CENTRAL BANK OF NIGERIA

The Nigerian Economy and the Monetary Policy Environment

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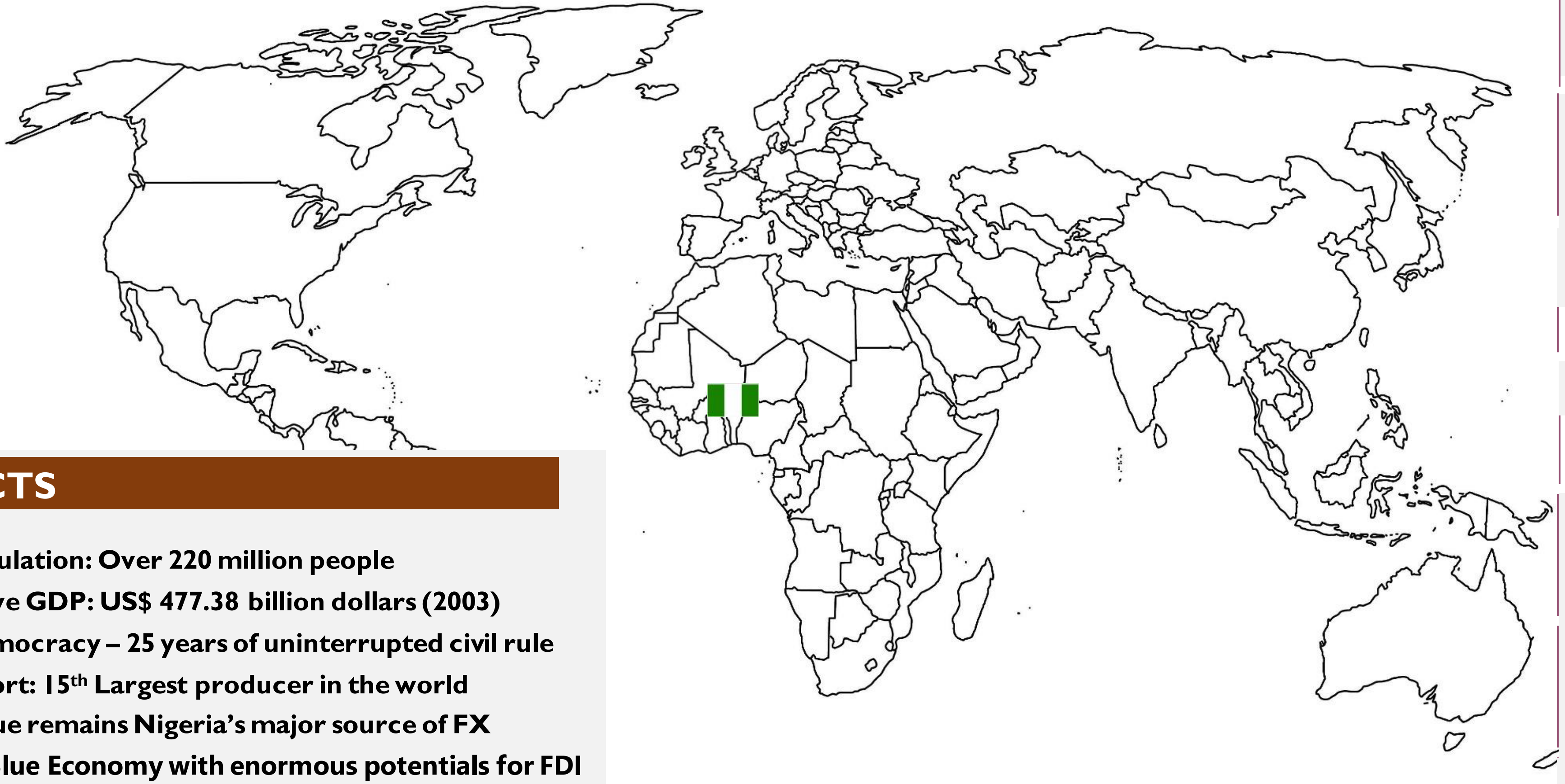
OVERVIEW OF THE NIGERIAN ECONOMY



KEY FACTS

- **Total population: Over 220 million people**
- **Cumulative GDP: US$ 477.38 billion dollars (2003)**
- **Stable democracy – 25 years of uninterrupted civil rule**
- **Main Export: 15th Largest producer in the world**
- **Oil revenue remains Nigeria's major source of FX**
- **Thriving Blue Economy with enormous potentials for FDI**

Sound and Resilient Financial System

- Total assets of the Nigerian banking industry stood at N141.79 trn as of Jan 2024
- It grew by 84.67 per cent in one year to N65.01trn between end-January 2023 and end-January 2024
- Nigeria Banks ranked amongst most valuable African banking brands 2023

Economic Participation

- The NGX is 4th largest stock exchange in Africa with a market capitalization of $49.56 billion as of December 2023.
- Headline financial inclusion had grown to 74% as of December 2023 (EFInA. A2F Survey, 2023)
- Signifying that nearly 3 in 5 adult Nigerians were financially included in 2023

The Objective of this presentation is to apprise participants on developments in the Nigerian economy and the recent reforms of the Central Bank of Nigeria (CBN) towards achieving its mandate.

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SHIFTS IN THE CONDUCT OF MONETARY POLICY

The Nigeria economy witnessed distinct periods of economic boom and burst in the aftermath of:

- 2007/2008 global financial crisis
- COVID-19 Pandemic

The business cycle was also driven by global and domestic developments

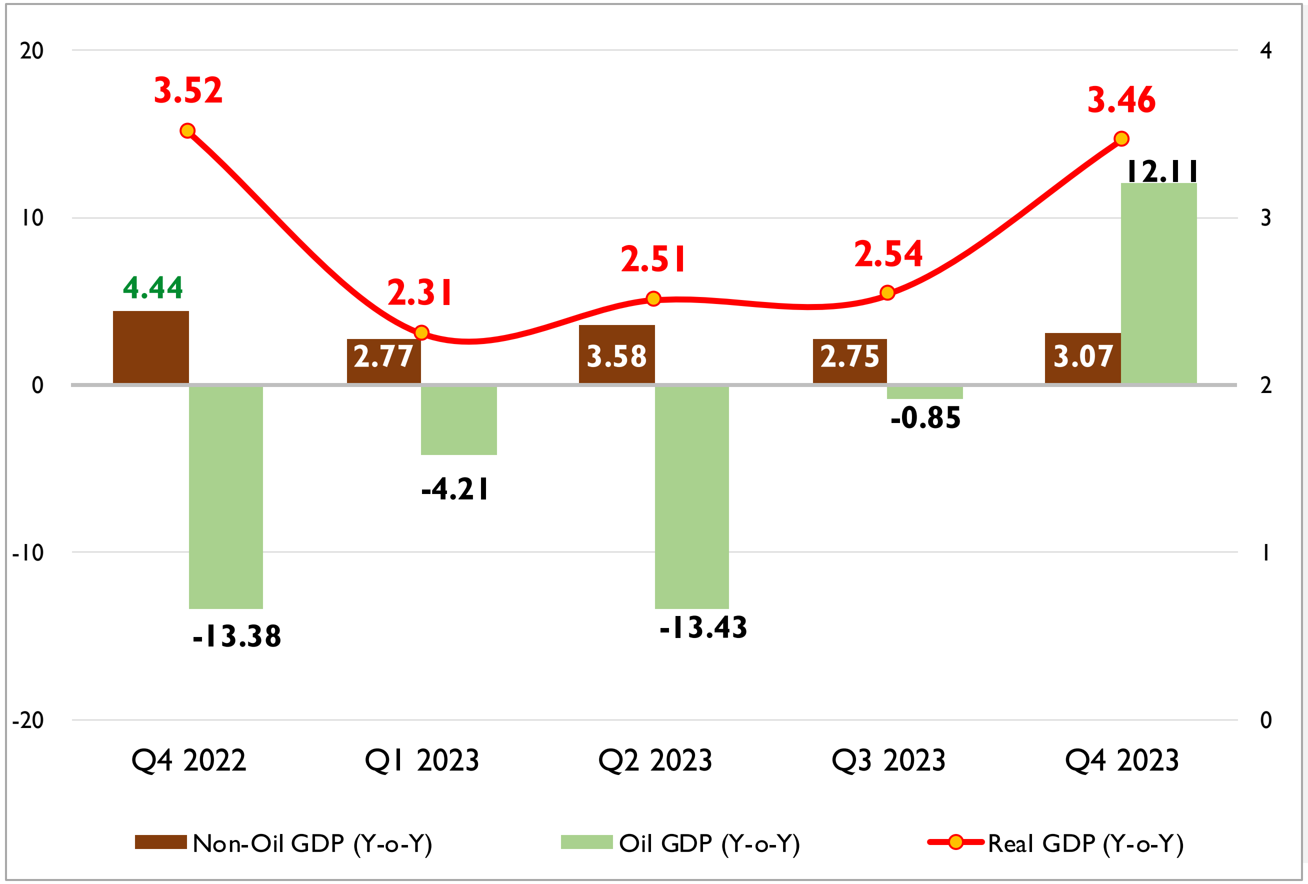
- Geo- politics – Brexit, US-China, Russia-Ukraine, etc.
- Oil price shocks/changes in energy technologies
- Slow output growth
- Persistent inflationary pressures

What has changed?

- Financial innovations and rise of digital assets
- Drive towards economic diversification
  - Output growth during the review period was driven largely by non-oil production, particularly services and agriculture, contributing an average of 35.33% and 23.59%, respectively.
- Transparency in the conduct of monetary policy
- Independence of the central bank
- Migration from monetary to inflation targeting

DOMESTIC OUTPUT (Q4-2023)

Fig. 1: Year-on-Year, Real GDP Growth in % (Q4 2022 – Q4 2023)



Real GDP (Y-o-Y) grew by *3.46% in Q4 2023* compared with 2.54% in Q3 2023.

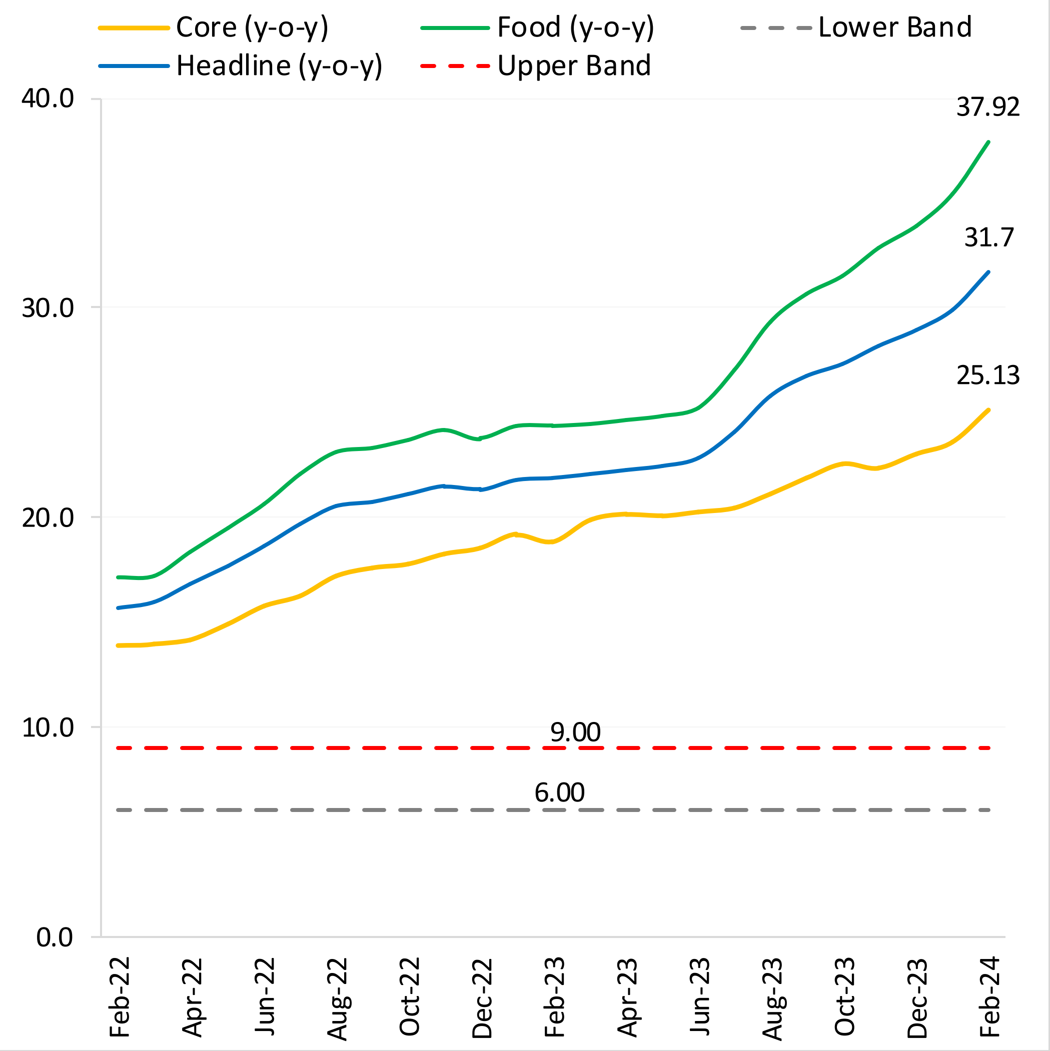
- **Non-oil** output grew by ***3.07%,*** driven by
  - ***3.98%*** increase in ***services*** output
  - ***2.10%*** growth in ***agriculture*** output
- **Oil GDP** expanded by ***12.11%,*** after 14 consecutive quarters of contraction.
  - Driven by ***higher crude oil production*** in Q4-2023.

Annual Real GDP grew by *2.74% in 2023* compared with 3.10% in 2022.

- This was the slowest growth since the contraction in 2020.

PRICE DEVELOPMENTS

Fig. 2: Year-on-Year Headline, Core and Food Inflation in %
(February 2022 – 2024)



Source: National Bureau of Statistics

Year-on-year inflation rose sharply by 0.98 ppts, the *twelfth* consecutive month.

Headline inflation (y-o-y)

- Increased to ***31.70% in February from 29.90% in January 2024,*** driven by food and core inflation.
  - Persistent structural challenges impacting on food price.
  - Exchange rate depreciation with passthrough to domestic price.

Food inflation (y-o-y)

- Rose to ***37.92% in February 2024 from 35.41% in January 2024***, driven by the increase in price indexes of:
  - Farm produce by 1.31 ppts to 16.32%
  - Processed foods by 1.19 ppts to 21.60%

Core inflation (y-o-y)

- Increased to ***24.67% in February 2024 from 23.44% in January 2024*** driven majorly by
  - Processed food (0.63 ppts to 12.32%)
  - Housing utilities (0.31ppts to 3.60%)

FINANCIAL MARKET DEVELOPMENTS – MONEY MARKET DEVELOPMENTS

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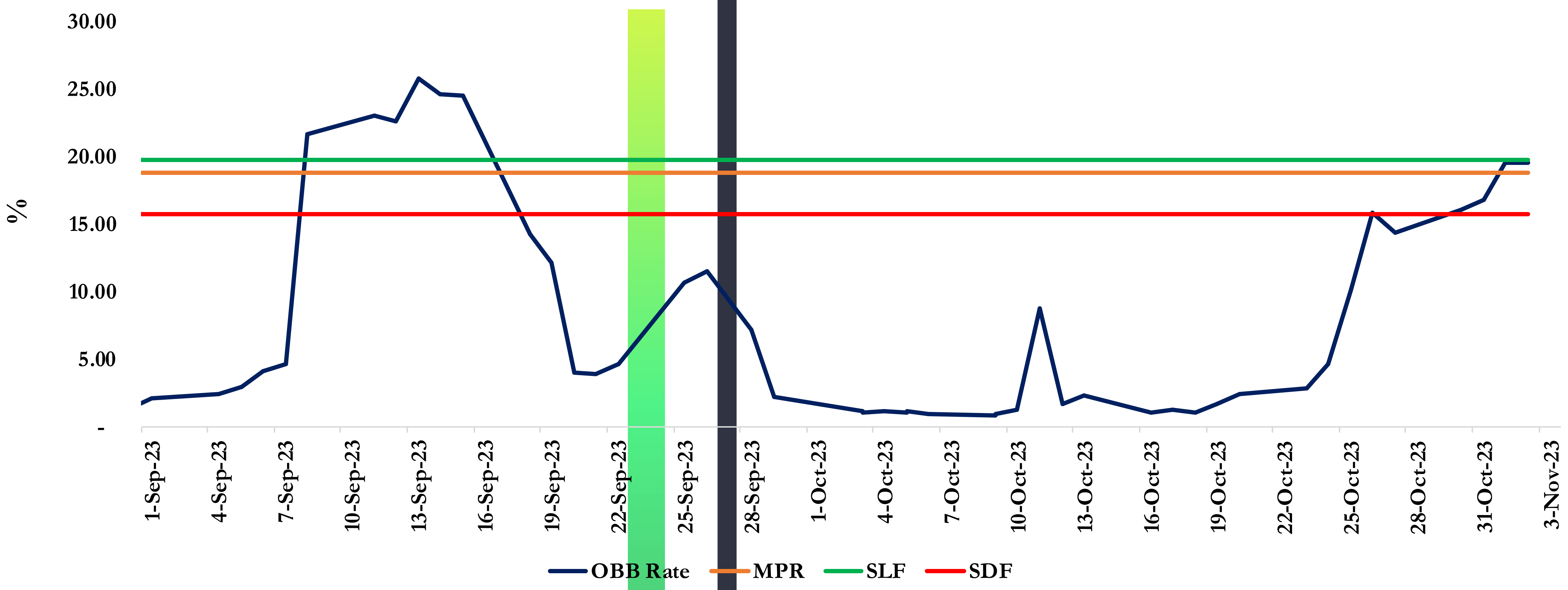
Fig. 4: MPR Corridor (August 2023 – November 03, 2023)



- The **spike** in the OBB rate on October 25, 2023, resulted from the removal of **SDF remunerable** limit at the CBN standing facility.

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MONETARY POLICY: THE EMERGING FRAMEWORK AND INITIATIVES

Objectives of Current Monetary Policy Implementation

Near-Term Targets

CONTRACTIONARY MONETARY POLICY

- Tighten credit through an increase in interest rate
    - Reduced borrowing for consumption
    - Increased savings.
- Decline in Banking system liquidity to an optimal level
- Dampen Aggregate Demand

- Reduce Money Supply
- Anchor Inflation expectations
- Reduce Inflation

EMERGING FRAMEWORK AND INITIATIVES…

Inflation and Interest Rates

- Adoption of Inflation Targeting Framework
- More tailored communications strategies
- Tighter monetary policy stance - MPR raised by 400 basis points to 22.75%
- CRR adjusted to 45% from 32.5%
- Asymmetric corridor around the MPR adjusted to +100/-700 from +100/-300 basis points.

Exchange Rates

- Unification of Exchange Rates window
- Liberalisation of FX market
- Clearing of FX backlog obligations to banks and airlines
- Introduction of Price Verification System (PVS)
- Limits on banks Net Open Position
- Lifted the daily cap of N2 billion on remunerable Standing Deposit Facility (SDF)
- Reform of the BDC segment

MEASURES TO ENSURE BANKING SYSTEM STABILITY

Ongoing plans to recapitalize Nigerian banks

- Last exercise was conducted in 2005
- N25 billion capital base in 2005 amounted to USD$188.2 million (N132.9/USD$)

Banking recapitalization aims to:

- Support targeted USD$1trillion economy
- Align with current dynamics
- Support monetary policy transmission

Enforcing risk-based supervision to ensure that Nigerian banks remain safe and sound.

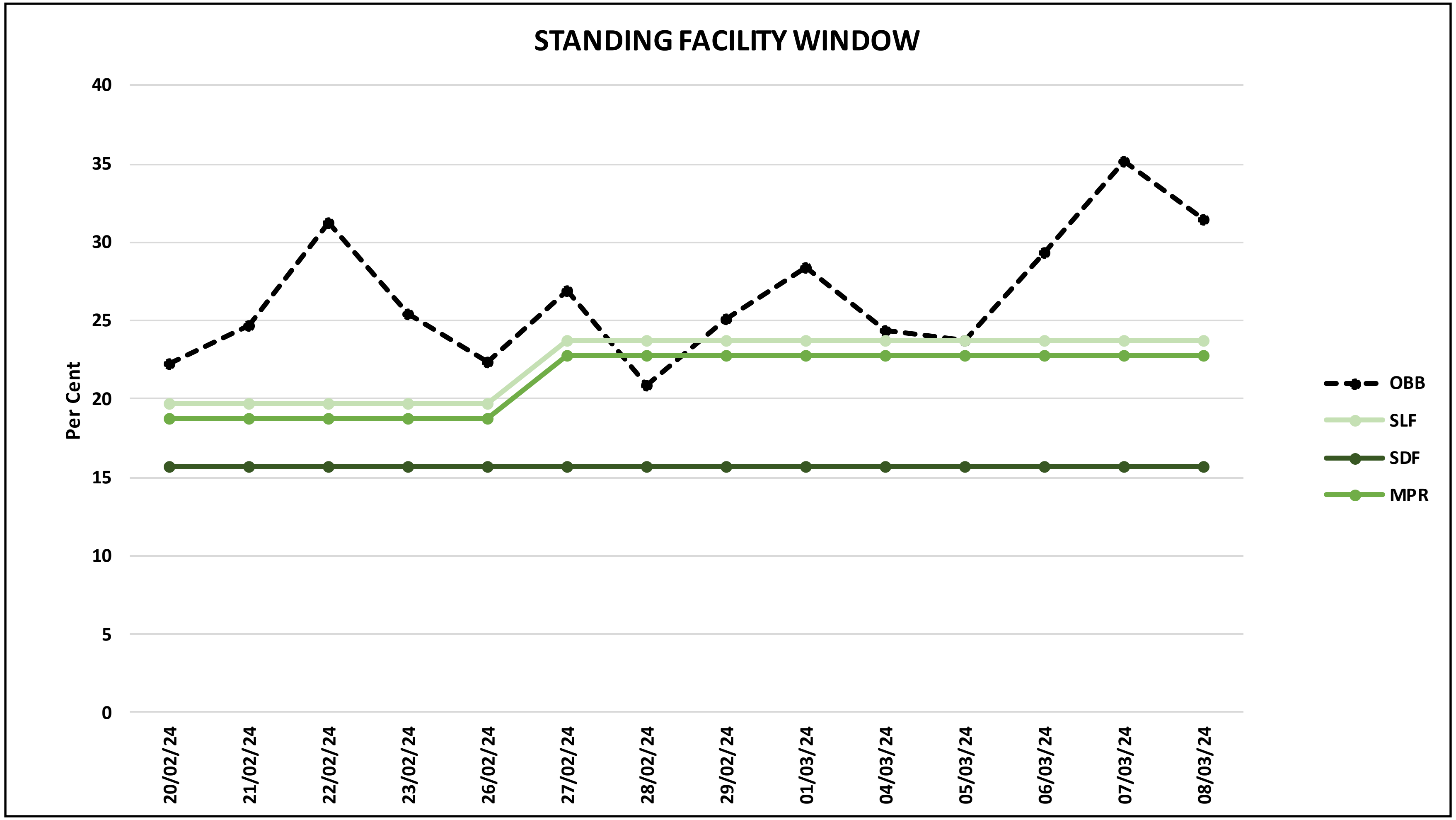
Dynamic macroeconomic and banking industry stress testing to assess system vulnerabilities and risk in the banking system.

Redesigned Credit Risk Management (CRM) platform to capture all credits in the banking system to mitigate credit risks and predatory borrowing.

EMERGING FRAMEWORK AND INITIATIVES…

Fig 5: Adjustment of the MPR on the Asymmetric Corridor Jan 2023- March 7, 2024

OBB rate rose to 35.17% on March 07,

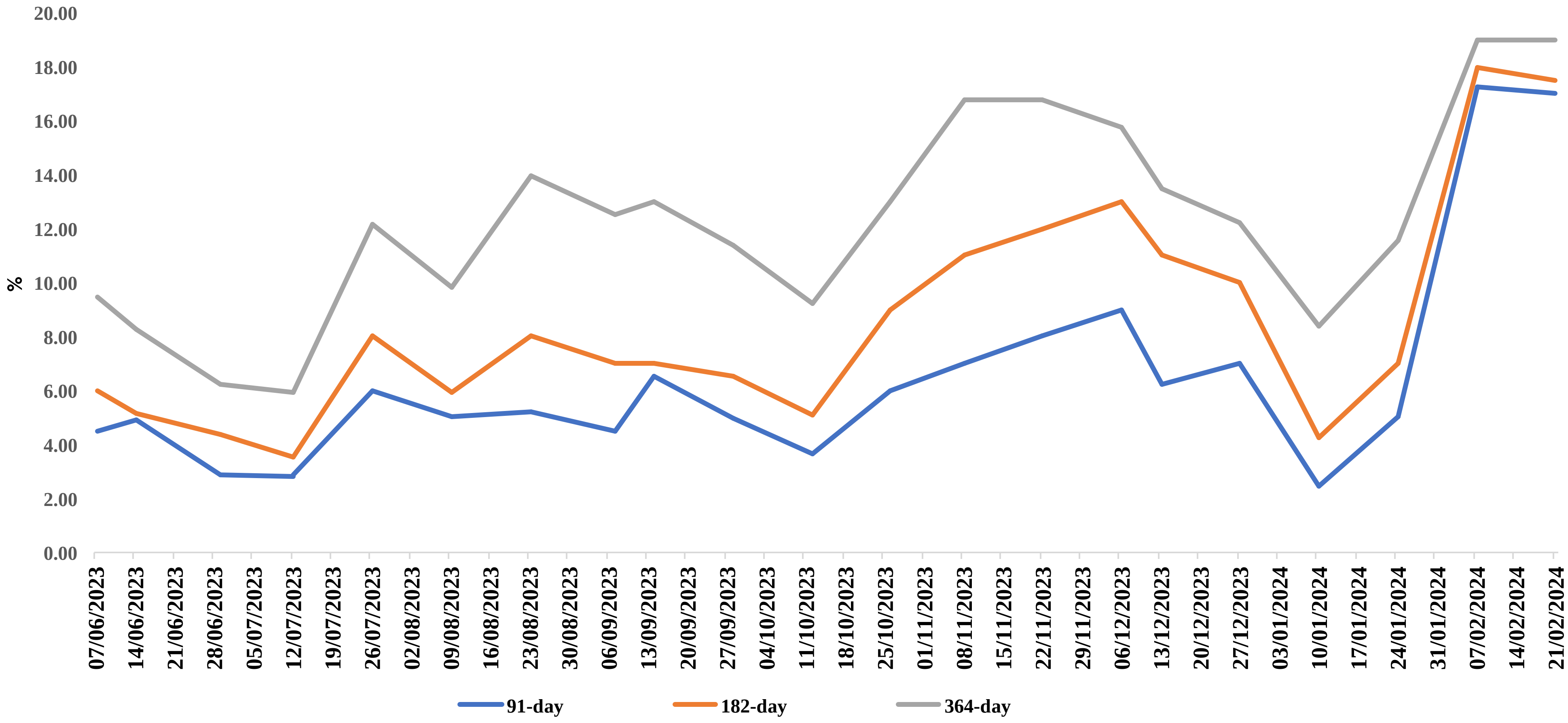


Adjust the asymmetric corridor around the MPR to +100/-700 from +100/-300 basis points.

- OBB rate remains largely outside the Asymmetric Corridor due to the high banking system short liquidity position.

EMERGING FRAMEWORK AND INITIATIVES…

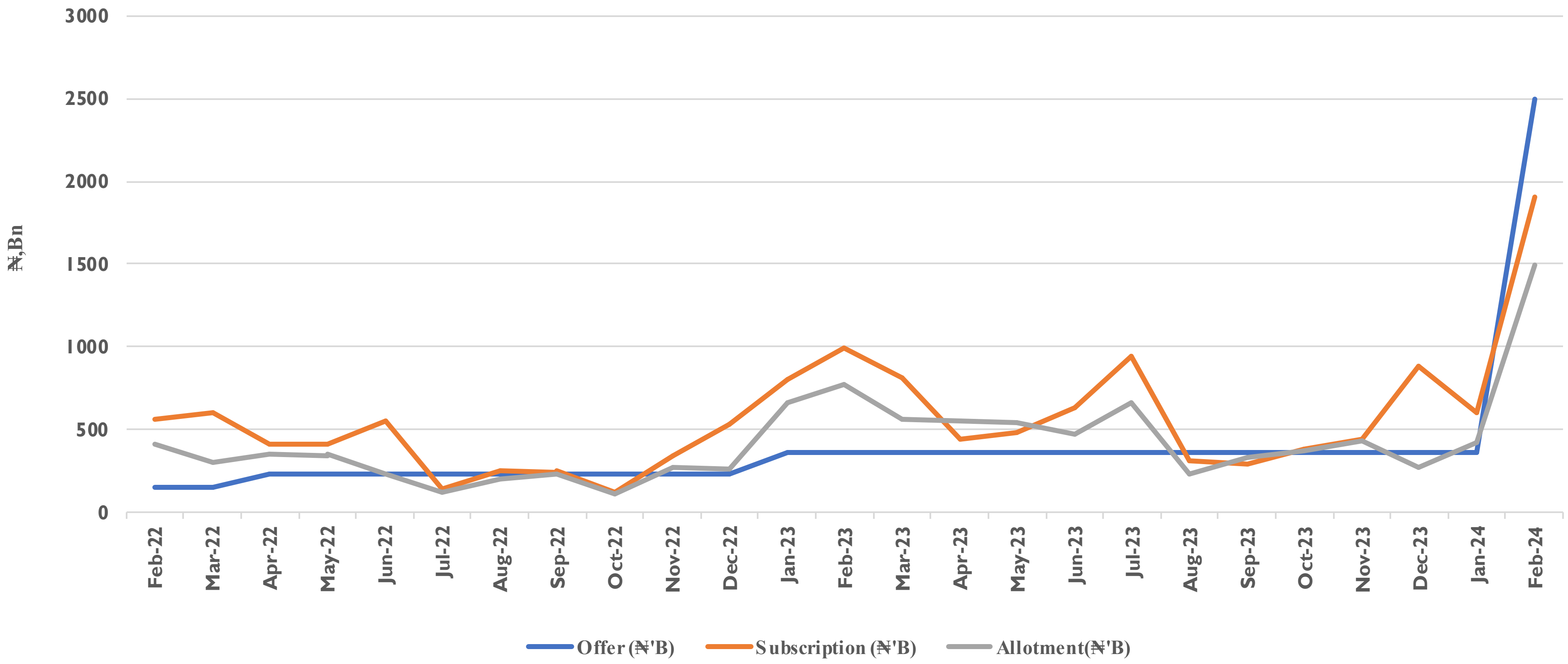
Fig 6: Nigerian Treasury Bills Stop Rates June 2023 – March 2024



Source: Financial Market Department

EMERGING FRAMEWORK AND INITIATIVES…

Fig. 7: Trend in FGN Bond Market Developments: January 2021- March 2024



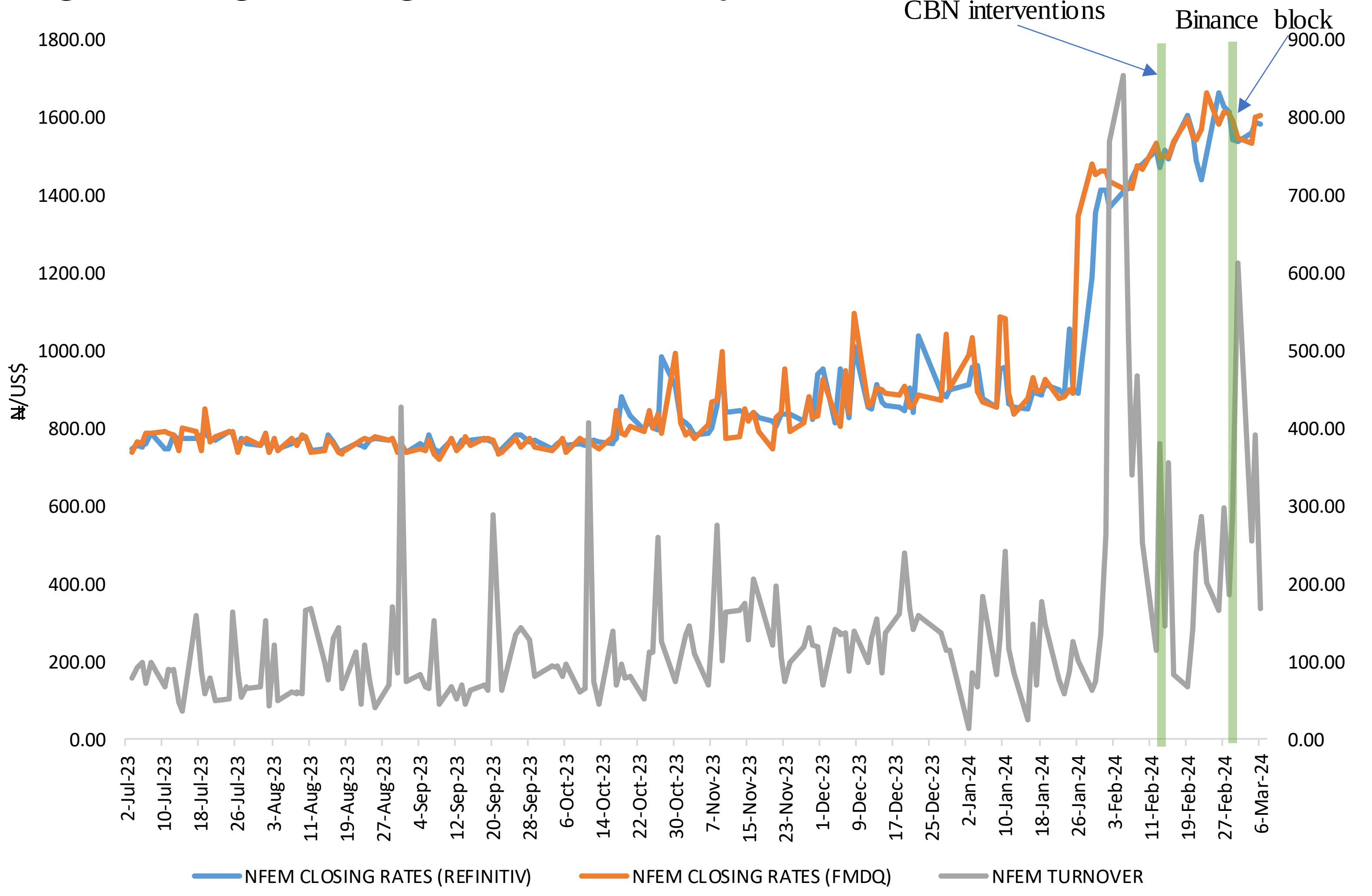
Successful bids for the 18.50% FGN 2013 (New Issue, 7-Year Bond) and 19.00%(New Issue, 10-Year Bond) were allotted at the Marginal Rates of 18.50% and 19.00%, respectively.

Source: Debt Management Office

Source: Debt Management Office

EMERGING FRAMEWORK AND INITIATIVES…

Fig 8: Nigeria Foreign Exchange Market Rates July 2023 – March 07, 2024



Source: FMDQ and Refinitiv Eikon

Exchange rate volatility moderated, and the spread narrowed to ₦/US$222.24 from ₦/US$662.59 post interventions

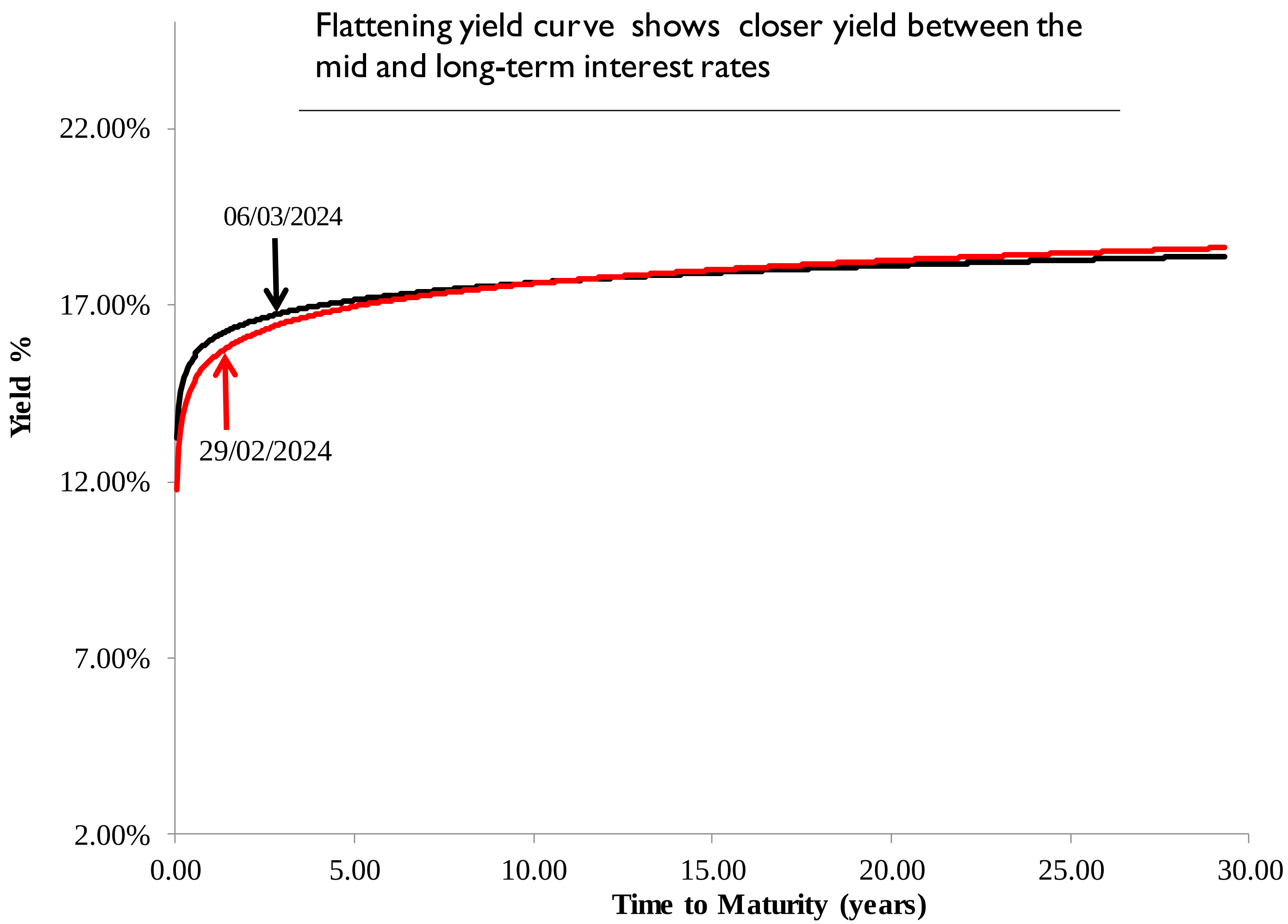
- FX rates depreciated by 10.32% on March 8, 2024, where it closed at ₦/US$1,625.23, compared with ₦/US$1,473.26 at February 13, 2024.

Post Feb 27 MPC

- FX rates appreciated marginally by 0.33% on March 8, 2024 where it closed at ₦/US$1,625.23, compared with₦/US$1,630.66 on Feb 27,2024

EMERGING FRAMEWORK AND INITIATIVES…

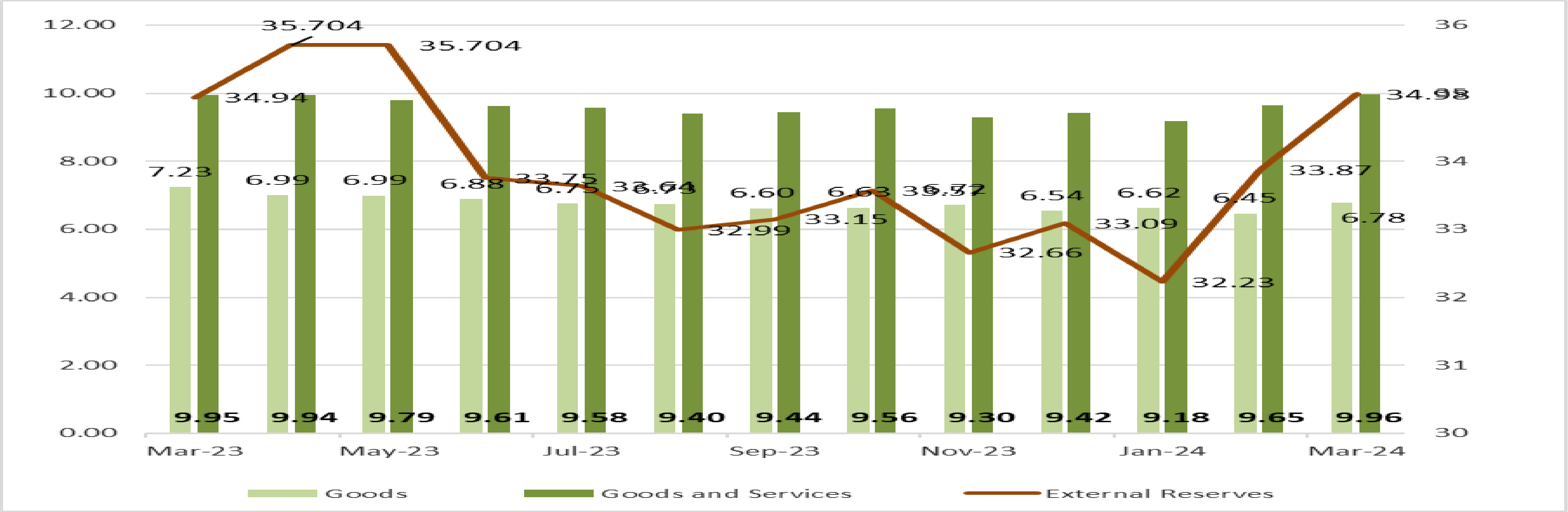
Fig. 9: FGN Bond Yield Curve February 2024 and March 06, 2024



Source: FMDQ

The shift in the short-term yields reflects an increased cost of borrowing short-term amid tight credit conditions in the Nigerian financial market.

EMERGING FRAMEWORK AND INITIATIVES…EXTERNAL RESERVES



- The external reserves stood at US$34.98 billion as of March 14, 2024, from US$33.74 billion in the previous month.
- The level of reserves could finance 7.0 months of import for goods and services, and 10.0 months of import for goods only based on import statistics for Q3 2023.

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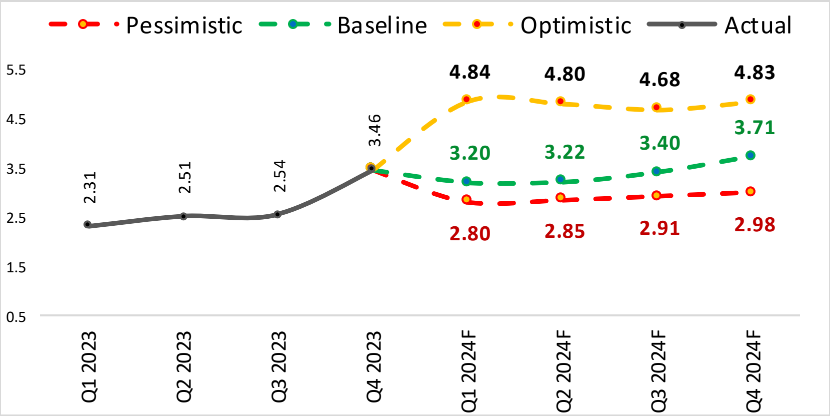
OUTLOOK FOR THE NIGERIAN ECONOMY - OUTPUT

Output is projected to grow by 3.20 per cent in Q1 2024 and 3.22 per cent in Q2 2024.

The forecast is predicated on:

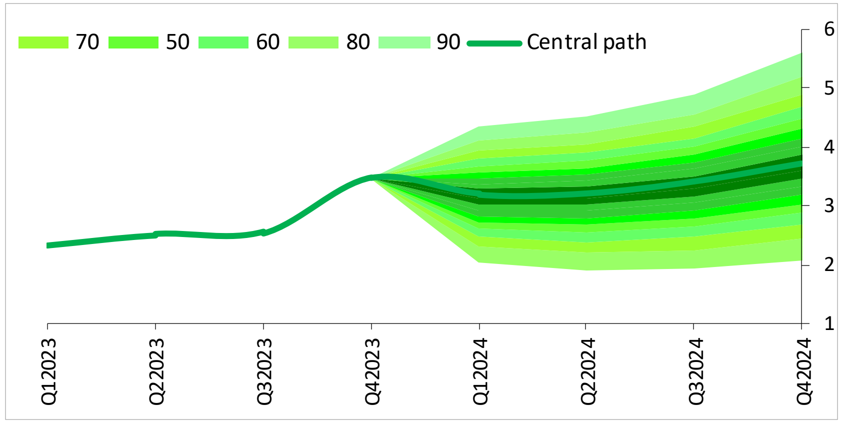
- Improved crude oil production is expected to support growth in Q1-2023.
- Sustained growth the Services sector, driven by the contribution of ICT and Financial & Insurance sub-sectors.

Fig 14a: Real GDP Growth Forecast



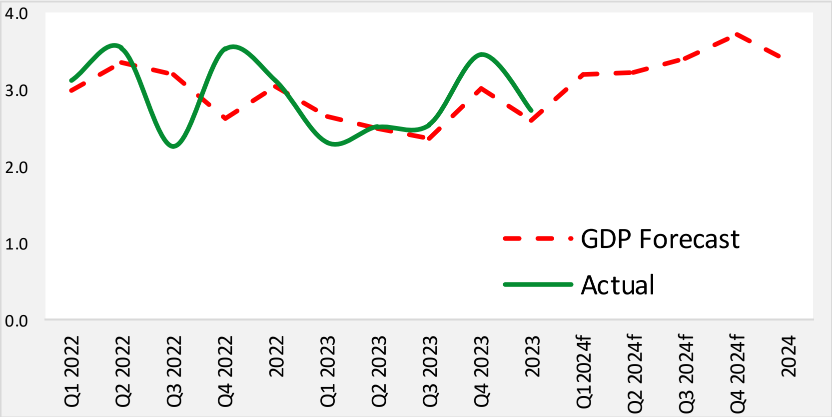
Source : CBN Staff estimate

Fig 14b: Real GDP Fan Chart



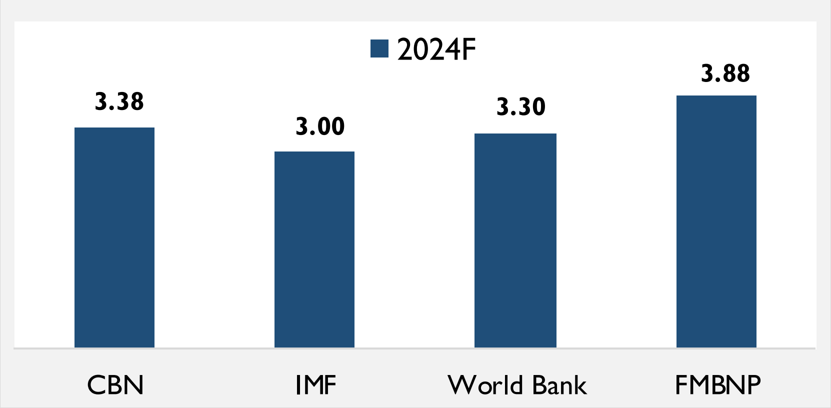
Source : CBN Staff estimate

Fig 14c: Real GDP Growth: Actual and Forecast



Source : CBN Staff estimate

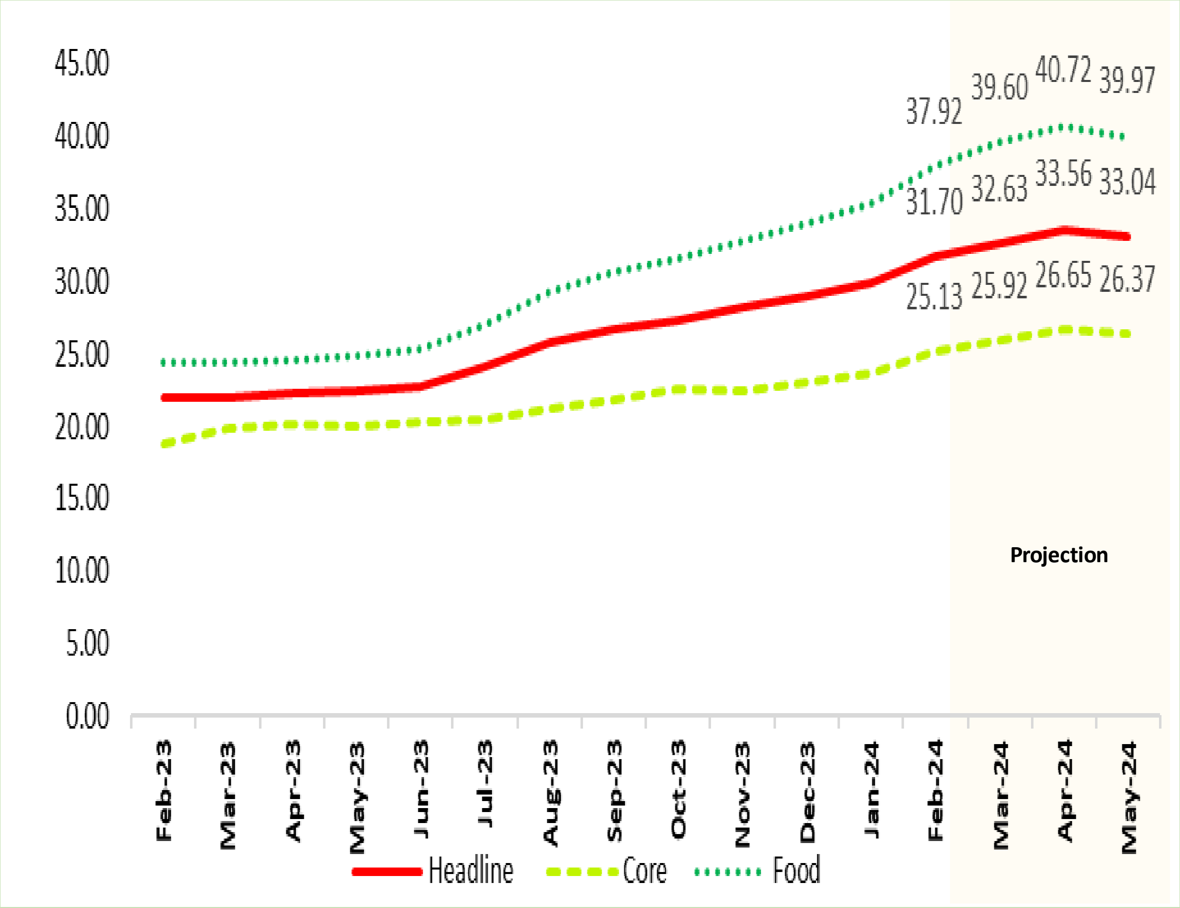
Fig 14d: 2024 Real GDP Growth Forecasts by Key Institutions



Source : CBN, IMF, FGN, World Bank

OUTLOOK FOR THE NIGERIAN ECONOMY - INFLATION

Fig. 15: Inflation Outlook (March – May 2024)



Inflation is projected to start moderating in May 2024.

Headline inflation is expected to rise to 32.63% in March 2024, due to:

High Energy Prices

Lingering impact of fuel subsidy removal, resulting in increase in the cost of household utilities, transportation and production costs.

Exchange Rate Passthrough

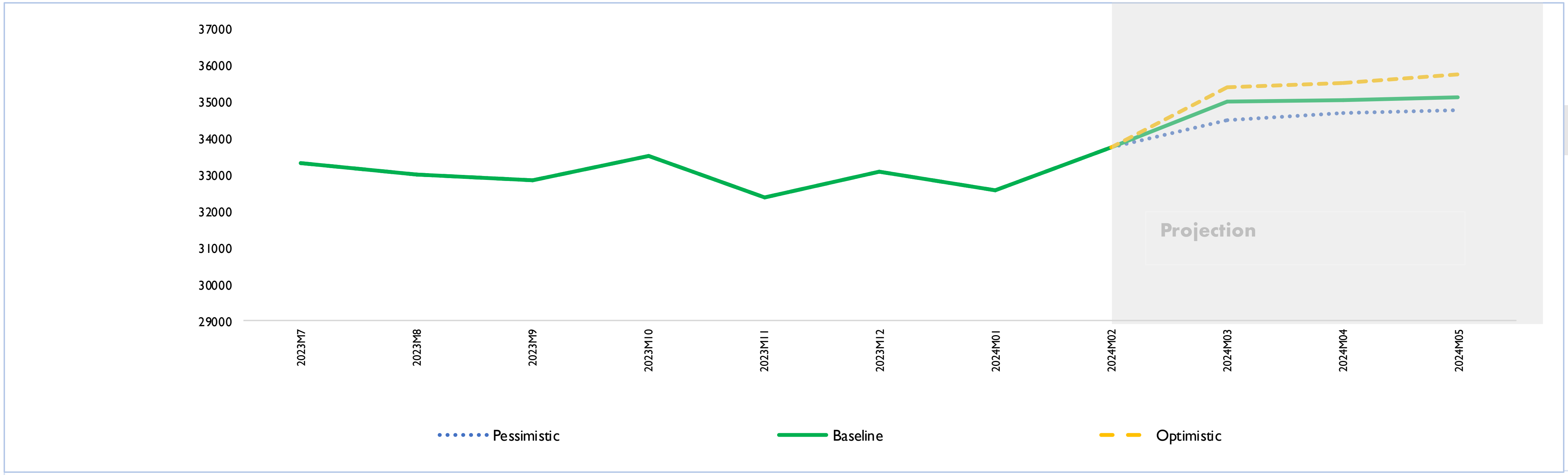
Depreciation of the naira resulting from the market-determined exchange rate policy, is likely to have a passthrough effect on domestic prices.

Insecurity

Impact of insecurity on food production, the winding down of the harvest season, and high cost of farm input could impact negatively food prices.

OUTLOOK FOR THE NIGERIAN ECONOMY – EXTERNAL RESERVES

Fig. 16: External Reserves Forecast (US$ Million) (March – May 2024)



External reserves is projected to increase marginally to US$35,014.28 million at end-March 2024, from US$34,984.00 million as of March 14, 2024. The forecast is predicated on:

Recent Reforms in the FX Market

Improvement in Crude Oil Production

GOING FORWARD

01

Addressing Existing Monetary Policy Trade-offs

- Price stability versus output growth

02

Balancing Monetary Policy Credibility with Flexibility

03

Deepening Financial Markets And Improving Liquidity In The FX Market

04

Financial Innovations

- Fostering more visibility in the remittance environment
- Monitoring transactions in digital assets

GOING FORWARD…

05

Commitment to ensuring price stability conducive for output growth

- Continuous refinement of instruments of monetary policy to ensure we meet our objectives.
- We are committed to improving our communication channels in order to effectively anchor the expectation of economic agents

06

Ensuring the Financial System remain safe, sound and resilient

- To be complemented with continuous engagement with relevant stakeholders.

07

Achieving and maintaining positive real interest rate

08

Sequencing the transition to IT framework

CONCLUSION

- Nigeria remains an attractive place for emerging market investors.
- Current reforms are targeted at fostering an enabling business environment.
- We are confident that the new CBN's monetary policy initiatives would go a long way in improving the impact of monetary policy actions on the Nigerian economy.
- Accordingly, we shall continue to build confidence and strategic partnership with the investor community to achieve our objectives

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