CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 145 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 21st AND TUESDAY 22nd NOVEMBER 2022

The Monetary Policy Committee (MPC) met on the 21st and 22nd of November 2022, confronted with the continued weakening of the global economy due primarily to the persistent increase in energy prices, supply chain bottlenecks, rising inflation, looming food crisis, and sharp increase in interest rates leading to tightening external financial conditions. The volatility of the oil market, driven by policy stance by OPEC+ and the US Government, is also creating considerable uncertainty in the market, thus making the overall direction relatively unclear. Moreover, global trade has dwindled significantly in 2022, with the outlook for 2023 looking rather weak. Global private and public debt portfolios remain high and, in some cases, expanding as several countries around the globe acquire debt to stay afloat. The Committee appraised these and other developments in the global and domestic economies, as well as the outlook for the rest of the year and into the first quarter of 2023.

Eleven (11) members of the Committee attended this meeting.

<u>Global Economic Developments</u>

Global output growth remained weighed down by familiar headwinds arising from the war in Ukraine, China's zero-COVID policy and the ongoing normalization of monetary policy in the advanced economies. These have collectively resulted in an energy price shock, historically high levels of price development across several economies and dwindling investment in capital markets of emerging market economies. With the war in Ukraine showing no signs of abating in the near-term, the disruptions to energy and commodity markets associated with it are more than likely to persist well into 2023.

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While the pandemic has mostly dissipated in most parts of the world, China's zero-COVID policy is keeping its impact very significant as the frequent lockdowns in major industrial cities, continue to derail the smooth functioning of the global supply chain. Consequently, the resulting macroeconomic uncertainties and associated shock spillovers, remain heightened, thus increasing the risk of a global recession which would severely retard the recovery of several fragile economies. Those to be most affected would be Emerging Markets and Developing Economies (EMDEs) still confronted with the lag impact of the 2020 recession. The ongoing capital flow reversal from perceived higher risk emerging market securities to US dollar denominated securities with improved yields, is also further hindering orderly global recovery to pre-COVID-19 pandemic levels.

The International Monetary Fund (IMF), having downgraded for 2022 and 2023 several times, retained global output growth at 3.2 per cent for 2022, but further downgraded the 2023 forecast to 2.7 per cent compared with 2.9 per cent in its July 2022 forecast.

Inflation across several Advanced Economies is expected to remain elevated in 2022, despite progressive rate hikes by several central banks in these economies. This is predicated on sustained high energy prices associated with the Ukraine war and continued disruptions to the global supply chain. In the Emerging Market and Developing Economies (EMDES), inflation is expected to remain high for other reasons including, the persistence of exchange rate pressures, dwindling capital inflows and a host of legacy structural issues.

In the global financial markets, activities in several equity markets have gradually declined as investors take advantage of improved fixed-income yields in the Advanced Economies, with the progressive hike of policy rates. Global financial conditions are thus, expected to continue to tighten in the near term, as risk-averse investors reassign their portfolios.

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In general, therefore, the global economy and financial markets, are confronted with significant risks in the short to medium-term. The huge build-up of both private and public debt and the rising risk of default associated with the current trend of rising interest rates, disruptions to the energy market and poorly functioning supply chains may tip several fragile economies into a new era of recession.

Domestic Economic Developments

Data from National Bureau of Statistics (NBS) on Real Gross Domestic Product (GDP) showed that it grew by 3.54 per cent (year-on-year) in the second quarter of 2022 and 5.01 per cent in the corresponding period of 2021. The economy has thus, sustained positive output growth for seven consecutive quarters, following the exit from recession in 2020. The consistent positive performance recorded was driven largely by the positive growth in the non-oil sector, particularly in the services and agricultural sub-sectors, complemented by continued policy support by the Bank.

CBN Staff projections showed that the economy is expected to remain on a path of sustained positive growth, given the expected strong performance in the fourth quarter of 2022 and steady rebound in economic activities.

Members noted with concern, the persisting uptick in inflation for the ninth consecutive month with headline inflation (year-on-year) rising to 21.09 per cent in October 2022 from 20.77 per cent in September 2022, an increase of 0.32 percentage point. On month-on-month basis, however, headline inflation decelerated to 1.24 per cent in October 2022 from 1.36 per cent in the preceding month, an indication that price development is responding to the Bank's recent policy rate hikes.

The persisting uptrend in energy prices and the prolonged period of scarcity of Premium Motor Spirit (PMS), contributed to a sharp rise in transportation, logistics and manufacturing costs, which fed through to consumer prices. Other contributory legacy factors include the lingering insecurity across the country;

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perennial flooding in major food producing states; critical deficit of infrastructure in the country; and poor road networks amongst others.

The Committee noted that broad money supply (M3) grew further by 13.80 per cent in October 2022, (year-to-date) compared with 11.00 per cent in September, 2022. This growth was driven by increased claims on 'Other Sectors' (other financial corporations, public non-financial corporations, and private sector).

In the financial markets, money market rates oscillated below and within the asymmetric corridor of the discount window facilities, in tandem with fluctuating liquidity conditions in the banking system. Consequently, the monthly weighted average Open Buy Back (OBB) rate increased to 15.91 per cent in October 2022 from 11.49 per cent in September 2022.

The Capital Adequacy Ratio (CAR) of the banking system declined in October 2022 to 13.4 but remained within its prudential limit of 10.0 -15.0 per cent. At 40.1 per cent, the Liquidity Ratio (LR) was above its prudential limit of 30.0 per cent. The Non-Performing Loans (NPLs) ratio also improved to 4.8 per cent in October 2022 from 4.9 per cent in the previous month, staying below its prudential benchmark of 5.0 per cent. The MPC thus, called on the Bank to continue to maintain its tight surveillance over the banking system to ensure that the NPLs ratio remains below the prudential benchmark.

The MPC noted with concern the continuing bearish performance of the equities market in the review period. The All-Share Index (ASI) and Market Capitalization (MC) decreased to 43,839.08 and N23.88 trillion on October 31, 2022, from 49,836.51 and N26.88 trillion respectively, on August 31, 2022. This decrease reflected the sustained sell-off and profit taking by investors rebalancing their portfolios to benefit from higher yields in the fixed income market. Other contributory factors include inflationary and exchange rate pressures, and tightening external financial conditions.

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The Committee observed the decline in the external reserves position, as gross external reserves decreased by 1.34 per cent at end-October 2022 to US$36.87 billion, from US$37.39 billion at end-September 2022. With indications of lower crude oil prices in the futures market, Members urged the Bank to sustain its current policies to boost non-oil exports in order to shore up the external reserves.

Between September and October 2022, under the Anchor Borrowers' Programme (ABP), the Bank disbursed ₦41.02 billion to several agricultural projects, bringing the cumulative disbursement under the Programme to ₦1,067.29 billion to over 4.6 million smallholder farmers cultivating 21 commodities across the country. The Bank also disbursed ₦0.30 billion to finance large-scale agricultural projects under the Commercial Agriculture Credit Scheme (CACS). Consequently, the total disbursement under the Scheme for agro-production and agro-processing stands at ₦745.31 billion for 680 projects.

In addition, the Bank released the sum of ₦48.30 billion under the ₦1.0 trillion Real Sector Facility to seven (7) new real sector projects in agriculture, manufacturing, and services. Cumulative disbursement under this Facility currently stands at ₦2.15 trillion to 437 projects across the country, comprising projects in manufacturing (240), agriculture (91), services (93) and mining sector (13). Furthermore, under the 100 for 100 Policy on Production and Productivity (PPP), the Bank disbursed the sum of ₦20.78 billion to nine (9) projects in healthcare, manufacturing, and services. The cumulative disbursement under the Facility therefore, amounted to ₦114.17 billion in 71 projects. Moreover, the Bank disbursed ₦4.00 billion under the Intervention Facility for the National Gas Expansion Programme (IFNGEP) to promote the adoption of compressed natural gas (CNG) for transportation and liquefied petroleum gas (LPG) for cooking.

In support of the resilience of the healthcare sector, the Bank also disbursed ₦5.02 billion to four (4) healthcare projects under the Healthcare Sector Intervention Facility (HSIF), bringing the cumulative disbursement to ₦135.56 billion for 135 projects in pharmaceuticals (33), hospitals (60) and other services (42).

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Under the Micro, Small and Medium Enterprises (MSME) sector, the Bank provided support for entrepreneurship development with the disbursement of ₦1.33 billion and ₦10.00 million under the Agribusiness/Small and Medium Enterprise Investment Scheme (AgSMEIS) and Micro, Small, and Medium Enterprise Development Fund (MSMEDF), respectively. Hence, the total disbursement under these interventions amounted to ₦150.22 billion and ₦96.08 billion, respectively. Under the Export Facilitation Initiative (EFI), the Bank provided support for export-oriented projects to the tune of ₦5.34 billion, such that the cumulative disbursement under this intervention stands at ₦44.58 billion.

Outlook

The overall medium-term outlook for both the global and domestic economies remain clouded by uncertainties associated with the Russia-Ukraine war, lingering COVID-19 pandemic and continued lockdown of major industrial cities in China. The persistent tightening of global financial conditions and slowing global trade are also significant pointers to a weakening global economy.

On the domestic front, available data on key macroeconomic indicators suggest rebound in output growth for the rest of 2022, which may occur at a much-slower pace than earlier anticipated, in the light of unfolding domestic and external shocks to the economy. The domestic shocks originate from the persisting insecurity inhibiting economic agents; rising cost of debt and debt servicing; deteriorating fiscal balances; increased spending as the 2023 general elections approach; and continued uptrend in inflationary pressure. Accordingly, the Nigerian economy is forecast to grow in 2022 by 3.30 per cent (CBN), 3.20 per cent (IMF) and 4.20 per cent (FGN).

The Committee's Considerations

At this meeting, the MPC was concerned that the global inflationary pressures have continued to trend higher and financial markets were also facing challenges. It observed that this was indeed the trend in Nigeria, with inflation attaining 21.09 per cent in October, 2022. The Committee, however, seized the opportunity to appraise the efficacy of its decisions at the last couple of

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meetings, and came up with the conclusion that the decisions were beginning to yield the desired results, given that the rate of increase in inflation was beginning to moderate , in view of the month-on-month deceleration in prices presented by the Consumer Price Index.

Members noted that though the global economy was progressively weakening due to the various headwinds derailing the recovery, domestic output growth remained positive as a result of the combined support from fiscal and monetary policy. The MPC, therefore, urged both authorities to continue to harmonize their various policies to achieve the desired objectives of stable prices and steady growth.

In reaching the decision of whether to loosen, hold or tighten the stance of policy, Committee felt that, given that all the causative factors, such as the Russia-Ukraine war, supply chain disruptions, slowdown in China, rising inflation in advanced economies and other headwinds were still dominant, a loosen option was not desirable at this meeting. The Committee also felt that, with the rising inflation, loosening the stance of policy would lead to a more aggressive rise in inflation and erode the gains already achieved through tightening.

As regards whether to hold, MPC was of the view that a hold stance at a period close to December festive season and expected heavy spending during the 2023 general election at a time of high inflation would greatly jeopadise the gains of the previous policy rates hikes and plunge the economy deeper into the inflation trap.

The MPC therefore decided to continue to tighten, but at a somewhat lower rate, noting that tightening the stance of policy would narrow the negative real effective interest margin and thus improve market sentiment and further restore investor confidence. MPC also felt that recent developments in terms of observed month-on-month deceleration in the rate of increase in inflation, suggests that the previous tightening policies were yielding the expected outcome. It therefore felt that sustaining the tightening would further consolidate the decline in inflation, albeit more significantly.

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The Committee's Decision

The MPC noted that inflation has continued an uptrend, even though at a decelerating rate, despite its last three consecutive sizeable policy rate hikes.

The Committee's choices were on whether to further hike rates or pause for the impact of the last three rate hikes to continue to feed through the economy. At this MPC, therefore, the options considered were primarily to hold or further tighten the policy rate. The option to loosen was not considered as this would gravely undermine the gains of the last three rate hikes.

The Committee thus voted unanimous to raise the Monetary Policy Rate (MPR). Nine (9) members voted to raise the MPR by 100 basis points and 2 members voted to raise the MPR by 50 basis points.

In summary, the MPC voted to:

I. Raise the MPR to 16.5 per cent;

II. Retain the asymmetric corridor of +100/-700 basis points around the MPR;

III. Retain the CRR at 32.5 per cent; and

IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

22nd November 2022

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