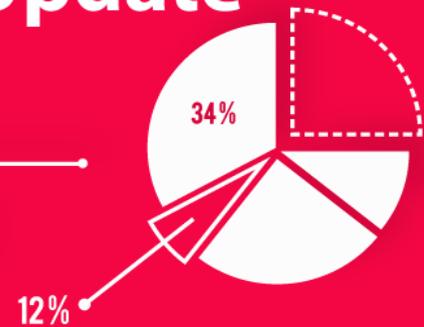




Nigeria Economic Update



Decline in External Reserves

Between January and February, Nigeria's external reserves declined from US\$37.2 billion to \$35.5 billion, its lowest in over 2 years¹. Although the reserve level remains above the \$30 billion benchmark set by the Central Bank of Nigeria (CBN)², the reserves have depleted considerably by 2.03% month-on-month. Since the beginning of the year, external reserves have steadily declined, falling by a total of \$2.38 billion in 2020. The recent decline stems from a fall in crude oil prices occasioned by a slowdown in global economic activities following the Corona virus outbreak. Perhaps in reaction to the declining external reserves, CBN has decided to suspend the multiple exchange window policy which was hitherto used to determine the value of the Naira. The decision to collapse the multiple window rates is a step in the right direction as this will forestall some inherent demerits in using different rates which include currency roundtripping, non-reflective production costs, rent-seeking and corruption.

CBN Interventions to combat COVID-19 Pandemic

The Central Bank of Nigeria (CBN) has taken steps to ensure financial stability amid the COVID-19 pandemic. The steps include a reduction of interest rates for all CBN interventions from 9% to 5%, the creation of a N50 billion credit facility for households and SMEs impacted by the pandemic, and N100 billion in credit support to the healthcare industry³. Other policy actions were aimed at maintaining funding levels within deposit money banks in order to sustain lending capacity to the private sector. Overall, the CBN has committed over N1 trillion to support all critical sectors, which could help buffer the effect of a global recession⁴. While the fiscal stimulus package is in line with global best practice, it is critical to ensure that these interventions are not exploited. For instance, prospective beneficiaries may misconstrue these loans as grants; or may be unable to repay the loans leading to an enormous bad debt burden on the government. In addition, the extent to which these loans will reach certain businesses affected by the stay-at-home policy such as food vendors and artisans is debatable. However, MSMEs can utilize these interventions to boost local manufacturing and achieve import substitution in these industries.

Rise in Inflation Rate

The recent report released by the Nigerian Bureau of Statistics (NBS) shows that the inflation rate rose for the month of February by 0.07% to 12.20%⁵. The rise in inflation was driven by all components particularly the food component owing to a continuous strain on the supply chain in the food market. While core sub-index grew by 0.08% to 9.43%, the food sub-index grew by 0.87% to 14.90%. Given the current trends in the global economy, we expect mixed effects on inflation: as the demand for goods and services falls, inflationary pressures will decrease; however, the shortages caused by disruptions to the supply chain could lead to price increases. The CBN loan interventions and the cut in interest rate used to combat the adverse impact of the pandemic are however likely to create inflationary pressures.

ECONOMIC SNAPSHOT		
Quarterly Indicators	19Q3	19Q4
GDP Growth Rate (%)	2.3	2.5
Oil GDP (%)	6.49	7.23
Non-oil GDP (%)	90.23	92.68
Unemployment Rate (%)	NA	NA
Foreign Direct Investment (US \$ Million)	200.08	257.25
Portfolio Investment (US \$Millions)	2,999.50	1883.58
Other Investment (US \$Million)	2,167.98	1661.55
External Debt (FGN & States- N'Billion)	NA	NA
Domestic Debt (FGN + States & FCT N'billion)	NA	NA
Manufacturing Capacity utilization (%)	181.2	185.1
Headline Inflation (%)	11.40	12.13
Food Sub-Index (%)	14.67	14.86
Core Sub-Index (%)	9.33	9.35
External Reserves (End Period) (US\$ Million)	38,595.25	31,009.76
Official Rate Approx. (N/US\$)	306.5	306.5
BDC Rate Approx. (N/US\$)	362	362
Manufacturing PMI	60.8	59.2
Non-Manufacturing PMI	62.1	59.6
Crude Oil Price (US\$/Barrel)	67.31	63.83
Petrol (PMS-N/litre)	145.35	145.37
Diesel (AGO -N/Litre)	229.81	229.78
Kerosene (HHK -N/Litre)	320.47	323.46
MPR (%)	13.5	13.5
CRR (%)	22.5	27.5
91 Day T-Bill Rate (%)	4.47	3.45
Savings Deposit (%)	3.89	3.86
Prime Lending (%)	14.99	30.77
Maximum Lending (%)	30.72	NA
Narrow Money (N'Billion)	10,533.13	10,331.40
Broad Money (N'Billion)	34,776.37	34,146.48
Net Domestic Credit (N'Billion)	36,178.34	35,815.11
Credit to the Government (N'Billion)	9,483.81	9,252.81
Credit to the Private Sector(N'Billion)	26,694.52	26,562.69

*Revised GDP figures/tentative figures

NA: Not Available

1CBN (2020) Foreign Reserves retrieved from:

<https://www.cbn.gov.ng/IntOps/Reserve.asp?MoveDate=3/23/2020%209:38:46%20AM>

2CBN (2020) CBN UPDATE retrieved from

<https://www.cbn.gov.ng/Out/2019/CCD/CBN%20UPDATE%204Web.pdf>

3CBN (2020) Circular to the Deposit Money Banks and The General Public retrieved from:

<https://www.cbn.gov.ng/Out/2020/FPRD/CBN%20POLICY%20MEASURES%20IN%20RESPONSE%20TO%20COVID-19%20OUTBREAK%20AND%20SPILLOVERS.pdf>

4Business Day (2020) COVID-19: CBN to inject N1trillion stimulus into economy. retrieved from :

<https://businessday.ng/lead-story/article/covid-19-cbn-to-inject-n1trillion-stimulus-into-economy/>

5NBS (2020). “Consumer Price Index February 2020”. Retrieved from;

<https://nigerianstat.gov.ng/download/1072>