CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 129 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 23RD AND TUESDAY 24TH MARCH 2020

The Monetary Policy Committee (MPC) met on the 23rd and 24th March 2020, amidst heightened uncertainty in the global macroeconomic environment arising from major disruptions associated with the outbreak of the Coronavirus Disease (COVID-19) and the oil price war between Saudi Arabia and Russia. The Committee assessed the developments in the global and domestic environments in the first quarter of 2020 and the outlook for the rest of the year, including the threats to capital flows, growing vulnerabilities across global financial markets, the probability of a global recession, risks to price and financial stability as well as the quick intervention by central banks to restore normalcy, with guidance for further action. Ten (10) members of the Committee were in attendance at this meeting.

Global Economic Developments

The Committee noted with concern, the combined demand and supply shocks to the global economy arising from the outbreak of COVID-19 and the oil price war between Saudi Arabia and Russia. It also noted the weakening performance of global output growth since January 2020, reflected in losses in global stock values; declining primary commodity prices, disruptions to the global supply chain associated with large scale global lockdown of mega metropoles and whole countries; and social distancing. Also, there has been adverse shocks to global capital flows; vulnerabilities and uncertainties in major financial markets; as well as rising corporate debt in the advanced economies and public debt in some Emerging Market and Developing

Economies (EMDEs). Consequently, global output growth in 2020 is projected to fall significantly below the initially projected level of 3.3 per cent.

Inflation in the advanced countries continues to trend below long run targets, except in the United States, especially in the light of prevailing headwinds and heightened global uncertainties. Central banks in the Advanced Economies have thus engaged in a coordinated approach with peers to embrace quantitative easing across every sector, notably in transportation, travel and tourism, health and setting up of social safety net funds, to stem the impact of these headwinds on aggregate demand and supply chains. In the EMDEs, price developments remained mixed with upward inflationary pressure in some of the key economies.

Domestic Economic Developments

Data from the National Bureau of Statistics (NBS) showed that growth in real Gross Domestic Product (GDP) continued to improve in Q4 of 2019. Consequently, real GDP grew by 2.55 per cent in the fourth quarter of 2019, compared with 2.28 and 2.38 per cent in the preceding and corresponding quarters of 2019 and 2018, respectively. Growth in Q4 2019, was driven largely by the strong performance of the oil sector, which grew by 6.36 per cent, though lower than 6.49 per cent recorded in the previous quarter, while the non-oil sector grew by 2.27 per cent. The Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI) expanded, though at a lower rate in February 2020, for the 35th and 34th consecutive months to 58.3 and 58.6 index points, respectively. Staff projections indicate that real GDP in Q1 and Q2 2020 will slow because of the tepid global demand, resulting from the recent outbreak of COVID-19, depressed global aggregate demand and supply, and the oil price war which has resulted in supply glut and decline in crude oil prices. This muted outlook for the first half of the year may thus, dampen overall growth prospects for 2020. To mitigate this trend, the Bank took decisive action to safeguard the Nigerian financial system and the economy from the emerging headwinds. The key policies include: provision of extended moratorium on loans by an additional 1 year beginning from March 2020. This is to ease pressure on loan repayments. The Bank also reduced interest rates from 9 to 5 per cent on its existing intervention programmes over the next one year; created a N50 billion fund to support households and Small and Medium Enterprises (SMEs) affected by COVID-19; introduced credit support for the healthcare sector; introduced regulatory forbearance to consider temporary and time-limited restructuring of loan terms and tenors to households and businesses affected by COVID-19, and strengthened the loan-to-deposit ratio (LDR) policy. The Bank also announced an intervention fund of N1.1 trillion to cushion the adverse effects of the Coronavirus outbreak on the economy. The sum of N1.0 trillion from this amount will be used to support local manufacturing to boost import substitution, while the balance of N100 billion will be used to support the health services sector and products through the provision of loans to the pharmaceutical companies, hospitals and other health practitioners to build new hospitals and health facilities or expand existing ones to first class health centres. This is in addition to the N1.5 trillion private sector driven Infraco Project fund, designed to target the construction of critical infrastructure across the country. In addition, pharmaceutical companies would be assisted through loan interventions to re-establish drug manufacturing firms in Nigeria and curtail the spread of the corona virus. In summary, it is expected that through these interventions, about N3.5 trillion would be injected as stimulus to support the Nigerian economy during this trying time.

The Committee noted the continued uptick in headline inflation (year-on-year) for the sixth consecutive month to 12.20 per cent in February 2020 from 12.13 per cent in the previous month. The increase in inflation, was largely attributed to increases in the food and core components, which rose to 14.90 and 9.43 per cent in February 2020, from 14.85 and 9.35 per cent in January 2020, respectively. This was driven by shocks to food prices associated with renewed insurgency in major food producing areas of the Country and persisting infrastructural deficits.

The MPC observed that broad money supply (M3) contracted for the second consecutive month by 2.29 per cent (year-to-date) in February 2020, reflecting the decline in Net Foreign Assets and Net Domestic Assets. Specifically, the contraction in M3 was driven primarily by a decline in securities other than shares and currency outside depository corporations in the review period. Net Aggregate Credit, however, grew by 1.34 per cent in February 2020.

The Committee noted with satisfaction the growth in aggregate credit by N2.35 trillion since the inception of the LDR policy, reflecting the potency of the policy and thus urged the Management of the Bank to sustain the current momentum of improved flow of credit to the private sector in Nigeria. It emphasized the need for coordination with the fiscal authorities, to strengthen access to credit to some critical sectors of the economy, including the weak and vulnerable population, particularly those in the informal sector through the setting up of a special fund, as well as support the enforcement of credit recovery. Accordingly, sectoral distribution of credit between end-May 2019 and end-February 2020 was as follows: Manufacturing (N533.06 billion); General Retail and Consumer Loans (N380.71 billion); General Commerce (N229.87 billion); Agriculture, Forestry and Fishing (N163.04 billion); Information and Communications (N163.69 billion); Finance and Insurance (N131.20 billion); Construction (N112.25 billion); and Transportation and Storage (N45.42 billion), amongst others.

The Committee noted the dismal performance in the equities market as the All-Share Index (ASI) decreased by 17.30 per cent and Market Capitalization (MC) by 10.73 per cent between end-December 2019 and March 20, 2020. The decline was largely attributed to profit taking and divestment by foreign portfolio investors, the delisting of shares of three quoted companies and capital outflow associated with the COVID-19 and subdued global economic activity.

The MPC noted the continued resilience of the banking system, evidenced by the further moderation in the ratio of Non-Performing Loans (NPLs) from 6.59

per cent in January to 6.54 per cent in February 2020. Although the ratio remained above the prudential benchmark of 5.0 per cent, the Committee expressed confidence in the Bank's regulatory regime and commitment to maintaining stability in the banking system.

Outlook

The overall medium-term outlook for the global economy remains uncertain with increased deterioration in financial market conditions and weak global output growth. The major headwinds to the current projection for global growth includes: disruption to the global supply chain arising from the COVID-19 pandemic; oil price downturn as a result of subdued global demand, vulnerabilities in major financial markets; rising corporate debt in the advanced economies and public debt in some Emerging Market and Developing Economies; as well as broad uncertainties leading to adverse shocks to foreign investment flows.

On the domestic front, available data on key macroeconomic variables indicate the likelihood of subdued output growth for the Nigerian economy in 2020. Based on the current downturn in oil prices, staff projections indicate that output in the 2020 would be less than earlier envisaged. The major downside risks to this outlook, however, include: the continued spread of COVID-19; further decline in crude oil prices and the reduction in accretion to external reserves; reduced government revenue leading to weak aggregate demand; declining non-oil receipts; as well as infrastructural and security challenges. These headwinds will, however, be partly mitigated by: the timely and effective response of the monetary and fiscal authorities in containing the spread of the COVID-19 viral infection, the recalibration and adjustment of the 2020 Federal Budget to the revised thresholds while pegging expenditure to critical sectors of the economy, adoption of a new fiscal regime to encourage the build-up of fiscal buffers; sustained CBN interventions in selected sectors; enhanced flow of credit to the real sector and deliberate policies to diversify the Nigerian economy.

The Committee's Considerations

The Committee reviewed the prevailing adverse conditions in the global economy such as the COVID-19 pandemic and the oil price shock as well as the likelihood of continued oil supply glut into the near future, focusing on the impact of these headwinds on the Nigerian economy.

The Committee observed that not only will the COVID-19 pandemic result in health crises, it will also result in massive economic crises that will force many countries into recession, including the leading industrialised countries. The MPC took into cognisance the impact of the decline in oil prices on accretion to external reserves and the emergence of exchange rate pressures. The Committee thus commended and endorsed the Management of the Bank for its prompt response with the adjustment of the exchange rate to uniform market rates and the removal of distortions. It, however, took note of the likely impact of the exchange rate adjustment on the economy.

The Committee noted the weakened revenue position of the Federal Government, arising from the sharp drop in oil prices. It reiterated the need for government to urgently reduce reliance on oil revenue by gradually diversifying the economy and improving tax collection. To this end, the MPC noted the speedy response of the Federal Government to the oil price shock by the revision of the 2020 budget downwards by N1.5 trillion and the oil price benchmark to US$30 per barrel. The MPC urged the NASS to fully cooperate with the Federal Government in coming up with a budget that reflects our new realities. In addition, the Committee noted the introduction of price modulation measures, resulting in reduction in the pump price of PMS from N145 to N125 per litre and its contributory effect in boosting aggregate demand, lowering inflation and improving the welfare of the ordinary Nigerians.

The MPC further noted the persistence of inflationary pressures attributed to a combination of monetary and structural factors, and thus urged the Federal

Government to leverage on Public Private Partnership (PPP) to intensify investment in infrastructure to increase output and employment. The Committee cited the potentials for Foreign Direct Investment (FDI) flows to the Nigerian auto manufacturing, aviation and rail industries, which could take advantage of these viable and untapped domestic and regional markets.

The Committee noted the sustained improvement in the financial soundness indicators, applauding the continued decline in the ratio of non-performing loans, growth in assets of the banking system and profitability of the industry in the light of increasing global uncertainties. It also recognised the success of the Bank's loan-to-deposit ratio policy and its potential to alleviate production shortfalls, reduce unemployment and boost aggregate demand, urging the Bank to pursue this and other related policies to a conclusive end.

The MPC underscored the COVID-19 pandemic as a public health crisis which will continue to undermine any monetary or fiscal stimulus unless appropriate measures are taken to trace, test, isolate and treat infected persons in order to curtail the spread, while ensuring the that migration across the country is significantly reduced. The MPC, therefore, called on the Federal Government to take the necessary steps to safeguard the population through close monitoring and emergency readiness measures to identify and care for infected persons in the country, including compulsory restriction of movement to curtail spread of the pandemic.

On the choices before the Committee, the MPC noted the recent actions of the Bank, targeted at strengthening the resilience of the financial system and alleviating the initial impact of the crisis. In its wisdom, the Committee felt that tightening would result in reining in the rising trend in inflation, and that it would support reserve accretion. However, it would reduce money supply and limit DMBs credit creation capacity, thus resulting in increasing the cost of credit, with adverse impact on output growth. Tightening would also result in a reduction in aggregate demand as a fall in disposable income results in output compression; whereas at this time, policy emphasis should be on stimulating aggregate supply and demand, both already weakened by COVID-19.

With respect to loosening, whereas the Committee felt it would stimulate the economy in the short term, and boost aggregate supply and demand, the Committee nevertheless, was of the view that there was a need to be cautious in loosening given the fact that it would exacerbate an already worsening inflationary condition, resulting in massive pressure on reserves and the exchange rate.

Based on the balance of these arguments, the MPC, in taking note of the recent actions already taken by the Management of the Bank in response to the COVID-19, resolved to allow time for the measures to permeate the economy while allowing the pandemic to wear out its plateau before deciding on further supporting policy measures to boost and strengthen aggregate demand and supply in the recovery phase of the economy. The choice to hold also considered the subsisting LDR and the DCRR policies, which sterilize excess liquidity in the banking system, hence an increase in the MPR would be counter-productive.

The monetary policy stance arrived at this meeting took cognisance of the need to address the unfolding unfavourable macroeconomic developments, rein in inflation, support growth and employment through the extant interventions and recent initiatives, check capital outflows and support external reserves accretion, and dampen pressure and ensure foreign exchange market stability.

A review of the policy options indicates relative tightness of the current monetary policy stance. The CRR was increased at the last MPC meeting. Time is required for its full effects to manifest. Increasing the MPR will be contradictory to the recent reduction of interest rate in the CBN intervention windows from 9 to 5 per cent. Besides, an increase in MPR will be taken by the Deposit Money Banks (DMBs) as in invitation to increase lending rates and this will be most undesirable at this point in time when efforts are being made to avert a recession. Besides, a reduction in the MPR, will not encourage the DMBs to reduce lending rates. But other strategies of the CBN are making the DMBs to reduce lending rates in furtherance of the growth objective.

The Committee's Decision

The Committee noted the continued rise in domestic prices; the glut in oil supplies and low oil prices in the wake of the current global shocks; exchange rate pressure and other domestic monetary and fiscal responses to the evolving crises. In view of the foregoing, the Committee decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 13.5 per cent and to hold all other policy parameters constant.

In summary, the MPC voted to:

I. Retain the MPR at 13.5 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
24th March 2020