



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 135 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 22ND AND TUESDAY 23RD MARCH 2021

The Monetary Policy Committee (MPC) met on the 22nd and 23rd of March 2021 confronted with downside risks to the optimism for significant improvement in global output recovery in 2021. The risks stem largely from the uncertainty surrounding the efficacy of the COVID-19 vaccines in surmounting the new variants of the novel coronavirus, as well as speedy deployment of the vaccines across the globe. In the domestic economy, the exit from recession in the fourth quarter of 2020 brought about a renewed hope for full recovery in 2021, notwithstanding the obvious downside risks to the entire global economy. The Committee appraised the developments in both the global and domestic economic and financial environments in the first quarter of 2021 and the outlook for the rest of the year.

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

Global Economic Developments

The Committee noted that while vaccination against COVID-19 had gained significant grounds in major advanced economies, some emerging market and developing economies were yet to commence any form of vaccination. This development portends an uneven recovery to global growth, as barriers to trade and the global supply chain are likely to remain in place much longer than anticipated to prevent re-infection in countries that have achieved significant vaccination and some form of herd immunity. The growing concerns associated with the efficacy of these vaccines, especially in the face of new variants of the virus, however, poses a significant threat to the overall recovery of the global economy. The broad direction of the expected rebound in global

output recovery, therefore, varies across countries depending on the headwinds confronting individual economies.

Consequently, the International Monetary Fund (IMF) projects a growth rate of 4.3 per cent for the advanced economies and 6.3 per cent for the emerging and developing economies, with a global growth rate of 5.5 per cent in 2021. The downside risks to this projection are associated with concerns that the existing vaccines being deployed may not effectively subdue the new and existing variants of the virus and thus, restrictions may remain in place which may hamper the speed of the expected recovery globally.

Price developments across major advanced economies remain subdued alongside the expectation that output gaps will remain negative into the medium term. In the Emerging Market and Developing Economies (EMDEs), price development was, on average, mixed, with some economies recording inflation rates that were significantly higher than those seen in the Advanced Economies. This was mostly due to continued capital outflows, poor accretion to reserves and exchange rate depreciation, which has a pass-through effect to domestic prices.

In the global financial markets, conditions remain relatively stable, as central banks continue to maintain expansionary monetary policy and sizeable stimulus packages. The huge level of monetary and fiscal injections may heighten the risk of financial instability, especially when central banks commence adjustment of policy rates.

Domestic Economic Developments

Real Gross Domestic Product (GDP), according to the National Bureau of Statistics (NBS), recorded a growth rate of 0.11 per cent (year-on-year) in the fourth quarter of 2020, in contrast to -3.62 per cent in Q3 2020 and 2.55 per cent in the corresponding period of 2019. The Q4 2020 performance, was a sharp rebound in contrast to the two previous quarters of negative growth (-3.62 per

cent in the third quarter and -6.10 per cent in the second quarter). The improved performance was driven by the non-oil sector, which grew by 1.69 per cent in Q4 2020 from -2.51 and -6.05 per cent in Q3 and Q2 2020, respectively. The major drivers were Quarrying and Other Minerals, which grew by 48.42 per cent and the ICT subsector, which grew by 17.64 per cent. The oil sector, however, contracted further by -19.76 per cent in Q4 2020, from -13.89 and -6.63 per cent in Q3 and Q2 2020, respectively. This was attributed largely to the decrease in oil production in compliance with the OPEC+ production cut agreement.

The Committee noted the moderation in the Manufacturing, and Non-manufacturing Purchasing Managers' Indices (PMI), which, however, remained below the 50 index points in February 2021, but improved to 48.70 index points apiece, compared with 44.9 and 43.3 index points, respectively, in January 2021. The GDP growth in the fourth quarter of 2020 and expected recovery in Q1 2021, were signposted by this observed improvement in the PMIs.

The employment level index component of the manufacturing and non-manufacturing PMIs also improved moderately in February 2021 to 45.6 and 48.0 index points, compared with 44.2 and 45.0 index points, respectively, in the previous month. The Committee, however, expressed some optimism that the legacy growth headwinds, attributed largely to the resurgence in infection rate of COVID-19 pandemic, may likely recede in the short-to-medium term, as the successful deployment of the COVID-19 vaccines and the various stimulus packages to revamp the domestic economy are sustained.

The Committee noted with concerns the continued uptick in inflationary pressure for the eighteenth-consecutive month, as headline inflation (year-on-year) continued on an upward trend, to 17.33 per cent at end-February 2021 from 16.47 per cent in January 2021. This increase continued to be attributed to the increase in both the food and core components of inflation which rose

to 21.79 and 12.38 per cent in February 2021, respectively, from 20.57 and 11.85 per cent in January 2021. This persisting uptick in food inflation, however, was the major driving factor to the uptick in headline inflation. This was due to the worsening security situation in many parts of the country, particularly, the food producing areas, where farmers face frequent attacks by herdsmen and bandits in their farms. While the Bank is intervening significantly in the agricultural sector, the rising insecurity in some food producing areas, is limiting the expected outcomes in terms of supply to the market, thus contributing to the rise in food prices. The Committee further noted that the key drivers of the increase in core inflation included, the hike in the price of Premium Motor Spirit (PMS), upward adjustment in electricity tariffs and the depreciation of the domestic currency (naira).

The Committee observed that broad money supply (M3) grew marginally by 0.30 per cent in February 2021, following a substantial growth of 13.54 per cent in December 2020. This was driven largely by the contraction in Net Foreign Assets (NFA). The Committee also noted that Net Domestic Assets (NDA) grew by 3.02 per cent in February 2021, from 2.22 per cent in December 2020.

Provisional data showed that banking system credit to the economy increased by 1.75 per cent to N43.67 trillion in February 2021 from N42.92 trillion in January 2021, reflecting the ongoing broad-based monetary and fiscal stimulus to various sectors of the economy. The Committee thus, enjoined the Bank to maintain its current drive to improve access to credit to the private sector, while exploring other initiatives with the fiscal authorities to improve funding to critical sectors of the economy.

Conscious of the persisting inflationary pressure fuelled largely by continued uptick in food prices, the Committee noted the Bank's interventions to boost food production particularly through its various Agricultural programmes. Other complementary measures included, increase in disbursement for the dry season agricultural programme to increase output, the adoption of high yield seeds to improve productivity and the adoption of harvested produce as a

means of loan repayment, which has stemmed hoarding and the activities of middlemen and rent seekers. The establishment of the strategic grain reserves for staple crops has also helped in addressing seasonality of agricultural commodities.

In terms of funding, the Committee noted that the Bank has disbursed funds under its various agricultural interventions towards improving food supply in Nigeria. The Committee noted the disbursement of ₦107.60 billion to 548,109 farmers cultivating 703,619 hectares of land between Q4 2020 and Q1 2021 to boost dry season output in support of agricultural value chain development. Total disbursements as at end-February 2021 amounted to ₦1.487 trillion under the various agricultural programmes, of which ₦686.59 billion was disbursed under the Commercial Agricultural Credit Scheme (CACCS) and ₦601.75 billion under the Anchor Borrowers Programmes (ABP) to 3,038,649 farmers to support food supply and dampen inflationary pressures.

Under the Targeted Credit Facility, the Bank has disbursed ₦218.16 billion to 475,376 beneficiaries, of which 34 per cent of beneficiaries are SMEs. Under AGSMEIS, ₦111.62 billion has been disbursed to 28,961 beneficiaries, 70 percent of which are in the agricultural sector. Under the Creative Industry Financing Initiatives mainly targeted at youths, ₦3.19 billion has been disbursed to 341 beneficiaries, of which 53 percent is to the movie industry.

Under the National Mass Metering Programme, ₦33.45 billion has been disbursed to 9 distribution companies for the procurement of 605,852 meters, while ₦89.89 billion has been disbursed under the Nigeria Electricity Market Stabilisation Facility (NEMSF 2) to 11 distribution companies to improve the electricity supply industry in Nigeria.

Under the ₦100 billion Health Care intervention Fund, the Bank has disbursed ₦94.34 billion, and is willing to expand the facility, to 85 projects in the pharmaceutical industry, hospitals and State governments for both brown field and green field projects, mostly to expand pharmaceutical drug lines, acquire

MRI and other equipment and upgrade laboratories and other hospital services.

Under the N1.0 trillion Manufacturing Intervention Stimulus, the total of N803.36 billion has been disbursed to 228 projects across various sectors in agro-allied, mining, steel production and packaging industries, amongst others.

The monthly weighted average Inter-bank call and Open Buy Back (OBB) rates fell to 1.80 and 1.50 per cent in February 2021 from 3.50 and 2.30 per cent in January 2020, respectively, reflecting the continued liquidity surfeit in the banking system.

The Committee noted the weak performance in the equities market despite the recent increased patronage by domestic investors. The All-Share Index (ASI) and Market Capitalization (MC) continued to decline due to portfolio switching from equities to fixed income securities, reflecting the perception of improved yields at the long end of the yield curve.

All-Share Index (ASI) decreased by 1.17 per cent to 39,799.89 points on February 26, 2021 from 40,270.72 on December 31, 2020. Similarly, Market Capitalization (MC) fell by 1.11 per cent to N20.82 trillion on February 26, 2021 from N21.06 trillion on December 31, 2020. This was attributed largely to investor sell-off, which continued to cause price depreciation of large and medium capitalized stocks.

The MPC noted the performance of the Financial Soundness Indicators (FSIs) of the DMBs which showed a Capital Adequacy Ratio (CAR) of 15.2 per cent, Non-Performing Loans (NPL) ratio of 6.3 per cent and Liquidity Ratio (LR) of 40.5 per cent, as at February 2020. On non-performing loans (NPLs), the MPC noted that the ratio remained above the prudential benchmark of 5.0 per cent and urged the Bank to sustain its regulatory measures to bring it below the prudential benchmark.

The Committee noted with satisfaction the improvement in the level of external reserves, which stood at US\$36.46 billion at end-February 2021, compared with

US\$34.94 billion at end-January 2021. This reflects the recent upsurge in crude oil prices on the backdrop of the renewed optimism on the successful deployment of COVID-19 vaccines across the globe.

Outlook

The medium-term outlook for both the domestic and global economies indicates cautious optimism. This is premised on the expectation of sustained policy support and successful deployment of the COVID-19 vaccines around the globe and its effectiveness in ensuring herd immunity.

Available data and forecasts for key macroeconomic variables for the Nigerian economy suggest further rebound in output growth for the rest of 2021. This is predicated on the sustained, as well as additional interventions by the monetary and fiscal authorities to keep up the recovery momentum in the economy, favourable upsurge in crude oil prices, foreign exchange market stability and successful deployment of the new COVID-19 vaccines that could further stimulate economic activities and ultimately boost output growth. Given the potential rebound in output growth, bolstered by the resumption of economic activities post COVID-19, inflationary pressure in the economy is projected to moderate in short-to-medium term. The underlying risks of the efficacy of the COVID-19 vaccines against known and newly emerging strains of the virus, the uncertainty that the existing vaccines could lead to herd immunity and unequal access to COVID-19 vaccine, however, are some of the headwinds that could undermine this forecast.

The Committee's Considerations

The Committee noted the moderate recovery in output growth in the fourth quarter of 2020, associated mainly to the positive impacts of the several monetary and fiscal measures implemented to reflate the economy, following the negative consequences of the Covid-19 pandemic. This, in the Committee's consideration, provides an opportunity for further consolidation as most projections suggest substantial recovery in several economies across

the globe. However, the Committee was not oblivious of the downside risks to the broad outlook for recovery in 2021, as efforts to achieve herd immunity continued to face significant headwinds.

The Committee welcomed the current efforts by the government and other support agencies in procuring vaccines and thus, urged the quick and efficient deployment of the vaccines to support ongoing monetary and fiscal stimulus towards full recovery of the economy in 2021 and into 2022.

Members expressed concerns about the unabated rising trend of domestic prices and re-emphasized the exigency for monetary and fiscal policy collaboration to finance productive ventures, improve aggregate supply and push down prices.

The MPC reiterated its concerns on the activities of persons and groups causing security challenges in the food producing areas of the country, as this has contributed to the major uptick in food prices across the country. The Committee, thus called for a collaborative and coordinated efforts by all the relevant agencies and stakeholders towards addressing the prevailing insecurity issues and social challenges. The Committee also called on the government to explore the option of effective partnership with the private sector to improve funding sources necessary to address the huge infrastructural financing deficit.

Considering the foregoing, the MPC noted that fiscal headroom remained constrained and fragile, following the twin shocks of the pandemic and oil price volatility and the continued build-up of public debt.

The MPC noted the Bank's innovative efforts towards maintaining exchange rate stability. It also impressed on the Management to remain focused on its drive to increase accretion to reserves, especially in its recent incentives to attract diaspora remittances into the country.

The Committee welcomed the relative strengthening of the money market compared from its position at the end of the lockdown. Mindful of the risks

confronting the economy, it emphasised the need for the fiscal authority to improve the investment climate towards attracting sustainable Foreign Direct Investment (FDI).

The Committee commended the Bank for maintaining a robust regulatory environment despite these challenging times by ensuring that non-performing loans (NPL) ratio is driven down to prudential level, even as aggregate credit continue to grow in a market confronted with relative uncertainties.

In summary, the MPC noted the overarching need to address the twin major challenges of taming the rising inflation and sustaining growth recovery in the economy, while focusing on the downside risks associated with the injections.

The Committee's Decision

At this meeting, the dilemma that confronted the MPC relates to whether to continue to focus on efforts to stimulate outputs or whether to focus on reining in inflation, which (at 17.33 per cent) is almost attaining the January 2017 inflation level of 18.72 per cent. MPC was also worried that the level of unemployment must be addressed swiftly to moderate the restiveness among the populace. Again, members were generally of the view that given that the exit from recession is fragile, any decision to tighten or rein-in inflation, may reverse the fragile recovery and return the economy into recession.

In the light of the foregoing, the consensus among MPC members was that, given that inflation is substantially a supply side phenomenon, there is need to continue to focus on consolidation of the recovery process, by taking those actions that would continue to stimulate output growth, create employment, but at the same time have an eye on effort to moderate the inflationary pressure; using the current administrative measures being adopted by the Bank in controlling monetary aggregates in the banking system.

In its consideration of whether to tighten, hold or loosen, therefore, the Committee felt that with inflation at a 3-year high and price stability being the Bank's core mandate, a contractionary policy stance may be required to

tame the rising trend. It nevertheless feels that tightening will hike the cost of capital and hamper investments required to create employment and continue to boost recovery.

On the other hand, MPC thinks that whereas loosening would lower rate and improve access to credit which will drive investment, reduce unemployment and stimulate aggregate demand, it feels that loosening will create excess liquidity, which will intensify demand pressure on the foreign exchange market, thereby leading to further depreciation in the currency.

It, therefore, feels that a hold position which encourages Management to continue to use its various intervention mechanisms to deploy liquidity into employment generation and output stimulating sectors of the economy would be desirable as this would help consolidate the country's recovery process.

The Committee, therefore, decided by a vote of 3 members to increase MPR by 50, 75 and 50 basis points respectively, and 6 members voted to hold all parameters constant.

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

23rd March 2021