CENTRAL BANK OF NIGERIA
ECONOMIC REPORT

July 2020

FOREWARD

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

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EXECUTIVE SUMMARY

The global economy continued to experience supply chain disruptions, healthcare crisis, lockdown measures and heightened uncertainties occasioned by the COVID-19 pandemic. Growth and inflation rates remained subdued, but edged upward slightly on account of rising energy, food and clothing prices, especially in advanced economies. The global financial market performance continued to ease in July 2020, owing to rebound in world equity markets, occasioned by business optimism emanating from the partial relaxation of lockdown measures and decline in external borrowing.

The domestic economy continued to show signs of contraction due to weak fiscal revenues associated with low crude oil prices; and the lingering effect of demand and supply shocks, and supply chain disruptions resulting from the pandemic. Domestic demand remained severely curtailed, while current economic conditions reflected reduced income due to job losses and pay cut, closure of businesses and welfare losses. However, the gradual rebound in business activities following the easing of lockdown restrictions led to a fragile improvement in the rate of new business orders. Although employment in manufacturing and non-manufacturing related activities remained below pre-crisis levels, a slight improvement was recorded in July, due to the uptick in business activities. Inflationary pressures persisted in the review period, amidst the relaxation of COVID-19 lockdown measures, and rose to 12.82 per cent, year-on-year (the highest in 28 months), from 12.56 per cent and 11.08 per cent in June and corresponding period of 2019, respectively. Prices of most agricultural commodities surged during the month, owing to a combination of demand and supply shocks across countries. Crude oil prices strengthened further in July 2020, on sustained demand from refiners in the U.S., China and India, leading to a gradual improvement in economic activities as more countries lifted lockdown measures, as well as the onset of the summer driving season in the U.S. and Europe.

The Federation Account benefited from increased tax returns, associated with the resumption in business activity, following the partial easing of the COVID-19 lockdown restrictions. At ₦747.09 billion, federally collected revenue in July rose by 17.4 per cent above the level in the preceding month. It, however, remained below its respective benchmark[1] and corresponding period of 2019 levels by 11.8 per cent and 24.7 per cent. The development was driven by the significant increase in collections from CIT and VAT. The Federal Government

[1] Refers to the proportionate monthly budget inferred from the 2020 Appropriation Act.

retained revenue of ₦257.98 billion in July, represented a 9.7 per cent improvement over the level in June. It was, however, significantly below its benchmark of ₦486.25 billion, by 46.9 per cent as a result of shortfalls in oil receipts. Despite the revenue challenge, the estimated total expenditure of the Federal Government in July, remained high at ₦890.81 billion, resulting in an estimated fiscal deficit of ₦632.83 billion. Total FGN debt outstanding[2] as at end-June, 2020, was estimated at ₦31,008.64 billion with the domestic and external components accounting for 57.6 per cent and 42.4 per cent respectively, of the total debt stock.

The Nigerian economy continued on the path towards recovery, stimulated by upturn in economic activities, supported by the rebound in crude oil prices, as the adverse effect of the COVID-19 pandemic appeared to taper off in July 2020. Similarly, the financial sector remained resilient, buoyed by monetary policy accommodation, which firmed up banking system liquidity to support credit expansion to the private sector. The financial markets remained volatile amidst the lingering effect of the pandemic. However, the financial sector stood resolute in the review period as the key financial soundness indicators showed enduring resilience. Investors' sentiments in the capital market remained optimistic, although uncertainties persisted in the global economy. Due to price gains by most blue-chip stocks, as well as, continued investors' sentiment in attractive stocks, the Nigerian bourse was bullish in July 2020.

Global oil prices improved in July 2020 as a result of OPEC+ production cuts, leading to a rise in receipts from crude oil exports. However, on a month-on-month basis, foreign exchange inflow, through the economy, decreased by 0.4 per cent to US$6.68 billion in July 2020. At US$5.08 billion in July 2020, the value of Nigeria's total trade declined by 23.6 per cent and 52.8 per cent, below the levels of US$6.65 billion and US$10.76 billion in June 2020 and July 2019, respectively, a reflection of the negative effects of the COVID-19 pandemic. The average exchange rate of the naira at the Interbank segment, the Bureau-de-Change (BDC) segment, and the Investors and Exporters (I&E) window were ₦377.19/US$, ₦464.71/US$, and ₦387.48/US$, respectively, in July 2020. Nigeria's international reserves decreased from US$35.78 billion at end-June to US$35.56 billion at end-July 2020. The net decrease in reserves was driven largely by SMIS intervention, swaps and third-party MDAs transfers.

[2] This includes the external debt of states and the FCT guaranteed by the FGN which constitutes about 16.0 per cent of the total

1.0 GLOBAL ECONOMIC DEVELOPMENTS

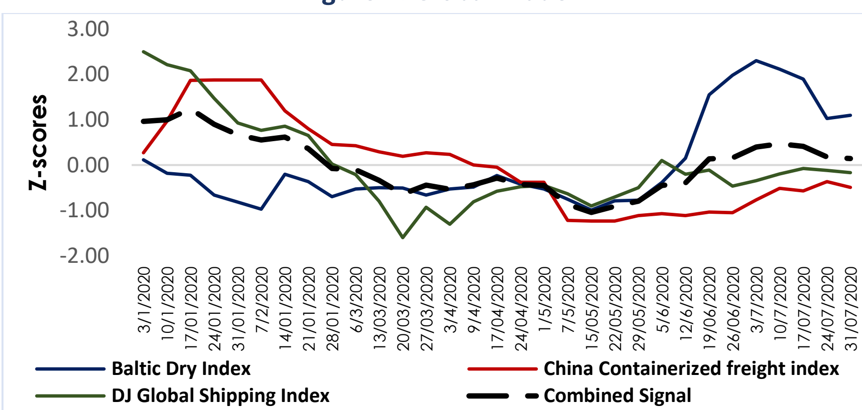
Global economic activity recovered mildly in July 2020, on the back of improved business optimism following phased easing of COVID-19 containment measures. However, high uncertainty persisted because of weak labour market condition. The global output, measured by composite output index, signaled slight recovery, owing to the relaxation of lockdown measures and economic stimulus undertaken by various governments. The development was reflected by the JP Morgan Global Composite Output Index, which rose to a six-month high of 50.8-point in July 2020, above 50.0-point benchmark (Table 1). Manufacturing and business activities were the major sources of mild improvement. Moreover, global trade indexes in Figure 1 also showed the gradual recovery of international trade from troughs recorded earlier in the year. However, noticeable increases in global economic activities might be dampened, if weak global labour market conditions persists and a second wave of the COVID-19 pandemic erupts. (Table 1).

Table 1: Global Purchasing Managers' Index (PMI)

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Composite	52.1	46.1	39.2	26.2	36.3	47.8	50.8
Manufacturing	50.4	47.1	47.6	39.6	42.4	47.9	50.3
Services (Business Activity)	52.7	47.1	37.0	24.0	35.1	48.0	50.5
Employment Level	51.1	49.8	46.6	39.4	41.3	46.5	47.9

Source: JP Morgan, Reuters

Figure 1: Global Trade



Source: Reuters, S&P Global, CBN Staff compilation

1.1. Global Output Growth

Global Growth

In advanced economies, incipient recovery in economic activities was observed in July 2020, following the gradual relaxation of COVID-19 containment measures. In the United States, the recovery was propelled by improved consumer confidence and business optimism. Although consumer spending continued to recover in July 2020, it remained tilted towards goods and away from services, relative to pre-pandemic levels[3]. In addition, unemployment rate in the U.S. witnessed decline, due to temporary layoffs, signaling increased payroll employment, albeit, at a slower pace in July 2020 compared with June 2020.

In the euro area, the mild recovery was driven mainly by increased capacity utilisation, particularly in the automotive sector, which increased slightly relative to second quarter levels. The Japanese economy also showed signs of bottoming out, as private consumption started to pick up. The declines in industrial production activity and exports were halted, due to the lifting of the state of emergency by the Japanese government.

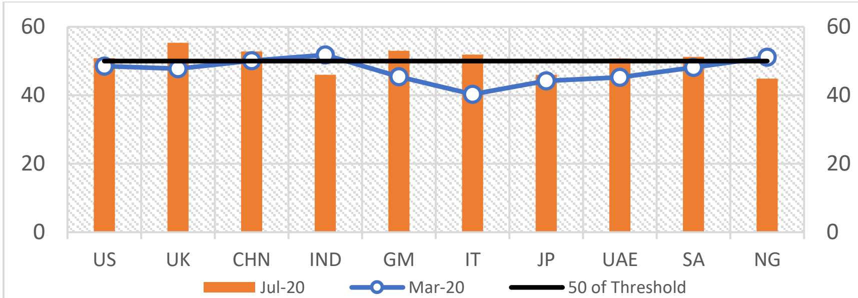
Consumption of goods in several countries in the advanced economies also returned to pre-crisis levels due to switching effects of government support measures, which offset a significant portion of direct income losses.

Output by Region

The Purchasing Managers Index (PMI) expanded in most advanced countries (Figure 2), as economic activities reversed sluggishly towards pre-crisis levels in certain subsectors, due to phased relaxation of lockdown measures. The July 2020 PMI slightly expanded above the threshold of 50-point in the United States, United Kingdom, Germany and Italy. Economic activity also picked up in some emerging markets and developing economies, albeit at varied degree, due to idiosyncratic factors. Most EMDEs recorded increases in PMI, however, the values remained below the 50-point threshold, except in China that slightly rose above the benchmark.

Figure 2: PMIs for Selected Countries

[3] Federal Reserve Bank of New York – Snapshot of the U.S. Economy (August 2020)



Source: CBN Staff Compilation using data from Trading Economics

Notably, China experienced strong recovery on the back of improved industrial activity, occasioned by strong demand for certain products sought after in connection to the pandemic, including personal protective equipment, medical supplies, computers and other IT equipment. Despite the considerable economic recovery and healthy export activity, the Chinese economy remained significantly below pre-crisis levels.

The Indian economy has also recovered, somewhat, since the easing of mobility restrictions in May 2020 and June 2020. However, the increasing COVID-19 prevalence rates in recent months might hinder rapid and widespread return to normal activity levels. Recovery in Brazil's economic activity slowed in July, consequent on decelerating growth in retail sales and industrial output. The slight recovery in oil prices, accommodative monetary policy stance and loans from multilateral donors are expected to ameliorate the strain on fiscal operations and aid in revitalizing many EMDEs. Regardless, this precarious rebound could be threatened by a second wave of infections both in Advanced Economies and EMEs, which could trigger decline in oil prices, further capital reversals and heighten foreign exchange market pressures.

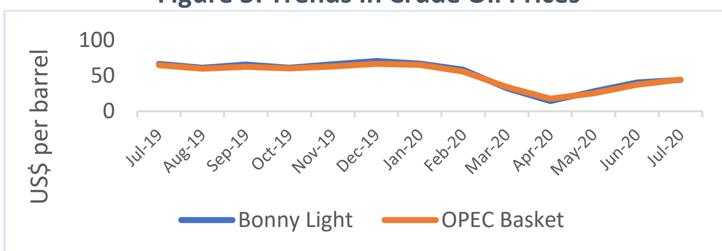
Oil Market

Crude oil prices strengthened further in July 2020 on account of sustained demand from refiners in the U.S., China and India; a gradual improvement in economic activities as more countries eased lockdown measures; and the outset of the summer driving season in the U.S. and Europe.

The average spot price of Nigeria's reference crude oil, the Bonny Light (37° API), rose by 9.4 per cent, month-on-month, to US$44.10 per barrel (pb) in July 2020, compared with US$40.30 pb in June 2020. The price was, however, 33.4 per cent below the position in the corresponding month in 2019. The UK Brent at US$44.10 pb, Forcados at US$44.05 pb, and the WTI at US$40.95 pb, exhibited similar trends. The average price of the OPEC basket of thirteen selected crude streams rose by 19.9 per cent to US$44.42 pb in during the month (Figure 3).

Oil prices may continue to rise at declining rates over concerns of a second wave of COVID-19 infections and huge global crude oil stocks. Furthermore, there may be a build-up of crude oil inventory due to weak road and air transport fuel demand, and on the supply side, the increase in production adjustment by OPEC and non-OPEC producers participating in the Declaration of Cooperation (DoC). This may have a negative effect on government's revenue, despite the lowering of the oil price budget benchmark to US$28 pb from US$57 pb.

Figure 3: Trends in Crude Oil Prices



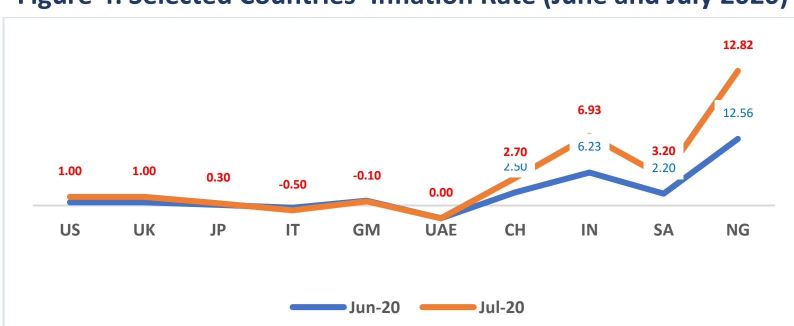
Source: Thomas Reuters

1.2. Global Inflation

Global Inflation

Global inflation remained subdued, but edged upward slightly on account of rising energy, food and clothing prices, especially in advanced economies. The gradual recovery in oil price led to an uptick in headline inflation rates in major economies. Most advanced and EMDEs countries surveyed recorded an increase in inflation between June and July, except Italy and Germany, with average inflation of ten (10) of the countries rising to 3.04 per cent from 2.29 per cent. Further increases in commodity prices and recovery in the global economy are expected to heighten inflation pressures in the near-term.

Figure 4: Selected Countries' Inflation Rate (June and July 2020)



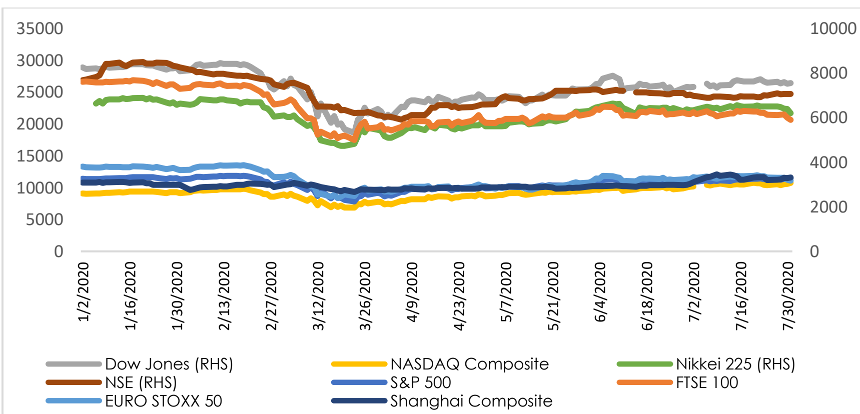
Source: CBN Staff compilation from Trading Economics and various country websites,

1.3. Global Financial Markets

Global Financial Markets

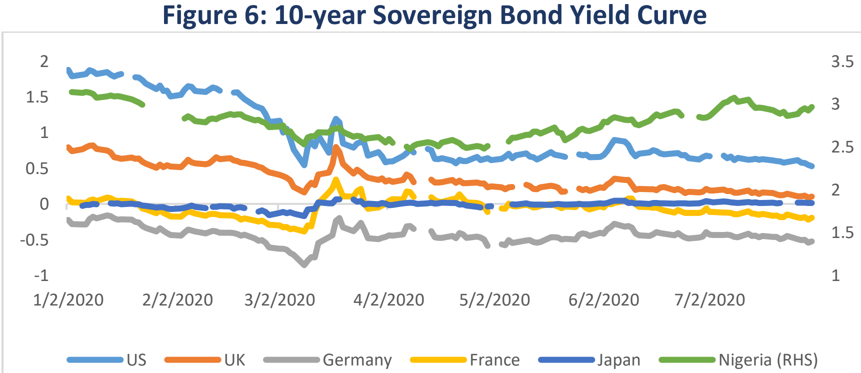
The global financial market performance continued to ease in July 2020, owing to rebound in world equity markets, occasioned by business optimism emanating from the partial relaxation of lockdown measures and decline in external borrowing costs. Despite attractive yields in emerging and frontier markets, capital inflows fell short of expectation, owing to uncertainties. In July 2020, equity market mildly rebounded globally, although, the degree of recovery varied across regions. Broad stock price indexes in the USA and China recorded gains in July 2020, while activities in other countries were bearish (Figure 5). The gains in the USA were mostly recorded in technology firms, whereas virus sensitive sectors and firms such as Airlines, Hotels and oil companies performed poorly. Moreover, most advanced economies sustained zero bound interest rates, which further relaxed global financial market conditions and lowered external borrowing costs. However, capital flows to emerging and frontier markets still fell short of their pre-crisis levels, as investors preferred safer havens to attractive yields.

Figure 5: Selected Equity Market Indices



Source: Bloomberg data, CBN Staff compilation

Figure 6: 10-year Sovereign Bond Yield Curve



Source: Bloomberg data, CBN Staff compilation

2.0. DOMESTIC ECONOMIC DEVELOPMENTS

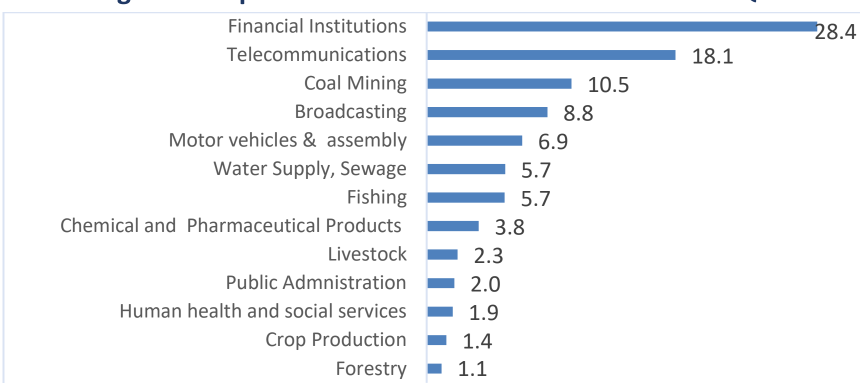
2.1. THE REAL SECTOR

2.1.1. Economic and Business Activities

Economic Activities

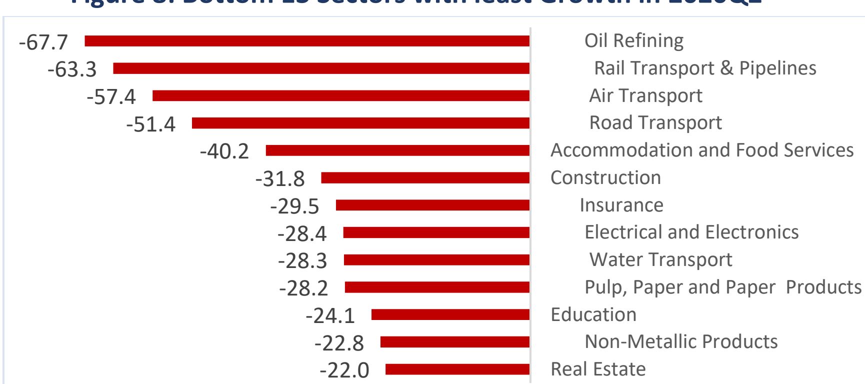
The domestic economy continued to show signs of contraction in July 2020, due, largely, to weak fiscal revenues associated with low crude oil prices; lingering effects of the demand and supply shocks; and supply chain disruptions resulting from the Pandemic. Domestic demand remained severely curtailed, while current economic conditions reflected reduced income due to job losses and pay cut, closure of businesses and welfare losses. Industrial activities in July 2020 showed signs of recovery, though lower than expected, as pick-up of business activities remained fragile. Also, as the exchange rate adjustment weighed in, input prices soared and impacted negatively on businesses in the short-term. Thus, the manufacturing and non-manufacturing Purchasing Managers Indices (PMI) moderated, even though there was a marginal improvement over the preceding month's performance.

Figure 7: Top 13 Sectors with Fastest Growth in 2020Q2



Source: Compiled from NBS Data

Figure 8: Bottom 13 Sectors with least Growth in 2020Q2



Source: Compiled from NBS Data

Purchasing Managers Index

At 44.9 index points, the composite manufacturing PMI[4] gained 3.8 point in July 2020, compared with the preceding month, although it remained below the 50.0 index point threshold. All manufacturing subsectors recorded contractions except for transportation equipment and nonmetallic mineral products subsectors. The growth in transportation equipment index, at 68.3 index points, was attributed to increase in the demand for transportation equipment as a result of lifting of restrictions on interstate movement.

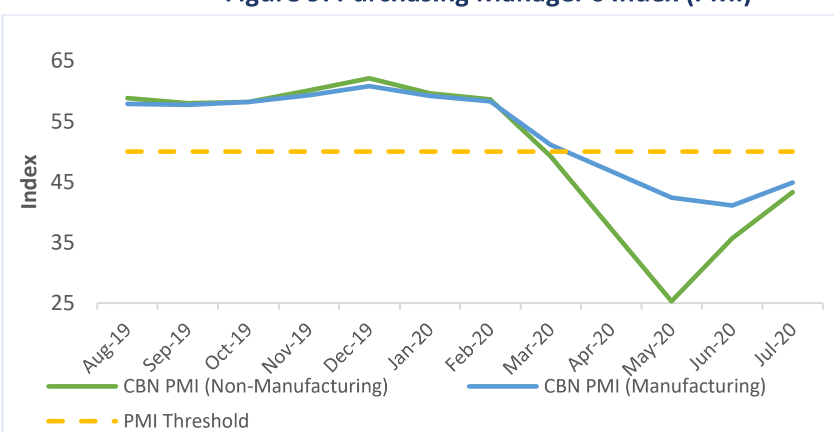
Similarly, the non-manufacturing composite PMI rose to 43.3 index points from 35.7 index points recorded in June 2020. Contractions were observed in 15 subsectors, while two subsectors (arts, entertainment & recreation, and transportation & warehousing) recorded growth.

Table 2: Manufacturing and Non-Manufacturing Sector PMI, July 2020

Components	19-Jul	20-Jun	20-Jul
A. Composite Manufacturing PMI	***57.6***	***41.1***	***44.9***
Production Level	58.9	36.6	44.7
New Orders	57.2	36.4	43.1
Supplier Delivery Time	57.5	60.9	56.4
Employment Level	57.3	38.8	40.0
Raw Material Inventory	56.2	41.0	43.2
B. Composite Non-Manufacturing PMI	***58.7***	***35.7***	***43.3***
Business Activity	*57.6*	*34.3*	*46.1*
New Orders	60.1	32.5	43.4
Employment Level	*58.0*	*37.4*	*41.1*
Inventory	58.9	38.5	42.7

Source: Central Bank of Nigeria

Figure 9: Purchasing Manager's Index (PMI)



Source: Central Bank of Nigeria

[4] The expansion threshold for the PMI is 50.0 index points

New Orders

The gradual resumption of business activities following the easing of lockdown restrictions led to a fragile improvement in the rate of new business orders. Although the indices of new business orders in both manufacturing and non-manufacturing related activities remained weak, marked improvements were recorded in both sectors. New orders in the manufacturing sector increased to 43.1 index points in July 2020, from 36.4 index points in June; while new orders in the non-manufacturing sector rose to 43.4 index points, from 32.5 index points in the preceding month.

Inventories

Resulting from the slight improvement in new orders and production level, firms' inventory levels also improved marginally, though below the expansion threshold of the PMI. Consequently, inventories for manufacturing and non-manufacturing activities rose to 43.2 and 42.7 index points, respectively, in July 2020 compared with 41.0 and 38.5 index points recorded in June 2020.

The rise in manufacturing sector inventories was driven by increased inventories in non-metallic mineral products, furniture & related products, plastics & rubber products, arts, entertainment & recreation, and transportation & warehousing

2.1.2. Employment

Employment

Although employment in manufacturing and non-manufacturing activities remained below pre-crisis levels, a slight improvement was recorded in July, due to the uptick in business activities. Employment levels stood at 40.0 and 41.1 index points, compared with 37.4 and 38.8 index points, recorded in the previous month for manufacturing and non-manufacturing PMI, respectively. The arts, entertainment and recreation subsectors recorded a marked increase in labour hire rate at 61.1 index points during the month, compared with 40.9 in the preceding month.

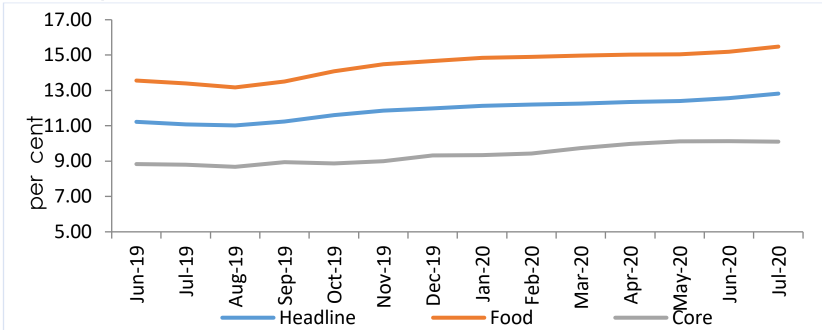
2.1.3. Consumer Prices

Headline Inflation

Inflationary pressures persisted in the review period despite the continued easing of measures to contain the COVID-19 Pandemic. Headline inflation stood at 12.82 per cent, year-on-year – the highest in 28 months – compared with 12.56 per cent in the preceding month and 11.08 per cent in the corresponding period of 2019. The rise in headline inflation was driven mainly by the continuous increase in food prices, attributed to food supply shortages due to supply disruptions and impact of insecurity on farming communities.

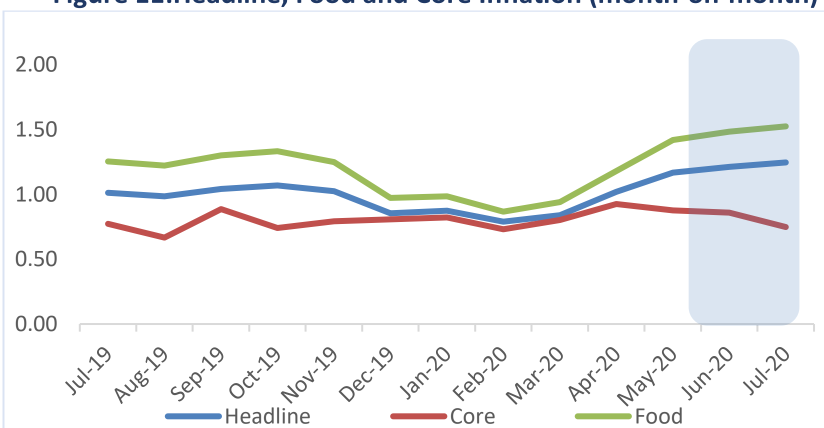
However, slight moderation in the rate of increase of headline inflation (on a month-on-month basis) was witnessed during the month, due, largely, to increased business activities.

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



Source: National Bureau of Statistics

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



Source: National Bureau of Statistics

Food Inflation

Food inflation, on year-on-year basis maintained an upward trend to 15.48 per cent from 15.18 per cent recorded in the preceding month. The development reflected increases in prices of bread, cereals, potatoes, yam and other tubers, meat, fruits, oils and fats, and fish.

Core Inflation

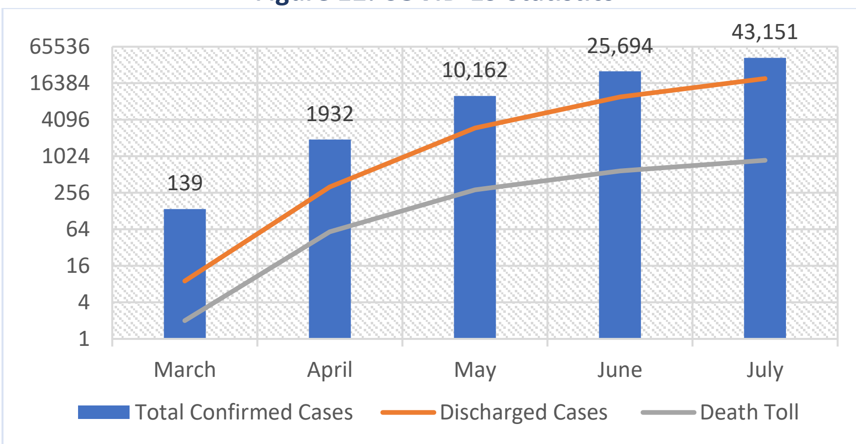
Core inflation (''All items less farm produce'') declined by 0.03 percentage point to 10.10 per cent in July, compared with 10.13 per cent recorded in the preceding month. The decline was ascribed largely to less supply chain disruptions following increased business activities. Significant declines were recorded in the prices of medical services, pharmaceutical products, hospital services, passenger transport by road, maintenance and repair of personal transport equipment, among others.

2.1.4 Socio-Economic Developments

Health

The health sector remained at the forefront of economic discourse as the spread of the COVID-19 pandemic persisted. During the month, the number of total confirmed cases recorded increased by 67.9 per cent to 43,151, from 25,694 in the preceding month. The number of active cases recorded in July stood at 22,707, from 15,358 in June, while the number of discharged cases increased by 100.8 per cent to 19,565, from 9,746 recorded in the preceding month. Also, the number of recorded COVID-19 related deaths rose by 49.0 per cent to 879, from 590 in the preceding months.

Figure 12: COVID-19 Statistics



Source: Nigeria Centre for Disease Control

Aviation

The aviation industry received a boost during the month, with the lifting of the ban on domestic flight operations across selected airports in the country. The resumption of flight operations would pave way for the recovery of the sector and improve its contribution to the GDP in the medium-term.

Transport

During the month, the Federal Government resumed work on the Kaduna-Kano segment of the Lagos-Kano standard gauge railway to stimulate aggregate demand after the 3-month lockdown.

Rail transport services also resumed during the review period. To curtail the spread of the Pandemic, precautionary measures, such as reduction in coach capacity by half, social distancing protocols, etc., were put in place.

2.1.5. Commodity Market Developments

Prices of most agricultural commodities surged during the month owing to a combination of demand and supply shocks across countries.

Agricultural Commodity Prices

Increased demand for export commodities needed as industrial inputs spurred price increases in July 2020. This was occasioned by the uptick in economic activities, following the easing of lockdowns across the globe. Also, the negative supply shocks driven by rise in the second wave of the COVID-19 infections among plant workers across Latin America and Europe, as well as, onslaught of crop-eating locusts in some regions, such as East Africa and South Asia led to a decrease in supply, which further affected the prices of some commodities. Consequently, the all-commodities price index (in US$ terms, 2010=100) increased by 4.0 per cent to 88.9 points in July 2020, above the level in the preceding month. The increase in prices of most commodities ranged from 0.6 per cent for cotton to 9.5 per cent for rubber. The prices of palm oil and cocoa, on the other hand, declined by 3.5 and 9.6 per cent, respectively, due to higher output and inventory levels in exporting countries (Ivory Coast and Malaysia).

Table 3: Agricultural Export Commodities for July 2020

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

Commodity	19-Jul	20-Jun	20-Jul	% Change (1) & (3)	% Change (2) & (3)
	(1)	(2)	(3)	(4)	(5)
All Commodities	*72.71*	*85.55*	*88.93*	*22.31*	*3.95*
*Cocoa**	*78.97*	*72.83*	*65.83*	*-16.64*	*-9.61*
Cotton	*45.14*	*40.27*	*40.53*	*-10.20*	*0.64*
Coffee	*54.60*	*57.04*	*58.23*	*6.64*	*2.08*
Wheat	*64.01*	*64.73*	*69.38*	*8.39*	*7.18*
Rubber	*35.16*	*29.47*	*32.28*	*-8.19*	*9.53*
Groundnut	*86.37*	*134.87*	*147.55*	*70.83*	*9.40*
Palm Oil	*44.29*	*53.06*	*51.19*	*15.57*	*-3.53*
Soya Bean	*66.80*	*67.24*	*69.27*	*3.69*	*3.02*
Sorghum	*71.19*	*77.11*	*81.40*	*14.34*	*5.56*

Source: Central Bank of Nigeria
Note: *Trading Economics

Prices of domestic agricultural commodities also increased in July 2020, due to demand-pull factors. The Eid-El Kabir festivities, lingering impact of the COVID-19 Pandemic on supply chains, and the border protection policy, were among factors that contributed to the rising prices of most domestic commodities monitored. The rate of increase ranged from 0.2 per cent for palm oil to 5.8 per cent for yam. However, the prices of beans (white black eye, sold loose), broken rice (ofada), and onion bulb decreased by 0.4 per cent, 0.5 per cent, and 2.6 per cent, respectively (Table 4).

Table 4: Domestic Prices of Selected Agricultural Commodities

Food Item	Unit	19-Jul 1	20-Jun 2	20-Jul 3	% Change (1) & (3)	% Change (2) & (3)
Agric eggs (medium size price of one)	1kg	*468.3*	*472.8*	*481.6*	*2.8*	*1.8*
Beans brown, sold loose	'	*327.2*	*289.9*	*290.8*	*-11.1*	*0.3*
Beans: white black eye. sold loose	"	*289.8*	*259.4*	*258.3*	*-10.9*	*-0.4*
Gari white, sold loose	"	*151.7*	*214.7*	*226.1*	*49*	*5.3*
Gari yellow, sold loose	"	*154.1*	*241.6*	*253.7*	*64.7*	*5*
Groundnut oil: 1 bottle, specify bottle	"	*545.1*	*620.3*	*629*	*15.4*	*1.4*
Irish potato	"	*250.3*	*324.8*	*329.5*	*31.6*	*1.4*
Maize grain white sold loose	"	*135.8*	*178.3*	*183.5*	*35.2*	*2.9*
Maize grain yellow sold loose	"	*140.1*	*181.9*	*187*	*33.5*	*2.8*
Palm oil: 1 bottle, specify bottle	"	*447.4*	*473.8*	*474.8*	*6.1*	*0.2*
Rice agric sold loose	"	*314.6*	*394.6*	*400.2*	*27.2*	*1.4*
Rice local sold loose	"	*277.4*	*347.5*	*352.7*	*27.2*	*1.5*
Rice Medium Grained	"	*305.9*	*400.7*	*406.5*	*32.9*	*1.4*
Rice, imported high quality sold loose	"	*356.1*	*479.7*	*484.9*	*36.2*	*1.1*
Sweet potato	"	*137.5*	*171.9*	*173.8*	*26.4*	*1.1*
Tomato	"	*203.6*	*294.5*	*305*	*49.8*	*3.6*
Vegetable oil:1 bottle, specify bottle	"	*485*	*568.5*	*580.6*	*19.7*	*2.1*
Wheat flour: prepacked (golden penny 2kg)	"	*668*	*707.3*	*716.2*	*7.2*	*1.3*
Yam tuber	"	*170.8*	*250.7*	*265.3*	*55.3*	*5.8*

Source: National Bureau of Statistics

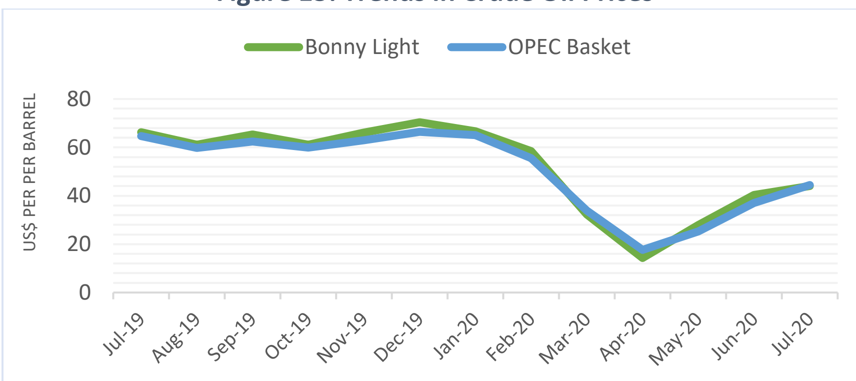
Crude Oil Prices

Crude oil prices strengthened further in July 2020 on sustained demand from refiners in the U.S., China and India, gradual improvement in economic activities as more countries lifted lockdown measures and the outset of the summer driving season in the U.S. and Europe.

The average spot price of Nigeria's reference crude oil, the Bonny Light (37° API), rose by 9.4 per cent, month-on-month, to US$44.10 pb in July 2020, compared with US$40.30 pb in June 2020. The price was, however, 33.4 per cent below its level in the corresponding period of 2019. The UK Brent at US$44.10 pb, Forcados at US$44.05 pb, and the WTI at US$40.95 pb, exhibited similar trends. The average price of the OPEC basket of thirteen selected crude streams rose by 19.9 per cent to US$44.42 pb in July 2020 (Figure 13).

However, prices may continue to grow at declining rates, over concerns of a second wave of infections and higher global crude oil stocks. Crude oil inventory may build up due to weak road and air transport fuel demand and on the supply side, owing to the increase in production adjustment by OPEC and non-OPEC producers participating in the Declaration of Cooperation (DoC). This may have a negative effect on government's revenue. However, the capacity of the government in budget implementation may not be significantly affected, with oil price benchmark already slashed from US$57 pb to US$28 pb.

Figure 13: Trends in Crude Oil Prices

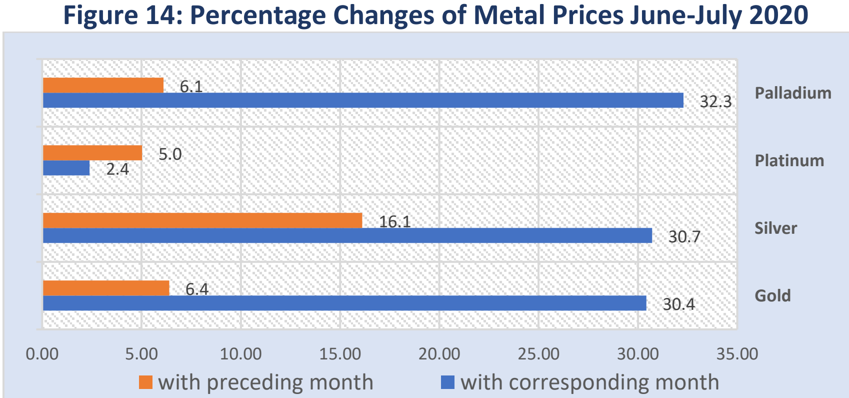


Source: Thomson Reuters

Prices of Other Mineral Commodities

Mineral commodities (gold, silver, platinum and palladium) prices increased in the month. The price of gold and silver, month-on-month, recorded an average gain of 6.4 per cent and 16.1 per cent, to US$1,846.00 and US$20.60 per ounce, respectively, compared with US$1,735.11 and US$17.74 per ounce in June 2020. Platinum and Palladium also recorded an average gain of 5.0 per cent and 6.1 per cent, to US$860.93 and US$2,042.73 per ounce, respectively, compared with US$819.67 and US$1,925.12 per ounce in the preceding month (Figure 14).

Figure 14: Percentage Changes of Metal Prices June-July 2020



Source: Thomson Reuters

The surge in the prices of gold and silver was driven, largely, by investors' preference for the commodities as safe havens against low yields and rising inflation in the U.S., as the US dollar continued to weaken. The surge in demand for the commodities as a hedge against volatilities in the foreign exchange market, was enhanced by the massive financial stimulus from fiscal and monetary authorities around the world, in response to the disruption to economic activities caused by the spread of the coronavirus pandemic. The increased demand for palladium relative to platinum was driven, largely, by its demand from automobile industry due to tighter emission standards for cars, particularly in China. Palladium is used as a key component in catalytic converters of automobile's emission control system.

Domestic Crude Oil Production and Export

Domestic crude oil production and export increased, month-on-month, due to increase in condensates, which OPEC+ excludes from its production cut agreement, thus, increasing global supply of crude oil in the month of July. Nigeria's crude oil production, including condensates and natural gas liquids, recorded an increase of 0.02 million barrels per day (mbd) or 1.3 per cent, month-on-month, to average of 1.55 mbd. Of the 1.55 mbd, exports accounted for an average of 1.10 mbd, while allocation for domestic consumption, at 0.45 mbd, accounted for the balance. Condensates production was estimated at about 160,000 barrels per day by S&P Global Platts.

Nigeria's export in the period increased by 0.02 mbd, the same rate of increase in total production, signifying that Nigeria's additional production was completely exported due to the gradual improvement in demand in the global oil market.

Aggregate crude oil production, including natural gas liquids (NGLs) and condensates by OPEC increased by 3.3 per cent to 27.97 mbd in July 2020, compared with 27.09 mbd recorded in June 2020. The increase in OPEC supply was due, largely, to the rise in crude output, as Saudi Arabia ended its additional voluntary cut. OPEC's crude supply increased by 0.61 mbd and Natural Gas Liquids (NGLs) increased by 0.27 mbd in July 2020.

Total world monthly crude oil supply and demand in July 2020, recorded an increase of 1.4 per cent and 12.5 per cent to an average of 88.77 mbd and 92.22 mbd, respectively. The increase in world crude oil supply was driven, mainly, by OPEC supplies, following gradual improvement in crude oil market demand, as many countries continued to ease the lockdown measures initially imposed to control the spread of COVID-19 pandemic; decline in the U.S. commercial and gasoline inventories, resulting from increased refinery utilization; and the outset of the summer driving season.

However, the agreement by OPEC and its allies, within the DoC framework to reduce production cut by 21.7 per cent from 9.7 mbd in July 2020, to 7.7 mbd in the following month, may lead to supply glut, as sustained demand recovery remains uncertain in the short-term due to the resurgence of COVID-19 cases in the U.S., India and some parts of Europe.

2.1.6. Development Financing

Development Financing

Intervention schemes by the CBN continued to focus on providing finance to critical sectors, to enhance productivity and stimulate the real sector of the economy, given the impact of exogenous shocks on the economy.

Under the Targeted Credit Facility (TCF COIVID-19 loan), the NIRSAL Microfinance Bank (NMFB) had disbursed the total sum of ₦64.79 billion to 108,826 beneficiaries as at July 2020, comprised households, micro and small businesses, to ameliorate the negative impact that COVID-19 pandemic on their livelihoods and businesses. The breakdown revealed that 94,182 households beneficiaries received ₦40.42 billion, while 14,644 micro, small and medium scale businesses received ₦24.37 billion.

In a bid to deepen agricultural production and the economy at large, the CBN released guidelines for non-interest eleven interventions in the economy. Three of the Schemes, which relate directly to the agricultural sector are the: Accelerated Agriculture Development Scheme (AADS); Agri-business, Small and Medium Enterprise Investment Scheme (AGSMEIS); and Anchor Borrowers' Programme (ABP). By funding agricultural initiatives, the interventions are expected to increase output and reduce youth unemployment.

2.1.7. Domestic Outlook

The Nigerian economy is expected to experience a V-shaped recovery on the back of policy measures implemented to cushion the effect of the twin shocks of COVID-19 pandemic and oil price crash, however, downside risks remain. The implementation of the Economic Sustainability Plan (ESP), alongside several other fiscal and monetary measures, are expected to stimulate the economy and reduce the devastating impact of the crisis. Gradual improvement in the manufacturing PMI from the historic low experienced in June 2020 further lends credence to the expectation of a decline in the rate of contraction towards the end of the year. The fragile recovery of the economy is, however, susceptible to several risk factors such as: further oil price declines, second wave of infections, reintroduction of lockdown measures, narrow fiscal space, decreased capital flows and persisting structural hindrances. A slowdown in the pace of growth may signal higher consumer prices owing to supply shocks.

2.2 FISCAL SECTOR DEVELOPMENTS

2.2.1 Federation Operations

Despite the drop in Nigeria's reference crude oil price in July 2020, the Federation Account benefited slightly from increased tax returns associated with the resumption of business activities, following the partial easing of the COVID-19 lockdown restrictions. At ₦747.09 billion, the provisional federally collected revenue in July[5] edged receipts in the preceding month by 17.4 per cent, however, it remained below the budget benchmark. The improvement, relative to June, was driven by increased collections from Company Income Tax (CIT) and Value-Added Tax (VAT) in the review period.

The Federal Government retained revenue of ₦257.98 billion, in July, represented a 9.7 per cent improvement over the level in June. However, it was significantly below the budget estimate of ₦486.25 billion, as a result of shortfalls in oil receipts. Despite the revenue challenge, the estimated total expenditure of the Federal Government in July was high at ₦890.81 billion, resulting in a provisional fiscal deficit of ₦632.83 billion. Total public debt outstanding was estimated at ₦31,008.64 billion or 22.3 per cent of GDP, with the FGN accounting for 81.5 per cent of the total debt stock. Domestic debt constituted 57.6 per cent of the total debt outstanding, while external debt accounted for the balance of 42.4 per cent.

Federation Revenue

The effect of improved tax collections on revenue inflow into the Federation Account was muted by the downturn in the spot price of the Bonny Light crude, in the reference period. At ₦747.09 billion, the gross federally collected revenue from oil and non-oil sources in July, exceeded the June receipt of ₦636.20 billion, but remained below the budget benchmark of ₦846.84 billion and the July 2019 collections of ₦992.65 billion, by 11.8 per cent and 24.7 per cent, respectively. The higher proceeds, relative to June foretold easing revenue conditions driven by non-oil revenue performance. However, the recorded shortfall of ₦99.75

[5] The fiscal figures in the report are provisional, pending updates from the Office of the Accountant General of the Federation (OAGF).

billion, relative to the benchmark, was accounted for by declining contribution of oil revenue to total revenue. This had implications for the quantum of distributable balances to the three-tiers of government. Taking care of statutory deductions and transfers, the balance of ₦569.37 billion[6] was disbursed among the three-tiers of government (Table 5).

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

	Jul-19	Jun-20	Jul-20	Benchmark
Federation Revenue (Gross)	**992.65**	**636.20**	**747.09**	**846.84**
Oil	**387.74**	**359.47**	**262.38**	**295.39**
Crude Oil & Gas Exports	0.00	6.16	40.14	54.74
PPT & Royalties	312.11	226.51	145.24	102.45
Domestic Crude Oil/Gas Sales	73.19	120.82	68.42	35.55
Others	2.44	5.98	8.58	102.65
Non-oil	**604.90**	**276.72**	**484.71**	**551.45**
Corporate Tax	251.78	84.50	249.04	149.88
Customs & Excise Duties	65.07	67.26	81.53	83.69
Value-Added Tax (VAT)	108.63	103.87	128.83	182.55
Independent Revenue of Fed. Govt.	99.32	15.27	18.19	77.74
*Others**	80.10	5.82	7.13	57.59
Deductions/Transfers*	***292.99***	***141.33***	***220.55***	***226.66***
Net Federally Collected Revenue *Less Deductions & Transfers***	**699.66**	**494.87**	**526.54**	**621.12**
plus:				
Additional Revenue	**1.02**	**29.48**	**42.83**	**0.00**
Excess Oil Revenue	*0.00*	*0.00*	*0.00*	*0.00*
Non-oil Excess Revenue	*0.00*	*1.01*	*0.00*	*0.00*
Exchange Gain	*1.02*	*28.47*	*42.83*	*0.00*
Total Distributed Balance	***700.68***	***523.35***	***569.37***	***621.12***
Federal Government	*309.43*	*219.80*	*239.79*	*239.13*
State Government	*201.16*	*152.44*	*172.41*	*192.98*
Local Government	*151.38*	*114.09*	*128.67*	*142.78*
13% Derivation	*38.70*	*37.02*	*28.50*	*46.22*

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

Allocation to the Three Tiers of Government

Although the total disbursement of ₦569.37 billion to the three tiers of government in July, was higher by 8.8 per cent when compared with allocations in June; it was 8.3 per cent below the budget benchmark, eliciting concerns about fiscal sustainability, particularly at the sub-national level. In cognizance of the declining federation allocations and the drop in the internal generated revenue (IGR) by states, arising from the Pandemic, most of the 36 states of the Federation legislated cuts in their 2020 budgets, to forestall further deterioration in their fiscal balances. The adjustments, which included reductions in recurrent and capital expenditures are, however, associated with welfare losses.

[6] Includes the sum of ₦42.83 billion, distributed as Exchange Gain in July 2020.

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

	State Government			Local Government		
	Statutory	VAT	Total	Statutory	VAT	Total
Jul-19	187.72	52.14	239.86	114.88	36.50	151.38
Jun-20	141.16	48.30	189.46	80.28	33.81	125.35
Jul-20	**141.01**	**59.90**	**200.91**	**86.74**	**41.93**	**128.67**
Benchmark	*154.64*	*84.56*	*239.20*	*83.59*	*59.19*	*142.78*

Source: Compiled from OAGF figures.

Drivers of Federation Revenue

The expected revenue effect of the uptick in economic activities following the gradual easing of COVID-19 restrictions, was moderated by low oil receipts. Although oil prices gained momentum in the review period, increasing from \$30.4 pb in June to \$39.5 pb in July, the effect was not felt on government finances in the review period[7].

Oil revenue in July reflected the spot price of the Bonny Light crude as at April 2020[8], which was considerably low at \$14.3 per barrel, compared with \$32.3 in March. Details of the performance of oil revenue components revealed that Domestic Crude Oil Sales and Petroleum Profit Tax (PPT) & Royalties, exceeded their benchmarks by 92.4 per cent and 41.8 per cent, respectively, while Crude Oil and Gas Exports declined by 26.7 per cent, reflecting the drop in the underlying crude oil price. Overall, oil receipts amounted to ₦262.38 billion or 35.1 per cent of the total federation receipt, falling behind the budget benchmark and receipts in June 2020, by 11.2 per cent and 27.0 per cent, respectively.

In contrast, receipts from non-oil revenue sources rose, relative to their levels in comparable periods. Collections from Customs & Excise Duties increased by 21.2 per cent and 25.3 per cent over the levels in June 2020 and July 2019, respectively. The increase was attributed to the ongoing decongestion of Lagos ports with the introduction of an electronic call-up system[9]. Similarly, receipts from Corporate Tax and Value-Added Tax (VAT) towered collection in June by 194.7 per cent and 24.0 per cent, respectively. Increases in both revenue items were attributed to the settlement of outstanding corporate income tax and VAT remittances by businesses, following the Federal Inland Revenue Service's (FIRS) waiver

[7] The remittance of crude oil proceeds into the Federation Account by the Nigerian National Petroleum Company (NNPC), takes, on average, three (3) months from the date of the initiation of the crude oil sales contract, to finalize.

[8] The price of the Bonny Light crude in April 2020, was the referenced crude oil price in estimating proceeds from crude oil sales in July 2020, based on the NNPC's 3-month interlude accrual accounting principle.

[9] This is being facilitated by the Presidential Task Team (PTT), led by the Vice President of the Federal Republic of Nigeria.

on interests and penalties on outstanding liabilities, cleared before end-July 2020[10]. Despite the impressive contribution of Corporate Tax to non-oil revenue, the collection was marginally below the sum realised in July 2019, by 1.1 per cent (Table 5). Overall, non-oil revenue in July amounted to ₦484.71 billion or 64.9 per cent of the total revenue. Although the receipt was below the monthly budget estimate of ₦551.45 billion by 12.1 per cent, it exceeded the collection of ₦276.72 billion in June 2020 by 75.2 per cent (Table 5).

2.2.2. Fiscal Operations of the Federal Government

Fiscal Operations of the Federal Government

The estimated overall fiscal deficit of the Federal Government narrowed to ₦632.83 billion in July, compared with the balance of ₦760.31 billion recorded in June. However, it was significantly above the estimated benchmark of ₦414.63 billion (Table 7). The variation in the overall fiscal deficit in July was driven by falling but government expenditure, amidst a relatively low revenue profile. Although the current deficit level is considerably above the benchmark, it is predicted to deteriorate further in the coming months in view of the unfolding countercyclical fiscal policy measures, aimed at mitigating the impact of COVID-19 and stimulating growth.

Fiscal policy remained expansionary as indicated by trends in the primary balances (Figure 15), however, the expansions did not translate into economic growth, particularly after 2019Q4, as economic activities were subdued by the effect of COVID-19. The imperative of stimulating aggregate demand through increased spending could further constrict fiscal space within the short-to-medium term horizon.

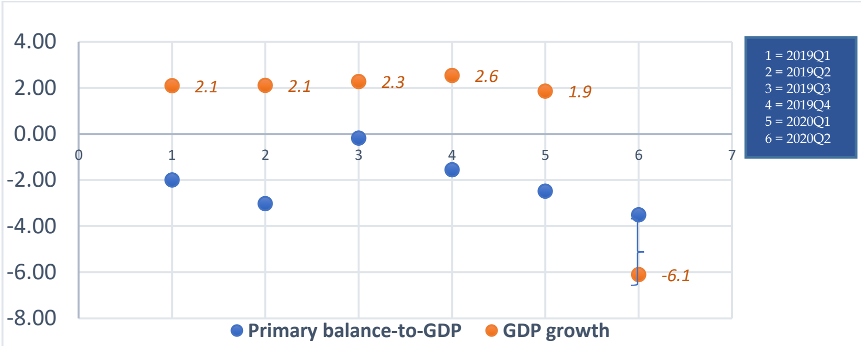
Table 7: Fiscal Balance (₦' Billion)

	Jul-19	Jun-20	Jul-20	Benchmark
Retained revenue	427.87	235.07	257.98	486.25
Aggregate expenditure	542.34	995.37	890.81	900.88
Primary balance	153.38	-464.38	-334.61	-168.65
Overall balance	-114.47	-760.31	-632.83	-414.63

Source: CBN Staff Estimates
Note: The figures in June and July 2020, are provisional pending the receipt of consolidated data from the Office of the Accountant-General of the Federation (OAGF)

[10] The deadline was, however, extended to July 31, 2020, because of the COVID-19 pandemic. In a bid to avoid late filing penalties, most companies filed in their returns in July, explaining the 194.7 per cent rise in Corporate Tax.

Figure 15: Fiscal Policy Stance of the Federal Government (per cent)



Source: Computed using NBS, OAGF and CBN staff estimates.

Federal Government Retained Revenue

The revenue shortfalls recorded in the Federation Account due to poor oil revenue performance, triggered a lower Federal Government's retained revenue. FGN retained revenue in July amounted to ₦257.98 billion, and represented a shortfall of 46.9 per cent, relative to the benchmark. A breakdown showed that receipts from the Federation Account and Exchange Gain constituted 78.0 per cent and 8.0 per cent of the total retained revenue, while FGN Independent Revenue and VAT, accounted for the balance of 7.1 per cent and 7.0 per cent, respectively (Table 8). All the revenue components were significantly below their benchmarks but exceeded their levels in June. The ongoing restrictions on economic activities, blamed on the Pandemic, prevented the wholesale implementation of the Finance Act 2019, which was aimed at improving government revenue conditions, among other objectives.

Table 8: FGN Retained Revenue (₦' Billion)

	Jul-19	Jun-20	Jul-20	Benchmark
FGN Retained Revenue	**427.87**	**235.07**	**257.98**	**486.25**
Federation Account	*293.30*	*191.58*	*201.24*	*213.77*
VAT Pool Account	*15.64*	*14.49*	*17.97*	*25.37*
FGN Independent Revenue	*99.32*	*15.27*	*18.19*	*77.74*
Excess Oil Revenue	*0.00*	*0.53*	*0.00*	*0.00*
Excess Non-Oil	*0.00*	*0.00*	*0.00*	*0.00*
Exchange Gain	*0.49*	*13.19*	*20.58*	*0.00*
*Others**	*19.12*	*0.00*	*0.00*	*169.38*

Source: OAGF and Staff Estimate
Note: * Others include FGN Special Accounts and Special Levies

Federal Government Expenditure

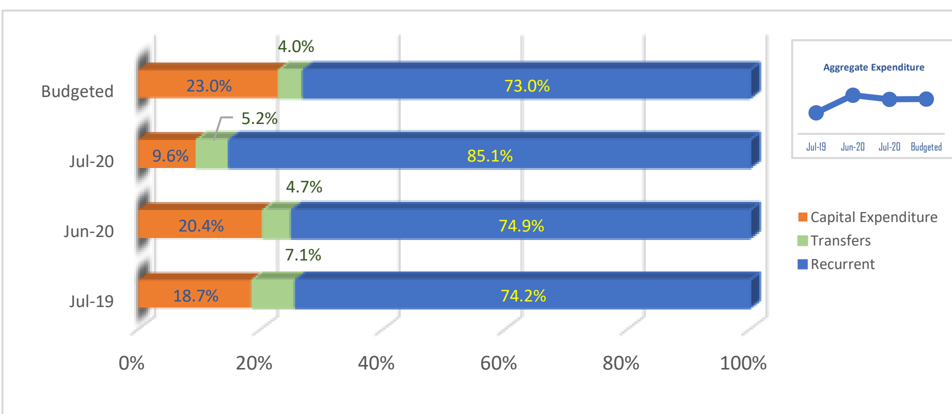
Despite the imperative of pursuing an expansionary fiscal policy to stimulate aggregate demand and protect the socially and economically vulnerable, aggregate spending in July, dropped to ₦890.81 billion from ₦995.37 billion in June. The decline was explained by lags in budgetary releases and moderation in recurrent spending, including the moratorium on interest payments obligations on FGN outstanding debts, based on mutual understanding between the FGN and some of its creditors. A breakdown of the total expenditure showed that recurrent expenditure continued to dominate government expenditure in the review period (Figure 16).

Table 9: Federal Government Expenditure (₦' Billion)

	Jul-19	Jun-20	Jul-20	Budgeted
Aggregate Expenditure	**542.34**	**995.37**	**890.81**	**900.88**
Recurrent	**402.65**	**745.41**	**758.26**	**657.83**
of which:				
Personnel Cost	*212.46*	*221.28*	*231.33*	*253.87*
Pension and Gratuities	*24.17*	*31.80*	*31.43*	*44.73*
Overhead Cost	*101.26*	*180.20*	*173.74*	*84.09*
Interest Payments	*267.85*	*295.92*	*298.22*	*245.98*
Domestic	*233.48*	*253.72*	*255.50*	*178.85*
External	*34.37*	*42.21*	*42.72*	*67.12*
Special Funds	*(203.09)*	*16.21*	*23.53*	*29.17*
Capital Expenditure	**101.26**	**203.26**	**85.84**	**207.38**
Transfers	**38.43**	**46.71**	**46.71**	**35.67**

Source: Computed from the Fiscal Liquidity Assessment Committee input and Central Bank of Nigeria Staff Estimate

Figure 16: Trend and Composition of FGN Expenditure



Source: Central Bank of Nigeria: Computed from the Fiscal Liquidity Assessment Committee input and Central Bank of Nigeria Staff Estimate

Federal Government Debt

Trends in public debt outstanding were dictated by the currency revaluation effect, new borrowings associated with the funding of critical infrastructure and the mitigation of the effects of the COVID-19 pandemic. Total debt outstanding[11] as at end-June 2020, stood at ₦31,008.64 billion or 22.3 per cent of GDP, reflecting an increase of 20.6 per cent over its level in the corresponding period of 2019. The new borrowings included the IMF Budget Support Loan and domestic borrowings to finance the revised 2020 Appropriation Act, including the issuance of a ₦162.56 billion worth of Sukuk bond and Promissory Notes.

Of the total debt outstanding, the Federal Government accounted for 81.5 per cent, while the States owed the balance of 18.5 per cent. Given that the FGN guarantees the external debts of State governments by virtue of section 47 (3) of the Fiscal Responsibility Act, 2007, State governments' share of the total external debt stock (13.5 per cent) constitutes a contingent liability to the FGN. Consequently, the total debt liabilities of the FGN, as at end-June 2020, amounted to ₦26,818.94 billion.

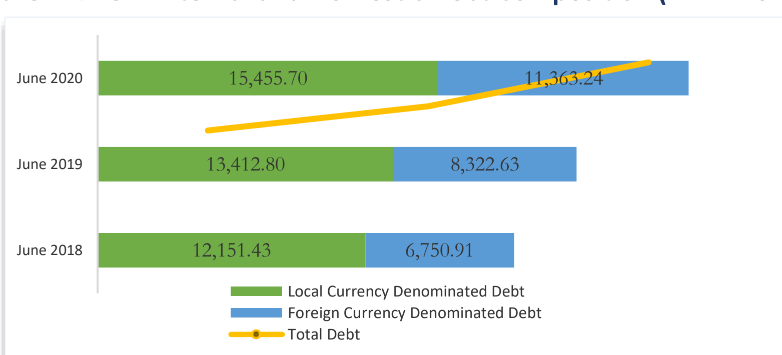
Table 10: Total Public Debt (₦' Billion)

Type	June 2018	June 2019	June 2020
External Debt	**6,750.91**	**8,322.63**	**11,363.24**
Of which:			
FGN	5,452.09	7,012.87	9,824.28
States and FCT	1,298.82	1,309.76	1,538.96
Domestic Debt	**15,628.76**	**17,379.02**	**19,645.40**
Of Which:			
Federal Government	12,151.43	13,412.80	15,455.70
States and FCT	3,477.32	3,966.22	4,189.70
Total*	**22,379.66**	**25,701.65**	**31,008.64**

Source: Compiled from DMO Data

Note: * Latest debt figures as at July 31, 2020.

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



Source: Compiled from Debt Management Office (DMO) figures

[11] Including Federal and States' debt obligations.

With regards to the debt composition, domestic debt represented 57.6 per cent of the total debt outstanding, while external debt accounted for the balance of 42.4 per cent. This was in line with the 2020-2023 DMS debt portfolio mix target (70:30).

Short-term debt instruments, including the Nigerian Treasury Bills (NTBs), whose tenor fall between 91 and 364 days, constituted 17.9 per cent of the total, while 72.7 per cent were medium-term and long-term instruments. The relative high composition of domestic debt, increases concerns about the spillover of sovereign default risk associated with fiscal policy, on the risk profiles of domestic banks, who are the major creditors. However, the higher domestic debt ratio, which elicited a second-best policy, represented a less precarious situation when compared to a higher external debt profile, with its accompanying exchange rate exposure.

On the other hand, the foreign debt portfolio mix comprised loans from Commercial (35.5 per cent of total external debt stock), Multilateral (52.0 per cent) and Bilateral sources (12.5 per cent). The composition reflected government's preference for financing sources with favorable terms.

2.2.3. Fiscal Outlook

Fiscal Outlook

Given the gradual easing of restrictions, contraction in Federal Government expenditure, alongside improved revenue collections, the fiscal position of the FGN in July 2020 was relatively less precarious, compared with its position in June 2020. In view of the imperative of counter-cyclical fiscal measures aimed at inducing economic recovery and mitigating the impact of COVID-19 on Nigerians, government expenditure, amidst a persisting revenue challenge, is expected to rise, exacerbating fiscal balances.

However, the prospect of fiscal performance is not all gloomy. New data from the International Energy Agency (IEA) confirmed that the impact of the COVID-19 pandemic on global crude oil demand in the second half of 2020 would be less precarious. Global oil demand is projected to increase in the months ahead, and the associated price effect is expected to boost petrol-dollar inflow into the Federation Account. There are also positive signs that the increasing implementation of the Finance Act 2019 would boost non-oil revenue in the near term, exemplified by the increased collections from CIT, Stamp Duty and VAT in the last few months, among other positives.

2.3. MONETARY AND FINANCIAL DEVELOPMENTS

The financial sector remained resilient, buoyed by monetary policy accommodation, which is firming up banking system liquidity to support credit expansion to the private sector.

2.3.1. Monetary Developments

Monetary policy stance remained accommodative, driven by the need to reflate the economy.

Monetary Aggregates

Growth in the key monetary aggregate improved in the review period, though below the optimum level required to propel the desired output growth. The growth in broad money supply (M_3) was higher at 5.9 per cent in July 2020, compared with 2.4 per cent at end-June 2020. When annualised, the growth rate, at 10.1 per cent, was lower than the benchmark growth of 11.7 per cent for 2020. The expansion in money stock reflected the 31.6 per cent and 9.8 per cent increase in net foreign assets of the banking system and claims on the domestic economy, respectively. The corresponding growth in monetary liabilities was due to the 24.3 per cent and 13.8 per cent increase in transferable deposits and 'other' deposits of the depository corporations, respectively.

Drivers of Money Supply

The growth in monetary assets was affected by the revaluation effect of adjustment in the exchange rate in early July 2020. The 31.6 per cent increase in net foreign assets was as a result of the adjustment of the interbank exchange rate from ₦361/US$1 to ₦381/US$1 in July 2020. Claims on the domestic economy grew by 9.8 per cent, compared with 5.6 per cent at end-June 2020. The annualised growth of 16.8 per cent was slightly below the benchmark growth of 16.9 per cent for 2020. The growth in domestic claims reflected majorly the 13.1 per cent increase in claims on other sectors.

Table 11: Money and Credit Aggregates (Growth Rates)

	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Growth Over Preceding December (%)					
Domestic Claims	**5.2**	**8.4**	**7.5**	**5.9**	**9.8**
Claims on Central Government (Net)	2.6	10.0	1.8	-6.6	0.4
Claims on Other Sectors	6.1	7.8	9.5	10.3	13.1
Claims on Other Financial Corporatins	9.1	13.4	18.0	20.3	19.6
Claims on State and Local Government	0.1	-3.6	-4.5	-3.1	2.0
Claims on Public Non-Financial Corporations	-10.0	-7.6	-11.6	-13.8	-5.4
Claims on Private Sector	6.3	7.3	8.1	8.2	12.2
Foreign Assets (Net)	**10.3**	**1.9**	**11.6**	**30.5**	**31.6**
Other Items (Net)	**68.7**	**79.9**	**96.3**	**98.9**	**93.0**
Currency Outside Depository Corporations	-6.5	-5.9	-2.4	-7.6	-1.0
Transferable Deposits	**8.1**	**14.2**	**22.3**	**21.9**	**24.3**
Money Supply (M1)	**5.0**	**10.0**	**17.6**	**16.2**	**19.5**
Other Deposits	**8.5**	**10.8**	**10.2**	**10.8**	**13.8**
Broad Money Liabilities (M2)	**7.2**	**3.0**	**12.9**	**12.7**	**15.9**
Securities other than shares	**-20.1**	**-34.3**	**-46.1**	**-47.0**	**-42.0**
Broad Money Liabilities (M3)	**2.6**	**2.9**	**2.7**	2.4	5.9
Memorandum Items:					
Reserve Money (RM)	17.1	41.3	49.6	52.9	54.8
Currency in Circulation (CIC)	-6.0	-5.6	-3.7	-5.8	-1.9
Liabilities to other Depository Corporations	26.1	59.7	70.5	76.0	77.1
Growth Over Preceding Month (%)					
Domestic Claims	**3.6**	**3.0**	**-0.8**	**-1.5**	**3.7**
Claims on Central Government (Net)	-2.4	7.2	-7.4	-8.2	7.4
Claims on Other Sectors	5.8	1.6	1.6	0.7	2.6
Claims on Other Financial Corporatins	7.7	3.9	4.1	1.9	-0.5
Claims on State and Local Government	0.3	-3.6	-0.9	1.5	5.3
Claims on Public Non-Financial Corporations	1.6	2.7	-4.4	-2.4	9.8
Claims on Private Sector	5.7	0.8	0.7	0.1	3.8
Foreign Assets (Net)	**13.3**	**-7.6**	**9.5**	**17.0**	**0.8**
Other Items (Net)	**12.6**	**7.1**	**9.1**	**1.3**	**-3.0**
Currency Outside Depository Corporations	5.9	0.7	3.8	-5.4	7.2
Transferable Deposits	6.3	5.6	7.1	-0.4	2.0
Money Supply (M1)	**6.3**	**4.8**	**6.6**	**-1.2**	**2.8**
Other Deposits	**2.4**	**2.1**	**-0.6**	**0.5**	**2.7**
Total Monetary Liabilities (M2)	**3.8**	**3.0**	**2.0**	**-0.1**	**2.8**
Securities other than shares	**12.6**	**-17.7**	**-18.0**	**-1.7**	**9.5**
Total Monetary Liabilities (M3)	**5.1**	**0.2**	**-0.2**	**-0.3**	**3.4**
Memorandum Items:					
Reserve Money (RM)	5.4	20.7	5.9	2.2	1.2
Currency in Circulation (CIC)	5.0	0.5	2.0	-2.2	4.1
Liabilities to other Depository Corporations	5.5	26.6	6.8	3.2	0.6

Source: Central Bank of Nigeria

Sectoral Utilisation of Credit

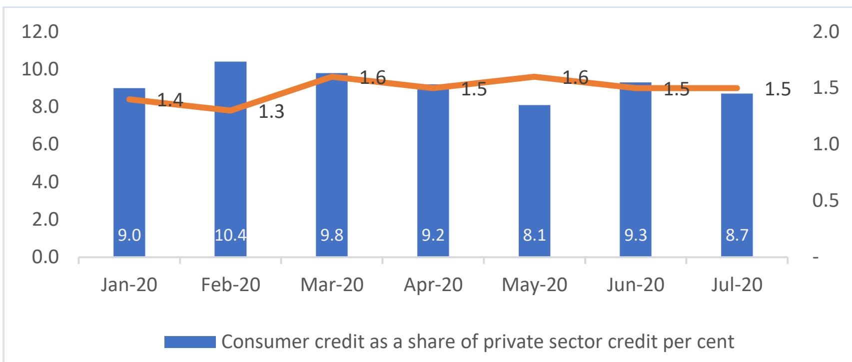
Private sector credit growth in July, was induced by the Loan-to-Deposit ratio policy and the global standing instruction introduced by the Bank to encourage and de-risk lending. Banks credit to the private sector grew by 12.2 per cent in July, compared with 8.2 per cent in June. The development was due to an uptick in economic activities and growing household demand. Sectoral credit utilisation by the 'other' sectors of the economy, at ₦19,114.84 billion, rose by 1.58 per cent at end-July 2020, above its level at end-June 2020. A breakdown of the credit showed that industry and services sectors accounted 38.1 per cent and 37.8 per cent of the total allocation, respectively, compared with 37.7 per cent and 38.4 per cent in June 2020. Agriculture accounted for 4.9 per cent, above 4.8 per cent recorded in June 2020, while construction and Government sectors remained unchanged at 4.6 and 8.0 per cent, respectively, in July 2020.

Table 12: Sectoral Credit Utilization (per cent)

	Dec-19	May-20	Jun-20	Jul-20
Agriculture	4.6	4.6	4.8	4.9
Industry	37.3	37.5	37.7	38.1
Construction	4.1	4.5	4.6	4.6
Trade/General Commerce	7.2	6.7	6.5	6.6
Government	8.8	8.2	8.0	8.0
Services	37.9	38.5	38.4	37.8

Source: Central Bank of Nigeria

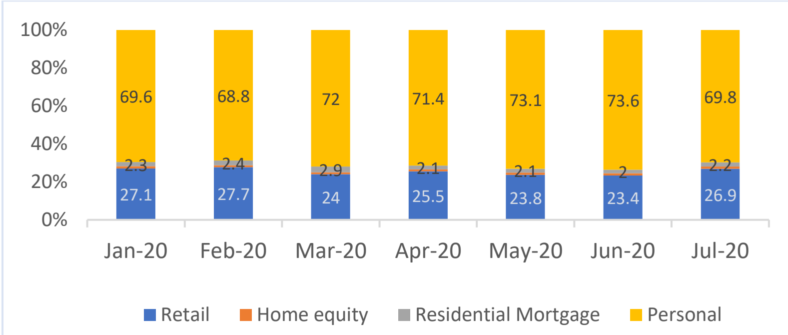
Figure 18: Consumer Credits (₦ trillion)



Source: Central Bank of Nigeria

Consumer credit outstanding in July 2020 stood at ₦1.47 trillion. This represented a 3.8 per cent fall below the level at June 2020, hence, the ratio of outstanding consumer credit to claims on private sector, fell to 8.7 per cent from 9.3 per cent in June 2020. The development was, mainly due to the decline in personal loan as non-performing loan ratio continued to exceed the threshold. A breakdown of consumer loans indicated that personal loan was the dominant form of consumer credit.

Figure 19: Composition of Consumer Credit in Nigeria (per cent)



Source: Central Bank of Nigeria

Change in Monetary Liabilities

The penchant for cash for precautionary motive had started waning as CBN policy actions boost confidence in the banking system. Narrow money supply (M1), at end-July 2020, expanded by 19.5 per cent, due wholly to the increase in transferrable deposits of depository corporations, as currency outside depository corporations fell. Transferrable deposits rose by 24.3 per cent, while currency outside depository corporations plummeted by 1.0 per cent at end-July 2020. Similarly, depository corporations' 'other' deposits surged, on month-on-month basis, on account of holdings of foreign currency by the public.

Reserve Money

Liquidity injections into the economy, arising from CBN efforts to jump-start the economy during the COVID-19 pandemic, led to an increase in bank reserves at the CBN and a consequent rise in reserve money in July 2020. Reserve money grew by 54.8 per cent to ₦13,421.83 billion at end-July 2020, compared with a growth of 52.9 per cent at end-June 2020. At ₦11,025.91 billion, liabilities to other depository corporations grew by 77.1 per cent, at end-July 2020, compared with the growth of 76.0 per cent at end-June 2020, leading to a slight increase in the currency reserve ratio at 21.7 per cent at end-July 2020, from 21.0 per cent at the end of the preceding month. The accumulation of reserve by ODCs was likely to ease with the continuous reopening of the economy and moderating the demand for cash. Currency-in-circulation (CIC) declined by 1.9 per cent at end-July 2020, compared with the decline of 5.8 per cent in the preceding month.

2.3.2. Financial Developments

Financial Soundness Indicators

The reopening of the economy has bolstered the recovery of the financial markets as the sector endured uncertainties in the review period. The health of banks was generally sound, although their assets quality, measured by the ratio of Non-Performing Loans (NPLs) to industry total outstanding loans stood at 6.4 per cent at end-July 2020, compared with the 5.0 per cent prudential requirement. The industry Capital Adequacy Ratio (CAR) stood at 14.6 per cent at end-July 2020, relative to the regulatory benchmark of 10.0 per cent. The liquidity ratio, at 63.1 per cent remained above the 30.0 per cent benchmark by 33.1 percentage points.

The lingering negative impact of the COVID-19 pandemic and lower-than-expected commodity prices would continue to pose spillover risks on the financial sector. The sustained contraction in GDP could weigh negatively on the NPLs of the banking system, particularly for banking institutions exposed to the oil and gas sector.

2.3.2.1 Money Market Developments

The banking system liquidity continued to soften in July 2020 relative to June 2020. Liquidity stood within the Bank's benchmark of ₦313.8 billion to ₦450.0 billion. There was a net increase in liquidity, month-on-month, with the industry position closing at an average of ₦339.21 billion in July 2020, compared with the average of ₦236.97 billion in June 2020. The banking system experienced superficial liquidity squeeze arising from increased demand for foreign exchange following CBN's adjustment of the naira exchange rate in the first week of July 2020. Withdrawals from the banking system arose from provisioning and settlement of foreign exchange purchases, auctioning of CBN bills, FGN Bonds and Nigerian Treasury Bills (NTBs), as well as, Cash Reserve Ratio (CRR) debits. The industry liquidity position was stabilised through the reduction in repayment of matured CBN bills, Nigerian Treasury Bills (NTBs) and fiscal disbursements to the three tiers of Government

Open Market Operations

The Bank conducted direct OMO and discount window activities in July 2020 to support its overall policy thrust. The tenors of the instruments were from 89 to 341 days. Total amount offered, subscribed and alloted to, were ₦100.00 billion, ₦298.66 billion and ₦100.00 billion, respectively, with a bid rate of 7.1 per cent, while the stop rate was 7.0 per cent. Repayment of matured CBN bills stood at ₦600.18 billion, translating to a net injection of ₦500.18 billion through this medium.

At the Government securities market, NTBs and long-term FGN Bonds were issued at the primary market on behalf of the Debt Management

Office (DMO). NTBs of 91-, 182- and 364-day tenors, amounting to ₦195.90 billion, ₦519.83 billion and ₦195.90 billion, respectively, were offered, subscribed and allotted. The bid-cover ratio of 2.7 for all the tenors (particularly the 364-day tenor) indicated high demand despite the low yield. There was no repayment of matured NTBs during the review period.

Primary Market

FGN Bonds of 10-, 15- and 30-year tranches were reopened and offered for sale, while 25-year new issue was offered for sale in the review period. Term to maturity of the Bonds were 5 years, 6 months to 29 years, 8 months. Total amount offered, subscribed and allotted, were ₦130.00 billion, ₦470.13 billion and ₦177.00 billion, respectively. Allotment on non-competitive basis was ₦1.52 billion. The oversubscription was due to investors' preference for fixed income securities, especially those with higher yields. The bid and marginal rates on all tenors stood at 8.8 per cent apiece.

Standing Facilities

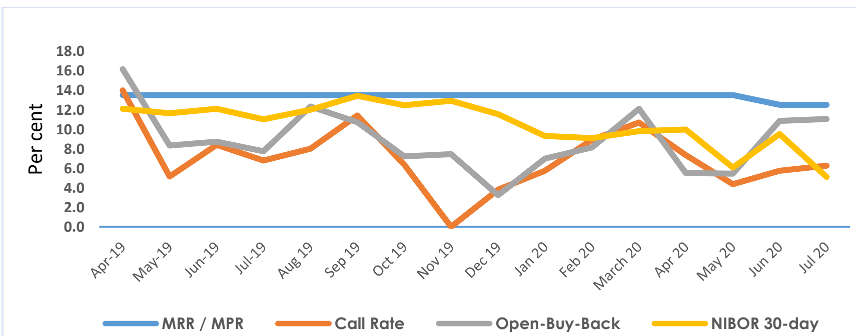
Deposit Money Banks (DMBs) and merchant banks continued to access the Standing Facilities window to prop up their positions in July 2020. The trend at the CBN standing facilities window showed more frequency at the Standing Lending Facility (SLF) window, as against decreased patronage at the Standing Deposit Facility (SDF) window. This was due to banks' scramble for foreign exchange, following the adjustment of the naira exchange rate at the inter-bank foreign exchange market on July 6, 2020, thereby leading to a seeming liquidity squeeze in the banking system in the first week of July. Applicable rates for the SLF and SDF remained at 12.5 per cent and 7.5 per cent, respectively.

Total request for the SLF granted, in July 2020, was ₦1,570.19 billion, made up of ₦780.50 billion direct SLF and ₦789.69 billion Intraday Lending Facilities (ILF) converted to overnight repo. Daily average was between ₦2.85 billion and ₦384.41 billion and averaged ₦193.63 billion in the 14 transaction days from July 1 to 27, 2020. Total interest earned at 12.5 per cent was ₦0.94 billion. Total SDF granted, during the review period, was ₦370.92 billion with a daily average of ₦0.96 billion in the 19 transaction days from July 1 to 27, 2020. Daily request ranged from ₦0.35 billion to ₦43.90 billion. Cost incurred on SDF in the month stood at ₦0.95 billion.

Interest Rate Developments

The exchange rate adjustment at the inter-bank segment in the review period, increased banks' demand for foreign exchange, thereby causing a superficial liquidity squeeze in the first week of July. Consequently, average short-term money market rates inched up in July 2020. Money market rates were, generally, steady and moved in tandem with the level of liquidity in the review period. Short-term money market rates traded below the MPR rate of 12.50 per cent for a major part of the period. Average inter-bank and OBB rates were 6.3 per cent and 11.1 per cent, respectively, in July 2020. Other rates such as, the 7-day and 30-day NIBOR traded at averages of 5.1 per cent and 5.5 per cent, respectively. From their levels in the preceding month, average prime and maximum lending rates fell by 0.7 and 0.5 percentage points to 14.99 per cent and 30.12 per cent, respectively, in July 2020. Average term-deposit rate also fell by 0.07 percentage point to 6.04 per cent. The spread between the average term-deposit and average maximum lending rates narrowed by 0.4 percentage point to 24.08 percentage points at end-July 2020. With inflation at 12.82 per cent in July 2020, these signified negative real rates for deposits, but positive real rates for the prime and maximum lending rates.

Figure 20: Interest Rate



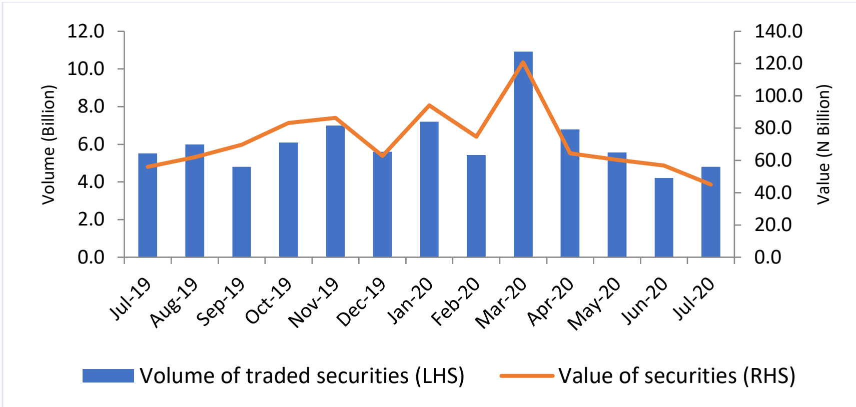
Source: Central Bank of Nigeria

Capital Market Developments

Capital market activities were bullish, as investors' sentiments in the market remained optimistic, amidst persistent uncertainties in the global economy. Due to price gains by most blue-chip stocks, as well as, continued investors' sentiment in attractive stocks, the Nigerian bourse was bullish in July 2020.

The All Share Index (ASI) and the aggregate market capitalisation rose, relative to their levels in the preceding month. The turnover volume and value of traded securities, however, fell by 12.3 per cent and 20.8 per cent, respectively, to 21 billion shares and ₦45.07 billion, in 76,946 deals at end-July 2020, compared with 4.80 billion shares worth ₦56.89 billion, in 84,755 deals at end-June 2020. There was one supplementary listing in the review period.

Figure 21: Volume and Value of Traded Securities



Source: Nigeria Stock Exchange

Table 13: Supplementary Listings on the Nigerian Stock Exchange July 2020

Company	Additional Shares (Units)	Reasons	Listing
Transcorp Hotels Plc	2.66 billion Ordinary Shares	Rights Issue	New Listing
C&I Leasing Plc	377 million Ordinary Shares	Right Issues	New Listing

Source: Nigeria Stock Exchange

Market Capitalisation

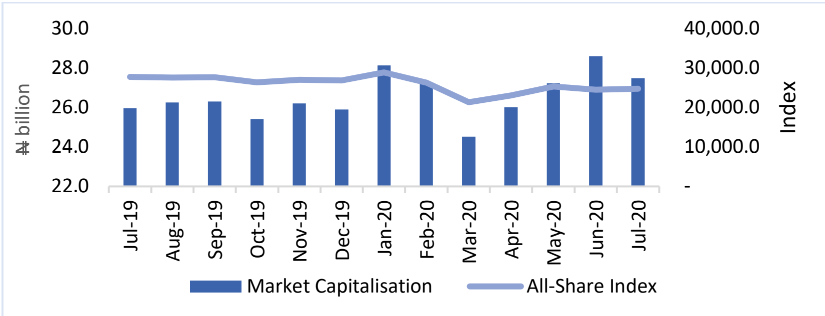
Investors' renewed interest on bargain stocks, as well as the gains recorded in high valued capitalised stocks, like MTN Nigeria, Dangote sugar, UACN, Union Bank Plc and the Guaranty Trust Bank Plc, improved market capitalisation in the review month. Aggregate market capitalisation rose by 4.0 per cent to ₦28.59 trillion in July 2020, compared with ₦27.48 trillion recorded at end-June 2020. The equities market capitalisation also rose by 0.9 per cent to ₦12.89 trillion and with ₦12.78 trillion and 46.5 per cent at the end of the preceding month.

NSE All-Share Index

The continuous easing of the lockdown, rebound in crude oil prices and commencement of the implementation of OPEC+ supply cut deal boosted institutional investors' confidence, increased patronage, and created positive sentiments in the Nigerian bourse. Consequently, the ASI, which opened at 24,479.22 at the beginning of the month, rose by 0.9 per cent to close at 24,693.73 at the end of the month (Figure 22).

All the sectoral indices trended downward, with the exception of the NSE-Industrial, NSE Premium and the NSE Lotus indices, which rose by 3.9 per cent, 3.8 per cent and 1.1 per cent, respectively, in the review period. The NSE-Oil and Gas, NSE-Consumer Goods, NSE-Insurance, NSE-Pension, NSE-Banking and the NSE-AseM indices fell by 13.3 per cent, 8.9 per cent, 5.7 per cent, 3.8 per cent, 1.2 per cent and 0.2 per cent, respectively, at end-July 2020.

Figure 22: Market Capitalisation and All-Share Index



Source: Nigeria Stock Exchange

2.4. EXTERNAL SECTOR DEVELOPMENTS

Despite the gradual re-opening of the economy, Nigeria's external sector remained under pressure as oil exports declined, capital inflow dipped, and foreign reserves depleted. Consequently, average turnover at the investor and exporters' window dipped by 5.5 per cent and exchange rate further depreciated. The dip in crude oil prices, production cap by the OPEC+ and weak domestic demand significantly affected aggregate exports and imports in July 2020. Aggregate foreign trade declined to US$5.08 billion in July 2020 as against US$6.65 billion in the preceding month. Moreover, risk averseness of foreign investors and flight to safety also contributed to the decline in foreign capital flows to US$0.63 billion in July 2020 from US$0.73 billion in June 2020.

2.4.1 Trade Performance

Aggregate trade resulted in a lower trade deficit in July 2020, due to significant fall in imports, which moderated the reduction in exports. Despite the gradual easing of the lockdown measures in the country and in majority of countries across the world, the country's import and export declined by 32.5 per cent and 5.9 per cent to US$2.98 billion and US$2.10 billion, respectively, in July 2020, relative to their levels in June 2020. The significant decline in import resulted in a lower trade deficit of US$0.88 billion in July 2020, compared with US$2.18 billion in June 2020. At US$5.08 billion in July 2020, the value of Nigeria's total trade declined by 23.6 per cent and 52.8 per cent, below the US$6.65 billion and US$10.76 billion recorded in the preceding and the corresponding periods.

Crude Oil and Gas Export

Fluctuations in crude oil prices and the OPEC+ cuts in crude oil production, contributed to the decline in crude oil and gas export by 1.5 per cent to US$1.76 billion in July 2020, from US$1.99 billion in June 2020.

A disaggregation showed that crude oil export value declined by 16.9 per cent to US$1.44 billion in July 2020, compared with US$1.73 billion and US$4.01 billion in the preceding and the corresponding periods, respectively. Gas export value, on the other hand, increased by 26.1 per cent to US$0.31 billion in July 2020, relative to US$0.24 billion in June 2020. Crude oil and gas component remained dominant and accounted for 83.0 per cent of total export, with crude oil export having a share of 68.3 per cent and gas 14.6 per cent.

Non-oil Export

The gradual easing of the lockdown measures, however, boosted non-oil export demand. This resulted in increased receipt by 39.4 per cent to US$0.34 billion in July 2020, from US$0.24 billion in June 2020. A disaggregation showed that other non-oil export declined by 23.4 per cent to US$0.14 billion, while re-export recorded a significant increase of 226.5 per cent to US$0.20 billion in July 2020, relative to their respective levels in June 2020. In addition, earnings from electricity export to Benin Republic and Togo recorded a 6.1 per cent increase in July 2020.

Export Receipts from Top Ten Exporters

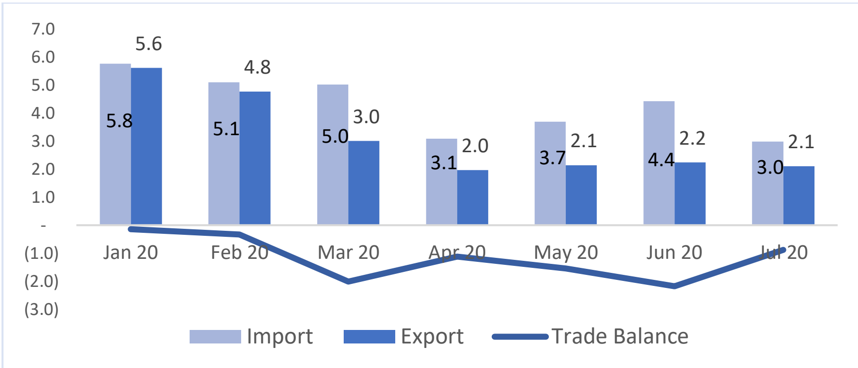
Reflecting weakened domestic demand, aggregate value of export proceeds from the top ten exporters decreased. It fell by 28.0 per cent to US$74.99 million in July 2020, relative to US$104.15 million in June 2020. Notwithstanding, Olam Nigeria Limited maintained its position as the topmost exporter with a value of US$18.21 million or 24.3 per cent of the total, from the export of cocoa beans, cashew nuts, and sesame seeds to Turkey and China. The second major non-oil exporter was the British American Tobacco Nigeria Limited with value of US$9.60 million (12.8 per cent), from the export of cigarettes to Liberia, Guinea, Ghana, Cameroun, Cote d'Ivoire and Niger. The third was Metal Recycling Industries Limited at US$9.51 million (12.7 per cent), realised from the export of processed battery plate, lead concentrate and lead metal to Spain and India. The fourth major non-oil exporter was Starlink Global and Ideal Limited, with a value of US$7.44 million (9.9 per cent) from the export of cocoa beans to Malaysia. Tulip Cocoa Processing Limited was fifth with a value of US$7.03 million (9.4 per cent) from the export of cocoa cake and pure prime cocoa butter to The Netherlands, Spain, Germany and Estonia.

The ETC Agro Company Nigeria Limited, AAK Nigeria Oils and Fats Limited, Valency Agro Nigeria Limited, Plantation Industries Limited and the African Non-Ferrous Limited, followed with export earnings of US$5.59 million (7.4 per cent), US$5.27 million (7.0 per cent), US$4.31 million (5.8 per cent), US$4.18 million (5.6 per cent), and US$3.86 million (5.1 per cent), respectively. Their major export products were sesame seeds, vegetable oils and fats, cashew nuts, cocoa butter, and steels to Japan, India, USA and China, France, and Vietnam, respectively.

Imports

Low global demand for non-medical and non-essential import led to the contraction of merchandise imports. Merchandise import value fell by 32.5 and 45.5 per cent to US$2.98 billion in July 2020, from US$4.42 billion in June 2020 and US$5.47 billion in July 2019. Non-oil products, constituting 96.3 per cent of total import, declined to US$2.87 billion in the review period, from US$4.33 billion and US$4.36 billion in the preceding month and the corresponding period in 2019, respectively, reflecting lower demand for non-essential import. However, importation of petroleum products, representing 3.7 per cent of total import increased to US$0.11 billion in July 2020, from US$0.08 billion in June 2020, which was below US$0.73 billion recorded in July 2019.

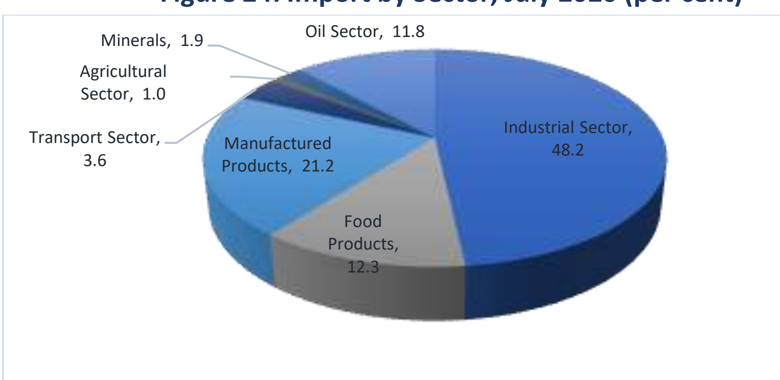
Figure 23: Export, Import and Trade Balance (US$ Billion)



Source: Central Bank of Nigeria

A breakdown of merchandise import by sector indicated that the industrial sector accounted for the largest share of 48.2 per cent, followed by manufactured products with a share of 21.2 per cent. Food products accounted for 12.3 per cent; oil sector, 11.8 per cent; transport sector, 3.6 per cent; minerals sector, 1.9 per cent; and agricultural sector the lowest with 1.0 per cent of the total visible import.

Figure 24: Import by Sector, July 2020 (per cent)



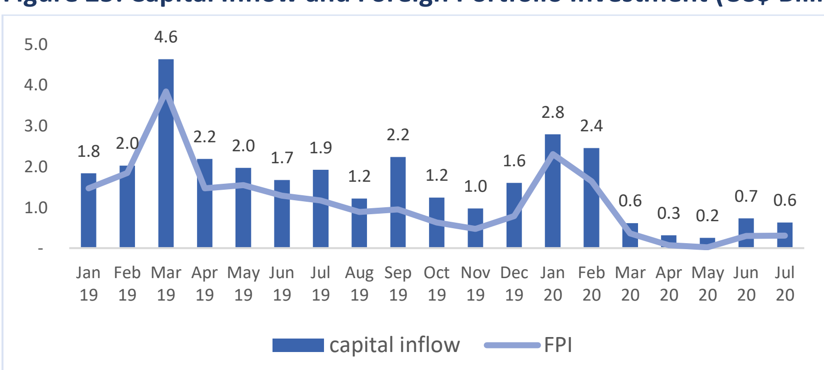
Source: Central Bank of Nigeria

2.4.2 Capital Importation and Capital Outflow

Capital inflow declined by 13.7 per cent, month-on-month, to US$0.63 billion in July 2020, owing largely to the risk averseness of foreign investors on account of uncertainties associated with the Pandemic, oil price shocks, and fragile economic activity. A comparative analysis showed that cumulative capital inflow declined significantly by 49.7 per cent to US$8.6 billion between January and July 2020, compared with US$17.1 billion within same period in 2019, reflecting the effect of the COVID-19 pandemic during the review period. Analysis of inflow during the review period showed that at US$0.63 billion, inflow declined by 13.7 and 66.8 per cent, relative to US$0.73 billion and US$1.9 billion in the preceding and the corresponding months, respectively. Of this amount in July 2020, foreign direct investment (FDI) at US$0.06 billion, accounted for 10.3 per cent of total inflow; foreign portfolio investment (FPI), US$0.31 billion (49.7 per cent), and other investments in form of loans (OI), US$0.25 billion (40.0 per cent). These were below the US$0.12 billion and US$0.31 billion for FDI, and OI, respectively, but above the US$0.30 billion FPI recorded in the preceding month.

Available data by nature of investment showed that equity shares accounted for 41.1 per cent, while financing and telecommunication accounted for 21.5 and 14.5 per cent of the total inflow, respectively. A breakdown of capital by originating country showed that the United Kingdom, Republic of South Africa and Singapore accounted for 38.9, 14.9 and 12.6 per cent of the total inflow, while by destination, Lagos State, Abuja and Ogun State were the top three recipients of the inflow at 93.7, 4.7 and 1.5 per cent, respectively.

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

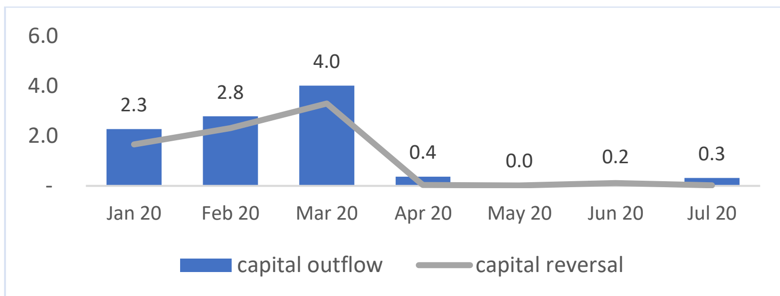


Source: Central Bank of Nigeria

Capital Outflow

Capital outflow increased by 54.9 per cent, month-on-month, to US$0.31 billion in July 2020, relative to US$0.20 billion in June 2020, typical of a crisis period with so much uncertainty, as investors flew to safer havens. Available data showed that cumulative capital outflow from January to July 2020 stood at US$10.1 billion, compared with US$5.7 billion in the same period in 2019. Analysis of capital outflow during the review period showed that outflow in form of loan payments, at US$0.17 billion, accounted for 55.2 per cent of the total, while dividends (US$0.12 billion) and capital (US$0.02 billion) accounted for 37.5 and 7.3 per cent, respectively.

Figure 26: Capital Outflow (US$ Billion)



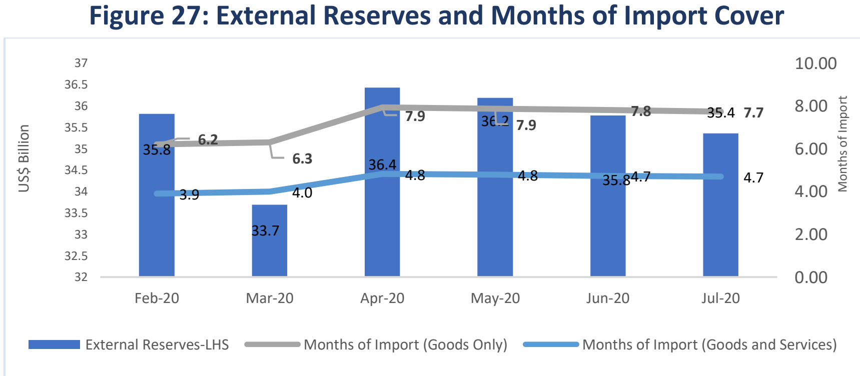
Source: Central Bank of Nigeria

2.4.3 International Reserves

International Reserves

The lower-than-expected receipt from exports, combined with SMIS intervention, swaps and third-party MDAs' transfers, resulted in pressures on Nigeria's international reserves. International reserves decreased from US$35.78 billion at end-June to US$35.56 billion at end-July 2020. Thus, the level of import cover for goods and services declined to 4.69 months in July 2020 from 4.72 in the month of June 2020. This was still above the IMF threshold of 3.0 months. The reserve per capita in July 2020 was US$172.50, while it was US$975.84, US$517.22 and US$217.16. in South Africa, Angola and Egypt, respectively.

Figure 27: External Reserves and Months of Import Cover



Source: Central Bank of Nigeria

Table 14: International Reserves Per Capita of Selected Countries

Country	Jun-20		Jul-20	
	Reserve (US$ billion)	Reserve per Capita (US$)	Reserve (US$ billion)	Reserve per Capita (US$)
Nigeria	35.78	173.57	35.56	172.5
South Africa	52.32	882.16	52.46	975.84
Angola	15.59	474.48	16.7	517.22
Egypt	22.98	224.57	23.78	217.16

Source: CBN, Reuters, and the World Bank

2.4.4 Foreign Exchange Flows

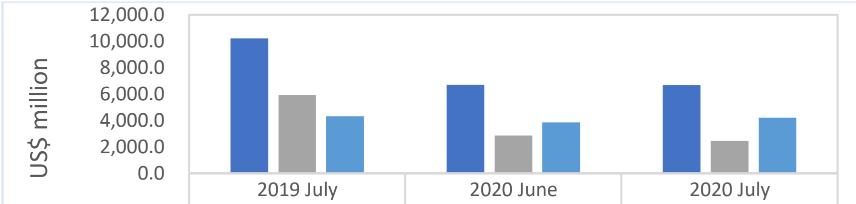
Foreign Exchange Flow

Global oil prices improved in July 2020 as a result of OPEC+ production cuts leading to a rise in receipts from crude oil exports. However, on a month-on-month basis, foreign exchange inflow through the economy, decreased by 0.4 per cent to US$6.68 billion in July 2020. The decrease in inflow, relative to the level in June 2020, was due, largely, to lower receipts from non-oil inflow through the CBN, which fell by 12.7 per cent, relative to the level in June 2020. Specifically, almost all the components of non-oil receipts, including DMBs cash receipts, TSA and third-party receipts and foreign exchange purchases, experienced negative growth. Conversely, inflow through autonomous sources, particularly non-oil exports receipts by banks, increased by 2.2 per cent to US$4.71 billion, relative to the preceding month's level and exceeded the inflow through the CBN, which stood at US$1.98 billion in July 2020.

Foreign Exchange Outflows

Economic activities picked up slowly, although the land and air borders remained closed during the month of July. The CBN maintained its stance of non-intervention at the BDC and I&E segments of the market. Foreign exchange outflow through the economy declined by 14.0 per cent to US$2.46 billion in July 2020, relative to the preceding month's level, due to lower interbank utilisation and public sector/direct payments on account of minimal economic activities during the lockdown. Aggregate outflow from foreign exchange from CBN fell below the level in the preceding month by 8.8 per cent to US$2.37 billion in July 2020. The development was driven, largely, by the 8.6 per cent decline in interbank utilisation, reflecting non-intervention in the I&E window and sales at BDC segment in July 2020. Similarly, outflow through autonomous sources, mainly invisibles, declined by 65.3 per cent from the level in June 2020 to US$0.09 billion. The economy recorded a higher net inflow of US$4.22 billion in July 2020, compared with the net inflow of US$3.85 billion in the preceding month.

Figure 28: Total Foreign Exchange Flows through the Economy



	2019 July	2020 June	2020 July
Inflow	10,208.88	6,710.87	6,684.89
Outflow	5,905.57	2,861.21	2,461.50
Netflow	4,303.32	3,849.66	4,223.39

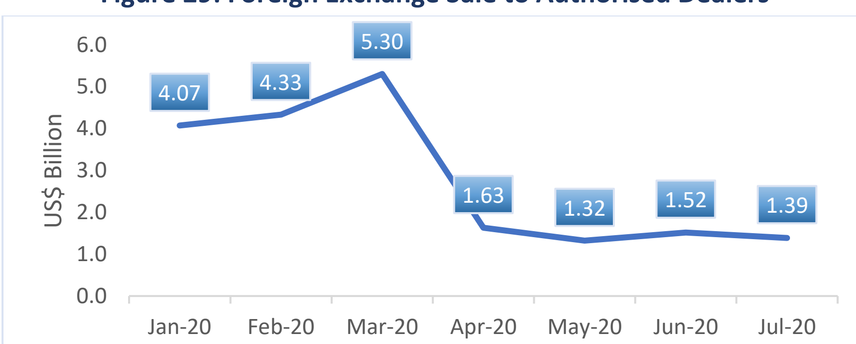
Source: Central Bank of Nigeria

2.4.5. Foreign Exchange Market Developments

Foreign Exchange Market Developments

In order to allow the foreign exchange market to be driven by market fundamentals, the Bank made no intervention at the BDC segment for the fourth consecutive months. Similarly, the Bank suspended sales at the I&E window, and wholesale forward intervention in the month of July 2020. As a result, the total amount of foreign exchange sold by the Bank to authorized dealers decreased by 8.6 per cent to US$1.39 billion in July 2020 from US$1.52 billion in June 2020. Foreign exchange intervention in the SMIS, SME and interbank sales decreased by 27.1, 13.6 and 29.2 per cent, to US$0.64 billion, US$0.09 billion and US$0.05 billion, respectively, in July 2020, below the levels in the preceding month. However, matured swaps transactions rose by 40.9 per cent to US$0.61 billion in July 2020 from US$0.43 billion in the preceding month.

Figure 29: Foreign Exchange Sale to Authorised Dealers



Source: Central Bank of Nigeria

2.4.6 Foreign Exchange Market

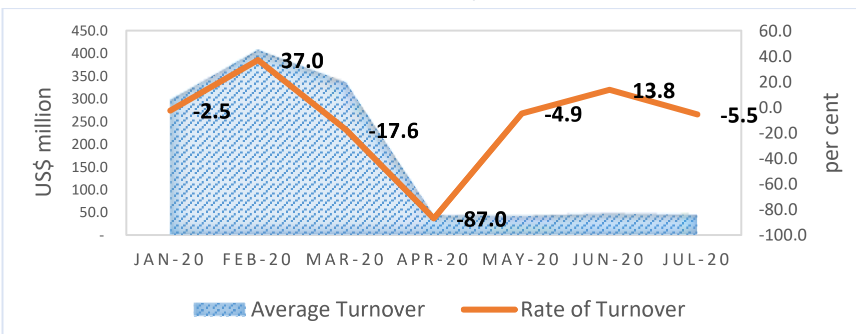
Foreign Exchange Market

The observed low level of foreign exchange liquidity in the market, in the review period, was attributed to shortfalls in foreign portfolio

inflow, due to the COVID 19 lockdown. The monthly average turnover at the Investors and Exporters' Foreign Exchange (IEFX) market, decreased by 5.5 per cent to US$0.04 billion in July 2020 from US$0.05 billion in June 2020. In the review month, the CBN further adjusted the interbank exchange rate from ₦361/US$1 to ₦381/US$1 in July 2020, to bring convergence across all segments of the market. Thus, the average exchange rate of the naira against the US dollar, at the interbank segment was ₦377.19/US$, a depreciation of 4.3 per cent, compared with ₦361.00/US$ and ₦306/US$ in June 2020 and July 2019, respectively. At the Investors' and Exporters' (I&E) window, the naira depreciated by 0.3 per cent to ₦387.48/US$, relative to ₦386.39/US$ in the preceding month and ₦361.26/US$ in the corresponding month of 2019.

Similarly, at the BDC segment, the naira depreciated by 3.7 per cent to ₦464.71/US$, relative to ₦447.71/US$ in June 2020 and ₦359.43/US$ in July 2019. Consequently, the interbank/BDC premium narrowed from 24.0 per cent in the preceding month to 23.2 per cent in July 2020. The premium between the BDC/I&E, however, widened to 19.9 per cent from 15.9 per cent, in the preceding month, owing to increased demand pressure in the foreign exchange market.

Figure 30: Turnover in the I&E Foreign Exchange Market (Jan 2020-July 2020)

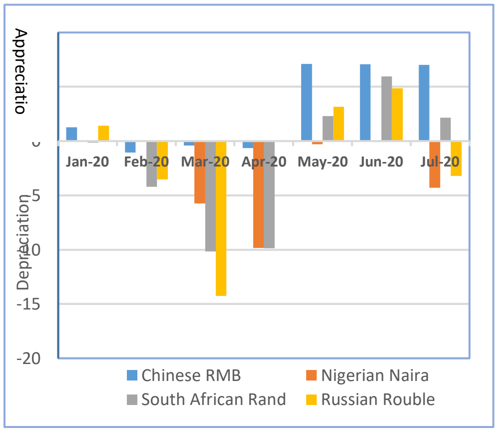


Source: FMDQ

Emerging Market Currencies

The COVID 19 pandemic had a more devastating effect on oil exporting countries as reflected by the weakened naira and Russian rouble, while the Chinese RMB and South African rand strengthened against the US dollar. The average exchange rate of the naira at the interbank segment of the foreign exchange market depreciated by 4.3 per cent to ₦377.19/US$ in July 2020 from ₦361.00/US$ in June 2020. It was in sync with the Russian rouble, which depreciated by 3.2 per cent in the month of July 2020. However, Chinese RMB and South African rand appreciated by 7.0 and 2.2 per cent, respectively, compared with the month of June 2020.

Figure 31: Emerging Market Currencies



Period	Chinese RMB	Nigerian Naira	South African Rand	Russian Rouble
Jul-20	7.01	-4.29	2.15	-3.20
Jun-20	7.08	0.00	5.95	4.88
May-20	7.1	-0.28	2.31	3.15
Apr-20	-0.65	-9.84	-9.87	-0.08
Mar-20	-0.39	-5.73	-10.16	-14.26
Feb-20	-1.05	0.01	-4.22	-3.53
Jan-20	1.28	-0.02	-0.13	1.43

Source: CBN & Reuters

2.4.7. External Sector Outlook

Risks to the External Sector

Global crude oil prices will continue to experience volatility despite the agreed OPEC cuts in production. Consequently, the outlook for external positions remains uncertain, with considerable risks, especially for those economies that are heavily dependent on oil.

Despite the easing of the lockdown and gradual rise in global crude oil demand, the agreement to cut crude oil output has shortened the gains from the recent increase in demand. Also, there are fears of possible slump in global crude oil price as the production cuts may not be sustainable.

Exchange Rate Pressure

Exchange rate pressure will persist as investors prefer to hold gold and safe-haven currencies, such as dollar, yen and Swiss franc. The volatility in crude oil prices and reduction in production quota in the international market, decrease in foreign capital inflow and remittances, depletion of reserves, and speculative activities in the foreign-exchange market, will further exacerbate demand pressure.