



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 123 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 25TH AND TUESDAY 26TH MARCH, 2019

Background

The Monetary Policy Committee (MPC) met on the 25th and 26th March, 2019; against the backdrop of developments in the global and domestic economic environments in the first quarter of 2019. Eleven (11) members of the Committee were present.

Global Economic Developments

The Committee noted with concern the weakening performance of global output growth at the end of 2018 and observed that developments in the first quarter of 2019 were characterised by legacy headwinds from the second half of 2018. These include: the continued trade war between the US and China, policy uncertainty amongst advanced economy central banks; persisting uncertainties surrounding BREXIT negotiations; vulnerabilities in major financial markets and rising public debt in some Emerging Market and Developing Economies (EMDEs). Consequently, global output growth for 2019 was downgraded by the IMF from 3.7 per cent to 3.5 per cent.

Price developments across major advanced economies, continued to moderate in the review period alongside signals of weakening output growth. In the light of this development, the US Fed, the Bank of England and the European Central Bank retreated from their earlier stance of monetary policy normalisation in favour of a monetary policy accommodation. This led to volatilities in the financial markets of the advanced economies as the balancing of portfolios moved capital from the equities to the bonds market.

The MPC noted the moderate appreciation of the US dollar against the currencies of most advanced and emerging market economies. It further noted the trend of declining long term yields in the US, and the likelihood that capital flows may be redirected to EMDEs in the medium term.

Domestic Output Developments

Output data from the National Bureau of Statistics (NBS) indicate that real Gross Domestic Product (GDP) grew by 2.38 per cent in Q4 2018 from 1.81 and 2.11 per cent in the previous quarter and corresponding period of 2017. The major impetus for growth came from the non-oil sector, which grew by 2.7 per cent in Q4 2018, while the oil sector contracted by 1.62 per cent.

The Committee welcomed the continued positive sentiments in the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMIs) for the 24th and 23rd consecutive months in March 2019. The manufacturing PMI rose by 57.4 index points

compared with 57.1 in the previous month. Similarly, the non-manufacturing PMI increased by 58.5 index points compared with 58.4 in February 2019. The increase in both measures of PMI was driven by increases in production, employment, raw material inventories and new orders. This improved outlook was attributable to the continued stability in the foreign exchange market, various interventions by the Bank in the real sector and the effective implementation of the Economic Recovery and Growth Plan (ERGP) by the Federal Government. Furthermore, on the current measure of national output, the MPC noted the need to rebase the GDP, an exercise which was last carried out in 2010.

Developments in Money and Prices

The Committee noted that broad money supply (M2) contracted by 1.98 per cent in February 2019, below its level at end-December 2018. Net Foreign Assets (NFA) contracted by 7.47 per cent in February 2019 relative to its level at end-December 2018. In contrast, M3 grew by 4.31 per cent in February 2019 compared with its level at end-December 2018. Net Domestic Credit also grew by 10.68 per cent in February 2019. The growth in NDC was accounted for by the increase in credit to Government which grew by 17.20 per cent in February 2019 over its level at end-December 2018. Credit to the private sector also rose by 6.41 per cent compared with its growth benchmark of 9.41 per cent. Given the positive trajectory, the Committee urged the Management of the CBN, to sustain the various initiatives of the Bank, particularly

the partnership between the Bankers Committee and the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) aimed at establishing a national microfinance bank to cater for the MSMEs of the economy.

The Committee noted the continued moderation in inflation as headline inflation (year-on-year) declined further to 11.31 per cent in February 2019 from 11.37 and 11.44 per cent in January 2019 and December 2018, respectively. The decrease in headline inflation was driven mainly by food inflation, which declined to 13.47 per cent in February 2019 from 13.51 per cent in January 2019, while core inflation declined marginally to 9.80 per cent from 9.91 per cent in the previous month. On a month-on-month basis, headline, food and core inflation declined to 0.73, 0.82 and 0.65 per cent in February 2019, respectively, from 0.74, 0.83 and 0.81 per cent in January 2019. The Committee noted the upside risks to inflation to include; high cost of energy, infrastructure constraints, insecurity in some parts of the country; and anticipated increase in liquidity from the late implementation of the 2018 budget, and noted that most of these factors were outside the ambit of monetary policy. The MPC, therefore, urged the Federal Government to sustain its current effort in stimulating output growth by executing the policies approved in the ERGP.

The net liquidity position reflected the impact of OMO auctions, foreign exchange interventions, statutory allocations to states and local governments, and maturing CBN Bills. Consequently, the average Inter-bank call rate increased to 16.45 per cent in

February 2019 from 15.00 per cent in January 2019. The Open Buy Back (OBB) rate, however, declined marginally to 18.79 per cent in February 2019 from 19.71 per cent in January 2019. The interbank call rates, however, closed at 8.0 per cent on March 8, 2019, while the OBB closed at 14.39 on March 22, 2019.

The Committee noted that in spite of the recent upsurge in capital inflow into the economy, the All-Share Index (ASI) and Market Capitalization (MC) continued to decline, reflecting global sentiments in portfolio rebalancing from equities to fixed income securities. This generally reflected the perceived risk at the long end of the yield curve.

The Committee noted with satisfaction, the continued stability in the foreign exchange market at the Investors' and Exporters' (I&E) window of the market. In particular, it also observed the moderate improvement in oil prices and stable accretion to external reserves, which stood at US\$45.2 billion as at March 21, 2019, a 6.73 per cent increase from US\$42.35 billion at end-February 2019.

The Overall Outlook and Risks

The medium term outlook for the global economy continues to be uncertain with indications of increasing macroeconomic vulnerabilities and downward revision of the forecast for global output growth.

On the domestic economy, available data on key macroeconomic indicators for output growth in the first quarter of 2019, and forecasts for the rest of the year, suggests continued positive outcomes. Based on recent projections, the economy is expected to grow by 2.0 per cent (IMF), 2.2 per cent (World Bank) and 2.74 per cent (CBN). The projection is hinged on: the enhanced flow of credit to the real sector; sustenance of a stable exchange rate; moderating inflation rate; CBN special interventions in growth-enhancing sectors, especially, agriculture and non-agricultural SMEs; improved growth in the non-oil sector and the effective implementation of the ERGP by the Federal Government, amongst others. The Committee expressed optimism that the establishment of the NIRSAL National Microfinance Bank and the enactment of the *Secured Transactions in Movable Assets Act 2017* will stimulate lending to small and medium enterprises.

Committee's Considerations

The Committee observed the tepid output growth in 2018, but noted with satisfaction that it strengthened in the last quarter of 2018 as well as the positive forecast for 2019. It further noted with great satisfaction, the continued moderation in all measures of inflation, sustained stability in the exchange rate and the robust level of external reserves. It commended the recent upsurge in capital inflows into the economy, noting this to be a demonstration of sustained confidence by the foreign investor community in the Nigerian economy. The Committee was,

however, not unmindful of developments in the global economy, noting the recent slowdown in growth in some advanced economies and the dovish stance of some major central banks as an early warning sign of broader macroeconomic vulnerabilities. It, therefore, underscored the need to monitor the trend in capital flows and the continued downturn in the equities market, noting that the recent surge in portfolio inflows were concentrated in the money market.

The Committee noted the relative volatility in oil prices and its impact on accretion to reserves which could easily undermine the stability observed in the foreign exchange market. It, however, noted that current developments in the oil futures market indicate that oil prices will remain considerably above the Federal Government's 2019 budget benchmark. The Committee, therefore, urged the Federal Government to strengthen its current revenue mobilization efforts as well as explore additional sources of revenue in order to improve fiscal buffers. It further urged the Federal Government to sustain its implementation of the ERGP, while ensuring that growth is all inclusive. It reiterated the need to concentrate effort on addressing the problem of weak power infrastructure, as well as support domestic manufacturing. The Committee also called on all relevant institutions of the government to address the menace of smuggling and dumping of goods into Nigeria; and encouraged the Bank to continue to explore available scenarios to deal with the activities of economic and policy saboteurs, including those involved in dumping and

smuggling, in a bid to accelerate domestic production of goods in Nigeria.

The MPC noted the positive moderate outlook for growth and the risks in the horizon. The Committee also noted that having achieved a relatively stable exchange rate with price stability, it is imperative that monetary policy should explore the next steps necessary for enhancing growth, reducing unemployment and diversifying the base of the economy. It further observed that per capita income growth is very negligible, while aggregate demand remains weak. Aggregate output also remains below the potential output level, implying sufficient headroom for non-inflationary growth. This new direction has, therefore, become imperative against the backdrop of the aftermath of the general national elections and strong inflow of foreign direct and portfolio investments into the economy.

The Committee urged for the speedy passage of the other aspects of the Petroleum Industry Bill (PIB) to fast track the development of the value chain in the sector and create employment. It also welcomes the passage of the National Minimum Wage Bill by the National Assembly and call for its speedy implementation in order to boost domestic aggregate demand.

The Committee further observed that the performance of the monetary aggregates were below their benchmarks, indicating

headroom for monetary growth. The MPC noted the encumbrances and constraints imposed on fiscal policy and the associated vulnerabilities as it has consistently failed to mobilise sufficient revenues to support development as enunciated in the ERGP, leaving room for continued debt financing, not previously envisaged. Against this backdrop, it is imperative for monetary policy to provide the much needed leverage to support output growth and employment generation in the country.

On a more cautious note, the Committee expressed concern and sympathises with the fiscal authorities, over the growing fiscal deficit, external debt and debt service, and urged the need to closely monitor the public procurement process in order to improve efficiency in public resource management.

On financial system stability, the MPC noted the improvements in key financial soundness indicators and commended the Federal Government for the settlement of debt owed to oil marketers, which has considerably, helped in reducing the non-performing loans (NPLs) portfolio of the banking industry. The Committee, therefore, urged the Government to expedite action in settling all outstanding contractor-related arrears so as to improve the NPLs position and stabilise the banking system. In addition, the MPC reiterated the Bank's commitment to improve credit delivery, especially to small and medium scale enterprises, while acknowledging efforts by the Central Bank of Nigeria in coordinating the de-risking of lending to the private sector

through the collaboration between the Bankers' Committee and NIRSAL.

In its consideration of the best monetary policy option, the Committee noted the need for all agencies of Government to work hard, not only in consolidating the growth so far achieved, but also in ensuring that appropriate policies are put in place and implemented to create jobs on a mass scale and diversify the economy in a proper direction. In doing this, the policy options facing the MPC at this meeting is a decision between retention of the current stance of monetary policy or a slight loosening of the policy rate, backed by the substantial stability of the major macroeconomic indicators. The Committee felt that given the relative stability in the key macroeconomic variables, there is the need to signal a new direction that is pro-growth.

In its arguments, the Committee was convinced that doing this would further uphold the Bank's commitment to promoting strong growth by way of encouraging credit flow to the productive sectors of the economy. The MPC felt that signalling through loosening by a marginal reduction would serve to manage the sentiments in the capital markets owing to the wider spread in yields in the EMDEs, relative to the advanced economies. Moreover, the real interest rate in the country would still remain positive.

The Committee's Decision

In light of the above, the MPC decided by a vote of six out of eleven members to reduce the Monetary Policy Rate (MPR) by 50 basis points. Two members voted to reduce the MPR by 25 basis points, while one member voted to reduce it by 100 basis points. Two members, however, voted to hold the MPR at its current level. Ten members voted to hold all other parameters constant, while a member voted to reduce the Cash Reserve Ratio (CRR) by 100 basis points from 22.5 to 21.5 per cent.

In summary, the MPC voted to:

- I. Adjust the MPR by 50 basis points from 14.00 to 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

25th March 2019