1.0 INTRODUCTION.

The macroeconomic performance in Nigeria in the first half of 2019 underperformed the last half of 2018. The global economic outlook was generally weaker in the first half of 2019, compared to that of 2018, that resulted from escalating global trade and technology tensions between United States and China, macroeconomic stress due to policy uncertainties and missteps in many countries, weakened global demand, engendered disinflationary pressures that exacerbated debt repayment and sustainability, as well as financial tightening in many areas such as tight credit in China and monetary policy normalization in advanced economies.

These developments affected Nigeria’s macroeconomic conditions and performance through trade, financial and political linkages. Section 2 presents macroeconomic performance and developments in Nigeria. The trajectories of some macroeconomic indicators such as inflation, exchange rate, international reserves as well as developments in the capital and money market are discussed in subsections under this section. Section 3 highlights the monetary policy decisions of the Monetary Policy Committee (MPC) and their implications for the economy while section 4 presents the circulars issued by the CBN in the first half of 2019.

2.0 DOMESTIC ECONOMY

The Nigeria’s Gross Domestic Product (GDP) grew by 2.01 % and 1.94% in Q1 and Q2 of 2019, respectively, averaging 2.02% in the first half of the year. The GDP stood at N34.94 trillion in nominal terms in Q2, against N31.8 trillion in Q1, 2019. Though the growth was lower in Q2 than Q1 in 2019, it represented a stronger performance relative that in Q2 2018. The performance in the H1 2019 also emerged stronger than H1, 2018 when GDP growth was 1.69%.

The aggregate economic performance largely reflected the sectoral growth dynamics. Relative to sectoral performance in Q1 2019, both the oil sector and the non-oil sector dipped by 1.55% and 0.83% to 5.15% and 1.64%, respectively, in Q2 2019. While the oil sector performance in Q2 2019 outstripped that of Q2 2018, non-oil sector shrunk in Q2 2019, relative to corresponding quarter in the preceding year. Though the non-oil contribution to GDP of 91.18% in Q2, 2019 also fell below that of Q2, 2018 (91.45%), it was higher than that of Q1, 2019 (90.78%). On the other hand, oil sector’s contribution to GDP in Q2 2019 (8.82%), while higher than that of Q2, 2018
fell below the Q1 performance (9.22%); and that originated from slight decline in oil production to 1.98 mdp in Q2, 2019 from 1.99 mdp in Q2, 2018.

2.1 INFLATION

Headline inflation moderated from 11.44% at the end of the last quarter of 2018 to 11.25% and 11.22% in Q1 and Q2 2019, respectively. Figure 1 shows that headline inflation declined from 11.4% in January, 2019 to 11.25% in March 2019. The headline inflation, however, showed an uptick during the second quarter of 2019 as it slightly rose from 11.37% in April 2019, to 11.40% in May before declining to 11.22% in June.

The headline inflation was much lower in the first half of 2019 than in the first half of 2018. Core inflation and food inflation exhibited similar trend. While it was much lower in H1 2019 than in H1 2018, core inflation declined from 9.77% at end of the Q4 2018 to 9.46% in March, 2019, then to 9.03% in May, before an uptick to 9.35 in June, 2019. Food inflation was also lower in H1 2019 than in H1, 2018. It declined from 13.56% in December, 2018 to 13.45% in March, rose to 13.79 in May before moderating back to 13.56 in June, 2019.

Increases were recorded in all the 12 Classifications of Individual Consumption by Purpose (COICOP) divisions that yield the Headline inflation index. Such divisions included amongst others Housing, Water, Electricity & Gas; Food & Non-Alcoholic Beverages; Alcoholic Beverages, Tobacco & Kola; Clothing & Footwear; Furnishings & Household Equipment; Health; Transport; Communication; Recreation & Culture; Education; Restaurants & Hotels and Miscellaneous Goods & Services.
2.2 EXCHANGE RATE MOVEMENT

The foreign exchange market improved in H1 2019, relative to H1 and H2, 2018. The value of Naira relative to US Dollars was generally higher in H1, 2019 than in H1 2018. Though naira appreciated in September (end-Q3 2018) before depreciating in Q4 2018, the value of naira at end of Q1 and Q2 2019 was higher than that at end-Q3 and end-Q4 2018. Naira-USD exchange rate appreciated to ₦359.24/US$ and ₦359.94/US$ at end of Q1 and Q2, 2019 from ₦359.25/US$ and ₦363.46/US$ in September and December, 2018.

**Figure 2: Average Exchange Rate Movement in Nigeria**

The stronger performance of the foreign exchange market was associated with implementation of the Bilateral Currency Swap Agreement (BCSA) with China and the CBN foreign exchange interventions. Under the Agreement, ₦720 billion naira was to be exchanged for a maximum amount of China Yuan (CNY) 15 billion within a three-year tenor. The execution of the deal had increased local currency liquidity, eliminated the effects of third currency speculation, and strengthened the Naira against the Dollar and other major foreign currencies.

2.3 EXTERNAL RESERVE MOVEMENT

Nigeria’s external reserve increased, as shown in figure 3, from $42.60 billion at the end of Q4 2018 to $44.79 billion at end of Q1 2019, with a further ascent to $45.07 billion by the end of June, 2019. The external reserves accumulation was though lower in H1, 2019 compared to H1, 2018; it was higher compared to H2, 2018. For instance, reserves which stood at $44.79 billion and $45.07 billion in Q1 and Q2 2019 had its value at $42.61 billion and $42.40 billion in Q3 and Q4 2018, respectively, lower than its level of $46.73 billion and $46.92 billion at end of Q1 and Q2, 2018, respectively.

**Source:** RPIRD, using data from CBN database
External reserves was on the rise in H1, 2019, compared to its declining trend in H2, 2018. The rise in the external reserves in H1 2019 was however not smooth as it slightly fell from $42.54 billion in January to $42.33 billion in February, only to rise to $44.49 billion in March. There was a slight decline to $44.47 billion in April before upticks to $44.89 billion and $45.07 billion in May and June, 2019 respectively.

**Fig 3: External Reserves (USD' Billion)**

The external reserves dynamics was largely driven by oil prices movement and production stability. While decline in reserves between January and February might be associated with election spending, subsequent rise in reserves from March to June is largely related to rise in oil prices, production stability owing to increased peace in the Niger Delta region and reduction in election related spending following the conclusion of general elections.

### 2.4 CAPITAL MARKET DEVELOPMENT

The Nigeria’s capital market was bearish in 2019, with the All Share Index (ASI) down by 3%. The trend persisted for some period in H1 2019, despite strong performance of the global capital markets. Figure 4 shows that the stock market recorded a monthly loss of 2.14% and 3.55% at the end of Q1 and Q2 2019, respectively, as the ASI declined from 31,721.76 in February to 31,041.42 in March, and from 31,069.37 in May to 29,966.87 in June, 2019. The investors however had gains within the quarters as the market returns were positive in February and May with gains of 3.81% and 6.55%, respectively. The ASI increased from 30,557.2 in January to 31,721.76 in February, and from 29,159.74 in April to 31,069.37 in May, 2019.
Stock market was fairly stable in H1 2019, compared to H1 and H2, 2018. The market recorded losses in consecutive four months (February-May) in H1, 2018; and the ASI declined at a monthly rate of 2.90% from 44,343.65 in January, 2018 to 38,278.55 in June, 2018. The trend continued in H2 2018 as the market also persisted in loss making, in five months (July-November) with the ASI declining at a compound rate of 3.22% from 37,017.78 in July, 2018 to 31,430.5 in December, 2018. The trend however halted in H1 2019 as the market only declined at a monthly rate of 0.39% from 30,557.2 in January, 2019 to 29,966.87 in June, 2019. The slight dent in capital market performance in H1 2019 could be associated with decline in oil prices, coupled with reduced global demand partly explained by the US-China trade war. In spite of the headwinds, the market exhibited some resilience in Q2 as market capitalization for the quarter went up by 13.14% (quarter on quarter) from N11.67 trillion in March to N13.21 trillion in June.

### 2.5 MONEY MARKET DEVELOPMENTS

The monetary policy stance relaxed in H1 2019, compared to the H1 2018, with the Monetary Policy Rate (MPR) reduced to 13.5% in Q1 and Q2, 2019 from 14% in previous quarters. Many money market rates similarly declined following the reduction in MPR. Prime lending rate in Q1 and Q2 2019 was 14.92% and 15.80% as against 17.35% and 16.78% in Q1 and Q2 2018, and 16.59% and 16.17% in Q3 and Q4 2018. Saving Rate fell from 4.07% in Q1-Q4 2018 to 3.97% and 3.93% in Q1 and Q2 2019. Similar trends were recorded for Maximum Lending Rate, Interbank Call Rate and Treasury Bill Rate.
The monetary policy stance in the first half of 2019 was consistent with government’s policy objectives to enhance growth, reduce unemployment and diversify the base of the Nigerian economy. The reduction in the rates was however managed to avoid worsening inflation. Figure 1 above shows that prices were relatively stable in the period.

3.0 CBN MONETARY POLICY

The Monetary Policy Committee of the CBN (MPC) met three times in the first half of 2019. The highlights of the decisions reached in each of the meetings and their implications for the Banking industry and the economy are presented below.

3.1 1st MPC Meeting - held in January, 2019

The Committee retained the Monetary Policy Rate (MPR) at 14 per cent; the Cash Reserves Ratio (CRR) at 22.5 per cent; Liquidity Ratio at 30.00 per cent and the Asymmetric corridor at +200 and -500 basis points around the MPR. According to the MPC, the rates were not increased to avoid reduction in investment demand and output downturn.

3.2 2nd MPC Meeting - held in March, 2019

The MPC in March, 2019 reduced the MPR by 50 basis points, from 14.00 to 13.50 per cent while retaining the CRR at 22.5 per cent and Liquidity Ratio at 30 per cent with asymmetric corridor of +200/-500 basis points around the MPR.
That was the first cut in MPR since 2015. The Committee felt that, given the relative stability in the key macroeconomic variables, there was a need to signal a new, pro-growth, direction in government policies. While the decision appeared to have immediate impacts on borrowing rates already benchmarked to the MPR, the effects on the real sector was insignificant as infrastructural bottlenecks persisted. Therefore, the accommodative monetary policy stance may only push up inflation, given the effects of other factors like the increase in minimum wage, potential increase in taxes (Value Added Tax (VAT), Company Income Tax (CIT), and Petroleum Profit Tax (PPT)).

3.3 3rd MPC Meeting - held in May, 2019

In its meeting in May, 2019, the MPC decided to retain the MPR at 13.50 per cent; the CRR at 22.5 per cent; Liquidity Ratio at 30.00 per cent as well as the Asymmetric corridor at +200 and -500 basis points around the MPR.

The Committee elected not to change the rates in order not to limit the ability of DMBs to increase credit at a time when there was the need for credit expansion to support growth in consumer, mortgage and other priority sectors of the economy.

4.0 CIRCULARS AND GUIDELINES ISSUED BY CBN

The CBN issued a number of circulars and guidelines in order to guide the operations of insured deposit-taking financial institutions. Below are highlights of some of the circulars released during the period under review.

4.1 FPR/DIR/GEN/CIR/07/035. List of Licensed Deposit Money Banks and Financial Holding Companies as at June, 2019.

The circular presented a list of all licensed Deposit Money Banks and financial holding companies as at June 30th, 2019. The list was made up of twenty one commercial banks comprising eleven (11) commercial banks with national licence, eight (8) commercial banks with international license, and two (2) Regional banks. Non-commercial banks on the list comprises five (5) Merchant banks, four (4) Financial Holding Companies, and one (1) Non-interest bank.


This circular listed 908 licensed Microfinance banks in Nigeria as at June 30th 2019.


This circular announced the approval of the Banker’s Committee for EFI with a view to engendering growth in the non-oil sector of the economy as well as enhancing foreign exchange earnings and employment generation. Under the initiative, the commodities targeted for value chain development include Cassava, Cocoa, Palm oil, Sesame seed and Shea.

The Circular sought for input to the Payment Service Vision 2030 Strategy document being developed by CBN. The document was intended to define the strategic agenda for the Nigerian Payment System for the next ten years.


This circular introduced an Exposure Draft on the revised Guidelines for the operations of Primary Mortgage Banks (PMBs) in Nigeria. According to the Circular, the Guidelines had been reviewed to strengthen the PMBs as well as complement other ongoing reforms in the sector.


In a Letter to all Non-Interest Financial Institutions, the CBN announced the adoption of the Islamic Financial Services Board (IFSB) Standards 4, 15 and 16 on Disclosure Requirement, Capital Adequacy Computation and Supervisory Review Process respectively for the Non-Interest Banking Industry in Nigeria.

To facilitate the implementation of the standards, the CBN issued Guidance Notes on Regulatory Capital as well as calculation of Capital Requirement for Credit, Market and Operational Risks. It also included Guidance Notes on Disclosure Requirements and the Practice of Smoothing the Profit Pay-out to Investment Account Holders. In the same vein, the circular also introduced Capital Adequacy Ratio reporting template for NIFIs. The Guidelines communicated minimum supervisory expectations for the implementation of the standards.

4.7 OFI/DIR/DOC/GEN/019/156. Letter to all Other Financial Institutions (OFIs) on the Creation of Corporate Emails. April, 2019.

The CBN in this letter mandated all OFIs to create corporate emails and that only those who complied can communicate with the CBN and make required regulatory submissions.


These Guidance Notes identified and prescribed the treatment of positions and settlement risk pertaining to estimating capital requirement for market risk regarding Sukuk, Equities and Foreign Exchange risks as well as Commodity and Investment Risks.

The Guidance Notes sets out the disclosure requirements with respect to procedure, frequency and content of information to be disclosed. The aim was to achieve transparency and market discipline among market participants, particularly Investment Account Holders such that all stakeholders could access relevant and reliable information on risk exposures, management policies and procedure of a NIFI.


The CBN issued the Guidance Notes to define eligible capital for the purpose of computing Capital Adequacy Ratio for NIFIs in Nigeria. The objective was to provide guidance on the maintenance of high quality regulatory capital components by NIFIs to ensure compliance with Shariah rules and principles.

4.11 BSD/DIR/GEN/LAB/12/011/5. Guidelines on the Practice of Smoothing the Profit Payout to Investment Account Holders (IAHs) for NIFIs in Nigeria. March, 2019

The issued Guidelines were intended to explain the rationale for income smoothing, regulate and standardize income smoothing practices as well as specify and explain the techniques of income smoothing permitted for NIFIs in Nigeria.


The guidelines communicated supervisory expectations for the implementation of the new standard, especially in areas where OFIs were expected to exercise considerable judgment. It also specified information to be submitted to CBN on IFRS 9 Implementation Projects while requiring OFIs to submit monthly status updates starting July 31, 2019.


These Guidelines presented the standards for the management of credit concentration, reputational risk, interest rate risk in the banking book (IRRBB) and stress-testing for the Nigerian banks. The guidelines were to come into immediate effect except the IRRBB which would come in to effect in January, 2020.


The circular announced amendment of the implementation timeline of the Revised NCPS/NICPAS 2.0. The new date was 1st April, 2019 while new and old cheques would run concurrently for 17 months from that date.