CENTRAL BANK OF NIGERIA

# MONETARY POLICY REVIEW

AUGUST 2019

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# Central Bank of Nigeria

## Mandate

▪Ensure monetary and price stability

▪Issue legal tender currency in Nigeria

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

▪Promote a sound financial system in Nigeria

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

## Vision

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

## Mission Statement

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

## Core Values

- Meritocracy
- Leadership
- Learning
- Customer - Focus

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## STATEMENT BY THE GOVERNOR

Developments in the global and domestic economic and financial environment remained the key drivers of monetary policy in the first half of 2019. From the global environment, key challenges to monetary policy included: persisting financial market vulnerabilities in Emerging Market and Developing Economies (EMDEs); slowdown in the Chinese economy; tightening global financial conditions; the growing trade war between the US and China; uncertain BREXIT negotiations, and indications of renewed tension on the Korean Peninsula. Other indicators of growing uncertainty in the global economy were the uncertainty associated with continuing monetary policy normalization in the US, the European Central Bank's (ECB) decision to halt its monetary policy normalization programme, and continued asset purchase by the Bank of Japan (BoJ).

On the domestic front, inflationary pressure moderated on the back of healthy accretion to external reserves, due to the relatively stable oil prices in the international market. This helped the Bank sustain its intervention in the foreign exchange market which further stabilized the exchange rate. Consequently, headline inflation declined by 0.15 percentage point from 11.37 per cent in January to 11.22 per cent in June 2019.

The fragile recovery of the domestic economy from recession weakened further during the review period. The development was attributed to the lull in fiscal activities as a result of the 2019 electioneering activities, delay in the constitution of the federal cabinet, the late passage of the 2019 Federal Government budget, as well as lingering security challenges across the country. Consequently, growth in real Gross Domestic Product (GDP) moderated to 1.94 per cent (year-on-year) in the second quarter of 2019 from 2.10 per cent in the preceding quarter, and 1.50 per cent in the corresponding period of 2018.

The foregoing provided the context for the conduct of monetary policy during the review period. Consequently, the Monetary Policy Committee (MPC) sustained the MPR at 14.0 per cent until its March 2019 meeting when it was adjusted downwards by 50 basis points to 13.5 per cent, to signal a pro-growth stance and to encourage the flow of credit to the productive sectors of the economy. The asymmetric corridor of +200 and -500 basis points around the MPR as well as other policy parameters were, however, retained.

The money market remained active in the review period, with market rates largely reflecting liquidity conditions in the banking system. The capital market remained

bearish, reflecting continuing negative investor sentiments, in response to perceived sovereign risk and weakening macroeconomic conditions. Consequently, the All-Share Index (ASI) decreased by 4.66 per cent to 29,966.87 at end-June 2019 from 31,430.50 at end-December 2018.

The outlook for domestic output growth in 2019 remains sluggish but promising. This is due to weaker-than-expected domestic demand amid high unemployment. Other headwinds to the growth outlook include: low credit flows to the private sector, high and sticky NPLs ratios, fall in capital and remittance inflows, persisting insecurity in the food producing areas as well as threat to budget implementation as a result of the underperformance of crude oil production and price below the 2019 budget benchmarks. The price outlook indicates continuing moderation into the second half of 2019. Upside risk to the outlook remain food shortages resulting from insecurity in agricultural producing areas of the country, liquidity injection from the implementation of the FGN budget and increased FAAC disbursements.

The thrust of monetary policy in the near term will be to support the fragile economic recovery, and manage expectations to ensure that the downside risks to growth and upside risks to inflation are well contained.

**GODWIN I. EMEFIELE**
**Governor, Central Bank of Nigeria**
**August 2019**

# CHAPTER ONE

## 1.0 OVERVIEW

During the first half of 2019, monetary policy was influenced by key developments in the global and domestic economic and financial environments. On the global front, the key challenges were: vulnerabilities in major financial markets and mounting external debt in Emerging Market and Developing Economies (EMDEs); slowdown in the Chinese economy resulting from trade war with the US; tightening global financial conditions; US imposition of a new round of sanctions on Iran; uncertain BREXIT negotiations, and indications of renewed tension on the Korean Peninsula. In addition, uncertainty surrounding the continuing monetary policy normalization by the US, the European Central Bank's (ECB) decision to halt its monetary policy normalization programme, and continued asset purchase by the Bank of Japan (BoJ), signalled a broad level of uncertainty in the global economy. Despite these challenges, oil prices remained relatively stable resulting in modest accretion to Nigeria's external reserves. This helped the Bank sustain its intervention in the foreign exchange market which resulted in stable exchange rate. Consequently, headline inflation decelerated from 11.37 per cent in January to 11.22 per cent in June 2019.

The recovery of the domestic economy from recession in 2017, weakened further due to the lull in governance activities leading to the 2019 general elections, delay in the constitution of the federal cabinet after the elections, as well as the late passage of the 2019 Federal Government budget. Other factors were: the heightened security challenge across the country, and the continued difficulties in securing market outlets for Nigerian oil. Notwithstanding, output growth remained positive due to improved government revenue and expenditure on implementing the Economic Recovery and Growth Plan (ERGP). In addition, the development finance initiatives of the Central Bank of Nigeria (CBN) also supported growth during the period. Accordingly, growth in real Gross Domestic Product (GDP) stood at 2.10 per cent (year-on-year) in the first quarter of 2019, compared with 2.38 and 1.89 per cent in the preceding and corresponding quarters of 2018, respectively.

The non-oil sector continued to drive growth, as it grew by 2.47 per cent compared with 0.76 per cent in the corresponding quarter, a 1.72 percentage point increase. Compared with the 2.70 per cent growth in the preceding quarter of 2018, it moderated by 0.23 percentage point. On the other hand, the oil sector contracted by 1.46 per cent in the first quarter of 2019 compared with the growth of 14.02 per cent in the corresponding period of 2018 and a contraction of 1.62 per cent in the preceding quarter. In the second quarter of 2019, growth in real GDP further moderated to 1.94 per cent compared with 2.10 per cent in the preceding quarter. This was, however,

higher than the growth of 1.50 per cent in the corresponding period of 2018. At 5.15 per cent, the oil sector was the major driver of growth during the second quarter; indicating significant recoveries from the contractions of 1.46 and 3.95 per cent in the preceding quarter and the corresponding period of 2018, respectively. The non-oil sector growth moderated to 1.64 per cent during the quarter, compared with 2.47 and 2.05 per cent in the preceding quarter and the corresponding period of 2018, respectively.

The Nigerian financial markets were moderately calm during the review period. The key global events that shaped developments in the market were: the escalating trade war between the US and China; impact of the new round of sanctions on Iran; difficult BREXIT negotiations; a new wave of tensions on the Korean Peninsula; and vulnerabilities arising from growing public and private debt in some Emerging Market and Developing Economies (EMDEs). As a result, financial vulnerabilities were elevated in the sovereign, corporate and non-bank financial sectors in several systemically important countries, with the risk that strains in the financial sector could again be transmitted to firms and households, thereby hurting growth. These forces were calmed by the dovish monetary policy stance of major central banks including the US Fed, the Bank of England and the European Central Bank.

Accordingly, the Central Bank of Nigeria (CBN) continued to conduct monetary policy using the various instruments in its toolkit to achieve its objectives of price and macroeconomic stability. These instruments were: the Monetary Policy Rate (MPR), the Cash Reserve Ratio (CRR), Liquidity Ratio, Open Market Operations (OMO) and Discount Window Operations, complemented with periodic interventions in the foreign exchange market. The MPR remained the key instrument for monetary policy in the review period. It was retained at 14.0 per cent until March 2019, when the Monetary Policy Committee (MPC) adjusted it downwards by 50 basis points to 13.5 per cent. This was to signal a pro-growth stance by way of encouraging the flow of credit to the productive sectors of the economy. The asymmetric corridor of +200 and -500 basis points around the MPR was, however, retained.

The primary tool used for liquidity management in the first half of 2019 remained Open Market Operations (OMO). There was a decrease in OMO sales by 10.48 per cent to ₦8,682.01 billion in the first half of 2019 from ₦9,678.76 billion in the preceding half of 2018. The decrease in OMO sales was to encourage deposit money banks to lend to the productive sectors of the economy in order to stimulate economic growth.

The money market remained active in the review period, with market rates largely reflecting liquidity conditions in the banking system. The rates oscillated outside the Standing Facilities corridor for most of the review period, and reflected the effect of: withdrawals from

the banking system for monthly disbursements of statutory Federation Account Allocation Committee (FAAC); OMO sales and foreign exchange interventions. The fall in rates from April to May 2019 was a reflection of a more accommodative monetary policy stance by the Bank following the decision of the MPC to lower the MPR in March 2019.

The foreign exchange market experienced relative stability during the first half of 2019 due to the relatively stable oil prices and improved accretion to external reserves. In addition, the Bank sustained the policy on repatriation of export proceeds as well as return of unutilized foreign exchange sourced from CBN auctions. More fundamentally, the Bank made a strategic shift towards long term stability in the foreign exchange market to deepen restriction of access to official foreign exchange for imports that can be produced locally. The policy entails encouraging the local production of such items for export by providing financial assistance in line with the recent Export Facilitation Initiative (EFI) of the Bank. The development is expected to complement existing measures such as the directive to International Money Transfer Operators (IMTOs) to sell foreign exchange to BDCs; the adoption of Bank Verification Number (BVN) in BDC transactions; as well as special foreign exchange auctions to the real sector and small and medium-scale enterprises. These measures significantly contributed in stabilizing the foreign exchange market.

Activities at the Nigerian capital market in the first half of 2019 remained bearish, reflecting continuing negative investor sentiment, attributable to rising public debt stock, perceived increase in sovereign risk and weakening macroeconomic conditions. In addition to these factors, there was significant capital outflow following continued monetary policy normalization by the US Fed. Coupled with the uncertain political environment as a result of the 2019 general elections, the market experienced significant sell-offs and profit taking activities. Consequently, the All-Share Index (ASI) decreased by 4.66 per cent to 29,966.87 at end-June 2019 from 31,430.50 at end-December 2018. Similarly, it decreased by 21.71 per cent compared with 38,278.55 at end-June 2018. Market capitalization (MC), however, increased by 12.71 per cent to ₦13.21 trillion at end-June 2019 from ₦11.72 trillion at end-December 2018. Compared with ₦13.87 trillion at end-June 2018, it fell by 4.76 per cent. The increase in market capitalization in the review period was as a result of new listings in the market, prominent amongst which were MTN, Skyway Aviation Handling Company and the merger between Access Bank and Diamond Bank.

Bond market activities in the first half of 2019 were dominated by Federal Government of Nigeria (FGN) securities. The Sub-national government and corporate bonds segments also witnessed some activity, with the latter recording the least share by market volume. The 10-year dollar-denominated bond yield for Nigeria

decreased by 232 basis points to 3.79 per cent at end-June 2019 from 6.11 per cent at end-December 2018. Compared with 4.47 per cent at end-June 2018, it fell by 211 basis points. This reflects an improvement in foreign investors' perception of long term sovereign risk of the country.

Headline inflation marginally moderated during the review period, but was still above the Bank's 6-9 per cent target. The decline was largely attributed to: moderation in food prices, and sustained intervention in the foreign exchange market. Staff estimates suggest that the year-on-year headline inflation would moderate to 11.13, 11.10, 11.18 per cent in July, August and September 2019, respectively from 11.22 per cent in June 2019 due to a gradual decline in food prices. Inflation would, however, rise to 11.29, 11.31 and 11.37 per cent in October, November and December, respectively. The upside risks to inflation remains food shortages due mainly to insecurity in the agricultural producing areas of the country, liquidity injection from the continued implementation of the 2018 FGN budget and 2019 budget, as well as increased FAAC disbursements.

The anticipated recovery of the domestic economy has been weaker than expected despite the relatively stable oil prices. Thus, real GDP moderated further to 1.94 per cent in the second quarter of 2019 from the moderation of 2.10 per cent in the first quarter. With the slowdown in GDP growth in Q2 2019, the Central Bank of Nigeria (CBN) GDP growth projection was also revised downward from 2.72 per cent to 2.27 per cent for 2019 due to weaker-than-expected domestic demand amid high unemployment, decline in crude oil and gas production and escalation of trade tensions, involving major economies (Euro Area, the United States and China) which is likely to weigh on global aggregate demand. Nevertheless, sustaining stable exchange rates, robust external reserves, financial system stability, enhanced flow of credit to the real sector, sustained calmness in the Niger Delta, improved production/export of oil to build fiscal buffers, expected improvements in tax revenue, effective implementation of the Economic Growth Recovery Plan by the Federal Government and the CBN special interventions in selected sectors of the economy is expected to support growth.

The thrust of monetary policy for the rest of 2019 will be influenced by the need to support the fragile economic recovery, and manage expectations to ensure that the downside risks to growth and upside risks to inflation are well contained.

# CHAPTER TWO

## 2.0 DEVELOPMENTS IN DOMESTIC OUTPUT

In the first half of 2019, the recovery of the domestic economy, which had remained fragile since the exit from recession in 2017, further weakened. The development was attributed to the lull in governance activities which attended preparations towards the 2019 general elections, delay in the constitution of the federal cabinet after the elections, as well as the late passage of the 2019 Federal budget. Other factors were: the heightened security challenge across the country, and the continued weakness in the oil market arising from slow global growth and uncertainties in some key oil producing countries in the Middle East. Notwithstanding, growth remained positive due to improved government revenue and accretion to external reserves, as oil prices remained relatively stable. In addition, the development finance initiatives of the Central Bank of Nigeria (CBN) also supported growth during the period.

Accordingly, growth in real gross domestic product (GDP) moderated to 2.10 per cent (year-on-year) in the first quarter of 2019, from 2.38 and 1.89 per cent in the preceding and corresponding quarters of 2018, respectively. The non-oil sector, which grew by 2.47 per cent continued to be the main driver of growth. Compared with the 2.70 per cent growth in the preceding quarter of 2018, growth moderated by 0.23 percentage point. The key drivers of the non-oil growth were Agriculture (3.17%), construction (3.18%), services (3.16%) and Trade (0.85%). The sector contributed 90.86 per cent to total real GDP in Q1, 2019 compared with 90.45 and 92.94 per cent in the corresponding and preceding quarters, respectively.

On the other hand, the oil sector contracted by 2.40 per cent in the first quarter of 2019 compared with the growth of 14.02 per cent in the corresponding period of 2018 and a contraction of 1.62 per cent in the preceding quarter. Thus, the moderation in output growth during the quarter was largely accounted for by the contraction in oil sector output. The development was largely attributed to the lack of new investments and capital inflow into the sector occasioned by the continued absence of a clear fiscal regime around the oil sector, as well as the reluctance of banks to lend to the sector as a result of high non-performing loans from previous exposures. Crude oil production in the first quarter was 1.99 mbpd up from 1.98 mbpd in the corresponding quarter of 2018, and higher than 1.91 mbpd in the fourth quarter of 2018. The Oil sector's contribution to total real GDP in the first quarter of 2019 also declined to 9.14 per cent from 9.55 per cent in the corresponding period of 2018. It was, however, an improvement compared with 7.06 per cent in the preceding quarter.

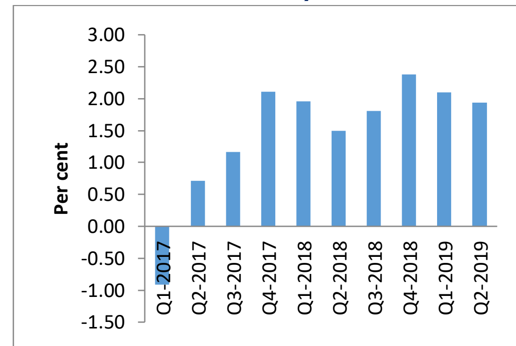
During the second quarter of 2019, output growth further moderated to 1.94 per cent (year-on-year) from 2.10

per cent in the preceding quarter. This was, however, an improvement compared with the growth of 1.50 per cent in the corresponding period of 2018.

The non-oil sector also moderated to 1.64 per cent in the second quarter, compared with the growth of 2.47 and 2.05 per cent in the preceding quarter and the corresponding period of 2018, respectively. The key drivers of non-oil growth were Services (2.93%), Agriculture (1.79%) and Construction (0.67%). Trade and Industry, however, contracted by 0.25 and 0.17 per cent, respectively. The non-oil sector contributed 91.18 per cent to total real GDP in Q2 2019 compared with 91.45 and 90.78 per cent in the preceding and corresponding quarters, respectively. Thus, the moderation in output growth during the quarter was largely accounted for by the slowdown in non-oil sector output.

The oil sector grew significantly by 5.15 per cent in the second quarter of 2019 compared with the contractions of 3.95 and 1.46 per cent in the preceding quarter and in the corresponding period of 2018, respectively. The development was largely attributed to the sustained peace in the Niger Delta region which resulted in a healthy oil production. Crude oil production in the quarter rose to 1.98 mbpd from 1.84 mbpd in the corresponding period of 2018, but a marginal decline compared with 1.99 mbpd in the preceding quarter of 2019. The Oil sector's contribution to total real GDP in second quarter of 2019 rose marginally to 8.82 per cent from 8.55 per cent in the corresponding period of 2018. It was, however, a decline compared with 9.22 per cent in the first quarter of 2019.

**Figure 2.1:**
**Gross Domestic Product Growth Rate (2017Q1 – 2019Q2)**




**Source: National Bureau of Statistics**

## 2.1 DOMESTIC ECONOMIC ACTIVITIES

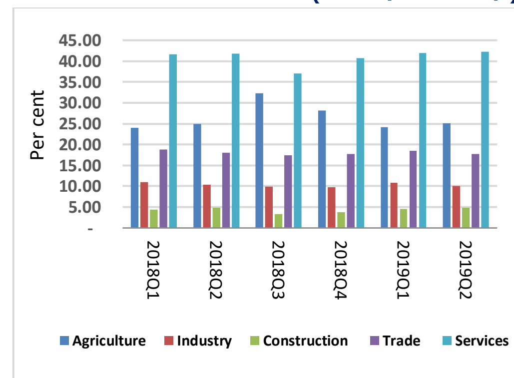
In the first half of 2019, real GDP growth was driven by activities in the non-oil sector, which grew by 2.47 per cent. This was a decrease of 0.23 percentage point relative to the preceding quarter of 2018, but an increase of 1.71 percentage points compared with 0.76 per cent in the corresponding quarter of 2018. Activities in the non-oil sector were driven by transportation (19.5%), solid minerals (11.03%), information and communications (9.48%), utilities (6.22%), accommodation and food services (4.15%), construction (3.18%), agriculture (3.17%), manufacturing (0.81%) and Trade (0.85%). These compares with their respective growth rates of 14.45, 26.29, 1.58, 8.01, 0.29, -1.54, 3.00, 3.39 and -2.57 per cent in the corresponding quarter of 2018.

The oil sector, however, contracted by 2.40 per cent, a further contraction compared with -1.62 per cent in the preceding quarter and a growth of 14.02 per cent in the corresponding period of 2018. Accordingly, average crude oil production declined to 1.96 mbpd in the first quarter of 2019 compared with 1.98 mbpd in the corresponding period of 2018; but was an increase, relative to the 1.91 mbpd in the previous quarter. The contraction in the oil sector largely accounted for the moderation in aggregate output growth during the quarter.

Activities in both the non-oil and oil sectors drove real output growth in the second quarter, 2019. The non-oil sector growth moderated to 1.64 per cent in the second quarter of 2019 from 2.47 and 2.05 per cent in the preceding quarter and the corresponding period of 2018, respectively. Activities in the non-oil sector were driven by information and communication (9.01%), transportation (8.02%), utilities (4.73%), forestry (3.23%), accommodation and food services (2.92%), other services (2.55%), and administrative and support services (2.03%). These compares with their respective growth rates of 11.81, 21.76, 8.91, 3.96, 2.43, 2.72 and -3.41 per cent in the corresponding quarter of 2018. The activities that moderated non-oil performance were: real estate (-3.84%), public administration (-3.39%), solid minerals (-2.54%) and finance and insurance (-2.24%). These activities grew respectively by -3.88, -5.21, 2.86 and 1.28 in the corresponding period of 2018.

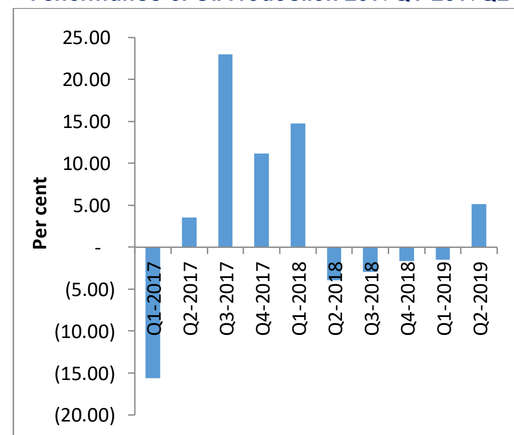
The oil sector grew significantly by 5.15 per cent in the second quarter of 2019, compared with the contractions of 1.46 and 3.95 per cent in the preceding quarter and the corresponding period of 2018, respectively.

**Figure 2.2:**
**Non-oil Sector Performance (2018 Q1 – 2019 Q2)**




**Source: National Bureau of Statistics**

**Figure 2.3:**
**Performance of Oil Production 2017Q1-2019Q2**




**Source: National Bureau of Statistics**

## 2.2 Sectoral Analysis

This section presents a review of the sectoral performance of the economy along with key institutional and policy actions which contributed to output growth in the first half of 2019.

### 2.2.1 Agriculture

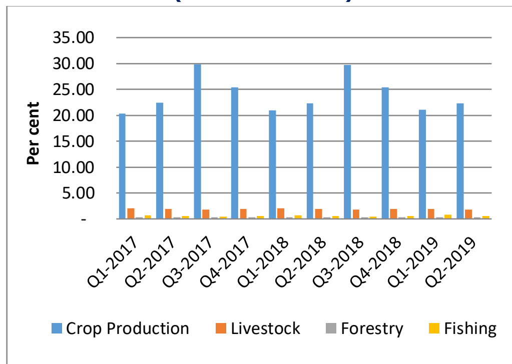
In the first quarter of 2019, real agricultural GDP expanded by 0.72 percentage point to 3.17 per cent above the 3.00 per cent in the corresponding period of 2018. The development was also an increase of 0.17 percentage point compared with 2.46 per cent in the preceding quarter. The growth of the sector was driven largely by fishing which rose remarkably by 7.09 per cent in the first quarter of 2019 from 4.25 and 1.97 per cent in the corresponding and preceding quarters of 2018, respectively. The livestock sub-sector also recorded a considerable growth of 0.88 per cent against the contraction of 1.85 per cent in the corresponding quarter of 2018. There was, however, a moderation in crop production and forestry of 3.27 and 2.19 per cent compared with their respective growth rates of 3.45 and 2.94 per cent in the corresponding quarter of 2018. Further analysis showed that the livestock, crop production and forestry sub-sectors grew by 2.35, 2.48 and 1.73 per cent, respectively, in the preceding period.

The overall contribution of the sector to real GDP in the first quarter of 2019 stood at 24.11 per cent, higher than 23.95 per cent in the corresponding quarter of 2018 but lower than 28.13 per cent in the preceding quarter.

During the second quarter, real agricultural GDP increased by 1.79 per cent over the 1.19 per cent in the corresponding quarter of 2018. The development was, however, a decline of 1.38 percentage point compared with 3.17 per cent in the preceding quarter. The growth of the sector during the quarter was driven largely by forestry which grew by 3.23 per cent compared with 3.96 and 2.19 per cent in the corresponding period of 2018 and in the preceding quarter, respectively. The crop production and fishing sub-sectors also recorded a considerable growths of 1.94 and 1.09 per cent in the second quarter above their respective growth rates of 1.49 and -1.35 per cent in the corresponding quarter of 2018. Their performance was, however, a moderation when compared with 3.27 and 7.09 per cent, respectively, recorded in the first quarter of 2019. On the other hand, livestock sub-sector contracted by 0.01 per cent in the second quarter of 2019 compared with 1.95 per cent in the corresponding period of 2018. The development compares unfavourably with the growth of 0.88 per cent in the preceding quarter.

The overall contribution of the agricultural sector to real GDP in the second quarter was 25.03 per cent, up from 24.11 and 24.99 per cent in the preceding quarter and the corresponding period of 2018, respectively.

**Figure 2.4:**
**Agricultural Sector Contribution by Activity (2017Q1-2019Q2)**




**Source: National Bureau of Statistics**

### 2.2.1.2 Agricultural Policies and Institutional Support

The agricultural sector continued to enjoy a number of policies, reforms and institutional support in the first half of 2019, as outlined in this section.

#### The Agricultural Credit Guarantee Scheme (ACGS)

In the review period, 11,981 loans valued at ₦1.68 billion were guaranteed under the ACGS compared with 10,420 loans valued at ₦1.75 billion in the corresponding half of 2018. This indicated an increase of 14.98 per cent in volume but a decline of 4.14 per cent in value, respectively. Also, 8,676 loans valued at ₦1.32 billion were repaid, compared with 17,977 loans valued at ₦3.05 billion in the corresponding period of 2018. Only one (1) default claim valued at ₦47,108.06 was settled in the review period, compared with no claim in the corresponding period of 2018.

#### N200 Billion Commercial Agriculture Credit Scheme (CACS)

Under the scheme, ₦4.84 billion was disbursed to 6 projects in the first half of 2019 compared with ₦39.34 billion disbursed to 16 projects in the corresponding half of 2018. Repayments during the review period amounted to ₦23.91 billion in respect of 139 projects, compared with ₦17.01 billion repaid by 51 projects in the corresponding period of 2018.

#### Agri-business/ Small and Medium Enterprises Investment Scheme (AGSMEIS)

In the first half of 2019, the sum of ₦1.29 billion was disbursed to 595 projects, compared with ₦111.81 million, disbursed to 353 projects in the corresponding period of 2018. No repayment was made under the scheme in the review period.

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

In the first half of 2019, the sum of ₦625.55 million was disbursed to 1,103 projects, compared with ₦4.77 billion, disbursed to 14,492 projects in the corresponding period of 2018. The development was an increase of 662.59 per cent by value and a decrease of 92.39 per cent by volume. Repayments during the period amounted to ₦3.63 billion.

#### Anchor Borrowers' Programme (ABP)

In the first half of 2019, ₦26.67 billion was disbursed to 237,967 smallholder farmers

compared with ₦36.37 billion disbursed to 155,732 farmers in the corresponding period of 2018. This represented 26.67 per cent decrease in the amount disbursed but 52.81 per cent increase in the number of farmers financed. The enterprises covered were: cassava, cotton, maize, rice, soya bean, tomato, wheat, and poultry. The amount repaid during the review period was ₦2.89 billion, representing 84.1 per cent increase over ₦1.57 billion repaid in the corresponding period of 2018.

### Paddy Aggregation Scheme (PAS)

Under the scheme, ₦35.20 billion was released to 12 projects in the first half of 2019, compared with ₦4.25 billion released to 3 projects in the corresponding half of 2018. During the review period, ₦1.5 billion was repaid, compared with ₦13.37 billion in the first half of 2018.

### Non-oil Export Stimulation Facility (NESF)

In the first half of 2019, ₦8.0 billion was disbursed to 2 projects, compared with ₦19.04 billion to 6 projects in the corresponding period of 2018. Over the same period, ₦1.0 billion was repaid compared with ₦5.04 billion in the first half of 2018.

### Federal Government of Nigeria (FGN) Special Presidential Fertilizer Initiative (PFI)

In the review period, there was no disbursement under the initiative, compared with ₦20.0 billion disbursed in the first half of 2018.

### Export Development Facility (EDF)

In the first half of 2019, there were no disbursement or repayment under the Facility.

### Interest Drawback Programme (IDP)

The Interest Drawback scheme complements the ACGS. The Fund provides a rebate of 40.0 per cent on the market interest rate of ACGS loans repaid when due, thus, reducing the effective borrowing cost to farmers and encouraging loan repayment.

In the review period, 5,760 rebate claims valued at ₦87.64 million were settled, compared with 5,929 valued at ₦89.31 million in the corresponding period of 2018. The development reflected a 0.69 per cent decrease in volume but 60.23 per cent increase in value of claims settled.

### Accelerated Agriculture Development Scheme (AADS)

AADS was launched as an off-shoot of the ABP with the major objective of encouraging youths to engage in agricultural activities. The scheme is jointly implemented with state governments with a target to engage at least 10,000 youths per state.

Since inception to the first half of 2019, the Scheme had disbursed N1.37 billion to a state government-owned poultry project.

### National Food Security Programme (NFSP)

Under the Programme, ₦8.90 billion was disbursed to 2 projects in the first half of 2019, compared with ₦4.04 billion released to 3 projects in the

corresponding period of 2018. In the review period, ₦2.60 billion was repaid.

### 2.2.2 Industry

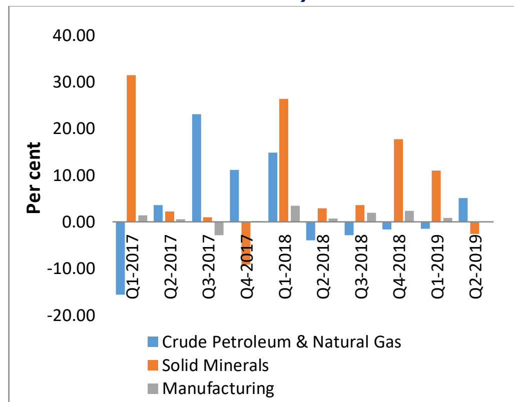
#### 2.2.2.1 Industrial Production

The Industrial sector indices indicated that the sector was on the verge of recession. In the review period, the sector contracted by 0.73 per cent following a modest recovery of 0.71 per cent in the preceding quarter, compared with a growth of 8.41 per cent in the corresponding quarter of 2018, having suffered two consecutive quarters of contraction in the year. The main driver of the contraction in the sector was the crude petroleum and natural gas sub-sector which contracted by 2.40 per cent in the review period from a contraction of 1.62 per cent in the preceding quarter, compared with a growth of 14.02 per cent in the corresponding period of 2018. The sub-sector has been in contraction since the second quarter of 2018. The contraction of the industrial sector was, however, moderated by a growth in the review period of 11.03 and 0.81 per cent in the solid minerals and manufacturing sub-sectors, respectively, compared with 17.68 and 2.35 per cent in the preceding quarter and 26.29 and 3.39 per cent in the corresponding period of 2018. Thus, the share of the industrial sector in overall GDP increased to 19.01 per cent from 16.09 in the preceding quarter, but below the 19.53 per cent recorded in the corresponding period of 2018.

The development in the industrial sector is instructive at the policy level. It will be recalled that the 2016 recession was preceded by persistent contractions of the industrial sector. There, however, appears to be a repeat occurrence of this trend, thus urgent efforts are required to reverse the trend in order to avert another recession in the near term.

In the second quarter of 2019, however, the industrial sector recorded a significant growth of 2.36 per cent following a revised contraction of 0.26 per cent in the preceding quarter. When compared with the contraction of 1.56 per cent in the corresponding period of 2018, the sector grew significantly by 3.92 percentage points. The driver of the growth in the sector was the crude petroleum and natural gas sub-sector which grew by 5.15 per cent in the review period from contractions of 1.46 per cent and 3.95 per cent in the preceding quarter and the corresponding period of 2018. The growth of the industrial sector was, however, moderated by the contractions of 2.54 and 0.13 per cent in the solid minerals and manufacturing sub-sectors, respectively, compared with growth of 11.03 and 0.81 per cent in the preceding quarter, and 2.86 and 0.68 per cent in the corresponding period of 2018. Nevertheless, the share of the industrial sector in overall GDP rose to 18.07 per cent from 17.99 per cent in the corresponding period of 2018. It was, however, 19.08 per cent in the preceding quarter.

**Figure 2.5:**
**Industrial Sector Contribution by Activity (2017Q1-2019Q2)**




**Source: Statistics Department**

### 2.2.2.2 Industrial Policy and Institutional Support

The industrial sector continued to benefit from a number of policies, incentives and institutional support during the review period. These were:

**Power and Airline Intervention Fund (PAIF)**

There was no disbursement in the review period, however, ₦12.728 billion was repaid compared with the repayment of ₦12.35 billion in the corresponding period of 2018.

**Nigeria Electricity Market Stabilization Facility (NEMSF)**

In the review period, there was no disbursement under the Facility, compared with a disbursement of ₦38.53 billion to one (1) distribution company (DisCo), 17 generating companies (GenCos), 6 gas companies (GasCos) and 5 service providers, in the corresponding period of 2018. Also, ₦9.36 billion was repaid in the review period, compared with ₦4.99 billion in the corresponding period of 2018.

**Real Sector Support Facility (RSSF)**

During the review period, ₦40.00 billion was released to 1 project, compared with ₦23.91 billion to 5 projects in the corresponding period of 2018. A total of ₦2.90 billion was repaid in the period, compared with ₦960.16 million in the corresponding half of 2018.

Under the Differentiated Cash Reserves Requirement (DCRR) window, ₦75.55 billion was disbursed to 18 projects during the period. No repayment has been made in the Window due to a current moratorium on all existing loans.

**Textile Sector Intervention Facility (TSIF)**

In the first half of 2019, no disbursements were made under the Facility, compared with the sum of ₦19.1 billion to 2 projects in the first half of 2018. During the period, ₦884.38 million was repaid by 6 projects.

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

Under the Facility, ₦98.12 billion was disbursed in the first half of 2019, compared with ₦248.40 billion in the corresponding period of 2018.

**Small and Medium Enterprises Restructuring and Refinancing Facility (SMERRF)**

Disbursement was discontinued under the Facility in December 2014 following its replacement with the Real Sector Support Facility after it had met its objectives. In the review period,

repayments received amounted to ₦12.60 billion.

### Youth Entrepreneurship Development Programme (YEDP)

The YEDP aims to deepen credit delivery to diligent youth entrepreneurs, including serving and ex- National Youth Service Corps (NYSC) members.

There were no disbursements during the review period, however, ₦20.65 million was repaid compared with ₦7.01 million in the corresponding period of 2018.

### Creative Industry Financing Initiative (CIFI)

CIFI was introduced during the review period as a window under the AGSMEIS to improve access to long-term, low-interest financing to entrepreneurs and investors in the Nigerian Creative Industry and Information technology (IT) sub-sectors. Activities eligible for financing include fashion, information technology, software development, movie and music production & distribution.

### CBN-BOI Industrial Facility

This is a facility provided by the Central Bank of Nigeria to the Bank of Industry (BOI) to enhance the financing of the industrial sector through investments in value-added projects. The Bank approved and released the sum of ₦50 billion to the BOI for this purpose.
In the first half of the year, there was no disbursement under the Facility, compared with ₦50.0 billion disbursed to 30 projects in the corresponding period of 2018.

## 2.2.3 Construction and Trade

There has been sustained improvement in Construction sector activities in recent times. In the first quarter of 2019, the sector grew by 3.18 per cent, compared with 2.05 per cent in the preceding quarter in contrast to the contraction of 1.54 per cent in the corresponding quarter of 2018. The development is reflected in the improvements in capital releases since 2018. Consequently, the share of Construction in real GDP improved to 4.09 per cent from 3.48 and 4.04 per cent in the preceding and corresponding quarters of 2018.

During the second quarter, the growth of the sector moderated to 0.67 per cent compared with 3.18 and 7.66 per cent in the preceding quarter and the corresponding period of 2018, respectively. The share of Construction in real GDP declined to 4.45 per cent compared with 4.51 per cent in the corresponding period of 2018. It was, however an improvement from 4.09 per cent in the preceding quarter.

## 2.2.4 Construction and Trade

The sluggish performance of the Trade sector continued in the review period. Although the sector grew marginally by 0.85 per cent during the period, it had contracted by 2.57 per cent in the corresponding period of 2018, ending the year with an overall contraction of 0.63 per cent. In the preceding quarter,

however, it grew marginally by 1.02 per cent. The share of Trade in real GDP, however, rose marginally to 16.87 per cent in the first quarter of 2019 from 16.50 per cent in the fourth quarter of 2018 but was a decline compared with 17.07 per cent in the corresponding period of 2018.

In the second quarter, the contraction of the trade sector moderated to 0.25 per cent from 2.14 per cent in the corresponding period of 2018. When compared with the growth of 0.85 per cent in the preceding quarter, the sector contracted by 1.1 percentage points. The share of Trade in real GDP declined to 16.10 per cent in the review period from 16.86 and 16.45 per cent in the preceding quarter and the corresponding period of 2018, respectively.

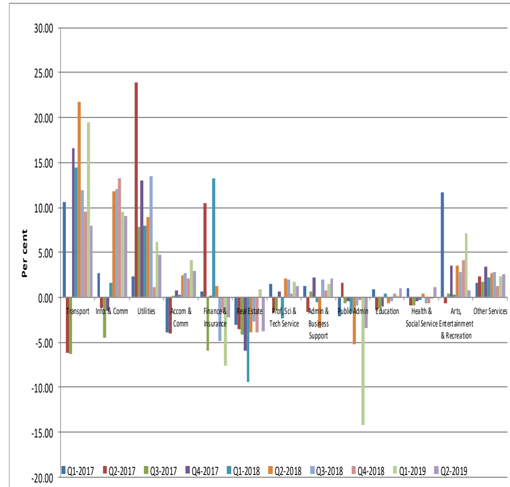
The continued softness in this sector could further amplify the weakness observed in the industrial sector to lead the overall economy into recession in the absence of robust policy interventions.

### 2.2.5 Service Sector

The Services sector sustained its growth for six consecutive quarters. The sector grew by 3.16 per cent in the first quarter of 2019, compared with 3.71 and 0.59 per cent in the preceding quarter, and corresponding period of 2018. Growth in the sector was driven by transport (19.50%), Information & Communication (9.48%), Arts, Entertainment & Recreation (7.12%), Utilities (6.22%), Accommodation & Food Services (4.15%), Professional, Scientific & Technical Services (1.73%) and Administrative & Support Services (1.43%). However, the sub-sectors that contracted during the period were: Public Administration (14.21%), Finance and Insurance (7.60%), and Human Health & Social Services (0.16%). The share of the services sector in overall GDP increased to 38.12 per cent in the first quarter of 2019 from 37.79 and 37.69 per cent in the preceding quarter and the corresponding quarter of 2018, respectively.

The growth of the services sector moderated to 2.93 per cent in the second quarter of 2019 from 4.19 and 3.16 per cent in the corresponding period of 2018 and the preceding quarter, respectively. The sector's growth during the quarter was driven by information & communication (9.01%), transport (8.02%), utilities (4.73%), accommodation & Food Services (2.92%), other services (2.55%) and administrative & Support Services (2.03%). The sub-sectors that contracted during the period were: real estate (3.84%), public administration (3.39%) and finance and insurance (2.24%). The share of the services sector in overall GDP increased to 38.56 per cent in the second quarter of 2019 from 38.09 and 38.19 per cent in the preceding quarter and the corresponding period of 2018, respectively.

**Figure 2.6:**
**Services Sub-Sector Contribution, 2016Q1-2018Q2**



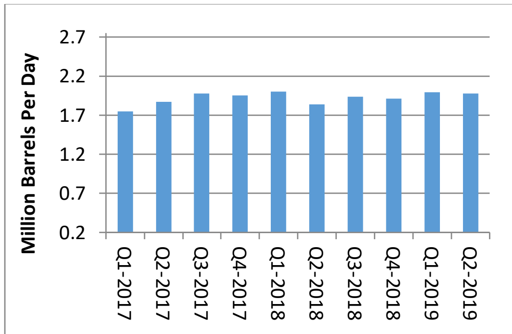

**Source: Statistics Department**

## 2.2.6 Oil Sector

During the review period, the performance of the oil sector moderated despite the relative stability in the price of crude oil. The moderation came from two main forces; namely demand-supply dynamics and price factors. Global oil prices had largely fluctuated within the range of US$60-70 per barrel, while demand-supply factors underpinned market developments. The growing investment and production of shale oil in the US, increased supply from Saudi Arabia in the wake of US sanctions against Iran coupled with the slowing global economy occasioned by US induced trade tensions against China and its other trading allies had substantially weakened demand, creating a situation of moderate supply glut. These developments are in spite of the subsisting production ceiling by OPEC and some non-OPEC members. There were also pockets of tension in the Middle East and Venezuela which are key oil producers. On the domestic front, production weakness has persisted on account of the unclear fiscal regime in the oil industry as well as the reluctance of banks to extend new credit to finance exploration and production in the sector, having accumulated huge non-performing loans in the past. Consequently, average crude oil production stood at 1.99 mbpd in the first quarter of 2019 compared with 1.98 mbpd in the corresponding period of 2018. This also represented an increase relative to the 1.91 mbpd in the previous quarter. In the second quarter of 2019, average crude oil production rose to 1.98 mbpd from 1.84 mbpd in the corresponding period of 2018, but a marginal decline compared with the 1.99 mbpd in the preceding quarter of 2019.

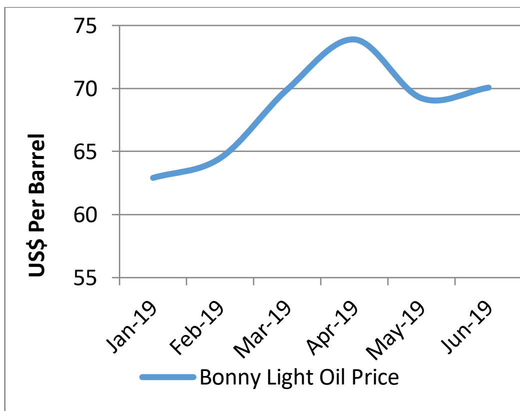
In the review period, crude oil prices fluctuated mainly due to the crisis in the Middle East, Venezuela and the US sanctions on Iranian oil as well as the subsisting OPEC production ceiling. As a result, the price of Nigeria's reference crude, the Bonny Light 37$^{0}$API which was at US$62.91 per barrel (pb) in January 2018, increased to US$69.93pb in March and peaked at US73.89pb in April. It, however, fell to US$70.07pb in June, 2019. Overall, the average price of Bonny Light of US$65.77pb in the first half of 2019 was US$5.77pb above the Federal Government of Nigeria's 2019 budget benchmark of US$60.0pb.

**Figure 2.7:**
**Quarterly Domestic Crude Oil Production (2017Q1-2019Q2)**




**Source: Research Department**

**Figure 2.8:**
**Monthly Bonny Light Oil Price, January – June 2019**




**Source: Research Department**

**The African Continental Free Trade Agreement (AfCFTA): Implications for Trade and Growth in Nigeria**

**Introduction:**

The imperatives to respond to the dynamic economic challenges and the increasing economic interrelationship among economies have made regional integration and the associated regional trade agreements inevitable for economic transformation and sustainable development within a regional area. According to the World Trade Organization (WTO), global trade, as we know it today, is shaped by regional trade agreements, hence, explaining the proliferation of sub-regional agreements, with about 420 of such free and non-free trade agreements in force globally.

Regional integration and trade agreements are particularly inevitable and relevant for Africa, which had hitherto, remained a fragmented bundle of small resource-rich but commodity-dependent economies, having the need to optimize its resource endowments and translate them into welfare gains for its teeming population. Consequently, the African Continental Free Trade Agreement (AfCFTA) was conceived, as a strategy to aggregate Africa's small countries into one large market that can deliver economies of scale, improved competitiveness, foreign direct investment (FDI) and poverty reduction.
On the socio-political front, it is intended to help in addressing problems such as recurring conflicts and political instability as well as increasing the continent's bargaining power in the multilateral front.

The decision to establish the AfCFTA was taken at the 18th Ordinary Session of the Assembly of AU Heads of State and Government, in Addis Ababa, in January 2012. The AU Summit then endorsed the Action Plan for Boosting Intra-African Trade (BIAT). Nigeria initiated the process for the establishment of AfCFTA in 1991 at the Economic and Trade Policy Leadership tagged "Abuja Treaty". Thereafter, the Agreement came into force on 12th May, 1994. Actual negotiations were launched at the 25th Ordinary Session in 2015 in Johannesburg, South Africa. The Agreement requires countries to take out tariffs on 90 percent of goods, with 10 per cent of "sensitive items" to be addressed later. The AfCFTA intends to address supposed "non-tariff barriers" which impede trade amongst African countries, such as extended delays along the border.

The AfCFTA was signed in Kigali, Rwanda on 21st March, 2018 by 44 African heads of state, except for Nigeria and South Africa. However, its signing did not yet create the African Continental Free Trade Area. Nigeria, however, abstained from signing the AfCFTA on concerns for the need to protect domestic industries and small businesses from external pressures and competition that could lead to closures and

job losses, as well as to further engage with stakeholders to consider the consequences of an open market to Nigeria's manufacturing sector and SMEs. However, after an extensive nationwide consultation and sensitisation programme of domestic stakeholders on the AfCFTA, the Nigerian President appended his signature to the agreement at the 12th Extraordinary Summit of the African Union on the Launch of the Operational Phase of the AfCFTA in Niamey, on 7th July 2019.

**Implications for Trade and Growth in Nigeria**

The potential benefits for Nigeria from AfCFTA are massive; given that AfCFTA would cover a consumer base of over 1.2 billion people with a combined GDP of US$2.2 trillion. AfCFTA's implementation is expected to facilitate industrialization and create a continental market, unlock manufacturing potential, and create a mammoth international negotiation block.

AfCFTA has the prospects to give the country an expanded market access for export of goods and services, essentially, linking Nigerian exporters to global value chains for business and enterprise; with potential to bring down hitherto existing barriers to trade against Nigerian exporters and remove the usually discriminatory and hostile treatment Nigerian businesses have had to endure in other African countries;

AfCFTA is expected to boost regional cooperation and stimulate scale efficiency, dynamism and competitiveness of Nigerian goods. It will aid easier movement of goods, services, investment, capital and people. Ultimately, it is expected to offer new ways of coordinating supply chains; it would increase trade volumes which should lead to increased values and lower prices; expand consumer choices; contribute to growth and expand job creation in Nigeria and Africa. It portends a great opportunity for Nigeria's businesses to become prominent players in the African market due to the expanded market access.

AfCFTA will eliminate impediments against Nigeria's products and services, as well as reduce hostility against Nigerian citizens (natural and corporate persons) in other African nations. It will boost the industry course of action of Nigeria via the bargained and agreed "Exclusion and Sensitive category lists" to create room for Nigeria's infant industries. This is in addition to engendering know-how and quality products through competition and strengthening of the country's business environment, thereby reaffirming the economy as truly the largest in Africa.

AfCFTA will encourage and create room for growth in Nigeria's exports market by aiding and nudging the economy in the direction of manufacturing and export-oriented services. This also offers a platform for the integration of Nigerian Small and Medium Enterprises (SMEs) into the continental economy.

However, to realize the lofty prospects of AfCFTA for trade and growth in Nigeria, it is important that the nation properly identify its weaknesses and strengths within the

context of AfCFTA provisions and protocols, and recognizing those imbedded attributes in the Agreement that can undermine the realization of the potential benefits for the country.

It is incumbent on Nigeria to take the advantage provided by AfCFTA to revive the country's manufacturing industry through bold and deliberate policy actions to eliminate impediments, and build infrastructure. This can be achieved by addressing the intractable power issues, corruption and ease of doing business; ensuring security of lives and property, and implementing policies that are geared towards empowering manufacturers, including SMEs, through access to credit and finance, among others.

Ensuring that the Nigerian economy remains competitive vis-à-vis other African economies should be the guiding principle during the implementation phase. The goal is to reassert Nigeria as an attractive investment destination with the aim of consolidating the country's number one economic position on the continent. Measures should be implemented to ensure that AfCFTA is not used against Nigeria's interests by turning the country economic space into a dumping ground for goods from other countries, thus undermining the capacity of Nigerian manufacturers, particularly, in export oriented goods. It is also important to exploit AfCFTA as a veritable political instrument to enhance Nigeria's economic and trade policy leadership, both on the continent and beyond.

# CHAPTER THREE

## 3.0 DOMESTIC PRICE DEVELOPMENTS

In the first half of 2019, the inflation environment became benign with a trend towards moderation in prices, due largely to the relatively tight monetary policy stance of the Bank. Headline and core inflation generally maintained a downward trend, while the food component fluctuated upwards during the review period. Headline inflation, however, remained above the upper band of the Bank's target benchmark of 6-9 per cent, indicating that latent price pressures were yet to be subdued. Price developments generally reflected the interplay of both supply- and demand-related factors.

On the supply side, the relative stability in the naira exchange rate, due to sustained supply of foreign exchange in the market from the CBN and other autonomous sources, had a moderating effect on domestic price developments in the review period. Thus, the naira strengthened in all segments of the market, reflecting the impact of recent reforms and interventions by the Bank, including the introduction of measures to encourage capital inflow and improve liquidity in the foreign exchange market. In addition, accretion to external reserves improved on account of sustained stability in crude oil prices and inflow of proceeds from foreign borrowing, thereby strengthening the naira. The Bank also sustained the implementation of a number of reforms, including the Investors' & Exporters' (I&E) window, the use of Bank Verification Number (BVN) in BDC transactions, and resumption of sale of foreign exchange to BDCs by the Bank and International Money Transfer Operators (IMTOs). The Bank further intensified its existing policy on repatriation of export proceeds as well as return of unutilized foreign exchange sourced from official foreign exchange auctions to the CBN.

On the demand-side, price developments were also impacted by continued restriction of access to foreign exchange for 42 items and the use of bank verification number (BVN) in BDC transactions. In addition, the Bank's use of liquidity management instruments, especially Open Market Operations (OMO) bills also helped to moderate price pressures. With the prevailing uncertainties in the market, the Inter-Bank Call and Open Buy Back (OBB) rates fluctuated widely for most of the period. The major sources of liquidity in the review period were: CBN interventions, the implementation of the 2018 and 2019 budgets, maturing OMO bills, Joint Ventures Cash (JVC) calls and distributions of proceeds of revenue in the Federation Account to the 3 tiers of government. The sustained tight monetary policy stance which earlier constrained money supply was, however, slightly relaxed in the review period.

### 3.1 Trends in Inflation

Headline, core and food measures of inflation fluctuated during the period

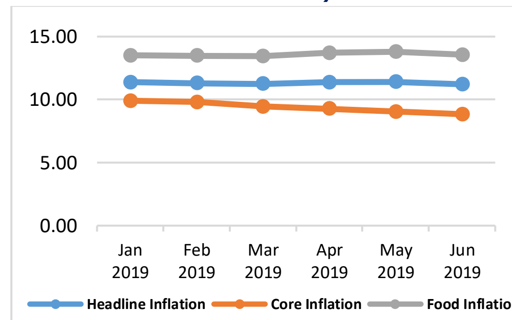
under review. The three measures of consumer price index (CPI) stood at 289.7, 267.9 and 316.0, in June 2019, compared with276.6, 258.8 and 298.9 in January 2019, respectively. Food inflation (year-on-year) increased marginally by 0.05 percentage point from 13.51 per cent in January to 13.56 per cent in June 2019. Core inflation, however, fell significantly by 1.07 percentage points from 9.91 per cent in January to 8.84 per cent in June 2019. The net effect of the development was that headline inflation declined by 0.15 percentage point from 11.37 per cent in January to 11.22 per cent in June 2019 (Figure 3.1 and Table 3.1). Thus, the major driver of the overall moderation in consumer prices during the period was core inflation, with some sub-components of the food measure also contributing to the moderation (Table 3.4).

**Table 3.1:**
**Inflation Rates, January – June 2019**

| | Headline Inflation | | | Core Inflation | | | Food Inflation | | |
|---|---|---|---|---|---|---|---|---|---|
| | CPI | Y-on-Y | 12MMA | CPI | Y-on-Y | 12MMA | CPI | Y-on-Y | 12MMA |
| **Jan 2019** | 276.60 | 11.37 | 11.80 | 258.75 | 9.91 | 10.34 | 298.85 | 13.51 | 13.93 |
| **Feb 2019** | 278.62 | 11.31 | 11.56 | 260.44 | 9.80 | 10.19 | 301.30 | 13.47 | 13.62 |
| **Mar 2019** | 280.81 | 11.25 | 11.40 | 261.82 | 9.46 | 10.04 | 303.94 | 13.45 | 13.42 |
| **Apr 2019** | 283.46 | 11.37 | 11.31 | 263.65 | 9.28 | 9.91 | 307.40 | 13.70 | 13.34 |
| **May 2019** | 286.61 | 11.40 | 11.30 | 265.62 | 9.03 | 9.77 | 311.73 | 13.79 | 13.37 |
| **Jun 2019** | 289.69 | 11.22 | 11.30 | 267.88 | 8.84 | 9.64 | 315.97 | 13.56 | 13.42 |

***Source: Nigerian National Bureau of Statistics data base***

**Figure 3.1:**
**Headline, Core and Food Inflation Rates (January – June 2018)**




**Source: Nigerian National Bureau of Statistics data base**

## 3.1.1 Headline Inflation

Major components of headline inflation continued to decrease during the first half of the year, thus moderating domestic prices. The main driver of the moderation in headline inflation was Transport, which decreased to 0.54 per cent in June, 2019 from 0.60 per cent in January. This was followed by housing, water, electricity, gas and other fuels, which fell to 1.21 per cent from 1.27 per cent over the same period. Food and Non-Alcoholic Beverages, however, rose to 7.43 per cent from 7.36 per cent, thus dampening the moderation in headline inflation (Table 3.2 and Figure 3.4).

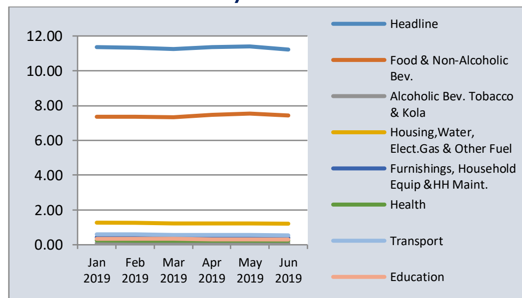
The stability in the foreign exchange market, due to demand management measures, further contributed to the decline in inflation during the period. Foreign exchange supply measures such as the restriction of 42 items, I&E window and intervention sales in the market also helped to moderate pressures. Other contributory factors were the tight monetary policy stance

of the Bank and the continued supply of foreign exchange to the market.

**Table 3.2**
**Major Components of Headline Inflation (Y-on-Y), January - June 2019**

| | Headline | Food & Non-Alcoholic Bev. | Alcoholic Bev. Tobacco & Kola | Clothing & footwear | Housing, Water, Elect.Gas & Other Fuel | Furnishings, Household Equip &HH Maint. | Health | Transport | Education |
|---|---|---|---|---|---|---|---|---|---|
| Jan'19 | 11.37 | 7.36 | 0.09 | 0.75 | 1.27 | 0.43 | 0.25 | 0.60 | 0.34 |
| Feb'19 | 11.31 | 7.34 | 0.09 | 0.75 | 1.25 | 0.42 | 0.24 | 0.59 | 0.33 |
| Mar '19 | 11.25 | 7.33 | 0.09 | 0.74 | 1.24 | 0.42 | 0.24 | 0.58 | 0.33 |
| Apr '19 | 11.37 | 7.47 | 0.09 | 0.74 | 1.24 | 0.42 | 0.24 | 0.57 | 0.32 |
| May '19 | 11.40 | 7.54 | 0.09 | 0.74 | 1.24 | 0.41 | 0.24 | 0.56 | 0.31 |
| June '19 | 11.22 | 7.43 | 0.09 | 0.73 | 1.21 | 0.40 | 0.23 | 0.54 | 0.30 |

**Figure 3.2**
**Major Components of Headline Inflation (Y-on-Y), January – June 2019**

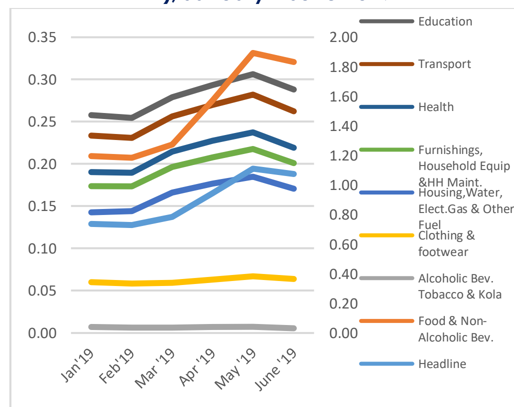



On a month-on-month basis, headline inflation increased to 1.07 per cent in June 2019 from 0.74 per cent in January. The major drivers of the month-on-month increase were the prices of: food and non-alcoholic beverages, which rose to 0.76 per cent in June from 0.46 per cent in January; and Housing, Water, Elect. Gas & Other fuels to 0.11 per cent in June, 2019 from 0.08 per cent in January (Table 3.3 and Figure 3.5). The rising trend of month-on-month inflation in contrast to the moderating year-on-year inflation implies a buildup of inflationary pressure in the economy, thus requiring the proactive tightening of monetary policy.

**Table 3.3**
**Major Components of Headline Inflation (M-on-M), January - June 2018**

| | Headline | Food & Non-Alcoholic Bev. | Alcoholic Bev. Tobacco & Kola | Clothing & footwear | Housing, Water, Elect.Gas & Other Fuel | Furnishings, Household Equip &HH Maint. | Health | Transport | Education |
|---|---|---|---|---|---|---|---|---|---|
| Jan'19 | 0.74 | 0.46 | 0.01 | 0.05 | 0.08 | 0.03 | 0.02 | 0.04 | 0.02 |
| Feb'19 | 0.73 | 0.45 | 0.01 | 0.05 | 0.09 | 0.03 | 0.02 | 0.04 | 0.02 |
| Mar '19 | 0.79 | 0.49 | 0.01 | 0.05 | 0.11 | 0.03 | 0.02 | 0.04 | 0.02 |
| Apr '19 | 0.94 | 0.63 | 0.01 | 0.06 | 0.11 | 0.03 | 0.02 | 0.04 | 0.02 |
| May '19 | 1.11 | 0.78 | 0.01 | 0.06 | 0.12 | 0.03 | 0.02 | 0.04 | 0.02 |
| June '19 | 1.07 | 0.76 | 0.01 | 0.06 | 0.11 | 0.03 | 0.02 | 0.04 | 0.03 |

**Figure 3.3**
**Major Components of Headline Inflation (M-on-M), January – June 2019**




## 3.1.2 Food Inflation

Food inflation (year-on-year) rose by 0.05 percentage point to 13.56 per cent in June 2019 from 13.51 per cent in January. The main driver was farm produce which rose by 0.79 percentage point to 7.79 per cent from 7.00 per cent. Processed food, however, fell by 0.74 percentage point to 5.77 per cent in June 2019 from 6.51 per cent in January. The increase in farm produce was accounted for by the increase in the prices of rice agric sold loose and rice local sold loose by 0.45 and 0.38 percentage point to 1.55 and 1.25 per cent in June 2019 from 1.10 and 0.88 per cent in January, respectively. This was due to the shortage of food supply occasioned by persisting insecurity

across the country which restrained farming activities and impeded distribution channels in the economy. The development was compounded by policy stagnancy in the agricultural sector except the CBN interventions in the sector, at all levels of government.

The decrease in the price of processed food was accounted for by the fall in the prices of fish and sea food; sugar, jam, honey etc; and garri by 0.06, 0.01 and 0.46 percentage point, respectively.

accounted for by the increase in the price of farm produce, which rose by 0.51 percentage point to 0.82 per cent in June 2019 from 0.31 per cent in January. Similarly, the price of processed food rose by 0.03 percentage point to 0.54 per cent from 0.51 per cent over the same period. The key drivers of the increase in farm produce were: Yam, Potatoes & Other tubers (0.06 percentage point); and rice (0.13 percentage point); while the rise in processed food was driven by meat (0.07 percentage point).

**Table 3.4**
**Major Components of Food Inflation (Y-on-Y), January - June 2019**

| | FOOD | Processed Food | Meat | Fish & Sea Food | Milk, Cheese & Eggs | Oil & Fats | Sugar, Jam, Honey, etc. | Farm Produce | Rice Agric Sold Loose | Rice Local Sold Loose | Fruits | Vegatables | Yam, Potatoes & other tubers |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Jan'19 | 13.51 | 6.51 | 1.15 | 1.34 | 0.24 | 0.80 | 0.24 | 7.00 | 1.10 | 0.88 | 0.49 | 1.41 | 1.71 |
| Feb'19 | 13.47 | 6.29 | 1.15 | 1.34 | 0.24 | 0.80 | 0.24 | 7.18 | 1.20 | 0.86 | 0.49 | 1.41 | 1.70 |
| Mar '19 | 13.45 | 6.30 | 1.15 | 1.34 | 0.23 | 0.79 | 0.24 | 7.15 | 0.00 | 0.00 | 0.48 | 1.39 | 1.71 |
| Apr '19 | 13.70 | 6.28 | 1.24 | 1.35 | 0.24 | 0.84 | 0.25 | 7.42 | 1.28 | 0.99 | 0.48 | 1.38 | 1.71 |
| May '19 | 13.79 | 6.18 | 1.31 | 1.32 | 0.24 | 0.88 | 0.24 | 7.61 | 1.39 | 1.10 | 0.46 | 1.33 | 1.68 |
| June '19 | 13.56 | 5.77 | 1.33 | 1.28 | 0.24 | 0.89 | 0.23 | 7.79 | 1.55 | 1.25 | 0.43 | 1.28 | 1.63 |
| Change btw Jan & Jun. 2019 | 0.05 | -0.74 | 0.18 | -0.06 | 0.00 | 0.09 | -0.01 | 0.79 | 0.45 | 0.37 | -0.06 | -0.13 | -0.08 |

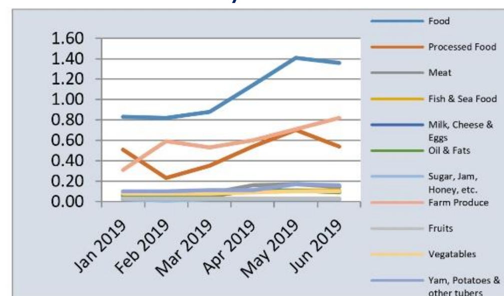
**Table 3.5**
**Major Components of Food Inflation (M-on-M), January – June, 2019**

| | Food | Processed Food | Meat | Fish & Sea Food | Milk, Cheese & Eggs | Oil & Fats | Sugar, Jam, Honey, etc. | Farm Produce | Fruits | Vegatables | Yam, Potatoes & other tubers |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Jan'19 | 0.83 | 0.51 | 0.07 | 0.09 | 0.02 | 0.05 | 0.02 | 0.31 | 0.03 | 0.08 | 0.10 |
| Feb'19 | 0.82 | 0.23 | 0.07 | 0.09 | 0.02 | 0.05 | 0.01 | 0.59 | 0.03 | 0.08 | 0.10 |
| Mar '19 | 0.88 | 0.35 | 0.08 | 0.09 | 0.02 | 0.05 | 0.02 | 0.53 | 0.03 | 0.08 | 0.11 |
| Apr '19 | 1.14 | 0.54 | 0.16 | 0.10 | 0.02 | 0.11 | 0.02 | 0.60 | 0.03 | 0.09 | 0.11 |
| May '19 | 1.41 | 0.70 | 0.17 | 0.11 | 0.02 | 0.11 | 0.02 | 0.71 | 0.03 | 0.10 | 0.17 |
| June '19 | 1.36 | 0.54 | 0.14 | 0.11 | 0.02 | 0.09 | 0.02 | 0.82 | 0.03 | 0.10 | 0.16 |
| Change btw Jan & Jun. | 0.53 | 0.03 | 0.07 | 0.02 | 0.00 | 0.04 | 0.00 | 0.51 | 0.00 | 0.02 | 0.06 |

**Figure 3.4**
**Major Components of Food Inflation (Y-on-Y), January – June 2019**

Consistent with the year-on-year trend, food inflation on a month-on-month basis rose by 0.53 percentage point to 1.36 per cent in June 2019 from 0.83 per cent in January. This was largely

**Figure 3.5**
**Major Components of Food Inflation (M-on-M), January – June 2019**




### 3.1.3 Core Inflation

Core inflation (year-on-year) fell to 8.84 per cent in June 2019 from 9.91 per cent in January 2019, a decrease of 1.07 percentage points. The performance

was driven by processed food (0.35 percentage point), Transportation (0.11 percentage point), Housing, water, electricity & other fuels (0.09 percentage point) and Health (0.09 percentage point). The fall in these major components was due to the relatively tight monetary policy stance, stability in the exchange rate, and continued implementation of foreign exchange management measures by the Bank. In addition, the reactivation of rail transport services and the relatively stable energy and utility prices also supported the moderation.

**Table 3.6**
**Major Components of Core Inflation (Y-on-Y) January – June. 2019**

| | Core | Processed Food | Non-Alcoholic Beverages | Alcoholic Bev. Tobacco & Kola | Clothing & footwear | Housing,Water, Elect.Gas & Other Fuel | Furnishings, Household Equip &HH Maint. | Health | Transport | Communication | Recreation & culture | Education | Restaurant & Hotels | Misc Goods & Services |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Jan'19 | 9.91 | 3.94 | 0.14 | 0.13 | 0.95 | 1.94 | 0.53 | 0.35 | 0.90 | 0.10 | 0.11 | 0.57 | 0.13 | 0.12 |
| Feb'19 | 9.80 | 3.89 | 0.14 | 0.13 | 0.94 | 1.95 | 0.52 | 0.34 | 0.89 | 0.10 | 0.11 | 0.56 | 0.12 | 0.12 |
| Mar '19 | 9.46 | 3.75 | 0.14 | 0.13 | 0.92 | 1.92 | 0.50 | 0.32 | 0.86 | 0.10 | 0.10 | 0.54 | 0.09 | 0.09 |
| Apr '19 | 9.28 | 3.74 | 0.14 | 0.13 | 0.90 | 1.90 | 0.48 | 0.30 | 0.83 | 0.09 | 0.10 | 0.52 | 0.07 | 0.07 |
| May '19 | 9.03 | 3.66 | 0.13 | 0.13 | 0.88 | 1.88 | 0.47 | 0.27 | 0.81 | 0.09 | 0.10 | 0.49 | 0.05 | 0.05 |
| June '19 | 8.84 | 3.59 | 0.13 | 0.13 | 0.87 | 1.85 | 0.45 | 0.26 | 0.79 | 0.09 | 0.10 | 0.48 | 0.04 | 0.05 |
| Change btw Jan & Jun. 2019 | -1.07 | -0.35 | -0.01 | 0.00 | -0.08 | -0.09 | -0.08 | -0.09 | -0.11 | -0.01 | -0.01 | -0.09 | -0.09 | -0.07 |

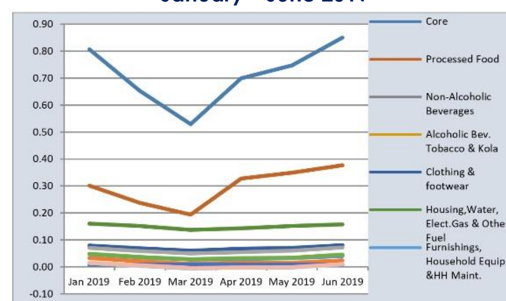
**Figure 3.6**
**Major Components of Core Inflation (Y-on-Y) January – June 2019**

The month-on-month core inflation rose by 0.04 percentage point to 0.85 per cent in June 2019 from 0.81 per cent in January. Processed food was the major driver of the increase, as it rose to 0.38 per cent in June 2019 from 0.30 per cent in January (Table 3.7 and Figure 3.9). The rising trend in month-on-month core inflation in the face of the declining year-on-year measure, indicated a build-up of inflationary pressure in the near term from the core components.

**Table 3.7**
**Major Components of Core Inflation (M-on-M) January – June. 2019**

| | Core | Processed Food | Non-Alcoholic Beverages | Alcoholic Bev. Tobacco & Kola | Clothing & footwear | Housing,Water, Elect.Gas & Other Fuel | Furnishings, Household Equip &HH Maint. | Health | Transport | Communication | Recreation & culture | Education | Restaurant & Hotels | Misc Goods & Services |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Jan'19 | 0.81 | 0.30 | 0.01 | 0.01 | 0.08 | 0.16 | 0.05 | 0.03 | 0.07 | 0.01 | 0.01 | 0.05 | 0.01 | 0.02 |
| Feb'19 | 0.65 | 0.24 | 0.01 | 0.01 | 0.07 | 0.15 | 0.04 | 0.02 | 0.06 | 0.01 | 0.01 | 0.04 | 0.00 | 0.01 |
| Mar '19 | 0.53 | 0.19 | 0.01 | 0.01 | 0.06 | 0.14 | 0.03 | 0.01 | 0.05 | 0.01 | 0.01 | 0.03 | -0.01 | 0.00 |
| Apr '19 | 0.70 | 0.33 | 0.01 | 0.01 | 0.07 | 0.14 | 0.03 | 0.01 | 0.05 | 0.01 | 0.01 | 0.03 | 0.00 | 0.00 |
| May '19 | 0.75 | 0.35 | 0.01 | 0.01 | 0.07 | 0.15 | 0.03 | 0.02 | 0.06 | 0.01 | 0.01 | 0.03 | 0.00 | 0.00 |
| June '19 | 0.85 | 0.38 | 0.01 | 0.01 | 0.08 | 0.16 | 0.04 | 0.02 | 0.07 | 0.01 | 0.01 | 0.05 | 0.01 | 0.01 |
| Change btw Jan & Jun. 2019 | 0.04 | 0.08 | 0.00 | 0.00 | 0.00 | 0.00 | -0.01 | -0.01 | 0.00 | 0.00 | 0.00 | 0.00 | -0.01 | -0.01 |

**Figure 3.7**
**Major Components of Core Inflation (M-on-M) January – June 2019**




### 3.1.4 Seasonally-Adjusted Inflation

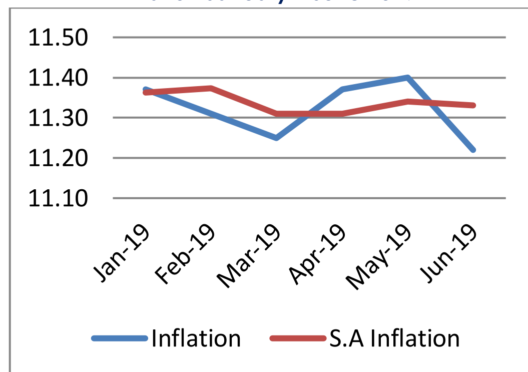
The actual and seasonally-adjusted measures of headline inflation trended downwards in the review period, reversing the rising inflation trend witnessed during the second half of 2018 (Table 3.8 and Figure 3.10). Actual headline inflation continued to reflect the general price level in the economy, trending below the seasonally-adjusted headline inflation during the early part of the review period, which reversed later in the period. The overall downward trend in both actual and

seasonally-adjusted measures of inflation were attributed to the stability in the foreign exchange market, improved accretion to external reserves and the sustained tight monetary policy stance of the Bank.

**Table 3.8:**
**Actual and Seasonally Adjusted Headline Inflation January – June 2019**

| Date | Inflation | S.A Inflation |
|---|---|---|
| Jan-19 | 11.37 | 11.36 |
| Feb-19 | 11.31 | 11.37 |
| Mar-19 | 11.25 | 11.31 |
| Apr-19 | 11.37 | 11.31 |
| May-19 | 11.40 | 11.34 |
| Jun-19 | 11.22 | 11.33 |

**Figure 3.8**
**Actual and Seasonally Adjusted Headline Inflation January – June 2019**




## 3.2 Key Factors that Influenced Domestic Prices

During the review period, inflationary pressure was influenced by a combination of cost-push, demand-pull and moderating factors. The net effect of these factors was a moderation in domestic prices. A summary of these factors include: a relatively tight monetary policy stance, continued intervention by the Bank in the real sector to improve the supply side, measures by the Bank to manage the demand and supply of foreign exchange to ensure exchange rate stability and relatively stable energy and utility prices. Others include: the impact of festivities and seasonal activities; persistent security challenges arising from farmers-herders conflict, kidnapping and banditry in some parts of the country as well as production and distribution challenges due to insurgency in the north east region.

### 3.2.1 Demand-side Factors

On the demand side, the moderation in headline inflation was influenced by several factors such as; the relatively tight monetary policy stance of the Bank, demand side management measures, which supported the stability of the exchange rate, as well as relatively stable energy and utility prices during the period. These factors overwhelmed the effect of fiscal injections from FAAC disbursements, sustained liquidity surfeit in the banking system and expectation of price pressures from the anticipated implementation of the new minimum wage law.

### 3.2.2. Supply-side Factors

The supply-side factors that moderated inflationary pressure during the review period included: relative stability in the exchange rate due to the continued implementation of foreign exchange management measures by the Bank, improved transportation activity resulting from the reactivation of

rail services and the relative stability of energy and utility prices.

### 3.2.3 Moderating Factors

Although headline inflation moderated during the review period, the decline was wedged by a number of factors, the absence of which would have resulted in a deeper moderation. These were: the shortage of food supply occasioned by persistent insecurity across the country which affected farming activities and impeded distribution channels in the economy, policy stagnancy in the agricultural sector at all levels of government, and the impact of festivities and seasonal activities.

# CHAPTER FOUR

## 4.0 MONETARY POLICY AND LIQUIDITY MANAGEMENT

The design and implementation of monetary policy during the first half of 2019 continued to be shaped by developments in the global and domestic economies. The key developments were: vulnerabilities in the major financial markets and mounting external debt in Emerging Market and Developing Economies (EMDEs), and slowdown in the Chinese economy; as well as tightening global financial conditions. Others were: the escalating trade tensions between the US, China and other major trading partners; imposition of a new round of sanctions on Iran; increasing complications in the BREXIT negotiations, and indications of renewed tension on the Korean Peninsula. Furthermore, the continuing monetary policy normalization by the US, the European Central Bank's (ECB) abandonment of its monetary policy normalization programme, continued asset purchase by the Bank of Japan (BoJ), and the lull in policy by the Bank of England signified a broad level of uncertainty in the global economy.

On the domestic front, the challenges were: the liquidity effect of continued implementation of the 2018 budget, resurgence in inflationary pressure, heightened sovereign risk in the build-up to the 2019 general elections, and rising public debt and deficits. In the face of these developments, the desire to achieve price and financial system stability conducive to output growth was the major consideration that influenced monetary policy in the period under review.

## 4.1 DECISIONS OF THE MONETARY POLICY COMMITTEE (MPC)

Monetary policy decisions in the first half of 2019 was shaped by major developments in the global and domestic economic and financial environments. These included: the escalation of trade tensions between the US, China and other major trading partners; vulnerabilities in major financial markets and mounting external debt in Emerging Market and Developing Economies (EMDEs); and slowdown in the Chinese economy. Others were: imposition of a new round of sanctions on Iran; and increasing complications in the BREXIT negotiations. In addition, the continuing monetary policy normalization by the US, the European Central Bank's (ECB) abandonment of its monetary policy normalization programme, continued asset purchase by the Bank of Japan (BoJ), and the lull in policy by the Bank of England increased the level of of uncertainty in the global economy.

On the domestic front, the challenges were: the liquidity effect of continued implementation of the 2018 budget, resurgence in inflationary pressure, heightened sovereign risk in the build-up to the 2019 general elections, and rising public debt and deficits.

These challenges and the need to achieve the objective of price and

financial system stability conducive to sustainable and inclusive economic growth, were the key considerations that underpinned the thrust of monetary policy in the first half of 2019.

### 4.1.1 January 2019 MPC Meeting

The 21st and 22nd January, 2019 MPC meeting reviewed developments in the global and domestic economic and financial environments in 2018, as well as the risks and outlook in the short to medium term. The key global developments were: financial market volatilities; trade tensions between the US and its key trading partners; continuing monetary policy normalization by the US; difficult BREXIT negotiations, termination of the European Central Bank's (ECB) asset purchase program in December 2018 and the slowdown of the Chinese economy. As a result, global growth was downgraded by the IMF to 3.5 per cent in 2019, from 3.7 per cent in 2018.

The key developments on the domestic front were the continued recovery in output growth after the 2016 recession and the resurgence in inflationary pressure. Real GDP grew by 1.81 per cent in Q3, 2018 from 1.50 per cent in Q2, 2018, driven by the services and agricultural sectors which grew by 1.19 and 0.56 per cent, respectively. Growth was, however, dampened by the persistence of herdsmen attack on farmers, cattle rustling and flooding in some parts of the country, which affected agricultural and livestock output. The MPC was optimistic about Q4 2018 output growth given the continued positive trend in the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMIs).

In terms of prices, headline inflation (year-on-year) inched up to 11.44 per cent in December 2018 from 11.28 per cent in November 2018. This was driven by food inflation, which rose to 13.36 per cent in December 2018 from 13.30 per cent in November, while core inflation declined marginally to 9.77 per cent in December 2018 from 9.79 per cent in the previous month. The uptick in inflation was attributed mainly to seasonal factors, which impacted primarily on food. All measures of month-on-month inflation, however, showed a decline. The headline, food and core measures (month-on-month) declined to 0.74, 0.81and 0.50 per cent in December 2018 from 0.84, 0.90 and 0.68 per cent, respectively, in November 2018.

Developments in the financial markets indicated that the All-Share Index (ASI) decreased (year-on-year) by 17.81 per cent to 31,430.50 at end-December 2018 from 38,243.19 at end-December 2017. The ASI further declined by 1.35 per cent to 31,005.17 as at January 18, 2019. Similarly, Market Capitalization (MC) decreased by 13.87 per cent (year-on-year) to N11.72 trillion at end-December 2018 from N13.61 trillion at end-December 2017, declining further by 1.37 per cent to N11.56 trillion as at January 18, 2019. The development was attributed to the progressive normalization of monetary policy in some advanced economies and perceived increase in sovereign risk in

the build-up to the 2019 general elections, resulting in sustained profit taking by some foreign investors.

In the foreign exchange market, there was relative stability at both the Bureau-de-Change (BDC) segment and the Investors' and Exporters' (I&E) window. This stability was further enhanced by the Bank's exchange rate management policies, the implementation of the Bilateral Currency Swap Agreement (BCSA) with China and the inflow of proceeds from the US$2.8 billion Euro bond offer.

Notwithstanding the above challenges in the global and domestic economy, the MPC in its considerations noted remarkable progress towards macroeconomic stability. These included stability in the exchange rate, stable accretion to external reserves, moderation in price development and the low but gradual improvement in output growth in the last six consecutive quarters. The MPC commended the government's focused expenditure on investment in infrastructure and urged the Federal Government to sustain the pace towards addressing the infrastructural deficit in Nigeria. The Committee commended the initiative of the Bankers Committee in addressing the phenomenon of low credit to the small and medium scale enterprises through a partnership with the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) to establish a national Microfinance bank to provide low interest rate loans to small scale businesses. The MPC also noted that although there was an increase in the year-on-year headline inflation for the second consecutive month, the month-on-month inflation continued to moderate, indicating that the year-on-year measures will also moderate in the near term. The Committee also noted with satisfaction the gradual reduction in Non- Performing Loans of the deposit money banks (DMBs). The Committee believes that as Government pays off contractor debts and other obligations, there will be a sizable reduction in the NPLs of the banking system.

In reaching its decision, the MPC observed the risks confronting the economy such as the global and domestic inflationary pressures, and the associated risk of currency depreciation. As a result, it was of the view that a loosening option remained remote. On the other hand, weighing its judgement on price stability concerns, the MPC was of the view that a tightening policy would result in the loss of the gains so far achieved, noting that this may also drive DMBs to re-price their assets, thus increasing the cost of credit and elevating credit risk in the economy. This, it believed, would worsen the position of non-performing loans of the banks. The Committee equally felt that tightening would dampen investments and hamper improvements in output growth, given that the growth performance so far remained fragile.

Based on the foregoing, the MPC decided by a vote of all eleven (11) members to keep the policy parameters unchanged from their current levels. Thus, the MPC retained the MPR at 14

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

### 4.1.2 March 2019 MPC Meeting

At the 25th and 26th March 2019 MPC meeting, developments in the global and domestic economic and financial environments in the first quarter of 2019 were reviewed. Global output growth was observed to be softening due to a set of legacy headwinds from the second half of 2018. These included: the continued trade war between the US and China; policy uncertainty amongst advanced economy central banks; persisting uncertainties surrounding BREXIT negotiations; vulnerabilities in major financial markets and rising public debt in some Emerging Market and Developing Economies (EMDEs).

In the domestic economy, real Gross Domestic Product (GDP) grew by 2.38 per cent in Q4 2018 from 1.81 and 2.11 per cent in the previous quarter and corresponding period of 2017. The major driver of growth was the non-oil sector, which grew by 2.7 per cent in Q4 2018, while the oil sector contracted by 1.62 per cent. The MPC noted the positive direction of output growth based on the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMIs) which grew for the 24th and 23rd consecutive months in March 2019. The manufacturing PMI rose by 57.4 index points compared with 57.1 in the previous month. Similarly, the non-manufacturing PMI increased by 58.5 index points compared with 58.4 in February 2019. The improvement in the outlook was attributed to the continued stability in the foreign exchange market, interventions by the Bank in the real sector and the effective implementation of the Economic Recovery and Growth Plan (ERGP) by the Federal Government.

On price developments, headline inflation (year-on-year) declined further to 11.31 per cent in February 2019 from 11.37 and 11.44 per cent in January 2019 and December 2018, respectively. The decrease was driven by food inflation, which declined to 13.47 per cent in February 2019 from 13.51 per cent in January 2019, while core inflation also declined to 9.80 per cent from 9.91 per cent in the previous month. On a month-on-month basis, headline, food and core inflation declined to 0.73, 0.82 and 0.65 per cent in February 2019, respectively, from 0.74, 0.83 and 0.81 per cent in January 2019. In spite of this decline, the upside risks to inflation remained the following: the high cost of energy; infrastructure constraints; growing insecurity in the country; and anticipated increase in liquidity from the late implementation of the 2018 budget. These factors were notably outside the ambit of monetary policy.

In the financial markets, the All-Share Index (ASI) and Market Capitalization (MC) continued to decline. The development reflected sentiments towards portfolio rebalancing from equities to fixed income securities, indicating the perceived risk at the long end of the yield curve.

In its considerations, the Committee noted that output growth was mostly weak in 2018, but, strengthened in the last quarter, with a positive forecast for 2019. The MPC further noted the continued moderation in all measures of inflation, sustained stability in the exchange rate and the robust level of external reserves. The MPC noted the relative volatility in oil prices and its impact on accretion to reserves which could easily undermine the relative stability observed in the foreign exchange market. It observed the improved confidence by foreign investors in the Nigerian economy reflected in the recent upsurge in capital inflows into the economy. Despite these developments, the MPC was conscious of unfavourable trends in the global economy, such as the recent slowdown in output growth in some advanced economies and the dovish stance of some major central banks, as an early warning sign of broader macroeconomic vulnerabilities. The MPC equally expressed concerns over the growing fiscal deficit, external debt and cost of debt servicing. It, however, noted that current developments in the oil futures market indicate that oil prices will remain considerably above the Federal Government's 2019 budget benchmark with prospects of improved fiscal receipts to manage the debt. On financial system stability, the MPC noted the improvements in key financial soundness indicators and commended the Federal Government for the settlement of debts owed to oil marketers, which has considerably, helped in reducing the NPL portfolio of the banking industry. In anchoring its considerations, the Committee believed that having achieved a relatively stable exchange rate with price stability, it is imperative that monetary policy should explore the next steps necessary for enhancing growth, reducing unemployment and diversifying the productive base of the economy.

In reaching its decision, the Committee deliberated between the options of maintaining the prevailing policy stance or easing slightly. The MPC was of the view that given the relative stability in the key macroeconomic variables, there was a need to signal a pro-growth stance. It was further convinced that this new stance would encourage the flow of credit to the real economy, thus upholding the Bank's commitment to support output growth. The Committee was of the view that easing by a small margin will not hurt capital flow to the economy due to the wide spread between market rates in the EMDEs and the advanced economies.

Consequently, the MPC decided by a vote of six out of eleven members to reduce the Monetary Policy Rate (MPR) by 50 basis points. Two members voted to reduce the MPR by 25 basis points, while one member voted to reduce it by 100 basis points. Two members, however, voted to hold the MPR at its current level. Ten members voted to hold all other parameters constant, while a member voted to reduce the Cash Reserve Ratio (CRR) by 100 basis points from 22.5 to 21.5 per cent. Thus, the Committee voted to adjust the MPR

by 50 basis points from 14.00 to 13.50 per cent; and retain the asymmetric corridor of +200/-500 basis points around the MPR; the CRR at 22.5 per cent; and the Liquidity Ratio at 30 per cent.

### 4.1.3 May 2019 MPC Meeting

The Monetary Policy Committee (MPC) met on 20th and 21st May, 2019 amidst uncertainties in the global and domestic economic, financial and political environments. On global developments, the weakening global output growth continued in the face of familiar headwinds, including: the further escalation of the trade war between the US and China; imposition of new rounds of sanctions on Iran; difficult BREXIT negotiations; a new wave of tensions on the Korean Peninsula; vulnerabilities in major financial markets and rising public and private debt in some Emerging Market and Developing Economies (EMDEs). Accordingly, the International Monetary Fund further downgraded its global output growth projections for 2019 from 3.5 to 3.3 per cent.

On the domestic front, the recovery of output moderated as real GDP grew by 2.01 per cent in the first quarter of 2019 compared with 2.38 per cent in the previous quarter. It was, however, a marginal improvement compared with 1.89 per cent in the corresponding quarter of 2018. The performance was largely driven by the non-oil sector, which grew by 2.47 per cent in the first quarter of 2019, while the oil sector contracted by 2.40 per cent. Staff projections indicated that real GDP will strengthen to 2.34 and 2.36 per cent in Q2 and Q3 2019, respectively. The Committee observed that actual output remains below potential, implying that the economy still had sufficient headroom for non-inflationary growth. It noted the continued expansion of the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI) for the 25th and 24th consecutive months in April 2019. The manufacturing PMI grew by 57.7 index points compared with 57.4 index points in the previous month, while the non-manufacturing PMI grew by 58.7 index points compared with 58.5 index points in March 2019.

On price developments, headline inflation (year-on-year) rose slightly to 11.37 per cent in April 2019 from 11.25 per cent in March 2019. The increase in headline inflation was driven mainly by food inflation which rose by 13.70 per cent in April 2019 from 13.45 per cent in March. Core inflation, however, declined marginally to 9.28 per cent in April 2019 from 9.46 per cent in March. Month-on-month, headline, food and core inflation increased to 0.94, 1.14 and 0.70 per cent in April 2019 from 0.79, 0.88 and 0.53 per cent in March, respectively. This uptick in inflationary pressures was attributed to seasonal factors.

In the financial markets, activities in the equities segment remained bearish in spite of the sustained capital inflow into the economy, reflecting the continued portfolio rebalancing from the long to the short end of the yield curve in the review period. The All-Share Index

declined by 8.14 per cent to 28,871.83 index points on May 17, 2019 from 31,430.50 index points at end-December 2018. Market capitalization, however, grew by 8.53 per cent to N12.72 trillion on May 17, 2019 from N11.72 trillion at end-December 2018. The growth in market capitalization reflected new listings in the market, prominent amongst which were MTN, Skyway Aviation Handling Company and the merger between Access Bank and Diamond Bank.

The Committee took note of the continued slowdown in the global economy and the persisting uncertainties such as the on-going trade wars between the US and its major trading partners, financial fragilities in a number of countries, debt-constrained fiscal operations in some EMDEs, including Nigeria, and the volatility in the oil market. The Committee, therefore, enjoined the Federal government to improve its savings culture including a more realistic oil price budget benchmark in order to build fiscal buffers.

The MPC noted the moderation in output growth during the first quarter of 2019, emphasizing that actual output remains well below the economy's long-run potential. This indicated the existence of spare capacity for non-inflationary growth in the economy, an opportunity which should be explored for improved credit delivery to the private sector. The Committee also noted that the uptick in inflationary pressures in April 2019 was driven largely by food shortages during the Easter season as a result of the commencement of the planting season and the persisting security challenges in some of the food producing regions of the country. These factors, it noted remain outside the remit of monetary policy.

The MPC, however, welcomed the improvements in the financial soundness indicators (FSIs), noting the moderation in the NPL ratio, although it remained above the prudential benchmark. Consequently, the Committee recommended a proposal to develop a comprehensive administrative, legal and regulatory framework to speed up the recovery of delinquent loans. The proposal will involve structured engagement with relevant stakeholders and authorities, to mitigate credit risk and ultimately improve credit delivery in the economy. The Committee called on the Bank to provide a mechanism for limiting DMBs access to government securities in order to refocus their lending to the private sector.

Following the limited progress towards macroeconomic and financial sector stability, the Committee was confronted with the options to tighten, ease or hold policy. It noted that the slight uptick in inflation should ideally elicit a tightening stance, but this will likely impede the ability of DMBs to increase credit as required to support consumer spending, mortgages and other priority sectors of the economy. The MPC considered easing as this will stimulate output growth, restart capital market activities and improve credit to the real

economy. It, however, felt that given the marginal increase in headline inflation in April 2019, there was the need to refrain from easing in order not to exacerbate inflationary pressures. On the argument for a hold position, the Committee was of the view that maintaining the monetary policy rate at its present level was essential for better understanding the momentum of output growth before any further adjustments.

On the backdrop of these considerations, the MPC decided by a vote of 9 out of 11 members to hold all policy parameters constant, while two members voted to reduce the monetary policy rate by 25 basis points. In summary, the Committee retained the MPR at 13.50 per cent, asymmetric corridor of +200/-500 basis points around the MPR, CRR at 22.5 per cent and Liquidity Ratio at 30 per cent.

### 4.2.0 Instruments of Liquidity Management

During the first half of 2019, the Bank continued to conduct monetary policy using the various instruments in its toolkit to achieve the objectives of price and macroeconomic stability. These instruments were: the Monetary Policy Rate (MPR), the Cash Reserve Ratio (CRR), Liquidity Ratio, Open Market Operations (OMO) and Discount Window Operations, complemented with periodic interventions in the foreign exchange market.

### 4.2.1 Monetary Policy Rate (MPR)

The MPR remained the key instrument for monetary policy management in the review period. It remained at 14.0 per cent until the March 2019 MPC meeting when it was adjusted downwards by 50 basis points to 13.5 per cent. This was to signal a pro-growth stance by way of encouraging the flow of credit to the productive sectors of the economy. The asymmetric corridor of +200 and -500 basis points around the MPR was maintained.

### 4.2.2 Open Market Operations (OMO)

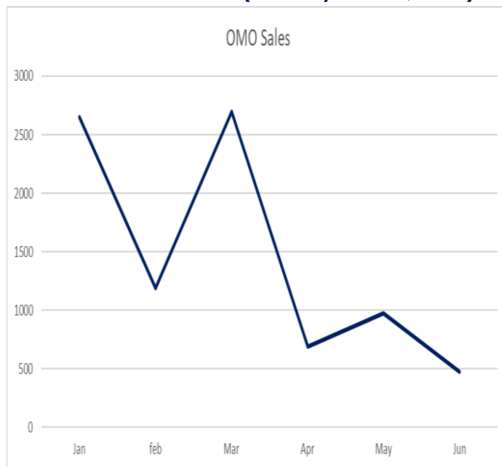
The primary tool for liquidity management remained the Open Market Operations (OMO) bills in the review period. There was a decrease in OMO sales by 10.48 per cent to ₦8,682.01 billion in the first half of 2019 from ₦9,678.76 billion in the preceding half of 2018 (Table 4.1).

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

| Date | 2018 | 2019 | % Change |
|---|---|---|---|
| Jan | 2132.61 | 2,653.34 | 24.42 |
| feb | 845.28 | 1,188.91 | 40.65 |
| Mar | 1516.38 | 2,694.98 | 77.72 |
| Apr | 2084.46 | 693.05 | -66.75 |
| May | 2033.42 | 975.81 | -52.01 |
| Jun | 1086.61 | 475.92 | -56.20 |
| **1st Half** | **9,698.76** | **8,682.01** | **-10.48** |
| Jul | 1669.13 | | |
| Aug | 1529.93 | | |
| Sep | 1651.51 | | |
| Oct | 1743.64 | | |
| Nov | 3020.28 | | |
| Dec | 3095.42 | | |
| **2nd Half** | **12,709.91** | | |
| **Cumlative Figure** | **22,408.67** | | |

**Source: Financial Market Department**

**Figure 4.1**
**OMO Bills Auction (January – June, 2019)**




### 4.2.3 Reserve Requirements

The Cash Reserve Ratio (CRR) is an important instrument of monetary policy used to promote the delivery of credit to the economy. The upward adjustment of CRR reduces the ability of deposit money banks to lend as more resources are warehoused with the central bank, while a downward review encourages lending by the DMBs. Following the global financial crisis of 2007/2008, the MPC on April 8, 2009, lowered the CRR from 2.0 to 1.0 per cent to ease financial conditions and encourage lending to stimulate economic activities. However, in March 2016, the CRR was adjusted upwards by 250 basis points to 22.5 from 20.0 per cent to tighten liquidity conditions, curtail lending and tame inflationary pressures. During the review period, the Cash Reserve Ratio (CRR) was maintained at 22.5 per cent of total deposits in view of the persistence of excess liquidity in the banking system.

The liquidity Ratio (LR) was also maintained at 30.0 per cent.

### 4.2.4 Standing Facilities

In the first half of 2019, the Bank continued to use the standing facilities (lending/deposit) window to manage overnight liquidity in banking system (Deposit Money Banks and the Discount House). The asymmetric corridor was kept unchanged at +200/-500 basis points around the MPR.

The request for Standing Lending Facility (SLF), increased by 160.40 per cent to ₦12,121.76 billion in the first half of 2019 from ₦4,655.06 billion in the second half of 2018. It also increased by 72.49 per cent compared with ₦7,027.46 billion in the corresponding period of 2018 (Table 4.2).

At the Standing Deposit Facility (SDF) window, the volume of deposits decreased by 21.32 per cent to ₦8,020.95 billion in the first half of 2019 from ₦10,194.71 billion in the second half of 2018. Compared with ₦10,684.38 billion in the corresponding period of 2018, it decreased by 24.93 per cent (Table 4.3).

Transactions at the two windows resulted in a net lending of ₦4,100.81 billion in the first half of 2019 in contrast to the net deposit of ₦5,539.65 billion and ₦3,656.92 billion in the preceding and corresponding half years. The development was due to occasional liquidity stress. However, a combination of these instruments helped to manage liquidity levels in the banking system.

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

| Date | 2018 | 2019 | % Change |
|---|---|---|---|
| Jan | 833.09 | 3,239.60 | 288.87 |
| Feb | 1020.15 | 3,136.42 | 207.45 |
| Mar | 952.23 | 2,143.70 | 125.12 |
| Apr | 1145.52 | 1,990.01 | 73.72 |
| May | 1847.69 | 895.78 | -51.52 |
| Jun | 1228.78 | 716.26 | -41.71 |
| **1st Half** | **7,027.46** | **12,121.76** | **72.49** |
| Jul | 441.1 | | |
| Aug | 53.04 | | |
| Sep | 483.4 | | |
| Oct | 864.8 | | |
| Nov | 684.7 | | |
| Dec | 2128.02 | | |
| **2nd Half** | **4,655.06** | | |
| **Cumlative Figure** | **11,682.52** | | |

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

| Date | 2018 | 2019 | % Change |
|---|---|---|---|
| Jan | 1919.78 | 928.86 | -51.62 |
| Feb | 1144.1 | 690.42 | -39.65 |
| Mar | 1508.75 | 1,417.28 | -6.06 |
| Apr | 2952.2 | 1,056.76 | -64.20 |
| May | 1527.04 | 2,178.21 | 42.64 |
| Jun | 1632.51 | 1,749.43 | 7.16 |
| **1st Half** | **10,684.38** | **8,020.95** | **-24.93** |
| Jul | 1643.71 | | |
| Aug | 2073.1 | | |
| Sep | 2070.85 | | |
| Oct | 1345.34 | | |
| Nov | 2267.19 | | |
| Dec | 794.52 | | |
| **2nd Half** | **10,194.71** | | |
| **Cumlative Figure** | **20,879.09** | | |

**Source: Financial Market Department**

**Figure 4.2**
**Standing Lending Facility (January – June 2019)**

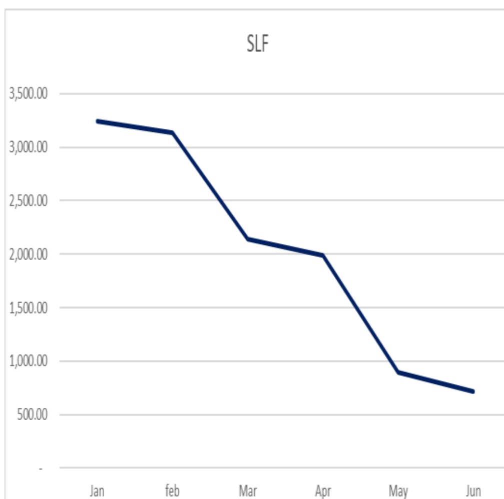
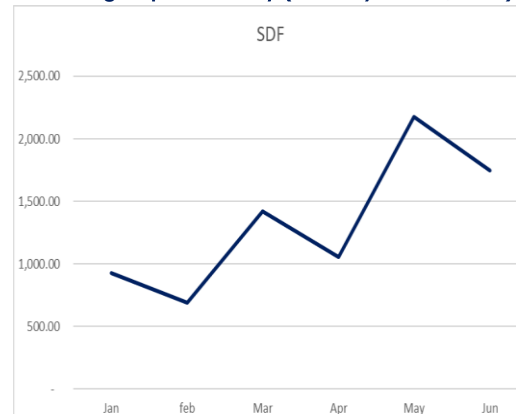



**Figure 4.3**
**Standing Deposit Facility (January - June, 2019)**




## 4.2.5 Foreign Exchange Intervention

In the first half of 2019, the Bank continued with the flexible foreign exchange management policy, supported by proactive strategies such as the implementation of the Bilateral Currency Swap Agreement (BCSA) with China. The Bank continued to mandate all Authorized Dealers who are agents to

approved International Money Transfer Operator (IMTOs) to sell foreign currency accruing from inward money remittances to licensed Bureau De Change (BDCs) Operators in Nigeria. As a result, there was relative stability at both the Bureau-de-Change (BDC) and the Investors' and Exporters' (I&E) window of the foreign exchange market.

The total supply of foreign exchange, however, decreased by 59.93 per cent to US$8,370.04 million in the first half of 2019 from US$20,887.20 million in the second half of 2018. The development represented an increase of 11.89 per cent compared with US$9,499.92 million in the corresponding period of 2018 (Table 4.4). The decrease in the supply of foreign exchange was largely due to foreign reserves depletion occasioned by continued flight of capital in the review period. Although, crude oil prices increased moderately toward the end of first half of 2019, its impact on reserves was negated by capital flow reversals as investors divested from the Nigerian stock market due to monetary policy normalization in the United States as well as growing sovereign risk in the Nigerian market due to the general elections in the review period.

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

| Date | 2018 | 2019 | % Change (2018 - 2019) |
|---|---|---|---|
| | **Total FX Supply (including Forward Sales)** | **Total FX Supply (including Forward Sales)** | |
| Jan | 1,343.12 | 1,473.17 | 74.71% |
| Feb | 1,237.26 | 1,922.25 | 41.16% |
| Mar | 1,300.93 | 1,159.78 | -0.65% |
| Apr | 1,422.35 | 1,244.32 | -25.89% |
| May | 2,039.51 | 1,455.05 | -3.34% |
| Jun | 2,156.75 | 1,115.47 | 92.39% |
| **1st Half** | **9,499.92** | **8,370.04** | **-11.89%** |
| Jul | 2,966.31 | | 145.76% |
| Aug | 3,733.66 | | 157.58% |
| Sep | 3,868.67 | | 217.02% |
| Oct | 3,481.15 | | 164.53% |
| Nov | 3,617.03 | | 198.68% |
| Dec | 3,220.38 | | 146.45% |
| **2nd Half** | **20,887.20** | | **170.89%** |

**Source: Financial Market Department**

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

Administrative measures were sustained by the Bank during the review period to curb speculative activities in the foreign exchange market, restore investors'

confidence in the Banks' foreign exchange management strategy, limit arbitrage opportunities and the depletion of the external reserves.

## 4.3.0 Developments in Monetary Aggregates

During the review period, the performance of major monetary aggregates was mixed. Broad money (M2) performed below its indicative benchmark for 2019, as a result of sluggish growth of the Net Foreign Assets (NFA), which dampened the impact of the substantial growth of Net Domestic Assets (NDA) above its indicative target. The increase in NDA was attributed to the significant increase in credit to government occasioned by increased fiscal expansion and rising deficit in the face of shortfall in government revenue. The under-performance of the NFA was on account of sluggish crude oil market.

The underperformance of monetary aggregates implies that the economy is not receiving adequate money supply to support the envisaged growth target. This may indicate a slowdown in economic activity.

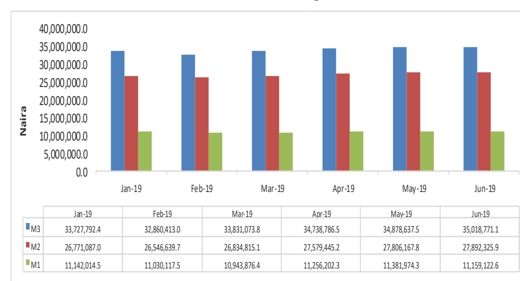
### 4.3.1 Broad Money (M3, M2)

Broader measure of money supply (M3) grew by 4.97 per cent to ₦35,018.77 billion at end-June 2019 from ₦33,359.25 billion at end-December 2018. Compared with the end-June 2018 level of ₦29,343.83 billion, M3 increased by 19.34 per cent. The annualized M3 growth rate of 9.94 per cent at end-June 2019 was below the 2019 indicative growth target of 16.08 per cent.

Broad Money (M2) grew by 3.04 per cent to ₦27,892.33 billion at end-June 2019 from ₦27,078.83 billion at end-December 2018. Compared with the end-June 2018 level of ₦24,814.00 billion, M2 increased by 12.41 per cent. The annualized M2 growth rate of 6.08 per cent at end-June 2019 was below the 2019 indicative growth target of 13.11 per cent.

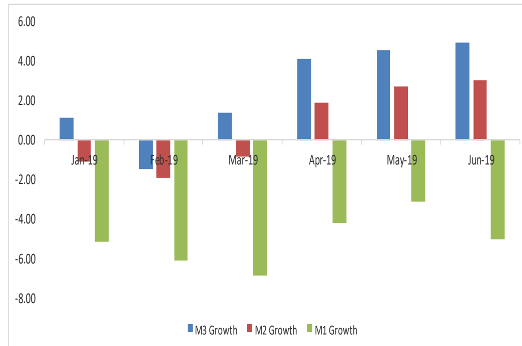
The sluggish growth in the broad and broader monetary aggregates below their target growth rates indicate insufficient transactions and economic activities to meet the government's non-inflationary growth objective. It signified a shortage in the stock of money to drive economic growth to the projected trajectory. The weak growth in the stock of money indicates sluggish growth in aggregate demand, which would dampen inflationary pressures. The observed trend in these aggregates was manifested in the sustained decline in inflation in the first half of 2019.

**Figure 4.5**
**Money Supply (M1), (M2) and (M3) (January – June, 2019)**




| | Jan-19 | Feb-19 | Mar-19 | Apr-19 | May-19 | Jun-19 |
|---|---|---|---|---|---|---|
| M3 | 33,727,792.4 | 32,860,413.0 | 33,831,073.8 | 34,738,786.5 | 34,878,637.5 | 35,018,771.1 |
| M2 | 26,771,087.0 | 26,546,639.7 | 26,834,815.1 | 27,579,445.2 | 27,806,167.8 | 27,892,325.9 |
| M1 | 11,142,014.5 | 11,030,117.5 | 10,943,876.4 | 11,256,202.3 | 11,381,974.3 | 11,159,122.6 |

**Figure 4.6**
**Growth in Money Supply (M1), (M2) and (M3)**
**(January - June, 2019)**




### 4.3.3 Narrow Money (M1)

Narrow Money (M1) declined by 5.05 per cent to ₦11,159.12 billion at end-June 2019 from ₦11,751.14 billion at end-December 2018. It, however, grew by 4.28 per cent compared with ₦10,701.11 billion at end-June 2018. When annualized, M1 declined by 10.10 per cent compared with the 2019 indicative growth target of 17.20 per cent (Figures 4.4 and 4.5), indicating that M1 under-performed in the review period. The weak performance of M1 is the result of the decline in Currency in circulation (13.55 per cent) and private sector deposits at both the CBN (1.42 per cent) and commercial banks (4.39 per cent). The primary driver of the observed developments in narrow money is a significant drop in currency in circulation (CIC) and deposits in both the CBN and commercial banks.

The development in M1 is supportive of the observed trend in M2 & M3, and indicates that economic activities are slow or slowing down as there are insufficient transactions, business and economic activities to sustain the government's growth objective. The persistence of the trend is worrisome as it may trigger a fresh round of economic recession. Consequently, efforts must be made to boost real sector economic activities through both monetary and fiscal stimulus packages to ensure that the economy is propelled towards the target growth trajectory.

### 4.3.4 Net Foreign Assets (NFA)

Net Foreign Assets (NFA) increased marginally by 0.40 per cent to ₦18,471.24 billion at end-June 2019 from ₦18,397.82 billion at end-December 2018. Compared with the end-June 2018 figure of ₦18,337.53 billion, NFA grew by 0.73 per cent. The annualized NFA growth rate of 0.80 per cent at end-June 2019 was significantly below the 2019 indicative growth target of 18.32 per cent. The under-performance of NFA in the review period was attributed to the 3.37 per cent decline in net foreign assets held by the monetary authorities.

The poor growth performance of NFA vis-à-vis the target growth rate driven by a decline in the NFA held by Monetary Authorities, is a manifestation of efforts by the CBN to stabilize the Naira. The persistence of this trend in NFA could put significant pressure on the international value of the Naira. Consequently, current export diversification efforts should be sustained to help build up external reserves in order to enhance the growth in NFA.

### 4.3.5 Net Domestic Assets (NDA)

Net Domestic Assets (NDA) increased by 10.60 per cent to ₦16,547.53 billion at end-June 2019 from ₦14,961.43 billion at end-December 2018. Compared with the end-June 2018 figure of ₦11,006,30 billion, NDA also grew by 50.35 per cent. The annualized NDA growth rate of 21.20 per cent at end-June 2019 was significantly above the 2019 indicative growth target of 13.34 per cent. This is attributable to the significant increase in credit to government of 55.80 per cent in the first half of 2019. The growth in NDA was primarily driven by the growth in credit to government and credit to the private sector. The over performance of growth in Credit to government vis-à-vis the target is a manifestation of borrowings to fund government including electioneering and payment of outstanding contractor obligations. Likewise, the growth in private sector credit was primarily driven by credit to state government (i.e. approximately 93 per cent). In essence the over performance in the growth rate of NDA vis-à-vis the target growth rate was due to credit to the two main tiers of government.

The developments in domestic credit suggests a crowding out of credit to the core private sector, thus contributing to a possible slowdown in economic activities. Typically, a precursor to economic recession is a slowdown in credit to businesses, leading to a contraction of business and economic activities. These signs are worrisome and consistent with developments in both the broad and broader money; suggesting the need for real sector stimulus.

**Figure 4.7**
**Net Domestic Asset (NDA) (January – June, 2019)**

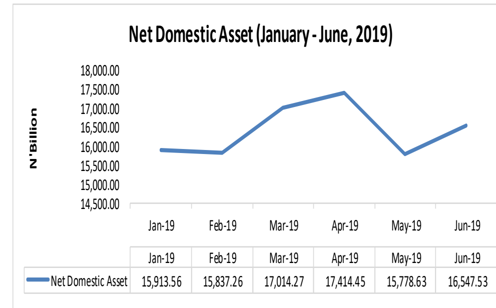
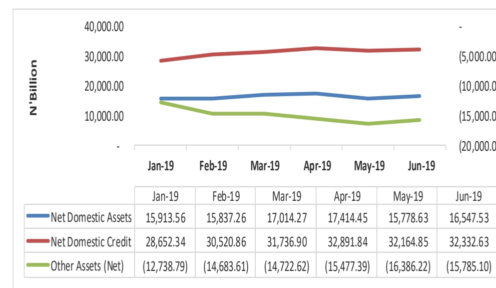



**Figure 4.8**
**NDA, NDC and Other Assets (Net) (January – June, 2019)**




### 4.4.3 Credit to the Government (Cg)

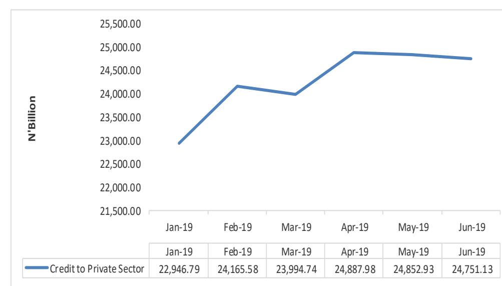
In the first half of 2019, Credit to Government (Cg) grew by 55.80 per cent to ₦7,581.49 billion at end-June 2019 from ₦4,866.09 billion at end-December 2018. Compared with end-June 2018, Cg grew by 170.28 per cent from ₦2,805.01 billion. The annualized Cg growth rate of 111.60 per cent at end-June 2019 was significantly above the 2019 indicative growth target of 58.78 per cent. The development was attributed to the need to fund the growing budget deficit in the face of revenue shortfalls.

Credit to government expanded significantly above the indicative benchmark; implying that government borrowing relative to her deficits had increased beyond projected level. The implication is that more resources are commandeered by the government sector to meet growing deficit. This will starve the private sector of credit and lead to a general rise in interest rates in the economy.

### 4.4.4 Credit to the Private Sector (Cp)

Credit to the private sector (Cp) increased by 9.00 per cent to ₦24,751.13 billion at end-June 2019 from ₦22,708.22 billion at end-December 2018. Compared with the end-June 2018 figure of ₦22,281.87 billion, it rose by 11.08 per cent. The annualized Cp growth rate of 18.00 per cent at end-June 2019 was significantly above the 2019 indicative growth target of 14.49 per cent. In spite of the increase in credit to the private sector, this was not reflected in activities in the real economy considering the sluggish output recovery and lingering high level of unemployment. The observed increase in credit to the private sector was in favour of state governments (93.33%), and skewed against the core private sector (6.67%). This development justifies the CBN's intervention of targeted credit to the real sector of the economy such as SMEs and small scale farmers. This clearly indicates that high lending to government has the tendency to crowd out the private sector over time.

**Figure 4.9**
**Domestic Credit to Private Sector (January – June, 2019)**




| | Jan-19 | Feb-19 | Mar-19 | Apr-19 | May-19 | Jun-19 |
|---|---|---|---|---|---|---|
| Credit to Private Sector | 22,946.79 | 24,165.58 | 23,994.74 | 24,887.98 | 24,852.93 | 24,751.13 |

### 4.4.5 Reserve Money (RM)

Reserve Money (RM) increased by 13.35 per cent to ₦8,088.46 billion at end-June 2019 from ₦7,135.73 billion at end-December 2018.

Compared with its end-June 2018 level of ₦6,360.47 billion, RM increased by 27.17 per cent. The annualized RM growth rate of 26.70 per cent at end-June 2019 was significantly below the 2019 indicative growth target of 56.74 per cent.

A summary of the major monetary aggregates and their provisional outcomes as at end-June 2019 is presented in Table 4.5.

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

| Variables | Actual | Actual | Actual | Benchmark | H1:2019 Deviation from Benchmark | Change in H1, 2019 over H2, 2018 |
|---|---|---|---|---|---|---|
| | H1 | H2 | H1 | 2019 | | |
| | 2018 | 2018 | 2019 | | | |
| M3 (N'b) | 29,343.83 | 33,359.25 | 35,018.77 | 38,796.93 | -3,778.16 | 1,659.52 |
| M3 (%) | 2.35% | 16.36% | 4.97% | 16.08% | -11.11% | -11% |
| M2 (N'b) | 24,814.00 | 27,068.58 | 27,892.33 | 30,627.91 | -2,735.58 | 823.75 |
| M2 (%) | 2.79% | 12.13% | 3.04% | 13.11% | -10.06% | -9% |
| M1 (N'b) | 10,701.11 | 11,751.14 | 11,159.12 | 13,772.38 | -2,613.26 | -592.02 |
| M1 (%) | -4.25% | 5.16% | -5.05% | 17.20% | -22.25% | -10% |
| RM (N'b) | 6,360.47 | 7,135.73 | 8,088.46 | 9,166.04 | -1,077.58 | 952.73 |
| RM (%) | -1.91% | 9.13% | 13.35% | 56.74% | -43.39% | 4% |
| NDC (N'b) | 25,086.87 | 27,574.32 | 32,332.63 | 33,747.18 | -1,414.55 | 4,758.31 |
| NDC (%) | -3.25% | 6.34% | 17.26% | 22.30% | -5.04% | 11% |
| Cg (N'b) | 2,805.01 | 4,866.09 | 7,581.49 | 7,728.53 | -147.04 | 2,715.40 |
| Cg (%) | -22.92% | 33.72% | 55.80% | 58.78% | -2.97% | 22% |
| Cp (N'b) | 22,281.87 | 22,708.22 | 24,751.13 | 26,018.65 | -1,267.51 | 2,042.91 |
| Cp (%) | -0.04% | 1.87% | 9.00% | 14.49% | -5.49% | 7% |
| NFA (N'b) | 18,337.53 | 18,397.82 | 18,471.24 | 21,768.11 | -3,296.87 | 73.42 |
| NFA (%) | 18.15% | 18.54% | 0.40% | 18.32% | -17.92% | -18% |
| NDA (N'b) | 11,006.30 | 14,961.43 | 16,547.53 | 17,028.82 | -481.29 | 1,586.10 |
| NDA (%) | -16.29 | 13.79% | 10.60% | 13.34% | -2.74% | -3% |

**Table 4.6**
**The Performance of Monetary Aggregates and their Implications**

| S/N | Monetary Aggregates | Performance | Implication |
|---|---|---|---|
| 1 | Overall Monetary Aggregates | Mixed | Evidence indicates economic slowdown and possible recession, while developments in the external sector indicates continued reserves depletion and increased pressure to depreciate the Naira. If not adequately managed, the economy could return to a state of stagflation. |
| 2 | Broad Money (M3, M2) | Weak and below target | It signifies a shortage in the stock of money to drive economic growth to the projected trajectory. The weak growth in the stock of money indicates sluggish growth in aggregate demand, which would dampen inflationary pressures. |
| 3 | Narrow Money (M1) | Weak and below target | This indicates that economic activities are slow or slowing down as there are insufficient transactions, business and economic activities to sustain the government's growth objective. |
| 4 | Net Foreign Assets (NFA) | Significantly below target | The poor growth performance of NFA vis-à-vis the target growth rate was driven by decline in the NFA held by Monetary Authorities, which is a manifestation of efforts of the CBN to stabilize the Naira. Persistence of the trend in NFA could put significant pressure to depreciate the naira. |
| 5 | Net Domestic Assets (NDA) | Above target | Driven by credit to the two tiers of government, crowding out credit to the core private sector; depriving businesses crucial funds for business activities including expansion. This trend could be a precursor to economic slowdown and possible recession. |
| 6 | Credit to the Govt (Cg) | Overperformed | More resources are available to the government sector thereby crowding out the private sector |
| 7 | Credit to the Private Sector (Cp) | Overperformed | The overperformance of Cp was in favour of state government as against the core private sector, implying that the real economy is not being funded. This could lead to a slowdown in economic activity. |

**Box 4.1**

**RECENT DEVELOPMENTS IN CENTRAL BANK INDEPENDENCE: IMPLICATIONS FOR MONETARY POLICY**

***Introduction***

The concept of central bank independence dates back in the history of central banking. Central banking, however, remains a myth to several onlookers, thus making the concept of central bank independence more of a farce. According to Miskin (2000), the role of the central bank in a modern economy is a derivative of developments in monetary economics. Mishkin argues that central banks should maintain a strong focus on price stability in order to support the growth mandate of the fiscal authority. In order words, there must be a close alignment between monetary and fiscal policy to mitigate against the time inconsistency of monetary policy. As a monetary authority, a central bank must have the free hand to manage aggregate demand while supporting the supply side such that prices remain stable in both the commodities and the financial markets. According to The Economist magazine (February 10, 1990 p.10), "The only good central bank is the one that can say no to politicians".

There are, however, counter arguments to central bank independence in the literature. It was been noted that central bankers are merely exercising a delegated responsibility, as they are not elected. They are merely exercising the responsibility delegated to them by an elected Government. Following from this argument, therefore, central bank independence does not arise. They may, however, be given some level of autonomy to the extent possible to manage their instruments of price stability. This seems to have become the practice world-wide, until recent developments which appear to erode this autonomy.

***Recent Developments In Central Bank Independence***

In recent times, the independence of central banks have come under severe threat from the activities of elected politicians. This was demonstrated by developments in the United States, India and Turkey.

In the United States, the President repeatedly and openly criticized the US Federal Reserve System's conduct of monetary policy, insisting that the Fed got it wrong by returning to monetary policy normalization after more than a decade of monetary accommodation. According to the US President, the Fed should have continued with monetary accommodation to support the government's fiscal expansion plans to maximize the potentials of the US economy's recovery from the global slowdown. After several bouts of criticism, the Fed appears to have made a spectacular policy

U-turn to the surprise of many onlookers. The Fed suddenly came up with forward guidance of a likely dovish stance and subsequently returned to an accommodative policy stance.

In India, the Governor of the Reserve Bank of India (RBI) was forced to resign mid-way through his three-year term due to purported pressure from the Government to access the Bank's excess reserves to boost economic growth. The disagreement between the Government and the RBI was extensive and enduring, leading to the eventual resignation of the Governor of the Reserve Bank.

In Turkey, the Governor of the Central Bank was recently sacked after refusing several requests from the government to lower the Bank's policy rate. The Turkish Government told the press that the reason for the sack was the mounting difference in opinion between the government and the Bank's Governor on the Bank's approach to monetary policy. The sack had become inevitable after the Governor of the Bank refused repeated calls from the Government to voluntarily resign, with the Governor of the Bank stating that the Central Bank of Turkey had an independent status which empowered him to remain in office until the expiration of his appointed term.

In all three cases, the interference of the Government was unmistakable. The interference of the US government was implicit but very significant as the US Fed, the world's leading central bank, is clearly expected to be a trail blazer. The case of the Reserve Bank of India was, however, shrouded with some doubt as all the parties involved chose to remain silent while the market interpreted the developments as a case of political interference in central bank independence. Several calls, however, went out to the public in the local press, particularly from a former Finance Minister, urging the government to refrain from interfering in the central bank's independence. The case of the Turkish Central Bank was clearly an open abuse of the Bank's independence as the Governor was formally removed by the Government after an extended period of differences which was followed by a statement from the government confirming that the Governor was unable to agree with the Cabinet Minister Coordinating the Economy on the best approach to monetary policy.

***Implications for Monetary Policy***

For a central bank to successfully target inflation, it must be independent in its choice of monetary policy. Since the late 1990s, central banks have steadily moved towards an institutional structure of policy independence to enable them pursue an approach free from political interference (See Debelle & Fischer 1994, Bernanke & Mishkin 1997). Two broad strands of central bank independence are identified in the literature (Cukierman *et al* 1992; Amato and Gerlach 2002). These are goal and instrument independence. A central bank may have both goal and instrument

independence but this is extremely rare. It is more common to have only goal or only instrument independence with the other determined by politicians. Because inflation is a monetary phenomenon, the independence of a central bank, particularly in the choice of monetary policy instruments is thus highly strategic to successfully target inflation (Angeriz and Arestis 2005; Wessel 2006). The central bank must, therefore, always have the free will to deploy its policy instruments to target inflation and keep it within the agreed band or target. With the increasing complexity of financial markets, central banks will require more instruments and additional objectives to enable policy makers cope with a much more complex institution (Bayoumi *et al* 2014). As the mandate of central banks broaden, the question of continued relevance of the independent charter arises; should central banks remain independent or should their powers be curtailed by politicians in a bid to refocus the institution. If the continued interference of politicians persists and as a result, central bank independence is eventually lost, what will be the impact on the price stability objective?

It is important to confer central banks with some independence in the management of their policy instruments because elected politicians have short term horizons, which is the next election; while central bank decisions in the management of inflation takes a longer term perspective. Also, in order to manage the expectations of economic agents, central banks have to be credible; and central bank credibility crucially derives from their ability to freely choose their policy instruments. Consequently, the recent trend towards limiting the independence of central banks may lead to adverse inflation outcomes as markets may no longer trust the inflation-fighting ability of central banks and their instruments.

# CHAPTER FIVE

## 5.0 DEVELOPMENTS IN THE FINANCIAL MARKETS

The Nigerian financial markets were moderately calm during the review period, as performance continued to reflect developments in the global and domestic economic and financial environments. The forces underlying the developments from the global front were: the escalating trade war between the US and China; impact of the new round of sanctions on Iran; difficult BREXIT negotiations; a new wave of tensions on the Korean Peninsula; and vulnerabilities arising from growing public and private debt in some Emerging Market and Developing Economies (EMDEs). As a result, financial vulnerabilities were elevated in sovereign, corporate and non-bank financial sectors in several systemically important countries, with the risk that strains in the financial sector could again be transmitted to firms and households, thereby hurting growth. These forces were calmed by the dovish monetary policy stance of major central banks including the US Fed, the Bank of England and the European Central Bank. The stance which is expected to remain in place in the near to medium term and help sustain positive market sentiments, was in response to the re-emergence of signs of weakness in the global economy.

It is noteworthy that in China where financial vulnerabilities remain high even as the authorities continued with regulatory measures to address the credit challenge, the recent inclusion in the global bond benchmark index has increased its importance in portfolio flows. As a result, China is projected to attract additional US$150 billion inflows by 2020. Also, the development in the housing market appears to be making room for the possibility of a price correction to stabilize housing prices. Consequently, the global financial markets rebounded in early 2019 despite weak earnings outlook and tightening credit spreads.

Thus, amidst prevailing global uncertainties, the International Monetary Fund downgraded global output growth from 3.7 per cent in 2018 to 3.6 per cent in 2019 with further downward revision to 3.3 per cent.

At the domestic scene, the money market remained active in the review period, with market rates reflecting liquidity conditions in the banking system. The rates oscillated widely outside the Standing Facilities corridor, reflecting fluctuations in banking system liquidity. Stability in the foreign exchange market was sustained by CBN intervention to stabilize the naira. More fundamentally, the Bank made a strategic shift towards the long-term stability in the foreign exchange market with efforts to deepen the policy on restriction of access to foreign exchange for imports that can be produced locally.

The Nigerian capital market in the first half of 2019 remained bearish, reflecting continuing negative investor sentiments, attributable to rising public debt, perceived increased sovereign risk and weakening macroeconomic fundamentals. The market thus, experienced significant sell-offs and profit taking activities in the review period.

## 5.1 The Money Market

The money market remained active in the review period, with market rates reflecting liquidity conditions in the banking system. The rates oscillated outside the Standing Facilities corridor for most of the review period. The developments reflected the effect of: withdrawals from the banking system for monthly disbursements of statutory Federation Account Allocation Committee (FAAC) allocations; OMO sales and foreign exchange interventions. The fall in rates from April to May 2019 was a reflection of a more accommodative monetary policy stance by the Bank following the decision of the MPC to lower the rate in March 2019. The easing stance was underscored by the need to support liquidity to increase lending at low interest rates, stimulate aggregate demand and revive capital market activities. The major sources of liquidity during this period included: the extended implementation of the 2018 Federal Government budget and 2019 budget, FAAC disbursements, maturing CBN bills and other government securities and OMO auctions. Others included: the interventions of the CBN in the real sector of the economy and spending towards the 2019 general elections.

Transactions largely took place in the Open Buy Back (OBB) segment of the money market with the interbank segment experiencing fewer trading days and lower volume of transactions. Rates at the collateralized segment of the market (Open Buy Back rates) were higher compared with rates at the uncollateralized interbank segment. The higher premium on the collateralised segment was perhaps due to counterparty risks, oligopolistic nature of the market, and the fact that only a few banks control large volume of the hedging instruments.

These developments motivated the MPC to slightly loosen its monetary policy stance from 14.0 per cent to 13.50 per cent during the period, with the asymmetric corridor of +200/-500 basis points and the Cash Reserve and Liquidity Ratios of 22.5 and 30.0 per cent, respectively, remaining unchanged.

### 5.1.1 Short-term Interest Rate Developments

In the review period, liquidity conditions in the money market, which mirrored the behaviour of short term interest rates, were driven by a number of factors; including: statutory FAAC disbursements, OMO and NTB transactions, extended implementation of the 2018 FGN budget and 2019 budget, continued CBN foreign exchange interventions and spending

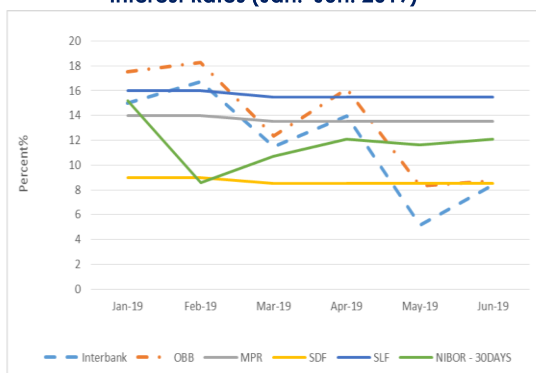
during the 2019 general elections. OMO remained the major instrument of liquidity management in the review period. Although the interbank segment of the money market had fewer trading days, the market remained largely active with both segments experiencing high volatility. As a result, the interbank call rate oscillated between 5.14 and 16.71 per cent, averaging 11.79 per cent, while the OBB rate fluctuated over a wider range of 8.34 and 18.30 per cent, averaging higher at 13.56 per cent. Overall, the average interbank call rate was lower than the OBB rate in the review period.

**Table 5.1**
**Weighted Average Monthly Money Market Interest Rates (January - June 2019)**

| MONTHS | INTERBANK | OBB | MPR | SDF | SLF | NIBOR - 30DAYS |
|---|---|---|---|---|---|---|
| Jan-19 | 15.00 | 17.50 | 14.00 | 9.00 | 16.00 | 15.21 |
| Feb-19 | 16.71 | 18.30 | 14.00 | 9.00 | 16.00 | 8.59 |
| Mar-19 | 11.50 | 12.30 | 13.50 | 8.50 | 15.50 | 10.68 |
| Apr-19 | 13.98 | 16.20 | 13.50 | 8.50 | 15.50 | 12.08 |
| May-19 | 5.14 | 8.34 | 13.50 | 8.50 | 15.50 | 11.62 |
| Jun-19 | 8.38 | 8.71 | 13.50 | 8.50 | 15.50 | 12.10 |
| Average | 11.79 | 13.56 | 13.67 | 8.67 | 15.67 | 11.71 |

**Source: (Statistics, CBN)**

**Figure 5.1**
**Weighted Average Monthly Money Market Interest Rates (Jan.–Jun. 2019)**




## (i) The Interbank Call Rate

The interbank call segment witnessed a high number of non-trading days in the period under review. The high frequency of non-trading days at the uncollateralized segment of the market was attributed largely to the persistent preference for the collateralized OBB instrument resulting from perceived counterparty risk and aversion to uncollateralized lending. Consequently, interbank call rates rose from 15.0 per cent in January to 16.71 per cent in February but subsequently moderated to 11.5 and 13.98 per cent in March and April 2019, respectively. The rate fell further to 5.14 per cent in May, closing at 8.38 per cent in June. The interbank call rate fluctuated between 5.14 and 16.71 per cent, averaging 11.79 per cent in the review period, compared with 11.36 per cent in the preceding half year.

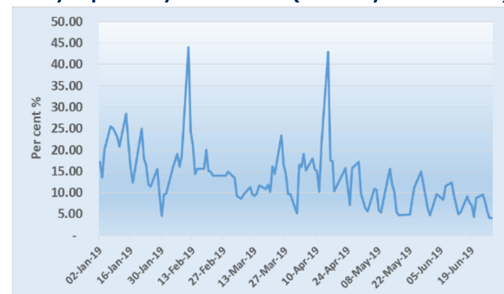
Analysis of the daily rates showed that the call rate ranged between 4.00 and 23.00 per cent in January and June 2019. The observed spikes in rates in the review period were largely accounted for by increased OMO auctions during the period. These spikes were, however, moderated by improved system liquidity conditions arising from FAAC disbursements, payment of OMO maturities, and foreign exchange purchases.

**Figure 5.2**
**Daily Interbank Call Rate (January – June 2019)**

### (ii) The Open Buy Back (OBB) Rate

The OBB segment of the market was more active in the period under review compared with the interbank call segment. The preference for collateralized OBB transactions reflects the perception of risk amongst market participants in the interbank call segment of the market, which is uncollateralized. The OBB rate rose from 17.5 per cent in January to 18.3 per cent in February, declining significantly to 12.3 per cent in March 2019. It further rose to 16.2 per cent in April and slumped to 8.34 per cent in May, closing at 8.71 per cent in June 2019. It fluctuated between 8.34 and 18.3 per cent, averaging 13.56 per cent in the period, compared with 11.86 per cent in the preceding half year. The daily rates oscillated between 4.04 and 44.05 per cent from January to June 2019. It spiked in February and April, largely as a result of increased OMO operations, naira deposits by commercial banks for the purchase of foreign currency and revenue remittances by the Nigeria National Petroleum Corporation (NNPC), Nigeria Customs Service (NCS), Federal Inland Revenue Service (FIRS) and other government agencies during FAAC. The rate, however, closed at 4.04 per cent at end-June following improved liquidity conditions.

**Figure 5.3**
**Daily Open Buy Back Rate (January- June 2019)**




### (iii) The Nigeria Interbank Offered Rate (NIBOR)

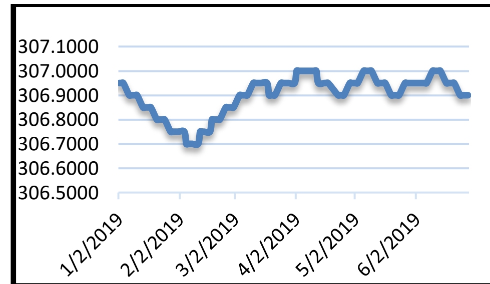
The Nigerian money market reference rate, the NIBOR, showed relative stability across most tenors in the review period. The weighted average 30-day NIBOR, fell sharply from 15.21 per cent in January to 8.59 per cent in February 2019. It, however, rose to 12.08 per cent in April, and finally closed at 12.1 per cent in June 2019. The average NIBOR rate for the review period was 11.71 per cent, down from 13.37 per cent in the preceding half year, suggesting the slight easing of liquidity conditions (Table 5.1).

## 5.2 Foreign Exchange Market

The foreign exchange market experienced relative stability during the first half of 2019 due to the relatively

stable oil prices and improved accretion to external reserves to support the CBN's interventions in the market. In addition, the Bank sustained the policy on repatriation of export proceeds as well as return of unutilized foreign exchange sourced from CBN auctions. More fundamentally, the Bank made a strategic shift towards the long term stability in the foreign exchange market with efforts to deepen the policy on restriction of access to foreign exchange for imports that can be produced locally. The deepening of this policy entails extending it to more items as well as encouraging the local production of such items for export, in line with the recent Export Facilitation Initiative (EFI) of the Bank. The development is expected to complement existing measures such as the directive to International Money Transfer Operators (IMTOs) to sell foreign exchange to BDCs; the adoption of Bank Verification Number (BVN) in BDC transactions; as well as special foreign exchange auctions to the real sector and small and medium-scale enterprises. These measures significantly contributed in stabilizing the foreign exchange market.

**Figure 5.4**
**Daily Naira/US Dollar Exchange Rate (January – June, 2019)**




### 5.2.1 Average Exchange Rates

The foreign exchange rate at the interbank market depreciated by 0.17 per cent to an average of ₦306.90/US$ in the first half of 2019 from ₦306.38/US$ in the second half of 2018. The BDC rate, however, appreciated by 0.29 per cent to ₦359.76/US$ in the first half of 2019 from an average of ₦360.79/US$ in second half 2018 (Table 5.2).

**Table 5.2**
**Average Monthly Spot Exchange Rates (Jul 2018 – June 2019) (N/US$)**

| Month / Year | Interbank Rate | BDC Rate |
|---|---|---|
| 2018: Jul | 305.81 | 359.36 |
| Aug | 306.06 | 359 |
| Sep | 306.27 | 359.25 |
| Oct | 306.51 | 360.81 |
| Nov | 306.72 | 362.88 |
| Dec | 306.92 | 363.46 |
| **Average** | **306.38** | **360.79** |
| 2019: Jan | 306.85 | 360.94 |
| Feb | 306.77 | 359.69 |
| Mar | 306.92 | 359.24 |
| Apr | 306.96 | 359 |
| May | 306.95 | 359.75 |
| Jun | 306.95 | 359.94 |
| **Average** | **306.9** | **359.76** |

### 5.2.2 End-Period (Month) Exchange Rates

There was relative stability in both the Interbank and the BDC segments of the foreign exchange market. The rate at the interbank segment depreciated by 0.36 per cent to ₦306.89/US$ at end-June 2019 from ₦305.78/US$ at end-December 2018. At the BDC segment, the naira appreciated by 0.66 per cent to ₦359.63/US$ at end-June 2019 compared with ₦362.00/US$ at end-December 2018. In the review period, the premium between the two segments narrowed, reflecting the continued effectiveness of the foreign exchange policies of the Bank (Figure 5.5 and Table 5.3).

**Table 5.3**
**End-Month Exchange Rates (Jul 2018 – Jun 2019) (N/US$)**

| Month / Year | Interbank Rate | BDC Rate |
|---|---|---|
| 2018: Jul | 305.90 | 359.00 |
| Aug | 306.15 | 359.00 |
| Sep | 306.35 | 360.00 |
| Oct | 306.60 | 361.75 |
| Nov | 306.80 | 367.00 |
| Dec | 307.00 | 361.00 |
| **Average** | **305.78** | **362.00** |
| 2019: Jan | 306.75 | 360.25 |
| Feb | 306.85 | 359.50 |
| Mar | 306.95 | 359.00 |
| Apr | 306.95 | 359.00 |
| May | 306.95 | 360.00 |
| Jun | 306.90 | 360.00 |
| **Average** | **306.89** | **359.63** |

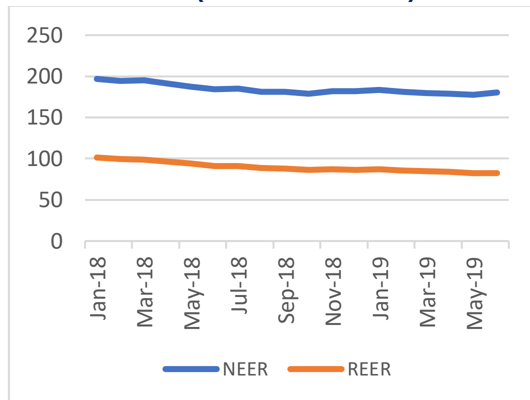
### 5.2.3 Nominal and Real Effective Exchange Rates

The Nominal Effective Exchange Rate (NEER) appreciated by 0.73 per cent to an average of 180.36 in the first half of 2019 from an average of 181.67 in the second half of 2018. It, however, appreciated by 6.17 per cent when compared with 191.48 recorded in the corresponding period of 2018. On the other hand, the Real Effective Exchange Rate (REER) appreciated by 4.80 per cent to an average of 84.42 in the first half of 2019 from an average of 88.47 in the second half of 2018. The average REER appreciated by 14.96 per cent (Table 5.4) compared with 97.05 recorded in the corresponding period of 2018. Both NEER and REER appreciated in the review period, implying a loss in trade competitiveness (Table 5.4 and figure 5.6). Monitoring Nigeria's trade competitiveness is important, particularly given her recent accession to the African Continental Free Trade Agreement (AfCFTA) because of the potential loss Nigeria will incur if she looses competitiveness.

**Table 5.4**
**Nominal and Real Effective Exchange Rates Indices (Jan 2018 – May 2019)**

| | NEER | REER |
|---|---|---|
| 2018: Jan | 196.82 | 101.42 |
| Feb | 194.48 | 99.75 |
| Mar | 194.86 | 99.13 |
| Apr | 191.14 | 96.68 |
| May | 187.45 | 93.96 |
| Jun | 184.14 | 91.35 |
| **2018:H1 Average** | **191.48** | **97.05** |
| 2018: Jul | 184.94 | 91.42 |
| Aug | 181.18 | 88.82 |
| Sep | 181.32 | 88.27 |
| Oct | 179.22 | 86.7 |
| Nov | 181.68 | 87.14 |
| Dec | 181.98 | 86.67 |
| **2018:H2 Average** | **181.67** | **88.47** |
| 2019:Jan | 183.86 | 87.1 |
| Feb | 181.52 | 85.72 |
| Mar | 179.85 | 84.56 |
| Apr | 179.08 | 83.85 |
| May | 177.57 | 82.41 |
| Jun | 180.28 | 82.85 |
| 2019:H1 Average | 180.36 | 84.42 |

**Figure: 5.5**
**Nominal and Real Effective Exchange Rates Indices (Jan 2018 – Jun 2019)**



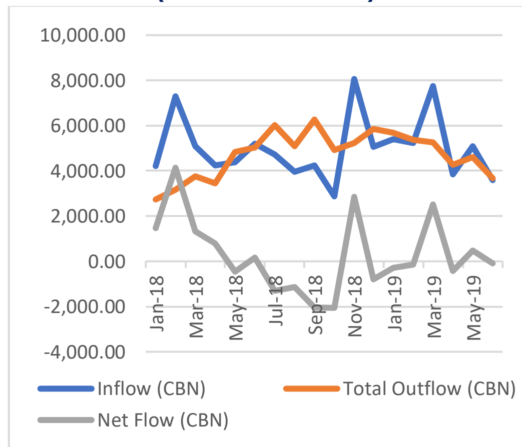

## 5.2.4 Foreign Exchange Flows through the CBN

Foreign exchange inflows through the CBN increased by 6.91 per cent to US$30,908.52 million in the first half of 2019 from US$28,910.42 million in the preceding half year. It also increased by 1.64 per cent compared with US$30,409.76 million in the corresponding period of 2018. Outflows, however, declined by 13.60 per cent to US$28,846.75 million in the first half 2019 from US$33,388.79 million in the preceding period. On a year-on-year basis, foreign exchange outflows recorded an increase of 25.74 per cent compared with US$22,942.11 million in the corresponding period of 2018. The development resulted in a positive net inflow of US$2,061.77 million in the first half of 2019, which was lower than US$7,467.65 million in the corresponding half of 2018, in contrast to the net outflow of US$4,478.38 million in the second half of 2018 (Table 5.5 and Figure 5.7). The significant improvement in net flows was largely due to lower capital reversals observed during the review period.

**Table 5.5**
**Monthly Foreign Exchange Flows through the CBN (Jan 2018 – Jun 2019)**

| Dates | Inflow (CBN) | Total Outflow (CBN) | Net Flow (CBN) |
|---|---|---|---|
| 18-Jan | 4,212.56 | 2,734.38 | 1,478.18 |
| 18-Feb | 7,303.15 | 3,163.07 | 4,140.08 |
| 18-Mar | 5,076.48 | 3,754.12 | 1,322.36 |
| 18-Apr | 4,238.05 | 3,437.72 | 800.33 |
| 18-May | 4,373.01 | 4,821.91 | -448.9 |
| 18-Jun | 5,206.51 | 5,030.91 | 175.6 |
| **2018 H1 Total** | **30,409.76** | **22,942.11** | **7,467.65** |
| 18-Jul | 4,722.44 | 6,014.85 | -1,292.41 |
| 18-Aug | 3,957.38 | 5,102.75 | -1,145.36 |
| 18-Sep | 4,239.49 | 6,270.21 | -2,030.72 |
| 18-Oct | 2,871.70 | 4,929.03 | -2,057.33 |
| 18-Nov | 8,061.53 | 5,216.64 | 2,844.89 |
| 18-Dec | 5,057.88 | 5,855.31 | -797.44 |
| **2018 H2 Total** | **28,910.42** | **33,388.79** | **-4,478.37** |
| 19-Jan | 5,397.41 | 5,690.85 | -293.44 |
| 19-Feb | 5,228.38 | 5,362.41 | -134.03 |
| 19-Mar | 7,758.24 | 5,248.48 | 2,509.76 |
| 19-Apr | 3,852.66 | 4,271.03 | -418.37 |
| 19-May | 5,075.77 | 4,597.62 | 478.14 |
| 19-Jun | 3,596.06 | 3,676.36 | -80.30 |
| **2019 H1 Total** | **30,908.52** | **28,846.75** | **2,061.77** |

**Figure 5.6:**
**Monthly Foreign Exchange Flows through the CBN (Jan 2018 – Jun 2019)**



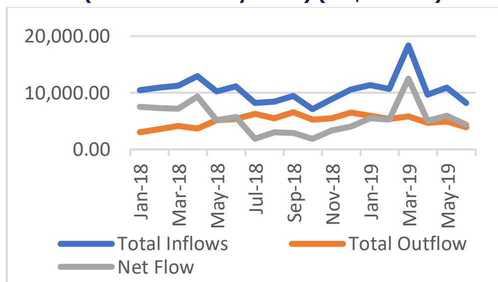

### 5.2.5 Foreign Exchange Flow through the Economy

Gross foreign exchange inflow to the economy increased by 31.88 per cent to US$69,285.75 million in the first half of 2019 from US$52,536.35 million in the second half of 2018. This represented a 3.52 per cent increase compared with US$66,931.28 million in the corresponding period of 2018. On the other hand, gross foreign exchange outflow decreased by 13.25 per cent to US$30,761.56 million in the first half of 2019, from US$35,460.03 million in the second half of 2018. This represented a 23.40 per cent increase compared with US$24,928.57 million in the corresponding period of 2018. Thus, during the period, total foreign exchange flows to the economy resulted in a net inflow of US$38,524.18 million, 125.60 per cent higher than US$17,076.32 million in the preceding half year. The net inflow was, however, 8.28 per cent lower than US$42,002.71 million in the corresponding period of 2018. The increase in net inflow through the economy during the period was due to higher inflows from improved foreign exchange receipts, owing to relatively high crude oil prices and increased capital inflows from sustained tight monetary policy stance.

**Table 5.6**
**Monthly Foreign Exchange Flows through the Economy**
**(Jan 2017 – June 2019) (US$ Million)**

| PERIOD | Inflow (CBN) | Inflow (Autonomous) | Total Inflows | Outflows (CBN) | Outflows (Autonomous) | Total Outflow | Net Flow | Net Flow (CBN) | Net Flow (Autonomous) |
|---|---|---|---|---|---|---|---|---|---|
| Jan-18 | 4,212.56 | 6,288.40 | 10,500.96 | 2,734.38 | 297.61 | 3,031.99 | 7,468.97 | 1,478.18 | 5,990.79 |
| Feb-18 | 7,303.15 | 3,561.35 | 10,864.50 | 3,163.29 | 447.64 | 3,610.93 | 7,253.58 | 4,139.86 | 3,113.72 |
| Mar-18 | 5,076.48 | 6,147.23 | 11,223.71 | 3,754.12 | 331.74 | 4,085.86 | 7,137.85 | 1,322.36 | 5,815.49 |
| Apr-18 | 4,238.05 | 8,721.00 | 12,959.05 | 3,437.72 | 222.55 | 3,660.27 | 9,298.78 | 800.33 | 8,498.45 |
| May-18 | 4,373.01 | 5,865.39 | 10,238.40 | 4,821.91 | 321.53 | 5,143.44 | 5,094.96 | -448.90 | 5,543.86 |
| Jun-18 | 5,211.73 | 5,932.93 | 11,144.66 | 5,030.91 | 365.18 | 5,396.09 | 5,748.58 | 180.82 | 5,567.76 |
| **2018 H1 Total** | **30,414.98** | **36,516.30** | **66,931.28** | **22,942.33** | **1,986.24** | **24,928.57** | **42,002.71** | **7,472.65** | **34,530.06** |
| Jul-18 | 4,722.44 | 3,452.14 | 8,174.58 | 6,014.85 | 232.18 | 6,247.03 | 1,927.55 | -1,292.41 | 3,219.96 |
| Aug-18 | 3,957.38 | 4,461.65 | 8,419.03 | 5,102.75 | 349.01 | 5,451.76 | 2,967.27 | -1,145.37 | 4,112.64 |
| Sep-18 | 4,239.49 | 5,204.58 | 9,444.07 | 6,270.21 | 288.14 | 6,558.35 | 2,885.72 | -2,030.72 | 4,916.44 |
| Oct-18 | 2,871.70 | 4,229.03 | 7,100.73 | 4,929.03 | 312.95 | 5,241.98 | 1,858.75 | -2,057.33 | 3,916.08 |
| Nov-18 | 8,061.53 | 774.11 | 8,835.64 | 5,216.64 | 228.96 | 5,445.60 | 3,390.04 | 2,844.89 | 545.15 |
| Dec-18 | 5,057.88 | 5,504.42 | 10,562.30 | 5,855.31 | 660.00 | 6,515.31 | 4,046.99 | -797.43 | 4,844.42 |
| **2018 H2 Total** | **28,910.42** | **23,625.93** | **52,536.35** | **33,388.79** | **2,071.24** | **35,460.03** | **17,076.32** | **-4,478.37** | **21,554.69** |
| Jan-19 | 5,397.41 | 6,000.11 | 11,397.52 | 5,690.85 | 209.55 | 5,900.40 | 5,497.12 | -293.44 | 5,790.56 |
| Feb-19 | 5,228.38 | 5,489.17 | 10,717.55 | 5,362.41 | 65.56 | 5,427.97 | 5,289.58 | -134.03 | 5,423.61 |
| Mar-19 | 7,758.24 | 10,599.47 | 18,357.71 | 5,248.48 | 615.57 | 5,864.05 | 12,493.66 | 2,509.76 | 9,983.90 |
| Apr-19 | 3,852.66 | 5,806.37 | 9,659.03 | 4,271.03 | 402.70 | 4,673.73 | 4,985.30 | -418.37 | 5,403.67 |
| May-19 | 5,075.77 | 5,852.24 | 10,928.00 | 4,597.62 | 381.73 | 4,979.35 | 5,948.65 | 478.14 | 5,470.51 |
| Jun-19 | 3,596.06 | 4,629.87 | 8,225.93 | 3,676.36 | 239.70 | 3,916.06 | 4,309.87 | -80.30 | 4,390.17 |
| **2019 H1 Total** | **30,908.52** | **38,377.23** | **69,285.75** | **28,846.76** | **1,914.81** | **30,761.56** | **38,524.18** | **2,061.76** | **36,462.42** |

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




## 5.3 Capital Market

The Nigerian capital market in the first half of 2019 remained bearish, reflecting continuing negative investor sentiment, attributable to rising public debt stock, perceived sovereign risk and weakening macroeconomic fundamentals. In addition to these factors, there was significant capital outflow following the continued monetary policy normalization by the US Fed. Coupled with the uncertain political environment following the 2019 general elections, the market thus experienced significant sell-offs and profit taking activities.

### 5.3.1 Equities Market

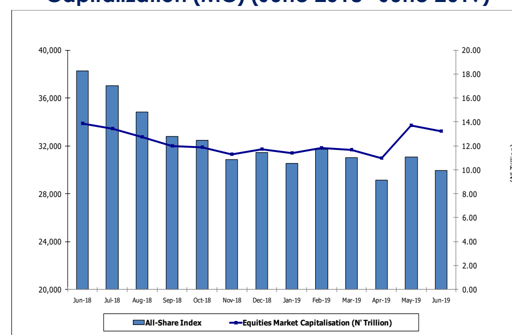
The All-Share Index (ASI) decreased by 4.66 per cent to 29,966.87 at end-June 2019 from 31,430.50 at end-December 2018. Similarly, it decreased by 21.71 per cent compared with 38,278.55 at end-June 2018. Market capitalization (MC), however, increased by 12.71 per cent to ₦13.21 trillion at end-June 2019 from ₦11.72 trillion at end-December 2018. Compared with ₦13.87 trillion at end-June 2018, it fell by 4.76 per cent. The increase in market capitalization in the review period was as a result of new listings in the market, prominent amongst which were MTN, Skyway Aviation Handling Company and the merger between Access Bank and Diamond Bank. The new listings will increase the market capitalization of equities as well as market depth and liquidity.

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

| Date | ASI | MC(Equities) N'Trillion) |
|---|---|---|
| Jun-18 | 38,278.55 | 13.87 |
| Jul-18 | 37,017.78 | 13.41 |
| Aug-18 | 34,848.45 | 12.72 |
| Sep-18 | 32,766.37 | 11.96 |
| Oct-18 | 32,466.27 | 11.85 |
| Nov-18 | 30,874.17 | 11.27 |
| Dec-18 | 31,430.50 | 11.72 |
| Jan-19 | 30,557.20 | 11.39 |
| Feb-19 | 31,718.70 | 11.83 |
| Mar-19 | 31,041.42 | 11.67 |
| Apr-19 | 29,159.74 | 10.96 |
| May-19 | 31,069.37 | 13.68 |
| Jun-19 | 29,966.87 | 13.21 |

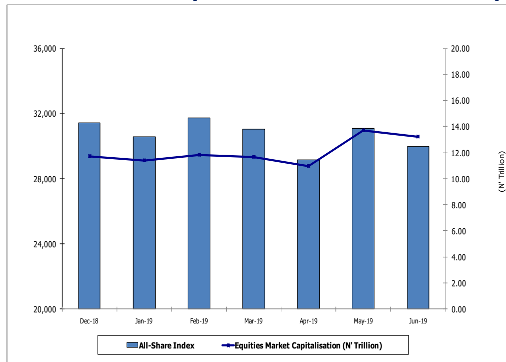
**Source: Nigerian Stock Exchange (NSE)**

**Figure 5.8:**
**NSE All Share Index (ASI) and Market Capitalization (MC) (June 2018– June 2019)**




**Source: Nigerian Stock Exchange (NSE)**

**Figure 5.9:**
**NSE ASI and MC (December 2018 – June 2019)**




**Source: Nigerian Stock Exchange (NSE)**

## 5.3.2 Market Turnover

Aggregate stock market turnover in the first half of 2019 increased by 33.74 per cent to 46.22 billion shares, valued at ₦538.57 billion in 463,313 deals compared with 34.56 billion shares, valued at ₦400.50 billion in 400,384 deals in the second half of 2018. Market turnover, however, decreased by 30.87 per cent from 66.86 billion shares, valued at ₦798.63 billion in 646,829 deals in the corresponding half of 2018. The increase in market turnover in the review period was largely attributable to the new listings of MTN, Skyway Aviation Handling Company and the merger between Access Bank and Diamond Bank, as well as sell-offs by investors in preference for short-tenored money market instruments.

## 5.3.3 Sectoral Contribution to Equity Market Capitalization

In the review period, 'Other' sectors dominated overall market capitalization. The contribution of 'Other' sectors to market capitalization increased to 35.72 per cent at end-June 2019 from 20.55 per cent in the second half of 2018. The classification of 'Other' sectors comprises of sectors with few participants trading in the Nigerian Stock Exchange (NSE). The dominance of 'Other' sectors was mainly due to the listing of MTN Nigeria on Thursday, 16 May, 2019. Sectors that also contributed significantly to the overall increase in market capitalization in the review period included: Building materials; Banking; and Food & Beverages, with market shares of 25.25, 11.66 and 11.03 per cent, respectively (Figure 5.11).

**Figure 5.10:**
**NSE Market Capitalization by Sector as at End-December 2018**

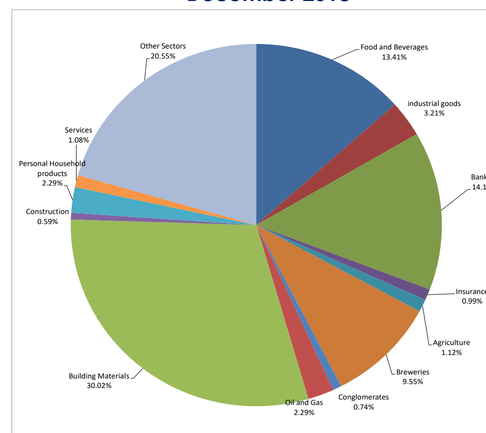
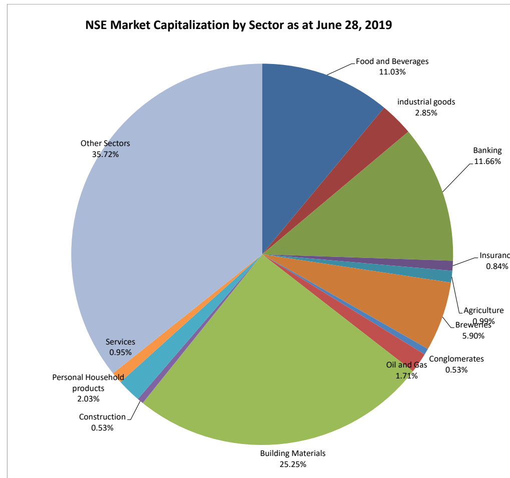


**Figure 5.11:**
**NSE Market Capitalization by Sector as at End-June 2019**

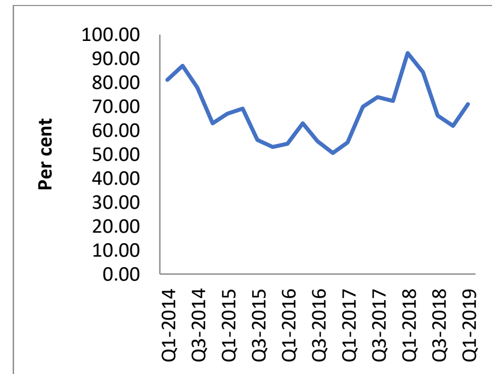



**Source: Nigerian Stock Exchange (NSE)**

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

The Warren Buffett valuation metric showed that the Nigerian equities market was moderately undervalued in the review period. The valuation metric was 71.0 per cent in Q1 2019 below the threshold of 75.0 – 115.0 per cent of normal valuation. In the Q2 2019, however, the valuation metric stood at 78.0 per cent. Below 75.0 per cent, the market is undervalued and above 115.0 per cent, the market is overvalued. The undervaluation in the review period was attributed to the following factors: increased sell-off and profit taking activities; weakening corporate earnings; and capital flight due to the uncertain political environment and continued monetary policy normalisation by the US Fed. The undervaluation of equities in the reviewed period offers attractive investment opportunities for domestic and foreign investors.

**Figure 5.12:**
**Warren Buffett Valuation of Nigerian Equities Market**




### 5.3.5 Bond Market

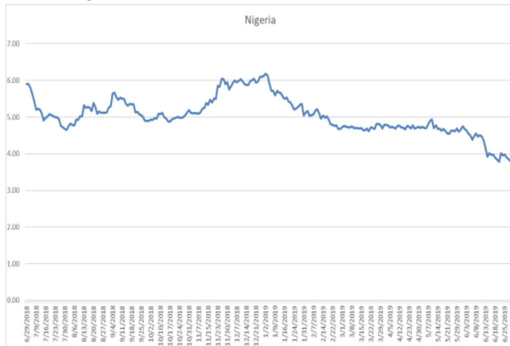
Bond market activities in the first half of 2019 were dominated by Federal Government of Nigeria (FGN) securities. The Sub-national government and corporate bonds segments also witnessed some activities, with the latter recording the least share by market volume.

#### 5.3.5.1 FGN Eurobond

The 10-year dollar-denominated bond yield for Nigeria decreased by 232 basis points to 3.79 per cent at end-June 2019 from 6.11 per cent at end-December 2018. Compared with 4.47 per cent at end-June 2018, it fell by 211 basis points (Figure 5.14). This reflects an improvement in foreign investor

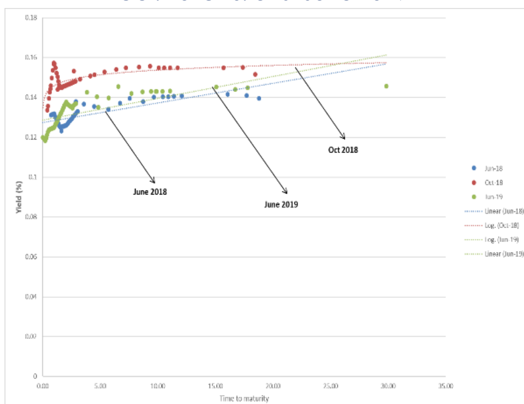
perception of the long term sovereign risk.

**Figure 5.13:**
**10-Year U.S. Dollar-denominated Bond Yield for Nigeria (June 29, 2018 – June 28, 2019)**




FGN bond yield fell by 163.53 basis points to 13.24 per cent at end-June 2019 from 14.88 per cent at end-October 2018, and by 8.59 basis points when compared with 13.16 per cent at end-June 2018. The long end of the yield curve, as at end-June 2019, showed a positive premium over its October 2018 position, suggesting an improvement in overall macroeconomic condition (Figure 5.14).

**Figure 5.14:**
**FGN Bonds Yield Curves: end-June. 2018 vs. end-Oct. 2018 vs. end-June 2019**




### 5.3.5.2. State/Local Government Bonds

The sub-national bonds market continued to record low activity during the review period. The total value of outstanding state/local governments bonds increased by 9.81 per cent to ₦565.82 billion at end-June 2019 from ₦515.26 billion at end-December 2018. Compared with ₦562.82 billion at end-June 2018, it increased marginally by 0.53 per cent.

### 5.3.5.3 Corporate Bonds

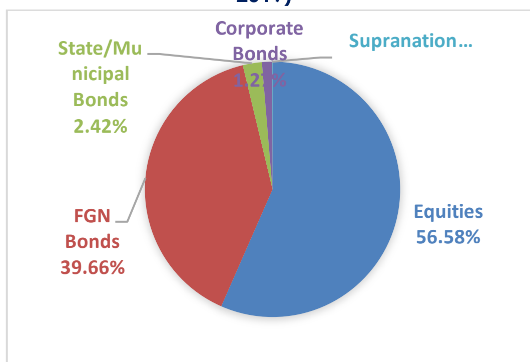
Activity in the corporate bonds segment improved during the review period. The value of outstanding corporate bonds at end-June 2019 increased by 15.94 per cent to ₦297.44 billion from ₦256.56 billion in the preceding half year. The value also increased by 11.10 per cent compared with ₦267.72 billion in the corresponding period.

### 5.3.5.4 Overall Analysis of the Nigerian Capital Market

The value of FGN bonds decreased by 1.30 per cent to ₦9.26 trillion at end-June 2019 from ₦9.38 trillion at end-Dec 2018, remaining unchanged compared with ₦9.26 trillion at end-June 2018. FGN bonds accounted for 39.66 per cent of aggregate market capitalization at end-June 2019. The value of state/municipal bonds, corporate bonds and supranational bonds were N565.82 billion, N297.44 billion and

N12.95 billion, accounting for 2.42, 1.28 and 0.05 per cent of aggregate market capitalization, respectively. The equities market contributed 56.59 per cent of aggregate market capitalization at end-June 2019, while FGN bonds, state/municipal bonds, corporate bonds and supranational bonds accounted for the balance of 43.41 per cent (Figure 5.15).

**Figure 5.15:**
**Structure of the Nigerian Capital Market (June, 2019)**




## 5.4 Global Financial Market Developments

In the first half of 2019, there was heightened uncertainty in the global financial markets as a result of: the increasing complexities around BREXIT negotiations; intensified trade war between the US, China and other key trade partners; and renewed tensions on the Korean Peninsula. The development led to a broad slowdown in the global economy necessitating a dovish monetary policy response from major central banks across the globe. The US Fed which had continued its normalization programme during the period gave forward guidance of its suspension and possible reversal towards the end of the first half. In the same vein, the European Central Bank (ECB) which had terminated its asset purchase programme in the second half of 2018, indicated reluctance to progress with its normalization programme. Also, the Bank of England (BOE) and the Bank of Japan (BoJ) sustained their broadly accommodative monetary policy stance in the review period.

The uncertainties also permeated the commodities market, giving rise to a supply glut in the oil market as demand contracted. Coupled with the continued US-led sanctions against Iran and the crisis in Venezuela, OPEC and non-OPEC members extended their production ceiling for a further 9 months to March 2020 to support prices.

Accordingly, liquidity conditions in the global economy during the review period reflected the tacit return to monetary policy accommodation by major central banks in the advanced economies. Most currencies appreciated against the US dollar, coupled with improved yields in emerging market economies and the recovery of commodity prices, the performance of major global stock markets was largely positive.

### 5.4.1 Money Market and Central Bank Policy Rates

The tacit return to monetary policy accommodation by some major central banks shaped liquidity conditions in the global economy during the review period. This was as a result of broadly weakening growth conditions occasioned by growing uncertainties in the global economy.

In the wake of a slowing global economy and threats to the US economy, the U.S Fed switched from an aggressive pace of normalization to a dovish stance. The Bank of England continued to hold its policy rate constant to avert a recession as the uncertainty around BREXIT threatened to dampen growth. The Bank continued to warn of the drastic impact of a disorderly BREXIT on the macroeconomy. In the Euro Area, the downgrade of growth forecast by the ECB was reversed in part as the new round of stimulus injected into the economy showed signs of some recovery. The German, French and Italian economies, however, remained drags on the Zone's growth prospects in 2019. The ECB foreclosed the likelihood of a rate hike till the end of 2020, as its monetary policy remained largely accommodative. The Bank of Japan also retained its policy rate in response to prevailing uncertainties in the global economy.

Central banks in the Emerging Markets and Developing Economies (EMDEs) maintained a largely accommodative stance during the review period. The Reserve Bank of India lowered its policy rate to 5.75 per cent in June from 6.50 per cent in January. The Bank of Russia also lowered its policy rate to 7.50 per cent from 7.75 per cent in January. The Reserve Bank of South Africa retained its policy rate to support the economy's recovery from recession. The People's Bank of China also retained its policy rate during the period to address growth concerns. The Central Bank of Brazil held its rate constant to support its post-recession recovery. Other central banks that cut their policy rates in the review period were: the Central Bank of Egypt from 16.75 to 15.75 per cent; the Bank of Ghana from 17.0 to 16.0 per cent; and the Central Bank of Nigeria from 14.0 to 13.5 per cent, to address growth concerns.

**Table 5.8:**
**Policy Rates of Selected Central Banks December 2018 – June 2019**

| Country | Dec. 2018 | Jan. 2019 | Feb. 2019 | Mar. 2019 | Apr. 2019 | May. 2019 | Jun. 2019 |
|---|---|---|---|---|---|---|---|
| *Egypt* | 16.75 | 16.75 | 15.75 | 15.75 | 15.75 | 15.75 | 15.75 |
| *Kenya* | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 |
| *S. Africa* | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 |
| *Ghana* | 17.00 | 17.00 | 16.00 | 16.00 | 16.00 | 16.00 | 16.00 |
| *Nigeria* | 14.00 | 14.00 | 14.00 | 13.50 | 13.50 | 13.50 | 13.50 |
| *Brazil* | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 |
| *USA* | 2.25-2.50 | 2.25-2.50 | 2.25-2.50 | 2.25-2.50 | 2.25-2.50 | 2.25-2.50 | 2.25-2.50 |
| *Japan* | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 |
| *Euro Area* | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| *India* | 6.50 | 6.50 | 6.25 | 6.25 | 6.00 | 6.00 | 5.75 |
| *Russia* | 7.75 | 7.75 | 7.75 | 7.75 | 7.75 | 7.75 | 7.50 |
| *China* | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 |
| *UK* | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 |
| *Indonesia* | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 |

**Source: www.cbrates.com**

### 5.4.2 Global Capital Market

The performance of major global stock markets was largely positive in response to developments in the review period. On average the US dollar depreciated against most currencies as the Fed switched from a normalizing mode to a dovish stance, resulting in the flow of capital away from the short end of the yield curve. In the face of growing uncertainties from BREXIT and the US trade wars, a number of other advanced economy central banks also maintained a dovish stance, thus enabling capital to flow towards stock markets.

Consequently, in Europe, the Russian MICEX, the UK FTSE 100, French CAC 40 and German DAX 30 indices all increased by 17.27, 10.37, 17.09 and 17.42 per cent, respectively.

In North America, the United States S&P 500, Canadian S&P/TSX Composite and Mexican Bolsa indices increased by 17.35, 14.38, and 3.65 per cent, respectively. Also, in South America, the Brazilian Bovespa, the Argentine Merval and the Columbian indices increased by 14.88, 37.98 and 16.82 per cent, respectively.

In Asia, the Japanese Nikkei 225, the Chinese Shanghai SE and the Indian BSE Sensex index increased by 6.30, 19.48, and 9.22 per cent, respectively.

In Africa, the South African JSE All-Share and Egyptian EGX CASE 30 indices increased by 10.37 and 8.17 per cent, respectively, while the Nigerian NSE All-Share Index, Kenyan Nairobi NSE 20, and Ghanaian GSE All Share indices decreased by 4.66, 7.08, and 4.18 per cent, respectively.

**Table 5.9**
**Selected International Stock Market Indices as at June 28, 2019**

| Country | Index | 29-Jun-18 | 31-Dec-18 | 28-Jun-19 | June 29, 2018 - June 28, 2019 % Change | Dec 31, 2018 - June 28, 2019 % Change |
|---|---|---|---|---|---|---|
| **AFRICA** | | | | | | |
| Nigeria | ASI | 38,278.55 | 31,430.50 | 29,966.87 | -21.71 | -4.66 |
| South Africa | JSE African AS | 57,610.98 | 52,736.86 | 58,203.84 | 1.03 | 10.37 |
| Kenya | Nairobi NSE 20 | 3,285.73 | 2,833.84 | 2,633.32 | -19.86 | -7.08 |
| Egypt | EGX CSE 30 | 16,348.60 | 13,035.77 | 14,100.74 | -13.75 | 8.17 |
| Ghana | GSE All Share | 2,878.66 | 2,499.33 | 2,394.82 | -16.81 | -4.18 |
| | | | | | | |
| **NORTH AMERICA** | | | | | | |
| US | S&P 500 | 2,718.37 | 2,506.85 | 2,941.76 | 8.22 | 17.35 |
| Canada | S&P/TSX Composite | 16,277.73 | 14,322.86 | 16382.20 | 0.64 | 14.38 |
| Mexico | Mexico Bolsa (IPC) | 47,663.20 | 41,640.27 | 43,161.17 | -9.45 | 3.65 |
| | | | | | | |
| **SOUTH AMERICA** | | | | | | |
| Brazil | Bovespa Stock | 72,762.50 | 87,887.26 | 100,967 | 38.76 | 14.88 |
| Argentina | Merval | 26,037.00 | 30,292.55 | 41,796.36 | 60.53 | 37.98 |
| Colombia | COLCAP | 1,577.01 | 1,325.93 | 1,548.98 | -1.78 | 16.82 |
| | | | | | | |
| **EUROPE** | | | | | | |
| UK | FTSE 100 | 7,636.93 | 6,728.13 | 7,425.63 | -2.77 | 10.37 |
| France | CAC 40 | 5,323.53 | 4,730.69 | 5,538.97 | 4.05 | 17.09 |
| Germany | DAX | 12,306.00 | 10,558.96 | 12,398.80 | 0.75 | 17.42 |
| Russia | MICEX | 2,295.95 | 2,358.50 | 2,765.85 | 20.47 | 17.27 |
| | | | | | | |
| **ASIA** | | | | | | |
| Japan | NIKKEI 225 | 22,304.51 | 20,014.77 | 21,275.92 | -4.61 | 6.30 |
| China | Shanghai SE A | 2,982.00 | 2,611.38 | 3,119.99 | 4.63 | 19.48 |
| India | BSE Sensex | 35,423.48 | 36,068.33 | 39,394.64 | 11.21 | 9.22 |

**Source: Bloomberg**

### 5.4.3 Commodities

In the review period, commodity prices recovered from the downward trend observed in the second half of 2018. This was in spite of the continuing trade war between the US and China, the enforcement of earlier imposed sanctions on Iranian oil as well as a broad slowdown in the global economy. Consequently, the OPEC reference basket rose by 27.26 per cent to an average of US$65.60pb in June 2019 from US$51.55pb in December 2018. In addition, OPEC and non-OPEC member countries extended their production ceilings to support prices.

The non-fuel price index which reflects price development in metals, however, declined in the review period. The price of Aluminium fell by 8.56 per cent to US$1,756.0/mt in June 2019 from US$1,920.38/mt in December 2018. Similarly, the price of Zinc also fell by 0.58 per cent to US$2,601.0/mt in June 2019 from US$2,616.29/mt in December 2018.

The Food and Agriculture Organization (FAO) Food Price Index rose by 6.93 per cent to 172.7 points in June 2019 from 161.5 points in December 2018. The sub-indices of meat, dairy, Cereals and sugar rose, while vegetable oil fell. The development was due to strong import demand from Asia as supplies from Oceania contracted. In the US, the reduced supply of maize export also resulted in a sharp rise in the price of cereals, while sugar quotations which were hitherto depressed due to large supplies, improved as the Brazilian real appreciated against the US dollar.

### 5.4.4 Global Foreign Exchange Market

Most currencies appreciated against the US dollar in the first half of 2019, indicating that risk sentiments appeared to have regained some momentum supported by advanced economy central banks signalling the likelihood of further monetary policy accommodation. In addition, the relatively strong commodity prices, particularly oil, increased the prospect of building reserves to support fleeing capital, coupled with improved yields in the emerging market economies.

Accordingly, in North America, the Canadian dollar and the Mexican peso both appreciated by 4.10 and 2.24 per cent, respectively. Similarly, in South America, the Brazilian real and Colombian peso appreciated by 0.64 and 1.18 per cent, respectively, while the Argentine peso depreciated by 11.26 per cent.

In Europe, the Russian rubble appreciated by 10.26 per cent and the British pound stabilized against the US dollar. The Euro, however, depreciated against the U.S dollar by 0.89 per cent.

In Asia, the Chinese yuan, Indian rupee, and Japanese yen all appreciated against the US dollar by 0.12, 0.10 and 1.63 per cent, respectively. In Africa, the Nigerian naira, South African rand, and Egyptian pound also appreciated by

0.03, 1.89 and 7.36 per cent, respectively, while the Kenyan shilling and Ghanaian cedi both depreciated against the U.S. dollar by 0.44 and 10.10 per cent, respectively.

**Table 5.10**
**Exchange Rates of Selected Countries (value in currency units to US$)**

| Exchange Rates of Selected Countries (Value in currency units to US$) | | | | |
|---|---|---|---|---|
| | **Currency** | **31-Dec-18** | **28-Jun-19** | **Dec 18 - Jun 19 (% App/Dep)** |
| **AFRICA** | | | | |
| Nigeria | Naira | 307.00 | 306.90 | 0.03 |
| South Africa | Rand | 14.35 | 14.08 | 1.89 |
| Kenya | Shilling | 101.85 | 102.30 | -0.44 |
| Egypt | Pound | 17.92 | 16.69 | 7.36 |
| Ghana | Cedi | 4.92 | 5.47 | -10.10 |
| | | | | |
| **NORTH AMERICA** | | | | |
| Canada | Dollar | 1.36 | 1.31 | 4.10 |
| Mexico | Peso | 19.65 | 19.22 | 2.24 |
| | | | | |
| **SOUTH AMERICA** | | | | |
| Brazil | Real | 3.87 | 3.85 | 0.64 |
| Argentina | Peso | 37.66 | 42.44 | -11.26 |
| Colombia | Peso | 3249.75 | 3211.86 | 1.18 |
| | | | | |
| **EUROPE** | | | | |
| UK | Pound | 0.78 | 0.78 | 0.00 |
| Euro Area | Euro | 0.87 | 0.88 | -0.89 |
| Russia | Ruble | 69.72 | 63.23 | 10.26 |
| | | | | |
| **ASIA** | | | | |
| Japan | Yen | 109.69 | 107.93 | 1.63 |
| China | Yuan | 6.88 | 6.87 | 0.12 |
| India | Rupee | 69.77 | 69.70 | 0.10 |
| Source: bloomberg | | | | |

# CHAPTER SIX
## ECONOMIC OUTLOOK

### 6.1 OVERVIEW

Global growth was projected to slow to 3.2 per cent in 2019, from 3.6 per cent in 2018, as a result of persisting headwinds from 2018. The growth was earlier projected at 3.5 per cent but later revised downwards to 3.2 per cent. This was predicated on: weakening output growth in the advanced and emerging market economies resulting from subdued investment and demand for consumer durables; continuing trade wars between the US and its key trading partners; escalating uncertainties about a no-deal BREXIT; and pockets of geo-political tensions in the Middle East and the Korean peninsula. The growth projection is associated with further downside risks such as: increasing financial vulnerabilities as a result of an extended era of low interest rate regime; diminishing monetary policy space as advanced economy central banks return to policy accommodation; rising public and private debt; and increasing debt service burden.

The tailwinds expected to moderate the downturn are: improved capital flows to the Emerging Markets and Developing Economies (EMDEs) as advanced economy central banks retreat to a dovish monetary policy stance; stabilising oil prices as OPEC and non-OPEC members extend their production ceiling to March 2020 and country-specific expansionary fiscal policies to smoothen the downturn in aggregate demand.

Growth in the advanced economies where aggregate demand remains generally subdued with declining inflationary pressures is expected to slow to 1.9 per cent in 2019 from 2.2 per cent in 2018. This downward revision is premised on a broad slowdown across key economies in the group, such as the United States, the Euro area, the United Kingdom and Canada. In the United States, growth is expected to moderate to 2.6 per cent in 2019 from 2.9 per cent in 2018. The growth for the US is expected to be driven by unwinding fiscal stimulus, softening domestic demand, and weaker imports reflecting the impact of the trade war with its key trading partners. Growth in the Euro area is also projected to moderate to 1.3 per cent in 2019 from 1.9 per cent in 2018, owing to weak external demand in the German auto market, uncertain fiscal policy in Italy and a residual impact of the 'yellow vest' protests in France. Growth in the United Kingdom, where the expectation of a disorderly no-deal BREXIT is getting stronger, would dip moderately to 1.3 per cent in 2019 from 1.4 per cent in 2018. The Japanese economy is, however, projected to grow by 0.9 per cent in 2019 up from 0.8 per cent in 2018, due to improved net exports and sustained fiscal support.

Similarly, growth in the Emerging Markets and Developing Economies (EMDEs) is

expected to slow to 4.1 per cent in 2019 from 4.5 per cent in 2018. The decline reflects impact of tariffs on trade and investment particularly in China, weaker sentiments in Latin America, especially Brazil and Mexico, and deep humanitarian and economic crisis in Venezuela.

In the Middle East and North Africa (MENA) region, growth is expected to slow to 1.0 per cent in 2019 from 1.6 per cent in 2018. The slowdown will largely be accounted for by the crippling effect of tighter US sanctions on Iran and civil strife across other economies in the region, including Syria and Yemen.

In sub-Saharan Africa, growth is projected to improve to 3.4 per cent in 2019 from 3.1 per cent in 2018, as strong growth in resource rich countries partially off-set the weak performance of the region's largest economies. Growth in Nigeria is expected to strengthen to 2.3 per cent in 2019 from 1.9 per cent in 2018. In Angola, the economy will grow by 0.44 per cent in 2019 from a contraction of 1.7 per cent in 2018. Growth in Angola, Nigeria and other oil exporting countries in the region, would be supported by relatively higher oil prices. In South Africa, growth is expected to slow to 0.7 per cent in 2019 from 0.8 per cent in 2018. Growth in South Africa would remain subdued due to unfavourable impact of labour market crisis, energy supply issues and weak agricultural production.

## 6.2 Outlook for Global Output

The slowdown in global growth observed in 2019 could persist in the absence of robust policy interventions in key economies across the globe. The key downside risks are evidenced by a decline in global trade activities and weakening industrial production and lingering trade tensions between the United States and China. Furthermore, in the face of high uncertainty in the international policy environment, economic sentiments and business confidence indicators have weakened. Although improving monetary conditions have provided some degree of stabilization in capital flows and global financial markets, there are still considerable downside risks from the build-up of financial fragilities, and persistent trade tensions and concerns about the consequences of climate change. There are growing signs in the policy horizon of improving tailwinds as reflected in: improved capital flows to the Emerging Markets and Developing Economies (EMDEs), likelihood of a further extension by OPEC and non-OPEC members' production ceiling beyond March 2020 and coordinated country-specific expansionary fiscal policies to improve aggregate demand. Against this backdrop, global output is expected to improve to 3.5 per cent in 2020 from 3.2 per cent in 2019 (WEO IMF, July 2019).

In the advanced economies, growth is projected to decline to 1.7 per cent in 2020 from 1.9 per cent in 2019, led by

declines in the US to 1.9 per cent from 2.6 per cent and Japan to 0.4 per cent from 0.9 per cent. The reduction can be attributed primarily to the impact of the declining fiscal stimulus, particularly in the United States. This is however expected to be moderated by improving labour market outcomes and favourable financial conditions. Meanwhile growth in the euro area is projected to improve to 1.6 per cent in 2020 from 1.3 per cent in 2019. Similarly, growth in the United Kingdom and Canada were expected to improve to 1.4 and 1.9 per cent in 2020 from 1.3 and 1.5 per cent in 2019, respectively.

In the Emerging Markets and Developing Economies, growth is projected to increase to 4.7 per cent in 2020 from 4.1 per cent in 2019. The development would be led by India projected to grow to 7.2 per cent from 7.0 per cent, Brazil to 2.4 per cent from 0.8 per cent, Russia to 1.9 per cent from 1.2 per cent and Mexico to 1.9 per cent from 0.9 per cent. Conversely, China is forecast to experience a gradual slowdown to 6.0 per cent from 6.2 per cent in 2019.

In India, growth is expected to increase on account of strong business and investment confidence, easing financial conditions, lower oil prices, accommodative fiscal policy and recent structural reforms. Similarly, the expansion in the Brazilian economy is expected to be driven by the implementation of the new government's reform agenda, improving business confidence, reduced policy uncertainty, disinflation and strengthening labour market conditions.

Growth in the Middle East and North African region is expected to increase to 3.0 per cent in 2020 from 1.0 per cent in 2019. This growth is expected to be led by Saudi Arabia, which is projected to grow by 3.0 per cent from 1.9 per cent in 2019. The outlook for the region would however, be weighed down by: macroeconomic adjustment challenges in Pakistan; US sanctions on Iran; and civil tensions and conflicts in Iraq, Syria, and Yemen.

In Sub-Saharan Africa, growth is projected to improve to 3.6 per cent in 2020 from 3.4 per cent in 2019. The development is predicated on reduced policy uncertainty and improved investment in large economies in the region, together with continued robust growth in non-resource intensive countries. Nigeria is projected to grow by 2.6 per cent in 2020, from 2.3 per cent in 2019. Similarly, South Africa is expected to grow by 1.1 per cent in 2020 from 0.7 per cent in 2019.

## 6.3 Downside Risks to Global Outlook

Despite the prospects of global growth picking up reasonably well in 2020, on balance, the risks to the outlook remain tilted to the downside. The downside risks to the outlook are broadly in the areas of trade, financial market conditions, macroeconomic imbalances, commodity market conditions and climate change issues. Growing policy uncertainty as a result of lingering trade tensions could impose a further drag on growth. The likely continued deterioration in investor confidence may also result in portfolio realignment from risky to safer assets as financial conditions tighten in more vulnerable economies. The effects of these factors could be exacerbated by the possibility of a no-deal BREXIT; weak economic data indicating a prolonged slowdown of global growth; and lingering fiscal uncertainty in emerging and developing Europe. In the medium term, the consequences of climate change, including extreme weather events could further weaken growth prospects.

In the Emerging Market and Developing Economies, the downside risks to the outlook include the associated effect of the on-going trade war between the US and China and rising policy uncertainties which could depress investment and trigger financial market volatility. The rising public and corporate debt levels could also introduce a new source of vulnerabilities in this group of economies. In addition, slowdowns in major economies could have substantial spill-over effects for EMDEs.

In Sub-Sahara Africa, the outlook harbours several downside risks. There is the possibility of a spill-over of trade-related deceleration in growth from key trading partners such as, China, the Euro Area, and the United States. Being primary commodity exporters, revenues are likely to be depressed as oil and other commodity prices face considerable volatility.

In the Middle East and North Africa Region, risks also remained tilted to the downside for both oil exporting and importing countries. Geo-political risks are elevated in some oil exporters, while political challenges remain high in oil importing countries. The tensions between the US and Iran would pose substantial risk for the region's economies. Several countries in the region are also confronted with fragile peace situations and growing tensions such as Yemen, Syria and Libya.

**Table 6.1**
**Global Output and Inflation Outlook**

| | 2016 | 2017 | 2018 | 2019* | 2020* |
|---|---|---|---|---|---|
| **A. World Output** | | | | | |
| World Output | 3.3 | 3.7 | 3.6 | 3.2 | 3.5 |
| Advanced Economies | 1.7 | 2.3 | 2.2 | 1.9 | 1.7 |
| USA | 1.6 | 2.2 | 2.9 | 2.6 | 1.9 |
| Euro Area | 1.9 | 2.4 | 1.9 | 1.3 | 1.6 |
| Japan | 1.0 | 1.7 | 0.8 | 0.9 | 0.4 |
| UK | 1.8 | 1.7 | 1.4 | 1.3 | 1.4 |
| Canada | 1.4 | 3.0 | 1.9 | 1.5 | 1.9 |
| Other Advanced Economies | 2.1 | 2.6 | 2.6 | 2.1 | 2.4 |
| Emerging & Developing Economies | 4.4 | 4.7 | 4.5 | 4.1 | 4.7 |
| Commonwealth of Independent States | 0.4 | 2.1 | 2.7 | 1.9 | 2.4 |
| Latin America and the Caribbean | -0.6 | 1.3 | 1.0 | 0.6 | 2.3 |
| Middle East and North Africa | 5.1 | 2.2 | 1.6 | 1.0 | 3.0 |
| Sub-Saharan Africa | 1.4 | 2.7 | 3.1 | 3.4 | 3.6 |
| **B. Commodity Prices (US' Dollars)** | | | | | |
| Oil | -15.7 | 23.3 | 29.4 | -4.1 | -2.5 |
| Non-fuel | -1.5 | 6.8 | 1.6 | -0.6 | 0.5 |
| **C. Consumer Prices** | | | | | |
| Advanced Economies | 0.9 | 1.4 | 2.0 | 1.6 | 2.0 |
| Emerging & Developing Economies | 4.2 | 4.3 | 4.8 | 4.8 | 4.7 |

Source: IMF WEO Update, July 2019
*Forecast

## 6.4 Global Inflation Outlook

According to the IMF's World Economic Outlook (WEO) Update for April 2019, global inflation is expected to moderate to 3.58 per cent in 2019 from 3.64 per cent in 2018, before inching up to 3.62 per cent in 2020. The decline in inflation in 2019 is expected on the backdrop of several developments, principal amongst which is the expectation of continued stability in oil prices, following the retention of a production ceiling by OPEC and non-OPEC members. In addition to this, commodity prices have also been on a downward trend. The recent return to monetary accommodation by major advanced economy central banks is, however, expected to reverse this trend in 2020.

In the advanced economies, the projection for inflation is an initial decline in 2019 to 1.6 per cent from 2.0 per cent in 2018 before rising to 2.0 per cent in 2020. While wage growth has been strong in these group of economies, growth in aggregate demand has not been commensurate, thus leading to a broad weakening of core inflation. In the United States, inflation is projected to decline sharply to 2.0 per cent in 2019 from 2.4 per cent in 2018, before commencing an uptick to 2.7 per cent in 2020, with core inflation exceeding the long-run objective of 2.0 per cent. Euro Area inflation is also expected to decline to 1.3 per cent in 2019 from 1.8

per cent in 2018 before commencing a moderate rise to 1.6 per cent in 2020. The Euro area is thus expected to continue monetary accommodation beyond 2020 as growth in aggregate demand may remain weak for some time to come. In the United Kingdom, inflation is projected to moderate to 1.8 per cent in 2019 from 2.5 per cent in 2018 before moving in an upward trajectory to 2.0 per cent in 2020. In Japan, however, consumer prices are expected to rise to 1.1 and 1.5 per cent in 2019 and 2020, respectively, from 1.0 per cent in 2018 as the Bank of Japan persists with monetary accommodation to offset the expected rise in consumption tax rate due in October 2019.

In the emerging market and developing economies, inflation is expected to peak at 4.8 per cent in 2019 before moderating marginally to 4.7 per cent in 2020 as commodity prices stabilize. Specifically, the IMF projects that there could be a temporary boost to consumer price inflation in Russia, projected to rise to 5.0 per cent in 2019 from 2.9 per cent in 2018 due to a proposed increase in value added taxes. A moderation to 4.5 per cent is, however, expected in 2020. Inflation in China is estimated to rise to 2.3 and 2.5 per cent in 2019 and 2020, respectively, from 2.1 per cent in 2018. The rise in inflation in China will be driven by strengthening aggregate demand as the economic rebalancing produces a strong middle class in China. It is also expected to rise in India to 3.9 and 4.2 per cent, respectively in 2019 and 2020 from 3.5 per cent in 2018 as aggregate demand strengthens with rising food prices. In Brazil, inflation is expected to fall to 3.6 per cent in 2019 from 3.7 per cent in 2018 before rising to 4.1 per cent in 2020. The decline in inflation in 2019 comes on the back of a strengthening domestic currency as sugar export supplies dwindle.

In Sub-Saharan Africa, headline inflation is projected to fall to 8.1 per cent in 2019 from 8.5 per cent in 2018 and further to 7.4 per cent in 2020 as oil and other commodity prices recover relative to 2018. In Nigeria, according to the IMF, headline inflation is expected to decline from 12.1 per cent in 2018 to 11.7 per cent apiece in 2019 and 2020 as the exchange rate is expected to remain stable in the medium term due to stabilizing oil prices. Similarly, inflation in Angola is projected to decline to 17.5 and 11.1 per cent in 2019 and 2020, respectively, from 19.6 per cent in 2018 as the oil market stabilizes. Inflation in South Africa is however, expected to rise to 5.0 and 5.4 per cent in 2019 and 2020, respectively from 4.6 per cent in 2018 due to persisting energy challenges and legacy labour market issues.

In the MENA region, including Afghanistan and Pakistan, headline inflation is estimated to decline to 9.7 and 9.3 per cent in 2019 and 2020, respectively, owing to sustained stability in energy prices.

## 6.5 Outlook for Domestic Output Growth

The anticipated recovery of the domestic economy has been weaker than expected amid increased oil sector contraction. Real GDP moderated further to 1.94 per cent in the second quarter of 2019 from 2.10 per cent in the first quarter. The growth was led by Services, industry and Agriculture. The oil sector grew significantly by 5.15 per cent in Q2 2019, compared with contractions of 1.46 and 3.95 per cent in the preceding quarter and the corresponding period of 2018.
With the slowdown in GDP growth in Q2 2019, the GDP growth projection by Bank staff was also revised downward from 2.72 per cent to 2.27 per cent for 2019 due to weaker-than-expected domestic demand amid high unemployment, decline in crude oil and gas production and escalation of trade tensions, involving major economies (Euro Area, the United States and China) which is likely to weigh on global demand. The IMF projects Nigeria's growth at 2.3 per cent in 2019.

Nevertheless, sustaining stable exchange rates, robust external reserves, financial system stability, enhanced flow of credit to the real sector, sustained calmness in the Niger Delta, improved production/export of oil to build fiscal buffers, expected improvements in tax revenue, effective implementation of the Economic Growth Recovery Plan by the Federal Government and the CBN special interventions in selected sectors in Agriculture and SME are expected to support output growth.

Key headwinds to the growth outlook however, are low credit to the private sector, high and sticky NPLs, fall in capital and remittance inflows, high unemployment rate, high level of insecurity in food producing areas and crude oil production below the budget benchmark of 2.3 mbpd. The continued intervention by the Bank in the real sector is, however, expected to partly subdue these downside risks, while fiscal policy is expected to drive growth in the long term.

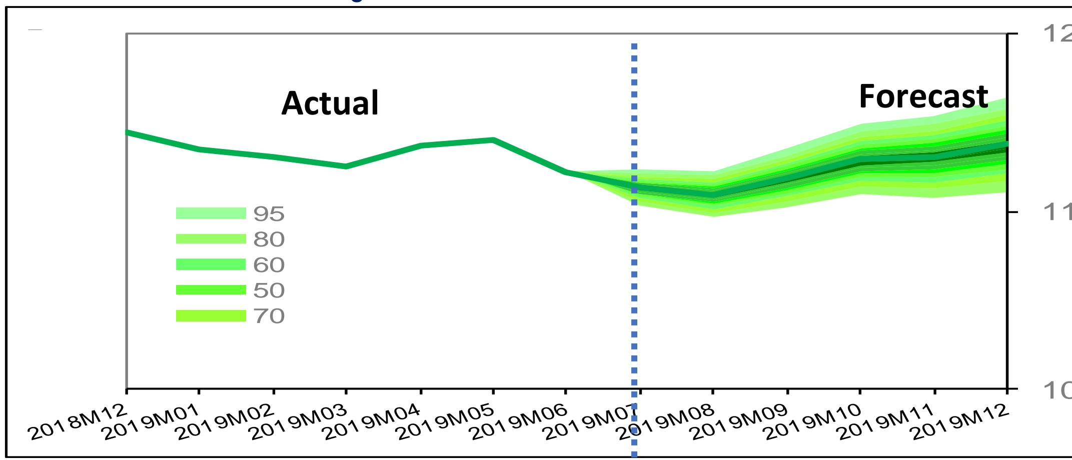
## 6.6 Outlook for Domestic Inflation

Staff estimates suggest that the year-on-year headline inflation would moderate to 11.13, 11.10, and 11.18 per cent in July, August and September 2019, respectively from 11.22 per cent in June 2019 due to the gradual decline in food prices. Upside risk to inflation remain food shortage due mainly to insecurity in agricultural producing areas of the country, high liquidity injection from the continued implementation of the 2018 FGN budget and 2019 budget, as well as increased FAAC disbursements. As the Bank continues to manage liquidity conditions in the domestic economy, inflationary developments will also continue to be monitored to ensure that the risks to inflation and growth are minimized.

**Table 6.2: Inflation Forecast**

| YEAR-ON-YEAR INFLATION RATE | | | | | 12-MMA INFLATION RATE | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Status | Month | Headline inflation | Food inflation | Core inflation | Status | Month | Headline inflation | Food inflation | Core inflation |
| Actual | Jan-19 | 11.37 | 13.51 | 9.90 | Actual | Jan-19 | 11.80 | 13.93 | 10.34 |
| | Feb-19 | 11.31 | 13.47 | 9.80 | | Feb-19 | 11.56 | 13.62 | 10.19 |
| | Mar-19 | 11.25 | 13.45 | 9.46 | | Mar-19 | 11.40 | 13.42 | 10.04 |
| | Apr-19 | 11.37 | 13.70 | 9.28 | | Apr-19 | 11.31 | 13.34 | 9.91 |
| | May-19 | 11.40 | 13.79 | 9.03 | | May-19 | 11.30 | 13.37 | 9.77 |
| | Jun-19 | 11.22 | 13.56 | 8.84 | | Jun-19 | 11.30 | 13.42 | 9.64 |
| Forecast | Jul-19 | 11.13 | 13.47 | 8.82 | Forecast | Jul-19 | 11.29 | 13.45 | 9.54 |
| | Aug-19 | 11.10 | 13.29 | 8.99 | | Aug-19 | 11.27 | 13.46 | 9.44 |
| | Sep-19 | 11.18 | 13.41 | 9.24 | | Sep-19 | 11.25 | 13.44 | 9.36 |
| | Oct-19 | 11.29 | 13.57 | 9.52 | | Oct-19 | 11.23 | 13.43 | 9.28 |
| | Nov-19 | 11.31 | 13.60 | 9.81 | | Nov-19 | 11.21 | 13.41 | 9.22 |
| | Dec-19 | 11.37 | 13.69 | 10.49 | | Dec-19 | 11.19 | 13.38 | 9.17 |

**Figure 6.1: Fan Chart of Inflation Forecast**




Source: CBN Staff Estimates

## 6.7 The Outlook for Monetary Policy in 2019

The conduct of Monetary Policy in 2019 will continue to be anchored on the Medium-Term Framework. This will enable the Bank to consistently anchor expectations and prevent market agents from overly engaging in speculative activities in response to temporary shocks. In the circumstance, the primary objective of monetary policy remains maintenance of price stability. Thus, the Bank will remain focused on policies that engender a reduction in inflationary pressures. This will continue to involve effective liquidity management and creating an environment conducive for inclusive and sustainable growth.

The Bank will continue to monitor developments in the global economy which influence the direction of monetary policy in the near to medium term. Risks from the global economy include the effect of the rising trade tensions, particularly between the US and its key trading partners in Europe, Canada and China, rising debt levels in some advanced economies and EMDEs, slower growth in China, heightened uncertainty around BREXIT negotiations, secondary sanctions against Iran, increasing fragile financial markets and overall higher uncertainty for global economic policies. Given these risks, the IMF reviewed downward the forecast for 2019 output growth to 3.3 per cent from an earlier estimate of 3.6 per cent.

Other challenges to monetary policy include: Increasing capital outflow and sustaining exchange rate stability, high cost of liquidity management, financial market volatility and constrained credit growth. Furthermore, headline, food and core inflation are likely to trend slightly upwards in the near term, due to the harvest season and the familiar structural factors such as the high cost of energy, transport and production inputs. These issues will continue to demand close attention and monitoring in monetary policy implementation.

Growth headwinds that are expected to aid monetary policy implementation include accretion to reserves following the moderate rise in oil prices, renewed peace in the Niger-Delta, improved agricultural production and effective implementation of the Economic Growth Recovery Plan by the Federal Government. Furthermore, sustained stability in exchange rate supported by increased foreign portfolio inflow is expected to support monetary policy implementation.

# Appendices

## CENTRAL BANK OF NIGERIA COMMUNIQUÉ No. 122 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 21ST AND TUESDAY 22ND JANUARY, 2019

### 1.0 Background

The Monetary Policy Committee (MPC) held its first meeting for fiscal 2019 on 21st and 22nd January, 2019 amidst concerns over the slowdown in global economic activity, arising from on-going trade tensions, tightening global financing conditions and mounting external debt in Emerging Market and Developing Economies (EMDEs). On the domestic front, the resurgence of moderate inflationary pressure and possible threats to accretion to external reserves due to softening crude oil prices were noted. The Committee reviewed the developments in the global and domestic economic and financial environments in 2018, as well as the risks and outlook in the short to medium term. Eleven (11) members of the Committee were in attendance.

### Global Economic Developments

The Committee noted the divergence in performance of most economies in 2018 leading to moderation in global output. In addition, a combination of factors including: financial market volatilities, trade war between the US and key allies, continuing monetary policy normalization by the US, BREXIT, the termination of the European Central Bank's (ECB) asset purchase program in December 2018 and the slowdown in the Chinese economy, further heightened uncertainties for the global economy in 2019. Consequently, global growth has been downgraded by the IMF to 3.5 per cent in 2019, from 3.7 per cent in 2018.

The Committee noted the gradual increase in global inflation, with inflationary pressures intensifying in some Emerging Markets and Developing Economics (EMDEs) that had in the recent past faced currency depreciation arising from capital flow reversals arising from progressive monetary tightening by the Federal Reserve. It is, however, expected that the recent decline in oil prices may reverse the trend, especially for oil importing economies and thus moderate currency depreciation in these countries.

### Domestic Output Developments

The Committee noted the continued recovery in output growth in the domestic economy after the 2016 recession as real GDP grew by 1.81 per cent in Q3 2018 from 1.50 per cent in Q2 2018. The services and agricultural sectors continued to drive output growth, contributing 1.19 and 0.56 per cent, respectively. However, the persistence of herdsmen attack on farmers, cattle rustling and flooding in some parts of the country affected agricultural and livestock output. Based on the Manufacturing and Non-Manufacturing Purchasing Managers'

Indices (PMI), output growth for Q4 2018 is expected to expand further. The expected performance projected in the PMI is attributed to continued stability in the foreign exchange market, improvements in the flow of financing resources to the real sector through the various interventions by the Bank, effective implementation of the Economic Recovery and Growth Plan (ERGP) and the increase in non-oil sector GDP. The outlook for growth, however, remains fragile as the late implementation of the 2018 budget and the residual impact of flooding and security challenges, constitute headwinds to growth. The Committee, therefore, believes that the effective implementation of the 2018 capital budget and the ERGP, improvement in the security situation, and continued stability in the foreign exchange market will enhance aggregate demand and output growth.

## Developments in Money and Prices

The Committee noted that the broader measure of money supply, M3, grew by 16.58 per cent in 2018, above the provisional benchmark of 13.02 per cent. Broad money (M2), also grew by 12.17 per cent in December 2018 over its level at end-December 2017, in contrast to the provisional benchmark of 10.48 per cent for 2018. The increase in M2 reflected the growth in Net Foreign Assets (NFA) of 18.54 per cent in December 2018, above its provisional benchmark of 14.50 per cent. Credit to the private sector rose marginally by 1.96 per cent below its provisional benchmark of 12.39 per cent, while credit to government grew by 33.77 per cent in December 2018, above its benchmark rate of 17.38 per cent.

The Committee noted the appreciable growth in credit to the private sector which had been a constraint to growth in the real sector and expressed optimism of further improvement in lending, through the sustained effort of the Bank to enhance credit delivery to small and medium scale industries in the economy. The MPC, thus, commended the Management of the Bank for its efforts so far in sustaining credit delivery to the real sector of the economy.

The resurgence in inflationary pressure in the economy was of concern to the

MPC as headline inflation (year-on-year) inched up to 11.44 per cent in December 2018 from 11.28 per cent in November 2018. The increase in headline inflation was driven by food inflation, which rose to 13.36 per cent in December 2018 from 13.30 per cent in November, while Core inflation declined marginally to 9.77 per cent in December 2018 from 9.79 per cent in the previous month. The Committee, however, observed that the uptick in inflation was attributed to seasonal factors, which impacted mainly on food. Consequently, all measures of inflation, month-on-month, showed a decline. Thus, headline, food and core inflation declined to 0.74, 0.81and 0.50 per cent in December 2018 from 0.84, 0.90 and 0.68 per cent, respectively, in November 2018.

The Committee observed that the near-term risks to inflation remain: the residual impact of flooding on agricultural output, insecurity in parts of the food producing belts of the country, exchange rate pass-through to inflation due to weakening oil price and campaign-related spending towards the 2019 general elections. Accordingly, the MPC urged the Federal Government to sustain its current effort towards improving security to ease the food supply chain bottlenecks.

Money market interest rates in the review period, generally reflected the level of liquidity in the banking system as the average inter-bank call rate declined significantly to 7.17 per cent in November 2018 from 14.18 per cent in October 2018. The Open Buy Back (OBB) rate, which stood at 6.57 per cent in October 2018, increased marginally to 6.76 per cent in November 2018. On December 24 and 31, 2018, the interbank call and OBB rates, however, closed at 14.00 and 18.94 per cent, respectively. The improvement in net liquidity position and interest rate reflected the combined effects of the CBN quasi-fiscal operations, OMO auctions, maturing CBN Bills and foreign exchange interventions as well as statutory allocations to state and local governments.

The Committee observed the decline in the equities market for the most part of 2018. On a year-on-year basis, the All-Share Index (ASI) decreased by 17.81 per cent from 38,243.19 at end-December 2017 to 31,430.50 at end-December 2018. The All-Share Index (ASI) further decreased by 1.35 per cent to 31,005.17 as at January 18, 2019. Similarly, Market Capitalization (MC) decreased by 13.87 per cent from N13.61 trillion at end-December 2017 to N11.72 trillion at end-December 2018. It further declined by 1.37 per cent to N11.56 trillion as at January 18, 2019. The Committee observed that these developments largely reflected the impact of the progressive monetary policy normalization in some advanced economies and the sustained profit taking activities of foreign investors arising from perceived political risk in the build-up to the 2019 general elections. The MPC, however, remained optimistic of the gradual reversal of the current trend in the medium term, given the current stability in the foreign exchange market and the external reserves position, as well as continued improvements in key macroeconomic indicators.

The Committee noted the relative stability at both the Bureau-de-Change (BDC) and the Investors' and Exporters' (I&E) window of the foreign exchange market, supported by the Bank's proactive exchange rate management policies. It also observed with satisfaction, the contribution to stability in the market of the implementation of the Bilateral Currency Swap Agreement (BCSA) with China and the inflow of the US$2.8 billion Euro bond. The Committee also noted the marginal increase in the external reserves, from US$42.54 billion

at end-December 2018 to US$43.28 billion as at January 21, 2019, noting that these improvements would further strengthen investor confidence in the Nigerian economy.

## The Overall Outlook and Risks

Forecasts for key macroeconomic indicators in 2019 portend a positive outlook for the domestic economy. Output growth is expected to be driven by fiscal stimulus from increase in oil and non-oil receipts to support the Federal Government's Economic Recovery and Growth Plan. The economy is projected to grow by 2.0 per cent by the IMF, 2.2 per cent by the World Bank and 2.28 per cent by the CBN. Key headwinds to these forecasts, however, are softening oil prices, persistent security challenges arising from insurgency in the North East, herdsmen attack in some parts of the country and perceived political risks associated with the 2019 general elections.

The outlook for inflation in the first half of 2019 is mixed, with the expectation of an increase in the near-term before a gradual decline towards the mid-year. Inflation is expected to rise marginally amidst palpable tailwinds, which include increased spending preparatory to the 2019 general elections and continued disruptions to the food supply chain in the insurgency prone areas and herdsmen attacks in food producing regions of the country.

The MPC appraised the possibility of external shocks in 2019 as the outlook for the global economy remains uncertain due to the effect of on-going trade tensions between the US and its key allies, slower growth in China, unclear direction of BREXIT negotiations and continuing monetary policy normalization in some advanced economies. The Committee was of the view that oil prices may, however, remain relatively stable, within the US$50pb bracket in view of recent OPEC's production cutting actions.

## Committee's Considerations

The Committee noted with satisfaction, the performance of the economy in 2018, highlighting the achievements in key macroeconomic indicators in the face of global uncertainties and domestic challenges. In particular, it noted the stability in the exchange rate, stable accretion to external reserves, moderation in inflation and the low but gradual improvement in real GDP growth in the last six consecutive quarters commencing from Q2 2017. The MPC noted that given global economic conditions and the risk confronting emerging markets and developing economies in recent times, as well as the limited productive capacity of the economy, the managed float foreign exchange management regime of the CBN has delivered the most optimal results when compared with other emerging markets in recent times. Consequently, capital flows into the domestic economy has continued unabated after an initial lull. The Committee considered the risks to the global economy, noting the

downward revision in projected global output in 2019, the adverse impact of the trade war between the U.S and its major trading partners, likelihood of lower crude oil prices, impact on capital flows of continued monetary policy normalization by major advanced economies, distorted signals on BREXIT negotiations, as well as pockets of other socio-political tensions and perceived election risks on the domestic front.

The Committee commended the government's focused expenditure on investment in infrastructure and urged the Federal Government to sustain the pace towards addressing the infrastructural deficit in Nigeria. It noted that the immediate impact of this approach on GDP may be slow in coming, but will eventually expand the economy's productive base, reduce unemployment and increase aggregate demand in a more sustainable manner and over a long period of time.

The Committee acknowledged the strategic role of the private sector in economic growth and remained concerned over the slow growth in credit to the private sector through 2018, while noting the sudden increase at end-December 2018. The MPC commended the initiative of the Bankers Committee in addressing the phenomenon of low credit to the small and medium scale enterprises through partnering with the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) to establish a national Microfinance bank with branches in all States and Local Government areas of the Federation to provide low interest rate lending to small scale businesses. A further initiative by NIRSAL with the CBN to de-risk lending to small scale enterprises is also being fine-tuned. On external borrowing, the Committee noted the increase in the debt level, it advised for caution, noting that debt levels could fast be approaching the pre-2005 Paris Club exit level.

The MPC also noted that although there was an increase in the inflation rate for the second consecutive month, month-on-month inflation continued to moderate, indicating that the year-on-year measures will also moderate in the near term. This is supported by the stability in the naira exchange rate and thus, urged the Bank to sustain this stability. To this end, it welcomed the narrowing of the exchange rate premium between the BDC segment and the Investors' and Exporters' (I&E) window of the foreign exchange market.

The Committee also noted with satisfaction the gradual reduction in Non- Performing Loans of the deposit money banks (DMBs) which has further strengthened their balance sheets. The Committee believes that as Government pays off contractor debt and other obligations, there will be a sizable reduction in the NPLs of the banking system.

The Committee also noted the attempt by Government to broaden the base of the Value Added Tax (VAT) and urged the authorities to expedite action in that respect, arguing that increased tax collection will reduce the pressure on government expenditure and create fiscal buffers to improve macroeconomic management.

The observed and recent high foreign capital inflow into the Nigerian economy despite the perception of election risk, is evidence of the confidence of the international community in the country's macroeconomic management and provides a compelling reason for the Committee to await clarity on macroeconomic performance after the general elections in February and March 2019.

In the light of the observed risk confronting the economy, including the global and domestic inflationary pressures, which have intensified the risk of currency depreciation, the MPC was of the view that a loosening option was very remote. Weighing the balance of its judgement on price stability conducive to growth, the MPC felt that tightening would result in the loss of the gains so far achieved, noting that this may drive the banks to reprice their assets; thus increasing the cost of credit as well as elevating credit risk in the economy. It will also worsen the position of non-performing loans of the banks. The Committee also felt that tightening would dampen investments and hamper improvements in output growth, given the already fragile growth performance so far achieved.

## The Committee's Decision

In the light of the above, the MPC decided by a vote of all eleven (11) members to keep the policy parameters unchanged from their current levels.

In summary, the MPC voted to:

i. Retain the MPR at 14 per cent;

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

iii. Retain the CRR at 22.5 per cent; and IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

**Godwin I. Emefiele**
Governor, Central Bank of Nigeria
22nd January, 2019

## CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 123 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 25TH AND TUESDAY 26TH MARCH, 2019

### 1.0 Background

The Monetary Policy Committee (MPC) met on the 25th and 26th March, 2019; against the backdrop of developments in the global and domestic economic environments in the first quarter of 2019. Eleven (11) members of the Committee were present.

### Global Economic Developments

The Committee noted with concern the weakening performance of global output growth at the end of 2018 and observed that developments in the first quarter of 2019 were characterised by legacy headwinds from the second half of 2018. These include: the continued trade war between the US and China, policy uncertainty amongst advanced economy central banks; persisting uncertainties surrounding BREXIT negotiations; vulnerabilities in major financial markets and rising public debt in some Emerging Market and Developing Economies (EMDEs). Consequently, global output growth for 2019 was downgraded by the IMF from 3.7 per cent to 3.5 per cent.

Price developments across major advanced economies, continued to moderate in the review period alongside signals of weakening output growth. In the light of this development, the US Fed, the Bank of England and the European Central Bank retreated from their earlier stance of monetary policy normalisation in favour of a monetary policy accommodation. This led to volatilities in the financial markets of the advanced economies as the balancing of portfolios moved capital from the equities to the bonds market.

The MPC noted the moderate appreciation of the US dollar against the currencies of most advanced and emerging market economies. It further noted the trend of declining long term yields in the US, and the likelihood that capital flows may be redirected to EMDEs in the medium term.

### Domestic Output Developments

Output data from the National Bureau of Statistics (NBS) indicate that real Gross Domestic Product (GDP) grew by 2.38 per cent in Q4 2018 from 1.81 and 2.11 per cent in the previous quarter and corresponding period of 2017. The major impetus for growth came from the non-oil sector, which grew by 2.7 per cent in Q4 2018, while the oil sector contracted by 1.62 per cent.

The Committee welcomed the continued positive sentiments in the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMIs) for the 24th and 23rd consecutive months in March 2019. The manufacturing PMI rose by 57.4 index points compared with 57.1 in the previous month. Similarly, the non-manufacturing PMI increased by

58.5 index points compared with 58.4 in February 2019. The increase in both measures of PMI was driven by increases in production, employment, raw material inventories and new orders. This improved outlook was attributable to the continued stability in the foreign exchange market, various interventions by the Bank in the real sector and the effective implementation of the Economic Recovery and Growth Plan (ERGP) by the Federal Government. Furthermore, on the current measure of national output, the MPC noted the need to rebase the GDP, an exercise which was last carried out in 2010.

## Developments in Money and Prices

The Committee noted that broad money supply (M2) contracted by 1.98 per cent in February 2019, below its level at end-December 2018. Net Foreign Assets (NFA) contracted by 7.47 per cent in February 2019 relative to its level at end-December 2018. In contrast, M3 grew by 4.31 per cent in February 2019 compared with its level at end-December 2018. Net Domestic Credit also grew by 10.68 per cent in February 2019. The growth in NDC was accounted for by the increase in credit to Government which grew by 17.20 per cent in February 2019 over its level at end-December 2018. Credit to the private sector also rose by 6.41 per cent compared with its growth benchmark of 9.41 per cent. Given the positive trajectory, the Committee urged the Management of the CBN, to sustain the various initiatives of the Bank, particularly the partnership between the Bankers Committee and the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) aimed at establishing a national microfinance bank to cater for the MSMEs of the economy.

The Committee noted the continued moderation in inflation as headline inflation (year-on-year) declined further to 11.31 per cent in February 2019 from 11.37 and 11.44 per cent in January 2019 and December 2018, respectively. The decrease in headline inflation was driven mainly by food inflation, which declined to 13.47 per cent in February 2019 from 13.51 per cent in January 2019, while core inflation declined marginally to 9.80 per cent from 9.91 per cent in the previous month. On a month-on-month basis, headline, food and core inflation declined to 0.73, 0.82 and 0.65 per cent in February 2019, respectively, from 0.74, 0.83 and 0.81 per cent in January 2019. The Committee noted the upside risks to inflation to include; high cost of energy, infrastructure constraints, insecurity in some parts of the country; and anticipated increase in liquidity from the late implementation of the 2018 budget, and noted that most of these factors were outside the ambit of monetary policy. The MPC, therefore, urged the Federal Government to sustain its current effort in stimulating output growth by executing the policies approved in the ERGP.

The net liquidity position reflected the impact of OMO auctions, foreign exchange interventions, statutory allocations to states and local governments, and maturing CBN Bills. Consequently, the average Inter-bank call rate increased to 16.45 per cent in February 2019 from 15.00 per cent in January 2019. The Open Buy Back (OBB) rate, however, declined marginally to 18.79 per cent in February 2019 from 19.71 per cent in January 2019. The interbank call rates, however, closed at 8.0 per cent on March 8, 2019, while the OBB closed at 14.39 on March 22, 2019. The Committee noted that in spite of the recent upsurge in capital inflow into the economy, the All-Share Index (ASI) and Market Capitalization (MC) continued to decline, reflecting global sentiments in portfolio rebalancing from equities to fixed income securities. This generally reflected the perceived risk at the long end of the yield curve.

The Committee noted with satisfaction, the continued stability in the foreign exchange market at the Investors' and Exporters' (I&E) window of the market. In particular, it also observed the moderate improvement in oil prices and stable accretion to external reserves, which stood at US$45.2 billion as at March 21, 2019, a 6.73 per cent increase from US$42.35 billion at end-February 2019.

## The Overall Outlook and Risks

The medium term outlook for the global economy continues to be uncertain with indications of increasing macroeconomic vulnerabilities and downward revision of the forecast for global output growth.

On the domestic economy, available data on key macroeconomic indicators for output growth in the first quarter of 2019, and forecasts for the rest of the year, suggests continued positive outcomes. Based on recent projections, the economy is expected to grow by 2.0 per cent (IMF), 2.2 per cent (World Bank) and 2.74 per cent (CBN). The projection is hinged on: the enhanced flow of credit to the real sector; sustenance of a stable exchange rate; moderating inflation rate; CBN special interventions in growth-enhancing sectors, especially, agriculture and non-agricultural SMEs; improved growth in the non-oil sector and the effective implementation of the ERGP by the Federal Government, amongst others. The Committee expressed optimism that the establishment of the NIRSAL National Microfinance Bank and the enactment of the *Secured Transactions in Movable Assets Act 2017* will stimulate lending to small and medium enterprises.

## Committee's Considerations

The Committee observed the tepid output growth in 2018, but noted with satisfaction that it strengthened in the last quarter of 2018 as well as the positive forecast for 2019. It further noted with great satisfaction, the continued moderation in all measures of inflation, sustained stability in the

exchange rate and the robust level of external reserves. It commended the recent upsurge in capital inflows into the economy, noting this to be a demonstration of sustained confidence by the foreign investor community in the Nigerian economy. The Committee was, however, not unmindful of developments in the global economy, noting the recent slowdown in growth in some advanced economies and the dovish stance of some major central banks as an early warning sign of broader macroeconomic vulnerabilities. It, therefore, underscored the need to monitor the trend in capital flows and the continued downturn in the equities market, noting that the recent surge in portfolio inflows were concentrated in the money market.

The Committee noted the relative volatility in oil prices and its impact on accretion to reserves which could easily undermine the stability observed in the foreign exchange market. It, however, noted that current developments in the oil futures market indicate that oil prices will remain considerably above the Federal Government's 2019 budget benchmark. The Committee, therefore, urged the Federal Government to strengthen its current revenue mobilization efforts as well as explore additional sources of revenue in order to improve fiscal buffers. It further urged the Federal Government to sustain its implementation of the ERGP, while ensuring that growth is all inclusive. It reiterated the need to concentrate effort on addressing the problem of weak power infrastructure, as well as support domestic manufacturing. The Committee also called on all relevant institutions of the government to address the menace of smuggling and dumping of goods into Nigeria; and encouraged the Bank to continue to explore available scenarios to deal with the activities of economic and policy saboteurs, including those involved in dumping and smuggling, in a bid to accelerate domestic production of goods in Nigeria.

The MPC noted the positive moderate outlook for growth and the risks in the horizon. The Committee also noted that having achieved a relatively stable exchange rate with price stability, it is imperative that monetary policy should explore the next steps necessary for enhancing growth, reducing unemployment and diversifying the base of the economy. It further observed that per capita income growth is very negligible, while aggregate demand remains weak. Aggregate output also remains below the potential output level, implying sufficient headroom for non-inflationary growth. This new direction has, therefore, become imperative against the backdrop of the aftermath of the general national elections and strong inflow of foreign direct and portfolio investments into the economy.

The Committee urged for the speedy passage of the other aspects of the Petroleum Industry Bill (PIB) to fast track the development of the value chain in

the sector and create employment. It also welcomes the passage of the National Minimum Wage Bill by the National Assembly and call for its speedy implementation in order to boost domestic aggregate demand.
The Committee further observed that the performance of the monetary aggregates were below their benchmarks, indicating headroom for monetary growth. The MPC noted the encumbrances and constraints imposed on fiscal policy and the associated vulnerabilities as it has consistently failed to mobilise sufficient revenues to support development as enunciated in the ERGP, leaving room for continued debt financing, not previously envisaged. Against this backdrop, it is imperative for monetary policy to provide the much needed leverage to support output growth and employment generation in the country.

On a more cautious note, the Committee expressed concern and sympathises with the fiscal authorities, over the growing fiscal deficit, external debt and debt service, and urged the need to closely monitor the public procurement process in order to improve efficiency in public resource management.

On financial system stability, the MPC noted the improvements in key financial soundness indicators and commended the Federal Government for the settlement of debt owed to oil marketers, which has considerably, helped in reducing the non-performing loans (NPLs) portfolio of the banking industry. The Committee, therefore, urged the Government to expedite action in settling all outstanding contractor-related arrears so as to improve the NPLs position and stabilise the banking system. In addition, the MPC reiterated the Bank's commitment to improve credit delivery, especially to small and medium scale enterprises, while acknowledging efforts by the Central Bank of Nigeria in coordinating the de-risking of lending to the private sector through the collaboration between the Bankers' Committee and NIRSAL.

In its consideration of the best monetary policy option, the Committee noted the need for all agencies of Government to work hard, not only in consolidating the growth so far achieved, but also in ensuring that appropriate policies are put in place and implemented to create jobs on a mass scale and diversify the economy in a proper direction. In doing this, the policy options facing the MPC at this meeting is a decision between retention of the current stance of monetary policy or a slight loosening of the policy rate, backed by the substantial stability of the major macroeconomic indicators. The Committee felt that given the relative stability in the key macroeconomic variables, there is the need to signal a new direction that is pro-growth.

In its arguments, the Committee was convinced that doing this would further uphold the Bank's commitment to

promoting strong growth by way of encouraging credit flow to the productive sectors of the economy. The MPC felt that signalling through loosening by a marginal reduction would serve to manage the sentiments in the capital markets owing to the wider spread in yields in the EMDEs, relative to the advanced economies. Moreover, the real interest rate in the country would still remain positive.

### The Committee's Decision

In light of the above, the MPC decided by a vote of six out of eleven members to reduce the Monetary Policy Rate (MPR) by 50 basis points. Two members voted to reduce the MPR by 25 basis points, while one member voted to reduce it by 100 basis points. Two members, however, voted to hold the MPR at its current level. Ten members voted to hold all other parameters constant, while a member voted to reduce the Cash Reserve Ratio (CRR) by 100 basis points from 22.5 to 21.5 per cent.

In summary, the MPC voted to:

I. Adjust the MPR by 50 basis points from 14.00 to 13.50 per cent;

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

III. Retain the CRR at 22.5 per cent; and

IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

**Godwin I. Emefiele**

Governor, Central Bank of Nigeria

25th March 2019

## CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 124 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 20TH AND TUESDAY 21ST MAY, 2019

### 1.0 Background

The Monetary Policy Committee (MPC) met on the 20th and 21st of May 2019, amidst uncertainties in the global financial, economic and political environments. All Eleven (11) members of the Committee were present.

### Global Economic Developments

The Committee reviewed developments in the global economy, noting with concern, the declining trend in global output growth, which commenced in the second half of 2018. Accordingly, the International Monetary Fund downgraded global output growth from 3.7 per cent in 2018 to 3.6 per cent in 2019 and further revised it downwards to 3.3 per cent in 2019. The decrease in the global composite Purchasing Managers' Index (PMI) in the last three months provides further fillip to this downgrade. The Committee noted that the weakening global output growth continued amidst prevailing uncertainties from familiar headwinds including: the further escalation of trade tensions between the US and China; imposition of new rounds of sanctions on Iran; breakdown of BREXIT negotiations; a new wave of tension on the Korean Peninsula; vulnerabilities in major financial markets and rising public and private debt in some Emerging Market and Developing Economies (EMDEs).

Despite these uncertainties, inflation in the advanced economies remained muted and largely below their 2.0 per cent long-run targets. As a result, most central banks in the advanced economies, including the US Fed, Bank of England and the European Central Bank, adopted a dovish monetary policy stance, which is expected to remain in place in the near to medium term, as signs of weakness in the global economy re-emerged. In the Emerging Market Developing Economies, however, developments were mixed, with inflation rising in some, but moderating in others. In response, the financial markets witnessed the rebalancing of portfolios from equities to fixed income securities, and some stock markets posting losses. In the main, the Emerging Market Developing Economies are expected to continue to benefit from the accommodative monetary policy stance of the advanced economies through increased capital inflows.

### Domestic Output Developments

Available output data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 2.01 per cent in the first quarter of 2019 compared with 2.38 and 1.89 per cent in the previous and corresponding quarters of 2018, respectively. This was largely driven by the non-oil sector, which grew by 2.47 per cent in the first quarter of 2019 while the oil sector contracted by 2.40 per cent. Staff projections indicate real GDP growth of 2.34 and 2.36 per cent in Q2

2019 and Q3 2019, respectively, including a reduction in the unemployment rate. The Monetary Policy Committee observed that actual output remains below potential, implying that the economy still had sufficient headroom for non-inflationary growth. This is expected to be driven largely by sustained stability in the financial system; continued special interventions in Agriculture, manufacturing and SMEs sectors, by the Bank; sustained effort in improving transport infrastructure to address distribution challenges; continued expansion of business activities as indicated by the PMI and increased supply of foreign exchange to growth-stimulating sectors of the economy, among others.

The Committee noted the continued expansion of the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI) for the 25th and 24th consecutive months in April 2019 and broadly welcomed this positive development in economic activities in Nigeria. The manufacturing PMI grew by 57.7 index points compared with 57.4 index points in the previous month. Similarly, the non-manufacturing PMI grew by 58.7 index points compared with 58.5 index points in March 2019. The growth in both measures of PMI were anchored by marginal increases in production, employment level and new orders.

## Developments in Money and Prices

The Committee noted the growth in broad money supply (M3) by 5.42 per cent in April 2019 from the level at end-December 2018, annualized to 16.36 per cent, above the indicative benchmark rate of 14.47 per cent for 2019. This was largely driven by the growth of 19.62 per cent in Net Domestic Assets (NDA). In contrast, Net Foreign Assets (NFA) contracted by 5.83 per cent in April 2019 relative to the level at end-December 2018. In spite of the significant underperformance of M1 at -4.26 per cent annualised to -12.77 per cent, M2 grew by 1.85 per cent in April 2019, annualized to 5.54 per cent, which was significantly below the benchmark rate of 12.99 per cent for 2019. This development was largely due to the growth in time and savings deposits by 6.53 per cent. The Net Domestic Credit (NDC) grew by 19.31 per cent in April 2019 from the level at end-December 2018, annualized to 57.92 per cent, above its indicative benchmark of 11.82 per cent. The growth in NDC was attributed to the significant increase in credit to both government and the private sector by 64.44 and 9.64 per cent, respectively, in April 2019, compared with end-December 2018. The Committee noted the developments in the monetary aggregates and enjoined the Bank to initiate moves towards improving lending to the private sector and urged other intermediary institutions in the financial sector to support these

initiatives by improving their credit delivery to boost output growth.

The Committee noted the uptick in inflation as headline inflation (year-on-year) rose slightly to 11.37 per cent in April 2019 from 11.25 per cent in March 2019. The increase in headline inflation was driven mainly by food inflation which rose by 13.70 per cent in April 2019 from 13.45 per cent in March 2019. Core inflation, however, declined marginally to 9.28 per cent in April from 9.46 per cent in March 2019. In April 2019, month-on-month headline, food and core inflation increased to 0.94, 1.14 and 0.70 per cent from 0.79, 0.88 and 0.53 per cent in March 2019, respectively. The MPC noted that the recent uptick in inflationary pressure was seasonally driven and anticipated.

Liquidity conditions in the banking system reflected the net impact of Open Market Operations (OMO) auctions, maturing CBN Bills, statutory allocations to states and local governments as well as interventions by the CBN in the foreign exchange market. Consequently, the monthly weighted average Inter-bank call and Open Buy Back (OBB) rates increased to 13.98 and 16.15 per cent in April 2019 from 10.80 and 12.17 per cent in March 2019, respectively. The daily unsecured interbank and the OBB rate, fluctuated within the standing facilities corridor, closing at 6.57 per cent and 5.55 per cent on May 10 and May 16, 2019, respectively, reflecting the reaction of the money market to the 50 basis point reduction in the policy rate at the meeting of the MPC in March 2019.

The Committee observed the continued bearish trend in the equities market in spite of the sustained capital inflows into the economy during the period under review. The All-Share Index declined by 8.14 per cent to 28,871.83 index points on May 17, 2019 from 31,430.50 index points as at end-December 2018, while market capitalization grew by 8.53 per cent to N12.72 trillion on May 17, 2019 from N11.72 trillion at end-December 2018. The recent growth in market capitalization reflected new listings in the market, prominent amongst which is: MTN and Skyway Aviation Handling Company Plc and additional listing from the merger between Access Bank and Diamond Bank.

The Committee welcomed the continued stability at both the Bureau-de-change (BDC) and the Investors' and Exporters' (I&E) windows of the foreign exchange market, expressing optimism in the recovery of crude oil prices due to the OPEC production ceiling and other geo-political issues affecting oil exports.

The MPC also noted the steady accretion to external reserves, which stood at US$45.42 billion as at May 16, 2019, an increase of 2.20 per cent from US$44.44 billion at end-April 2019.

## The Overall Outlook and Risks

The overall medium term outlook for the global economy remains mixed and uncertain with growing indications of

persistent macroeconomic vulnerabilities, global financial market fragilities, accommodative monetary policy, policy uncertainties and weakening global output.

Data on the domestic economy suggests some fragility in output growth during the second quarter of 2019 with improved outlook for the rest of the year. Accordingly, revised output projections indicate that the economy would grow by 2.1 per cent according to the International Monetary Fund (IMF), 2.2 per cent by the World Bank and 2.38 per cent by the CBN in 2019. This outlook is hinged on the following key factors: the effective implementation of the Economic Recovery and Growth Plan (ERGP); supportive monetary policy; enhanced flow of credit to the real sector; sustained stability of the exchange rate; and improved fiscal buffers; amongst others. The Committee, thus, expects that monetary policy would focus on improving access to credit, reducing unemployment and stimulating economic growth.

## Committee's Considerations

The Committee took into consideration the continued slowdown in the global economy and the persisting uncertainties, including the ongoing trade wars between the US and its major trade partners, financial fragilities in a number of countries, the debt-constrained fiscal operations of most EMDEs, including Nigeria, and the volatility in the oil market. The Committee, therefore, enjoined the Federal government to urgently build fiscal buffers through a more realistic benchmark oil price for the Federal Budget.

The MPC noted the 2.01 per cent growth in real GDP during the first quarter of 2019 compared with 1.89 per cent in the corresponding quarter of 2018. Although output growth in the first quarter was slower than 2.38 per cent recorded in the preceding quarter, it emphasized that actual output remains well below the economy's long-run potential, indicating the existence of spare capacity for non-inflationary growth in the economy, an opportunity which should be explored through increased credit delivery to the private sector. Not impressed by the flow of credit from the Deposit Money Banks (DMBs) to the private sector, the MPC called on the CBN management to urgently put in place modalities to promote Consumer, and Mortgage lending in the Nigerian economy, noting that doing this will greatly and positively impact on the flow of credit and ultimately result in output growth.

The MPC called for a close monitoring of the uptick in inflationary pressures in April 2019, driven largely by food shortages during the Easter season, the commencement of the planting season as well as persisting security challenges in some of the food producing regions of the country. The Committee, urged the relevant authorities to strengthen efforts to address the security

challenges and improve food production. It encouraged financial intermediating institutions to ensure that loans to the agricultural sector were channelled effectively to end users.

The MPC welcomed the improvement in financial soundness indicators (FSIs), but noted that although the Non-Performing Loan (NPL) ratio moderated, it remained above the prudential benchmark. Consequently, the Committee considered and recommended to the CBN, a proposal to develop a comprehensive administrative, legal and regulatory framework to speed up the recovery of delinquent loan facilities of the banking system; involving structured engagement with relevant stakeholders and authorities, in order to mitigate credit risk and ultimately open up the credit delivery space in the Nigerian economy.

The Committee extended warm felicitations in an expression of gratitude to the President and Commander in Chief of the Armed Forces of the Federal Republic of Nigeria, President Muhammadu Buhari, and the Senate of the Federal Republic, respectively, for the reappointment and prompt confirmation of the Governor of the Central Bank of Nigeria, Godwin I. Emefiele, for a second 5-year term in office. In particular, the Committee noted that the reappointment was in recognition of the contributions of the CBN to maintaining macroeconomic stability and it would engender confidence and build policy credibility and deliver stability to the Nigerian financial markets.

In view of the abundant opportunities available to banks for unfettered access to government securities, which tends to crowd out private sector lending, the Committee called on the Bank to provide a mechanism for limiting DMBs access to government securities so as to redirect bank's lending focus to the private sector, noting that this would spur the much needed growth in the economy. It called on the Government to use all machinery at its disposal to increase tax revenue to enable the government fund its budget adequately.

## The Committee's Decision

The global and domestic developments have conditioned an environment of low optimism in the macroeconomic and financial sector space, forcing central banks to return to accommodative monetary policy.

As in the past, the Committee considered the options of whether to be more accommodative, tighten or hold it position. The Committee felt that although the slight inflation uptick should result in tightening, it nevertheless felt that doing this will limit the ability of DMBs to increase credit at this time, given the need to support or redirect the focus of DMBs to new credit in support of consumer, mortgage and other priority sectors of the economy, including, SMEs, agriculture and

manufacturing. It also felt that given the fragile state of the economy, increasing the cost of credit would further diminish investment flow and impact negatively on output growth.

As regards loosening, some members felt that it was desirable to aggressively stimulate growth, restart the capital market activities and increase lending at lower rates; which would ultimately stimulate domestic aggregate demand.

Those against loosening felt that given that there was a marginal increase in headline inflation for April 2019, there is need to restrain from loosening in order not to exacerbate inflationary pressures. They also felt the economy would experience liquidity surfeit and without corresponding increase in real sector output, inflationary pressures could be elevated; resulting in likely exchange rate pressures.

As for members who favoured a hold position, maintaining monetary policy rate at its present level was essential for better understanding of the momentum of growth before determining any possible modifications. They also felt that retaining the current policy stance provides an avenue for evaluating the impact of the Bank's intervention policies to support lending to the priority sectors of the economy.

Consequently, the MPC decided against the backdrop of these developments by a vote of 9 members out of 11, to hold all parameters of monetary policy constant. Two members voted, however, to reduce the monetary policy rate by 25 basis points.

In summary, the MPC voted to:

I. Retain the MPR at 13.50 per cent;

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

III. Retain the CRR at 22.5 per cent; and

IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

**Godwin I. Emefiele**
Governor, Central Bank of Nigeria
21st May, 2019