CENTRAL BANK OF NIGERIA ECONOMIC REPORT

Third Quarter 2023

ABOUT THE REPORT

The Central Bank of Nigeria (CBN) Economic Report presents economic developments in Nigeria, for dissemination to the public. The Report, which is published on a monthly and quarterly basis, provides insights on current developments in the real; fiscal; monetary & financial; and the external sectors of the Nigerian economy, as well as, on global issues that impact the domestic economy. In addition, it reflects the policy initiatives of the CBN in pursuit of its mandate.

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

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EXECUTIVE SUMMARY

The Global economic activities lost steam in Q32023, compared with the momentum in the preceding quarter. This was echoed in the JP Morgan Global Composite Purchasing Managers' Index (PMI), which slowed to 50.9 index points, compared with the 53.8 index points in the preceding quarter. Interest rate hikes and higher input costs constrained economic activities in Advanced Economies (AEs). For Emerging Market and Developing Economies (EMDEs), subdued demand, partly, accounted for lower output. Consumer prices in most AEs moderated due to a combination of tight policy stance and decreasing energy costs, while the trend was mixed in the EMDEs. The global bond market rebounded with higher yields, following central banks' rate hikes. Global crude oil spot prices increased, stemming from the extension of the voluntary cuts in crude oil production by Saudi Arabia and Russia. The average spot price of Nigeria's reference crude oil, Bonny Light (34.9° API), increased by 12.7 per cent to US$89.90 per barrel (pb), compared with the US$79.78 pb in the preceding quarter. Similar trends were also observed in the prices of Brent (US$87.13 pb), Forcados (US$90.08 pb), WTI (US$83.61 pb), and the OPEC Reference Basket (US$87.64 pb).

Economic activities in the domestic economy decelerated, majorly, driven by higher energy costs and other input costs as the impacts of on going reforms bitten. Consequently the PMI contracted to 45.5 index points from 50.4 index points in Q22023. Headline inflation rose to 26.72 per cent, from 22.79 per cent in Q22023, due to shocks from global and domestic sources. Core inflation (headline less farm-produce and energy) and food inflation trended in the same direction, rising to 21.84 and 30.64 per cent, from 20.27 and 29.34 per cent, respectively. Domestic crude oil production increased by 5.23 per cent, reaching 1.21 million barrels per day (mbpd), compared with the 1.15 mbpd in the preceding quarter. The upturn was attributed to the resumption of loadings from the Forcados export terminal, and the enhanced surveillance of oil infrastructure in the producing regions.

The fiscal operations of the Federal Government of Nigeria (FGN) resulted in a contraction of the overall deficit. Provisional data indicated that fiscal deficit of the FGN, at ₦2,347.16 billion, narrowed by 11.9 and 12.9 per cent in Q32023, relative to the level in Q22023 and the programme target, respectively. Gross Federation earnings increased, driven, primarily, by more revenue from non-oil sources, surpassing Q22023 levels by 50.1 per cent, but below the budget benchmark by 9.5 per cent. The enhanced position in non-oil earnings was attributed to higher receipts from Company Income

Tax (CIT), Customs & Excise Duties, Value-Added Tax (VAT), Production Sharing Contract (PSC), and the 2023 interim dividend declaration by the Nigerian National Petroleum Company Limited (NNPCL). The provisional expenditure of the FGN declined by 26.0 per cent due primarily to reduced debt service.

The Banking system remained safe, and sound, as shown by the various financial soundness indicators. Broad money supply (M3) expanded by 28.76 per cent (annualized at 38.35%), owing in part to the Bank's efforts at boosting lending to the private sector. Lending rates increased marginally, and liquidity moderated in the short end of the market, relative to the preceding quarter. The Nigerian Exchange (NGX) Limited experience was bullish, fuelled by positive sentiments stemming from favourable corporate earnings and an uptick in new listings.

Foreign capital inflow expanded, driven by direct equities investment, and upsurge in the demand for Federal Government bonds. The external reserves, at US$32.79 billion covers 6.3 months of imports for goods and services or 8.7 months for goods only, well above the 3-months standard benchmark for import cover. The average exchange rate of the naira against the US dollar at the Nigerian Autonomous Foreign Exchange Market (NAFEM) was ₦764.82/US$, compared with ₦511.23/US$ in Q22023.

1.0 GLOBAL ECONOMIC DEVELOPMENTS

Summary

The global economic activities slowed in Q32023, as indicated in composite global PMI. The manufacturing sector constituted the main drag on the global economy. Tight monetary policy stance, amid inflationary pressures, constrained the pace of economic activities in Advanced Economies (AEs), while sluggish demand affected the performance in the Emerging Market and Developing Economies (EMDEs). The moderation in consumer prices across most AEs continued, occasioned by the tight monetary policy stance, and declining energy prices. Trends in inflationary pressures were mixed in EMDEs as inflation moderated in some countries, while others experienced heightened inflation. Higher interest rates drove government bond yields and weakened the performance of global stock markets. With respect to policy stance, most AEs increased policy rates in order to rein-in inflation, while some EMDEs took actions to boost economic growth.

1.1 Global Economic Activity

Global Economic Activity

Global economic activities slowed in the third quarter of 2023, attributed, partly, to the lull in manufacturing. The average global composite Purchasing Managers' Index (PMI) fell to 50.90 index points from 53.77 index points in Q22023, due to constrained business optimism and higher input costs. Manufacturing production remained the main drag on economic activity, further contracting to 48.90 index points from 49.53 index points, due to deteriorations in the intermediate and investment goods industries. The services sector also slowed to 51.53 index points from 54.97 index points, due to weaker performance of business and consumer services. All seven sub-indices comprising the services PMI (new business, new export business, future activity, employment, outstanding business, input prices, and prices charged) declined in the quarter.

Table 1: Global Purchasing Managers' Index (PMI)

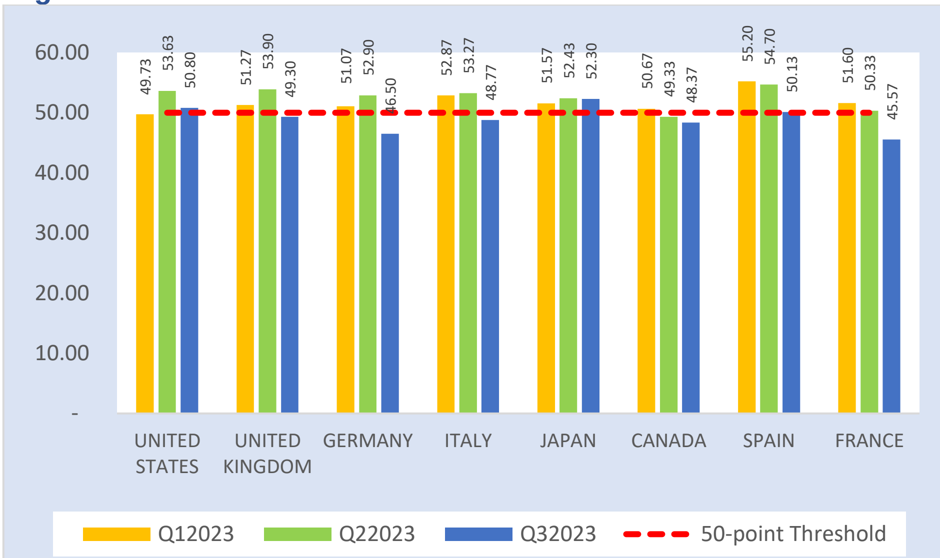
	Q12023	Q22023	Q32023
Composite	51.73	53.77	50.90
Employment Level	51.30	52.07	51.00
New Business Orders	51.23	53.10	50.03
New Export Business Orders	48.37	48.80	47.93
Future Output	64.33	64.17	61.93
Input Prices	59.80	57.40	57.03
Output Prices	55.07	54.27	53.57
Manufacturing	49.53	49.53	48.90
Services (Business Activity)	52.33	54.97	51.53
New Business	52.13	54.67	50.73
New Export Business	50.20	52.77	50.73
Future Activity	65.00	65.27	62.50
Employment	51.57	52.77	51.30
Outstanding Business	50.33	50.57	48.47
Input Prices	61.40	60.07	59.23
Prices Charged	55.37	55.73	54.63

Source:JP Morgan

Economic activity in Advanced Economies

Tight monetary policy stance amid inflationary pressures, constrained the pace of economic activities in most Advanced Economies. Majority of the AEs experience declines in output levels in Q32023. In the US, PMI declined to 50.80 index points, from 53.63 index points in the preceding quarter, due to high interest rates. The decline occurred in both the services and manufacturing sectors. In Canada, economic activities also contracted on account of higher interest rates, and uncertain business climate., In addition to higher interest rates in Europe, increased input costs and lower consumer demand also contributed to the downticks in output during the quarter. Consequently, the PMI contracted to 45.47, 46.50, 48.77 and 49.30 index points in France, Germany, Italy, and UK, respectively. In Japan, PMI declined to 52.30 index points, majorly, driven by the deterioration in the manufacturing sector.

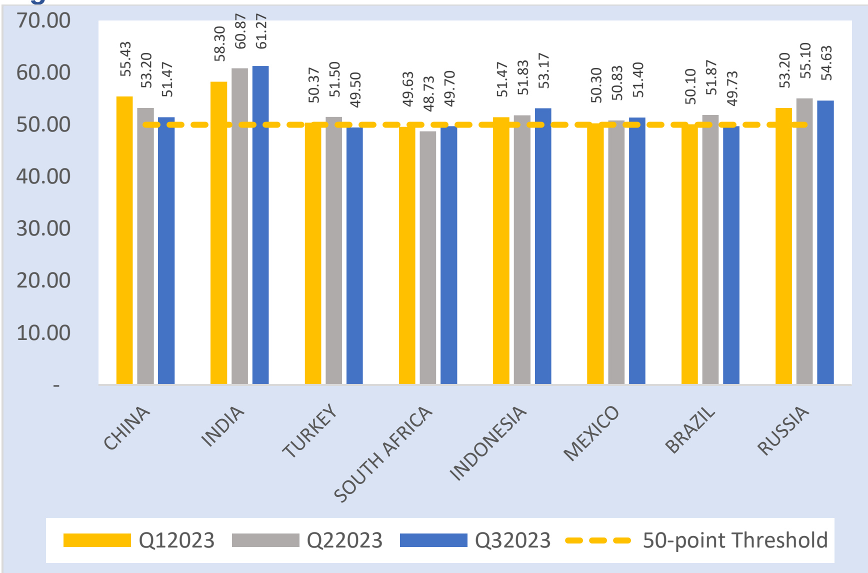
Figure 1: PMIs of Selected Advanced Economies



Source: *Trading Economics/Various countries' websites*

Economic activities in most Emerging Market and Developing Economies were hindered by sluggish demand. In China, PMI declined to 51.47 index points compared with the 53.20 index points in the preceding quarter, due to weak demand (domestic and export), and decline in the real estate sector activities. Output contracted in Turkey because of the slowdown in new orders and rising input costs. The PMI contracted to 49.50 index points in Q32023, compared with the 51.50 index points in the preceding quarter. Similarly, PMI in Brazil contracted to 49.73 index points from 51.87 index points in the preceding quarter. The contraction was attributed, mainly, to dwindling demand that led to a decline in new orders in both the manufacturing and services sectors. In Russia, economic activities slowed to 54.63 index points, as against the 55.1 index points in Q22023, on account of heightened price pressures amid softer upturns in the manufacturing and service sectors. Conversely, rising demand and lower input costs spurred economic activities in India, Indonesia, Mexico, and South Africa.

Figure 2: PMI in Selected EMDEs



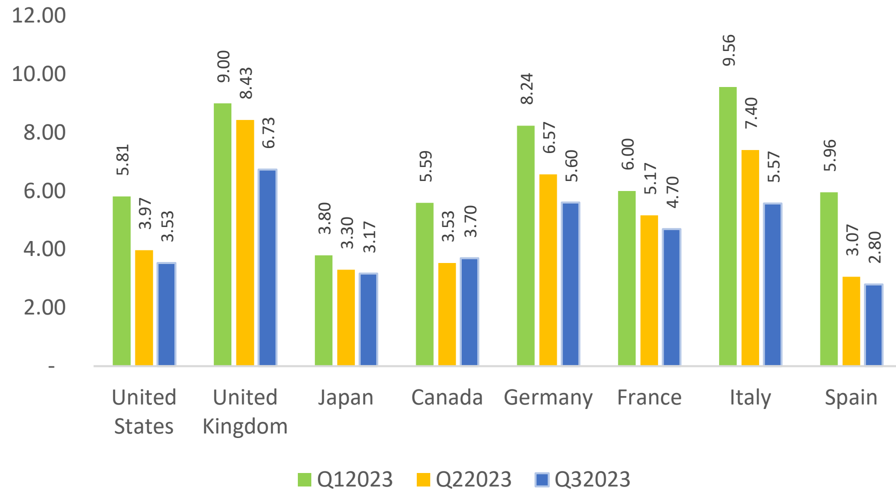
Source: *Trading Economics/Various countries' websites.*
Note: *Turkey, Indonesia and Mexico PMIs data were based on manufacturing PMI.*

1.2 Global Inflation

Advanced Economies

The moderation in consumer prices across most AEs was continued in Q32023, occasioned by the tight monetary policy stance and declining energy prices. The combined effects of sustained monetary policy tightening, and lower energy costs, moderated global inflation in Q32023. In the US, inflation declined to 3.53 per cent in Q32023 from 3.97 per cent in the preceding quarter. Inflation also moderated in the euro area, as inflation in Spain, France, Germany, and Italy fell to 2.80, 4.70, 5.60 and 5.57 per cent, respectively, from 3.07, 4.70, 6.57 and 7.40 per cent in Q22023, largely, due to slowdown in both energy and food prices. Consumer prices also receded in the United Kingdom (UK) to 6.73 per cent, from 8.43 per cent in Q22023, due to a fall in energy and accommodation costs. In Japan, falling prices of fuel, electricity, and water moderated inflationary pressures. Conversely, higher transport costs (as gasoline prices increased) in Canada, pushed the inflation to 3.70 per cent, from 3.53 per cent in the preceding quarter.

Figure 3: Inflation in Selected Advanced Economies, Average in Per cent

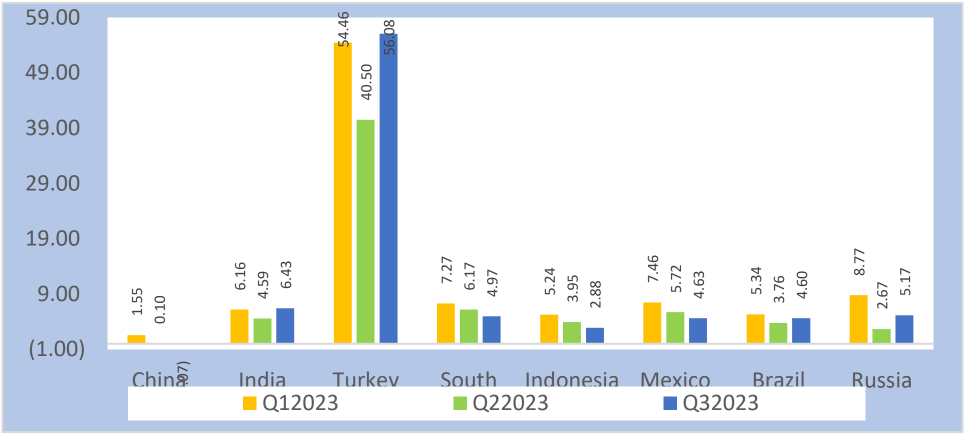


Source: *Trading Economics*

Inflationary pressures in EMDEs were mixed in the review period Consumer prices in Indonesia declined to 2.88 per cent (the lowest since Q12022), from 3.95 per cent in the preceding quarter. The rate hikes by the Bank of Mexico helped reduce inflation to 4.63 per cent (the lowest level since Q12021), from 5.72 per cent in Q22023. In South Africa, the inflation declined to 4.97 per cent from 6.17 per cent in Q22023, attributed, mainly, to lower transport and food prices. Deflationary pressures in China, persisted as the inflation stood at -0.07 per cent at end-September 2023, in contrast to the 0.10 per cent in Q22023.

In India, El Nino adversely impacted agricultural production causing food prices to rise. Consequently, inflation rose to 6.43 per cent, from 4.59 per cent in Q22023. Increase in tax rates, rising food prices and the depreciation of lira heightened inflationary pressures in Turkey, as consumer prices rose to 56.08 per cent from 40.50 per cent in the preceding quarter.

Figure 4: Inflation in Selected EMDEs in Per cent



Source: Organisation for Economic Co-operation and Development (OECD), Trading Economics

1.3 Global Financial Markets

1.3.1 Global Financial Conditions

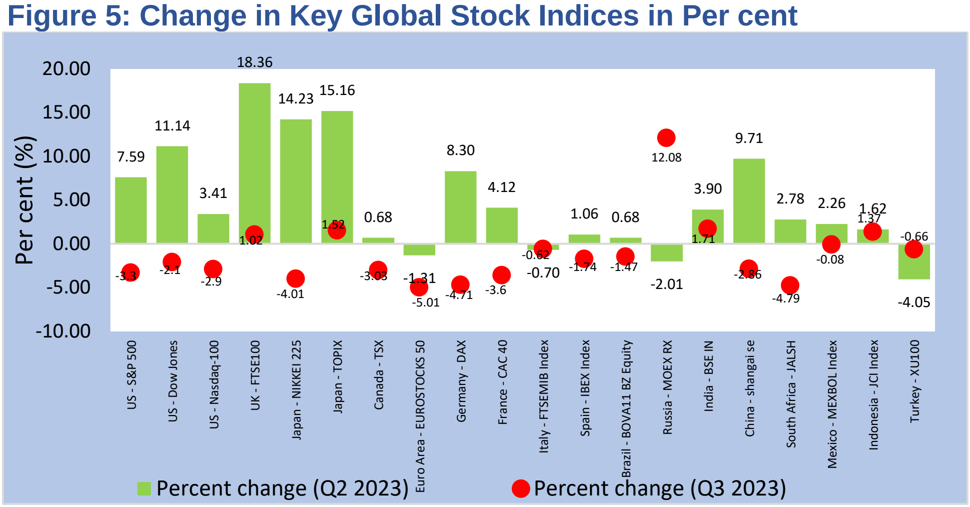
Tight financial conditions increased bond yields, and weakened global equity markets. In the equities market, the value of shares declined in both advanced and emerging market economies. The US NASDAQ, Dow Jones, and S&P fell by 3.30, 2.90, and 2.10 per cent, respectively, from the levels in the preceding quarter. The rising policy rates, high crude oil prices, and the fear of potential government shutdown in the US, created negative sentiments in the capital market that led to the decline in stock values. The losses in technology and base metal stocks contributed, majorly, to the decline of the Canada TSX by 3.03 per cent. Most European markets also recorded declines as the EURO STOXX decreased by 5.01 per cent, due, mainly, to the tight monetary stance by the ECB. In Japan, stock market performance was mixed, as the NIKKEI 225 declined by 4.01 per cent, while the TOPIX increased by 1.52 per cent.

The UK equities rose in the third quarter of 2023, driven, by the performance of energy and basic materials, which benefited from a weak sterling relative to the US dollar. The increasing consumer confidence and relatively stable interest rates also contributed to the performance of UK stocks. Consequently, the FTSE 100 rose by 1.02 per cent compared with the level in the preceding quarter.

The performance of emerging markets' equities in Q32023 was mixed. Concerns about the sustained high interest rates in the US, and weakness in the real estate sector in China, weighed negatively on investor confidence. Despite the various policy stimuli in China, economic recovery remained fragile. Consequently, the Shanghai SE fell by 2.86 per cent in Q32023. Losses in base metal stocks led the decline in the South African JALSH, which fell by 4.79 per cent. The BOVA11 in Brazil fell by 1.47 per cent, while the Turkish XU100 fell by 0.66 per cent. The depreciation of the lira was a major reason behind the underperformance of the Turkish equities in the quarter.

On the flip side, equities in Russia, India, and Indonesia posted positive returns. The Russian MOEX RX rose by 12.08 per cent, driven, by energy and metal segments. Positive macroeconomic data drove the Indian BSE and the Indonesian JCI as they increased by 1.71 and 1.37 per cent, respectively.

Figure 5: Change in Key Global Stock Indices in Per cent



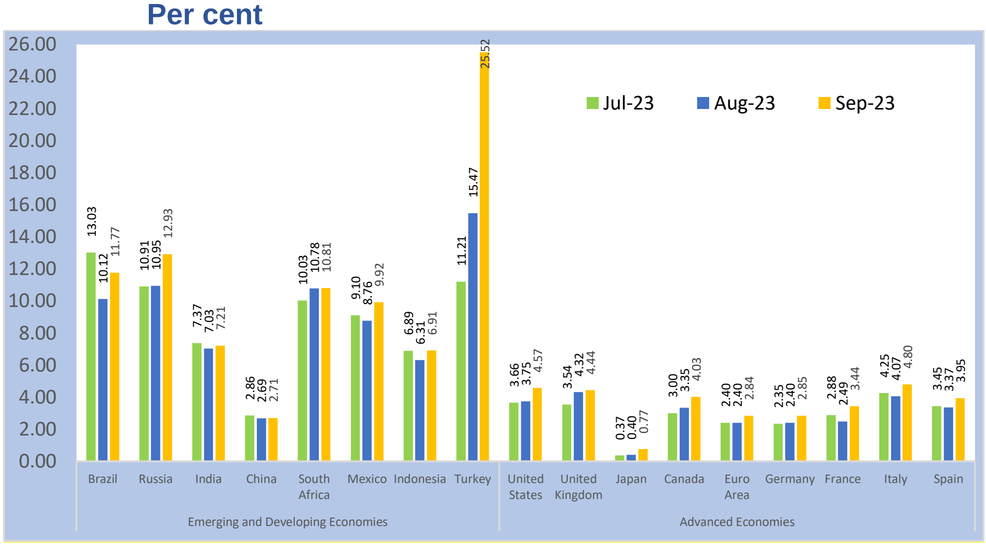
Source: *Reuters Refinitiv Eikon & Trading Economics*

Activities in the global bonds market increased, as most central banks hike policy rates. The 10-year Government bond yields in the US increased to 4.57 per cent compared with the level in the preceding quarter. The higher yield was driven, by policy rate hikes by the Fed, and the expectations about increased deficit spending. As expected, movements in US bond yields had spillover effects in the global bond market.

Consequently, government bond yields in selected AEs also increased in the review quarter, with yields in Italy, Spain, France, and Germany rising to 4.80, 3.95, 3.44, and 2.85 per cent, respectively. On average, the euro area bond yields rose to 2.84 per cent, induced partly by ECB rate hikes and the spillover effect from US Fed policy.

Government bond yields in most EMDEs also rose in the review quarter. Government bond yields in Brazil increased to 11.77 per cent, as the central bank raised its policy rate by 300 basis points in Q32023, to tame rising inflation. Hawkish monetary policy stance also contributed to rising bond yields in Turkey, Russia, South Africa, Mexico, India, and Indonesia to 15.47, 12.93, 10.81, 9.92, 7.21, and 6.91 per cent, respectively. Similarly, China bond yields rose to 2.71 per cent as the country's economic recovery boosted inflation expectations.

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



Source: *Reuters Refinitiv Eikon*

Most emerging market currencies depreciated against the US dollar during the review quarter. The Russian ruble and Chinese RMB depreciated by 11.7 and 5.0 per cent, respectively, relative to the levels in the preceding quarter. The depreciation of the Russian ruble was due to increased net outflow of foreign currencies, while the depreciation in the Chinese RMB was a deliberate strategy by the People's Bank of China to boost competitiveness and exports. The South African rand, however, appreciated marginally by 0.3 per cent due to expectations of interest rate cut by the monetary authority.

1.4 Global Commodity Market Developments

Total world crude oil supply decreased marginally in Q32023, as the Saudi Arabia and Russia, extended their voluntary production cuts.

World Crude Supply and Demand

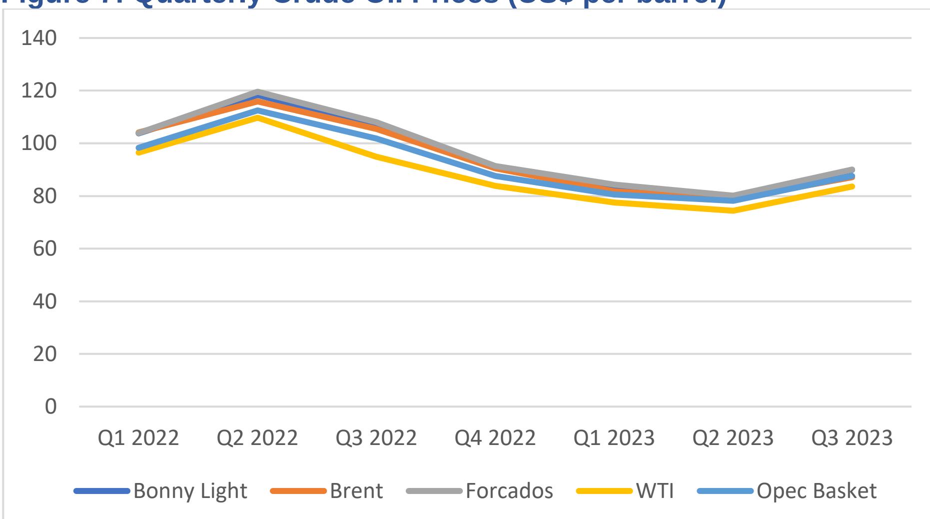
World crude oil supply decreased by 0.1 per cent to 101.18 million barrels per day (mbpd) in Q32023, compared with 101.31 mbpd in the preceding quarter. The decline was, largely, due to a decrease in OPEC crude oil supply. OPEC's supply fell by 2.85 per cent to 32.73 mbpd from 33.69 mbpd in the preceding quarter, driven, by the extension of Saudi Arabia's voluntary production cut of 1.00 mbpd until Q42023. In addition, Russia extended voluntarily cuts by an additional 300,000 bpd in August 2023 until the end of this year. Non-OPEC supply rose slightly by 1.21 per cent to 68.44 mbpd in Q32023, compared with the 67.62mbpd in the preceding quarter, due to increased supply of about 200,000 bpd from Venezuela.

The total world demand, however, rose slightly by 0.7 per cent to 101.44 mbpd in Q32023, compared with the 100.77 mbpd in the preceding quarter. The marginal increase was attributed to the gradual rebound in economic activities, especially, in OECD countries and Japan.

Crude Oil Prices

Global crude oil spot prices rose in the review quarter as demand increased, amid fall in supply. The average spot price of Nigeria's reference crude oil, the Bonny Light (34.9° API), rose by 12.7 per cent to US$89.90 per barrel (pb) in Q32023, from US$79.78 pb in the preceding quarter. The prices of Brent (US$87.13 pb), Forcados (US$90.08 pb), WTI (US$83.61 pb) and OPEC Reference Basket (US$87.64 pb), all exhibited similar trends as the Bonny Light. The increase in crude oil prices was, largely, due to increased demand, particularly, in OECD countries and Japan, in the face of voluntary production cuts.

Figure 7: Quarterly Crude Oil Prices (US$ per barrel)



Source: Refinitiv Eikon (Reuters)

Agricultural Commodity Prices

The all-commodity price index increased on account of improved demand, amid supply constraints. The average price index for all monitored commodities increased by 1.2 per cent to 127.2 index points in Q32023, from 125.6 index points in the preceding quarter. Adverse weather and logistic hiccups led to lower supply of cocoa, groundnut, cotton, soya beans and coffee, resulting in their price increase by 15.9, 12.1, 1.9, 1.9, and 1.5 per cent, respectively. The prices of wheat, palm oil, and rubber, however, fell by 10.6, 6.8, and 0.4 per cent, respectively, arising from ample supply in key producing regions.

Table 2: Indices of Average World Prices of Nigeria's Major Agricultural Export Commodities in US$ for Third Quarter 2023, Jan. 2010=100

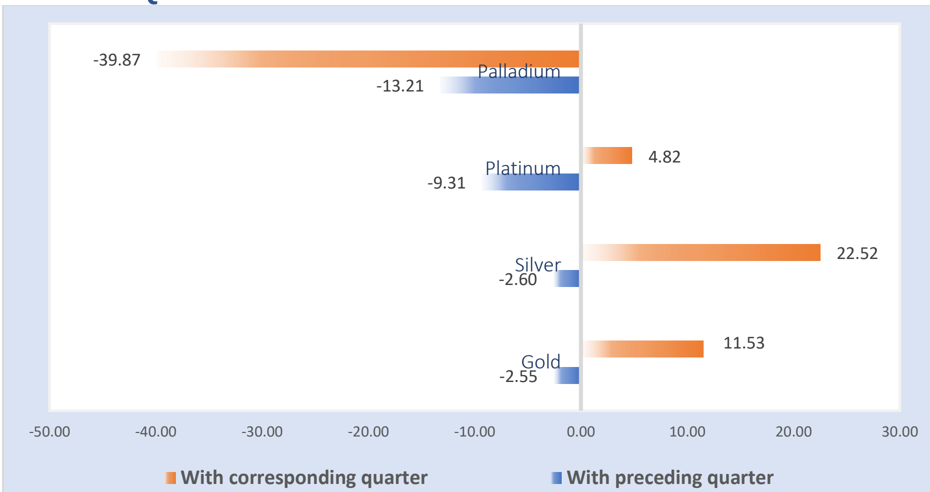
COMMODITY	Q32022/1	Q22023/1	Q32023/2	% Change (1) & (3)	% Change (2) & (3)
	1	2	3	4	5
All Commodities	**129.0**	**125.6**	**127.2**	**-1.4**	**1.2**
Cocoa	64.9	85.3	98.9	52.4	15.9
Cotton	160.7	121.3	123.6	-23.1	1.9
Coffee	152.9	176.2	178.9	17.0	1.5
Wheat	196.2	180.8	161.7	-17.6	-10.6
Rubber	47.6	44.2	44.0	-7.6	-0.4
Groundnut	135.5	148.6	166.6	23.0	12.1
Palm Oil	120.0	110.6	103.1	-14.1	-6.8
Soya Beans	154.0	137.8	140.5	-8.8	1.9

Sources: *World Bank Pink Sheet and Staff Estimates; /1 and /2 denote actual and provisional, respectively.*

Other Mineral Commodity Prices

Average spot prices of gold, silver, platinum and palladium dropped as demand for the precious metals fell, due to a stronger US dollar and higher bond yields. The average spot prices of gold and silver fell by 2.6 per cent apiece, to sell at US$1,926.31 per ounce and US$23.56 per ounce from US$1,976.75 per ounce and US$24.19 per ounce, respectively, in the preceding quarter. The prices of platinum and palladium, also declined by 9.3 and 13.2 per cent, to sell at US$927.49 per ounce and US$1,249.71 per ounce from US$1,022.71 per ounce and US$1,439.98 per ounce in the preceding quarter.

Figure 8: Price Changes in Selected Metals in Per cent for Q32023



Source: Refinitiv Eikon (Reuters)

1.5 Monetary Policy Stance

Central banks around the world took different monetary policy stance, with a noticeable split in approach between advanced and emerging economies. While advanced economies, particularly the United States and the euro area, raised policy rates to combat rising inflation, major emerging economies like China and Brazil were more concerned with boosting economic growth. In the US, the Fed raised the policy rate from 5.25 per cent at end-June 2023 to 5.50 per cent at end-September 2023. Similarly, the ECB raised its policy rate to 4.50 per cent, from 4.00 in the same periods. The UK raised its bank rate to 5.25 per cent at end-September 2023, while the Bank of Japan (BOJ) retained its policy rate at -0.10 per cent in the bid to reflate the economy.

Emerging market economies displayed mixed reactions in their policy rates. China cut its rates from 3.55 per cent to 3.45 per cent at end-September 2023 to boost credit supply and stimulate economic growth. Similarly, Brazil reduced its rate to 12.75 per cent from 13.75 per cent at end-September 2023, following the reductions in consumer inflation. Meanwhile, the Bank of Mexico and the Reserve

Bank of India held policy rates at 11.25 and 6.50 per cent, respectively. Similarly, South Africa's Reserve Bank held rates at 8.25 per cent in the continuation to anchor expectations. Indonesia raised rates to 6.00 per cent from 5.75 per cent to shore-up the rupiah. The Central Bank of Turkey increased its engagement against inflation, raising the policy rate to 30.00 per cent at end-September 2023, from 15.00 and the end of the second quarter.

Table 3: Central Bank Policy Rates in Per cent

Country	End-March	End-June	End-September
United States	4.75-5.0	5.0-5.25	5.25-5.50
Canada	4.50	4.75	5.0
Euro Area	3.50	4.0	4.50
United Kingdom	4.25	4.50	5.25
Japan	-0.10	-0.10	-0.10
Brazil	13.75	13.75	12.75
Russia	7.50	7.50	13.0
India	6.50	6.50	6.50
China	3.65	3.55	3.45
South Africa	8.25	8.25	8.25
Mexico	11.25	11.25	11.25
Indonesia	5.75	5.75	6.0
Turkey	8.50	15	30
Kenya	9.50	10.5	10.5
Ghana	29.50	29.50	30.0

Source: *Various Central Banks' websites, Trading Economics.*

2.0 DOMESTIC ECONOMIC DEVELOPMENTS

2.1 Real Sector Developments

Summary

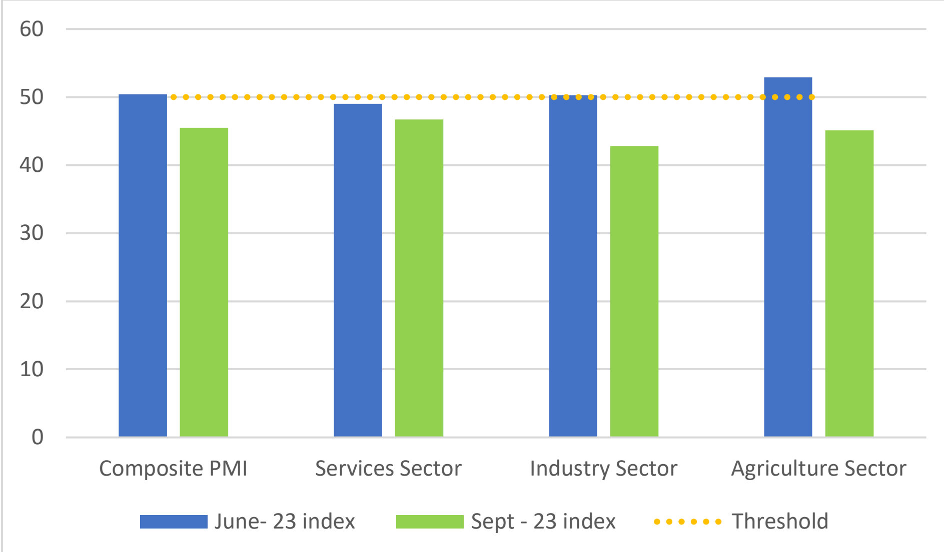
Broad-based decline in business activities was observed as the Purchasing Managers Index contracted to 45.5 index points in the third quarter of 2023, from 50.4 index points in Q22023, owing to higher costs pressures, and weak demand, amidst soaring energy and other input costs. Headline inflation remained, largely, elevated, rising to 26.72 per cent in Q32023, from 22.79 per cent in Q22023. Higher inflation was on account of persisting cost push factors that accompanied higher energy and food prices, lingering security challenges and infrastructural deficits, as well as expectations of further rise in prices.

2.1.1 Business Activities

Business Activities

Business activities contracted in Q32023, amid growing investors' pessimism. Business activities slowed, as Composite PMI contracted to 45.5 index points in Q32023, as against the 50.4 index points in Q22023, mainly, on account of weaker performance of manufacturing sector in the quarter. Further analysis from the sectors revealed that the services sector PMI contracted to 46.7 index points in September 2023, from 49.0 index points in June 2023. This was reflected in sub-sectors such as Arts, Entertainment & Recreation; Health care & social assistance; Information & communication; Real estate rental & leasing, amongst others. Similarly, the industry sector PMI narrowed to 42.8 index points, compared with 50.3 index points in the preceding quarter, following the fall in new orders and employment level that resulted in lower production. The agriculture PMI also point to the decline in activities following rising cost of farm inputs and decreased farming activities, due to security challenges. The sector's PMI contracted to 45.1 index points, from 52.9 index points in June 2023.

Figure 9: Composite and Sectors PMI



Source: Central Bank of Nigeria

Table 4: Composite, Industry, Services and Agriculture Purchasing Managers' Index

Components	June - 23	September-23
Composite PMI	**50.4**	**45.5**
Industry Sector PMI	**50.3**	**42.8**
Production Level	*51.2*	*44.1*
New Orders	*48.1*	*38.1*
Supplier Delivery Time	*52.9*	*44.8*
Employment Level	*49.9*	*46.8*
Raw Material Inventory	*52.3*	*42.5*
Services Sector PMI	**49.0**	**46.7**
Business Activity	*49.1*	*43.0*
New Orders	*47.1*	*44.1*
Employment Level	*50.2*	*50.1*
Inventory	*49.7*	*49.6*
Agricultural Sector PMI	**52.9**	**45.1**
Farm Yield/Output	*53.8*	*41.9*
New Orders	*51.1*	*41.9*
Employment Level	*47.7*	*43.8*
Inventories	*52.5*	*50.7*
General Farming Activities	*59.4*	*47.1*

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

Following the slowdown in business activities within Q32023, firms expressed deeper pessimism in the overall macroeconomy with the business confidence index of -24.5 index points in September 2023, compared with -1.8 index point in June 2023. This reflected low business confidence in the overall economy, driven, majorly by opinions from Agriculture and Service sectors, following rising cost pressures. Persisting security, inadequate power supply, and high interest rate challenges dominated concerns expressed by businesses during the quarter.

Figure 10: Business Confidence Index

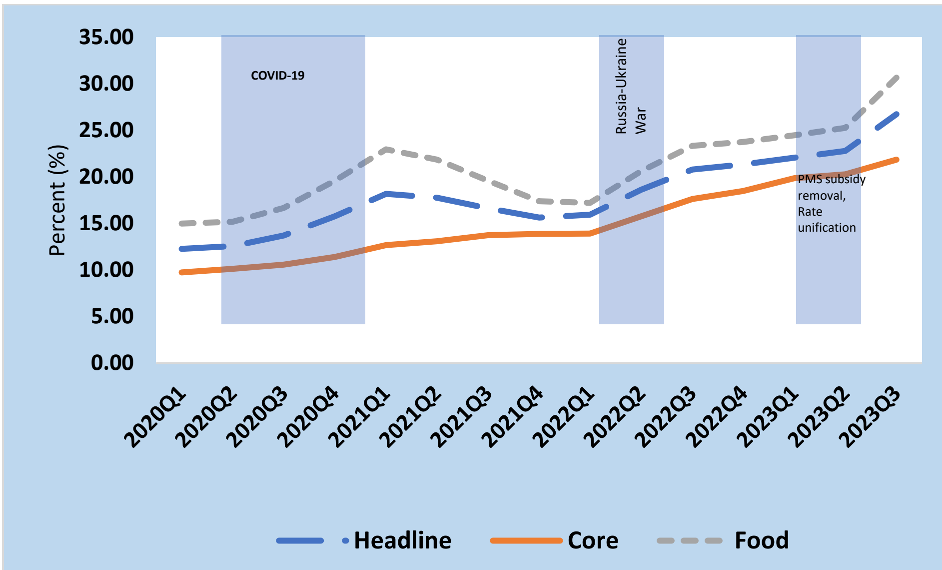
***Source**: Central Bank of Nigeria*

2.1.2 Consumer Prices

Headline Inflation

Headline inflation increased in Q32023, due to persisting shocks from global and domestic sources. The price pressure from the global economy was amplified by the Russia- Ukraine war, which led to the rise in energy and food prices. Higher import prices, arising from elevated global inflation, and exchange rate passthrough also impacted domestic prices. The domestic factors were mainly cost-push, driven by the effect of the reforms in the downstream sector of the petroleum industry, which led to a 226.8 per cent increase in the average pump price of PMS to ₦626.21 per litre in September 2023, from ₦191.65 per litre, in the corresponding period of 2022. The transition to a market-determined exchange rate also introduced some shocks to domestic prices. In addition, other factors such as security challenges, and protracted infrastructural deficits, as well as expectations of further rise in prices, contributed to inflationary pressures. Consequently, headline inflation (year-on-year) rose to 26.72 per cent in Q32023 from 22.79 per cent in Q22023.

Figure 11: Headline, Food and Core Inflation (year-on-year) in Per cent

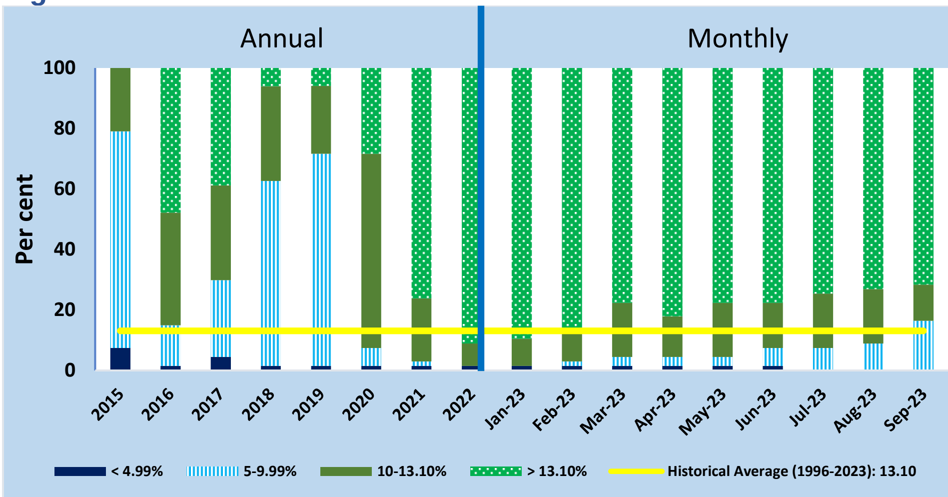


Source: *National Bureau of Statistics*

Inflation Pervasiveness

A deep dive into inflation pervasiveness, suggest that although , inflation was broad-based across different components. Recent evidence showed that inflation was less pervasive in September 2023, as 71.6 per cent of the items in the CPI basket were above the historical average of 13.10 per cent (1996-2023), compared with the 73.13 per cent in August 2023, and 91.04 per cent at end-December 2022.

Figure 12: Inflation Pervasiveness[1]

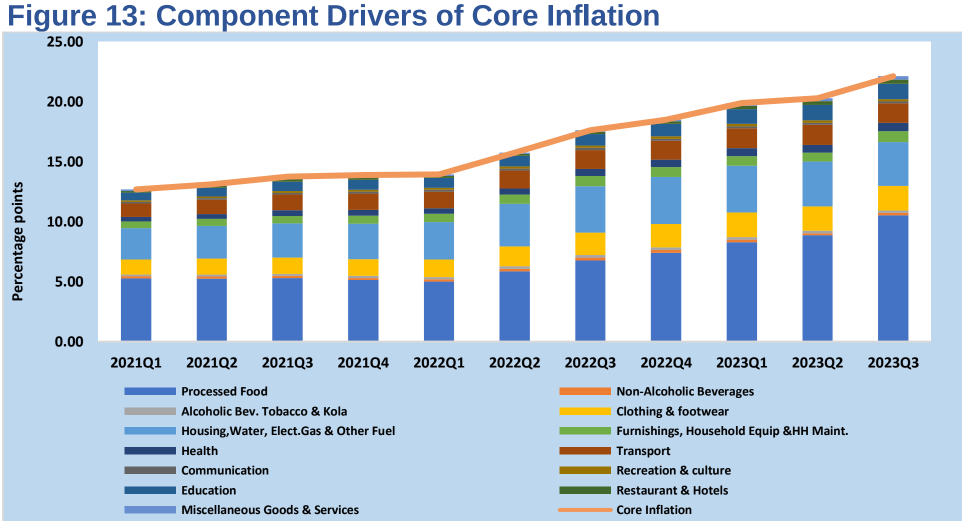


Source: National Bureau of Statistics & Central Bank of Nigeria

Core Inflation

Core inflation, on a year-on-year basis rose to 21.84 per cent in Q22023, from 20.27 per cent in the preceding quarter, due, to higher import costs, and other structural factors such as insecurity and infrastructural deficit. Expectations of a further rise in prices also contributed to the uptick in core inflation.

Figure 13: Component Drivers of Core Inflation

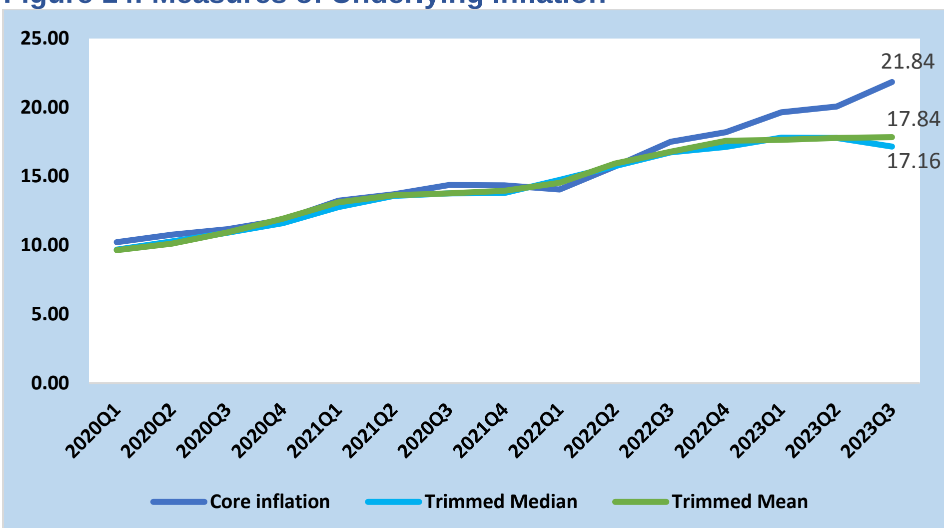


Source: National Bureau of Statistics

[1] Pervasiveness is measured by the number of headline CPI items that are within specific inflation range. It reflects the extent to which rising prices are affecting the cost of living. Historically, inflation in Nigeria has been high, with average inflation of 13.10 per cent from 1996–2023. Inflation is said to be more pervasive if there is a higher number of items registering inflation above the historical average. The CPI items are therfore categorised into four groups namely; percentage of items registering inflation of less than 4.99 per cent, between 5 per cent and 9.99 per cent, between 10 per cent and 13.10 per cent, and also inflation above 13.10 per cent.

Further analysis of the drivers of core inflation revealed that Processed food contribute 10.52 percentage points, Housing, Water, Elect. Gas & Other Fuel (3.64 percentage points), Clothing & footwear (2.05 percentage points), Transport (1.63 percentage points) and Education (1.27 percentage points) accounted for the uptick in core inflation in Q32023, compared with 8.85, 3.73, 2.03, 1.68 and 1.29 percentage points, respectively, in Q22023.

Figure 14: Measures of Underlying Inflation[2]



Source: National Bureau of Statistics & Central Bank of Nigeria

The trimmed mean and trimmed median slightly moderated, relative to the core inflation in Q32023, indicating slower pace in underlying inflation.

Food Inflation

Food inflation (year-on-year), increased to 30.64 per cent in Q32023, from 29.34 per cent in the preceding quarter, largely on account of the ripple effects of PMS subsidy removal, which increased transportation, logistics and other input costs. The average transport fare for bus journeys, between cities increased by 130.74 per cent to

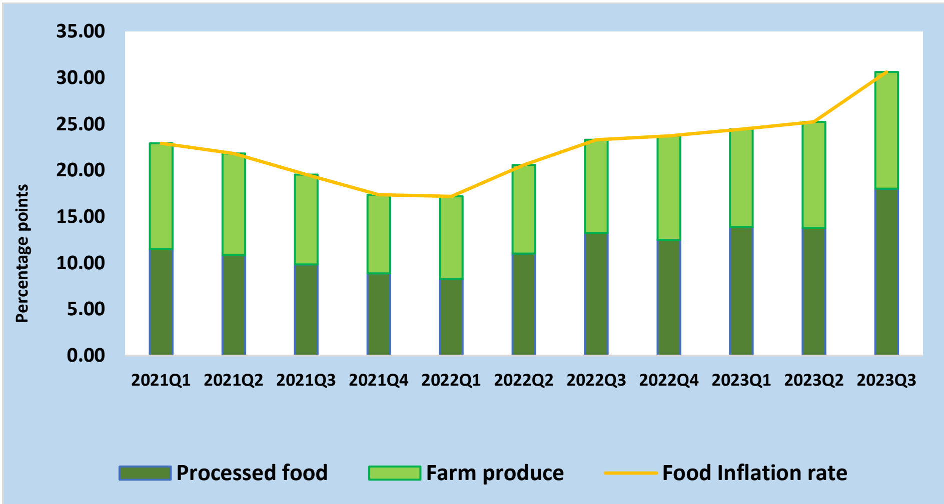
[2] **Core inflation**: defined as headline less farm produce less energy prices.

Trimmed Mean: measure of underlying inflation derived using the average rate of inflation after trimming away a certain percentage of the distribution of price changes outliers at both ends of that distribution.

Trimmed Median: measure of underlying inflation derived by obtaining median values from inflation of CPI components.

₦2,643 in September 2023, compared with ₦1,141.43 in the corresponding period of 2022.

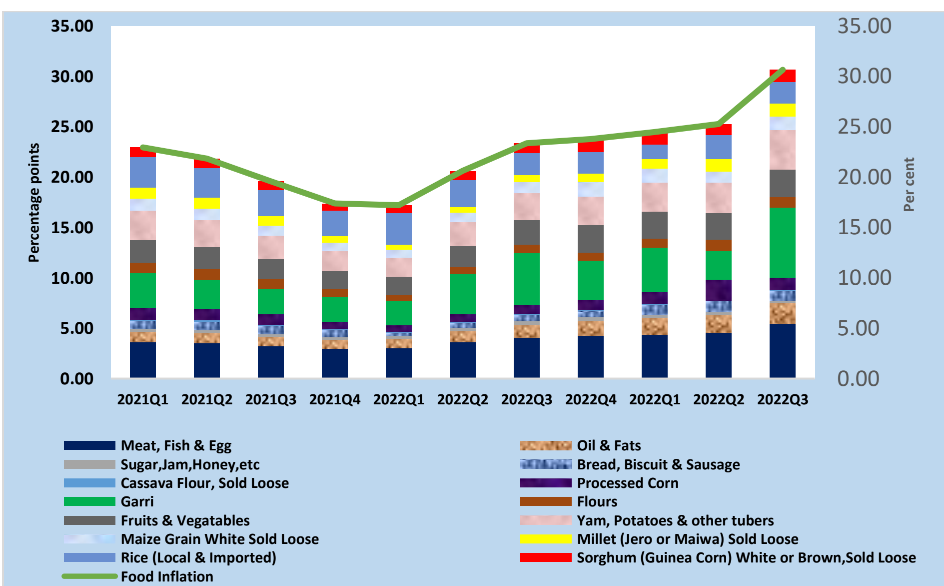
Figure 15: Contribution of Processed food and farm produce to food Inflation



Source: National Bureau of Statistics

The processed food component remained the major driver of food inflation. This was due to the persisting high energy cost, driven by the PMS subsidy removal, and elevated retail price of diesel at ₦890.80 per litre in September 2023 from ₦789.90 per litre in the corresponding period of 2022.

Figure 16: Component Drivers of Food Inflation



Source: National Bureau of Statistics

Analysis of food inflation by components showed that in Q32023, Garri accounted for 6.92 percentage points (pp); Meat, Fish & Egg (5.45 pp); Yam, Potatoes & other Tubers (3.91 pp); Fruits & Vegetables (2.74 pp); Rice (2.12 pp); and Oil & Fats (2.04 pp), compared with Q22023 which had Meat, fish & egg at (4.56 pp); Yam, Potatoes & other Tubers (3.03 pp); Garri (2.85 pp); Fruits & Vegetables (2.67 pp); Rice (2.42 pp); and Oil & Fats (1.75 pp).

Box 1: Prices of Selected Domestic Agricultural Commodities (N)

The average prices of all the monitored farm produce increased in Q32023, relative to their levels in the preceding quarter. The increase ranged from 8.4 per cent for beans (brown, black eye) to 66.1 per cent for maize (white). This development was driven, largely, by structural factors such as the fuel subsidy removal, insecurity, and the activities of middlemen, as well as the effect of climate change which resulted in late rainfall.

		Q32022*	Q22023*	Q32023**	% Change	% Change
	UNIT	1	2	3	(1) & (3)	(2) & (3)
Agric eggs medium size	*1kg*	*729.5*	*960.1*	*1041.3*	*42.7*	*8.5*
Beans: brown, sold loose	"	*550.1*	*640.4*	*694.5*	*26.3*	*8.4*
Beans: white black eye, sold loose	"	*531.1*	*611.3*	*675.1*	*27.1*	*10.4*
Gari white, sold loose	"	*310.1*	*387.3*	*458.5*	*47.9*	*18.4*
Gari yellow, sold loose	"	*341.1*	*415.4*	*487.1*	*42.8*	*17.3*
Groundnut oil: 1 bottle, specify bottle	"	*1083.6*	*1359.0*	*1468.0*	*35.5*	*8.0*
Irish potato	"	*479.9*	*604.4*	*674.2*	*40.5*	*11.5*
Maize grain white, sold loose	"	*302.7*	*364.8*	*605.8*	*100.1*	*66.1*
Maize grain yellow, sold loose	"	*306.8*	*373.9*	*605.3*	*97.3*	*61.9*
Onion bulb	"	*406.4*	*472.4*	*524.0*	*28.9*	*10.9*
Palm oil: 1 bottle, specify bottle	"	*897.1*	*1141.7*	*1253.5*	*39.7*	*9.8*
Rice agric, sold loose	"	*533.4*	*658.8*	*751.7*	*40.9*	*14.1*
Rice local, sold loose	"	*460.3*	*581.7*	*715.1*	*55.3*	*22.9*
Rice, medium grained	"	*519.8*	*641.4*	*757.9*	*45.8*	*18.2*
Rice, imported high quality, sold loose	"	*651.9*	*816.4*	*925.5*	*42.0*	*13.4*
Sweet potato	"	*249.3*	*307.9*	*360.7*	*44.7*	*17.1*
Tomato	"	*437.0*	*522.8*	*578.8*	*32.4*	*10.7*
Vegetable oil: 1 bottle, specify bottle	"	*1046.5*	*1292.6*	*1408.1*	*34.6*	*8.9*
Wheat flour: prepackaged (Golden Penny)	*2kg*	*1098.0*	*1347.9*	*1478.1*	*34.6*	*9.7*
Yam tuber	*1kg*	*397.5*	*484.0*	*580.5*	*46.1*	*19.9*

Sources: National Bureau of Statistics and CBN Staff Estimates,
** and ** denote actual and provisional, respectively.*

2.1.3 Energy

2.1.3.1 Electricity

Electricity Generation and Consumption

The estimated average electricity generation in Q32023 at 3,895.76 MW/h, decreased by 4.1 per cent from 4,058.93 MW/h in the preceding quarter. The average estimated electricity consumption at 3,689.7 MW/h, increased by 2.5 per cent in Q32023, relative to 3,601.4 MW/h in the preceding quarter. The increase was attributed to improvement in transmission and distribution infrastructures.

2.1.3.2 Crude Oil

Crude Oil Production and Export

Domestic crude oil production rose following the resumption of loadings from the Forcados export terminal, and improved surveillance of oil infrastructure in the oil producing regions. Nigeria's average crude oil production rose by 5.23 per cent to 1.21 mbpd from 1.15 mbpd in the preceding quarter. The rise was due, mainly, to the improved surveillance of oil infrastructure helped to increase production from Bonny, Erha, Okoro, Otakpipo, Yoho, Sea Eagle and Nembe streams. Nigeria's production level, however, was lower than its OPEC quota of 1.742 mbpd, by 532,000 bpd in Q32023.

2.1.4 Socio Economic Developments

Transportation

To enhance connectivity, foster economic development and reduce travel time between the Southern and Northern parts of the country, the Federal Government approved a 470-kilometre Abuja-Lagos Greenfield superhighway, to be built by a private sector consortium at no cost to the Government. The consortium would operate the facility on a build, operate and transfer basis. The considered travel time upon completion of the road for vehicles plying the route at 100 kilometres per hour would be 4 hours, 30 minutes from Lagos to Abuja.

The Federal Government opened discussions with Hitech Construction Company Ltd on the proposed Lagos-Calabar Coastal

Highway. The project which is a Public Private Partnership and to be tolled upon completion, would boost interconnectivity to link the entire nation. The highway would link the Lagos-Badagry Express Superhighway, connect the proposed Fourth Mainland Bridge to Lekki Deep Sea Port and link Ogoja-Ikom to connect five points in Northern Nigeria.

Social Intervention

In an effort to cushion the effects of the removal of subsidy on PMS, the Infrastructure Bank of Nigeria set aside ₦13.00 billion for road infrastructure development and the conversion of vehicles to Compressed Natural Gas (CNG) in collaboration with the Federal Government.

Telecommunication

In the telecommunications sector, the Nigerian Communications Commission (NCC) approved the establishment of a Centre of Excellence at Ahmadu Bello University, Zaria to strengthen capacity building in the sector. The Centre would provide locally made equipment and materials, thereby, providing training, upskilling, and reskilling opportunities for students and staff of the academic community.

Education

The Federal Government, through the National Salaries, Wages and Income Commission, approved the increment in salaries for academic and non-academic staff of all its tertiary institutions. The increment for junior staff of tertiary institutions was by 25.0 per cent, while chief lecturers and professors would earn a 35.0 per cent increment.

Empowerment

The National Talent Export Programme was launched to shore up Nigeria's foreign exchange earnings and create one million in-demand jobs nationwide for five years. The initiative would position Nigeria as an export hub for talent outsourcing in Africa, enhance competitiveness, foster innovation, and drive sustainable growth through trade in services.

2.2 Fiscal Sector Developments

Summary

The Federal Government fiscal space improved following a contraction in the overall deficit, due to improved revenue outturns and lower expenditure. Federally collected revenue in Q32023, fell by 8.4 per cent, relative to the level in the preceding quarter and was lower than the budget benchmark by 39.7 per cent. Though, FGN retained revenue improved by 8.2 per cent, compared with Q12023, it was below the quarterly target by 45.3 per cent. Provisional FGN expenditure dropped by 26.6 per cent, relative to the level in Q12023, and fell short of the target by 23.5 per cent. Consequently, overall deficit contracted by 37.9 per cent, relative to the preceding quarter.

2.2.1 Federation Account Operations

Federally collected revenue improved by 50.1 per cent relative to the level in the preceding quarter, on account of higher non-oil receipts. It was, however, below the target by 9.5 per cent. FGN retained revenue also improved by 12.1 per cent, but was below the target by 38.7 per cent. Provisional FGN expenditure dropped by 3.2 per cent, compared with the level in Q22023, and fell short of the target by 26.0 per cent. Consequently, the overall deficit contracted by 11.9 and 12.9 per cent, relative to Q22023 and the programme target, respectively. At ₦87,379.40 billion, total public debt outstanding, at end-June 2023, was 42.3 per cent of the GDP.

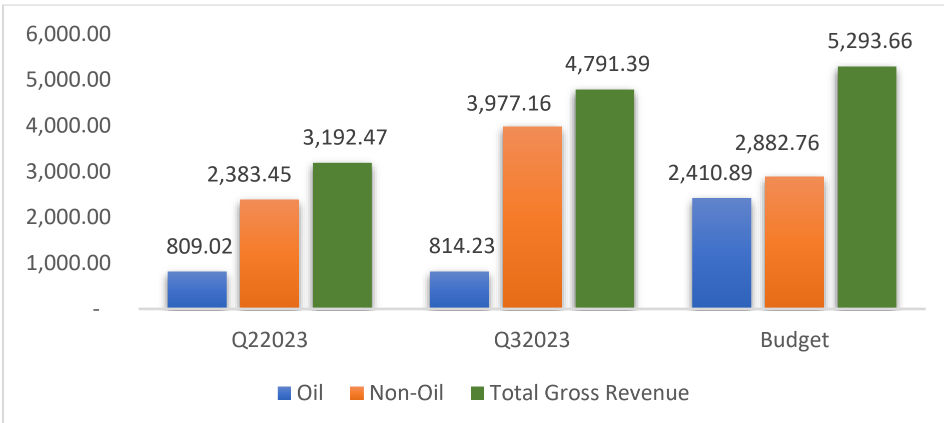
Drivers of Federation Revenue

Gross Federation Account earnings improved, majorly on account of increased earnings from non-oil sources. At ₦4,791.39 billion, Federation Account receipt exceeded the level in Q22023 by 50.1 per cent but was below the benchmark by 9.5 per cent. The improved performance reflected higher receipts from Company Income Tax (CIT), Customs & Excise Duties and Value-Added Tax (VAT), Production Sharing Contract (PSC), and the 2023 interim dividend declaration by the Nigerian National Petroleum Company Limited (NNPCL) (others[1]). Non-oil revenue continued to dominate federation revenue, accounting for 83.0 per cent, while oil revenue made up the balance of 17.0 per cent.

Driven by receipts from production sharing contract (PSC) and dividends from NNPCL, oil revenue, at ₦814.23 billion, rose by 0.6 per cent above the level in the preceding quarter, but was below the target of ₦2,410.89 billion by 66.2 per cent.

Non-oil revenue, at ₦3,977.16 billion, was 66.9 per cent above the level in the preceding quarter and exceeded the target by 38.0 per cent, reflecting higher collections of CIT, Custom & Excise Duties, and VAT. The increase in receipts were driven by improved economic activities, seasonality in tax returns, particularly CIT; and improved efficiency in tax administration.

Figure 17: Gross Revenue Outturn and Benchmark (₦ Billion)



Source: Central Bank of Nigeria Staff Estimates and Office of the Accountant General of the Federation (OAGF)

Table 5: Federally Collected Revenue and Distribution to the Three-Tiers of Government (₦ Billion)

	Q32022	Q22023	Q32023	Budget*
Federation Revenue (Gross)	**3,808.62**	**3,192.47**	**4,791.39**	**5,293.66**
Oil	**1,232.54**	**809.02**	**814.23**	**2,410.89**
Crude Oil & Gas Exports	0.00	0.00	3.09	122.71
PPT & Royalties	1,146.06	779.41	513.05	2,060.26
Domestic Crude Oil/Gas Sales	64.56	0.00	0.00	25.15
Others [1]	21.91	29.61	298.09	202.78
Non-oil	**2,576.08**	**2,383.45**	**3,977.16**	**2,882.77**
Corporate Tax	1,101.32	630.40	1,843.88	523.17
Customs & Excise Duties	463.97	381.82	551.53	528.97
Value-Added Tax (VAT)	629.58	706.73	937.93	738.44
Independent Revenue of Fed. Govt.	372.42	655.70	635.02	792.27
*Others***	8.79	8.80	8.80	299.92
Total Deductions/Transfers***	**1,398.99**	**1,170.44**	**2,867.97**	**2,058.22**
Federally Collected Revenue *Less Deductions & Transfers****	**2,409.63**	**2,022.03**	**1,923.42**	**3,235.44**
plus:				
Additional Revenue	**20.00**	**164.69**	**872.75**	**34.09**
Balance in Special Account from 2019	0.00	0.00	0.00	0.00
Excess Crude Revenue	20.00	0.00	0.00	0.00
Non-oil Excess Revenue	0.00	94.05	38.38	34.09
Exchange Gain	0.00	70.64	834.37	0.00
Total Distributed Balance	**2,429.63**	**2,186.72**	**2,796.17**	**3,269.53**

Federal Government	**988.10**	**837.50**	**1058.00**	**1291.10**
Statutory	900.16	738.94	927.94	1188.49
VAT	87.94	98.56	130.06	102.61
State Government	**749.72**	**728.79**	**920.49**	**959.32**
Statutory	456.59	400.26	486.93	617.27
VAT	293.13	328.53	433.56	342.05
13% Derivation	**134.62**	**84.01**	**140.15**	**305.00**
Local Government	**557.19**	**536.42**	**677.53**	**714.11**
Statutory	352.00	306.45	374.04	474.68
VAT	205.19	229.97	303.49	239.43

Source: Office of the Accountant General of the Federation and CBN Staff Estimates

Note: 1/ includes non-regular oil receipts, including oil/gas dividends and profit, signature bonus, oil-related recoveries *Budget is based on 2023 appropriation Act ** Includes Education Tax, Customs Special Levies (Federation Account), National Information Technology Development Fund, Customs Special Levies, Solid Minerals & Other Mining revenue, and other Non-regular earnings; *** Deductions include cost of revenue collections and JVC cash calls; while transfers entail provisions for FGN Independent revenue and other Non-Federation revenue.

A net balance of ₦2,796.17 billion was distributed among the three tiers of government, of which Federal, States and Local governments received ₦1,058.00 billion, ₦920.49 billion and ₦677.53 billion, respectively. The balance of ₦140.15 billion was transferred to the 13% Derivation Fund and allocated to oil-producing states. The disbursement was 27.9 per cent above the level in Q22023 but was 14.5 per cent short of the target.

2.2.2 Fiscal Operations of the Federal Government

Federal Government Retained Revenue

Provisional FGN retained revenue improved, largely, on account of higher receipts from VAT Pool Account and Exchange gain. At ₦1,693.02 billion, FGN retained revenue was above collections in the preceding quarter by 12.1 per cent, but fell short of the target of ₦2,761.28 by 38.7 per cent.

Table 6: FGN Retained Revenue (₦ Billion)

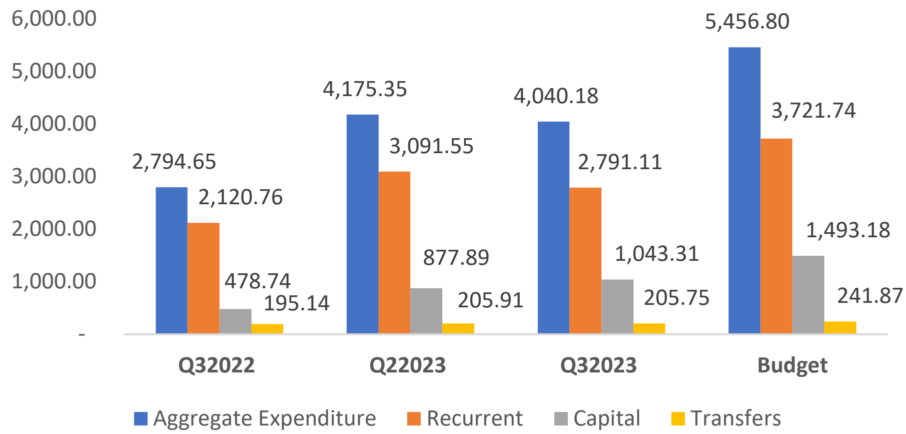
	Q32022	Q22023	Q32023	Budget*
FGN Retained Revenue	**1,837.52**	**1,510.09**	**1,693.02**	**2,761.28**
Federation Account	889.64	678.26	510.30	*1,070.84*
VAT Pool Account	87.94	98.56	130.07	*95.77*
FGN Independent Revenue	372.42	655.70	635.02	*792.27*
Excess Oil Revenue	10.52	0.00	0.00	*0.00*
Excess Non-Oil	0.00	26.92	5.76	*0.00*
Exchange Gain	0.00	33.76	411.88	*0.00*
*Others***	477.00	16.89	0.00	*802.40*

Source: Office of the Accountant General of the Federation
Note: ** Others include revenue from Special Accounts and Special Levies.
* Based on 2023 Appropriation Act.
The figures are provisional

Federal Government Expenditure

Provisional aggregate expenditure of the FGN declined, mainly, due to lower debt service. At ₦4,040.18 billion, spending was ₦135.17 billion or 3.2 per cent, below the level in the preceding quarter and ₦1,416.6 billion or 26.0 per cent short of the target. Recurrent expenditure, at 69.1 per cent continued to dominate FGN spending, compared with the 25.8 and 5.1 per cent in capital outlay, and transfers, respectively.

Figure 18: Federal Government Expenditure (₦ Billion)



Source: CBN Staff Estimates and OAGF

Overall Fiscal Balance

The fiscal operations of the FGN in Q32023 resulted in a reduction of the overall deficit. Provisional fiscal deficit of the FGN, at ₦2,347.16 billion, narrowed by 11.9 and 12.9 per cent, relative to the level in Q22023 and the target, respectively. The decline in the deficit was a result of a disproportionate fall in FGN expenditure in the review quarter.

Table 7: Fiscal Balance (₦ Billion)

	Q32022	Q22023	Q32023	Budget
Retained revenue	1,837.52	1,510.09	1,693.02	2,761.28
Aggregate expenditure	**2,794.65**	**4,175.35**	**4,040.18**	**5,456.80**
Recurrent	**2,120.76**	**3,091.55**	**2,791.11**	**3,721.74**
Non-debt	1,346.81	1,478.60	1,414.82	2,082.34
Debt Service	773.95	1,612.95	1,376.29	1,639.40
Capital	478.74	877.89	1,043.31	1493.18
Transfers	195.14	205.91	205.75	241.87
Primary balance	**-183.18**	**-1,052.30**	**-970.86**	**-1,056.12**
Overall balance	**-957.13**	**-2,665.26**	**-2,347.16**	**-2,695.52**

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

Government borrowing in the review quarter remained anchored on the Medium-Term Debt Strategy 2020-2023 (MTDS 2020- 2023). Total public debt outstanding stood at ₦87,379.40 billion or 38.7 per cent of GDP, at end-June 2023, and was 75.3 and 103.9 per cent , higher than the levels at end-March 2023, and at end-June 2022 respectively. The increase was, largely, driven by the exchange rate revaluation and FGN securitisation of Ways and Means Advances. A breakdown of the consolidated public debt showed that, domestic debt accounted for 61.9 per cent, while external debt obligations constituted 38.1 per cent (The domestic-external debt mix stipulated in the MTDS 2020-2023 is 70:30). Of the consolidated public debt stock, FGN owed ₦81,563.72 billion (93.3%[3]), while the State governments made up the balance of N5,815.68 billion (6.7%).

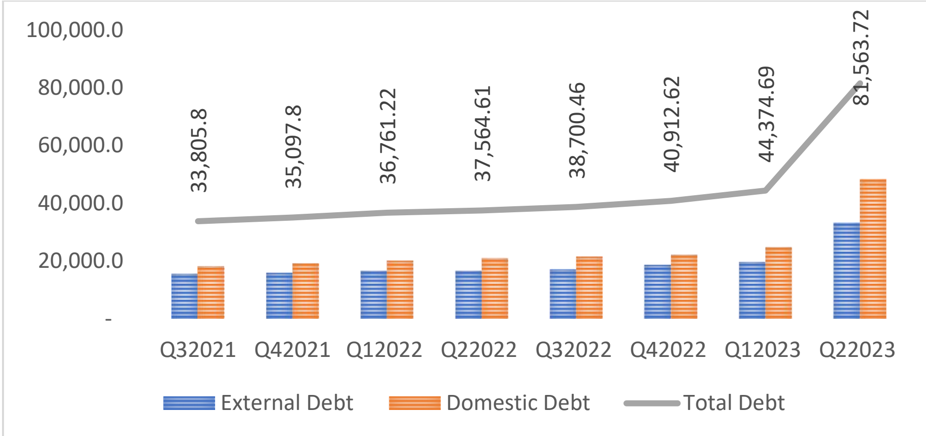
A disaggregation of the total FGN debt obligations, shows that domestic debt was ₦48,314.74 billion (59.2%), while external debt accounted for ₦33,248.98 billion (40.8%). Further analysis revealed that, FGN bonds, maintained dominance, accounting for 86.9 per cent of the total domestic debt stock, followed by Treasury bills (9.8%), Promissory notes (1.6%), and FGN Sukuk (1.5%), while others[4] (0.2%) constituted the balance. Of the total external debt stock, Multilateral, Commercial and Bilateral loans accounted for 48.2, 36.2 and 12.8 per cent, respectively, while 'other' loans constituted 2.8 per cent.

Debt service obligations in Q22023 declined by 39.8 per cent to ₦748.69 billion, from ₦1,243.04 billion in Q12023. The decrease was attributed to the redemption of maturing FGN bonds. Further disaggregation indicated that domestic debt service accounted for

[3] Includes the external debt of State governments, which are contingent liabilities of the Federal government.
[4] Includes Treasury bonds (0.11 %), Green bond (0.03 %) and Special FGN Savings bond (0.06 %).

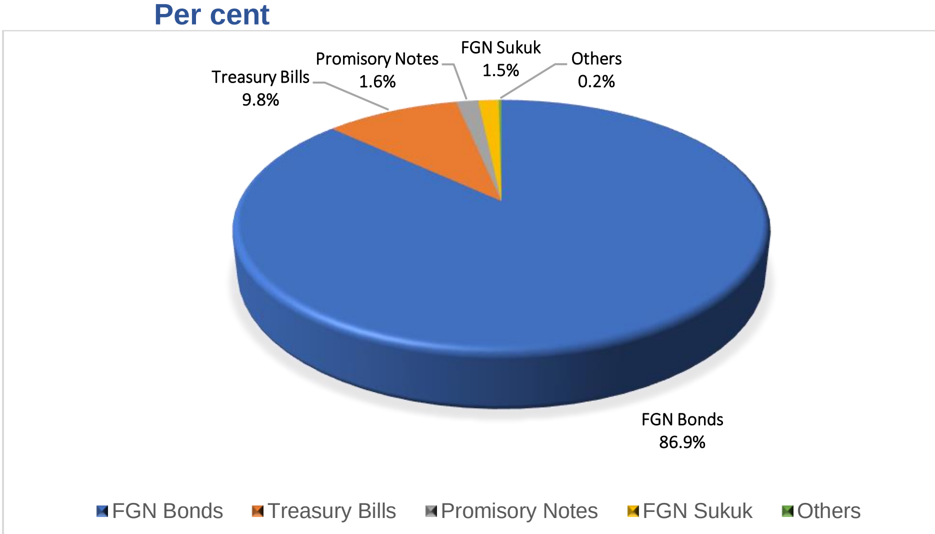
₦565.88 billion (75.6%), while external debt service constituted ₦182.80 billion (24.4%).

Figure 19: FGN External and Domestic Debt Composition (₦ Billion)



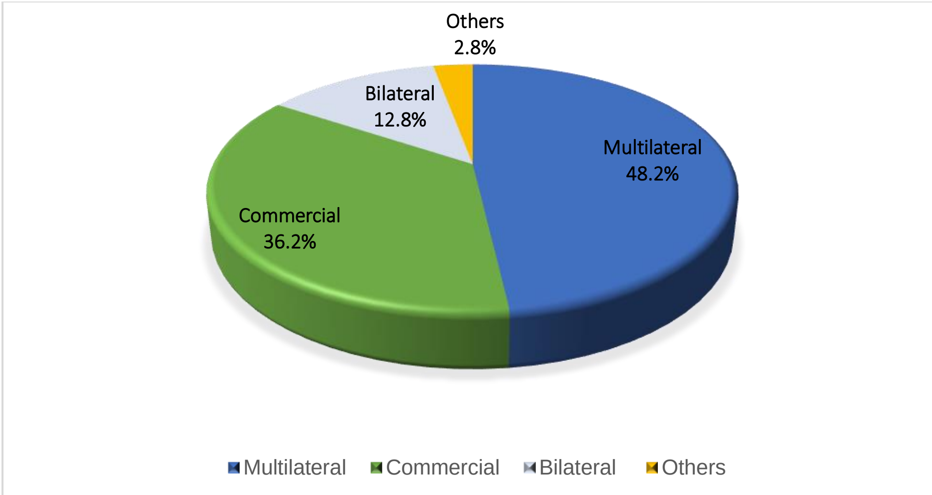
Source: Debt Management Office (DMO)

Figure 20: Composition of Domestic Debt Stock by Instrument in Per cent



Source: Debt Management Office

Figure 21: Composition of External Debt Stock by Instrument in Per cent



Source: Debt Management Office

2.3 Monetary and Financial Developments

Summary

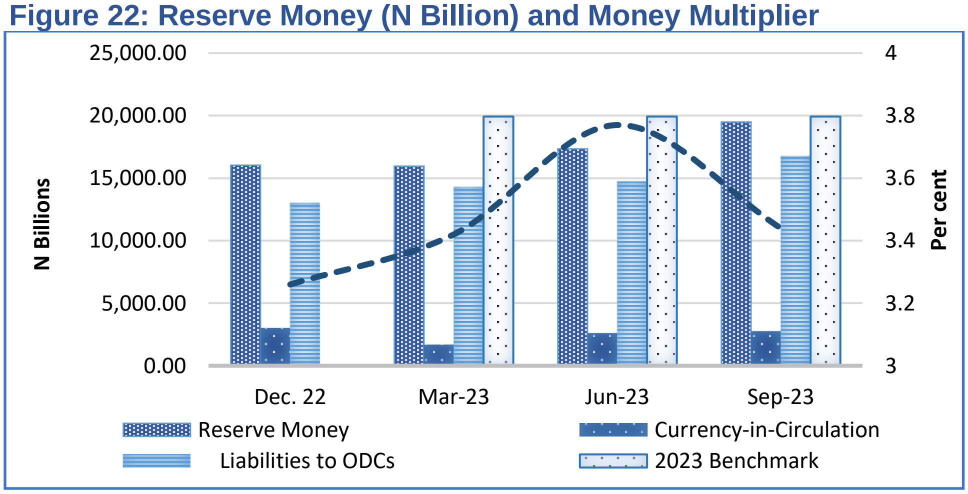
The Bank continued to supervise and implement prudential guidelines to ensure the stability, and resilience of the financial sector. Key monetary aggregates grew, driven by increased credit expansion to key sectors of the economy. Trend in key short-term interest rates were mixed, following fluctuations in the banking system liquidity in the quarter. The bid-cover ratio indicates that NTBs and FGN Bonds remained attractive. Key capital market indicators show that transactions at the Nigerian Exchange (NGX) Limited, were bullish, driven by positive sentiments arising from the declaration of favourable corporate earnings, and the uptick in new listings.

2.3.1 Monetary Developments

Reserve Money

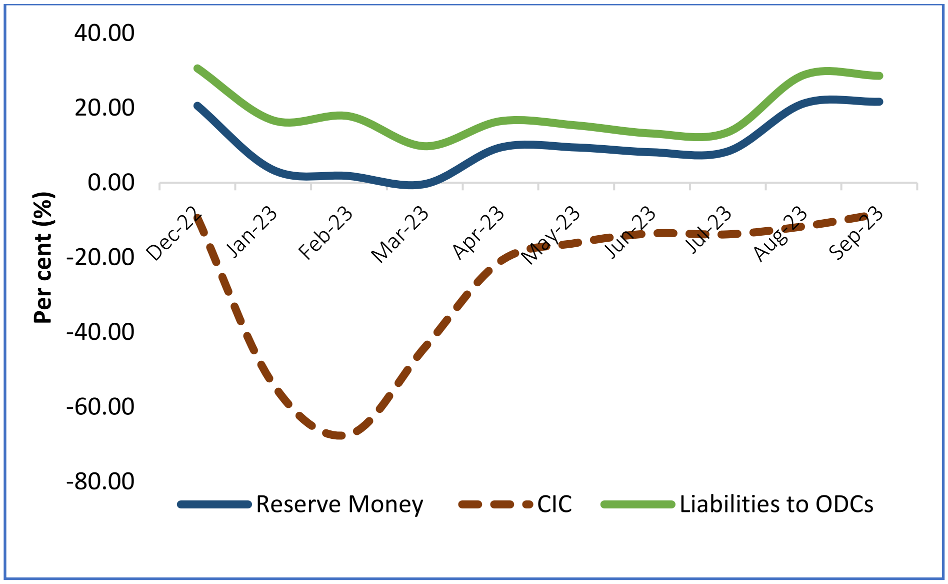
Increase in liabilities to other depository corporations (ODCs) accounted for the growth in reserve money in Q32023. Relative to end-December 2022, reserve money expanded by 21.7 per cent to ₦19,506.56 billion, solely, driven by 28.6 per cent growth in liabilities to ODCs. The rise in liabilities to ODCs was due to the 33.9 per cent increase in the amount of required reserve during the quarter. Growth in reserve money was, however, moderated by currency-in-circulation (CIC), which fell by 8.3 per cent to ₦2,761.29 billion. The stock of reserve money was 2.2 per cent below the benchmark.

Figure 22: Reserve Money (N Billion) and Money Multiplier



Source: Central Bank of Nigeria

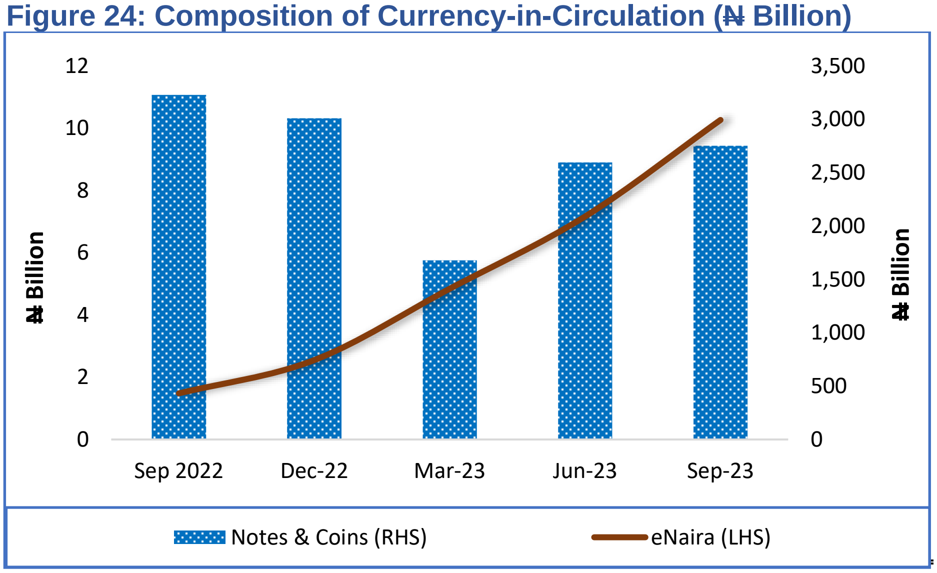
Figure 23: Growth in Reserve Money over Preceding December in Per cent



Source: Central Bank of Nigeria

As a component of CIC, the value of Nigeria's central bank digital currency expanded to ₦10.26 billion in Q32023 from ₦2.55 billion at end-December 2022. This represents an increase of 302.4 per cent which underscores the increased adoption of electronic payment channels, especially, the eNaira. Physical notes and coins, however, fell to ₦2,751.03 billion in Q32023 from ₦3,009.51 billion at end-December 2022.

Figure 24: Composition of Currency-in-Circulation (₦ Billion)



Source: Central Bank of Nigeria

Money Supply

Efficiencies in financial intermediation led to an increase in broad money multiplier to 3.4 from 3.3 in December 2022. Consequently, the broad money supply (M3) rose by 28.8 per cent to ₦67,184.68 billion, compared with its level at end-December 2022. On annualised basis, M3 grew by 38.4 per cent or 10.2 percentage points above the programme target, partly on account of the Bank's effort to encourage lending to the private sector.

On the asset side, domestic claims, which grew by 40.2 per cent, was the sole driver of the growth in M3 contributing 51.0 percentage points to that growth. Domestic claims grew on account of the 44.1 and 38.1 per cent increases in net claims on central government and claims on other sectors, respectively. Net claims on central government rose due to increased holdings of government securities and loans granted by depository corporations. The growth in claims on other sectors was driven by a 62.0, 41.3, 31.6 and 9.0 per cent increases in claims on public non-financial corporations, claims on private sector, claims on other financial corporations, and claims on state and local government, respectively. Overall, net domestic asset (NDA) grew by 37.8 per cent and contributed 35.0 percentage points to the growth of M3, while net foreign assets (NFA) fell by 84.6 per cent, moderating the growth by negative 6.2 percentage points.

Table 8: Money and Credit Growth over preceding December in Per cent

	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Contribution to M3 growth (Sep-23)	Annualised Growth (Sep-23)	2023 Benchmark
Net Foreign Assets	-52.04	-58.89	-21.48	49.67	-84.63	-6.24	-112.84	95.57
Claims on Non-residents	1.64	11.72	-6.53	50.38	57.62	25.65	76.83	
Liabilities to Non-residents	45.54	69.45	-3.56	50.52	85.84	31.88	114.45	
Net Domestic Assets	27.80	37.73	6.76	23.49	37.78	35.00	50.38	17.85
Domestic Claims	29.90	35.60	9.76	31.05	40.23	50.98	53.64	49.16
Net Claims on Central Government	64.93	71.14	21.78	39.53	44.05	19.99	58.73	58.63
Claims on Central Government	39.62	39.99	14.76	30.84	46.52	30.58	62.03	
Liabilities to Central Government	6.76	-0.45	-0.90	11.46	52.05	10.58	69.39	
Claims on Other Sectors	16.02	21.51	3.04	26.31	38.10	30.98	50.80	44.09
Claims on Other Financial Corporations	7.76	18.29	6.29	25.30	31.55	5.64	42.07	
Claims on State and Local Government	29.28	42.03	4.11	-7.24	8.97	0.61	11.96	
Claims on Public Nonfinancial Corporations	34.27	316.63	1.79	6.95	62.04	3.97	82.72	
Claims on Private Sector	16.76	10.47	1.91	33.68	41.32	20.76	55.09	
Total Monetary Assets (M_3)	**11.00**	**17.40**	**4.68**	**25.42**	**28.76**	**28.76**	**38.35**	**28.21**
Currency Outside Depository Corporations	-7.10	-12.57	-43.74	-11.88	-8.54	-0.42	-11.38	
Transferable Deposits	22.16	20.19	9.64	24.42	26.62	9.27	35.50	
Narrow Money (M_1)	17.40	14.86	3.02	19.92	22.27	8.85	29.69	29.18
Other Deposits	6.62	17.65	5.69	28.91	32.26	19.19	43.01	
Broad Money (M_2)	11.00	16.52	4.62	25.31	28.26	28.04	37.67	29.18
Securities Other than Shares	100.00	100.00	7.14	27.25	30.18	0.72	40.24	
Total Monetary Liabilities(M_3)	**11.00**	**17.40**	**4.68**	**25.42**	**28.76**	**28.76**	**38.35**	**28.21**

Source: Central Bank of Nigeria

From the liability side, the growth in M3 was, majorly, driven by a 32.3 per cent rise in other deposits, which accounted for 19.2 percentage points. Transferable deposits, which recorded a growth of 26.6 per cent, contributed 9.3 percentage points to the growth in broad money supply. Securities other than shares grew by 30.2 per cent, and contributed 0.7 percentage point to the growth in M3. Currency outside depository corporations (CODCs), expectedly, sustained its downward trajectory, declining by 8.5 per cent in the review quarter, with greater adoption of electronic payment channels as the cashless policy of the Bank continued to take root. Growth in narrow money supply (M1), at 22.3 per cent (29.7% annualised), remained within the programme target.

2.3.2 Sectoral Credit Utilisation

Sectoral Credit Utilisation

Total credit extended to key sectors of the economy by ODCs increased by 4.3 per cent to ₦39,106.01 billion in Q32023, compared with the ₦37,479.37 billion in the preceding quarter, reflecting efforts to boost economic growth and create jobs. The growth was driven, primarily, by the increased credit to the services and industry sectors which expanded by 5.9 and 3.0 per cent, respectively. Credit to the agricultural sector, however, declined marginally by 0.4 per cent. In terms of share in total credit extended to key sectors during the quarter, the services sector remained the dominant recipient, accounting for 52.3 per cent. The industry sector followed closely with 43.0 per cent, while agriculture accounted for the remaining 4.7 per cent.

Table 9: Sectoral Credit Allocation

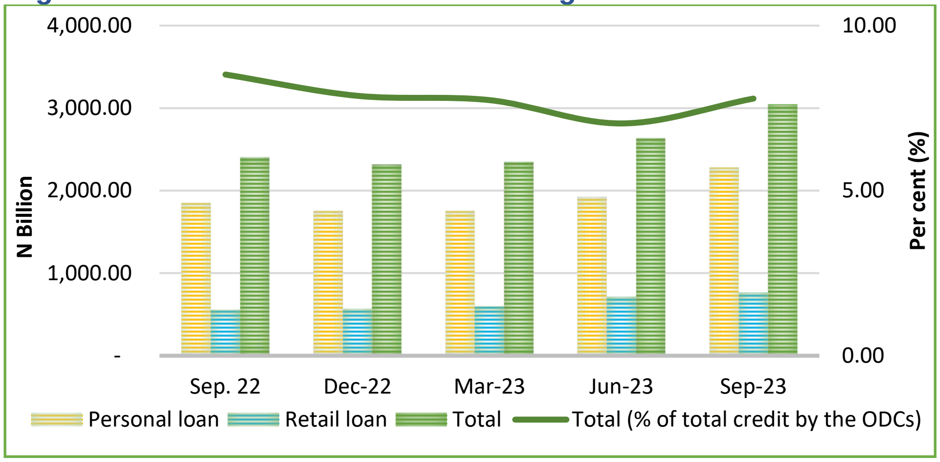
SECTORS	Allocation (₦ Billion)			Share in Total (%)			Growth (%)
	Sep-22 (1)	Jun-23 (2)	Sep-23 (3)	Sep-22 (4)	Jun-23 (5)	Sep-23 (6)	(3) & (2)
[a] Agriculture	1,658.04	**1,839.43**	1,832.34	5.88	4.91	4.69	-0.39
[b] Industry	11,478.45	**16,313.85**	16,808.85	40.70	43.53	42.98	3.03
of which Manufacturing	5,095.64	6,982.02	7,336.66	18.07	18.63	18.76	5.08
[c] Services	15,067.79	**19,326.09**	20,464.82	53.42	51.56	52.33	5.89
of which:							
Finance, Insurance & Capital Market	2,404.84	3,475.75	3,629.10	8.53	9.27	9.28	4.41
Trade/General Commerce	2,006.80	2,884.66	3,207.21	7.12	7.70	8.20	11.18
TOTAL	28,204.28	37,479.37	39,106.01	100.0	100.0	100.0	4.34

Source: Central Bank of Nigeria

Consumer Credit

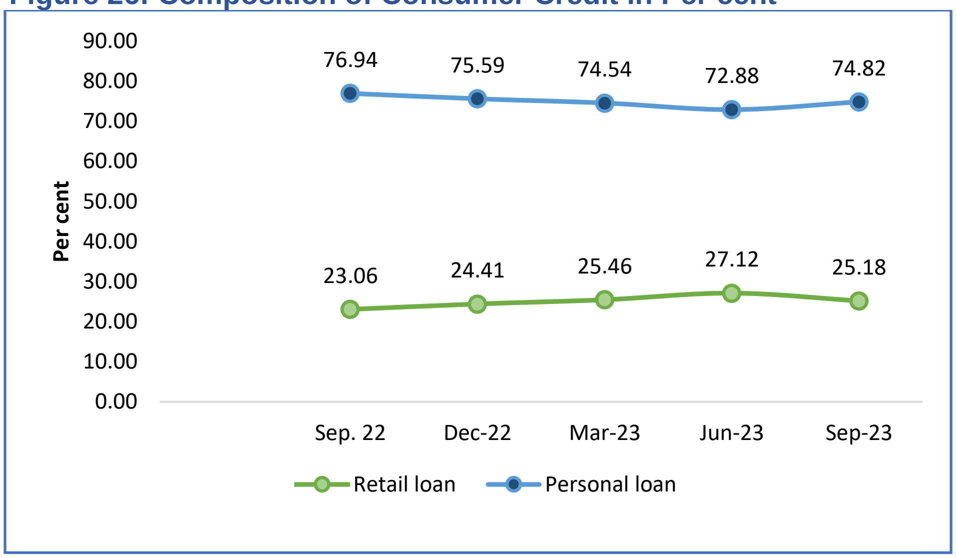
Consumer credit outstanding increased, attributable to the need to cope with relative increase in the cost of living. Thus, consumer credit grew by 15.5 per cent to ₦3,046.38 billion, compared with the₦2,637.32 billion at the end of the preceding quarter. Analysis of consumer credit by components revealed that personal loans increased by 18.6 per cent to ₦2,279.41 billion, as against the ₦1,922.18 billion in the preceding quarter, while retail loans, at ₦766.97 billion, grew by 7.3 per cent. In terms of composition, personal loans continued to account for the larger share (74.8%), while retail loans accounted for the balance (25.2%). As a share of total sectoral credit from the ODCs, consumer credit rose to 7.8 per cent, from 7.0 per cent in the preceding quarter.

Figure 25: Consumer Credit Outstanding



Source: Central Bank of Nigeria

Figure 26: Composition of Consumer Credit in Per cent



Source: Central Bank of Nigeria

2.3.3 Financial Developments

2.3.3.1 Money Market Developments

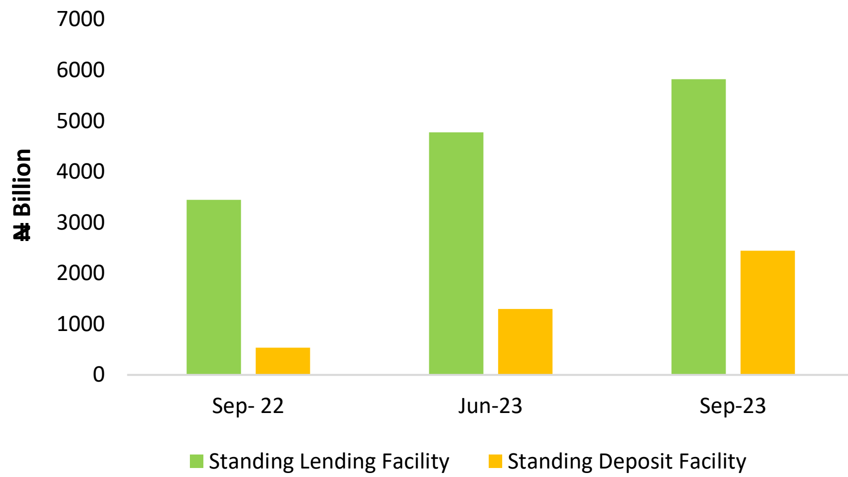
Industry Liquidity Condition

Banking system liquidity moderated relative to preceding quarter. Average net industry liquidity declined by 6.7 per cent to ₦358.91 billion, from ₦384.54 billion in the preceding quarter. Total fiscal injections increased by 263.8 per cent to ₦2,796.17 billion, from ₦768.67 billion in Q22023. OMO issues amounted to ₦150.00

billion, while maturities worth ₦55.00 billion were repaid during the quarter under review, resulting in a net withdrawal of ₦95.00 billion.

Following the relative decline in liquidity, standing lending facility (SLF) rose to ₦5,825.75 billion, with average daily request of ₦126.65 billion, compared with the standing lending facility of ₦4,773.92 billion, and average daily request of ₦97.43 billion, in the preceding quarter. Placements at the standing deposit facility (SDF) increased to ₦2,442.89 billion, with a daily average of ₦38.17 billion, compared with the placements of ₦1,296.40 billion, and a daily average of ₦23.15 billion, in the preceding quarter. The coexistence of increase in both SLF and SDF reflects the uneven distribution of liquidity among banks.

Figure 27: Transactions at the Standing Facility Window (₦' Billion)

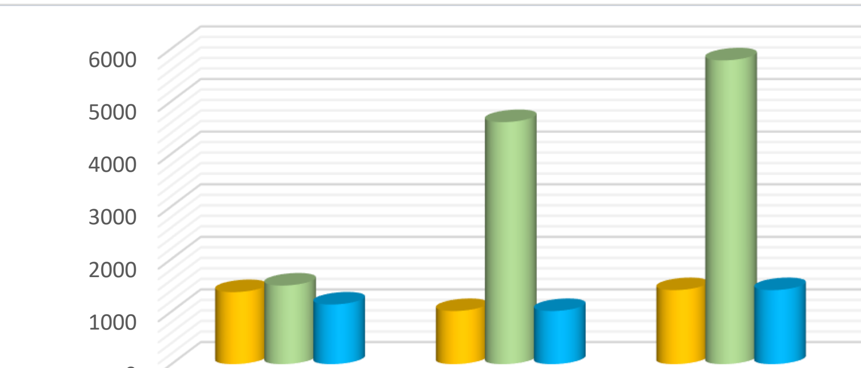


Source: Central Bank of Nigeria

Primary Market

Patronage of NTBs and FGN bond increased due to higher yields in the period. NTBs worth ₦1,407.36 billion, ₦5,775.89 billion, and ₦1,407.36 billion were offered, subscribed to, and allotted, respectively, in the review quarter, relative to ₦1,010.04 billion, ₦4,601.50 billion, and ₦1,010.04 billion in the preceding quarter. The rise in subscription, particularly, for the longer-term securities at ₦5,603.44 billion, which accounted for 95.0 per cent of total subscription (bid rate of 11.3±7.8 %), could be attributed to higher investor-confidence about the ability of the Bank to rein-in inflation in the long-term.

Figure 28: Primary Market NTBs (₦' Billion)

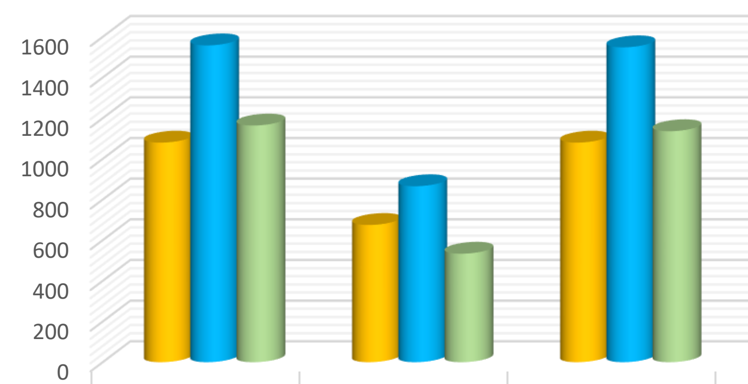


	Q3 2022 (N'B)	Q2 2023 (N'B)	Q3 2023 (N'B)
Offer	1369.37	1010.04	1407.36
Subscrption	1494.33	4601.50	5775.89
Allotment	1133.49	1010.04	1407.36

Source: Central Bank of Nigeria

Transactions at the FGN bond segment also exhibited upward trend with amount offered, subscribed to, and allotted at ₦1,080.00 billion, ₦1,548.69 billion and ₦1,135.99 billion in Q32023, compared with ₦675.00 billion, ₦865.53 billion and ₦533.60 billion, respectively, in the preceding quarter. The bid and marginal rates stood at 13.5 (±4.5) per cent and 14.4 (±1.9) per cent in Q32023, compared with 12.4 (±4.2) per cent and 12.8 (±1.8) per cent, respectively, in the preceding quarter.

Figure 29: Primary Market Auctions of FGN Bond (₦' Billion)



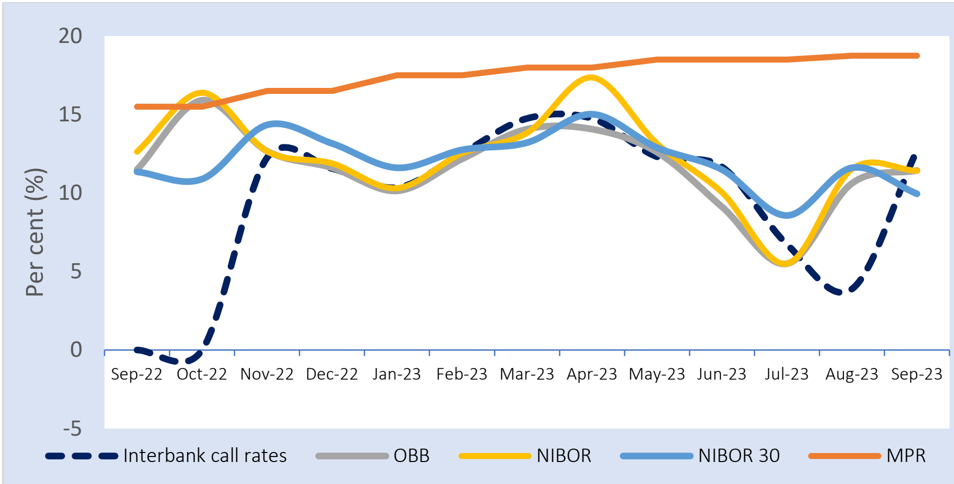
	Q3 2022 (N'B)	Q2 2023 (N'B)	Q3 2023 (N'B)
Offer	1080	675.00	1080
Subscrption	1558.07	865.53	1548.69
Allotment	1163.98	533.60	1135.99

Source: Central Bank of Nigeria

Interest Rate Developments

Movements in key money market rates were mixed in the review quarter. Notably, the inter-bank call and the Nigeria Interbank Offered (NIBOR) call rates were consistent with the movement in liquidity. Average interbank call rate increased to 12.7 per cent, from 11.7 per cent in the preceding quarter, while NIBOR call increased to 11.4 per cent from 10.0 per cent. The Open Buy Back (OBB) rate, however, trended downwards to 9.1 per cent in Q32023, compared with the 11.4 per cent in the preceding quarter. Similarly, the NIBOR 30-day declined to 10.0 per cent, from 11.5 per cent in Q22023.

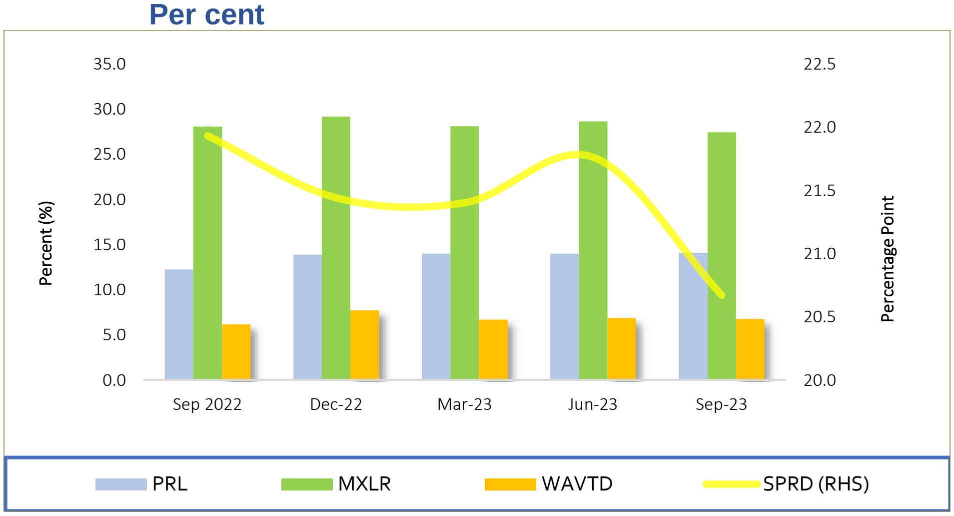
Figure 30: Developments in Short-term Interest Rates in Per cent



Source: Central Bank of Nigeria

Average prime and maximum lending rates rose marginally by 0.2 and 1.2 percentage points to 14.1 and 28.6 per cent in Q32023, as against 13.9 and 27.4 per cent, respectively, in the preceding quarter. On the contrary, the weighted average term deposit (WAVTD) rate fell marginally by 0.2 percentage point to 6.7 per cent, from 6.9 per cent in the preceding quarter. Thus, the spread between the weighted average term deposit and maximum lending rates narrowed to 20.7 percentage points, from 21.8 percentage points in the preceding quarter.

Figure 31: Trend in Average Term Deposit and Lending Rates in Per cent



Source: Central Bank of Nigeria.

Note: PLR= Prime lending rate; MLR= Maximum lending rate; WAVTD= Weighted Average term deposit rate; and SPRD= Spread.

2.3.3.2 Capital Market Developments

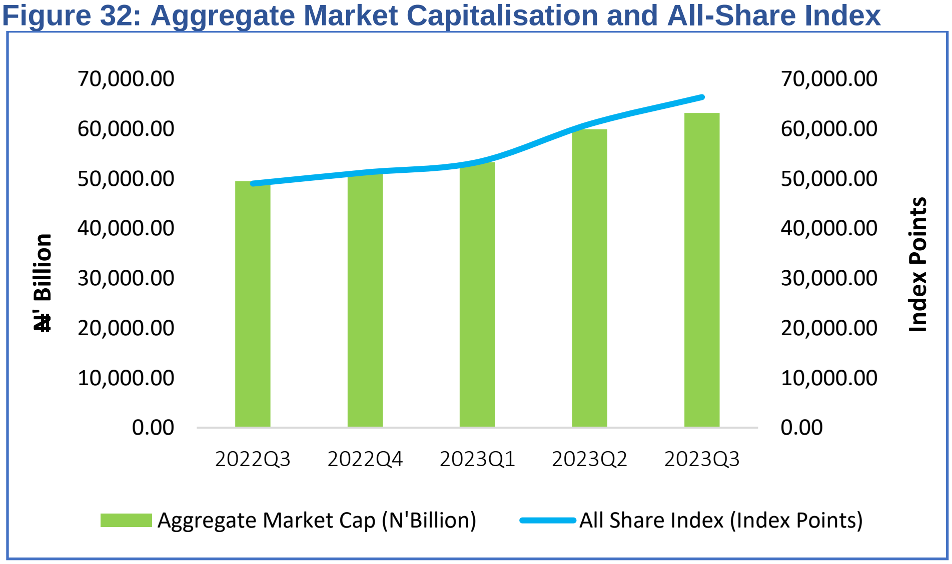
Market Capitalisation

Activities on the Nigerian Exchange (NGX) Limited were bullish, driven by favourable half-year corporate earnings, new listings, and take-up of right issues on the exchange. Aggregate market capitalisation increased by 5.5 per cent to ₦63,222.53 billion from ₦59,916.22 billion in the preceding quarter. A disaggregation of the components of the aggregate market capitalisation showed that, the equities, debt, and Exchange Traded Funds (ETF) rose by 9.4, 0.6 and 28.2 per cent, to close at ₦36,337.04 billion, ₦26,872.31 billion and ₦13.20 billion, respectively. The equities, debt, and ETF components constituted 57.3, 42.5 and 0.2 per cent, respectively, of total market capitalization.

NGX All- Share Index

The All-Share Index (ASI) rose by 8.9 per cent to 66,382.14 index points, relative to 60,968.27 index points in the preceding quarter. The performance of the ASI was, mainly, driven by the favourable half-year corporate earnings. The indices in all the segments tracked were bullish except for the NGX-ASeM which trended downward, relative to the levels in the preceding quarter.

Figure 32: Aggregate Market Capitalisation and All-Share Index



Source: Nigerian Exchange (NGX) Limited

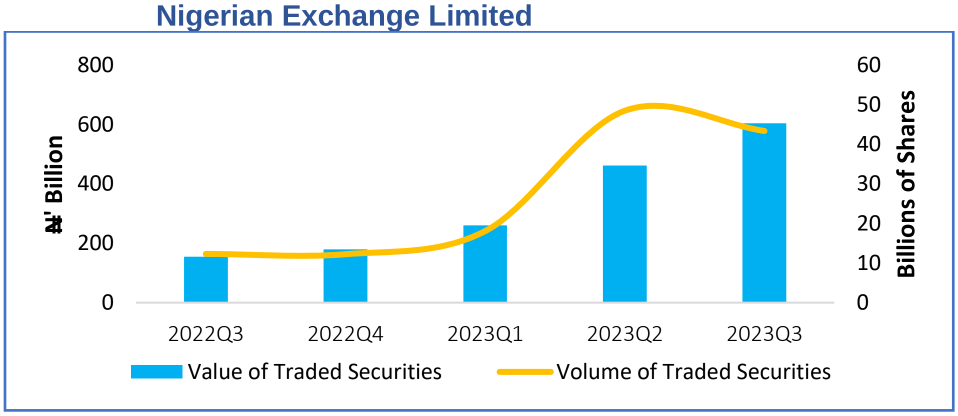
Table 10: Nigerian Exchange (NGX) Limited Sectoral Indices

Sectoral Indices	Q22023	Q32023	Change (%)
NGX-Insurance	277.07	283	2.1
NGX-Oil/Gas	775.85	914.02	17.8
NGX- AFR Bank Value	1,570.77	1,648.45	4.9
NGX- MERI Growth	3,396.92	4,269.37	25.7
NGX- MERI Value	3,543.64	3,938.19	11.1
NGX-Bank	645.42	666.22	3.2
NGX- AFR Div Yield	5,064.38	6,571.72	29.8
NGX-Pension	2,581.82	2,848.38	10.3
NGX-CG	1,788.36	1,863.18	4.2
NGX-Consumer Goods	894.76	1,132.38	26.6
NGX-Premium	6,256.51	6,775.03	8.3
NGX-Lotus II	4,039.16	4,323.21	7.0
NGX-30	2,201.23	2,442.11	10.9
NGX-Mainboard	2,675.20	2,951.55	10.3
NGX-Industrial Goods	2,491.31	2,662.86	6.9
NGX-AseM	659.42	658.99	-0.1
NGX-Sovereign Bond	762.86	769.82	0.9
NGX-Growth	2,493.13	2771.87	11.2
NGX-Pension Board	1,052.79	1,160.90	10.3

Source: *Nigerian Exchange (NGX) Limited*

The value of traded securities on the Exchange increased by 31.0 per cent to ₦603.64 billion, while the volume of traded securities declined by 10.6 per cent to 43.30 billion shares in 519,699 deals, relative to ₦460.77 billion, and 48.41 billion shares, in 398,744 deals recorded in the preceding quarter

Figure 33: Volume and Value of Traded Securities on the Nigerian Exchange Limited



Source: *Nigerian Exchange (NGX) Limited.*

There were twenty-two (22) new listings, one (1) delisting, and thirteen (13) supplementary listings on the Exchange, compared with three (3) new listings and two (2) de-listings in the previous quarter. The new listings in the review quarter comprised two (2) savings bonds and one (1) rights issue.

Table 11: Listings on the Nigerian Exchange Limited

Company/Security	Shares Units/Price	Remarks	Listing
Sovereign Trust Insurance Plc	2,841,116,504 Units at 50 kobo each	Rights Issue	New
15.64% FGN DEC 2032	130,000,000 units at ₦1000 each	Sukuk Bond	New
McNichols Consolidated Plc	531,242,609 units at 50 kobo each	Rights Issue	New
Fidelity Bank Plc	3,037,414,308 units at 50 kobo each	Rights Issue	Supplementary
9.070% FGNSB JULY 2025	284,156 units at ₦1000 each	Savings Bonds	New
10.070% FGNSB JULY 2026	755,551 units ₦1000 each	Savings Bonds	New
Ardova Petroleum Plc	Entire Issued Shares	Delisting	Delisting
Flour Mills of Nigeria Plc./ 14.50% FMN MAY 2026	46,000,000 units at ₦1,000 each.	Unsecured Bond	New
MTN Nigeria Communication Plc	641,047,053 Units at 2 kobo each	Scrip Dividend Election Scheme	New
Sovereign Trust Insurance Plc	2,841,116,504 units at 50 kobo each	Rights Issue	New
9.634% FGNSB AUG 2025	421,763 units at ₦1000 each	Savings Bonds	New
10.634% FGNSB AUG 2026	1,057,470 units at ₦1000 each	Savings Bonds	New
Nigerian Exchange Group Plc/ NGX30H4	₦2,616.75	Futures Contract	New
Nigerian Exchange Group Plc/ NGXPENSIONH4	₦3,022.25	Futures Contract	New
FCMB Group Plc/ 16% FCMG FEB 2028	20,686,000 units at ₦1000 each	Unsecured Bond	New
Wema Bank Plc	8,572,022,765 units at 50 kobo each	Rights Issue	New
14.70% FGN JUN 2033	18,570,000 units at ₦1000 each	Savings Bond	New
15.45% FGN JUN 2038	100,643,000 units at ₦1000 each	Savings Bond	New
15.70% FGN JUN 2053	221,562,000 units at ₦1000	Savings Bond	New
Chapel Hill Denham Management Limited/ Nigeria Infrastructure Debt Fund	853,694,759 units at ₦108.39 each	Debt Fund	New
VFD Group Plc	190,027,365 at ₦244.88 each	Initial Offer	New
Jaiz Bank Plc	5,408,356,536 at 50 kobo each	Rights Issue	New
FBN Holdings Plc	8,973,823,198 units at ₦15.50 each	Rights Issue	New
VFD Group Plc	63,342,455 units at ₦197.33 each	Rights Issue	New
13.98% FGN FEB 2028	539,364,000 units	Savings Bond	Supplementary
12.50% FGN APR 2032	149,379,000 units	Savings Bond	Supplementary
14.80% FGN APR 2049	788,556,000 units	Savings Bond	Supplementary

Company/Security	Shares Units/Price	Remarks	Listing
13.00% FGN JAN 2042	148,899,000 units	Savings Bond	Supplementary
12.98% FGN MAR 2050	509,898,000 units	Savings Bond	Supplementary
14.55% FGN APR 2029	193,077,000 units	Savings Bond	Supplementary
14.70% FGN JUN 2033	72,950,000 units	Savings Bond	Supplementary
15.45% FGN JUN 2038	298,346,000 units	Savings Bond	Supplementary
15.70% FGN JUN 2053	998,774,000 units	Savings Bond	Supplementary
14.70% FGN JUN 2033	72,950,000 units	Savings Bond	Supplementary
15.45% FGN JUN 2038	298,346,000 units	Savings Bond	Supplementary
15.70% FGN JUN 2053	998,774,000 units	Savings Bond	Supplementary

Source: Nigerian Exchange Limited (NGX).
Notes: FGN=Federal Government of Nigeria; Plc=Public Limited Liability Company

2.3.3.3 Financial Soundness Indicators

The soundness of the banking industry was sustained in the review quarter as relevant indicators remained within regulatory thresholds.

The banking system Capital Adequacy Ratio (CAR) rose marginally by 0.8 percentage point to 12.0 per cent, relative to the 11.2 per cent in the preceding quarter. The development reflected a rise in the banks' total qualifying capital relative to the increase in risk weighted assets, due to half-year retained earnings. The ratio remained above the 10.0 per cent benchmark for banks with National authorisation, but below the 15 per cent threshold for banks with international authorisation.

Banks' asset quality measured by the ratio of non-performing loans (NPL) to total loans and advances at 4.2 per cent, was better than the prudential benchmark of 5.0 per cent, but 0.1 percentage point above the level in the preceding quarter. The industry Liquidity Ratio (LR) was 53.7 per cent, above the minimum regulatory benchmark of 30.0 per cent. It was, however, below the 62.2 per cent in the preceding quarter.

2.4 EXTERNAL SECTOR DEVELOPMENTS

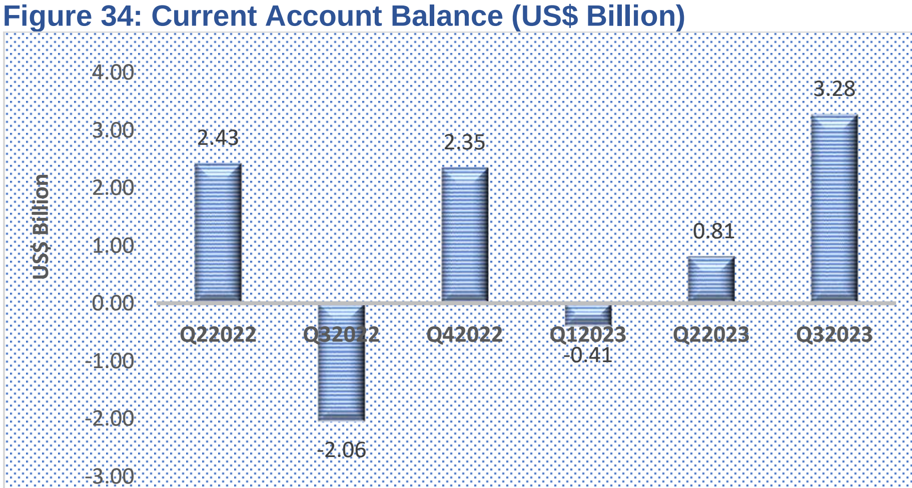
Summary

Despite the pressure on the external sector, the current account posted a higher surplus than the level in the preceding quarter. The surplus in the current account improved on account of a favourable trade balance arising from higher export receipts and lower import bills. The financial account recorded a higher net incurrence of financial liabilities, driven by inflow of direct investment equities and higher purchase of fixed income securities. The external reserves stood at US$32.79 billion at end-September 2023, compared with the US$33.75 billion at end-June 2023. The level of external reserves could cover 6.3 months of import for goods and services or 8.7 months of import for goods only. The average exchange rate of the naira per US dollar at the Nigerian Autonomous Foreign Exchange Market (NAFEM) was ₦764.82/US$, compared with the ₦511.23/US$ in Q22023. The international Investment Position recorded a higher net financial liability of US$54.29 billion.

2.4.1 Current and Capital Account

The current account surplus was sustained in the review quarter. A current account surplus of US$3.28 billion or 4.0 per cent of GDP was recorded in Q32023, attributable to a favourable trade balance following the significant surplus in the goods account. The trade balance was higher than the US$0.81 billion or 0.8 per cent of GDP recorded in the preceding quarter, mainly, due to increased export earnings, and lower import bills.

Figure 34: Current Account Balance (US$ Billion)



Source: *Central Bank of Nigeria*

Export Performance

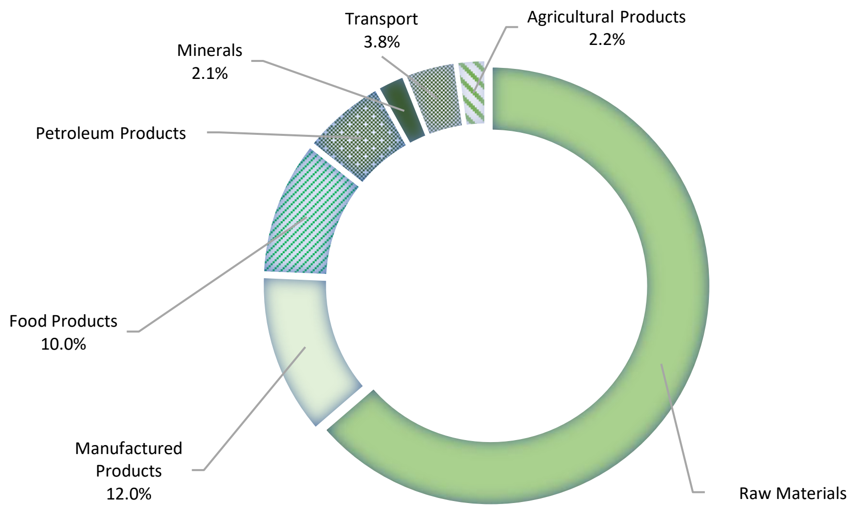
Merchandise export earnings rose on account of higher oil receipts. Aggregate export earnings increased by 7.0 per cent to US$13.70 billion, from US$12.80 billion in Q22023. A breakdown showed that oil receipts rose by 13.7 per cent to US$12.64 billion, from US$11.12 billion in Q22023, due to increase in the price and production of crude oil, to $89.91 per barrel from $80.15 per barrel and to 1.20mbpd from 1.14mbpd in Q22023, respectively. The rise in crude oil prices was attributed to the agreement between Saudi Arabia and Russia to extend their production cuts till the end of 2023. On the other hand, non-oil export receipts declined by 37.1 per cent to US$1.06 billion, from US$1.68 billion in the preceding quarter, following the decline in the receipts from electricity and other non-oil export. In terms of share, crude oil and gas export constituted 92.3 per cent of total export, while non-oil export accounted for the remaining 7.7 per cent.

Merchandise Import

Merchandise import bills decreased, following reduced importation of oil and non-oil products. Merchandise import fell by 16.7 per cent to US$10.53 billion, from US$12.65 billion in Q22023, due to lower importation of oil and non-oil products. Importation of oil products fell by 22.5 per cent to US$3.51 billion, from US$4.54 billion in the preceding quarter. Similarly, the importation of non-oil products fell by 13.5 per cent to US$7.02 billion, from US$8.11 billion in the preceding quarter. Analysis by share showed that non-oil import remained dominant, accounting for 64.1 per cent of the total, while petroleum products constituted the balance of 35.9 per cent.

A breakdown of import by sector revealed that raw materials and machinery accounted for the largest share of 63.6 per cent. Other sectoral import shares were manufactured products, 12.0 per cent; food products (10.0%), petroleum products (6.2%), transport (3.8%), agricultural products (2.2%), and minerals (2.1%).

Figure 35: Import by sector in Per cent



Source: *Central Bank of Nigeria*

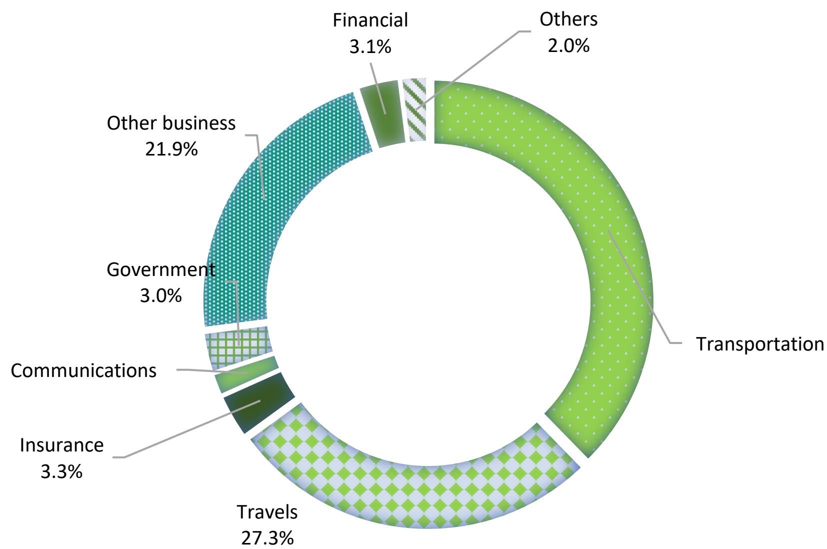
Services

The deficit in the services account, widened, due to higher payments for travel and financial services. It rose by 3.5 per cent to US$3.31 billion, from US$3.20 billion in Q22023, driven, largely, by higher payments for other related travels.

An analysis of services revealed that the total payments rose to US$4.46 billion, from US$4.30 billion in the preceding quarter. Payments for travel, financial, and government goods and services, rose by 52.2, 89.9 and 62.2 per cent, to US$1.21 billion, US$0.14 billion, and US$0.14 billion, respectively. On the other hand, payments for transportation, insurance and pension services, telecommunications, other business services, personal, cultural & recreation services decreased by 7.5, 9.8, 54.2, 12.0 and 17.8 per cent to US$1.68 billion, US$0.15 billion, US$0.08 billion, US$0.98 billion, and US$0.03 billion, respectively.

In terms of share, transportation services was the largest at 37.7 per cent, while travels was 27.3 per cent. Other business services, insurance, and pension, financial, government services and telecommunications, accounted for 21.9, 3.3, 3.1, 3.0 and 1.7 per cent, respectively. Other categories of services accounted for the balance of 2.0 per cent.

Figure 36: Share of Service Out-Payments in Per cent



Source: *Central Bank of Nigeria.*

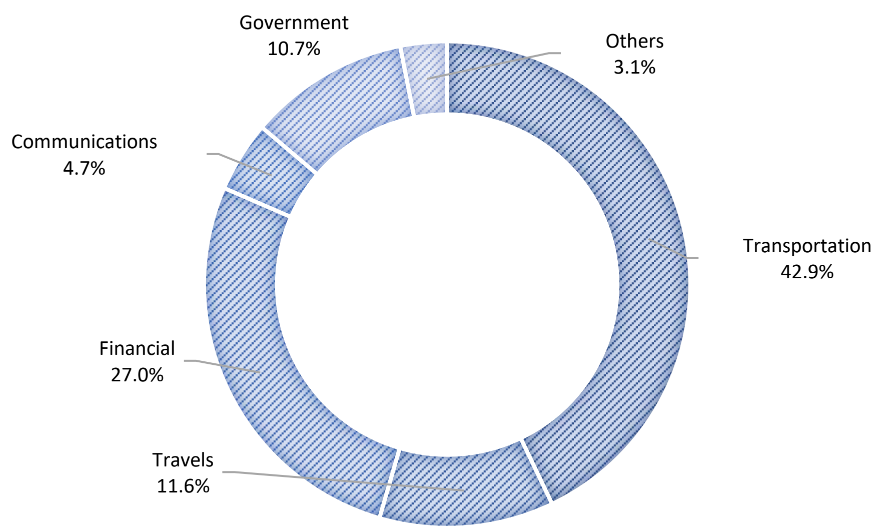
Source: *Central Bank of Nigeria.*

At US$1.14 billion, receipts from services increased by 3.6 per cent, driven, mainly by transport and financial services. Transport services rose by 4.2 per cent to US$0.49 billion, due to higher freight costs in sea transportation services, while financial services increased by 39.9 per cent to US$0.31 billion, compared with its level in the preceding quarter.

Government goods and services also increased by 8.1 per cent to US$0.12 billion, relative to the level in the preceding quarter. Receipts from travel services, however, decreased by 32.0 per cent to US$0.13 billion, compared with US$0.19 billion in the preceding quarter.

In terms of share, receipt from transportation services was 42.9 per cent; financial services, 27.0 per cent; travels, 11.6 per cent; government goods and services, 10.7 per cent; and telecommunication services, 4.7 per cent. Others accounted for the balance of 3.1 per cent.

Figure 37: Share of Services Receipts in Per cent



Source: Central Bank of Nigeria.

Primary Income

The deficit in the primary income account widened, due to higher investment income payments by non – residents. The deficit in the primary income account increased by 9.3 per cent to US$1.88 billion from US$1.72 billion in Q22023. This increase was primarily driven by 18.2 per cent increase in investment income payments, which amounted to US$2.59 billion, compared with US$2.19 billion in the preceding quarter. Equity and investment payment increased by 21.0 per cent to US$1.51 billion, from US$1.25 billion in the preceding quarter. Similarly, interest payments on loans increased to US$0.70 billion, from US$0.65 billion in the second quarter. In contrast, dividend payments declined by 8.1 per cent to US$1.83 billion, from US$1.99 billion in the second quarter.

The compensation of employees account maintained a surplus position of US$0.07 billion, higher by 18.6 per cent, compared with the level in the preceding quarter.

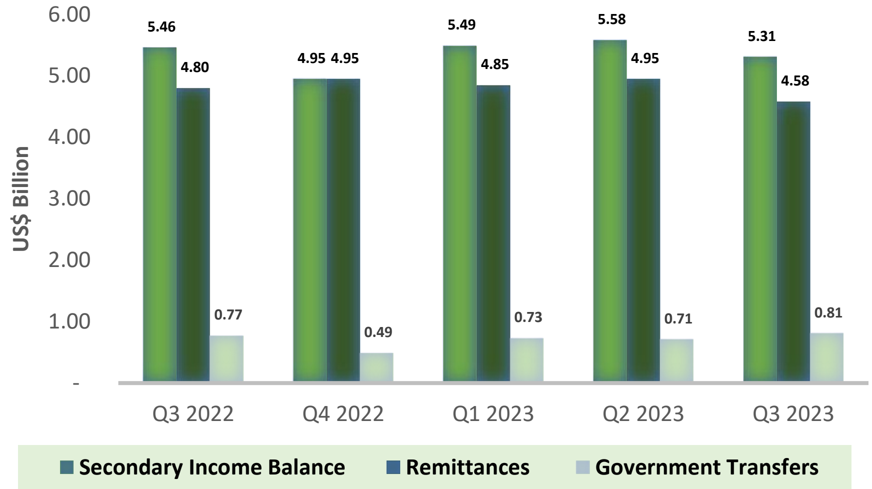
Figure 38: Primary Income Balance (US$ Billion)

Source: *Central Bank of Nigeria.*

Secondary Income

The secondary income account maintained a surplus position, albeit, lower than in the preceding quarter. The secondary income account surplus decreased by 4.8 per cent to US$5.31 billion, from US$5.58 billion in Q22023. The development was attributed to lower inflow of personal transfers, which declined by 7.4 per cent to US$4.59 billion on account of weaker economic performance, particularly, in advanced economies. General government transfers, on the other hand increased by 13.4 per cent to US$0.81 billion from US$0.71 billion in the preceding quarter, as grants increased.

Figure 39: Secondary Income Balance and Remittances Inflow (US$ Billion)



Source: Central Bank of Nigeria.

2.4.2 Financial Account

Financial Account Developments

The financial account recorded a higher net incurrence of financial liabilities, driven by portfolio investment debt securities. The financial account recorded a higher net incurrence of liabilities of US$3.74 billion or 4.6 per cent of GDP, compared with US$1.25 billion or 1.2 per cent of GDP in Q22023.

Net Incurrence of Liability

There was an inflow of US$2.86 billion, compared with US$2.23 billion in the preceding quarter. The development was a result of increased portfolio investment, occasioned by higher investments in debt instruments by non-residents. FDI recorded a divestment of US$0.20 billion, relative to US$0.07 billion in Q22023, due to divestment in direct investment equities. 'Other investment' also recorded a divestment of US$0.31 billion, in contrast to an inflow of US$0.02 billion in the preceding quarter.

Net Acquisition of Asset

There was a disposal of US$0.87 billion in aggregate financial assets, compared with an acquisition of US$0.98 billion in Q22023. The development reflected the disposal of direct and other investments, particularly, equity and investment fund shares and reduction in the holdings of foreign currency and deposits by residents. In contrast, portfolio investments recorded a higher net acquisition of US$0.07 billion, compared with US$0.05 billion in Q22023.

2.4.3 External Debt

Public Sector External Debt

Nigeria's public sector external debt stock and external debt service payment at end-June 2023 stood at US$43.16 billion or 10.4 per cent of GDP and US$0.37 billion, respectively. A breakdown showed that the multilateral loans, from the World Bank, International Monetary Fund, and African Development Bank Groups, amounted to US$20.79 billion, accounting for 48.2 per cent of the total. A total of US$15.62 billion or 36.2 per cent of the total was borrowed from commercial sources in the form of Euro Bonds. Loans from bilateral sources was US$5.52 billion, or 12.8 per cent of the total, promissory notes were US$0.93 billion, or 2.2 per cent of the total, while syndicated loan (arranged by African Finance Corporation) stood at US$0.30 billion or 0.7 per cent of the total debt stock.

The external debt service payment stood at US$0.37 billion at end-June 2023, relative to US$0.80 billion in the preceding quarter. A breakdown showed that interest payment totalled US$0.21 billion, accounting for 56.8 per cent of the entire debt service payment. Principal repayment totalled US$0.13 billion, or 35.1 per cent of the total, while other payments made up the balance. An analysis of interest payments showed that interest payment on commercial borrowings accounted for 76.2 per cent of the total at US$0.21 billion, while interest on multilateral loans amounted to US$0.04 billion or 19.1 per cent of the total. Interest payments to bilateral institutions accounted for the balance.

2.4.4 International Investment Position (IIP)

International Investment Position

Nigeria's International Investment Position was a higher net financial liability of US$67.21 billion. The stock of financial assets decreased to US$107.78 billion at Q32023, compared with US$109.59 billion in the preceding quarter, due, largely to the 2.7 per cent fall in 'reserve asset'. The direct investment assets also declined by 1.5 per cent to US$13.45 billion, from the level at Q22023, owing to lower investments in equities. The stock of portfolio investments, however, increased by 1.2 per cent to US$4.10 billion, relative to the preceding quarter.

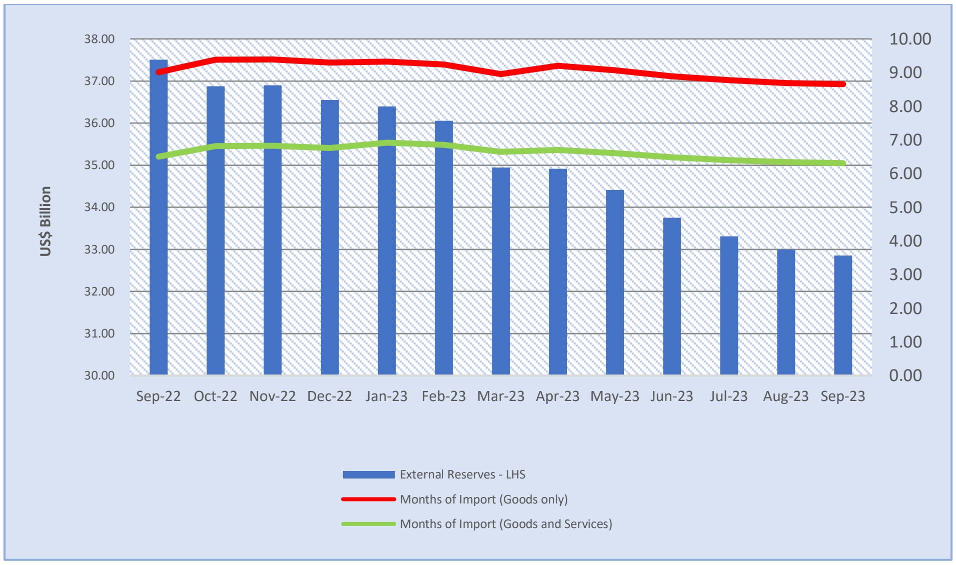
The stock of financial liabilities increased by 1.9 per cent to US$174.99 billion, from US$171.79 billion at Q22023. The increase was attributed, mainly, to the growth in the stock of portfolio investment liabilities, which rose by 12.1 per cent to US$31.91 billion, from its Q22023 level. The stock of direct investment and other investment liabilities were US$73.51 billion and US$66.47 billion, compared with US$72.08 billion and US$67.87 billion, respectively.

2.4.5. External Reserves

International Reserves

The external reserves remained well above the international benchmark for import cover. The external reserves stood at US$32.79 billion at Q32023, relative to US$33.75 billion in Q22023. The level of external reserves could cover 6.3 months of import for goods and services or 8.7 months of import for goods only.

Figure 40: External Reserves in US$ Billion and Months of Import Cover



Source: Central Bank of Nigeria

A disaggregation of the external reserves showed that holdings by the CBN was US$28.84 billion; Federal Government, US$3.95 billion; while the Federation held the balance of US$0.66 million. In terms of currency composition, the US dollar was US$24.81 billion, (75.7%); Special Drawing Rights US$4.42 billion (13.5%); Chinese Yuan US$3.17 billion (9.7%); British Pounds US$0.21 billion (0.6%); Euro US$0.17 billion (0.5%); while other currencies accounted for the balance.

2.4.6 Foreign Exchange Flows through the Economy

Foreign Exchange Flows through the Economy

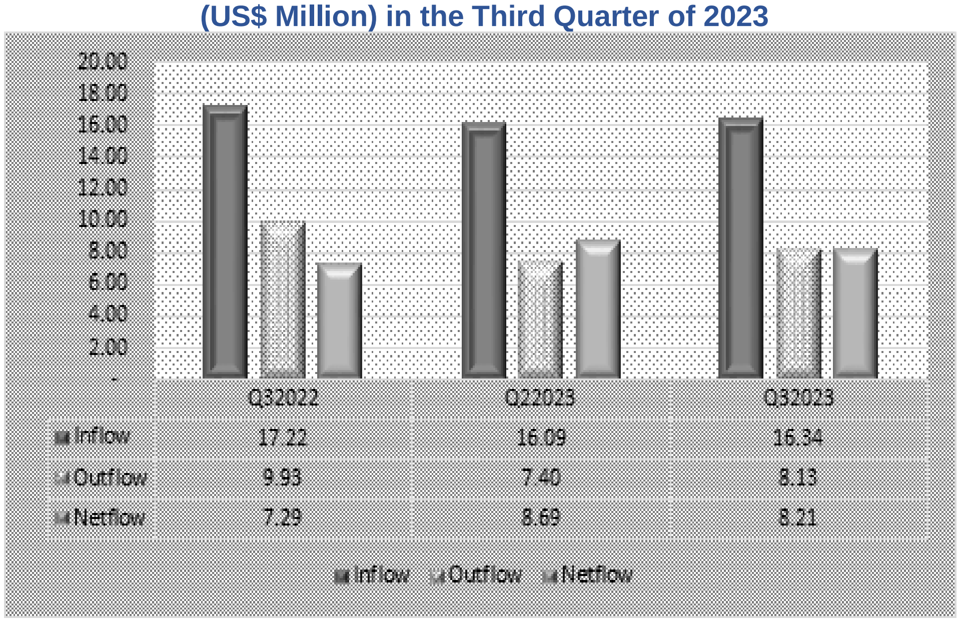
Net foreign exchange inflow to the economy stood at US$8.22 billion in the review quarter. Foreign exchange inflow to the economy increased by 1.6 per cent to US$16.34 billion from US$16.09 billion in Q22023. Foreign exchange inflow through the Bank increased to US$6.37 billion from US$5.41 billion in the preceding quarter. Inflow through autonomous sources, however, decreased to US$9.97 billion, from US$10.68 billion in the preceding quarter.

Foreign exchange outflow through the economy rose by 9.7 per cent to US$8.12 billion, relative to US$7.40 billion in the Q22023. Outflow through the Bank increased by 13.1 per cent to US$7.20 billion from US$6.37 billion in the preceding quarter. Autonomous outflow, however, fell by 11.0 per cent to US$0.92 billion as against the US$1.04 billion in the preceding quarter.

Net foreign exchange inflow through the economy

Consequently, net foreign exchange inflow to the economy decreased by 5.4 per cent to US$8.22 billion as against the US$8.69 billion in the preceding quarter. Net inflow through autonomous sources, also fell to US$9.04 billion from US$9.64 billion in the preceding quarter. Net outflow of US$0.82 billion was, however, recorded through the Bank, compared with the net outflow of US$0.96 billion in the preceding quarter.

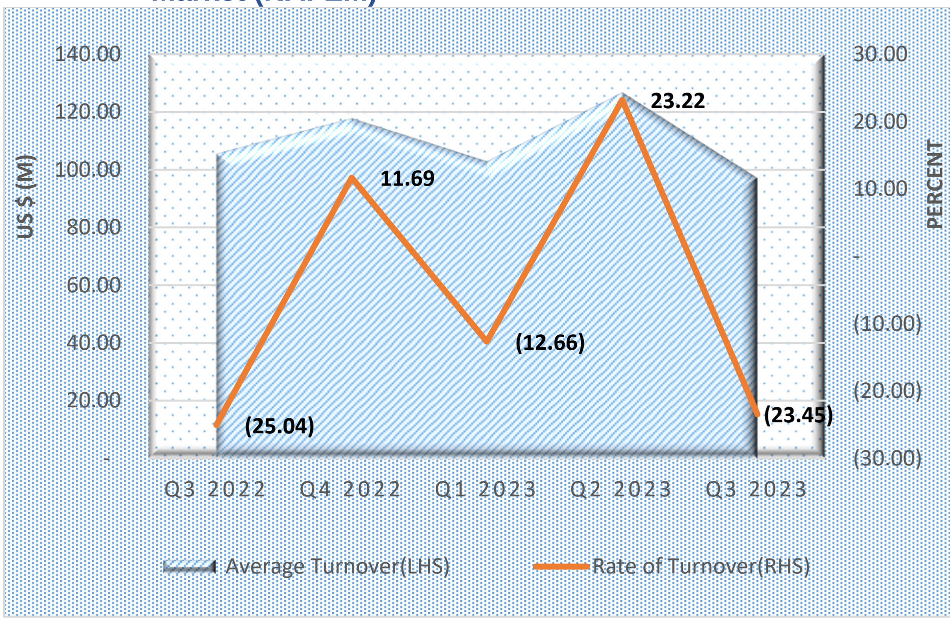
Figure 41: Foreign Exchange Transactions through the Economy (US$ Million) in the Third Quarter of 2023



Source: Central Bank of Nigeria

The average turnover at the Nigerian Autonomous Foreign Exchange Market (NAFEM) declined by 23.5 per cent to US$0.97 billion relative to the US$0.13 billion in Q22023.

Figure 42: Turnover in the Nigerian Autonomous Foreign Exchange Market (NAFEM)



Source: Central Bank of Nigeria.

2.4.7 Exchange Rate Movement

Average Exchange Rate

The average exchange rate of the naira per US dollar at the NAFEM was ₦764.82/US$, compared with the ₦511.23/US$ in Q22023.

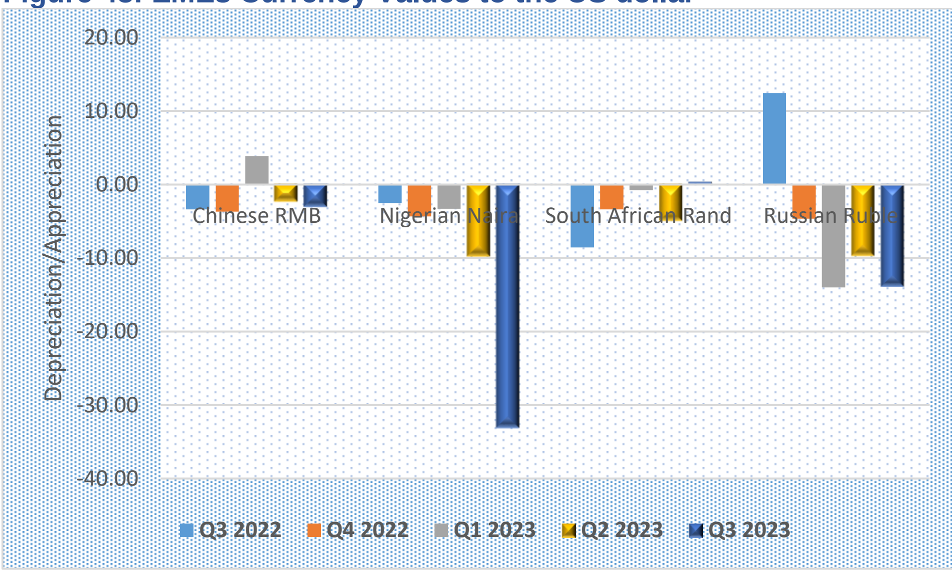
Box 2: Other Developments in the Exchange Rate Market

To enhance transparency and accountability in the foreign exchange market, the Bank announced the commencement of the price verification system portal (PVS) as a requisite for form M application. The Bank also announced the operational mechanism for the Bureau De Change (BDC) segment of the market that the spread on buying and selling by BDC Operators shall be within an allowable limit of -2.5% to +2.5% of the NAFEM weighted average rate of the previous day. Mandatory rendition by BDC operators of the statutory periodic reports (daily, weekly, monthly, quarterly, and yearly). Where Operators do not have any transactions within the period, they are expected to render nil returns.

Naira against Emerging Market Currencies Selected International Currencies

Most emerging market currencies depreciated against the US dollar during the review quarter. The Russian ruble and Chinese RMB depreciated by 14.0 and 3.1 per cent, respectively, relative to the levels in the preceding quarter. The depreciation of the Russian ruble was due to the ongoing war in Ukraine, Western sanctions, and rising inflation, while the depreciation of the Chinese RMB was attributed to weakening domestic economy, a divergence in monetary policy between China and the United States, and a strengthening US dollar. Conversely, the South African rand appreciated by 0.3 per cent due to improved investor sentiment, stronger economic growth, higher commodity prices, lower inflation, and central bank intervention.

Figure 43: EMEs Currency Values to the US dollar



Sources: Central Bank Nigeria & Reuters

Table 12: EMEs Currency Rates to the US dollar

Period	Chinese RMB	Nigerian Naira	South African Rand	Russian Ruble
Q3 2022	6.85	426.35	17.03	60.11
Q2 2023	7.01	511.23	18.70	81.20
Q3 2023	7.24	764.82	18.64	94.37

Sources: Central Bank of Nigeria & Reuters

3.0 Economic Outlook

Global Economic Outlook

Global economic growth is expected to moderate to 3.0 per cent in 2023, from 3.5 per cent in 2022[5]. The projected slowdown in economic growth is, largely, attributed to slow and uneven recovery from the consequences of the COVID-19 pandemic, the Russian-Ukraine war, and the effects of increasing geoeconomic fragmentation, and monetary policy tightening. Divergence in growth is expected across economies. In AEs, growth is expected to slow to 1.5 per cent, from 2.6 per cent in 2022, on account of labour shortages, weaker manufacturing activities, and the tight monetary policy stances. For EMDEs, growth is expected to decline modestly to 4.0 per cent, from 4.1 per cent in 2022, albeit at varying levels across different regions within the EMDEs. While growth in emerging and developing Asia is expected to rise in 2023 on account of expectations of higher demand, economic activities in sub-Saharan Africa are projected to decline, due to worsening weather conditions, global economic slowdown and supply chain constraints.

Global headline inflation is projected to decline from its peak of 8.7 per cent in 2022 to 6.9 per cent in 2023, with AEs experiencing the most significant disinflation due to monetary tightening and lower exposure to shocks from commodity prices and exchange rates.

Domestic Economic Outlook

The near-term outlook for Nigeria's economic growth remains positive, despite some headwinds. The optimistic outlook is underpinned by anticipated favourable trend in crude oil prices and higher level of output. The strategic decision to phase out PMS subsidy is expected to increase the fiscal space, offering an added stimulus for growth. The growth prospect, however, is subject to some downside risks including global economic uncertainties, domestic security challenges, and higher debt service obligations.

Inflationary pressure may persist in the short-term, partly, on account of higher domestic price of PMS and import costs. Other factors that could add pressures to consumer prices include the impact of climate change on agricultural output, and higher spending associated with end-of the year festivities and off-cycle elections. The sustained tight

[5] IMF WEO (October 2023)

monetary policy stance and improvement in global supply chain, however, are expected to moderate inflationary pressures.

The outlook for the external position of Nigeria remains optimistic, driven by sustained crude oil price rallies and increased domestic oil production. Specifically, sustained production cuts by OPEC+ through Q42023 leading to higher crude oil prices and earnings, and gains from capital flows and remittances would support the external reserves outlook. The risks of capital reversals is, however, heightened by sustained monetary tightening in advanced economies.