CENTRAL BANK OF NIGERIA ECONOMIC REPORT

Third Quarter 2020

FOREWARD

The Central Bank of Nigeria (CBN) Economic Report is a periodic publication of economic developments in Nigeria, intended for dissemination to the public. The Report provides insights on current economic developments in the real, fiscal, financial, and external sectors of the Nigerian economy, as well as on global issues of interest. It also reflects the policy initiatives of the CBN in pursuit of its mandate.

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EXECUTIVE SUMMARY

The global economy continued in the path of slow recovery as countries cautiously opened their economies in different parts of the world. Global output, according to the J.P. Morgan Global Composite Purchasing Managers Index (PMI), expanded to 50.8 index points in the third quarter of 2020. This was above the 50-point index threshold and the 38.87 index points recorded in the preceding quarter. The strongest economic activity performance was observed in the investment goods industry, where production rose at the fastest pace in almost a decade. Growth equally signaled positive development in business services, financial services, consumer goods and intermediate goods companies. An increase in employment for the first time in eight months was recorded in September 2020. Business outlook remained positive in the euro-area, Japan, India and South Africa, but fell in the US, the UK, Italy and Nigeria.

Economic activities picked up in the domestic economy in the third quarter of 2020, following further relaxation of the COVID-19 pandemic lockdown and the various intervention measures put in place by the Government and the Central Bank of Nigeria. This was reflected in the average composite manufacturing PMI, which rose to 46.8 index points in the third quarter of 2020, from 41.8 index points in the preceding quarter. Expansion was recorded in subsectors, such as electrical equipment, transportation equipment, cement, textile, apparel, leather and footwear, plastic and rubber products and nonmetallic mineral products.

Consumer demand increased amid heightened inflationary pressures, which persisted in the review period. The increase in the pump price of PMS and electricity tariff in the period caused ripples in the economy, as equilibrium in the market was dislodged, with heightened tension between the Nigeria Labour Congress (NLC) and the Federal Government. Prices of most agricultural export commodities continued to rise in the third quarter of 2020, influenced generally by firmer demand. Crude oil spot prices also recorded significant gains. The rise in crude oil prices in the review period was supported by further production cuts by OPEC+.

At ₦2,268.70 billion, federally collected revenue in the third quarter of 2020, grew by 4.5 per cent, relative to the level in the preceding quarter. However, it remained considerably below collections in the third quarter of 2019 and the budget benchmark, by 22.1 per cent and 10.7 per cent, respectively. Oil receipt accounted for 42.0 per cent of the total collection, while non-oil revenue made up the balance of 58.0 per cent.

The relatively low receipts underscored the lingering effect of the COVID-19 pandemic on oil prices.

Also, the revenue of the Federal Government of Nigeria (FGN) was highly constrained at ₦842.09 billion and fell short of the budget benchmark and the level in the third quarter of 2019, by 42.3 per cent and 35.7 per cent, respectively. The provisional FGN expenditure in the review period was ₦2,131.12 billion, representing a shortfall of 21.1 per cent, relative to the budget. The decline in expenditure reflected challenges in resource sourcing. Consequently, the fiscal operations of the FGN resulted in an estimated deficit of ₦1,289.03 billion. Total FGN debt outstanding as at end-June 2020 stood at ₦26,818.95 billion, with the domestic and external components accounting for 57.6 per cent and 42.4 per cent, respectively. The prospect for a better performance is brighter, following the gradual recovery in global oil demand and economic activities.

The Bank maintained an accommodative monetary policy stance in the third quarter of 2020 to mitigate the effect of the COVID-19 pandemic and promote economic recovery, with a boost to credit to key sectors of the economy. Nonetheless, the financial sector remained resilient in the review quarter as observed in the various financial soundness indicators. The banking system liquidity ratio remained above the regulatory benchmark of 30.0 per cent. Activities on the Nigerian Stock Exchange (NSE) were bullish in the third quarter of 2020 with investors' growing optimism about the economy. The bullish run was informed by disclosure and publication of positive half-year earnings by most quoted companies.

Net foreign exchange flows through the economy marginally increased. The improvement was due, mainly, to the reduction in outflow through the CBN and autonomous sources. The average exchange rate, at the inter-bank, the Bureau-de-Change (BDC), and the Investors and Exporters (I&E) window, were ₦379.73/US$, ₦463.00/US$ and ₦386.00/US$, respectively, in the review quarter. Nigeria's external reserves fell to US$35.33 billion at the end of the quarter under review from US$35.78 billion in the preceding quarter, driven by interventions in the foreign exchange market, payments to external creditors and third-party MDAs transfers. At this level, the foreign reserves could cover 8 months of import of goods and services.

1.0 GLOBAL ECONOMIC DEVELOPMENTS

Global Economic Conditions

The global economy continued the path of slow recovery, as countries opened their economies in almost all parts of the world. Global output according to the J.P. Morgan Global Composite Purchasing Managers Index (PMI) rebounded in the third quarter of 2020, compared with slowed economic activities in the preceding quarter (Table 1). The strongest economic activity performance was in the investment goods industry, where production rose at the fastest pace in almost a decade. Growth equally signaled positive development in business services, financial services, consumer goods and intermediate goods industries. An increase in employment for the first time in eight months was recorded in September 2020. Business outlook remained positive in the euro-area, Japan, India, Germany and South Africa, but fragile in the US, the UK, Italy and Nigeria.

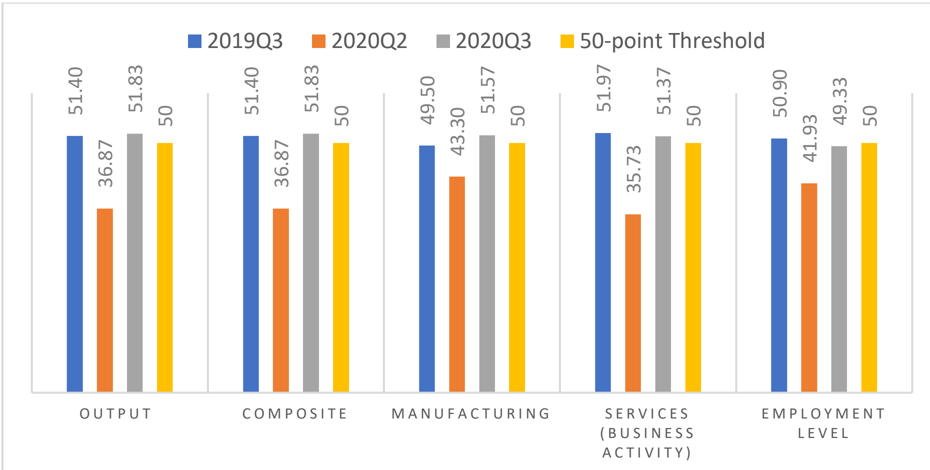
The Organisation for Economic Cooperation and Development (OECD) countries interim report for September 2020, projected a bigger contraction of 4.5 per cent, as against the forecast of negative 2.4 per cent in March 2020. This was due to the global output collapse in the first half of 2020, as the COVID-19 pandemic spread across the world. However, a recovery is imminent following the easing of COVID-19 restrictions and the reopening of businesses in July 2020. The OECD, however, forecasts a growth rate of 5.0 per cent for the global economy in 2021, on the assumption that strong fiscal, monetary and structural policies would prevail, as opposed to the current lockdown measures. Regardless, uncertainty remains high, as downside risks, which include; the resurgence of the COVID-19 pandemic in some countries, renewed lockdown measures, weak international trade, poor labour market conditions and oil price volatility, persist.

Table 1: Global Purchasing Managers' Index (PMI)

	2019Q3	2020Q2	2020Q3
Output	51.40	36.87	51.83
Composite	51.40	36.87	51.83
Manufacturing	49.50	43.30	51.57
Services (Business Activity)	51.97	35.73	51.37
Employment Level	50.90	41.93	49.33

Source: JP Morgan, CBN Staff compilation

Figure 1: Global PMI of Third Quarter 2020



Source: *JP Morgan*, CBN Staff compilation.

1.1. Global Output

Economic Activity in Advanced Economies

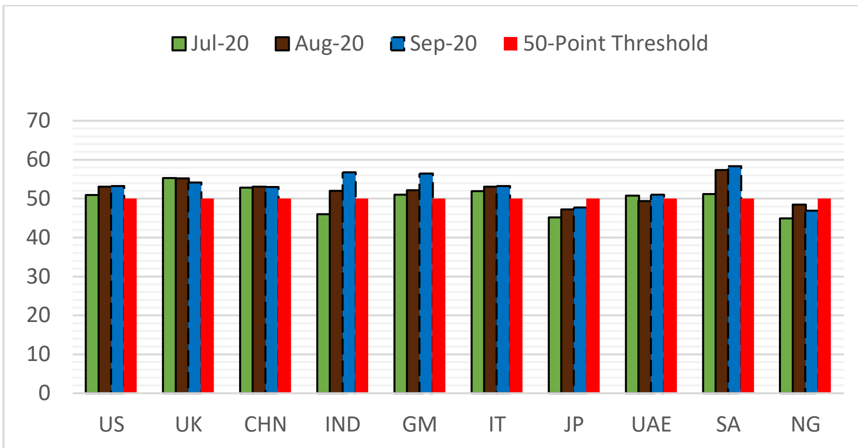
Global economic activity in the third quarter of 2020, gathered momentum, relative to the second quarter of 2020.

Economic activity in advanced economies showed strong rebound in the third quarter of 2020, compared with the preceding quarter, due to the eased effect of COVID-19 pandemic and other factors. The PMI of the United States, the United Kingdom, Germany and Italy in the third quarter of 2020 improved, as employees returned to work and companies reopened, and COVID-19 restrictions eased. In addition, the Japanese economy contracted at slower pace in the third quarter of 2020, compared with the level in the second quarter of 2020. However, Japanese PMI, for the first, second and third quarters of 2020 increased consecutively but remained below 50-point index benchmark (Figures 2 and 3). On the price front, input costs rose modestly, while output charges fell slightly.

Economic Activity in Emerging and Developing Economies

In the Emerging Market and Developing Economies (EMDEs), there was greater momentum of economic recovery, as the PMI of China, India, United Arab Emirates improved in the third quarter of 2020. Factory activities increased with new export business expanding at the fastest rate. On the other hand, the Manufacturing PMI for Nigeria in the third quarter of 2020 indicated a fifth straight month of contraction in factory activity due to the COVID-19 pandemic, and oil price shocks, among other factors. To over-turn the trend, policy measures were put in place by both the monetary and fiscal authorities.

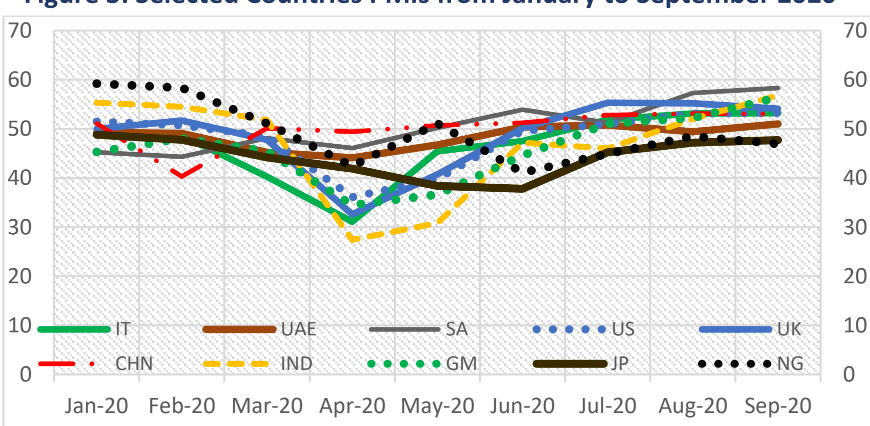
Figure 2: Selected Countries PMIs in Third Quarter 2020



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

Note: US, UK, JP, IT, GM, CH, IN, BR, IND, UAE, SA and NG represent United States, United Kingdom, Japan, Italy, Germany, China, India, Britain, Indonesia, United Arab Emirates, South Africa and Nigeria respectively.

Figure 3: Selected Countries PMIs from January to September 2020



Source: Trading Economics/Various Country Websites, CBN Staff compilation:

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

1.2. Global Inflation

Global Inflation

COVID-19 Pandemic-induced supply constraints and weaker demand, though tapering, continued to influence the trajectory of consumer prices across most economies in the third quarter of 2020. The inflation outcomes in the third quarter remained mixed for advanced and emerging and developing economies. Consumer prices in the US sustained an upward trend through the third quarter of 2020, averaging 1.23 per cent, relative to the 0.33 per cent in the second quarter. The increase was driven, largely, by higher gasoline price and increased cost of used cars and trucks. Conversely, the second quarter of 2020 inflation in the UK was higher than the average recorded in July and August 2020, on account of declines in prices of restaurants and cafes, airfare and clothing in the third quarter of 2020. The fall in food, transport and energy prices in China continued to dampen inflationary pressures, with average inflation falling to 2.55 per cent in July and August 2020 from 2.73 per cent in the second quarter of 2020. Nigeria and South Africa, on the other hand, recorded higher domestic price levels in the third quarter of 2020, relative to the second quarter on account of elevated prices of food and non-food inflation components in Nigeria, while higher energy and utility prices accounted for that of South Africa.

Figure 4: Inflation Rate in Some Selected Countries in Third Quarter 2020

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

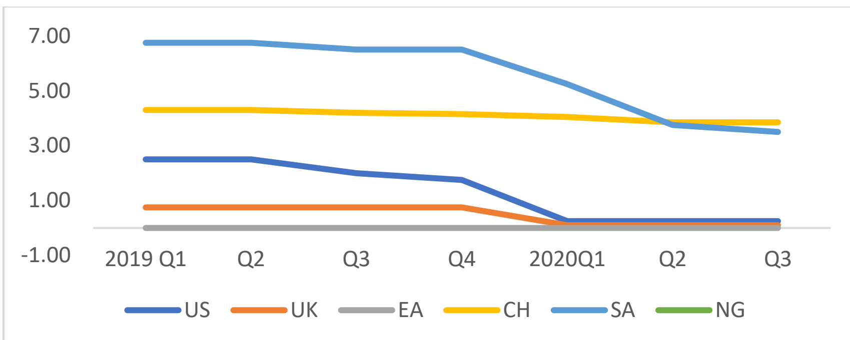
Note: US, UK, JP, IT, GM, CH, IN, BR, INDO, SA and NG represent United States, United Kingdom, Japan, Italy, Germany, China, India, Britain, Indonesia, South Africa and Nigeria respectively.

Global Financial Markets

1.3. Global Financial Markets

Global financial markets eased significantly, and risk asset prices rebounded due to the actions of central banks to address severe market stress. The financial markets easing was propelled by the fall in interest rates (Figure 5) and rebound of stock prices from their troughs in the first quarter of 2020, occasioned by swift policy responses by central banks. This altered the negative market risk perception of investors about global financial market conditions. Also, stimulus packages, introduced by governments, moderated the impact of the outflow from the EMDEs and eased market conditions, especially in advanced economies.

Figure 5: Monetary Policy Rates of Selected Central Banks (per cent)



Source: Various Central Bank Websites, September 2020.
Note: US, UK, EA, CH, SA and NG represent United States, United Kingdom Euro Area, China, South Africa and Nigeria respectively.

Figure 6: 10-year Government Bond Yields for Selected Countries

Source: Bloomberg Finance

Figure 7: Equity Markets

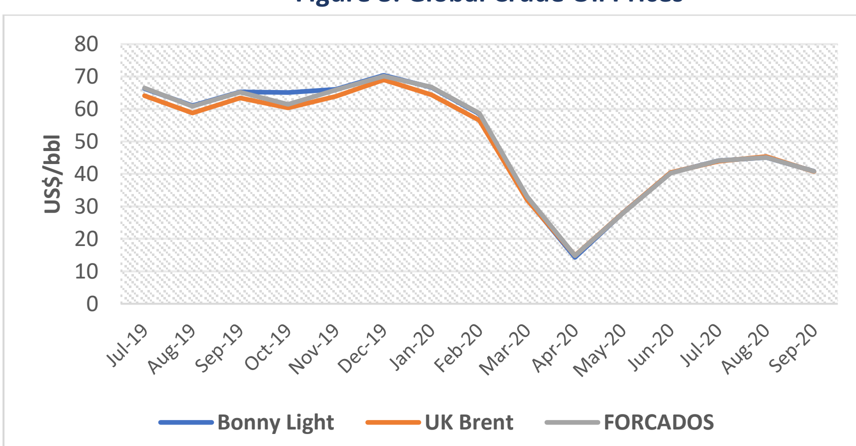
Source: Bloomberg Finance

1.4 Global Oil Market

Global Oil Market

Market fundamentals pushed crude oil prices to a six-month high in the third quarter of 2020. The rebound in crude oil prices in international market was attributed to a further easing of the COVID-19 lockdown, recovery in refinery operations and utilisation rates in the major regions, and the agreed supply cut by the Organisation of Petroleum Exporting Countries (OPEC+).

Figure 8: Global Crude Oil Prices



Source: Reuters, Various Central Bank Websites, September 2020.

2.0. DOMESTIC ECONOMIC DEVELOPMENTS

2.1. THE REAL SECTOR

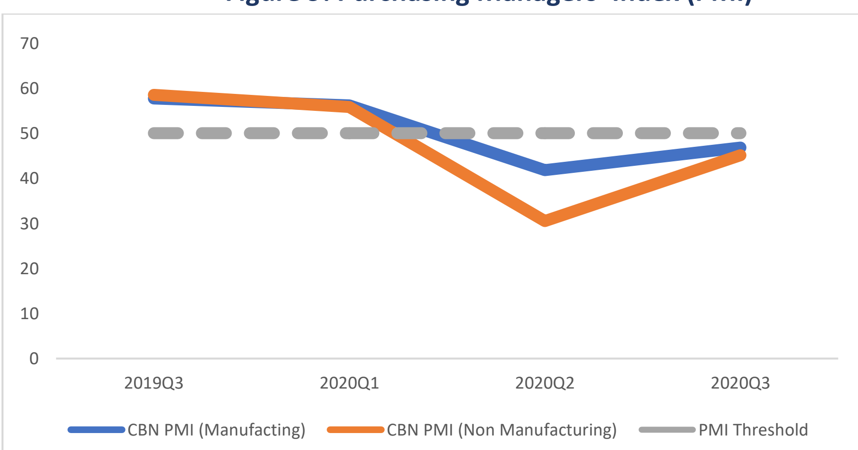
2.1.1. Domestic Output and Business Activities

Domestic Output and Economic Activities

Economic activities in the domestic economy picked up in the third quarter of 2020, following further relaxation of the COVID-19 lockdown and the various intervention measures put in place by the Federal Government and the Central Bank of Nigeria (CBN). The modest improvement in business conditions was reflected in the average manufacturing Purchasing Managers Index (PMI), which rose to 46.8 index points in the third quarter of 2020, from 41.8 index points recorded in the second quarter of 2020. Expansion was recorded in subsectors, such as electrical equipment, transportation equipment, cement, textile, apparel, leather and footwear, plastic and rubber products and nonmetallic mineral products. Consumer demand increased amid heightened inflationary pressures, which persisted in the review period. Demand and supply shocks, continued to impact on business activities and general economic conditions, owing to the lingering effect of the COVID-19 pandemic. The increase in the pump price of PMS and electricity tariff in the period rattled the economy and heightened tension between the Nigeria Labour Congress (NLC) and the Federal Government.

The average composite non-manufacturing PMI increased to 43.3 index points in the third quarter of 2020, compared with 30.5 index points in the preceding quarter. However, it declined by 15.2 index points compared to the corresponding period of 2019.

Figure 9: Purchasing Managers' Index (PMI)



Source: CBN Statistics Department

Table 2: Manufacturing and Non-Manufacturing Sector Purchasing Managers' Index for Third Quarter 2020

COMPONENTS	2019 Q3	2020 Q2	2020Q3
A. Manufacturing PMI	**57.7**	**41.8**	**46.8**
Production level	58.7	40.6	47.1
New orders	57.2	39.6	46.2
Supplier Delivery Time	58.1	63.1	54.3
Employment level	57.0	31.7	42.9
Raw material Inventory	57.7	39.2	44.1
B. Non-manufacturing PMI	**58.7**	**30.5**	**43.3**
Business Activity	58.6	26.9	45.7
New Orders	58.7	26.1	42.3
Employment level	58.5	34.7	42.3
Inventories	58.9	34.3	43.0

Source: Central Bank of Nigeria

The ease of COVID-19 restrictions led to increase in consumer demand, which stimulated new orders and production levels in the review quarter, particularly in nonmetallic mineral products, as well as arts, entertainment and recreation subsectors. New orders averaged 46.2 index points and 42.3 index points in both manufacturing and non-manufacturing in the third quarter of 2020, above their respective levels of 39.6 and 26.1 index points in the preceding quarter.

New Orders and Inventories

Following a rise in new orders, inventories for both manufacturing and non-manufacturing sectors increased. Raw material inventories in the manufacturing sector, rose to 44.1 index point, while inventories for the non-manufacturing sector also increased to 43.0 index points in the review period. This was aided by improved suppliers' delivery time, as restrictions on interstate travels were removed.

Employment

Employment level in the review quarter improved, following firms' resumption of production activities and strengthening consumer demand. Employment level for both manufacturing and non-manufacturing activities increased to 42.9 index points and 42.3 index points, respectively.

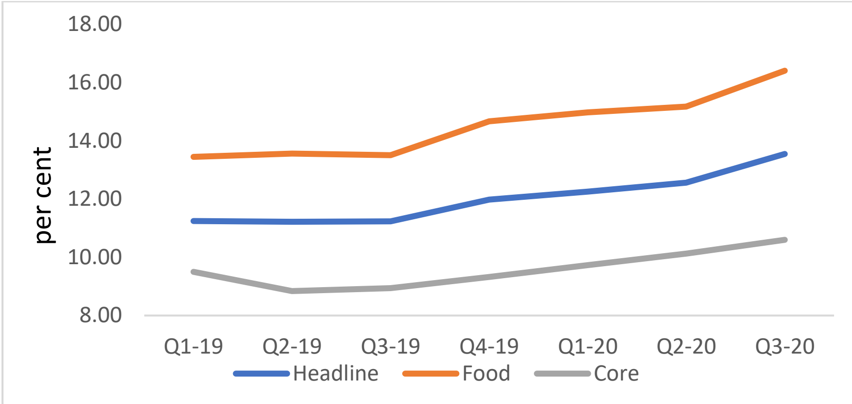
Headline Inflation

2.1.2. Consumer Prices

Inflationary pressures persisted in the third quarter of 2020, amid demand and supply shocks.

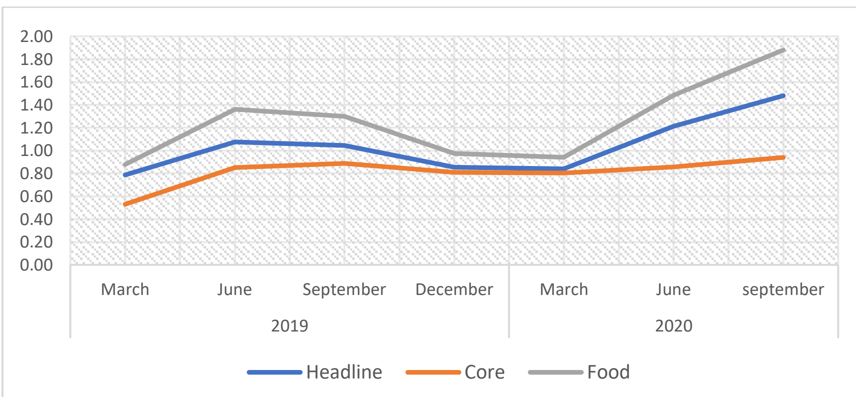
Headline inflation rose to 13.7 per cent in the third quarter of 2020, year-on-year, from 12.6 per cent and 11.2 per cent in the second quarter of 2020 and the third quarter of 2019, respectively. The rise in headline inflation was driven by food and non-food components. Other factors that drove the increase included: the increase in pump price of PMS, higher transportation/logistics cost, persistent insecurity conditions in some parts of the country, as well as farm flooding.

Figure 10: Headline, Food and Core Inflation (Year-on-Year)



Source: National Bureau of Statistics (NBS)

Figure 11: Quarterly Headline, Food and Core Inflation (Month-on-Month)



Source: National Bureau of Statistics

Food Inflation

On a year-on-year basis, food inflation in the review period trended upward to 16.7 per cent, from 15.2 per cent in the preceding quarter. The rise in the food index was attributed to the prices of bread and cereals, potatoes, yam and other tubers, meat, fish, fruits, oils and fats, and vegetables.

Core inflation (All items less farm produce) was 10.6 per cent in the review period from 10.1 per cent in the preceding quarter. The highest increase in the prices of the components of core inflation were recorded in passenger air transport, hospital services, medical services, pharmaceutical products, maintenance and repair of personal transport equipment, vehicle spare parts, motor cars, passenger transport by road and housing utilities (water, electricity and gas).

2.1.3 Industrial Sector Activities

Industrial Production

Improved level of economic activities reflected a rise in industrial production in the review period. The estimated index of industrial production rose to 104.2 (2010=100) in the third quarter of 2020, reflecting a 3.6 per cent increase compared with the preceding quarter but a decline of 10.3 per cent below the level in the corresponding quarter of 2019. The increase relative to the preceding quarter was attributed to improved activities, following strengthened consumer demand.

Manufacturing

Manufacturing activities witnessed modest increase in the review period. At 162.6 (2010=100), estimated index of manufacturing production in the third quarter of 2020 showed an increase of 2.1 per cent, compared with the preceding quarter and a decline of 10.3 per cent compared with the corresponding quarter of 2019. The development was due, largely, to increase in demand and gradual reopening of economies that allowed for access to raw materials.

Capacity Utilisation

Following increased production activities, capacity utilisation witnessed an improvement, owing to increase in the number of shifts operated by firms. The estimated average capacity utilisation for third quarter 2020 was 43.8 per cent, which represented 3.7 percentage points increase, compared with the level in the preceding quarter, but a decline of 13.9 percentage points below the level in the corresponding quarter of 2019. The development, relative to the preceding quarter, was attributed to improvement in the supply and demand chain, following ease of restrictions. Expansion in the production level was noticeable in some activity groups in the manufacturing subsectors such as: cement; chemical & pharmaceutical products; food, beverage & tobacco products; nonmetallic mineral products; and plastics & rubber products.

Activities in the mining sector declined in the review period. The estimated index of mining production in the third quarter of 2020 stood at 71.9 (2010=100), a marginal decline of 0.7 per cent, and 17.3 per cent, compared with the preceding quarter and corresponding quarter of 2019, respectively. The decline in mining activities was attributed to the development in the oil sector, arising from the OPEC and its allies (OPEC+).

2.1.4 Energy Sector

Electricity Generation

The performance of the energy sector improved in the review period, following enhanced gas supply to gas-fired power plants and effective water management at the hydro power stations. Electricity generation, transmission and distribution improved, due to enhanced demand by industries as production activities resumed. Consequently, the average estimated electricity generation for the third quarter of 2020 rose to 4368.3 MW/h, showing increases of 19.6 per cent and 23.3 per cent, compared with the level in the preceding quarter and corresponding quarter of 2019, respectively.

Electricity Consumption

Similarly, the average estimated electricity consumption increased by 19.2 per cent to 3,704.7 MW/h, compared with the preceding quarter. Also, the increase of 26.1 per cent was recorded compared with the corresponding quarter of 2019.

2.1.5 Socio-Economic Development

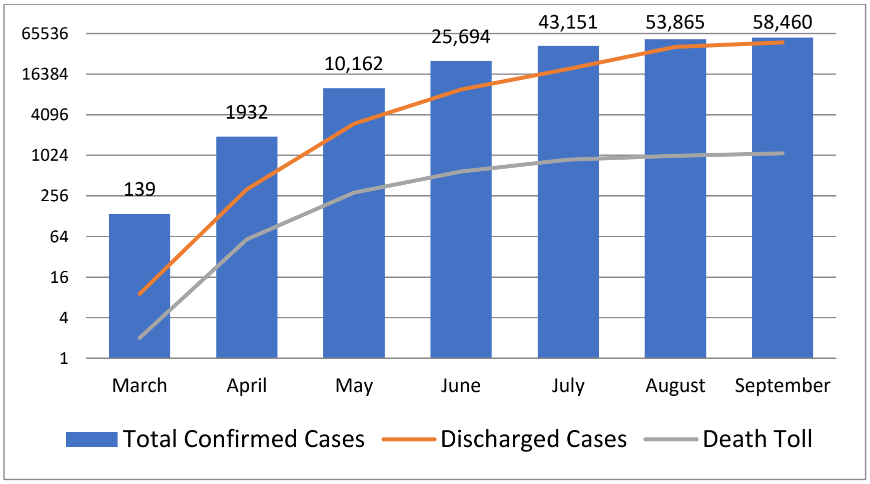
Although gradual resumption of economic activities continued in the quarter, the socio-economic sector remained under pressure, as most of the subsectors, including education, were undermined by the lingering effects of the COVID-19 pandemic.

Health

The health sector remained under pressure as the spread of the COVID-19 pandemic persisted and the National Association of Resident Doctors (NARD) downed tools over the failure of the government to meet some demands of the association made in June 2020. However, the Federal Government approved ₦8.9 billion for the payment of the COVID-19 hazards and inducement allowances to all medical health workers in the country. This was in addition to the ₦9.3 billion premium paid to Insurance Companies, for Life Group Insurance and payment of death benefits of health workers agreed on in June 2020.

The number of confirmed COVID-19 cases increased by 127.5 per cent to 58,460 as at September 28, 2020 from 25,694 recorded at the end of the preceding quarter. However, the number of active cases declined to 7,454 in the review period from 15,358, in the preceding quarter of June 2020, representing a decrease of 51.5 per cent. The number of discharged cases increased by 411.9 per cent to 49,895 from 9,746 in the preceding quarter, while deaths stood at 1,111.

Figure 12: Covid-19 Statistics[1]



Source: NCDC

Transport

The Federal Government approved a ₦10 billion survival fund for road transport workers and operators, who were severely affected by the COVID-19 induced movement restrictions. This measure was aimed at stabilising transportation fares, assisting rural farmers in conveying farm produce, as well as enhancing job opportunities.

The aviation sector was partially reopened in the review period after months of inactivity. Full domestic operations resumed in all the airports, while the Murtala Muhammed International Airport, Lagos and Nnamdi Azikiwe International Airport, Abuja were reopened for controlled international flights. To boost aviation activities, the Federal Government approved the sum of ₦13.122 billion for the digitalisation of four Nigerian airports

Similarly, rail transport activities improved in the review period with the resumption of Abuja-Kaduna and Lagos-Ogun Mass Transit Train Services. To boost rail services in the country, the Nigeria Railway Corporation acquired twenty-four new coaches to operate the Lagos-Ibadan Railway route.

Education

In preparation for the reopening of schools across the country for the new academic session, the Federal Government ordered State Governments to conduct risk assessment of schools for possible resumption. Consequently, academic activities resumed in private and state-owned schools in Anambra, Akwa Ibom, Benue, Borno, Ekiti, Kogi, Lagos, Ogun, Osun, Oyo and Taraba states. Also, the National Economic

[1] Covid-19 data as at September 28, 2020

Council directed the National Universities Commission to equip Nigerian universities with the capacity to evolve digital learning platforms. The National Commission for Colleges of Education and National Board for Technical Education were also directed to key into the initiative.

2.1.6 Commodity Market Developments

Agricultural Commodity Prices

Prices of most agricultural export commodities maintained an upward trend in the third quarter of 2020, influenced generally by firmer demand. Provisional data showed that the All-commodity price index (in US$ terms, 2010=100) averaged 91.5 index points in the third quarter of 2020, up by 13.1 per cent from the level in the preceding quarter and the highest since the beginning of the year. The price increase ranged from 2.6 per cent for coffee to 13.0 per cent for palm oil. The price increase in palm oil was due, mainly, to prospective production slowdown in leading producing countries, and the attendant firmer global import demand, arising from increased economic activities. Data showed that the prices of groundnut, cotton, rubber, soya beans and sorghum increased in the quarter, while the prices of cocoa and wheat fell.

Table 3: Agricultural Export Commodities for Third Quarter 2020

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

Commodity	19-Q3	20-Q2	20-Q3	% Change (1) & (3)	% Change (2) & (3)
	-1	-2	-3	-4	-5
All Commodities	*71.01*	*80.84*	*91.46*	*28.80*	*13.14*
Cocoa	*75.33*	*74.23*	*69.49*	*-7.76*	*-6.39*
Cotton	*43.24*	*39.09*	*41.81*	*-3.31*	*6.96*
Coffee	*52.46*	*59.90*	*61.44*	*17.11*	*2.57*
Wheat	*61.66*	*67.78*	*64.88*	*5.22*	*-4.28*
Rubber	*32.77*	*28.63*	*30.59*	*-6.66*	*6.85*
Groundnut	*84.07*	*112.94*	*125.86*	*49.70*	*11.44*
Palm Oil	*46.43*	*49.79*	*56.27*	*21.20*	*13.01*
Soya Bean	*66.68*	*66.32*	*68.93*	*3.38*	*3.94*
Sorghum	*68.51*	*77.25*	*80.21*	*17.09*	*3.83*

Source: Staff Estimates based on data from Index Mundi

Steeper growth in food prices was recorded in 2020Q3 at the domestic front. In the domestic market, the prices of selected food crops, increased significantly in the third quarter of 2020, compared with the levels in the preceding quarter. The highest increases were recorded for garri (yellow 12.7 per cent and white 11.7 per cent) and maize grain (yellow 11.3 per cent and white 11.1 per cent), respectively. Data from the Poultry Association of Nigeria (PAN) showed that the price of a metric tonne of maize more than doubled, from ₦90,000.00 per metric ton in January 2020 to about ₦200,000 (landing cost) in the quarter. However, with the approval of four companies (Wacot, Chi farms, Crown flour, and Premier feed mills) to import the commodity, the upward trend in the price of maize is expected to reverse.

Food prices maintained an upward trend, as food inflation in the quarter averaged 16.0 per cent, compared with 15.1 per cent and 13.3 per cent in the preceding and corresponding quarters, respectively. The development was alluded to the COVID-19 induced demand and supply shocks in the market. The increase in petrol and electricity prices during the quarter also contributed (Table 4).

Table 4: Domestic Prices of Selected Agricultural Commodities in Third Quarter 2020

Food Item	Unit	19-Q3	20-Q2	20-Q3	% Change	% Change
		1	2	3	(1) & (3)	(2) & (3)
Agric eggs (medium size price of one)	1kg	462.3	470.7	477.4	3.2	1.4
Beans brown, sold loose	'	317.8	281.5	303.7	-4.4	7.9
Beans: white black eye, sold loose	"	283.1	253.7	272.7	-3.7	7.5
Gari white, sold loose	"	368.0	411.3	428.7	16.5	4.2
Gari yellow, sold loose	"	153.5	200.4	223.8	45.9	11.7
Groundnut oil: 1 bottle, specify bottle	"	164.5	225.2	253.7	54.2	12.7
Irish potato	"	553.4	607.5	625.5	13.0	3.0
Maize grain white sold loose	"	263.5	313.1	323.0	22.6	3.2
Maize grain yellow sold loose	"	138.6	170.7	189.7	36.9	11.1
Palm oil: 1 bottle, specify bottle	"	141.4	172.7	192.2	35.9	11.3
Rice agric sold loose	"	201.0	227.4	240.9	19.8	5.9
Rice local sold loose	"	453.2	467.1	495.2	9.3	6.0
Rice Medium Grained	"	220.9	236.2	243.5	10.2	3.1
Rice, imported high quality sold loose	"	205.9	229.2	234.7	14.0	2.4
Sweet potato	"	315.6	392.6	410.7	30.2	4.6
Tomato	"	280.1	345.0	371.0	32.5	7.5
Vegetable oil:1 bottle, specify bottle	"	313.9	395.9	413.8	31.9	4.5
Wheat flour: prepacked (golden penny 2kg)	"	361.3	471.6	498.0	37.8	5.6
Yam tuber	"	139.0	160.2	174.5	25.5	8.9

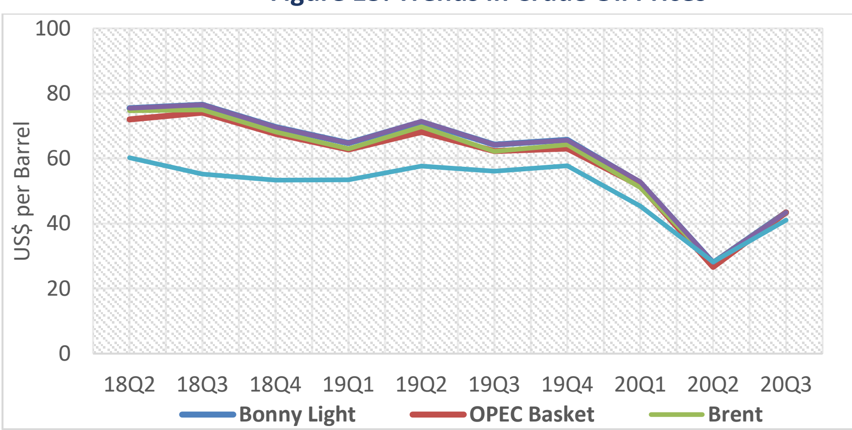
Source: National Bureau of Statistics

Crude Oil Spot Market

Crude oil spot prices recorded significant gains in 2020Q3, as the market continued to recover from the impact of COVID-19 lockdown measures. The rise in crude oil prices in the period was supported by production cuts by OPEC+.

Average quarterly spot price of Nigeria's reference crude oil, the Bonny Light (37° API), rose by 55.6 per cent, quarter-on-quarter, to US$43.40 pb in 2020Q3, compared with US$27.90 pb in 2020Q2. The UK Brent, at US$43.37 pb; the Forcados, at US$43.39 pb; and the WTI, at US$41.10 pb, exhibited similar trends. The average price of OPEC basket for thirteen selected crude streams rose by 63.0 per cent, to US$43.46 pb in the third quarter of 2020, compared with US$26.67 pb in the preceding quarter (Figure 4). The increase in crude oil spot prices was driven, largely, by improved demand for crude oil due to the gradual recovery of economic activities and the production cut implemented by OPEC+ to stabilise the market. Particularly, there were recoveries in refinery operations and utilisation rates in the US and China. However, gains in spot prices were expected to slow in the coming months, as industry-wide refinery maintenance season approaches, coupled with concerns over a second wave of the COVID-19 pandemic.

Figure 13: Trends in Crude Oil Prices



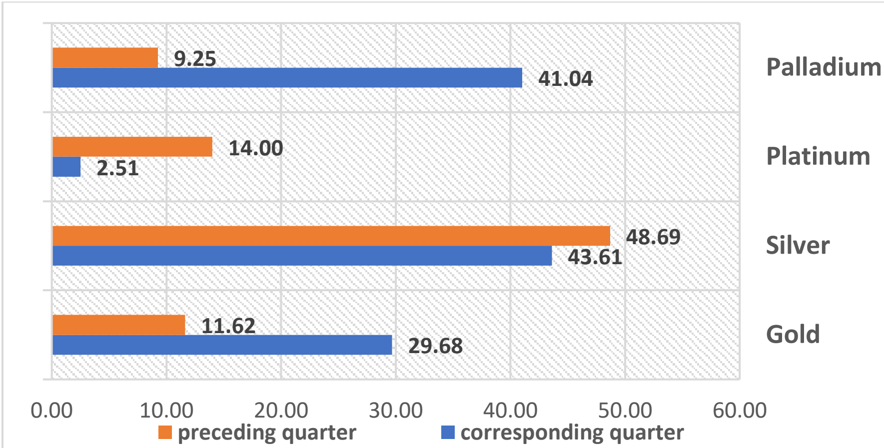
Source: Thomson Reuters

Prices of Other Mineral Commodities

Available data from Reuters indicated significant gains in the prices of various traded precious metals (Gold, silver, platinum, and palladium), during the third quarter of 2020.

The average spot prices of gold and silver in the third quarter of 2020 rose by 11.6 per cent and 48.7 per cent, to US$1,911.62 per ounce (oz) and US$24.40 per oz, respectively, compared with US$1,712.56 per oz and US$16.41 per oz in the second quarter of 2020, respectively (Figure 14).

Figure 14: Price Changes of some Selected Precious Metals for Third Quarter 2020 (per cent)



Source: Thomson Reuters

The rise in the prices of gold and silver was due to a weak US dollar, which resulted to an increase in demand for both precious metals as alternative store of value. This was coupled with the expectation of interest rates remaining close to zero for a longer period than previously anticipated, due to higher tolerance for inflation by the Federal Reserve Bank.

Average spot prices of platinum and palladium also recorded gains of 14.0 per cent and 9.5 per cent, to US$901.5 per oz and US$2,161.45 per oz, respectively, compared with US$790.75 per oz and US$1,978.36 per oz in the preceding quarter. The increase in the price of both precious metals was driven, largely, by stronger demand, following the recovery of activities in the automobile industry, particularly in China and the US, as well as supply shortfalls of the metals. Both metals are used mostly in the production of catalytic converters for petrol cars, electronics and jewelries.

Domestic Crude Oil Production and Export

Domestic crude oil production and export recorded further decline in the third quarter of 2020, as OPEC and its allies (OPEC+) sustained the enforcement of agreed production cuts.

Nigeria's crude oil production, including condensates and natural gas liquids, at an average of 1.53 mb/d, recorded a decline of 0.21 mb/d or 12.1 per cent relative to the 1.74 mb/d in the preceding quarter. Of the 1.53 mb/d produced, an average of 1.08 mb/d was billed for export, while the balance was allocated for domestic consumption in the review period. The decline in production and export was as a result of Nigeria's commitment to fully compensate for its overproduction (0.33 mb/d) in the second quarter of 2020, to support the rebalancing efforts of the oil market by OPEC+. Nigeria pledged an additional cut of 0.11 mb/d in July - September 2020 and compensated for about 0.30 mb/d (93.0 per cent) in August 2020. Consequently, Nigeria's production was expected to rebound to its OPEC+ allowable limit in the coming quarter.

World crude oil supply in the third quarter of 2020 decreased by 1.4 per cent to an average of 91.03 mb/d, from 92.33 mb/d in the preceding quarter. OPEC crude supply declined by 7.8 per cent to 23.65 mb/d, from 25.65 mb/d in the preceding quarter. The constrained supply in the period was driven, mainly, by the high compliance level of OPEC members and their allies to stabilise the oil market through the elimination of excess crude stock.

Crude oil demand rose by 11.4 per cent to 94.75 mb/d, from 85.06 mb/d in the second quarter of 2020. The increase in global crude oil demand was driven, largely, by the uptick in economic activities and the reopening of businesses, following the gradual easing of COVID-19 lockdown measures earlier put in place by most countries. Crude oil demand in the period was particularly high in OECD countries with demand rising by 15.0 per cent in the period to 43.03 mb/d from 37.41 mb/d in the preceding quarter.

Overall, the global crude oil market recorded an estimated supply deficit of 3.72 mb/d in the third quarter of 2020. This was underscored by some OPEC members during the Joint Ministerial Monitoring Committee (JMMC) meeting on September 17, 2020, stating that the oil market was not oversupplied. However, the JMMC reiterated the importance of members adhering to full compliance level and compensating for overproduction by December 2020.

2.1.7 Development Financing

Development Financing

Intervention schemes by the CBN continued to focus on credit delivery to critical sectors, in a bid to enhance productivity and stimulate the economy.

To curtail the spillover effects of the COVID-19 pandemic and support business activities, the Federal Government launched a ₦75 Billion Micro, Small and Medium Enterprises (MSME) Survival Fund. The Scheme is estimated to save about 1.3 million jobs across the country and impact on 35,000 individuals per state. Similarly, the Central Bank of Nigeria approved ₦200 billion as mortgage financing to Family Homes Fund Limited (FHF). The Fund was expected to fast-track the construction of 300,000 homes across the country within the next five years and help create up to 1.5 million direct and 1 million indirect jobs.

For commercial agriculture, in September 2020, the sum of ₦5.46 billion was released to four lending banks for disbursement to five projects. The disbursement brought the total number of projects financed under the Commercial Agriculture Credit Scheme (CACS) to 627 and the total amount released to ₦665.37 billion. During the same period, eight lending banks repaid the sum of ₦6.45 billion in respect of sixty-nine projects, bringing the cumulative repayment under CACS from inception in 2009 to ₦435.94 billion. Analysis of the number of projects financed under CACS showed that production accounted for 60.9 per cent, while processing, storage, input and marketing accounted for 29.1 per, 4.5 per cent, 3.4 per cent and 2.6 per cent, respectively.

Total disbursement under the Paddy Aggregation Scheme (PAS) Phase 2 from inception in 2018 was ₦55.90 billion as at September 20, 2020, while the sum of ₦200 million was released to a project under the Maize Aggregation Scheme (MAS). For the Agricultural Credit Guarantee Scheme (ACGS), the sum of ₦731.8 million was guaranteed to 5,142 farmers during the quarter, bringing the cumulative for the year to ₦2.2 billion for 14,783 farmers and the cumulative from inception in 1978 to ₦120.5 billion for 1,175,486 farmers.

To further strengthen the intervention in the agricultural sector, the CBN, during the quarter, amended the Agricultural Credit Guarantee Scheme Fund (ACGSF). The amendment increased the maximum amount granted to collateralised loans under the scheme from ₦10 million to ₦50 million, and ₦100,000 for non collaterised loans. The amendment also allows the scheme to finance all aspects of agricultural value chain.

Similarly, towards increasing agricultural productivity and ensuring a sustainable income for farmers, the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL Plc), in collaboration with the Royal Exchange General Insurance Company (REGIC), developed a Hybrid Multi-Peril Crop Indemnity-Index Insurance (HM-II). The new product is designed to protect farmers from losses during planting seasons caused by bad weather (low & high rainfall, early & late season dry spells), pest, disease and fire outbreaks, as well as permanent disability or death of farmers.

Under the Agri-Business Small and Medium Enterprise Investment Scheme (AGSMEIS), a total of ₦10.41 billion was released to the NIRSAL Microfinance Bank in favour of 2,234 beneficiaries at end-August 2020. Cumulatively, releases to PFIs for onward disbursement stood at ₦51.85 billion in favour of 13,867 beneficiaries, as against ₦41.44 billion disbursed to 11,633 beneficiaries in July 2020. For the Creative Industry Financing Initiative (CIFI), disbursement for 36 projects was put at ₦210.52 billion, while the Targeted Credit Facility (TCF) received a total of ₦23.23 billion.

The improved credit delivery and intervention programmes were expected to stimulate output and dampen prices in the market.

2.1.8. Domestic Economic Outlook

Nigeria's outlook for the rest of the year will be shaped by the twin shocks of COVID-19 pandemic and oil price volatility (particularly decline in crude oil prices and OPEC supply cut deal). Nigeria's growth is expected to remain subdued for the rest of the year as economic activities remain tepid and lingering structural challenges continue to accentuate the impact of the COVID-19 pandemic. Despite efforts by the Government to boost economic activities, growth is projected to contract in 2020. The contraction in economic activity could be exacerbated by decline in crude oil prices as a result of non-compliance with OPEC production cut and the second wave of COVID-19 pandemic in crude oil importing economies. Specifically, real GDP is expected to contract in the third quarter of 2020, premised on the fact that the economy is operating at sub-optimal level in the forecast horizon.

Headline inflation, which has been on a steady rise since the start of the year, is expected to continue along its upward trajectory until the end of the year, accelerating to 14.5 per cent by end-December 2020. The month-on-month inflation will follow the same trajectory. Food supply shocks associated with flooding and insecurity, hikes in PMS prices and seasonal effects, are expected to drive inflation.

A rebound of output depends on the effectiveness of the various stimulus packages and intervention measures put in place to spur productivity, output and improve livelihoods. The subsisting policy on loan-to-deposit ratio (LDR), adjustment of corporate tax rates for MSMEs under the 2019 Finance Act and continued intervention in the real sector by the CBN are expected to stimulate investment and consumption during the period. In addition, the development of the Gold Purchase Framework by the CBN under the Presidential Artisanal Gold Mining

Development Initiative (PAGMDI), would help to diversify the revenue base, improve foreign exchange earnings and accretion to external reserves.

2.2 FISCAL SECTOR DEVELOPMENTS

2.2.1 Federation Account Operations

Summary of Fiscal Operations

At ₦2,268.70 billion, federally collected revenue in the third quarter of 2020 grew by 4.5 per cent, over the level in the preceding quarter. However, it was below collections recorded in the same quarter of 2019 and the budget benchmark by 22.1 per cent and 10.7 per cent, respectively. Oil receipt accounted for 42.0 per cent of the total collection, while non-oil revenue made up the balance of 58.0 per cent. The relatively low oil receipts underscored the lingering effect of the COVID-19 pandemic on oil prices, thereby dwindling the finances of the general government.

The retained revenue of the Federal Government of Nigeria (FGN), at ₦842.09 billion, fell short of the budget benchmark and the level in the third quarter of 2019 by 42.3 per cent and 35.7 per cent, respectively. The provisional FGN expenditure in the period was ₦2,131.12 billion, representing a shortfall of 21.1 per cent, relative to the Budget. The decline in expenditure underscores the imperative of prioritising spending amidst persisting revenue challenges. Consequently, the fiscal operations of the FGN resulted in an estimated deficit of ₦1,289.03 billion. Total FGN debt outstanding[2] at end-June 2020 stood at ₦26,818.95 billion, with the domestic and external components accounting for 57.6 per cent and 42.4 per cent, respectively. The prospect for better fiscal policy performance is brighter as crude oil prices begin to recover.

Federation Revenue

The rising momentum in economic activities, sequel to the relaxation of COVID-19 restrictions, resulted in a 4.5 per cent growth in federation revenue in the third quarter of 2020, relative to the level in the second quarter.

At ₦2,268.70 billion, receipt federation revenue was below both the budget benchmark of ₦2,540.51 billion and the third quarter of 2019 collection of ₦2,912.73 billion, by 10.7 per cent and 22.1 per cent, respectively. The observed shortfall in collections, relative to the revised budget benchmark, was attributed, largely, to low collections from non-oil revenue. Specifically, receipts from Customs & Excise, Education Tax, VAT and FGN Independent Revenue, which were below their budget benchmarks. The low receipts were symptomatic of the ongoing ravaging effect of the Pandemic on businesses.

Despite the relatively low federally collected revenue (gross) in the third quarter of 2020, disbursements to the three tiers of government, at

[2] This includes the external debt of states and the FCT guaranteed by the FGN, which constitutes about 6.7 per cent of the total

₦1,867.88 billion, was 8.1 per cent and 0.4 per cent above allocations in the preceding quarter and the budget benchmark, respectively.

Table 5: Federally Collected Revenue and Distribution (₦ Billion)

	Q3-19	Q2-20	Q3-20	Budget
Federation Revenue (Gross)	**2,912.73**	**2,170.51**	**2,268.70**	**2,540.51**
Oil	**1,340.08**	**1,270.81**	**953.09**	**886.16**
Crude Oil & Gas Exports	57.28	61.55	79.27	164.22
PPT & Royalties	947.53	790.39	660.48	307.34
Domestic Crude Oil/Gas Sales	324.19	397.03	185.99	106.65
Others	11.07	21.84	27.36	307.95
Non-oil	**1572.65**	**899.70**	**1315.60**	**1654.35**
Corporate Tax	651.43	278.89	586.46	449.65
Customs & Excise Duties	267.50	227.45	239.76	349.41
Value-Added Tax (VAT)	290.87	318.63	411.68	547.65
Independent Revenue of Fed. Govt.	207.34	51.65	56.21	233.21
*Others**	155.51	23.08	21.50	74.42
Total Deductions/Transfers	***863.26***	***675.95***	***443.65***	***679.97***
Federally Collected Revenue (Net) *Less Deductions & Transfers*	**2,049.47**	**1,494.57**	**1,825.05**	**1,860.53**
plus:				
Additional Revenue	**4.77**	**233.75**	**42.83**	**0.00**
Balance in Special Account from 2019	*0.00*	*103.97*	*0.00*	*2.82*
Excess Crude Revenue	*0.00*	*103.97*	*0.00*	*0.00*
Non-oil Excess	*1.75*	*11.02*	*0.00*	*0.00*
Exchange Gain	*3.02*	*118.77*	*42.83*	*0.00*
Total Amount Distributed	***2,054.24***	***1,728.32***	***1,867.88***	***1,860.53***
Federal Government	*911.04*	*739.21*	*785.88*	*717.40*
State Government	*580.46*	*500.55*	*560.91*	*578.95*
Local Government	*437.61*	*375.39*	*418.86*	*428.35*
13% Derivation	*125.13*	*113.17*	*102.23*	*138.65*

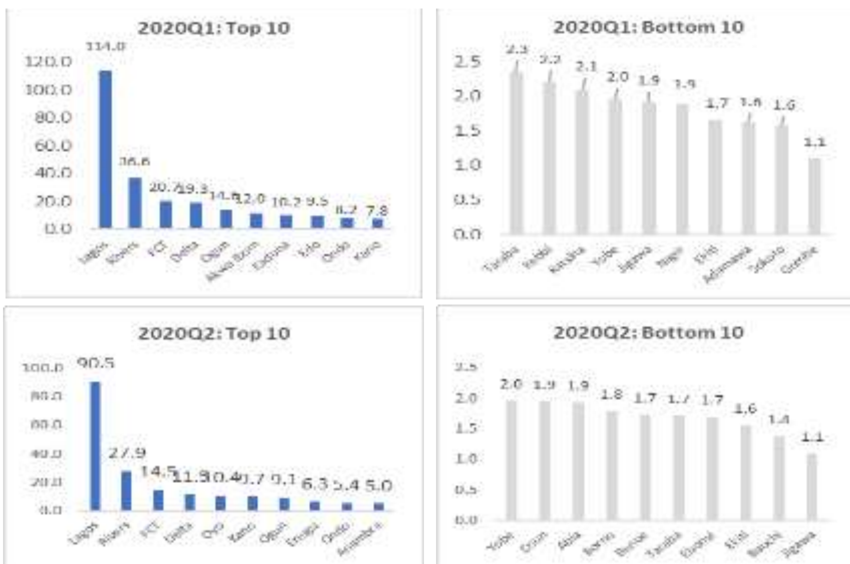
Source: Compiled from OAGF figures and CBN Staff Estimates
Note: * Includes Education Tax, Customs Special Levies (Federation Account), National Technology Development, Customs Special Levies, Solid Mineral & Other Mining revenue, and other Non-regular earnings; ** Deductions includes cost of revenue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

Table 6: Allocations to Subnational Governments (N' Billion)

	State Government			Local Government		
	Statutory	VAT	Total	Statutory	VAT	Total
Q3-19	440.845	139.62	580.46	339.87	97.73	437.61
Q2-20	352.39	148.17	500.55	271.68	103.72	375.39
Q3-20	**369.48**	**191.43**	**560.91**	**284.86**	**134.00**	**418.86**
Benchmark	*325.28*	*253.67*	*578.95*	*250.77*	*177.57*	*428.35*

Source: Compiled from OAGF figures.

Figure 15: Internally Generated Revenue Effort by States 2020Q1 and 202 (₦ Billion)



Source: CBN compiled from NBS data

The total allocations of ₦560.91 billion and ₦418.86 billion to the State and Local governments, respectively, in the third quarter of 2020, were above the disbursements in the preceding quarter. However, the amounts were below their benchmarks by 3.1 per cent and 2.2 per cent, respectively. Factors that accounted for declines in federation revenue, also affected internally generated revenue (IGR) out-turns at the subnational levels. Aggregate IGR of the 36 states of the federation, and the FCT, shrank by 26.5 per cent, from the ₦353.14 billion collected in the first quarter of 2020 to ₦259.73 billion in the second quarter[3], and the performances across the states, were uneven (Figure 14).

[3] Based on the latest available data as published by the National Bureau of Statistics (NBS)

Drivers of Federation Revenue

Federally collected revenue in the third quarter of 2020 was driven, largely, by non-oil revenue sources. While oil revenue accounted for 42.0 per cent of the federation revenue, non-oil revenue sources constituted the balance of 58.0 per cent. The declining share of oil to the total federation revenue, reflected Nigeria's compliance with OPEC's oil production cut, which lowered domestic crude oil production, coupled with lower average crude oil price of US$43.4 per barrel in the review period.

Petroleum Profit Tax (PPT) and Domestic Crude Oil & Gas Sales at ₦660.48 billion and ₦185.99 billion, respectively, jointly accounted for 88.8 per cent of the total oil revenue in the period. Although receipts from the two major drivers of oil revenue surpassed their revised benchmarks, they were below the levels recorded in the third quarter of 2019 by 30.3 per cent and 42.6 per cent, respectively. At ₦79.27 billion, Crude Oil & Gas Exports was 51.7 per cent below its benchmark, reflecting the substantial drop in oil demand and the associated decline in global crude oil prices. Overall, total revenue from oil related activities in the third quarter of 2020 amounted to ₦953.09 billion. This was 25.0 per cent and 28.9 per cent lower than receipts in the second quarter of 2020 and the third quarter of 2019, respectively, but represented a 7.6 per cent increase above the revised benchmark of ₦886.16 billion.

Non-oil revenue performance, on the other hand, was driven by increased collections from Corporate Tax and Value-Added Tax (VAT), which amounted to ₦586.46 billion and ₦411.68 billion, respectively, and jointly accounted for 75.9 per cent of total non-oil receipts. Collections from VAT rose by 29.2 per cent relative to the level in the second quarter. Receipts from Corporate Tax exceeded its benchmark and the level in the second quarter by 30.4 per cent and 110.3 per cent, respectively, but was 10.0 per cent below the level in the third quarter of 2019. The relatively impressive performance in non-oil revenue was attributed to the swift implementation of the 2019 Finance Act, including the introduction of an equitable corporate income tax regime, as well as the increase in VAT rate from 5.0 per cent to 7.5 per cent. Collections from Customs & Excise Duties and the FGN Independent Revenue at ₦239.76 billion and ₦56.21 billion, were below their respective budget benchmarks by 4.5 per cent and 75.9 per cent.

Overall, non-oil revenue (gross), at ₦1,315.60 billion, was 46.2 per cent above its level in the preceding quarter. It, however, was 20.5 per cent below the quarterly budget benchmark of ₦1,654.35 billion.

2.2.2. Fiscal Operations of the Federal Government

Federal Government Retained Revenue

Given declining revenue and relatively high expenditure profile, the fiscal operations of the FGN in the review period resulted in a provisional deficit of ₦1,289.03 billion. This represented 3.6 per cent and 47.0 per cent increase above the revised budget benchmark and the level in the corresponding period of 2019, respectively (Table 7). The deterioration in the overall fiscal deficit, relative to the budget benchmark followed increased government spending aimed at curtailing the negative effect of the COVID-19 pandemic and restarting growth, through social intervention programmes and stimulus packages, and reducing infrastructural deficits.

Table 7: Fiscal Balance (N' Billion) Third Quarter 2020

	Q3-19	Q2-20	Q3-20	Benchmark
Retained revenue	*1310.54*	*894.13*	*842.09*	*1,458.75*
Aggregate expenditure	*2,187.63*	*2,144.83*	*2,131.12*	*2,702.64*
Primary balance	-65.39	-627.10	-729.07	-505.96
Overall balance	**-877.09**	**-1,250.70**	**-1,289.03**	**-1,243.89**

Source: Compiled from OAGF figures and CBN Staff Estimates
Note: The figures in second quarter and third quarter 2020 are provisional.

Federal Government Expenditure

The prolonged revenue challenge of the FGN lingered in the review period, as the estimated retained revenue of the Federal Government at ₦842.09 billion fell short of the budget benchmark of ₦1,458.75 billion by 42.3 per cent.

The shortfalls in the retained revenue of the Federal Government were attributed, largely, to the poor performance in collections from the FGN Independent Revenue sources, which at ₦56.21 billion, was 75.9 per cent and 72.9 per cent below the benchmark of ₦233.21 billion and ₦207.34 billion in the corresponding period of 2019, respectively. Also, projected receipts of ₦508.14 billion from 'Other' sources, including revenues from Special Account and Special Levies, were not realised in the review period, owing to the lingering effect of COVID-19 on economic activity (Table 8).

Table 8: FGN Retained Revenue (N' Billion) Third Quarter 2020

	2019Q3	2020Q2	2020Q3	Benchmark
FGN Retained Revenue*	**1,310.54**	**894.13**	**842.09**	**1,458.75**
Federation Account	866.79	579.19	707.88	641.30
VAT Pool Account	41.89	44.45	57.43	76.10
FGN Independent Revenue	207.34	47.28	56.21	233.21
Excess Oil Revenue	0.00	54.77	0.00	0.00
Excess Non-oil	1.44	55.60	20.58	0.00
Exchange Gain	0.92	5.20	0.00	0.00
*Others***	192.16	107.65	0.00	508.14

Source: Compiled from OAGF publications
Note: ** 2020 figures are provisional, *Includes revenue from Special Accounts and Special Levies

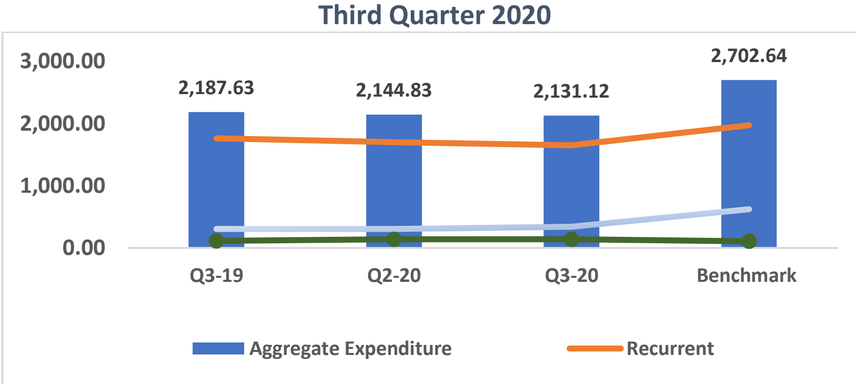
Fiscal Operations of the Federal Government

Given the need to rationalise its spending amidst subsisting fiscal constraints, the provisional aggregate expenditure of the FGN at N2,131.12 billion, in third quarter of 2020, was lowered by 21.1 per cent, relative to the revised budget benchmark.

The estimated aggregate expenditure was marginally below the levels in the preceding quarter and the corresponding period of 2019, by 0.6 per cent and 2.6 per cent, respectively (Figure 17 and Table 9). The reduction in aggregate expenditure in the period, was driven, largely, by a 45.3 per cent drop in capital expenditure, relative to the budget benchmark.

Analysis of the components of aggregate expenditure revealed that recurrent expenditure maintained its dominance in total government spending, accounting for 77.4 per cent of total expenditure, with capital expenditure and transfers having shares of 16.0 per cent and 6.6 per cent, respectively.

Figure 16: Federal Government Expenditure (N' Billion) Third Quarter 2020



***Source**: Compiled from OAGF figures and CBN Staff Estimates*

Federal Government Debt

Table 9: Federal Government Expenditure (N' Billion)
Third Quarter 2020

	Q3-19	Q2-20	Q3-20	Benchmark
Aggregate Expenditure	**2,187.63**	**2,144.83**	**2,131.12**	**2,702.64**
Recurrent	1,765.39	1,699.66	1,650.43	1,973.49
of which:				
Personnel Cost	616.19	697.00	668.70	761.61
Pension and Gratuities	72.51	89.68	89.68	134.18
Overhead Cost	429.12	231.28	265.82	252.27
Interest Payments	811.70	623.60	559.96	737.93
Domestic	*698.52*	*501.35*	*437.64*	*536.56*
External	*113.18*	*122.25*	*122.32*	*201.37*
Special Funds & others	-164.12	58.09	66.26	87.5
Capital Expenditure	305.43	305.06	340.57	622.13
Transfers	116.81	140.12	140.13	107.01

Source: CBN Staff Estimate

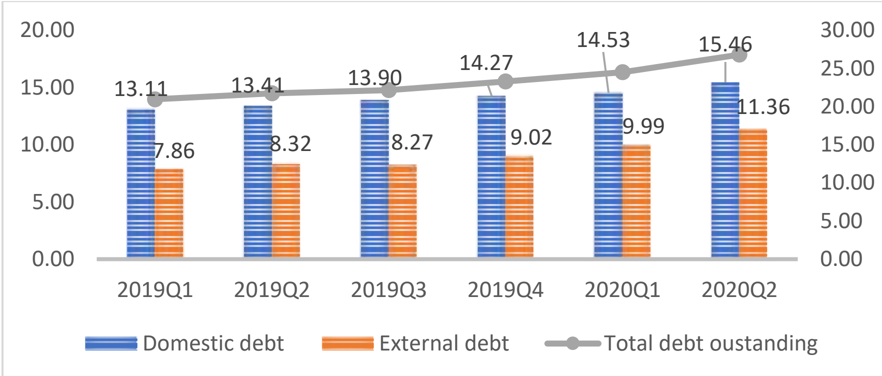
The trajectory of the FGN debt profile in the review period was driven by the effects of currency adjustments and new borrowings to mitigate the effect of the COVID-19 pandemic on the Nigerian economy. At ₦26,818.95 billion[4], the total debt stock of the FGN as at end-June 2020 rose by 9.4 per cent and 23.4 per cent, relative to the ₦24,522.05 billion and ₦21,735.45 billion recorded in the preceding quarter and corresponding period of 2019 (Figure 18). Domestic and external debt obligations accounted for 57.6 per cent and 42.4 per cent of the total debt stock, respectively, compared with the target 70:30 ratio projected in the 2020-2023 Debt Management Strategy (DMS) of the FGN.

FGN Bond issues accounted for 72.7 per cent of total domestic debt, while Multilateral and Commercial loans jointly represented 87.5 per cent of total external debt stock, as shown in figures 19 and 20.

Interest payment obligations amounted to ₦416.43 billion in the second quarter of 2020, compared with respective amounts of ₦779.73 billion and ₦267.28 billion paid in 2020Q1 and 2019Q2. The reduction in interest payment in the period was due to the moratorium on interest payment obligations extended to Nigeria by some of its creditors, in consideration of the negative effect of the COVID-19 pandemic on the fiscal operations of indebted countries.

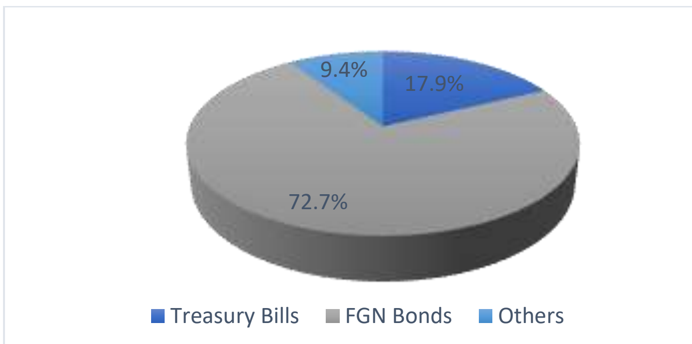
[4] About 6.7 per cent of the total FGN debt consists of States and FCT external debt guaranteed by the FGN.

Figure 17: FGN External and Domestic Debt Composition (₦ Trillion)



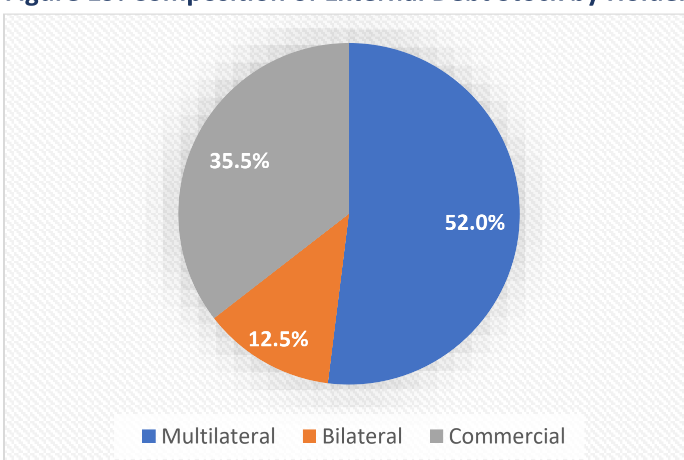
Source: Compiled from DMO figures

Figure 18: Composition of Domestic Debt Stock by Instrument



Source: Compiled from DMO figures

Figure 19: Composition of External Debt Stock by Holders



Source: Compiled from DMO figures

2.2.3. Fiscal Outlook

Fiscal Outlook

The stress on the fiscal space for the rest of the year is expected to moderate, anchored on the growth momentum in the global economy, and expected improvements in crude oil prices. Also, measures to curtail the COVID-19 pandemic and ensure rebound in economic activities are expected to revamp the economy. Given the narrow fiscal space and with little or no improvement in global economic conditions, additional borrowing by the FGN may not be ruled out, even with deliberate policy measures to diversify the revenue base and expand the tax net.

2.3. MONETARY AND FINANCIAL DEVELOPMENTS

2.3.1 Monetary Developments

Growth in Monetary Aggregates

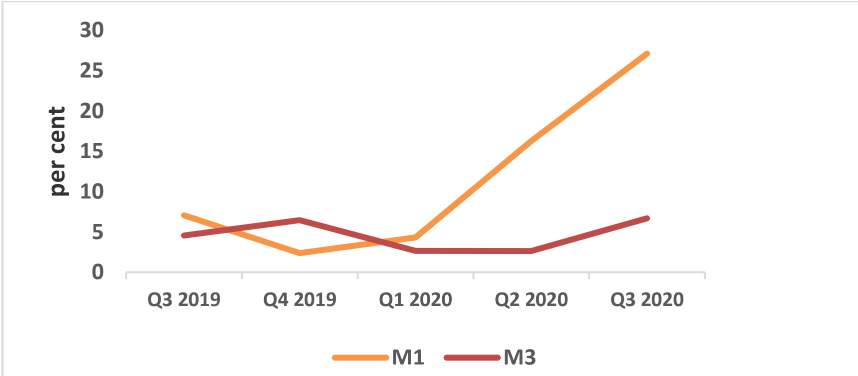
The Bank maintained an accommodating monetary policy stance in the third quarter of 2020 to mitigate the effect of the COVID-19 pandemic and promote economic recovery, boosting credit disbursement to key sectors of the economy to support growth. Broad money supply (M_3) on quarter-on-quarter basis, grew by 4.0 per cent at end-September 2020, in contrast to the 0.02 per cent decline at the end of the preceding quarter. The development reflected 6.6 per cent and 2.4 per cent increase in net foreign assets and domestic claims on the banking system, respectively, compared with growth rates of 10.1 per cent and 0.1 per cent at end-June 2020.

The rise in net foreign assets resulted from the 20.4 per cent decline in liabilities to non-residents, relative to assets by depository corporations, arising mainly, from portfolio realignments by non-residents. Similarly, the growth in domestic claims reflected the 8.7 per cent rise in the net claims on the Central Government, in contrast to the decline of 11.1 per cent at end-June, wholly, on account of increased claims on monetary authorities. Credit to other sectors grew marginally by 0.5 per cent in the review period, compared with 4.0 per cent at end-June 2020. Credit to states and local governments, non-financial corporations and other private sector grew by 9.2 per cent, 3.5 per cent and 4.8 per cent, respectively, reflecting increased efforts at credit delivery by the Bank.

Currency outside depository corporations, transferrable deposits, and 'other deposits' largely propelled growth in monetary liabilities at the end of the review period, as securities other than shares plummeted by 28.9 per cent, attributable to the low demand for CBN bills due to relatively low yields. Narrow money supply (M_1) expanded by 9.3 per cent, compared with the 10.3 per cent growth at the end of the second quarter of 2020. The growth in M_1 was due to the 8.0 per cent and 9.5 per cent increases in currency outside depositary corporations and transferable deposits, respectively, reflecting demand for transaction balances, amidst macroeconomic uncertainties surrounding the COVID-19 pandemic.

Relative to the preceding December, M_3 grew by 6.7 per cent, compared with 2.6 per cent and 4.6 per cent increase at the end of the preceding quarter and the corresponding period of 2019, respectively. M_1 grew by 27.1 per cent at end-September 2020, arising wholly from 33.5 per cent growth in transferable deposits.

Figure 20: Growth of Narrow Money (M_1) and Broad Money (M_3)



Source: Central Bank Nigeria

Table 10: Money and Credit Aggregates Growth Rates (per cent)

GROWTH RATES OVER PRECEDING DECEMBER (%)

	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 2O
Net Foreign Assets	**-16.07**	**-54.41**	**-50.97**	**10.29**	**30.54**	**49.88**
Net Domestic Asset (NDA)	**17.24**	**37.95**	**38.62**	**1.06**	**-3.19**	**-2.19**
Domestic Claims	**14.23**	**25.41**	**27.15**	**5.16**	**5.85**	**7.28**
Net Claims on Central Government	*56.94*	*101.85*	*92.89*	*2.62*	*-6.55*	*-4.18*
Claims on Central Government	*15.02*	*30.03*	*31.76*	*0.57*	*8.83*	*13.67*
Liabilities to Central Government	*-11.94*	*-16.17*	*-7.57*	*-2.19*	*29.48*	*40.83*
Claims on Other Sectors	*5.31*	*9.44*	*13.42*	*6.07*	*10.25*	*11.63*
Claims on Other Financial Corporations	*7.55*	*10.22*	*8.2*	*9.14*	*20.26*	*10.48*
Claims on State and Local Government	*1.06*	*0.53*	*7.07*	*0.06*	*-3.07*	*5.8O*
Claims on Public Nonfinancial Corporations	*0.99*	*18.04*	*48.99*	*-9.99*	*-13.79*	*-5.50*
Claims on Private Sector	*4.81*	*9.66*	*15.27*	*6.3*	*8.15*	*13.67*
Broad Money Liabilities	**5.2**	**4.55**	**6.22**	**2.6**	**2.44**	**6.69**
Currency Outside Depository Corporations	*-14.33*	*-14.87*	*6.04*	*-6.52*	*-7.63*	*-0.23*
Transferable Deposits	*-6.71*	*-5.31*	*0.19*	*8.12*	*21.86*	*33.51*
Other Deposits	*11.38*	*7.11*	*13.68*	*8.5*	*10.75*	*17.34*
Securities Other Than Shares	*11.43*	*17.25*	*-4.63*	*-20.13*	*-47.03*	*-62.19*
Other Items (Net)	**28.62**	**-16.51**	**-37.7**	**68.52**	**98.86**	**116.75**
Total Monetary Assets (M3)	**5.2**	**4.55**	**6.22**	**2.6**	**2.44**	**6.69**
Monetary Base	**0.1**	**-2.5**	**20.75**	**17.07**	**52.91**	**56.40**
Currency in Circulation	*-13.55*	*-13.91*	*4.86*	*-6.01*	*-5.82*	*-0.64*
Liabilities to Other Depository Corporations	*6.66*	*2.98*	*28.38*	*26.12*	*75.95*	*78.74*
Narrow money (M1)	**-8.11**	**-7.06**	**1.26**	**5.31**	**16.2**	**27.10**
Broad money (M2)	**3.72**	**1.53**	**8.8**	**7.33**	**12.74**	**20.94**
Quasi Money (QM)	**11.38**	**7.11**	**13.68**	**8.5**	**10.75**	**17.34**

GROWTH RATES OVER PRECEDING Quarter (%)

	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20
Net Foreign Assets	**-0.86**	**-45.68**	**7.54**	**10.29**	**18.36**	**6.57**
Net Domestic Asset (NDA)	**4.46**	**17.66**	**0.49**	**1.06**	**-4.2**	**3.16**
Domestic Claims	**-1.45**	**9.78**	**1.39**	**5.16**	**0.65**	**2.43**
Net Claims on Central Government	*6.08*	*28.62*	*-4.44*	*2.62*	*-8.94*	*8.73*
Claims on Central Government	*4.38*	*13.05*	*1.33*	*0.57*	*8.22*	*6.04*
Liabilities to Central Government	*2.5*	*-4.79*	*10.26*	*-2.19*	*32.37*	*3.38*
Claims on Other Sectors	*-3.58*	*3.92*	*3.63*	*6.07*	*3.95*	*0.53*
Claims on Other Financial Corporations	*-9.78*	*2.48*	*-1.83*	*9.14*	*10.19*	*-9.36*
Claims on State and Local Government	*-0.73*	*-0.52*	*6.5*	*0.06*	*-3.13*	*9.15*
Claims on Public Nonfinancial Corporations	*-8.41*	*16.88*	*26.21*	*-9.99*	*-4.23*	*3.46*
Claims on Private Sector	*0.52*	*4.64*	*5.11*	*6.3*	*1.74*	*4.80*
Broad Money Liabilities	**2.87**	**-0.61**	**1.6**	**2.6**	**-0.15**	**3.96**
Currency Outside Depository Corporations	*-8.19*	*-0.63*	*24.57*	*-6.52*	*-1.19*	*8.01*
Transferable Deposits	*-2.18*	*1.51*	*5.8*	*8.12*	*12.71*	*9.54*
Other Deposits	*7.72*	*-3.84*	*6.14*	*8.5*	*2.08*	*5.83*
Securities Other Than Shares	*-0.01*	*5.22*	*-18.66*	*-20.13*	*-33.68*	*-28.86*
Other Items (Net)	**-28.4**	**-35.09**	**-25.38**	**68.52**	**5.72**	**-8.55**
Total Monetary Assets(M3)	**2.87**	**-0.61**	**1.6**	**2.6**	**-0.15**	**3.96**
Monetary Base	**-11.81**	**-2.6**	**23.85**	**17.07**	**30.62**	**2.50**
Currency in Circulation	*-6.54*	*-0.42*	*21.81*	*-6.01*	*0.2*	*5.50*
Liabilities to Other Depository Corporations	*-13.7*	*-3.45*	*24.67*	*26.12*	*39.51*	*1.87*
Narrow money (M1)	**-3.26**	**1.14**	**8.96**	**5.31**	**10.34**	**9.31**
Broad Money(M2)	**3.63**	**-2.1**	**7.15**	**7.33**	**5.05**	**7.15**
Broad Money (M3)	**2.87**	**-0.61**	**1.6**	**2.6**	**-0.15**	**3.96**
Quasi Money (QM)	**7.72**	**-3.84**	**6.14**	**8.5**	**2.08**	**5.83**

Source: Central Bank of Nigeria

Drivers of Money Supply

Of the components of broad money supply, domestic claims made the principal contribution to the growth rate. Net foreign assets and domestic claims grew by 27.5 per cent and 7.4 per cent, respectively, and contributed 4.7 percentage points and 7.8 percentage points to the growth in M_3, at end-September 2020; compared with 6.9 percentage points and 5.0 percentage points at end-June 2020. Similarly, narrow money supply grew by 27.3 per cent and contributed 8.3 percentage points to the growth in broad monetary assets, compared with 5.0 percentage points at end-June 2020. Growth in narrow money supply reflected the uptick in economic activities, leading to increased demand for precautionary balances. Thus, currency outside depository corporations and transferable deposits increased by 2.4 per cent and 3.4 per cent, respectively. However, while the former contracted by 0.01 percentage point, the latter contributed 8.4 percentage points to the growth in broad money supply. Net claims on the Central Government fell by 4.1 per cent, and made a negative contribution of 1.2 percentage points to the growth in M_3.

Sectoral Utilisation of Credit

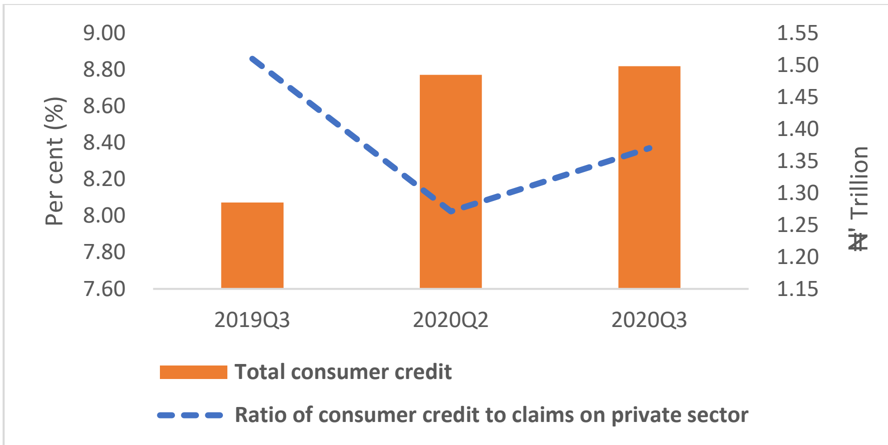
In terms of credit utilisation, industrial and services sectors accounted for the largest share in 2020Q3. Bank credit to the core private sector grew by 4.8 per cent at end-September 2020, compared with 1.7 per cent at end-June 2020. Analysis of the credit composition showed that industry accounted for 37.2 per cent, compared with 37.7 per cent at end-June 2020. Services and agriculture remained unchanged at 38.4 per cent and 4.8 per cent, at end-June 2020 and end-September 2020, respectively. Construction, trade & general commerce, and government accounted for 4.9 per cent, 6.5 per cent, and 8.2 per cent, respectively, at end-September 2020, compared with 4.6 per cent, 6.5 per cent, and 8.0 per cent, at end-June 2020. It was observed that government sector's share grew slightly from 8.0 per cent at end-June 2020 to 8.2 per cent at end-September 2020, reflecting the slight growth in domestic borrowing during the review period.

Table 11: Sectoral Credit Utilization

	Dec-19	Jun-20	Sep-20
Agriculture	4.6	4.8	4.8
Industry	37.3	37.7	37.2
Construction	4.1	4.6	4.9
Trade/General Commerce	7.2	6.5	6.5
Government	8.8	8.0	8.2
Services	37.9	38.4	38.4

Source: Central Bank of Nigeria

Figure 21: Consumer Credits

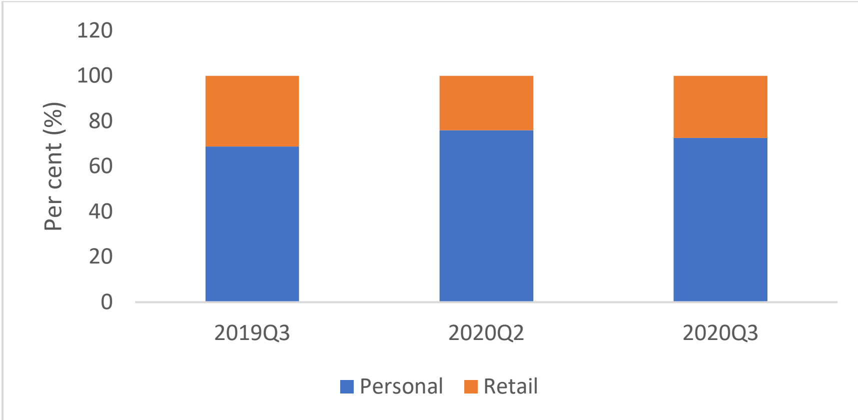


Source: Central Bank of Nigeria

Consumer Credit

Consumer credit outstanding, at ₦1,498.42 billion in 2020Q2, rose by 0.9 and 16.6 per cent above the levels at the end of the preceding quarter and the end of the corresponding period of 2019, respectively. However, the ratio of outstanding consumer credit to claims on the private sector, fell to 8.11 per cent below both the level at the end of the preceding quarter and corresponding quarter of 2019. It is noteworthy that although, consumer credit grew quarter-on-quarter, its ratio to claims on private sector fell owing to increase in claims on the private sector. The breakdown of consumer loans indicated that personal loan was the main form of consumer credit advanced to customers with low risk of default.

Figure 22: Composition of Consumer Credit in Nigeria (per cent)



Source: Central Bank of Nigeria.

Reserve Money

As a result of the monetary policy actions of the CBN, reserve money grew moderately at end-September 2020. On quarterly basis, **r**eserve money grew by 2.5 per cent to ₦13,576.88 billion at end-September 2020, compared with a growth of 30.4 per cent at end-June 2020. At ₦11,149.55 billion, liabilities to other depository corporations grew by 1.9 per cent, compared with the growth of 39.3 per cent at end-June 2020, while the currency component grew by 5.5 per cent, compared with 0.2 per cent at end-June 2020. The corresponding factors were: net foreign assets, which grew by 6.7 per cent, as a result of the significant decline in the liabilities to non-residents; net claims on the Central Government; public financial corporations; and the private sector, which grew by 16.0 per cent, 30.8 per cent and 15.8 per cent, respectively.

Financial Soundness

2.3.2 Financial Developments

The loosening of the monetary policy stance in the third quarter enhanced the supply of credit to the real sector of the economy, and boosted liquidity to the banking system. Consequently, the financial sector remained resilient in the review quarter as shown by key financial soundness indicators.

The health of banks was generally good, as asset quality, measured by the ratio of Non-Performing Loans (NPLs) to industry total outstanding loans improved to 6.0 per cent at end-September 2020, albeit above the 5.0 per cent prudential requirement. The industry Capital Adequacy Ratio (CAR) rose marginally to 15.4 per cent at end-September 2020, relative to the level at end-June 2020 and above the regulatory benchmark of

10.0 per cent. The liquidity ratio, at 61.8 per cent, remain above the 30.0 per cent benchmark.

Money Market Developments

Though average banking system liquidity moderated in 2020Q3, it remained above the Bank's benchmark of ₦313.8 billion. Industry net liquidity position closed at an average of ₦329.11 billion in the third quarter of 2020, compared with the average of ₦372.77 billion in the preceding quarter Liquidity in the system was moderated by provisioning and settlement of foreign exchange purchases, auctions of CBN bills, FGN Bonds and Nigerian Treasury Bills (NTBs), as well as Cash Reserve Ratio (CRR) obligations. The industry liquidity position was positively impacted by repayments of matured CBN bills, and Nigerian Treasury Bills (NTBs), as well as fiscal disbursements to the three tiers of Government.

Liquidity Management

The Bank managed liquidity via direct OMO and discount window activities in the third quarter of 2020. Thus, the Bank sold CBN bills of tenors ranging from 75 to 362 days. Total amount offered, subscribed and allotted were ₦640.00 billion, ₦1,390.42 billion and ₦625.13 billion, respectively, with a bid rate of 6.4 per cent, while the stop rate was 6.9 per cent. Repayment of matured CBN bills stood at ₦3,297.91 billion, translating to a net injection of ₦2,672.78 billion through this medium.

Standing Facilities

Deposit Money Banks (DMBs) and merchant banks continually accessed the standing facilities window to square-up positions in 2020Q3. The trend at the CBN standing facilities window indicated more activities at the Standing Deposit Facility (SDF) window, compared to the Standing Lending Facility (SLF) window, owing to liquidity surfeit in the banking system. Following the MPC meeting of September 2020, applicable rates for the SLF and SDF changed from 14.5 per cent and 7.5 per cent to 12.5 per cent and 4.5 per cent, respectively. Total SLF granted during the review quarter was ₦1,700.46 billion, made up of ₦866.93 billion direct SLF and ₦833.53 billion Intraday Lending Facilities (ILF) converted to overnight repo. Daily SLF ranged from ₦0.13 billion to ₦384.41 billion and averaged ₦58.64 billion in 29 transaction days from July 1 to September 25, 2020. Total SDF granted, during the review quarter, was ₦1,765.22 billion with a daily average of ₦27.55 billion in 61 transaction days from July 1, 2020 to September 25, 2020. Daily request ranged from ₦0.73 billion to ₦50.00 billion. Cost incurred on SDF in the quarter stood at ₦0.51 billion.

Primary Market

At the Government securities market, NTBs and long-term FGN Bonds were issued at the primary market on behalf of the Debt Management Office (DMO). NTBs of 91-, 182- and 364-day tenors, amounting to ₦1,003.05 billion, ₦1,794.78 billion and ₦1,003.05 billion, respectively, were offered, subscribed and allotted. The bid-cover ratio was 1.8 for all the tenors. For all maturities, the stop rate stood at 2.2 per cent.

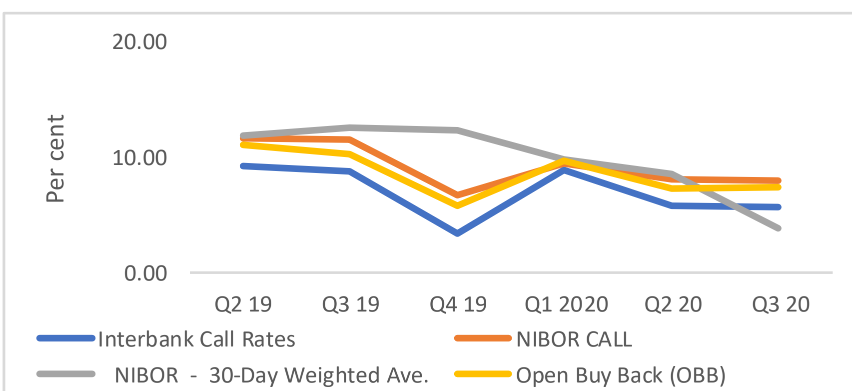
FGN Bonds of 5-, 15- and 30-year maturities were offered for sale in the review quarter. Terms to maturity of the bonds were 5 years 4 months to 29 years 28 months. Total amount offered, subscribed and allotted, were ₦425 billion, ₦1,072.58 billion and ₦397.46 billion, respectively. Allotment on non-competitive basis was ₦13.36 billion. The bid rate on all tenors stood at 8.63 per cent, while the marginal rate was 7.98 per cent.

Interest Rate Developments

As a result of the ample liquidity in the banking system during the review quarter, money market rates generally trended downwards. Short-term money market rates traded below the MPR rate of 11.5 per cent for a major part of the period. Average inter-bank and OBB rates were 4.7 and 7.3 per cent, respectively, in the third quarter of 2020, indicating 1.2 percentage points and 0.1 percentage point below their levels in the preceding quarter. Both NIBOR call and 30-day weighted average rates declined to 8.0 per cent and 3.8 per cent, respectively, in the review quarter.

In comparison with the preceding quarter, average interbank and OBB rates for April, May and June were 7.3 per cent and 4.4 per cent; 5.8 per cent and 6.1 per cent; and 5.8 per cent and 10.9 per cent, respectively, while 30-day NIBOR traded at averages of 9.9, 6.1 and 5.9 per cent in the same period.

Figure 23: Money Market Rates

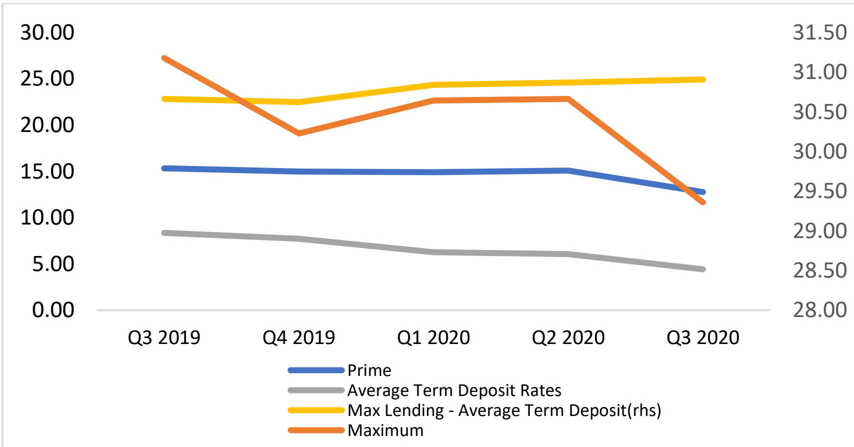


Source: Central Bank of Nigeria

Deposit and Lending Rates.

The fall in lending rates is an incentive for real sector growth. Average prime and maximum lending rates declined by 4.1 and 2.1 percentage points to 11.6 per cent and 28.5 per cent, respectively, in 2020Q3. Average term-deposit rate also fell by 0.9 percentage point to 2.94 per cent. The spread between the average term-deposit and average maximum lending rates widened by 0.3 percentage point to 24.6 percentage points at the end of 2020Q3. With inflation rate at 13.7 per cent in September 2020, these implied negative real rates for deposits and prime lending rate, but positive real rates for the maximum lending rate.

Figure 24: Lending and Deposit Rates (per cent)



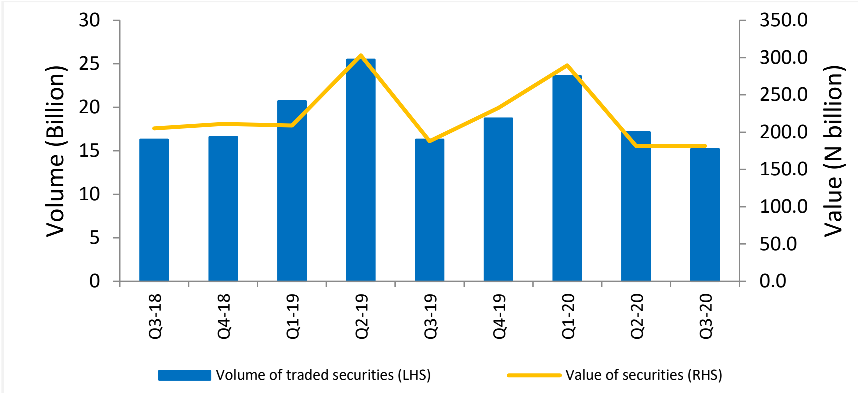
Source: Central Bank of Nigeria

Capital Market Developments

Capital market activities on the Nigerian Stock Exchange (NSE) were bullish in the third quarter of 2020, as investors' sentiments in the market remained optimistic. The bullish run was due to the disclosure and publication of positive half-year earnings of most quoted companies, as well as, increased patronage of blue-chip stocks.

The All Share Index (ASI) and aggregate market capitalisation rose in the review period. However, the COVID-19 pandemic negatively affected the volume and value of traded securities on the Exchange. Thus, volume and value of traded securities fell by 11.4 per cent and 18.3 per cent to 15.20 billion shares and ₦148.29 billion respectively, in 228,070 deals, compared with 17.15 billion shares worth ₦181.52 billion, in 270,712 deals, at the end of the second quarter of 2020 (Figure 26). There were four supplementary listings in the review period.

Figure 25: Volume and Value of Traded Securities



Source: Nigerian Stock Exchange

Table 12: Supplementary Listings on the Nigerian Stock Exchange at end- September 2020

Company	Additional Shares (Units)	Reasons	Listing
Consolidated Hallmark Insurance Plc	2.03 billion Ordinary Shares	Rights Issue	Supplementary Listing
AIICO Insurance PLC	4.36 billion Ordinary Shares	Rights Issue	New Listing
Transcorp Hotels Plc	2.66 billion Ordinary Shares	Rights Issue	Supplementary Listing
C & I Leasing Plc	0.38 billion Ordinary Shares	Rights Issue	Supplementary Listing
Stanbic IBTC Holdings Plc	0.60 billion Ordinary Shares	New Issue	Supplementary Listing

Source: Nigerian Stock Exchange

Market Capitalisation

Increased demand for undervalued high capital stocks, and anticipated high return on investments propelled investors' rush, causing market capitalisation to appreciate in the third quarter 2020. Thus, aggregate market capitalisation rose by 11.1 per cent to ₦30.53 trillion at end-September 2020, compared with the ₦27.48 trillion recorded at end-June 2020. The equities' market capitalisation also rose by 9.8 per cent to ₦14.04 trillion and constituted 46.0 per cent of the aggregate market capitalisation, compared with the ₦12.78 trillion (46.5 per cent of aggregate market capitalisation) at end-June 2020.

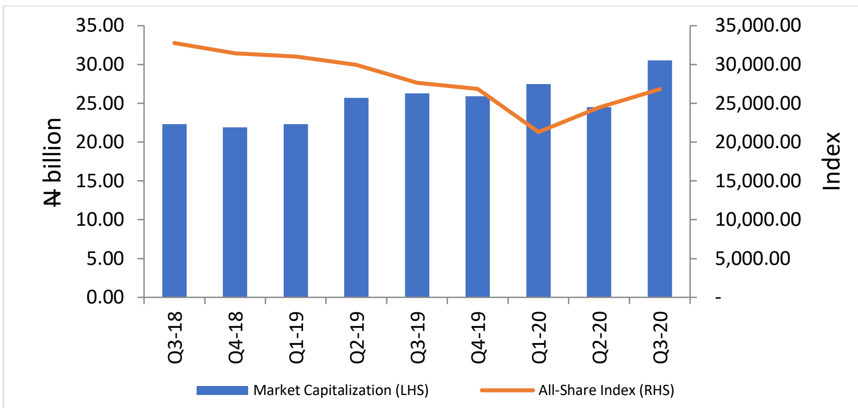
NSE All-Share Index

The rebound in oil prices, price gains by some blue-chip stocks due to low yield environment and disclosure of half-year earnings from quoted companies, as well as continued investors' positive sentiment were the main drivers of ASI growth. Consequently, the ASI, which opened at 24,479.22 at the beginning of the review quarter, rose by 14.9

per cent to 26,831.76 at end-September 2020.

All sectoral indices trended upward, with the exception of the NSE-AseM index, which fell by 1.8 per cent to 728.51. The NSE-Banking, NSE-Pension, NSE-Lotus, NSE-Premium, NSE-Insurance, NSE-Consumer Goods, NSE-Industrial and NSE-Oil and Gas indices, rose by 10.1 per cent, 10.3 per cent, 5.9 per cent, 11.5 per cent, 7.0 per cent, 11.6 per cent, 8.1 per cent and 0.7 per cent to 310.39, 1,051.48, 1,933.41, 2,370.26, 138.81, 942.96, 1,193.76 and 195.14, respectively, at end-September 2020 (Figure 27).

Figure 26: Market Capitalisation and All-Share Index



Source: Nigerian Stock Exchange

2.4. EXTERNAL SECTOR DEVELOPMENTS

2.4.1. External Balance

Nigeria's External Balance

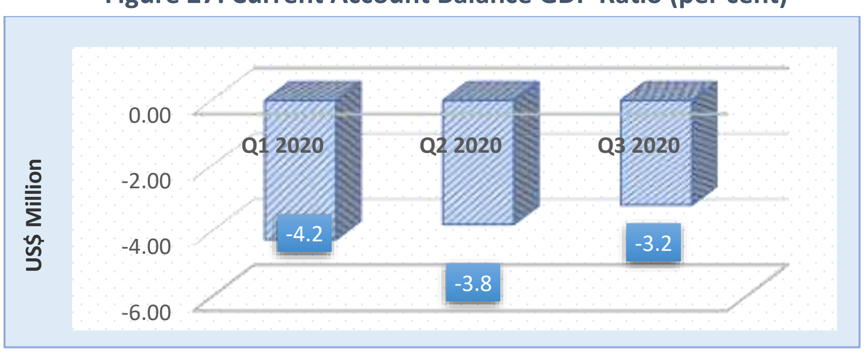
The pressure witnessed in Nigeria's external account persisted in the review period, despite global easing of economic activities. The effect of the COVID-19 pandemic continued to weigh down on global demand and supply, as well as on commodity prices, particularly crude oil. Thus, the overall balance of payments position remained in deficit. The deficit in the current account also persisted in the third quarter of 2020, while the financial account recorded a net acquisition of financial assets. The external reserves level at end-September 2020 was US$35.96 billion, relative to US$35.78 billion at end-June 2020 and could finance 8.4 months of goods only or 6.9 months of goods and services of import. Public external debt remained at end-June level of US$31.48 billion or 8.1 per cent of GDP, which was within the sustainable threshold of 40.0 per cent of GDP. In the Foreign exchange market, the average naira exchange rate at the I&E and the BDC windows depreciated to ₦386.60/US$ and ₦461.94/US$ in the third quarter of 2020, from ₦386.39/US$ and ₦447.71/US$ in the second quarter, respectively.

2.4.2. Current & Capital Account

Current and Capital Account Developments

The reopening of economies across the world during the review period led to resurgence of pressure in the current and capital account. Consequently, the deficit in the current account narrowed by 7.2 per cent to US$3.34 billion (3.2 per cent of GDP), compared with US$3.60 billion (3.8 per cent of GDP) in the preceding quarter. The development was attributed to decreased deficit in the services account by 29.8 per cent to US$1.82 billion (1.8 per cent of GDP), on account of lower receipt from all sub sectors except transportation and insurance services occasioned by sluggish pick-up in economic activities during the quarter under review.

Figure 27: Current Account Balance GDP Ratio (per cent)



Source: CBN

Merchandise Import

Export Performance

In the third quarter of 2020, Nigeria's export performance improved, as global crude oil demand picked up, owing to improvement in the global economy, particularly in China, and the positive effect of the OPEC+ production cut. Aggregate export earnings at US$8.01 billion, showed an increase of 27.3 per cent, compared with US$6.29 billion in the second quarter of 2020. It, however, declined by 54.7 per cent, relative to the corresponding quarter of 2019. Further disaggregation showed that the export value of crude oil rose by 40.6 per cent to US$7.36 billion, from US$5.23 billion in the preceding quarter. This was mainly, attributed to increase in the average price of Nigeria's reference crude, the Bonny Light, to US$43.40 per barrel in the review period, from US$27.90 per barrel in the preceding quarter. A further disaggregation showed that gas export also increased by 4.2 per cent to US$0.96 billion in the quarter under review, from US$0.92 billion in the preceding quarter. Non-oil export receipts declined further to US$0.65 billion, from US$1.06 billion and US$3.92 billion in the second quarter of 2020 and the corresponding of 2019, respectively, as a result of the flooding and lingering insecurity challenges. The share of crude oil and gas export was 79.9 per cent and 12.0 per cent, respectively, while non-oil export accounted for the balance of 8.1 per cent.

With gradual improvement in the domestic economy, Nigeria's imports rose, as demand for both refined petroleum products and non-oil goods increased during the review period. The value of merchandise import increased by 24.3 per cent to US$12.92 billion in the third quarter of 2020, from US$10.40 billion in the preceding quarter. Import of petroleum products increased significantly to US$1.56 billion, from US$0.63 billion in the second quarter of 2020. It, however, declined by 45.9 per cent, compared with US$2.89 billion in the third quarter of 2019. Non-oil import also increased by 16.3 per cent to US$11.36 billion in the review period, from US$9.77 billion in the preceding quarter. Non-oil imports remained dominant, accounting for 87.9 per cent of the total import, while petroleum products accounted for the balance of 12.11 per cent.

A breakdown of non-oil import by sector revealed that importation of raw materials and machinery for industrial use accounted for the highest share of 45.4 per cent, followed by manufactured products, which constituted 23.7 per cent. Importation of food and petroleum products accounted for 14.3 per cent and 11.2 per cent, respectively, while import of transport, agricultural and mineral sectors accounted for 2.8 per cent, 1.6 per cent and 1.0 per cent, respectively.

The slow pace of global economic recovery continued to weigh on the activities in the services sub-sector in the review period. Consequently, the deficit in services sub-account narrowed to US$1.82 billion in the third quarter of 2020, from US$2.56 billion in the preceding quarter, indicating a decrease of 29.8 per cent in the third quarter of 2020 relative to the preceding quarter. This was as a result of a significant decline in other business, particularly, technical services. Payments for travel and other business constituted 53.2 per cent of the total in the review period.

Primary Income

Higher payments of dividends and interest to non-resident investors resulted in a widened deficit in the primary income sub-account. The deficit in the primary income sub-account widened by 19.5 per cent to US$ 0.97 billion in the third quarter of 2020, from US$0.81 billion in the second quarter of 2020, showing an increase of US$0.16 billion. The development reflected higher payment of dividends by 24.4 per cent to US$1.23 billion. In addition, payments of interest to foreign portfolio investors increased by 26.5 per cent to US$0.16 billion in the third quarter of 2020.

Secondary Income

The surplus of the secondary income sub-account, mainly driven by the inflow of personal transfers, including workers' remittances, increased in the review period. The secondary income account recorded a higher surplus of US$4.35 billion, compared with US$3.90 billion in the second quarter. Inflow of personal transfers in the form of workers' remittances increased significantly by 14.8 per cent to US$3.87 billion, relative to US$3.37 billion in the second quarter of 2020. This reflected improved economic conditions world over. However, general government receipts declined by 1.0 per cent to US$0.63 billion in the review period, compared with US$0.64 billion in the preceding quarter.

2.4.3. Financial Account

Financial Account Developments

The financial account recorded a net disposal of financial assets during the review period, largely, driven by reduction in the foreign currency holdings of the private sector. A lower disposal of US$2.66 billion (2.5 per cent of GDP) was recorded, compared with US$6.36 billion (6.7 per cent of GDP) in the second quarter of 2020 and US$6.40 billion (5.1 per cent of GDP) in the corresponding quarter of 2019.

Net Incurrence of Liability

Due to loan repayments by banks and the private sector, as well as drawdown on foreign currency placements in deposit taking corporations, the country recorded a reduction in financial liabilities during the review period. Net liability incurred during the review period declined significantly to US$0.33 billion, relative to US$4.79 billion in the second quarter.

A breakdown showed that inflow of FDI declined to US$0.78 billion in the third quarter of 2020, relative to US$0.90 billion in the previous quarter, largely driven by decline in the inflow of equity and other capital, indicating the lingering uncertainty of the Covid-19 pandemic. Inflow of FPI, on the other hand, increased significantly by 156.9 per cent to US$1.74 billion, from US$0.68 billion in the second quarter of 2020, as a result of the higher purchase of short-term money market instruments to US$1.94 billion, from US$0.0.41 billion in the previous quarter, reflecting renewed foreign investors' confidence in the economy.

Other investment liabilities recorded an outflow of US$2.19 billion, due, mainly, to the repayment of loans by banks and the private sector, as well as drawdown on foreign currency in deposit taking corporations by non-residents. Drawdown in currency and deposits amounted to US$0.23 billion, as against a placement of US$0.01 billion in the previous quarter. In addition, repayment of loans by the private sector increased significantly to US$0.97 billion, relative to US$0.55 billion in the preceding quarter. Similarly, repayment of loans by banks increased to US$0.90 in the review period, from US$0.78 billion in the second quarter of 2020.

Net Acquisition of Asset

Aggregate financial assets recorded a reduction of US$2.23 billion during the review period, compared with US$1.56 billion in the preceding quarter. A disaggregation showed that a marginal accretion of US$0.14 billion in external reserves asset was recorded in the review period, compared with US$2.08 billion in the second quarter of 2020. FDI in foreign entities decreased by 16.4 per cent to US$0.31 billion, relative to the level in the second quarter of 2020. In contrast, portfolio investment asset increased to US$0.07 billion in the review period, compared with US$0.02 billion in the preceding quarter. Other investments registered a disposal of US$2.86 billion in the review quarter, lower than the US$4.03 billion in the second quarter of 2020, due, largely, to the drawdown of foreign currency holdings of the private sector in the review period.

2.4.4. External Debt

Public Sector External Debt

Nigeria's public sector external debt stock remained at end-June 2020 level of US$31.48 billion (8.1 per cent of GDP). A breakdown showed that the loans from multilateral sources, mainly the World Bank, IMF and African Development Bank Groups, was US$16.36 billion, constituting 52.0 per cent of the total. Loans from commercial sources in the form of Euro and Diaspora Bonds was US$11.17 billion (35.5 per cent), while that from bilateral sources, mainly the China EXIM Bank accounted for the remaining US$3.95 billion (12.5 per cent).

International Investment Position

2.4.5. International Investment Position (IIP)

Nigeria's International Investment Position (IIP) posted a higher net financial liability of US$74.83 billion in the review period, compared with US$71.46 billion in the preceding period and US$50.02 billion in the corresponding period of 2019. The country's stock of financial assets declined marginally by 2.3 per cent to US$99.90 billion at end-September 2020, from US$102.23 billion at end-June 2020. This movement was mainly due, to the reduction in stock of portfolio and other investments during the review period. This signaled a reduction in claims on the rest of the world, and a re-direction of domestic investor's finances. The stock of financial liabilities representing claims of foreign investors on the domestic economy increased by 0.6 per cent to US$174.73 billion at end-September 2020, compared with US$173.69 billion at end-June 2020. The development reflected an increase in the stock of money market instrument held by foreign investors. This increased the stock of portfolio investment liabilities to US$28.66 billion, from US$26.68 billion at end-June 2020. Stock of FDI liabilities showed an increase of 0.8 per cent, to US$100.56 billion, compared with US$99.79 billion at end-June, 2020.

2.4.6. External Sector Risks

The global economic uncertainty might reduce the expected capital flows to the domestic economy. Investors may prefer to channel their resources to developed economies with a more robust financial system. The expected reduction in capital flows could increase pressure in the foreign exchange market and undermine exchange rate stability.

With declining oil prices and dwindling fiscal revenues, public debt has been on the increase. This poses a risk to the economy, as external debt and servicing burden might rise to unsustainable levels.

Rising External Debt

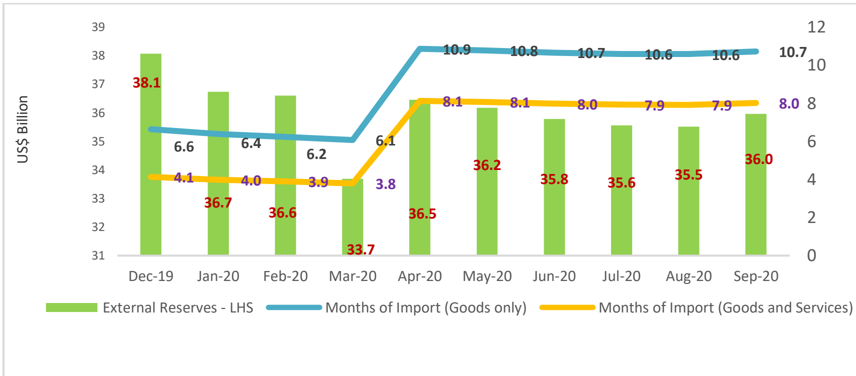
2.4.7. International Reserves.

During the quarter under review, the bank resumed intervention in the I&E and the BDC windows. Consequently, Nigeria's international reserves increased to US$35.96 billion as at end-September 2020 from US$35.78 billion at end-June 2020, driven by foreign exchange swap transactions. The external reserves position would cover 6.9 months of import of goods and services and 8.4 months of import of goods only. A comparative analysis of reserves per capita in September 2020 showed that Nigeria's reserves per capita was US$174.4, compared with

US$330.9, US$403.5 and US$789.4 for Egypt, Angola and South Africa, respectively, in the review period.

Figure 28: External Reserves and Months of Import Cover for Nigeria

Foreign Exchange Flows through the Economy



Source: CBN & Reuters

Table 13: International Reserves of Selected Countries in Africa

Country	Q3 2019		Q2 2020		Q3 2020	
	Reserve (US$ bn)	Reserve/ Capita (US$)	Reserve (US$ bn)	Reserve/Capita (US$)	Reserve (US$ bn)	Reserve/Capita (US$)
Nigeria	40.69	197.39	35.78	173.57	35.96	174.44
South Africa	55.10	929.04	52.32	882.16	46.82	789.43
Angola	15.66	476.48	15.59	474.48	13.25	403.45
Egypt	45.12	440.91	22.98	224.57	33.86	330.88

Source: CBN & Reuters

Currency Composition

A breakdown of the external reserves by ownership shows that, the CBN had the largest share of US$30.94 billion (86.0 per cent), followed by the Federal Government with US$4.95 billion (13.8 per cent). The Federation share accounted for the balance of US$0.07 billion (0.2 per cent). In terms of currency composition, the US dollar at US$29.34 billion, accounted for 81.6 per cent; Chinese yuan, US$4.14 billion (11.5 per cent); special drawing rights, US$2.11 billion (5.9 per cent); GB pounds, US$0.23 billion (0.6 per cent); Euro US$0.14 billion (0.4 per cent); Japanese Yen, US$0.01 billion (0.03 per cent) and other currencies made up the balance.

Foreign Exchange Flow through the Economy

Net foreign exchange flows through the economy marginally increased. The improvement in net flows was due, mainly, to a reduction in outflows through the CBN and through autonomous sources. At US$21.46 billion, aggregate foreign exchange inflow to the economy declined by 2.2 per cent and 30.4 per cent below US$21.95 billion and US$30.83 billion in the preceding quarter and corresponding quarter of

2019, respectively. The development relative to the preceding quarter was influenced largely by the 30.7 per cent fall in inflow through the CBN.

Compared with the respective levels in the preceding and corresponding quarter of 2019, foreign exchange outflow also fell by 14.42 per cent and 57.3 per cent to US$7.70 billion in the review period. The development was attributed to the decline in outflow through the Bank and autonomous sources for most of the period in the review quarter. The lull in economic activity led to lower demand for foreign exchange.

However, the overall foreign exchange flow through the economy resulted in a net inflow of US$14.05 billion, indicating increases of 5.7 per cent and 4.1 per cent over the net inflow of US$13.29 billion in the preceding quarter and US$13.50 billion in the corresponding quarter of 2019, respectively. The development was attributed to the gradual easing of the partial lockdown and improvement in economic activities in the third quarter of 2020.

Foreign Exchange Flow through the Central Bank of Nigeria

Foreign Exchange Flow through the CBN

Foreign exchange inflow through the CBN decreased in the third quarter of 2020, largely due to a reduction in non-oil inflow. During the review period, aggregate foreign exchange inflow through the CBN stood at US$6.97 billion, a decrease of 30.7 per cent and 43.6 per cent below the levels in the second quarter of 2020 and the corresponding quarter of 2019, respectively. The development was attributed to a decline in both oil and non-oil receipts by 9.7 per cent and 44.7 per cent, respectively, below the levels in the preceding quarter and corresponding quarter of 2019. The decrease in non-oil receipts followed reversion to normal trend after the one-off IMF facility in the previous quarter, while that of oil receipts was as a result of the weak global demand for crude oil, owing to fragile global economic recovery.

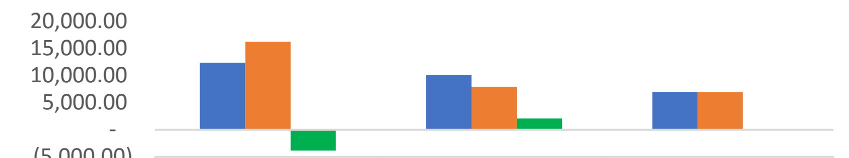
Disaggregation of inflow through the Bank indicated that oil and non-oil receipts were US$2.35 billion and US$4.62 billion, respectively. Further analysis of non-oil receipts showed that interbank swaps, other official receipts, and TSA & third-party receipts increased by 255.6 per cent, 40.4 per cent and 6.8 per cent to US$1.60 billion, US$0.99 billion and US$0.95 billion over their respective levels in the second quarter of 2020. However, foreign exchange purchases, DMB cash receipts and unutilised IMTO funds, declined by 14.9 per cent, 68.1 per cent and 11.5 per cent to US$0.56 billion, US$0.10 billion and US$0.24 billion, below the levels in the preceding quarter, respectively. Unutilised funds from FX transactions, returned payments and interest on reserves & investments fell to US$0.09 billion, US$0.02 billion and US$0.06 billion, respectively, below the levels in the preceding quarter.

Aggregate foreign exchange outflow through the CBN declined by 12.6 per cent, from US$7.95 billion in the second quarter of 2020 to US$6.95 billion in the third quarter of 2020. The decline was due to the lull in economic activities arising from the COVID-19 lockdown and subsequent reduction in foreign exchange needs by the private and public sectors. A breakdown of the outflow through the Bank during the review period showed that: interbank utilisation was US$4.37 billion; public sector/direct payments (US$0.78 billion); third party MDA transfers (US$0.90 billion); external debt service (US$0.51 billion); forex special payment (US$0.05 billion); national priority projects (US$0.002 billion); and Bank & SDR charges/Fees (US$0.0001 billion). Other sources of outflow through the Bank included drawings on L/Cs and funds returned to remitter amounting to US$0.33 billion and US$0.006 billion, respectively, in the review period.

The interbank utilisation, which constituted 62.8 per cent of outflow through the CBN fell by 2.3 per cent to US$4.37 billion in third quarter 2020, compared with US$4.47 billion in the preceding quarter. The development was attributed, largely, to the reduction of wholesale forward intervention. Further disaggregation showed that matured swap transactions and SMIS intervention rose by 50.8 per cent and 0.7 per cent to US$1.24 billion and US$1.96 billion, respectively, from the levels in the preceding quarter. Foreign exchange cash sales to BDCs was US$0.34 billion in the review period. However, relative to the respective levels in the preceding quarter, interbank sales, interventions at the I & E window and SME fell by 22.3 per cent, 18.7 per cent and 3.5 per cent to US$0.15 billion, US$0.39 billion and US$0.30 billion, respectively. The decrease was necessitated by the need to conserve external reserves against dwindling foreign exchange earnings.

Overall, foreign exchange flow through the Bank during the review period resulted in a net inflow of US$0.02 billion, compared with a net inflow of US$2.10 billion and net outflow of US$3.84 billion in the preceding quarter and corresponding period of 2019, respectively.

Figure 29: Foreign Exchange Transactions through the Bank (US$ Billion) for Third Quarter 2020



	Q3 2019	Q2 2020	Q3 2020
Inflow	12,359.43	10,052.57	6,971.01
Outflow	16,203.64	7,952.42	6,954.18
Netflow	(3,844.20)	2,100.15	16.83

Source: Reserves Management Department

Foreign Exchange Flow through Autonomous Sources

Financial interventions in the real sector seem to be yielding results as non-oil receipts increased considerably in the third quarter of 2020, hence an improvement in foreign exchange flows through autonomous sources. Overall, foreign exchange flows through autonomous sources resulted in a net inflow of US$14.03 billion, an increase of 25.4 per cent, but a decrease of 19.1 per cent compared with the net inflow of US$11.19 billion and US$17.35 billion in the preceding quarter and the corresponding quarter of 2019, respectively.

Invisible Transactions

Aggregate Inflow through autonomous sources amounted to US$14.49 billion, indicating an increase of 21.8 per cent over the level in the preceding quarter, but a decrease of 21.6 per cent below the level in the corresponding period of 2019. The flow through autonomous sources accounted for 67.5 per cent of the total foreign exchange flow into the economy. The development was due to 19.7 per cent rise in proceeds from invisible purchases to US$13.60 billion relative to the preceding quarter. Invisible purchases comprised ordinary domiciliary accounts and total OTC purchases valued at US$3.78 billion and US$9.83 billion, respectively. Total OTC purchases comprised capital importation (US$1.46 billion) and home remittances (US$0.25 billion), which increased by 11.9 per cent over the level in the preceding quarter, but decreased by 31.9 per cent below the level in the corresponding quarter of 2019. The higher level of capital importation reflected the growing investment appetite by non-resident investors even as COVID-19 Pandemic worsened in many parts of the world. The decline in home remittances could be attributed to a fall in wages and loss of jobs by some migrant workers who tend to be more vulnerable to loss of employment and wages during economic crises in a host country. Other OTC purchases

(US$8.11 billion) increased by 31 per cent. Inflow through ordinary domiciliary account, rose by 8.2 per cent to US$3.78 billion, due to higher repatriation of export and investment proceeds. Non-oil export inflow to banks amounted to US$0.87 billion, rising by 110.3 per cent compared with US$0.41 billion in the preceding quarter. This development was due to interventions in the real sector to boost non-oil earnings to cushion the negative impact of COVID-19 on the price of oil. Similarly, external account purchases at US$0.009 billion, increased by 60.8 per cent, from US$0.006 billion in the second quarter of 2020.

Outflow through autonomous sources at US$0.45 billion declined by 35.6 per cent and 59.8 per cent relative to the levels in the preceding quarter and the corresponding period of 2019, respectively. This was due to a fall in invisible and visible imports to US$0.35 billion and US$0.09 billion from US$0.47 billion and US$0.23billion in the preceding quarter, respectively. The development was traced to the continued lockdowns, which lessened economic activities.

Sectoral Utilisation of Foreign Exchange

Sectoral Utilisation of Foreign Exchange

The COVID-19 induced supply and demand disruptions in global economic activities, which led to a decline in the foreign exchange utilisation across major sectors in previous quarters, stretched to the third quarter. Sectoral foreign exchange utilisation in the third quarter of 2020 showed an increase of 13.3 per cent to US$3.83 billion, above the level in the preceding quarter. Of this, visible imports fell by 5.8 per cent to US$2.22 billion while invisible imports rose by 57.6 per cent to US$1.60 billion, constituting 58.7 per cent and 49.1 per cent of the total foreign exchange utilisation, respectively.

Visible Transactions

A disaggregation of foreign exchange utilisation for visible transactions showed that the amount utilised for industrial, manufactured products, food products, oil, transport, agriculture and mineral sub-sectors amounted to US$2.22 billion, US$0.51 billion, US$0.32 billion, US$0.23 billion, US$0.06 billion, US$0.02 billion and US$0.04 billion, respectively.

On the other hand, a disaggregation of the foreign exchange utilisation under the invisible component showed that financial service was US$1.31 billion (4.8 per cent); educational service, US$0.09 billion (2.4 per cent); transport service, US$0.01 billion (0.3 per cent); and other service was US$0.02 billion (0.4 per cent). Furthermore, communication service was US$9.61 million; construction and related engineering service, US$0.12

million; and, health related and social service, US$0.61 million, respectively.

Foreign Exchange Market Developments

The Bank sustained interventions in the foreign exchange market and resumed foreign exchange cash sales to the BDC operators, to boost liquidity and ease demand pressure. The exchange rate of the naira vis-à-vis the dollar was further adjusted during the review period from N361 /US$ to N381/US$. The Bank also introduced measures to curb abuses and ensure prudent use of foreign exchange. The Bank directed all authorised dealers to desist from opening Forms M with payments routed through third parties. This policy was aimed at eliminating occurrences of over invoicing, transfer pricing, double handling charges and avoidable costs, which are ultimately passed on to Nigerian consumers. In addition, Deposit Money Banks were directed to block domiciliary accounts of some companies involved in foreign exchange abuses, for investigation.

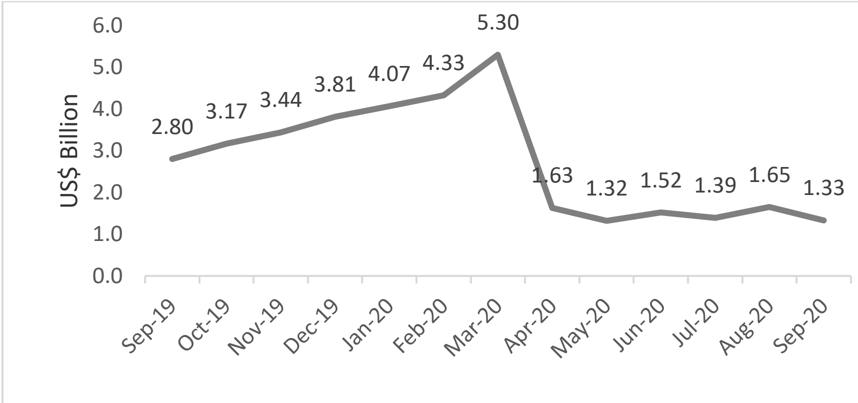
Foreign Exchange Market Developments

Transactions in the Foreign Exchange Market

The Bank through its periodic interventions in the foreign exchange market continued to boost the supply side of the market, as COVID-19 crisis weakened the private sector supply chain segment of the market.

During the third quarter of 2020, total foreign exchange sales to authorised dealers by the Bank amounted to US$4.37 billion, a decline of 2.3 per cent from the level in the preceding quarter. This was attributed largely to the decrease in wholesale forward intervention and interbank sales. The total foreign exchange sales represented a decrease of 56.4 per cent, compared with the corresponding quarter of 2019. Further disaggregation showed that matured swap transactions and SMIS intervention rose by 50.8 per cent and 0.7 per cent to US$1.24 billion and US$1.96 billion, from the levels in the preceding quarter. However, interbank sales, interventions at the I&E window and SME fell by 22.3 per cent, 18.7 per cen and 3.5 per cent to US$0.15 billion, US$0.39 billion and US$0.30 billion relative to their levels in the preceding quarter. Foreign exchange cash sales to BDCs was US$0.33 billion in the review period.

Figure 30: Foreign Exchange Sale to Authorised Dealers in Third Quarter 2020 (US$ billion)



Source: Trade and Exchange Department

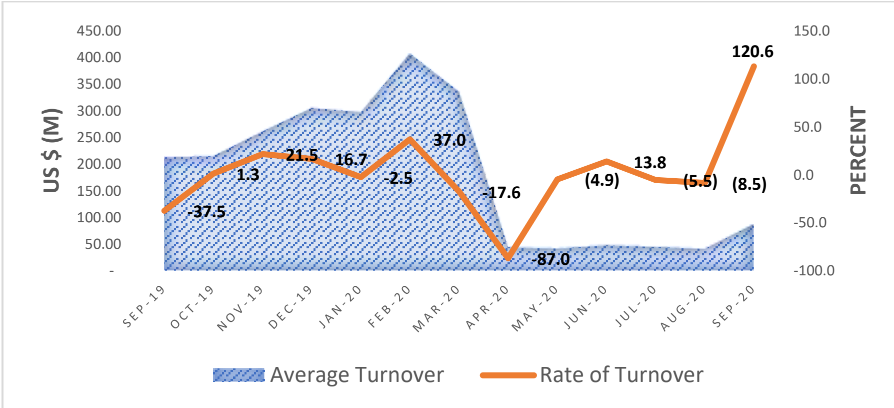
Exchange Rate Movement

The foreign exchange market experienced increased demand pressure attributed to gradual recovery of economic activities and lower foreign exchange inflow. As a result, the naira depreciated in all the segments of the foreign exchange market. In the quarter under review, the CBN further adjusted the interbank exchange rate from N361/US$1 to N381/US$1 in July 2020, to bring about convergence across all segments of the market. Consequently, the average exchange rate of the naira against the US dollar, at the interbank segment was ₦379.73/US$, a depreciation of 4.9 per cent and 19.2 per cent, relative to ₦361.00/US$ and ₦306.93/US$ in the second quarter of 2020 and the third quarter of 2019, respectively. At the BDC segment, the average exchange rate depreciated by 5.8 per cent and 22.7 per cent to ₦464.33/US$, in contrast to the levels in the preceding quarter and corresponding quarter of 2019. Similarly, at the I&E window, the average exchange rate depreciated by 0.2 per cent and 6.3 per cent to ₦386.47/US$, compared with the levels in the second quarter of 2020 and the corresponding quarter of 2019. This development was attributed to the increased demand pressure in the foreign exchange market as a result of liquidity shortages, induced by decline in crude oil receipts and capital inflows. The premium between the average interbank/BDC rates, widened from 21.1 per cent in the preceding quarter to 22.3 per cent in the third quarter of 2020.

Average Exchange Rate

The average turnover at the Investors and Exporters' Foreign Exchange (IEFX) market increased by 30.2 per cent to $0.06 billion, from $0.04 billion in the second quarter of 2020. This also indicated a decrease of 76.3 per cent below the level in the corresponding period of 2019.

Figure 31: Turnover in the I&E Foreign Exchange Market (Sept. 2019 – Sept. 2020)



Source: Central Bank of Nigeria

Naira against Selected International Currencies

The end-period exchange rate of the naira to the US dollar at the interbank segment depreciated by 5.3 per cent to ₦381.00/US$ from ₦361.00/US$ in the second quarter of 2020. Similarly, at the BDC segment, the end-period exchange rate depreciated by 1.9 per cent to ₦464.00/US$ compared with ₦455.00/US$ at the end of the second quarter. The end-period premium between the interbank/BDC rates, narrowed to 21.8 per cent, from 26.0 per cent in the second quarter. This was due to resumption of supply of foreign exchange by the Bank to BDCs during the review period. The rate at the I & E window appreciated by 0.1 per cent to ₦386.00 /US$ compared with ₦386.50/US$ at the end of second quarter of 2020. The development was as a result of increased intervention by the Bank at the I&E window.

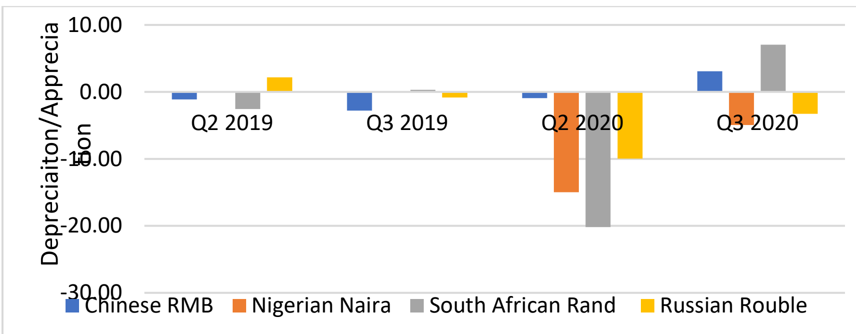
End- Period Exchange Rate

Analysis of the average exchange rate of the naira against selected major international currencies in the review period indicated that the naira depreciated by 8.8 per cent, 10.6 per cent and 6.1 per cent against the British pounds, the Euro and the Japanese yen, respectively, compared with the levels in the preceding quarter. This could be attributed to market perception about the country's ability to shore up the foreign exchange market and boost domestic economic activity after a drastic fall in oil revenues. Also, given that emerging economies have poor infrastructure relative to advanced countries to withstand the impact of the COVID-19 pandemic, investors engaged in flight to safety by moving to more advanced economies, as reflected in the currency movement. At the regional level, the naira, also depreciated against the CFA franc and WAUA by 19.4 per cent and 14.8 per cent, respectively, relative to the values in the second quarter of 2020.

Emerging Market Currencies

Following the gradual re-opening of the global economy in the quarter under review, some emerging market currencies bounced back against the greenback. Consequently, the South African rand recovered from 14.3 per cent depreciation in the second quarter of 2020 to 6.3 per cent appreciation against the dollar in the third quarter of 2020. Similarly, the Chinese RMB appreciated by 3.1 per cent as the economic data released in September 2020 gave hope for a steady recovery in China. However, the average exchange value of the naira at the interbank segment of the foreign exchange market depreciated by 4.9 per cent, from ₦361.00/US$ in the second quarter to ₦379.73/US$ in the third quarter of 2020. Likewise, the Russian rouble depreciated by 3.7 per cent in the review period.

Figure 32: EMEs Currencies' Values to the US dollar



Source: CBN & Reuters

Table 14: EMEs Currencies' Rates to the US dollar

Period	Chinese RMB	Nigerian Naira	South African Rand	Russian Rouble
2019 Q3	7.02	306.91	14.33	65.05
2020 Q2	7.08	361.00	17.95	72.26
2020 Q3	6.87	379.73	16.77	74.69

Source: CBN & Reuters

2.4.8. External Sector Risks

Risks to the External Sector

The external sector was yet to recover from the lingering effects of the COVID-19 pandemic. The impact of unsteady crude oil prices, global demand, global financial market instability, reverse capital flows, remittances and external debt accumulation, continued to weigh heavily on the performance of the external sector.

COVID- 19 Crisis	COVID-19 cases have spiked in several countries leading to a second round of lockdown. This has created anxiety that the pandemic may last longer than envisaged, causing more damage to economies by contracting GDP, increasing public debt and decreasing aggregate demand.
External Reserves Accumulation	The Energy Information Administration (EIA) expects inventory draws in the fourth quarter of 2020 of 3.1 million b/d before markets become relatively balanced in 2021, with forecast draws of 0.3 million b/d. Despite expected inventory draws in the coming months, EIA expects high inventory levels and surplus crude oil production capacity to limit oil price increases.
Exchange Rate Pressure	The lull in global trade in the medium-term has economic implications for investment and productivity growth, especially in developing countries relying on trade-led growth strategies. This development accounted for the dearth of foreign capital inflow witnessed in most developing economies and emerging markets. This consequently resulted in exchange rate pressure.
Low Oil Prices	According to a World Bank reporting, global trade growth could be even more negative in 2020 than initially predicted. It is expected that weak economic and financial fundamentals prior to the COVID-19 crisis would lead to declines in foreign exchange reserves as central banks try to stabilise their currencies. Thus, the conditions in the oil market, exchange rate pressure, Bank's intervention in the foreign exchange market as well as the state of international financial markets and productivity of the economy, would continue to determine the level of external reserves.
Insecurity	The general insecurity, occasioned by insurgency, banditry and kidnapping have remained a big challenge in the country, as it continues to affect the productive sectors, especially, the agricultural sector, making it unattractive to both foreign and local investors.