



## **CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 126 OF THE MONETARY POLICY COMMITTEE MEETING OF THURSDAY 19<sup>th</sup> AND FRIDAY 20<sup>th</sup> SEPTEMBER 2019**

The Monetary Policy Committee (MPC) met on the 19<sup>th</sup> and 20<sup>th</sup> of September 2019, in the light of softening global growth and weaker-than-anticipated domestic output recovery. The Committee evaluated developments in the global and domestic economies and examined the outlook for the rest of the year. It noted the build-up of vulnerabilities in major Advanced Economies and its spill-over to the Emerging Markets and Developing Economies (EMDEs). Nine (9) out of the eleven (11) members of the Committee were present at the meeting.

### **Global Economic Developments**

Output growth across major advanced economies remained subdued, confronted by legacy headwinds, including the subsisting trade war between the US and China, regional hostilities in the Middle-East, rising debt levels, growing uncertainties around BREXIT and increasing political tensions between the US and Iran, including fragilities in the financial markets. In the EMDEs, output growth remained broadly mixed with some economies performing stronger than others.

Consequently, the International Monetary Fund (IMF) revised its projected global growth forecast to 3.2 per cent in 2019 from 3.6 per cent.

Price developments continued to soften across the major advanced and EMDEs as aggregate demand continually weaken, resulting in softening monetary policy by major central banks to address downward trending prices and to strengthen aggregate demand.

### **Domestic Economic Developments**

Data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 1.94 per cent in the second quarter of 2019, compared with 2.10 and 1.50 per cent in the preceding and corresponding quarters, respectively. This mediocre growth, we believe, is consistent with global trends of dampening output growth and was driven mainly by the oil sector, which grew by 5.15 per cent while the non-oil sector grew by 1.64 per cent. At 57.7 and 58.0 index points, the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI) grew moderately for the 30<sup>th</sup> and 29<sup>th</sup> consecutive months, respectively, in September 2019. Staff projections indicate that real GDP in Q3 and Q4 2019 would average 2.11 and 2.34 per cent, respectively, driven primarily by the non-oil sector. This optimism in growth prospects is anchored on the new momentum of rising credit to the private sector. However, the headwinds to the growth prospects

remain high unemployment, rising public debt and heightening insecurity across the country.

The Committee noted the continued moderation in headline inflation (year-on-year) to 11.02 per cent in August 2019 from 11.08 per cent in July 2019, driven by decline in the food and core components to 13.17 and 8.68 per cent in August 2019 from 13.39 and 8.80 per cent in July 2019, respectively. The development in the food and core components of inflation was partly due to improved agricultural production in the current harvest season, supported by the Bank's sustained intervention in the agricultural sector as well as the continued stability in the foreign exchange market. The Committee, however, noted the upward pressure imposed on prices due to rising insecurity in the food producing areas of the country, increased liquidity injection from FAAC disbursements and late budget cycles. It also highlighted the imperative to address the economy's infrastructural deficits, such as power supply, upgrade of transport and production infrastructure as a means of reducing cost-push inflation.

The Committee observed that broad money supply (M3) grew by 5.65 per cent in August 2019, compared with the level at end-December 2018, annualized to 8.48 per cent, but remaining below the 2019 indicative benchmark of 16.08 per cent. The growth was largely driven by the increase in Net Domestic Credit (NDC), which grew by 24.36 per cent in August 2019 from the level at end-December 2018. The growth in NDC was accounted for by the

significant increase in credit to Government, which grew by 94.33 per cent while credit to the private sector grew by 9.36 per cent in August 2019. The Committee urged the Management of the Bank to explore new initiatives to further improve lending to the private sector, while calling on Government to adopt other ways of funding its operations outside the banking sector.

In the review period, money market rates oscillated within the standing facilities corridor due to prevailing liquidity conditions in the banking system. The monthly weighted average Inter-bank Call and Open Buyback (OBB) rates increased to 8.00 and 13.37 per cent in August 2019 from 6.52 and 11.01 per cent in July 2019, respectively.

The Committee observed the continued bearish trend in the equities market, while noting the increased activity in the sovereign bonds market, reflecting global trends and investor preference for fixed income securities. In the light of this development, the All-Share Index (ASI) declined by 11.62 per cent to 27,779.00 index points on September 13, 2019, from 31,430.50 index points at end-December 2018. Market Capitalization (MC), however, grew by 15.37 per cent to N13.62 trillion on September 13, 2019, from N11.72 trillion at end-December 2018. This increase in market capitalisation was attributed to the listing of 2.75 billion ordinary shares by Airtel Africa in July 2019.

The MPC noted the improved performance and resilience of the banking sector, evidenced by the continued moderation in the ratio of Non-Performing Loans (NPLs) from 11.2 to 9.4 per cent in

May and August 2019, respectively. While noting that this was still above the prudential benchmark of 5.0 per cent, the Committee called on the Management of the Bank to drive this ratio below the prudential benchmark.

## **Outlook**

The persistence of policy uncertainties, financial vulnerabilities and rising geo-political tensions continued to cloud the medium-term outlook. This is evidenced by the sustained weakening of global growth across regions, amplified by the persisting trade tensions between the US and its major trading partners, rising corporate and public debt levels.

On the domestic economy, output growth in 2019 is expected to peak at 2.1 per cent (IMF), 2.2 per cent (World Bank) and 2.27 per cent (CBN). These forecasts remain underpinned by expectations of favourable oil prices which would lead to higher external reserves, stable exchange rate, moderate inflationary pressure as government increases capital expenditure, including enhanced flow of credit to the private sector to stimulate investment, sustained CBN interventions in the real sector, effective implementation of the Economic Recovery Growth Plan (ERGP), build-up of fiscal buffers, as well as improved security in the country.

## **Committee's Considerations**

The Committee noted the decline in output growth in the second quarter of 2019, partly attributable to the delay in implementation of the 2019 budget. It however, observed that this was an improvement over the corresponding quarter of 2018. In addition, it noted the broad slowdown across key economies and the response of major central banks to revise their policy rates downwards.

On price developments, the Committee commended the progressive moderation in consumer prices and urged the Bank to sustain its intervention in the real sector of the economy to reduce the output gap.

The MPC noted the improvements in the financial soundness indicators and urged the Management of the Bank to sustain its regulatory surveillance to ensure continued financial system stability. The Committee, particularly noted the growth in the size of industry loans from N15.4 trillion in June to N16.23 trillion in September 2019. On the recent directives to deposit money banks to increase their Loan-to-Deposit Ratio (LDR), the Committee underscored the need to grow consumer, mortgage and corporate credit to drive aggregate demand and ensure a reduction in unemployment and increase in output growth. Consequently, the Committee urged the Management of the Bank to fast-track the development of the credit scoring system, to

promote increased intermediation. In addition, the Committee commended the introduction of the Global Standing Instruction (GSI) initiative aimed at de-risking credit in the industry by committing bank customers to repay their loans to banks. The MPC further noted the increased supply of micro credit to key Micro Small and Medium Enterprises (MSMEs) and efforts through the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) Microfinance Bank to extend the reach of its credit facilities across the country. The MPC however, observed that the growth in credit to the private sector remained significantly low, relative to the absorptive capacity of the economy.

The MPC further underscored the linkage between high unemployment and heightened insecurity, emphasizing the critical need for urgent steps towards more jobs and wealth creation in the country. As an interim solution, the Committee called on Government at all levels to ratchet up public works programmes aimed at easing the threat of rising unemployment in the country. This, the Committee argued, would be achieved through efficiency in public spending. The MPC also noted the Government's current drive to increase Value Added Tax (VAT), adding that this will improve fiscal revenue to support expenditure and reduce the budget deficit as well as Government borrowing when implemented. The Committee, however, noted that this was too little to close the gap in Government finances. Consequently, the MPC called on the Government to, as a matter of urgency, adopt

what it termed a BIG BANG approach towards building fiscal buffers by purposefully freeing-up redundant public assets through an efficient, effective and transparent privatization process. This would raise significant revenue for Government and resuscitate the redundant assets to generate employment and contribute effectively to national economic growth. The MPC noted the unstable oil prices, its implications on accretion to external reserves and its persistent call on the Government to build fiscal buffers. Consequently, the Committee called on the National Assembly to exercise restraint from increasing the oil price budget benchmark to avoid budgetary overruns at the implementation stage of the budget. Projections from the oil futures market, indicate that oil prices will remain tight around the budget oil price benchmark in the medium term.

### **The Committee's Decision**

In its considerations regarding the policy options to adopt, the MPC as usual, felt compelled to review the options of whether to tighten, hold or loosen.

The Committee noted the positive moderation in inflation, though slowly from 11.08 per cent in July to 11.02 per cent in August 2019. Given that this was still above the target range of 6-9 per cent, and considering the pressure on reserve accretion caused by the relatively weak crude oil price, the MPC felt the imperative to tighten. On the contrary, the Committee was of the view that doing so in the midst of a fragile growth outlook would increase the cost



of credit, and further contract investment and constrain output growth.

On loosening, the Committee felt that this would result in increased system liquidity and hence, heighten inflationary tendencies in the economy. In particular, the MPC was of the view that loosening would drive growth in consumer credit but without a corresponding adjustment in real sector output. The Committee was also convinced that increased liquidity and interest rate moderation would result in exchange rate pressures as money supply rises.

As regards the option to hold, the MPC opined that the option requires a clear understanding of the quantum and timing of liquidity injections into the economy, before deciding on possible adjustments to the stance of monetary policy. The Committee was also of the opinion that retaining the current position of policy offers pathways to appraising the effects of the suit of heterodox monetary policy to encourage credit delivery to the real sector, especially in the light of the subsisting implementation of the Loan-to-Deposit Ratio policy.

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 22.5 per cent; and

IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

20<sup>th</sup> September, 2019