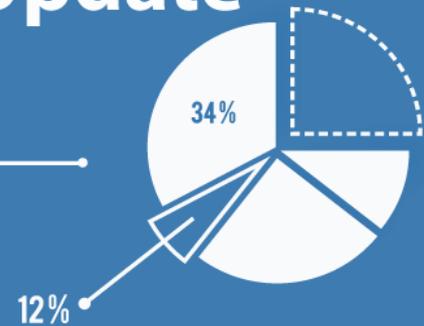




Nigeria Economic Update



Weekly
Digest

Exchange rate rises to N420/US\$ at the official market

Data from the Central Bank of Nigeria (CBN) shows that as of 17th August 2022, the official exchange rate of Naira to the US dollar was N420.83 for a dollar suggesting a N5.15 depreciation compared to the N415.68 reported at the end of the previous month (July).² This fall in value of the domestic currency can be attributed to the shortage of foreign currencies in the country, arising from the demand for foreign currency (most especially the US dollar) which is higher than the supply. The preference for foreign-made products over locally produced products and the low production capacity of domestic firms contribute in part to the high demand for foreign currency. The high demand for foreign currency is also due to people's involvement in speculative purchases by saving dollars to fund education or relocation expenses. While the RT200 FX programme of the CBN is contributing to an increase in the supply of foreign currency, the demand for foreign currency exceeds the supply and, in turn, contributes to the continuous depreciation of the domestic currency both in the official and parallel exchange markets. Thus, there is a need for the government to support domestic firm production capacity to reduce importation. Also, exporting firms need to be provided with financial and technical assistance to increase exportation and expand the sources of foreign currency. There is a higher likelihood that firms that benefited from government support would use official channels in remitting their export proceeds. The supply of foreign currency should increase with effective execution and monitoring of these interventions, resulting in a more stable domestic currency, Naira.

CBN adjusts interest rate on its interventions back to 9 percent

The Central Bank of Nigeria (CBN), in a circular dated August 17, 2022, has announced the reversal of interest charges on loans advanced through its intervention schemes from 5 percent back to 9 percent.¹ To reduce the impact of the COVID-19 pandemic on the economy, the CBN lowered interest rates on all CBN's intervention facilities in March 2020 from 9 percent to 5 percent, as a way to promote access to finance and boost economic activities across different sectors. According to the CBN, all intervention facilities granted from July 20, 2022, shall attract an interest rate of 9 percent. The announcement of this increase in interest rates came a few days after the CBN raised the monetary policy rate from 13 to 14 percent to tame inflation through monetary tightening. The adjustments in interest rates signals consistency in monetary policy. However, the increase in the monetary policy and interest rates on CBN intervention suggests an increase in borrowing costs. To minimise a likely slowdown in economic growth associated with an increase in interest rates, the government needs to support businesses by reducing the cost of doing business. An improvement in infrastructural facilities such as power supply and transport systems will likely bring down business costs.

Deaths due to insecurity totals over 91,000 since 2011

Information from the Nigeria Security Tracker by the Council on Foreign Relations (CFR) shows that deaths associated with insecurity in Nigeria had increased from 29 in May 2011, when the organization started collating the data, to 91,690 in mid-August 2022.³ This year alone, 5,783 deaths associated with insecurity have occurred in Nigeria, with an average of 813 deaths per month. Over the last decade, violent conflicts, herdsman-farmers clashes, terrorism, banditry, and kidnapping have taken place in different parts of the country, which have heightened insecurity and slowed down the rate of economic activities. The severity of insecurity problems in the country is worrisome, as it continues to shorten people's life and contributes partly to the low food supply, which has driven the country's food and headline inflation upwards to 19.64 percent and 22.02 percent, respectively, in July.⁴ While security and defence have constituted a large share of the government budget over the last five years, the insecurity problem in the country persists. There is a need to overhaul the country's security architecture to ensure that those engaging in terrorism, banditry, kidnapping and other security breaches are caught and severely punished, guaranteeing the security of lives and properties of people. Strengthening the security architecture is crucial because the government's primary responsibility is the citizens' security and welfare.

ECONOMIC SNAPSHOT		+	
Quarterly Indicators	'21Q4	'22Q1	
GDP Growth Rate (%)	3.98	3.11	
Oil GDP (%)	-8.06	-26.04	
Non-oil GDP (%)	4.73	6.08	
Unemployment Rate (%)	NA	NA	
Foreign Direct Investment (US \$ Million)	358.23	154.97	
Portfolio Investment (US \$Millions)	642.87	957.58	
Other Investment (US \$Million)	1,186.53	460.59	
External Debt (FGN & States- N'Trillion)	15.86	16.62	
Domestic Debt (FGN + States & FCT N'Trillion)	23.70	24.99	
Manufacturing Capacity utilization (%)	NA	NA	
Monthly Indicators	June '21	July '22	
Headline Inflation (%)	17.75	19.64	
Food Sub-Index (%)	21.83	22.02	
Core Sub-Index (%)	13.09	16.26	
External Reserves (End Period) (US\$ Billion)	33.32	39.18	
Official Rate Approx. (N/US\$)	409.16	414.28	
BDC Rate Approx. (N/US\$)	NA	NA	
Manufacturing PMI	45.5	NA	
Non-Manufacturing PMI	43.0	NA	
Average Crude Oil Price (US\$/Barrel)	73.45	120.63	
Petrol (PMS-N/litre)	165.61	190.01	
Diesel (AGO -N/Litre)	242.43	774.38	
Kerosene (HHK -N/Litre)	370.29	789.75	
Liquefied Petroleum Gas (Cooking Gas) (N/5Kg)	2068.69	4397.68	
MPR (%)	11.5	14	
CRR (%)	27.5	27.5	
T-Bill Rate (%)	2.5	2.76	
Savings Deposit Rate (%)	1.81	1.42	
Prime Lending (%)	11.67	12.1	
Maximum Lending (%)	29.05	27.61	
Narrow Money (N'Million)	16.02	20.37	
Broad Money (N'Million)	38.86	48.25	
Net Domestic Credit (N'Million)	44.21	59.95	
Credit to the Government (Net) (N'Million)	11.59	20.08	
Credit to the Private Sector (N'Million)	32.63	39.86	
Currency in Circulation (N'Million)	2.74	3.24	
FAAC (N'Billion)	733.095	954.085	

NA: Not Available

1. CBN (2022). Adjustment of Interest Rate on All Central Bank of Nigeria Interventions. Accessed at <https://www.cbn.gov.ng/Out/2022/FPRD/Circular%20on%20Adjustment%20of%20Interest%20rates%20on%20all%20CBN%20Interventions,%20dated%20August%2017,%202022.pdf>
2. CBN (2022). Exchange Rates: Monthly Moving Average. Retrieved from <https://www.cbn.gov.ng/rates/ExchRateByCurrency.asp>
3. CFR (2022). Nigeria Security Tracker Weekly Update: August 13-19. Retrieved from <https://www.cfr.org/blog/nigeria-security-tracker-weekly-update-august-13-19>
4. NBS (2022). CPI and Inflation Report July 2022. Retrieved from <https://nigerianstat.gov.ng/elibrary/read/1241208>