CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 116 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 20th AND TUESDAY 21st NOVEMBER, 2017

Background

The Monetary Policy Committee met on the 20th and 21st of November, 2017 against the backdrop of a relatively optimistic global economic outlook. The Committee reviewed key developments in the global and domestic economies during the first ten months of 2017 and assessed the risks to price and financial stability in the short- to-medium term as well as outlook for the first half of 2018.

Nine (9) members of the MPC were present at the meeting.

External Developments

Global output is projected to improve to 3.6 per cent in 2017 from 3.2 per cent in 2016. The revised growth forecast reflects the uptick in global economic activity, strengthened by the recovery in oil and other commodity prices and leading to improved aggregate demand. Growth in the advanced economies is projected to improve to 2.2 per cent in 2017 from 1.7 per cent in 2016. Similarly, emerging markets and developing economies are forecast to grow at 4.6 per cent in 2017 up from 4.3 per cent in 2016. The MPC, however, noted some risks to the outlook for global growth to include: continued tension in the Korean Peninsula, complexities arising from the BREXIT negotiations and financial market uncertainties due to monetary policy normalization in the US.

The Committee noted that the pace of increase in inflation in the advanced economies, with the exception of the UK, is expected to be considerably slow towards the end of 2017. In the emerging market economies, inflationary pressures have abated as key economies exit recession and their currencies stabilize. Inflation is projected at 1.7 and 4.2 per cent in 2017 in the advanced and developing economies, respectively. The Committee observed that the outlook for global monetary policy remains largely accommodative, in support of economic recovery and growth.

Domestic Output Developments

Data from the National Bureau of Statistics (NBS) indicate that real Gross Domestic Product (GDP) grew by 1.40 per cent in the third quarter of 2017, up from 0.72 per cent, and contraction of 0.91 per cent in the second and first quarter of 2017, respectively. The major drivers of real GDP growth were agriculture (0.88%) and industry (1.83%). Some subsectors contracted, including: construction (0.01%), trade (0.29%) and services (1.02%). Overall, non-oil real GDP contracted by 0.76 per cent in Q3 2017, giving credence to the argument that more work is required to consolidate the recovery process; by putting in place policies that will boost growth through the non-oil sector.

The Committee also noted the continuous positive outlook based on the Manufacturing Purchasing Managers Index (PMI), which stood at 55.0 index points in October 2017, indicating expansion in the manufacturing sector for the seventh consecutive month. Eleven of the sixteen sub-sectors reported growth in the review period. Also, the composite PMI for the non-manufacturing sector stood at 55.3 index points in October 2017, indicating growth for the sixth consecutive month. The Committee hopes that, while the economic recovery appears to remain fragile, a tenacious implementation of the 2017 budget and quick passage of the 2018 budget would boost aggregate demand and confidence in the economy.

Developments in Money and Prices

The Committee noted that money supply (M2) contracted by 5.54 per cent in October 2017 (annualised), in contrast to the provisional growth benchmark of 10.29 per cent for 2017. The development in M2 is largely due to the contraction of 37.50 per cent in other assets net (OAN). Similarly, M1 contracted by 7.79 per cent (annualised to -9.35 per cent). Net domestic credit (NDC) expanded by 1.18 per cent, annualized to 1.42 per cent, driven primarily by net credit to government, which also expanded by

7.60 per cent against the programmed growth of 33.12 per cent. Credit to the private sector, however, contracted by 0.24 per cent in October 2017, compared with the provisional benchmark of 14.88 per cent. The MPC also noted the structural constraints in the transmission of credit to the real sector of the economy as well as the rising unemployment level. The Committee urged the Management of the Bank to continue to encourage the deposit money banks to accelerate the rate of credit growth to the real sector of the economy.

Inflationary pressures in the economy continued to moderate with headline inflation (year-on-year) receding for the ninth consecutive month to 15.91 per cent in October 2017 from 15.98 per cent in September 2017. Food inflation fell marginally to 20.31 per cent from 20.32 per cent in September, while core inflation increased slightly to 12.14 per cent from 12.12 per cent during the same period. These developments were attributable to the contraction in money supply, favourable but dwindling base effects, and the relatively stable naira exchange rate. In spite of the marginal decline in food inflation in October, the Committee noted that the rate remained high, traceable to cross border sales, distribution bottlenecks, high prices of farm inputs and supply shortages.

Money market interest rates oscillated in tandem with the level of liquidity in the banking system as the average inter-bank call rate, which opened at 12.00 per cent on October 3, 2017, closed at 5.38 per cent on November 16, 2017. The OBB rates opened at 10.41 per cent and closed lower at 6.02 per cent in the same period. However, the average inter-bank call and OBB rates for the period stood at 10.94 and 10.15 per cent, respectively. The development in net liquidity positions and flows reflected the effects of Federation Account payments to states and local governments; remittances by the Nigerian Customs, Federal Inland Revenue Services; OMO sales; foreign exchange interventions and maturing CBN Bills.

The Committee noted the continuing improvement in the level of external reserves and the equities segment of the capital market. External reserves grew to US$34.9 billion at the close of business on November 16, 2017. Similarly, the All-Share Index (ASI) rose by 3.38 per cent from 35,504.62 on August 31, 2017 to 36,703.58 on November 17, 2017. Market Capitalization (MC) improved by 4.35 per cent to N12.77 trillion from N12.24 trillion during the same period. Relative to end-December 2016, capital market indices rose by 36.57 and 38.10 per cent, respectively, indicating rising investor confidence, due to improvements in foreign exchange supply.

Total foreign exchange inflow through the central bank declined by 6.61 per cent in October 2017, compared with the previous month and attributable to the decline in crude oil and gas receipts as well as revenues from petroleum profit tax (PPT) and royalty payments. Total outflows, however, increased by 18.77 per cent during the same period, as a result of interbank sales, direct payments and JVC calls.

The Committee noted the gradual convergence between the rates at the bureau-de-change (BDC) and the Nigeria Autonomous Foreign Exchange (NAFEX) market segments, as well as the stability of the exchange rate at the inter-bank segments of the foreign exchange market during the review period. Similarly, the Committee viewed with satisfaction, the growing patronage at the Investors' and Exporters' (I&E) window of the foreign exchange market and attributed the development to increased confidence by foreign investors and the preference of Nigerian investors' and exporters' for the window compared with all other windows. The MPC noted that the I&E window had increased liquidity and boosted confidence in the market with over US$18.70 billion in transactions since its introduction in April 2017.

2.0. Overall Outlook and Risks

Forecasts of key macroeconomic variables indicate a positive outlook for the economy up to Q1 2018. This is predicated on continued implementation of the 2017 budget into early 2018, anticipated improvements in government revenue from the implementation of the Voluntary Asset and Income Declaration Scheme (VAIDS) as well as favourable crude oil prices. The development finance initiatives by the CBN in the real sector, particularly in agriculture, are expected to continue to yield positive results in terms of output expansion and job creation. Focusing on the downside risks to the outlook, the Committee noted the low fiscal buffers and weak aggregate domestic demand. On the external front, widening global imbalances, and rising geo-political tensions were some of the crucial risks identified.

3.0. The Considerations of the Committee

The Committee noted with satisfaction the second consecutive quarterly growth in real GDP following five quarters of contraction. In addition, Members welcomed the relative stability in the exchange rate, particularly the narrowing premia and the very slow deceleration in consumer price inflation, largely attributable to base effects. Overall, the economy has begun to show strong signs of recovery as public investment has picked up with increased housing construction at the Federal and state levels, as well as shipping activities at the ports. The Committee was, however, of the view that policy makers must not relent in their aggressive policy initiatives aimed at continuing the positive growth trajectory. The Committee was also concerned about potential adverse external developments and the cautious approach to lending and financial intermediation by domestic deposit money banks.

The Committee similarly evaluated other concerns in the domestic economy and the opportunities for strengthening output recovery, noting that some highly critical subsectors were yet to resume growth. The Committee noted the significant contribution of food prices to headline inflation and observed that the benefit of base effect on overall headline inflation had substantially dwindled. Members, however, expressed confidence that the tight stance of monetary policy and the stability in the exchange rate of the naira should continue to positively weigh in on price developments. The Committee reaffirmed its commitment to maintaining price stability, which is crucial to sustainable economic growth and development.

The Committee welcomed the review of the Economic Recovery and Growth Plan (ERGP), in an effort to realise the objectives of the plan. In the same vein, the Committee urges a quick passage of the 2018 Appropriation Bill by the National Assembly, so as to keep fiscal policy on track and deliver the urgently needed reliefs in terms of employment and growth of the economy.

On financial stability, the Committee noted the concentration of non-performing loans in a few sectors but observed that the overall condition and outlook for the banking system was stable as deposit money banks' balance sheets remained strong. This assessment is strengthened by developments in the national accounts and the expectations that the affected sectors are returning to growth. Nonetheless, the Committee urged further strengthening of supervisory oversight and deployment of early warning systems in order to promptly identify vulnerabilities and proactively manage emerging risks in the banking system. The Committee further observed that government was increasing debt, both domestically and externally, thus crowding out the private sector.

4.0. The Committee's Decisions

In arriving at its decision, the Committee appraised potential policy options in terms of the balance of risks. The Committee also took note of the gains made so far as a result of its earlier decisions; including the stability in the foreign exchange market and the moderate reduction in inflation and thus extensively deliberated the options regarding whether to hold , tighten or ease the policy stance.

While tightening would strengthen the impact of monetary policy on inflation with complementary effects on capital inflows and exchange rate stability, it nevertheless could also potentially dampen the positive outlook for growth and financial stability. On the other hand, whereas loosening would strengthen the outlook for growth by stimulating domestic aggregate demand through reduced cost of borrowing, it could aggravate upward trend in consumer prices and generate exchange rate pressures. The Committee also feels that loosening would worsen the current account balance through increased importation. On the argument to hold, the Committee believes that key variables have continued to evolve in line with the current stance of macroeconomic policy and should be allowed to fully manifest. Members noted that the developments in output and inflation in particular required effective close monitoring in order to gain clarity on the medium term optimal path of monetary policy.

In consideration of the foregoing, the Committee decided by a vote of 8 to 1 to retain the Monetary Policy Rate (MPR) at 14.0 per cent alongside all other policy parameters. One member voted to reduce the MPR by 100 basis points.

Consequently, the MPC voted to:

(i) Retain the MPR at 14.0 per cent;
(ii) Retain the CRR at 22.5 per cent;
(iii) Retain the Liquidity Ratio at 30.0 per cent; and
(iv) Retain the Asymmetric corridor at +200 and -500 basis points around the MPR.

Thank you for listening.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
21st November, 2017