CENTRAL BANK OF NIGERIA ECONOMIC REPORT

August 2022

ABOUT THE REPORT

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

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

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EXECUTIVE SUMMARY

Global economic activity contracted in August 2022, as the average Global composite Purchasing Managers' Index (PMI) fell below the 50-index points threshold to 49.3 index points, on the back of softening demand, higher input costs and tighter financial conditions. The lingering effects of the Russia-Ukraine war and weak demand emanating from monetary tightening led to a slowdown of economic activities in Advanced Economies (AEs). In some Emerging Markets and Developing Economies (EMDEs), economic activities gained momentum owing to an increase in new orders, employment, and output. Inflationary pressures were mixed across economies, due to some idiosyncratic drivers and varied policy responses.

In the domestic front, economic activities slowed on the as new orders and production levels fell, evidenced by the contraction in the composite PMI to 47.2 index points, due to subdued demand conditions and high input costs. Domestic inflationary pressures heightened, due to the disruption in the supply of food products and a general increase in production costs. Headline inflation (year-on-year), increased to 20.52 per cent compared with 19.64 per cent in the preceding month, owing to higher cost of energy, clothing & footwear, imported goods, and processed food.

Despite the increase in world crude oil demand, oil spot prices were subdued, due to an anticipated slowdown in demand from China and a possible return of Iranian oil to the market. The average spot price of Nigeria's reference crude oil, the Bonny Light (34.9° API), fell by 11.7 per cent to US$106.34 per barrel (pb), compared with US$120.54pb in the preceding month.

The fiscal conditions deteriorated in August 2022, as the Gross Federation Revenue at ₦1,311.97 billion fell short of the budget by 17.0 per cent, driven by a dip in non-oil revenue. Despite the improvement in the FGN retained revenue, provisional fiscal deficit expanded by 7.0 per cent, as capital expenditure rose significantly by 57.2 per cent, relative to the level in the previous month. At ₦42,845.88 billion, public borrowing, at end-June 2022, was in tandem with the medium-term debt strategy of the Federal Government of Nigeria (FGN).

The financial system remained safe as key financial soundness indicators stood within the regulatory benchmarks. Monetary and financial conditions were tight as the Bank sustained its contractionary policy stance, to stem the underlying price pressures from building up rapidly. With Monetary Policy Rate (MPR) at 14.0 per cent, the policy stance induced an up-pricing of market rates resulting in a weak expansion in consumer credit. Tighter liquidity conditions slowed credit delivery by the Other Depository Corporations (ODCs) to key sectors of the economy. At the primary market *segment, rates inched up at the longer end of the yield curve, relative to the level in the preceding month. At the auctions, NTBs of 91-, 182-, and 364-day tenors worth ₦446.15 billion, ₦395.37 billion, and ₦342.86 billion were offered, subscribed to, and allotted, respectively. In the capital market, activities on the Nigerian Exchange Limited (NGX) were bearish, as the hike in MPR induced a flight to safety, as investors switched from equities to fixed income instruments. The aggregate market capitalisation (AMC) depreciated by 0.4 per cent to ₦50,107.65 billion, relative to the level in the preceding month.*

The performance of the external sector deteriorated, due to the declines in both crude oil receipts and total imports, on the back of weak global demand, and supply chain disruptions. Provisional data shows that total trade decreased by 9.2 per cent resulting in the reduction in trade surplus to US$0.70 billion, from US$1.35 billion in the preceding period. Foreign capital inflow, increased despite the tightened global financial conditions. The stock of external reserves at US$38.46 billion, could cover 6.6 months of import for goods and services. The average exchange rate of the naira per US dollar at the I&E window was ₦426.04/US$, relative to ₦417.38/US$ in the previous month.

The outlook for the global economy remained blurred through the rest of the year, as risks and uncertainty remain high. Global inflation is expected to remain elevated for the rest of the year despite ongoing hikes in MPR across most central banks.

The prospects for the domestic economy remain positive as domestic output is projected to grow by 3.51 per cent in 2022Q3 (year-on-year). However, inflationary pressures are expected to remain elevated, on account of extreme weather effects, security challenges in food-producing areas, and higher energy costs. Nevertheless, the various supply-side interventions by the Bank and the FGN in growth-enhancing sectors of the economy remain the tailwind in moderating inflation. The outlook for fiscal policy in the short-term is mixed. The continued adoption and implementation of the Finance Act 2021 and the Strategic Revenue and Growth Initiative (SRGI) of the FGN are expected to boost non-oil revenue. The downside risks remain daunting given the production challenges in the oil sector and high debt service obligations. Despite growing global uncertainties in the international oil market and the protracted sub-quota crude oil production, Nigeria's external sector would remain resilient as the current account surplus is expected to be sustained throughout the year.

1.0 GLOBAL ECONOMIC DEVELOPMENTS

1.1 Global Economic Conditions

Summary

Global economic activity contracted in August 2022 on the back of softening demand, higher input costs and tighter financial conditions. The lingering effects of the Russia-Ukraine war and weak demand emanating from monetary tightening led to a slowdown of economic activities in Advanced Economies (AEs), while economic activities gained momentum in some Emerging Markets and Developing Economies (EMDEs), owing to an increase in new orders, employment, and output. Inflationary pressures were mixed across economies, due to some idiosyncratic drivers and varied policy responses. Developments in global financial markets were mixed across segments and regions as investors rebalanced their portfolios in response to monetary tightening.

1.1.1 Global Economic Activity

Global Economic Conditions

Global economic activity contracted in August 2022, the first time since June 2020, on the back of softening demand, higher input costs and tighter financial conditions. Global[1] composite Purchasing Managers Index (PMI) fell below the 50-point threshold to 49.3 index points in August 2022, from the 50.8 index points in the preceding month, reflecting the lingering supply shortages, elevated inflation and tighter financial conditions. The slowdown in activities was experienced in both the manufacturing and services sectors. The performance of the services sector weakened for the first time in the year, as the PMI fell by 1.9 index points to 49.2 index points. Business activity within the services sector contracted as the level of new orders, new export business and employment grew at a slower pace within the sector. In the manufacturing sector, output slowed to 50.3 index points, from 52.1 index points in the preceding month. The level of new orders, international trade flows and the volume of new export business dropped while the stocks of finished products rose. This development signalled weakening demand for manufactured products, a knock-on effect of reduced purchasing power due to higher inflation and tighter financial conditions.

[1] IHS Markit & J.P. Morgan Index

Table 1: Global Composite Purchasing Managers' Index (PMI)

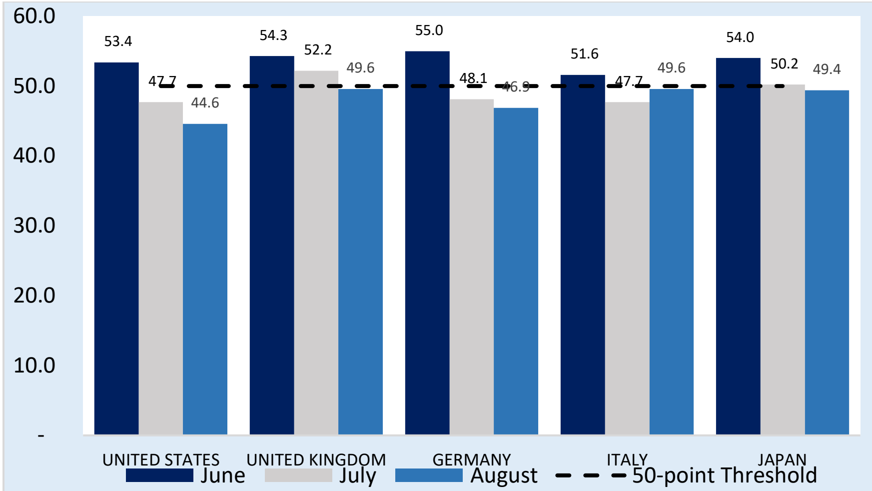
	Jun-22	Jul-22	Aug-22
Composite	**53.5**	**50.8**	**49.3**
Employment Level	53.1	52.1	51.6
New Business Orders	51.4	51.2	49.7
New Export Business Orders	49.3	48.0	47.3
Future Output	61.2	60.2	61.7
Input Prices	69.3	67.7	64.8
Output Prices	59.7	58.1	56.9
Manufacturing	**53.1**	**52.1**	**50.3**
Services (Business Activity)	**53.9**	**51.1**	**49.2**

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

Economic Activity in Advanced Economies

In most Advanced Economies (AEs), economic activities slowed due to waning consumer demand emanating from monetary policy responses to higher inflation. Output dwindled in both the manufacturing and services sectors of most economies within this region as consumption softened from the double effect of still high prices and high borrowing costs. Also, the lingering effects of the Russia-Ukraine war and the on-going energy crisis negatively affected production activities during the review period. The greatest decline was in the US, where production fell sharply due to subdued demand. The decline in production resulted in further contraction of the PMI to 44.6 index points, from 47.7 index points in the preceding month, the steepest decline since May 2020. In the UK, output also contracted to 49.6 index points from 52.2 index points in the previous month, following a substantial dip in manufacturing activity and a slower rate of service sector expansion. Particularly, new orders and export orders declined markedly. Japan followed a similar pattern, as economic activities fell to 49.4 index points, from 50.2 index points, owing to the continuous decline in new orders and new export orders in the manufacturing and services sectors. In Italy, the PMI slightly improved from 47.7 points in July 2022, to 49.6 index points in August 2022. Despite the improvement, the output remained in contraction region as fall in the manufacturing sector outweighed the slight increase in the services sector.

Figure 1: PMIs of Selected Advanced Economies

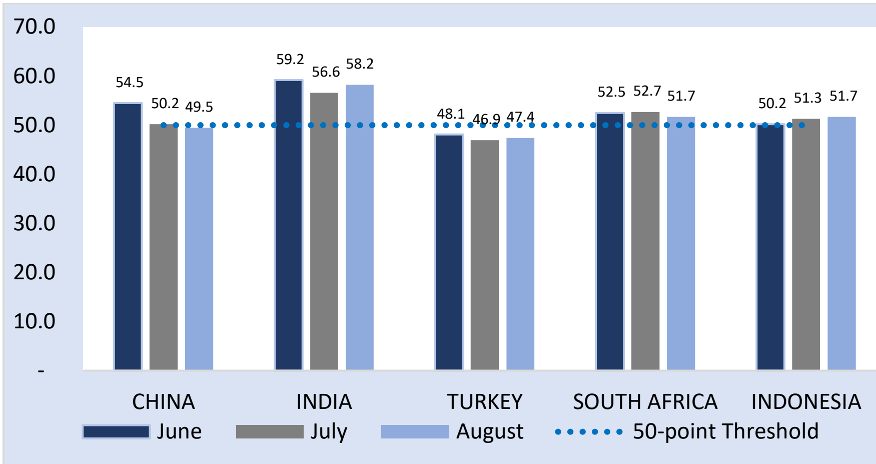


***Source**: Trading Economics/Various Country Websites, CBN Staff compilation.*
***Note**: 50-Point threshold was adopted in the analysis.*

Economic Activity in Emerging Markets and Developing Economies

The Emerging Markets and Developing Economies (EMDEs) remained resilient as economic activities gained momentum. However, a shallow dive into a few of the EMDEs reveal that the development was not broad-based as activities in some economies waned, amid persistent price pressures. For instance, in India, economic activities expanded as indicated by the 58.2 index points increase in PMI, from 56.6 index points in the preceding month, as the manufacturing and services sector posted a quicker rate of increase in new orders and employment. Also, Indonesia's PMI expanded further to 51.7 index points from 51.3 index points as manufacturing production and new orders rose owing to the improvement in underlying demand conditions. In South Africa, both output and new orders grew in August 2022, albeit at a slower pace, despite a slowdown in consumer demand. Consequently, the PMI stood at 51.7 points, lower than 52.7 points in the preceding month. In China, however, PMI fell below the benchmark to 49.5 index points, from 50.2 in the previous month, reflecting the impact of power shortages triggered by extreme weather including heatwaves and drought, and widespread COVID-19 induced lockdowns. Output also contracted to 47.4 index points from 46.9 index points in Turkey. This, however, marked a slower contraction owing to a moderation in the slowdown of production and new orders amid challenging market conditions and galloping inflation.

Figure 2: PMIs of Selected EMDEs



Source: *Trading Economics/Various Country Websites, CBN Staff compilation.*
Note: *50-Point threshold was adopted in the analysis. Data for Turkey indicates the Manufacturing PMI.*

1.1.2 Global Inflation

Global Inflation

Price developments across economies were mixed in August 2022, due to idiosyncratic drivers and various policy responses. In Advanced Economies (AEs), commodity prices pressure eased in some countries while the pressure persisted in others. The decline was generally attributed to falling energy costs amidst pressure in food prices. In the United States, for instance, consumer prices maintained a downward trend as it decreased to 8.30 per cent from 8.50 per cent in the previous month. This was driven by a decline in gasoline costs and fuel oil. Similarly, inflation rate in the UK fell to 9.90 per cent from 10.10 per cent in July 2022, majorly by motor fuels prices. The continued fall in transportation costs, recreation and educational services drove inflation downward in Canada to 7.00 per cent, from 7.60 per cent in the preceding month. France's inflation eased marginally to 5.90 per cent from 6.10 per cent in July 2022, attributed to smaller decreases in energy costs and services. However, Italy's inflation reached the highest in 36 years to 8.40 per cent, from 7.90 per cent in July 2022. Food and energy cost (especially, the non-regulated energy products) were the main drivers of inflation in Italy. In the same vein, inflation in Germany and Japan reached records highs in August 2022 to 7.90 per cent and 3.00 per cent from 7.50 per cent and 2.60 per cent in the previous month, respectively. The inflation surge in both Germany and Japan was driven, majorly by food prices which underscores the impact of the ongoing global energy crisis and supply chain disruptions on households' finances.

Figure 2a: Inflation Rates in Selected Advanced Economies

Country	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
United States	8.50	8.30	8.60	9.10	8.50	8.30
United Kingdom	7.00	9.00	9.10	9.40	10.10	9.90
Japan	1.20	2.50	2.50	2.40	2.60	3.00
Canada	6.70	6.80	7.70	8.10	7.60	7.00
Germany	7.30	7.40	7.90	7.60	7.50	7.90
France	4.50	4.80	5.20	5.80	6.10	5.90
Italy	6.70	6.20	6.80	8.00	7.90	8.40

Source: *OECD, NBS and CBN Staff Compilation.*

Price developments in the EMDEs were also mixed. Inflation in China fell to 2.50 per cent, from 2.70 per cent in July 2022, driven by ease in the prices of both food and non-food commodities amid strict COVID-19 containment measures. In South Africa, inflation rate eased to 7.60 per cent, from 7.80 per cent in the preceding month. The decrease was driven by fall in the prices of transport, fuels, restaurants, and hotels. In the same vein, Indonesia's inflation declined to 4.69 per cent, from 4.94 per cent in the preceding month. This was attributed, mainly, to falling food prices. On the contrary, inflation rose in India to 7.00 per cent, from 6.71 in the preceding month, attributed to mounting food prices. Similarly, rising food prices drove Mexico's inflation rate up to 8.70 per cent, from 8.15 per cent in the previous month. Inflationary pressure in Turkey persist in August as it rose to 80.20 per cent from 79.60 per cent in July 2022. The prices of housing and utilities, transportation as well as energy costs were the main drivers of inflation in Turkey.

Table 2b: Inflation Rates in Selected EMDEs

Country	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
China	1.50	2.10	2.10	2.50	2.70	2.50
South Africa	5.90	5.90	6.50	7.40	7.80	7.60
India	6.95	7.79	7.04	7.01	6.71	7.00
Mexico	7.45	7.68	7.65	7.99	8.15	8.70
Indonesia	2.64	3.47	3.55	4.35	4.95	4.69
Turkey	61.14	69.97	73.50	78.62	79.60	80.20
Nigeria	15.92	16.82	17.71	18.60	19.64	20.52

Source: *OECD, NBS and CBN Staff Compilation.*

1.1.3 Global Financial Markets

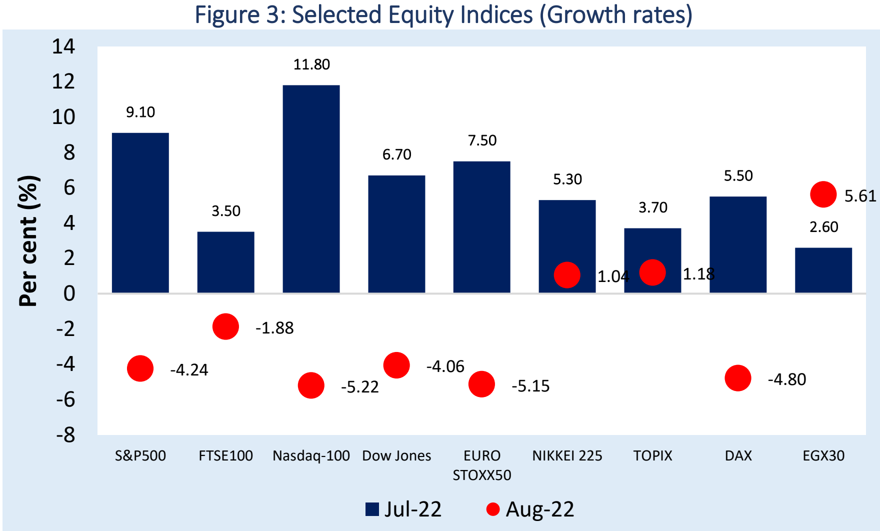
Global Financial Markets

Developments in global financial markets were mixed across segments and regions as investors rebalanced their portfolios in response to monetary tightening. Equity prices declined as investors shifted to fixed-income instruments, following the hawkish stance of most central banks across both the AEs and EMDEs to tame inflation. The bearish development was also exacerbated by the fears of a possible recession and the risk of a further rise in interest rates. The US equity indices in August 2022 declined as the market responded to the sequent hike in the Fed Fund rate, consumer spending pullback, persisting inflation and growth concerns. Specifically, the NASDAQ, S&P 500 and Dow Jones, declined by 5.22 per cent, 4.24 per cent, and 4.06 per cent, from July 2022 positions, respectively.

Global Equities Markets

Equity prices in the Eurozone also dipped, following the rise in interest rates by the European Central Bank (ECB). The EURO STOXX and DAX lost 5.15 per cent and 4.81 per cent, respectively. However, stocks in Japan remained resilient owing to widened interest rate differential with the United States amid the continuing dovish stance of the Bank of Japan. Consequently, NIKKEI and TOPIX were bullish, improving from the previous month by 1.04 per cent and 1.18 per cent, respectively. In Africa, the Egyptian EGX30 also closed high with an increase of 5.61 per cent during the month.

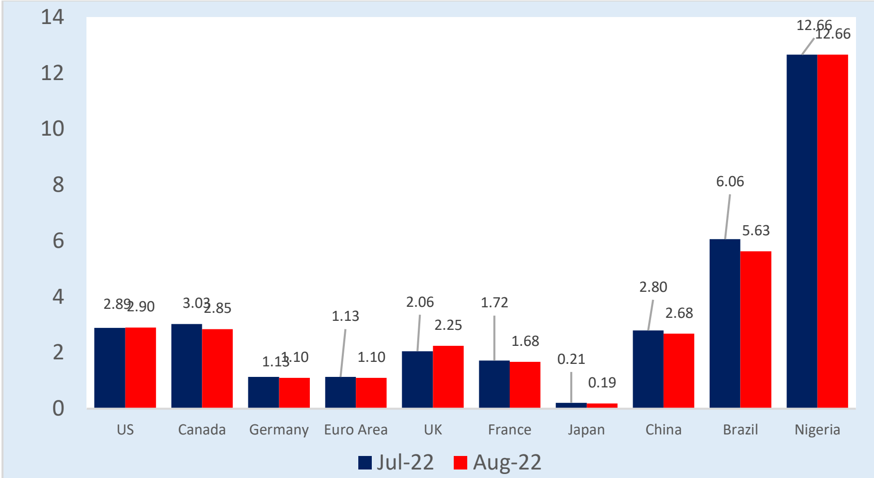
Figure 3: Selected Equity Indices (Growth rates)



Source: *Bloomberg, CBN Staff Compilation*

In the fixed-income securities space, 10-year government bond yields rose in some economies in the later part of the month as central banks took restrictive monetary policy stance to curtail inflation. Consequently, the average 10-year government bond yield in the United States and UK rose to 2.90 per cent and 2.25 per cent, respectively, from their July 2022 levels. However, the average 10-year government bond yield declined slightly in Japan, Euro Area and France, to 0.19 per cent, 1.13 per cent and 1.68 per cent, respectively. Similar trend was observed in China and Brazil, as the long-term yields dropped to 2.68 per cent and 5.63 per cent, respectively.

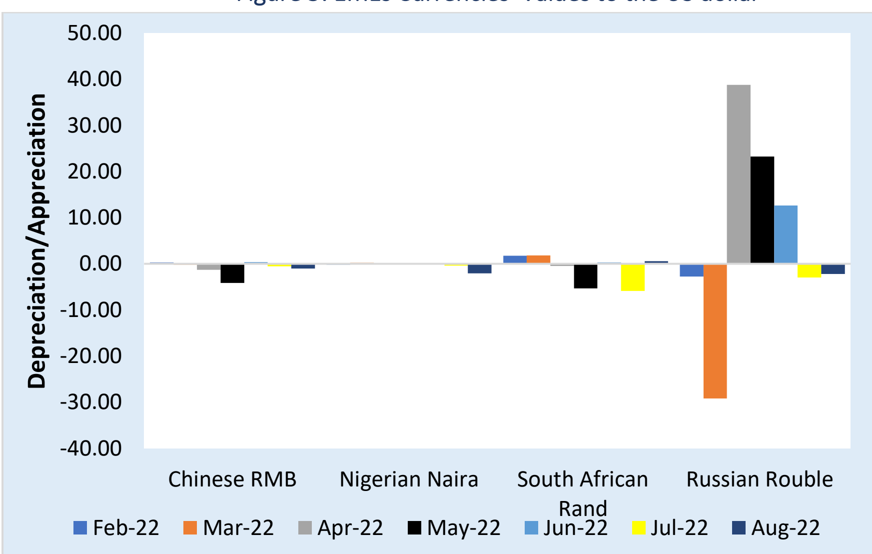
Figure 4: 10-Year Bond Yield of Selected Countries (Monthly average, per cent)



Source: *Bloomberg, CBN Staff Compilation.*
Note: *US, UK represent United States, United Kingdom.*

In the currency market, the average exchange rate of the Russian Rouble , Nigerian naira, and Chinese RMB depreciated against the US dollar by 2.19 per cent, 2.03 per cent, and 1.06 per cent, respectively. However, the South African Rand appreciated against the US dollar by 0.57 per cent.

Figure 5: EMEs Currencies' Values to the US dollar



Source: *CBN and Exchange Rates UK.*

Table 3: EMEs Currencies' Rates to the US dollar

Period	*Chinese RMB/US$*	*Nigerian Naira/ US$*	*South African Rand/ US$*	*Russian Rouble/ US$*
Aug-21	*6.48*	*411.50*	*14.80*	*73.56*
Jul-22	*6.73*	*417.38*	*16.81*	*59.48*
Aug-22	*6.81*	*426.04*	*16.72*	*60.81*

Source: *CBN and Exchange Rates UK*

1.1.4 Global Commodity Market

World Crude Oil Supply and Demand

In the review month, total world crude oil supply increased as OPEC+ production rose in line with the current production agreement as well as increased production from Libya. Total world crude oil supply rose by 1.34 per cent to 101.66 million barrels per day (mbpd) in August 2022, compared with 100.32 mbpd in the previous month. The increase in world crude oil supply was driven, largely, by improved supply from the non-OECD oil producing countries, particularly as the OPEC+ countries adjusted production level by 0.65 mbpd in August 2022 from 43.21 mbpd in the previous month. Furthermore, increased production in Libya, after months of civil unrest, helped boost world crude oil supply. The non-OECD supply rose by 1.5 per cent to 68.76 mbpd, compared with 67.76 in the previous month, while total OECD supply rose by 1.0 per cent to 32.90 mbpd, from 32.56 mbpd in the previous month.

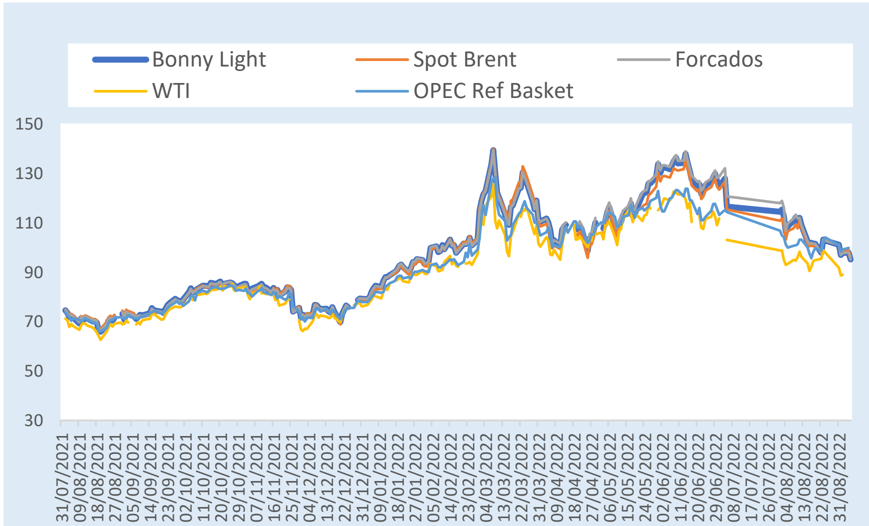
OPEC crude oil production increased by 2.4 per cent to 28.93 mbpd, compared with 28.25 mbpd in the preceding month. Crude oil output increased mainly in Saudi Arabia, Iraq, United Arab Emirates (UAE) and Kuwait, while production in Venezuela and Angola declined.

On the demand side, total world crude oil demand decreased marginally by 0.2 per cent to 99.34 mbpd, compared with 99.53 mbpd in the preceding month. Crude oil demand declined due to renewed Chinese COVID-19 induced lockdowns which curbed demand from Chinese refineries.

Crude Oil Prices

Crude oil spot prices were subdued in August 2022 due to a slow down in demand from China and a possible return of Iranian oil to the international market. The development was on account of renewed COVID-19 lockdowns in China and progress in reviving the Iran nuclear deal. The average spot price of Nigeria's reference crude oil, the Bonny Light (34.9° API), fell by 11.7 per cent to US$106.34 per barrel (pb), compared with US$120.54pb in the preceding month. The prices of Brent, at US$104.91 pb, Forcados at US$107.02 pb, WTI at US$95.38 pb and OPEC Reference Basket (ORB) at US$101.87 pb all exhibited similar movements.

Figure 6: Global Crude Oil Prices (US$ per barrel)



Source: *Reuters data*

Agricultural Commodity Prices

The prices of most agricultural commodities at the international market recorded mixed developments in August 2022. However, prices continued to moderate as export commenced through the black sea, following the agreement brokered by the UN, between Russia and Ukraine. The average price index for all the monitored commodities at 93.3 index points (2010=100), rose by 0.4 per cent over the level in the previous month and by 8.23 per cent over the corresponding period of 2021. The increase witnessed in the overall index was due to strong rise in the price of coffee (9.5 per cent) in the month of August 2022. Other commodities that recorded price increases were cocoa (3.1 per cent), groundnut (0.2 per cent), and wheat (0.1 per cent). For cocoa, the price uptick was largely influenced by the rising cost of inputs especially fertilizers, less conducive weather in the production areas and diseases affecting output, coupled with the rising global demand for the commodity.

On the other hand, the prices of rubber, cotton, palm oil, and soya bean declined by 6.4 per cent, 5.2 per cent, 2.9 per cent, and 1.1 per cent, respectively. The decline was partly ascribed to improved supply prospects from the producing regions.

Table 4: Indices of Average World Prices of Nigeria's Major Agricultural Export Commodities for August 2022 (Dollar Based) (Dec. 2010=100)

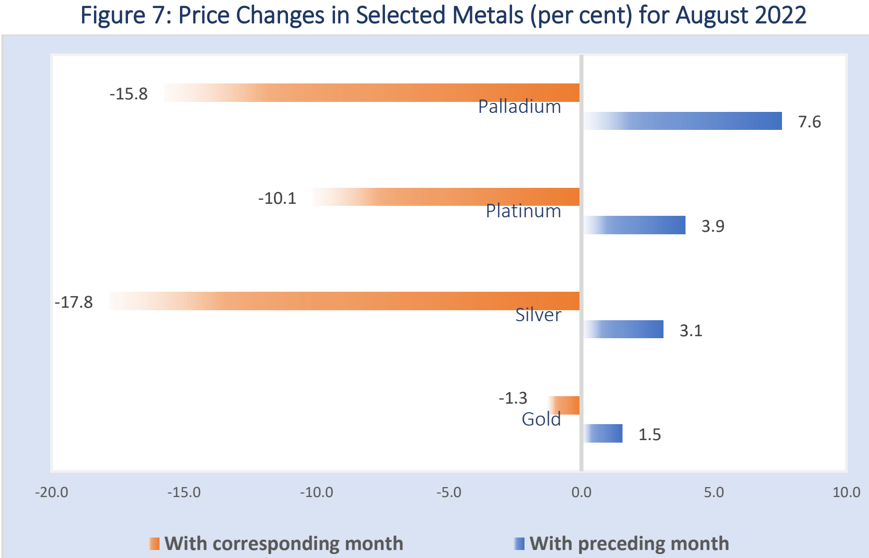
COMMODITY	Aug. 2021	Jul. 2022	Aug. 2022	% Change	
				(1) & (3)	(2) & (3)
	(1)	(2)	(3)	(4)	(5)
All Commodities	86.23	92.97	93.33	8.23	0.38
Cocoa	81.19	73.20	75.49	-7.02	3.12
Cotton	60.30	78.04	73.99	22.69	-5.19
Coffee	101.16	106.54	116.66	15.33	9.50
Wheat	105.87	124.79	124.91	17.98	0.09
Rubber	36.39	33.27	31.13	-14.44	-6.41
Groundnut	105.14	118.11	118.39	12.60	0.24
Palm Oil	92.48	85.58	83.10	-10.15	-2.90
Soya Beans	107.34	124.27	122.97	14.56	-1.05

Sources: World Bank Pink Sheet

Other Minerals

The average spot prices of gold, silver, platinum, and palladium rose in August 2022, as the US dollar weakened against major currencies. The average spot prices of gold and silver rose by 1.5 per cent and 3.1 per cent, month-on-month, to sell at US$1,763.07 per ounce and US$19.68 per ounce, respectively, compared with US$1,736.48 per ounce and US$19.09 per ounce in the previous month. The increase in prices of the precious metals were supported by a weaker US dollar and concerns of a possible global recession. Similarly, the average spot price of platinum and palladium rose by 3.9 per cent and 7.6 per cent, to sell at US$905.35 per ounce and US$2,128.41 per ounce, compared with US$871.21 per ounce and US$1,978.82 per ounce in the preceding month.

Figure 7: Price Changes in Selected Metals (per cent) for August 2022



Source : *Refinitiv Eikon IV (Reuters)*

2.0 DOMESTIC ECONOMIC DEVELOPMENTS

2.1. Real Sector Developments

Summary

Domestic economic activities in August 2022 slowed, evidenced by the contraction in the composite Purchasing Managers Index (PMI). Inflationary pressure heightened in August 2022, as headline inflation rose due to the disruption in supply of food products and general increase in production costs. Domestic crude oil output further declined due to subsisting pipeline vandalism and crude oil theft.

2.1.1 Business Activities

Purchasing Manager's Index

The pace of business activities in August 2022 slowed, as new orders and production level fell, due to subdued demand conditions and high input cost. Composite PMI contracted to 47.2 index points, compared with 50.4 index points in the preceding month. The industry sector PMI fell to 45.2 index points, compared with 50.1 index points in the previous month, reflecting a contraction in cement; chemical & pharmaceutical products and electrical equipments sub-sectors. Similarly, the services sector PMI slowed to 46.1 index points, relative to 49.8 index points in the previous month. Wholesale/Retail trade; accommodation & food services; arts, entertainment & recreation; healthcare & social assistance; transportation & warehousing sub-sectors were responsible for the contraction. Agriculture sector PMI expanded, though at a slower pace to 50.5 index points, compared with 51.6 index points in the previous month. The marginal expansion was due to the decline in farm yield/output.

Table 4: Manufacturing and Non-Manufacturing Sector PMI

Components	Jul-22	Aug-22
Composite PMI	**50.4**	**47.2**
Industry Sector PMI	**50.1**	**45.2**
Production Level	50.0	44.7
New Orders	46.4	40.3
Supplier Delivery Time	53.0	49.1
Employment Level	51.6	50.2
Raw Material Inventory	53.8	45.9
Services Sector PMI	**49.8**	**46.1**
Business Activity	48.0	44.1
New Orders	47.8	43.6
Employment Level	50.1	47.8
Inventory	53.3	48.9
Agricultural Sector PMI	**51.6**	**50.5**
Farm Yield/Output	45.6	43.4
New Orders	52.4	47.8
Employment Level	47.4	45.7
Inventories	54.9	56.1
General Farming Activities	57.8	59.8

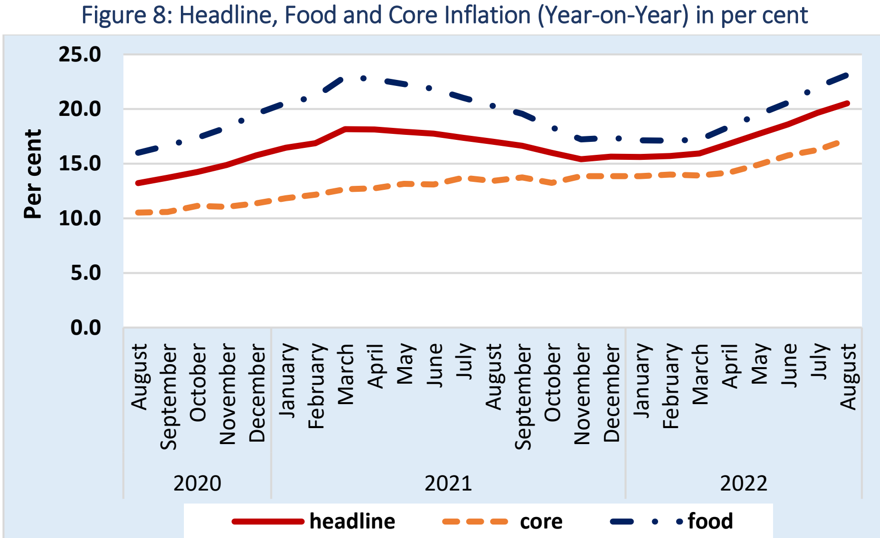
Source: *Central Bank of Nigeria*

2.1.2 Domestic Price Developments

Headline Inflation

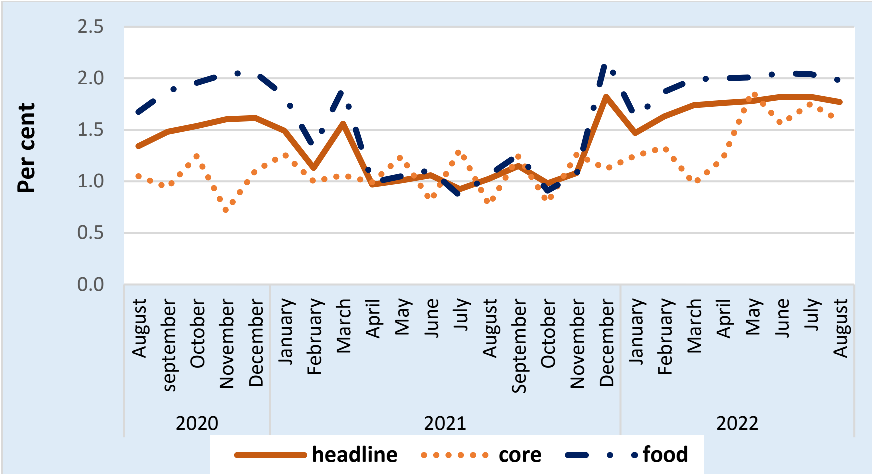
Inflation rate rose in August 2022, driven by disruption in the supply of food products and increase in production cost. Headline inflation (year-on-year) increased to 20.52 per cent in August 2022 from 19.64 per cent in the preceding month. The northward trend in inflation reflects subsisting supply shocks emanating from higher transport and logistics cost, following persisting high price of diesel and other energy prices. However, on a month-on-month basis, inflation slowed to 1.77 per cent from 1.82 per cent in the preceding month.

Figure 8: Headline, Food and Core Inflation (Year-on-Year) in per cent



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

Figure 9: Headline, Food and Core Inflation (Month-on-Month) in per cent



Source: *NBS and Staff Estimates*

Core Inflation

Core inflation on year-on-year basis increased to 17.20 per cent, compared with 16.26 per cent in the previous month. The rise in core inflation was attributed to domestic constraints such as energy cost, general cost of production and increase in the costs of imported goods, due to tighter global economic conditions. However, on a month-on-month basis, the rate of increase in the price level subdued, as inflation slowed to 1.59 per cent from 1.75 per cent in the preceding month, following improvement in electricity generation and relative stability in transportation cost due to increased petroleum products distribution.

Food Inflation

Food inflation (year-on-year) rose to 23.12 per cent, compared with 22.02 per cent in the previous month. The elevated food inflation was against the backdrop of increased cost of diesel and other farm inputs that impacted negatively on the production and distribution of farm produce and processed food. On a month-on-month basis, it however, declined to 1.98 per cent, compared with 2.04 per cent in the preceding month, following expected increase in supply of farm produce, as a result of early harvests.

2.1.3 Domestic Crude Oil Market Developments

Crude Oil Production and Export

Domestic crude oil production and export decreased, month-on-month, due to vandalism and crude oil theft. Domestic crude oil production and export fell, month-on-month, to 1.10 mbpd and 0.65 mbpd, respectively, in August 2022. At that level, crude oil production and export was 2.7 per cent and 4.4 per cent, lower relative to the level in the preceding month. Nigeria's production level remained below the OPEC quota of 1.826 mbpd by 0.726 mbpd.

Box Information 1

The prices of major domestic farm products maintained an upward trend in August 2022, compared with the previous month. All the monitored agricultural commodities recorded price increases ranging from 0.63 per cent for rice (medium grained) to 5.00 per cent, for rice (local and sold loose). The rising cost of production (inputs and energy prices), seasonal shortages in supply at the height of the raining season, as well as insecurity especially in agriculture rich regions continued to dampen production prospects.

Prices of Selected Domestic Agricultural Commodities in August

		Aug. 2021/1	Jul. 2022/2	Aug. 2022/2	% Change	% Change
	UNIT	1	2	3	(1) & (3)	(2) & (3)
Agric eggs medium size	*1kg*	585.64	721.46	730.80	24.79	1.29
Beans: brown, sold loose	"	496.03	562.55	575.84	16.09	2.36
Beans: white, black eye, sold loose	"	457.98	547.38	556.33	21.48	1.64
Gari white, sold loose	"	323.01	323.17	333.19	3.15	3.10
Gari yellow, sold loose	"	341.81	345.76	353.51	3.42	2.24
Groundnut oil: 1 bottle, specify bottle	"	812.70	1078.17	1093.61	34.57	1.43
Irish potato	"	366.63	486.10	494.95	35.00	1.82
Maize grain white, sold loose	"	270.79	315.03	327.80	21.05	4.06
Maize grain yellow, sold loose	"	275.28	316.56	329.20	19.59	3.99
Onion bulb	"	302.88	396.96	405.64	33.93	2.19
Palm oil: 1 bottle, specify bottle	"	668.71	890.67	905.11	35.35	1.62
Rice agric, sold loose	"	468.77	497.03	500.59	6.79	0.72
Rice local, sold loose	"	409.97	467.80	491.18	19.81	5.00
Rice, medium grained	"	460.33	520.37	523.66	13.76	0.63
Rice, imported high quality, sold loose	"	546.71	650.04	661.28	20.96	1.73
Sweet potato	"	195.87	250.72	259.25	32.36	3.40
Tomato	"	396.38	446.81	460.49	16.17	3.06
Vegetable oil: 1 bottle, specify bottle	"	769.45	1041.58	1061.51	37.96	1.91
Wheat flour: prepackaged (Golden Penny)	*2kg*	869.64	1094.72	1115.50	28.27	1.90
[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]

2.1.4 Development Financing

The Bank sustained its intervention programmes in the economy to curtail the downside risks to domestic and external shocks. Information in Table 6 indicated that the sum of ₦27.20 billion was disbursed under the 10 (Ten) monitored interventions to the critical sectors of the economy. It further showed that the Agricultural sector was the main intervention window as it received 77.35 per cent of the amount disbursed, followed by Energy/Infrastructure and Health with 15.00 per cent and 7.50 per cent, respectively.

Table 5: Intervention Funds, as at August 2022

Sector	Disburs (₦'bn)	Share (%)	Disburs. (₦'bn)	Share (%)
Agriculture	**21.04**	**77.35**	**1,771.39**	**34.57**
Anchor Borrowers' Programme	*20.34*	74.78	1,026.37	20.03
Commercial Agricultural Credit Scheme (CACS)	*0.70*	2.57	745.02	14.54
Energy/Infrastructure	**4.08**	**15.00**	**1,617.62**	**31.57**
Nigeria Electricity Market Stabilization Facility 2 (NEMSF 2)	*3.08*	12.89	*251.38*	4.91
Nigeria Bulk Electricity Trading-Payment Assurance Facility (NBET-PAF)	*0.00*	0.00	*1,300.04*	25.37
Infrastructure facility for National Gas Expansion Programme (IFNGEP)	1.00	2.11	*66.20*	1.29
MSMEs	**0.04**	**0.15**	**415.78**	**8.11**
Tertiary Institutions Entrepreneurship Scheme (TIES)	*0.04*	0.15	*0.33*	0.01
Targeted Credit Facility (TCF)	*0.00*	0.00	*415.45*	8.10
Industries	**0.00**	**0.00**	**1,186.45**	**23.16**
Covid-19 Intervention Facility for the Manufacturing Sector (CFIMS)	*0.00*	0.00	*0.00*	0.00
RSSF Using Differentiated Cash Reserve Ratio (RSSF-DCRR)	0.00	0.00	*1,186.45*	23.16
Health	**2.04**	**7.50**	**132.53**	**2.59**
Health Care Sector Intervention Fund (HSIF)	*2.04*	7.50	*132.53*	2.59
Total	**27.20**	**100**	**5,123.77**	**100**

Source: *Central Bank of Nigeria*

2.2. Fiscal Sector Developments

Summary

Gross Federation Revenue declined in August 2022, driven by the dip in non-oil revenue. However, oil revenue rose by 1.4 per cent, relative to the level in July 2022. The provisional overall fiscal deficit expanded by 7.0 per cent, depicting a 4.2 per cent and 1.7 per cent expansion in provisional aggregate expenditure and retained revenue of the FGN, respectively. However, relative to the budget, fiscal deficit contracted by 3.2 per cent. At end-June 2022, total public debt remained within sustainable level[2] at 23.4 per cent of GDP, with the FGN accounting for 87.7 per cent of the total public debt outstanding.

2.2.1 Federation Account Operations

Drivers of Federation Revenue

Provisional data shows that Federation Account revenue declined in August 2022, driven by a fall in FGN Independent Revenue. Gross federation receipts at ₦1,311.97 billion was below the target of ₦1,580.34 billion by 17.0 per cent. Relative to the collection in July 2022, non-oil receipts at ₦826.90 billion, weakened by 9.8 per cent, due largely to the decline in FGN Independent Revenue. However, in terms of contribution to total revenue, non-oil revenue remained dominant, constituting 63.0 per cent of the total, while oil revenue accounted for the balance of 37.0 per cent. Oil revenue, at ₦485.07 billion, exceeded its level in the preceding month by 1.4 per cent, following a 17.7 per cent rise in Petroleum Profit Tax (PPT), and Royalties receipts. In contrast, it was 38.7 per cent short of the monthly budgetary target (Table 7).

[2] The 2023-2025 Medium Term Expenditure Framework & Fiscal Strategy Paper (MTEF&FSP) Framework set the threshold for total public debt to GDP at 40.0 per cent.

Table 6: Federally Collected Revenue and Distribution to the Three Tiers of Government (₦' Billion), August 2022

	Aug-21	Jul-22	Aug-22	Budgeted
Federation Revenue (Gross)	***925.99***	***1,395.04***	***1,311.97***	***1,580.34***
Oil	***423.17***	***478.36***	***485.07***	***791.70***
Crude Oil & Gas Exports	*0.00*	*0.00*	*0.00*	*67.57*
PPT & Royalties	*318.57*	*405.45*	*477.00*	*530.91*
Domestic Crude Oil/Gas Sales	*91.25*	*64.00*	*0.56*	*42.04*
Others	*13.35*	*8.90*	*7.50*	*151.18*
Non-oil	***502.82***	***916.68***	***826.90***	***788.64***
Corporate Tax	*171.67*	*447.08*	*444.65*	*165.65*
Customs & Excise Duties	*99.76*	*150.62*	*137.69*	*154.88*
Value-Added Tax (VAT)	*151.13*	*208.15*	*190.26*	*203.48*
Independent Revenue of Fed. Govt.	*77.37*	*107.90*	*51.37*	*184.68*
*Others**	*2.89*	*2.93*	*2.93*	*79.94*
Total Deductions/Transfers*	***167.73***	***592.63***	***357.88***	***349.74***
Federally-Collected Revenue *Less Deductions & Transfers***	***758.26***	***802.41***	***954.08***	***1,230.60***
plus:				
Additional Revenue	***2.46***	***0.00***	***0.00***	***17.48***
Balance in Special Account from 2019	***0.00***	***0.00***	***0.00***	***0.00***
Excess Crude Revenue	*0.00*	*0.00*	*0*	*0.00*
Non-oil Excess Revenue	*0.00*	*0.00*	*0.00*	*17.48*
Exchange Gain	*2.46*	*0.00*	*0.00*	*0.00*
Total Distributed Balance	***760.72***	***802.41***	***954.08***	***1,200.49***
Federal Government	***321.23***	***321.86***	***406.61***	***509.09***
Statutory	*300.14*	*292.79*	*380.03*	*480.81*
VAT	*21.08*	*29.07*	*26.57*	*28.28*
State Government	***272.93***	***298.22***	***281.34***	***432.31***
Statutory	*152.24*	*148.50*	*192.76*	*251.29*
VAT	*70.28*	*96.91*	*88.58*	*94.25*
13% Derivation	*50.42*	*52.80*	*55.52*	*86.78*
Local Government	***166.56***	***182.33***	***210.62***	***259.09***
Statutory	*117.37*	*114.49*	*148.61*	*193.11*
VAT	*49.19*	*67.84*	*62.01*	*65.98*

Source: Office of the Accountant General of the Federation (OAGF)
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 the cost of revenue collections and JVC cash calls; while transfers entails provisions for FGN Independent revenue and other Non-Federation revenue.

The sum of ₦954.08 billion was distributed to the three tiers of government, after accounting for statutory deductions and transfers. Disbursement in August 2022 was 18.9 per cent above the disbursement in the preceding month, but 20.5 per cent below the monthly budget. Of this amount, the Federal Government received ₦406.61 billion, while State and Local governments received ₦281.34 billion and ₦210.62 billion, respectively. The balance of ₦55.52 billion was allocated to the 13.0 per cent Derivation Fund for distribution among the oil-producing states[3] (table 7).

2.2.2 Fiscal Operations of the Federal Government

Federal Government Retained Revenue

Occasioned by the rise in the FGN's share from federation account, the retained revenue of the FGN improved in the review month. At ₦639.47 billion, estimated retained revenue of the FGN increased, relative to receipts in the preceding month by 1.7 per cent, but was below the proportionate monthly budget by 23.0 per cent (table 8).

Table 7: FGN Retained Revenue (₦' Billion), August 2022

	Aug-21	*Jul-22*	*Aug-22*	*Benchmark*
FGN Retained Revenue	***564.78***	***629.03***	***639.47***	***830.77***
Federation Account	*299.00*	*292.79*	*380.03*	*360.89*
VAT Pool Account	*21.08*	*29.07*	*26.57*	*26.39*
FGN Independent Revenue	*77.37*	*107.90*	*51.37*	*362.05*
Excess Oil Revenue	*0.00*	*0.00*	*0.00*	*0.00*
Excess Non-Oil	*0.00*	*0.00*	*0.00*	*0.00*
Exchange Gain	*1.14*	*0.00*	*0.00*	*0.00*
*Others**	*166.19*	*199.27*	*181.49*	*81.43*

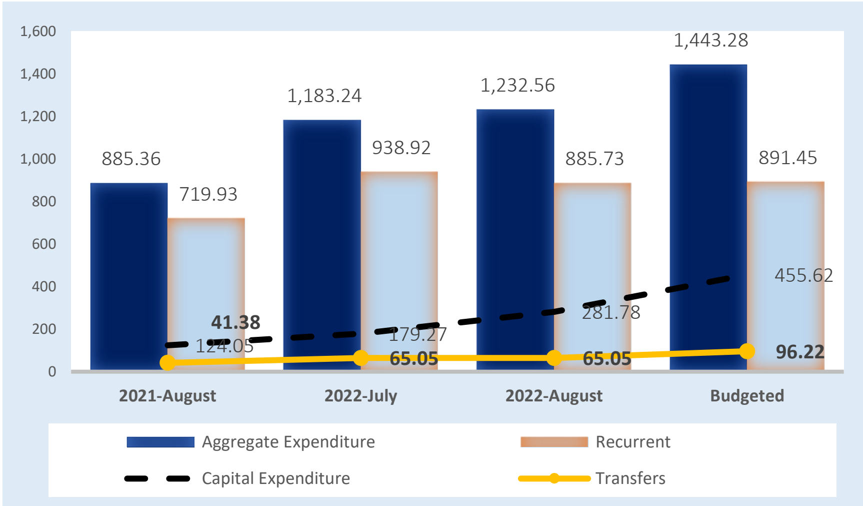
Source: Compiled from OAGF figures
*Note: * Others include revenue from Special Accounts and Special Levies*
Note: The Benchmark figures are provisional

Federal Government Expenditure

Driven by the expansion in capital expenditure, the provisional aggregate expenditure of the FGN rose by 4.2 per cent, relative to July 2022, but fell by 14.6 per cent compared to the budget. Provisional aggregate expenditure of the FGN amounted to ₦1,232.56 billion in the review period (figure 10). A breakdown reveals that recurrent expenditure, capital expenditure and transfers accounted for 71.9 per cent, 22.9 per cent and 5.2 per cent of total expenditure, respectively.

[3] Outside the Federation Account realization in August 2022, oil-producing states were noted to have received an additional ₦41.49 billion as payments for 13% derivation fund arrears.

Figure 10: Federal Government Expenditure (₦' Billion), August 2022



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

Overall Fiscal Balance

The overall fiscal balance recorded a deficit on account of higher capital expenditure. At ₦593.09 billion, the provisional fiscal deficit of the FGN rose by 7.0 per cent when compared with the level in July 2022 but declined by 3.2 per cent relative to the monthly budget of ₦612.52 billion (table 9).

Table 8: Fiscal Balance (₦' Billion), August 2022

	2021-August	2022-July	2022-August	Benchmark
Retained revenue	564.78	629.03	639.47	830.77
Aggregate expenditure	885.36	1,183.24	1,232.56	1,443.28
Recurrent	719.93	938.92	885.73	891.45
Non-debt	416.95	449.12	449.13	584.33
Debt Service	302.99	489.80	436.60	307.12
Capital	124.05	179.27	281.78	455.62
Transfers	41.38	65.05	65.05	96.22
Primary balance	-17.60	-64.42	-156.48	-305.40
Overall balance	**-320.58**	**-554.21**	**-593.09**	**-612.52**

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

Federal Government Debt

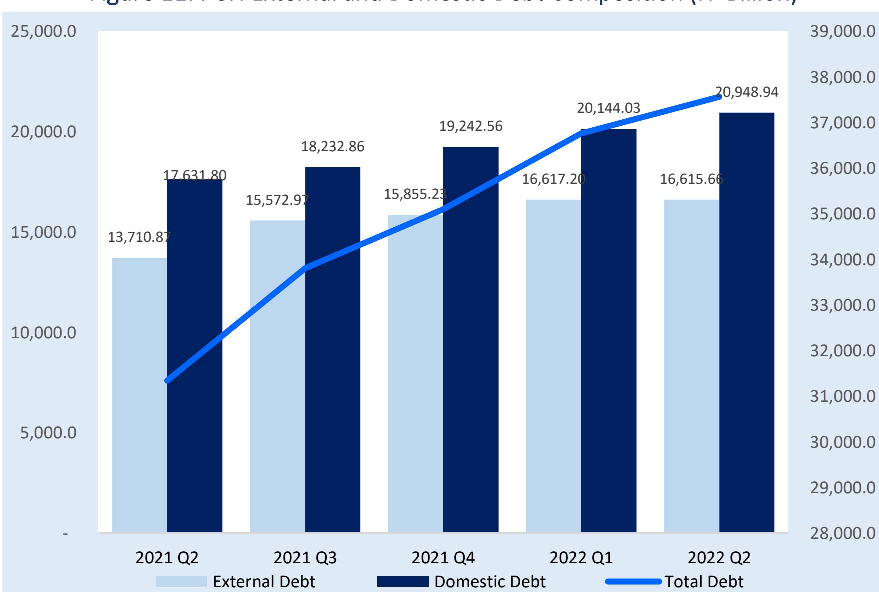
Public borrowing was in tandem with the medium-term debt strategy of the FGN. Total public debt outstanding at ₦42,845.88 billion at end-June 2022, rose by 3.0 per cent, compared with the level at end-March 2022. Domestic debt accounted for 61.2 per cent of total debt, while external debt constituted 38.8 per cent. Of the consolidated public debt outstanding, FGN (including State governments' external debt, which forms part of the FGN's contingent liability) accounted for ₦37,564.60 billion (87.7 per cent), while

State governments' domestic debt stock accounted for the balance of ₦5,281.28 billion (12.3 per cent).

An analysis of FGN debt by source shows that domestic debt stood at ₦20,948.94 billion (55.8 per cent), while external debt was ₦16,615.66 billion (44.2 per cent). Analysis by instruments reveals that FGN bond maintained its dominance, accounting for 72.5 per cent of the total domestic debt, while Treasury Bills accounted for 21.5 per cent, FGN Sukuk, 2.9 per cent, Promissory Notes, 2.5 per cent, and others[4], at 0.6 per cent, constituted the balance. In terms of holders of external debt, multilateral, commercial and bilateral loans accounted for 47.8 per cent, 39.0 per cent and 11.7 per cent, respectively, while others constituted 1.5 per cent.

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

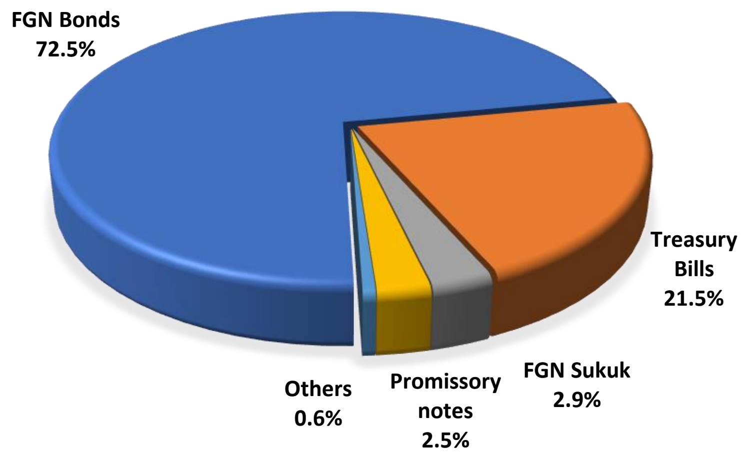
Figure 11: FGN External and Domestic Debt Composition (₦' Billion)



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

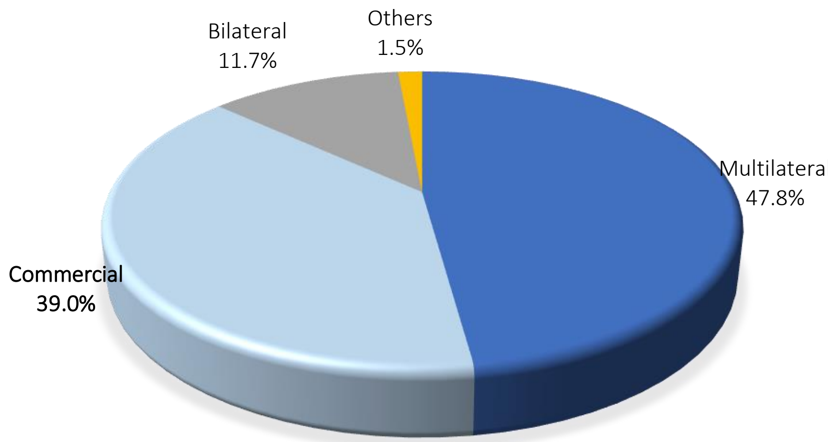
4 *This includes Treasury bonds (0.4 per cent), Green bond (0.1 per cent) and Special FGN Savings bond (0.1 per cent).*

Figure 12: Composition of Domestic Debt Stock by Instrument



Source: *Compiled from DMO figures*

Figure 13: Composition of External Debt Stock by Holders



Source: *Compiled from DMO figures*

2.3. Monetary and Financial Developments

Summary

Monetary and financial conditions remained tight in August 2022 as the Bank sustained its contractionary policy stance, since May 2022, to stem underlying price pressures from building up rapidly and to enhance capital inflow. Thus, the Bank further raised the MPR by 100 basis points (bps) to 14.0 per cent in July in 2022, inducing an up-pricing in both prime and maximum lending rates and a weak expansion in consumer credit. The All-Share Index (ASI) declined, as investors tip-toed away from equities, following uncertainties in global economic conditions to take advantage of higher yield in fixed income instruments. Overall, the financial system remained safe as the key financial soundness indicators stood within the regulatory benchmarks.

2.3.1 Monetary Developments

Reserve Money

Reserve money expanded in August 2022 as liabilities to Other Depository Corporations (ODCs) grew. At ₦14,040.35 billion, reserve money grew by 5.6 per cent above its level at end-December 2021, propelled by the 8.6 per cent growth in liabilities to ODCs (Table 10). The growth in the Bank's liabilities to ODCs was attributed to the increase in other liabilities and required reserves by 34.0 per cent and 7.1 per cent, to ₦772.58 billion and ₦10,057.11 billion, respectively. However, currency-in-circulation moderated the growth in reserve money, as it contracted by 3.4 per cent, buoyed by the fall in currency outside depository corporations which underscores the declining use of cash in favour of electronic platforms for transactions in the economy.

Table 9: Components of Reserve Money (₦' Billion)

	Aug-21	Dec-21	July-22	Aug-22
Monetary Base (₦ Billion)	***12,866.70***	***13,295.15***	***14,026.89***	***14,040.35***
Currency-In-Circulation	*2,778.71*	*3,325.16*	*3,242.60*	*3,210.66*
Liabilities to ODCs	*10,087.99*	*9,969.99*	*10,784.29*	*10,829.69*
Growth of Reserve Money (Over Preceding Dec.)	***-1.84***	***1.43***	***5.50***	***5.61***
Money Multiplier (M_3)	*3.18*	*3.34*	*3.44*	*3.52*

***Source**: Central Bank of Nigeria; **Note:** ODCs = Other Depository Corporations. Figures for July have been revised while the ones for August 2022 are provisional.*

Drivers of Broad Money Growth

With the money multiplier at 3.5, broad money supply (M_3) grew by 11.1 per cent to ₦49,356.45 billion, relative to the level at end-December 2021. This was driven by the 26.2 per cent expansion in Net Domestic Assets (NDA) to ₦44,281.53 billion from ₦35,091.83 billion at end-December 2021. The growth in NDA outweighed the 45.7 per cent contraction in Net Foreign Assets (NFA) at ₦5,074.91 billion. In terms of relative contributions to the growth in M_3 during the review month, NDA accounted for 20.7 percentage points, while the NFA constituted a drag of 9.6 percentage points.

The observed growth in NDA was accounted for by the 51.8 per cent and 15.1 per cent increase in net claims on central government and claims on other sectors, respectively, both contributing 16.1 and 11.9 percentage points to the growth in M_3. The growth in claims on other sectors was driven by the 34.1 per cent, 29.7 per cent, 15.7 per cent and 6.8 per cent rise in claims on public non-financial corporations, claims on state and local government, claims on private sector, and claims on other financial corporations, respectively (Table 11).

The contraction in NFA was due to the weak accretion to reserves, coupled with the 39.3 per cent rise in liabilities to non-residents that trailed the tight financial conditions in global markets.

Table 10: Money and Credit Growth over Preceding December (per cent)

	Aug-21	Dec-21	Aug-22	Contribution to M_3 Growth	Annualised Growth Rate	2022 benchmark
Net Foreign Assets	**-8.61**	**4.22**	**-45.74**	**-9.62**	**-68.60**	**-**
Claims on Non-residents	0.42	5.11	1.07	0.50	1.60	-
Liabilities to Non-residents	7.92	5.86	39.34	10.12	59.01	-
Net Domestic Assets	**13.76**	**21.92**	**26.19**	**20.68**	**39.28**	
Domestic Claims	**11.18**	**17.83**	**25.50**	**27.98**	**38.25**	**16.23**
Net Claims on Central Government	**9.35**	**20.42**	**51.75**	**16.11**	**77.62**	**12.26**
Claims on Central Government	14.83	22.66	32.93	18.15	49.40	-
Liabilities to Central Government	22.24	25.68	8.51	2.04	12.77	-
Claims on Other Sectors	**11.88**	**16.83**	**15.10**	**11.86**	**22.65**	**17.73**
Claims on Other Financial Corporations	-3.98	-5.34	6.82	1.21	10.22	-
Claims on State and Local Government	9.46	20.63	29.69	1.67	44.53	-
Claims on Public Nonfinancial Corporations	46.93	3.44	34.09	0.61	51.14	-
Claims on Private Sector	17.76	26.84	15.68	8.37	23.52	-
Total Monetary Assets (M_3)	**5.24**	**14.24**	**11.05**	**11.05**	**16.58**	**14.92**
Currency Outside Depository Corporations	-7.35	17.74	-8.79	-0.58	-13.18	-
Transferable Deposits	5.79	13.30	24.07	8.19	36.10	-
Narrow Money (M_1)	**3.72**	**14.00**	**18.72**	**7.61**	**28.08**	**-**
Other Deposits	10.88	19.99	5.62	3.34	8.43	-
Broad Money (M_2)	**7.88**	**17.48**	**10.94**	**10.94**	**16.41**	**-**
Total Monetary Liabilities (M_3)	**5.24**	**14.24**	**11.05**	**11.05**	**16.58**	**14.92**

Note: *Figures for August 2022 are provisional.*
Source: *Central Bank of Nigeria*

The strong growth of M_1 shows preference for liquid deposits as transferable deposit grew substantially by 24.07 per cent. Available information provides confirmation that on the liability side, transferable deposits, at 8.2 percentage points and other deposits, at 3.3 percentage points, were the major contributors to the growth in M_3. Currency outside depository corporations moderated the expansion in M_3 growth by -0.6 percentage point. The decline in currency outside depository corporations further indicates the sustained preference for electronic transactions relative to cash by economic agents (Table 11).

2.3.1.1 Credit Utilisation

Sectoral Utilisation of Credit

Tighter liquidity conditions slowed credit delivery by the ODCs to key sectors of the economy, as total credit at ₦27,895.98 billion, recorded a lower growth of 1.3 per cent at end-August 2022, compared with 2.5 at end-July. A breakdown of total credit utilisation shows that, in the agriculture sector, credit expanded by 0.3 per cent to ₦1,698.27 billion, relative to end-July. Similarly, credit to industry and services sectors grew by 2.1 per cent and 0.9 per cent, to ₦11,108.28 billion and ₦15,089.43 billion, respectively. In terms of share in total credit, services and industry remained dominant with the shares of 54.1 per cent and 39.8 per cent, respectively, while agriculture constituted 6.1 per cent, reflecting size and the breadth of economic activities in those sectors (Table 12).

Table 11: Relative Contribution to Total Sectoral Credit (per cent)

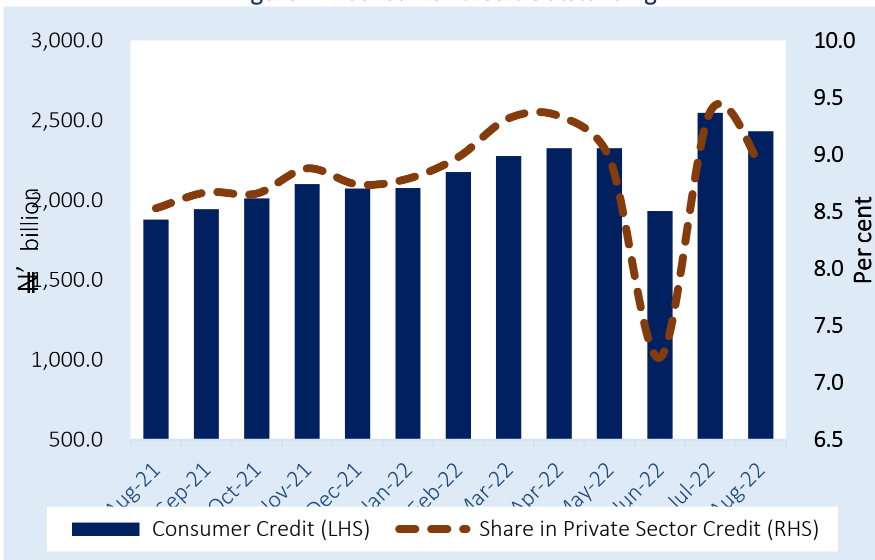
	Aug-21	Dec-21	July-22	Aug-22
Agriculture	5.45	5.98	6.15	6.09
Industry	42.30	40.66	39.53	39.82
Of which Construction	4.90	4.39	4.22	4.06
Services	52.28	53.36	54.32	54.09
Of which Trade/General Commerce	6.38	7.01	7.07	7.12

Source: *Central Bank of Nigeria*

Consumer Credit

In the same vein, consumer credit outstanding declined owing to reduced appetite by households for credit and concerns that persistent inflationary pressures could weigh on the country's fragile recovery in the wake of the recent hike in MPR. Consumer credit outstanding declined by 4.6 per cent to ₦2,432.03 billion. As a share of total claims on the private sector, consumer credit fell to 8.9 per cent, from 9.4 per cent at end-July, 2022 (Figure 14).

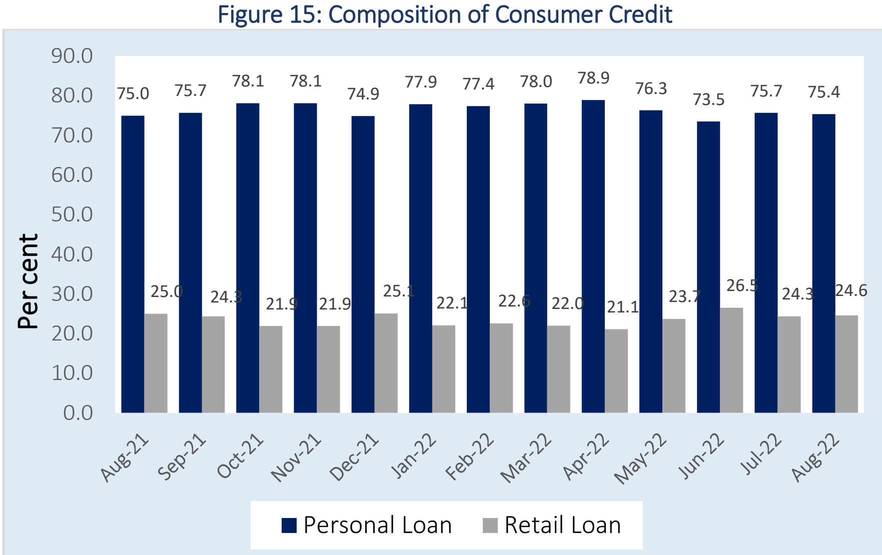
Figure 14: Consumer Credit Outstanding



Source: *Central Bank of Nigeria*

Despite the headwinds associated with tighter credit conditions, the shares of personal and retail loans have been stable in line with recent trends. A disaggregation of consumer credit shows that personal loans stood at ₦1,833.65 billion, accounting for 75.4 per cent, while retail loans stood at ₦598.38 billion, and accounted for the balance of 24.6 per cent (Figure 15).

Figure 15: Composition of Consumer Credit



Source: *Central Bank of Nigeria.*

2.3.2 Financial Developments

2.3.2.1 Money Market Developments

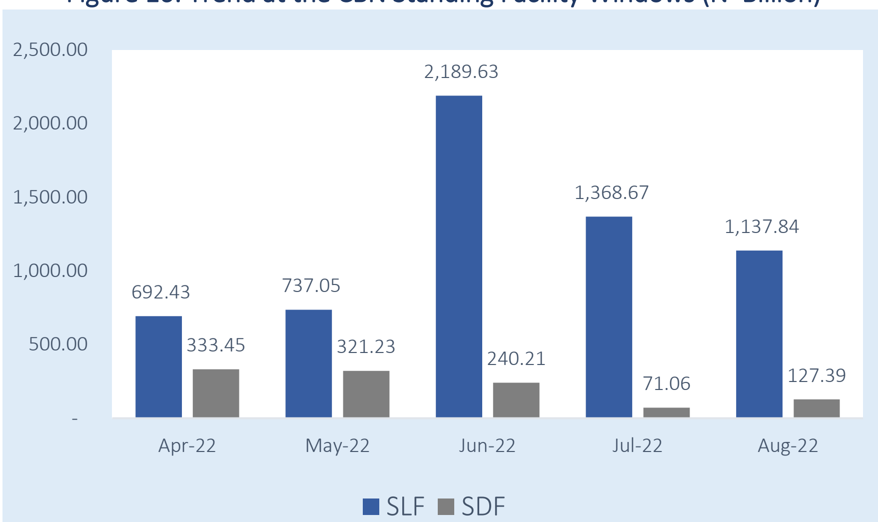
Industry Liquidity Condition

The level of liquidity in the banking system remained subdued, a trend that followed the hawkish monetary stance since May 2022. Specifically, the average net banking industry closing balance declined slightly by 0.04 per cent to ₦147.06 billion in August 2022 from ₦147.12 billion in July 2022. The low liquidity condition reflects the recent policy rate adjustment by the Bank in July 2022, amidst heightened domestic inflationary pressures.

Standing Facilities Window Operations

Consequently, patronage at the Standing Lending Facility (SLF) window exceeded that at the Standing Deposit Facility (SDF). Total cumulative request for SLF stood at ₦1,137.84 billion, compared with ₦127.39 billion cumulative requests for SDF, with applicable rates of 15.0 per cent and 7.0 per cent, respectively (Figure 16).

Figure 16: Trend at the CBN Standing Facility Windows (₦' Billion)



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

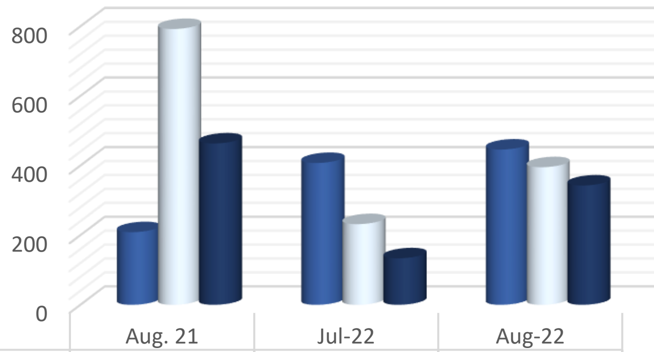
Primary Market

At the primary market segment, rates inched up at the longer end of the yield curve, relative to the level in the preceding month. At the auctions, NTBs of 91-, 182-, and 364- day tenors worth ₦446.15 billion, ₦395.37 billion and ₦342.86 billion were offered, subscribed to and allotted, respectively, relative to ₦407.55 billion, ₦231.80 billion and ₦133.68 billion in July 2022. The stop rates across all maturities increased to 6.0(±2.50) per cent, compared with 4.88(±2.13) per cent in July 2022.

A breakdown shows that total subscriptions were ₦4.28 billion (for 91-day auction), ₦12.15 billion (182-day auction) and ₦378.94 billion (364-day auction), compared with ₦6.47 billion, ₦3.35 billion and ₦221.98 billion in the preceding month, respectively. Total allotments for the 91-, 182-, and 364- day auctions were ₦3.43 billion, ₦11.52 billion and ₦327.91 billion compared with ₦5.97 billion, ₦2.75 billion and ₦124.96 billion in July 2022, respectively.

With respect to demand for different maturities, investors preferred the longer-term security (364-day) as a safe haven to anchor inflation expectation, as it accounted for 95.8 per cent of total subscriptions and 95.6 per cent of total allotments.

Figure 17: Primary Market NTBs (₦' Billion)

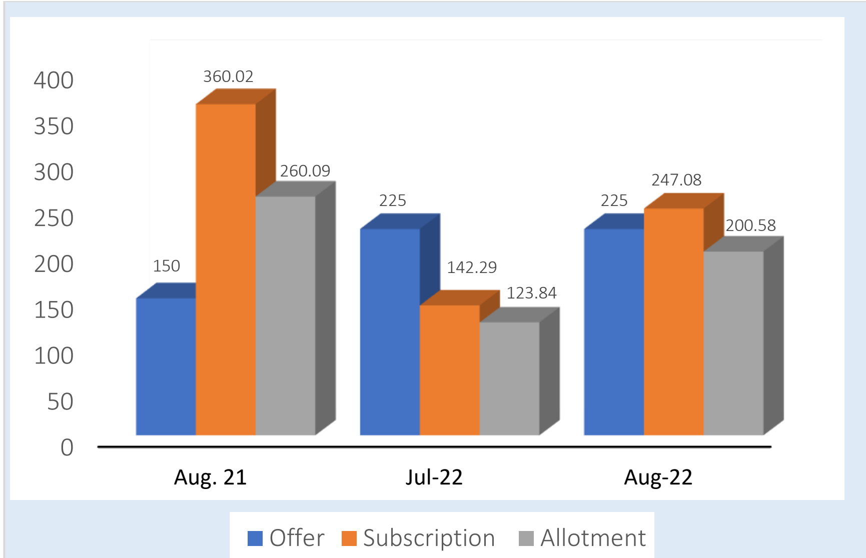


	Aug. 21	Jul-22	Aug-22
Offer	208.7	407.55	446.15
Subscription	792.5	231.8	395.37
Allotment	463.66	133.68	342.86

Source: *Central Bank of Nigeria*

At the FGN bonds segment, investors' subscription increased in the review month, relative to the level in the preceding month, reflecting their risk appetite towards fixed income securities in the review period. FGN bonds of 10-, 15- and 20-year tranches worth ₦225.00 billion, ₦247.08 billion, and ₦200.58 billion were offered, subscribed to and allotted, respectively, compared with similar tranches worth ₦225.00 billion, ₦142.29 billion and ₦123.84 billion in the preceding month. The bid and marginal rates stood at 13.0(±2.0) per cent and 13.25(±0.75) per cent, respectively, compared with 11.35(±3.15) per cent and 24.75(±13.75) per cent in the preceding month.

Figure 18: Primary Auctions of FGN Bonds (₦' Billion)

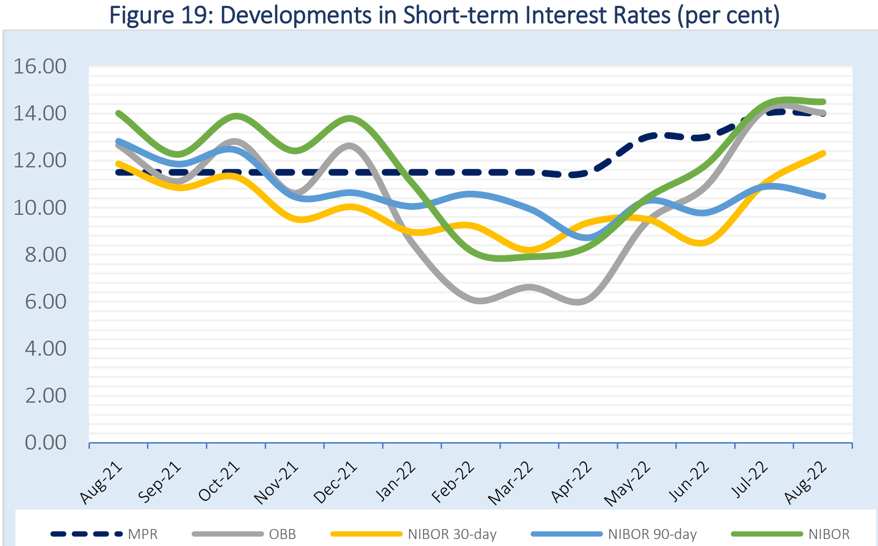


Source: *Central Bank of Nigeria*

Interest Rates Development

Developments in key money market rates were mixed in the review month. The MPR remained at 14.0 per cent with the asymmetric corridors at +100/-700bps for lending and deposit, while the Cash Reserve Ratio (CRR) and Liquidity Ratio stood at 27.5 per cent and 30.0 per cent, respectively. The average interbank call rate, Nigerian Interbank Offered Rate (NIBOR) and NIBOR 30-day, increased by 200 bps, 15 bps and 1.3 bps to 15.0 per cent, 14.5 per cent and 12.3 per cent, respectively. However, the average open buy back (OBB) and NIBOR 90-day rates declined by 12 bps and 41 bps to 14.0 per cent and 10.5 per cent, respectively.

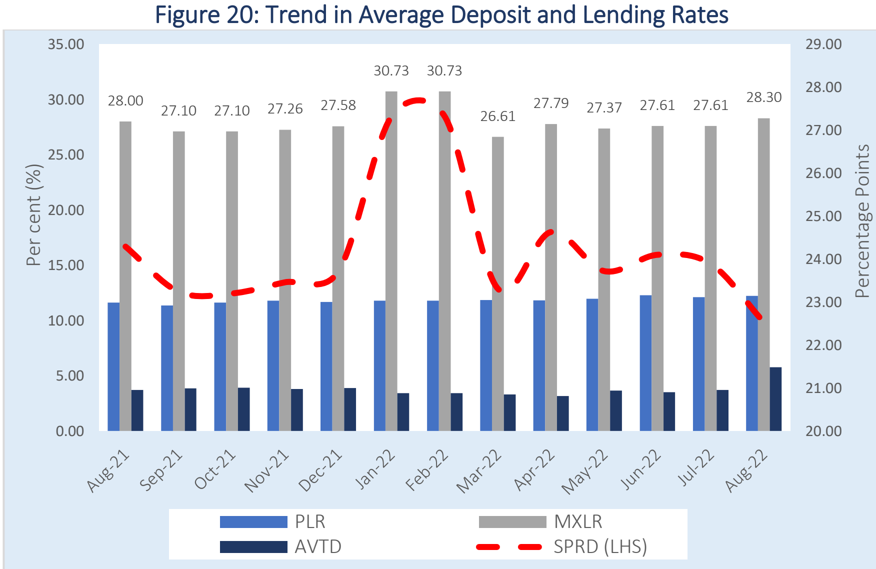
Figure 19: Developments in Short-term Interest Rates (per cent)



Source: *Central Bank of Nigeria*

The trend in lending and deposit rates were priced upwards consistent with the tight monetary policy stance. The prime and maximum lending rates rose by 13.0 bps and 69.0 bps to 12.2 per cent and 28.3 per cent, respectively, above their levels in July 2022. Similarly, the weighted average term deposit rate (AVTD) rose by 205.0 bps to 5.8 per cent in the review month from 3.7 per cent in the preceding month. The rise in average term deposit and the maximum lending rates resulted in the narrowing of the spread by 22.5 percentage points, relative to 23.9 percentage points in the preceding month.

Figure 20: Trend in Average Deposit and Lending Rates



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

2.3.2.2 Capital Market Developments

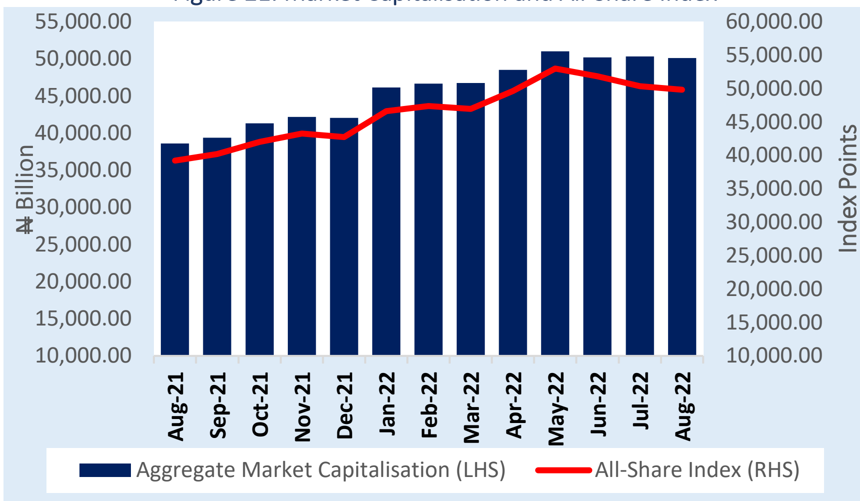
NGX All Share Index

Activities on the Nigerian Exchange Limited (NGX) were bearish in the review period, as the hike in MPR induced investors' weariness and asset switching from equities to fixed income instruments. The aggregate market capitalisation (AMC) depreciated by 0.4 per cent to ₦50,107.65 billion from ₦50,300.95 billion at end-July 2022. The equities and ETF components of the AMC fell by 1.0 per cent and 1.1 per cent to ₦26,880.19 billion and ₦7.30 billion, respectively, from ₦27,880.19 billion and ₦7.38 billion in the preceding month, while the debt component appreciated by 0.4 per cent to ₦23,220.15 billion relative to ₦23,130.93 billion at end-July 2022.

Market Capitalisation

The NGX-All-Share Index (ASI) depreciated by 1.6 per cent to 49,836.51 from 50,370.25 in the preceding month. The major drag associated with the fall in ASI emanated mainly from, Meri Growth, Oil and Gas and Industrial indices. Nine indices depreciated in the review period, NGX-ASeM remained flat, while others appreciated.

Figure 21: Market Capitalisation and All-Share Index



Source: *Nigeria Exchange (NGX) Limited.*

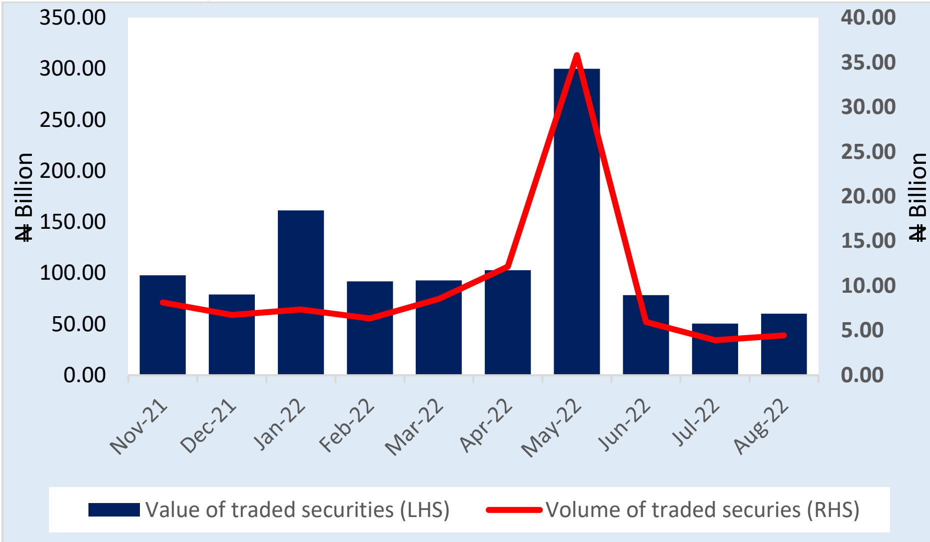
Table 12: Nigerian Exchange (NGX) Limited Indices

NGX Indices	*End-July 2022*	*End-August 2022*	*Changes (%)*
NGX Growth Index	1,498.14	1,673.86	11.7
NGX-INSURANCE	167.04	180.23	7.9
NGX-CONSUMER GOODS	573.27	600.56	4.8
NGX-BANKING	378.21	387.41	2.4
NGX-AFR BANK VALUE	881.41	892.21	1.2
NGX- MERI VALUE	2,047.35	2,070.27	1.1
NGX -MAIN BOARD	2,280.63	2,296.14	0.7
NGX-AFR Div. Yield	3,034.86	3,037.44	0.1
NGX-Asem	658.99	658.99	0.0
NGX Sovereign	854.18	849.94	-0.5
NGX-PENSION	1,722.50	1,707.22	-0.9
NGX- CG	1,233.62	1,221.23	-1.0
NGX-LOTUS	3,142.86	3,082.71	-1.9
NGX-PREMIUM	4,593.86	4,482.06	-2.4
NGX-30	1,820.25	1,776.89	-2.4
NGX-MERI GROWTH	2,306.23	2,236.38	-3.0
NGX-OIL/GAS	556.28	532.15	-4.3
NGX-INDUSTRIAL	2,062.30	1,777.14	-13.8

Source: *Nigeria Exchange (NGX) Limited.*

The total volume and value of traded shares on the Nigerian bourse at end-August 2022 were 4.45 billion shares and ₦60.20 billion, respectively, traded in 85,571 deals, compared with 3.92 billion shares and ₦53.89 billion, in 80,134 deals, at end-July 2022.

Figure 22: Volume and Value of Traded Securities



Source: *Nigeria Exchange (NGX) Limited.*

In the review period, there were three (3) new listings.

Table 13: New Listings on the Nigeria Exchange (NGX) Limited at end-August 2022

Company/Security	***Shares Units***	***Remarks***	***Listing***
Lagos Free Zone Company 13.25% LFZC GTEED SEP 2042	*Tranche A of 25,000,000 units of ₦25,000,000,000.00 20 Year Bonds*	*Senior guaranteed infrastructure Bonds*	*New*
Capital Hotels Plc	*1,611,995,510 units of 50 Kobo per share*	*Ordinary shares (Private placement)*	*New*
Neimeth International Pharmaceuticals Plc	*2,373,947,500 units of ₦1.55 at 5 for every 4 shares*	*Ordinary shares*	*New*

Source: *Nigeria Exchange (NGX) Limited.*

2.3.2.3 Financial Soundness Indicators

The financial sector remained stable, safe and sound as key financial soundness indicators were within regulatory thresholds. The industry Capital Adequacy Ratio (CAR) fell slightly by 0.4 percentage point to 13.4 per cent from 13.8 per cent in July 2022, driven by a marginal drop in total qualifying capital, as against the marginal increase in the total risk weighted asset. The ratio was, however, above the minimum threshold of 10.0 per cent.

The banks' loan quality indicator[5] remained at 4.8 per cent in the review period, as it were at end-July 2022. The NPL ratio was below the 5.0 per cent prudential requirement due to continuous loan recoveries and write-offs.

The industry liquidity ratio (LR)[6] at 55.9 per cent was 25.9 percentage points above the regulatory benchmark of 30.0 per cent and 0.8 percentage points above the 55.1 per cent recorded in the preceding month. The development was due to an increase in the stock of liquid assets held by banks, as their appetite for longer term assets remain cautious, owing to the hawkish policy stance of the Bank.

[5] *Measured by the ratio of Non-Performing Loans to industry Total Outstanding Loans*

[6] *Measured by the ratio of Liquid Assets to industry Current Liabilities*

2.4. External Sector Developments

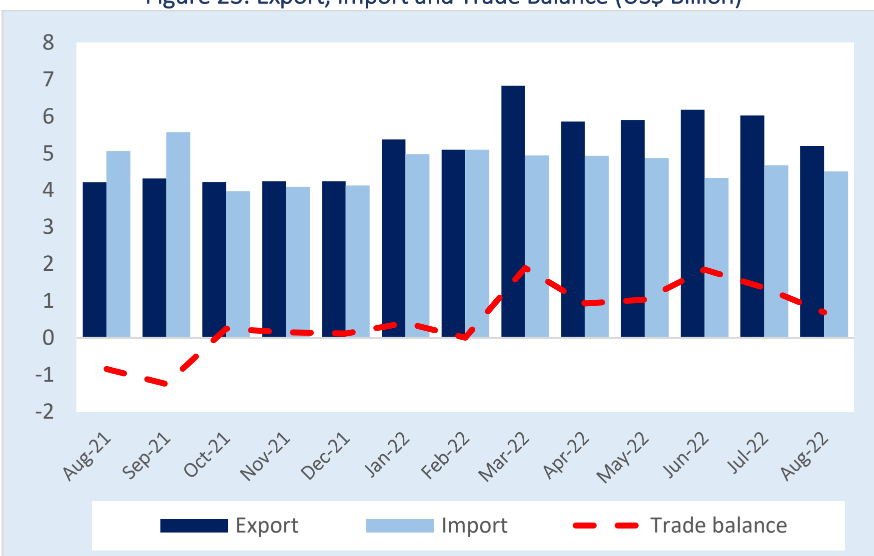
Summary

Nigeria's external trade performance deteriorated in the review month. The deterioration was accounted for, by both the declines in crude oil receipts and total imports, on the back of weak global demand, and supply chain disruptions. However, foreign capital inflow, increased despite the tightened global financial conditions.

2.4.1 Trade Performance

In the review month, Nigeria's total trade performance deteriorated due to the declines in crude oil receipts and total imports on the back of weak global demand and supply chain disruptions. Provisional data shows that Nigeria's total trade decreased by 9.2 per cent to US$9.71 billion from US$10.69 billion in July 2022. The decline in total trade resulted to a 47.7 per cent reduction in trade surplus to US$0.70 billion, from US$1.35 billion in the preceding period. A disaggregation of total trade shows that aggregate export receipts fell by 13.5 per cent to US$5.20 billion, relative to US$6.02 billion in July 2022. Similarly, merchandise import fell by 3.7 per cent to US$4.51 billion, compared with US$4.67 billion in July 2022.

Figure 23: Export, Import and Trade Balance (US$ Billion)



Source: *Central Bank of Nigeria*

Crude Oil and Gas Export

Uncertainties about OPEC+ crude oil output decisions have moderated crude oil prices in the international market, thereby, affecting Nigeria's crude oil export receipts. Provisional data shows that a lower crude oil and gas export receipts of US$4.58 billion was recorded in August 2022, compared with US$5.39 billion in July 2022. A breakdown by the main components reveals that crude oil export receipts declined by 18.0 per cent to US$3.89 billion, relative to USS$4.74 billion in the preceding month. Recent crude oil price trends and domestic production challenges were attributed to the decline in crude oil export receipt. In contrast, gas export receipts increased by 7.0 per cent to US$0.70 billion, compared with US$0.65 billion in the preceding month. In terms of share, crude oil and gas exports accounted for 88.1 per cent of total exports, with oil constituting 74.7 per cent and gas export accounting for 13.4 per cent.

Non-Oil Export

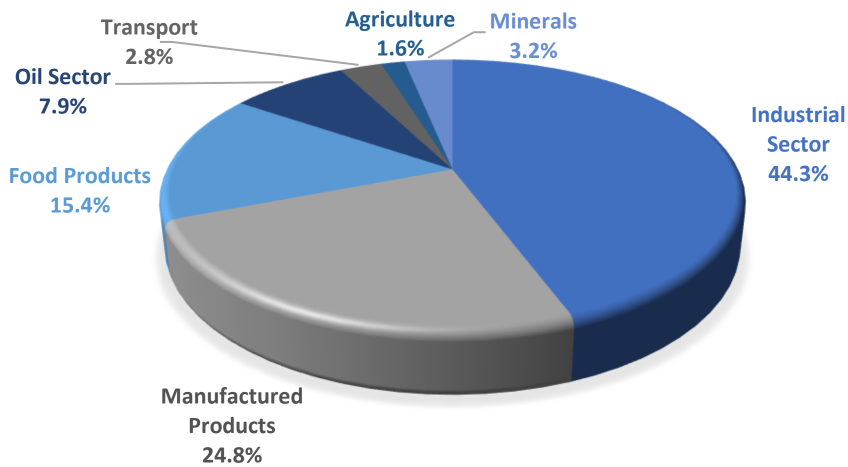
Non-oil export earnings fell by 0.8 per cent to US$0.62 billion in August 2022, compared with the level in July 2022, largely, due to a 5.4 per cent decline in electricity export receipts to US$0.02 billion from the level in the preceding month.

Import

Weak domestic demand on the back of rising global inflation and supply chain disruptions, have continued to weigh on Nigeria's imports. Provisional data shows that aggregate import decreased by 3.7 per cent to US$4.50 billion from US$4.67 billion in the preceding month. The decline in import was solely driven by the 23.3 per cent decrease in oil import to US$0.87 billion in the review period, compared with U$1.14 billion in July 2022, as the demand-supply gap in the domestic economy continue to narrow. Conversely, non-oil imports rose by 2.6 per cent to US$3.63 billion, compared with US$3.54 billion in the preceding month. In terms of composition, non-oil import accounted for 80.7 per cent, while oil constituted the balance of 19.3 per cent of the total.

Available data on sectorial utilisation of foreign exchange for visible import shows that, the industrial sector constituted the largest share of 44.3 per cent, followed by manufactured products with 24.8 per cent; food products constituted 15.4 per cent; oil, 8.0 per cent; minerals, 3.2 per cent; transport, 2.8 per cent; and agriculture, 1.6 per cent (Figure 24).

Figure 24: Import by Sector, August 2022 (per cent)



Source: *Central Bank of Nigeria*

Capital Importation

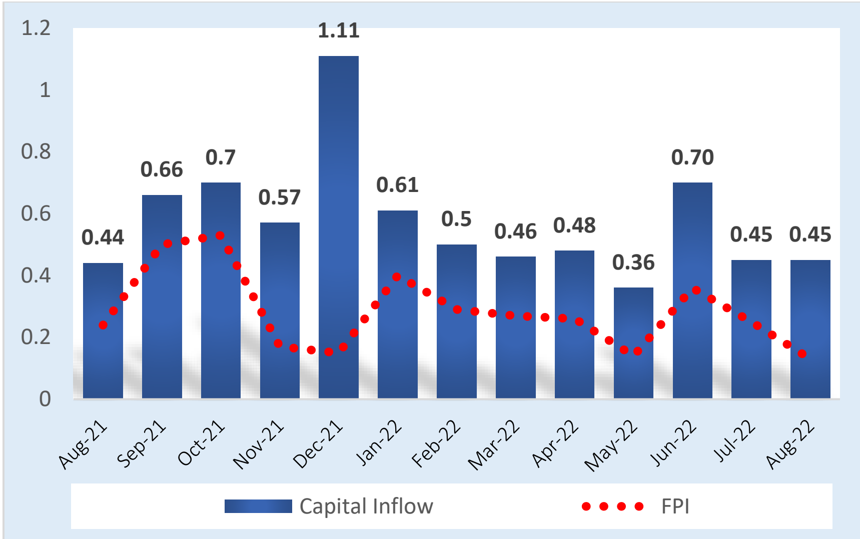
Inflow of fresh loans, and placement of foreign currency and deposits in domestic banks, led to an increase in capital inflows into the economy during the review period. Capital imported into the domestic economy increased by 0.6 per cent to US$0.45 billion in August 2022, relative to the value in the preceding month. A breakdown of capital importation shows that other investment capital inflows (in the form of loans and currency & deposits) at US$0.28 billion, accounted for 63.1 per cent of total inflows. Portfolio investment at US$0.13 billion, accounted for 29.4 per cent of the total. An analysis of portfolio investments by instruments shows that bonds, at US$0.08 billion accounted for 57.9 per cent of total portfolio inflows; money market instruments at US$0.05 billion accounted for 38.5 per cent, while; equity, at US$0.004 billion accounted for 3.6 per cent. Foreign direct investment inflow in the form of equity at US$0.03 billion, accounted for 7.5 per cent of total capital inflows (Figure 25).

Capital importation by nature of business reveals that, the financing sector received the most capital (38.3 per cent), followed by banking (23.7 per cent), product/manufacturing (10.4 per cent), shares (9.8 per cent), servicing (8.0 per cent), and trading (3.2 per cent). Other sectors accounted for the balance.

A further analysis of capital importation by origin reveals that Singapore dominated with 31.8 per cent of the total capital inflow. United Kingdom, United States, Mauritius, Togo, Hong Kong, and Republic of South Africa followed with shares of 28.6 per cent, 10.1 per cent, 5.9 per cent, 5.6 per cent, 4.7 per cent, and 3.2 per cent, respectively.

The major destinations of capital in the domestic economy were Lagos, Federal Capital Territory, and Anambra, with shares of 74.1 per cent, 25.0 per cent, and 0.9 per cent, respectively.

Figure 25: Capital Inflow and Foreign Portfolio Investment (US$ Billion)

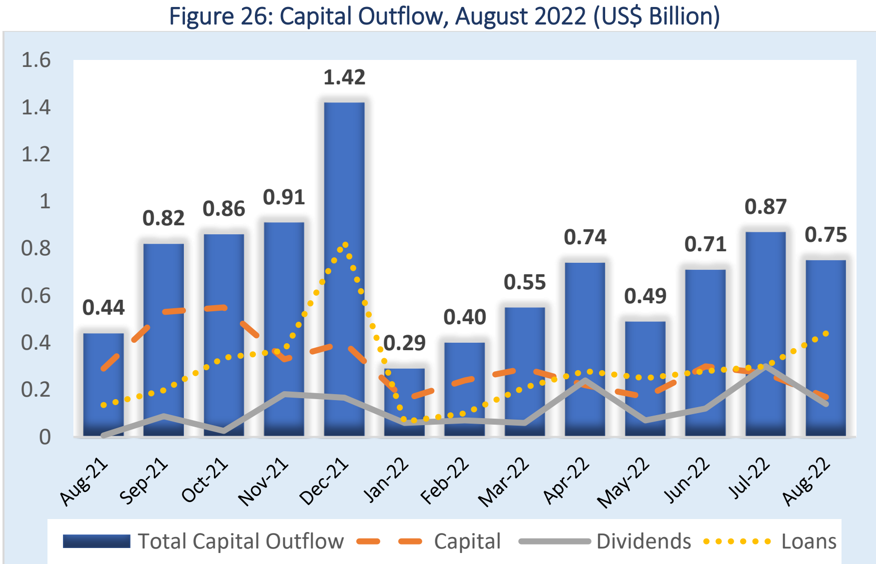


Source: *Central Bank of Nigeria*

Capital Outflow

Lower repatriation of dividends, and reduced capital reversals, induced a decline in capital outflow. Capital outflow decreased by 14.6 per cent to US$0.75 billion, compared with US$0.87 billion in the preceding month. A breakdown shows that outflows in the form of loans stood at US$0.44 billion compared with US$0.30 billion in the preceding month, while capital reversal (mainly from banking and financing) stood at US$0.17 billion, compared with US$0.27 billion in the preceding month. Repatriation of dividends decreased by 53.3 per cent to US$0.14 billion, in comparison to US$0.30 billion in the preceding month (Figure 26).

Figure 26: Capital Outflow, August 2022 (US$ Billion)



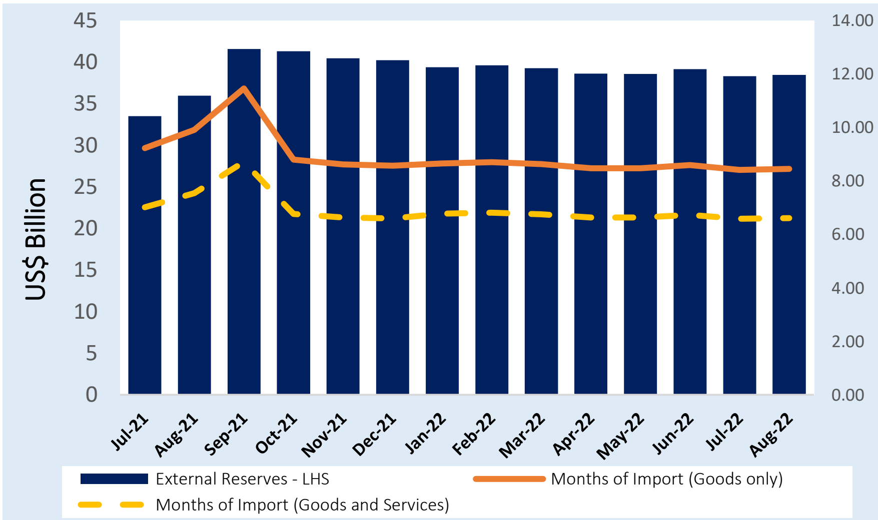
Source: Central Bank of Nigeria

2.4.2 International Reserves

International Reserves

The stock of external reserves was above the international benchmark of three months of import cover. The external reserves stood at US$38.46 billion at end-August 2022 from US$38.31 billion at end-July 2022. The external reserves could cover 6.6 months of import for goods and services or 8.5 months of import for goods only.

Figure 27: External Reserves and Months of Import Cover



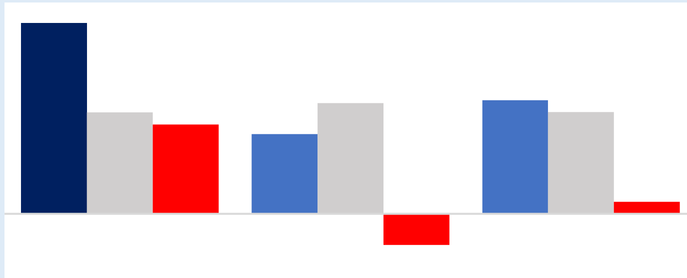
Source: Central Bank of Nigeria

2.4.3 Foreign Exchange Flows Through the Economy

Foreign Exchange Flows through the Economy

The economy recorded an increase in net foreign exchange inflow in the review month relative to the previous month. Aggregate foreign exchange inflow into the economy increased by 22.7 per cent to US$6.40 billion, from US$5.22 billion in July 2022. Similarly, foreign exchange outflow through the economy fell by 9.5 per cent to US$3.24 billion, from US$3.58 billion in the previous month (Figure 28).

Figure 28: Foreign Exchange Transactions through the Economy (US$ Million)



	August 21	July 22	August 2022
Inflow	5,427.64	2,267.65	3,230.27
Outflow	2,888.67	3,152.07	2,892.34
Netflow	2,538.97	(884.42)	337.93

Source: *Central Bank of Nigeria*

Further analysis reveals that foreign exchange inflow through the Bank grew by 42.5 per cent to US$3.23 billion, from US$2.27 billion in July 2022 owing, largely, to 81.3 per cent increase in non-oil components specifically matured swaps. Autonomous inflow also increased by 7.5 per cent to US$3.17 billion from US$2.95 billion in the preceding month, driven by higher invisible purchases and non-oil export receipts by the Bank. Foreign exchange outflow through the Bank fell by 8.2 per cent to US$2.89 billion from US$3.15 billion in July 2022, due mainly to a decline in interbank utilisation. Autonomous outflow also fell by 18.9 per cent to US$0.35 billion, from US$0.43 billion in July, on account of decreased invisible imports.

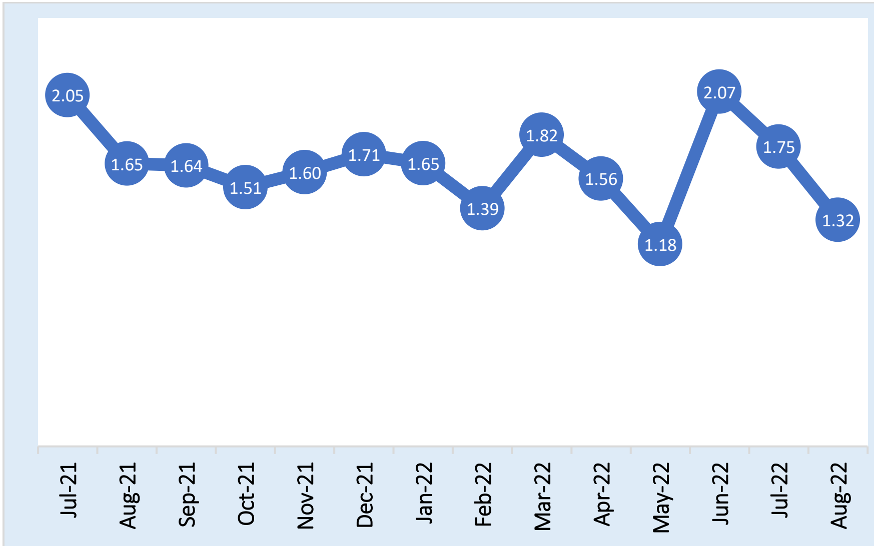
Therefore, a net inflow of US$0.34 billion was recorded through the Bank in August 2022, compared to a net outflow of US$0.88 billion in the previous month.

2.4.4 Foreign Exchange Market Developments

Average Exchange Rate

Total foreign exchange sales to authorised dealers by the Bank stood at US$1.32 billion, a decrease of 24.6 per cent, relative to US$1.75 billion in July 2022. A breakdown shows that matured swaps, foreign exchange sales at the Investors and Exporters (I&E), Small and Medium Enterprises (SME) windows, as well as the Secondary Market Intervention Sales (SMIS), decreased by 67.7 per cent, 53.0 per cent, 25.3 per cent and 12.8 per cent respectively, to US$0.09 billion, US$0.21 billion, US$0.15 billion and US$0.63 billion, below their respective levels in the preceding month. However, interbank sales/invisible forex sales rose by 99.9 per cent, to US$0.25 billion, compared to the sales in the previous month.

Figure 29: Foreign Exchange Sales to Authorised Dealers (US$ Billion)



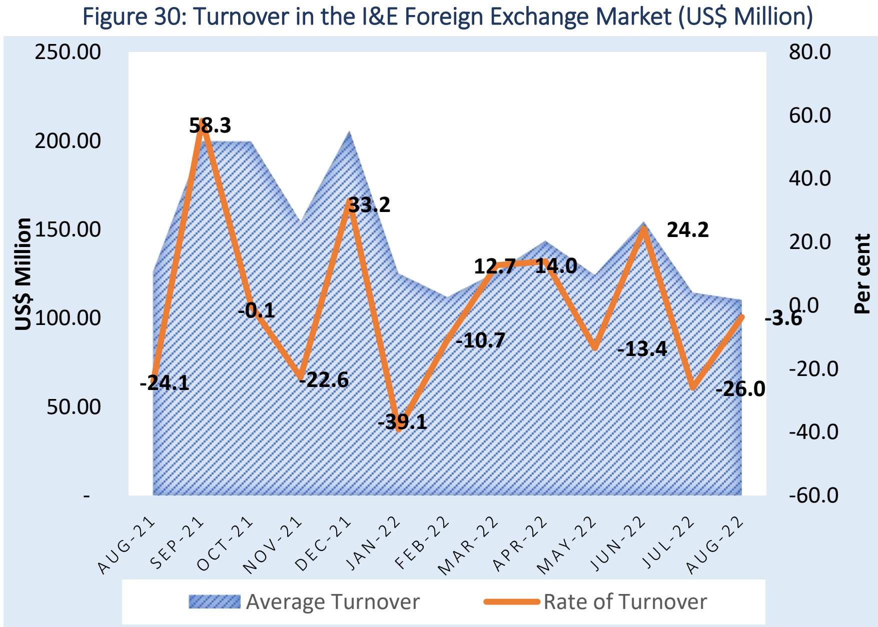
Source: *Central Bank of Nigeria*

2.4.5 Foreign Exchange Turnover at the I&E Window

Foreign Exchange Turnover

The average foreign exchange turnover at the Investors' and Exporters' window was US$110.18 million in August 2022, a decrease of 3.6 per cent, relative to US$114.31 million in July 2022.

Figure 30: Turnover in the I&E Foreign Exchange Market (US$ Million)



Source: *Financial Markets Derivatives Quotations (FMDQ)*

2.4.6 Exchange Rate Movement

Average Exchange Rate

The exchange rate of the naira depreciated at the I&E window relative to the level in the preceding month. The average exchange rate of the naira per US dollar at the I&E window depreciated by 2.0 per cent to ₦426.04/US$, relative to ₦417.38/US$ in the previous month.

3.0 ECONOMIC OUTLOOK

3.1. Global Outlook

Economic Outlook for 2022

The outlook for the global economy is more pessimistic through the rest of the year, as risks and uncertainty remain high. The outlook is clouded by persisting inflationary pressures and subsisting energy crisis, across the globe, following the fallout of massive sanctions on Russia and the spill over effect of the United States' aggressive interest rate hikes. The IMF's revised outlook report for July 2022 projected global growth to fall from 6.1 per cent in 2021 to 3.2 per cent in 2022. This indicates a 0.4 percentage point decline from the previous IMF forecast. The downward revision of growth forecast by the IMF was hinged on reduced households purchasing power, and a tighter monetary policy stance by many central banks. In addition, renewed COVID-19 induced lockdowns and the deepening real estate crisis in China contributed to the downward growth forecast. In the AEs, output is projected to grow by 2.5 per cent in 2022, below the 5.2 per cent expansion in 2021, while the EMDEs' growth is projected to slow to 3.6 per cent in 2022, down from the expansion of 6.8 per cent in 2021.

Global inflation is expected to remain elevated for the rest of the year despite ongoing monetary policy rate hikes across most central banks. This is due to prolonged effect of lingering food and energy crises. Therefore, the IMF projects inflation in AEs and EMDEs to stand at 6.6 per cent and 9.5 per cent, respectively, at the end of 2022 compared with 3.1 per cent and 5.9 per cent recorded in 2021, respectively.

3.2. Domestic Outlook

Economic Outlook for the Third Quarter

The prospects for the Nigerian economy remain positive as domestic output is projected to grow by 3.51 per cent in 2022Q3 (year-on-year).[7] This outlook is driven by the assumption that the current trend in crude oil prices will be sustained, judicious implementation of the 2022 Appropriation act, and the positive impact of CBN interventions on growth-enhancing sectors, among others. However, monetary policy tightening in the face of incipient inflationary pressures and lingering security challenges could dampen the growth momentum.

Price pressures are expected to remain elevated in September 2022, for both food and core components. While the rise in the food component of inflation can be ascribed primarily to extreme weather conditions and security challenges in food-producing areas, core inflation is expected to be driven largely by the rise in energy prices. Also, the spill-over effect of the Russia-Ukraine war, and the consequent escalation of supply-chain disruption, would continue to trigger inflationary pressures. Nevertheless, the various supply-side interventions by the Bank and the FGN in growth-enhancing sectors remain the tailwind in moderating inflation.

The outlook for fiscal policy in the short-term is mixed. The continued adoption and implementation of the Finance Act 2021 and the Strategic Income Growth Initiatives (SRGIs) of the FGN are expected to buoy non-oil revenue growth. However, the downside risks remain daunting given the production challenges in the oil sector and high debt service obligations.

Nigeria's external sector is expected to remain resilient despite the downside risks associated with growing global uncertainties in the international oil market and structural factors. This development is expected to impact positively on the current account as the surplus is expected to be sustained. However, the protracted sub-quota crude oil production could continue to constrain adequate foreign exchange inflow.