**CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 133 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 23rd AND TUESDAY 24th NOVEMBER 2020**

The Monetary Policy Committee (MPC) met on the 23rd and 24th of November, 2020 amidst the announcement of the discovery of several high efficacy COVID-19 vaccines, resulting in stronger optimism for improvement in global output. However, persisting weakness in crude oil prices, soaring global debt and high unemployment persist. In the domestic environment, the Nigerian economy slid into recession in the third quarter of 2020, following a second consecutive quarter of contraction in output. The third quarter contraction was, however, milder than the previous quarter. The Committee appraised the developments in both the global and domestic economies, as well as the outlook for the rest of the year and the first quarter of 2021.

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

## Global Economic Developments

Although the global economy witnessed a better-than-expected recovery in the second quarter of 2020, it, however, continued to be weighed down by the headwinds largely associated with the

COVID-19 pandemic and weak crude oil prices. In the advanced economies, the persistence of weak aggregate demand, slow recovery in supply chain networks and the rebound in COVID-19 infection rates, have cast a new wave of uncertainty over their recovery in the short to medium term. In the Emerging Market and Developing Economies (EMDEs), China continues to lead the recovery, recording a stronger-than-expected growth in the second quarter of 2020. In India, on the other hand, growth continued to be muted as a result of increasing rates of COVID-19 infections and fatality. In general, this group of economies is set to contract less, compared with the advanced economies, led by the expected strong recovery in China. Consequently, the International Monetary Fund (IMF) reviewed the forecast for global growth in 2020 to reflect a slower pace of contraction from -4.9 per cent to -4.4 per cent.

Inflation in most Advanced Economies is expected to remain subdued in the medium to long term as aggregate demand remains weak across several economies, reflecting the impact of the Pandemic on income. The US economy has, however, maintained a steady pace of job creation, even though infection rates and total fatality continue to rise in that country. The threat of a rebound of the Pandemic in several countries has resulted in second and third waves of lockdowns in these countries. This is expected to further dampen aggregate demand and slow the pace of price development. In several Emerging Market and Developing Economies (EMDES), inflation remained relatively high compared with the Advanced Economies owing to the persistence of exchange rate pressures, dwindling capital flows and weak accretion to reserves as well as other structural issues.

In the financial markets, conditions remain relatively stable, buoyed by continued monetary and fiscal stimulus. The huge level of monetary and fiscal injections has, however, increased the likelihood of a global financial crisis post-pandemic, especially when central banks commence normalization of monetary policy.

**Domestic Economic Developments**

Data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) contracted by -3.62 per cent in Q3 2020, compared with -6.10 and 2.28 per cent in the previous quarter and corresponding period of 2019, respectively, thereby pushing the economy into recession. The oil sector contracted further by -13.89 per cent in Q3 2020 from -6.63 per cent in the previous quarter, while the non-oil sector contracted by -2.51 per cent in Q3 2020, compared with -6.05 per cent in the preceding quarter. The persisting weak performance was mainly attributed to the lull in economic activities associated with the low price in the oil market as well as the lingering effects of the Coronavirus Pandemic.

The MPC observed the gradual improvement in the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMIs) which rose to 50.2 and 47.6 index points, respectively, in November 2020, compared with 49.4 and 46.8 index points in October 2020. This development signposts an increase in economic activities, driven by growth in new orders, improved supply delivery time, rising production levels and new export orders. The employment level index component of the manufacturing and non-manufacturing PMIs also improved in November 2020 to 47.3 index points and 46.7 index points, respectively, compared with 46.0 index points and 44.2 index points in October 2020. The Committee, however, noted the likely downside risk to growth of the recent unrest in the country, warning that this may adversely impact economic recovery in the near term.

The Committee noted with concern that inflation has been on the rise for the fourteenth consecutive month, as headline inflation (year-on-year) moved up to 14.23 per cent in October 2020 from 13.71 per cent in September 2020. This was attributed to the increase in both food and core inflation, which rose to 17.38 and 11.14 per cent in October 2020 from 16.66 and 10.58 per cent in September 2020, respectively. The continued increase in food and core inflation was attributed to the persistence of insecurity across the country as well as lingering structural deficiencies impacting the logistics of moving food items to urban areas such as poor road networks, unstable power supply and a host of other infrastructural deficiencies. Other factors include the persisting impact of coronavirus-induced supply disruptions, recent hikes in the price of energy products (PMS and electricity) and weak crude oil prices.

The Committee, however, noted that the rise in inflation will likely abate in the medium term, as domestic production is expected to recover, following the resumption of economic activities post-

COVID-19 lockdown. In addition to this, food inflation is expected to moderate as harvest season sets in. Monetary and fiscal policies are also expected to continue their broad-based stimulus support towards full recovery. This will involve fiscal measures to reduce unemployment, provide an enabling environment for private sector investment and necessary support to the health sector to cushion the impact of the coronavirus pandemic. In addition, the CBN is expected to sustain its various intervention measures to boost consumer spending and support the recovery.

The Committee noted that growth in broad money supply (M3) increased marginally to 3.53 per cent in October 2020 from 3.20 per cent in September 2020, reflecting an increase in Net Foreign Assets (NFA). It further noted the moderation in contraction in Net Domestic Assets (NDA) to -2.19 per cent from -5.05 per cent in the previous period. Aggregate domestic credit, however, grew by 7.61 per cent in October 2020 compared with 7.35 per cent in the previous month, as a result of the Bank's policy on Loan-to-Deposit Ratio (LDR), supported by the Bank's interventions in the various sectors of the economy. Total gross credit by the banking industry stood at N19.54 trillion as at 13th November 2020 compared with N19.33 trillion at end-August 2020, an increase of N290.13 billion. When compared with N15.56 trillion at the commencement of the LDR policy in May 2019, total gross credit increased by N3.97 trillion. These loans were granted mainly to manufacturing (N738 billion), General Commerce (N874 billion), Agric and Forestry (N301 billion), Construction (N291 billion), ICT (N231 billion), just to mention a few.

The Committee noted the reduction in interest rates on loans granted by Deposit Money Banks (DMBs). As at October 2020, 86.23 per cent of total loans granted to over one (1) million customers, by Deposit Money Banks (DMBs) were at interest rates considerably below 20 per cent. This was an improvement from 76.43 per cent as at July 2019.

MPC noted the improvement in Financial Soundness Indicators of the DMBs which showed Capital Adequacy Ratio (CAR) of 15.5 per cent, Non-Performing Loans (NPLs) of 5.73 per cent and Liquidity Ratio (LR) of 35.6 per cent, as at October, 2020. As regards non-performing loans (NPLs), MPC however, noted that the ratio remained above the prudential benchmark of 5.0 per cent and urged the Bank to sustain its tight prudential regime to bring it below the benchmark.

The Committee welcomed the improvement in the financial soundness indicators of Other Financial Institutions (OFIs) as indicated by the growth of N582 billion, or 16.94 per cent (year-on-year), in aggregate assets to N4.02 trillion as at end-September 2020. Similarly, aggregate credit grew by N217 billion, or 12.27 per cent (year-on-year), to N1.99 trillion during the same period. The Capital Adequacy Ratio for the subsector also exceeded the minimum prudential ratio of 10 per cent.

The Committee recognized the supportive developmental roles of the CBN towards addressing some of the structural issues in the economy. The MPC specifically expressed optimism on the future impact of the disbursements from Agri-Business/Small and Medium Enterprise Investment Scheme (AGSMEIS) (N92.90 billion to 24,702 beneficiaries), Anchor Borrowers Program (ABP) by the sum of N164.91 billion to 954,279 beneficiaries and COVID-19 Targeted Credit Facility (TCF) to household and SMEs (N149.21 billion to 316,869 beneficiaries).

Liquidity conditions in the banking system continued to influence money market rates in the review period. The Open Buy Back (OBB) rate declined progressively as a result of rising liquidity levels in the banking system, while there were no transactions at the uncollateralized inter-bank call window. Consequently, the monthly weighted average OBB rate declined to 1.88 per cent in October 2020 from 3.50 per cent in September 2020.

The Committee noted the recent impressive performance recorded in the equities market, particularly the increased patronage by domestic investors largely driven by low yields in the money market. The All-Share Index (ASI) increased by 20.55 per cent to 30,530.69 on October 30, 2020 from 25,327.13 on September 30, 2020. Similarly, Market Capitalization, grew by 20.82 per cent to N15.96 trillion from N13.21 trillion over the same period. This improved performance was largely attributed to positive third quarter corporate earnings as investors moved in to pick-up bargain stocks.

The Committee observed the moderate decline in the external reserves position, which stood at US$35.18 billion as at November

19, 2020 compared with US$35.95 billion at end-September 2020, as crude oil prices continue to fluctuate with downward pressure.

## Outlook

Overall, the medium-term outlook for the global economy is beginning to show a ray of optimism following the discovery of COVID-19 vaccines.

In the domestic economy, available data and forecasts for key macroeconomic variables also suggest optimism in output growth in the fourth quarter of 2020, due to the positive outlook for most economic activities. Accordingly, the economy is expected to recover from recession by the end of 2020, while inflation is projected to moderate by the first quarter of 2021.

## The Committee's Considerations

The Committee's considerations remained focused around tailwinds imparting upward pressure to domestic prices and key headwinds to output growth.

The Committee noted that inflation continued to be driven by supply side disruptions arising from the COVID-19 pandemic and other legacy factors. Key amongst these are: the security challenges in parts of the country; increase in food prices; and the recent hike in pump price of PMS and electricity tariff. The MPC, therefore, emphasized the need to address structural supply side issues putting upward pressure on costs of production and unemployment. To address the public health crisis associated with the COVID-19 pandemic, the Committee urged the Federal Government to make relentless effort to procure a substantial quantity of the COVID-19 vaccines to surmount the public health crisis and pave the way for a broader macroeconomic recovery.

The Committee noted that the contraction had bottomed out, since it moderated significantly from -6.10 to -3.62 per cent in the third quarter of 2020. This was so because both the monetary and fiscal authorities had anticipated the impending recession and had put measures in place for its quick reversion. Some of these measures include the Economic Sustainability Programme by the Federal Government and other CBN facilities targeted at households, small and medium enterprises (SMEs), youth empowerment, and reduction of unemployment. It thus, urged the Federal Government to maintain its initiatives targeted at reducing unemployment, particularly amongst the youths, citing the recent EndSARS protests and ensuing agitation by hoodlums as potentially disruptive to output growth in Nigeria. To this end, the MPC reiterated its support for the various development finance initiatives of the CBN to stimulate production and reduce unemployment. MPC further encouraged the Bank to intensify its efforts by increasing funding to more beneficiaries so as to boost consumer spending and accelerate recovery from recession.

On the Financial Markets, the Committee considered the improved performance in the equities market as a leading indicator of medium-term macroeconomic recovery. It thus urged the Bank to maintain its policies on exchange rate and financial system stability to attract more investment into the Nigerian equities market.

The MPC noted that credit to key sectors of the economy increased and encouraged the continued credit support to employment-stimulating sectors to hasten the recovery of output growth and improve employment particularly among the youths. The Committee emphasized the need for the Bank to maintain its regulatory surveillance over the banking system to ensure that non-performing loans remain low.

MPC noted with pleasure, the CBN's engagement with relevant stakeholders, particularly in the private sector, to hasten the recovery of growth. This engagement would involve collaboration towards job creation and provision of credit facilities to stimulate business activities for both corporates and individuals, particularly those who lost their goods and business premises to hoodlums, during the recent protest.

**The Committee's Decision**

At this meeting, the Committee focused not only on price stability, but also on the need to speedily take actions to exit the recession. In view of these considerations, the choices before the Committee were focused on whether: to tighten the stance of policy to address rising price levels recognizing its primary mandate of price stability; to ease to support output recovery; or to hold to allow existing policy initiatives to permeate the economy.

The Committee noted that, although the appropriate response to rising inflationary pressure would be to tighten the stance of policy in order to moderate upward pressure on prices, it nevertheless, felt that doing this would exert downward pressure on the recovery of output growth. The Committee also felt that tightening would negate the Bank's desire to expand credit to the real sector at affordable terms, not only to boost production, but also to increase consumer spending. To the Committee, tightening was therefore not the appropriate response at this time.

With the economy, whereas MPC felt that government spending and Bank's expansionary stance would be desirable to support recovery and guide the economy out of recession, it felt loosening would trigger excess liquidity and worsen the inflationary pressure. MPC also felt that excess liquidity may impact demand pressure and fuel further depreciation of the naira.

With respect to a hold position, the Committee was of the view that this will be beneficial as it will allow current policy measures to permeate the economy while observing the trend of developments. The Committee also felt that the heterodox policies of the Bank targeted at various sectors are showing positive results that would further engender growth.

On balance, the MPC was of the view that, although all three options offer some benefits to the economy, the hold option was desirable at this meeting. Based on these factors, members, voted in line with the most pressing need towards reversing the recession and achieving medium term macroeconomic stability.

In view of the foregoing, the Committee decided by a unanimous vote to retain all parameters.

In summary, the MPC voted to:

I. Retain the MPR at 11.5 per cent;

II. Retain the asymmetric corridor of +100/-700 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 November, 2020