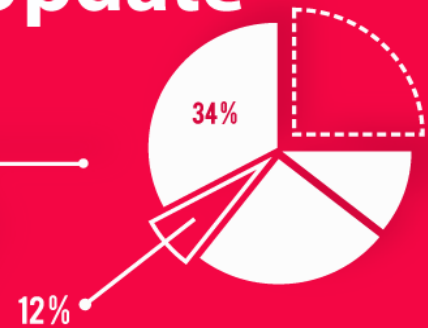




Nigeria Economic Update



Weekly
Digest

Rise in Treasury Bills Rates

According to the Central Bank of Nigeria, the primary market recorded a rise in interest rates for the first time in 3 months. The rise was recorded in the recent 13th May auction as interest rates rose to 2.5% (+35%) and 2.85% (+16%) for the 91-day and 182-day tenor respectively when compared to the preceding auction¹. The rise in interest rates can be attributed to lower demand given that investors are seeking for safer assets in more stable currencies in these unprecedented times. Bearing in mind that the government aims to mobilize domestic funds following a shift in debt sourcing, this will increase the cost of borrowing for the government. In addition, considering that the interest rate on T-bills is the benchmark interest rate, the rates of other commodities including bonds and equities are expected to rise. The rise in interest rate will increase the need to save for households, thus lowering consumption and increase the cost of borrowing for firms, thus reducing investment. The overall effect will be a negative impact on economic growth.

Rise in Foreign Reserves

The Central Bank of Nigeria records an uptick in foreign reserves as gross reserves rose by 3.5% to US\$35.15 billion in mid-May relative to mid-April². The rise comes after a 10-month long decline since June 2019. Also, the rise follows a series of interventions to help float the reserve account including an increase in treasury bill auctions and a US\$3.4 billion emergency fund relief from the IMF. The increase in the foreign reserves is a welcome development as it would act as a buffer for government spending. Going forward, a sustained increase in the nation's foreign reserves is not expected, considering that the naira continues to be overvalued and the major source of foreign exchange inflows, crude oil exports, has been negatively impacted. However, the sizeable concessional loan provided by the IMF provides an opportunity for the non-oil sector to boost local capacity and move towards import substitution which will reduce the demand for and generate foreign exchange.

Rise in Currency in Circulation

Currency in circulation (CIC) rose in the month of April by ₦11.389 billion to ₦2.306 trillion, when compared to the preceding month³. The volume of CIC is 6.8% higher than the corresponding period in 2019. The rise comes as demand deposit and bank reserves also trends upwards by 1.9 and 21% respectively. The rise in money in circulation comes amidst the current slower real output and this could further drive up inflation which is currently at 12.2% as at February 2020⁴. The rise in CIC further indicates increase in currency outside banks and people's preference for cash during the current economic lockdown as digital economy has not been effective as expected. To avoid increased cash holdings from draining liquidity from the banking system, the Central Bank of Nigeria needs to actively manage the system liquidity. An effective way of infusing durable liquidity into the system could be through bond purchase from the secondary market.

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

1 CBN (2020) “Government Securities Summary” retrieved from:

<https://www.cbn.gov.ng/Functions/export.asp?tablename=primarymarket>

2 CBN (2020) Movement In Reserves retrieved from:

<https://www.cbn.gov.ng/IntOps/Reserve.asp?MoveDate=5/20/2020%209:04:27%20PM>

3 CBN (2020), “Currency Issue System”. Retrieved from <https://www.cbn.gov.ng/Currency/default.asp>

4 CBN (2020), “Inflation Rate”. Retrieved from: <https://www.cbn.gov.ng/rates/inflrates.asp>