



Central Bank of Nigeria Communiqué' No. 102 of the Monetary Policy Committee Meeting of Thursday and Friday, July 23 and 24, 2015

The Monetary Policy Committee met on 23rd and 24th July, 2015 against the backdrop of lingering uneven recovery in the global economy and slowing growth in the domestic economy. In attendance were all 12 members. The Committee reviewed the global and domestic economic and financial environment in the first half of 2015 as well as the outlook for the rest of the year.

International Economic Developments

The Committee observed that global output recovery remained largely sluggish although with strong promise in the United States and the Euro area. The IMF maintained its growth forecast of 3.5 per cent for 2015 with improved outlook for the advanced economies but

weak performance in the emerging and developing economies. Softening oil prices continued to present improved growth opportunities for the advanced economies and oil importing countries while dampening growth prospects in oil exporting economies. The United States led growth in the advanced economies largely on account of lower energy prices, increased consumer spending and housing market recovery. The expectations of US monetary policy normalization in the medium term continued to fuel investor expectations. Growth outlook for the US remains steady as inflation stays below the Federal Reserve's 2 per cent target.

The Bank of Japan continued its accommodative monetary policy stance by injecting ¥6.7 trillion (\$55.83 billion) monthly under its assets purchase programme. In the Euro area, the Greek debt crisis crystalized into uncertain and difficult negotiations with the tripartite group of creditors and altered the underlying confidence in the survival of Greece in the Eurozone.

Meanwhile, the ECB's €61 billion monthly asset purchase programme continues, in an effort to combat the effects of deflation and high unemployment in the peripheral economies. The Bank of England has maintained its £375 billion asset purchase programme in the face of the downward trend in inflation, in most of the surrounding euro area economies. These expansionary policies by the ECB, Bank of England and the Bank of Japan, could moderate the threat of capital reversal posed by the imminent normalization of US monetary policy.

Amongst the emerging markets and developing economies, growth is expected to slow considerably but resume moderately in 2016. Growth in China is projected to slow at 6.3 per cent in 2016 from 6.8 per cent in 2015 due to continued financial market vulnerabilities, declining productivity, excess capacity and weakening domestic demand.

Growth in the developing economies is expected to remain uneven in the short-to-medium-term, largely reflecting their weak demand, lower commodity prices and tight financial conditions.

Global inflation is expected to remain moderate at 3.5 per cent in 2015 but projected to accelerate to 3.7 per cent in 2016, due to rising downside risks, particularly in the Euro area, as well as the tailwinds arising from the sharp drop in oil prices, excess capacity in the advanced economies and the appreciation of the US dollar.

Domestic Economic and Financial Developments

Output growth in the first half of 2015 continued to decelerate compared with the end-December 2014 level, mainly as a result of softening oil prices. According to the National Bureau of Statistics (NBS), growth in real GDP declined to 3.94 per cent in the first quarter of 2015, from 5.94 and 6.21 per cent in the preceding quarter and corresponding period of 2014, respectively. Real GDP growth is projected at 5.54 per cent for fiscal 2015, reflecting a 68 basis point decrease compared with the 6.22 per cent in 2014. At 5.59 per cent, the non-oil sector continued to be the main driver of output growth in the first quarter of 2015, at 5.59 per cent with the leading growth sectors being construction, services, agriculture and trade which

grew by 11.17, 6.85, 4.70 and 4.47 per cent, respectively. On the other hand, the oil and gas sector declined by 8.15 per cent, in contrast to the modest growth of 1.2 per cent achieved in the last quarter of 2014.

While the successful conduct of the 2015 general elections was a stabilizing factor for the economy, persistent scarcity of fuel products as well as slow improvements in electricity supply could be a drag on output growth in the near term. The Committee underscored the need for the intensification of various ongoing initiatives to diversify the economy away from oil, and expand the base for foreign exchange receipts.

Prices

The Committee was concerned about the gradual but steady increase in headline inflation up to June 2015, and noted that this reflected a rise in both the core and food components of inflation. Core inflation rose to 8.4 per cent in June from 8.3 per cent in May,

and food inflation increased to 10.0 per cent from 9.8 per cent, over the same period.

The Committee observed that the uptick in year-to-date inflation rates was traceable to transient factors such as energy, arising from scarcity of petroleum products around the country, poor electricity supply and increased demand for transportation and food, from the build-up to the general elections and the ensuing Easter and Sallah celebrations.

The Committee reiterated its commitment to price stability, and observed that monetary policy would remain tight because of the high liquidity in the system. It however, noted that the drivers of the current upward inflationary spiral were of a transient nature and mostly outside the direct control of monetary policy. Consequently, the opportunity for further policy maneuver remains largely constrained in the absence of supporting fiscal measures. It therefore, urged for coordination of monetary, fiscal and structural policies to stimulate output growth, and stabilize the exchange rate.

Monetary, Credit and Financial Markets Developments

Broad money supply (M2) declined by 0.61 per cent in June 2015, below the level at end-December 2014. The modest decline in money supply reflected the decreases in the net foreign assets of 16.15 per cent and other assets (net) of 21.40 per cent. Net domestic credit (NDC), however, grew by 13.45 per cent. Annualized, NDC grew by 27.90 per cent over the end-December 2014 level but essentially within the provisional benchmark of 29.30 per cent for fiscal 2015. The growth in aggregate credit was attributable to growth in Federal Government borrowing which reached 40.81 per cent in June 2015.

During the period under review, money market interest rates were relatively volatile, owing to fluctuations in banking system liquidity. Average inter-bank call and OBB rates opened at 6.55 and 6.45 per cent on 1st July, 2015 and closed at 26.51 and 21.00 per cent, respectively, on July 23, 2015. Average inter-bank call and OBB rates for the period were 9.83 and 10.23 per cent, respectively.

The Committee noted a bearish trend in the equities segment of the capital market during the review period. The All-Share Index (ASI)

declined slightly by 1.66 per cent from 31,744.82 on March 31, 2015 to 31,216.72 on July 23, 2015. Similarly, Market Capitalization (MC) decreased by 0.37 per cent from N10.72 trillion to N10.68 trillion during the same period. Relative to end-December 2014, the market indices decreased by 9.9 and 6.9 per cent, respectively. The slight decline in share prices year-to-date was largely due to subdued sentiments preceding the general elections as well as the lingering effects of falling oil prices.

External Sector Developments

The average naira exchange rate was relatively stable at the inter-bank segment, but significantly volatile in the BDC segment during the review period. The exchange rate at the interbank market opened at N197.00/US\$ and closed at N197.00/US\$, with a daily average of N197.00/US\$ between July 21 and July 23, 2015. The relatively stable exchange rate in the inter-bank segment can be attributed to the effects of some recent demand management measures. Gross official reserves increased from US\$28.57 billion at end-May 2015 to \$31.53 billion as at July 22, 2015, reflecting the blockage of leakages as well as the bank's management policies.

Committee's Considerations

The Committee was concerned about the trends in key macroeconomic indices in the first half of 2015.

The Committee acknowledged the absence of easy choices in the circumstance but monetary policy alone is limited, and would require urgent complementary fiscal policies to define the path of growth and create the basis for stabilization.

On the external front, the adverse effect of the protracted decline in global crude oil prices on the fiscal position of government is becoming increasingly obvious. The expected policy normalization in the US could accentuate capital flow reversals from emerging and developing economies and further tighten global monetary conditions, thus exerting greater pressure on exchange rates in those countries. Given the choice between controlling either quantity or price, the limitations on choosing quantity were evident necessitating the need to employ some flexibility around price while allowing current demand management measures to fully work their way through the economy. The Committee however noted that financial system stability considerations placed key limitations on the extent of considering price flexibility, creating a compelling need to balance measures to address the current vulnerabilities.

On inflation, the Committee stressed that some of the drivers of the current pressure on consumer prices were transient and outside the direct influence of monetary policy. Pressure on food prices is expected to gradually wane as the planting season gives way to harvests in the months ahead. Early resolution of fuel scarcity would dampen transportation costs and improve food distribution across

the country while improvements in electricity supply could steady output at lower costs.

Overall, the Committee expressed optimism that business confidence would continue to improve as Government continues to unfold its economic plans. In addition, some of the reassuring measures of the administration including efforts aimed at resolving fiscal challenges at the sub-national levels, and the fight against corruption and improving the business environment would unlock the inflow of foreign direct investment. The Committee also underscored the imperative of growing and protecting the country's foreign reserves and building fiscal buffers in the process of strengthening confidence in the economy which is essential for promoting growth and stability.

The Committee's Decisions

In consideration of the underlying fundamentals of the economy, the evolving international economic environment, developments in oil prices as well as the need to allow for the unveiling of the economic agenda of the Federal Government, the Committee decided by a vote of 8 to 4 to retain the Monetary Policy Rate at its current level of 13 per cent, by a unanimous vote to retain the CRR at 31 per cent while 4 members voted to remunerate the CRR.

Overall, the MPC voted to hold its position.

In summary, the MPC voted:

- (i) To retain the MPR at 13 per cent with a corridor of +/- 200 basis points around the midpoint;
- (ii) Retain the CRR at 31 per cent; and
- (iii) To retain the symmetric corridor of 200 basis points around the MPR.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

24th July 2015