CENTRAL BANK OF NIGERIA

MONETARY POLICY REVIEW

AUGUST 2020
VOLUME IX, NUMBER 1

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

ISSN: 2141-6281

Central Bank of Nigeria

Mandate

▪Ensure monetary and price stability

▪Issue legal tender currency in Nigeria

▪Maintain external reserves to safeguard the international value of the legal tender currency

▪Promote a sound financial system in Nigeria

▪Act as banker and provide economic and financial advice to the Federal Government

Vision

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

Mission Statement

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

Core Values

- Meritocracy
- Leadership
- Learning
- Customer - Focus

CONTENTS

Page

Table of Contents

List of Tables

List of Figures

List of Boxes

STATEMENT BY THE GOVERNOR

Monetary policy in the first half of 2020 was confronted by severe challenges posed by the collapse in crude oil prices following the oil price war between Saudi Arabia and Russia, as well as the outbreak and rapid spread of the Corona Virus Disease (COVID-19). As a result, the lockdowns and measures to curtail the spread of the COVID-19 pandemic caused significant disruptions to global supply chains, leading to sharp decline in global trade, unprecedented collapse in crude oil demand and weakened aggregate demand. Other vulnerabilities triggered by the pandemic included: rising corporate and public debts; tightening financial conditions, and renewed financial market fragilities across the globe.

As a consequence, the performance of the domestic economy slowed to 1.87 per cent (year-on-year) in the first quarter of 2020 and subsequently dipped by 6.10 per cent in the second quarter, heightening fears of an economic recession. Inflationary pressure intensified while the foreign exchange market witnessed significant pressure in the face of low accretion to external reserves. Thus, the naira weakened in all segments of the foreign exchange market. Meanwhile, the Nigerian financial market witnessed considerable stress, with persistent capital reversals, forcing the capital market to close on a bearish note during the period. The bearish trend in the capital market, partly due to the dip in oil prices and the Covid-19 pandemic, significantly dampened investors' confidence. Thus, the All-Share Index (ASI) decreased by 8.80 per cent from 26,842.07 at end-December 2019 to 24,479.22 at end-June 2020. Other fragilities included: rising domestic and foreign sovereign debts fuelled by expanding fiscal deficits. Nonetheless, the money market remained broadly active with market rates reflecting liquidity conditions in the banking system.

In consideration of the foregoing developments, monetary policy in the review period was designed to mitigate inflationary pressures and signal the Bank's commitment to support output recovery against the backdrop of a slowdown in economic activities occasioned by the COVID-19 pandemic. Thus, the Bank adopted a broadly accommodative monetary policy stance as the Monetary Policy Rate (MPR) was reduced by 100 basis points to 12.5 per cent, while the asymmetric corridor of +200/-500 basis points around the MPR, the CRR of 27.5 per cent and Liquidity Ratio of 30.0 per cent, were maintained throughout the period. These were complemented by the intensification of the Bank's development finance interventions targeted at critical sectors of the real economy.

The outlook for the domestic economy over the short-to-medium-term indicate that the current inflationary pressure may not moderate owing to a combination of factors including the pass-through from exchange rate depreciations to domestic prices, rising food prices occasioned by disruptions to the food supply chains from the COVID-19 lockdowns as well as increased liquidity from fiscal and monetary stimulus to cushion the impact of the pandemic. Inspite of the current circumstances, the policy community, financial markets and, indeed, the public are fully assured that monetary policy will continue to be proactive by prioritizing the attainment of price stability in an environment supportive of financial stability and inclusive non-inflationary growth while fiscal policy takes the center stage in driving economic recovery and development.

GODWIN I. EMEFIELE
Governor, Central Bank of Nigeria

CHAPTER ONE

1.0 OVERVIEW

Chapter one presents a synthesis of the entire document by highlighting key developments that shaped monetary policy as well as the attendant policy response by the CBN during the review period. These developments cover domestic output, prices, monetary policy and liquidity management as well as the financial market.

During the first half of 2020, the thrust of the Bank's monetary policy signalled a moderately accommodative policy-stance, reflecting key developments in the global and domestic economic and financial environments. These developments included: the economic strain caused by the outbreak and rapid spread of the Corona Virus Disease (COVID-19); disruptions of global supply chain due to lockdowns in response to the COVID-19 pandemic; overall decline in economic activity arising from weak aggregate demand and supply globally; unprecedented collapse in crude oil demand, leading to significant decline in oil prices; sharp decline in global trade; and crude oil price war, largely between Saudi Arabia and Russia. Others were financial market fragilities across the globe; rising corporate and public debts; and tightening financial conditions. These developments created considerable stress in the domestic economy leading to capital flow reversals and decline in external reserves with attendant pressures on the exchange rate. Consequently, the strains on demand and supply coupled with the pressure on the exchange rate elevated the general price level as headline inflation (year-on-year) rose from 12.13 to 12.56 per cent between January and June 2020.

The domestic output weakened, but was buoyed largely by the supportive policy environment, as well as sustained real sector interventions by the Central Bank of Nigeria (CBN), coupled with efforts to ensure relative stability of the exchange rate. The key drag on domestic output came from external weakness arising from low oil demand and other complications induced by the outbreak of the COVID-19 pandemic, resulting in low fiscal receipts and limited budget implementation. Available output data from the National Bureau of Statistics (NBS) showed that growth in real Gross Domestic Product (GDP) slowed to 1.87 per cent in the first quarter of 2020 compared with 2.55 and 2.10 per cent in the preceding and corresponding quarters of 2019, respectively. The development was driven largely by the decline in both the oil and non-oil sectors from 6.36 and 2.26 per cent recorded in the fourth quarter of 2019 to 5.06 and 1.55 per cent in the first quarter of 2020, respectively.

During the second quarter of 2020, however, real Gross Domestic Product (GDP) contracted significantly by 6.10 per cent (year-on-year) as against the growth of 2.12 and 1.87 per cent in the corresponding period of 2019 and the preceding quarter of 2020, respectively. The contraction was driven by both the oil and non-oil sectors. The oil sector contracted by 6.63 per cent in the second quarter of 2020, in contrast to the growth of 7.17 and 5.06 per cent in the corresponding period of 2019 and preceding quarter of 2020, respectively. Similarly, the non-oil sector contracted by 6.05 per cent in the second quarter of 2020, compared to the growth of 1.64 and 1.55 per cent in the corresponding period of 2019 and preceding quarter of 2020, respectively.

The foreign exchange market during the review period, witnessed significant pressure, largely due to the reduced foreign exchange inflows occasioned by low oil price, worsened by the Covid-19 shock. Thus, the naira weakened in all segments of the foreign exchange market, with rates in the parallel market diverging remarkably from the official exchange rate. The development elicited corrective policy action from the Bank, resulting in the adjustment of the naira exchange rate from N306/US$ to N326/US$ and N361/US$ in March and April 2020, respectively. These adjustments were intended to realign the exchange rate with market realities, in order to curtail unnecessary demand pressure, and achieve the unification and stability of the exchange rate in Nigeria. The measure was also meant to address the decline in the external reserves as a result of the significant fall in foreign exchange earnings from oil. Other supportive policy measures such as the use of Bank Verification Number (BVN) in BDC transactions, and the strategic suspension and resumption of sale of foreign exchange to BDCs by the Bank and International Money Transfer Operators (IMTOs) were introduced to achieve stability in the foreign exchange market.

The Nigerian financial markets witnessed considerable stress during the period, largely on account of the severe macroeconomic shock, caused by the COVID-19 pandemic and the associated spill overs. These were accentuated by: the losses in global stock values; declining primary commodity prices, disruptions to the global supply chain associated with the large scale global lockdown of mega metropoles and whole countries; exchange rate volatilities; rising corporate and public debts; and rising levels of unemployment; among others.

The Bank continued the conduct of monetary policy using various instruments at its disposal to achieve the objective of price and monetary stability. These instruments were: the Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR), Liquidity Ratio, Open Market Operations (OMO) and Discount Window Operations, complemented with periodic interventions in the foreign exchange market. The MPR remained the key instrument for monetary management in the review period. It was reduced by 100 basis points from 13.5 to 12.5 per cent in May, 2020. The asymmetric corridor of +200 and -500 basis points around the MPR was maintained

throughout the period. The reduction signalled the Bank's commitment to support the recovery of output growth.
The primary tool of liquidity management in the first half of 2020 remained the Open Market Operations (OMO). OMO sales decreased by 27.03 per cent to ₦6,491.30 billion in the first half of 2020 from ₦8,895.99 billion in the preceding half of 2019 and by 45.12 per cent from ₦11,827.64 from the corresponding half of 2019.

Liquidity conditions in the banking system in the review period mirrored the behaviour of money market interest rates. The developments in net liquidity position and flows, which culminated in lower monthly average market rates, showed the impact of CBN interventions in the bid to support the economy, following the outbreak of the COVID-19 pandemic. The rates oscillated widely outside the Standing Facilities corridor during the period, thus reflecting swings in banking system liquidity. Money market rates eased further as system liquidity was supported by FGN coupon payments and the injection of liquidity, through stimulus packages to alleviate the impact of the downturn on households and businesses. Overall, liquidity in the system came from several sources such as: statutory monthly disbursement by the Federation Account Allocation Committee (FAAC) to states and local governments; maturing government securities and OMO bills held by domestic individuals and local corporates; and CBN interventions in the real economy.

The performance of the Nigerian capital market in the first half of 2020 was largely bearish, driven primarily by the equities segment of the market. This was mainly attributable to the increased uncertainty introduced by the ravaging effects of the COVID-19 pandemic, accentuated by decline in reserves triggered by the low crude oil price as well as the weak corporate environment. All these led to significant sell-offs, as several investors exited the market. In the bonds market, real yields declined progressively, as inflation inched up. Consequently, the All-Share Index (ASI) decreased by 8.80 per cent from 26,842.07 at end-December 2019 to 24,479.22 at end-June 2020. Similarly, it decreased by 18.31 per cent year-on-year compared with 29,966.87 at end-June 2019. Market capitalization (MC) also moderated, by 1.47 per cent from ₦12.96 trillion at end-December 2019 to ₦12.77 trillion at end-June 2020. Thus, the outcome represented a year-on-year decline of 3.33 percent compared with ₦13.21 trillion at end-June 2019.

Activities in the bond market in the first half of 2020 were dominated by Federal Government of Nigeria (FGN) securities. Some activities were also recorded in the Sub-national government and corporate bond segments, with the later recording the least share by market volume. The yield curve for June 2020 decreased at both the short and long end of the curve, compared with the preceding period. The development at the short end reflected the high liquidity level within the banking system. However, the positive slope of the curve suggests that despite the rising cases of coronavirus and the risk of recession, investors' outlook on the economy was still strong.

At the beginning of 2020, the IMF projected a 2.5 per cent growth rate for the Nigerian economy, which it revised to a negative growth of 3.4 per cent in April following the outbreak of the pandemic. Although the Fund had further downgraded the outlook to a 5.4 per cent contraction, projections from domestic sources such as the Central Bank of Nigeria and the National Bureau of Statistics are, however, less pessimistic. The outlook is premised on several factors including the sustained development finance interventions of the Bank, and other reforms and palliatives by the fiscal authorities to support the economy.

In terms of inflation, staff projections indicate that headline inflation would extend its upward trajectory. Estimates showed that inflation is expected to rise to 13.79 per cent at end-December 2020, which remains above the upper limit of the indicative benchmark of 6-9 per cent. The year-on-year headline inflation is expected to rise to 13.04, 13.18 and 13.39 per cent in July, August and September 2020, respectively, from 12.47 per cent in June 2020. The upside risk to inflation in the near-term remains a combination of monetary and structural challenges, including the continuing impact of Covid-19 on the economy, exchange rate pressures, poor transport infrastructure, food shortage issues due mainly to insecurity in the agricultural producing areas of the country and rising fiscal deficit. Other factors include: the high cost of imported food arising from the current border protection policy, and increased liquidity due to Government expenditure on palliatives to cushion the effects of the COVID-19 pandemic on the economy.

The thrust of monetary policy for the remainder of 2020 will be shaped by the need to support the weak economic recovery and manage inflation expectations to ensure that the downside risks to growth and upside risks to inflation are well contained.

CHAPTER TWO

THE GLOBAL ECONOMY

2.1 Global Output

Global growth was projected to contract by 4.9 per cent in 2020, following a moderate expansion by 2.9 per cent in 2019. The downward revision to global growth was due to: the considerable weakening of aggregate demand and disruptions to the supply chain network, mostly attributable to the outbreak of COVID-19 and the associated lockdowns. Consequently, businesses and investors deferred spending to get a clearer picture of the direction of the global economy. This inevitably led to the dampening of aggregate demand as unemployment levels increased. The robust intervention by central banks and fiscal authorities was, however, expected to ease the effects of the crisis and return the global economy to growth path in 2021 and 2022.

According to the IMF, global growth is projected to recover to 5.4 per cent in 2021. As the lockdown eases and businesses reopen, aggregate demand is expected to strengthen but with investment picking up at a moderate pace. As events unfold and a clearer picture of the impact of the crisis is formed, particularly in the second quarter of 2020, the projection may well be adjusted.

While all regions of the globe are projected to end the year 2020 in contraction, the depth of the contraction is expected to vary across regions with some regions worse hit than others, depending on the extent of the pandemic, duration of the lockdown and speed of containment. Consequently, growth in the advanced economies was projected to contract by 8.0 per cent in 2020 as the speed of containment of the pandemic is expected to be slow while recovery is projected at 4.8 per cent in 2021 as the effect of the pandemic wanes and investment picks up. The US and Japanese economies are projected to contract by 8.0 and 5.8 per cent, respectively.

In the emerging market and developing economies, growth in 2020 is expected to contract by 3.0 per cent, as aggregate demand remains weak and the supply chains, which were down throughout the lockdown, will struggle to resume production and distribution. As the Chinese economy pulls out of the lockdown after containing the spread of the virus, it is expected to post a moderate growth of 1.0 per cent in 2020 after a very difficult first quarter performance. In India, the economy is projected to contract by 4.5 per cent due to weaknesses imposed and exacerbated by a long period of lockdown. Brazil and Mexico, the biggest economies in Latin America, are also projected to shrink by 9.1 and 10.5 per cent, respectively in 2020. In 2021, however, growth in the emerging market and developing economies is projected to recover to 5.9 per cent, led by the Chinese economy.

In Sub-Sahara Africa, growth is estimated to contract by 3.2 per cent as the twin shocks of oil price crash and the COVID-19 pandemic exposes the underlying macroeconomic vulnerabilities of the region. The Nigerian economy, a major oil exporting economy was confronted with the huge impact of the twin shocks to its economy. Consequently, it was projected to contract by 5.4 per cent in 2020. Even though South Africa is an oil importing economy, which should have ordinarily benefitted from the oil price shock, it has been under the burden of legacy labour market and power supply issues and is now saddled with a high COVID-19 infection rate, lengthy lockdown and rising unemployment. As a result, the economy was expected to contract by 8.0 per cent in 2020. The region is however forecast to return to positive growth of 3.4 per cent in 2021.

2.2 Global Inflation

The July 2020 edition of the International Monetary Fund (IMF) World Economic Outlook, projected a downward revision for inflation in 2020, particularly for the advanced economies. The downward revision reflected the continued weakening of aggregate demand, as the risk of voluntary social distancing rises in a post-lockdown environment.

In the advanced economies, inflation is expected to decline to 0.3 per cent in 2020 from 1.4 per cent in 2019. Inflation in the US was projected to decline to 0.5 per cent in 2020 from 1.8 per cent in 2019. Similarly, in the euro area, changes in consumer price or inflation development was expected to decline to 0.2 per cent in 2020 from 1.2 per cent in 2019. In Japan, inflation was estimated to follow the same trend, declining to -0.1 per cent in 2020 from 0.5 per cent in 2019.

In the emerging market and developing economies, inflation is expected to slow to 4.4 per cent in 2020 down from 5.0 per cent in 2019. Conversely, in China, inflation is projected to increase marginally to 3.0 per cent in 2020 from 2.9 per cent in 2019 (WEO, April 2020). In Russia, inflation was projected to decrease to 3.1 per cent in 2020 from 4.5 per cent in 2019. While in India inflation is expected to decrease to 3.3 per cent in 2020, from 4.5 per cent in 2019.

Inflation projections for Sub-Sahara Africa, particularly in the oil exporting economies, indicate an increase mostly due to the weak oil prices and the resulting exchange rate depreciations. Consequently, inflation is projected to increase to 9.3 per cent in 2020 from 8.4 per cent in 2019. In Nigeria, the inflation rate is estimated to increase to 13.4 per cent in 2020, from 11.4 per cent in 2019. Similarly, Ghana's headline inflation is estimated to increase to 9.7 per cent in 2020, from 7.2 per cent in 2019. Inflation in Angola is estimated to rise to 20.7 per cent in 2020, from 17.1 per cent in 2019.

2.3 Global Financial Markets Developments

2.3.1 Money Market and Central Bank Policy Rates

There was synchronized monetary policy response by major central banks across the globe in the first half of 2020 largely driven by the risk of a major global macroeconomic slowdown due to the combined shocks from the oil price crisis and the COVID-19 pandemic. The huge level of monetary accommodation by central banks and simultaneous accommodative fiscal policy meant that the global economy experienced excess liquidity in the first half of 2020.

A total of fourteen (14) central banks surveyed between January and June 2020, showed a broad trend towards monetary accommodation by both the advanced economies and emerging market central banks.

Central banks, however, remained cautious of the medium-term implications of the current stance of policy, as it portends the risk of a debt crisis given the huge quantum of both private and public debts prior to the recent bout of monetary and fiscal stimulus. With policy rates of most advanced economy central banks now straddling the zero-lower-bound, the timing of the next phase of monetary policy normalization must be precise and gradual to avoid a debt crisis. Central banks of emerging markets including Brazil, India, Russia and Indonesia lowered their policy rates to varying degrees between January and June 2020, in response to the broad weakening of the global economy. The Central Bank of Brazil lowered its policy rate four consecutive times since December 2019 to boost output growth and support the economy's sluggish recovery in the light of the weak recovery of oil price. Similarly, the Central Bank of Russia lowered its policy rate three times, to accommodate growth concerns. The Reserve Bank of South Africa, after a 25-basis points rate cut in January 2020 and 200 basis points in April 2020, further cut its policy rate in May 2020 by 50-basis points as its economy continued to contract. The Reserve Bank of India and Bank of Indonesia also cut rates, to support recovery as the lockdown was gradually eased. The Central Bank of Nigeria, at its May 2020 meeting, also reduced its policy rate by a 100-basis points to 12.50 per cent to cushion the impact of the crisis.

Table 2.1: Policy Rates of Selected Central Banks August 2019 – July 2020

Country	Aug. 2019	Sept. 2019	Oct. 2019	Nov. 2019	Dec. 2019	Jan. 2020	Feb. 2020	Mar. 2020	Apr. 2020	May. 2020	June 2020	July 2020
Egypt	14.25	13.25	13.25	11.25	11.25	11.25	11.25	9.25	9.25	9.25	9.25	9.25
Kenya	9.00	9.00	9.00	8.50	8.50	8.25	8.25	7.25	7.00	7.00	7.00	7.00
S. Africa	6.50	6.50	6.50	6.50	6.50	6.25	6.25	6.25	4.25	3.75	3.75	3.75
Ghana	16.00	16.00	16.00	16.00	16.00	16.00	16.00	14.50	14.50	14.50	14.50	14.50
Nigeria	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	12.50	12.50	12.50
Brazil	6.00	5.50	5.00	5.00	4.50	4.50	4.25	3.75	3.75	3.75	2.25	2.25
USA	2.00-2.25	1.75-2.00	1.75-2.00	1.50-1.75	1.50-1.75	1.50-1.75	1.50-1.75	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euro Area	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
India	5.75	5.40	5.15	5.15	5.15	5.15	5.15	4.40	4.40	4. 00	4.00	4.00
Russia	7.50	7.00	6.50	6.50	6.25	6.25	6.00	6.00	5.50	5.50	4.50	4.50
China	4.20	4.20	4.20	4.15	4.15	4.15	4.05	4.05	3.85	3.85	3.85	3.85
UK	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.10	0.10	0.10	0.10	0.10
Indonesia	5.75	5.25	5.00	5.00	5.00	5.00	4.75	4.50	4.50	4.50	4.25	4.25

Source: www.cbrates.com

2.3.2 Global Capital Markets

Global stock markets were mostly bearish throughout the review period for several reasons, including the oil price shock, the COVID-19 pandemic and the associated lockdown. Other factors responsible for the bearish trend included: trade tensions between the United States and China; and growing private and public sector debts in the advanced and emerging market economies, which led to the tightening financial conditions across the globe.

In Europe, the UK FTSE 100, French CAC 40 and German DAX indices declined by 17.80 per cent, 17.40 and 8.50 per cent, respectively. In North America, the United States S&P 500, the Canadian S&P/TSX Composite and the Mexican Bolsa indices increased by 4.60, 9.80, and 13.00 per cent, respectively. In South America, the Brazilian Bovespa, the Argentine Merval and the Columbian COLCAP indices decreased by 17.20, 6.50, and 33.30 per cent, respectively. In Asia, the Japanese Nikkei 225, the Chinese Shanghai SE and the Indian BSE Sensex indices decreased by 5.80, 2.10, and 15.40 per cent, respectively. In Africa, the Nigerian NSE All-Share, the South African JSE All-Share, the Kenyan Nairobi NSE 20, the Egyptian EGX CASE 30 and the Ghanaian GSE All Share indices all decreased by, 8.80, 5.20, 26.50, 22.90, and 15.80 per cent, respectively. The rush to gold as a haven asset also broadly contributed to the downturns observed across these markets.

Table 2.2: Selected International Stock Market Indices as at June 30, 2020

Country	Index	30-Jun-19	31-Dec-19	30-Jun-20	Jun 30, 2019 - Jun 30, 2020 % Change	Dec 31, 2019 - Jun 30, 20 % Change
AFRICA						
Nigeria	NSE All-Share Index	29,517.41	26,842.07	24,479.22	-17.1	-8.8
South Africa	JSE All-Share Index	55,572.25	57,084.10	54,093.40	-2.7	-5.2
Kenya	Nairobi NSE 20 Share index	2,632.48	2,654.39	1,952.26	-25.8	-26.5
Egypt	EGX CASE 30	14,100.74	13,961.56	10,764.59	-23.7	-22.9
Ghana	GSE All-Share Index	2,394.82	2,257.15	1,899.90	-20.7	-15.8
NORTH AMERICA						
US	S&P 500	2,941.76	3,230.78	3,083.01	4.8	-4.6
Canada	S&P/TSX Composite	17,442.52	17,063.43	15,389.72	-11.8	-9.8
Mexico	Bolsa	43,161.17	43,541.02	37,871.09	-12.3	-13.0
SOUTH AMERICA						
Brazil	Bovespa Stock	100,967.20	115,645.30	95,735.40	-5.2	-17.2
Argentina	Merval	41,796.36	41,671.41	38,972.80	-6.8	-6.5
Columbia	COLCAP	1,548.98	1,662.42	1,108.90	-28.4	-33.3
EUROPE						
UK	FTSE 100	7,425.63	7,542.44	6,200.89	-16.5	-17.8
France	CAC 40	5,871.09	5,978.06	4,935.99	-15.9	-17.4
Germany	DAX	13,207.14	13,385.93	12,246.62	-7.3	-8.5
ASIA						
Japan	NIKKEI 225	21,275.92	23,656.62	22,288.14	4.8	-5.8
China	Shanghai SE A	3,119.99	3,195.98	3,128.46	0.3	-2.1
India	BSE Sensex	39,394.64	41,253.74	34,915.80	-11.4	-15.4

Table 2d: Selected International Stock Market Indices as at June 30, 2020

Source: Bloomberg

2.3.3 Global Commodity Prices

Commodity prices witnessed significant decline during the review period owing to the outbreak of the COVID-19 pandemic, which resulted in the shutting down of production and supply chain globally. Consequently, the IMF primary commodity price index decreased by 21.26 per cent to 91.8 points at end-June 2020 from 116.6 points at end-December 2019. All the commodity sub-indices fell during the review period. The sub-indices of non-fuel, edibles, industrial inputs, metals and energy all decreased, by 0.55, 3.53, 5.71, 5.38, and 47.05 per cent, respectively, to 108.6, 95.6, 114.0, 123.0, and 67.4 points at end-June 2020 from 109.2, 99.1, 100.1, 120.9, 130.0, and 127.3 points at end-December 2019. In the petroleum sector, actual prices per barrel based on the OPEC Reference Basket decreased by 43.76 per cent to US$38.22 at end-June 2020 from US$67.96 at end-December 2019.

The Food and Agriculture Organization (FAO) Food Price Index decreased by 7.82 per cent to 93.1 points in June 2020 from 101.0 points in December 2019. The decline in the index was due largely to the impact of the COVID-19 pandemic and attendant economic shutdown. The sub-indices of meat, dairy, cereals, vegetable oils and sugar all decreased during the review period.

2.3.4 Global Foreign Exchange Markets

In the first half of 2020, most currencies depreciated against the US dollar in response to the twin shocks of the oil price crisis between Saudi Arabia and Russia and the COVID-19 pandemic. Other lingering vulnerabilities from the second half of 2019 also contributed to the exchange rate pressures particularly in major emerging market economies. Consequently, in North America, the Canadian dollar and the Mexican peso depreciated, by 16.61 and 4.73 per cent, respectively. In South America, the Brazilian real, the Argentine peso, and Colombian peso, depreciated by 25.03, 14.66, and 11.94 per cent, respectively.

In Europe, the British pound, the Euro and the Russian ruble depreciated by 6.90 per cent, 0.04, and 10.30 per cent, respectively. The Chinese yuan and Indian rupee also depreciated, by 1.67 and 5.67 per cent, respectively. The Japanese yen, however, appreciated by 1.63 per cent.

In Africa, the Nigerian naira, the South African rand, the Kenyan shilling, the Egyptian pound, and the Ghanaian cedi all depreciated, by 14.96, 18.58, 4.83, 0.74, and 0.70 per cent, respectively.

Table 2.3: Exchange Rates of Selected Countries (value in currency units to US$)

Exchange Rates of Selected Countries (Value in currency units to US$)					
	Currency	28-Jun-19	31-Dec-19	30-Jun-20	Dec 19 - Jun 20 (% App/Dep)
AFRICA					
Nigeria	Naira	306.90	307.00	361.00	-14.96
South Africa	Rand	14.08	14.00	17.19	-18.58
Kenya	Shilling	102.30	101.36	106.50	-4.83
Egypt	Pound	16.69	16.04	16.16	-0.74
Ghana	Cedi	5.47	5.75	5.79	-0.70
NORTH AMERICA					
Canada	Dollar	1.31	1.30	1.36	-4.73
Mexico	Peso	19.22	18.94	22.71	-16.61
SOUTH AMERICA					
Brazil	Real	3.85	4.02	5.36	-25.03
Argentina	Peso	42.44	59.87	70.15	-14.66
Colombia	Peso	3211.86	3286.84	3732.61	-11.94
EUROPE					
UK	Pound	0.78	0.75	0.81	-6.89
Euro Area	Euro	0.88	0.89	0.89	-0.04
Russia	Ruble	63.23	62.00	69.19	-10.39
ASIA					
Japan	Yen	107.93	108.65	106.91	1.63
China	Yuan	6.87	6.96	7.08	-1.67
India	Rupee	69.70	71.35	75.64	-5.67
Source: bloomberg					

CHAPTER THREE

THE DOMESTIC ECONOMY

3.1 Output in the Domestic Economy

The Nigerian economy in the first half of 2020 witnessed several headwinds arising from the outbreak of the novel Coronavirus (COVID-19) pandemic, which compounded existing legacy challenges, including: security issues, growing infrastructure deficits, fiscal weaknesses, partial land border closure, and instability in the oil market. In response to the pandemic, the Federal Government implemented nationwide lockdown measures to contain its spread, including restriction of intra and inter-state movements, closure of some government agencies, businesses, recreational facilities, schools, and airspace, amongst others. Consequently, aggregate demand and supply were severely constrained for the half year, leading to a sharp downturn in economic activities. In addition, the price war between Saudi Arabia and Russia coupled with low demand led to the collapse in crude oil prices in the first quarter of 2020, thus, further compounding the weaknesses in the macroeconomy.

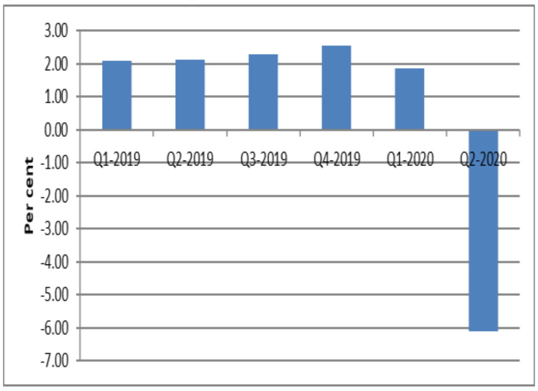
Data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) growth moderated to 1.87 per cent (year-on-year) in the first quarter of 2020 from 2.10 and 2.55 per cent in the corresponding and preceding quarters of 2019, respectively. The oil sector, which grew by 5.06 per cent, was the main driver of growth in the quarter. This was an improvement from the contraction of 1.46 per cent in the corresponding period of 2019, but a decline from the 6.36 per cent recorded in Q4 2019. The outcome was due to an increase in oil output to 2.07 million barrels per day (mbpd), compared with 1.99 and 2.0 mbpd in the corresponding and preceding quarters of 2019, respectively. Nigeria ramped up oil production to compensate for the fall in prices.

The non-oil sector also grew, but at a slower pace of 1.55 per cent in Q1 2020 compared with 2.47 and 2.26 per cent in the corresponding and preceding quarters of 2019. The key drivers of the non-oil growth were Agriculture (2.20%), Services (1.57%) and Industry (0.46%). The non-oil l sector's contribution to real GDP, however, reduced to 90.50 per cent from 90.78 and 92.68 per cent in the corresponding and preceding quarters of 2019, respectively.

The severity of the impact of the lockdown measures to contain the pandemic intensified in the second quarter of 2020 as real Gross Domestic Product (GDP) contracted significantly, by 6.10 per cent (year-on-year). The outcome contrasted with the growth of 2.12 and 1.87 per cent in the corresponding period of 2019 and the preceding quarter of 2020, respectively. The contraction was driven by both the oil and non-oil sectors in the review period. The oil sector contracted by 6.63 per cent in the second quarter, in contrast to a growth of 7.17 and 5.06 per cent in the corresponding period of 2019 and the preceding quarter of 2020, respectively. Oil output declined owing to a reduction in the OPEC+ production ceiling in response to lower demand occasioned by the lockdown measures imposed by different jurisdictions globally to contain the pandemic. As a result, oil output declined to 1.81 million barrels per day (mbpd), compared with 2.02 and 2.07 mbpd in the corresponding period of 2019 and preceding quarter of 2020, respectively.

The non-oil sector, also contracted, by 6.05 per cent in the second quarter of 2020, in contrast to the growth of 1.64 and 1.55 per cent in the corresponding period of 2019 and the preceding quarter of 2020, respectively. The key drivers of the contraction were Industry (-15.43%) and Services (-6.78%), while Agriculture grew by 1.58 per cent. The non-oil sector contributed 91.07 per cent to total real GDP in the second quarter of 2020 compared with 91.02 and 90.05 per cent in the corresponding period of 2019 and the preceding quarter, respectively.

Figure 3.1: Gross Domestic Product Growth Rate (2019Q1 – 2020Q2)



Source: National Bureau of Statistics (NBS)

3.1.1 DOMESTIC ECONOMIC ACTIVITIES

In the first half of 2020, real GDP growth was driven by activities in both the oil and non-oil sectors. The oil sector grew by 5.06 per cent in the first quarter of 2020, representing a 6.52 percentage points increase, compared with a contraction of 1.46 per cent in the corresponding period of 2019 and a decline of 1.3 percentage points from the growth of 6.36 per cent recorded in the preceding quarter of 2019. Average crude oil production rose to 2.07 million barrels per day (mbpd), compared with 1.99 and 2.0 mbpd in the corresponding and the preceding quarters of 2019, respectively.

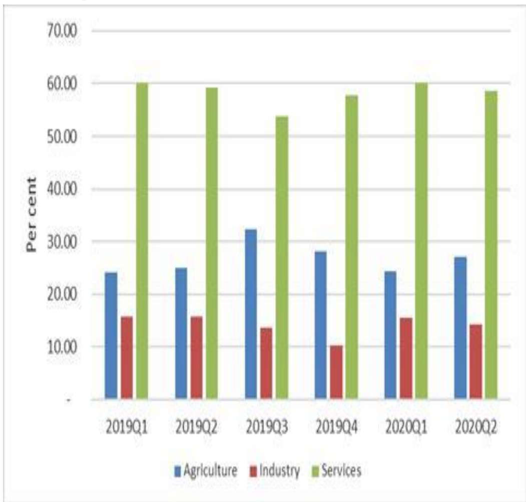
The non-oil sector grew by 1.55 per cent, which was lower by 0.92 percentage point compared with 2.47 per cent recorded in the corresponding quarter of 2019 and also 0.71 percentage point lower than the 2.26 per cent in the preceding quarter of 2019. Activities in the non-oil sector was driven mainly by

Finance & Insurance (20.79%), Information & Communication (7.65%), Transport & Storage (2.82%), Crop production (2.38%), Forestry (1.71%) and Construction (1.69%) compared with their respective growth rates of -7.60, 9.48, 19.50, 3.27, 2.19, and 3.18 per cent. Growth of the non-oil sector was moderated by contractions in Mining and quarrying (53.55%), Public administration (8.72%), Real estate (4.75%) and Electricity, gas, steam & Air conditioning (2.31%) compared with their respective growth rates of 11.03, -14.21, 0.93, and 8.47 per cent in the corresponding period of 2019.

In the second quarter of 2020, however, the oil sector contracted significantly, by 6.63 per cent compared with the growth of 7.17 and 5.06 per cent in the corresponding quarter of 2019 and the preceding period of 2020. Average crude oil production declined by 10.40 and 12.56 per cent to 1.81 million barrels per day (mbpd), compared with 2.02 and 2.07 mbpd in the corresponding period of 2019 and the preceding quarter of 2020, respectively.

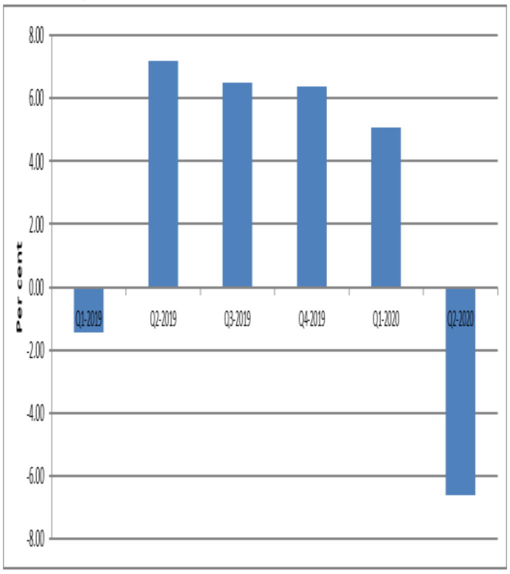
The non-oil sector also contracted, by 6.05 per cent in the second quarter of 2020 in contrast to the growth of 1.64 and 1.55 per cent in the corresponding period of 2019 and preceding quarter of 2020, respectively. The contraction in non-oil sector activities were driven mainly by Transport & Storage (-49.23%), Accommodation & Food Services (-40.19%), Construction (-31.77%), Education (-24.12%), Real Estate (-21.99%) and Trade (-16.59%). Others were: Professional, Scientific & Technical Services (-15.41%); Other Services (-15.07%); Arts, Entertainment & Recreation (-8.93%); Manufacturing (-8.78%); and Mining & Quarrying (-4.81%). These compare with their respective growth rates of 8.02, 2.92, 0.67, 0.96, -3.84, -0.25, 1.21, 2.55, 0.81, -0.13, and -2.54 per cent in the corresponding period of 2019. The contraction of the non-oil sector was moderated by growth in Finance & Insurance (18.49%), Information & Communication (15.09%), and Fishing (5.68%), compared with their respective growth rates of -2.24, 9.01, and 1.09 per cent in the corresponding period of 2019.

Figure 3.2: Non-oil Sector Performance (2019Q1 – 2020Q2)



Source: National Bureau of Statistic (NBS)

Figure 3.3: Performance of oil Sector (2019Q1 – 2020Q2)



Source: National Bureau of Statistic (NBS)

3.1.2 Sectoral Analysis

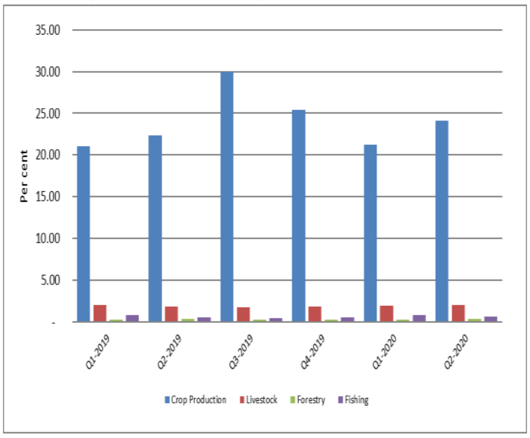
The key factors that contributed to output performance in major sectors in the review period are analysed in this section.

3.1.2.1 Agriculture

In the first quarter of 2020, growth in real agricultural output moderated to 2.20 per cent from 3.17 and 2.31 per cent in the corresponding period and the preceding quarter, of 2019, respectively. This was driven mainly by moderation in the growth of crop production sub-sector to 2.38 per cent in the first quarter of 2020 from 3.27 and 2.52 per cent in the corresponding period and the preceding quarter of 2019, respectively. Also growth of the Fishing sub-sector moderated to 1.49 per cent in the first quarter of 2020 from 7.09 and 2.33 per cent in the corresponding period and the preceding quarter of 2019, respectively. Equally, the forestry sub-sector growth moderated to 1.71 per cent in the first quarter of 2020 from 2.19 per cent in the corresponding period. It was, however, an improvement compared with 1.26 per cent in the preceding quarter. The livestock sub-sector growth also moderated to 0.63 per cent from 0.88 per cent in the corresponding period. The outcome was, however, an improvement over the contraction of 0.20 per cent in the preceding quarter.

During the second quarter of 2020, real agricultural output growth moderated further to 1.58 per cent from 1.79 and 2.20 per cent in the corresponding period of 2019 and preceding quarter of 2020, respectively. Growth in the sector was driven mainly by the fishing sub-sector which grew by 5.68 per cent in the second quarter, a significant improvement when compared with 1.09 and 1.49 per cent in the corresponding period of 2019 and the preceding quarter of 2020, respectively. The livestock sub-sector also grew, by 2.26 per cent in the review period compared with a contraction of 0.01 per cent, in the corresponding period of 2019 and the growth of 0.63 per cent in the preceding quarter. The crop production sub-sector growth rate moderated to 1.44 per cent in the second quarter of 2020 from 1.94 and 2.38 per cent in the corresponding period of 2019 and the preceding quarter, respectively. Furthermore, the forestry sub-sector grew by 1.08 per cent in the review period from 3.23 and 1.71 per cent in the corresponding period of 2019 and the preceding quarter, respectively. The share of the agriculture sector in overall GDP increased to 24.65 per cent from 22.78 and 21.96 per cent in the corresponding period of 2019 and the preceding quarter, respectively.

Figure 3.4: Agricultural Sector Contribution by Activity (2019Q1-2020Q2)



Source: Statistics Department,CBN

3.1.2.1.1.0 Agricultural Policies and Institutional Support

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

3.1.2.1.1 The Agricultural Credit Guarantee Scheme (ACGS)

The ACGS Fund was established in 1977 to encourage bank lending to the agricultural sector, especially small-holder farmers by providing guarantee. In the first half of 2020, a total of 9,641 loans, valued at ₦1.48 billion were guaranteed under the scheme compared with 16,922 loans, valued at ₦2.38 billion in the second half of 2019. The development represented a decrease of 43.02 and 37.82 per cent, respectively, in the number and value of loans guaranteed. Also, 6,089 loans valued at ₦0.79 billion were repaid, compared with 15,212 loans valued at ₦2.10 billion in the second half of 2019. These reflected decreases of 59.97 and 62.38 per cent in the number and value of loans repaid, respectively.

3.1.2.1.1.2 N200 Billion Commercial Agriculture Credit Scheme (CACS)

The CACS was established in 2009 to finance large ticket projects along the agricultural value chain. It allows state governments including the FCT to access up to ₦1billion each for some types of agricultural intervention.

Under the Scheme, ₦27.09 billion was disbursed to 15 projects in the first half of 2020, an increase of 82.42 per cent, compared with ₦14.85 billion to 12 projects in the second half of 2019. However, a total of ₦29.04 billion was repaid by 264 projects in the review period, representing an increase of 122.55 per cent over the repayment of ₦13.04 billion by 135 projects in the second half of 2019.

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

The MSMEDF was established to enhance the flow of credit to MSME sub-sectors, especially women entrepreneurs at low interest rate.

In the first half of 2020, there was no disbursement compared with ₦2.00 billion disbursed to one State Government project in the second half of 2019. Repayments during the period amounted to ₦4.97 billion compared with ₦2.11 billion in the preceding period.

3.1.2.1.1.4 Anchor Borrowers' Programme (ABP)

The ABP was launched in 2015 to create an ecosystem that links small holder farmers to local processors. In the review period, ₦154.93 billion was disbursed to 897,674 smallholder farmers across the country for the production of rice, maize, cassava, cotton, maize, ginger, fish, onion, cocoa, soya beans, and sesame. This compares with ₦54.32 billion disbursed to 348,719 farmers in the preceding period. In addition, a total of 1,095,891 hectares of land were cultivated, compared with 404,842 hectares in the second half of 2019. Repayments in the review period totaled ₦22.80 billion compared with ₦17.24 billion in the preceding period.

3.1.2.1.1.5 Accelerated Agriculture Development Scheme (AADS)

The broad objective of the AADS is to increase agricultural production towards food security, job creation, and economic diversification by engaging youths in agriculture-related enterprises. The sum of ₦6.00 billion was disbursed to four State government-sponsored projects in the review period, compared with ₦5.98 billion disbursed to four projects in the second half of 2019. The projects included rice, poultry, cassava, fish, maize and soya beans.

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

The Scheme was established to promote access to finance for small and medium enterprises and develop the agriculture value chain by leveraging equity contributions of commercial banks.

The Scheme disbursed ₦26.62 billion to 6,727 projects in the review period compared with ₦10.83 billion released to 3,337 projects in the second half of 2019. Repayment in the review period was ₦27.16 million, compared with ₦2.87 million in the preceding half year.

3.1.2.1.1.7 Paddy Aggregation Scheme (PAS)

This is a short-term working capital loan facility under the Commercial Agric Credit Scheme to boost the capacity of integrated rice millers to purchase paddy during harvest period when prices are lowest.

Under the Scheme, ₦3.20 billion was released to three projects in the review period compared with ₦3.50 billion for 12 projects in the second half of 2019. There was no repayment during the first half of 2020 compared with the sum of

₦2.08 billion repaid by two (2) projects in the second half of 2019.

3.1.2.1.1.8 Rice Distribution Fund (RDF)

The Rice Distribution Fund (RDF) is a working capital facility introduced to improve rice distribution across the country. In the first half of 2020, the sum of ₦1.00 billion was disbursed to six projects under the Scheme.

3.1.2.1.1.9 National Food Security Programme (NFSP)

The NFSP provides financing for identified off-taker companies to support the Federal Government's Strategic Grain Reserves. The funding is used to mop up and procure grains, such as soya, corn/maize, sorghum, and millet and to fund commercial farming and processing.

Under the Programme, ₦9.00 billion was disbursed to two (2) projects in the review period, compared with ₦14.50 billion for three (3) projects in the second half of 2019. Repayment in the review period was ₦2.85 billion, compared with ₦5.55 billion in the preceding half- year.

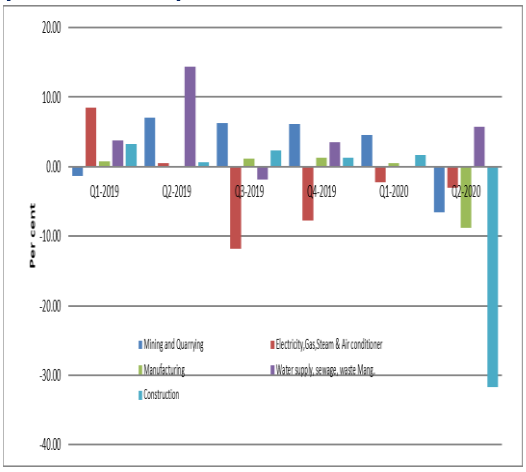
3.1.2.2 Industry

3.1.2.2.1 Industrial Production

Growth in the industrial sector witnessed a slowdown during the review period. In the first quarter of 2020, the sector grew by 2.26 per cent compared with 0.42 and 2.75 per cent in the corresponding period of 2019 and the preceding quarter, respectively. At 4.58 per cent, the Mining and Quarrying sub-sector was the main driver of the growth in the first quarter of 2020 in contrast to a contraction of 1.37 per cent in the corresponding period of 2019. The development was, however, a moderation compared with the growth of 6.07 per cent in the preceding quarter. Under the sub-sector, activity in the crude petroleum & natural gas expanded by 5.06 per cent from a contraction of 1.46 per cent in the corresponding period of 2019 and growth of 6.36 per cent in the preceding quarter. Other sub-sectors that contributed to the Industrial sector growth were the construction and manufacturing sub-sectors. The Construction sub-sector grew by 1.69 per cent compared with 3.18 and 1.31 per cent in the corresponding and preceding quarters of 2019, respectively. Similarly, the Manufacturing sub-sector grew by 0.43 per cent in the first quarter of 2020 compared with 0.81 and 1.24 per cent in the corresponding and the preceding quarters of 2019, respectively. Growth in the industrial sector was moderated by the performance of utilities. The Electricity, Gas, Steam, & Air Conditioner sub-sector contracted by 2.31 per cent compared with 8.47 and -7.82 per cent in the corresponding and preceding quarters of 2019, respectively. Also, the Water Supply, Sewage, & Waste Management sub-sector contracted, by 0.18 per cent in the first quarter of 2020 compared with growth of 3.75 and 3.52 per cent in the corresponding and preceding quarters of 2019, respectively. The share of the industrial sector in the overall GDP increased to 23.65 per cent in the first quarter of 2020 from 23.56 and 20.27 per cent in the corresponding period and the preceding quarter of 2019, respectively.

In the second quarter of 2020, the industrial sector, however, contracted significantly by 12.05 per cent compared with the growth of 2.84 and 2.26 per cent in the corresponding period of 2019 and the preceding quarter, respectively. The main driver of the contraction in the sector was the Construction sub-sector which contracted significantly, by 31.77 per cent, in contrast to the growth of 0.67 and 1.69 per cent in the corresponding period of 2019 and the preceding quarter of 2020, respectively. This was followed by a deeper contraction in the Manufacturing sub-sector by 8.78 per cent in the review period, compared with -0.13 per cent in the corresponding period of 2019 and a growth of 0.43 per cent in the preceding quarter. Other sub-sectors that contributed to the contraction in the industrial sector were Mining & Quarrying and Electricity, Gas, Steam & Air Conditioner. The Mining & Quarrying sub-sector contracted by 6.60 per cent in the second quarter of 2020 compared with a growth of 7.0 and 4.58 per cent in the corresponding period 2019 and the preceding quarter. Similarly, Electricity, Gas, Steam, & Air Conditioner contracted by 3.0 per cent in the review period compared with 0.43 and -2.31 per cent in the corresponding period of 2019 and the preceding quarter, respectively. The contraction of the industrial sector was moderated by the growth in the Water supply, sewage and waste management sub-sector by 5.71 per cent compared with 14.35 and -0.18 per cent in the corresponding period of 2019 and the preceding quarter of 2020, respectively. With this performance, the share of the industrial sector in overall GDP declined to 21.87 per cent from 23.34 and 23.65 per cent in the corresponding period of 2019 and the preceding quarter, respectively.

Figure 3.5: Industrial Sector Contribution by Activity (2019Q1-2020Q2)



Source: Statistics Department,CBN

3.1.2.2.2 Industrial Policy and Institutional Support:

The industrial sector benefited from several existing and new policy measures, reforms and incentives in the period under review as highlighted below:

3.1.2.2.2.1 Real Sector Support Facility (RSSF) Using Differentiated Cash Reserve Ratio (RSSF-DCRR)

The RSSF support startups and expansion financing needs of large enterprises in manufacturing, agricultural value chain and selected service sub-sectors with potentials for high growth, contribution to accretion to foreign reserves, expanding the industrial base and, consequently, diversifying the economy.

In the period under review, ₦131.6 billion was released to 55 projects, compared with ₦82.50 billion disbursed to 46 projects in the second half of 2019. Also, ₦11.65 billion was repaid in the first half of 2020, while there was no repayment in the preceding period, as the loans were still under moratorium.

3.1.2.2.2.2 Non-Oil Export Stimulation Facility (NESF)

The NESF is a financing scheme that aimed to improve the access of exporters to concessionary finance for expansion and diversification of the non-oil export basket.

Under this Facility, ₦9.00 billion was released to two (2) projects in the first half of 2020 compared with ₦1.50 billion disbursed to one (1) project in the second half of 2019. In addition, ₦2.85 billion was repaid compared with ₦2.47 billion in the preceding period.

3.1.2.2.2.3 Export Development Facility (EDF)

During the review period, there was no disbursement due to the impact of the COVID-19 pandemic which resulted in general decline in export demand. This outcome compares with ₦9.38 billion disbursed to 28 projects in agriculture, industry and the services sectors. There was no repayment in the review period.

3.1.2.2.2.4 Creative Industry Financing Initiative (CIFI)

The Creative Industry Financing Initiative (CIFI) was introduced as a window under the AGSMEIS to improve access to long-term, low-interest financing by entrepreneurs and investors in the Nigerian creative industry and information technology (IT) sub-sectors. The core of the initiative was to increase participation of youth entrepreneurs in economic activities such as fashion, information technology, software development, movies and music production and distribution.

Under the initiative, ₦1.10 billion was disbursed to 160 projects in the first half of 2020 compared with ₦410.62 million in the second half of 2019.

3.1.2.2.2.5 Targeted Credit Facility (TCF)

Targeted Credit Facility (TCF), managed by NIRSAL Microfinance Bank (NMFB), was introduced in the first half of 2020 to cushion the impact of the COVID-19 pandemic on households and businesses. During the period under review the sum of ₦33.38 billion was disbursed to 41,600 projects.

3.1.2.2.2.6 Health Sector Intervention Fund (HSIF)

The Health Sector Intervention Fund (HSIF) was introduced to strengthen the sector's capacity to meet potential increase in demand for healthcare products and services due to the impact of the COVID-19 pandemic. The Facility provided affordable credit to indigenous pharmaceutical companies and other players on the healthcare value chain intending to expand capacity. A total of ₦20.96 billion was disbursed to fifteen projects in the first half of the 2020.

3.1.2.2.2.7 COVID-19 Intervention Facility for the Manufacturing Sector (CIFMS)

The COVID-19 Intervention Facility for the Manufacturing Sector (CIFMS) was introduced as a stimulus measure to strengthen the Nigerian manufacturing sector, by providing finance to boost local manufacturing and support mass employment in the country. The Facility disbursed ₦137.49 billion to 59 manufacturing companies in the review period.

3.1.2.3 Services Sector

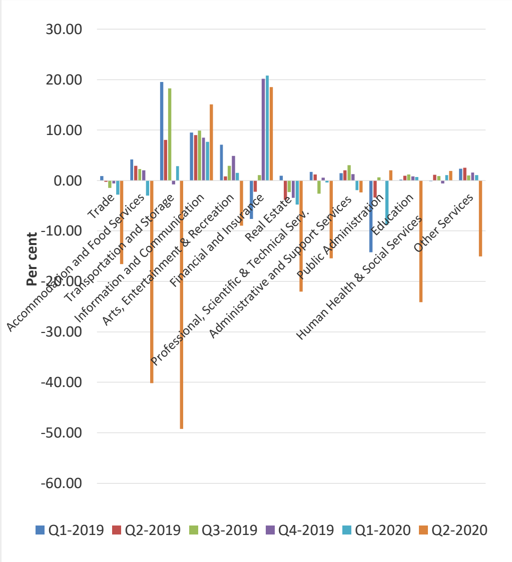
During the review period, the hitherto strong performance of the Services sector weakened as a result of the impact of pre-existing challenges compounded by the headwinds associated with the outbreak of the novel Coronavirus (COVID-19) pandemic.

Accordingly, growth of the Services sector moderated to 1.57 per cent in the first quarter of 2020, compared with 2.41 and 2.60 per cent in the corresponding and preceding quarters of 2019, respectively. The outcome in the first quarter of 2020 was driven by Finance & Insurance (20.79%), Information & Communication (7.65%), Transportation & Storage (2.82%), Arts, Entertainment, & Recreation (1.53%), Human Health & Social Services (1.06%), Other Services (1.06%) and Education (0.69%). These compare with their respective growth rates of -7.60, 9.48, 19.50, 7.12, -0.16, 2.35, and 0.18 per cent in the corresponding period of 2019. The decline in the growth rate on the other hand, was driven by Public Administration (-8.72%), Real Estate (-4.75%), Accommodation & Food Services (-2.99%), Trade (-2.82%), Administrative & Support Services (-1.90%) and Professional, Scientific & Technical Services (-0.39%), compared with their respective growth rates of -14.21, 0.93, 4.15, 0.85, 1.43, and 1.73 per cent in the corresponding period of 2019. The share of the Sector in overall GDP, stood at 54.39 per cent in the first quarter of 2020 compared with 54.55

and 53.64 per cent in the corresponding and preceding quarters of 2019, respectively.

During the second quarter, the moderation in the sector which began in the first quarter intensified, leading to a sharp contraction of 6.78 per cent compared with the growth of 1.94 and 1.57 per cent in the corresponding period of 2019 and the preceding quarter of 2020, respectively. The contraction in the sector was driven by Transportation & Storage (-49.23%), Accommodation & Food Services (-40.19%), Education (-24.12%), Trade (-16.59%), and Other Services (-15.07%). These compare with their respective growth rates of 8.02, 2.92, 0.96, -0.25, and 2.55 per cent in the corresponding period of 2019. The contraction was, however, moderated by the growth in the Finance & Insurance (18.49%) and Information & Communication (15.09%) sub-sectors compared with their respective growth rates of -2.24 and 9.01 per cent in the corresponding period of 2019. The share of the Sector in overall GDP declined to 53.49 per cent in the second quarter of 2020 from 53.87 and 54.39 per cent in the corresponding period of 2019 and preceding quarter, respectively.

Figure 3.6: Services Sub-Sector Contribution, 2019Q1-2020Q2



Source: Statistics Department,CBN

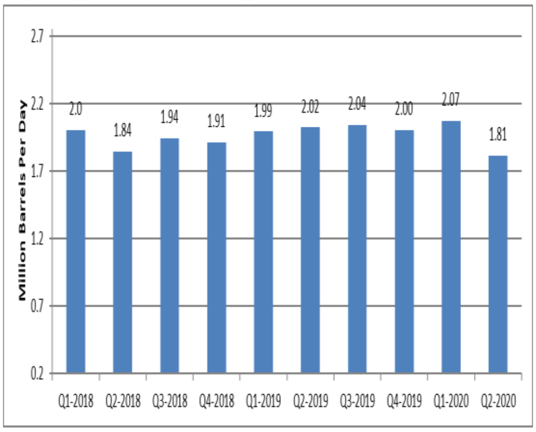
3.1.2.4 Oil Sector

In the first half of 2020, the oil sector witnessed significant fluctuations arising from two main causes; the economic effect of the COVID-19 pandemic and the oil price war between Saudi Arabia and Russia. The pandemic resulted in lockdowns across the globe leading to a near total shutdown of production and manufacturing activities thus, hampering demand for crude oil in the international market. The price war between Saudi Arabia and Russia compounded the existing problem of a global supply glut, which led to an unprecedented drop in crude oil prices towards the beginning of the second quarter. Nevertheless, average crude oil production increased to 2.07 mbpd in the first quarter of 2020 from 1.99 and 2.0 mbpd in the corresponding and preceding quarters of 2019, respectively.

In the second quarter, however, average crude oil production declined to 1.81 million barrels per day (mbpd) compared with 2.02 and 2.07 mbpd in the corresponding period of 2019 and the preceding quarter of 2020, respectively.

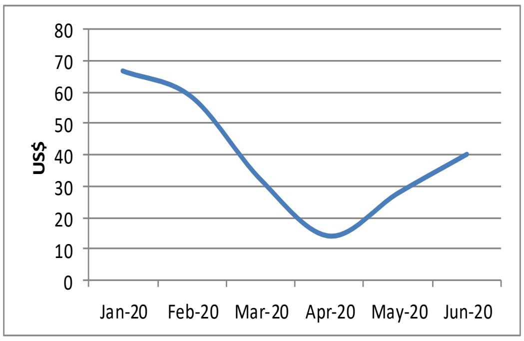
Crude oil prices also weakened significantly in the review period, due largely to global supply glut occasioned by the price war between Saudi Arabia and Russia, as well as weak aggregate demand resulting from the global lockdown measures to contain the spread of the COVID-19 pandemic. In addition, recurrent crisis in the Middle East, trade tensions between the US and China as well as sanctions by the US on Iran and Venezuela also contributed to the weakness. Consequently, the price of Nigeria's reference crude, the Bonny Light 37^{0}API, which stood at US$66.68 per barrel (pb) in January 2020, declined to US$32.29 pb in March 2020. The continued spread of the COVID-19 pandemic and resulting lockdown led to further softening in the price of crude oil to US$14.28 pb in April 2020 before recovery to US$27.9 and US$40.23 pb in May and June 2020, respectively. Overall, the average price of Bonny Light of US$39.99 pb in the first half of 2020 was slightly above the revised budget benchmark of US$30pb used by the Federal Government of Nigeria.

Figure 3.7: Quarterly Domestic Oil Production and Export (2018Q1-2020Q2)



Source:National Bureau of Statistics (NBS)

Figure 3.8: Monthly Bonny Light Oil Price, January 2020 – June 2020



Source: Statistics Department,CBN

Box 3.1: The Impact of the Covid-19 Pandemic on the Nigerian Economy

In December 2019, a novel coronavirus disease broke out in Wuhan City, Hubei Province, China triggering severe global health challenges and disruptions to economic activities. The Disease rapidly spread to other parts of the world causing the World Health Organization (WHO) in January 2020, to declare the outbreak a public health emergency of international concern and on March 11, 2020, it was officially declared a pandemic.

In response to the rapid spread of the virus and the high infection and mortality rates from the disease in many countries around the world, governments embarked on measures to control the spread, which included: restrictions on movements across international borders, lockdown measures and social physical distancing protocols to minimize person-to-person interactions as well as other health and safety measures including the use of face masks, hand sanitizers, body temperature checks, test of persons with symptoms, the quarantine of positive cases in designated isolation centres/ facilities, and contact tracing.

With over four million COVID-19 cases worldwide and about half a million deaths as at end-June 2020, the global pandemic led to pressure on health facilities, economic disruptions and social dislocations around the world leading to a gloomy outlook for the global economy. As a result, the International Monetary Fund (IMF) projected a 4.9 per cent contraction in global output in 2020, though with gradual recovery from 2021 through 2022.

Effects of the Pandemic

The COVID-19 pandemic has had severe effects on economic activities, lives and livelihood systems around the world. The pandemic was a major shock to the global economy that drove down commodity prices. The most affected were energy and metals prices following the sharp downturn in economic activities and the global slowdown that ensued. Crude oil, a commodity largely used in powering economic activities including transportation, manufacturing, etc, experienced the steepest price decline due to collapsed demand. However, with the oil producing countries still maintaining their production quotas, a supply glut was created which further pushed down prices. Consequently, government finances were terribly affected. In Nigeria, with oil prices down to US$18.5 per barrel on April 1st, 2020 from about US$70.5pb on December 19th, 2019, there was a sharp drop in government revenue. At that level, oil price was far below the projected budget benchmark. In addition, the restrictions on movements and the eventual lockdown measures to contain the spread of the virus, businesses were shut down which affected the generation of tax revenues. The economic impact of the pandemic resulted in a 6.05 per cent contraction in the gross domestic product (GDP) in the second quarter of 2020 from a growth of 1.87 per cent in the preceding quarter. The contraction was attributed to the weak performance of both the oil and the non-oil sectors of the economy during the period. In the areas of trade, the pandemic significantly eroded the gains made over the years in international trade liberalization and trade protocols. The adverse effects of the pandemic on trade have been projected to be more severe than the 2008-09 Global Financial Crisis (GFC) given its impact on both aggregate demand and supply with disruptions in global value chains (GVCs). With trade liberalization and globalization, manufacturing has come to be organized in GVCs, with countries relying on production networks for supply of raw materials as well as intermediate products. What the COVID-19 pandemic has done was to disrupt this value chain with distortionary effects on economic activities. The breakdown in logistics network had severe implications for producers and consumers in various countries. In addition, the restriction on movements in an effort to curb the spread of the virus further constrained the availability of labour and transport, leading to shut-down in various sectors of the global economy.

The tourism industry was also affected owing to the travel restrictions and the slump in demand among travellers. Countries around the world, imposed quarantines, entry bans, or other restrictions to citizens or recent travellers to the most affected areas. Others imposed broad restrictions on foreign countries and regions, or prevented their citizens from travelling overseas, all in effort to contain the spread of the virus. In addition, museums, amusement parks, tourist sites, and sporting venues were closed. The United Nation World Tourism Organisation (UNWTO) estimated global tourism to decrease by 58 – 78 per cent in 2020 with potential loss of about US$1.0 trillion in international tourism receipts. The Organisation further reported that international tourist numbers declined by 65 per cent in the first half of 2020.

The Education sector was not spared by the pandemic. The lockdowns in response to COVID-19 interrupted schooling with nationwide school closures. While the educational community, particularly privately managed institutions, made efforts to continue learning through virtual means during the period, the public schools were completely closed. In Nigeria, as in many developing countries, students from privileged backgrounds, found their way through alternative learning opportunities relying on remote learning through technology, while those from poorer backgrounds largely remained shut out of the closed schools. Teachers were also finding it difficult to adapt to new pedagogical concepts and modes of delivery for which they were not well-trained. The crisis, thus, exposed the many inadequacies and inequities in our educational systems.

Responses of Monetary and Fiscal Authorities

In response to the destabilizing impact of COVID-19, both the monetary and fiscal authorities implemented measures to mitigate the effects on the economy, lives and livelihoods. Generally, central banks responded with policy measures aimed at reflating the economies through liquidity injections to stimulate both aggregate demand and supply. The Central Bank of Nigeria announced a range of measures to mitigate the impact and ensure that economic activities are not completely shut down. The measures included: a one-year extension of moratorium on principal repayments for CBN intervention facilities; the reduction of the interest rate on the Bank's intervention loans from 9.0 to 5.0 per cent; raising of the Loan-to-Deposit ratio policy to ensure more credit to the private sector; creation of a ₦50 billion targeted credit facility for affected households and small and medium enterprises; granting regulatory forbearance to banks to restructure loan terms facilities in affected sectors as well as improving foreign exchange supply to the CBN by directing oil companies and oil servicing companies to sell to the CBN rather than the Nigerian National Petroleum Corporation. Other measures were: additional ₦100 billion intervention fund in healthcare loans to pharmaceutical companies and healthcare practitioners intending to expand/build capacity; identification of few key local pharmaceutical companies that will be granted funding facilities to support the procurement of raw materials and equipment required to boost local drug production; and ₦1 trillion in loans to boost local manufacturing and production across critical sectors. The Bank also moved towards a unified exchange rate system to ease pressure on the foreign exchange market. Also, for on-lending facilities, the Bank directed financial institutions to engage International development partners and negotiate concessions to ease the pains of borrowers.

Similarly, the government responded with measures aimed at promoting domestic production, building of local capacity in strategic sectors and saving lives. The Federal Government of Nigeria revised her 2020 budget downwards by 6.45 per cent to ₦9.71 trillion from ₦10.59 trillion, including a 22.62 percent cut in capital spending. The crude oil benchmark price was also lowered to US$28pb from US$57pb. Also, the Government extended a three-month repayment moratorium for all TraderMoni, MarketMoni and FarmerMoni loans, to ameliorate the impact on households and small businesses. Similar moratorium was extended to all Federal Government funded loans issued by the Bank of Industry, Bank of Agriculture, and the Nigeria Export-Import Bank. In addition, the Government designed a ₦2.3 trillion Economic Sustainability Plan whose objectives are: to prevent business collapse and ensure liquidity; use of labour intensive methods to retain or create jobs in key economic areas; undertake jobs that enhance growth and create infrastructural investments in roads, bridges, solar power, and communications technologies. The overall goal was to ensure that the economy weathered through the pandemic with minimal disruptions.

Conclusion

From the foregoing, it is clear that the COVID-19 pandemic, was a health challenge that brought with it severe economic difficulties, resulting in loss of lives and livelihoods, economic disruptions, and output contractions across nations. These were confronted with decisive responses by the fiscal and monetary authorities to mitigate the spread and protect lives, livelihoods as well as moderate the impact on economic activities. The outcome of measures by the Nigerian Government to address the crisis has been particularly successful in cushioning the adverse impacts of the crisis on the citizens.

3.2 Price Developments

In the first half of 2020, inflationary pressures intensified, due to the shortages in the economy created by the lingering impact of existing challenges, exacerbated by the outbreak of the COVID-19 pandemic. These, coupled with the generally accommodative monetary policy environment, continued to signpost an unfavourable inflation outlook. In particular, the border protection policy, disruption of supply chains, banditry, and kidnapping as well as herder-farmer crisis in rural farming communities affected the food production and distribution system. Consequently, all three measures of inflation, namely headline, food, and core, trended upwards, with headline inflation remaining outside the upper band of the Bank's indicative benchmark of 6-9 per cent. This development generally reflected the combined effects of a number of supply- and demand-related factors.

On the supply side, the exchange rate remained under pressure due to the decline in oil price, owing to the price war between Saudi Arabia and Russia and was worsened by the impact of the COVID-19 shock. As a result, the external reserves declined due to the slowdown in accretion resulting from downward pressure on oil prices. Thus, the naira weakened in all segments of the market, with the exchange rate in the parallel market diverging markedly from the official rate. The development elicited decisive action from the Bank, resulting in the adjustment of the exchange rate from N306/US$ to N326/US$ in March 2020 and N361/US$ in April 2020. These adjustments were in line with efforts to unify the exchange rates in the market. Other supply factors that influenced price developments in the review period were; the continued restriction of access to foreign exchange for 41+ items, use of Bank Verification Number (BVN) in BDC transactions, and the strategic suspension and later resumption of sales of foreign exchange to BDCs by the Bank and International Money Transfer Operators (IMTOs). Overall, the exchange rate pass-through to domestic prices contributed to the acceleration of core inflation.

On the demand-side, money market activities continued to impact domestic price developments. The implementation of the Bank's policy on Loan-to-Deposit ratio and the lowering of the monetary policy rate (MPR) in the review period kept the Inter-Bank Call and Open Buy Back (OBB) rates relatively low, even as the cash reserve requirements were increased, in response to the liquidity conditions in the banking system. Thus, the accommodative monetary policy stance of the Bank in response to the adverse economic conditions also influenced price movements.

3.2.1 Trends in Inflation

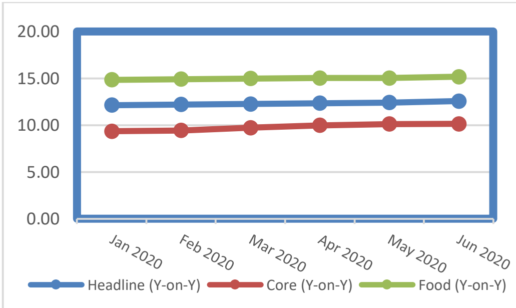
The headline, food and core measures of inflation maintained steady upward trajectories during the period under review. The consumer price index (CPI) increased from 310.2, 282.9, and 343.2 index points, respectively, in January 2020 to 326.1, 295.0, and 363.9 index points in June 2020. Food inflation (year-on-year) increased moderately by 0.33 percentage point from 14.85 per cent in January to 15.18 per cent in June 2020. Similarly, core inflation rose by 0.78 percentage point to 10.13 per cent in June 2020, from 9.35 per cent in January. Consequently, headline inflation increased by 0.43 percentage point from 12.13 per cent in January to 12.56 per cent in June 2020 (Figure 3.9 and Table 3.1). Thus, the major driver of overall acceleration in consumer prices during the period was core inflation.

Table 3.1: Inflation Rates, January – June 2020

	Headline Inflation			Core Inflation			Food Inflation		
	CPI	Y-on-Y	12MMA	CPI	Y-on-Y	12MMA	CPI	Y-on-Y	12MMA
Jan 2020	310.16	12.13	11.46	282.94	9.35	9.11	343.23	14.85	13.86
Feb 2020	312.61	12.20	11.54	285.01	9.43	9.09	346.20	14.90	13.98
Mar 2020	315.23	12.26	11.62	287.30	9.73	9.11	349.46	14.98	14.11
Apr 2020	318.45	12.34	11.71	289.96	9.98	9.17	353.59	15.03	14.22
May 2020	322.17	12.40	11.79	292.50	10.12	9.27	358.60	15.04	14.33
Jun 2020	326.07	12.56	11.90	295.01	10.13	9.37	363.93	15.18	14.46

Source: National Bureau of Statistics (NBS) data base

Figure 3.9: Headline, Core and Food Inflation Rates (January – June 2020)



Source: National Bureau of Statistics (NBS) data base

3.2.1.1 Headline Inflation

The major components of headline inflation increased during the first half of the year. Headline inflation in the review period was largely driven by Food and Non-Alcoholic Beverages which increased by 0.28 percentage point from 8.20 per cent in January to 8.48 per cent in June 2020. Others included: Health which increased by 0.05 percentage point from 0.57 to 0.62 per cent; Transport, by 0.03 percentage point from 0.24 to 0.27 per cent, and Furnishing, Household Equipment & Household Maintenance, by 0.02 percentage point from 0.40 to 0.42 per cent (Table 3.2 and Figure 3.10). In general, headline inflation rose by 0.43 percentage point from 12.13 per cent in January to 12.56 per cent in June 2020.

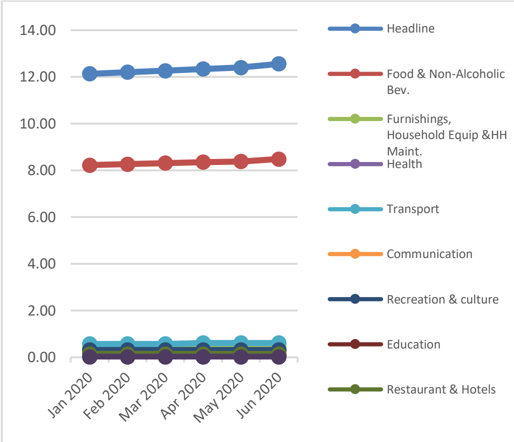
Price development in the period largely reflected the impact of supply shortages owing to the lockdown measures to address the COVID-19 /pandemic. In addition, the pass-through effect of the depreciation of the exchange rate arising from the decline in earnings from oil, combined with pre-existing factors such as the land border protection policy, increased spate of insecurity as well as activities of herdsmen in farming communities negatively influenced domestic price developments.

Table 3.2 Major Components of Headline Inflation ((Y-on-Y), January - June 2020

	Headline	Food & Non-Alcoholic Bev.	Furnishings, Household Equip &HH Maint.	Health	Transport	Communication	Recreation & culture	Education	Restaurant & Hotels	Miscellaneous Goods & Services
Jan '20	12.13	8.22	0.40	0.24	0.57	0.03	0.04	0.30	0.08	0.13
Feb '20	12.20	8.26	0.41	0.25	0.57	0.03	0.04	0.31	0.08	0.13
Mar '20	12.26	8.31	0.41	0.25	0.57	0.03	0.04	0.31	0.08	0.14
Apr '20	12.34	8.35	0.42	0.25	0.59	0.03	0.04	0.31	0.08	0.14
May '20	12.40	8.38	0.42	0.26	0.61	0.03	0.04	0.31	0.08	0.14
Jun '20	12.56	8.48	0.42	0.27	0.62	0.03	0.04	0.31	0.09	0.14
%Change (Jan - Jun 2020)	3.51	3.20	5.40	12.46	10.12	5.30	8.26	3.78	10.06	8.39

Source: National Bureau of Statistics (NBS) data base

Figure 3.10 Major Components of Headline Inflation (Y-on-Y), January – June 2020



Source: National Bureau of Statistics (NBS) data base

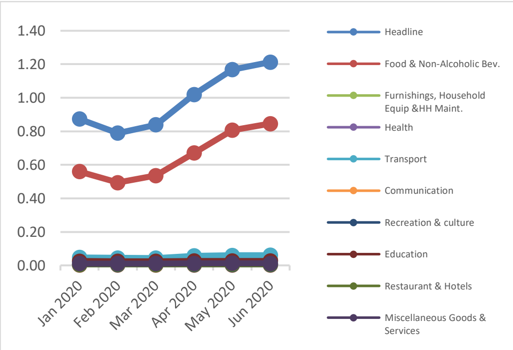
On a month-on-month basis, headline inflation increased by 0.34 percentage point from 0.87 per cent in January to 1.21 per cent in June 2020. The major drivers included: Food and Non-alcoholic Beverages, which rose by 0.29 percentage point from 0.56 to 0.85 per cent; Furnishing, Household Equipment & Household Maintenance, by 0.01 percentage point from 0.03 to 0.04 per cent; Health, by 0.01 percentage point from 0.02 to 0.03 per cent; and Transport, by 0.01 percentage point from 0.05 to 0.06 per cent (Table 3.3 and Figure 3.11). It is noteworthy that both the year-on-year and month-on-month headline inflation rates increased during the period, indicating that the upward pressure on prices is likely to persist in the medium term. Consequently, policy should prioritise measures to dampen the pressure in view of the fact that inflation is gradually exceeding the lower double-digit band of the policy target.

Table 3.3: Major Components of Headline Inflation (M-on-M), January - June 2020

	Headline	Food & Non-Alcoholic Bev.	Furnishings, Household Equip &HH Maint.	Health	Transport	Communication	Recreation & culture	Education	Restaurant & Hotels	Miscellaneous Goods & Services
Jan '20	0.87	0.56	0.03	0.02	0.05	0.00	0.00	0.03	0.01	0.01
Feb '20	0.79	0.49	0.04	0.02	0.04	0.00	0.00	0.02	0.01	0.01
Mar '20	0.84	0.54	0.03	0.02	0.04	0.00	0.00	0.02	0.01	0.01
Apr '20	1.02	0.67	0.04	0.03	0.06	0.00	0.00	0.03	0.01	0.01
May '20	1.17	0.81	0.03	0.03	0.06	0.00	0.00	0.03	0.01	0.01
Jun '20	1.21	0.85	0.04	0.03	0.06	0.00	0.00	0.03	0.01	0.01
%Change (Jan - Jun 2020)	38.91	51.05	4.48	37.70	27.85	18.23	15.96	4.12	5.62	9.51

Source: National Bureau of Statistics (NBS)

Figure 3.11: Major Components of Headline Inflation (M-on-M), January – June 2020



Source: National Bureau of Statistics (NBS)

3.2.1.2 Food Inflation

Food inflation (year-on-year) rose by 0.33 percentage point from 14.85 per cent in January to 15.18 per cent in June 2020, due largely to the rise in the price of processed food by 0.51 percentage point from 6.89 to 7.40 per cent. The price of farm produce, on the other hand, fell by 0.19 percentage point from 7.96 per cent in January to 7.77 per cent in June 2020.

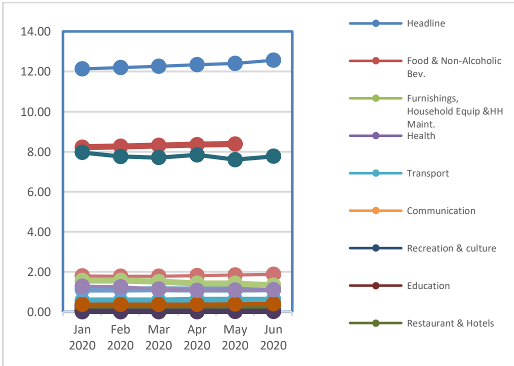
The increase in the price of processed food was accounted for by the increase in price of Yellow Gari Sold Loose by 0.4 percentage point from 0.80 to 1.20 per cent, Gari White Sold Loose by 0.2 percentage point from 0.19 to 0.39 per cent, and Bread Unsliced 500g by 0.1 percentage point from 0.16 to 0.26 per cent. The decrease in the price of farm produce was driven by decrease in the price of Rice Agric Sold Loose by 0.24 percentage point from 1.57 to 1.33 per cent and Rice Local Sold Loose by 0.18 percentage point from 1.29 to 1.11 per cent.

Table 3.4: Major Components of Food Inflation (Y-on-Y), January - June 2020

	Food	Processed Food	Meat	Fish & Sea Food	Milk, Cheese & Eggs	Oil & Fats	Sugar, Jam, Honey, ect.	Bread Unsliced 500g	Gari White Sold Loose	Gari Yellow Sold Loose	Farm Produce	Fruits	Vegetables	Yam, Potatoes & Other	Rice Agric Sold	Rice Local Sold
Jan-20	14.85	6.89	1.52	1.30	0.22	1.05	0.23	0.16	0.19	0.80	7.96	0.36	1.11	1.79	1.57	1.29
Feb-20	14.90	7.14	1.52	1.29	0.22	1.05	0.23	0.19	0.33	0.91	7.76	0.36	1.12	1.78	1.57	1.25
Mar-20	14.98	7.27	1.51	1.29	0.22	1.05	0.23	0.22	0.36	1.05	7.71	0.37	1.13	1.78	1.51	1.14
Apr-20	15.03	7.19	1.43	1.28	0.22	0.99	0.23	0.32	0.27	0.87	7.84	0.37	1.12	1.82	1.42	1.07
May-20	15.04	7.44	1.35	1.28	0.22	0.96	0.24	0.32	0.38	1.17	7.60	0.38	1.12	1.84	1.42	1.08
Jun-20	15.18	7.40	1.31	1.27	0.22	0.95	0.24	0.26	0.39	1.20	7.77	0.40	1.13	1.87	1.33	1.11
Change btw Jan & Jun 2020	0.33	0.51	-0.21	-0.02	0.00	-0.10	0.02	0.10	0.20	0.40	-0.19	0.04	0.01	0.08	-0.24	-0.18

Source: National Bureau of Statistics (NBS)

Figure 3.12: Major Components of Food Inflation (Y-on-Y), January – June 2020



Source: National Bureau of Statistics (NBS)

Consistent with the year-on-year trend, month-on-month food inflation also rose by 0.50 percentage point from 0.99 per cent in January to 1.48 per cent in June 2020. The price of processed food rose by 0.21 percentage point from 0.31 per cent in January to 0.53 per cent in June

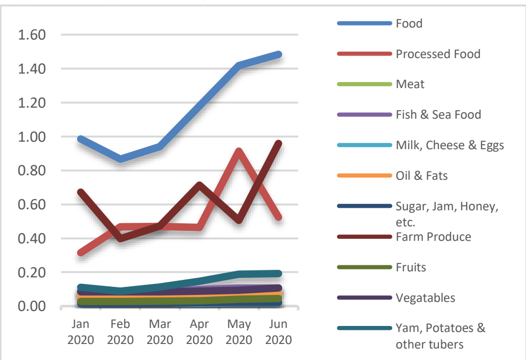
2020. Similarly, the price of farm produce rose, by 0.29 percentage point from 0.67 per cent to 0.96 per cent in the same period. Thus, the 0.50 percentage point increase in food inflation was due to the increases in the prices of both processed food and farm produce components. The key drivers of the increase in the processed food category were; fish & sea food, and oils & fats, which rose by 0.02 percentage point apiece, while the drivers of the increase in the farm produce category were Yam, Potatoes & Other tubers, which increased by 0.08 percentage point.

Table 3.5: Major Components of Food Inflation (M-on-M), January – June, 2020

	Food	Processed Food	Meat	Fish & Sea Food	Milk, Cheese & Eggs	Oil & Fats	Sugar, Jam, Honey, etc.	Farm Produce	Fruits	Vegatables	Yam, Potatoes & other tubers
Jan 2020	0.99	0.31	0.09	0.09	0.02	0.06	0.02	0.67	0.03	0.08	0.11
Feb 2020	0.87	0.47	0.07	0.08	0.02	0.05	0.01	0.40	0.03	0.08	0.09
Mar 2020	0.94	0.47	0.07	0.08	0.02	0.05	0.02	0.47	0.03	0.08	0.11
Apr 2020	1.18	0.47	0.08	0.10	0.02	0.06	0.02	0.71	0.03	0.09	0.15
May 2020	1.42	0.91	0.10	0.11	0.02	0.08	0.02	0.51	0.04	0.09	0.19
Jun 2020	1.48	0.53	0.10	0.11	0.02	0.08	0.02	0.96	0.04	0.11	0.19
Change btw Jan & Jun. 2020	0.50	0.21	0.01	0.02	0.00	0.02	0.01	0.29	0.02	0.02	0.08

Source: National Bureau of Statistics (NBS)

Figure 3.13: Major Components of Food Inflation (M-on-M), January – June 2020



Source: National Bureau of Statistics (NBS)

3.2.1.3 Core Inflation

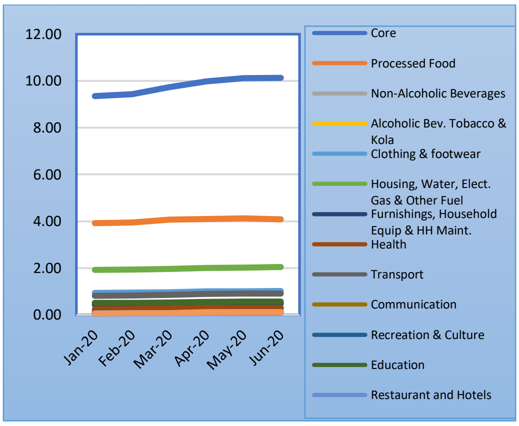
Core inflation (year-on-year) rose by 0.78 percentage point from 9.35 per cent in January 2020 to 10.13 per cent in June 2020. The rise in core inflation was driven by Processed Food, which rose by 0.17 percentage point from 3.95 to 4.09 per cent; Housing, Water, Electricity & Other Fuel by 0.13 percentage point from 1.92 to 2.05 per cent; Transport by 0.09 percentage point from 0.82 to 0.91 per cent; Clothing & Footwear by 0.08 percentage point from 0.94 to 1.02 per cent, and Restaurant & Hotels by 0.07 percentage point from 0.05 to 0.12 per cent. Other components of core inflation remained largely stable in the review period (Table 3.6 and Figure 3.14). The rise in price of processed food was due largely to adverse external sector developments, which led to sharp depreciation in the exchange rate, with a pass-through effect to domestic prices.

Table 3.6: Major Components of Core Inflation (Y-on-Y) January – June 2020

	Core	Processed Food	Non-Alcoholic Beverages	Alcoholic Bev. Tobacco & Kola	Clothing & footwear	Housing, Water, Elect. Gas & Other Fuel	Furnishings, Household Equip & HH Maint.	Health	Transport	Communication	Recreation & Culture	Education	Restaurant and Hotels
Jan-2020	9.35	3.92	0.13	0.12	0.94	1.92	0.43	0.24	0.82	0.10	0.10	0.51	0.05
Feb-2020	9.43	3.95	0.13	0.12	0.95	1.93	0.44	0.24	0.83	0.10	0.10	0.52	0.06
Mar-2020	9.73	4.07	0.13	0.13	0.97	1.96	0.46	0.27	0.86	0.10	0.10	0.53	0.08
Apr-2020	9.98	4.10	0.13	0.13	1.00	2.00	0.48	0.29	0.89	0.10	0.11	0.56	0.10
May-2020	10.12	4.12	0.13	0.13	1.01	2.02	0.49	0.30	0.91	0.10	0.11	0.57	0.12
Jun-2020	10.13	4.09	0.14	0.13	1.02	2.05	0.49	0.30	0.91	0.10	0.11	0.57	0.12
Change btw Jan & June 2020	0.78	0.17	0.01	0.01	0.08	0.13	0.06	0.06	0.09	0.00	0.01	0.06	0.07

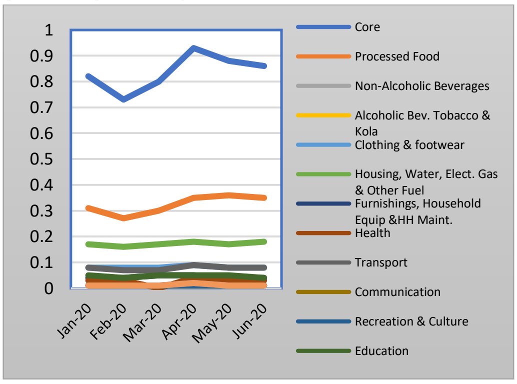
Source: National Bureau of Statistics (NBS)

Figure 3.14 Major Components of Core Inflation (Y-on-Y) January – June 2020



Source: National Bureau of Statistics (NBS)

Figure 3.15 Major Components of Core Inflation (M-on-M) January – June 2020



Source: National Bureau of Statistics (NBS)

On a month-on-month basis, core inflation also increased, by 0.04 percentage point from 0.82 per cent in January to 0.86 per cent in June 2020. The increase was driven by: Processed Food, which increased from 0.31 per cent in January to 0.35 per cent in June 2020, and Housing, Water, Electricity, Gas & Other Fuels from 0.17 to 0.18 per cent over the same period (Table 3.7 and Figure 3.15).

Table 3.7: Major Components of Core Inflation (M-on-M) January – June 2020

	Core	Processed Food	Non-Alcoholic Beverages	Alcoholic Bev. Tobacco & Kola	Clothing & footwear	Housing, Water, Elect. Gas &	Furnishings, Household Equip &HH Maint.	Health	Trans port	Communi cation	Recrea tion & Culture	Education	Restaurant and Hotels	Misc. Goods and Service
Jan-20	0.82	0.31	0.01	0.01	0.08	0.17	0.04	0.03	0.08	0.01	0.01	0.05	0.01	0.01
Feb-20	0.73	0.27	0.01	0.01	0.08	0.16	0.04	0.03	0.07	0.01	0.01	0.04	0.01	0.01
Mar-20	0.8	0.3	0.01	0.01	0.08	0.17	0.05	0,.03	0.07	0.01	0.01	0.05	0.01	0.01
Apr-20	0.93	0.35	0.01	0.01	0.09	0.18	0.05	0.04	0.09	0.01	0.01	0.05	0.02	0.02
May-20	0.88	0.36	0.01	0.01	0.08	0.17	0.04	0.03	0.08	0.01	0.01	0.05	0.01	0.01
Jun-20	0.86	0.35	0.01	0.01	0.08	0.18	0.04	0.03	0.08	0.01	0.01	0.04	0.01	0.01
Change btw Jan & June 2020	0.04	0.04	0	0	0	0.01	0	0	0	0	0	-0.01	0	0

Source: National Bureau of Statistics (NBS)

3.2.2 Seasonally-Adjusted Inflation

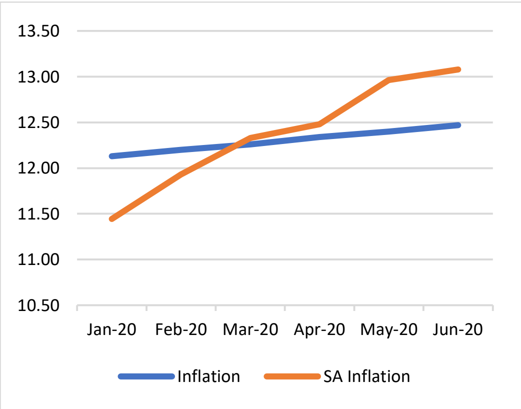
The actual and seasonally-adjusted measures of headline inflation trended upwards in the review period, continuing the rising trend witnessed in the second half of 2019 (Table 3.8 and Figure 3.16). Actual headline inflation continued to reflect the general price level in the economy, trending above the seasonally-adjusted measure in the first two months of 2020. This indicated that seasonal adjustment was able to remove the effect of seasonality; however, in the remaining months the seasonally adjusted measure trended above actual inflation, indicating the return of seasonality. The overall upward trend in both actual and seasonally-adjusted measures of inflation were attributed mainly, to the COVID-19 pandemic, sustained border protection policy, exchange rate adjustment by the Bank and disruptions in the global supply chain following lockdowns and other measures to curtail the spread of the Pandemic.

Table 3.8: Actual and Seasonally Adjusted Headline Inflation January – June 2020

Date	Inflation	SA Inflation
Jan-20	12.13	11.44
Feb-20	12.20	11.93
Mar-20	12.26	12.33
Apr-20	12.34	12.48
May-20	12.40	12.96
Jun-20	12.47	13.08

Source: Statistics Department,CBN.

Figure 3.16: Actual and Seasonally Adjusted Headline Inflation January – June 2020



Source: National Bureau of Statistics (NBS)

3.2.3 Key Factors that Influenced Domestic Prices

During the review period, inflationary pressures reflected the inter-play of cost-push, demand-pull and moderating factors. The inflation outcome witnessed was therefore a product of the net effect of these forces. The key highlights of these factors included: the effect of the COVID-19 pandemic; supply side bottlenecks resulting from shutdown of economic activities; the sustained border protection measures; exchange rate pressures; weakness in global oil prices; growing insecurity; and farmer-herder crisis which affected the agricultural supply chain. Others were: the continued efforts by the Bank to improve production in the real sector through its intervention programs; relative instability in domestic energy prices; and the liquidity effects of COVID-19 interventions.

3.2.3.1 Demand-side Factors

Headline inflation in the review period was influenced by several demand-side factors. These factors included: liquidity injections through capital releases for infrastructural projects; real sector intervention programmes; the gradual implementation of the new minimum wage and the payment of some contractors' obligations; and panic buying ahead of COVID-19 lockdown; as well as the Bank's accommodative monetary policy stance. These factors contributed to the uptick in domestic prices.

3.2.3.2 Supply-side Factors

A number of supply-side factors exacerbated the inflationary pressure during the review period. These factors included: the disruptions to production and distribution activities following the COVID-19 lockdown; increased security challenges across the country; lingering impact of the land border protection policy; and herders attack on farming communities in the food producing regions of the country. In addition, the dwindling accretion to external reserves as a result of low oil prices led to the depreciation of the exchange rate and subsequent pass-through to domestic prices. All these accentuated inflationary pressures despite good weather and sustained agricultural sector funding interventions by the CBN.

3.2.3.3 Moderating Factors

Even though headline inflation trended upwards in the review period, several factors moderated the uptick. These included: the Bank's sustained interventions in the real sector, particularly in agriculture and manufacturing; stability in domestic energy prices; as well as interventions by the Federal Government to ease the impact of the lockdown. In addition, the Bank's sustained intervention in the foreign exchange market helped to ease liquidity constraints faced by importers and other investors in the real sector. The lull in economic activities also moderated demand for foreign exchange.

3.3 Monetary Policy and Liquidity Management

In the first half of 2020, monetary policy was shaped by developments in the global and domestic economic and financial environments. On the global scene, the key development was the severe macroeconomic shock caused by the low oil price, compounded by the outbreak and spread of the COVID-19 pandemic. Factors responsible for the shock included: the broad slowdown in the advanced economies; declining primary commodity prices; extreme weather conditions in some regions; capital reversals and exchange rate pressures in some Emerging Market and Developing Economies (EMDEs) with pass-through to their domestic prices, although inflation in the advanced economies remained below their long-run objectives. Other factors were: growing vulnerabilities across global financial markets; risks to price and financial stability; losses in global stock values; rising corporate debt in the advanced economies and public debt in some EMDEs; as well as the general rebalancing of portfolios towards cash and gold, as investors sought safer assets. The pandemic caused disruptions to the global supply chain, owing to large scale lockdown of major cities. As a response, most central banks embarked on a synchronised approach to monetary accommodation.

The domestic front witnessed remarkable moderation in output growth due to the lockdown measures to contain the pandemic as well as disruptions to the supply chain owing to restrictions on inter-state travels. The projection was that the moderation in output was likely to persist. Other developments included: continued uptick in headline inflation driven by both the food and core components; dismal performance in the equities market; sustained resilience and improved performance of key banking sector indicators such as the declining ratio of Non-Performing Loans (NPLs); reduced domestic supply of foreign exchange; and the continued impact of deteriorating infrastructure.

3.3.1 Monetary Policy Response to Evolving Economic Conditions

Monetary policy management in the first half of 2020 was geared towards responding to the emerging developments in the global and domestic economic and financial environments. These developments include the outbreak and rapid spread of the Coronavirus Disease (COVID-19), which had knock-on effects on economic activities, lives and livelihood. As a consequence, there was overall decline in economic activities triggered by weak aggregate demand and supply, leading to a sharp decline in global trade. The oil market was severely affected by the unprecedented collapse in oil demand, compounded by the oil price war between Saudi Arabia and Russia. Other factors were: the significant downturn in stock markets; volatility in exchange rates; rising corporate and public debts; capital flow reversals; shocks to commodity prices, and the escalating tensions between the US and China as well as the uncertainty associated with the possibility of a second wave of the pandemic, which affected policy choices.

The challenges at the domestic front included: persisting inflationary pressures; weak economic activity due to the lockdown measures to contain the spread of the pandemic; disruptions in supply chains owing to restrictions on interstate travel; lower oil revenue leading to reduced supply of foreign exchange and growing fiscal deficits; and inadequate infrastructure.

These challenges and the desire to achieve the Bank's objective of price stability conducive to sustainable and inclusive growth were the key considerations that shaped monetary policy in the first half of 2020.

The monetary authority undertook proactive policy responses in order to mitigate these challenges and support national economic recovery. Consequently, the Bank took decisive action to safeguard the Nigerian financial system and the economy from the emerging headwinds. The key policies included: extension of moratorium on loans by an additional one (1) year, starting from March 2020, to ease pressure on loan repayments; reduced interest rates on CBN interventions from 9 to 5 per cent over the next one year; creation of a N50 billion fund to support households and Small and Medium Enterprises (SMEs) affected by COVID-19; credit support for the healthcare sector; regulatory forbearance to DMBs to consider temporary and time-limited restructuring of the tenor and loan terms for households and businesses most affected by COVID-19; and strengthening of the loan-to-deposit ratio (LDR) policy. The Bank also announced an intervention fund of N1.1 trillion to cushion the adverse effects of the Coronavirus outbreak on the economy. This was in addition to the

N1.5 trillion private sector-driven Infraco Project fund, targeted at the construction of critical infrastructure across the country. Furthermore, pharmaceutical companies were assisted through loan interventions to re-establish drug manufacturing firms in Nigeria and curtail the spread of the corona virus. These interventions were expected to inject about N3.5 trillion into the economy.

The Bank equally intervened in the foreign exchange market by adjusting the exchange rate from ₦306/US$ to ₦326/US$ in March 2020 and ₦361/US$ in April 2020, in line with efforts to unify the market exchange rates.

In addition, the Bank strengthened its development finance interventions through several on-going and new schemes such as: The ₦200 billion Commercial Agriculture Credit Scheme (CACS); Micro, Small and Medium Enterprises Development Fund (MSMEDF); Anchor Borrowers' Programme (ABP); Real Sector Support Facility (RSSF); Creative Industry Financing Initiative (CIFI); COVID-19 Intervention Facility for the Manufacturing Sector (CIFMS); and the Health Sector Intervention Fund, among others.

3.3.2 Monetary Policy Committee Meetings

The Monetary Policy Committee (MPC) met three times during the review period, namely in January, March and May. The key considerations during the *January* meeting were: the persistent increase in the rate of inflation over the last few months, driven by both monetary and structural factors; impediments such as infrastructure deficit and the long-standing clashes between herdsmen and farmers, which were constraining domestic production; as well as rising public debt at a pace faster than both domestic and external revenues.

Based on the foregoing, the January MPC decided by a vote of 9 members to raise the Cash Reserve Requirement (CRR) by 500 basis points from 22.5 to 27.5 per cent, while leaving all other policy parameters constant.

At the *March* 2020 meeting, the MPC was concerned among others, that the muted outlook for the first half of the year may dampen overall growth prospects for 2020. In addition, the Committee noted the weakened revenue position of the Federal Government, arising from the sharp drop in oil prices.

The Committee was also concerned that the overall medium-term outlook for the global economy remained uncertain with prospects of further deterioration in the financial market conditions and weak global output growth. The MPC equally took cognizance of the impact of the decline in oil prices on accretion to external reserves and the emergence of exchange rate pressures, endorsing the prompt action of the Bank in adjusting the exchange rate to remove distortions and unify market segments.

The March MPC, therefore, decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 13.5 per cent and to hold all other policy parameters.

During the *May* 2020 meeting, the key considerations were the uncertainties around the global economy due to the COVID-19 pandemic and associated containment measures which continued to disrupt normal economic activities. The MPC was also concerned about the heightened inflationary pressure attributed to a combination of monetary and structural factors.

Accordingly, the May MPC voted to: reduce the MPR to 12.5 per cent; retain the Asymmetric Corridor of +200/-500 basis points around the MPR; retain the CRR at 27.5 per cent; and retain the Liquidity Ratio at 30 per cent.

The communiqués of the MPC meetings are contained in the appendix.

3.3.3 Instruments of Liquidity Management

In order to achieve its objective of price and monetary stability, the Bank continued to deploy various instruments in the first half of 2020. These instruments were: the Monetary Policy Rate (MPR); the Cash Reserve Ratio (CRR); Liquidity Ratio; Open Market Operations (OMO); and Discount Window Operations. These were periodically complemented with interventions in the foreign exchange market.

3.3.3.1 Monetary Policy Rate (MPR)

The Monetary Policy Rate (MPR) continued to be the Bank's key instrument for signalling monetary policy stance and management in the review period. It was reduced by 100 basis points to 12.5 per cent in May 2020, while the asymmetric corridor of +200/-500 basis points around the MPR was maintained throughout the period. The reduction signalled the Bank's commitment to support output recovery in the face of slowdown in economic activities partly occasioned by the COVID-19 pandemic.

3.3.3.2 Open Market Operations (OMO)

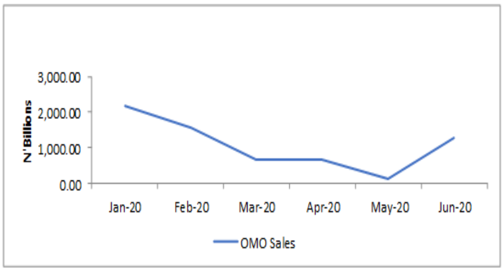
The Bank continued to deploy the Open Market Operations (OMO) as the primary tool for liquidity management. OMO sales decreased by 27.03 per cent to ₦6,491.30 billion in the first half of 2020 from ₦8,895.99 billion in the preceding half of 2019. The outcome was also a decrease of 45.12 per cent from ₦11,827.64 billion in the first half of 2019 (Table 3.9).

Table 3.9: OMO Bills Auction (January – June, 2020) (₦'billion)

Date	2019	2020	% Change
Jan	3,070.42	2,193.52	-29%
Feb	3,474.13	1,574.64	-55%
Mar	2,158.57	673.38	-69%
Apr	841.21	676.19	-20%
May	1,152.67	114.00	-90%
Jun	1,130.64	1,259.57	11%
1st Half	**11,827.64**	**6,491.30**	-45%
Jul	1,348.83		
Aug	608.11		
Sep	1,801.03		
Oct	1,962.21		
Nov	1,446.31		
Dec	1,729.50		
2nd Half	**8,895.99**		
Cumulative Figure	**20,723.63**		

Source: Financial Market Department,CBN.

Figure 3.17: OMO Bills Auction (January – June, 2020)



Source: Financial Market Department, CBN.

3.3.3.3 Reserve Requirements

The Bank sustained the use of the Cash Reserves Ratio (CRR) and Liquidity Ratio (LR) as macro-prudential and liquidity management instruments in the first half of 2020 to complement the MPR and OMO auctions. The Monetary Policy Committee raised the CRR to 27.5 from 22.5 per cent in January 2020 but maintained Liquidity Ratio at 30.0 per cent, to curb the observed excess liquidity in the banking system.

3.3.3.4 Standing Facilities

In the first half of 2020, Deposit Money Banks (DMBs) and the Discount House (DH) continued to access the standing facilities (lending/deposit) window to meet their daily liquidity requirements. The asymmetric corridor, which defines the window in the market, was maintained at +200/-500 basis points around the MPR.

Under the Window, the requests for Standing Lending Facility (SLF) decreased by 56.05 per cent to ₦3,317.40 billion in the first half of 2020 from ₦7,548.37 billion in the second half of 2019. This also reflected a decrease of 72.68 per cent from ₦12,141.26 billion in the first half of 2019 (Table 3.10).

Similarly, the volume of deposits under the Standing Deposit Facility (SDF), moderated by 24.25 per cent to ₦3,084.75 billion in the first half of 2020 from ₦4,072.20 billion in the second half of 2019. This also represented a decrease of 61.76 per cent compared with ₦8,067.22 billion in the corresponding period of 2019 (Table 3.11).

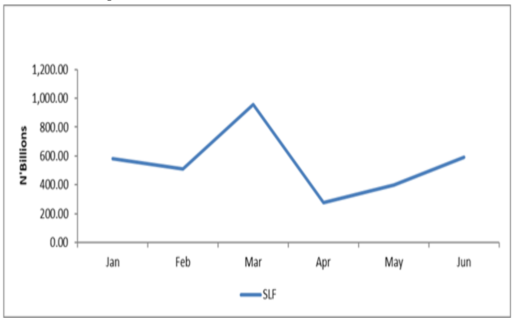
Transactions at the Window resulted in a lower net lending of ₦232.65 billion in the first half of 2020 compared with ₦3,476.17 billion and ₦4,074.04 billion in the preceding and corresponding half years. The development indicated that fewer banks experienced liquidity stress.

Table 3.10: CBN Standing Lending Facility (January 2019 – June 2020) (N'billion)

Date	2019	2020	% Change
Jan	3,232.63	580.77	
Feb	3,328.80	510.27	
Mar	1,955.75	957.34	
Apr	2,011.93	277.93	
May	896.82	398.84	
Jun	715.33	592.25	
1st Half	**12,141.26**	**3,317.40**	**-72.68%**
Jul	1,508.97		
Aug	3,201.93		
Sep	1,497.88		
Oct	343.57		
Nov	720.58		
Dec	275.44		
2nd Half	**7,548.37**		
Total	**19,689.63**		

Source: Financial Market Department, CBN

Figure 3.18: Standing Lending Facility (January – June 2020)



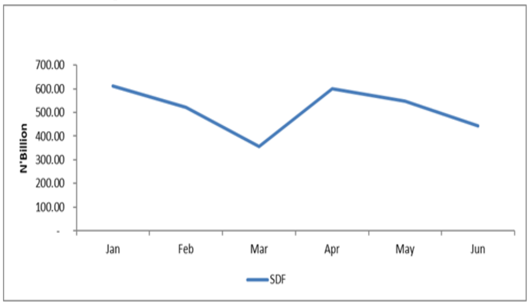
Source: Financial Market Department, CBN

Table 3.11: CBN Standing Deposit Facility (January 2019 – June 2020) (N'billion)

Date	2019	2020	% Change
Jan	976.66	611.46	
Feb	704.41	523.41	
Mar	1,402.26	356.80	
Apr	1,056.76	601.53	
May	2,178.21	549.50	
Jun	1,748.92	442.05	
1st Half	**8,067.22**	**3,084.75**	**-61.76%**
Jul	1,291.45		
Aug	361.43		
Sep	405.56		
Oct	710.75		
Nov	555.34		
Dec	747.67		
2nd Half	**4,072.20**		
Total	**12,139.42**		

Source: Financial Market Department, CBN

Figure 3.19: Standing Deposit Facility (January - June, 2020)



Source: Financial Market Department, CBN.

3.3.3.5 Foreign Exchange Intervention

The review period witnessed significant pressure in the foreign exchange market arising from the shock to the oil market, compounded by the COVID-19 pandemic. In the face of declining foreign exchange inflows and accretion to external reserves, the Bank's foreign exchange management strategy was to align the exchange rate to market realities and promote a trend towards full exchange rate unification. Consequently, the growing supply constraints in the foreign exchange market led to a 5.3 per cent depreciation of the naira to ₦380/US$ from ₦360/US$.

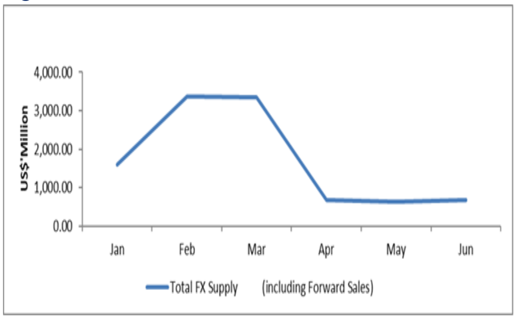
Total foreign exchange supply decreased by 26.96 per cent to US$10,308.01 million in the first half of 2020 from US$14,113.31 million in the second half of 2019. It, however, increased by 22.88 per cent when compared with US$8,388.50 million in the corresponding period of 2019 (Table 3.12). The decrease in supply was largely due to the combined impact of the oil price shock and the containment measures of the COVID-19 pandemic.

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

Date	2019	2020	% Change
	Total FX Supply (including Forward Sales)	Total FX Supply (including Forward Sales)	
Jan	1,480.92	1,604.27	
Feb	1,932.96	3,364.39	
Mar	1,159.78	3,344.29	
Apr	1,244.32	674.87	
May	1,455.05	639.76	
Jun	1,115.47	680.43	
1st Half	**8,388.50**	**10,308.01**	**22.88%**
Jul	2,160.21		
Aug	3,160.16		
Sep	1,985.79		
Oct	1,908.88		
Nov	2,317.46		
Dec	2,580.81		
2nd Half	**14,113.31**		

Source: Financial Market Department, CBN.

Figure 3.20



Source: Financial Market Department, CBN.

3.3.4 Developments in Monetary Aggregates

In response to the tweaking of monetary policy instruments, the performance of monetary aggregates was mixed relative to their benchmarks in the review period. Growth in broad money supply (M3) was below its indicative benchmark for 2020 in view of the Bank's restriction of non-bank agents from participation in OMO bill auctions. The other measure of money supply (M2), however, grew above its benchmark as maturing OMO securities were not rolled-over, thus increasing the demand deposit portion of narrow money supply (M1). The growth in broad money supply reflected the behaviour of its key components namely, Net Domestic Assets (NDA) and Net Foreign Assets (NFA).

Net Domestic Assets (NDA) contracted relative to its benchmark in the review period. Its key component, Net Domestic Credit (NDC) grew moderately, driven by growth in private sector credit, as credit to government contracted. The contraction in credit to government was in line with Government's policy of preference for foreign borrowing to restructure the public debt portfolio.

Net Foreign Asset grew significantly above its benchmark in the review period, driven primarily by the monetary authority's foreign assets, mostly the COVID-19 loans and grants from abroad.

3.3.4.1 Broad Money (M3, M2)

The broad measures of money supply (M3 & M2) grew in the review period. M3 grew by 1.71 per cent to ₦35,345.80 billion at end-June 2020 from ₦34,752.62 billion at end-December 2019. When compared with the end-June 2019 level of ₦34,036.80 billion, it increased by 3.85 per cent. The annualized M3 growth rate of 3.4 per cent at end-June 2020 was below the 2020 indicative growth target of 4.66 per cent. Similarly, M2 grew by 11.86 per cent to ₦32,171.34 billion at end-June 2020 from ₦28,759.34

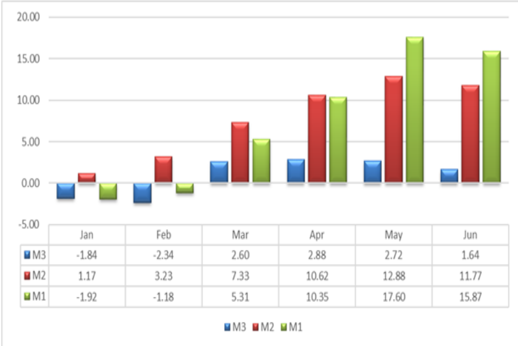
billion at end-December 2019. Compared with the end-June 2019 level of ₦27,034.54 billion, it increased by 19.00 per cent. The annualized M2 growth rate of 23.72 per cent at end-June 2020 was much higher than the 2020 indicative growth benchmark of 14.82 per cent.

The increase in M2 was primarily driven by the increase in M1 by 15.87 per cent and quasi money by 9.41 per cent owing to the prohibition of the non-bank public from investing in OMO bills. Thus, the proceeds of matured OMO bills were not rolled-over but became part of M1 deposits or reinvested in other near money instruments.

Figure 3.21: Money Supply (January - June 2020)

Source: Statistics Department, CBN.

Figure 3.22: Growth in Money Supply (January - June 2020)



Source: Statistics Department, CBN.

3.3.4.2 Narrow Money (M1)

Narrow Money (M1) increased by 15.90 per cent to ₦12,204.25 billion at end-June 2020 from ₦10,530.32 billion at end-December 2019. It also increased by 28.44 per cent compared with ₦9,502.16 billion at end-June 2019. When annualized, M1 increased by 31.79 per cent, which was significantly higher than the 2020 indicative growth benchmark of 7.60 per cent (Figures 3.21 and 3.22). The performance of M1 was attributable to the significant increase in Demand Deposits by 13.14 per cent, owing to the inability of DMBs to roll-over matured CBN bills held on behalf of the non-bank public.

3.3.4.3 Net Foreign Assets (NFA)

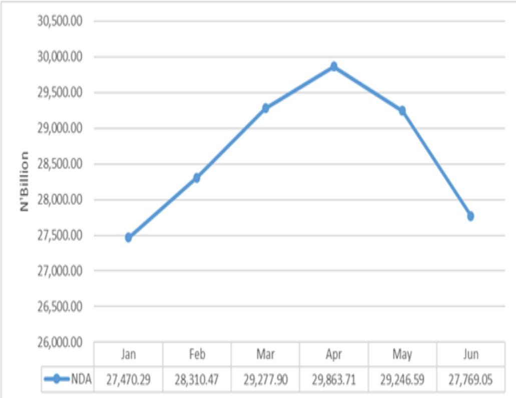
Net Foreign Assets (NFA) increased by 30.49 per cent to ₦7,576.75 billion at end-June 2020 from ₦5,806.32 billion at end-December 2019. Compared with the end-June 2019 figure of ₦9,946.58 billion, NFA declined by 23.83 per cent. The annualized growth rate of NFA of 60.98 per cent at end-June 2020 was significantly above the 2020 indicative growth target of 37.19 per cent. The performance of NFA above its benchmark in the review period was driven largely by Claims on Non-Residents in the Monetary Authority's Account.

3.3.4.4 Net Domestic Assets (NDA)

Net Domestic Assets (NDA) contracted by 4.07 per cent to ₦27,769.05 billion at end-June 2020 from ₦28,946.30 billion at end-December 2019. Compared with the end-June 2019 figure of ₦24,090.22 billion, NDA grew by 15.27 per cent. The annualized 8.13 per cent contraction in NDA was far lower than the 2020 indicative growth benchmark of -1.86 per cent.

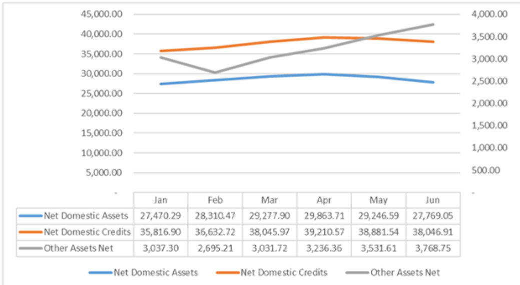
Net Domestic Credit (NDC) increased by 5.16 per cent, driven largely by credit to the private sector, which increased by 9.32 per cent owing to the Bank's regulatory measure to improve lending to the real sector as well as its development finance interventions. These interventions were targeted at improving the flow of credit to critical sectors of the economy, especially in the light of the weak performance and heightened uncertainties associated with the COVID-19 pandemic. Credit to government, however, declined by 4.15 per cent primarily due to Government's policy of restructuring her debt portfolio in favour of foreign borrowing. The moderate performance of NDA was also attributable to the behaviour of Other Items Net (OIN), which increased by 109.48 per cent, thus dampening the impact of NDC on NDA.

Figure 3.23: Net Domestic Asset (NDA) (January - June, 2020)



Source: Statistics Department, CBN.

Figure 3.24: NDA, NDC and Other Assets (Net) (January – June, 2020)



Source: Statistics Department, CBN.

3.3.4.5 Credit to the Government (Cg)

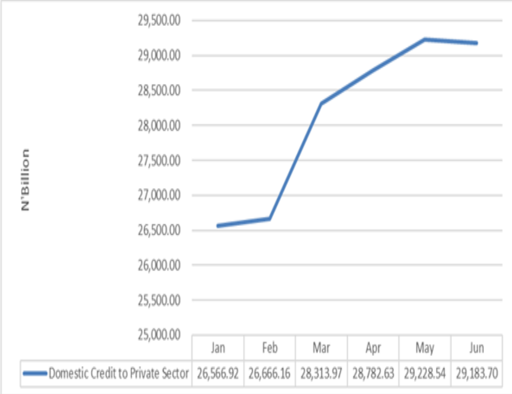
Credit to Government (Cg) contracted by 6.53 per cent to ₦8,863.20 billion at end-June 2020 from ₦9,482.79 billion at end-December 2019. Compared with the end-June 2019 figure of ₦7,650.62 billion, it grew by 15.85 per cent. The annualized contraction of 13.07 per cent in Cg at end-June 2020 was significantly below the 2020 indicative growth target of 22.50 per cent. The significant decline in credit to government is the outcome of

Government's new policy in favour of foreign borrowing in line with the need to restructure its domestic debt portfolio.

3.3.4.6 Credit to the Private Sector (Cp)

Credit to the private sector (Cp) increased by 9.30 per cent to ₦29,183.70 billion at end-June 2020 from ₦26,699.79 billion at end-December 2019. Compared with the end-June 2019 figure of ₦24,387.86 billion, it grew by 19.66 per cent. The annualized growth of 18.61 per cent in Cp at end-June 2020 was above the 2019 indicative growth target of 14.14 per cent. With the decline in government borrowing, private sector credit is now picking up thereby reducing the crowding out effect of government borrowing witnessed in the recent past. Credit to the core private sector stood at 55.68 per cent of the total credit to the private sector, and accounted for 40.26 per cent of the actual growth in credit to the private sector. The outcome implies that credit to States and Local governments may still be crowding out credit to the core private sector.

Figure 3.25: Domestic Credit to Private Sector (January – June, 2020)



Source: Statistics Department, CBN.

3.3.4.7 Reserve Money (RM)

Reserve Money (RM) increased by 52.91 per cent to ₦13,257.04 billion at end-June 2020 from ₦8,669.83 billion at end-December 2019. Compared with its end-June 2019 level of ₦7,187.18 billion, RM grew by 84.45 per cent. When annualized, it grew by 105.82 per cent, significantly above the 2020 indicative growth target of 62.23 per cent. The performance of RM was attributed to the increase in excess reserves of DMBs owing to their inability to rollover maturing CBN bills held on behalf of non-bank economic agents.

A summary of the major monetary aggregates and their provisional outcomes as at end-June 2020 is presented in Table 3.13.

Table 3.13: The Performance of Monetary Aggregates and their Implications

Variables	Actual H1 2019	Actual H2 2019	Actual H1 2020	Benchmark 2020	H1:2020 Deviation from Benchmark	Change in H1, 2020 over H2, 2019
M3 (N'b)	34,036.80	34,752.62	35,345.80	36,372.45	-1,026.65	593.18
M3 (%)	4.03%	2.10%	1.71%	4.66%	-3.02	-0.50%
M2 (N'b)	27,034.54	28,759.34	32,171.34	33,021.15	-849.81	3,412.00
M2 (%)	2.28%	6.38%	11.86%	14.82%	-3.05%	5.40%
M1 (N'b)	9,502.16	10,530.32	12,204.25	11,330.73	873.52	1,673.93
M1 (%)	-8.61%	10.82%	15.90%	7.60%	8.26%	5.00%
RM (N'b)	7,187.18	8,669.83	13,257.04	14,065.10	-808.06	4,587.21
RM (%)	0.10%	20.63%	52.91%	62.23%	-9.32%	32.30%
NDC (N'b)	32,038.49	36,182.59	38,046.91	42,096.82	-4,049.91	1,864.32
NDC (%)	12.75%	12.93%	5.15%	16.35%	-11.19%	-7.80%
Cg (N'b)	7,650.62	9,482.79	8,863.20	11,620.83	-2,757.63	-619.59
Cg (%)	55.67%	23.95%	-6.53%	22.55%	-29.09%	-30.50%
Cp (N'b)	24,387.86	26,699.79	29,183.70	30,476.00	-1,292.30	2,483.91
Cp (%)	3.77%	9.48%	9.30%	14.44%	-5.12%	-0.20%
NFA (N'b)	9,946.58	5,806.32	7,576.75	7,965.00	-388.25	1,770.43
NFA (%)	-16.00%	-41.62%	30.49%	37.19%	-6.65%	72.20%
NDA (N'b)	24,090.22	28,946.30	27,769.05	28,406.80	-637.75	-1,177.25
NDA (%)	15.40%	20.16%	-4.07%	-1.86%	-2.29%	-24.30%

S/N	Monetary Aggregates	Performance	Implication
1	Overall Monetary Aggregates	Mixed-	The mixed performance is indicative of growing uncertainties and weakening economic fundamentals. The improved performance of NFA which is not due to improved export revenue is a major concern for policy.
2	Broad Money (M3, M2)	Mixed	While M3 performed below its benchmark, M2 grew significantly above its target, providing mixed policy signals. The behaviour of M2 appears consistent with the prevailing uptrend in inflation.
3	Narrow Money (M1)	Strong and above target	The strong performance is not indicative of improved economic activities, but merely the result of a portfolio shift arising from the inability of DMBs to reinvest matured OMO bills on behalf of the non-bank public. This concern is further amplified by the weak signals from other monetary aggregates, consistent with weakening economic activities.
4	Net Foreign Assets (NFA)	Significantly above target	The improved performance of NFA which is not due to improved export revenue is a major concern for policy.
5	Net Domestic Assets (NDA)	below target	The contraction in NDA is worrisome in view of the sharp slowdown in growth which requires both monetary and fiscal stimulus.
6	Credit to the Govt (Cg)	Below target	The underperformance of credit to government reflects Government's new policy in favour of foreign borrowing in line with the need to restructure its domestic debt portfolio. The underperformance of credit to government signposts the crowding in of private sector investments.
7	Credit to the Private Sector (Cp)	Above target	The improved performance demonstrates the increasing role of the private sector in driving economic activities. As more credit is made available to the real sector, there would be a corresponding growth in output and employment.

Source: Statistics Department, CBN.

Box 3.2: The Nigerian Finance Act 2020: Implications for Monetary Policy

The Nigeria Finance Act (2020) was promulgated as an Act of the National Assembly after being assented to by President Muhammdu Buhari on January 13th, 2020. The Act was in response to the need to reform Nigeria's tax laws to align with global best practices, support Micro, Small and Medium scale Enterprises (MSMEs) in line with Ease of Doing Business Reforms, incentivise private sector' investment in infrastructure and capital markets, and increase government tax revenues. Key amendments introduced by the Finance Act included: increase in value-added tax (VAT) rate from 5 to 7.5 per cent; expansion of the list of VAT-exempt items to include a number of staple foods, food additives, water, etc; and exemption of small companies (with annual gross turnover of N25 million or less) from payment of Companies' Income Tax. Others are: amendment of CITA to capture non-resident companies that provide digital services within the Nigerian digital space; and requirement for Tax Identification Number as a pre-condition for opening a company or business bank account or continuing operation of a company or business bank account in Nigeria.

As part of the strategic objectives of the Act, the inclusion of the digital economy and profit of non-resident companies are consistent with global best practices, which tracks and harnesses tax revenue from activities occurring within the fiscal space. Similarly, the goal of boosting small and medium scale enterprises and adoption of targeted incentives to stimulate capital market activities and infrastructure development would drive increase in economic activities. The Act also addresses past investment impeding tax provisions which limited dividend pay-out. Overall, the Act is intended to incentivise economic activities to stimulate GDP growth and increase the tax revenue base.

The Act signposts a return to active fiscal supervision involving the regular review of the macro environment and stimulation of business activities in the economy. It introduced changes to the Companies Income Tax Act, Value Added Tax Act, Petroleum Profits Tax Act, Personal Income Tax Act, Capital Gains Tax Act, Customs and Excise Tariff Etc. (Consolidation) Act and Stamp Duties Act. The amendments cut across five broad areas which included to: a) promote fiscal equity by mitigating instances of regressive taxation; b) align domestic tax law with global best practice; c) introduce tax incentives for investment in infrastructure and capital markets; d) support small businesses and e); and, raise government revenue from various fiscal measures.

The Act exempts any capital sum of ₦10 million or less received as compensation for loss of office from the 10 per cent Capital Gains Tax and introduced (CGT) tax concessions for business reorganisations to exempt chargeable gains on assets transferred pursuant to a related party business reorganisation. Income earned by foreign companies from technical, management, consultancy or professional services that are remotely provided to a person resident in Nigeria are taxable and limited to Withholding Tax (WHT) deducted from them on such payments. Foreign companies that "transmit, emit or receive signals, sounds, messages, images or data of any kind from cable, radio, electromagnetic systems or any other electronic or wireless apparatus to Nigeria in respect of any activity to the extent that the company has significant economic presence in Nigeria and profit can be attributable to such activity" are taxable.

On dividends, the Act exempts profits from Excess Dividend Tax (EDT) rule to mitigate the incidence of (double) taxation by excluding certain profits from the rule. These include; franked investment income, after-tax profits, tax-exempt income and distributions made by Real Estate Investment Companies etc.

Expense deductibility rules were modified in order to close existing loopholes. Companies are enjoined to track and/or apportion the costs relating to their tax-exempt business segments and revenue streams to ensure that such expenses are disallowed for tax purposes.

On gross-up Clauses, the Act reduced incidence of corporate tax on companies on behalf of third parties and aligned Management Fee and other party cost with transfer pricing regulations, thus, ameliorating hurdles faced in getting tax deductibility approvals on such expenses incurred abroad by Nigerian companies. Going forward, Nigerian Companies (not involved in banking and insurance business) are only allowed to make a maximum of 30 per cent deductible interest on foreign sourced debt on its Earnings before Interest, Tax, Depreciation, and Amortisation (EBITDA) in the accounting period. The excess are now to be carried forward and treated as tax-deductible for a maximum of five tax years.

The Act further simplified the commencement and cessation tax rules on newly registered companies (i.e. first 3 years) and the liquidation of an existing company (i.e. last 2 years). Taxes are paid based on accounting periods as companies file and pay taxes based on the first 3 years of assessment. The Act also reduced the maximum WHT exemptions on loans provided by foreign companies from 100 to 70 per cent, retained the other partial exemptions (i.e. at 40% and 10%) and made clarification on the conditions for granting exemptions by defining "repayment period" and "moratorium period.

On minimum tax, the previous rule, which was revenue-based applied 0.5 per cent on residual of franked investment income over qualifying turnover, was amended in the new Act such that companies with less than ₦25 million are exempt, while those with at least 25 per cent imported capital are no longer exempt from it. Non-resident companies previously exempted would now fall within the minimum tax net.

On progressive tax rate, again, start-ups and small enterprises with less than N25M gross turnover are exempt from tax, medium scale businesses with gross turnover of between ₦25 and ₦100 million are subject to 20 per cent CIT rate, while those with gross turnover in excess of ₦100 million are subject to 30 per cent CIT rate. Payment modalities have also been changed such that self-assessed companies must pay tax in full on or before the date of filling, tax credit of 1 per cent for large scale and 2 per cent for medium scale businesses if payment is made 90 days prior to filing, while penalties and interest on same for late payment has been increased to ₦50,000 for the first month and ₦25,000 for every subsequent month.

In the new Act, indirect tax – VAT was increased by 50 per cent from 5 to 7.5 per cent and incentives given to SMEs to support their growth. The compliance threshold is meant to reduce tax administration cost, raise tax yield, encourage voluntary tax payment, bring businesses into the tax net and encourage their growth. Incorporeal assets like rights, trademark, royalty, patent, goodwill etc. and services rendered to Nigerian entities in Nigeria by a resident or non-resident company are now taxable. Imported goods are now subject to excise duties while electronic receipts have chargeable Stamp Duties applied to them under the Act.

The tax exemption clause on export profits was amended to facilitate growth in the Consumer and Industrial market. Companies, however, need to show that the export proceeds are used to procure raw materials, plant, equipment and spare parts. All imported excisable goods fall into the ED net and importers must account for same to Nigeria Customs Service. The expanded list of VAT exempt goods and services is designed to enhance domestic production of such goods. The basic food items list inclusive of tuition is designed also to moderate the impact of the VAT increase on the welfare of the Nigerian populace. Tax exemption was granted to companies engaged in agricultural production for 5 years with an extension of further 3 years based on satisfactory performance of the business. The reduction of withholding tax (WHT) from 5.0 to 2.5 per cent on infrastructure projects is designed to improve their profitability owing to the lean margins in the sector.

In summary, the amendments are expected to spur activities of companies while the company income tax reduction for medium scale enterprises as well as tax exemption of small companies are expected to enhance their cash flow and provide absorptive buffers to domestic and global economic shocks. Additionally, the amendments to commencement rule and ability to carry losses forward would moderate failure risk at inception so that businesses can get enough traction as a going concern. The amendments on dividends, which is expected to further spur investments in businesses, particularly in the capital market, is a significant fund provider to businesses. The changes to export profit tax would encourage backward integration and encourage capacity building in local production of raw materials, equipment, and parts, and spur investment in the industrial sector. The amendments relating to interest deductibility and taxation of foreign service should mitigate the risk of base erosion and profit shifting by multinational corporations (MNC's). The amendments are expected to significantly enhance government's non-oil revenue, moderate dependence on debt funding, and improve the tax/GDP ratio.

Collectively, the Finance Act has three major implications for monetary policy. These are: reduced borrowing by government as tax revenue rises with the implication of reduced crowding out of the private sector in the capital market. This will mean that market and retail interest rates will fall sharply. There will be increased investment in the capital markets as retention is set to increase as a result of the amendments to the dividend policy leading to increased market activities, reduced outflows, and hence, reduced pressure on the exchange rate. In addition, the graduated corporate tax system will allow smaller corporates to increase investment and employment, thereby, driving output growth. Also, the effective implementation of the Act will ensure that more firms conduct their businesses through the banking system and, thus, improve the transmission of monetary policy impulses to the real economy.

3.4 Developments in Financial Markets

The Nigerian financial markets in the first half of 2020 experienced considerable stress, emanating from shocks in both the global and domestic economic and financial environments. On the global front, the oil price war between Saudi Arabia and Russia weakened oil prices sharply leading to a fall in accretion to reserves and a build-up of pressures on the exchange rate. In addition, the COVID-19 pandemic led to a global lockdown and subsequent crippling of the global supply chain for several months in the review period. The combination of these shocks meant that aggregate global demand and supply remained tepid over a considerable period, thus, forcing investors to seek refuge in safe havens. Consequently, the domestic financial markets suffered a sustained and significant outflow of capital. In addition to the foregoing, the global economy was confronted with severe vulnerabilities, such as: the persistent weakening of global output growth and the risk of recession across several economies; declining primary commodity prices; exchange rate volatility across several emerging market economies; rising corporate and public debts; rising levels of unemployment; tightening financial conditions; and capital flow reversals.

Inflation in most advanced economies in the first half of the year remained muted and below their long-run objectives. While these economies suffered from depressed price levels prior to the outbreak of COVID-19, the lockdown that ensued in the wake of the outbreak further weakened price development through a depressed aggregate demand, triggered by the prolonged lockdown. Price development thus remained relatively subdued throughout the first half of 2020 despite huge and synchronized liquidity injections by several central banks. In Emerging Market & Developing Economies, price development remained mixed with upward inflationary pressure mostly notable in the oil exporting countries. The depressed oil price resulted in reduced earnings and increased exchange rate pressure for these economies, feeding into inflationary pressures. The oil importing countries, however, benefited from lower oil prices, thus resulting in lower levels of inflation.

The domestic money market remained broadly active with market rates fluctuating according to the liquidity conditions in the banking system. In some instances, the rates fluctuated significantly outside the bands of the Standing Facilities Corridor, reflecting fluctuations in the liquidity conditions. The Central Bank, however, maintained stability in the foreign exchange market through regular interventions in the market, to douse exchange rate pressures and uncertainties. In the capital market, the All-Share Index (ASI) and Market Capitalization (MC), recovered substantially towards the end of the first quarter, as investor sentiments buoyed globally following significant measures by both monetary and fiscal authorities to mitigate the pandemic.

3.4.1 The Money Market

In the first half of 2020, money market rates frequently fluctuated outside the floor and ceiling of the Standing Facilities Corridor. The persistent volatility in the money market interest rates reflected the unstable liquidity conditions in the banking system. The upside risks to the money market rates were, however, dowsed by the huge injections of monetary and fiscal stimulus in the wake of the outbreak of COVID-19. Subsequently, money market rates eased, as system liquidity was buoyed by various injections into the economy through the banking system. The recorded decline in rates in the Inter-Bank Market and the Open Buy Back (OBB) segments between April and June was an indication of the Central Bank's shift into an accommodative monetary policy stance which kept the short term market active through the period of the pandemic. Other sources of system liquidity included statutory monthly disbursements by the Federation Account Allocation Committee (FAAC) to states and local governments; maturities of OMO bills and government securities held by individuals and local corporates; and other regular interventions by the CBN in the real economy.

During the review period, the interbank segment of the market witnessed fewer trading days which resulted in a lower volume of transactions, compared with the OBB segment. The continued preference for trading in collaterized (OBB) segment indicates the persistence of counterparty risk within the banking system.

At the May 2020 meeting of the MPC, the Committee lowered the Monetary Policy Rate (MPR) from 13.50 per cent to 12.50 per cent to support the economy so as to navigate through the oil price and COVID-19 shocks, even though domestic prices were trending upward and the exchange rate was confronted with significant pressure.

3.4.1.1 Short-term Interest Rate Developments

Liquidity levels in the banking system remained the key determinant of the level of interest rates in the money market in the review period. The major sources of banking system liquidity included: auctions and maturities of OMO and CBN bills; sales and maturities of Nigerian Treasury Bills (NTBs) and Treasury Bonds; as well as the monthly statutory FAAC disbursements and other fiscal operations by the various tiers of government. Banking system liquidity increased during the period, particularly in the second quarter of the year as the Bank increased monetary accommodation to support the economy through the COVID-19 pandemic.

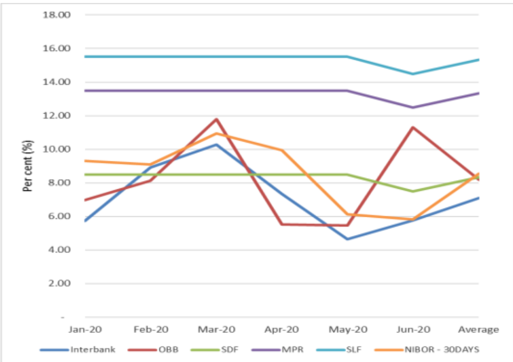
Nonetheless, both segments of the money market (OBB and Interbank) remained active and experienced considerable volatility in rates as liquidity conditions fluctuated, with more activities observed in the OBB segment. The interbank call rate oscillated between 4.64 and 10.29 per cent, averaging about 7.11 per cent during the period. The OBB rate also fluctuated, between 5.45 and 11.78 per cent, averaging higher at 8.19 per cent in the review period.

Table 3.14: Weighted Average Monthly Money Market Interest Rates (Jan- Jun,2020)

PERIOD	Interbank	OBB	SDF	MPR	SLF	NIBOR-30 DAYS
	(%)	(%)	(%)	(%)	(%)	(%)
Jan-20	5.74	6.98	8.50	13.50	15.50	9.32
Feb-20	8.91	8.12	8.50	13.50	15.50	9.09
Mar-20	10.29	11.78	8.50	13.50	15.50	10.93
Apr-20	7.33	5.52	8.50	13.50	15.50	9.95
May-20	4.64	5.45	8.50	13.50	15.50	6.13
Jun-20	5.75	11.31	7.50	12.50	14.50	5.82
Average	7.11	8.19	8.33	13.33	15.33	8.54

Source: Statistics Department, CBN.

Figure 3.26: Weighted Average Monthly Money Market Interest Rates (Jan – Jun, 2020)



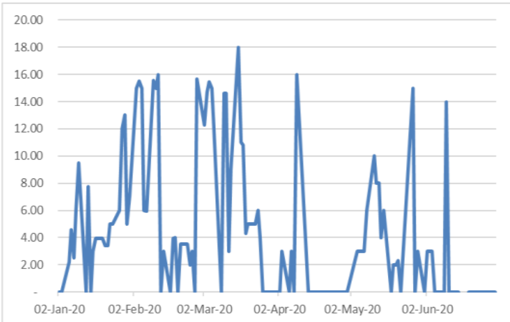
Source: Statistics Department, CBN

1) The Interbank Call Rate

Activities in the uncollateralized interbank call segment of the market was low throughout the review period with a high number of non-trading days. This was, however, contrary to developments in the collaterized segment where trading days were much higher than the non-trading days, a reflection of the continued perception of counterparty risk in the money market. Consequently, interbank call rates rose rapidly from a monthly average of 5.74 per cent in January 2020 to 10.29 per cent in March before crashing to 4.64 per cent in May and closed at 5.75 per cent in June. The market was mostly calm in June 2020.

Analysis of the daily interbank rates in the review period showed that the call rate ranged from 2.00 per cent on various trading days in May 2020 to 18.00 per cent recorded in March 2020. The peak of 18.00 per cent in March was largely due to a restraint in trading by banks in the wake of the increased uncertainty as the pandemic and associated lockdown forced economic activities to slow sharply. The trough of 2.00 per cent on the other hand signaled the restoration of market confidence as the government eased the COVID-19 lockdown measures.

Figure 3.27: Daily Interbank Call Rate (Jan – Jun 2020)



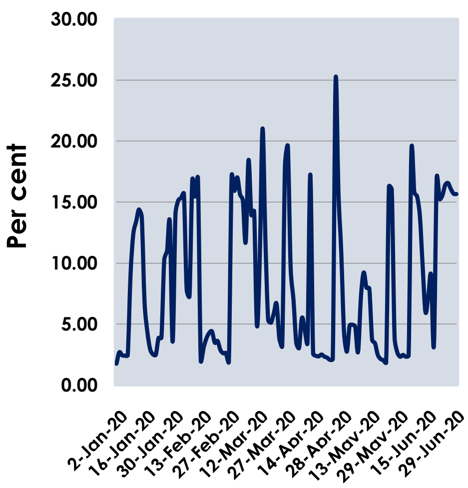
Source: Statistics Department, CBN.

2) The Open Buy Back (OBB) Rate

The OBB segment of the market witnessed a higher number of trading days and transactions, compared with the interbank call segment as Deposit Money Banks (DMB) showed a preference for collaterized transactions. The monthly weighted average OBB rate rose from 6.98 per cent in January 2020 to 8.12 percent in February 2020. This increase was associated with the declining system liquidity following the Bank's decision at the January 2020 MPC meeting, to increase the CRR from 22.5 per cent to 27.5 per cent. In addition to this, DMBs also pulled back on trading in March 2020 as uncertainty built up around the COVID-19 pandemic. The OBB rate dropped from 5.52 per cent in April to 5.45 per cent in May but surged to 11.31 per cent in June 2020.

Although the monthly averages showed that the fluctuations of the OBB rate were within a range of 5.52 per cent and 11.31 per cent, analysis of the daily rates indicated that the OBB rate fluctuated between 1.77 and 25.14 per cent during the first half of 2020. The spike of 25.14 per cent observed in April was associated with the withdrawal of liquidity from the banking system through OMO auctions. The average OBB rate for the period January – June stood at 8.19 per cent, which was slightly lower than the 8.61 per cent recorded in the second half of 2019.

Figure 3.28: Daily Open Buy Back Rate (OBB) - January - June 2020



Source: Statistics Department, CBN.

3) The Nigeria Interbank Offered Rate (NIBOR)

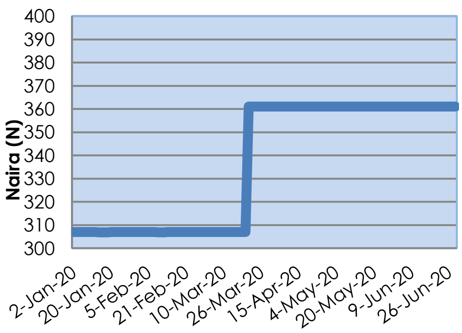
The Nigerian money market reference rate (NIBOR), experienced some fluctuations in the period under review. The rate rose from 9.32 and 9.09 per cent in January and February, respectively, to peak at 10.93 per cent in March 2020. This period marked the advent of the COVID-19 pandemic in Nigeria. It was also indicative of a drop in system liquidity, thereby, mirroring the developments in the interbank call and OBB rates. As indicated in Table 3.14, the 30-day weighted average of NIBOR continued to drop between April and June 2020. The NIBOR stood at 9.95 per cent in April, 6.13 per cent in May and 5.82 per cent in June 2020.

3.4.2 Foreign Exchange Market

In the first half of 2020, the Bank maintained its interventions in the foreign exchange (FOREX) market in order to maintain an adequate level of liquidity and stabilize the exchange rate. Despite these interventions in the market, exchange rate volatility in the review period was very evident, as foreign investors sought safe haven assets in the light of the oil price and the COVID-19 pandemic shocks to the economy.

Consequently, the Bank adjusted the naira exchange rate to ₦360.00 in March 2020, from ₦306.00. It also set out plans to prioritize the accessibility of foreign exchange for the importation of essential items. In addition, the Bank maintained its previous policies on foreign exchange management such as: the restriction on foreign exchange sales to 41+ items; the adoption of Bank Verification Number (BVN) in BDC transactions; the systematic monitoring of DMBs to prevent speculative activities; and direct interventions in the foreign exchange market as well as injections through the International Money Transfer Operators (IMTOs) and BDCs to ensure adequate system-wide liquidity.

Figure 3.29: Daily Naira/US Dollar Exchange Rate, January – June 2020



Source: Statistics Department, CBN.

3.4.2.1 Average Exchange Rates

The interbank exchange rate depreciated by an average of 9.88 per cent from ₦306.94/US$ in the second half of 2019 to ₦337.26/US$ in the first half of 2020 (see table 3.15). The average BDC exchange rate also depreciated during the same period, by 11.64 per cent from ₦359.28/US$ in the second half of 2019 to ₦401.11/US$ in the first half of 2020.

Table 3.15: Average Monthly Spot Exchange Rate (₦/US$), July 2019–June 2020

Month / Year	Interbank Rate	BDC Rate
Jul – 2019	306.94	359.44
Aug – 2019	306.95	359.00
Sep – 2019	306.92	359.00
Oct – 2019	306.96	359.00
Nov – 2019	306.94	359.00
Dec – 2019	306.95	360.25
Average	**306.94**	**359.28**
Jan – 2020	306.96	361.00
Feb – 2020	306.96	359.00
Mar – 2020	326.63	376.89
Apr – 2020	361.00	419.11
May – 2020	361.00	443.89
Jun – 2020	361.00	446.79
Average	**337.26**	**401.11**

Source: Statistics Department, CBN.

3.4.2.2 End-Period (Month) Exchange Rates

At the Interbank segment, the exchange rate remained relatively constant at the end of the period compared with the beginning of the period while at the BDC segment, significant depreciation was observed. Table 3.16 indicates that the interbank segment slightly strengthened against the dollar at the end of February, closing at ₦306.95 while a rate of ₦361.00/US$ was recorded in March and remained so till the end of the period under review. At the Bureau de Change (BDC) segment, the rate depreciated to ₦409.00/US$ in March from ₦359.00/US$ at end-February and continued to depreciate moderately to end-June 2020, to close at N455.00 US$

With the end-period exchange rate remaining higher than the average exchange rate for the period, against the background of weakening external environment, there is the likelihood of continued depreciation of the exchange beyond the review period.

Table 3.16: End-Month Exchange Rate (₦/US$), July 2019 – June 2020

Month / Year	Interbank Rate	BDC Rate
Jul – 2019	306.75	360.25
Aug – 2019	306.85	359.50
Sep – 2019	306.95	359.00
Oct – 2019	306.95	359.00
Nov – 2019	306.95	360.00
Dec – 2019	306.95	360.00
Average	**306.89**	**359.63**
Jan – 2020	307.00	359.00
Feb – 2020	306.95	359.00
Mar – 2020	361.00	409.00
Apr – 2020	361.00	440.00
May – 2020	361.00	442.50
Jun – 2020	361.00	455.00
Average	**342.99**	**410.75**

Source: Statistics Department, CBN

3.4.2.3 Nominal and Real Effective Exchange Rates

The Nominal Effective Exchange Rate (NEER) appreciated by 1.09 per cent, to an average of 176.80 in the first half of 2020 from an average of 178.73 in the corresponding half of 2019. It, however, depreciated by 0.67 per cent compared with the average of 175.61 per cent recorded in the second half of 2019. The Real Effective Exchange Rate (REER) appreciated by 10.99 per cent from an average of 83.66 in the first half of 2019 to an average of 75.37 per cent in the first half of 2020. Compared with the average of 78.64 per cent recorded in the second half of 2019, the REER appreciated by 4.34 per cent in the period under review (Table 3.17). The appreciation of the NEER indicates strengthening of the domestic currency relative to currencies of the trading partners. The appreciation of the REER implied a loss of trade competitiveness with Nigeria's trading partners as exports became less profitable, while imports tend to be cheaper (Table 3.17 and figure 3.30).

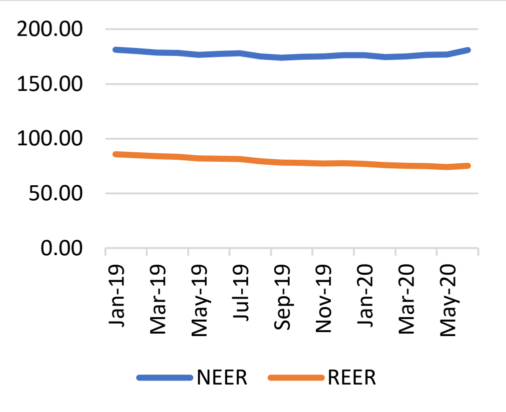
Table 3.17: Nominal and Real Effective Exchange Rates Indices (Jan 2019 – June 2020)

Period	NEER	REER
Jan-19	181.24	85.87
Feb-19	180.02	85.02
Mar-19	178.77	84.06
Apr-19	178.31	83.49
May-19	176.55	81.94
Jun-19	177.51	81.62
2019: H1 Average	**178.73**	**83.66**
Jul-19	178.22	81.36
Aug-19	175.29	79.43
Sep-19	174.02	78.14
Oct-19	174.76	77.95
Nov-19	175.04	77.43
Dec-19	176.32	77.53
2019: H2 Average	**175.61**	**78.64**
Jan-20	176.39	76.98
Feb-20	174.69	75.80

Mar-20	175.12	75.16
Apr-20	176.50	74.88
May-20	176.99	74.17
Jun-20	181.08	75.20
2020: H1 Average	**176.80**	**75.37**

Source: Statistics Department, CBN.

Figure 3.30: Nominal and Real Effective Exchange Rates Indices (Jan 2019 – June 2020)



Source: Statistics Department, CBN.

3.4.2.4 Foreign Exchange Flows through the CBN

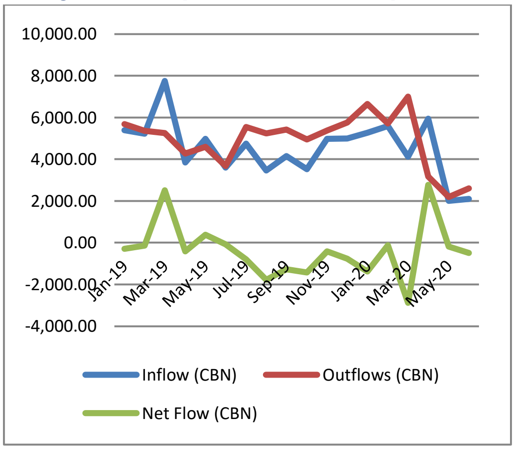
Foreign exchange inflow through the CBN decreased sharply by 18.75 per cent to US$25,039.55 million in the first half of 2020 from the US$30,819.73 million recorded in the first half of 2019. The outcome was a decline of 3.15 per cent when compared with the US$25,853.79 million recorded in the second half of 2019. Similarly, foreign exchange outflows through the CBN declined by 5.28 per cent to US$27,324.79 million in the first half of 2020 from US$28,846.76 million in the first half of 2019. Compared with the US $32,300.86 million recorded during the second half of the preceding year, outflows in the current period declined by 15.41 per cent. Overall, there was a lower net outflow of US$2,285.24 million in the review period compared with US$6,447.07 million in the preceding half year and a net inflow of US$1,972.97 million in the corresponding period of 2019. The contraction in both inflows and outflows of forex during the review period was attributed to the twin shocks of the COVID-19 pandemic and decline in oil prices to the global economy, both of which crystalized in the first half of 2020.

Table 3.18: Monthly Foreign Exchange Flows through the CBN (Jan 2019 – June 2020) in US$ Million

PERIOD	Inflow (CBN)	Outflows (CBN)	Net Flow (CBN)
Jan-19	5,397.41	5,690.85	-293.44
Feb-19	5,228.38	5,362.41	-134.03
Mar-19	7,758.24	5,248.48	2,509.76
Apr-19	3,852.66	4,271.03	-418.37
May-19	4,986.98	4,597.62	389.36
Jun-19	3,596.06	3,676.36	-80.30
2019 H1 Total	**30,819.73**	**28,846.76**	**1,972.97**
Jul-19	4,747.84	5,540.36	-792.51
Aug-19	3,459.58	5,237.95	-1,778.37
Sep-19	4,152.02	5,425.34	-1,273.32
Oct-19	3,520.49	4,952.03	-1,431.54
Nov-19	4,978.75	5,385.84	-407.09
Dec-19	4,995.11	5,759.35	-764.24
2019 H2 Total	**25,853.79**	**32,300.86**	**-6,447.07**
Jan-20	5,271.65	6,652.58	-1,380.93
Feb-20	5,594.29	5,722.81	-128.52
Mar-20	4,121.73	6,997.01	-2,875.28
Apr-20	5,940.18	3,164.66	2,775.52
May-20	2,006.29	2,187.25	-180.96
Jun-20	2,105.41	2,600.48	-495.06
2020 H1 Total	**25,039.55**	**27,324.79**	**-2,285.24**

Source: Statistics Department, CBN.

Figure 3.31: Monthly Foreign Exchange Flows through the CBN (Jan 2019 – Jun 2020)



Source: Statistics Department, CBN.

3.4.2.5 Foreign Exchange Flow through the Economy

Gross foreign exchange inflow to the economy dropped by 4.57 per cent to US$64,349.50 million in the first half of 2020 from US$67,433.55 million in the corresponding half of 2019. It also decreased, by 11.57 per cent when compared with the inflow of US$72,766.77 million in the second half of 2019. Gross foreign exchange outflows also fell, by 5.38 per cent to US$29,105.13 million in the period under review, from US$30,759.51 million in the corresponding period of 2019. It also declined by 15.87 per cent when compared with the inflow of US$34,596.63 million in the second half 2019. Overall, the outcome resulted in a lower net inflow of US$35,244.38 million, compared with US$36,674.04 million and US$38,170.14 million in the corresponding period of 2019 and preceding second half of 2019, respectively.

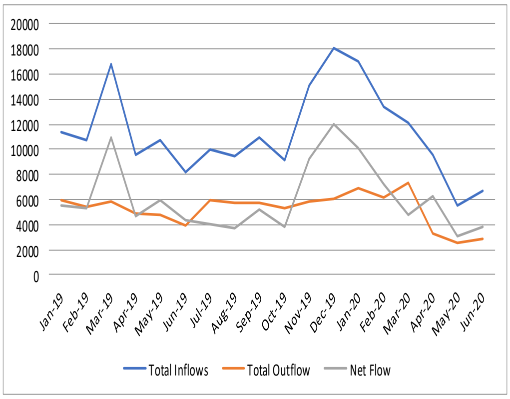
The decrease in gross foreign exchange flows in the economy was also directly attributable to the twin shocks of the COVID-19 pandemic and the decline in oil prices that hit the economy in the review period.

Table 3.19: Monthly Foreign Exchange Flows through the Economy (Jan 2019 – June 2020)

PERIOD	Inflow (CBN)	Inflow (Autonomous)	Total Inflows	Outflows (CBN)	Outflows (Autonomous)	Total Outflow	Net Flow	Net Flow (CBN)	Net Flow (Autonomous)
Jan-19	5,397.41	6,000.11	11,397.52	5,690.85	209.55	5,900.40	5,497.12	-293.44	5,790.56
Feb-19	5,228.38	5,489.17	10,717.55	5,362.41	65.56	5,427.97	5,289.58	-134.03	5,423.61
Mar-19	7,758.24	9,061.45	16,819.69	5,248.48	615.57	5,864.05	10,955.64	2,509.76	8,445.88
Apr-19	3,852.66	5,675.93	9,528.60	4,271.03	597.85	4,868.88	4,659.71	-418.37	5,078.08
May-19	4,986.98	5,757.28	10,744.26	4,597.62	184.52	4,782.15	5,962.12	389.36	5,572.76
Jun-19	3,596.06	4,629.87	8,225.93	3,676.36	239.70	3,916.06	4,309.87	-80.30	4,390.17
2019 H1 Total	**30,819.73**	**36,613.82**	**67,433.55**	**28,846.76**	**1,912.75**	**30,759.51**	**36,674.04**	**1,972.97**	**34,701.07**
Jul-19	4,747.84	5,238.69	9,986.54	5,540.36	365.21	5,905.57	4,080.97	-792.51	4,873.48
Aug-19	3,459.58	5,991.19	9,450.76	5,237.95	452.92	5,690.87	3,759.90	-1,778.37	5,538.27
Sep-19	4,152.02	6,828.70	10,980.72	5,425.34	306.97	5,732.30	5,248.42	-1,273.32	6,521.73
Oct-19	3,520.49	5,654.47	9,174.96	4,952.03	402.30	5,354.33	3,820.63	-1,431.54	5,252.17
Nov-19	4,978.75	10,110.42	15,089.17	5,385.84	485.99	5,871.83	9,217.34	-407.09	9,624.43
Dec-19	4,995.11	13,089.51	18,084.62	5,759.35	282.38	6,041.73	12,042.89	-764.24	12,807.13
2019 H2 Total	**25,853.79**	**46,912.98**	**72,766.77**	**32,300.86**	**2,295.77**	**34,596.63**	**38,170.14**	**-6,447.07**	**44,617.21**
Jan-20	5,271.65	11,763.49	17,035.14	6,652.58	268.22	6,920.80	10,114.34	-1,380.93	11,495.27
Feb-20	5,594.29	7,801.30	13,395.59	5,722.81	473.25	6,196.06	7,199.53	-128.52	7,328.05
Mar-20	4,121.73	7,974.32	12,096.05	6,997.01	336.71	7,333.72	4,762.33	-2,875.28	7,637.61
Apr-20	5,940.18	3,610.63	9,550.81	3,164.66	125.34	3,290.00	6,260.81	2,775.52	3,485.29
May-20	2,006.29	3,557.77	5,564.05	2,187.25	316.09	2,503.34	3,060.72	-180.96	3,241.68
Jun-20	2,105.41	4,602.44	6,707.86	2,600.48	260.73	2,861.21	3,846.65	-495.06	4,341.72
2020 H1 Total	**25,039.55**	**39,309.96**	**64,349.50**	**27,324.79**	**1,780.34**	**29,105.13**	**35,244.38**	**-2,285.24**	**37,529.62**

Source: Statistics Department, CBN.

Figure 3.32: Monthly Foreign Exchange Flows through the Economy (Jan 2019 – Jun 2020) (US$ Million)



Source: Statistics Department, CBN.

3.4.3 Capital Market

The performance of the Nigerian capital market in the first half of 2020 witnessed a bearish trend arising from the huge capital outflow due to the broad waning of investor confidence and heightened negative sentiments. This was precipitated by the increased uncertainty associated with the initial oil price shock that was subsequently aggravated by the COVID-19 pandemic and economic lockdown. In the wake of these shocks, pressure on the exchange rate increased as accretion to external reserves waned. There were significant sell-off activities in the Nigerian Capital Market as investors sought safe haven assets. These resulted in a significant decline in stock market capitalization while the bonds market witnessed a narrowing of real yields as inflation inched up.

3.4.3.1 Equities Market

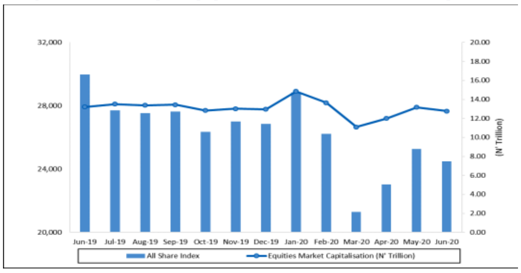
The All-Share Index (ASI) decreased by 8.80 per cent from 26,842.07 at end-December 2019 to 24,479.22 at end-June 2020. Compared with 29,966.87 at end-June 2019, it also decreased, by 18.31 per cent year-on-year. Market Capitalization (MC) also decreased, by 1.47 per cent to ₦12.77 trillion at end-June 2020 from ₦12.96 trillion at end-December 2019. It also decreased, by 3.33 percent year-on-year when compared with the ₦13.21 trillion at end-June 2019.

Table 3.20: NSE All-Share Index (ASI) and Market Capitalization (MC) (June 2019 – June 2020)

Date	ASI	MC(Equities) N'Trillion)
Jun-19	29,966.87	13.21
Jul-19	27,718.26	13.51
Aug-19	27,525.81	13.39
Sep-19	27,630.56	13.45
Oct-19	26,355.35	12.83
Nov-19	27,002.15	13.03
Dec-19	26,842.07	12.96
Jan-20	28,843.53	14.86
Feb-20	26,216.46	13.66
Mar-20	21,300.47	11.10
Apr-20	23,021.01	12.00
May-20	25,267.82	13.17
Jun-20	24,479.22	12.77

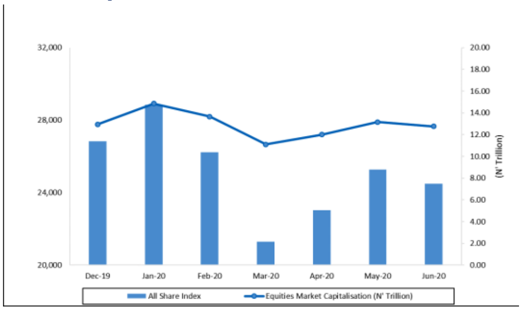
Source: Nigerian Stock Exchange (NSE)

Figure 3.33: NSE All Share Index (ASI) and Market Capitalization (MC) (June 2019 - June 2020)



Source: Nigerian Stock Exchange (NSE)

Figure 3.34: NSE ASI and MC (December 2019 – June 2020)



Source: Nigerian Stock Exchange (NSE)

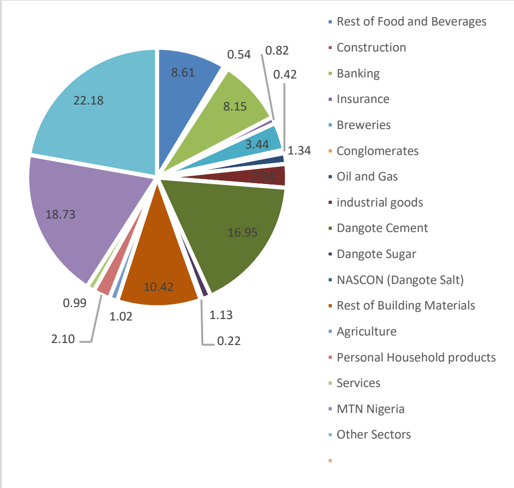
3.4.3.1.2 Market Turnover

Aggregate stock market turnover in the first half of 2020 decreased by 9.32 per cent to 41.91 billion shares valued at ₦495.65 billion in 567,184 deals compared with 46.22 billion shares, valued at ₦538.57 billion in 463,313 deals in the second half of 2019. Compared with 34.56 billion shares, valued at ₦400.50 billion in 400,384 deals in the corresponding period of 2019, however, it increased by 21.27 per cent. The bearish trend in the equities segment generally reflected the unsavoury domestic and foregin macroeconomic environments induced by the oil price crisis and the Covid-19 health pandemic.

3.4.3.1.3 Sectoral Contribution to Equity Market Capitalization

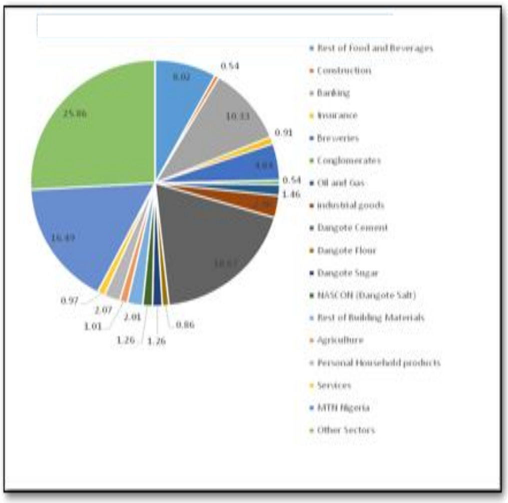
The category classified as 'Other Sectors' maintained a dominant position in terms of contribution to overall stock market capitalization in the review period. Its contribution to Market capitalization, however, decreased to 22.18 in the review period from 25.86 per cent at end-December 2019. 'Other Sectors' comprises of subsectors with few participants trading on the Nigerian Stock Exchange (NSE). The dominance is attributed to the recent listing of some telecommunication companies on the exchange. Other sectors that also contributed to the overall market capitalization were the Food & Beverages and Banking, with market shares of 8.61 and 8.15 per cent, respectively (Figure 3.35).

Figure 3.35: NSE Market Capitalization by Sector as at End-June 2020



Source: Nigerian Stock Exchange (NSE)

Figure 3.36: NSE Market Capitalization by Sector as at End-Dec 2019

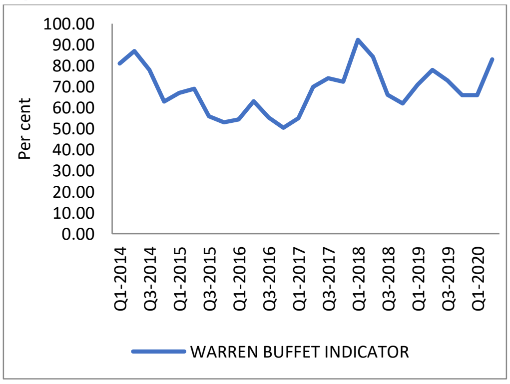


Source: Nigerian Stock Exchange (NSE)

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

The Warren Buffett valuation metric measures the ratio of the market value of securities to GDP as an indicator of market valuation. The range 75.0 and 115.0 per cent is considered to be normal valuation for the index, while ratios below and above the interval are considered as undervaluation and overvaluation of the equities market, respectively. The valuation metric for Q1 2020 was 66.0 per cent, which is below the lower threshold of 75.0 per cent, implying an undervaluation of the Nigerian equities market in the first quarter of 2020. During Q2 2020, the valuation metric moved up to 83.0 per cent, which is within the normal range suggesting a normal pricing of the market in the second quarter of 2020. The undervaluation in Q1 2020 may not be unrelated to the dampened investors sentiments in the wake of the outbreak of Covid-19 pandemic during the period; while the improvement in Q2 2020 reflected a return of optimism as the curve of the pandemic began to flatten in response to the containment measures as well as to the monetary and fiscal stimulus implemented to bring the economy back on course.

Figure 3.37: Warren Buffett Valuation of Nigerian Equities Market



Source: Nigerian Stock Exchange (NSE) and National Bureau of Statistics (NBS).

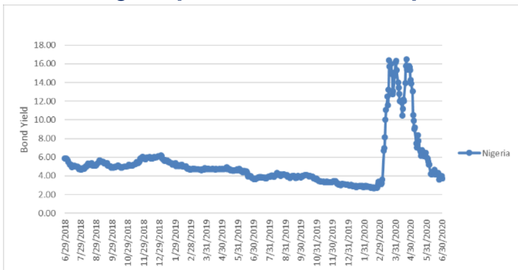
3.4.3.2 Bond Market

In the first half of 2020, the bonds market was dominated by transactions in Federal Government of Nigeria (FGN) securities. Some activities were also recorded in the Sub-national government and corporate bond segments, with the later recording the least share by market volume.

3.4.3.2.1 FGN Bonds

The 10-year dollar-denominated bond yield for Nigeria rose marginally by 7.0 basis points to 3.74 per cent at end-June 2020 from 3.04 per cent at end-December 2019. Compared with the 3.79 per cent at end-June 2019, the yield declined by 0.05 basis point (Figure 3.38). This rise in yield reflected the perception of increased risk by investors in the country's sovereign securities.

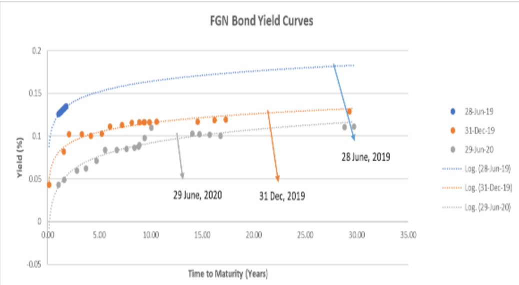
Figure 3.38: 10-Year U.S. Dollar-denominated Bond Yield for Nigeria (June 2018 – June 2020)



Source: Bloomberg

The yield on FGN bonds declined by 443 basis points to 8.61 per cent in June 2020 from 13.04 per cent in the corresponding period of 2019. Compared with the yield at end-December 2019, it declined by 215 basis points or 10.76 per cent. This decline was driven by increased demand for the securities by institutional investors due to the liquidity surfeit in the banking system.

Figure 3.39: FGN Bonds Yield Curves: end-Jun 2019 vs. end-Dec. 2019 vs. end-June 2020



Source: Financial Market Dealers Quotation (FMDQ)

3.4.3.2.2 State/Local Government Bonds

The sub-national bonds market generally witnessed marginal improvement in activity during the review period. The total value of outstanding state/local governments bonds increased by approximately 4.20 per cent to ₦369.70 billion at end-June 2020 from ₦354.90 billion at end-December 2019.

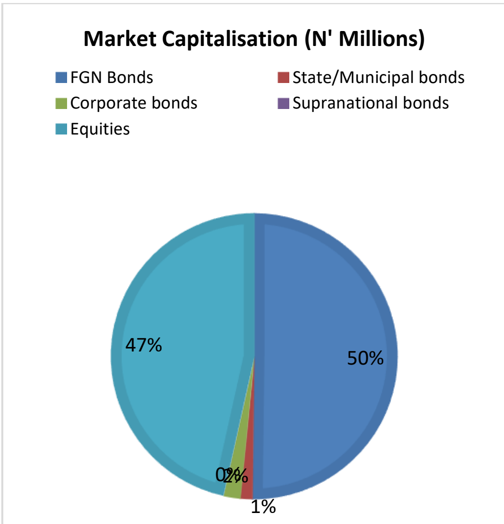
3.4.3.2.3 Corporate Bonds

Activities in the corporate bonds segment improved in the review period with the value of outstanding corporate bonds at end-June 2020 increasing by 47.50 per cent to ₦526.52 billion at end-June 2020 from ₦355.82 billion in the second half of 2019. The development supported the view that investors in the capital market during the review period tended to show preference for fixed income securities relative to equities.

3.4.3.3 Overall Analysis of the Nigerian Capital Market

The value of FGN bonds increased by 13.03 per cent to ₦13.79 trillion at end-June 2020 from ₦12.20 trillion at end-December 2019. It also increased, by 48.92 per cent, compared with the ₦9.26 trillion recorded at end-June 2019. At end-June 2020, FGN bonds accounted for 50.20 per cent of aggregate market capitalization, while state/municipal bonds, corporate bonds and supranational bonds accounted for 1.35, 1.92, and 0.01 per cent, with values of N369.70 billion, N526.52 billion, and N3.24 billion, respectively. The equities market represented 46.51 per cent of aggregate market capitalization at end-June 2020, while FGN bonds, state/municipal bonds, corporate bonds, and supranational bonds accounted for the balance of 53.49 per cent (Figure 3.40).

Figure 3.40: Structure of the Nigerian Capital Market (June-2020)



Source: Nigerian Stock Exchange (NSE).

CHAPTER FOUR

ECONOMIC OUTLOOK AND RISKS

4.1 Outlook for Global Output

As developments around the COVID-19 pandemic continue to manifest, the broad projection for global growth in 2020 is a contraction of 4.9 per cent with an anticipated recovery to 5.4 per cent in 2021. This recovery is largely hinged on the projection that the pandemic and its downside risks would have been mostly contained before the end of 2021. With threats of a second-round of the pandemic building up, economic agents however, remain reluctant to invest in the recovery as they await more clarity on the full impact of the pandemic.

In the advanced economies, growth is projected to recover to 4.8 per cent in 2021 from a contraction of 8.0 per cent in 2020. The lockdown and social distancing regulations as well as voluntary social distancing and increased use of internet sources has largely crippled the anticipated recovery in the second half of 2020, thus raising doubts about full recovery in 2021. Tentatively, output growth in the United States is expected to rebound to 4.5 per cent in 2021 from a contraction of 8.0 per cent in 2020. In the euro area, growth is estimated to recover to 6.0 per cent in 2021 from a projected contraction of 10.2 per cent in 2020. Similarly, the United Kingdom economy is also expected to recover to 6.3 per cent in 2021 following a projected contraction of 10.2 per cent in 2020, while Japan's economy is forecast to recover to 2.4 per cent in 2021 from an expected contraction of 5.8 per cent in 2020.

In the emerging market and developing economies, growth is expected to recover to 5.9 per cent in 2021 following a projected contraction of 3.0 per cent in 2020 on the back of China's early containment of the pandemic and return to production in the first half of 2020. The Chinese economy is, thus, forecast to grow to 8.2 per cent in 2021 from 1.0 per cent in 2020. India's economy, following an extended lockdown period is expected to recover to 6.0 per cent in 2021 from a projected contraction of 4.5 per cent in 2020.

In Sub-Sahara Africa, growth is projected to improve to 3.4 per cent in 2021 from an expected contraction of 3.2 per cent in 2020 on the assumption that the pandemic would be sufficiently contained in the second half of 2020. It is also expected that growth in major trading partners will rebound substantially enough to support growth in the region. In Nigeria, growth is estimated to recover to 2.6 per cent in 2021 following a projected contraction of 5.4 per cent in 2020. South Africa is also expected to recover to 3.5 per cent in 2021 following a contraction of 8.0 per cent in 2020.

Table 4.1 Global Output and Inflation Outlook

	2017	2018	2019	2020*	2021*
A. World Output					
World Output	3.7	3.6	2.9	-4.9	5.4
Advanced Economies	**2.3**	**2.2**	**1.7**	**-8.0**	**4.8**
USA	2.2	2.9	2.3	-8.0	4.5
Euro Area	2.4	1.9	1.3	-10.2	6.0
Japan	1.7	0.3	0.7	-5.8	2.4
UK	1.7	1.3	1.4	-10.2	6.3
Canada	3.0	2.0	1.7	-8.4	4.9
Other Advanced Economies	2.6	2.7	1.7	-4.8	4.2
Emerging & Developing Economies	**4.7**	**4.5**	**3.7**	**-3.0**	**5.9**
Commonwealth of Independent States	2.1	1.1	0.1	-6.6	4.1
Latin America and the Caribbean	1.3	1.1	0.1	-9.4	3.7
Middle East and North Africa	2.2	2.4	0.3	-6.8	3.1
Sub-Saharan Africa	2.7	3.2	3.1	-3.2	3.4
B. Commodity Prices (US' Dollars)					
Oil	23.3	29.4	-10.2	-41.1	3.8
Non-fuel	6.8	1.3	0.8	0.2	0.8
C. Consumer Prices					
Advanced Economies	1.4	2.0	1.4	0.3	1.1
Emerging & Developing Economies	4.3	4.8	5.1	4.4	4.5

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

4.2 Outlook for Global Inflation

According to the IMF's World Economic Outlook for July 2020, projections for inflation have been revised downwards for 2020, particularly for the advanced economies. The downward revision reflected the continued weakening of aggregate demand, as the risk of voluntary social distancing rises in a post lockdown world. Inflation was, however, expected to rise gradually in 2021 as normal economic activities resume.

In the advanced economies, inflation is expected to decline to 0.3 per cent in 2020 from 1.4 per cent in 2019 before rising to 1.1 per cent in 2021. Inflation in the US was projected to decline to 0.5 per cent in 2020 from 1.8 per cent in 2019 before rising to 1.5 per cent in 2021. Similarly, in the euro area, consumer price development was expected to decline to 0.2 per cent in 2020 from 1.2 per cent in 2019 before rising to 0.9 per cent in 2021. In Japan, inflation was estimated to follow the same trend, declining to -0.1 per cent in 2020 from 0.5 per cent in 2019 before rising to 0.3 per cent in 2021.

In the emerging market and developing economies, inflation is expected to slow to 4.4 per cent in 2020 down from 5.0 per cent in 2019 before increasing marginally to 4.5 per cent in 2021. Conversely, in China, inflation is projected to increase marginally to 3.0 per cent in 2020 from 2.9 per cent in 2019 before declining to 2.6 per cent in 2021 (WEO, April 2020). In Russia, inflation was projected to decrease to 3.1 per cent in 2020 from 4.5 per cent in 2019 and to further decline marginally to 3.0 per cent in 2021. Growth in consumer prices in India are expected to decrease to 3.3 per cent in 2020 from 4.5 per cent in 2019 with a marginal increase to 3.6 per cent in 2021.

Inflation projections for Sub-Sahara Africa, particularly in the oil exporting economies, indicate an increase mostly due to the weak oil prices and the resulting exchange rate depreciations. Consequently, inflation is projected to increase to 9.3 per cent in 2020 from 8.4 per cent in 2019 before slowing to 7.6 per cent in 2021. In Nigeria, the inflation rate is estimated to increase to 13.4 per cent in 2020 from 11.4 per cent in 2019, before slowing to 12.4 per cent in 2021. Similarly, Ghana's headline inflation is estimated to increase to 9.7 per cent in 2020 from 7.2 per cent in 2019 before declining to 8.5 per cent in 2021. Inflation in Angola is estimated to rise to 20.7 per cent in 2020 from 17.1 per cent in 2019 and further to 22.3 per cent in 2021.

4.3 Outlook for Domestic Output Growth

The Nigerian economy is projected to contract in 2020 on account of disruptions of economic activities during the COVID-19 pandemic and the oil price shock that preceded the pandemic. At the beginning of the year, the IMF had projected a 2.5 per cent growth rate for the Nigerian economy in 2020, which it revised to a contraction of 3.4 per cent in April following the outbreak of the COVID-19 pandemic. However, following the economy's response to the lockdown measures, the Fund further downgraded its growth outlook to a contraction of 5.4 per cent. The Central Bank of Nigeria and the National Bureau of Statistics are, however, projecting a less pessimistic growth outlook premised on several factors including the sustained development finance interventions of the Bank, and other reforms and palliatives by the fiscal authorities to support the economy.

4.4 Outlook for Domestic Inflation

Staff projections indicate that headline inflation would continue its upward trajectory through to the end of 2020. Year-on-year headline inflation is expected to rise to 13.04, 13.18 and 13.39 per cent in July, August and September 2020, respectively from 12.47 per cent in June 2020. Consequently, inflation is thus expected to reach 13.79 per cent by end-December 2020, well above the upper limit of the indicative benchmark of 6-9 per cent.

Table 4.2: Inflation Forecast

YEAR-ON-YEAR INFLATION RATE

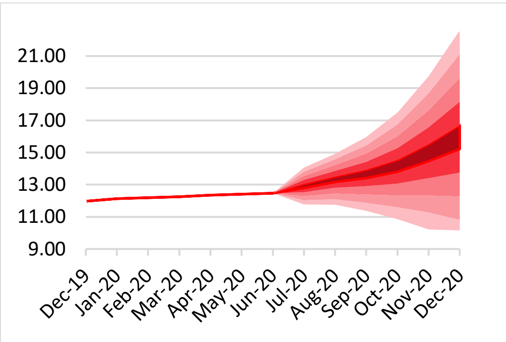
Status	Month	Headline inflation	Food inflation	Core inflation
Actual	Jan-20	12.13	14.85	9.35
	Feb-20	12.20	14.90	9.43
	Mar-20	12.26	14.98	9.73
	Apr-20	12.34	15.03	9.98
	May-20	12.40	15.04	10.12
	Jun-20	12.47	15.03	10.20
Forecast	Jul-20	13.04	15.04	10.53
	Aug-20	13.18	15.01	10.80
	Sep-20	13.39	14.97	10.81
	Oct-20	13.35	14.85	10.86
	Nov-20	13.51	14.81	10.93
	Dec-20	13.79	14.78	11.15

12-MMA INFLATION RATE

Status	Month	Headline inflation	Food inflation	Core inflation
Actual	Jan-20	0.87	0.99	0.82
	Feb-20	0.79	0.87	0.73
	Mar-20	0.84	0.94	0.80
	Apr-20	1.02	1.18	0.93
	May-20	1.17	1.42	0.88
	Jun-20	1.13	1.36	0.92
Forecast	Jul-20	1.52	1.26	1.07
	Aug-20	1.12	1.20	0.92
	Sep-20	1.23	1.27	0.89
	Oct-20	1.03	1.23	0.79
	Nov-20	1.17	1.22	0.85
	Dec-20	1.10	0.95	1.01

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

Figure 4.1: Inflation Forecast Fan Chart



Source: CBN Staff Estimates

4.5 The Outlook for Monetary Policy in 2020

Monetary Policy in 2020 will continue to focus on short term developments and the medium-term outlook for the economy. In the prevailing circumstance, monetary policy will, therefore, maintain a balance between its core objective of price stability while supporting the recovery of output growth.

The Bank will continue to monitor developments in the global economy which may influence the near-to medium term direction of monetary policy. The risk to global output growth includes the continued containment of the COVID-19 pandemic characterized by disruptions to the global supply chain, volatility in exchange rates, rising corporate and public debts, rising unemployment, tightening financial conditions, capital flow reversals, negative shocks to commodity prices, and overall higher uncertainty of global economic policies. Given these risks, the IMF reviewed the forecast for 2020 output growth downwards to a contraction of 4.9 per cent, 1.9

percentage points below the April forecast of -3.0 per cent.

Other challenges to monetary policy include rising fiscal stimulus by government to cushion the impact of the lockdown, increasing capital outflow, exchange rate pressures, financial markets volatility and constrained credit growth. Furthermore, headline, food, and core inflation are likely to trend upwards in the near term, due to rising cost of food, driven by disruptions to the supply chain and other legacy structural factors such as the high cost of energy, transport, and production inputs. These issues will continue to demand close attention and monitoring.

Monetary policy implementation is, however, expected to be supported by the effective implementation of the Economic Sustainability Plan; improved agricultural production; provision of social safety nets to ensure sustainability; and improved accretion to reserves following the moderate recovery of oil prices. Besides, expected stability in the exchange rate, supported by increased foreign portfolio inflow would support monetary policy implementation. Thus, the thrust of monetary policy for the rest of 2020 is to sustain an accommodative monetary policy stance to avert a recession, while supporting a non-inflationary output recovery of the Nigerian economy. An enhanced policy coordination between the fiscal and monetary authorities is expected to be a key part of the strategy for a non-inflationary and sustainable economic growth and development.

4.6 Risks to the Outlook

Across all regions of the global economy, the major downside risk of the outlook for the rest of 2020 and 2021 remains the uncertainties surrounding the containment of the pandemic and the ease of return to normal economic activities stemming from periods of extended lockdown, mandatory social distancing, voluntary social distancing, and the impending risk of a second-round pandemic. These factors collectively make it difficult to forecast the speed and extent of the recovery likely to take place as the global economy remains in contraction.

The pace of recovery has, however, been varied across different regions with some regions still appearing to be deeply affected by the pandemic while others are coping better with the crisis. China for example, has recovered substantially and continues to wax stronger in containing the pandemic. In contrast, the United States is still battling to contain the crisis alongside several other advanced economies. A key risk to the containment of the crisis is, however, the risk of a second wave of the pandemic in some countries where some relative containment have been achieved. As lockdowns are eased and some normalcy to economic activities returns, the risk of a second-round pandemic may escalate.

In the advanced economies, a major impending risk expected to follow the containment of the crisis is the risk of a financial crisis and sharp rise in inflationary pressure, as the extent of both monetary and fiscal stimulus deployed to contain the crisis was unprecedented. In the emerging market and developing economies, the large size of the informal sector implies that the containment of the crisis will be more difficult as stimulus measures will permeate unevenly through the economy. Thus, in the post-crisis period, the pace of the recovery is not likely to be robust but gradual and enduring. In addition to this, the rising pace of public debt in these groups of economies also portends signals of imminent fiscal crises.

In the domestic economy, the downside risks to growth include the continued lockdown measures to contain the pandemic, thus stifling economic activities as well as the continued weak oil prices.

Upside risks to inflation in the near-term remains the combination of monetary and structural impediments, including: exchange rate pressure; continued impact of the COVID-19 pandemic on the economy; poor transport infrastructure; food shortage due mainly to the insecurity in the agricultural producing areas of the country; and increasing fiscal deficit. Others include: the higher cost of imported food exacerbated by the policy on border protection; increased liquidity due to increased fiscal stimulus by government; injections from the Federation Account Allocation Committee (FAAC); and VAT increase. As the Bank continues to manage liquidity conditions in the domestic economy, inflationary developments will need to be monitored to ensure that the upside risk to inflation is subdued. Thus, there is need to strengthen fiscal and monetary policy coordination to enable the Bank to focus more on its main objective of maintaining price stability.

Appendices

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 128 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON THURSDAY 23rd AND FRIDAY 24th JANUARY, 2020

1.0 Background

The Monetary Policy Committee (MPC) held its 271st meeting, the first in fiscal 2020, on the 23rd and 24th of January, 2020. The Meeting held in an environment of sluggish global economic recovery and financial market vulnerabilities, and tepid domestic growth. The Committee appraised these developments and the outlook for the first quarter of 2020, as well as the rest of the year. All the Eleven (11) members of the Committee were in attendance.

Global Economic Developments

The headwinds that characterized the global economy in 2019 showed signs of moderation, giving way to improved prospects for economic recovery in 2020. Consequently, global output is projected to grow by 3.3 per cent in 2020 from 2.9 per cent in 2019. The downside risks to the global outlook, include: broad slowdown in the advanced economies; resurgence of financial stress in the Emerging Markets and Developing Economies (EMDEs); rising geo-political tensions in the Middle-East; and extreme weather conditions in some regions. Output growth across major advanced economies, remains fragile, due to weak recovery in manufacturing activities and sluggish rise in global trade. Consequently, growth in the Advanced Economies is projected to slow to 1.6 per cent in 2020, from 1.7 per cent in 2019. With most EMDEs facing brighter prospects, output growth is expected to recover to 4.4 per cent in 2020 from 3.7 per cent in 2019. The major impetus for this recovery is expected to come from India, Brazil and Russia.

In most advanced economies, inflation remained below their long-run targets, reflecting weak aggregate demand in the Euro Area and Japan, as well as moderating wage growth in the US, despite the robust job performance. Central Banks in the advanced economies are thus, expected to continue with monetary accommodation into the medium term. In the EMDEs, however, inflation prospects remain mixed, with some economies facing stronger upside risks than others.

Domestic Economic Developments

Real Gross Domestic Product (GDP) continued to improve, although slowly. It grew to 2.28 per cent in the third quarter of 2019, compared with 2.12 and 1.81 per cent in the preceding and corresponding quarters of 2018, respectively. The improvement in growth was driven, largely, by the performance of the oil sector, which grew by 6.49 per cent, while the non-oil sector grew by 1.85 per cent. Staff projections estimate real GDP in Q4 2019 and Q1 2020 at 2.20 and 2.35 per cent, respectively. The Manufacturing and

Non-Manufacturing Purchasing Managers' Indices (PMI) grew further in December 2019, for the 33rd and 32nd consecutive months, to 60.8 and 62.1 index points, respectively. The optimism in growth prospects in Q1 2020, and the rest of the year, is anchored on the enhanced flow of credit to the private sector, to improve manufacturing activities, and financial and exchange rate stability. In addition, the Bank's continued intervention in Agriculture, and Small & Medium Scale Enterprises (SMEs) is expected to boost growth. Identified headwinds to growth, however, include; uncertainty in the oil market, high unemployment, rising public debt and security challenges across the country.

The Committee noted the continued uptick in headline inflation (year-on-year) in December 2019 to 11.98 per cent, from 11.85 per cent in the previous month. The increase in inflation, which was anticipated, was largely attributable to increase in both the food and core components, by 14.67 and 9.33 per cent in December 2019 from 14.48 and 8.99 per cent in November, respectively.

The increase in the food component reflects largely seasonality effect and the impact of the continued insurgency in some food producing areas of the country. Although, Staff forecasts suggest a short-term upward trend in prices, the Committee believes that the Bank's continued intervention in the real sector is expected to increase domestic production and lower prices in the medium-term.

The Committee observed that broad money supply (M3) grew by 6.22 per cent (year-to-date) in December 2019. Aggregate Credit (Net) similarly grew to 27.33 per cent in December 2019, from 23.12 per cent in the previous month. This was largely attributed to an increase in Credit to Government, which grew to 92.95 per cent in December 2019, from 72.36 per cent in the previous month. Credit to the Private Sector also grew to 13.61 per cent in December 2019, from 12.82 per cent in the previous month. Consequently, sectoral distribution of credit between end-May 2019 and end-December 2019 was as follows: manufacturing (N446.44 billion); General Retail and Consumer Loans (N419.02 billion); General Commerce (N248.48 billion); Agriculture, Forestry and Fishing (N160.94 billion); Information and Communications (N156.47 billion); Finance and Insurance (N129.87 billion); Construction (N86.54 billion); and Transportation and Storage (N68.61 billion), amongst others. The Committee observed with delight that, over the last six months, aggregate credit grew by N2.0 trillion and urged the Management of the Bank to sustain the current momentum of improved flow of credit to the Private Sector, while exploring other options with the fiscal authorities to strengthen the legal framework for the enforcement of credit recovery.

Lower money market interest rates, in the review period, reflected the liquidity overhang in the banking system, resulting from the restriction of individuals and non-bank corporates in the domestic economy from participating in OMO bill auctions. Consequently, the monthly weighted average Inter-bank call and Open Buy Back (OBB) rates fell sharply to 3.82 and 3.24 per cent, in December 2019, from 11.42 and 10.73 per cent, respectively, in the previous month.

The Committee noted the improved performance in the equities market, as the All-Share Index (ASI) and Market Capitalization grew by 11.61 and 18.27 per cent, respectively, between end-October 2019 and 10th January, 2020. This was indicative of the shift by domestic investors from the money market to the equities market in response to the Bank's policy to restrict their investments in the OMO bills auction.

The MPC also noted the improved performance and sustained resilience of the banking system, evidenced by the continued moderation of the Non-Performing Loans (NPLs) ratio from 6.6 per cent in October to 6.1 per cent in December 2019. The Committee noted that the improvement reflected the Bank's continued deployment of heterodox policies to ensure that NPLs fell below the prudential benchmark of 5.0 per cent.

Outlook

Although global output is projected to expand moderately in 2020, compared with the previous year, the overall medium-term outlook for the global economy remains uncertain, due to the persistence of several headwinds. These include: the lingering trade tensions between the US and its major trading partners; rising levels of both corporate and public debts; continued geopolitical tensions in the Middle-East; fragile recovery of manufacturing activities; and the narrowing policy space by which central banks in the advanced economies can respond to future macroeconomic shocks. In addition, predicted weather-related disasters could pose further threats to global output recovery.

On the domestic side, available data on key macroeconomic indicators show prospects of improved output growth for the economy in 2020. Revised projections for 2020, show that the economy is expected to grow by 2.50 per cent (IMF), 2.10 per cent (World Bank) and 2.35 per cent (CBN). The underlying projection is anchored on the following conditions: enhanced flow of credit to the real sector of the economy; sustained stability in the exchange rate; continued CBN interventions in agriculture and non-agricultural Small and Medium Enterprises (SMEs); and the effective implementation of the Economic Recovery and Growth Plan (ERGP). The downside risks to this projection are primarily the rising stock of public debt and lack of fiscal buffers. Others include the persistent security threat in major food-producing areas, poor and inadequate infrastructure and weak public and private sector investment.

The Committee's Considerations

The Committee noted the persistent increase in the inflation rate, which stood at 11.98 per cent in December 2019. It also noted that the inflation was driven by both monetary and structural factors. Having addressed the monetary factors, the headroom for further monetary policy measures has become constrained, being supported by empirical evidence which suggests that inflation above 12.00 per cent is inimical to output growth in the Nigerian economy. The MPC thus called on the fiscal authorities to speedily address legacy structural impediments giving rise to upward-trending price developments. Amongst these, the Committee identified infrastructure deficit and the long-standing clashes between herdsmen and farmers, which are constraining domestic production and contributing substantially to the rise in food inflation. The MPC, therefore, urged the Federal Government to relentlessly seek innovative ways of addressing security challenges across the country in order to boost aggregate food supply. The Committee further noted the contribution of imported food and other tradeables to the rise in price levels but emphasized the opportunity to ramp up production of domestic substitutes supported by the Bank's development finance initiatives, particularly in agriculture and manufacturing sectors.

The Committee noted the improvement in the financial soundness indicators, growth in assets of the banking system and the gradual switch in the composition of DMB assets from investments in government securities to growth in credit portfolio. It, however, noted that lending rates at the retail segment of the market had remained fairly sticky downwards as deposit rates had declined substantially. It also noted that in some cases, DMBs were not encouraging term deposits in their portfolios and therefore, emphasized the Bank's commitment towards the implementation of the Loan-to-Deposit ratio (LDR) policy.

On fiscal operations, the Committee applauded the Government for the recent signing of the 2020 Finance Bill which opens a new vista of opportunities in public financial management. The MPC, however, cautioned that public debt was rising faster than both domestic and external revenue, noting the need to tread cautiously in interpreting the debt to GDP ratio. The Committee also noted the rising burden of debt services and urged the Fiscal Authorities to strongly consider building buffers by not sharing all the proceeds from the Federation Account at the monthly FAAC meetings to avert a macroeconomic downturn, in the event of an oil price shock.

It urged Government to gradually reduce reliance on oil receipts and focus on revenue diversification through reforms of the tax system. The Committee also called on Government to rationalize fiscal expenditure towards reducing the current excessively high cost of governance.

The MPC expressed concern about the rising inflation, which increased consecutively in the last 4 months as at December 2019 to 11.98 per cent and higher than its target range of 6-9%. This rising price level is attributable to a combination of structural and supply side factors, expansionary fiscal policy; and growth in money supply arising from rising liquidity surfeit in the industry due to changes in the Bank's OMO policy. In furtherance of its primary mandate to maintain price and monetary stability and in view of the anticipated medium-term liquidity surfeit from maturing OMO bills held by local private and institutional investors, which would not be rolled over, the Committee considered it prudent to raise the CRR to curtail liquidity surfeit in the banking system.

The Committee is confident that increasing the CRR at this time is fortuitous as it will help address monetary-induced inflation whilst retaining the benefits from the Bank's LDR policy, which has been successful in significantly increasing credit to the private sector as well as pushing market interest rates downwards. The Committee further encouraged the Management of the Bank to be more vigorous in its drive to improve access to credit through its pursuit of the Loan-to-deposit ratio policy as doing this would help, not only in creating job opportunities but also help in boosting output growth and in moderating prices. It is noteworthy that Gross credit in the industry grew by N2 Trillion between May 2019 and December 2019; channeled primarily to the employment-stimulating sectors such as agriculture and manufacturing, in addition to increased lending to the retail and SME segments, which is expected to help boost domestic output growth in the short to medium term. To retain the gains from credit expansion and current industry focus on lending, the Committee advised the Bank to sustain its LDR Policy and in addition continue to deploy its DCRR policy which directs new funding for greenfield projects and expansion to critical sectors of the economy.

The Committee's Decision

On the arguments to tighten, the Committee noted that given that inflation rate inched up in December 2019 and that the rate is still above the upper band of the 6-9 per cent threshold, tightening may be necessary to tame the rising trend in inflation. In addition, the relatively bearish outlook of the equities market indices points to waning investor confidence in equity in preference for coupon rate on bonds. Raising the policy rate, could be a policy choice to reverse the tendency and attract more foreign portfolio investments. Also, the risks to the level of reserves persist as prices of oil futures remain uncertain. Policy tightening would enhance the accretion to foreign reserves and attain relative stability in the foreign exchange market. Moreover, raising rates would reinforce the stability of the foreign exchange market as an upswing in the rate will inhibit demand pressures in the market through a decline in money supply.

Although tightening would limit the ability of DMBs to create money, ultimately leading to a reduction in money supply and curtail their credit creation capabilities, which would eventually lead to rising cost of credit and credit risk as DMBs re-price their risk assets, the MPC believes that the aggressive pursuit of the current loan-to-deposit ratio policy thrust would continue to help to catalyze credit growth and positively impact growth and prices.

On the decision to loosen, members noted that the relative stability in the foreign exchange market provides confidence to foreign investors. There is, therefore, no immediate concern that loosening would exert pressures on the foreign exchange market in the near term. In addition, an accommodative monetary policy stance would motivate banks to lend to maintain their profit performance and would result in decline of the overall cost of production. This would further affirm the Bank's support for stimulating output growth.

The Committee also feels that the downside to loosening is that it could amplify inflationary pressures as the economy experiences increased liquidity surfeit, particularly if loosening drives growth in consumer credit, without corresponding adjustment in output, thus escalating inflationary pressures. An interest rate reduction would increase money supply and exert pressure on the exchange rate. Moreover, an accommodating monetary policy stance may not necessarily lower the retail lending rate, as interest rates are generally sticky downwards.

On the argument for a Hold, the MPC acknowledged that a mix of heterodox monetary and financial policy measures have recently been deployed by the Bank. Noting the existence of a lag between the policy pronouncement and its impact on the economy, a hold in the rate would ensure its efficient impact on the economy. The Committee noted the slow pace and low rate of economic growth as real GDP growth of 2.10, 2.12 and 2.38 per cent in Q1, Q2 and Q3 2019, respectively, being below the population growth rate, still needs sustained policy support. Maintaining monetary policy rate at its present level is essential for sustainable support to growth before any possible adjustments. This will enable policy to react suitably to developments as they occur in the near term. In addition, retaining the current policy position provides avenues to evaluating the impact of the heterodox monetary and financial policies to support lending by the banking industry without altering the policy rate.

On the downsides to holding, the Committee noted that it would reduce the speed of economic recovery relative to loosening, exert a drag on output growth, as DMBs continue to utilize bonds sales instead of engaging in financial intermediation to the private sector.

In view of the foregoing, the Committee by a decision of 9 members, voted to alter the Cash Reserve Requirement (CRR) by 500 basis points from 22.5 to 27.5 per cent, while leaving all other policy parameters constant. Two members voted to leave all parameters constant.

In summary, the MPC voted to:

1. Change the CRR from 22.5 to 27.5 per cent;
2. Retain the MPR at 13.5 per cent;
3. Retain the asymmetric corridor of +200/-500 basis points around the MPR;
4. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
24th January, 2020

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 129 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 23RD AND TUESDAY 24TH MARCH 2020

1.0 Background

The Monetary Policy Committee (MPC) met on the 23rd and 24th March 2020, amidst heightened uncertainty in the global macroeconomic environment arising from major disruptions associated with the outbreak of the Coronavirus Disease (COVID-19) and the oil price war between Saudi Arabia and Russia. The Committee assessed the developments in the global and domestic environments in the first quarter of 2020 and the outlook for the rest of the year, including the threats to capital flows, growing vulnerabilities across global financial markets, the probability of a global recession, risks to price and financial stability as well as the quick intervention by central banks to restore normalcy, with guidance for further action. Ten (10) members of the Committee were in attendance at this meeting.

Global Economic Developments

The Committee noted with concern, the combined demand and supply shocks to the global economy arising from the outbreak of COVID-19 and the oil price war between Saudi Arabia and Russia. It also noted the weakening performance of global output growth since January 2020, reflected in losses in global stock values; declining primary commodity prices, disruptions to the global supply chain associated with large scale global lockdown of mega metropoles and whole countries; and social distancing. Also, there has been adverse shocks to global capital flows; vulnerabilities and uncertainties in major financial markets; as well as rising corporate debt in the advanced economies and public debt in some Emerging Market and Developing Economies (EMDEs). Consequently, global output growth in 2020 is projected to fall significantly below the initially projected level of 3.3 per cent.

Inflation in the advanced countries continues to trend below long run targets, except in the United States, especially in the light of prevailing headwinds and heightened global uncertainties. Central banks in the Advanced Economies have thus engaged in a coordinated approach with peers to embrace quantitative easing across every sector, notably in transportation, travel and tourism, health and setting up of social safety net funds, to stem the impact of these headwinds on aggregate demand and supply chains. In the EMDEs, price developments remained mixed with upward inflationary pressure in some of the key economies.

Domestic Economic Developments

Data from the National Bureau of Statistics (NBS) showed that growth in real Gross Domestic Product (GDP) continued to improve in Q4 of 2019. Consequently, real GDP grew by 2.55 per cent in the fourth quarter of 2019, compared with 2.28 and 2.38 per cent in the preceding and corresponding quarters of 2019 and 2018, respectively. Growth in Q4 2019, was driven largely by the strong performance of the oil sector, which grew by 6.36 per cent, though lower than 6.49 per cent recorded in the previous quarter, while the non-oil sector grew by 2.27 per cent. The Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI) expanded, though at a lower rate in February 2020, for the 35th and 34th consecutive months to 58.3 and 58.6 index points, respectively. Staff projections indicate that real GDP in Q1 and Q2 2020 will slow because of the tepid global demand, resulting from the recent outbreak of COVID-19, depressed global aggregate demand and supply, and the oil price war which has resulted in supply glut and decline in crude oil prices. This muted outlook for the first half of the year may thus, dampen overall growth prospects for 2020. To mitigate this trend, the Bank took decisive action to safeguard the Nigerian financial system and the economy from the emerging headwinds. The key policies include: provision of extended moratorium on loans by an additional 1 year beginning from March 2020. This is to ease pressure on loan repayments. The Bank also reduced interest rates from 9 to 5 per cent on its existing intervention programmes over the next one year; created a N50 billion fund to support households and Small and Medium Enterprises (SMEs) affected by COVID-19; introduced credit support for the healthcare sector; introduced regulatory forbearance to consider temporary and time-limited restructuring of loan terms and tenors to households and businesses affected by COVID-19, and strengthened the loan-to-deposit ratio (LDR) policy. The Bank also announced an intervention fund of N1.1 trillion to cushion the adverse effects of the Coronavirus outbreak on the economy. The sum of N1.0 trillion from this amount will be used to support local manufacturing to boost import substitution, while the balance of N100 billion will be used to support the health services sector and products through the provision of loans to the pharmaceutical companies, hospitals and other health practitioners to build new hospitals and health facilities or expand existing ones to first class health centres. This is in addition to the N1.5 trillion private sector driven Infraco Project fund, designed to target the construction of critical infrastructure across the country. In addition, pharmaceutical companies would be assisted through loan interventions to re-establish drug manufacturing firms in Nigeria and curtail the spread of the corona virus. In summary, it is expected that through these interventions, about N3.5 trillion would be injected as stimulus to support the Nigerian economy during this trying time.

The Committee noted the continued uptick in headline inflation (year-on-year) for the sixth consecutive month to 12.20 per cent in February 2020 from 12.13 per cent in the previous month. The increase in inflation, was largely attributed to increases in the food and core components, which rose to 14.90 and 9.43 per cent in February 2020, from

14.85 and 9.35 per cent in January 2020, respectively. This was driven by shocks to food prices associated with renewed insurgency in major food producing areas of the Country and persisting infrastructural deficits.

The MPC observed that broad money supply (M3) contracted for the second consecutive month by 2.29 per cent (year-to-date) in February 2020, reflecting the decline in Net Foreign Assets and Net Domestic Assets. Specifically, the contraction in M3 was driven primarily by a decline in securities other than shares and currency outside depository corporations in the review period. Net Aggregate Credit, however, grew by 1.34 per cent in February 2020.

The Committee noted with satisfaction the growth in aggregate credit by N2.35 trillion since the inception of the LDR policy, reflecting the potency of the policy and thus urged the Management of the Bank to sustain the current momentum of improved flow of credit to the private sector in Nigeria. It emphasized the need for coordination with the fiscal authorities, to strengthen access to credit to some critical sectors of the economy, including the weak and vulnerable population, particularly those in the informal sector through the setting up of a special fund, as well as support the enforcement of credit recovery. Accordingly, sectoral distribution of credit between end-May 2019 and end-February 2020 was as follows: Manufacturing (N533.06 billion); General Retail and Consumer Loans (N380.71 billion); General Commerce (N229.87 billion); Agriculture, Forestry and Fishing (N163.04 billion); Information and Communications (N163.69 billion); Finance and Insurance (N131.20 billion); Construction (N112.25 billion); and Transportation and Storage (N45.42 billion), amongst others.

The Committee noted the dismal performance in the equities market as the All-Share Index (ASI) decreased by 17.30 per cent and Market Capitalization (MC) by 10.73 per cent between end-December 2019 and March 20, 2020. The decline was largely attributed to profit taking and divestment by foreign portfolio investors, the delisting of shares of three quoted companies and capital outflow associated with the COVID-19 and subdued global economic activity.

The MPC noted the continued resilience of the banking system, evidenced by the further moderation in the ratio of Non-Performing Loans (NPLs) from 6.59 per cent in January to 6.54 per cent in February 2020. Although the ratio remained above the prudential benchmark of 5.0 per cent, the Committee expressed confidence in the Bank's regulatory regime and commitment to maintaining stability in the banking system.

Outlook

The overall medium-term outlook for the global economy remains uncertain with increased deterioration in financial market conditions and weak global output growth. The major headwinds to the current projection for global growth includes: disruption to the global supply chain arising from the COVID-19 pandemic; oil price downturn as a result of subdued global demand, vulnerabilities in major financial markets; rising corporate debt in the advanced economies and public debt in some Emerging Market and Developing Economies; as well as broad uncertainties leading to adverse shocks to foreign investment flows.

On the domestic front, available data on key macroeconomic variables indicate the likelihood of subdued output growth for the Nigerian economy in 2020. Based on the current downturn in oil prices, staff projections indicate that output in the 2020 would be less than earlier envisaged. The major downside risks to this outlook, however, include: the continued spread of COVID-19; further decline in crude oil prices and the reduction in accretion to external reserves; reduced government revenue leading to weak aggregate demand; declining non-oil receipts; as well as infrastructural and security challenges. These headwinds will, however, be partly mitigated by: the timely and effective response of the monetary and fiscal authorities in containing the spread of the COVID-19 viral infection, the recalibration and adjustment of the 2020 Federal Budget to the revised thresholds while pegging expenditure to critical sectors of the economy, adoption of a new fiscal regime to encourage the build-up of fiscal buffers; sustained CBN interventions in selected sectors; enhanced flow of credit to the real sector and deliberate policies to diversify the Nigerian economy.

The Committee's Considerations

The Committee reviewed the prevailing adverse conditions in the global economy such as the COVID-19 pandemic and the oil price shock as well as the likelihood of continued oil supply glut into the near future, focusing on the impact of these headwinds on the Nigerian economy.

The Committee observed that not only will the COVID-19 pandemic result in health crises, it will also result in massive economic crises that will force many countries into recession, including the leading industrialised countries. The MPC took into cognisance the impact of the decline in oil prices on accretion to external reserves and the emergence of exchange rate pressures. The Committee thus commended and endorsed the Management of the Bank for its prompt response with the adjustment of the exchange rate to uniform market rates and the removal of distortions. It, however, took note of the likely impact of the exchange rate adjustment on the economy.

The Committee noted the weakened revenue position of the Federal Government, arising from the sharp drop in oil prices. It reiterated the need for government to urgently reduce reliance on oil revenue by gradually diversifying the economy and improving tax collection. To this end, the MPC noted the speedy response of the Federal Government to the oil price shock by the revision of the 2020 budget downwards by N1.5 trillion and the oil price benchmark to US$30 per barrel. The MPC urged the NASS to fully cooperate with the Federal Government in coming up with a budget that reflects our new realities. In addition, the Committee noted the introduction of price modulation measures, resulting in reduction in the pump price of PMS from N145 to N125 per litre and its contributory effect in boosting aggregate demand, lowering inflation and improving the welfare of the ordinary Nigerians.

The MPC further noted the persistence of inflationary pressures attributed to a combination of monetary and structural factors, and thus urged the Federal Government to leverage on Public Private Partnership (PPP) to intensify investment in infrastructure to increase output and employment. The Committee cited the potentials for Foreign Direct Investment (FDI) flows to the Nigerian auto manufacturing, aviation and rail industries, which could take advantage of these viable and untapped domestic and regional markets.

The Committee noted the sustained improvement in the financial soundness indicators, applauding the continued decline in the ratio of non-performing loans, growth in assets of the banking system and profitability of the industry in the light of increasing global uncertainties. It also recognised the success of the Bank's loan-to-deposit ratio policy and its potential to alleviate production shortfalls, reduce unemployment and boost aggregate demand, urging the Bank to pursue this and other related policies to a conclusive end.

The MPC underscored the COVID-19 pandemic as a public health crisis which will continue to undermine any monetary or fiscal stimulus unless appropriate measures are taken to trace, test, isolate and treat infected persons in order to curtail the spread, while ensuring the that migration across the country is significantly reduced. The MPC, therefore, called on the Federal Government to take the necessary steps to safeguard the population through close monitoring and emergency readiness measures to identify and care for infected persons in the country, including compulsory restriction of movement to curtail spread of the pandemic.

On the choices before the Committee, the MPC noted the recent actions of the Bank, targeted at strengthening the resilience of the financial system and alleviating the initial impact of the crisis. In its wisdom, the Committee felt that tightening would result in reining in the rising trend in inflation, and that it would support reserve accretion. However, it would reduce money supply and limit DMBs credit creation capacity, thus resulting in increasing the cost of credit, with adverse impact on output growth. Tightening would also result in a reduction in aggregate demand as a fall in disposable income results in output compression; whereas at this time, policy emphasis should be on stimulating aggregate supply and demand, both already weakened by COVID-19.

With respect to loosening, whereas the Committee felt it would stimulate the economy in the short term, and boost aggregate supply and demand, the Committee nevertheless, was of the view that there was a need to be cautious in loosening given the fact that it would exacerbate an already worsening inflationary condition, resulting in massive pressure on reserves and the exchange rate.

Based on the balance of these arguments, the MPC, in taking note of the recent actions already taken by the Management of the Bank in response to the COVID-19, resolved to allow time for the measures to permeate the economy while allowing the pandemic to wear out its plateau before deciding on further supporting policy measures to boost and strengthen aggregate demand and supply in the recovery phase of the economy. The choice to hold also considered the subsisting LDR and the DCRR policies, which sterilize excess liquidity in the banking system, hence an increase in the MPR would be counter-productive.

The monetary policy stance arrived at this meeting took cognisance of the need to address the unfolding unfavourable macroeconomic developments, rein in inflation, support growth and employment through the extant interventions and recent initiatives, check capital outflows and support external reserves accretion, and dampen pressure and ensure foreign exchange market stability.

A review of the policy options indicates relative tightness of the current monetary policy stance. The CRR was increased at the last MPC meeting. Time is required for its full effects to manifest. Increasing the MPR will be contradictory to the recent reduction of interest rate in the CBN intervention windows from 9 to 5 per cent. Besides, an increase in MPR will be taken by the Deposit Money Banks (DMBs) as in invitation to increase lending rates and this will be most undesirable at this point in time when efforts are being made to avert a recession. Besides, a reduction in the MPR, will not encourage the DMBs to reduce lending rates. But other strategies of the CBN are making the DMBs to reduce lending rates in furtherance of the growth objective.

The Committee's Decision

The Committee noted the continued rise in domestic prices; the glut in oil supplies and low oil prices in the wake of the current global shocks; exchange rate pressure and other domestic monetary and fiscal responses to the evolving crises. In view of the foregoing, the Committee decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 13.5 per cent and to hold all other policy parameters constant.

In summary, the MPC voted to:

I. Retain the MPR at 13.5 per cent;

II. Retain the asymmetric corridor of +200/-500 basis points around the MPR;

III. Retain the CRR at 27.5 per cent; and

IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
24th March 2020

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 130 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON THURSDAY 28th MAY 2020

1.0 Background

The Monetary Policy Committee (MPC) met on 28th May, 2020 in an environment of severe macroeconomic shock caused by the fatal spread of the Novel COVID-19 Pandemic, which first started as a health crisis in December 2019 in China and quickly morphed into a global economic crisis in the ensuing months. The pandemic induced economic shock is mainly characterised by disruptions to the global supply chain, on account of the mitigating measures put in place by various governments to contain the spread of the disease. The effects on the global economy have been unprecedented and indeed severe. These include significant stock market crashes; exchange rate volatilities; rising corporate and public debt; rising levels of unemployment; tightening financial conditions; capital flow reversals; and negative shocks to commodity prices, to mention a few.

Under this period of economic crisis, the Committee assessed the developments in the global and domestic economic environments in the first five (5) months of 2020, and the outlook for the rest of the year. Ten (10) members of the Committee were in attendance.

Global Economic Developments

The Committee reviewed developments in the global economy, noting the swift and widespread monetary and fiscal stimulus responses to mitigate the economic crisis and avoid economic recession. They observed that since the duration of the pandemic is unknown, forecasts for global growth projection for 2020 differs amongst institutions and central banks. While the IMF output growth forecast for 2020 was downgraded by 3.0 per cent in 2020, compared with an initial growth projection of 3.3 per cent, the forecast by the Organisation for Economic Co-operation and Development (OECD) showed a moderation in global output growth from 2.9 per cent in 2019 to 2.4 per cent in 2020 and 3.3 per cent in 2021. Most central banks in Emerging and Developing Economies (EMDEs) have mixed forecasts, reflecting the intensity of the demand and supply shocks, as well as the effectiveness of the mitigating measures and stimulus by their monetary and fiscal authorities.

The MPC noted that inflation in most Advanced Economies remained largely below their 2.0 per cent long-run targets. This was partly due to supressed aggregate demand, occasioned by the lockdown, with resulting low expectations of future income, forcing spending to be directed to only essential goods and services.

The Committee, however, noted that, although, recent monetary decisions in most advanced economies had been accommodative, portfolio flow reversals from Emerging and Developing Economies had continued, indicating general rebalancing of portfolios toward cash and gold as safe assets by investors. This development has resulted in renewed pressure on exchange rates of some Emerging and Developing Economies with a likely pass-through to their domestic prices. In addition, a likely medium-term impact of these synchronized liquidity injections and other forms of monetary accommodation is the compounding of the already huge global corporate and public debt portfolios which may result in a spike in global debt post-COVID-19.

Domestic Economic Developments

Available output data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 1.87 per cent in the first quarter of 2020 compared with 2.55 and 2.10 per cent in the preceding and corresponding quarters of 2019, respectively. This was driven largely by 5.06 per cent growth in the oil sector and 1.55 per cent in the non-oil sector. The economy, however, expanded by 2.27 per cent in 2019, the most since 2015, compared to 1.91 per cent in 2018.

The Manufacturing and non-Manufacturing Purchasing Manager's Indices (PMIs) declined significantly to 42.4 and 25.3 index points, respectively, in May 2020, compared with 51.1 and 49.2 index points in March 2020. The contraction in the manufacturing and non-manufacturing PMIs was attributed to slower growth in production, new orders, employment level, raw materials and input prices. The employment level index for the manufacturing and non-manufacturing PMIs also contracted further to 25.5 and 32.0 index points, respectively, in May 2020 compared with 47.1 and 47.3 index points in March 2020. Generally, the purchasing managers' activities in May 2020, were largely affected by the lockdown of the global economy to curtail the spread of the COVID-19 pandemic.

In the light of the above developments, the Monetary Policy Committee commended the Bank's effort on the recent measures put in place to mitigate the economic impact of the twin shocks on the Nigerian economy. The Committee expressed support for the sustenance of the broad-based stimulus and liquidity facilities to curb the adverse effects of the shocks.

The Committee also noted with concern the persisting uptick in inflation for the eighth consecutive month as headline inflation (year-on-year) rose to 12.34 per cent in April 2020 from 12.26 per cent in March 2020. The uptick largely reflected the increase in both the food and core components, which rose to 15.03 and 9.98 per cent in April 2020 from 14.98 and 9.73 per cent in March 2020, respectively. The MPC noted that the recent increase in inflationary pressure was largely due to a combination of factors including; disruptions in supply chain owing to restrictions on inter-state travels; reduced domestic supply of foreign exchange; continued impact of deteriorating domestic infrastructure; and spillover effects of the Pandemic on global supplies, amongst others. Against this background, the Committee emphasized the need to sustain measures already put in place to maintain price stability. It noted that as the supply of goods and services increase, following the gradual easing of the lockdown and return of economic activities, there would be increase in aggregate supply.

On monetary aggregates, the Committee noted the marginal growth in broad money (M3) to 2.66 per cent in April 2020 from 2.42 per cent in March 2020, largely due to increases in Net Domestic and Foreign Assets. The growth in M3 was, however, significantly below the indicative benchmark of 13.09 per cent for 2020. Aggregate Net Credit also grew significantly by 8.07 per cent in April 2020 compared with 4.90 per cent in March 2020, although this remained below the indicative benchmark of 16.85 per cent for the year. The Committee, therefore, observed that there was relative scope for increased money supply to fund economic activities and boost output recovery.

In the review period, money market rates remained relatively stable reflecting the prevailing high liquidity condition in the banking system. Accordingly, weighted average Inter-bank call and Open Buy Back (OBB) rates decreased to 7.33 and 5.52 per cent in April from 10.29 and 11.78 per cent in March 2020, respectively.

The Committee observed that though the equities market was largely bearish in the first quarter of 2020, moderate improvement continued to be recorded since the beginning of the second quarter. Consequently, the All-Share Index (ASI) and Market Capitalization (MC) increased by 18.33 per cent a piece, between end-March 2020 and May 22, 2020. This bullish trend reflected improved investor sentiments in response to the mitigating measures introduced at the onset of the pandemic by the monetary and fiscal authorities and positive outlook in the global oil market. The MPC expressed confidence that the current monetary and fiscal policy measures would further strengthen investor confidence.

The Non-Performing Loans (NPLs) ratio decreased to 6.58 per cent at end-April 2020 compared with 10.95 per cent in the corresponding period of 2019 due largely to recoveries, write offs and disposals. The development was adjudged by the Committee as a sign of reasonable stability in the banking system and urged the Bank to maintain its toolkit of prudential and regulatory measures to ensure that NPLs stay below the prudential benchmark of 5.0 per cent.

Outlook

The overall medium-term outlook for the global economy remains broadly uncertain as the COVID-19 pandemic and associated containment measures continue to disrupt normal economic activities across the globe. The global economy remains largely confronted with several headwinds, some of which include: weak aggregate demand due to declining consumer and investor confidence; disruption in global supply chains; shocks to oil and other commodity prices; continued lull in global financial markets; adverse shocks to global capital flows; as well as rising corporate debt in the advanced economies and public debt in some Emerging Market and Developing Economies.

Available data on key macroeconomic variables in the domestic economy indicate that the economy achieved a positive output growth during the first quarter of 2020. The Committee noted that even if the lag effects of COVID-19 result in a low negative output growth in the second quarter of 2020, it could quickly be reversed to avoid a recession by Q3 2020 based on the far-reaching measures taken by the monetary and fiscal authorities to mitigate the combined effects of the COVID-19 pandemic and oil price shock. Projections by both the IMF and Federal Government indicate that the economy would contract in 2020 by -3.40 per cent. Given more recent developments, however, CBN Staff projections indicate a somewhat less pessimistic range of contraction. This forecast is underlined by the measures to curtail the rapid spread of COVID-19; improvement in crude oil prices which stood at about US$34.8 per barrel as at 28th May 2020. The moderate recovery in crude oil prices would reduce the pressure on the external reserves and government revenue. Headwinds to growth, however, remains the legacy issues of the persistent infrastructural and security challenges.

The Committee's Considerations

Central to the Committee's considerations were the impact of the COVID-19 pandemic, the oil price shock and the likely short to medium-term consequences on the Nigerian economy. In particular, the Committee acknowledged the gradual improvement in macroeconomic variables particularly the improvement in the equities market, the containment measures of the COVID-19 induced health crisis, as well as, the impact of the increase in crude oil price on the external reserves.

The Committee noted the stability in the banking system shown by the increase in total asset by 18.8 per cent and total deposits by 25.52 per cent (year-on-year). The performance of the Loan-to-Deposit Ratio (LDR) policy which was introduced in July 2019 showed that total credits increased by N3.1 trillion or 20.45 per cent, with manufacturing, retail & consumer loans, general commerce and agriculture as major beneficiaries.

The Committee recognised that under the N100 billion Healthcare Sector Intervention Fund, the Bank has approved and disbursed N10.15 billion for some projects for the establishment of advanced diagnostic and health centres and the expansion of some pharmaceutical plants for essential drugs and intravenous fluids. As part of the N1trillion intervention targeted at Agriculture and Manufacturing firms, the Bank has disbursed N93.2bn under the Real Sector Support Fund to boost local manufacturing and production across critical sectors. This consists of over 44 greenfield and brownfield projects. The Bank has also approved N10.9 billion to 14,331 beneficiaries under the N50 billion Targeted Credit Facility for households and SME's, out of which N4.1billion has been disbursed to 5,868 successful beneficiaries. The Committee directed Management to reach out to the banks to encourage them to offer and disburse these funds to those priority sectors of the economy so as to stimulate aggregate demand and create more jobs.

The MPC appraised the Federal Government's resolve to maintain the core of its spending plans for 2020 as this remained vital for the attainment of the much-needed economic recovery. It also applauded the government's efforts at revising the oil price benchmark downwards to reflect prevailing conditions. It reiterated the urgent need for the Government to improve tax collections, through a gradual, but purposeful diversification of the economy's revenue base. The Committee also urged Government to remain focused on the implementation of the revised 2020 - 2022 Medium Term Expenditure Framework (MTEF) as the basis for sustainable fiscal policy.

The MPC emphasized the need for Government to work towards a gradual reopening of the economy in line with recommendations of the Presidential Task Force (PTF) and advice from medical experts, insisting that efforts must be directed at saving not only lives but also livelihoods. This is to enable the resumption of economic activities necessary to stimulate growth, accelerate the pace of recovery and restore livelihoods, particularly the vulnerable in our society.

On prices, the MPC expressed concern about the heightened inflationary pressure attributed to a combination of monetary and structural factors. While price stability remains the Bank's primary mandate, the Committee expressed the need for a balanced approach in supporting growth in the face of rising domestic prices.

With respect to output, the Committee urged the Federal Government to continue exploring options of partnership with the private sector to fund investment in infrastructure. This would aid employment generation, support production and boost output growth. The Committee also reiterated the need for foreign and domestic investments to support growth in key sectors of our economy, including Nigerian auto manufacturing, aviation and rail industries. The Committee expects that on the backdrop of the various stimulus packages and increased credit at lower interest rates, the impact of the COVID-19 pandemic would be relatively less severe than had earlier been expected and the reversal in growth deceleration would become more optimistic.

The Committee commended the Bank's role in effective oversight of the banking system, as evidenced by the relative stability in key financial soundness indicators and systemic resilience of the banking sector, in the face of severe external shocks.

On the choice before the Committee, the MPC observed the weakening of the global macroeconomic environment due to the adverse impacts of COVID-19 and drop in crude oil prices, which has resulted in negative output in most economies. The MPC also feels that the logical expectation is that to ensure that the global economy reverses from the recession timely, what policy makers must do is to take actions that will necessarily stimulate growth and recovery. For Nigeria, although the Q1 2020 GDP turned out pleasantly at 1.87 per cent and rate of inflation somewhat moderated, Nigeria may escape a recession if concerted efforts are sustained to stimulate output.

Accordingly, on balance on whether to hold, loosen, or tighten, the MPC was of the view that tightening of policy stance is for now inappropriate. This is because tightening will result in further contraction of aggregate demand, leading to decline in output. Tightening will also increase cost of credit and reduce investment and impact negatively on output growth.

As regards the option of holding previous policy stance, the MPC felt that a hold may indicate that the monetary authorities are insensitive to prevailing weak economic conditions. There is, therefore, the need to signal a direction towards immediate recovery. The Monetary Policy Committee also feels that a hold decision may slowdown the trajectory of the weakened economy, compared with a loosening stance, thereby slackening output growth,

On loosening, whereas the Monetary Policy Committee is concerned that excess liquidity engendered by loosening may overshoot the economy's absorptive capacity and accelerate inflationary pressure, it nevertheless feels that given the slow rate of acceleration of inflation, the accommodative stance will stimulate aggregate demand and supply in the short term. This is because an accommodative stance, through a lowering of the policy rate will stimulate credit expansion to critically important sectors that will also stimulate employment and revive economic activity for quick growth recovery.

The MPC noted that if all stimulus packages already announced by the Bank such as concessionary rates, loan restructuring, and targeted loans to agriculture, manufacturing and health sector are well utilized, this will produce the desired impetus needed to boost economic recovery in Nigeria.

The Committee's Decision

After reviewing the three options, the MPC noted that the imperative for monetary policy at the May 2020 meeting was to strike a balance between supporting the recovery of output growth while maintaining stable price development across inflation, the exchange rate and market interest rates. To this end, the Committee noted that the Cash Reserve Requirement (CRR) was recently adjusted upwards as a means of tightening the stance of policy. In its response to the COVID-19 pandemic, however, the Bank reduced interest rates associated with all CBN interventions from 9 to 5 per cent. Increasing MPR at this stage will thus be counter-intuitive and will result in upward pressure on retail market rates. The Committee maintained that although a sharp decline in output growth is expected in Q2 2020 and maybe the third quarter, if the current stimulus initiatives are properly implemented, the economy would reverse to positive growth by the fourth quarter. Hence the optimism on the part of the Committee that the economy may not slide into recession.

In view of the foregoing, the Committee decided by a unanimous vote to reduce the Monetary Policy Rate (MPR) and to hold all other policy parameters constant. Seven (7) members voted for a reduction of the policy rate by 100 basis points, two (2) members by 150 basis points and one (1) member by 200 basis points.

In summary, the MPC voted to:

I. Reduce the MPR to 12.5 per cent;
II. Retain the Asymmetric Corridor of +200/-500 basis points around the MPR;
III. Retain the CRR at 27.5 per cent; and
IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
28th May 2020