The persistence of policy uncertainties, financial vulnerabilities and rising geo-political tensions continued to cloud the medium-term outlook. This is evidenced by the sustained weakening of global growth across regions, amplified by the persisting trade tensions between the US and its major trading partners, rising corporate and public debt levels.

On the domestic economy, output growth in 2019 is expected to peak at 2.1 per cent (IMF), 2.2 per cent (World Bank) and 2.27 per cent (CBN). These forecasts remain underpinned by expectations of favourable oil prices which would lead to higher external reserves, stable exchange rate, moderate inflationary pressure as government increases capital expenditure, including enhanced flow of credit to the private sector to stimulate investment, sustained CBN interventions in the real sector, effective implementation of the Economic Recovery Growth Plan (ERGP), build-up of fiscal buffers, as well as improved security in the country.

Committee's Considerations

The Committee noted the decline in output growth in the second quarter of 2019, partly attributable to the delay in implementation of the 2019 budget. It however, observed that this was an improvement over the corresponding quarter of 2018. In addition, it noted the broad slowdown across key economies and the response of major central banks to revise their policy rates downwards.

On price developments, the Committee commended the progressive moderation in consumer prices and urged the Bank to sustain its intervention in the real sector of the economy to reduce the output gap.

The MPC noted the improvements in the financial soundness indicators and urged the Management of the Bank to sustain its regulatory surveillance to ensure continued financial system stability. The Committee, particularly noted the growth in the size of industry loans from N15.4 trillion in June to N16.23 trillion in September 2019. On the recent directives to deposit money banks to increase their Loan-to-Deposit Ratio (LDR), the Committee underscored the need to grow consumer, mortgage and corporate credit to drive aggregate demand and ensure a reduction in unemployment and increase in output growth. Consequently, the Committee urged the Management of the Bank to fast-track the development of the credit scoring system, to promote increased intermediation. In addition, the

Committee commended the introduction of the Global Standing Instruction (GSI) initiative aimed at de-risking credit in the industry by committing bank customers to repay their loans to banks. The MPC further noted the increased supply of micro credit to key Micro Small and Medium Enterprises (MSMEs) and efforts through the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) Microfinance Bank to extend the reach of its credit facilities across the country. The MPC however, observed that the growth in credit to the private sector remained significantly low, relative to the absorptive capacity of the economy.

The MPC further underscored the linkage between high unemployment and heightened insecurity, emphasizing the critical need for urgent steps towards more jobs and wealth creation in the country. As an interim solution, the Committee called on Government at all levels to ratchet up public works programmes aimed at easing the threat of rising unemployment in the country. This, the Committee argued, would be achieved through efficiency in public spending. The MPC also noted the Government's current drive to increase Value Added Tax (VAT), adding that this will improve fiscal revenue to support expenditure and reduce the budget deficit as well as Government borrowing when implemented. The Committee, however, noted that this was too little to close the gap in Government finances. Consequently, the MPC called on the Government to, as a matter of urgency, adopt what it termed a BIG BANG approach towards building fiscal buffers by purposefully freeing-up redundant public assets through an efficient, effective and transparent privatization process. This would raise significant revenue for Government and resuscitate the redundant assets to generate employment and contribute effectively to national economic growth. The MPC noted the unstable oil prices, its implications on accretion to external reserves and its persistent call on the Government to build fiscal buffers. Consequently, the Committee called on the National Assembly to exercise restraint from increasing the oil price budget benchmark to avoid budgetary overruns at the implementation stage of the budget. Projections from the oil futures market, indicate that oil prices will remain tight around the budget oil price benchmark in the medium term.

The Committee's Decision

In its considerations regarding the policy options to adopt, the MPC as usual, felt compelled to review the options of whether to tighten, hold or loosen.

The Committee noted the positive moderation in inflation, though slowly from 11.08 per cent in July to 11.02 per cent in August 2019. Given that this was still above the target range of 6-9 per cent, and considering the pressure on reserve accretion caused by the relatively weak crude oil price, the

MPC felt the imperative to tighten. On the contrary, the Committee was of the view that doing so in the midst of a fragile growth outlook would increase the cost of credit, and further contract investment and constrain output growth.

On loosening, the Committee felt that this would result in increased system liquidity and hence, heighten inflationary tendencies in the economy. In particular, the MPC was of the view that loosening would drive growth in consumer credit but without a corresponding adjustment in real sector output. The Committee was also convinced that increased liquidity and interest rate moderation would result in exchange rate pressures as money supply rises. As regards the option to hold, the MPC opined that the option requires a clear understanding of the quantum and timing of liquidity injections into the economy, before deciding on possible adjustments to the stance of monetary policy. The Committee was also of the opinion that retaining the current position of policy offers pathways to appraising the effects of the suit of heterodox monetary policy to encourage credit delivery to the real sector, especially in the light of the subsisting implementation of the Loan-to-Deposit Ratio policy.

In view of the foregoing, the Committee decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 13.5 per cent and to hold all other policy parameters constant.

In summary, the MPC voted to:

I. Retain the MPR at 13.5 per cent;
II. Retain the asymmetric corridor of +200/-500 basis points around the MPR;
III. Retain the CRR at 22.5 per cent; and
IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
20th September, 2019

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 127 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 25th AND TUESDAY 26th NOVEMBER 2019

1.0 Background

The Monetary Policy Committee (MPC) met on the 25th and 26th of November 2019 in an environment of continued global macroeconomic uncertainty, but gradual improvements in the domestic economy. The Committee appraised the developments in both the global and domestic economies, as well as the outlook for the rest of the year and the first quarter of 2020. All the eleven (11) members of the Committee were in attendance.

The Committee reviewed the effect of monetary policy on developments in the economy in 2019, particularly, price stability, improved credit delivery, low interest rate regime, exchange rate stability, financial system stability, reduction in non-performing loans (NPLs), job creation and output growth. The Committee noted the use of home-grown heterodox policies used by the Bank to successfully achieve substantial macroeconomic stability in 2019. Amongst the policies were the use of the Global Standing Instruction (GSI) to address the predatory impact of serial borrowers in the banking system, a phenomenon that reduced the level of NPLs over time, the Loan to Deposit Ratio (LDR) to boost credit delivery by the deposit money banks (DMBs) to the real sector, Differentiated Cash Reserve Requirement (DCRR), Development Finance Initiatives in agriculture, micro, small and medium enterprises (MSMEs) and other real sector activities, including restriction of patronage by local corporate and individual investors in CBN OMO bills.

Global Economic Developments

Global output growth remained weak due to the impact of the trade war between the US and China; growing vulnerabilities in the financial markets, downturn in global manufacturing, sustained downward pressure on oi prices, lingering uncertainty around BREXIT, which has continued to dampen investment growth in the United Kingdom, subdued growth in the European Union and Japan, and dampening output growth in China. These headwinds resulted in slowing global trade, weakening aggregate demand and contraction in the aggregate supply chain. Major Emerging Market and Developing Economies (EMDEs) particularly China and India also slowed, while South Africa, Russia and Brazil, recorded slower-than-expected growth. Consequently, there was a broad slowdown in global output. In the light of these developments, the IMF revised global growth forecast downwards to 3.0 per cent in October 2019 from its previous projection of 3.2 per cent in July 2019.

Inflation in most Advanced Economies remained well below their long-run objectives, with price development staying subdued and unemployment trending mostly below the Non-

Accelerating Inflation Rate of Unemployment (NAIRU). In the US, wage growth and aggregate demand continued to perform below the long run average even though unemployment remained below the NAIRU. Consequently, the recent trend towards monetary accommodation by key central banks is expected to continue into the foreseeable future. In key EMDEs, however, prices trended upwards with the output gaps widening and unemployment remaining relatively high.

Domestic Economic Developments

Data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 2.28 per cent in the third quarter of 2019, compared with 2.12 and 1.81 per cent in the preceding and corresponding quarters, respectively. The improved growth was driven largely by the performance of the oil sector, which grew by 6.49 per cent, while the non-oil sector grew by 1.85 per cent. The Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI) also expanded for the 31st and 30th consecutive months at 58.2 index points, apiece, in October 2019. Staff projections indicate that real GDP in Q4 2019 is expected to grow by 2.38 per cent, driven by the non-oil sector. Headwinds to this projection, include: continued high level of unemployment, mild resurgence of anticipated inflationary pressures towards the December festive season, rising public debt, high level of insecurity, and slow pace of oil price recovery. Despite these headwinds, growth is expected to pick on the back of recent actions to boost credit to the private sector through the recent Loan-to-Deposit Ratio (LDR) and Global Standing Instruction (GSI) initiatives, sustained interventions by the Bank in selected employment and growth-enhancing sectors, as well as fiscal policy measures to support growth.

The Committee noted the uptick in headline inflation (year-on-year) from 11.24 in September to 11.61 per cent in October 2019. This was anticipated as part of the seasonal end-of-the year uptick in prices; but was further accentuated by the border closure, an expected temporary food supply shock which will adjust over the medium-to-long term as the economy increase investments in food production. Consequently, food inflation rose from 13.51 to 14.09 per cent in September and October 2019, respectively. Core inflation, the underlying inflation in the economy, however, declined marginally from 8.94 to 8.88 per cent in September and October, respectively. The decline observed in core inflation was attributed to the relative stability in the foreign exchange market. The Nigerian land borders were closed to address the incidence of increased cross-border banditry, smuggling and dumping, insurgency and the illegal trade practices of neighbouring countries whose economies had become dependent on Nigeria through smuggling through the borders. The Bank's continued intervention in the agricultural sector is expected to improve medium-term food supply. Indeed, there has been reports of bumper harvest in some staples like rice, maize, etc.

The Committee observed that broad money supply (M3) grew by 5.72 per cent (year-to-date) in October 2019, compared with the 2019 indicative benchmark of 16.08 per cent. Growth in Net Domestic Credit (NDC) moderated to 26.38 per cent in October 2019 from 30.33 per cent in the previous month. This was attributed to a significant reduction in credit to Government in October 2019 to 85.99 per cent from 114.79 per cent in the previous month. Growth in credit to the private sector, however, improved to 13.08 per cent in October 2019 from 12.49 per cent in the previous month, reflecting the impact of the Bank's recent policy on loan-to-deposit ratio. An increase in absolute gross credit, amounting to N1,169.70 billion, was recorded between end-May and end-October 2019. Consequently, the manufacturing sector received N459.69 billion, the highest in two decades. This was followed by consumer loans of N356.65 billion, General Commerce (N142.98 billion), Information and Communications (N82.07 billion), Construction (N74.52 billion), Agriculture, Forestry and Fishing (N73.20 billion), Mining and Quarrying (N3.64 billion) and Transportation and Storage (N3.09 billion), amongst others. The Committee, therefore, urged the Management of the Bank to sustain its current efforts to improve lending to the private sector and to explore other initiatives to provide funding to other critical sectors of the Nigerian economy.

In the review period, money market interest rates reflected the prevailing liquidity conditions in the banking system. Overall, the monthly weighted average Inter-bank call and Open Buy Back (OBB) rates fell to 7.87 and 7.22 per cent, respectively, in October 2019, from 11.41 and 10.73 per cent, respectively, in September 2019.

The Committee noted that the persisting bearish trend in the equities market, had started to abate in November 2019, and was pleased by the increased patronage in the sovereign bonds market. The All-Share Index (ASI) grew by 2.41 per cent to 26,991.42 index points on November 22, 2019, from 26,355.35 index points at end-October 2019. Market Capitalization (MC) also grew by 1.54 per cent to N13.03 trillion on November 22, 2019, from N12.83 trillion at end-October 2018, due largely to portfolio shift from short-term Government securities to the equities market.

The MPC also noted the improved resilience of the banking system, as the Non-Performing Loans (NPLs) ratio declined further to 6.56 per cent at end-October 2019 from 6.67 per cent at end-September 2019 and from 14.05 per cent in October 2018. The Committee, however, noted that this figure remained above the prudential benchmark of 5.0 per cent, and urged the Bank to sustain its current efforts, which have created this exorable prudential regime.

Outlook

Overall, the medium-term outlook for the domestic and global economies continue to be clouded with uncertainties, associated with the persisting trade wars between the US and its major trading partners, financial vulnerabilities, rising levels of public and corporate debts, pockets of geopolitical tensions and weakening global output. However, the reforms underway in the domestic economy; aimed at diversification away from oil over the last three years have provided adequate shock absorber to withstand the headwinds. However, the Committee urged the fiscal authorities to invest massively in public works programme and improve fiscal buffers to complement these efforts.

Forecasts of key macroeconomic variables, however, indicate prospects of improved output growth for the economy. Based on recent revised projections, the economy is expected to grow in 2019 by 2.3 per cent (IMF estimate), 2.1 per cent by the World Bank, and 2.20 per cent by the CBN. The Committee noted the tailwinds to these developments, to include: sustained stable exchange rate; enhanced flow of credit from the Deposit Money Banks (DMBs) to the private sector; expected improvements in tax revenue and efficiency in public expenditure; continued improvement in the business environment and activities; and the sustained interventions by the Bank in the real sector.

The Committee's Considerations

The Committee welcomed the improvements in output growth in the third quarter of 2019, noting that the current direction of the Purchasing Managers Index suggests stronger growth in the fourth quarter. It however, re-emphasized the need for diversification to strengthen the productive base of the economy and reduce dependence on oil. Diversification has become necessary now that Nigeria has signed the African Continental Free Trade Agreement (AfCTA). To achieve this, the Committee urged the Federal Government to continue to improve the investment climate and ease of doing business to attract Foreign Direct Investment. Particularly, Government should, as a priority, improve conditions for global auto manufacturers, including for aviation and rail industries to invest in the country.

The Committee commended the expansion in manufacturing output, noting that it was a direct fallout of the policy on loan-to-deposit ratio. The Committee, called on Government to urge the Pensions Commission to improve the prudential requirements for Pension Funds to refocus their investment portfolio away from their traditional choice of Government securities in favour of other viable long-term investments in real estate, manufacturing and agriculture; and indeed infrastructure. Moreover, the

Committee called for strong visibility of fiscal and structural policies to improve infrastructure and investment conditions in the economy. It expressed strong optimism that the current policies of the Bank, in a regime of solid fiscal and structural policy support, would yield strong dividends in closing the current negative output gap in the medium to long term, and place the economy on a sustainable and self-sufficient path of output growth.

As a key pillar of economic diversification, the MPC directed the attention of the fiscal authorities to the immense potentials of the gas sub-sector and the urgency to encourage horizontal integration through private sector participation. This, the Committee argued will improve domestic power supply and export earnings.

On price developments, the Committee considered the moderate uptick in headline inflation in October 2019, attributing it partly to an expected temporary shortfall in food supply because of the recent land border closure and rise in demand as the festive season approaches. Although it noted that the price increase was not unexpected, the Committee believed that the medium to long-term benefits far outweigh the short-term cost. Consequently, it noted the need to drive down food prices through increased support for local production of staples foods, including rice, fish, poultry, palm oil, tomatoes etc. It also urged the Government to follow through with a sustainable policy on backward integration in the milk industry and other priority sectors of the economy.

On the fiscal sector, the Committee identified the need for institutional reforms through policies that would automate day to day processes of key revenue generating and security agencies such as the Nigerian Customs. This would provide additional advantage of stemming smuggling, kidnapping and the migration of terrorists into the country. The MPC reiterated the need for increased efficiency in public expenditure and the building of fiscal buffers.

On the impact of the recent closure of Nigerian land borders on domestic food prices, the Committee noted that any upward price movement arising from the closure was reactionary and therefore temporary. Moreover, significant investment has been made over the last three years to sustainably increase domestic food supply. It noted some of the key initiatives in this direction to include: the Commodity Development Initiatives, designed to finance the agricultural value chain of ten ((10) commodities namely; Cassava, Cocoa, Cotton, Rice, Tomato, Poultry, Livestock and Dairy, Fish, Oil Palm and Maize, which has received N171.66 billion in funding. Four of these crops received over 140.12 billion naira or 81.6 per cent of total disbursements (Cassava, 11.44 billion naira; Cotton, 40.47 billion naira; Rice, 53.40 billion naira; Oil palm, 34.81 billion naira). It is, therefore, expected that the outcome of these interventions will close the supply gaps already envisaged in the medium to long term, including dampening domestic prices. It thus, expressed support for the temporal closure of Nigeria's land borders, noting that securing the country's land borders should be further enhanced.

On crude oil price, the Committee noted the lull in the futures market, suggesting that prices would remain relatively weak into the foreseeable future. The Committee, therefore, urged the Federal Government to reconsider its 2020 budget oil price benchmark of US$57 per barrel, to build fiscal buffers.

The Committee was confident that despite the weaknesses from the external sector, efforts to ramp-up domestic production, through several measures by both the monetary and fiscal authorities, would douse the adverse effects on the domestic economy in the medium term, through the reduction of importation of food and other commodities.

The Committee's Decision

The MPC reviewed the upsides and the downsides of the options to tighten, hold or loosen. It was conscious that, while tightening may encourage capital inflows, it also has the downside consequence of constraining the already nascent recovery in output growth. The Committee also noted that a reduction in the policy rate will improve growth prospects, but in view of the uptick in inflationary pressures, it decided that the balance of risks was in favour of protecting price stability. Considering the recovery, decline in market interest rates, growth in domestic credit amongst other positive developments, the Committee felt that there would be more gains in the short to medium term in holding policy at its current position.

In its consideration to hold, the MPC noted with pleasure, the positive outcome of actions already taken by the Bank. These actions include: current policy on loan-to-deposit ratio, which has resulted in loans and advances rising by over N1.1trillion between June to October 2019. It further noted that these actions have assisted in boosting credit to the agricultural and manufacturing sectors, hence, the positive outcome on the GDP. The MPC is hopeful that the LDR initiative must be sustained as interest rates being paid by borrowers have so far dropped by up to 400 basis points between June and October 2019. These have happened with corresponding decline in NPLs to 6.5 per cent at end-October 2019. The MPC is, therefore, of the view that sustaining the MPR at its current level is crucial for better understanding of the unfolding impetus of growth before deciding on any probable variations. The MPC also feels that holding its current policy position offers pathways for appraising the effect of the heterodox policies to encourage lending by the banking industry without varying the policy rate as the downside risk to growth and caution on inflation looks stable. The MPC is also of the view that the improvements in the macroeconomic indicators such as the GDP, NPLs, CAR, and the LDR, suggest that current monetary policy stance is yielding results. It therefore, feels that maintaining the current stance would be necessary in order to sustain the improvements.

In view of the foregoing, the Committee decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 13.5 per cent and to hold all other policy parameters constant.

In summary, the MPC voted to:

I. Retain the MPR at 13.5 per cent;
II. Retain the asymmetric corridor at +200/-500 basis points around the MPR;
III. Retain the CRR at 22.5 per cent; and
IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
26th November 2019.