REVIEW OF MACROECONOMIC DEVELOPMENTS IN THE Q1 and Q2, 2020

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1.0 INTRODUCTION.

In Q2 2020, the COVID-19 pandemic continued from Q1, 2020 to cause unparalleled deteriorations in global economic activity due to lockdown and other social distancing measures. . The measures introduced to contain the spread of the terrible COVID-19 disease have been necessary, but have had severe economic and financial consequences. Global growth is projected at -4.9% in 2020 by the IMF, 1.9 percentage points below the April 2020 WEO forecast while global growth is projected at 5.4% in 2021 against 5.0% in the April 2020 WEO forecast. As with most other economies across the global, Nigeria's Gross Domestic Product (GDP) decreased by -6.10%(year-on-year) in real terms in the Q2 2020, ending the 3-year trend of positive but low real growth rates observed since the 2016/17 recession.

Details of macroeconomic developments are discussed in subsequent sections. Section 2 presents macroeconomic performance and developments in the global economy and Nigeria. The trajectories of some macroeconomic indicators such as economic growth, inflation, exchange rate, international reserves as well as developments in the capital market and money market are discussed in subsections under this section. Section 3 concludes by highlighting the monetary policy decisions of the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN).

2. Macroeconomic Conditions

2.1 Global Economic Conditions

In Q2 2020, the Coronavirus (COVID-19) pandemic continued from Q1, 2020 to cause unparalleled deteriorations in global economic activity due to lockdown and other social distancing measures. It is worthy of note that COVID-19 is, first and principally, a global public health crisis. The measures introduced to contain the spread of this terrible disease have been necessary, but have had severe economic and financial consequences. Consequently, most countries all over the world are confronted with twin crisis of public health and economic crisis. The global, regional and national economies in the period ahead will continue to be determined by the virus, its spread or containment and policy responses to it.

With respect to the lockdown restrictions that were substantially relaxed in many regions of the world during the period under review, the renewed rise in COVID-19 cases in the world has shown that considerable downside risks remain. The pandemic has intensified in Latin America in Q2 2020 and there are major risks of a second pandemic wave emerging in many countries. Notwithstanding all these, the global economy is gradually staging a robust rebound due to gradual easing of lockdown measures in many regions in Q2 2020.

The IMF June 2020 World Economic Outlook (WEO) projections are more pessimistic than those quoted in its April 2020 Outlook. For the first time, all regions are projected to experience negative growth in 2020. In the baseline scenario, global growth is projected at -4.9% in 2020, 1.9 percentage points below the April 2020 WEO forecast while global growth is projected at 5.4% in 2021 against 5.0% in the April 2020 WEO forecast. However, the underlying assumption of the anticipated growth in 2021 is that COVID-19 is contained, especially in major economies, allowing for recovery in private household consumption and investment, supported by the massive stimulus measures undertaken to combat the pandemic.

The IMF also has two additional scenarios, with some forecast more severe, due to the uncertainty of the spread of the disease and associated containment measures. The two other scenarios are a second COVID-19 outbreak in early 2021, and a faster recovery from the lockdown measures implemented in the first half of 2020.

The World Bank, in its June 2020 Global Economic Prospects (GEP), predicted a baseline forecast of 5.2% contraction in global GDP in 2020 while 4.2% is the 2021 global growth forecast. These forecasts are lower by 7.7 percentage points for 2020 according to January 2020 projections.

In the advanced economy group, GDP growth is projected at -8.0 percent in 2020, 1.9 percentage points lower than in the April 2020 WEO. In 2021 the advanced economy growth rate is projected to strengthen to 4.8%, leaving 2021 GDP for the economy group about 4% below its 2019 level.

The World Bank GEP June 2020 projected the GDP growth of advanced economies at -7.0% for 2020 and 3.9% for 2021 which was lower from the revised January forecast by 8.4 percentage points for 2020.

In the emerging market and developing economies, the GDP growth is forecasted to contract by 3.0% in 2020, which is 2 percentage points below the April 2020 WEO forecast, reflecting larger spill overs from weaker external demand. In 2021, the growth rate for emerging market and developing economies is projected to strengthen to 5.9%, largely reflecting the rebound forecast for China (8.2%). The growth rate for the group, excluding China, is expected to be -5.0% in 2020 and 4.7 % in 2021.

The World Bank GEP June 2020 projected the emerging market and developing economies GDP growth at -2.5% and 4.6% for 2020 and 2021, respectively, using the baseline forecast. The World Bank January 2020 projections put the 2020 and 2021 GDP growth for these economies different by -6.6 and 0.3 percentage points, respectively.

In Sub-Saharan Africa, the regional economy is projected to contract by 3.2% in 2020 according to IMF WEO June 2020, which is 1.6 percentage points deeper than projected in April 2020. In nominal terms, the regional GDP in 2020 is forecasted at US$243 billion smaller than projected in October 2019. Regional growth is projected at 3.4 percent in 2021, which is 0.6 percentage points below the April 2020 projection. Furthermore, remittance inflows for the region are expected to drop by about 20 percent, which could have a substantial impact on the region given that remittances have been the largest source of foreign income for the region in the past few years, reaching US$47 billion in 2019.

Nigeria's GDP is projected, according to IMF WEO June 2020, to contact by -5.4% in 2020 and grow by 2.6%, against the WEO April 2020 forecast of -3.4% for 2020 and 2.4% for 2021.

The World Bank GEP June 2020 projected the Nigeria's GDP growth at -3.2% for 2020 and 1.7% for 2021. That is lower by 5.3 and 0.4 percentage points for 2020 and 2021, respectively, according to World Bank January 2020 projections.

Spot crude oil prices rebounded in May 2020 from low levels registered in April 2020, as physical market fundamentals improved significantly. Crude oil futures prices also bounced back in May. ICE Brent increased by $5.78, or 21.7%, month on month to average $32.41/b, and New York Mercantile Exchange (NYMEX) West Texas Intermediate (WTI) soared by $11.83, or 70.8%, month on month to average $28.53/b. In June 2020, spot crude oil prices continued rising for the second consecutive month, given the continued improvement in physical crude market fundamentals and gradual reductions in global supply overhang. The ICE Brent also rose in June 2020 by $8.36, or 25.8%, to average $40.77/b, while NYMEX WTI rose by $9.79, or 34.3%, to average $38.31/b.

These increases were due to drop in global oil surplus, which are signals of further developments in oil market as well as prospects that the oil market would tighten further in the second half of 2020. Furthermore, OPEC Monthly Oil Report (June 2020) suggest a renewed optimism on the outlook of global oil market fundamentals and expectations for a further recovery of oil demand and tightening global supply.

1.1.2 COVID-19, Implications and Economic Interventions

The COVID-19 was first identified in December, 2019 in Hunan seafood market in Wuhan city of China, reported to World Health Organisation (WHO) on 31st December, 2019. Since the initial discovery, the virus spread to over 150 countries and regions, with major outbreaks recorded in mainland China, Italy, Iran, South Korea and the United States, as well as sub-Saharan African countries (SSA). The outbreak was declared a pandemic on 11th March, 2020 by the WHO following its high global transmission rate.

As at 30th June 2020, the global laboratory confirmed cases of COVID-19 by WHO stood at 10,185,374 with 503,862 deaths from 750,890 with 36,405 total deaths recorded as at 31st March, 2020. That represents a global increase of 1,256%.

The COVID-19 pandemic has inflicted high and rising human and economic costs worldwide. Amongst such impacts are.

Global Implications

i. The global economy had been plunged into recession. The global GDP which stood at 2.9% in December 2019 had been projected by IMF June 2020 World Economic Outlook (WEO) to contract by 4.9% in 2020 given the pandemic as against 3.3% positive growth in its January 2020 report.
ii. The growth in advanced economies was projected at -8% in 2020 from 1.7% positive growth rate as at December, 2019. The GDPs of United States, Germany, France, Italy, Spain and United Kingdom were projected at -8%, -7.8%, -12.5%, -12.8%, -12.8% and -10.2% in 2020 from the positive rates of 2.3%, 0.6%, 1.3%, 0.3, 2% and 1.4% in 2019, respectively.
iii. The economies of Sub-Saharan Africa were estimated to grow from 3.1% in 2019 but revised downward to -3.2% in 2020 including Nigeria at (-5.4%) and South Africa at (-8.0%).
iv. Regional lockdowns acutely affected sectors dependent on global social interactions to survive such as travel, hospitality, entertainment and tourism.
v. The World Trade Volume (goods and services) was estimated according to IMF June 2020 World Economic Outlook (WEO) to shrink from 0.9% in 2019 to -11.9% in 2020 amidst the shutdown of tourism frontiers and workplace closures.
vi. Workplace closures disrupted supply chains, lowered productivity & income while triggering business closures and job losses. For instance, the United States job losses during the week 4 of March 2020 exceeded 6.6 million when compared with about 280,000 just two weeks before.
vii. The OPEC basket crude oil prices dropped by 65% from $69.38 per barrel as at 3rd January 2020 to as low as $18.05 per barrel as at 30th April, 2020 resulting in cut in oil production quotas of many countries to shore up prices;
viii. Increased clamour by countries for debt relief and cancellations by international bodies like IMF, World Bank and many others to mitigate the economic impact of the pandemic on nations and its citizenry.
ix. Demand for more credit lines from international financing agencies by countries to meet the exigencies of the pandemic.
x. Continuous erosion of investors' sentiments due to growth concerns leading to flight to quality, and consequent, decline in national stock market performance across the world.
xi. Global remittances were projected by World Bank to decline sharply by about 20% in 2020 with the sub Saharan Africa declining by 23.1% from $48 billion in 2019 to $37 billion in 2020, as a result of job losses by migrant workers.

Global Intervention Measures

i. Multilateral Measures:

a. **IMF**

- IMF had so far met about $100 billion emergency financing needs of 120 member countries with shocks/natural disaster induced urgent balance of payment needs under the Fund's Rapid Credit Facility (low-income member countries, 10-year maturity, 0% interest rate and 5½ years grace period) and Rapid Financing Instrument (available to all member countries).

- The Fund also on 13th April 2020 approved immediate debt service relief to 25 of the its member countries under the IMF's revamped Catastrophe Containment and Relief Trust (CCRT) as part of the Fund's response to help address the impact of the COVID-19 pandemic.
- On 25th March 2020, IMF called on bilateral creditors to suspend debt service payments from the poorest countries to which the G20 responded on 15th April by agreeing to suspend repayment of official bilateral credit from the poorest countries.

b. **World Bank/IFC:**

- The World Bank/IMF approved, on 17th March 2020, up to $14 billion in financing to assist developing countries to respond to and lessen the tragic impacts posed by the COVID-19 pandemic.
- The World Bank Group pledged to provide up to $160 billion through June 2021 in financing tailored to the health of economic and social shocks countries, including over $50 billion of International Development Association (IDA) resources on grant and highly concessional terms.

c. **African Development Bank (AfDB):**

As at 12th June 2020, the AfDB's COVID-19 emergency packages had reached the continent's five geographic regions (West Africa, North Africa, East Africa, Southern Africa and Central Africa). For West Africa, the Bank approved $288.5 million, €88 million, €75 million, €30 million and $22 million for Nigeria, Senegal, Côte d'Ivoire, Cabo Verde and ECOWAS, respectively.

ii. **Bilateral Swap Agreements**: Some central banks around the world have activated bilateral swap lines to improve access to international liquidity across jurisdictions. For instance, the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the US Federal Reserve, and the Swiss National Bank announced a coordinated action on March 15, 2020, to enhance the provision of liquidity through the standing US-dollar-liquidity swap line arrangements.

iii. **BRICS Countries**: As at 30th June 2020, some of the BRICS countries like **Brazil** reduced monetary policy rate by 200 basis points (bps) to historical low of 2.25% since mid-February 2020 and reserve requirement from 25% to 17% to boost liquidity. Since, 27th March 2020, the Reserve Bank of **India** (RBI) liquidity measures across three measures comprising Long Term Repo Operations (LTROs), a cash reserve ratio (CRR) cut of 100 bps, and an increase in marginal standing facility (MSF) to 3% of the Statutory Liquidity Ratio (SLR), extended to end September 2020. Also, repo and reverse repo rates were reduced by 115 and 155 bps to 4.0 and 3.35 percent, respectively. **China** announced RMB 4.6 trillion (4.5% of GDP) of fiscal measures and liquidity injection into the banking system for control of pandemic, medical equipment production, unemployment insurance disbursement. They also expanded their lending facilities by RMB1.8 trillion to support manufacturers of medical supplies and daily necessities while reducing their interest rates by 50 bps (re-lending facilities) and 25 bps (re-discounting facility). **South African** Reserve Bank (SARB) reduced the policy rate several times since the start of the pandemic: by 100 bps to 5.25% on March 19, another 100 bps to 4.25% on April 14, and 50 bps to 3.75% on May 21, 2020.

iv. **MINT Countries:** For the MINT countries, **Mexico** cut rates by 200 bps from March through June 2020. They also introduced financial system support measures amounting to 750 billion pesos, or 3.3 percent of 2019 GDP while the fiscal measures amount to 0.2% of GDP in health spending and 0.5% of GDP to support households and firms; **Indonesia** announced IDR 405 trillion (2.6% of GDP) package on March 31, 2020 which was further expanded to IDR 677.2 trillion (4.2 percent of GDP) on June 4, 2020 for health care sector, social/economic assistance to low-income households and permanent reductions of the corporate income tax rate from 25% to 22% in 2020-21 and 20% starting in 2022; Nigeria (see below) and **Turkey** announced TL100 billion package for both economic stimulus and doubling the credit guarantee fund.

v. **United States**: As at 30th June 2020, the US Federal Reserve cut its fund rate by 150bp in March to 0%-0.25% range through 2022. The US began a $483 billion Paycheck Protection Programme and Health Care Enhancement, created a $192 billion Families First Coronavirus Response Act, as well as provided an estimated $2.3 trillion Coronavirus Aid, Relief and Economy Security (CARES).

vi. **United Kingdom (UK)**: As at 30th June 2020, the UK launched Her Majesty's Treasury - Bank of England Covid Corporate Financing Facility which, together with the Coronavirus Business Interruption Schemes, makes £330bn of loans and guarantees available to businesses (15% of GDP). It also cut key interest rate by 65 basis points to 0.1% and expanded holding of government bonds and non-financial corporate bonds by £300 billion. Additionally, deferred VAT payment for the Q2 2020 until the end-2020, as well as deferring income tax payments of self-employed persons by six months. To support the international response, the UK Government made available £150 million to IMF's Catastrophe Containment and Relief Trust and provided a new £2.2 billion loan to the IMF Poverty Reduction and Growth Trust (PRGT) to help low income countries respond to COVID-19.

vii. **European Union:** As at 30th June 2020, the sum of EUR1 billion was offered as a guarantee to the European Investment Fund to incentivize banks to provide credit to SMEs, and another EUR800million set aside as Corona Virus Response Investment Initiative to support public investment for hospitals, SMEs, in stressed regions. The EU also suspended its fiscal adjustment requirements for countries that are not at their medium-term objective and allows fiscal deficit in excess of 3% of GDP. The European Commission (i) allowed the European Stability Mechanism (ESM) to provide Pandemic Crisis Support (based on existing precautionary credit lines) up to 2% of 2019 GDP for each euro area country (up to €240 billion in total) to finance health related spending and (ii) provided €25 billion in government guarantees to the European Investment Bank (EIB) and mobilise up to €200 billion to support companies, with a focus on SMEs.

2.2 Domestic Economic Conditions

2.2.1 Nigerian Real GDP Growth and Sectorial Contribution

In Q2 2020, Nigeria's Gross Domestic Product (GDP) decreased by -6.10% (year-on-year) in real terms, a fall of -7.97% points when compared to Q1 2020 (1.87%), ending the 3-year trend of low but positive real growth rates recorded since the 2016/17 recession. In the quarter under review, aggregate GDP stood at N34,023,197.60 million in nominal terms, or -4.81% points lower than recorded in Q1 2020. However, in Q1 2020, the Nigeria's GDP grew in real terms by 1.87% (year-on-year).

The nation produced an average daily crude oil of 1.81 million barrels per day (mbpd) in Q2 2020, –0.26mbpd lower than Q1 2020. The Oil sector contributed 8.93% to total real GDP in Q2 2020, down the preceding quarter, where it contributed 9.50%. The Non-Oil sector accounted for 91.07% of aggregate GDP in Q2 2020, slightly higher than the share recorded Q1 2020 (90.50%). Based on contribution to GDP, the economy has been grouped into Agricultural, Industrial & Services Sectors as shown in table 1.

The nation produced an average daily crude oil of 2.07 million barrels per day (mbpd) in Q1 2020, higher by 0.08 mbpd and 0.07 mbpd than the daily average production of 1.99 mbpd recorded in the corresponding quarter of 2019 and the preceding quarter (Q4 2019), respectively.

The Oil sector contributed 9.5% to total real GDP in Q1 2020, up from 9.22% and 7.32% recorded in the Q1 2019 and Q4 2019, respectively. On the other hand, the Non-Oil sector contributed 90.05% to the nation's real GDP in Q1 2020, lower than 90.78% in Q1 2019 and 92.68% recorded in the preceding Q4, 2019. During the Q1, 2020, the non-oil sector was driven mainly by Information and Communication (Telecommunications), Financial and Insurance (Financial Institutions), Agriculture (Crop Production), Mining and Quarrying (Crude Petroleum & Natural Gas), and Construction.

Table 1: Real GDP Growth and Sectorial Contributions

Table 1	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1
Oil Production (MBPD)	1.99	2.02	2.04	2.00	2.07
Real GDP Growth (%)	2.1	2.12	2.28	2.55	1.87
Oil Growth Rate	-1.46	7.17	6.49	6.36	5.06
Non-Oil Growth Rate	2.47	1.64	1.85	2.26	1.55
Contribution of the Oil Sector to RGDP (%)	9.22	8.98	9.77	7.32	9.5
Contribution of the Non-Oil Sector to GDP (%)	90.78	91.02	90.23	92.68	90.5

Contribution of Agriculture to RGDP (%)	21.89	22.78	29.25	26.09	21.96
Contribution of Industries to RGDP (%) (Mining & Quarrying, Manufacturing, Construction etc.)	23.56	23.34	22.17	20.27	23.65
Contribution of Services to RGDP (%) (Trade, Health, education, finance ICT etc.)	54.55	53.87	48.59	53.64	54.39
Source: NBS (Q1,2020)_Nigerian Gross Domestic Product Report Q1,2020					

2.2.2 COVID-19: Implications and Interventions to the Domestic Economy

Since the index case on February 27, 2020, the number of confirmed cases grew from 1 in Ogun to 139 in 12 states as at the end of March, 2020. As at end of Q2, 2020, the number of confirmed cases reported by the Nigeria Centre for Disease Control (NCDC) had risen by 18384.89% to 25,694 in 36 state (FCT inclusive) with cumulative deaths and discharge cases of 590 and 9,746, respectively.

Given the quick rate of infection and imminent severe economic consequences of the COVID-19 pandemic, a multi-sectoral national Emergency Operations Centre (EOC) was activated to coordinate national response activities in Nigeria. Also, an Economic Sustainability Committee (ESC) headed by the Vice President of Nigeria was established on March 30, 2020 to develop a clear Economic Sustainability Plan amongst other economic responses to challenges posed by the COVID-19 Pandemic.

During Q1 and Q2, 2020, the containment measures by the nation were characterised mostly by interstate/intercity movement restrictions (partial/full lockdown in many states), suspension of all commercial activities with limited exception to sectors providing critical produce/services such as health related, power/energy related, agriculture, food processing/retail and critical financial sectors.

The pandemic and above mitigations had severe economic consequences to the nation. These include:

i. The shutdown of non-essential businesses had led to stock obsolescence, huge storage costs, idle operating capacity/equipment, job losses, reduced pay in some sectors, low patronage, depletion of working capital and threat to going-concern status of many companies;
ii. Excessive wastages of agricultural produce due to difficulty in moving them from farms to the deficit parts of the country as a result of movement restrictions;
iii. A steep fall in the price of crude oil that led to reduced government revenue;

iv. The reduced revenue had potential to impact public debt repayment, servicing and sustainability;
v. Revenue pressure necessitated the review of underlying assumptions of the 2020 National budget such as benchmark crude oil price, volume and exchange rate;
vi. Increased pressure on the exchange rate stability and consequent price adjustment of naira to other foreign currencies;
vii. Continuous fall in the nation's foreign reserve;
viii. Increased government social, fiscal and physical costs in form of palliatives to citizens, economic stimulus to businesses, financial assistance to state governments, low tax returns due to low economic activities, income tax rebate & other administrative concessions to companies and increased expenditure to the health sector;
ix. Imminent fall in All-shares index and portfolio investment, as well as foreign direct investment due to undermined investors' sentiments.
x. Increase in Credit defaults and the attendant rise in volume of non-performing credits;
xi. Increased clamour by business creditors for debt rescheduling, restructuring, roll-over, moratorium, write-off and other debt relief measures;
xii. Rise in unemployment and crime rates;
xiii. Increases in commodity prices resulting to more pressure on individual income and consumption power and
xiv. Delayed execution of contracts and the associated payment considerations.

Implications on the Banking Industry

i. Exposure to vulnerable sectors like oil & gas, aviation and manufacturing may affect asset quality;
ii. Increased credit defaults, low recoveries due to inactive markets for collaterals;
iii. Imminent higher loss provisioning and erosion of capital from credit losses;
iv. Reduced interest margin from loan restructuring;
v. Increased reliance on digital channels with pressure on technology infrastructure and resources;
vi. Increased concerns of not meeting the needs of technology naïve customers that require direct personal engagement;
vii. Increased volume of online transactions;
viii. Reduced cash inflow from loan repayment;
ix. Increased fraud, cyber threats, etc. due to rise in online transactions maybe.
x. Possible reduction in deposit mobilization; and
xi. Massive withdrawal of deposits through ATM channels for domestic consumption needs.

Domestic Interventions

a. Fiscal Measures:

i. The 2020 Budget approved in December 2019 was revised and awaiting presidential assent into law as at 30th June, 2020 amid the adverse impact of the pandemic.

The crude oil price was passed at $25 pb from $57 pb, crude oil production was assured to 1.94mbpd from 2.18mbpd on an exchange rate of N360 to $1 from N305 to $1.

ii. Contingency funds of N984 million were released to Nigeria's Centre for Disease Control (NCDC) Contingency funds and an additional N6.5 billion was distributed for purchasing more testing kits, opening isolation centers and training medical personnel.

iii. The President in his 29th March 2020 speech directed for extension of a three-month repayment moratorium for all TraderMoni, MarketMoni and FarmerMoni loans. Similar moratorium was offered to all FG-funded credits advance by the Bank of Industry (BOI), Bank of Agriculture (BOA) and the Nigerian Export Import Bank (NEXIM).

iv. Conditional cash transfers were paid to most vulnerable at Internally-displaced people's camps, and other poor and disadvantaged persons identified via the Nigeria Bureau of Statistics (NBS) Survey.

v. Fuel pump price was reduced from N145 per litre to N123.50 per litre between 1st April and 30th June 2020 in response to global drop in crude oil price.

vi. The IMF on 28th April, 2020 approved US$3.4 billion in emergency financial assistance under the Rapid Financing Instrument to support the Government efforts in addressing the severe economic impact (balance of payment needs) of the COVID-19 shock and the sharp fall in oil prices.

vii. African Development Bank on 5th June, 2020 approved a $288.5 million loan to help Nigeria tackle the COVID-19 pandemic and mitigate its impact on people and businesses.

viii. Nigeria's House of Representatives on 24th March, 2020 introduced and passed for third reading the "Emergency Economic Stimulus Bill 2020" that seeks to provide a stimulus for the Nigerian economy. Some of the measures in the bill are expected to protect jobs and alleviate the financial burden on citizens in response to the economic downturn occasioned by the outbreak of COVID- 19 disease.

b. **Monetary Measures**:

i. Reduction of all applicable interest rates on CBN intervention facilities from 9% to 5%, and extension of moratorium on principal repayments by one (1) year, effective March 1, 2020. All in the bid to ease pressure on loan repayment.

ii. Adoption of uniform/single exchange rate for official transactions, inter-bank and parallel market to ease FX pressure in a bid to conserve the nation's external reserves.

iii. Creation of N1.1 trillion intervention fund with N1 trillion to support local manufacturing to boost import substitution and N100 billion to support the health service sector and product to cushion the adverse impact of the pandemic.

iv. Establishment of N50 billion fund to support households and Small and Medium Enterprises (SMEs) affected by COVID-19.

v. Reduction of MPR from 13.5% to 12.5% during the MPC Meeting on May 28, 2020.

c. Other Regulatory Measures

i. Granting regulatory forbearance to DMBs to consider temporary and time-limited restructuring of loan terms and tenors to household and businesses affected by COVID-19.

ii. Strengthening of the CBN's Loan-to-Deposit Ratio (LDR) policy which seeks to increase credit to real sector of the economy to further support industry funding levels to maintain DMBs capacity to direct credit to individuals, households and businesses.

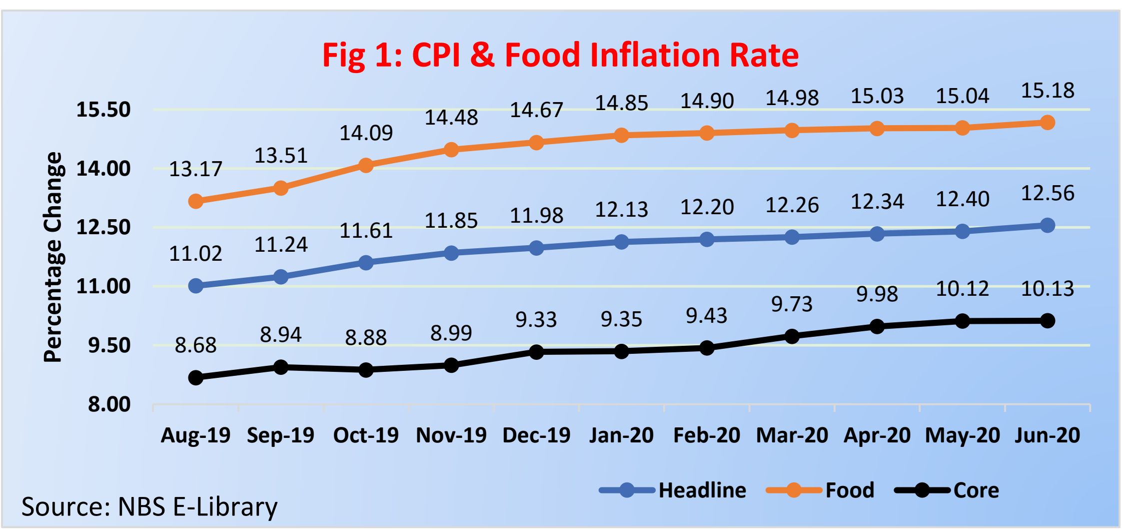
iii. Issuance of directive for oil companies/oil servicing companies to sell foreign exchange (FX) to CBN, rather than NNPC in a bid to enhance FX supply in the country.

However, it would be expected that economic activities would pick-up significantly with the phase two of the eased lockdown announced on 29th June, 2020 by the Presidential Task Force on COVID-19 (PTF-COVID-19). That phase lifted interstate movement restriction and allowed for reopening of domestic aviation services.

2.2.3 Consumer Price and Food Indices (Inflation)

The consumer price index (CPI) measures the variation in prices for retail goods and other items purchased by households for day to day living.

Fig 1 shows that the nation's headline inflation (year-on-year) increased by 12.56% in June 2020 from 12.34% and 12.40% in April and May 2020 respectively. The core inflation had shown unbroken but worrisome uptick from September 2019 to June 2020, respectively. That increase indicated an increase in inflation for the tenth consecutive month. The increase in inflationary pressure could be linked to factors such as disruptions in supply chain owing to restrictions on inter-state travels; reduced domestic supply of foreign exchange; continued impact of deteriorating domestic infrastructure; and spill



Source: NBS E-Library

over effects of the Pandemic on global supplies, amongst others.

On a narrow scale, the composite food index rose by 15.18% in June 2020 when compared to 15.03% and 15.04% in April 2020 and May 2020, respectively. The rise in the food index was mainly driven by increases in prices of Bread and Cereals, Potatoes, Yam and other tubers, Fruits, Oils and Fats, Meat, Fish and Vegetables.

Furthermore, the Core inflation or "All items less farm produce" which excludes prices of volatile agricultural produce stood at 10.13% in June 2020. That showed a slight increase of 0.01% point from 10.12% recorded in May 2020.

The items with the most price increases were Medical services, Hospital services, Passenger transport by road, Pharmaceutical products, Motor cars, Paramedical services, Maintenance and repair of personal transport equipment, Bicycles, Motor cycles, Vehicle spare parts and Other services in respect of personal transport equipment.

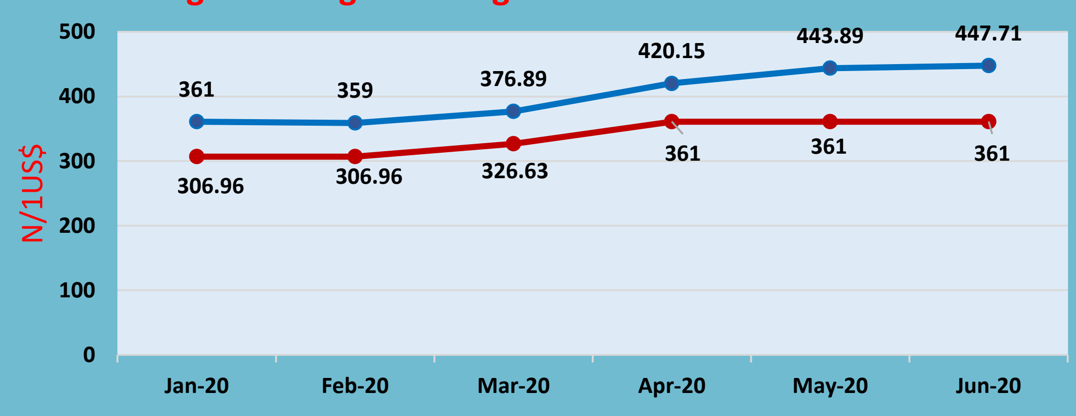
2.2.4 Exchange Rate Movement

Figure 2 shows the trend of Naira/US$ rate in both the Interbank and the Bureau de Change Markets.

The economic impact of global health challenges has been unprecedented. The reduced domestic supply of foreign exchange could be attributed to the abrupt fall in oil prices, reduced global demand and restricted international trade.

In response to the shortfall and pressure to the external reserve, the CBN adjusted the interbank exchange selling price from ₦306.96/US$ in February to ₦326.63/US$ and ₦361/US$ in March and April, 2020 respectively. The interbank monthly average rate had

Fig 2: Average Exchange Rate Movement



Source: CBN Statistical Database

remained at ₦361/US$ in May and June, 2020. That was expected to moderate market distortions but disparity between the rate traded at the interbank and BDC Rates had widened significantly.

At the Bureau de Change Market Segment, the Naira to US$ rate remained volatile during Q2 2020. The monthly average rate jumped from ₦376.89/US$ in March to ₦420.15/US$, ₦443.89/US$ and ₦447.71/US$ in April, May and June, 2020 respectively.

2.2.5 External Reserve Movement

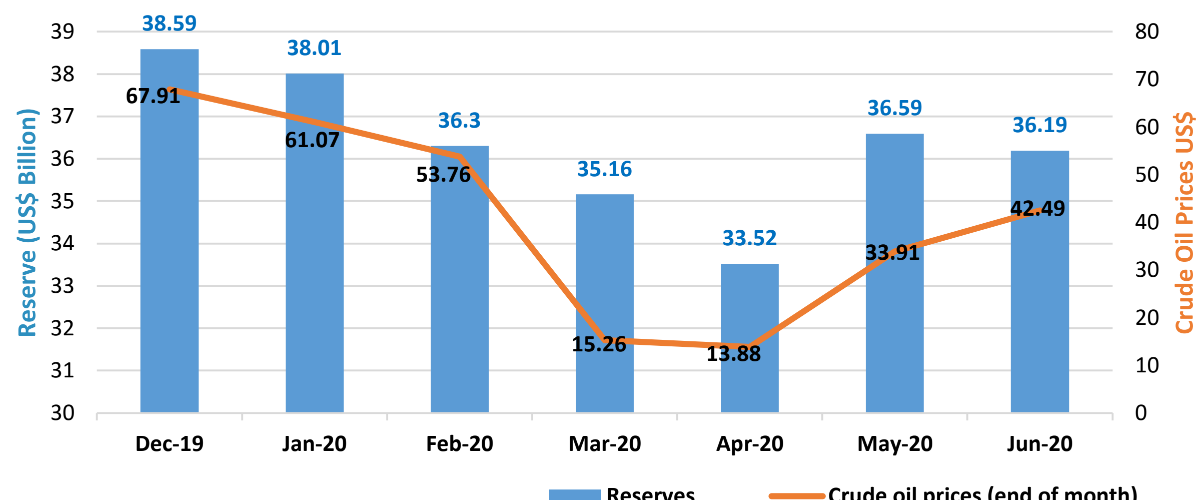
The trend of the nation's external reserves from 31st October, 2019 to 30th June, 2020 is presented in Figure 3.

The reserves displayed monthly successive decline from US$38.59 billion as at 31st December, 2019 to US$33.52 billion as at 30th April, 2020. The pressure on reserve accretion was attributed to vulnerabilities induced by sharp drop in oil prices (from US$67.91 per barrel in Dec. 2019 to US$13.88 per barrel as at 30th April 2020), ravages of the COVID-19 pandemic, subdued global demand and the emergence of exchange rate pressure.

On the positive note, the reserve increased significantly in May, 2020 to US$36.59 billion and then slightly down to US$36.19 billion as at 30th June, 2020.

The positive performance of the reserve could be linked to the improvement in crude oil prices from US$13.88 per barrel in April to US$33.91 and US$42.49 in May and June 2020, respectively. The moderate recovery in crude oil prices would reduce the pressure on the eternal reserves and government revenue.

Fig 3: External Reserves/Crude Oil Prices



Source: CBN

2.2.6 Nigeria Public Debt Stock

The country's public debt grew by 4.49% from N27.40 trillion in Q4 2019 to N28.63 trillion in Q1, 2020 to N31.01 trillion in Q2, 2020. The domestic debt accounted for 63.35% or N19.65 trillion while external debt accounted for 36.65% or N11.36 trillion of the total public debts as at 30th June, 2020. The external debt increased by N31.5 billion as a result of loan from IMF ($3.4 billion) and World Bank ($400million). The domestic debt increased by 82.8 billion (N1 triilion) mostly driven by increase in FGN bonds by N700 billion.

Table 2 highlights the status of the Total public debts stock from first quarter 2019 to first quarter 2020.

Table 2: Nigeria Public Debts

(N' Trillion)	**2019 Q1**	**2019 Q2**	**2019 Q3**	**2019 Q4**	**2020 Q1**
GDP (Annual) Basic Price				**144.21**	
Total Public Debt	24.95	25.70	26.21	27.40	28.63
Total External Debts	7.86	8.32	8.27	9.02	9.99
Total Domestic Debts	17.09	17.38	17.94	18.38	18.64
FG Only	13.11	13.41	13.90	14.27	14.53
State & FCT	3.97	3.97	4.04	4.11	4.11
External Debts (%)	31.51%	32.37%	31.55%	32.93%	34.89%
Domestic Debts (%)	68.49%	67.63%	68.45%	67.08%	65.11%
Public Debt growth rate	2.30%	3.02%	1.98%	4.54%	4.49%
Ext. Debt to GDP (%)				6.26%	
Public Debt to GDP (%)				**19.00%**	
Actual Debt Service Domestic (N'Billion)	610.28	189.83	606.87	254.04	609.13
Actual Debt Service External (N'Billion)	109.66	77.30	145.49	81.53	170.60
Total Debt Services	719.94	267.13	752.36	335.57	779.73
US$/Naira Rate	306.95	306.4	307	326	361
DMO: Total Public Debts - https://www.dmo.gov.ng/debt-profile/total-public-debts External Debt Services - https://www.dmo.gov.ng/debt-profile/external-debts/debt-service Domestic Debt Services - https://www.dmo.gov.ng/debt-profile/domestic-debts/domestic-debt-service					

2.3 Capital Market Development

In Q1 2020, the activities on the Nigerian Stock Exchange (NSE) was bearish as the All Share Index (ASI) and aggregate market capitalisation fell. The negative developments was largely driven by the destructive impact of COVID-19 pandemic and disruptions in global supply chain. The Nigeria Stock Exchange's All-Share Index (ASI) increased by 3.23% to close at 24,982.06 on June 30, 2020, compared to 24,200.61 as at May 31, 2020 (Table 5). However, the June 2020 index indicated an exceptionally large increase of 17% as against 21,300.47 points recorded as at the end of Q1 2020. The increase recorded in the ASI can be attributed to the drastic increase by 9.53% in May 2020.

Similarly, the Nigerian market capitalisation (All equities) increased from N12.61 trillion in May 2020 to N13.03 trillion in June 2020, which could be attributed to the end of year effect of investors liquidating investments.

Table 5: All Share Index and Market Capitalisation

	All Share Index		**Market Capitalisation (N' Trillion)**	
	Closed at	**% Change**	**Closed at**	**% Change**
Jan-20	28,843.53		14.67.	
Feb-20	26,216.46	-9.11	14.35	-2.18
Mar-20	21,300.47	-18,75	11.96	-16.65
Apr-20	22,094.95	3.73	11.51	-3.76
May-20	24,200.61	9.53	12.61	9.56
Jun-20	24, 982.06	3.23	13.03	3.33

Source: NSE - Daily Official List For months ended 30 June, 2020

3. CBN Monetary Policy and Circulars

3.1 Monetary Policy

The Monetary Policy Committee (MPC) met on 28th May, 2020 in an environment of severe macroeconomic shock arising from the calamitous spread of the Coronavirus Disease (COVID-19) and the ensuing global economic crisis. The highlights of the meeting and its implications to the economy, banking industry and the NDIC are presented below.

The Committee noted the following:

- The pandemic induced economic shock mainly characterised by disruptions to the global supply chain, on account of the mitigating measures including lockdowns, travel bans and quarantines put in place by various governments to contain the spread of the disease, which led to significant stock market crashes; exchange rate volatilities; rising corporate and public debt; rising levels of unemployment; tightening financial conditions; capital flow reversals; and negative shocks to commodity prices.
- The swift and widespread monetary and fiscal stimulus responses to mitigate the economic crisis and avoid economic recession by each country and developmental organisations.
- Given the supressed aggregate demand occasioned by the lockdown, Inflation in most Advanced Economies remained largely below their 2.0 per cent long-run targets.
- The continuous portfolio flow reversals from Emerging and Developing Economies, indicating general rebalancing of portfolios toward cash and gold as safe assets by investors, thus the resultant pressure on exchange rates and impacts on their corresponding domestic prices.
- The likely medium-term impact of these synchronized liquidity injections and other forms of monetary accommodation are the compounding of the already huge global corporate and public debt portfolios which may result in a spike in global debt post-COVID-19.
- Domestically, the economy achieved a positive output growth during the first quarter of 2020. The Committee noted that even if the lag effects of COVID-19 resulted in a low negative output growth in the second quarter of 2020, it could quickly be reversed to avoid a recession by Q3 2020 based on the far-reaching measures taken by the monetary and fiscal authorities to mitigate the combined effects of the COVID-19 pandemic and oil price shock.
- The uptick in headline inflation (for the eight consecutive month), as inflation (year-on-year) rose to 12.34% in April 2020 from 12.26% in March 2020; driven mainly by food and core components. That was occasioned by disruptions in supply chain owing to restrictions on inter-state travels; reduced domestic supply of foreign exchange; continued impact of deteriorating domestic infrastructure; and spill over effects of the Pandemic on global supplies, amongst others.
- Moderate improvement continued to be recorded since the beginning of the second quarter as both the All-Share Index (ASI) and Market Capitalization (MC) increased

by 18.33% each, between 31st March, 2020 and 22nd May, 2020. That was due to improved investor sentiments in response to the mitigating measures introduced at the onset of the pandemic by the monetary and fiscal authorities and positive outlook in the global oil market.

- The increase in external reserve as a result of improvement in crude oil prices and receipt of the IMF's Rapid Financing Instrument.

The Committee recommended that:

- While commending the Central Bank of Nigeria (CBN) for the key intervention policies; such as the N100 billion Healthcare Sector Intervention Fund of which N10.5 billion had been approved and disbursed, N1 trillion intervention targeted at Agriculture and Manufacturing Firms of which 93.2bn had been disbursed, N50 billion Targeted Credit Facility for households and SME's of which N4.1 billion had been disbursed, the committee directed CBN Management reach out to the banks to encourage them to offer and disburse these funds to those priority sectors of the economy so as to stimulate aggregate demand and create more jobs.
- While appraising the Federal Government's resolve in maintaining the core of its spending plans for 2020 and efforts at revising the oil price benchmark downwards to reflect prevailing conditions, the committee however, reiterated the urgent need for the Government to improve tax collections, through a gradual, but purposeful diversification of the economy's revenue base.
- Emphasized the need for Government to work towards a gradual reopening of the economy in line with recommendations of the Presidential Task Force (PTF) and advice from medical experts, insisting that efforts must be directed at saving not only lives but also livelihoods.
- Expressed concern about the heightened inflationary pressure attributed to a combination of monetary and structural factors. While price stability remains the Bank's primary mandate, the Committee expressed the need for a balanced approach in supporting growth in the face of rising domestic prices.
- Urged the Management of Banks in the country to sustain the current momentum shown by the increase in total asset by 18.8 per cent and total deposits by 25.52 per cent (year-on-year) as well as the Loan-to-Deposit Ratio (LDR) policy which showed that total credits increased by N3.1 trillion or 20.45 per cent.
- Advised that the Federal Government should leverage on Public Private Partnership (PPP) to intensify investment in infrastructure to increase output and employment. The Committee reiterated the benefits of both direct foreign and domestic Investment flows to the Nigerian automobile manufacturing, aviation and rail industries, which could take advantage of these viable and untapped domestic and regional markets.
- The Committee commended the Bank's role in effective oversight of the banking system, as evidenced by the relative stability in key financial soundness indicators and systemic resilience of the banking sector, in the face of severe external shocks.

The Committee's Decision

In consideration of the foregoing prospects and developments in the domestic and international economic environments, the Committee decided to:

i. Reduce the MPR to 12.50%;
ii. Retain the CRR at 27.5%;
iii. Retain the Liquidity Ratio at 30.00%; and
iv. Retain the Asymmetric corridor at +200 and -500 basis points around the MPR.

POLICY IMPLICATION FOR THE ECONOMY

- An accommodative monetary policy stance may likely keep inflation trending upwards considering that since August 2019, inflation rate was 11.02% and above. This could be attributed to other factors like the increase in taxes (Value Added Tax (VAT), Company Income Tax (CIT), and Petroleum Profit Tax (PPT)), movement towards single exchange rate, increase in food prices arising from infrastructural and transportation challenges and the review of the Multi-year tariff order (MYTO) which has an impact on electricity prices.
- Reduction in MPR to 12.5%, is expected to stimulate credit expansion to critical sectors of the economy that translate to more profit for firms, which could improve on their stock value, increase the inflow of foreign portfolio investors as well as have its positive multiplier effect on the capital market and stimulate employment and revive economic activity for quick growth recovery.
- The lower interest rate as well as a high trending inflationary rate could mean a lower propensity to save for people due to the lower disposable income caused by a lower purchasing power parity. On the flip side, this could mean a higher propensity to consume as the interest rate is not attractive enough to make people save.
- The low MPR compared to the high trending inflation could distract foreign direct and portfolio investors and cause some capital flight reversal to other climes where the rates are more favourable.

POLICY IMPLICATION FOR BANKS

- Lower MPR rate could mean less profitability for net placers of funds and lower cost of funds for net-takers of funds.
- An increased extension of credit to the private sector could expose banks to more credit risks due to a higher probability of default. That could also translate to lower profitability attributable to the possible higher impairment charges.
- Reduced MPR of 12.50% could mean a reduction in the Loan to Deposit Ratio of these Banks as debtors with variable loan rates could leverage on the lower rate to pay-off their debts.

IMPLICATION FOR THE NDIC

- The requirement to increase lending to the private sector could mean an increased NPLs in the banks, and its effect on the balance sheet positions of banks thus necessitating a need for increased supervision to ensure that adequate prudential measures are employed by these banks; to avoid the need for a resolution cost or provision of other forms of assistance to the banks by the resolution authority.

- The lower interest rate as well as the high trending inflation could cause a decrease in the disposable income as well as make savings less attractive, which could also possibly mean less premium collection due to the decreased tendency for more deposits in Banks.
- For the NDIC as a placer of funds, there may be a slight reduction on the interest income due to the reduced MPR.
- The latitude on restructuring loans in certain sectors and access to special intervention funds to boost liquidity in the banking sector creates the tendency to restructure or repackage bad loans and other sharp practices given this regulatory forbearance. This calls for increased regulatory oversight.
- The possible increased NPLs could make banks riskier hence the possibility of a higher premium collection by the NDIC due to the Differential Premium Assessment System (DPAS).
- Interventions and regulatory forbearances aimed at stabilizing the economy by the Apex Bank could result in lax compliance to prudential measures thus, banks may have to receive increased supervisory attention to reduce incidence of risky credits, cost of providing technical and financial assistance as a resolution authority.

3.2 CBN Circulars

During Q1 and Q2 2020, the CBN issued a number of circulars and guidelines to guide the operations of insured deposit-taking financial institutions. The highlights of some of the circulars are presented below:

i. FPR/DIR/GEN/CIR/07/057 Re: Circular on Expansion of the Scope of Regional Banks in Nigeria

The CBN in a letter dated June 26th, 2020 issued a circular to all banks with Regional authorization to operate from one additional geo-political zone without prejudice to the existing requirement of minimum of two (2) geo-political zones of the federation. The essence is to promote spread and balance of regional banks across the country.
The compliance timeline to establish operational footprint at the advised zone shall not exceed six (6) months from the issuance of the regulatory advice to each regional bank by the CBN.

ii. PSM/DIR/CON/CWO/07/127 Re: Reduction of Chargeback Period for ATM, POS and Web Transactions in the Guidelines for the Operation of Electronic Payment Channels

The CBN in a letter dated May 29th, 2020 issued a letter to all banks and Payment Service Providers to resolve customer chargeback complaints on electronic channels within the following revised timelines:

a. The reversal of failed on-us ATM transactions (failed transactions when customers use their cards on their bank's ATM) shall be instant from current timeline of 3 days and should not exceed 24 hours if there are technical issues.
b. Timeline for refunds on failed not-on-us ATM transactions (failed transactions when customers use their cards on other bank's ATM) shall not exceed 48 hours from current 3-5 days.

c. Refund on dispute/failed POS/Web transactions shall be treated within 48 hours from current 5 days.

Participants in the payment system are also required to comply with the following additional requirements;

d. All Switches are to adjust the chargeback cycle in their dispute resolution systems to 24 hours from 72 hours.
e. All Acquirer-initiated refunds shall henceforth be initiated by all banks within 48 hours.
f. The processors are to provide daily settlement reports latest 8 am on a T+1 basis.
g. NIBSS shall send daily reports on reversals to processors on or before 10pm each day.

All banks are to clear backlog of all ATM customer refunds within one (1) week and within two (2) weeks for POS & Web customers refunds.

The circular is effective June 8, 2020.

iii. OFI/DIR/LTT/GEN/022/153 Re: Extension of the Timeframe for the Submission of 2019 Audited Financial Statements.

The CBN in letter dated 30th of April, 2020 issued a circular to all Other Financial Institutions on the extension of the timeframe for the submission of 2019 audited annual report of these institutions. The extension arises from the observed lockdown of most cities resulting from the corona virus outbreak. The deadline for submission was extended to July 31, 2020.

iv. FPR/DIR/GEN/CIR/07/054 Re: Review of Minimum Capital Requirements for Microfinance Banks in Nigeria

The CBN in letter dated 29th of April, 2020 issued a circular to all Microfinance Banks on the extension of the deadline for compliance with the minimum capital requirements for Microfinance banks (MFBs) in Nigeria by one year.

The extension is as follows:

a. MFBs operating in rural, unbanked and under banked areas (Tier 2) shall meet the N35 million capital threshold by April 2021 and N50 million by April 2022;
b. MFBs operating in urban and high density banked areas (Tier 1) are expected to meet the N100 million capital threshold by April 2021 and N200 million by April 2022
c. State MFBs shall increase their capital to N500 million by April 2021 and N1 billion by April 2022
d. National MFBs are expected to meet minimum capital of N3.5 billion capital by April 2021 and N5 billion by April 2022.

v. PSM/DIR/CON/CWO/05/030 Circular on the Revised Standards on Nigeria Uniform Bank Account Number (NUBAN) for Banks and other Financial Institutions.

The CBN in a letter dated March 9th, 2020 issued a circular to all Deposit Money Banks and Other Financial Institutions (OFIs) on the revised standards on NUBAN for all Other Financial Institutions. The revised standard is to include accounts of OFIs in the NUBAN system, given their increasing role in the Electronic Payment System.

The circular takes effect from April 20, 2020, with a deadline of March 15, 2021 for full compliance.

vi. TED/FEM/FPC/GEN/01/002 Re: Milk and Dairy Importation

The CBN in a letter dated 11th February, 2020 intimated all Deposit Money Banks, Authorised Dealers and General Public of the restriction of importation of milk and other dairy product to only six companies in Nigeria.

The circular takes effect immediately.

vii. BSD/DIR/GEN/LAB/12/070 Re: Regulatory Measures to Improve Lending to the Real Sector of the Nigerian Economy.

The CBN in a letter dated 7th January, 2020 intimated all Deposit Money Banks of its decision to retain the minimum LDR at 65% in the interim, that in order to ramp up growth of the Nigerian economy through investment in the real sector, approved the measures that;

- **a.** All DMBs are to maintain a minimum Loan to Deposit Ratio (LDR) of 65.
- **b.** SMEs, Retail, Mortgage and Consumer Lending shall be assigned a weight of 150% in computing the LDR as a way of encouraging lending to these sectors.
- **c.** A levy of additional Cash Reserved Requirement equal to 50% of the lending shortfall of the target LDR failure to meet the minimum LDR of 60% by the specified date.