CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 137 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 26th AND TUESDAY 27th JULY, 2021

The Monetary Policy Committee (MPC) met on the 26th and 27th July, 2021 faced with cautious optimism for the recovery of both the global and domestic economies. The performance of the global economy in the first two quarters of the year had been favourable and is expected to continue for the rest of the year. There is, however, renewed downside risk to this optimism associated with the fast spread of new and deadlier strains of the COVID-19 virus. The high rate of vaccination across the globe seems promising to drive herd immunity to reduce mortality rates. In the domestic economy, the continued support by both the monetary and fiscal authorities, is expected to yield favourable outcomes and hopefully return the economy to a strong recovery path in the next few quarters. The Committee reviewed the developments in the global and domestic economic and financial environments over the second quarter of 2021 and the outlook for the rest of the year.

Nine (9) members of the Committee were in attendance at this meeting.

Global Economic Developments

The Committee noted that while there has been reasonable gains in subduing the Pandemic, lowering of restrictions and reopening of several economies, the fast pace of mutation of new and deadlier strains of the virus is posing a downside risk to the full recovery of the global economy. In addition, the uneven access of vaccines across several countries is a significant risk to the attainment of global herd immunity. Despite the above challenges, governments all over the world have continued to ease restrictions to enable the recovery of supply chain networks and enhance aggregate demand. The

Classified as Confidential

expected rebound in global output growth is dependent, therefore, on the efficient deployment of COVID-19 vaccines with the expectations that the evolving deadlier strains would be subdued. Even with the current outlook, the International Monetary Fund (IMF) projects global growth at 6.0 per cent in 2021, compared with the last projection of 5.5 per cent. In line with this, the Advanced Economies are projected to grow at 5.1 per cent while the Emerging Markets and Developing Economies are projected to grow at 6.7 per cent.

Price development across several economies is expected to remain moderate in the short to medium term with some prospects of a mild uptick. The Committee further noted the rise in inflation above the long run objectives of some key Advanced Economies, although reported as transient and therefore not expected to lead to an adjustment of the stance of monetary policy. There however, remains the lingering risk of an early return to monetary policy normalization, should price development continue to trend upwards. Across several Emerging Market and Developing Economies, inflationary trend was on average mixed, with some of the economies recording higher rates, compared with their peers. This was largely due to exchange rate pressures, capital flow reversals, high energy costs, weak supply chains and poor response to policy stimulus to combat the macroeconomic slowdown associated with the Pandemic.

In the global financial markets, the Committee noted the increased demand for equity securities, an indication of improved investor confidence in the global recovery. In addition, it observed the progressive weakening of long-term sovereign bond yields, as the demand for equities pick up. The MPC further noted the moderation in the price of gold, signaling reduced demand, as investors return to the financial markets. The unprecedented stimulus provided by monetary and fiscal authorities to ease the impact of the Pandemic has, however, heightened the risks of global financial crisis post-Pandemic and calls for central banks across the globe to remain vigilant, should the need for sudden policy adjustments arise.

Classified as Confidential

Domestic Economic Developments

Real Gross Domestic Product (GDP) grew by 0.51 per cent in the first quarter of 2021, compared with 0.11 per cent in the preceding quarter. In the non-oil sector, Agriculture and Industry sub-sectors, were the major drivers of growth, with growth rates of 2.28 and 0.94 per cent, respectively. The oil sector, year-on year, contracted by -2.21 per cent in first quarter of 2021, compared with -19.76 per cent in the previous quarter. The weak performance in the oil sector was attributed to several factors, including the declining quality of oil infrastructure, lack of new investment in the sector and the need to comply with the OPEC+ production quota.

The Committee noted that the Manufacturing Purchasing Managers' Index (PMI), improved to 46.6 index points in July 2021, compared with 45.5 index points in June 2021. Though it remained below the 50-index point mark, the improvement is an indication of gradual recovery of output growth in the economy. The Non-Manufacturing Purchasing Managers' Index (PMI) also increased to 44.8 index points in July 2021, compared with 43.0 index points in June 2021.

The employment level index for July 2021 stood at 46.5 index points, relative to the preceding month's figure of 45.0, but, remained below the 50.0-index point threshold. The Committee welcomed the sustained monetary and fiscal stimulus to revamp the domestic economy and hoped that the distribution of vaccines to subdue the Pandemic will continue unabated.

The Committee noted the continued moderation in headline inflation (year-on-year) to 17.75 per cent in June 2021 from 17.93 per cent in May 2021, the third consecutive month of decline. The decrease was attributed to a marginal decline in both the food and core components to 21.72 and 13.09 per cent in June 2021 from 22.28 and 13.15 per cent in May 2021, respectively. The MPC noted that, though, headline inflation remained well above the ceiling of the

Classified as Confidential

Central Bank's 6-9 per cent corridor, it expressed optimism that the current interventions by the Bank in various sectors of the economy will further depress inflationary pressure as output growth improves and the negative output gap closes.

On the performance of monetary aggregates, the Committee noted that broad money supply (M3) declined to 2.02 per cent in June 2021, compared with 2.99 per cent in May 2021. This development was largely driven by a slowdown in the growth rate of Net Domestic Assets (NDA) and Net Foreign Assets (NFA). Net Foreign Assets contracted by 3.65 per cent due to the contraction of foreign asset holdings of the central bank, as well as non-interest, primary mortgage, and microfinance banks. The marginal decline in Net Domestic Assets reflected the slowdown in aggregate credit net, which decreased to 4.30 per cent in June 2021, from 4.79 per cent in May 2021.

Accordingly, aggregate credit at end-May 2021 stood at N24.23 trillion, compared with N22.68 trillion at end-December 2020. This represents a year-to-date increase of N1.55 trillion.

Under the Bank's development finance initiatives, the Bank granted ₦756.51 billion to 3,734,938 small holder farmers cultivating 4.6 million hectares of land, of which N120.24 billion was extended for the 2021 Wet Season to 627,051 farmers for 847,484 hectares of land, under the Anchor Borrowers' Programme (ABP); for the Agribusiness/Small and Medium Enterprise Investment Scheme (AGSMEIS), the sum of ₦121.57 billion was disbursed to 32,617 beneficiaries; and for the Targeted Credit Facility (TCF), ₦318.17 billion was released to 679,422 beneficiaries, comprising 572,189 households and 107,233 Small and Medium Scale Enterprises (SMEs).

Under the National Youth Investment Fund (NYIF), the Bank released ₦3.0 billion to 7,057 beneficiaries, of which 4,411 were individuals and 2,646 SMEs. Under the Creative Industry Financing Initiative (CIFI), ₦3.22 billion was disbursed to 356

Classified as Confidential

beneficiaries across movie production, movie distribution, software development, fashion, and IT verticals.

Under the ₦1.0 trillion Real Sector Facility, the Bank released ₦923.41 billion to 251 real sector projects, of which 87 were in light manufacturing, 40 in agro-based industry, 32 in services and 11 in mining. On the ₦100 billion Healthcare Sector Intervention Facility (HSIF), ₦98.41 billion was disbursed for 103 health care projects, of which, 26 are pharmaceuticals and 77 are in the hospital services. Similarly, the sum of ₦232.54 million was disbursed to 5 beneficiaries under the CBN Healthcare Sector Research and Development Intervention (Grant) Scheme (HSRDIS) for the development of testing kits and devices for Covid-19 and Lassa Fever.

On the National Mass Metering Programme (NMMP), ₦36.04 billion was disbursed to 17 Meter Asset Providers, to nine (9) DisCos, for the procurement and installation of 657,562 electricity meters. On the Nigerian Electricity Market Stabilization Facility - 2 (NEMSF-2), the CBN released ₦120.29 billion to 11 DisCos, to provide liquidity support and stimulate critical infrastructure investment needed to improve service delivery and collection efficiency.

On money market development, the net liquidity position and interest rates in the economy reflected the impact of the Bank's liquidity management operations. Accordingly, the monthly weighted average Inter-bank Call and Open Buy Back (OBB) rates rose to 16.87 and 16.39 per cent in June 2021 from 15.95 and 16.18 per cent in May 2021, respectively.

The Committee noted the weak performance of the equities market despite the recent increasing patronage by domestic investors. The All-Share Index (ASI) decreased by 1.28 per cent to 37,947.18 on July 16, 2021, from 38,437.88 on May 31, 2021. Similarly, Market Capitalization (MC) decreased by 1.30 per cent to N19.77 trillion on July 16, 2021, from N20.03 trillion on May 31, 2021.

The MPC noted that the Capital Adequacy Ratio (CAR) and the Liquidity Ratio (LR) both remained above their prudential limits at 15.5 and 41.3 per cent,

Classified as Confidential

respectively. The Non-Performing Loans ratio (NPLs) at 5.70 per cent in June 2021 showed progressive improvement, compared with 6.4 per cent in June 2020. The Committee, however, urged the Bank to sustain its tight prudential regime to bring Non-Performing Loans (NPLs) below the 5.0 per cent prudential benchmark.

The Committee noted the marginal increase in the external reserves which rose to $33.83 billion on 22nd July 2021 from US$32.78 billion as at 30th June 2021.

Outlook

The overall outlook for both the global and domestic economies, remain clouded with downside risks despite the upbeat forecast for a speedy recovery. These risks include lingering uncertainties surrounding the path to the termination of the Pandemic, as new and deadlier strains of the virus continue to pose a significant threat to the efficacy of the COVID-19 vaccines. In addition, the uneven access to the vaccines across the globe is undermining the realization of the current forecast.

Capital flows to emerging market economies, remain uncertain as the pace of price development in the advanced economies pick up. While the US Federal Reserve Bank and other major central banks have given indications that the current rise in inflation is transitory, and may not require policy adjustment, inflation is confronted with a significant upside risk. This may result in an early return to monetary policy normalization, with adverse consequences for financial system stability.

Available data and forecasts for key macroeconomic variables for the Nigerian economy suggest a broad improvement for the rest of the year. This is hinged on continued progress with the containment of the Pandemic, as well as ongoing monetary and fiscal support. As a result, the Nigerian economy is forecast to grow in 2021 by 3.15 per cent (CBN), 3.0 per cent (FGN) and 2.5 per cent (IMF).

The Committee's Considerations

The Committee noted the gradual recovery in output growth following positive growth in the first quarter and improving PMI in subsequent months, expressing confidence that the second quarter output result will show further improvement.

The MPC carefully accessed the options confronting it in the short to medium term, analysing the downside risks to growth and upside risks to inflation. It commended the continued effort by both the monetary and fiscal authorities as well as public health agencies in stemming the Pandemic and its impact, thus, returning the economy to a path of recovery. While the economy has been gradually reopening, Members noted that the Pandemic was far from over and therefore continued to hinder the recovery. It thus, urged the Presidential Task Force on COVID-19 to intensify efforts towards procurement of more vaccines to ensure that herd immunity is achieved in Nigeria.

The MPC was concerned about the broad level of insecurity across the country, noting its impact on business confidence and overall economic activities. It noted the persisting insecurity in key commodity producing areas and urged the Federal Government to intensify security surveillance in farming communities to ensure uninterrupted farming activities. Committee members expressed optimism about the likely moderating impact of the forthcoming harvests on food prices, as this would contribute to the ongoing broad reduction in headline inflation. The CBN will continue to release maize from its strategic maize reserve directly to feed-millers as part of its strategic response to address rising food prices and moderate the price of maize across the country.

Members further noted the contribution of poor infrastructure to rising domestic price levels, re-iterating their call to the Federal Government to prioritize investment in public infrastructure such as improved transportation networks, power supply and telecommunication facilities. Funding for such projects, the

Classified as Confidential

Committee noted, could be sourced through Public-Private-Partnerships, as well as the issuance of diaspora bonds. It emphasized the complementary role these bonds would play to boost foreign exchange supply, improving accretion to reserves and easing the exchange rate pressure.

Notwithstanding, the moderate decline in market indices, the Committee noted that the equities market remained in a good place, indicating sustained investor confidence in the Nigerian economy.

The MPC applauded the continued resilience of the banking system in the face of severe shocks to both the domestic and global economies. Members noted Management's effort in maintaining a reasonably low level of non-performing loans ratio, even though aggregate credit moderated slightly. The Committee encourages Nigerian banks to extend more credit to consumers and firms to enhance consumption and production activities necessary to strengthen the recovery.

Committee members noted the persistent reduction in remittance of oil revenue to the Consolidated Revenue Fund, stemming largely from rising levels of cost under-recovery and other obligations, particularly to Joint Venture Contracts. The Committee thus, urged the Government to continue to explore additional sources of non-oil revenue, as this would reduce the over dependence on a single revenue source.

Members applauded the efforts by the Federal Government to encourage the use of gas in motor vehicles and the payment for conversion of 1 million Premium Motor Spirit (PMS)-driven vehicles to gas-driven, to reduce overall cost of PMS consumption. The Committee encouraged the participation of private sector initiatives to develop and expand modular refineries while it frowns at cross-border smuggling of PMS.

The Committee also noted the increased contribution of the non-oil sector to Government revenue in recent times which reflected the gradual diversification

Classified as Confidential

of the economy and reduce reliance on crude oil export proceeds and called for increased support for the non-oil sector in the country.

Overall, Members were confident that the Bank was taking the right steps toward the restoration of macroeconomic stability, while noting the downside risks to growth and the upside risks to price developments.

The Committee's Decision

At this meeting, the MPC was delighted that inflation had begun to trend downwards, while output growth had remained positive. Committee, however, was of the opinion that there was a need to continue to put in place policy measures that will further and faster drive down inflation, while at the same time accelerate output growth to levels above population growth rate. Whereas, the arsenal at its disposal had almost become fully exhausted, MPC believe that there is the need to continue to use those tools that had been adopted so far, even in a more aggressive manner. MPC, therefore, encourage the Bank to continue using its existing administrative methods to rein-in inflation by the use of its discretionary CRR policy to mop-up liquidity from the banking system as the need arises.

The Committee also encouraged the Bank to continue the use of its intervention mechanism to deploy funds to output-stimulating and employment-generating sectors of the economy, such as, the Targeted Credit Facility, AGSMEIS, Agriculture and Manufacturing.

In the Committee's view, the current situation, neither gives room for tightening, as this will hurt output growth, nor, loosening, as this will exacerbate inflationary pressures.

On tightening, MPC feels that whereas this will limit excess liquidity available to attack the foreign exchange market, it nevertheless feels that tightening will reduce money supply and thus, inhibits the ability of Deposit Money Banks (DMBs) to create credit that is needed to stimulate manufacturing output which could also help to moderate prices.

Classified as Confidential

On loosening, whereas MPC feels this should transmit into lower market interest rates which could improve the ability of obligors to repay their loans and reduce NPLs, it nevertheless feels loosening would not only exacerbate inflationary pressure, but this would increase negative real rate of return and discourage investments in the domestic economy.

Based on the above considerations, the MPC made the decision to hold all policy parameters constant; believing that a hold stance will enable the continued permeation of current policy measures in supporting the recorded growth recovery and macro-economic stability.

The Committee thus decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 11.5 per cent.

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

27th July 2021

Classified as Confidential