REVIEW OF MACROECONOMIC DEVELOPMENTS IN THIRD AND FOURTH QUARTER 2020

by

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1.0 Introduction

This section discusses the macroeconomic conditions of the global and domestic environments in the third and fourth quarter of 2020. Section 1.1 discusses global economic conditions, while Section 1.2 presents the domestic economic situation with respect to macroeconomic indicators such as real GDP, inflation, exchange rate, external reserves and debt stock. Financial sector developments are presented in Section 1.3, while Section 1.4 discusses money market developments and Section 1.5 concludes by presenting CBN monetary policy decisions as well as CBN circulars issued in the second half of 2020.

1.1. Global Economic Conditions

The global economy strengthened in the fourth quarter of 2020, leveraging on the gains of the previous quarter and improved outlook for global demand as vaccines development, distribution and applications across the world progressed. While the global output growth was still in the negative, its projected estimate in fourth quarter was larger than in third quarter of 2020.

The prospect however remained subdued because vaccines production and distribution were still at the early stage, and it may take some time before reaching substantial portion of the world population, depending on the efficiency of the distribution channel. In addition, the upsurge in the second wave of COVID-19 outbreak in many countries, especially those in Europe and United States, has had a negative effect on speed of output recovery due to the pockets of local containment measures.

The IMF in its October 2020 World Economic Outlook (WEO) estimated that global GDP would shrink by 4.4 per cent by the end of 2020 compared with a slighthly milder contraction of 4.3 per cent projected by the World Bank in it's Global economic Prospects (GEP) January 2021. Meanwhile, both the World Bank and IMF expected a revamp in global economic growth to be driven by GDP expansion in China amidst slower pace of contraction in mainstream Advanced Economies (AEs) including UK and the US.

In Sub-Saharan Africa, economic growth and prospects were weak in fourth quarter of 2020, and detracted from global economic recovery. The World Bank in its GEP January 2021 estimated that the Sub-Saharan Africa as a group grew at -3.7 per cent in 2020, more severe than the -3.0 per cent projected by IMF in its October 2020 WEO. The weak growth performance of the group stemmed from poor economic performance of the largest economies in the region, Nigeria and South Africa, as well as the devastating economic impact of COVID-19 containment measures.

International trade in fourth quarter 2020 was depressed under the influence of COVID-19 pandemic's restrictive effects on global activity. According to World Bank's GEP January 2021, the growth of global trade volume, measured by export and import of goods and nonfactor services, declined by 9.5 per cent in second half of 2020, compared with a fall of 13.5 per cent growth recorded in first half of 2020.

According to OPEC Monthly Reports, crude oil price performance in fourth quarter of 2020 was strong, with prices surging to 10-month highs. Its performance in the fourth quarter 2020 rallied with a growth of 18.38 per cent from $41.54 in September 2020 to $49.17 in December 2020. The improvement in oil prices and other economic indicators in the last quarter of 2020 derived largely from renewed investors' confidence and increased global demand that strengthened in recognition of emergence from global activity constrictions, as nations opened up their economies from activity restrictions following expectation of effective control of the pandemic by more vaccinations around the world.

1.2 Domestic Economic Conditions

1.2.1 Real GDP Growth and Sectorial Contribution

The Nigerian economy returned to a positive, albeit weak, growth of 0.11 per cent in the fourth quarter 2020, after negative growth in the second and third quarters of 2020 occasioned by the ravaging effects of the COVID-19 pandemic that tripped the economy into a brief recession in 2020. With the weak growth in fourth quarter, the economy ended with an annual negative growth of 1.92 per cent in 2020, lower than growth of 2.27 per cent recorded in 2019 (National Bureau of Statistics, 2020). However, the fourth quarter growth represented a strong quarterly performance relative to the second quarter and third quarter of 2020 negative growth of 3.62 per cent and 6.1 per cent (year-on-year), respectively.

1.2.2 Consumer Price and Food Indices

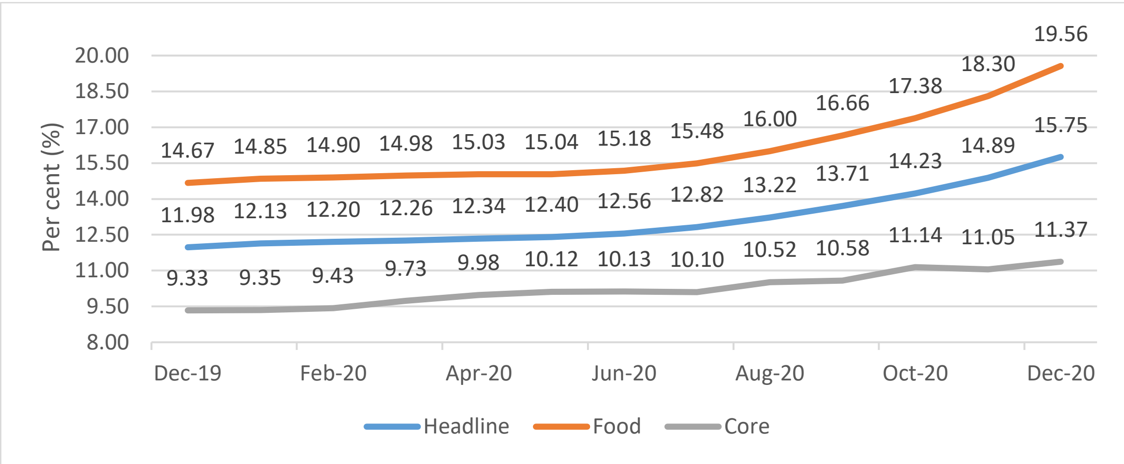
The headline inflation increased to 15.75 per cent (year-on-year) in December 2020 from 14.23 per cent and 14.89 per cent in October and November 2020, respectively, as shown in Figure 1.1. The increase in inflationary pressure could be linked to factors such as disruptions in supply chain owing to restrictions on inter-state travels and spill over effects of the pandemic on global supplies, amongst others.

The composite food index rose to 19.56 per cent in December 2020 compared with 17.38 per cent and 18.3 per cent in October and November 2020, respectively. The rise in the food index was mainly driven by increases in prices of Bread and Cereals, Potatoes, Yam and other tubers, Meat, Fish, Fruits and Oils and Fats.

Furthermore, the core inflation stood at 11.37 per cent in December 2020. That showed a slight increase of 2.9 percentage points from 11.05 per cent recorded in November 2020.

The items with the price increases were passenger transport by air, medical services, hospital services, pharmaceutical products, and passenger transport by road. Others were motor cars, vehicle spare parts, maintenance and repair of personal transport equipment, repair of furniture and paramedical services.

Figure 1.1: CPI and Food Inflation



Source: National Bureau of Statistics (NBS)

1.2.3 Exchange Rate Movement

The economic impact of the pandemic 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.

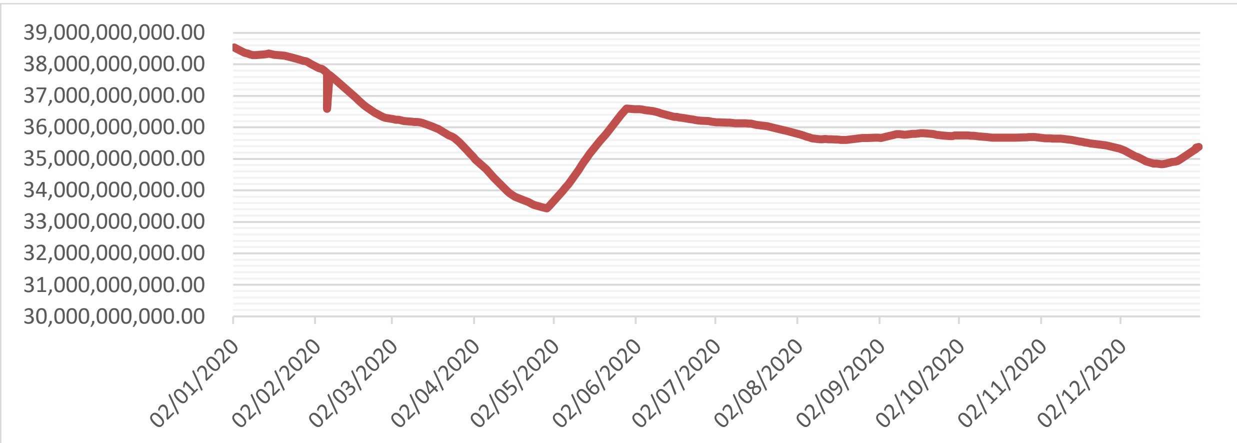
In response to the shortfall and pressure to the External Reserves, the interbank rate moved from ₦377.19/US$ in July 2020 to ₦381/US$ in August 2020. The interbank monthly average rate remained at ₦381/US$ throughout the remaining period of 2020 (i.e August-December 2020). That was expected to moderate market distortions but disparity between the rate traded at the interbank while Bureau de Change (BDC) rates had continued to widen significantly.

At the BDC market segment, the Naira to US$ rate remained volatile in the fourth quarter of 2020. The monthly average rate fluctuated from ₦453.68/US$ in September to ₦459.50/US$, ₦472.74/US$, and ₦471.62/US$ in October, November, and December, 2020 respectively.

1.2.4 External Reserves Movement

The stock of External Reserves declined from US$36.17 billion on 1 July 2020 to US$35.37 billion as at 31 December 2020. The decline was attributed to vulnerabilities induced by sharp drop in oil prices due to subdued global demand occasioned by the impact of COVID-19 pandemic. The trend of the nation's external reserves from 31 January to 31 December 2020 is presented in Figure 1.2.

Figure 1.2: External Reserves



Source: Central Bank of Nigeria (CBN)

1.2.5 Public Debt

Nigeria's public debt grew by 8.31 per cent from ₦28.63 trillion in the first quarter 2020 to ₦31.01 trillion in second quarter 2020, and further to ₦32.22 trillion and ₦32.92 trillion in third quarter and fourth quarter of 2020, respectively. The domestic debt increased from ₦20.04 trillion in the third quarter 2020 to ₦20.21 trillion in the fourth quarter 2020, while external debt stood at ₦12.19 and ₦12.71 trillion in the third and fourth quarter of 2020, respectively. Table 1.1 highlights the status of the total public debt stock from third quarter 2019 to fourth quarter 2020.

Table 1.1: Nigeria Public Debt

(N' Trillion)	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4
Total Public Debt	26.21	27.40	28.63	31.01	32.22	32.92
Total External Debt	8.27	9.02	9.99	11.36	12.19	12.71
Total Domestic Debt	17.94	18.38	18.64	19.65	20.04	20.21
FG Only	13.90	14.27	14.53	15.46	15.85	16.02
State & FCT	4.04	4.11	4.11	4.19	4.19	4.19
External Debt (%)	31.55	32.93	34.89	36.63	37.82	33.6
Domestic Debt (%)	68.45	67.08	65.11	63.37	62.18	61.4
Public Debt growth rate (%)	1.98	4.54	4.49	8.31	3.90	2.17
Actual Debt Service Domestic (N'Billion)	606.87	254.04	609.13	312.81	604.18	351.98
Actual Debt Service External (N'Billion)	145.49	81.53	170.60	103.62	193.22	110.28
Total Debt Services	752.36	335.57	779.73	416.43	797.40	462.26
US$/Naira Rate	307	326	361	361	381	381

Source: Debt Management Office (DMO)

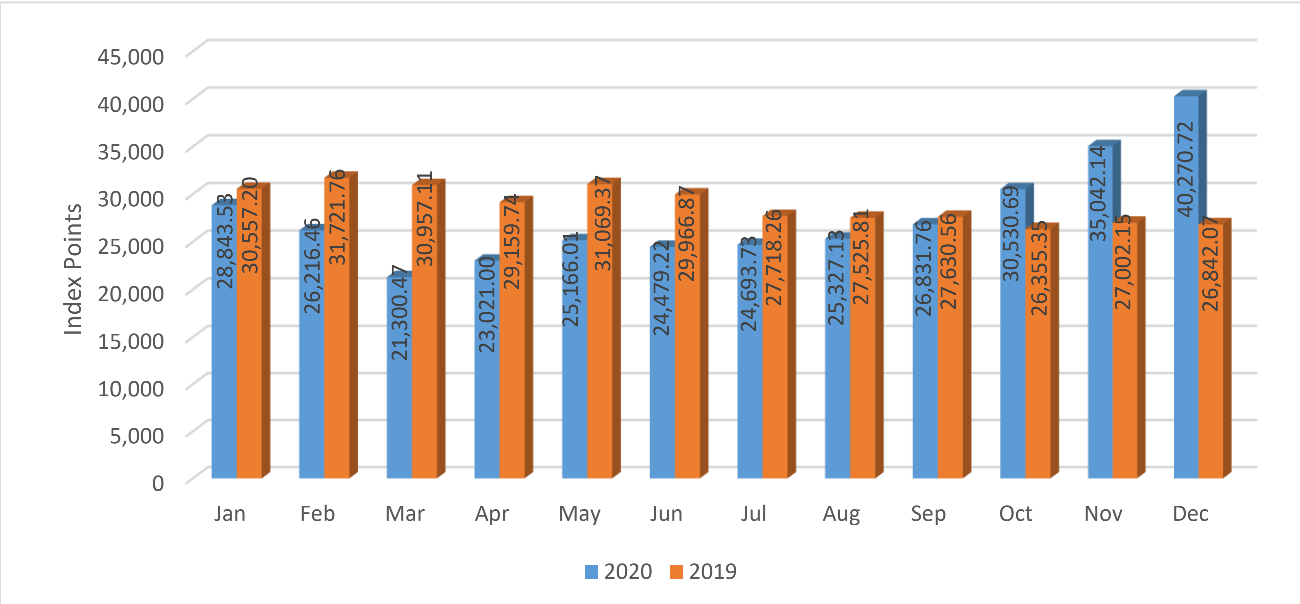
1.3 Financial Sector Developments

1.3.1 Capital Market Development

i. The All-Share Index

The Nigerian Stock Exchange All-Share Index (NSE ASI) rose by 50.09 per cent from 26,831.76 in the third quarter to close at 40,270.72 in the fourth quarter 2020 (Figure 1.3). The increase signaled the build-up of investors’ confidence in the market following the easing of the COVID-19 lockdown and reopening of the economy since the second quarter of 2020.

Figure 1.3: Movement in NSE All-Share Index



Source: Nigerian Stock Exchange (NSE)

ii. Market Capitalisation

The total market capitalisation of listed securities stood at ₦38.59 trillion as at end of fourth quarter 2020, having grown by 26.42 per cent from ₦30.5 trillion in the third quarter 2020. As at 31 December 2020, capitalisation of equities, exchange traded funds and FGN bonds grew by 50.06 per cent, 54.50 per cent and 7.51 per cent from ₦14.04 trillion, ₦15.86 billion and ₦15.55 trillion, respectively, from the third quarter 2020. However, the capitalisation of the corporate bonds and state/local bonds depreciated by 7.35 per cent and 26.75 per cent from the third quarter 2020, while the Supra-national bonds remained unchanged (Table 1.2).

Table 1.2: Market Capitalisation

Type	Q4 2020 (Current) (N'billion)	Q4 2019 (Prior Yr.) (N'billion)	% Change (Year-on-Year)	Q3 2020 (Prior Month) (N'billion)	% Change (Quarter-on-Quarter)
Equities	21,063.17	12,968.59	62.42	14,036.04	50.06
Exchange Traded Funds (ETF)	24.509	6.583	272.31	15.863	54.50
Total Debts	17,501.90	12,915.05	35.52	16,473.51	6.24
Corporate Bonds/ Debenture	507.759	355.817	42.70	548.017	-7.35
FGN Bonds	16,721.72	12,196.24	37.11	15,554.18	7.51
State and Local Bonds	270.798	354.897	-23.70	369.698	-26.75
Supra-national Bonds	1.619	8.094	-80.00	1.619	0.00
Total Mkt. Cap.	**38,589.58**	**25,890.22**	**49.05%**	**30,525.42**	**26.42**

Source: Nigerian Stock Exchange (NSE)

1.3.2 Domestic and Foreign Portfolio Investments

The total domestic and foreign portfolio transactions for December 2020 stood at ₦269.24 billion compared with ₦103.21 billion for July 2020 (Table 1.3). The total transaction value increased by 81.45% from ₦134.97 billion in September to ₦244.90 billion in October and further increased by 29.77% to ₦317.81 billion in November 2020.

Table 1.3: Domestic and Foreign Portfolio Transactions in EquityTrading in 2020

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Foreign ('N Billion)	70.31	71.34	110.22	53.18	35.24	56.34	34.59	38.98	40.05	81.72	67.31	69.92
Foreign (%)	29.86	48.04	45.37	41.33	29.58	43.72	33.51	41.27	29.67	33.37	21.18	25.97
Domestic ('N Billion)	165.14	77.16	132.69	75.49	83.91	72.54	68.62	55.47	94.92	163.18	250.50	199.32
Domestic (%)	70.14	51.96	54.63	58.67	70.42	56.28	66.49	58.73	70.33	66.63	78.82	74.03
Total ('N Billion)	235.46	148.50	242.91	128.67	119.15	128.88	103.21	94.45	134.97	244.90	317.81	269.24
Percentage Change (%)		-36.93	63.58	-47.03	-7.40	8.17	-19.92	-8.49	42.90	81.45	29.77	-15.28

Source: The Nigerian Stock Exchange Domestic and Foreign Portfolio Investment Reports

1.4 Money Market Development
1.4.1 Interest Rates Movement

Money market rates generally declined in third and fourth quarter of 2020, for all the rates except Maximum Lending rate, due to the prevailing high liquidity condition in the banking sector (Table 1.4).

Following CBN's review of the floor rates of interest payable on Savings Deposit, the rate declined from a stable rate of 3.78 per cent reported in August 2020 to 2.41 per cent in September 2020, and later decreased to 2.04 per cent in December 2020.

Treasury Bill rate has also continued a steady decline. It fell from 1.10 per cent in September 2020, and further decreased to 0.86 per cent in October 2020 before reaching an all time low of 0.03 per cent in November and December 2020.

The Prime Lending rate oscillated around the MPR of 11.50 per cent. It was 11.55 per cent in September 2020, and slightly dropped to 11.35 per cent in December 2020.

The Maximum Lending rate marginally dropped from 28.45 per cent in September 2020 to 28.31 per cent in December 2020.

Table 1.4: **Selected Money Market Rates in Percentage**

Month/ Year	Inter Bank Call Rate	MPR	Treasury Bill rate	Savings Deposit	Prime Lending	Maximum Lending
Dec-19	3.82	13.50	4.47	3.89	14.99	30.72
Jan-20	5.74	13.50	3.45	3.89	14.97	30.77
Feb-20	8.91	13.50	3.00	3.89	15.04	30.63
Mar-20	10.29	13.50	2.39	3.89	14.71	30.48
Apr-20	7.33	13.50	1.91	3.69	14.92	30.73
May-20	4.35	12.50	2.47	3.83	14.73	30.69
Jun-20	5.75	12.50	1.90	3.78	15.65	30.57
Jul-20	6.25	12.50	1.30	3.78	12.1	28.42
Aug-20	7.38	12.50	1.17	3.78	11.76	29.51
Sep-20	2.00	11.50	1.10	2.41	11.55	28.45
Oct-20	0.00	11.50	0.86	1.87	11.31	28.36
Nov-20	0.00	11.50	0.03	1.84	11.60	28.85
Dec-20	1.25	11.50	0.03	2.04	11.35	28.31

Source: Central Bank of Nigeria

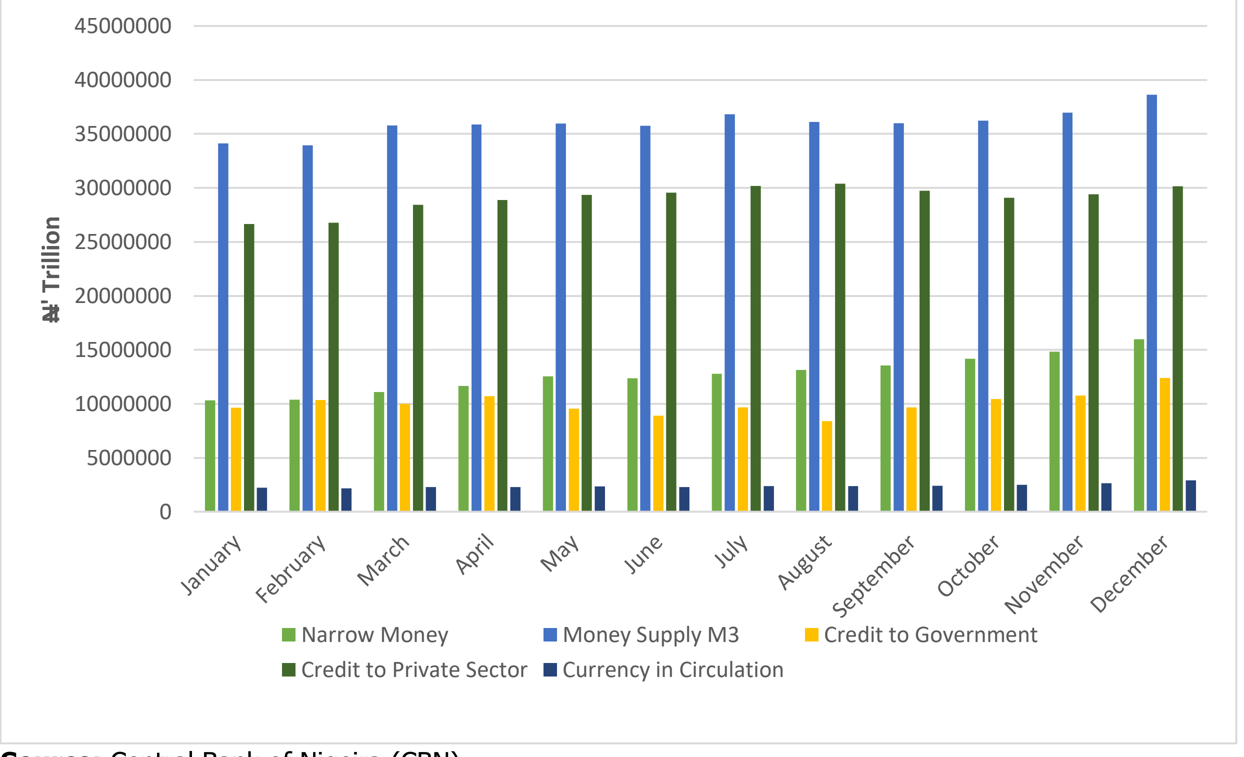
1.4.2 Money Supply and Credit Development

Narrow money grew by 10.79 per cent from second quarter 2020 to third quarter 2020. It further increased by 9.29 per cent as at November 2020 and stood at ₦14.82 trillion and grew further to ₦15.98 trillion in December 2020. The growth in narrow money supply reflects an increase in economic activities thereby increasing demand for contingent funds.

Broad money (M3) continued with a positive trend following the increase reported in third quarter of 2020. It increased by 0.33 per cent and 1.30 per cent in October 2020, and November 2020 respectively, to stand at ₦36.96 trillion as at November 2020 and ₦38.63 trillion as at December 2020.

Figure 1.4 shows the monthly change in money supply and credit allocation to the Government and Private Sectors in the economy from January to December, 2020.

Figure 1.4: Money and Credit Statisitics (Jan-Dec, 2020)



Source: Central Bank of Nigeira (CBN)

1.5 CBN Monetary Policy and Circulars

1.5.1 Monetary Policy

The Monetary Policy Committee (MPC) met in July, September and November, 2020. The decisions of the November 2020 meeting are presented as follows:

i. Retain the MPR at 11.5 per cent;
ii. Retain the asymmetric corridor of +100/-700 basis points around the MPR;
iii. Retain the CRR at 27.5 per cent; and
iv. Retain the Liquidity Ratio at 30 per cent.

1.5.2 CBN Circular

In the period under review, 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/07/056: Operational Guidelines on Global Standing Instruction (GSI) – Individuals

The CBN, in a letter dated 13 July 2020, issued a circular to all Banks and other Financial Institutions on the Operational Guidelines on Global Standing Instructions (GSI). The GSI is aimed at:

a. Facilitating an improved credit repayment culture,
b. Reducing non-performing loans in the Nigerian Banking System, and
c. Watch-listing consistent loan defaulters.

The guideline was issued along with the circular for implementation by all Banks and Other Financial Institutions with effect from 1 August 2020.

ii. FPR/DIR/GEN/CIR/07/060: Re: Guidelines for Licensing and Regulation of Payment Service Banks (PSBs) in Nigeria

The CBN in a letter dated 27 August 2020 issued the guidelines for the licensing and regulation of Payment Service Banks (PSBs) in Nigeria. PSBs are expected to leverage on mobile and digital channels to enhance financial inclusion and stimulate economic activities at the grassroots through the provision of financial services by increasing access to deposit products and payment/remittance services. PSBs are expected to provide financial services to small businesses, low-income households and other financially excluded entities through high volume low-value transactions in a secured technology-driven environment.

iii. FPR/DIR/GEN/CIR/07/061: Restoration of Fees on the National Collateral Registry (NCR) Platform.

The CBN in a letter dated 4 September 2020 issued a circular to all Banks, Other Financial Institutions and Stakeholders in the Financial Services Industry on the restoration of fees for registration of movable assets used as collateral for accessing loans as well as other services provided by the NCR. The Circular became effective on 1 November 2020.

The fees include:

a. Registration of financing statements for Deposit Money Banks financing Companies and Merchant Banks at ₦1000.
b. Printing of search report for DMBs, Finance Companies and Merchant Banks at ₦500.
c. Registration of financing statements for Microfinance Banks (MFBs), Development Finance Institutions (DFIs) and Non-bank Financial Institutions at ₦500.
d. Printing of search report for MFBs, DFIs and Non-bank Financial institutions, Mobile Money at ₦200.
e. Updating of Financial Statements at ₦500.
f. Subordination of Financing Statements at ₦500.
g. Public Search at ₦500.

iv. FPR/DIR/CIR/GEN/07/056: Circulars to all Non-Interest Financial Institutions.

The CBN in a letter dated 16 July 2020 issued a circular to all Non-Interest Financial Institutions in order to sensitise them on intervention schemes.

Some of these schemes include:

a. Non-Interest Guidelines for the Accelerated Agricultural Development Scheme (AADS)
b. Non-Interest Guidelines for Intervention in the Textile Sector,
c. Guidelines for the Operations of the Agri-Business, Small and Medium Enterprises Investment Scheme (AGSMEIS) for Non-Interest Financial Institutions (NIFIs)
d. Guidelines for Micro, Small and Medium Enterprises Development Fund for Non-Interest Financial Institutions (MSMEDF for NIFIs)
e. Non-Interest Guidelines for Non-Oil Export Stimulation Facility (ESF)
f. Non-Interest Guidelines for the Anchor Borrowers programme
g. Non-interest Guidelines for Real Sector Support Facility (RSSF) through CRR

h. Non-interest Guidelines for the operations of the Credit Support for the Healthcare Sector.

v. BSD/DIR/GEN/LAB/13/052 Re: Interest Rate on Savings Deposit

The CBN in a letter dated 1 September 2020 issued a circular to all Deposit Money Banks on the review of minimum interest payable on savings deposit. Interest on local currency savings deposits shall be negotiable subject to a minimum of 10 per cent per annum of Monetary Policy Rate. The circular became effective on 1 September 2020.

vi. FPR/DIR/GEN/CIR/07/056: Operational Guidelines on Global Standing Instruction (GSI) – Individuals

The CBN in a letter dated 21 October 2020 issued a circular to all Banks and other Financial Institutions on the Regulatory and Supervisory Framework for the Operations of a Mortgage Refinance Company (MRC) - Approval to Refinance Non-Member Banks. The circular aims to remove the restriction on non-member mortgage lenders from refinancing their mortgages with MRCs, hence MRCs are permitted to refinance the qualifying mortgages of mortgage lenders that do not hold its equity and subject to compliance with other relevant provisions specified in the Framework.

vii. FPR/DIR/GEN/CIR/07/063: Re: Status of Chief Compliance Officers

The CBN in a letter dated 9 October 2020 issued an administrative letter to all Merchant and Regional Banks (Commercial /Specialised) on the status of Chief Compliance Officers (CCOs). The letter aims to grant Merchants and Regional banks dispensation to appoint CCOs on grade not below Assistant General Manager but will report directly to Executive Compliance Officers (ECO).

viii. BSD/DIR/GEN/LAB/131086: Introduction of Central Bank of Nigeria Special Bills

The CBN in a letter dated 1 December 2020 issued a circular to all Banks, other Financial Institutions and Stakeholders in the Financial Services Industry on the introduction of special bills as part of efforts to deepen the financial markets..

The features of the Special Bills include:

a. Tenor of 90 days.
b. Zero coupon, applicable yield at issuance will be determined by the CBN.
c. The instrument will be tradable amongst banks, retail and institutional investors.

d. The instrument shall not be discountable at the CBN window.
e. The instrument will qualify as liquid assets in the computation of liquidity ratio for deposit money banks.

ix. BKS/DIR/CIR/GEN/02/042: Circulars on the Revised Nigeria Cheque Standard (NCS) and Nigeria Cheque Printers Accreditation Scheme (NICPAS)

The CBN in a letter dated 9 December 2020 issued a circular to all Deposit Money Banks, Accredited Cheque Printers/Personalisers, Nigeria Interbank Settlement System on the revised Nigeria Cheque Standard (NCS) and Nigeria Cheque Printers Accreditation Scheme (NICPAS). Given the outbreak of Covid-19 pandemic, the circular was aimed at adjusting the implementation dates for the new cheque.

The new dates include:

a. The cut-off date for the parallel run (co-existing of both old and new cheques) extended from 31 August 2020 to 31 December 2020. Hence, only new cheques are allowed in the clearing system from 1 January 2021.
b. Waiver for a maximum period of three months, ending 31 March 2021, would only be given if reasons for inability to migrate are satisfactory after management consideration.
c. Full enforcement of the 2nd edition of NCS and NICPAS Version 2.0 will commence 1 April 2021 and the NCS/NICPAS 2.0 sanction grid will be fully operational on 1 April 2021.

x. PSM/CIR/GEN/CIR/01/22: Re: New Licence Categorisations for the Nigerian Payments System

The CBN in a letter dated 9 December 2020 issued a circular to all Payment Service Providers, Deposit Money Banks and other Financial Institutions on the new licence categorisations for the Nigerian payments system.

The features of the Circular include:

a) Payment system licensing has been streamlined according to permissible activities into
    1) Switching and Processing
    2) Mobile Money Operations (MMOs)

   3) Payment Solution Services (PSSs)
   4) Regulatory Sandbox.

b) Only MMOs are permitted to hold customer funds.
c) Companies seeking to combine activities under the switching and MMO categories are only permitted to operate under a holding company structure and should be clearly delineated to prevent comingling.
d) Payment System companies in the Payment Solution Services (PSS) categories may hold any of Payment Solutions Service Provider (PSSP), Payment Terminal Service Provider (PTSP) and Super Agents licence or a combination of the licences thereof.
   a) Payment Solution Services (PSSs) – ₦250 million
   b) Super –Agent - ₦50 million
   c) Payment Terminal Service Provider (PTSP) – ₦100 million
   d) Payment Solutions Service Provider (PSSP) – ₦100 million
   e) Mobile Money Operation – ₦2 billion
   f) Switching and Processing – ₦2 billion