CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 131 OF THE 274th MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 20TH JULY 2020

The Monetary Policy Committee (MPC) met on 20th July 2020, amidst elevated uncertainties across the world. The projected global output contraction was revised downward, as many countries had to extend the lockdown period in the wake of a second wave of coronavirus infections, and continued lack of effective treatment or vaccines for the Novel Coronavirus disease. However, there is cautious optimism that the global growth contraction would reverse to positive growth path by 2021, as the pandemic is contained, potential treatment found, and restrictions on business activities are lifted by most economies.

The Committee reviewed developments in the global and domestic economic environment in the first half of 2020 and evaluated the monetary policy options to address these challenges.

Ten (10) members of the Committee were in attendance.

Global Economic Developments

Global output growth weakened further, as a result of the persistent headwinds from the COVID-19 pandemic. These headwinds comprised: persisting decline in global aggregate demand and supply; disruptions in global supply chain and trade; rising sovereign and corporate debts; heightened financial market vulnerabilities; low prices of crude oil and other commodities; and rising unemployment.

The Committee noted, with concern, the IMF's further downgrade of global economic contraction to -4.9 per cent from -3.0 per cent in 2020. The downward revision was based primarily on the amplified negative impact of COVID-19 pandemic on many advanced and emerging market economies, as they witnessed extended lockdown periods and restrictions on economic activities.

The Committee noted the general optimism of a V-shaped global growth trajectory due to the expected early abatement of the pandemic and the gradual resumption of economic activities. However, the Committee believes that global recovery, while assured for 2021, is more likely to be a U-shaped one. In this regard, it is not surprising that the recovery has been revised downwards from 5.8 per cent to 5.4 per cent in 2021.

The Committee observed the continued downward trend in inflation in most Advanced Economies, particularly below the 2.0 per cent long-run target, despite the huge monetary and fiscal stimulus injections during the period. The Committee, however, noted that as the lockdown eases across the advanced economies, aggregate demand is expected to strengthen and inflation would pick up to support the expected output growth. Across the Emerging Markets and Developing Economies (EMDEs), the Committee observed the divergent inflation trends, with most developing commodity-exporting countries recording increase in inflation compared with other more diversified economies. This development had inadvertently exerted significant pressure on the exchange rates of these economies as the pass-through to domestic prices has been amplified.

The Committee observed that the unprecedented increase in public spending to support households and businesses, in the wake of the pandemic, may spur inflationary pressures in some economies, as the supply shortfalls struggle to meet up with the demand build up.

Domestic Economic Developments

Available data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew marginally by 1.87 per cent in the first quarter of 2020 compared with 2.55 and 2.10 per cent in the preceding and corresponding quarters of 2019. The performance was largely driven by the 5.06 per cent growth in the oil sector and 1.55 per cent growth in the non-oil sector. The decline in output growth in the first quarter was largely attributed to the twin effect of the decline in oil prices and the shocks from the Covid-19 pandemic.

The Committee observed the gradual, but persistent decline in the Manufacturing and non-Manufacturing Purchasing Manager's Indices (PMI), below the benchmark. The Manufacturing PMI declined to 41.1 index points in June 2020 from 42.4 index points in May 2020. Conversely though, the non-manufacturing PMI improved to 35.7 index points in June 2020 from 25.3 index points in May 2020. The trend in the manufacturing and non-Manufacturing PMI was attributed, largely, to: slower growth in production levels; new domestic orders; employment rate; raw materials supply; and new export orders. The Committee noted the staff forecast of 1.03 per cent contraction in growth in Q2 2020, on the back of the continued adverse impact of the pandemic on the economy.

The Committee expressed concern over the persistent, albeit marginal, uptick in inflation for the tenth consecutive month, as headline year-on-year inflation rose to 12.56 per cent in June 2020 from 12.40 per cent in May 2020. The increase in headline inflation was largely driven by the increase in both food and core inflation, which rose marginally to 15.18 and 10.13 per cent in June 2020 from 15.04 and 10.12 per cent in May 2020, respectively. The Committee noted the contribution of the legacy structural factors in the persistent uptick in inflationary pressure. These factors included: disruptions to key supply channels due to security challenges from herder-farmer clashes, banditry/kidnapping, inadequate transportation outlay, epileptic power supply, and low technological adaptability. These factors have compounded the supply chain challenges.

The Committee reiterated the need for a robust fiscal policy strategy to attract private investment and capital, to finance the huge infrastructure deficit in Nigeria, and strengthen the existing initiatives by the federal government and the CBN in this direction.

The Committee recognized the supportive developmental roles of the CBN towards addressing some of these structural issues. The MPC specifically expressed optimism on the future impact of N50 billion Household and SME facility, out of which N49.195 billion has been disbursed, to over 92,000 beneficiaries. The N100 billion healthcare and N1.0 trillion manufacturing and agricultural interventions to support the rebound in growth from the impacts of the pandemic on the economy. The Committee further commended the CBN coordinated CA-COVID - Private sector intervention scheme - which had mobilized over N32 billion to support the economy, lives and livelihoods. The Committee noted that the CBN had disbursed over N152.9 billion to the manufacturing sector to finance 61 manufacturing projects and another N93.6 billion to the Healthcare sector, amongst many other sector-specific facilities.

The Committee is hopeful that upon further drawdown of these intervention facilities, the much needed reset and rebound of the Nigerian economy will become a reality.

The Committee noted that broad money supply (M3) grew by 1.64 per cent in June 2020 from 2.72 per cent in May 2020, largely due to increases in Net Domestic Assets (NDA) and Net Foreign Assets (NFA). The growth in M3, however, remained well below the indicative benchmark of 13.09 per cent for 2020.

Aggregate domestic credit (net) grew by 5.16 per cent in June 2020 compared with 7.47 per cent in May 2020. The Committee commended the CBN Loan-to-Deposit Ratio (LDR) initiative to address the credit conundrum as the total gross credit increased by N3.33 trillion from N15.56 trillion at end-May 2019 to N18.90 trillion at end-June 2020. These credits were largely recorded in manufacturing, consumer credit, general commerce, and information and communication and agriculture, which are productive sectors of the economy.

Money market rates remained relatively stable in the review period, reflecting the prevailing liquidity situation in the banking system. The monthly weighted average Inter-bank call and Open Buy Back (OBB) rates increased to 5.75 and 11.31 per cent, respectively, in June 2020 from 5.22 and 5.80 per cent, respectively in May 2020.

The Committee welcomed the modest recovery recorded in the equities market as the All-Share Index (ASI) and Market Capitalization (MC) increased by 6.33 and 6.44 per cent, on April 30 and June 30, 2020, respectively. The modest improvement reflected the resumption of business activities which spurred market confidence, as Government commenced gradual ease of the lockdown.

The Committee noted the decrease in NPLs ratio to 6.4 per cent at end-June 2020 from 9.4 per cent in the corresponding period of 2019, on account of increased recoveries, write-offs and disposals. The Committee expressed confidence in the stability of the banking system and urged the Bank to monitor the compliance of DMBs to its prudential and regulatory measures to sustain the soundness and safety of the banking industry.

In light of the Bank's continued effort to find innovative ways of using local resources to diversify the sources of the country's Foreign Exchange Reserves, the Committee welcomed the decision of the Central Bank of Nigeria to develop a Gold Purchase Framework under the Federal Government's Presidential Artisanal Gold Mining Development Initiative. The standardised gold bars, which would be purchased in Naira from Nigerian miners and refiners would not only create thousands of jobs for the artisans, but would provide a new sources of foreign exchange accretion to our reserves, and ensure the strength and stability of the Naira.

The Committee also commended the Federal Government for the approval to establish a CBN-led Infrastructure Development Company, which will leverage local and international funds for rebuilding of critical infrastructure across the country. This entity, which will be wholly focused on Nigeria and Nigerians alone will be co-owned by the CBN, the Africa Finance Corporation (AFC) and the Nigeria Sovereign Investment Authority (NSIA), but exclusively managed by an Independent Infrastructure Fund Manager (IIFM) that will mobilize local and foreign capital to support the Federal Government in building the transport infrastructure required to move agriculture and other products to processors, raw materials to factories, and finished goods to markets. The sum of N15 trillion is projected over 5 years for the initial run. The Committee noted with satisfaction the CBN's immediate work on the updates and timelines for the establishment of this much-needed entity.

Outlook

The outlook for the global economy remains weak. The IMF's earlier expectations that the coronavirus pandemic will wane by the end of the second quarter of 2020, as economies implement the various prevention protocols, were not achieved. Several countries witnessed a second outbreak after the initial ease in lockdown. This necessitated the IMF's downgrade of output growth forecast for both 2020 and 2021.

The slow recovery in oil prices, and its attendant volatility, is projected to continue in 2020 and well into 2021. This would further dampen recovery prospects, particularly for most oil-exporting countries.

With many central banks, in the advanced economies, exhausting their conventional monetary policy headroom, unconventional monetary policy tools would trigger global liquidity surfeit, with consequences for many emerging market and developing economies, including, volatility in international financial system and markets.

Provisional data on key domestic macroeconomic variables indicate that the Nigerian economy may record negative quarterly GDP growth in the 2nd quarter of 2020, but there is cautious optimism that the year may end in marginal negative territory, with strong recovery prospects in 2021.

The Committee's Considerations

The Committee's considerations were guided by the developments in the global and domestic economic environment.

The MPC noted that the current coordinated efforts by the Federal Government to contain the COVID-19 pandemic would reposition the economy on a sustainable path of rapid recovery. The Committee welcomed the government's articulated fiscal stimulus to cushion the impact of the pandemic on households and businesses, through various palliatives and fiscal incentives and reiterated the need for effective and timely implementation.

The MPC expressed the utmost need for both the monetary and fiscal authorities to collaborate, for the optimal synergy for measures targeted at reviving the economy. The Committee called on the government to sustain its efforts at diversifying revenue sources and ensure fiscal prudence, particularly, with the use of the recent grants and multilateral concessionary loans. The Committee encouraged the adoption of counter-cyclical fiscal policy framework to shield the economy from persistent revenue shocks.

The MPC noted the Bank's overarching commitment to maintaining price stability and encourage the Bank to sustain the current measures targeted at moderating inflation, including addressing some of the supply-side structural challenges.

The Committee urged the Bank to continue to give particular attention to its mandate of exchange rate stability, given the recent volatility in the international financial system, to avoid excessive demand pressures in the foreign exchange market.

The MPC commended the Bank on its efforts in sustaining the soundness and resilience of the financial system, particularly, in the face of severe economic challenges. The Committee noted the Bank's drive to accelerate credit growth to the private sector, especially to micro, small and medium scale enterprises and the recent monetary stimulus packages to households and businesses affected by the pandemic.

The Committee's Decision

The Committee reviewed the policy options before it and argued that the option of tightening at this time would contradict the noble initiative of expansion of affordable credit to the real sector, noting that this would heighten the cost of production which will translate to higher prices of goods and services and harder economic condition for people.

On the other hand, loosening monetary stance would provide the desired succour for stimulating output growth and rapid recovery, but with implications for domestic private investment and capital mobilisation to support the huge domestic financing gap. Further cut in MPR may not necessarily lead to a corresponding decrease in market interest rate, considering the current economic challenges. The Committee was also mindful of the cut in policy rate at the last MPC meeting and the need to allow time for the transmission effect to permeate the economy.

Given the plethora of monetary and fiscal measures recently deployed to address the impending economic crisis, following the COVID-19 outbreak, it would be a relatively cautious option to hold, in order to evaluate the effectiveness of these tools at addressing the current challenges, particularly with the mounting uncertainties within the domestic economy, as well as the external vulnerabilities.

After reviewing the three options, the MPC noted that the imperative for monetary policy at the May 2020 meeting was to strike a balance between supporting the recovery of output growth and reducing unemployment while maintaining stable prices. The Committee noted at this meeting that the economic fundamentals have marginally improved by the end of June 2020, following the gradual pick-up of economic activities as the positive impacts of the various interventions permeate into the economy.

As a result, the Committee noted that the earlier downward adjustment of the MPR by 100 basis points to 12.5 per cent to signal the loosening monetary policy stance is yielding positive impact as credit growth increased significantly in the economy. The Committee also noted the positive impact of the various fiscal and monetary interventions on households, SMEs and manufacturing sectors. The Committee also noted that increasing MPR at this stage will thus be counter-intuitive and will result in upward pressure on market rates and cost of production.

In view of the foregoing, the Committee decided by a majority vote to retain the Monetary Policy Rate (MPR) at 12.5 per cent and to hold all other policy parameters constant.

The Committee decided by a vote of eight members to Hold and two members voted to Reduce MPR. All members voted to retain all other policy parameters.

In summary, the MPC voted to:

I. Retain the MPR at 12.5 per cent;

II. Retain the asymmetric corridor of +200/-500 basis points around the MPR;

III. Retain the CRR at 27.5 per cent; and

IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

20^{th} July, 2020