



**CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 113 OF THE  
MONETARY POLICY COMMITTEE MEETING OF 22<sup>nd</sup> AND 23<sup>rd</sup>  
May 2017**

**Background**

The Monetary Policy Committee (MPC) met on the 22<sup>nd</sup> and 23<sup>rd</sup> of May, 2017, against the backdrop of slowly improving global growth prospects even as international cooperation continues to be threatened by anti-globalization sentiments in major advanced economies. On the domestic front, the economy has shown greater resilience in the intervening period since the last meeting of the Committee, anchored on more focused macroeconomic policies and improvements in oil prices. While the general economic outlook seems cautiously optimistic for the remainder of fiscal 2017, emerging indicators suggest that economic policy must remain circumspect.

In attendance were 8 out of 12 members of the Committee. The MPC assessed the global and domestic economic and

financial environments in the first five months of 2017 and the outlook for the rest of the year.

## **External Developments**

The global economy continued to gather momentum in Q1, 2017, aided by gradual recovery in the emerging markets on the back of a pick-up in global demand and higher commodity prices, coupled with fairly robust domestic demand in the advanced economies. Accordingly, global output growth in Q1 2017 is estimated to expand by 2.8 per cent annualized. In spite of the fairly optimistic global economic outlook, uncertainty surrounding the direction of macroeconomic policy in the advanced economies continues to cloud the prospects of sustained recovery. Global inflation appears to be upward trending on the back of improved commodity prices and depreciated currencies in several emerging markets.

## **Domestic Output Developments**

Data from the National Bureau of Statistics (NBS) showed that the economy contracted marginally by 0.52 per cent in Q1 2017, a much more positive development since Q1 2016.

The data also shows that about eighteen (18) economic activities recorded positive growth in Q1 2017; indicating that the economy was firmly on the path of recovery. The key growth activities were led by quarrying (52.54%), metal ores (40.79%), road transportation (12.35%), water supply and sewage (12.63%), fishing (5.49%), crop production (3.5%), oil refining (3.01%), motion pictures (2.95%), telecommunication (2.89%), forestry (2.59%), amongst others. The Committee noted the positive effects of improved foreign exchange management on the performance of the manufacturing sector and other economic activities. The non-oil sector grew by 0.72 per cent in Q1 2017, largely reflecting the growth recorded in agriculture and solid minerals, and recovery in manufacturing, construction and services sectors. The Committee urged the fiscal authorities to expeditiously commence the implementation of the recently approved 2017 budget, especially, the capital expenditure portion, in order to sustain the momentum of recovery, engender employment and restore confidence in the Nigerian economy.

## **Developments in Money and Prices**

The committee noted that money supply (M2) contracted by 8.48 per cent in April 2017, annualized to a contraction of 25.44 per cent in contrast to the provisional growth benchmark of 10.29 per cent for 2017. Net Domestic Credit (NDC) grew by 1.40 per cent in April, 2017, annualized to 4.21 per cent, which is significantly below the 17.93 per cent provisional growth benchmark for 2017. However, net credit to government grew by 24.08 per cent over end-December 2016, representing an annualized growth of 72.0 per cent. The Committee was concerned that credit to government continued to outpace the programmed target of 33.12 per cent for fiscal 2017, while credit to the private sector declined considerably far below the programmed target of 14.88 per cent.

Headline inflation (year-on-year) moderated for the third consecutive month, falling to 17.24 per cent in April, from 17.26 per cent in March, 17.78 per cent in February and 18.72 per cent in January 2017, effectively reversing the monthly upward momentum since January, 2016. The food index component, however, rose to 19.30 per cent in April,

from 18.44 per cent in March and 18.53 per cent in February, 2017. The moderation in headline inflation in April, 2017 thus reflected the decline in the core component to 14.80 per cent in April from 15.40, 16.01, and 17.87 per cent, respectively in March, February and January, 2017. Similarly, month-on-month inflation moderated to 1.60 per cent in April from 1.72 per cent in March, 2017.

The Committee attributed these developments in part to the effects of the recent gains in the naira exchange rate, brought about by the Bank's interventions in the foreign exchange market and the resulting downward price adjustments on imported items and their derivatives. Against this background, the Committee emphasized the need to sustain and deepen the Bank's foreign exchange management policies and measures in order to reap the benefits of the pass-through to consumer prices. The MPC recognized the continued influence of structural factors such as high energy and transportation costs, production bottlenecks on prices and hoped that the ongoing reforms by the Government would address some of these constraints.

Money market interest rates moved in tandem with the level of liquidity in the banking system. Rates were relatively stable during the review period. The interbank call rate opened at 11.40 per cent on March 22, 2017 and closed at 38.94 per cent on May 18. The movement in net liquidity position was influenced by sales at the Open Market Operations, foreign exchange interventions, the payment of statutory revenues to States and Local Governments as well as maturing CBN Bills.

The MPC noted the bullish trend in the equities segment of the capital market as the All-Share Index (ASI) rose by 10.20 per cent from 25,516.34 on March 31, 2017, to 28,113.38 on May 19, 2017. Similarly, Market Capitalization (MC) increased by 10.10 per cent from N8.83 to N9.72 trillion during the same period. Relative to end-December 2016, the capital market indices rose by 4.60 and 5.10 per cent, respectively, reflecting growing investor confidence following improvements in foreign exchange supplies reflected in the over US\$1 billion injected through the investor window and exchange rate management. Total foreign exchange inflows through the CBN increased by

69.77 per cent in April, 2017 compared with the previous month. Total outflows, however, rose, but less significantly, at 29.35 per cent during the same period. Consequently, the Committee observed that the average naira exchange rate remained stable at the inter-bank segment of the foreign exchange market in the review period.

## **2.0. Overall Outlook and Risks**

Available data and various forecasts of key economic variables as well as assessment of government initiatives, including the recently released Federal Government Economic Recovery and Growth Plan (ERGP), all point to prospects of recovery in 2017. The Committee expects that the timely implementation of this plan, judicious execution of the approved 2017 Budget and sustenance of the new foreign exchange implementation regime supported by the restoration of security in different parts of the country, especially, in the Niger Delta region, would help accelerate growth and restore confidence in the economy. The MPC however, identified the downside risks to this outlook to include the possibility of low oil prices due to renewed investments in shale oil exploration and production,

continuing monetary policy normalization by the U.S. Fed which may result in strengthening of the U.S dollar, and consequent capital reversal from Nigeria and other emerging market economies. Also, the MPC believes that the inflation outlook does not appear benign as the limit of the base effect driving the current moderation in prices may have been reached.

### **3.0. The Considerations of the Committee**

Notwithstanding the improved outlook for the economy, the Committee weighed the implications of continuing global uncertainties arising from the dwindling commitment to global cooperation, the strengthening of the U.S. dollar, and the unsteady commodity prices. The Committee similarly evaluated other challenges confronting the domestic economy and the opportunities for achieving economic growth and price stability in 2017. The MPC was of the view that whereas the downward trend in inflation in April 2017 is a welcomed development; the rate was still significantly above the policy reference band.



The MPC is particularly pleased with the gradual retreat in inflation, the relative stability in the Naira exchange rate across all segments of the foreign exchange market and the improved prospects of foreign investment inflow. The Committee also welcomes the passage of the 2017 Budget and called on the relevant authorities to ensure its judicious implementation, especially, the capital budget in line with the Economic Recovery and Growth Plan. It, however, noted the associated risks to banking system liquidity of the envisaged fiscal injections during the remainder of the year. Against this risk, the Committee contemplated the prospects of further tightening of monetary policy should the need arise. The MPC however, noted that further tightening would widen the income gap, depress aggregate consumption and adversely affect credit to the real sector of the economy.

Nevertheless, against the backdrop of the rather unclear outlook around key economic activities (food production especially) and some optimism about current deceleration in inflation as well as relative stability in the naira exchange rate, the MPC was reluctant to alter the current policy

configuration in any fundamental manner. This is intended to allow the existing policies to fully achieve their intended goals and objectives. On the other hand, the Committee noted that the cost of capital in the economy remains high and not helpful to growth. The MPC was however, concerned that loosening would exacerbate inflationary pressures and worsen the gains so far achieved in the exchange rate of the naira. It was also convinced that loosening would further increase the negative real interest rate as the gap between the nominal interest rate and inflation widens.

On the financial stability outlook, the Committee noted that in spite of the banking sector's resilience, the weak macroeconomic environment has continued to exert pressure on the banking system. The MPC urged the CBN to intensify its surveillance, in order to address emerging vulnerabilities. The Committee also called on the DMBs to step up credit to the private sector to support economic recovery and convey a positive feedback to the financial system.

#### **4.0. The Committee's Decisions**

In consideration of the challenges weighing down the domestic economy and the uncertainties in the global environment, the Committee decided by a unanimous vote of the 8 members in attendance to retain the MPR at 14.0 per cent alongside all other policy parameters. One member was absent at the meeting. In summary, the MPC decided to:

- (i) Retain the MPR at 14 per cent;
- (ii) Retain the CRR at 22.5 per cent;
- (iii) Retain the Liquidity Ratio at 30.00 per cent; and
- (iv) Retain the Asymmetric corridor at +200 and -500 basis points around the MPR

Thank you for listening.

**Godwin I. Emefiele**

**Governor, Central Bank of Nigeria**

**23<sup>rd</sup> May, 2017**