REVIEW OF MACROECONOMIC DEVELOPMENTS IN THE Q3 and Q4, 2019

By

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1.0 INTRODUCTION.

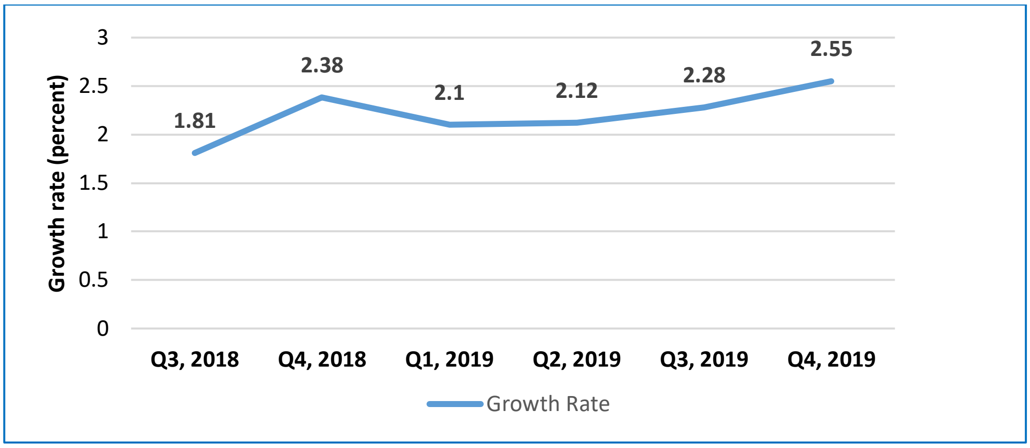
The Nigerian economic performance in Q3 and Q4, 2019 improved, compared to the first two quarters of the year. The improvement reflected positive developments in the global environment in the second half of 2019. The global economic growth in the second half of 2019 rebounded as a result of several measures and events that include fading of geopolitical risks that dominated markets for much of 2019 as well as increased monetary policy accommodation and fiscal easing in some large economies like United States and China. These developments affected Nigeria's macroeconomic conditions and performance through trade, financial and political linkages.

Details of the macroeconomic developments in Nigeria are discussed in subsequent sections. Section 2 presents macroeconomic performance and developments in Nigeria. The trajectories of some macroeconomic indicators such as economic growth, inflation, exchange rate, international reserves as well as developments in the capital market and money market are discussed in subsections under this section. Section 3 concludes by highlighting the monetary policy decisions of the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN).

2.0 DOMESTIC ECONOMY

The Nigerian economy performed better in Q3 and Q4, 2019, relative to the preceding two quarters of the year. The Gross Domestic Product (GDP) grew by 2.28% and 2.55% in Q3 and Q4, 2019 year-on-year, compared to 2.10 % and 2.12% in Q1 and Q2 of 2019, respectively. Compared to the corresponding quarters of 2018 when the economy grew by 1.81% and 2.38% in Q3 and Q4 respectively, the output growth in Q3 and Q4 of 2019 were superior.

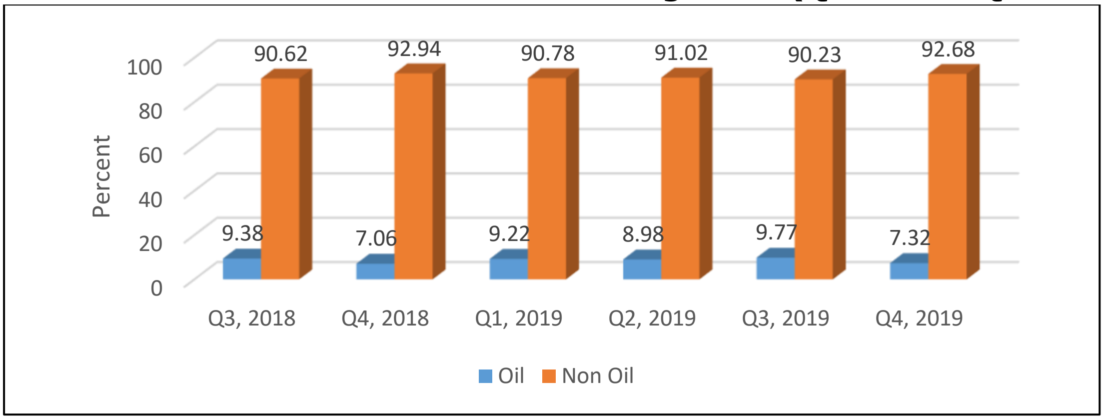
Figure 1: GDP and growth rate (Q3 2018 - Q4 2019)



Source: RPIRD (underlying data from NBS)

The Oil sector contributed 7.32% to total real GDP in Q4 2019, up from 7.06% recorded in the Q4 2018. The sector grew year-on-year by 6.49% and 6.36% in Q3 and Q4, 2019, compared to -1.46% and 7.17% in Q1 and Q2, 2019, respectively. The growth recorded in the oil sector in the last two quarters of the year was derived by increase in oil output from 1.99 and 2.02 million barrels per day (mbpd) in Q1 and Q2, 2019 to 2.04 mbpd in Q3 2019, which slightly declined to 2.0 mbpd in Q4 2019.

Figure 2: Sectorial Contributions to real GDP growth (Q3 2018 – Q4 2019)



Source: RPIRD (underlying data from NBS)

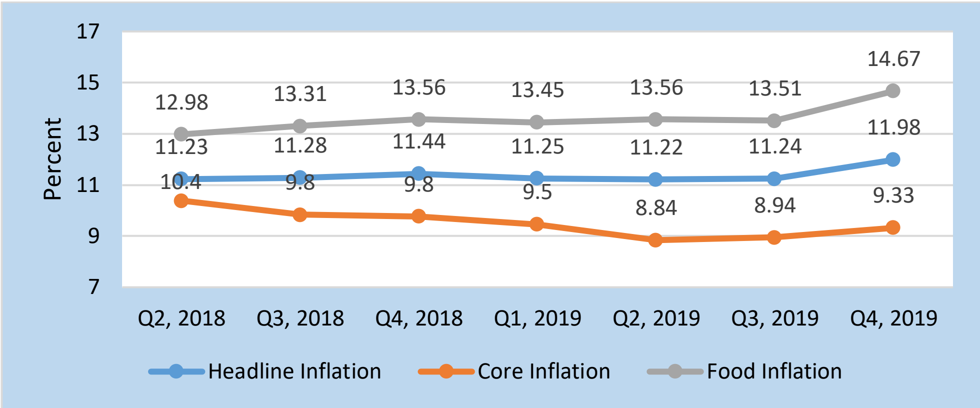
The Non-Oil Sector, which accounted for 90.23% and 92.68% of the GDP in Q3 and Q4, 2019 respectively, grew by 1.85% and 2.26% in the in those quarters, compared to 2.47% and 1.64% growth in Q1 and Q2, 2019. The activities in the Financial Institutions, Agriculture, Manufacturing and ICT drove growth in the non-oil sector.

2.1 INFLATION

Headline inflation rose from 11.22% at end-Q2 2019 to 11.24% and 11.98% at end-Q3 and Q4 2019, respectively. Food and core inflation however declined from 13.56% and 8.84% from end-Q2, 2019 to 13.51% and 8.94%, respectively at end-

Q3 2019. Core inflation registered an uptick at end of Q4 2019 as it rose to 9.33%, while food inflation jumped to 14.67% in that same quarter.

Figure 3: Inflation rates in Nigeria



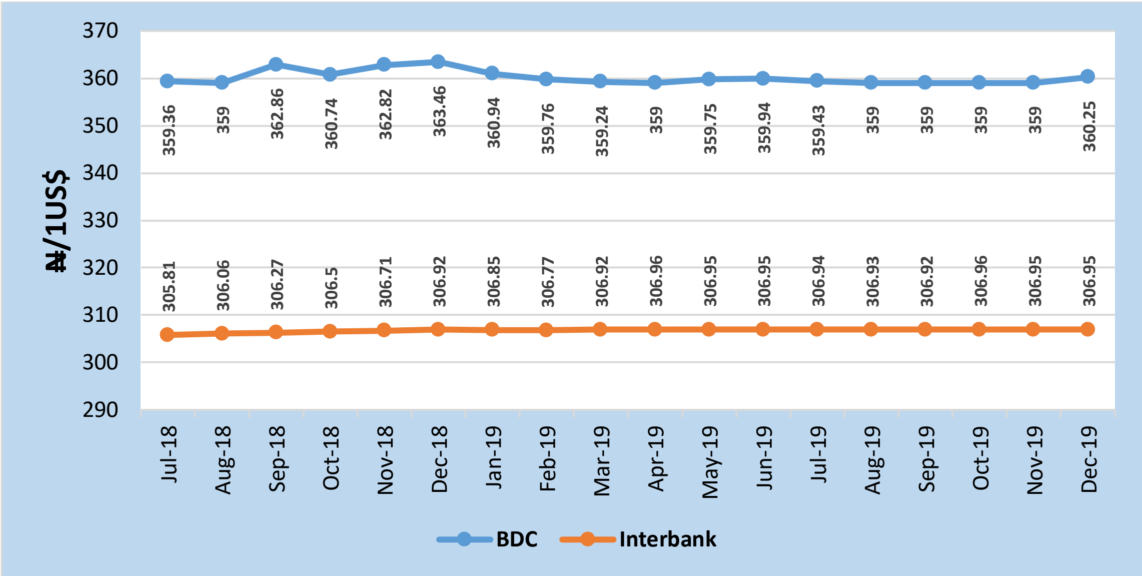
Source: RPIRD (underlying data from NBS)

In contrast to core inflation, both headline inflation and food inflation were higher in the last quarter of 2019, compared to the last quarter of 2018. The rise in food inflation could be adduced to production distortions in the major food producing states arising from insurgency. The rise in the food index was mainly driven by increases in prices of Bread and Cereals, Fish, Potatoes, Yam & other tubers, Oils & fats, Vegetables and Fruits.

2.2 EXCHANGE RATE MOVEMENT

The exchange rate on the BDC window was stable and stayed below N360/US$1 throughout the Q3 and Q4, 2019 except in December 2019 where it hit N360.25/US$1. The exchange rate in the Interbank Market was also stable around N306.96/US$1 in the same period. The exchange rates at the two windows were more stable in the last two quarters of 2019 when compared to the last two quarters of 2018.

Figure 4: Average Exchange Rate Movement in Nigeria



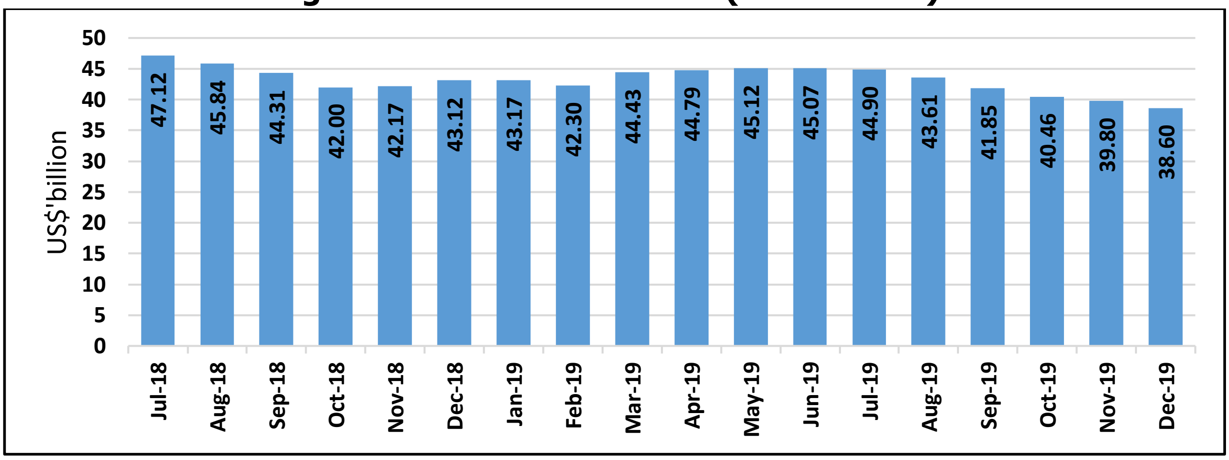
Source: RPIRD (using data from CBN Statistical Database)

The stability derives from various regulatory measures including the creation of Investors and Exporters Window which allowed exporters and investors access to inflows of their foreign exchange and sell them at the prevailing market rate as well as the implementation of Bilateral Currency Swap Agreement with China among many other measures.

2.3 EXTERNAL RESERVE MOVEMENT

The Nigeria foreign reserves consistently declined from USD 45.07 billion as at end-Q2, 2019 to USD41.85 billion and USD38.60 billion at the end of Q3 and Q4 in 2019, respectively. The level of foreign reserves at the end of Q3 and Q4, 2019 were markedly lower than in Q3 and Q4, 2018 when reserves stood at USD42 billion and USD43.12 billion, respectively.

Figure 5: External Reserves (USD' Billion)



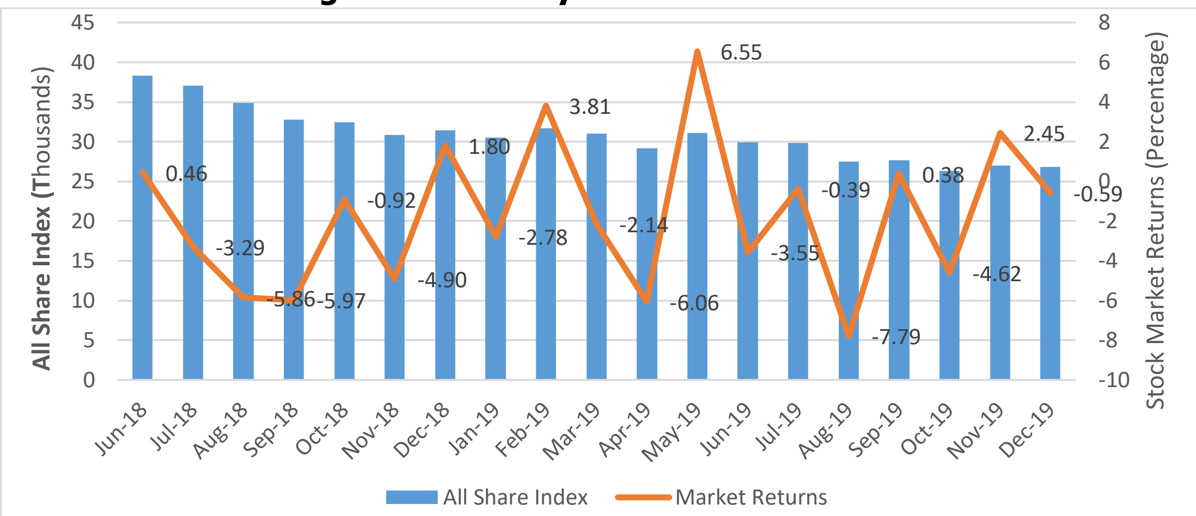
Source: RPIRD (using data from CBN Statistical Database)

The drop in the country's external reserves has been attributed to the sharp decline in crude oil prices, coupled with low global demand. With crude oil export being Nigeria's main source of foreign exchange (contributing over 90%), this has become a major problem. Other factors include huge demand for foreign exchange for imported goods which exerts pressure on the external reserves.

2.4 CAPITAL MARKET DEVELOPMENT

The Nigerian Stock Exchange's All Share Index (ASI) posted negative return throughout Q3 and Q4, 2019, with exception of October and December when the Index returned positive 0.38% and 2.45% respectively. The bearish performance in the last two quarters of 2019 was akin to those of 2018, which was mostly negative. In addition, the market capitalisation of the NSE, which represents the market value of all listed companies, was far significantly lower at the end of Q3 and Q4, 2019 when it dropped to 27,630.56 and 26,842.07, respectively, compared to the end of Q3 and Q4 of 2018 when it was 32,766.37 and 31,430.50.

Figure 6: Monthly Market Performance

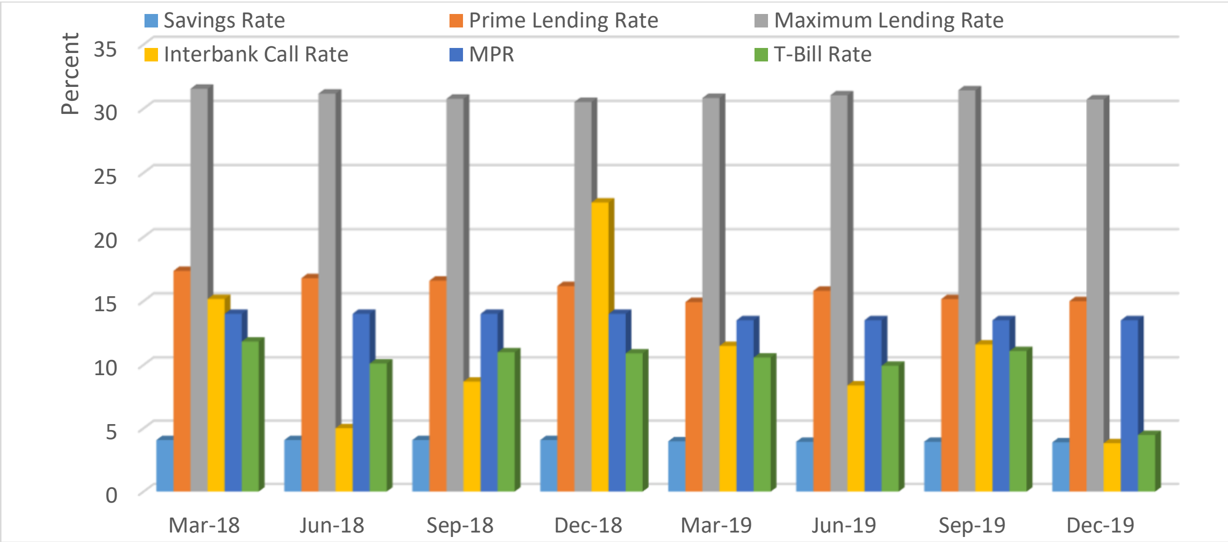


Source: RPIRD (using data from CBN Statistical Database)

2.5 MONEY MARKET DEVELOPMENT

The monetary policy stance was more accommodative in Q3 and Q4, 2019 with the Monetary Policy Rate (MPR) set at 13.50%, compared to Q3 and Q4, 2018 when the MPR was 14.0%. Many other rates also declined in line with the expansionary monetary policy. Prime lending fell from 15.80% at the end of Q2 2019 to 15.15% and 14.99% in Q3 and Q4, 2019 respectively. Saving rate and maximum lending rate also respectively declined from 3.20% and 31.43% in Q3 to 3.89% and 30.72% in Q4, 2019.

Figure 7: Selected Money Market Rates



Source: RPIRD (using data from CBN Statistical Database)

3.0 CBN MONETARY POLICY

The Monetary Policy Committee (MPC) of the CBN met three times in the Q3 and Q4, 2019. The highlights of its decisions and their implications for the Banking Industry and economic performance are discussed in this section.

3.1 4th MPC Meeting in 2019 - held on 22nd and 23rd July, 2019

The Monetary Policy Committee retained the Monetary Policy Rate (MPR) at 13.5 percent, with the asymmetric corridor of +200/-500 basis points; the Cash Reserves Ratio (CRR) at 22.5 percent; and Liquidity Ratio at 30.00 percent.

The MPC's decision to retain the rates as decided in its previous meeting was consistent with the need to support the economy during the period of slow economic growth, weakening global demand and constrained financial intermediation. The MPR was retained to facilitate lending to the real sector at a lower cost while the CRR and liquidity ratio were to improve the Banking Sector liquidity positions and manage inflation.

3.2 5th MPC Meeting - held on 19th and 20th September, 2019

The MPC retained its previous monetary policy decision. The MPR was to remain at 13.5 per cent with an asymmetric corridor of +200/-500 by 50 basis points. The MPC also retained CRR 22.5 at per cent and Liquidity Ratio at 30 percent basis points.

The retention of the rates was informed by the need to maintain the current economic performance and avoid the risk of economic overheating associated with expansionary monetary policy and recessionary tendency inherent in contractionary policies.

3.3 6th MPC Meeting - held on 25th and 26th November, 2019

The MPC in its 6th meeting continued to retain the MPR at 13.50 percent with the asymmetric corridor at +200 and -500 basis points; the CRR at 22.5 percent; and Liquidity Ratio at 30.00 percent.

The decision to retain MPR at 13.5 percent as it was in its previous meeting was due to the improvements in the macroeconomic indicators such as GDP, Nonperforming Loans (NPLs) Capital Adequacy Ratio (CAR) and Loan to Deposit Ratio (LDR), suggesing that prevailing monetary policy stance was yielding results. The MPC therefore decided that maintaining the current stance would be necessary in order to sustain the improvements.

FINANCIAL CONDITION AND PERFORMANCE OF DEPOSIT MONEY BANKS IN Q3 AND Q4 2019

By

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1.0 INTRODUCTION

The Banking Industry's financial conditions improved in the last quarter of 2019, relative to the preceding quarter. Financial performance indicators like Profit Before Tax (PBT), Return on Asset (ROA) and Return on Equity (ROE) increased. Asset quality improved with decline in Non-Performing Loans (NPL) ratios. These performances indicate increased Banking Sector's resilience to macroeconomic headwinds in the second half of the year. However, regulatory indicators such as Capital Adequacy Ratio (CAR) and Liquidity Ratio slightly dipped, on the average, in Q4 2019 relative to Q3 2019.

The rest of this chapter is organized as follows. Section 2 presents the structure of Assets and Liabilities. Section 3 assesses the financial condition of insured banks, while Section 4 concludes.

2.0 STRUCTURE OF ASSETS AND LIABILITIES