



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 124 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 20TH AND TUESDAY 21ST MAY, 2019

Background

The Monetary Policy Committee (MPC) met on the 20th and 21st of May 2019, amidst uncertainties in the global financial, economic and political environments. All Eleven (11) members of the Committee were present.

Global Economic Developments

The Committee reviewed developments in the global economy, noting with concern, the declining trend in global output growth, which commenced in the second half of 2018. Accordingly, the International Monetary Fund downgraded global output growth from 3.7 per cent in 2018 to 3.6 per cent in 2019 and further revised it downwards to 3.3 per cent in 2019. The decrease in the global composite Purchasing Managers' Index (PMI) in the last three months provides further fillip to this downgrade. The Committee noted that the weakening global output growth continued amidst prevailing uncertainties from familiar headwinds including: the further escalation of trade tensions between the US and China; imposition of new rounds of sanctions on Iran; breakdown of BREXIT negotiations; a new wave of tension on the Korean Peninsula; vulnerabilities in major financial markets and rising public and private debt in some Emerging Market and Developing Economies (EMDEs).

Despite these uncertainties, inflation in the advanced economies remained muted and largely below their 2.0 per cent long-run targets. As a result, most central banks in the advanced economies, including the US Fed, Bank of

England and the European Central Bank, adopted a dovish monetary policy stance, which is expected to remain in place in the near to medium term, as signs of weakness in the global economy re-emerged. In the Emerging Market Developing Economies, however, developments were mixed, with inflation rising in some, but moderating in others. In response, the financial markets witnessed the rebalancing of portfolios from equities to fixed income securities, and some stock markets posting losses. In the main, the Emerging Market Developing Economies are expected to continue to benefit from the accommodative monetary policy stance of the advanced economies through increased capital inflows.

Domestic Output Developments

Available output data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 2.01 per cent in the first quarter of 2019 compared with 2.38 and 1.89 per cent in the previous and corresponding quarters of 2018, respectively. This was largely driven by the non-oil sector, which grew by 2.47 per cent in the first quarter of 2019 while the oil sector contracted by 2.40 per cent. Staff projections indicate real GDP growth of 2.34 and 2.36 per cent in Q2 2019 and Q3 2019, respectively, including a reduction in the unemployment rate. The Monetary Policy Committee observed that actual output remains below potential, implying that the economy still had sufficient headroom for non-inflationary growth. This is expected to be driven largely by sustained stability in the financial system; continued special interventions in Agriculture, manufacturing and SMEs sectors, by the Bank; sustained effort in improving transport infrastructure to address distribution challenges; continued expansion of business activities as indicated by the PMI and increased supply of foreign exchange to growth-stimulating sectors of the economy, among others.

The Committee noted the continued expansion of the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI) for the 25th and 24th consecutive months in April 2019 and broadly welcomed this positive

development in economic activities in Nigeria. The manufacturing PMI grew by 57.7 index points compared with 57.4 index points in the previous month. Similarly, the non-manufacturing PMI grew by 58.7 index points compared with 58.5 index points in March 2019. The growth in both measures of PMI were anchored by marginal increases in production, employment level and new orders.

Developments in Money and Prices

The Committee noted the growth in broad money supply (M3) by 5.42 per cent in April 2019 from the level at end-December 2018, annualized to 16.36 per cent, above the indicative benchmark rate of 14.47 per cent for 2019. This was largely driven by the growth of 19.62 per cent in Net Domestic Assets (NDA). In contrast, Net Foreign Assets (NFA) contracted by 5.83 per cent in April 2019 relative to the level at end-December 2018. In spite of the significant underperformance of M1 at -4.26 per cent annualised to -12.77 per cent, M2 grew by 1.85 per cent in April 2019, annualized to 5.54 per cent, which was significantly below the benchmark rate of 12.99 per cent for 2019. This development was largely due to the growth in time and savings deposits by 6.53 per cent. The Net Domestic Credit (NDC) grew by 19.31 per cent in April 2019 from the level at end-December 2018, annualized to 57.92 per cent, above its indicative benchmark of 11.82 per cent. The growth in NDC was attributed to the significant increase in credit to both government and the private sector by 64.44 and 9.64 per cent, respectively, in April 2019, compared with end-December 2018. The Committee noted the developments in the monetary aggregates and enjoined the Bank to initiate moves towards improving lending to the private sector and urged other intermediary institutions in the financial sector to support these initiatives by improving their credit delivery to boost output growth.

The Committee noted the uptick in inflation as headline inflation (year-on-year) rose slightly to 11.37 per cent in April 2019 from 11.25 per cent in March

2019. The increase in headline inflation was driven mainly by food inflation which rose by 13.70 per cent in April 2019 from 13.45 per cent in March 2019. Core inflation, however, declined marginally to 9.28 per cent in April from 9.46 per cent in March 2019. In April 2019, month-on-month headline, food and core inflation increased to 0.94, 1.14 and 0.70 per cent from 0.79, 0.88 and 0.53 per cent in March 2019, respectively. The MPC noted that the recent uptick in inflationary pressure was seasonally driven and anticipated.

Liquidity conditions in the banking system reflected the net impact of Open Market Operations (OMO) auctions, maturing CBN Bills, statutory allocations to states and local governments as well as interventions by the CBN in the foreign exchange market. Consequently, the monthly weighted average Inter-bank call and Open Buy Back (OBB) rates increased to 13.98 and 16.15 per cent in April 2019 from 10.80 and 12.17 per cent in March 2019, respectively. The daily unsecured interbank and the OBB rate, fluctuated within the standing facilities corridor, closing at 6.57 per cent and 5.55 per cent on May 10 and May 16, 2019, respectively, reflecting the reaction of the money market to the 50 basis point reduction in the policy rate at the meeting of the MPC in March 2019.

The Committee observed the continued bearish trend in the equities market in spite of the sustained capital inflows into the economy during the period under review. The All-Share Index declined by 8.14 per cent to 28,871.83 index points on May 17, 2019 from 31,430.50 index points as at end-December 2018, while market capitalization grew by 8.53 per cent to N12.72 trillion on May 17, 2019 from N11.72 trillion at end-December 2018. The recent growth in market capitalization reflected new listings in the market, prominent amongst which is: MTN and Skyway Aviation Handling Company Plc and additional listing from the merger between Access Bank and Diamond Bank.

The Committee welcomed the continued stability at both the Bureau-de-change (BDC) and the Investors' and Exporters' (I&E) windows of the foreign exchange market, expressing optimism in the recovery of crude oil prices due

to the OPEC production ceiling and other geo-political issues affecting oil exports.

The MPC also noted the steady accretion to external reserves, which stood at US\$45.42 billion as at May 16, 2019, an increase of 2.20 per cent from US\$44.44 billion at end-April 2019.

The Overall Outlook and Risks

The overall medium term outlook for the global economy remains mixed and uncertain with growing indications of persistent macroeconomic vulnerabilities, global financial market fragilities, accommodative monetary policy, policy uncertainties and weakening global output.

Data on the domestic economy suggests some fragility in output growth during the second quarter of 2019 with improved outlook for the rest of the year. Accordingly, revised output projections indicate that the economy would grow by 2.1 per cent according to the International Monetary Fund (IMF), 2.2 per cent by the World Bank and 2.38 per cent by the CBN in 2019. This outlook is hinged on the following key factors: the effective implementation of the Economic Recovery and Growth Plan (ERGP); supportive monetary policy; enhanced flow of credit to the real sector; sustained stability of the exchange rate; and improved fiscal buffers; amongst others. The Committee, thus, expects that monetary policy would focus on improving access to credit, reducing unemployment and stimulating economic growth.

Committee's Considerations

The Committee took into consideration the continued slowdown in the global economy and the persisting uncertainties, including the ongoing trade wars between the US and its major trade partners, financial fragilities in a number of countries, the debt-constrained fiscal operations of most EMDEs, including

Nigeria, and the volatility in the oil market. The Committee, therefore, enjoined the Federal government to urgently build fiscal buffers through a more realistic benchmark oil price for the Federal Budget.

The MPC noted the 2.01 per cent growth in real GDP during the first quarter of 2019 compared with 1.89 per cent in the corresponding quarter of 2018. Although output growth in the first quarter was slower than 2.38 per cent recorded in the preceding quarter, it emphasized that actual output remains well below the economy's long-run potential, indicating the existence of spare capacity for non-inflationary growth in the economy, an opportunity which should be explored through increased credit delivery to the private sector. Not impressed by the flow of credit from the Deposit Money Banks (DMBs) to the private sector, the MPC called on the CBN management to urgently put in place modalities to promote Consumer, and Mortgage lending in the Nigerian economy, noting that doing this will greatly and positively impact on the flow of credit and ultimately result in output growth.

The MPC called for a close monitoring of the uptick in inflationary pressures in April 2019, driven largely by food shortages during the Easter season, the commencement of the planting season as well as persisting security challenges in some of the food producing regions of the country. The Committee, urged the relevant authorities to strengthen efforts to address the security challenges and improve food production. It encouraged financial intermediating institutions to ensure that loans to the agricultural sector were channelled effectively to end users.

The MPC welcomed the improvement in financial soundness indicators (FSIs), but noted that although the Non-Performing Loan (NPL) ratio moderated, it remained above the prudential benchmark. Consequently, the Committee considered and recommended to the CBN, a proposal to develop a comprehensive administrative, legal and regulatory framework to speed up

the recovery of delinquent loan facilities of the banking system; involving structured engagement with relevant stakeholders and authorities, in order to mitigate credit risk and ultimately open up the credit delivery space in the Nigerian economy.

The Committee extended warm felicitations in an expression of gratitude to the President and Commander in Chief of the Armed Forces of the Federal Republic of Nigeria, President Muhammadu Buhari, and the Senate of the Federal Republic, respectively, for the reappointment and prompt confirmation of the Governor of the Central Bank of Nigeria, Godwin I. Emefiele, for a second 5-year term in office. In particular, the Committee noted that the reappointment was in recognition of the contributions of the CBN to maintaining macroeconomic stability and it would engender confidence and build policy credibility and deliver stability to the Nigerian financial markets.

In view of the abundant opportunities available to banks for unfettered access to government securities, which tends to crowd out private sector lending, the Committee called on the Bank to provide a mechanism for limiting DMBs access to government securities so as to redirect bank's lending focus to the private sector, noting that this would spur the much needed growth in the economy. It called on the Government to use all machinery at its disposal to increase tax revenue to enable the government fund its budget adequately.

The Committee's Decision

The global and domestic developments have conditioned an environment of low optimism in the macroeconomic and financial sector space, forcing central banks to return to accommodative monetary policy.

As in the past, the Committee considered the options of whether to be more accommodative, tighten or hold its position. The Committee felt that although the slight inflation uptick should result in tightening, it nevertheless felt that doing this will limit the ability of DMBs to increase credit at this time, given the need to support or redirect the focus of DMBs to new credit in support of consumer, mortgage and other priority sectors of the economy, including, SMEs, agriculture and manufacturing. It also felt that given the fragile state of the economy, increasing the cost of credit would further diminish investment flow and impact negatively on output growth.

As regards loosening, some members felt that it was desirable to aggressively stimulate growth, restart the capital market activities and increase lending at lower rates; which would ultimately stimulate domestic aggregate demand.

Those against loosening felt that given that there was a marginal increase in headline inflation for April 2019, there is need to restrain from loosening in order not to exacerbate inflationary pressures. They also felt the economy would experience liquidity surfeit and without corresponding increase in real sector output, inflationary pressures could be elevated; resulting in likely exchange rate pressures.

As for members who favoured a hold position, maintaining monetary policy rate at its present level was essential for better understanding of the momentum of growth before determining any possible modifications. They also felt that retaining the current policy stance provides an avenue for evaluating the impact of the Bank's intervention policies to support lending to the priority sectors of the economy.

Consequently, the MPC decided against the backdrop of these developments by a vote of 9 members out of 11, to hold all parameters of monetary policy constant. Two members voted, however, to reduce the monetary policy rate by 25 basis points.

In summary, the MPC voted to:

- I. Retain the MPR at 13.50 per cent;
- II. Retain the asymmetric corridor of +200/-500 basis points around the MPR;
- III. Retain the CRR at 22.5 per cent; and
- IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

21st May, 2019