



**Central Bank of Nigeria Communiqué No. 92 of the Monetary Policy Committee  
Meeting of Monday 18 and Tuesday 19 November, 2013**

The Monetary Policy Committee (MPC) met on November 18 and 19, 2013 against the backdrop of widespread uncertainties and risks of deflation in the global economy but stable domestic macroeconomic conditions. Eleven (11) out of the twelve (12) members were in attendance. The Committee reviewed the global and domestic economic environment from January to October 2013 and re-assessed the short- to medium-term risks to inflation, domestic output and financial stability and the outlook for the rest of the year.

**International Economic Developments**

The global economy is currently adjusting structurally to the evolving growth dynamics in the advanced and emerging market economies. While growth in the advanced economies has resumed, growth in the emerging economies has slowed down. Global growth averaged 2.5 per cent in the first half of 2013, same as in the second half of 2012. The United States

(US), Japan and a few European countries just emerging from recession are helping to drive the current growth.

Improvement in US output is anchored by enhanced industrial production buoyed largely by strong private demand and extra-ordinary accommodative monetary policy. The political standoff over fiscal sustainability, which led to a shutdown of the US Government in October, 2013, was moderated, however, by discretionary spending during the period. Strong signs of growth resumption have emerged from some euro area economies, especially Portugal and Greece. Given the changing global growth dynamics, the International Monetary Fund (IMF) revised its global economic growth forecast in October to 2.9 per cent in 2013 and 3.6 per cent in 2014.

Global inflation is estimated to fall from 3.75 per cent in 2012 to 3.0 per cent in 2013, but could rise marginally in 2014. Food and fuel prices continued to positively moderate global consumer price inflation. In the light of these developments, most central banks responded by either maintaining current policy stance or moderately easing the policy rate in the last three months.

The financial markets expect monetary conditions to remain easy through the first quarter of 2014. Indications to this came from the Fed Chairman-designate during her Senate screening. In addition, the Bank of England has given signals that its quantitative easing would continue to late 2014 while the Bank of Japan has also indicated that its quantitative easing would continue until inflation reaches a 2.0 per cent target.

## **Domestic Economic and Financial Developments**

### **Output**

The National Bureau of Statistics (NBS) estimated that real Gross Domestic Product (GDP) grew by 6.81 per cent in the third quarter of 2013, which was higher than the 6.18 per cent in Q2, and 6.48 per cent Q3 of 2012, respectively. Overall, growth for 2013 was projected at 6.87 per cent, up from 6.58 per cent in 2012, indicating that the economy is remaining on its steady growth trajectory.

The non-oil sector remained the major engine of growth recording 7.95 per cent compared with a decline of 0.53 per cent for the oil sector in the third quarter of 2013. Agriculture, wholesale and retail trade, and services

continued to be the drivers of non-oil sector growth contributing 2.50, 1.96, and 2.82 per cent, respectively. The relatively strong domestic growth forecast in an environment of sluggish global growth and sturdy signs of deflation reflected the continuing favourable conditions for increased agricultural production and incentives for strong macroeconomic management.

## **Prices**

The moderation in consumer price inflation, which began in the fourth quarter of 2012, continued in the third quarter of 2013. The year-on-year headline inflation moderated to 7.8 per cent in October 2013 from 8.0 per cent in September. Also, food inflation declined to 9.2 per cent in October from 9.4 per cent in September 2013. Core inflation, however, rose to 7.6 per cent in October 2013 from 7.4 per cent in September. Thus, the decline in headline inflation reflected the moderation in food prices. The Committee observed with satisfaction that in the last four months, all the three measures of inflation continued to be within the single digit inflation target. However, the Committee noted the potential risks to inflation of increased aggregate spending in the run-up to the 2015 elections.

## **Monetary, Credit and Financial Market Developments**

Broad money supply (M2) contracted by 6.16 per cent in October 2013 over the level at end-December 2012. When annualised, M2 contracted by 7.39 per cent, in contrast to the growth of 8.24 per cent in the corresponding period of 2012. M2 was also below the growth benchmark of 15.20 per cent for 2013. Aggregate domestic credit (net), however, grew by 7.32 per cent in October 2013, which annualised to a growth rate of 8.78 per cent over the end-December 2012 level, in contrast to the contraction of 3.30 per cent in the corresponding period of 2012. The annualised growth rate in aggregate domestic credit (net) at end-October 2013 of 8.78 per cent was below the provisional benchmark of 22.98 per cent for 2013. The decline in M2 was traced mainly to decline in net credit to Federal Government and Net Foreign Assets and other assets (net).

Overall, Government spending in the 2<sup>nd</sup> Half of 2013 has been more moderate than it was in the earlier part of the year. The erosion of the fiscal buffers through the depletion of the ECA has further exposed the economy to vulnerabilities while the fall in oil revenue has left capital inflows as the only source of external reserves accretion. The Federal Government debt has also risen phenomenally along with its deposits at the deposit money

banks, showing the Government as a net creditor to the system. This underscores the urgent need for the immediate implementation of the Treasury Single Account. The continued delay in returning government accounts to the Central Bank is adding to the huge cost of government debt due to poor cash flow management.

Reserve money (RM) declined marginally by N138.48 billion or 2.98 per cent to N4,511.51 billion at end-October 2013, from N4,649.99 billion at end-September 2013. The level of RM at end-October 2013, was below the fourth quarter indicative benchmark of N5,009.88 billion by N498.37 billion or 9.95 per cent.

Interest rates in all segments of the money market reflected the tight liquidity conditions in the banking system. The weighted average inter-bank call and OBB rates opened at 17.99 and 16.92 per cent on September 25, 2013 but closed at 12.50 and 11.73 per cent, respectively, on November 15, 2013.

The capital market continued its rally with the equities market providing the lead. The All-Share Index (ASI) increased by 34.9 per cent from 28,078.81 on December 31, 2012 to 37,883.53 on November 15, 2013. Market Capitalization (MC) increased by 35.0 per cent from N8.97 trillion to N12.12

trillion in the review period. Improved earnings and investor confidence in macroeconomic management and substantial portfolio inflows (as foreign investors took advantage of the favourable domestic economic environment) accounted for the upswing in capital market activities. Generally, equity market valuations remained close to their long run median suggesting that equity prices were fully valued and the stock valuations were close to economic fundamentals.

### **External Sector Developments**

The naira exchange rate remained stable at the w/rDAS and inter-bank segments of the foreign exchange market. The exchange rate at the w/rDAS-SPT during the review period opened at N157.31/US\$ (including 1% commission) and closed at N157.63/US\$, representing a depreciation of N0.32k. The average official exchange rate during the period was N157.38/US\$. The inter-bank selling rate opened at N160.00/US\$ and closed at N158.65/US\$, averaging N160.15/US\$, representing an appreciation of N1.35k for the period. However, at the BDC segment of the foreign exchange market, the selling rate opened at N162.00/US\$ and is hovering around N167US\$ at present, reflecting the impact of reduction in

dollar supply to the segment-as part of the CBN anti-money laundering measures.

The Committee noted the increase in external reserves to US\$45.37 billion as at November 15, 2013, representing an increase of US\$1.26 billion or 2.85 per cent above the level of US\$44.11 billion at end- September 2013. External reserves increased by US\$0.95 billion or 2.14 per cent on a year-on-year basis over the US\$44.47 billion at end-November 2012. The Committee continued to express its disappointment at the low rate of reserve accretion in spite of strong oil prices; which is a result of the absence of fiscal savings.

### **The Committee's Considerations**

The Committee recognized the importance of taking into consideration not just the static indices at the point of meeting but overall strategic objectives and targets, as well as the outlook for the domestic economy and the external environment, especially with this being the last meeting for 2013.

The Committee noted the decline in inflation and the benign outlook going into the first half of 2014. It further noted the positive impact of monetary

policy in engendering a stable exchange rate regime and attracting portfolio investment thus driving the strong recovery of asset prices on the Nigerian Stock Exchange. It also noted that global monetary conditions were likely to remain loose going into Q1:2014 for a number of reasons. First, in the U.S.A, it is clear that the incoming Federal Reserve Chairperson, Janet Yellen, does not see tapering as imminent given the on-going disputes around the budget and the weakness of economic recovery.

In England, although recovery appears to be firmly on track, the BoE is clearly not going to consider raising rates until unemployment falls to 7%, probably in late 2014. The BoJ is likely to continue with QE until inflation reaches its 2% target which is a long way off, and the ECB has just lowered its benchmark rate to avert the risk of deflation. For these reasons, the Committee does not anticipate any major internal or external shocks before its next meeting in January 2014.

The MPC also noted that AMCON is expected to reduce its debt by N1 trillion in December 2013. The CBN has directed that AMCON redeem its Bonds for cancellation by exchanging them for FGN Treasury Bills on its books. Consequently, the only impact of the repayment is that the Balance

Sheet of AMCON (and the contingent liability on the FGN from its guarantee of AMCON Bonds) will shrink by N1 trillion. This is positive for the economy and the credit rating of the FGN and the banking industry. Its impact on the markets will be minimal given that only AMCON's Balance Sheet is affected significantly and AMCON is not a player in these markets.

The outlook for 2014, however, portends some potential headwinds that may lead to further tightening in monetary conditions. It is expected that 2014 will be the year for QE- tapering in the US and interest rate rises in Europe, both of which will lead to some pressure on the exchange rate and stock prices due to the impact on capital flows. It is also the year in which election spending is likely to take place domestically, thus bringing more pressure to bear from the fiscal side. As a result, the MPC is of the view that we are not yet at the end of the tightening cycle and may need to tighten further in response to these eventualities next year.

The Committee also noted that, while Federal Government spending overall in 2013 has not been significantly higher than in 2012, oil revenues have continued to decline in spite of the relative stability in oil price and output when compared with preceding years. As a result, Excess Crude

savings have fallen from about \$11.5b at year-end 2012 to less than \$5b on November 14. External Reserves have remained in excess of \$45billion only because of a massive inflow in portfolio funds. The implication of this is that financial markets are extremely fragile and susceptible to external shocks. The MPC again calls on the Fiscal Authorities to rebuild buffers in the excess crude account, and this can be done by blocking fiscal leakages in the oil sector and increasing oil revenues. Clearly, the major risk on the fiscal side at present is not one of escalation of spending but loss of revenue from oil exports.

Finally, the Committee formally adopted an inflation target of 6-9% in 2014. It also noted that ECOWAS Heads of State have set a 5% target at the Convergence Council. The MPC reaffirmed its commitment to moving Nigeria firmly into being a low-inflation environment in the medium term. However, the MPC recognizes the high cost of rapid adjustment and plans to make the transition gradually.

### **Decision**

Having considered the success of Monetary Policy in attaining price and exchange rates stability; the potential headwinds in 2014; the ultimate goal of transiting to a truly low – inflation environment; and the need to retain

portfolio flows in view of the erosion of fiscal reserve buffers, the committee decided as follows:

1. Nine (9) members voted to keep MPR at 12% +/- 2%; private sector CRR at 12%; public sector CRR at 50% and Liquidity Ratio at 30%
2. One (1) member voted for a 0.5% reduction in MPR and an increase in public sector CRR from 50% to 75%
3. One (1) member voted for 0.5% reduction in MPR and an increase in public sector CRR from 50% to 100%

The Committee has therefore decided by a majority vote of 9 to 2, to hold all rates at current levels.

**Thank you for Listening**

**Sanusi Lamido Sanusi, *CON***

Governor

Central Bank of Nigeria

**19th November, 2013**