CENTRAL BANK OF NIGERIA ECONOMIC REPORT

Second Quarter 2023

ABOUT THE REPORT

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

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

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EXECUTIVE SUMMARY

The rebound in global economic activities was sustained in Q22023, driven by the services sector and improvement in global supply chains. This development was reflected in the average J.P. Morgan's Global Composite Purchasing Manager's Index (PMI), which expanded to 53.77 index points from 51.73 index points in Q12023. Consumer prices across most economies moderated on account of the tight monetary policy stance, declining energy prices, and base period effects. The performance of the stock and bond markets was mixed, as investors move from higher- to lower- risk assets.

The domestic economy sustained the growth momentum, propelled by activities in the non-oil sector. Real GDP grew by 2.51 per cent (year-on-year), compared with 2.31 per cent in Q12023, reflecting broad based improvement in economic activities, particularly in the services and agriculture sub-sectors. The non-oil sector grew by 3.58 per cent and contributed 3.36 percentage points to overall GDP growth. The oil sector however, dragged growth and contracted by 13.43 per cent, with a negative contribution of 0.85 percentage point. The contraction in the oil GDP was due to legacy challenges confronting the oil sector. Inflation remained elevated, driven largely by recent market-based reforms such as the fuel subsidy removal and the introduction of market-determined exchange rate, which impacted negatively on production, transportation, and logistics cost. In addition, expectations of further rise in prices contributed to inflationary pressures. Thus, headline inflation (year-on-year) rose to 22.79 per cent in Q22023 from 22.04 per cent in Q12023 as core and food inflation rose to 20.27 and 25.25 per cent, from 19.86 and 24. 45 per cent, respectively.

Fiscal, federally collected revenue declined by 8.4 and 39.7 per cent relative to the level in the preceding quarter and the budget benchmark, respectively. Although, FGN retained revenue improved by 8.2 per cent compared with the level in Q12023, it was below the quarterly target by 45.3 per cent. Provisional FGN expenditure dipped by 26.6 per cent relative to the level in Q12023 and fell short of the target by 23.5 per cent. Consequently, overall deficit contracted by 37.9 per cent relative to the preceding quarter. At ₦49,853.69 billion (25.0 per cent of GDP), total public debt, at end-March 2023, remained within the 40.0 per cent domestic threshold.

The financial system was resilient on the back of sustained hawkish policy stance, consistent supervision, and the implementation of prudential guidelines. Broad money supply (M3) grew by 24.4 per cent at end-June 2023, owing to increase in both net foreign and domestic assets, as well as, the effect of exchange rate reforms. The combined effect of the decline in banking *system liquidity and the hike in the monetary policy rate resulted in a mixed trend in key short-term interest rates. The removal of fuel subsidy and the Bank's exchange rate reforms engendered positive sentiments and triggered bullish activities in the capital market. Investors engaged in bargain-hunting, leading to increased market activity.*

Through lower than the preceding period, the current account maintained a surplus position in the review period, due to significant decline in the importation of petroleum products and higher inflow of diaspora remittances. The financial account recorded a net incurrence of financial liabilities, driven by increased inflow of portfolio capital. The international reserves at US$33.71 billion could finance 6.5 months of import for goods and services or 8.9 months for goods only. The average exchange rate of the naira to US dollar at the I&E window depreciated by 9.8 per cent to ₦511.23/US$, compared with ₦460.93/US$ in 2023Q1. The international investment position recorded a lower net financial liability of US$53.13billion. Public sector external debt stock and external debt service payment at end-June 2023 stood at US$43.16 billion and US$0.37 billion, respectively.

Global growth outlook remains blurry, on account of tight financial conditions, geo-economic fragmentation, and macroeconomic uncertainties that continue to trail the Russia-Ukraine War. Thus, the IMF revised global growth projection to 2.8 per cent in 2023, from an estimated 3.4 per cent in 2022. Despite some downside risks, Nigeria's economic growth prospects remains positive. The optimism is contingent upon the continuation of the current trend in crude oil prices and production, and the successful execution of the Medium-Term National Development Plan (MTNDP). Additionally, the pro-market policy reforms of the government such as the removal of fuel subsidy, and the expansion of credit by development finance institutions to growth-enhancing sectors, are expected to spur growth in the medium term. The headwind to the growth outlook includes a potential contraction in global demand, ongoing security issues, and critical infrastructure deficit.

1.0 GLOBAL ECONOMIC DEVELOPMENTS

Summary

Global economic activity rebounded in Q22023, propelled by the easing of supply-chain and inflationary pressure, and the reopening of Chinese economy, resulting in marked expansion in services and employment levels across regions. Also, inflationary pressure moderated in most economies on the back of easing food and energy costs, as well as, the crystallisation of tight monetary policy stance. The cooling off of inflation and receding fears of a possible recession in the Advanced Economies (AEs) led to improvement across financial market segments, with the strong performance of technology and energy sectors outweighing the slump in the US banking sector. Crude oil prices fell, due to increased crude oil supply and investors' pessimism owing to uncertainties in the US banking sector.

1.1 Global Economic Activity

Global Economic Conditions

The rebound in global economic activities was sustained in the second quarter of 2023, driven by the services sector, and improvement in global supply chains. The average global composite Purchasing Managers' Index (PMI) rose to 53.77 index points from 51.73 index points in Q12023. This growth was fuelled by the rising consumer demand that sustained the services sector on a growth trajectory, as inflationary pressures eased further during the quarter. Specifically, the input prices index declined to 57.40 index points from 59.80 index points, with a concomitant reduction of the output prices index to 54.27 index points from 55.07 index points in Q12023.

The services sector outperformed the manufacturing sector with a notable expansion as the PMI increased to 54.97 index points, above 52.33 index points in the preceding quarter. All categories of activity covered namely, business, consumer, and financial services, experienced a broad-based expansion. Also, employment levels in the services sector rose to 52.77 index points from 51.57 index points in the preceding quarter, indicating improved employment opportunities in the labour market. These positive economic indicators led to increased optimism for future business activity. This was reflected in the rise in the future activity index to 65.27 index points in Q22023 from 65.00 index points in the preceding quarter.

The manufacturing sector, on the other hand, remained below the benchmark, with the average manufacturing PMI at 49.53 index points.

Table 1: Global Purchasing Managers' Index (PMI)

	Q22022	Q12023	Q22023
Composite	52.00	51.73	53.77
Employment Level	53.27	51.30	52.07
New Business Orders	51.90	51.23	53.10
New Export Business Orders	48.93	48.37	48.80
Future Output	63.03	64.33	64.17
Input Prices	70.70	59.80	57.40
Output Prices	61.50	55.07	54.27
Manufacturing	51.87	49.53	49.53
Services (Business Activity)	52.67	52.33	54.97
New Business	52.40	52.13	54.67
New Export Business	50.20	50.20	52.77
Future Activity	63.90	65.00	65.27
Employment	53.90	51.57	52.77
Outstanding Business	52.37	50.33	50.57
Input Prices	70.93	61.40	60.07
Prices Charged	61.33	55.37	55.73

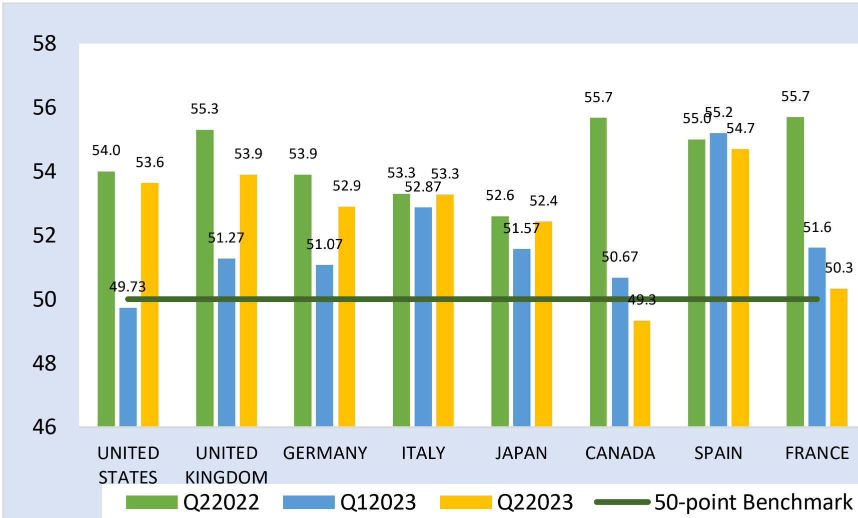
Source: J.P Morgan.

Economic activity in Advanced Economies

The improvement in global supply-chains and moderation in inflation supported economic activities in the Advanced Economies. Most AEs recorded upticks in their output levels in Q22023. For instance, the US PMI rose to 53.63 index points from 49.73 index points in the preceding quarter. This reflected improvement in both services and manufacturing activities, as well as, improved business optimism. Economic activities in Europe was strong during the quarter, supported by increased consumer demand, job expansion and waning input prices. Also, PMI levels rose to 54.70 index points, 53.90 index points, 53.27 index points, and 52.90 index points in Spain, UK, Italy, and Germany, respectively. In Japan, PMI rose to 52.43 index points in Q22023, driven majorly by the services sector as the recovery from the COVID-19 pandemic disruptions gained more momentum. In France, a slower expansion in output was recorded as the PMI which stood at 50.33 index points from 51.60 index points in the preceding quarter, could be attributed to the series of protests and strikes witnessed during the quarter.

In Canada, economic activities contracted on account of high interest rates and an uncertain economic outlook which induced a reduction in consumer demand. Consequently, the PMI declined to 49.33 index points in Q22023 compared with 50.67 index points in the preceding quarter.

Figure 1: Composite Purchasing Manufacturing Indices (PMIs) in Selected Advanced Economies



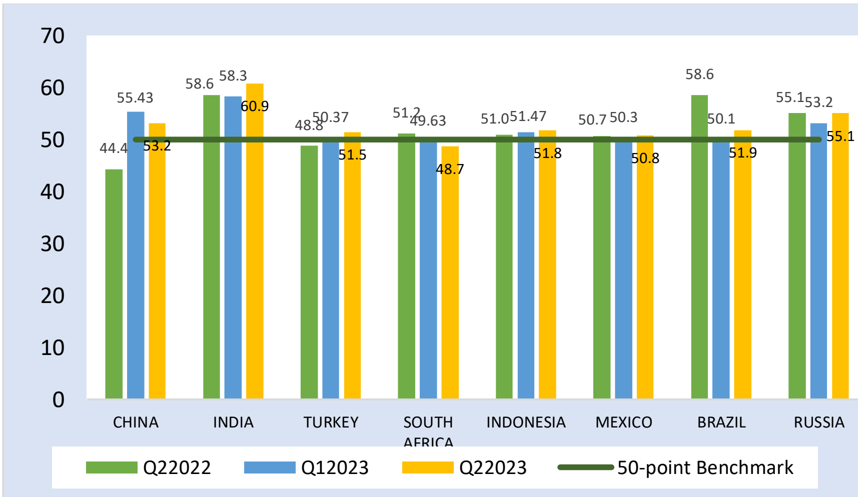
Source: Trading Economics/Various countries' websites.

Economic activity in EMDEs

Economic activity in most Emerging Markets and Developing Economies (EMDEs) remained resilient. Specifically, in India, PMI rose to 60.87 index points in Q22023 from 58.30 index points in the preceding quarter underpinned by robust domestic and foreign demand, which spurred growth in both services and manufacturing sectors. In China, falling exports, weak retail sales and drawbacks in the property sector weighed on growth, resulting in a softer expansion, as the PMI stood at 53.2 index points from 55.43 index points in the previous quarter. In Indonesia, improved factory activities, bolstered domestic demand, albeit weakening foreign demand. Consequently, PMI rose to 51.83 index points from 51.47 index points in the preceding quarter. Similarly, Russia and Turkey witnessed expansions in their economic activities with PMI of 55.10 index points and 51.50 index points, respectively. The developments in Russia were driven by sharper uptick in services output, while sustained improvements in domestic demand and a rebound in economic activity, following the earthquake in February 2023 and the election period, contributed to the expansion in Turkey during the quarter.

In Brazil, economic expansion was driven primarily by the services sector, as PMI inched up to 51.87 index points from 50.10 index points in the preceding quarter. In Mexico, PMI rose moderately to 50.83 index points from 50.30 index points in the previous quarter, buoyed by an improvement in underlying demand for natural gas pipeline and liquefaction projects. Conversely, business activity contracted in South Africa, owing to idiosyncratic shocks such as, power cuts, supply shortages, and price pressures. Thus, PMI fell to index 48.73 index points from 49.63 index points in the preceding quarter.

Figure 2: Selected Emerging Markets and Developing Economies' Composite Purchasing Manufacturing Indices (PMIs)



Source: Trading Economics/Various countries' websites.

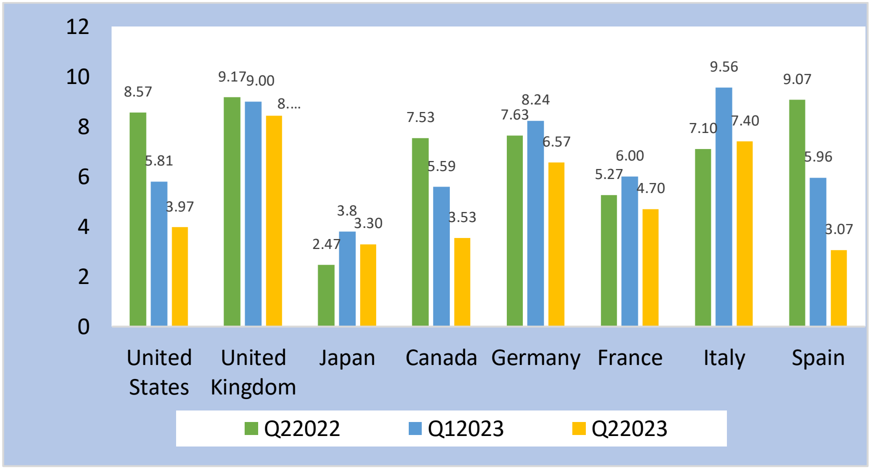
1.2 Global Inflation

Advanced Economies

Consumer prices across most AEs moderated, in response to the tight monetary policy stance, declining energy prices and base effects. The effect of monetary tightening by most countries, which started manifesting in the first quarter of 2023, became more pronounced in the second quarter. Lower crude oil prices, reduced consumer demand, reduction in global supply chain disruptions, and the rate hikes cushioned inflationary pressures in most AEs. Specifically, in the US, average inflation declined to 3.97 per cent from 5.81 per cent in the preceding quarter, due to the decline in energy prices, and the base year effect. In Canada, average headline inflation fell to 3.53 per cent from 5.59 per cent in Q12023, as gasoline prices further declined, coupled with base year effects.

In the euro area, inflationary pressures eased as average inflation fell in Spain, France, Germany, and Italy to 3.07, 4.70, 6.57, and 7.40 per cent in Q22023, respectively, from 5.96, 6.00, 8.24, and 9.56 per cent in Q12023, due mainly to the slowdown in both energy and food prices, and base year effects. In the UK, consumer prices moderated to 8.43 per cent from 9.00 per cent in Q12023, due to a slump in energy prices. Inflationary pressures also moderated in Japan, falling marginally to 3.30 per cent from 3.80 per cent in the preceding quarter.

Figure 3: Headline Inflation in Selected Advanced Economies in Per cent



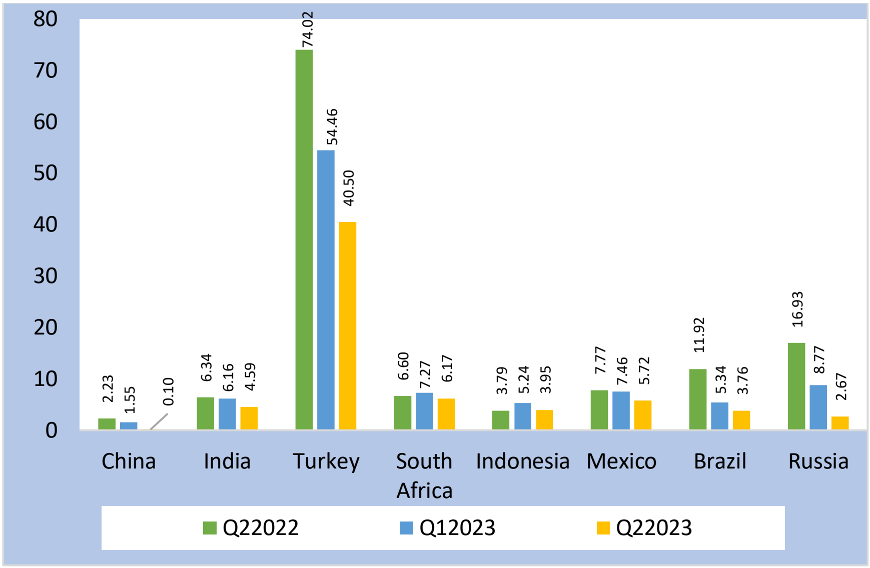
Source: OECD, Trading Economics.

Emerging Markets and Developing Economies

Inflationary pressures further moderated in most EMDEs, due to the fall in transport, and energy costs and food prices. Notably, headline inflation in China fell to 0.10 per cent from 1.55 per cent in the preceding quarter, mainly driven by a decline in non-food prices. In Indonesia, consumer prices moderated to 3.95 per cent from 5.24 per cent in the preceding quarter, settling at the central bank's target due to a major drop in food prices. Similarly, in Brazil, headline inflation fell to 3.76 per cent from 5.34 per cent in the previous quarter, falling below the central bank's upper tolerance band of 4.75 per cent. The decline was primarily driven by a sharp fall in transportation costs. The deceleration in energy costs, food prices, and non-alcoholic beverages reined in headline inflation in Mexico down to 5.72 per cent in Q22023 from 7.46 per cent in the preceding quarter. In India, inflation fell to 4.59 per cent from 6.16 per cent in the preceding quarter as food prices eased.

In Turkey, inflation declined to 40.50 per cent from 54.46 per cent in Q12023, following the implementation of unlimited free natural gas for all households for a year. In Russia, the base year effects of the initial economic impact of Russia's invasion of Ukraine pushed consumer prices down to 2.67 per cent from 8.77 per cent in Q12023. Similarly headline inflation in South Africa, fell to 6.17 per cent in Q22023, from 7.27 per cent in the previous quarter, with moderate increase in the prices of food and non-alcoholic beverages and transportation costs.

Figure 4: Headline Inflation (year-on-year) in Selected EMDEs in Per cent



Source: OECD, Trading Economics and Staff Computations.

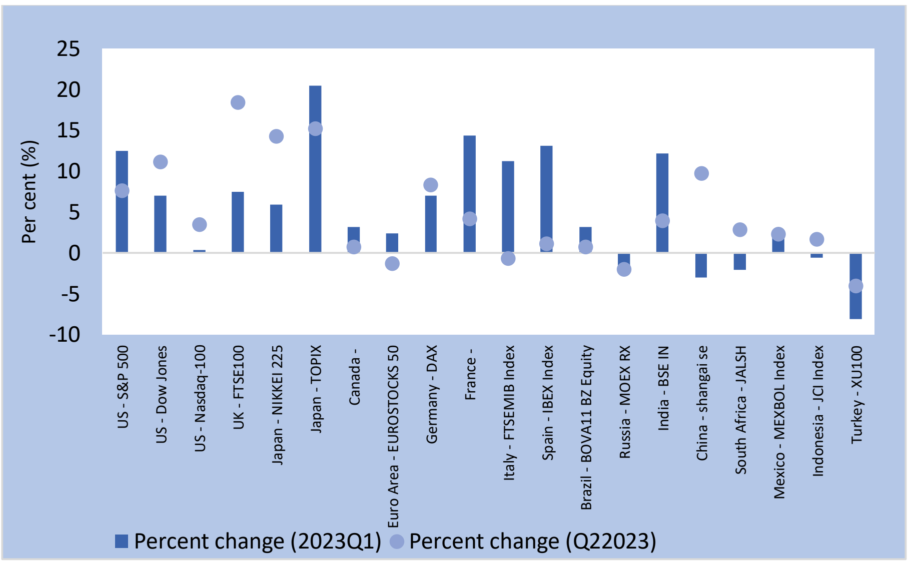
1.3 Global Financial Markets Development

Global stocks and bonds markets experienced significant fluctuations in the second quarter, due to economic fundamentals and geopolitical tensions. Specifically, shares gained in the quarter under review with the improvement driven by the Advanced Economies, notably the US, while stocks of Emerging Market Economies lagged. In the US, the S&P 500 and NASDAQ increased by 7.6 and 3.4 per cent, respectively, compared to the preceding quarter, benefiting from strong corporate earnings, fiscal stimulus measures and moderating inflation. European markets displayed mixed trends, as the UK's FTSE 100 decreased by 2.0 per cent due to declines in the stock prices of energy and basic materials groups, amid broad-based weakness in commodity prices and concerns over the outlook for the Chinese economy.

Stock indices in other European economies increased approximately by 4.0 per cent, supported by improving economic indicators. Eurozone shares posted gains in Q22023, with the main gainers in the financial and IT sectors: the financial sector performance was mainly driven by banks, following increased near-term earnings, while IT was mainly boosted by semiconductor stocks demonstrating the growth potential stemming from Artificial Intelligence (AI). The strong momentum for Japanese shares accelerated in June and the TOPIX index rose by 20.5 per cent within the review period as yen weakness, coupled with ongoing expectations of corporate governance reforms and structural shifts in the Japanese macroeconomy, supported a risk-on mode particularly from foreign investors.

Data from Reuters showed that EMDEs stocks exhibited mixed movements, as stocks performance improved in China and Mexico, but declined in Brazil, Russia, and India. The tension between the US and China, as well as China's sluggish economic recovery, were contributory factors behind the underperformance in EMDEs. Uncertainty surrounding the US debt ceiling contributed to the negative sentiments at the beginning of the quarter, although this was resolved in early June 2023. Nevertheless, Chinese stocks surged in Q22023 following the pledge by the government to support China's recovering economy.

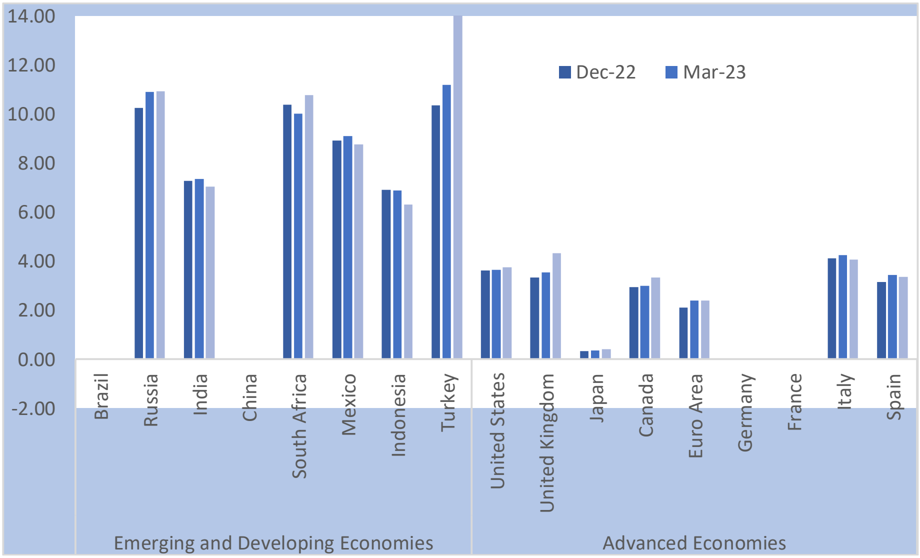
Figure 5: Key Global Stock Indices



Source: Reuters Refinitiv Eikon.

The global bond market exhibited mixed movements, underpinned by risk-off sentiments. Government bond yields in the US surged by approximately 0.8 percentage point compared with the preceding quarter, reflecting concerns over inflation and expectations of tighter monetary policies by the Federal Reserve (the Fed). European government bonds experienced mixed trends, with safe-haven assets like German Bunds witnessing an increase in prices due to risk-off sentiment. In contrast, peripheral Eurozone bonds faced selling pressure, leading to a decrease in their prices. Emerging market bonds experienced volatility due to uncertainties surrounding economic fundamentals and geopolitical risks. Average yield on these bonds increased by 1.2 percentage points, leading to price decline. Specifically, Russian bond yield increased, following the dependence of the government on bonds to finance its budget deficit. Bond yield, similarly, increased in Turkey following the increase of policy rate.

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

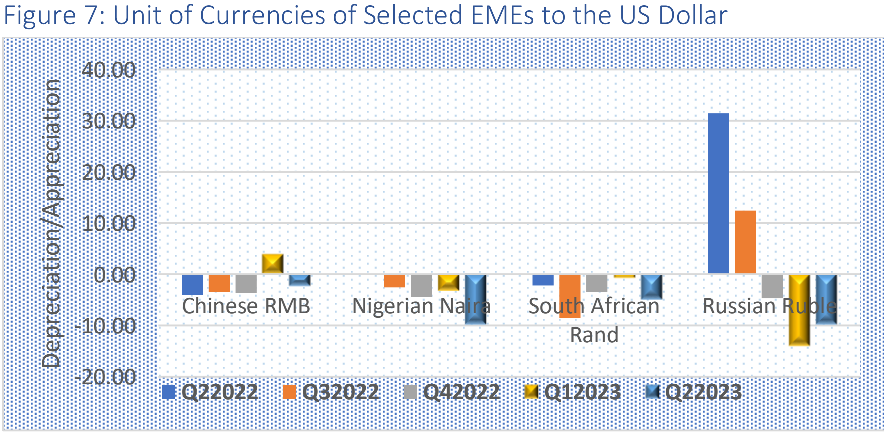


Source: Reuters Refinitiv Eikon.

Naira against Emerging Market Currencies

Selected emerging market currencies depreciated against the US dollar during the review period. The Russian ruble and South African rand depreciated by 9.7 and 5.0 per cent, respectively, relative to the levels in the preceding quarter. The depreciation of the Russian ruble was due to trade deficit, falling export proceeds, and heightened foreign capital outflow, while the depreciation of the South African rand was due to risk-off sentiments emanating from high volatility and idiosyncratic shocks. The Chinese RMB also depreciated by 2.4 per cent due to global market sentiment, domestic factors like shrinking current account surplus, and the expectation of continued two-way volatility in the yuan exchange rate.

Figure 7: Unit of Currencies of Selected EMEs to the US Dollar



Sources: Central Bank Nigeria & Reuters.

Table 2: Currencies of Selected Emerging Markets Economies (EMEs) to the US Dollar

Period	Chinese RMB	Nigerian Naira	South African Rand	Russian Ruble
Q2 2022	6.62	415.71	15.57	67.59
Q1 2023	6.85	460.93	17.76	73.30
Q2 2023	7.01	511.23	18.70	81.20

Sources: Central Bank of Nigeria & Reuters.

1.4 Global Commodity Market Developments

World Crude Supply and Demand

World crude oil supply rose due to increased production from OECD and other non-OECD countries. Total world crude oil supply increased by 0.3 per cent to 101.34 million barrels per day (mbpd), from 101.06 mbpd in the preceding quarter. This rise was driven, largely, by increased supply from OECD countries, particularly in Mexico, where supply rose by 0.05 mbpd to 2.12 mbpd, on account of increased offshore oil drilling. In addition, other non-OECD's supply also increased by 0.63 mbpd to 14.96 mbpd in Q22023.

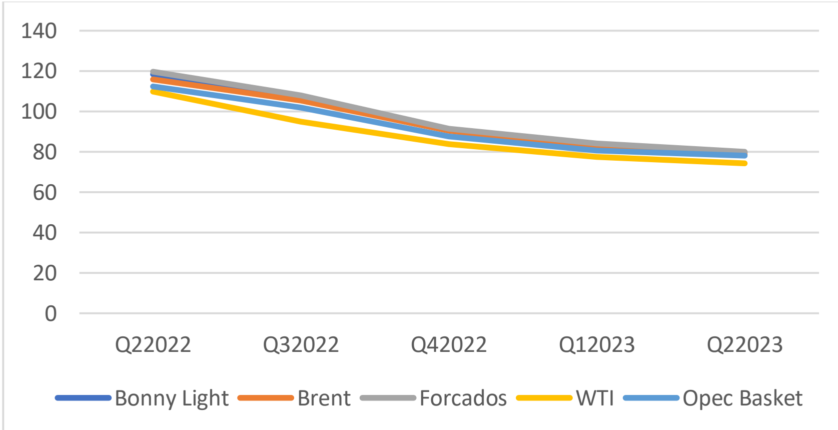
OPEC's crude oil supply fell by 0.2 per cent to 28.40 mbpd in Q22023, from 28.46 mbpd in the preceding quarter. The decline was due, mainly, to the voluntary production adjustment by Saudi Arabia, Iraq, United Arab Emirates (UAE), Kuwait, Algeria and Gabon.

On the demand side, total world demand rose by 0.8 per cent to 100.81 mbpd in Q22023, from 99.98 mbpd in the preceding quarter, which was mainly from China, following the rebound in economic activities.

Crude Oil Prices

Crude oil spot prices fell, as uncertainties surrounding global economic slowdown, as well as, higher global supply, particularly, from the US and Mexico. The average spot price of Nigeria's reference crude oil, the Bonny Light (34.9° API), fell by 4.9 per cent to US$79.78 per barrel (pb) from US$83.86pb in the preceding quarter. The prices of Brent stood at US$78.93pb, Forcados US$80.13 pb; WTI US$74.39pb; and OPEC Reference Basket US$78.17pb; indicative of similar trends as the Bonny Light.

Figure 8: Quarterly Crude Oil Prices (US$ per barrel)



Source: Reuters Data, CBN Staff Compilation.

Agricultural Commodity Prices

The all-commodity price index increased, due primarily to weather conditions and supply bottlenecks. Consequently, the average price index of all monitored commodities was 125.5 points, reflecting a 1.6 per cent rise, compared with the 123.6 points recorded in the preceding quarter, but a decline of 16.9 per cent, compared with the 150.9 recorded in the corresponding period of 2022. The rise in the index was driven by the increase in the prices of coffee, cocoa, and groundnut which rose by 20.8, 12.3, and 3.5 per cent, respectively.

On the other hand, the prices of soya beans, wheat, palm oil, and rubber decreased by 5.5, 5.0, 4.7, 3.8, and 3.4 per cent, respectively, largely on the back of adequate supply of these commodities.

Table 3: Indices of Average World Prices of Nigeria's Major Agricultural Export Commodities in Q22023 (Dollar Based) (Jan. 2010=100)

COMMODITY	Q22022	Q12023	Q22023	% Change (1) & (3)	% Change (2) & (3)
	1	2	3	4	5
All Commodities	**150.9**	**123.6**	**125.5**	**-16.9**	**1.6**
Cocoa	67.6	75.9	85.2	26.2	12.3
Cotton	203.8	127.1	120.7	-40.8	-5.0
Coffee	147.8	145.7	176.1	19.1	20.8
Wheat	244.7	189.7	180.8	-26.1	-4.7
Rubber	54.4	45.8	44.2	-18.7	-3.4
Groundnut	125.7	143.6	148.6	18.2	3.5
Palm Oil	196.6	114.9	110.6	-43.8	-3.8
Soya Beans	166.9	145.8	137.8	-17.4	-5.5

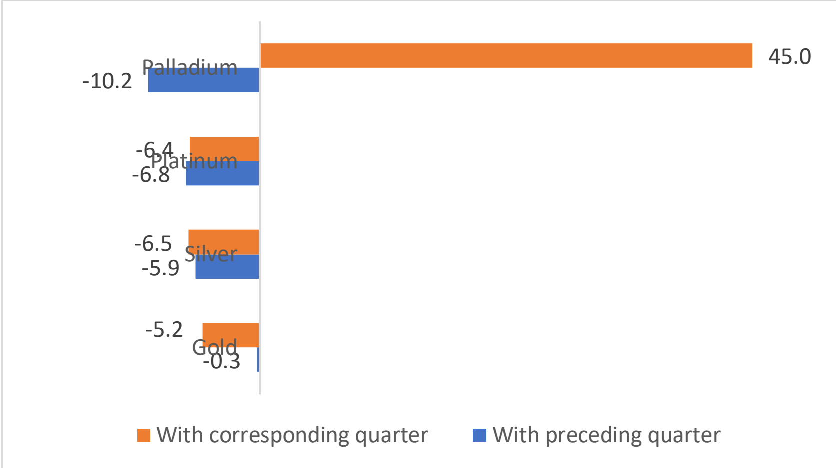
Sources: (1 & 2) World Bank Pink Sheet (3) Staff Estimates.

Other Mineral Commodity Prices

Average spot prices of gold, silver, platinum, and palladium decreased in Q22023 as demand for precious metals fell. The average spot prices of gold and silver declined by 0.3 and 5.9 per cent, quarter-on-quarter, to US$1,872.98 per ounce and US$22.61 per ounce, compared with US$1,878.12 per ounce and US$24.02 per ounce, respectively, recorded in the preceding quarter. The decline was due to interest rate hike by major central banks to combat inflation, which made treasury bonds more attractive as an investment asset.

The prices of platinum and palladium fell by 6.8 and 10.2 per cent to US$957.26 per ounce and US$2,088.12 per ounce in Q22023, from US$1,026.61 per ounce and US$2,325.43 per ounce, respectively, recorded in the preceding quarter. The prices declined due to falling demand from the auto industry, where both metals are used as auto catalyst to reduce pollution in automobiles.

Figure 9: Price Changes in Selected Metals (%) for Q22023



Source: Refinitiv Eikon (Reuters).

1.5 Monetary Policy Stance

In Q22023, central banks around the world sustained efforts to strike a balance between supporting economic growth and managing inflationary pressures. Among the Advanced Economies, the European Central Bank (ECB) and the Bank of Japan kept the policy rate unchanged, while the US Federal Reserve (Fed), the Bank of Canada and the Bank of England increased rates within the reporting period. Specifically, the retention of the policy rate at 3.75 per cent by the ECB was to sustain its emerging economic trends. Similarly, the Bank of Japan maintained its negative interest rate to support economic recovery and prop-up inflation. The US Fed hiked the policy rates by 8 basis points to 5.17 per cent to address inflationary pressures. Also, the increase in the interest rates in UK and Canada by 0.08 and 0.25 percentage point, respectively, were in a bid to address surging inflation and concerns about rising housing prices.

In EMDEs, several economies such as Indonesia, India, Mexico, Brazil, and Ghana held their policy rates at 5.75, 6.50, 11.50, 13.75, and 29.5 per cent, respectively. The People's Bank of China slightly reduced policy rate to stimulate economic growth, amid external and domestic challenges. Central banks in Turkey, Russia and Kenya raised their rates to contain surging inflation and stabilise the local currency. The South African Reserve Bank reduced rates by 0.17 percentage point from Q12023 to 8.08 per cent in Q22023, to support the economy.

Table 4: Policy Rates of Selected Central Banks in Per cent

Country	Q42022	Q12023	Q22023
United States	5.00	5.25	5.17
Canada	4.50	4.50	4.75
Euro Area	3.50	3.75	3.75
United Kingdom	4.25	4.50	4.58
Japan	-0.10	-0.10	-0.10
Brazil	13.75	13.75	13.75
Russia	7.50	7.50	7.83
India	6.50	6.50	6.50
China	3.65	3.65	3.62
South Africa	7.75	8.25	8.08
Mexico	11.25	11.25	11.25
Indonesia	5.75	5.75	5.75
Turkey	8.50	8.50	13.67
Kenya	9.50	9.50	9.83
Ghana	29.50	29.50	29.50

Source: Various Central Banks' websites, Trading Economics.

2.0 DOMESTIC ECONOMIC DEVELOPMENTS

2.1 Real Sector Developments

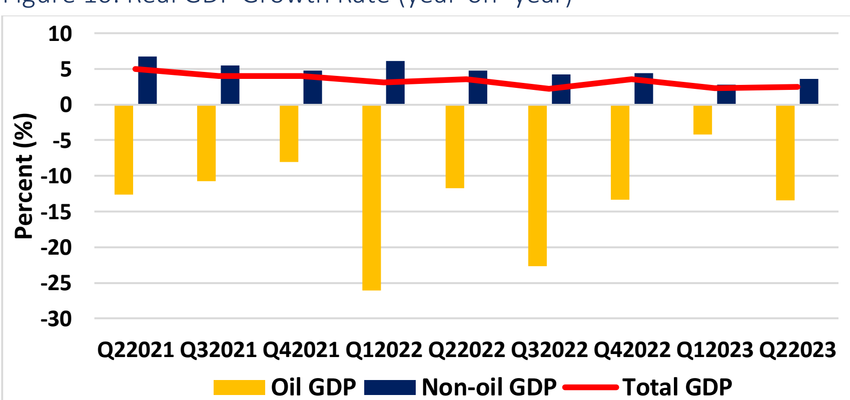
Summary

The country witnessed sustained growth in Q22023, due mainly to the contribution from the non-oil sector, following sustained investment in information and communication, and financial services. Consequently, real GDP grew by 2.51 per cent (year-on-year) to ₦17.72 trillion, from 2.31 per cent recorded in the preceding quarter. Headline inflation rose further to 23.79 per cent from 22.04 per cent in the preceding quarter on account of recent market-based reforms namely, the fuel subsidy removal and introduction of market determined exchange rate which impacted negatively on production, transport and logistics cost. Also, expectations of further rise in prices contributed to inflationary pressures.

Domestic Output and Economic Activities

Economic growth was sustained in Q22023, driven mainly, by the activities in the non-oil sector. The growth momentum was supported by increased investments, especially, in information & communication, and financial services. Consequently, real GDP grew by 2.51 per cent in Q22023 y-o-y compared with 2.31 per cent in Q12023, driven by the non-oil sector, which grew by 3.58 per cent and contributed 3.36 percentage points to overall GDP growth. The oil sector, however, dragged overall growth, with a negative contribution of 0.85 percentage points and contracted further by 13.43 per cent, compared with the growth of 4.21 per cent recorded in the preceding quarter. The contraction was on account of the decline in crude oil production to 1.14 million barrels per day (mbpd) from 1.28 mbpd produced in 2023Q1. Moreso, subsisting infrastructural and security challenges continued to weigh on the sector's output.

Figure 10: Real GDP Growth Rate (year-on- year)

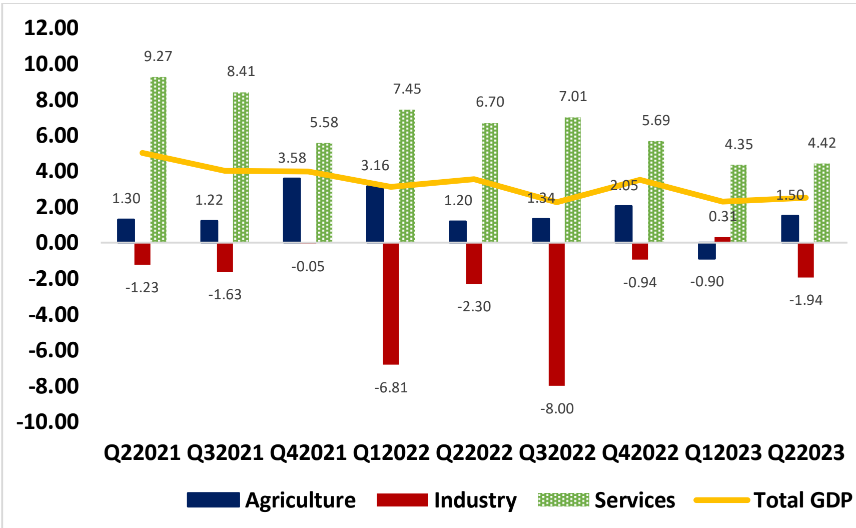


Source: National Bureau of Statistics.

2.1.1 Sectoral Performance

The Services and Agriculture sectors grew, while the industry sector contracted in Q22023. The services sector continued to drive growth, contributing 2.54 percentage points to the realised growth. The sector grew at a faster pace by 4.42 per cent in Q22023, compared with 4.35 per cent in Q12023. It also remained the most dominant sector, accounting for 58.42 per cent of aggregate GDP.

Figure 11: Sectoral Growth Rate of Real GDP in Per cent



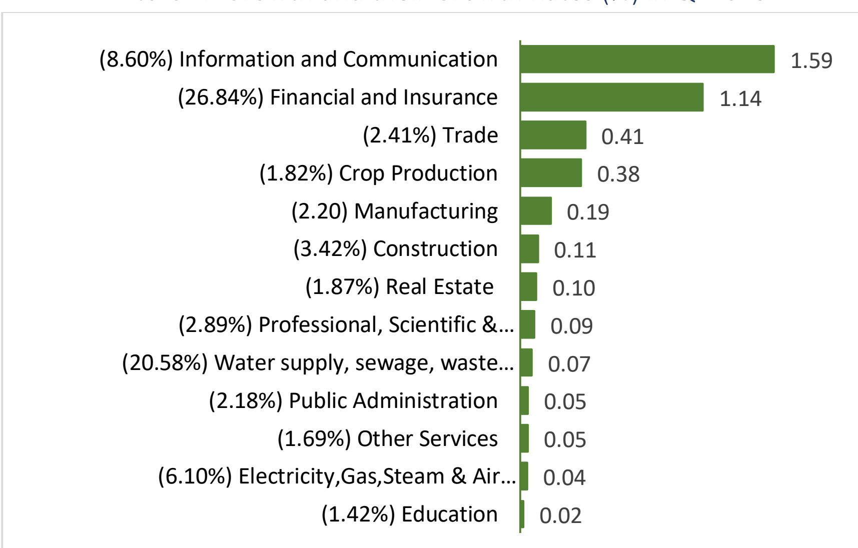
Source: National Bureau of Statistics.

Within the Services sector, Information & Communications, Financial & Insurance and Trade subsectors, grew by 8.60, 26.84 and 2.41 per cent, contributing 1.59, 1.14 and 0.41 percentage points, respectively, to the growth outcome. The growth witnessed in the ICT subsector was due majorly to the continued investment in deploying the fifth generation (5G) broadband services by telecom companies nationwide. Although, its contribution to growth was slower compared with the preceding quarter owing to a drop in active subscribers by 6,074,762, or 2.69 per cent, due to the continuous implementation of the Nigeria Communication Commission's (NCC) policy on the integration of phone lines to National Identity Numbers (NINs). Also, the increased patronage of fintech services following improvement in the payments ecosystem continued to contribute to the growth in the services sector.

The agriculture sector grew by 1.50 per cent, compared with a contraction of 0.90 per cent witnessed in the preceding quarter, contributing 0.35 percentage points to the overall growth. This was occasioned by the continued improvement in crop production and the rebound in fishing activities. Crop production, forestry and fishery subsectors grew by 1.82, 1.88, and 0.29 per cent, compared with a growth of 1.93, 1.24, and a contraction of 2.92 per cent in Q12023, respectively. The livestock subsector, however, contracted by 2.30 per cent compared with a contraction of 30.57 per cent in Q12023.

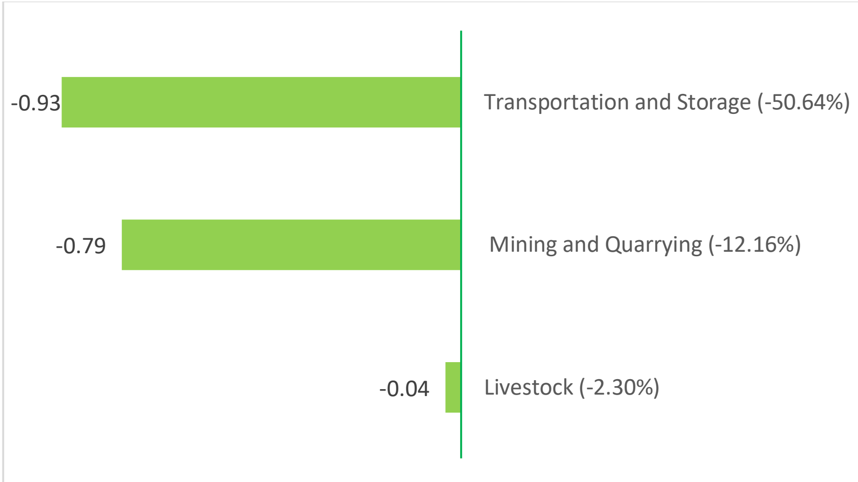
The industry sector contracted by 1.94 per cent in Q22023, compared with a growth of 0.31 per cent in Q12023. The dwindling performance in the industrial sector was mirrored the index of industrial production (IIP), which decreased by 9.7 per cent to 91.9 points (2010=100) in Q22023, from 101.8 index points in the previous quarter. The overall performance of the sector was impeded by the contraction in the mining and quarrying subsector (-12.16 %). This is also mirrored by the Index of mining production, which fell to 49.6 index points in Q22023, indicating a decline of 13.0 per cent, compared with 57.0 index points in the preceding quarter. This was attributed largely to decrease in crude oil production, due to the shutdown of production activities following the industrial action embarked upon by Exxon Mobil workers. The manufacturing subsector grew by 2.20 per cent, y-o-y, as shown in the rise in Index of Manufacturing Production by 2.2 per cent (year-on-year) to 173.5 index points in Q22023, from 164.8 points in the preceding period. Likewise, the estimated average manufacturing capacity utilisation increased by 0.2 percentage points to 54.9 per cent in Q22023, from 54.7 per cent in the preceding period. Growth was also recorded in electricity (6.10 %), water supply (20.56 %) and construction (3.42 %) subsectors.

Figure 12: Top 13 Subsectors with the Largest Contribution (Percentage point) to GDP Growth and their Growth Rates (%) in Q22023



Source: National Bureau of Statistic.

Figure 13: Subsectors with the Least Contributions (Percentage point) to GDP Growth and their Growth Rates (%) in Q22023



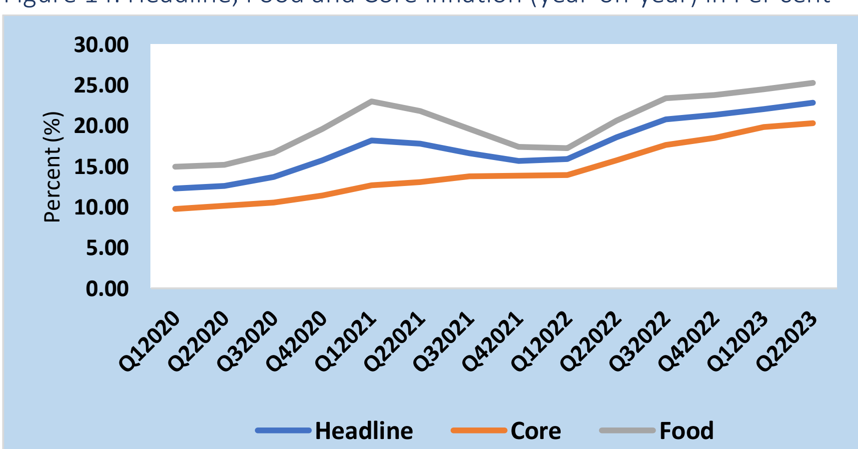
Source: National Bureau of Statistics.

2.1.2 Consumer Prices

Headline Inflation

Headline inflation rose further in Q22023, on the back of the removal of PMS subsidy, and the exchange rate reform policy. The increase was due to the recent market-based reforms such as the fuel subsidy removal and introdution of market determined exchange rate which impacted negatively on production, transport and logistics cost. Also, expectations of a further rise in prices contributed to inflationary pressures. Thus, headline inflation rose y-o-y to 22.79 per cent in Q22023 compared with 22.04 per cent in Q12023.

Figure 14: Headline, Food and Core Inflation (year-on-year) in Per cent



Source: National Bureau of Statistics.

Core Inflation

Core inflation inched up to 20.27 per cent compared with 19.86 per cent in the preceding quarter. The rise was due to accompanying increase in the prices of imported items, following the recent reform in foreign exchange market and other subsisting structural factors such as insecurity and infrastructural deficit.

Food Inflation

Food inflation similarly rose to 25.25 per cent in Q22023 from 24.45 per cent in the preceding quarter. This rise was largely due to seasonal effects and the ripple effects of fuel subsidy removal reflected in high transportation/logistics costs.

2.1.3 Socio-Economic Developments

Education

In a bid to encourage easy access to education and provide succour to students that are less privileged, a legislation which seeks to provide a soft loan to Nigerian students in tertiary institutions was signed into law by the Federal Government. The legislation provides for the establishment of the Nigerian Education Loan Fund, which will have the power to administer, supervise, coordinate, and monitor the management of student loans in the country. The legislation allows Nigerian students in tertiary institutions to access interest-free loans from the Nigerian Education Loan Fund.

Consumer Protection

As a way of improving the business environment and promoting seamless transaction and financial inclusion, a legal framework for data protection was signed into law by the President. The Data Protection Act would help in the regulation and processing of personal data, promoting data processing practices that safeguard the security of personal data and privacy of data subjects, that ensured that personal data is processed in a fair, lawful and accountable manner.

2.1.4 Domestic Crude Oil Market Developments

Electricity Generation and Consumption

The energy sector witnessed a decline in electricity and crude oil production due to legacy infrastructure challenges in the upstream sector. Electricity generation fell resulting from limited gas supply and low water level from hydrogeneration plants, higher costs for upgrade and the beaurocratic maintenance of generation network. There was, however, an increase in electricity consumption due to improvement in transmission network as energy loss declined. The average electricity consumption at 3,601.44, increased by 3.1 per cent in Q22023, relative to 3,494.16 MW/h in the preceding quarter. Contrastingly, the average electricity generation in Q22023 at 4,058.93 MW/h, decreased by 6.2 per cent, compared with 4,327.77 MW/h in Q12023.

Crude Oil Production and Export

Crude oil export declined, quarter-on-quarter, as a result of reduced production and force majeure on crude oil liftings by Exxon Mobil, following an industrial action by its in-house workers union.

Box Information 1

The average price of monitored domestic farm produce increased in Q22023 relative to their levels in the previous quarter. The price spike varied between 3.4 per cent for onions and 9.7 per cent for white garri. This increase was primarily influenced by two factors: the high cost of energy (PMS), which intensified pressure on transportation and logistics, and the ongoing security challenges, particularly in the producing regions.

Domestic Prices of Selected Agricultural Commodity Prices in Second Quarter 2023

		Q22022	Q12023	Q22023	% Change	% Change
	UNIT	1	2	3	(1) & (3)	(2) & (3)
Agric eggs medium size	*1kg*	*690.9*	*870.3*	*945.2*	*36.8*	*8.6*
Beans: brown, sold loose	*"*	*539.6*	*595.0*	*632.2*	*17.1*	*6.2*
Beans: white black eye, sold loose	*"*	*526.6*	*575.2*	*602.3*	*14.4*	*4.7*
Gari white, sold loose	*"*	*326.0*	*345.5*	*379.0*	*16.3*	*9.7*
Gari yellow, sold loose	*"*	*344.6*	*382.7*	*410.2*	*19.0*	*7.2*
Groundnut oil: 1 bottle, specify bottle	*"*	*1037.2*	*1273.4*	*1345.2*	*29.7*	*5.6*
Irish potato	*"*	*460.7*	*550.6*	*592.0*	*28.5*	*7.5*
Maize grain white, sold loose	*"*	*314.9*	*337.5*	*358.7*	*13.9*	*6.3*
Maize grain yellow, sold loose	*"*	*312.6*	*343.0*	*365.7*	*17.0*	*6.6*
Onion bulb	*"*	*387.3*	*447.0*	*462.1*	*19.3*	*3.4*
Palm oil: 1 bottle, specify bottle	*"*	*853.7*	*1065.6*	*1130.2*	*32.4*	*6.1*
Rice agric, sold loose	*"*	*507.1*	*604.7*	*649.7*	*28.1*	*7.4*
Rice local, sold loose	*"*	*458.8*	*521.9*	*570.0*	*24.2*	*9.2*
Rice, medium grained	*"*	*501.3*	*586.8*	*630.8*	*25.8*	*7.5*
Rice, imported high quality, sold loose	*"*	*622.7*	*751.7*	*804.8*	*29.2*	*7.1*
Sweet potato	*"*	*236.8*	*277.0*	*300.7*	*27.0*	*8.6*
Tomato	*"*	*429.5*	*467.2*	*510.2*	*18.8*	*9.2*
Vegetable oil: 1 bottle, specify bottle	*"*	*998.6*	*1200.3*	*1274.9*	*27.7*	*6.2*
Wheat flour: prepackaged (Golden Penny)	*2kg*	*1065.0*	*1253.0*	*1330.3*	*24.9*	*6.2*
Yam tuber	*1kg*	*372.6*	*436.9*	*470.9*	*26.4*	*7.8*

Sources: National Bureau of Statistics

2.2 Fiscal Sector Developments

Summary

The fiscal performance improved following a contraction in the overall deficit, due to improved revenue outturns and lower expenditure. Federally collected revenue in Q22023, fell by 8.4 per cent relative to the level in the preceding quarter and was lower than the benchmark by 39.7 per cent. Though, FGN retained revenue improved by 8.2 per cent compared with Q12023, it was below the quarterly target by 45.3 per cent. Provisional FGN expenditure dipped by 26.6 per cent relative to the level in Q12023 and fell short of the target by 23.5 per cent. Consequently, overall deficit contracted by 37.9 per cent relative to the preceding quarter. At ₦87,379.40 billion or 42.3 per cent of GDP, total public debt, at end-June 2023, remained within the 40.0 per cent domestic threshold.

2.2.1 Federation Account Operations

Federation Account earnings declined, due to the shortfall in earnings from oil sources. At ₦3,192.47 billion, gross federation revenue was below the level in 2023Q1 by 8.4 per cent. Similarly, it fell short of the budget benchmark of ₦5,293.66 billion by 39.7 per cent. Non-oil revenue continued to dominate government revenue, accounting for 74.7 per cent, while oil receipts accounted for 25.3 per cent.

Drivers of Federation Revenue

A disaggregation of Federation Account Revenue indicates that oil revenue, at ₦809.02 billion, fell by 39.7 per cent relative to Q12023 and was below the quarterly target by 66.4 per cent. The sub-optimal performance was indicative of revenue shortfalls from Petroleum Profit Tax and Royalties, following lower domestic crude oil production.

Conversely, at ₦2,383.45 billion, non-oil receipts improved by 11.1 per cent relative to the preceding quarter but was 17.3 per cent short of the quarterly target of ₦2,882.76 billion. The improvement was attributed to strong performance of receipts from Corporate Tax and FGN Independent Revenue, which exceeded collections in the preceding quarter by 15.4 and 42.9 per cent, respectively. Generally, non-oil revenue performance in the quarter, mirrored seasonality in tax returns.

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

	Q22022	Q12023 1/	Q22023 1/	Budget
Federation Revenue (Gross)	*3,245.97*	*3,485.86*	*3,417.45*	*5,293.66*
Oil	*1,296.24*	*1,341.12*	*809.02*	*2,410.89*
Crude Oil & Gas Exports	*0.00*	*0.00*	*0.00*	*122.71*
PPT & Royalties	*1,096.70*	*1,324.70*	*779.41*	*2,060.26*
Domestic Crude Oil/Gas Sales	*176.42*	*0.00*	*0.00*	*25.15*
Others	*23.11*	*16.42*	*29.61*	*202.78*
Non-oil	*1,949.73*	*2,144.74*	*2,608.43*	*2,882.77*
Corporate Tax	*625.94*	*546.20*	*630.40*	*523.17*
Customs & Excise Duties	*403.65*	*389.67*	*381.82*	*528.97*
Value-Added Tax (VAT)	*611.51*	*741.32*	*706.73*	*738.44*
Independent Revenue of Fed. Govt.	*299.84*	*458.75*	*880.68*	*792.27*
*Others**	*8.79*	*8.80*	*8.80*	*299.92*
Total Deductions/Transfers**	*1,309.17*	*1,331.87*	*1,395.43*	*2,058.22*
Federally Collected Revenue *Less Deductions & Transfers*	1,936.80	2,153.99	2,022.03	3,235.44
plus:				
Additional Revenue	106.16	309.05	164.69	34.09
Balance in Special Account from 2019	*0.00*	0.00	0.00	0.00
Excess Crude Revenue	*0.00*	*0.00*	*0.00*	*0.00*
Non-oil Excess Revenue	*106.16*	*164.21*	*94.05*	*34.09*
Exchange Gain	*0.00*	*144.84*	*70.64*	*0.00*
Total Distributed Balance	*2,042.96*	*2,463.04*	*2,186.72*	*3,269.53*
Federal Government	*753.74*	*929.60*	*837.50*	*1291.10*
Statutory	*668.33*	*826.06*	*738.94*	*1188.49*
VAT	*85.42*	*103.55*	*98.56*	*102.61*
State Government	*800.23*	*954.47*	*812.80*	*1264.32*
Statutory	*380.22*	*439.85*	*400.26*	*617.27*
VAT	*284.72*	*345.16*	*328.53*	*342.05*
13% Derivation	*135.30*	*169.46*	*84.01*	*305.00*
Local Government	*488.98*	*578.97*	*536.42*	*714.11*
Statutory	*289.68*	*337.36*	*306.45*	*474.68*
VAT	*199.30*	*241.61*	*229.97*	*239.43*

Source: OAGF and CBN 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 include cost of revenue collections and JVC cash calls; while transfers entail provisions for FGN Independent revenue and other Non-Federation revenue.

A net distributable balance of ₦2,186.72 billion was disbursed to the three tiers of government, after accounting for statutory deductions and transfers. Of this amount, the Federal Government got ₦837.50 billion, while State and Local governments received ₦728.79 billion and ₦536.42 billion, respectively. The balance of ₦84.01 billion was distributed to oil-producing states as 13.0 per cent Derivation Fund. Total disbursement to the federating units was 11.2 and 33.1 per cent, below the sharing in Q12023 and the quarterly target, respectively.

2.2.2 Fiscal Operations of the Federal Government

Federal Government Retained Revenue

The retained revenue of the FGN improved, largely, on account of higher receipts from FGN Independent Revenue. Estimated retained revenue of the FGN, at ₦1,510.89 billion, was 8.2 per cent above receipts in Q12023, but 45.3 per cent below the quarterly target. The development was attributed to the 42.9 per cent increase in collections from the FGN Independent Revenue on account of higher receipts of Internally Generated Revenue (IGR) from Ministries, Departments and Agencies (MDAs), relative to the preceding quarter.

Table 6: FGN Retained Revenue (₦ Billion)

	Q22022	Q12023	Q22023	Budget
FGN Retained Revenue	1,225.79	1,395.24	1,510.89	2,761.28
Federation Account	649.05	691.53	678.26	*1070.84*
VAT Pool Account	85.42	103.55	98.56	*95.77*
FGN IR	299.84	458.75	880.68	*792.27*
Excess Oil Revenue	0.00	0.00	0.00	*0.00*
Excess Non-Oil	19.27	67.96	26.92	*0.00*
Exchange Gain	0.00	66.56	33.76	*0.00*
*Others**	172.21	6.89	14.88	*802.40*

Source: Office of the Accountant-General of the Federation (OAGF).

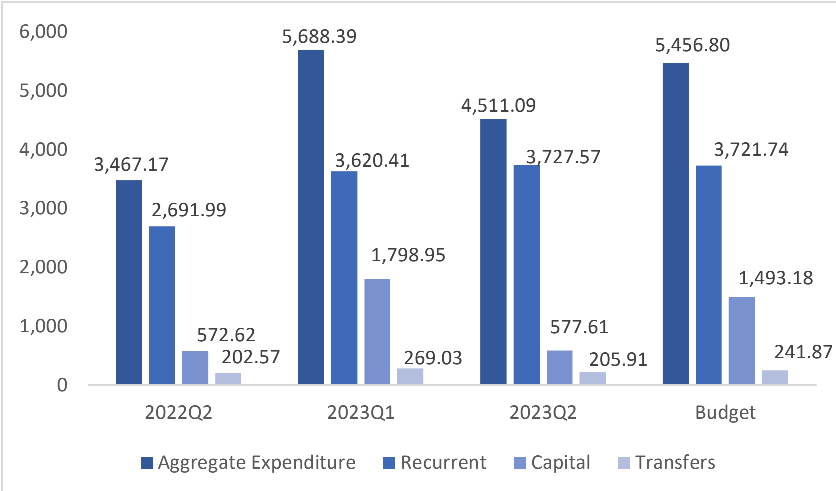
Note: * Others include revenue from Special Accounts, Special Levies and share of dividend.

The Budget figures are provisional, IR = Independent Revenue.

Federal Government Expenditure

Provisional aggregate expenditure of the FGN fell following a decline in capital expenditure and transfers. The provisional aggregate expenditure of the FGN in Q22023, at ₦4,174.79 billion was below the level in the preceding quarter by 26.6 per cent and also fell short of the quarterly target by 23.5 per cent. A decomposition of FGN spending revealed that recurrent expenditure, capital expenditure, and transfers accounted for 74.0, 21.0 and 5.0 per cent, respectively.

Figure 15: Federal Government Expenditure (₦ Billion)



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

Overall Fiscal Balance

The fiscal operations of the FGN, resulted in a contraction in the overall deficit, on account of improved revenue outturns and lower expenditure. At ₦2,664.70 billion, the provisional fiscal deficit of the FGN in Q22023 was 37.9 per cent lower than the level in the preceding quarter and 1.1per cent below the quarterly target.

Table 7: Fiscal Balance (₦ Billion)

	Q22022	Q12023	Q22023	Budget
Retained revenue	*1,225.79*	*1,395.24*	*1,733.06*	*2,761.28*
Aggregate expenditure	*3,467.17*	*5,688.39*	*4,511.09*	*5,456.80*
Recurrent	*2,691.99*	*3,620.41*	*3,727.57*	*3,721.74*
Non-debt	*1,340.08*	*1,303.67*	*1,599.40*	*2,082.34*
Debt Service	*1,351.90*	*2,316.74*	*2,128.17*	*1,639.40*
Capital	*572.62*	*1,798.95*	*577.61*	*1493.18*
Transfers	*202.57*	*269.03*	*205.91*	*241.87*
Primary balance	*-889.48*	*-1,976.41*	*-649.85*	*-1,056.12*
Overall balance	*-2,241.38*	*-4,293.15*	*-2,778.02*	*-2,695.52*

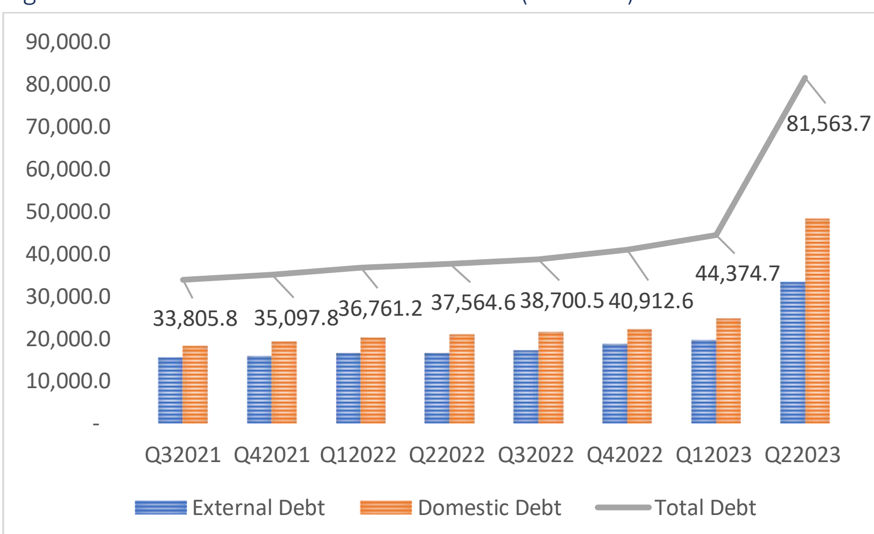
Source: Office of the Accountant-General of the Federation (OAGF) and CBN Staff Estimates
Note: The figures are provisional.

The public debt profile of the FGN remained anchored on the 2020-2023 MTDS[1]. Total public debt outstanding, which comprises of the obligations of Federal and state governments, at end-June 2023, stood at ₦87,379.40 billion or 42.3 per cent of the GDP, representing an increase of 103.9 and 75.3 per cent, above the levels at end-June 2022 and end-March 2023, respectively. The increase was attributed to exchange rate revaluation and restructuring of FGN Ways and Means Advances. The consolidated debt stock of the Federal Government (including state governments' external debt - a contingent liability of the FGN) was ₦81,563.72 billion or 39.5 per cent of the GDP, while state governments' domestic debt stock accounted for the balance of ₦5,815.68 billion or 2.8 per cent of the GDP.

Federal Government Debt

A breakdown of the FGN debt showed that domestic debt was ₦48,314.74billion (59.2%), while external debt stood at ₦33,248.98 billion (40.8%) or US$43.16 billion. FGN Bond maintained dominance in domestic debt portfolio, accounting for 86.9 per cent, followed by Treasury Bills (9.8%), Promissory Notes (1.6%), FGN Sukuk (1.5%), and others[2] (0.2%).

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



Source: Debt Management Office (DMO).

Holdings of Nigeria's external debt showed that Multilateral, Commercial and Bilateral loans accounted for 48.2, 36.2 and 12.8 per cent, respectively, while 'other' loans3 constituted 2.8 per cent.

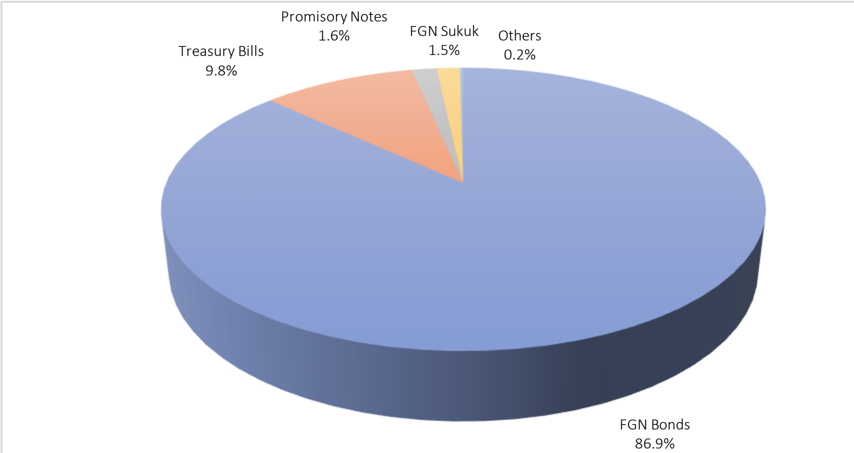
[1] The MTDS stipulates a debt-to-GDP threshold of 40.0 per cent, and 70:30 domestic-external debt portfolio mix, among other sustainability considerations

[2] Composed of Treasury Bonds (0.11 %), Green Bonds (0.03 %) and FGN Savings Bond (0.06 %)

[3] Includes Promissory notes (2.1 %) and Syndicated loans, arranged by the AFC (0.7 %).

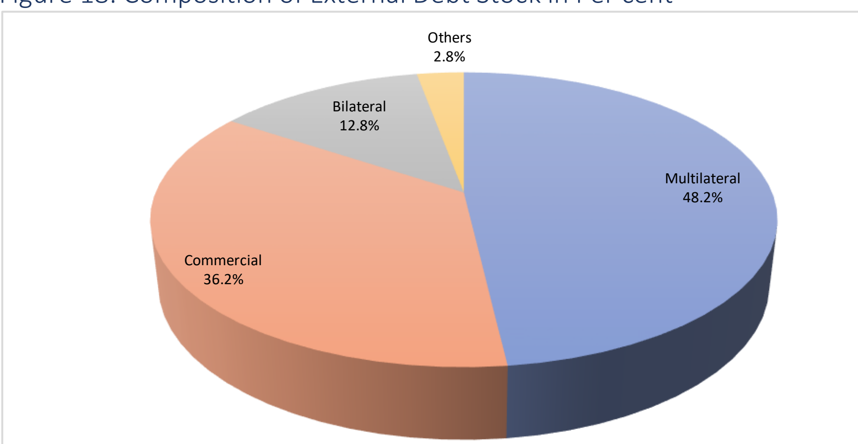
Debt service obligations in Q22023, amounted to ₦754.15 billion, compared with ₦1,243.50 billion in Q12023. The decrease was attributed to refinancing of matured FGN Bonds and Treasury Bills.

Figure 17: Composition of Domestic Debt Stock in Per cent



Source: Debt Management Office.

Figure 18: Composition of External Debt Stock in Per cent



Source: Debt Management Office.

2.3 Monetary and Financial Developments

Summary

The Bank's hawkish policy stance, coupled with consistent supervision and implementation of prudential guidelines, ensured the safety, stability, and resilience of the financial sector. Key monetary aggregates grew significantly above the levels in the preceding quarter, driven by increased credit expansion to key sectors of the economy and the effect of exchange rate reforms. The trend in key short-term interest rates was influenced by both the hike in the

monetary policy rate (MPR) and the relative decline in liquidity. Banking system liquidity moderated, leading to reduced subscription in NTBs and FGN bonds. Furthermore, the removal of fuel subsidy and the exchange rate reforms generated positive sentiments and triggered bullish activities in the capital market.

2.3.1 Monetary Developments

Reserve Money

Reserve money grew by 8.2 per cent in Q22023, due to the rise in liabilities to the other depository corporations (ODCs) which outweighed the moderation in currency-in-circulation (CIC). Liabilities to ODCs rose by 13.2 per cent, propelled by the 18.9 per cent growth in required reserves as deposit liabilities increased. Currency-in-circulation on the other hand fell by 13.6 per cent. Consequently, reserve money grew to ₦17,339.25 billion in the second quarter of 2023, compared with ₦15,975.74 billion recorded in the first quarter of 2023.

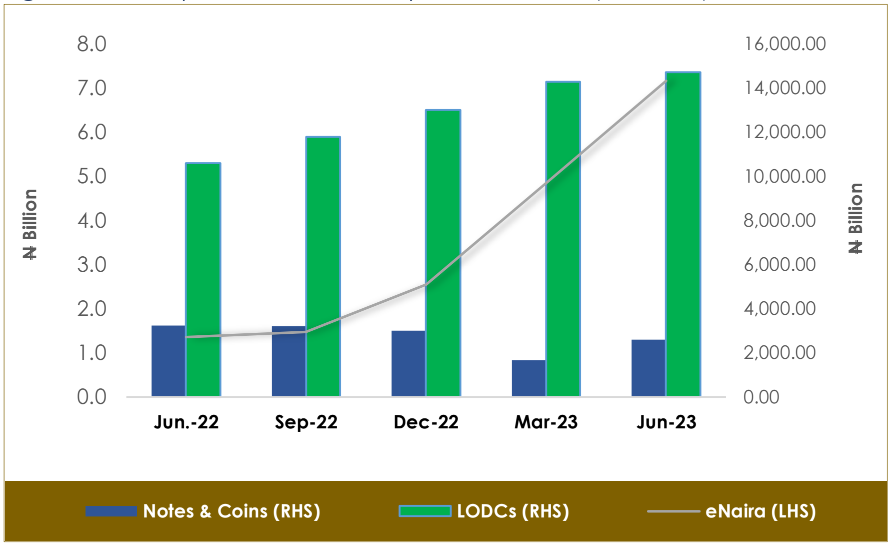
Table 8: Components of Reserve Money (₦ Billion)

	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Reserve Money	**13,860.26**	**15,007.59**	**16,032.96**	**15,975.74**	**17,339.25**
Currency-in-Circulation	*3,255.56*	*3,228.75*	*3,012.05*	*1,683.50*	*2,603.27*
of which:					
Notes and Coins	*3,254.21*	*3,227.27*	*3,009.50*	*1,678.66*	*2,596.11*
eNaira	*1.35*	*1.48*	*2.55*	*4.84*	*7.16*
Liabilities to ODCs	*10,604.70*	*11,778.84*	*13,020.91*	*14,292.24*	*14,735.98*
Reserve Money (% Growth over Preceding December)	*4.25*	*12.88*	*20.59*	*-0.36*	*8.15*
Broad Money Multiplier (M_3)	*3.53*	*3.29*	*3.26*	*3.42*	*3.74*

Source: Central Bank of Nigeria.

The increase in broad money multiplier to 3.74 triggered the growth of 24.4 per cent in broad money supply (M3) to ₦64,906.93 billion compared with ₦54,628.23 billion at the end of the preceding quarter. On an annualised basis, the 24.4 per cent growth in M3 translated to 48.7 per cent, surpassing the 2023 benchmark of 28.21 per cent.

Figure 19: Composition of Currency-in-Circulation (₦ Billion)



Source: Central Bank of Nigeria.

The analysis of the components of M3 revealed that both net foreign assets (NFA) and net domestic assets (NDA) grew significantly during the period, contributing to the overall expansion of M3. NFA and NDA grew by 59.6 and 18.9 per cent, contributing 8.0 percentage points and 16.4 percentage points, respectively, to the M3 growth. The increase in NFA was due to the 22.6 per cent rise in claims on non-residents by depository corporations, owing to the revaluation effect of the assets, following the reforms in the foreign exchange market. The main drivers of NDA were the growth in net claims on the central government (39.6%) and claims on other sectors (26.6%).

Table 9: Money and Credit Growth over preceding December in Per cent

	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Contribution to M3 growth (Jun-23)	Annualised Growth (Jun-23)	2023 Provisional Benchmark
Net Foreign Assets	-34.68	-52.04	-25.57	-13.93	59.64	7.95	119.28	95.57
Claims on Non-residents	0.63	1.64	9.64	-6.40	51.81	22.63	103.62	
Liabilities to Non-residents	29.51	45.54	38.43	-3.09	48.37	14.67	96.74	
Net Domestic Assets	21.94	27.80	28.90	7.52	18.09	16.40	36.18	
Domestic Claims	17.82	29.90	31.42	10.08	31.22	38.25	62.44	49.16
Net Claims on Central Government	31.61	64.93	61.61	23.08	39.64	16.99	79.28	58.63
Claims on Central Government	23.61	39.62	34.57	15.33	30.71	19.40	61.42	
Liabilities to Central Government	13.23	6.76	-0.53	-1.02	11.88	2.41	23.76	
Claims on Other Sectors	12.35	16.02	19.46	3.11	26.60	21.26	53.20	44.09
Claims on Other Financial Corporations	2.91	7.76	11.69	6.83	26.86	4.53	53.72	
Claims on State and Local Government	29.85	29.28	32.47	4.26	-8.51	-0.54	-17.02	
Claims on Public Nonfinancial Corporations	42.37	34.27	40.89	-0.45	4.55	0.10	9.10	
Claims on Private Sector	12.64	16.76	19.95	1.96	31.47	17.17	62.94	
Total Monetary Assets (M_3)	**10.02**	**11.00**	**17.44**	**4.66**	**24.39**	**24.35**	**48.78**	**28.21**
Currency Outside Depository Corporations	-7.46	-7.10	-12.57	-43.74	-11.91	-0.59	-23.82	
Transferable Deposits	16.61	22.16	20.34	9.68	22.20	7.74	44.40	
Narrow Money (M_1)	12.70	17.40	14.98	3.07	17.98	7.15	35.96	
Other Deposits	8.19	6.62	17.63	5.63	28.49	16.90	56.98	
Broad Money (M_2)	10.02	11.00	16.56	4.60	24.28	24.06	48.48	29.18
Securities Other than Shares	100.00	100.00	100.00	12.38	26.13	0.30	52.26	
Total Monetary Liabilities(M_3)	**10.02**	**11.00**	**17.44**	**4.66**	**24.39**	**24.35**	**48.78**	**28.21**

Source: Central Bank of Nigeria.

On the liabilities side, the growth in M3 was traceable to the 22.2 and 28.5 per cent growth in transferable deposits and other deposits, respectively. The growth in 'other deposits' was largely, driven by the modification of operations in the domestic foreign exchange market, which increased the stock of foreign currency deposits. Transferable deposits sustained an upward trajectory and contributed 7.7 percentage points to the overall growth in M3. On the contrary, currency outside depository corporations (CODC) recorded a decline of 11.9 per cent in the review quarter, reflecting increased adoption and usage of electronic payments channels.

2.3.2 Sectoral Credit Utilisation

Sectoral Credit Utilisation

Credit utilisation by the critical sectors of the economy increased considerably during the review period. The increase was largely on account of the Bank's initiatives, particularly the continued implementation of the Loan-to-Deposit Ratio (LDR) policy and revaluation effect of foreign currency denominated credit. Total credit utilised by key sectors of the economy grew significantly by 24.2 per cent to ₦37,479.37 billion, from ₦30,346.13 billion in the preceding quarter. Among the key sectors, the services sector remained the dominant recipient of credit, accounting for the largest share at 51.6 per cent. The industry sector was next at 43.5 per cent, while agriculture accounted for 4.9 per cent.

Table 10: Sectoral Credit Allocation to Agriculture, Industry and Services in ₦ Billion

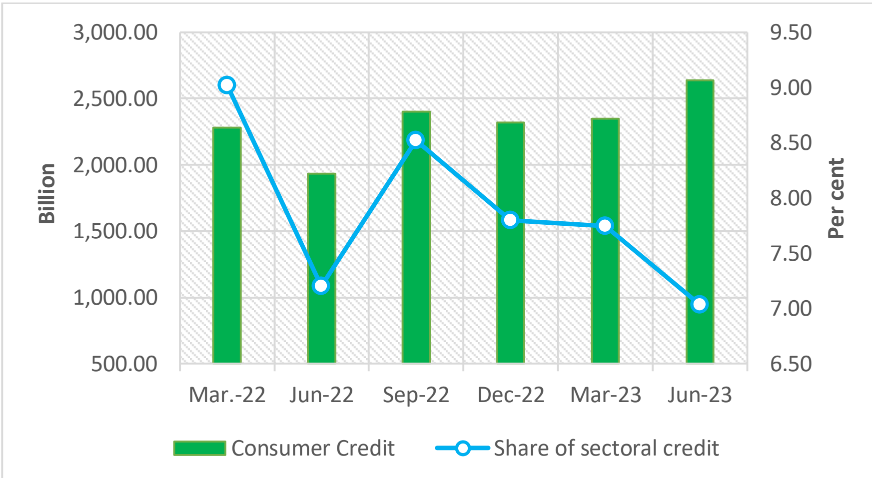
	Jun-22	Mar-23	Jun-23	Percentage Share in Total		
	₦'Bn	₦'Bn	₦'Bn	Jun-22	Mar-23	Jun-23
ITEM	(1)	(2)	(3)	(4)	(5)	(6)
[a] Agriculture	**1,630.38**	**1,887.95**	**1,839.43**	**6.08**	**6.22**	**4.91**
[b] Industry	**10,591.87**	**12,334.84**	**16,313.85**	**39.45**	**40.65**	**43.53**
of which Construction	1,177.24	1,163.72	1,512.67	4.39	3.83	4.04
[c] Services	**14,624.15**	**16,123.34**	**19,326.09**	**54.47**	**53.13**	**51.56**
of which Finance, Insurance & Capital Market	2,050.19	2,639.25	3,475.75	7.64	8.70	9.27
Trade/General Commerce	1,913.39	2,333.42	2,884.66	7.12	7.69	7.70
TOTAL PRIVATE SECTOR CREDIT	**26,846.40**	**30,346.13**	**37,479.37**	**100.0**	**100.0**	**100.0**

Source: Central Bank of Nigeria.

Consumer Credit

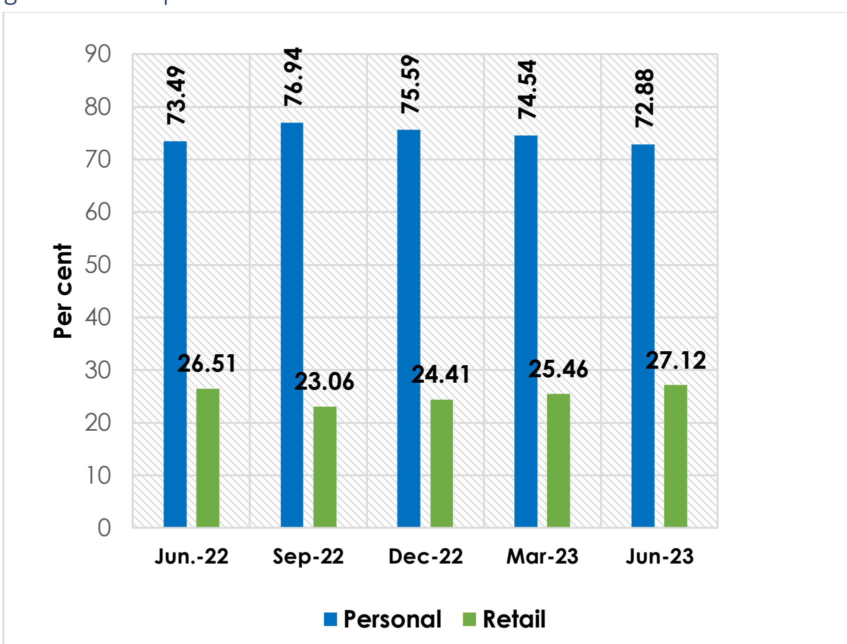
Consumer credit improved owing to increased demand for personal loans and strengthened enforcement of the Loan-to-Deposit Ratio (LDR) policy. Consequently, total consumer credit increased significantly by 12.2 per cent, to ₦2,637.31 billion in the second quarter of 2023, compared with ₦2,349.88 billion at the end of the preceding quarter. As a share of total credit by ODCs, consumer credit declined to 7.0 per cent, this was below the 7.7 and 7.8 per cent recorded in the preceding quarter and corresponding period of 2022, respectively. The components of consumer credit revealed that personal loans accounted for the larger share, totaling ₦1,922.20 billion, representing 72.9 per cent of the total, while retail loans accounted for 27.1 per cent, equivalent to ₦715.10 billion.

Figure 20: Consumer Credit Outstanding (₦Billion) and Share of sectoral Credit in Per cent



Source: Central Bank of Nigeria.

Figure 21: Composition of Consumer Credit in Per cent



Source: Central Bank of Nigeria.

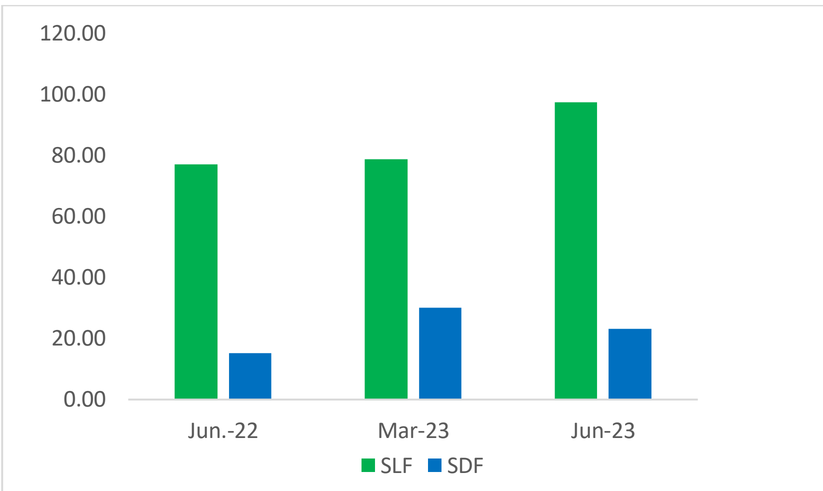
2.3.3 Financial Developments

2.3.3.1 Money Market Developments

Industry Liquidity Condition

Banking system liquidity moderated on the back of the net effect of fiscal and monetary operations. Average net industry liquidity balance declined by 21.9 per cent to ₦384.54 billion from ₦492.57 billion in the preceding quarter. Daily average request at the standing deposit facility (SDF) declined to ₦23.15 billion in the review quarter compared with ₦30.07 billion in the preceding quarter. Contrastingly, daily average request at the standing lending facility (SLF) window increased to ₦97.43 billion in the review quarter, compared with ₦78.67 billion in the preceding quarter. The increase in daily average activities at the SLF window and decreased daily average activities at the SDF window reflected the lower average liquidity level in the banking system.

Figure 22: Transactions at the CBN Standing Facility Window (₦ Billion)

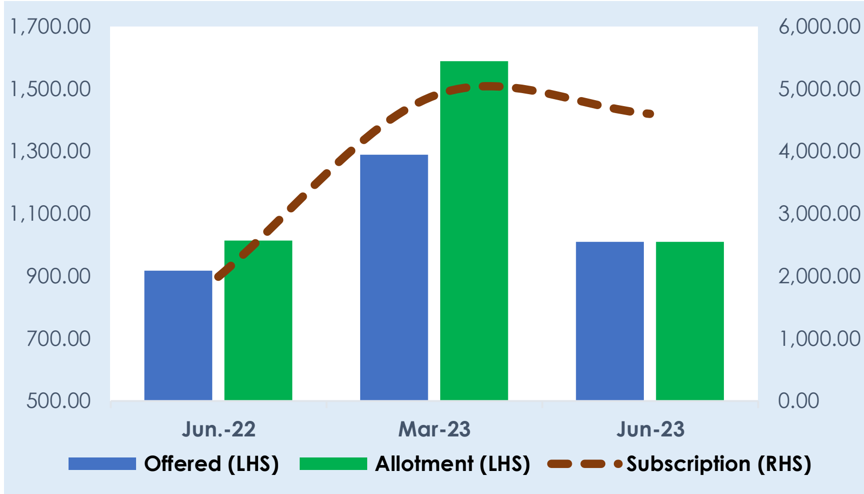


Source: Central Bank of Nigeria.

Primary Market

The value of transactions for NTBs and FGN bond declined, swayed by investors' sentiments as it was anchored on inflation expectations. Across the different tenors (91-, 182- and 364- days), NTBs worth ₦1,010.04 billion, ₦4,601.50 billion, and ₦1,010.04 billion were offered, subscribed, and allotted, respectively, in the review period, relative to ₦1,289.87 billion, ₦4,892.10 billion, and ₦1,589.87 billion in the preceding quarter. The development could be attributed to investors' preference for longer-tenored securities (364-day), which accounted for ₦4,384.92 billion (95.3%) of total subscription. Their preference rode on the back of more attractive yields and inflation expectation.

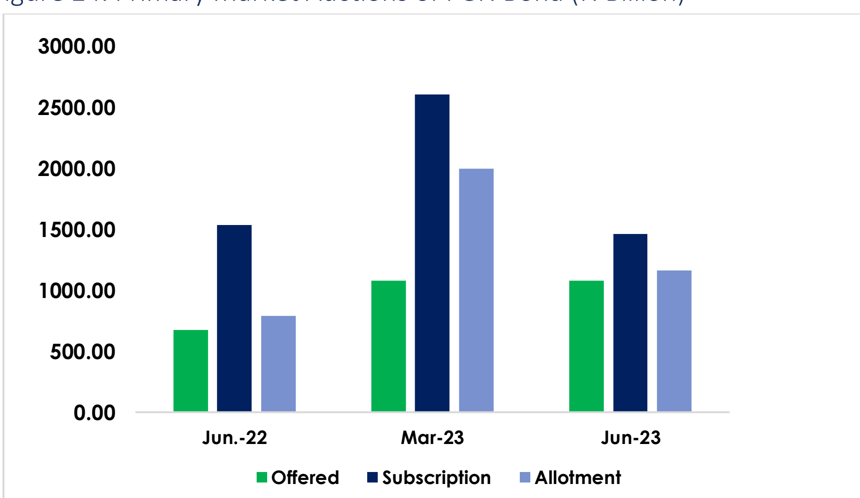
Figure 23: Primary Market NTBs (₦ Billion)



Source: Central Bank of Nigeria.

The FGN bond of 10-, 10-, 15-, and 30-years trenches exhibited downward trend with total amount offered, subscribed, and allotted at ₦1,080.00 billion, ₦1,460.79 billion and ₦1,163.98 billion in the review quarter, compared with ₦1,080.00 billion, ₦2,605.88 billion and ₦1,996.53 billion, respectively, in the preceding quarter. The bid and marginal rates stood at 14.8 (±2.3) and 14.9 (±1.0) per cent, compared with 14.3 (±3.3) and 15.0 (±1.0) per cent, respectively, in the preceding quarter.

Figure 24: Primary Market Auctions of FGN Bond (₦ Billion)

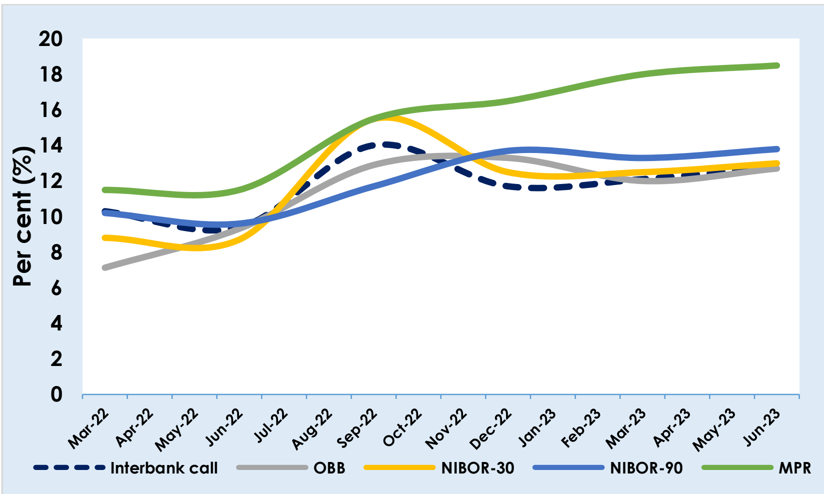


Source: Central Bank of Nigeria.

Interest Rate Development

Key money market rates experienced a mixed trend in tandem with the level of banking system liquidity and the hike in monetary policy rate (MPR) in the review period. The average Interbank call and Open Buy Back (OBB) rates increased to 12.8 and 12.7 per cent, compared with 12.1 and 12.0 per cent, respectively, in the preceding quarter. The Nigeria Interbank Offered Rate (NIBOR 30-day and 90-day) increased to 13.0 and 13.8 per cent, from 12.5 and 13.3 per cent, respectively, in the preceding quarter.

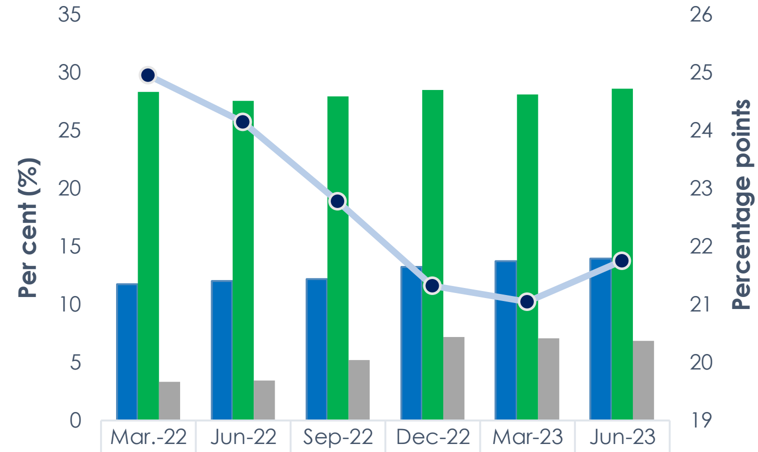
Figure 25: Developments in Short-term Interest Rates in Per cent



Source: Central Bank of Nigeria.

Average prime and maximum lending rates inched up marginally by 0.8 and 0.4 percentage points to 14.0 and 28.6 per cent compared with 13.8 and 28.2 per cent, respectively, in the preceding quarter. The weighted average term deposit (WAVTD), however, fell to 6.9 per cent, from 7.1 per cent in the preceding quarter. Consequently, the average spread between the weighted average term deposit and maximum lending rates widened to 21.8 percentage points, from 21.1 percentage points recorded in the preceding quarter.

Figure 26: Trend in Average Term Deposit and Lending Rates in Per cent



	Mar.-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
PRL (LHS)	11.77	12.03	12.19	13.25	13.75	13.99
MXLR (LHS)	28.33	27.59	27.99	28.53	28.15	28.61
WAVTD (LHS)	3.37	3.44	5.21	7.21	7.1	6.86
SPRD (RHS)	24.96	24.15	22.78	21.33	21.05	21.76

Source: Central Bank of Nigeria.
Note: PLR= Prime lending rate; MLR= Maximum lending rate; WAVTD= Weighted Average term deposit rate; and SPRD= Spread.

2.3.4 Capital Market Developments

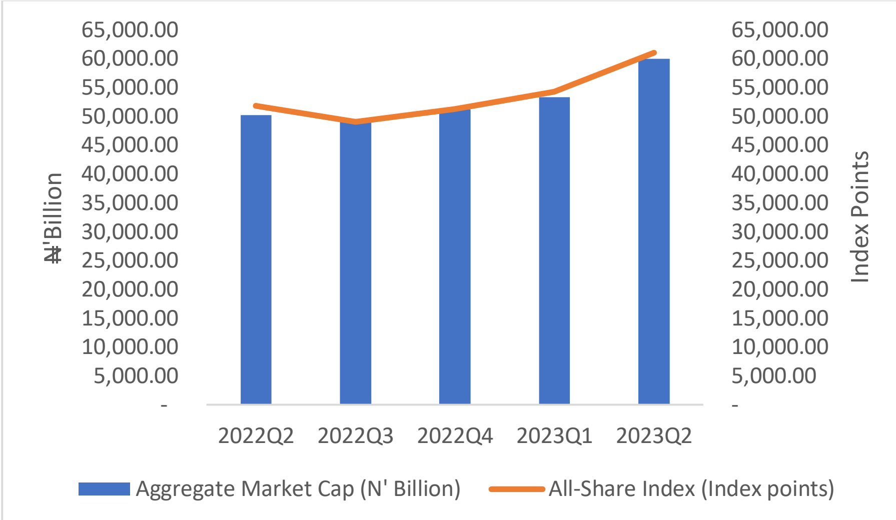
Market Capitalisation

In the review quarter, activities on the Nigerian Exchange (NGX) Limited were bullish, driven by investors' bargain-hunting activity and positive sentiments following the removal of fuel subsidy by the government and the adoption of a market determined exchange rate policy by the Bank. Aggregate market capitalisation increased by 12.3 per cent to ₦59,916.22 billion, from the ₦53,326.29 billion recorded in the preceding quarter. A disaggregation of the components of the aggregate market capitalisation showed that, the equities, debts, and Exchange Traded Funds (ETF) components rose by 12.4, 12.4 and 13.3 per cent, respectively, to close at ₦33,203.45 billion, ₦26,702.50 billion and ₦10.30 billion, respectively. The equities, debt, and ETF components constituted 55.4, 44.5 and 0.1 per cent, respectively, of the aggregate market capitalisation.

NGX All-Share Index

The All-Share Index (ASI), rose by 12.4 per cent to 60,968.27 points in the review quarter, relative to the 54,232.34 points recorded in the preceding quarter. The improved performance was driven by the positive Q12023 corporate earnings results, which drove strong buying interest in blue chip stocks.

Figure 27: Aggregate Market Capitalisation and All-Share Index



Source: Nigerian Exchange (NGX) Limited.

The performances of all the major indices tracked were bullish, except for the NGX-Sovereign bond and NGX-Growth, which trended downward, while the NGX-ASeM remained flat relative to the levels in the preceding quarter. The improved performances of the major indices reflected the bullish stance of the capital market.

Table 11: Nigerian Exchange (NGX) Limited Sectoral Indices

Sectoral Indices	Q12023	Q22023	Change (%)
NGX-Insurance	177.51	277.07	56.1
NGX-Oil/Gas	510.83	775.85	51.9
NGX- AFR Bank Value	1,081.54	1,570.77	45.2
NGX- MERI Growth	2,351.76	3,396.92	44.4
NGX- MERI Value	2,484.30	3,543.64	42.6
NGX-Bank	452.97	645.42	42.5
NGX- AFR Div Yield	3,591.60	5,064.38	41.0
NGX-Pension	1,906.49	2,581.82	35.4
NGX-CG	1,363.74	1,788.36	31.1
NGX-Consumer Goods	702.74	894.76	27.3

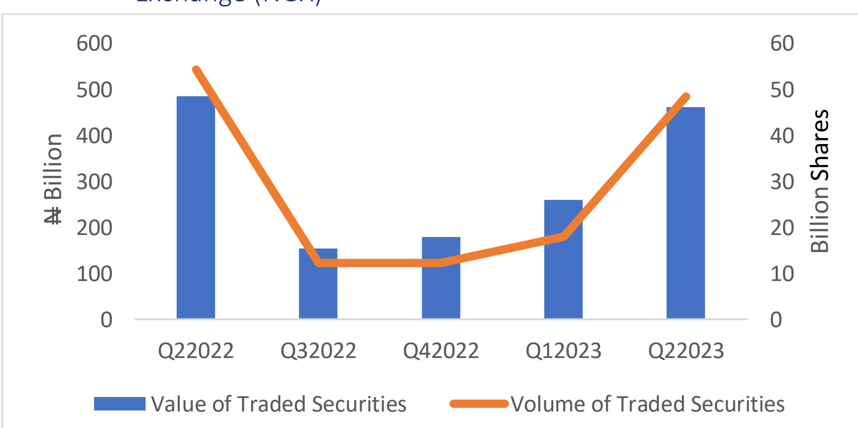
Table 11 Cont: Nigeria Exchange (NGX) Limited Sectoral Indices

Sectoral Indices	Q12023	Q22023	Change (%)
NGX-Premium	5,280.16	6,256.51	18.5
NGX-Lotus II	3,525.80	4,039.16	14.6
NGX-30	1,933.29	2,201.23	13.9
NGX-Mainboard	2,440.45	2,675.20	9.6
NGX-Industrial Goods	2,456.45	2,491.31	1.4
NGX-ASeM	659.42	659.42	0.0
NGX-Sovereign Bond	802.08	762.86	-4.9
NGX-Growth	2,799.23	2,493.13	-10.9

Source: Nigerian Exchange (NGX) Limited.

The level of trading activities increased significantly in the second quarter of 2023, as both the value and volume of traded securities increased by 77.2 and 168.3 per cent, respectively, to ₦460.77 billion, and 48.41 billion shares, in 398,744 deals relative to the ₦260.02 billion and 18.04 billion shares in 230, 629 deals recorded in the preceding quarter. The total deals in the review quarter reflected an increase of 72.9 per cent, relative to the level in the preceding quarter.

Figure 28: Volume and Value of Traded Securities on the Nigerian Exchange (NGX)



Source: Nigerian Exchange (NGX) Limited.

In the review quarter, there were three (3) new listings and two (2) delistings on the Exchange, compared with the 25 new listings and no delisting in the previous quarter. The new listings in the review quarter comprised 2 savings bonds and 1 rights issue.

Table 12: Listings on the Nigerian Exchange Limited in Q22023

Company/Security	Shares Units/Price	Remarks	Listing
11.032% FGS APR 2026	643,204 Units	Savings Bonds	New
10.032% FGS APR 2025	436,012 Units	Savings Bonds	New
Global Spectrum Energy Services Plc	Entire Issued Shares	Delisting	Delisting
Sterling Financial Holdings Company Plc's (Sterling HoldCo)	28,790,418,124 at N1.60 per share.	Rights Issue	New
Sterling Bank Plc	28,790,418,126 Shares at 50 Kobo each.	Delisting	Delisting

Source: Nigerian Exchange (NGX) Limited.
Notes: FGS=Federal Government of Nigeria Saving Bond; Plc=Public Limited Liability Company; and APR=April.

2.3.5 Financial Soundness Indicators

The banking industry remained resilient in the review quarter as key financial soundness indicators were within the regulatory thresholds. The banking system Capital Adequacy Ratio (CAR) fell by 3.0 percentage points to 11.2 per cent, relative to the 14.2 per cent recorded in the preceding quarter. The ratio was above the 10.0 per cent benchmark for banks with national/regional authorisation, but below the 15.0 per cent threshold for banks with international authorisation. The development reflected a decline in the banks' total qualifying capital relative to the increase in risk weighted assets due to the depreciation of the naira exchange rate, as a result of the adoption of a market determined exchange rate policy by the Bank.

The banks' asset quality, measured by the ratio of Non-Performing Loans (NPLs) fell marginally by 0.4 percentage point to 4.1 per cent in the second quarter of 2023 from 4.5 per cent in the previous quarter, reflecting sustained improvement in loan recoveries by banks. The ratio was below the prudential benchmark of 5.0 per cent. The Industry Liquidity Ratio (LR) rose significantly by 10.9 percentage points to 62.2 per cent in the review quarter, compared with 51.4 per cent, recorded in the preceding quarter. The LR was above the minimum regulatory benchmark of 30.0 per cent, showing the ability of the banks to meet their obligations.

2.4 External Sector Developments

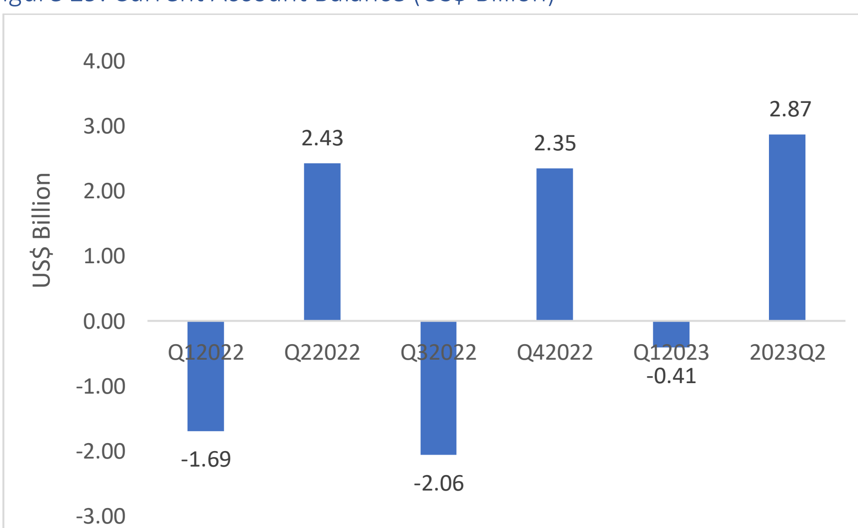
Summary

Nigeria's current account recorded a surplus position in the review period, from a deficit in the preceding period, due to a significant decline in importation of petroleum products and higher inflow of diaspora remittances. The financial account recorded a net incurrence of financial liabilities, driven by increased inflow of portfolio capital. The international reserves at US$33.71 billion was equivalent to 6.5 months of import for goods and services or 8.9 months for goods only. The average exchange rate of the naira at the I&E window depreciated by 9.8 per cent to ₦511.23/US$, compared with ₦460.93/US$ in Q12023. The international investment position (IIP) recorded a lower net financial liability of US$53.13 billion. Public sector external debt stock and external debt service payment at end-June 2023 stood at US$43.16 billion and US$0.37 billion, respectively.

2.4.1 Current and Capital Accounts

The current account recorded a surplus position in the second quarter of 2023 from a deficit in the preceding quarter. The current account posted a surplus of US$2.87 billion (2.8 per cent of GDP), in contrast to a deficit of US$0.41 billion (0.4 per cent of GDP) in Q12023, due to a significant decline in importation of petroleum products and higher inflow of diaspora remittances.

Figure 29: Current Account Balance (US$ Billion)



Source: Central Bank of Nigeria.

Export Performance

Earnings from merchandise export decreased on account of lower commodity prices and a drop in domestic crude oil production. Aggregate export earnings declined by 3.3 per cent to US$13.91 billion, from US$14.38 billion in Q12023. The development was as result of declines in both oil and non-oil export, due to lower commodity prices and domestic crude oil production.

A breakdown showed that earnings from crude oil and gas export fell by 3.3 per cent to US$12.24 billion, from US$12.66 billion in Q12023, on account of a dip in both the price and production of Nigeria's reference crude, bonny light. Crude oil price declined to an average of US$79.78pb, from US$83.86pb in Q12023, reflecting increased supply at the international market, while domestic crude oil production fell to 1.14mbpd, from 1.28mbpd in Q12023, arising from force majeure on some domestic export terminals.

Non-oil export receipts also decreased by 2.9 per cent to US$1.67 billion, from US$1.72 billion in the preceding quarter. The development was on account of decline in the export of cocoa beans, sesame seeds, cement and urea during the review period.

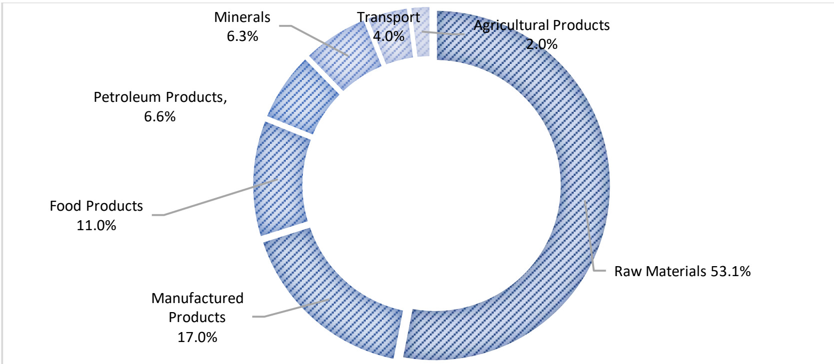
In terms of share, crude oil and gas export constituted 88.0 per cent of total export, while non-oil export accounted for the remaining 12.0 per cent.

Merchandise Import

Merchandise import bills decreased due to lower importation of petroleum products. Merchandise import fell by 20.1 per cent to US$11.39 billion, from US$14.25 billion in Q12023, due to lower importation of petroleum products, particularly premium motor spirit as a result of sustained stockpile. Importation of non-oil products increased by 8.4 per cent to US$8.11 billion, from US$7.48 billion in Q12023. Petroleum products import, however, declined significantly by 51.6 per cent to US$3.28 billion, from US$6.77 billion in Q12023. Analysis by share showed that non-oil import remained dominant, accounting for 71.2 per cent of the total, while petroleum products constituted the balance of 28.8 per cent.

A breakdown of import by sector revealed that raw materials and machinery import accounted for the largest share of 53.1 per cent, encouraged by the Bank's drive to ease the availability of foreign exchange to industrial sector. Other sectoral import shares were: manufactured products, 17.0 per cent; food products, 11.0 per cent; petroleum products, 6.6 per cent; minerals, 6.3 per cent; transport, 4.0 per cent; and agricultural products, 2.0 per cent.

Figure 30: Import by Sector (US$ Billion)



Source: Central Bank of Nigeria.

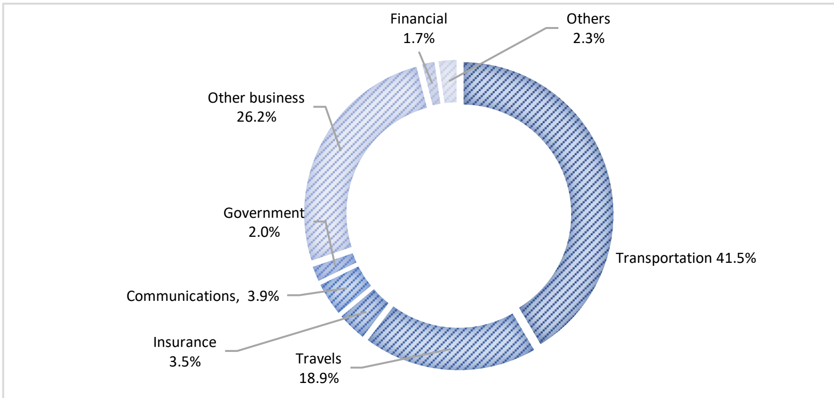
Services

The deficit in the services account decreased due to lower payments for transportation and travel. The deficit in the services account narrowed by 1.7 per cent to US$3.13 billion, from US$3.18 billion in Q12023 on account for lower payments for freight as merchandise import declined, and decreased payments for travels.

An analysis of trade in services revealed that the total payments for services decreased marginally to US$4.23 billion, compared with US$4.26 billion in the previous quarter. Payments for transportation, travel, insurance and pension services and personal, cultural, and recreation services decreased by 16.0, 19.3, 11.3, and 59.3 per cent, respectively, to US$1.76 billion, US$0.80 billion, US$0.15 billion, and US$0.03 billion. On the other hand, payments for other business services, telecommunications, computer, and information services, financial services and government services rose by 87.3, 22.9, 48.4 and 4.3 per cent, to US$1.11 billion, US$0.17 billion, US$0.07 billion, and US$0.08 billion, respectively.

In terms of the share, transportation accounted for the largest portion of 41.5 per cent, followed by other business services with 26.2 per cent. Travels, telecommunications, insurance, government, and financial services accounted for 18.9, 3.9, 3.5, 2.0, and 1.7 per cent, respectively. Other categories of services accounted for the balance of 2.3 per cent.

Figure 31: Share of Service Out-Payments in Per cent

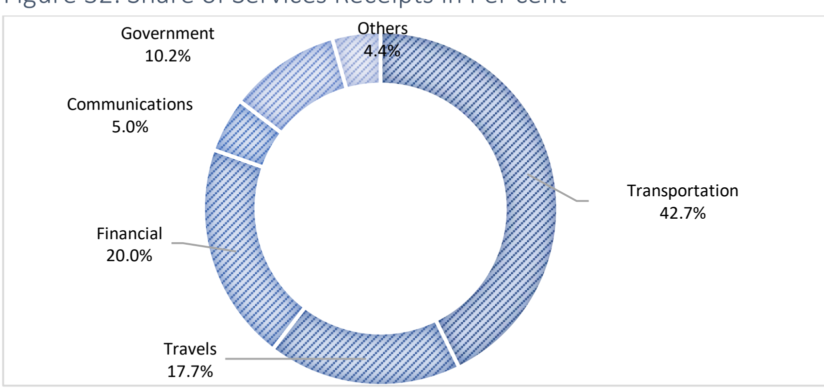


Source: Central Bank of Nigeria.

Receipts from services increased by 2.9 per cent to US$1.10 billion, from US$1.07 billion in the preceding quarter. This was due, mainly, to higher receipts from financial services, which rose by 42.8 per cent to US$0.22 billion. Transportation services, however, declined by 1.3 per cent to US$0.47 billion, relative to the level in the preceding quarter, due to lower receipts from sea transportation services. Similarly, receipts from travel services decreased by 12.6 per cent to US$0.19 billion, compared with US$0.22 billion in the preceding quarter, as personal related travels fell.

In terms of share, receipts from transportation services was 42.7 per cent; financial services, 20.0 per cent; travels, 17.7 per cent; government services, 10.2 per cent; and telecommunication services, 5.0 per cent. "Others" services accounted for the balance of 4.4 per cent.

Figure 32: Share of Services Receipts in Per cent



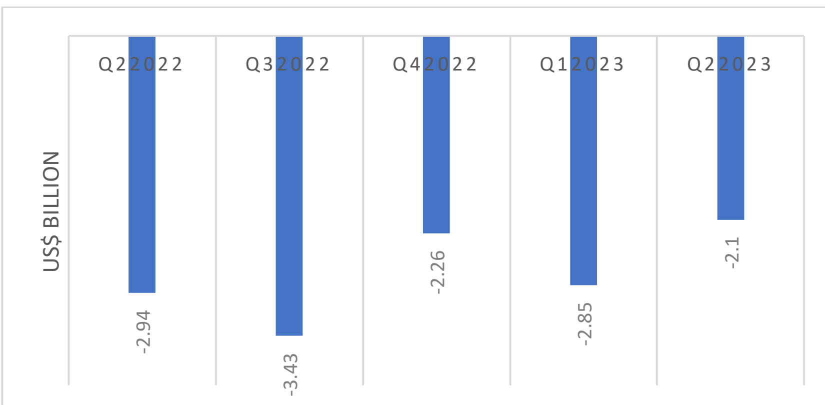
Source: Central Bank of Nigeria.

Primary Income

The deficit in the primary income account narrowed due to lower investment income claims by non-resident investors as some companies declared losses. The deficit in the primary income account fell by 26.4 per cent to US$2.10 billion in Q22023. This was primarily driven by a 19.7 per cent decline in investment income payments, which amounted to US$2.57 billion, from US$3.20 billion in Q12023. Dividend payments declined by 24.3 per cent to US$1.84 billion, from US$2.43 billion in the preceding quarter. Similarly, interest payments on portfolio investments decreased to US$0.08 billion, from US$0.10 billion in Q12023, while interest payments on loans reduced by 2.3 per cent to US$0.65 billion. Interest earnings on external reserves investments increased by 23.4 per cent to US$0.25 billion, from US$0.20 billion in the preceding quarter.

On the other hand, the compensation of employees account maintained a surplus position, though lower by 4.2 per cent to US$0.06 billion, compared with the level in the first quarter of 2023.

Figure 33: Primary Income Balance (US$ Billion)

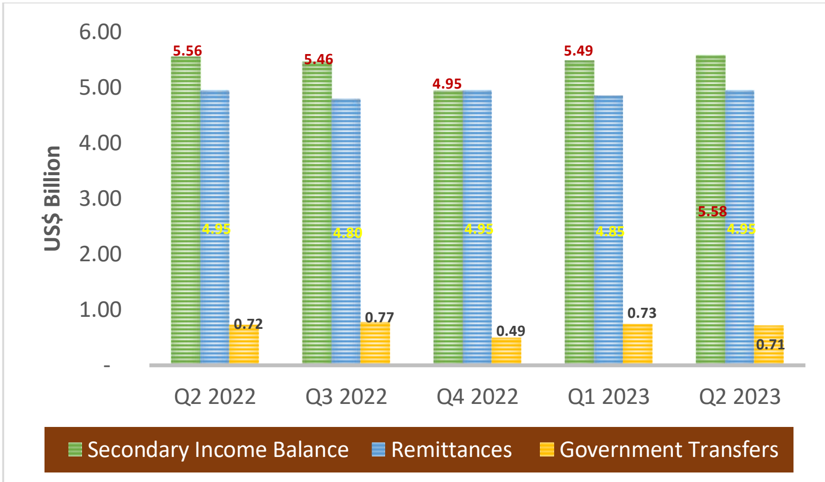


Source: Central Bank of Nigeria.

Secondary Income

The surplus in the secondary income account rose, due to higher inflow of personal transfers, particularly remittances. The secondary income account recorded a higher surplus position, increasing by 1.7 per cent to US$5.58billion in Q22023, from US$5.49 billion in Q12023. The development was attributed to higher inflow of personal transfers, which rose by 2.0 per cent to US$4.95 billion, from US$4.85 billion in Q12023, as migrant host countries, particularly the United States and parts of Europe increased labour wage earnings. On the other hand, general government transfers, decreased by 1.7 per cent to US$0.71 billion, from US$0.73 billion in the preceding quarter, as inflow of grants declined.

Figure 34: Secondary Income Balance and Remittances Inflow (US$ Billion)



Source: Central Bank of Nigeria.

2.4.2 Financial Account

Financial Account Developments

A significant increase in portfolio investment inflow, particularly for the purchase of fixed income securities resulted in a higher net incurrence of financial liabilities position. The financial account recorded a net incurrence of financial liabilities of US$1.44 billion (1.4 per cent of GDP), in contrast to a net reduction of financial liabilities of US$0.04 billion in Q12023. This reflected increased inflow of portfolio investment capital, on account of favourable investor sentiments, as the uncertainties surrounding the 2023 elections dissipated.

Net Incurrence of Liability

Inflow into the economy improved as uncertainties waned, following the successful completion of the general elections, favourable returns on investments and ongoing reforms, especially, in the foreign exchange market. An inflow of US$1.97 billion was recorded, against a capital reversal of US$1.00 billion in the preceding quarter. The development emanated from improved inflow of portfolio capital for the purchase of debt securities, particularly, government bonds. Portfolio investment recorded an inflow of US$1.95 billion, in contrast to a reversal of US$1.17 billion in Q12023, occasioned by increased investments in bonds by non-resident investors. In contrast, FDI inflow recorded a divestment of US$0.07 billion, against an inflow of US$1.12 billion in Q12023, owing to negative reinvested earnings, as some companies declared losses during the review period. Similarly, 'Other Investment' inflow dipped to US$0.25 billion, as against an inflow of US$0.07 billion in Q12023, due to withdrawal of currency and deposits placed in the Nigerian banks by non-residents and higher loan repayments by deposit taking corporations.

Net Acquisition of Asset

Aggregate financial assets recorded an acquisition of US$0.53 billion, in contrast to a disposal of US$1.04 billion in Q12023. The development reflected an improvement in the acquisition of other investment assets, particularly, the increase in foreign currency and deposits holdings by households. Direct investment assets recorded a net acquisition of US$0.001 billion, against a disposal of US$0.02 billion in Q12023. Portfolio investments inflow recorded a net acquisition of US$0.05 billion, against a disposal of US$0.03 billion in 2023Q1. Following the Bank's continued effort to enhance liquidity in the foreign exchange market and also to meet balance of payments needs, reserve assets were depleted by US$1.34 billion, relative to US$1.62 billion in Q12023.

2.4.3 External Debt

Public Sector External Debt

Nigeria's public sector external debt stock and external debt service payment at end-June 2023 stood at US$43.16 billion or 10.4 per cent of GDP and US$0.37 billion, respectively. A breakdown showed that the multilateral loans, from the World Bank, International Monetary Fund, and African Development Bank Groups, amounted to US$20.79 billion, accounting for 48.1 per cent of the total. Loans from commercial sources in the form of Euro bonds was US$15.62 billion or 36.2 per cent. Loans from bilateral sources was US$5.52 billion, or 12.8 per cent of the total, promissory notes were US$0.93 billion, or 2.2 per cent of the total, while syndicated loan (arranged by African Finance Corporation) stood at US$0.30 billion or 0.6 per cent of the total debt stock.

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

2.4.4 International Investment Position (IIP)

International Investment Position

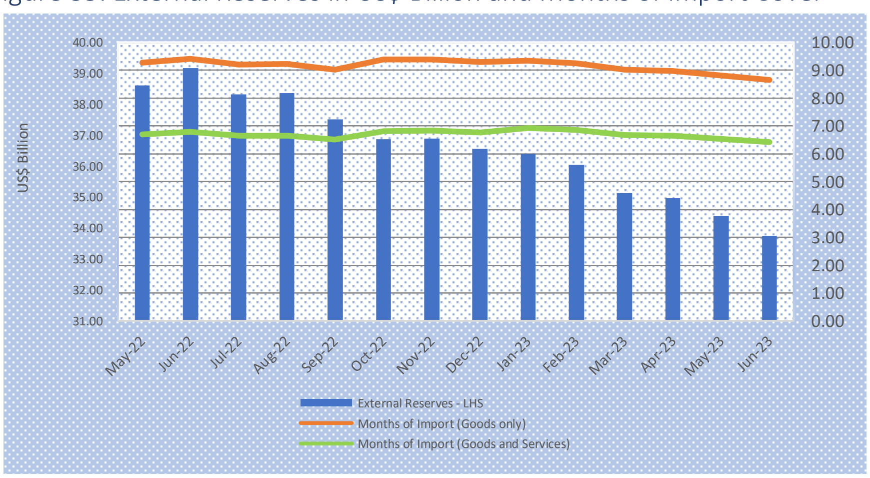
Nigeria's International Investment Position recorded a lower net financial liability of US$53.13 billion. The stock of financial assets decreased to US$108.77 billion at end-June 2023, compared with US$108.85 billion, in the preceding quarter, due, largely to the 5.1 per cent decline in portfolio investment assets to US$3.85 billion, relative to the value in the preceding quarter. The stock of other investment assets increased by 2.9 per cent to US$54.80 billion, relative to the preceding quarter, while direct investment assets rose slightly to US$13.65 billion, from the level at end-March 2023, due to higher investments in equity by residents.

The total stock of financial liabilities decreased by 11.1 per cent to US$161.90 billion, from US$182.22 billion at end-March 2023, due, largely to the decrease in the stock of direct investment liabilities. The stock of portfolio investment and direct investment liabilities wereUS$72.08 billion and US$28.46 billion, compared with US$85.86 billion and US$34.95 billion, respectively. Similarly, the stock of other investment liabilities decreased slightly by 0.5 per cent to US$57.98 billion, from the level at end-March 2023.

2.4.5. International Reserves

The international reserves remained above the standard benchmark of 3.0 months of import cover. It stood at US$33.71billion, relative to US$34.39 billion at end-March 2023. The level of external reserves could cover 6.5 months of import for goods and services or 8.9 months of import for goods only.

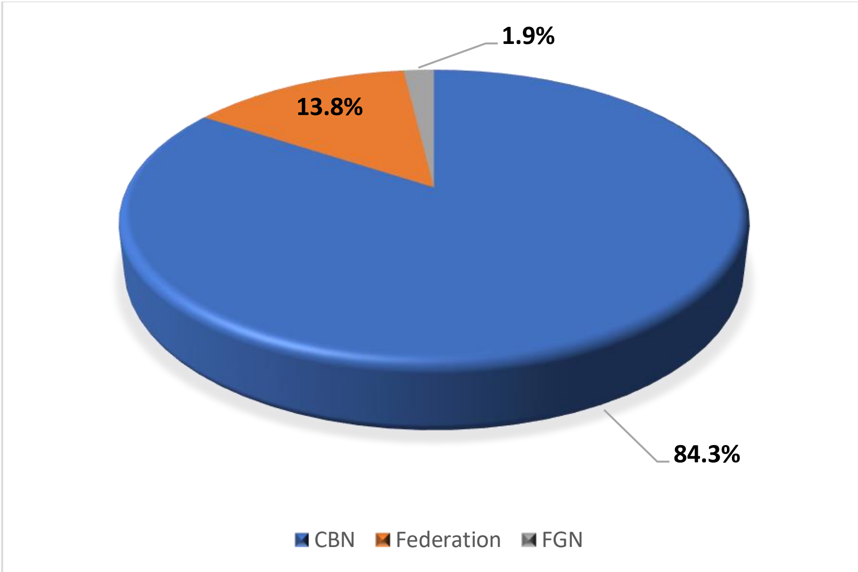
Figure 35: External Reserves in US$ Billion and Months of Import Cover



Source: Central Bank of Nigeria.

A breakdown of the external reserves showed that the share of CBN was US$28.98 billion; Federal Government, US$4.73 billion; while the Federation accounted for the balance of US$0.001 billion.

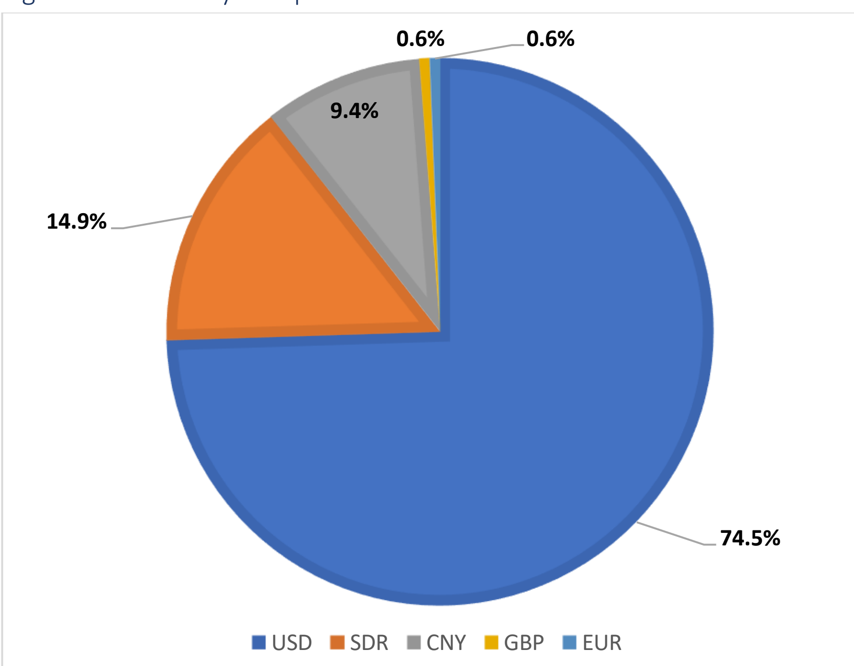
Figure 36: External Reserves by Ownership in Per cent



Source: Central Bank of Nigeria.

In terms of currency composition, the US dollar was US$25.11 billion, (74.5 %); Special Drawing Rights US$5.02 billion (14.9 %); Chinese Yuan US$3.16 billion (9.4 %); British Pounds US$0.20 billion (0.6%); Euro US$0.21 billion (0.6 %); while other currencies accounted for the balance.

Figure 37: Currency Composition of External Reserves in Per cent



Source: Central Bank of Nigeria.

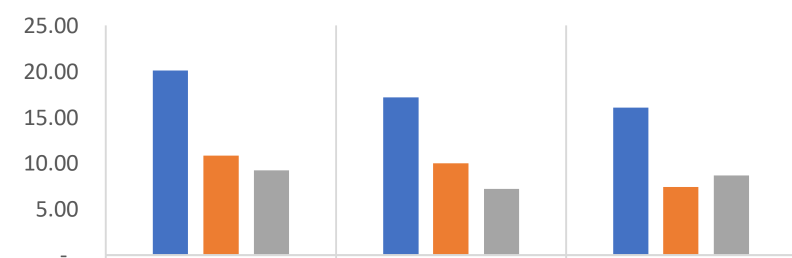
2.4.6 Foreign Exchange Flows through the Economy

Foreign exchange flows through the economy resulted in a higher net inflow in the second quarter of 2023. Net foreign exchange inflow through the economy increased by 20.6 per cent to US$8.69 billion from US$7.20 billion in the preceding quarter. Net inflow through autonomous sources, similarly, rose to US$9.64 billion from US$8.89 billion in the preceding quarter. A net outflow of US$0.96 billion was, however, recorded through the Bank, compared with a net outflow of US$1.69 billion in the preceding quarter.

Foreign exchange inflow to the economy fell by 6.3 per cent to US$16.09billion from US$17.18 billion in the Q12023. Foreign exchange inflow through the Bank declined to US$5.41 billion, from US$7.17 billion in the preceding quarter. Foreign exchange inflow through autonomous sources, however, increased to US$10.68 billion from US$10.01 billion in the preceding quarter.

Foreign exchange outflow from the economy decreased by 25.8 per cent to US$7.40 billion, relative to US$9.98 billion in the Q12023. Outflow through the Bank decreased by 28.1 per cent to US$6.37 billion from US$8.86 billion in the preceding quarter. Similarly, autonomous outflow fell by 7.4 per cent to US$1.04 billion from US$1.12 billion in the preceding quarter.

Figure 38: Foreign Exchange Transactions through the Economy in the Second Quarter of 2023 (US$ Million)



	Q2 2022	Q1 2023	Q2 2023
Inflow	20.08	17.18	16.09
Outflow	10.83	9.98	7.40
Netflow	9.25	7.20	8.69

Inflow Outflow Netflow

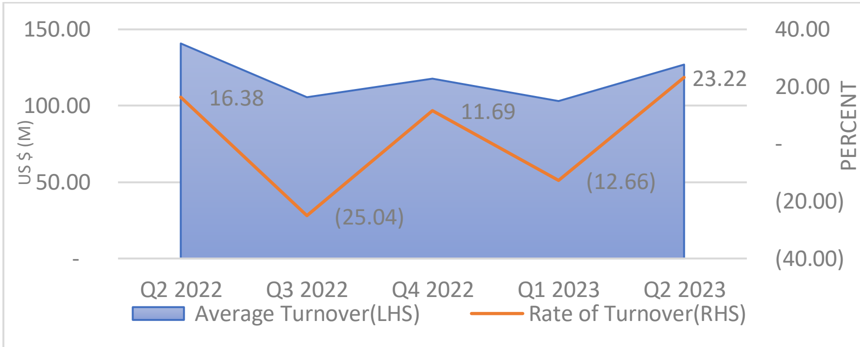
Source: Central Bank of Nigeria.

2.4.7 Developments in the Foreign Exchange Market

Turnover in the Foreign Exchange Market

The average turnover at the Investors' and Exporters' (I & E) window of the foreign exchange market increased by 23.2 per cent to US$0.13 billion, relative to US$0.10 billion in Q12023.

Figure 39: Turnover in the Investors' and Exporters' (I&E) Foreign Exchange Market (US$ Million)



Source: Central Bank of Nigeria.

Exchange Rate Movement

The average exchange rate of the naira per US dollar at the I & E window was ₦511.23/US$, compared with ₦460.93US$ in Q12023.The 9.8 per cent depreciation was attributed to the adoption of a market driven exchange rate regime in June 2023.

3.0 ECONOMIC OUTLOOK

3.1 Global Outlook

The Global economic expansion is expected to decelerate to 2.8 per cent in 2023, from 3.4 per cent in 2024. This projection hinges on the assumption that the recent financial sector turbulence will be effectively contained, thereby avoiding any disruptions to global economic activity that could lead to a global recession. There are, however, several downside risks to this outlook, such as the possibility of crisis in the banking system, resulting in tighter global financial conditions. Moreover, the combination of increasing levels of public and private sector debts, coupled with central banks rate hikes, poses additional concerns. Potential faltering in China's post-COVID-19 recovery, and an escalation of the war in Ukraine could also contribute to the slower expansion in economic activity.

Growth in AEs is expected to slow down significantly in 2023, decelerating to 1.3 per cent from 2.7 per cent growth in 2022. This is as a result of the tight policy stances aimed at curbing inflation, repercussions of the recent deterioration in financial conditions, the ongoing Russia-Ukraine war, and the increasingly noticeable impacts of climate change.

Economic prospects in EMDEs show a stronger outlook, though at varying levels across different regions within EMDEs. Nevertheless, based on the expectation of robust domestic demand in India and some Latin American countries, even in the face of external challenges such as the escalation of the Russia-Ukraine war and the deterioration in financial conditions, output growth is anticipated to remain unchanged at 3.9 per cent in 2023.

Though global headline inflation is projected to remain above the targets of most central banks and higher than the pre-pandemic level of 3.5 per cent. It is, however, expected to decrease to 7.0 per cent in 2023 from 8.7 per cent in 2022, owing to continued monetary policy tightening and decrease in global commodity prices.

3.2 Domestic Outlook

Despite some downside risks, Nigeria's economic growth prospects remains positive. This optimism is contingent upon the continuation of the current trend in crude oil prices and production and the successful execution of the Medium-Term National Development Plan (MTNDP).

Additionally, the pro-market policy reforms of the government such as the removal of fuel subsidy and the implementation of market-determined

[4] IMF WEO (April 2023)

exchange rate, and the expansion of credit by development finance institutions to growth-enhancing sectors, are expected to spur growth in the medium-term. Potential challenges could be precipitated through likely contraction in global demand, ongoing security issues, and subsisting infrastructural deficit, still pose as downside risks to the economic growth.

Inflationary pressures may subsist in the near-term on account of the removal of fuel subsidies and subsequent higher prices of premium motor spirit, and the depreciation of the naira. Moreover, the anticipated upward review of wages and electricity tariffs, alongside the adverse effects of climate change on agricultural output, are likely to induce further inflationary pressures. Notwithstanding, the sustained tight monetary policy stance, coupled with improvements in global supply chains are both expected to help dampen inflation.

The financial sector is expected to remain resilient in the second half of 2023. The outlook mirrors the efforts of the CBN in continuously monitoring emerging vulnerabilities and risks in the system, including periodic stress-tests and examination exercises, and the provision of risk mitigants.

The outlook for Nigeria's external position is optimistic, on the expectation of favourable terms of trade, occasioned by sustained rally in crude oil prices and an improvement in domestic crude oil production. The positive outlook is supported by the sustenance of crude oil price, propelled by the decision to cut production from May 2023, and gains from capital flows and remittances. Lower crude oil earnings, abolishing of fuel subsidy removal, rising import bills and increased external debt servicing obligations could pose downside risks to the accretion of external reserves. In addition, the sustained monetary policy tightening by central banks across the Advanced Economies increases the risk of capital outflow.