



CENTRAL BANK OF NIGERIA
ECONOMIC REPORT

**Third Quarter
2021**

ABOUT THE REPORT

The Economic Report of the Central Bank of Nigeria (CBN) is a periodic publication by the Research Department of the Bank. The Report, which is published on a monthly and quarterly basis, provides a review and insights on developments in the real, fiscal, financial and external sectors of the Nigerian economy, as well as developments in the global economy. It also discusses the policy initiatives of the CBN during the review period.

The Report is directed at a wide spectrum of readers, including economists, policymakers, financial analysts in government circles, the private sector, and the general public. Subscription to the Report is available without charge to institutions, corporations, embassies, and development agencies. Individuals can also obtain any issue of the publication from the CBN Website. The Report is also available for free download from the CBN website: www.cbn.gov.ng All inquiries on the publication should be addressed to the Director of Research, Central Bank of Nigeria, P.M.B. 187, Garki, Abuja, Nigeria.

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EXECUTIVE SUMMARY

Global economic recovery continued in the third quarter of 2021, despite the risks posed by the resurgence of the third wave of COVID-19 pandemic and the emergence of the deadlier Delta variant, though at a slower pace. The sustained recovery reflects a sharp rebound in some major economies, amid unrelenting policy interventions and greater strides in COVID-19 vaccine administration. However, economic activities were dampened by supply chain disruptions across several countries, as reflected in the lower purchasing managers' indices (PMI) reported by some advanced and emerging market and developing economies. Thus, growth prospects remain largely uneven globally, on the back of concerns surrounding the emergence of new COVID-19 variants and vaccine administration. Furthermore, concerns about monetary policy outlook, the weakening capacity of several countries to undertake further fiscal injections, and mounting inflationary pressure underscore the fragility of future growth expectations. Consequently, the International Monetary Fund, World Economic Outlook for October 2021, which revised its forecast for world output growth downwards, to 5.9 per cent from 6.0 per cent, further stressing the risks to growth expectations across the globe.

In the domestic economy, output recovery was sustained in the third quarter of 2021, following improvement in economic activities, supported by the impact of sustained fiscal and monetary stimuli on the economy, as real GDP grew, for the fourth consecutive quarter, by 4.03 per cent (year-on-year). The growth was driven, mainly, by the non-oil sector, which expanded by 5.44 per cent, with the Services and Agriculture sub-sectors contributing 4.01 percentage points and 0.38 percentage points, respectively, to the GDP growth. The improvement was spurred by renewed business confidence, which accompanied the optimism surrounding the continued administration of the COVID-19 vaccines in the country. However, the oil sector contracted by 10.56 per cent during the period, dragging down the overall growth by 0.94 percentage points. The negative contribution of the oil sector was due to lower crude oil output, occasioned by supply disruptions caused by pipeline leakages, fire incidents, and scheduled maintenance on some pipelines.

Inflationary pressures moderated in the third quarter of 2021, driven largely by improvement in agricultural output and food supply chain, occasioned by the sustained implementation of the government's agricultural support schemes. Consequently, headline inflation (year-on-year) dropped to 16.63 per cent in the third quarter of 2021, below the 17.75 per cent recorded in the preceding quarter. Furthermore, while food inflation moderated to 19.57 per cent (year-on-year) in the third quarter of 2021, from 21.83 per cent in the preceding one, core inflation, on the other hand, rose to 13.74 per cent, from 13.09 per cent in the preceding quarter. The rise in core inflation was attributed to an increase in the cost of transportation/logistics and lingering security challenges across the country.

Federation revenue improved in the third quarter of 2021 due to a sustained uptick in economic activities and crude oil prices. At ₦2,848.66 billion, it exceeded the level in the second quarter of 2021 by 11.5 per cent but was below the quarterly benchmark of ₦3,074.15 billion by 7.3 per cent. Non-oil receipts continued to dominate the fiscal space for the fifth consecutive quarter, constituting 59.9 per cent of total revenue, while oil revenue made up the balance of 40.1 per cent, indicating that the initiatives to diversify the revenue base of the government were yielding results. Despite the rise in federation revenue, FGN retained revenue fell short of its target, following low earnings, particularly from independent revenue sources. At ₦1,114.21 billion, the retained revenue of the FGN declined by 16.2 per cent and 44.2 per cent, relative to the second quarter of 2021 and the budget benchmark, respectively. This led to an 11.1 per cent expansion in the estimated level of the deficit. Total FGN debt outstanding rose to ₦33,805.84 billion at end-September 2021, an increase of 7.9 per cent relative to end-June 2021. The development was attributed to the drive to enhance economic recovery, reduce the infrastructural deficit, and fund COVID-19 mitigation programmes. Domestic debt accounted for 53.9 per cent of FGN total debt, while external debt obligations constituted 46.1 per cent.

The accommodative monetary policy stance of the Bank in the third quarter of 2021 led to continued credit expansion to enhance economic growth, with banking system claims on the domestic economy rising by 10.15 per cent. Accordingly, broad money supply, M3 grew by 4.6 per cent to ₦40,414.78 billion at the end-September 2021, with an annualised growth of 6.2 per cent, compared with the provisional benchmark growth of 10.0 per cent for the fiscal year 2021. However, narrow money supply M1 fell marginally, as the need for holding cash for transactions by economic agents also reduced. Banking system liquidity improved in the review period, thus, playing a major role in pushing key interest rates downwards. In the review period, the key financial soundness indicators also revealed a stable and resilient financial sector. Activities on the Nigerian Exchange Limited were bullish, owing to positive sentiments arising from investors' expectations of releasing third-quarter earnings reports by quoted companies.

The external sector's performance was impressive during the review period, as pressure on the external account eased, with an overall balance of payments surplus of US\$5.28 billion. The development was driven by the sustained global economic recovery and improved foreign exchange receipts from the International Monetary Fund's SDR allocation and sale of Eurobonds. Specifically, improved trade surplus, lower payments in respect of services, and repatriation of dividends resulted in a higher current account surplus of US\$3.68 billion, from US\$0.35 billion in the second quarter of 2021. The financial account recorded net incurrence of liabilities of US\$2.57 billion, as against acquisition of US\$0.24 billion in the preceding quarter. The external reserves at the end of September 2021 improved to

US\$41.57 billion, compared with US\$32.99 billion at the end-June 2021, and could finance 11.5 months of goods only or 8.7 months of goods and services import. At the Foreign exchange market, the average naira exchange rate at the I&E window was relatively stable at ₦411.89/US\$ in the third quarter of 2021.

The Nigerian economy is expected to sustain its positive trajectory in the near-term, predicated on continued oil prices recovery, rebound in manufacturing activities, and intensified administration of COVID-19 vaccines. In addition, the optimistic projection is also supported by the implementation of the Petroleum Industry Act (PIA), which is expected to expand the fiscal space of government in the medium-to-long term; and the launching of the Central Bank Digital Currency (CBDC), eNaira, which is expected to improve cost efficiency on transactions and bolster financial inclusion in the medium-to-long term. However, increased demand during the festive period and food supply disruptions arising from activities of middlemen could likely elevate food prices in the fourth quarter of 2021. Furthermore, fiscal risks associated with the country's elevated debt service-revenue ratio and lingering security challenges could dampen the prospect of improved fiscal space.

1.0 GLOBAL ECONOMIC DEVELOPMENTS

Global economic recovery continued in the third quarter; however, the intensity of growth moderated across regions. The uptick in global inflation was sustained due to rising consumer demand and recovery in commodity prices. Despite the fragile global recovery, financial markets remained resilient. However, monetary policy shifted slightly towards hawkish, though at a slower momentum, particularly in Advanced Economies (AEs). However, policy interest rates remained unchanged during the review period. Crude oil prices rose marginally in the third quarter on the back of renewed expectations of higher global demand for crude oil, following the rise in COVID-19 vaccination rates.

1.1 Global Economic Activities

Global economic recovery continued in the third quarter of 2021; nonetheless, the intensity of growth moderated. The global economy sustained its growth despite the visible risks posed by the resurgence of the third wave of COVID-19 pandemic and the emergence of the deadlier Delta variant. The sustained recovery reflects a sharp rebound in some major economies amid unrelenting policy interventions and greater strides in COVID-19 vaccine administration. Nonetheless, economic activities were dampened by supply chain disruptions across several countries, following the outbreak of the third wave of the COVID-19 pandemic. The moderation in economic activities was also reflected in the lower purchasing managers' indices reported by some advanced economies.

Table 1: Global Purchasing Managers' Index

	2021Q1.	2021Q2	2021Q3
<i>Composite</i>	53.43	57.13	53.77
<i>Manufacturing</i>	54.17	55.77	54.53
<i>Services (Business Activity)</i>	53.03	57.90	54.17

Source: JP Morgan, IHS Markit

Growth prospects remain largely uneven globally, on the back of concerns surrounding the emergence of new COVID-19 variants and vaccine administration. Recovery in AEs was sustained in the third quarter of 2021, albeit at a slower pace, as the emergence of the more transmissible Delta variant slowed down the expected full return to normalcy. Notably, risks to the economic prospects of several AEs heightened on account of the prolonged disruption to global supply chains, which followed the outbreak of the third wave of the pandemic. The Purchasing Manager Indices (PMI) of several AEs dipped in the third quarter of 2021, though it remained above the benchmark, signifying moderation in economic activities. Apart from the US, there was moderation in the PMIs of several advanced

Global
Economic
Conditions

Advanced
Economies

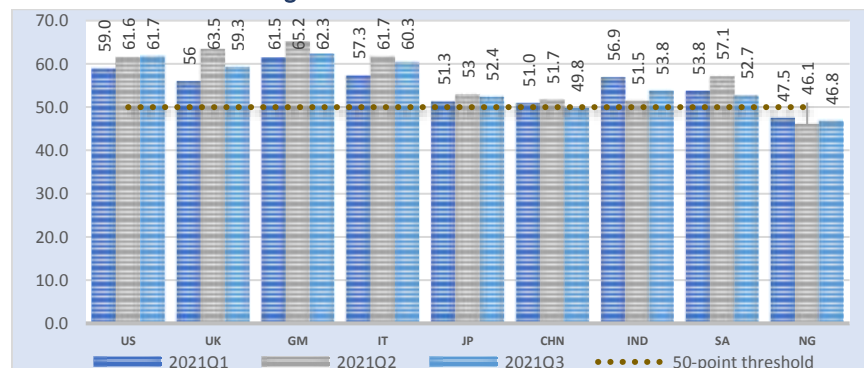
Emerging and
Developing
Economies

economies in the third quarter, compared with the second quarter. In the UK, the manufacturing PMI declined to 59.27 index points average in the third quarter, from an average of 63.47 index points in the preceding quarter while Germany, Italy and Japan recorded a decline to an average of 62.30 index points, 60.30 index points and 52.40 index points respectively, compared with 65.23 index points, 61.73 index points and 53.00 index points in the second quarter. In its WEO Report for October¹ 2021, the IMF revised its growth outlook for the AEs to 5.2 per cent, which is 0.4 per cent lower than the 5.6 per cent projection in its July 2021 report.

The disparities in vaccine administration and lower capacity to undertake policy support have continued to dampen the growth prospects of EMDEs.

Essentially, a large proportion of the population of EMDEs remains unvaccinated on account of limited access to vaccines and, in some cases, vaccine hesitancy. This has continued to weaken the expected return to the pre-pandemic pace of economic activity. In addition, tighter financing conditions and narrowing fiscal space, coupled with other pre-existing macroeconomic challenges, have continued to constrain economic recovery. Specifically, China’s manufacturing PMI contracted to an average of 49.83 index points in the third quarter, from 51.73 index points, as the country resumed containment measures against the rising cases of the Delta strain. Economic activities in South Africa slowed with average manufacturing PMI in the third quarter of 2021, at 52.73 index points, compared with 57.13 index points in the preceding quarter. India recorded further expansion in overall business conditions amidst easing lockdown measures as manufacturing PMI increased to an average of 53.77 index points from 51.47 index points in the second quarter of 2021.

Figure 1: PMI in Selected Countries

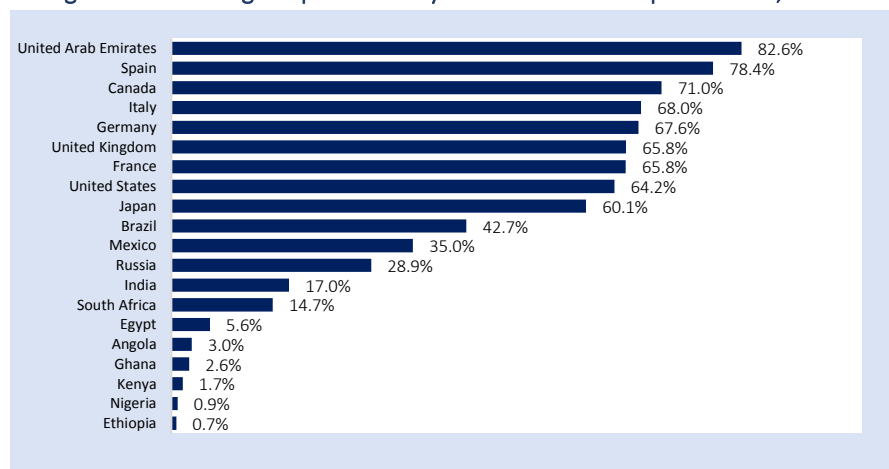


Source: Trading Economics/Various Country Websites, CBN Staff compilation.

Note: US, UK, CHN, IND, GM, IT, JP, SA and NG represent United States, United Kingdom, China, India, Germany, Japan, South Africa and Nigeria, respectively.

¹ Note: The estimates and projections provided in the IMF WEO October 2021, are based on statistical information available through September 27, 2021.

Figure 2: Percentage Population fully vaccinated as at September 30, 2021



Source: Johns Hopkins Corona virus Resource Centre, CBN Compilation.

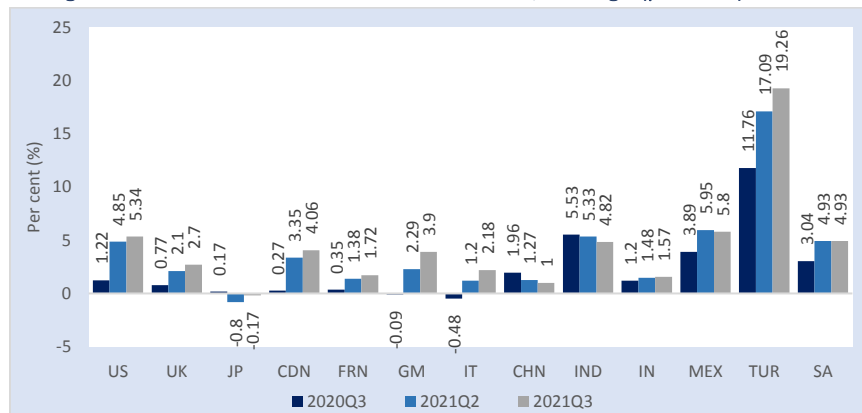
1.2 Global Inflation

Global Inflation

Global inflation sustained its uptick in the third quarter of 2021 due to rising consumer demand and recovery in commodity prices. Headline inflation in most AEs remained above their central banks' targets, reflecting stronger aggregate demand, rising input costs from supply bottlenecks, as well as higher commodity prices. Specifically, headline inflation in the US rose to 5.34 per cent in the third quarter of 2021, relative to 4.85 per cent in the second quarter of 2021. The uptick in inflation is attributed to stronger demand, continued supply constraints and base effects from the previous year. Also, the UK's inflation rose to 2.70 per cent in the third quarter of 2021, from 2.10 per cent in the preceding quarter, due, in part, to rising restaurant and cafe prices and low base effects. Similarly, Germany's inflation rate rose to 3.90 per cent in the third quarter of 2021, from 2.29 per cent in the preceding quarter, following rising input costs and demand.

In contrast, inflationary pressures in developing and emerging economies decreased marginally in the third quarter of 2021. Inflation decelerated in China, as consumer prices fell to 1.0 per cent in the third quarter of 2021, from 1.27 per cent in the preceding quarter, due to a decline in the cost of food, transportation and communication. In India, inflation fell to 4.82 per cent in the third quarter of 2021, from 5.33 per cent in the preceding quarter, owing to a sharp decline in the cost of food and a slower rise in energy prices. Similarly, inflation moderated in South Africa as it remains unchanged at 4.93 per cent in the third quarter of 2021, from the level in the preceding quarter, due to lower costs of transport, food, and non-alcoholic beverages.

Figure 3: Inflation Rates in Selected Countries, Average (per cent)



Source: Organisation for Economic Cooperation and Development (OECD)

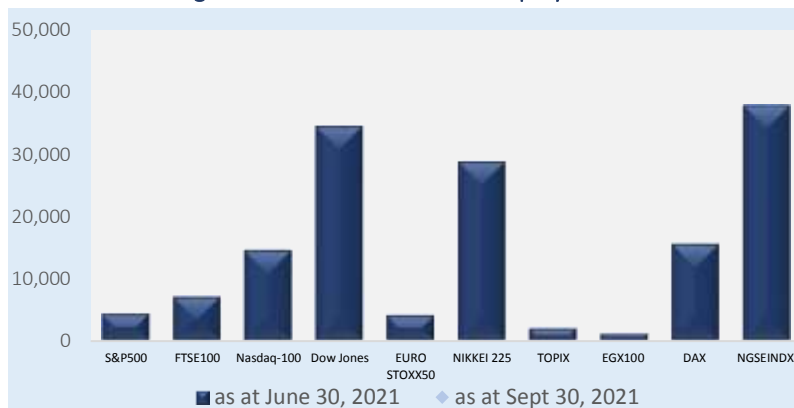
Note: US, UK, CHN, CDN, FRN, IND, IN, GM, IT, JP, MEX, TUR SA represent United States, United Kingdom, China, Canada, France, India, Indonesia, Germany, Italy, Japan, Mexico, Turkey, South Africa, respectively.

1.3 Global Financial Markets

The global financial markets remained resilient in the third quarter of 2021, reflecting sustained global recovery at a slower momentum. Major equity indices in AEs generally closed higher, based on improved economic prospects, ongoing vaccine administration, and fiscal stimuli that boosted investors' confidence. The positive development was moderated by the slower pace of growth and elevated inflation levels, which negatively impacted investors' sentiments towards the end of the quarter.

The S&P 500 and NASDAQ closed higher at 0.23 per cent and 0.92 per cent, respectively, relative to their levels as of end-June 2021. Similarly, the NIKKEI225 closed at 2.29 per cent in the third quarter. The slower momentum recorded in the equities was driven by double-digit drops in large technology stocks, arising from the Fed's plans to slow its purchases of government-backed bonds. Furthermore, Washington gridlock and debt ceiling showdown in US, and instability in China's real estate contributed to the slide in stock performance.

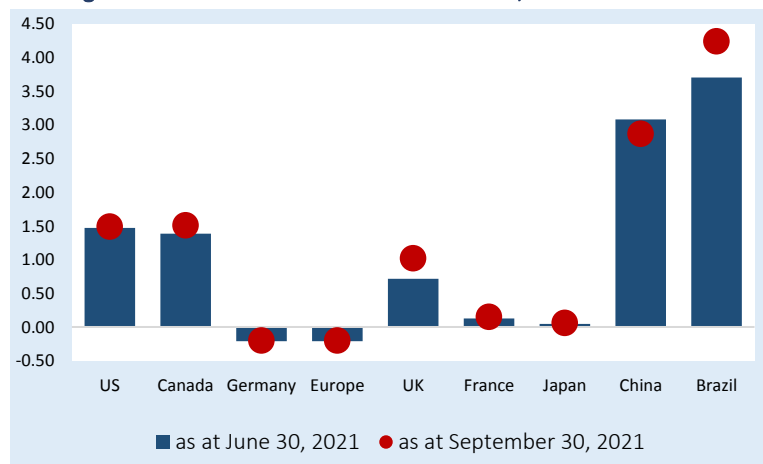
Figure 4: Global Stock Market Equity Indices



Source: Bloomberg data and Central Bank of Nigeria (CBN) Staff computation.

In the US and Europe, government yields were largely unchanged in the third quarter, as the decline at the beginning of the quarter was reversed towards the end of the quarter. Yields on the US 10-year Treasury Bond stood at 1.49 per cent in the third quarter, due to rising inflation and expected withdrawal of monetary policy support. Also, the UK’s 10-year government bond yields increased from 0.71 per cent in the second quarter of 2021 to 1.02 per cent at the end of the third quarter, due to the hawkish shift in a policy stance of the Bank of England. Within the EMDEs block, government bond yields generally rose, as emerging market currencies fell against the US dollar.

Figure 5: 10-Year Government Bond Yields, 2020Q2 – 2021Q3



Source: Bloomberg data, CBN Staff computation.

Note: US, UK represent United States, United Kingdom

1.4 Central Banks' Policy Rates

The monetary policy stance was slightly hawkish, though policy interest rates remained unchanged during the quarter. The Fed and ECB have announced an upcoming reduction in the pace of its asset purchases, while the BoE's latest guidance suggests a likely rise in policy rates by early next year. Notably, there has been tightening through the year in Mexico, as the monetary authorities aim to keep inflation and inflation expectations within target. In contrast, the Central Bank of Turkey took a dovish stance in the third quarter of 2021, reducing its 1-week repo rate to 18.00 per cent, from 19.00 per cent in 2021Q2.

Table 2: Central Bank Policy Rates (Per cent)

Country	2021Q1	2021Q2	2021Q3
United States	0.25	0.25	0.25
United Kingdom	0.10	0.10	0.10
Japan	-0.10	-0.10	-0.10
Canada	0.25	0.25	0.25
Euro Area	0.00	0.00	0.00
China	3.85	3.85	3.85
India	4.00	4.00	4.00
Mexico	4.00	4.25	4.75
Indonesia	3.50	3.50	3.50
Turkey	18.00	19.00	18.00
South Africa	3.50	3.50	3.50
Ghana	14.50	13.50	13.50
Nigeria	11.50	11.50	11.50

Source: Various Central Bank Websites

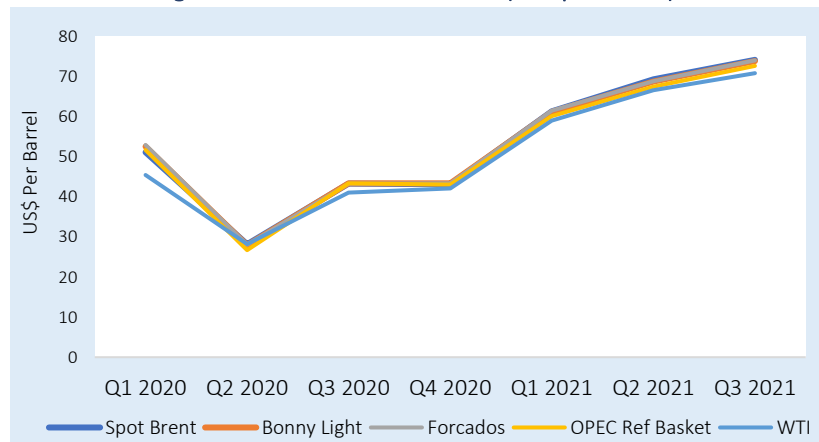
1.5 Global Oil Market

Crude oil spot prices rose significantly in the third quarter of 2021, due to the renewed expectations of higher global demand for crude oil, following the rise in COVID-19 vaccination rates. The average spot price of Nigeria's reference crude oil, the Bonny Light (34.9° API), was US\$73.78 per barrel (pb) in the third quarter of 2021, representing an increase of 7.4 per cent, compared with US\$68.70 pb recorded in the second quarter of 2021. The prices of Brent, at US\$74.09 pb, Forcados, at US\$73.95 pb, and WTI, at US\$70.77 pb, exhibited similar upward movements as the Bonny Light. The OPEC Reference Basket (ORB) rose by 7.7 per cent in the third quarter of 2021, to US\$72.58 pb, compared with US\$67.42 pb in the second quarter of 2021 (Figure 6).

The increase in crude oil prices was driven by concerns about short-term oil supply disruptions, occasioned by fire incidence on an offshore oil platform operated by Pemex in Mexico. In addition, a decline in the US

crude oil inventories for four consecutive weeks in August 2021 contributed to the surge in prices.

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



Source: Reuters data, CBN staff compilation.

1.6 Global Commodity Market Developments

Agricultural Commodity Prices

The average indices of the major export agricultural commodities monitored showed an increase, with five of the eight indices increasing in the third quarter of 2021. The average indices rose by 4.06 per cent above the preceding quarter. Coffee, cotton, palm oil, cocoa, and groundnut recorded increases of 23.15 per cent, 9.58 per cent, 5.72 per cent, 3.11 per cent, and 1.11 per cent, respectively, while soya beans, wheat, and rubber declined by 6.03 per cent, 3.99 per cent, and 0.17 per cent, respectively. The price increases were largely influenced by increased demand from key importers, as major countries gradually relaxed restrictions to curb the spread of the third wave of COVID-19 infection. In addition, supply constraints, increasing freight costs, and delays in shipment contributed to the pressure on the prices of the commodities.

Specifically, speculations oversupply shortfall in major producing countries on account of adverse weather conditions influenced the coffee price, while the price of cotton rose on account of robust global demand amidst tighter supply. The price of rubber increased due largely to firm demand arising from stockpiling by China while that of palm oil was influenced, largely, by the challenges of labour shortage in Malaysia, one of the world’s largest producers.

However, improved US harvests weighed on soya beans and wheat prices, while the marginal decline in the price of rubber was attributed to rising output from producing regions.

Table 3: Agricultural Export Commodities, Third Quarter 2021

Indices of Average World Prices of Nigeria's Major Agricultural Export Commodities for July 2021 (in dollars; Dec. 2010=100)

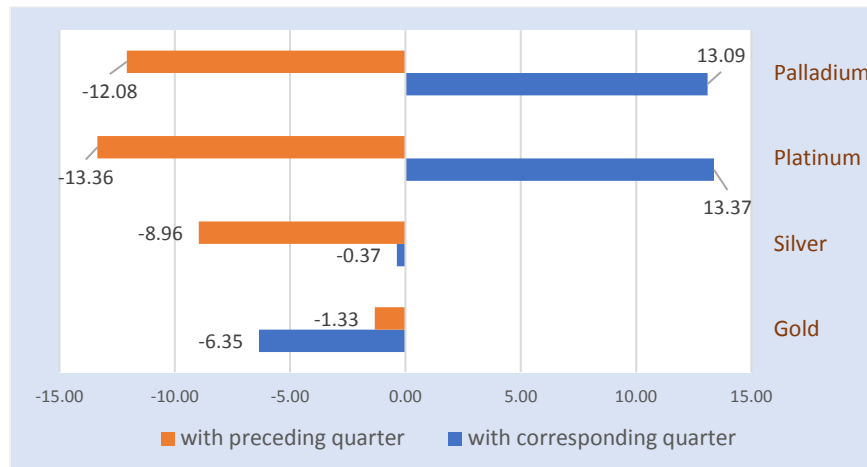
Commodity	2020Q3	2021Q2	2021Q3	% Change	
				(1) & (3)	(2) & (3)
	1	2	3	4	5
Cocoa	75.25	77.86	80.28	6.68	3.11
Cotton	41.53	54.81	60.06	44.64	9.58
Coffee	75.51	84.62	104.21	38.01	23.15
Wheat	69.27	89.37	85.80	23.87	-3.99
Rubber	27.67	35.34	35.28	27.51	-0.17
Groundnut	135.47	105.08	106.25	-21.57	1.11
Palm Oil	60.76	86.47	91.42	50.45	5.72
Soybeans	72.62	113.34	106.51	46.66	-6.03
Average Change	69.76	80.86	83.73	27.03	4.06

Sources: Index Mundi & World Bank pink sheet

Other Mineral Commodities

The gold, silver, platinum and palladium prices declined in the third quarter of 2021. Spot prices of gold and silver in the third quarter of 2021 averaged US\$1,789.69 per ounce (oz) and US\$24.29 per oz, representing a decline of 1.3 per cent and 9.0 per cent, compared with US\$1,813.88 per oz and US\$26.68 per oz recorded in the second quarter of 2021. The decline in the prices of gold and silver was due to the rise in the real yields on US treasury bonds and a stronger dollar. In addition, inflationary pressure in the US showed signs of easing off.

Figure 7: Price Changes in Selected Metals, Third Quarter 2021 (per cent)



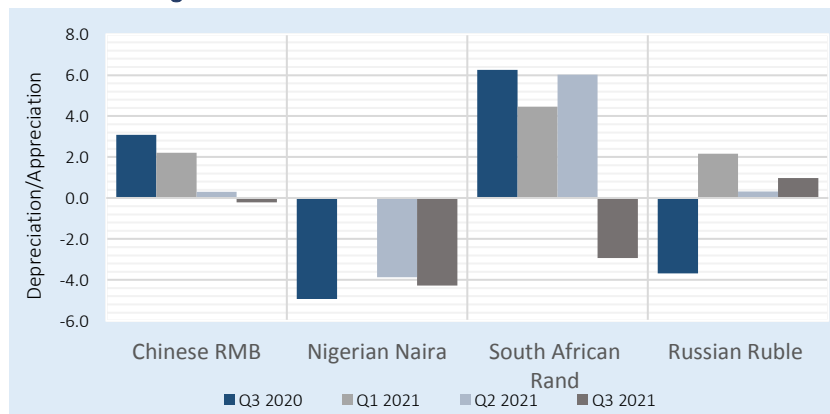
Source: Refinitiv Eikon IV (Thomson Reuters)

Similarly, spot prices of platinum and palladium averaged US\$1,021.50 per oz and US\$2,449.44 per oz in the third quarter of 2021, representing a decline of 13.4 per cent and 12.1 per cent, respectively, below the levels in the second quarter of 2021. The development was a result of a chip shortage that affected vehicle production companies, which led to a fall in demand.

Emerging markets currencies

The performance of emerging market currencies against the US dollar was mixed during the review period. The Russian ruble appreciated by 1.0 per cent in the third quarter of 2021. However, the Nigerian naira, the South African rand and the Chinese RMB depreciated against the dollar by 4.3 per cent, 2.9 per cent and 0.2 per cent, respectively, relative to the levels in the preceding quarter.

Figure 8: EMEs Currencies' Values to the US Dollar



Source: Central Bank of Nigeria & Exchange Rates UK

Table 4: EMEs Currencies' Rates to the US Dollar

Period	Chinese RMB	Nigerian Naira	South African Rand	Russian Ruble
2020 Q3	6.87	379.73	16.89	75.02
2021 Q2	6.46	394.31	14.14	74.20
2021 Q3	6.47	411.89	14.57	73.48

Source: Central Bank of Nigeria & Exchange Rates UK.

2.0 DOMESTIC ECONOMIC DEVELOPMENTS

2.1 REAL SECTOR DEVELOPMENTS

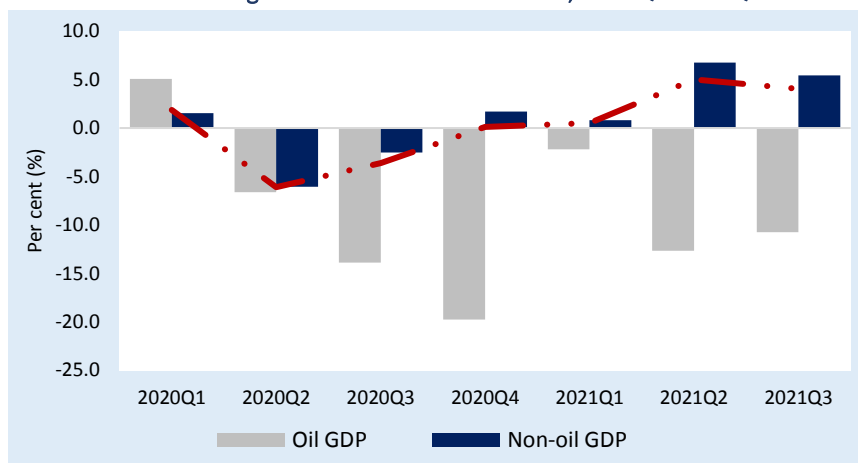
2.1.1. Domestic Output and Business Activities

The recovery path of domestic output was sustained in the third quarter of 2021, following improvement in economic activities, supported by the effect of sustained fiscal and monetary stimuli on the economy. For the fourth consecutive quarter, real GDP grew by 4.03 percent (year-on-year) in the third quarter of 2021, compared with 5.01 in the preceding quarter. The growth in the third quarter of 2021 indicates a steady recovery from the COVID-19 pandemic triggered by the recession. On a quarter-on-quarter basis, the Real GDP grew by 11.07 per cent to ₦18,543.05 billion in the third quarter of 2021, from ₦16,694.67 billion in the second quarter of 2021, signifying an improvement in the performance of the economy relative to the preceding quarter.

Growth in the period was driven mainly by the non-oil sector, which expanded by 5.44 per cent in the third quarter of 2021. Specifically, the Services and Agriculture sub-sectors contributed 4.01 percentage points and 0.38 percentage points, respectively, to the GDP growth. The improvement was spurred by renewed business confidence, which accompanied the optimism surrounding the country's sustained administration of the COVID-19 vaccines. Also, the sustained fiscal and monetary stimuli contributed to the recovery.

However, the oil sector contracted by 10.56 percent in the third quarter of 2021 and contracted the overall growth by 0.94 percentage points. The negative contribution of the oil sector was due to lower crude oil output, which fell to 1.46 mbd in the third quarter of 2021, compared with 1.53 mbd produced in the corresponding quarter of 2020. Supply disruptions was caused by pipeline leakages, fire incidents, and scheduled maintenance on some pipelines. However, the performance of the oil sector improved marginally, as the contraction narrowed by 3.33 percentage points from 13.89 per cent in the corresponding quarter of 2020

Figure 9: Real GDP Growth Rate, 2020Q1-2021Q3

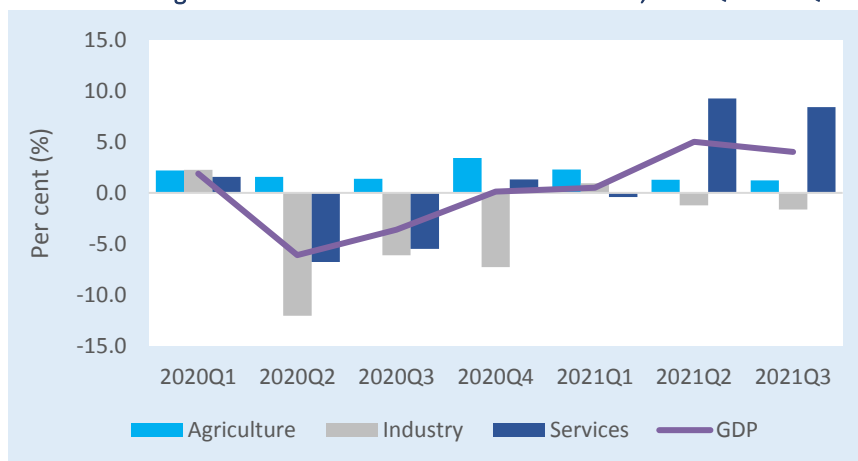


Source: National Bureau of Statistics (NBS).

Sectoral Performance

The Services and Agriculture sectors grew, in real terms, in the third quarter of 2021, while the Industry sector dipped, owing to the contraction of some of its activity sectors. The Services sector recorded an improved growth of 8.41 per cent (year-on-year), in contrast to a contraction of 5.49 per cent in the corresponding quarter of 2020. Finance and Insurance, Trade, and ICT sub-sectors drove the growth, which grew by 23.23 per cent, 11.90 per cent and 9.66 per cent, respectively. The performance of the finance and insurance sub-sector was in response to the improvement in economic activities, which led to increases in the volume and value of credit disbursed to finance business and consumer expenditures.

Figure 10: Sectoral Growth Rates of Real GDP, 2020Q1-2021Q3



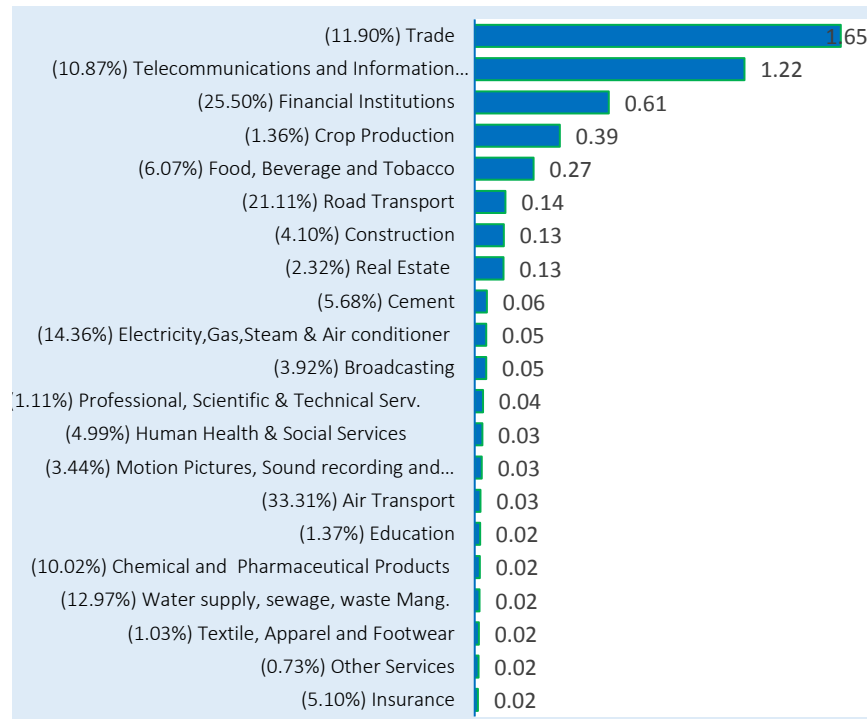
Source: National Bureau of Statistics and CBN Staff Compilation.

The Agriculture sector recorded a slower growth of 1.22 per cent in the third quarter of 2021, compared with 1.39 per cent in the corresponding

quarter of 2020. The slower growth in the sector was attributed to the 3.97 per cent contraction in the fishing sub-sector caused by the seasonal rise in the water levels. Crop production, livestock, and forestry sub-sectors, on the other hand, grew by 1.36 per cent, 0.12 per cent, and 1.98 per cent, respectively.

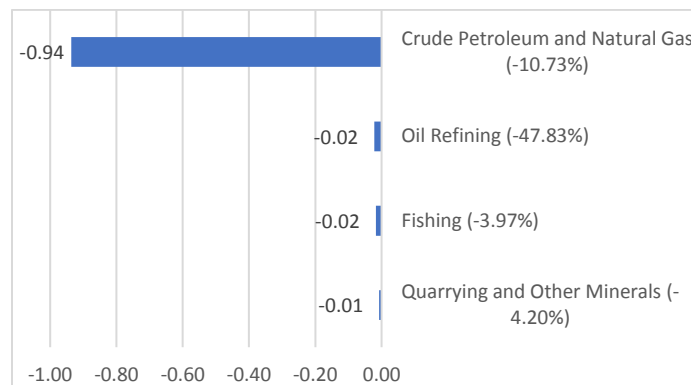
The performance of the Industry sector improved in the third quarter of 2021, recording a lower contraction of 1.63 per cent, compared to 6.12 per cent in the corresponding quarter of 2020. The sector's improvement was due largely to the performance of the Manufacturing and Mining & Quarrying sub-sector.

Figure 11: Top 21 Sub-sectors with largest Contribution to GDP Growth and their Growth Rates



Source: Staff Computation using data from NBS

Figure 12: Bottom Sub-sectors with Least Contribution to GDP Growth and their Growth Rates



Source: Staff Computation using data from National Bureau of Statistics

2.1.2. Index of Industrial Production

Industrial Production

The increase in business activities and confidence reflected a rise in Industrial production. The index of industrial Production at 104.4 (2010=100) in the third quarter of 2021, indicated a 5.2 per cent increase compared with 98.4 per cent in the preceding quarter. The improvement in the third quarter was attributed, majorly, to an increase in mining and manufacturing activities.

Manufacturing

Manufacturing sector activities witnessed improvement in the review period. At 179.2 (2010=100) points, index of manufacturing production rose in the third quarter of 2021, reflecting an increase of 8.7 per cent, compared with 164.8 points in the second quarter 2021. The increase was attributed to improved production and business activities due to increased consumer demand and improved business confidence.

Capacity Utilisation

Capacity utilisation increased in the review period resulting from improvement in manufacturing activities. The estimated average capacity utilisation in the third quarter of 2021 stood at 55.8 per cent, reflecting an increase of 1.1 percentage points above its level in the second quarter of 2021. The increase in capacity utilisation was attributed to improvement in production activities in the quarter.

Mining

Mining sector activities showed an increase in the review period. The mining production index in the third quarter of 2021 at 67.5 (2010=100) index points rose by 6.3 per cent, compared with 63.5 index points recorded in the second quarter of 2021. The improvement was driven by the increase in crude petroleum & natural gas and quarrying activities.

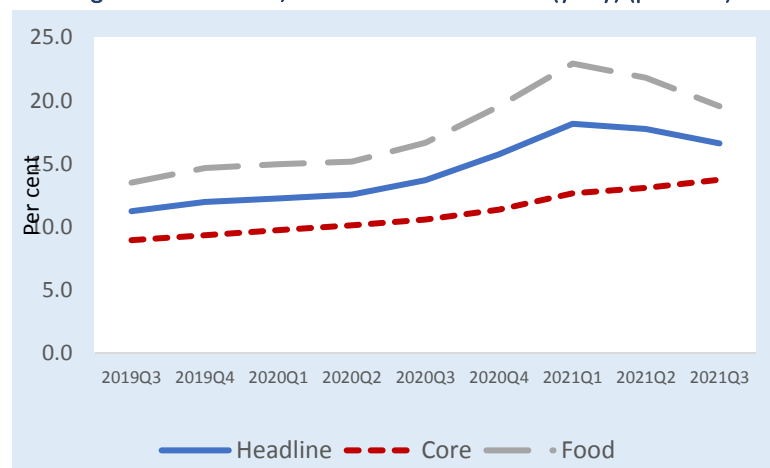
2.1.3. Consumer Prices

Headline Inflation

Inflationary pressure moderated in the third quarter of 2021, compared with the preceding quarter, driven largely by improved agricultural output

and the food supply chain. Headline (year-on-year) inflation moderated to 16.63 per cent in the third quarter of 2021, compared with 17.75 per cent in the preceding quarter. The development was attributed to the positive impact of sustained implementation of the government’s agricultural support schemes and increased flow of goods.

Figure 13: Headline, Food and Core Inflation (y-o-y) (per cent)



Source: National Bureau of Statistics (NBS)

Food Inflation

Food inflation dropped to 19.57 per cent (year-on-year) in the third quarter of 2021, from 21.83 per cent in the second quarter of 2021, driven by the impact of the various FGN and CBN intervention programmes on agriculture and the real sector, bumper harvest, and improved flow of goods and services.

Core Inflation

Core inflation, on the other hand, rose to 13.74 per cent in the review period, from 13.09 per cent in the preceding quarter. The rise in core inflation was attributed to an increase in the cost of transportation/logistics and lingering security challenges across the country.

Crude Oil Production and Export

2.1.4. Crude Oil Market Developments

Domestic crude oil production and export remain unchanged in the third quarter of 2021 but below its current OPEC production quota. Nigeria’s crude oil production, including Agbami, remained unchanged at 1.46 mbpd in the third quarter of 2021, the same as the level recorded in the preceding quarter.

In the third quarter of 2021, an average of 1.01 mbpd was billed for export, while the balance of 0.45 mbpd was allocated for domestic consumption. Nigeria produced lower than its current OPEC quota of 1.52 mbpd. The decrease in production and export was due to leakages, fire incidents, and a declaration of a force majeure arising from

the collapse in infrastructure on the Forcados, Qua Iboe, and Agbami oil facilities.

2.1.5. Energy Sector

Activities in the energy sector improved, following the positive impact of refurbishing existing facilities and collaborations between government and other key stakeholders in the power sector. The continuous metering of households under the National Mass Metering Program (NMMP) enhanced the performance of Electricity Distribution Companies (DISCOs).

Electricity Generation

The estimated average electricity generation for the third quarter of 2021 stood at 4,051.40 MW/h, compared with 3,995.9 MW/h recorded in the preceding quarter, showing an increase of 1.4 per cent. Improvement in the water supply to hydropower plants led to increased electricity generation.

Electricity Consumption

Similarly, the estimated average electricity consumption for the third quarter of 2021, at 3,631.62 MW/h relative to 3,557.42 MW/h recorded in the preceding quarter, indicated an increase of 2.1 per cent. This development was due to the upgrade in the transmission facilities across the country.

2.1.6. Development Financing

The Bank sustained her interventions in Agriculture, Manufacturing, Energy/infrastructure, and Micro, Small and Medium Enterprises (MSMEs) to support economic recovery and contain the downside risks to other domestic and external shocks to the economy.

Development Financing

Agricultural activities in the quarter centred on the harvesting of various root crops and planting of late-maturing crops following the favourable rainfall. Farmers intensified the rearing of poultry products during the last month of the quarter, in preparation for the festive season.

In the third quarter of 2021, government efforts were targeted at increasing output and cushioning the effects of rising domestic food prices. Some of these include the establishment of farm estates in Borno and Kwara States by the Federal Government under the National Agricultural Land Development Agency (NALDA) to increase agricultural output and generate employment opportunities in the states. Similarly, the Federal Ministry of Agriculture and Rural Development (FMARD) established two Gum Arabic processing centres in Kano and Borno States. The Ministry had earlier refurbished the Gum Arabic testing laboratory at the Rubber Research Institute of Nigeria (RRIN) for quality assurance and established a cottage processing centre in Damaturu, Yobe State.

Similarly, the Ogun State Government, via a Public-Private-Partner (PPP) with Tulip Cocoa Processing Limited donated 10,000 improved cocoa seedlings to farmers in the State at Itele, Ijebu-East. The effort was expected to boost the production of cash crops in the country. In related development, the National Palm Produce Association of Nigeria (NPPAN) distributed 10 million oil palm seedlings to farmers across 24 States to promote the cultivation of the crop.

2.1.7. Socio-Economic Developments

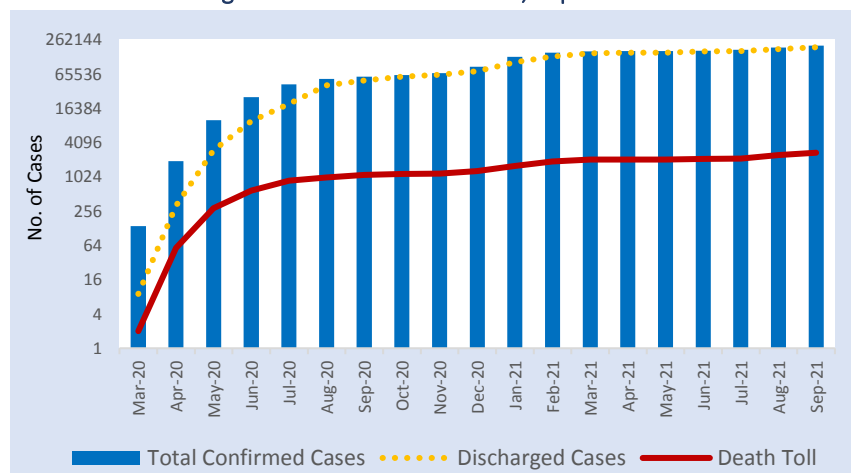
Vaccination against COVID-19 infections continued during the period, despite increases in the country's number of active, confirmed, and death cases. Data from the National Primary Health Care Development Agency showed that 4.4 per cent of the eligible target population, which represents a total of 4,873, 080 persons, had received the first dose of the COVID-19 vaccine as at September 30, 2021. Similarly, about 1.8 per cent of the population (a total of 2,042,235 eligible clients) had received the second dose of the vaccine as at end-September 2021.

However, figures from the National Centre for Disease Control (NCDC) showed that as at end-September 2021, the number of confirmed cases in the country rose by 20.4 per cent to 205,765 from 167,618 in the preceding quarter. The number of discharged cases also increased to 193,617, compared with 164,244 at the end-June 2021. Thus, as at end-September 2021, the number of active cases spiked to 9,428, from 1,254 in the preceding quarter, while the number of deaths rose from 2,120 to 2,720 in the same period. The rise in incidence cases points to the emergence of the new Delta variant.

To further improve the vaccination drive, the National Primary Health Care Development Agency (NPHCDA) received about 1.2 million doses of the Johnson & Johnson vaccine through the AVATT platform, coordinated by the African Union Commission, as part of the 39.8 million doses procured by the Federal Government.

Health: COVID-19 Update

Figure 14: COVID-19 Statistics, September 2021²



Source: Nigeria Centre for Disease Control (NCDC)

² Covid-19 data as at August 31, 2021.

2.2 FISCAL SECTOR DEVELOPMENTS

Summary

The fiscal policy thrust in the third quarter of 2021 was hinged on the 2021 Appropriation Act, the Medium-Term Expenditure Framework and Fiscal Strategy Papers (MTEF & FSP 2021-2023), and the Medium-Term Debt Strategy (MTDS 2020-2023), which seek to achieve macroeconomic stability, food security, job creation, and mitigate the immediate impact of COVID-19, among others. Driven by a sustained rise in crude oil prices and the positive effect of non-oil tax reforms, federation earnings in the third quarter of 2021 grew by 18.3 per cent, relative to the second quarter of 2021. However, the retained revenue of the Federal Government (FGN) declined by 16.2 per cent and 44.2 per cent, compared with receipts in the second quarter of 2021 and the revenue target, respectively; an indication of the persisting revenue challenge. The fall in revenue coupled with a 0.4 per cent marginal drop in Federal Government expenditure recorded in the third quarter of 2021 resulted in an 11.1 per cent expansion in the overall deficit. Triggered by new domestic and external borrowing, total public debt outstanding at the end-September 2021 grew by 7.9 per cent to ₦33,805.84 billion.

2.2.1 Federation Account Operations

Drivers of Federation Revenue

Federation revenue improved in the third quarter of 2021, due to a sustained uptick in economic activities and crude oil prices. Total federation receipts in the third quarter of 2021 at ₦2,848.66 billion exceeded the level in the second quarter of 2021 by 11.5 per cent. However, it was below the quarterly benchmark of ₦3,074.15 billion by 7.3 per cent. The improved revenue in the period was attributed to rallying crude oil prices and greater implementation of the Strategic Revenue Growth Initiatives (SRGI) of the FGN, as contained in the Finance Acts 2019 and 2020. Notwithstanding, non-oil receipts continued to dominate the fiscal space for the fifth consecutive quarter, constituting 59.9 per cent of total revenue, while oil revenue made up the balance of 40.1 per cent. This is an indication that the initiatives to diversify the revenue base of the government are yielding result

Non-oil earnings, at ₦1,705.96 billion, exceeded the level in the second quarter of 2021 and the quarterly target of ₦1,556.37 billion by 7.4 per cent and 9.6 per cent, respectively. Collections from Corporate Income Tax (CIT) and Customs & Excise Duties drove non-oil revenue performance, growing by 28.3 per cent and 29.3 per cent in the period. The performance was due to the response of companies to the July 31st, 2021 deadline for filing CIT returns, as requested by the Federal Inland Revenue Service and the relative rebound in ports activities.

At ₦1,142.70 billion, oil revenue outperformed collections in the second quarter of 2021 by 18.4 per cent. The dynamics in oil receipts were driven, majorly, by collections from the Petroleum Profit Tax (PPT) & Royalties, and domestic crude oil sales, which constituted 72.9 per cent and 24.2 per cent of total oil revenue, respectively. However, oil earnings in the period were below the quarterly target of ₦1,517.78 billion by 24.7 per cent.

Owing to improvement in federation collections in the third quarter of 2021, disbursements to the three tiers of government rose to ₦2,140.77 billion, from ₦1,786.67 billion in the second quarter of 2021. The higher disbursement was due to the lower statutory deductions provision of ₦717.27 billion in the third quarter of 2021, compared with ₦872.52 billion in the second quarter of 2021. Consequently, the sums of ₦489.09 billion, ₦641.91 billion, and ₦478.90 billion were allocated to the Federal, State, and Local governments, respectively.

Federation
revenue
allocation

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

	Q3- 2020	Q2- 2021	Q3- 2021 ^{1/}	Budgeted
Federation Revenue (Gross)	2,408.47	2,553.78	2,848.66	3,074.15
Oil	953.09	965.16	1,142.70	1,517.78
<i>Crude Oil & Gas Exports</i>	79.27	3.79	0.00	157.51
<i>PPT & Royalties</i>	660.48	736.80	833.19	830.64
<i>Domestic Crude Oil/ Gas Sales</i>	185.99	190.83	276.66	252.86
<i>Others</i>	27.36	33.74	32.85	276.77
Non-oil	1,455.37	1,588.62	1,705.96	1,556.37
<i>Corporate Tax</i>	586.46	490.13	629.06	374.13
<i>Customs & Excise Duties</i>	239.76	277.46	358.81	283.13
<i>Value-Added Tax (VAT)</i>	411.68	539.50	484.11	459.59
<i>Independent Revenue of Fed. Govt.</i>	195.98	272.20	225.12	265.47
<i>Others*</i>	21.50	9.33	8.87	174.04
Total Deductions/Transfers*	583.42	872.52	717.27	742.70
Federally Collected Revenue	1,825.05	1,681.25	2,131.39	2,331.45
Less Deductions & Transfers**				
<i>plus:</i>				
Additional Revenue	42.83	105.41	9.38	56.42
<i>Excess Crude Revenue</i>	0.00	0.00	0.00	0.00
<i>Non-oil Excess Revenue</i>	0.00	98.50	0.40	56.42
<i>Exchange Gain</i>	42.83	6.91	8.98	0.00
Total Distributed Balance	1,867.88	1,786.67	2,140.77	2,320.62
Federal Government	785.88	698.28	889.09	979.96
Statutory	728.46	623.02	821.53	916.09
VAT	57.43	75.26	67.57	63.86
State Government	663.14	669.16	772.78	863.56
Statutory	458.68	464.58	511.04	521.66
VAT	191.43	250.87	225.22	212.88
13% Derivation	102.23	102.29	130.87	155.88
Local Government	418.86	419.23	478.90	507.25
Statutory	284.86	243.62	321.25	358.23
VAT	134.00	175.61	157.65	149.02

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

2.2.2. Fiscal Operations of the Federal Government

Overall Balance of
the FGN

The fiscal deficit rose by 11.1 per cent, due to a 0.4 per cent marginal contraction in estimated aggregate expenditure combined with the 16.2 per cent decline in FGN retained revenue, relative to the second quarter of 2021. The FGN recorded a provisional fiscal deficit of ₦2,039.35 billion, which was 45.6 per cent above the quarterly benchmark, reflecting the expansionary fiscal policy stance of the government to implement infrastructural development programmes (Table 7).

Table 6: Fiscal Balance (₦ Billion)

	Q3-2020	Q2-2021	Q3-2021	Benchmark
Retained revenue	1,015.47	1,329.95	1,114.21	1,996.60
Aggregate expenditure	2,626.65	3,165.23	3,153.57	3,397.01
Primary balance	-643.28	-935.25	-1,231.07	-569.31
Overall balance	-1,611.18	-1,835.28	-2,039.36	-1,400.40

Source: Compiled from Office of the Accountant-General of the Federation (OAGF) figures and CBN Staff Estimates

Note: The figures are provisional pending the receipt of consolidated data from the OAGF

FGN Retained
Revenue

Despite the rise in federation revenue, FGN retained revenue fell short of its target, following low earnings, particularly from independent revenue sources. At ₦1,114.21 billion, the retained revenue of the FGN declined by 16.2 per cent and 44.2 per cent, relative to the second quarter of 2021 and the budget benchmark, respectively. The shortfalls reflected declines in non-statutory inflow (excess revenue and exchange gain) and the independent revenue sources of the FGN. However, compared to ₦1,015.47 billion in the third quarter of 2020, retained revenue rose by 9.7 per cent, due to improvement in Federation revenue, VAT, and Federal Government Independent Revenue.

Table 7: FGN Retained Revenue (₦ Billion)

	Q3-2020	Q2-2021	Q3-2021	Benchmark Revenue
FGN Retained Revenue	1,015.47	1,329.95	1,114.21	1,996.60
<i>Federation Account</i>	707.88	568.38	817.06	886.37
<i>VAT Pool Account</i>	57.43	75.26	67.57	63.86
<i>FGN Independent Revenue</i>	195.98	272.20	225.12	265.47
<i>Excess Oil Revenue</i>	0.00	0.00	0.00	0.00
<i>Excess Non-Oil</i>	20.58	3.29	0.21	0.00
<i>Exchange Gain</i>	0.00	51.35	4.25	89.16
<i>Others*</i>	33.61	359.47	0.00	691.73

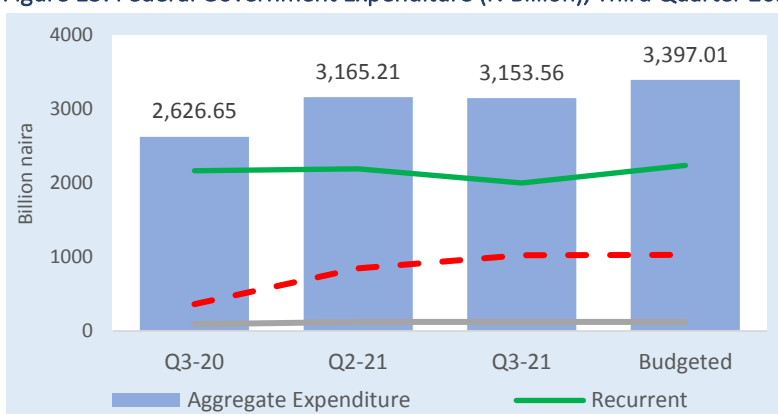
Source: Compiled from Office of the Accountant-General of the Federation figures

Note: * Others include revenue from Special Accounts and Special Levies

FGN expenditure

Provisional aggregate expenditure of the FGN in the third quarter of 2021, at ₦3,153.56 billion, was 7.2 per cent below the budget benchmark of ₦3,397.01, notwithstanding legislative approvals for procurement of COVID-19 vaccines, security hardware, infrastructural development, and capital releases. It was also marginally (0.4 per cent) lower than the level in the second quarter of 2021 (Figure 16 and Table 9). A disaggregated analysis revealed that recurrent expenditure declined by 8.6 per cent, relative to the second quarter of 2021, but remained dominant in total government spending, accounting for 63.5 per cent; while capital expenditure and transfers constituted the balance of 32.5 per cent and 4.0 per cent, respectively.

Figure 15: Federal Government Expenditure (N Billion), Third Quarter 2021



Source: CBN Staff Estimates and compilation from OAGF data

Table 8: Federal Government Expenditure (₦ Billion)

	2020Q3	2021Q2	2021Q3	Benchmark
Aggregate Expenditure	2,626.65	3,165.23	3,153.57	3,397.01
Recurrent	2,169.69	2,192.99	2,003.66	2,241.59
<i>of which:</i>				
Personnel Cost	728.76	819.80	606.54	843.09
Pension and Gratuities	89.69	88.62	88.62	126.05
Overhead Cost	302.17	229.13	430.87	441.36
Interest Payments	967.90	900.03	808.29	831.10
Domestic	831.33	634.71	542.97	595.87
External	136.56	265.32	265.32	235.22
Capital Expenditure	364.32	848.11	1,025.78	1,031.29
Transfers	92.64	124.13	124.13	124.13

Source: CBN Staff Estimate

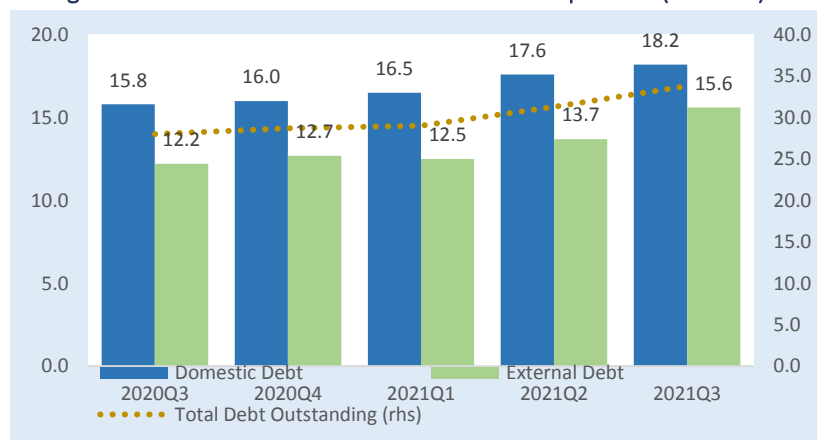
FGN Debt

In the third quarter, public borrowing was hinged on the 2020 - 2023 Medium-Term Debt Strategy. FGN debt outstanding rose to ₦33,805.84 billion at end-September 2021, an increase of 7.9 per cent, relative to end-June 2021. The development was attributed to the drive to enhance economic recovery, reduce the infrastructural deficit, and fund COVID-19 mitigation programmes. Domestic debt accounted for 53.9 per cent of FGN total debt, while external debt obligations constituted 46.1 per cent. This fell short of the domestic-external debt target of 70:30 in the 2020-2023 medium-term debt strategy of the FGN. External debt stock grew by 13.6 per cent, while domestic debt outstanding rose by 3.4 per cent relative to end-June 2021.

FGN bond issues remained dominant in the domestic debt portfolio, accounting for 73.8 per cent of the total domestic debt, followed by Treasury Bills (19.2 per cent); Promissory Notes (4.4 per cent); FGN Sukuk (2.0 per cent); and others (0.6 per cent). The distribution was in tandem with the FGN’s objective to issue more long-term than short-term domestic debt instruments (75:25). In the composition of the external debt, Multilateral, Commercial and Bilateral loans accounted for 48.2 per cent, 38.6 per cent and 11.6 per cent of the total external debt stock, respectively, while promissory notes accounted for the balance of 1.6 per cent.

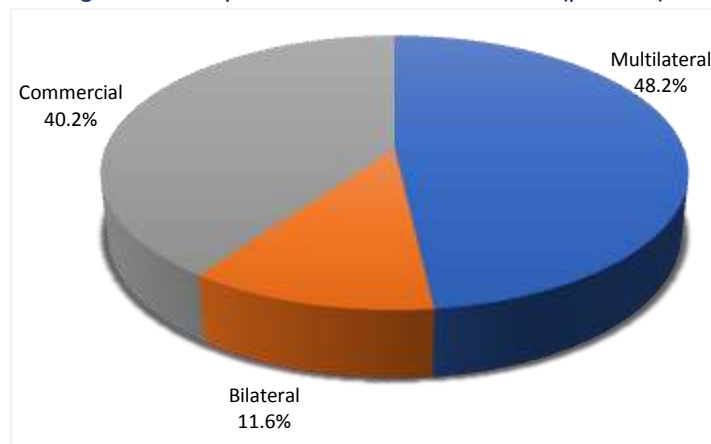
Debt service obligations in the third quarter of 2021 amounted to ₦1,022.99 billion, compared with ₦440.63 billion in the second quarter of 2021. The increase was due, largely, to the rise in the payment of FGN Bonds and principal repayment of promissory notes.

Figure 16: FGN External and Domestic Debt Composition (₦ Billion)



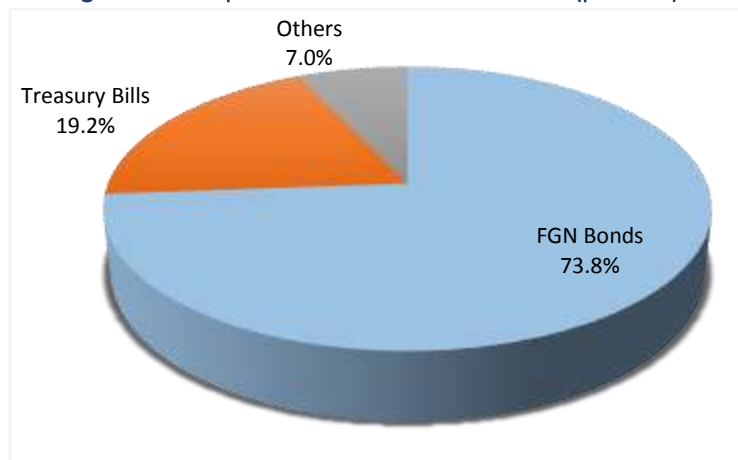
Source: Compiled from Debt Management Office (DMO) figures

Figure 17: Composition of External Debt Stock (per cent)



Source: Compiled using data from the Debt Management Office (DMO)

Figure 18: Composition of Domestic Debt Stock (per cent)



Source: Compiled using data from the Debt Management Office (DMO)

2.3 MONETARY AND FINANCIAL SECTOR

Summary

There was increased credit to key sectors of the economy to further spur economic activities and drive growth, as the monetary policy stance remained accommodative in the third quarter of 2021. Banking system liquidity improved in the review period, compared with the level in the preceding quarter, leading to a downward trend in key interest rates.

Reserve Money

2.3.1 Monetary Developments

Reserve money rose in the third quarter of 2021 due to increased currency-in-circulation and liabilities to Other Depository Corporations (ODCs). CBN liabilities to ODCs inched up due to the increase in Cash Reserve Ratio debits, while currency-in-circulation (CIC) increased, owing to liquidity injection in the banking system through matured CBN bills and Federation Accounts Allocation Committee (FAAC). Consequently, the 4.97 per cent growth in liabilities to ODCs, and the 3.49 per cent growth in CIC resulted in a 5.0 per cent rise in the level of reserve money to ₦12,905.94 billion at end-September 2021 above ₦12,333.79 at end-June 2021. The broad money multiplier declined by 0.06 to 3.13 at the end of September 2021, suggesting a slower rate of monetary expansion in the review period. Consequently, the Broad money supply grew by 4.63 per cent at end-September 2021.

Table 9: Components and uses of Reserve Money (₦ Billion)

	Dec-20	Jun-21	Sep-21
Monetary Base	13,103.09	12,333.79	12,905.94
<i>Currency-In-Circulation</i>	2,908.46	2,741.26	2,837.06
<i>Liabilities to ODCs</i>	10,194.63	9,592.53	10,068.88

Source: Central Bank of Nigeria

Note: ODCs = Other Depository Corporations

Monetary Aggregates

The growth in broad money supply remained modest in the third quarter of 2021, although credit expansion by the banking system was sustained.

The accommodative monetary policy stance of the Bank in the third quarter of 2021 led to continued credit expansion to enhance economic growth. Claims on other sectors rose by 12.2 per cent in the review period driven, majorly, by the claims on the private sector with a substantial contribution of 9.4 percentage points to the growth in total monetary assets. Similarly, Net claims on the Central Government increased by 5.07 per cent at end-September 2021, as loans by the Bank to the Central Government outweighed the increase in liabilities to the Central Government.

The rise in Net claims on Central Government, coupled with increased claims on other sectors, culminated in a 10.15 per cent rise in banking system domestic claims on the economy. However, due to the significant increase in liabilities to non-residents arising from an increase in other loans from non-residents and the sale of bills to non-residents by the Bank, net foreign assets declined by 20.4 per cent at the end of the review quarter, compared with the decline of 0.6 per cent at end-June.

Accordingly, broad money supply, M3 grew by 4.6 per cent to ₦40,414.78 billion at the end-September 2021, with an annualised growth of 6.2 per cent, compared with the provisional benchmark growth of 10.0 per cent for the fiscal year 2021. The development indicated room for monetary expansion while being mindful of inflationary pressures.

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

	Contribution to M ₃ growth (Sept-21)	Sep-20	Jun-21	Sep-21
Net Foreign Assets	-3.87	27.50	-0.62	-20.37
Claims on Non-residents	4.23	0.30	-6.20	8.34
Liabilities to Non-residents	-8.10	-13.60	-9.55	25.56
	8.50	-1.70	2.73	10.49
Net Domestic Assets				
Domestic Claims	11.18	7.39	3.75	10.15
Net Claims on Central Government	1.63	-4.10	-7.14	5.07
Claims on Central Government	8.53	13.70	2.32	15.82
Liabilities to Central Government	-6.91	40.79	16.23	31.62
Claims on Other Sectors	9.55	11.76	8.22	12.24
Claims on Other Financial Corporations	-1.44	10.46	-4.53	-6.51
Claims on State and Local Government	0.63	-5.80	3.57	11.70
Claims on Public Nonfinancial Corporations	0.94	-5.84	24.79	45.45
Claims on Private Sector	9.43	13.88	13.87	19.47
Broad Money	4.63	3.28	2.09	4.63
Currency Outside Depository Corporations	-0.32	-0.21	-9.91	-5.01
Transferable Deposits	0.25	33.75	2.20	0.72
Narrow Money (M₁)	-0.07	27.30	0.31	-0.18
Other Deposits	7.09	17.45	4.76	12.60
Broad Money (M₂)	7.01	21.08	2.87	7.19
Securities Other Than Shares	-2.39	-82.76	-29.79	-99.98
Total Monetary Liabilities(M₃)	4.63	3.28	2.09	4.63

Source: Central Bank of Nigeria

The growth in total monetary liabilities results from the rise in other deposits (12.6 per cent) and transferable deposits (0.7 per cent). The surge in other deposits was driven, largely, by the rise in savings and time deposits, brought about by the more attractive yields on deposits, as rates on term deposits of 1 month, 6 months and 12 month tenors rose to 3.71 per cent, 5.83 per cent and 6.72 per cent, respectively, in the review period, above 3.36 per cent, 5.14 per cent and 6.54 per cent, respectively, in the second quarter of 2021.

The growth in foreign currency deposits slowed to 1.85 per cent in the third quarter of 2021, compared with the growth of 6.70 per cent in the preceding quarter. The modest growth was buttressed by the decline in the share of foreign currency deposits to total deposit from 19.26 per cent at end-June 2021 to 19.12 per cent at end-September 2021. The development may be attributed to a reduction in the accessibility to foreign exchange for speculative purposes by economic agents, following the stoppage of allocation of foreign exchange to Bureau De Change by the Bank.

The need for holding cash for transactions by economic agents also declined in the review quarter, as currency outside depository corporations fell by 5.0 per cent at the end-September 2021. Consequently, narrow money supply (M1) fell by 0.2 per cent to ₦15,948.09 billion in the review quarter.

The sustained credit expansion by the ODCs to other sectors increased sectoral credit. Credit utilisation by sectors of the economy grew by 4.1 per cent to ₦22,802.10 billion at the end-September 2021, owing, largely, to increased credit to trade/general commerce. A breakdown of the credit showed that the industry and services sectors remained the dominant sectors, as their share in total credit stood at 41.7 per cent and 52.9 per cent, respectively, compared with 42.3 per cent and 52.4 per cent at the end-June 2021. The agricultural sector's share increased marginally to 5.4 per cent compared with 5.3 per cent at the end-June 2021.

Sectoral Utilisation of Credit

Table 11: Sectoral Utilisation of Credit

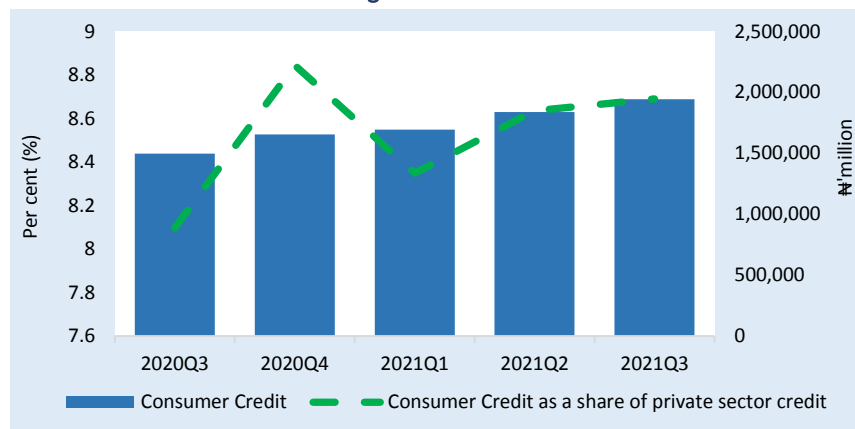
	Dec-20	Jun-21	Sep-21
Agriculture	5.2	5.3	5.4
Industry	41.9	42.3	41.7
Construction	4.7	5.0	4.8
Services	52.9	52.4	52.9
Trade/General Commerce	6.6	6.3	6.9

Source: Central Bank of Nigeria

Consumer Credit

Consumer credit outstanding increased owing to the increase in personal loans. Consumer credit outstanding, at ₦1,942.87 billion, rose by 5.6 per cent in the third quarter of 2021, compared with its level of ₦1,840.24 billion in the preceding quarter, accounting for 8.7 per cent of total credit to the private sector. The rise was due, majorly, to the fall in the maximum lending rate, inducing an increase in the volume of extended loans.

Figure 19: Consumer Credit



Source: Central Bank of Nigeria

A breakdown of consumer loans showed that personal loans accounted for the largest share of 75.7 per cent, while retail loans explained the remaining 24.3 per cent.

Figure 20: Composition of Consumer Credit in Nigeria



Source: Central Bank of Nigeria

2.3.2 Financial Developments

The financial market remained resilient in the third quarter of 2021 despite the mutating and more fatal strains of the COVID-19 virus. The improved

economic prospects led to a bullish run for the major equity market indices, which helped to boost investors' sentiments and offset concerns about rising inflation.

2.3.3 Money Market Developments

Liquidity Flows

Liquidity conditions in the banking system improved in the third quarter of 2021. The average net industry liquidity position increased by 211.0 per cent in the third quarter of 2021, to ₦154.32 billion, from ₦49.62 billion in the preceding quarter. Repayment of matured CBN bills and higher FAAC allocation constitute major injections into the banking system. On the other hand, provisioning and settlement of foreign exchange purchases, Cash Reserve Ratio (CRR) debits, and purchase of CBN bills were sources of liquidity withdrawals from the banking system culminating in a net injection of ₦1,039.84 billion in the banking system.

Open Market Operations

The Bank intervened in the money market through Open Market Operations and discount window activities to manage banking system liquidity in the third quarter of 2021. CBN bills with tenor to maturity of 218.5 days (± 136.5) were auctioned through Open Market Operations (OMO) in the review quarter. There was an increase in the volume of subscriptions in the review quarter to ₦718.02 billion, compared with ₦486.23 billion in the preceding quarter, with a slightly lower bid rate of 8.53 per cent (± 1.73), compared with 9.39 per cent (± 2.60). This led to increased liquidity in the banking system in the review period

Standing Facilities Window Operation

The increased level of liquidity was further evident in the pattern of transactions at the Bank's standing facilities window, as a total request for Standing Deposit Facilities by banks increased by 28.2 per cent to ₦568.15 billion in the review period, while request at the standing lending window declined significantly to ₦1,393.60 billion, from ₦7,271.20 billion in the second quarter of 2021.

Primary Market

Investment in the debt securities market increased, due largely to the attractive yield. NTBs of 91-, 182- and 364-day tenors were issued in the review period. A total of ₦1,021.98 billion, ₦2,941.54 billion, and ₦1,523.32 billion NTBs were offered, subscribed to, and allotted, respectively, in the review period. The subscriptions to the 364-day tenor accounted for 96.1 per cent of the total subscriptions to NTBs in the review period, reflecting investors' preference for longer tenor instruments. This was also obvious in the volume of subscriptions to FGN Bonds, which increased from ₦965.13 billion in the second quarter of 2021 to ₦980.45 billion in the third quarter of 2021. The development

may be due to expectations of lower yield, as the economy continues the path of recovery.

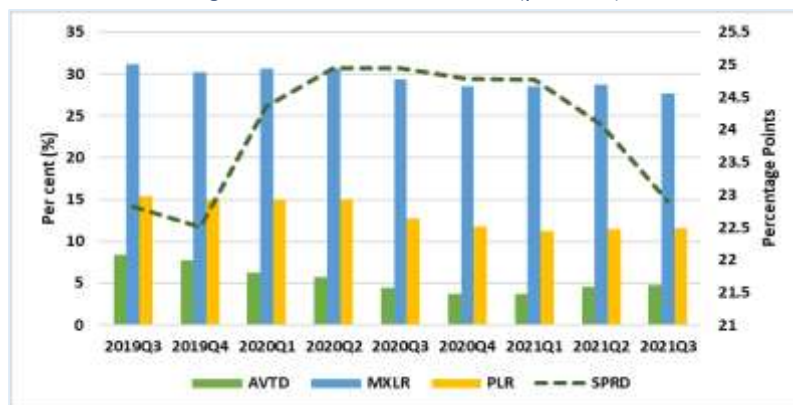
Interest Rate Developments

Key short-term interest rates dipped in the third quarter of 2021, due to increased banking system liquidity. The average inter-bank call and OBB rates declined from 14.52 per cent and 16.45 per cent to 12.94 per cent and 11.93 per cent, respectively, due mainly to increased liquidity in the banking system in the review period. However, the 30-day and 90-day NIBOR traded at averages of 11.56 per cent and 12.53 per cent, respectively, in the third quarter of 2021, above their respective levels of 10.22 per cent and 12.06 per cent in the preceding quarter.

Increased banking system liquidity was reflected in the value of lending transactions, which rose by 5.27 per cent to ₦22,021.56 billion in the review quarter. Consequently, the average maximum lending rate declined by 0.99 percentage points to 27.70 per cent, from 28.69 in the second quarter of 2021. Despite the decline in lending rate, it remained positive in real terms.

The average term-deposit rate rose by 0.15 percentage points to 3.86 per cent, resulting in a narrower spread between the deposit and lending rates. The spread between the average term deposit and maximum lending rates narrowed by 2.10 percentage points to 23.24 per cent in the third quarter of 2021. The proportion of term deposit in total deposit increased to 32.66 per cent above 23.51 per cent at end-June 2021, reflecting increased savings. Although the increase in term deposits reduces long-term liquidity risks, it is more costly for banks than demand deposits.

Figure 21: Interest Rate Trend (per cent)



Source: Central Bank of Nigeria

Capital Adequacy Ratio

2.3.4 Financial Sector Soundness

In the review period, the key financial soundness indicators revealed a stable and resilient financial sector. The industry Capital Adequacy Ratio (CAR) fell by 0.5 percentage points to 15.0 per cent in the third quarter of 2021 relative to 15.5 per cent recorded in the preceding quarter. However, the ratio was still above the regulatory benchmark of 10.0 per cent. The decline relative to the levels in the preceding quarter was attributed to the increase in banks' risk-weighted assets, which was more than offset the increase in total qualifying capital of the banks.

There was also an improvement in banks' loan quality indicator, although it stood above the 5.0 per cent prudential requirement. The non-performing loan (NPL) ratio improved to 5.4 per cent in the third quarter of 2021 from 5.7 per cent recorded in the preceding quarter, due mainly to the increase in loan recoveries by banks. The industry liquidity ratio (LR) declined by 2.9 percentage points to 61.0 per cent in the review period, compared with 63.9 per cent at the end-June 2021, reflecting a decrease in the stock of liquid assets held by banks. At that level, the LR remained above the regulatory benchmark of 30.0 per cent.

2.3.5 Capital Market Developments

Market Capitalisation

Activities on the Nigerian Exchange Limited (NGX) were bullish during the third quarter of 2021, owing to the positive sentiments arising from investors' expectations of the release of the third quarter 2021 earnings reports by quoted companies. Aggregate market capitalisation appreciated by 6.2 per cent to ₦40.55 trillion in the review quarter, compared with ₦38.19 trillion in the preceding quarter. A breakdown of the components of the Aggregate Capitalisation showed that the equities, exchange-traded funds (ETF), and bond components stood at ₦20.96 trillion, ₦0.01 trillion, and ₦18.40 trillion, respectively.

All Share Index

The equities market capitalisation, which constituted 53.2 per cent of the aggregate, rose by 6.0 per cent to ₦20.96 trillion, compared with ₦19.77 trillion at the end-June 2021, owing to gains recorded by blue-chip stocks. The All-Share Index (ASI), which opened at 37,907.78 at the beginning of the review quarter, grew by 6.1 per cent to close at 40,221.17 at the end-September 2021, driven by price appreciation in the medium and capitalised stocks.

Figure 22: Market Capitalisation and All-Share Index



Source: Nigeria Exchange Limited (NGX)

All indices trended upward, except for five (5) indices that trended downward (Table 13).

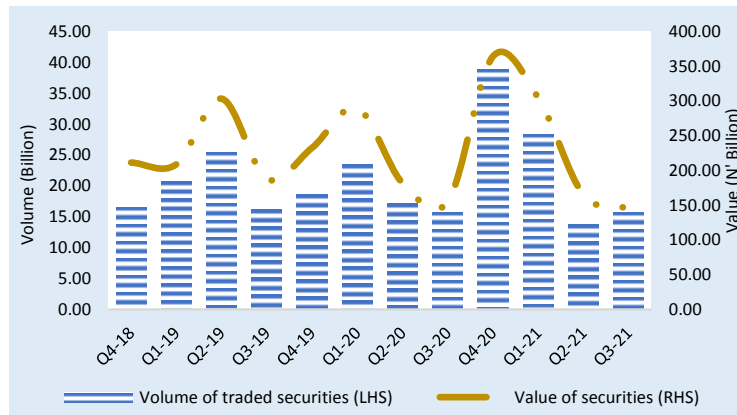
Table 12: Nigeria Exchange (NGX) Limited Indices

NGX Indices	2021Q2	2021Q3	Changes (%)
NSE-OIL/GAS	313.08	376.95	20.4
NSE-PREMIUM	3,527.67	3,759.92	6.6
NSE-INDUSTRIAL	1,887.76	1,975.31	4.6
NSE-AFR Div Yield	2,329.50	2,427.21	4.2
NSE-BANKING	366.47	381.35	4.1
NSE Sovereign	792.96	822.93	3.8
NSE-PENSION	1,479.77	1,525.88	3.1
NSE- 30- INDEX	1,594.87	1,639.22	2.8
NSE- CG	1,199.29	1,226.94	2.3
NSE- MERI VALUE	1,801.66	1,840.97	2.2
NSE-LOTUS	2,760.73	2,818.57	2.1
NSE-AFR BANK VALUE	1,057.09	1,070.34	1.3
NSE-MERI GROWTH	1,789.98	1,806.78	0.9
NSE-INSURANCE	203.84	197.77	-3.0
NSE-MAIN BOARD	1,600.77	1,556.44	-2.8
NSE-CONSUMER GOODS	600.88	597.66	-0.5
NSE-Asem	703.94	701.75	-0.3
NSE Growth Index	1,028.75	1,026.97	-0.2

Source: Nigeria Exchange Limited (NGX)

A total turnover of 16.08 billion shares worth ₦145.24 billion in 239,729 deals was traded by investors on the floor of the Exchange, compared with a total of 13.90 billion shares valued at ₦164.88 billion in 215,842 deals.

Figure 23: Volume and Value of traded Securities



Source: Nigeria Exchange Limited (NGX)

There were three (3) new and one (1) supplementary listing in the review period. The new listings created an avenue for price discovery and an additional source of liquidity for existing and new investors and improved investor confidence.

Table 13: Listing on the Nigerian Exchange Limited (NGX) at end-September 2021

Company	Additional Shares (Units)	Reasons	Listing
Dangote Cement PLC SPV Plc: Listing of Bonds	<p>₦50 Billion 3 years 11.25% Tranche A Senior Unsecured Fixed Rate Bond due 2024</p> <p>₦50 Billion 5 years 12.50% Tranche B Senior Unsecured Fixed Rate Bond due 2026.</p> <p>₦50 Billion 7 years 13.50% Tranche C Senior Unsecured Fixed Rate Bond due 2028.</p>	₦300b Debt Issuance programme	New Listing
8.864% FGNSB AUG 2023	204,965 units	Bond Issuance	New Listing
9.864% FGNSB AUG 2024	683,248,000 units	Bond Issuance	New Listing
12.98% FGN MAR 2050	104,814,900 units	Bond Issuance	Supplementary Listing
Coronation MB Funding SPV Plc: Listing of Bonds	<p>₦25 Billion 5 years 6.25% Series One (1) Fixed Rate Subordinated Unsecured Bonds due 2025 under the Coronation MB Funding SPV Plc's ₦100 Billion Bond Issuance Program.</p>	Bond Issuance	New Listing
16.2884% FGN MAR 2027	74,443,853 units	Bond Issuance	Supplementary Listing
14.80% FGN APR 2049	113,954,700 units	Bond Issuance	Supplementary Listing
12.50% FGN MAR 2035	171,093,317 units	Bond Issuance	Supplementary Listing
12.98% FGN MAR 2050	171,093,317 units	Bond Issuance	Supplementary Listing
8.350% FGS July 2021	341,012 units	Bond Issuance	New Listing
9.350% FGS July 2024	620,986 units	Bond Issuance	New Listing
8.915% FGS SEP 2024	561,303 Units	Bond Issuance	New Listing
9.889% FGS JUN 2024	221,332 Units	Bond Issuance	New Listing
Chemical and Allied Products Plc	88,259,520 Ordinary shares of 50 Kobo each	Rights Issuance	Supplementary Listing

Source: Nigeria Exchange Limited (NGX).

Major Highlights

2.4. EXTERNAL SECTOR DEVELOPMENTS

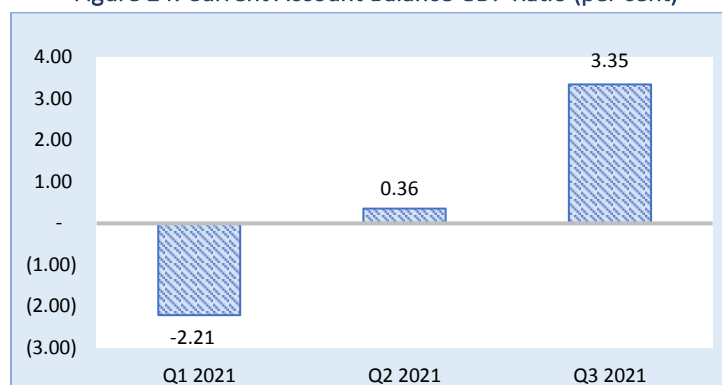
The external sector's performance was impressive during the review period, as the pressure in the external account eased, with an overall balance of payments surplus of US\$5.28 billion in contrast to a deficit of US\$2.14 billion in the preceding quarter. This was driven by the sustained global economic recovery and improved foreign exchange receipts from the International Monetary Fund's SDR allocation and sale of FGN Eurobond. The improved trade surplus, lower payments in respect of services, and repatriation of dividends resulted in a higher current account surplus of US\$3.68 billion, from US\$0.35 billion in the second quarter of 2021. The financial account recorded net incurrence of liabilities worth US\$2.57 billion, as against acquisition of US\$0.24 billion in the second quarter of 2021. The external reserves at the end of September 2021, was US\$41.57 billion, compared with US\$32.99 billion at the end-June 2021. The level could finance 11.5 months of goods or 8.7 months of goods and services import. The average naira exchange rate at the I&E was relatively stable at ₦411.89/US\$ in the third quarter of 2021. Public external debt at end-September 2021 stood at US\$37.96 billion, compared with US\$33.47 billion at the end-June 2021.

2.4.1 Current and Capital Account

The lingering supply chain disruption, particularly with the emergence of the Delta variant of the COVID-19, moderated the import of goods and services. This, coupled with lower repatriation of dividends and improved inflow of transfers, resulted in a higher current account. The surplus in the current account increased significantly to US\$3.68 billion (3.4 per cent of GDP), from US\$0.35 billion (0.4 per cent of GDP), in the preceding quarter. The development reflected increased trade surplus, resulting from lower imports; higher inflow of both government transfers and workers' remittances; and lower repatriation of dividends by non-resident investors. A higher goods account surplus of US\$1.77 billion was recorded, relative to US\$0.31 billion in the second quarter of 2021. The deficit in the services accounts narrowed by 20.3 per cent to US\$2.51 billion (2.3 per cent of GDP), induced by lower payments for travel services, reflecting the lingering effects of travel restrictions in some jurisdictions.

Similarly, the deficit in the primary income account contracted to US\$2.03 billion, compared with US\$2.72 billion in the second quarter of 2021, attributed to lower repatriation of dividends by non-resident investors. The surplus in the secondary income account increased to US\$6.46 billion, compared with the US\$5.92 billion in the second quarter of 2021, as grants received by the general government and remittances from migrants living abroad increased during the review period.

Figure 24: Current Account Balance GDP Ratio (per cent)



Source: Central Bank of Nigeria

Crude Oil and Gas Export

The sustained improvement in global crude oil prices and higher earnings from non-oil and gas exports boosted export receipts in the third quarter of 2021. Aggregate export rose marginally by 0.3 per cent to US\$12.65 billion, relative to US\$12.61 billion in the second quarter of 2021. A disaggregation showed that crude oil export receipts dropped marginally by 1.1 per cent to US\$9.81 billion, compared with US\$9.92 billion in the second quarter of 2021, on account of the decline in domestic production, occasioned by challenges in some oil facilities, such as Agbami and Qua Iboe. Gas export receipts, on the other hand, grew by 4.1 per cent to US\$1.35 billion, relative to US\$1.30 billion in the preceding quarter, due to higher petrochemical demand for propane in preparation for winter.

Non-Oil Export

Non-oil export earnings improved further during the review period. Non-oil export receipts also grew by 7.0 per cent to US\$1.49 billion, relative to US\$1.39 billion in the second quarter of 2021, owing to higher export of agricultural commodities during the review period. In terms of share of total export receipts, crude oil export remained dominant with 77.5 per cent, while gas and non-oil export constituted 10.7 per cent and 11.8 per cent, respectively.

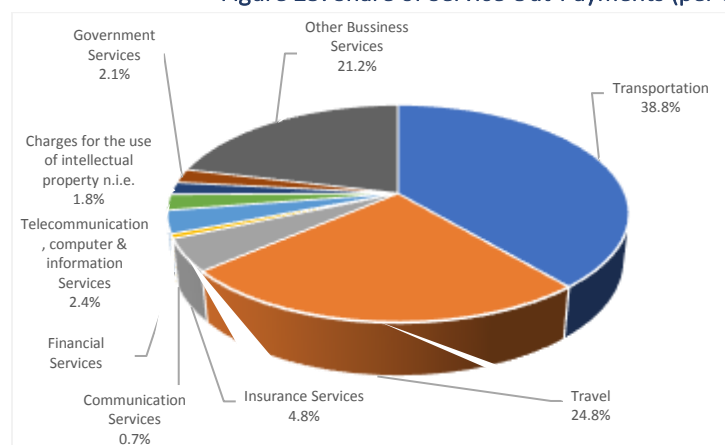
Merchandise Import

The Delta variant of the COVID-19 adversely affected economic activities and supply chain across the globe, thus, dampening imports in the review period. Consequently, aggregate merchandise import declined by 11.6 per cent to US\$10.88 billion in the third quarter of 2021, compared with US\$12.31 billion in the second quarter of 2021, owing to the 17.1 per cent decline in non-oil import. Petroleum products import increased by 5.9 per cent to US\$3.15 billion, compared with US\$2.98 billion in the second quarter, on account of higher demand for premium motor spirit and automotive gas oil. Non-oil import dropped to US\$7.73 billion in the review period, from US\$9.33 billion in the second quarter, reflecting the effect of the resurgence of COVID-19 infections on economic activities.

The share of non-oil imports remained dominant, accounting for 71.0 per cent of total imports, while petroleum products accounted for the balance of 29.0 per cent.

A breakdown of non-oil import by sector revealed that importation of raw materials and machinery for industrial use accounted for the highest share of 40.1 per cent, followed by manufactured products, with a share of 28.2 per cent. Importation of food products accounted for 17.4 per cent, while imports by the oil, transport, agricultural and mineral sectors accounted for 7.8 per cent, 2.8 per cent, 2.2 per cent, and 1.7 per cent, respectively.

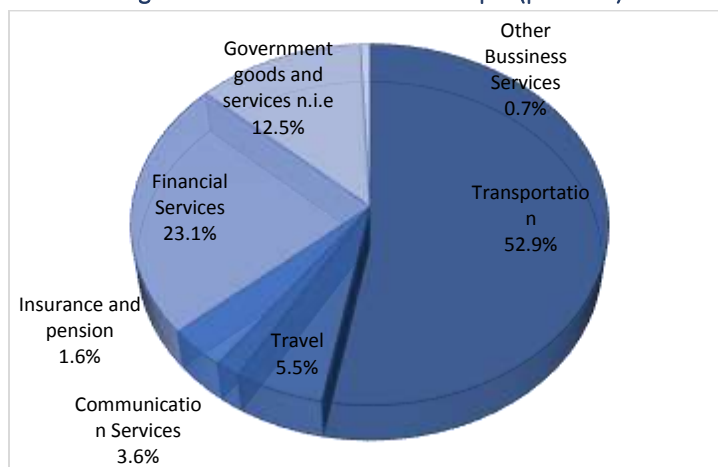
Figure 25: Share of Service Out-Payments (per cent)



Source: Central Bank of Nigeria

A breakdown showed that services receipt increased by 4.6 per cent to US\$0.92 billion, compared with US\$0.88 billion in the second quarter of 2021. A further breakdown showed that receipts from financial services export increased by 50.4 per cent to US\$0.21 billion, from US\$0.14 billion in the second quarter of 2021. Insurance services receipts also increased by 74.7 per cent to US\$0.01, relative to the level in the second quarter of 2021. Transportation services receipts, which constituted 52.9 per cent of services receipts declined by 4.8 per cent to US\$0.49 billion, compared with US\$0.50 billion in the second quarter of 2021, driven by the reduction in freight and other transportation services receipts. Government services receipts also declined by 0.7 per cent to US\$0.11 billion, relative to US\$0.12 billion in the second quarter of 2021.

Figure 26: Share of Services Receipts (per cent)

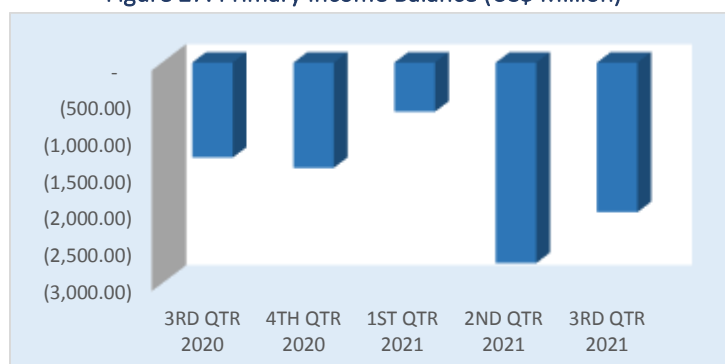


Source: Central Bank of Nigeria

Primary Income

Repatriation of dividends and profits by non-resident investors moderated in the review period, resulting in a lower primary income account deficit. A lower deficit of US\$2.03 billion was recorded in the third quarter of 2021, compared with the US\$2.72 billion in the second quarter of 2021. The development was based, majorly, on lower repatriation of dividends and distributed branch profits, as most companies declared their profit earlier in the year. The compensation of employees sub-account maintained a surplus position, at US\$0.06 billion, higher than the US\$0.05 billion in the preceding period.

Figure 27: Primary Income Balance (US\$ Million)



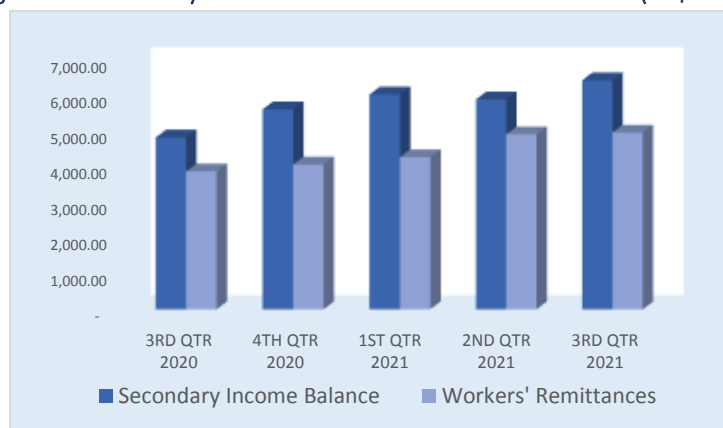
Source: Central Bank of Nigeria

Secondary Income

Increased inflow of general government transfers, majorly to address the COVID-19 pandemic and security challenges, coupled with increased inflow of remittances, arising from the positive impact of the Banks' Naira4Dollar policy, improved the surplus in the secondary income account. The surplus in the secondary income increased by 9.2 per cent to US\$6.46 billion, compared with US\$5.92 billion in the second quarter of 2021 due, largely, to an increase in both general government and other

sectors receipts. Personal transfers, including workers’ remittances, improved by 1.3 per cent to US\$4.90 billion in the third quarter of 2021, compared with US\$4.84 billion in the preceding quarter. Similarly, receipts by the general government in the form of transfers increased by 44.0 per cent to US\$1.56 billion in the review period, relative to US\$1.08 billion in the second quarter of 2021.

Figure 28: Secondary Income Balance and Remittances Inflow (US\$ Million)



Source: Central Bank of Nigeria

2.4.2 Financial Account

Financial Account Developments

The receipt of FGN Eurobond proceeds by the government and increased inflow for the purchase of short-term money market instruments resulted in net incurrence of financial liabilities of US\$2.57 billion (2.3 per cent of GDP), in contrast to net acquisition of US\$0.24 billion (0.4 per cent of GDP) in the second quarter of 2021.

Net Incurrence of Liability

The aggregate financial inflow of US\$11.88 billion was recorded in the third quarter of 2021, compared with US\$1.75 billion in the second quarter of 2021, due, majorly to increased inflow of portfolio investment, following the receipt of FGN Eurobond proceeds and higher inflow for the purchase of money market instruments. Portfolio investment rose to US\$7.46 billion, in contrast to a reversal of US\$0.27 billion in the preceding quarter. Similarly, the inflow of other investments increased to US\$4.43 billion, compared with repayment of US\$0.78 billion in the preceding quarter, due to an increase in other liabilities as a result of additional SDR allocation by the IMF and higher loan liabilities of both the banks and the private sector. However, direct investment recorded a divestment of US\$0.01 billion in the third quarter of 2021 in contrast to an inflow of US\$2.80 billion in the preceding quarter, due majorly to a decrease in reinvested earnings as some companies declared losses.

Net Acquisition of Asset

The aggregate financial asset was US\$9.31 billion in the third quarter of 2021, compared with US\$2.00 billion in the second quarter of 2021,

reflecting increased claims on direct investment enterprises abroad and accretion to external reserves, due mainly to receipt of FGN Eurobond proceeds and additional SDR allocation by the IMF. A disaggregation showed that FDI increased significantly to US\$0.82 billion, from US\$0.10 billion in the preceding quarter.

Portfolio and other investment assets, on the other hand, declined below their levels in the preceding period to US\$0.01 billion and US\$3.20 billion, respectively. Portfolio investment declined due to the lower purchase of debt securities by resident investors, while other investments dropped due to the holdings of foreign currency deposits of the private sector. External reserves asset recorded accretion of US\$5.28 billion in the review period, in contrast to depletion of US\$2.14 billion in the preceding period.

2.4.3 External Debt

External Debt

Additional loans from commercial and bilateral sources resulted in a 13.4 per cent increase in Nigeria's public sector external debt stock at end-September 2021. Public sector external debt stock at end-September 2021 rose to US\$37.96 billion, compared with US\$33.47 billion at end-June 2021. Similarly, external debt service payment increased by 73.3 per cent to US\$0.52 billion, relative to US\$0.30 billion at the end-June 2021. A breakdown showed that the multilateral loans from the World Bank, International Monetary Fund, and African Development Bank Groups amounted to US\$18.28 billion, accounting for 48.2 per cent of the total. A total of US\$14.67 billion was borrowed from commercial sources in the form of Euro and Diaspora Bonds (38.7 per cent), an increase of 37.5 per cent above the US\$10.67 billion at the end of the preceding quarter of 2021. Loans from bilateral sources were US\$4.40 billion or 11.6 per cent of the total, while promissory notes were US\$0.60 billion, or 1.5 per cent of the total debt stock.

A disaggregation of external debt service payments showed that principal repayment amounted to US\$0.17 billion, accounting for 32.7 per cent of the entire payment. Of the principal payments, US\$0.11 billion was to multilateral institutions, while US\$0.06 billion was in respect of bilateral loans. Interest payment was US\$0.32 billion, or 61.5 per cent of the total, with interest on commercial loans amounting to US\$0.25 billion. Other payments, at US\$0.03 billion, made up the balance.

2.4.4 International Investment Position (IIP)

International Investment Position

In the review period, claims on non-resident investors increased, resulting in a lower net financial liability position. Nigeria's International Investment Position (IIP) recorded a net liability of US\$78.51 billion at end-September 2021, relative to US\$79.05 billion at end-June 2021. The stock of financial

assets rose by 13.8 per cent to US\$102.57 billion at end-September 2021, compared with US\$90.17 billion at end-June 2021. This was due largely to 26.0 per cent, 7.3 per cent, and 6.7 per cent increase in the stock of reserve assets, other assets, and direct investment assets, respectively, in the review period.

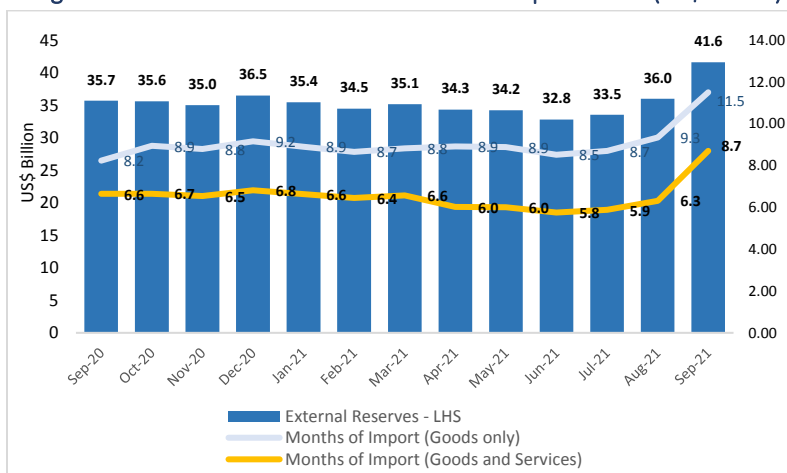
The stock of financial liabilities representing foreign investors' claims on the economy increased by 7.0 per cent to US\$181.08 billion at the end-September 2021, compared with US\$169.21 billion at end-June 2021. The development reflected the 25.4 per cent (US\$36.96 billion), 9.1 per cent (US\$51.65 billion) and 0.1 per cent (US\$90.47 billion) increase in the stock of portfolio, other investment, and FDI liabilities in the third quarter of 2021, from US\$29.48 billion, US\$47.36 billion and US\$90.37 billion in the second quarter of 2021, respectively.

2.4.5 International Reserves

International Reserves

External reserves position was boosted by additional SDR allocation of US\$3.4 billion by the IMF and the receipt of US\$4.0 billion FGN Eurobond in the review period. Consequently, Nigeria's international reserves increased to US\$41.57 billion at the end-September 2021, above the US\$32.99 billion at the end-June 2021. The level of external reserves could cover 8.7 months of import for goods and services or 11.5 months of import for goods only.

Figure 29: External Reserves and Months of Import Cover (US\$ Billion)



Source: Central Bank of Nigeria

A breakdown of the external reserves by ownership showed that the share of CBN was US\$30.99 billion (74.5 per cent); Federal Government, US\$10.52 billion (25.3 per cent); while the Federation accounted for the balance of US\$0.06 billion (0.2 per cent). In terms of currency composition, the US dollar was US\$31.64 billion, (76.1 per cent); Chinese Yuan US\$4.18 billion (10.0 per cent); Special Drawing Rights US\$5.38 billion (12.9 per cent); GB Pounds, US\$0.26 billion (0.6 per cent); Euro US\$0.12 billion (0.3 per cent); and other currencies accounted for the balances.

2.4.6 Foreign Exchange Flows Through the Economy

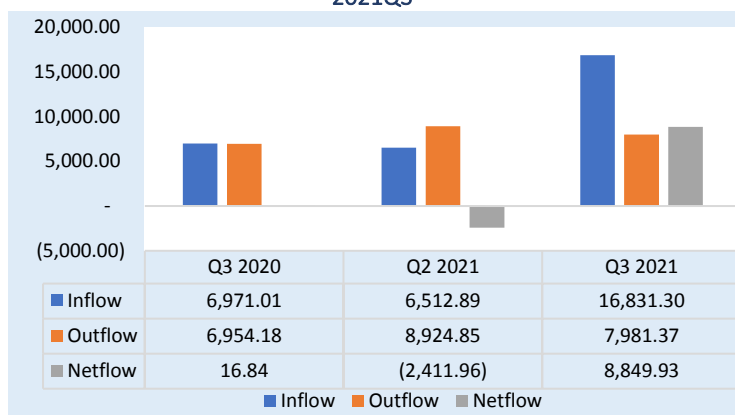
Foreign Exchange
Flows through the
Economy

Foreign exchange inflow to the economy improved in the review period due to increased non-oil receipts. Foreign exchange inflow into the economy rose significantly by 65.0 per cent to US\$30.20 billion, compared with US\$18.30 billion in the preceding period. The development was driven by the 158.4 per cent and 13.4 per cent increased inflow through the CBN and the autonomous sources, respectively. Foreign exchange inflow through the Bank at US\$16.83 billion increased significantly above the US\$6.51 billion in the preceding quarter due to additional SDR allocation and proceeds from the Euro bond sales. A disaggregation showed that non-oil receipts increased to US\$14.97 billion, compared with the US\$4.60 billion in the preceding quarter. However, receipts from oil-related sources fell by 2.7 per cent to US\$1.86 billion, relative to the value in the second quarter of 2021. Foreign exchange inflow through autonomous sources was US\$13.37 billion, compared with US\$11.79 in the preceding period, as a result of improved inflow from invisible purchases and non-oil export receipts.

Foreign exchange outflow through the economy at US\$10.22 billion increased by 4.6 per cent, compared with the level in the second quarter of 2021, driven largely by higher utilisation of foreign exchange for invisible imports. Aggregate foreign exchange outflow through the Bank was US\$7.98 billion, reflecting a decrease of 10.6 per cent, relative to US\$8.92 billion in the second quarter of 2021. The development resulted from the decline in the Bank’s intervention in the foreign exchange market, due to the stoppage of sales to BDC operators. Outflow through autonomous sources at US\$2.24 billion increased by 165.1 per cent, above the level in the preceding quarter, due to a significant increase in invisible imports.

Accordingly, foreign exchange flow through the economy resulted in a net inflow of US\$19.98 billion in the third quarter of 2021, compared with US\$8.53 billion in the preceding quarter of 2021. A net inflow of US\$8.85 billion was recorded through the Bank, in contrast to a net outflow of US\$2.41 billion in the preceding quarter of 2021. Similarly, a higher net inflow of US\$11.13 billion was recorded through autonomous sources in the review period, compared with US\$10.94 billion in the preceding period.

Figure 30: Foreign Exchange Transactions through the Bank (US\$ Million), in the 2021Q3



Source: Central Bank of Nigeria

2.4.7 Foreign Exchange Market Developments

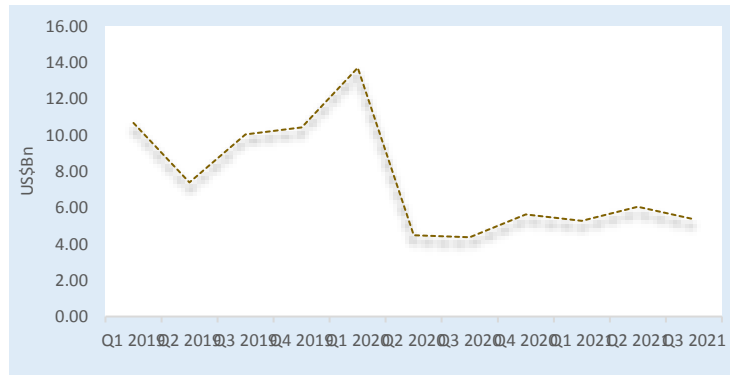
The foreign exchange market was relatively liquid and stable, following the Bank’s sustained intervention in the market. During the review period, the Bank discontinued sales of foreign exchange to Bureau De Change (BDC) operators and suspended the processing and issuance of new licenses for BDC operations. Consequently, forex sales were rechannelled to commercial banks to meet the PTA/BTA needs of customers. Furthermore, commercial banks were directed to publish customers' names that

circumvent the Bank’s policy on the sale of forex on their website, to curtail sharp practices.

Transactions in the Foreign Exchange Market

Total foreign exchange sales to authorised dealers by the Bank was US\$5.35 billion, a decrease of 11.6 per cent, compared with the level in the preceding quarter. A disaggregation showed that sales to interbank and secondary market intervention sales (SMIS) rose by 33.9 per cent and 35.7 per cent to US\$0.73 billion and US\$2.09 billion, relative to the levels in the preceding quarter. However, matured swap contracts, I&E window, and BDCs declined by 19.5 per cent, 21.3 per cent, and 69.0 per cent to US\$0.88 billion, US\$0.80 billion, and US\$0.44 billion, respectively, relative to the levels in the preceding quarter. Similarly, SME interventions decreased by 3.9 per cent to US\$0.41 billion, relative to US\$0.42 billion in the preceding quarter.

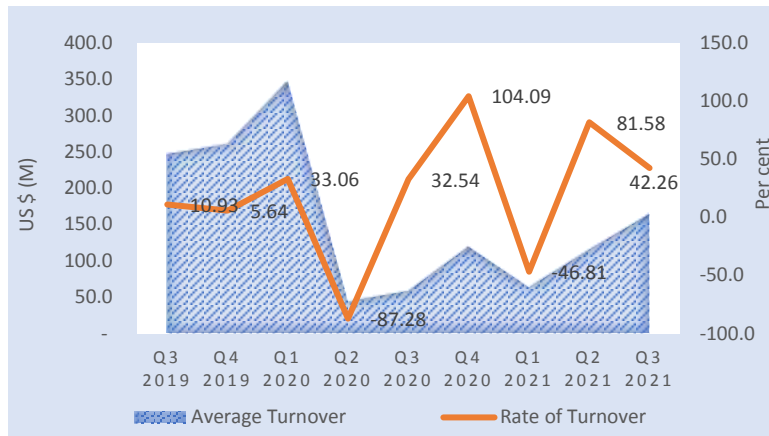
Figure 31: Foreign Exchange Sales to Authorised Dealers, Third Quarter 2021 (US\$ Billion)



Source: Central Bank of Nigeria

The average turnover at the Investors and Exporters (I&E) segment increased by 42.3 per cent to US\$0.16 billion, from US\$0.12 billion in the second quarter of 2021, reflecting increased liquidity in the window.

Figure 32: Turnover in the I&E Foreign Exchange Market (US\$ Million)



Source: Financial Markets Derivatives Quotations (FMDQ)

2.4.8 Exchange Rate Movement

Average Exchange Rate

There was relative stability of exchange rate at the I&E window in the review period. At the I&E window, the average exchange rate slightly depreciated by 0.2 per cent to ₦411.89/US\$, compared with the level in the second quarter of 2021.

3.0 ECONOMIC OUTLOOK

3.1 Global Outlook

The optimistic growth outlook for the medium-term is threatened by the emergence of new COVID-19 variants and the pace of vaccine administration. The IMF global GDP projection for 2021 was revised downwards by 0.1 percentage points to 5.9 per cent in the October WEO on account of the resurgence of the COVID-19 pandemic and the attendant disruption of supply chains. In addition, the wide disparity in the pace of vaccination between advanced economies and low-income developing countries is expected to further dampen the growth outlook in the medium-term, as the low-income countries continue to lag other country groups. Going into 2022, the growth projection remains unchanged at 4.9 per cent, owing to the expectation of strong consumer demand supported by accommodative policy support and improved pace of vaccination. However, the expected policy normalisation in most advanced economies and the emergence of more virulent strains of coronavirus disease pose downside risks to the outlook.

3.2. Domestic Outlook

The Nigerian economy is expected to sustain its positive trajectory in the near-term. The positive outlook is predicated on continued recovery of oil prices, rebound in manufacturing activities, and intensified administration of COVID-19 vaccine. In addition, the implementation of the Petroleum Industry Act (PIA), which is expected to expand the fiscal space of government in the medium-to-long term; and the launching of the Central Bank Digital Currency (CBDC), eNaira, which is expected to improve cost efficiency on transactions and financial inclusion in the medium-to-long term; are potential growth enablers.

Consequently, the economy is projected to grow at 2.86 per cent in the fourth quarter of 2021, with an annual growth of 3.10 per cent in 2021. However, the potential third wave of COVID-19 pandemic, amid rising cases of the Delta variant across the world, persisting insecurity, limited fiscal space, weak commodity value chain, infrastructure deficit and poor electricity supply, are likely headwinds that could have a negative impact on the outlook of growth.

Inflationary pressure is expected to ease in the short-to-medium term in response to the positive impact of the various CBN and Federal Government interventions on agriculture and the real sector. Furthermore, the harvest season is expected to boost food supply, leading to a gradual fall in food prices and moderation in food inflation. Against this backdrop,

headline inflation is expected to decline marginally to 14.97 per cent at the end of the fourth quarter. However, increased demand during the festive period, lingering security challenges, and food supply disruptions caused by hoarding and activities of middlemen could likely elevate food prices in the near term.

The fiscal outlook for the rest of the year is optimistic, consequent on the rise in crude oil prices and fiscal reforms. An increase in crude oil prices above the US\$40pb budget benchmark, robust implementation of the strategic revenue growth initiatives of the FGN, and widespread availability and administration of COVID-19 vaccines could improve the fiscal space in the fourth quarter. However, this prospect is dampened by the fiscal risks associated with the country's elevated debt service-revenue ratio and lingering security challenges.

It is anticipated that the monetary policy stance will be sustained, considering that the path to economic recovery continues. The Bank is expected to continue its interventions through OMO and CRR debits to neutralise the effect of the expected inflows from maturing CBN bills. The opportunity available at the OMO window may sustain Foreign Portfolio Investments (FPI), engendering short-to-medium-term stability at the Nigerian foreign exchange market. Money market rates are expected to move in tandem with the level of liquidity, while yields on fixed-income securities are expected to trend in line with current realities, as investors in the equities market anticipate a sustained rise in market indicators.

Nigeria's external reserves outlook is positive, owing to the sustained high global crude oil price. The level of external reserves is projected to increase in the near term, expecting crude oil prices to continue to increase. However, rising global crude oil production (driven by OPEC, Russia, and the United States) tends to negatively impact prices, thus posing a threat to external reserves accretion. Increased incidences of COVID-19 variants could also activate movement restrictions and negatively impact oil prices.