



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 112 OF THE MONETARY POLICY COMMITTEE MEETING OF 20TH AND 21ST MARCH 2017

1.0. Background

The Monetary Policy Committee met on the 20th and 21st of March, 2017, against the backdrop of persistent uncertainty in the global economy, stemming from economic and socio-political developments around the world. On the domestic front, while the Q4 2016 GDP figure was better than the last two consecutive quarters, the economy remained in recession with inflationary pressures continuing unabated. These adverse external and domestic conditions continued to complicate the policy environment.

In attendance at the meeting were 10 members of the Committee. The Committee assessed the global and domestic economic and financial environments in Q1 2017 as well as the outlook for the medium-term.

External Developments

The global economy witnessed greater momentum in Q4 2016, facilitated by gains in both developed, emerging markets and developing economies which propelled global GDP growth to 2.7 per cent year-on-year in Q4, 2016, a 0.2 percentage point improvement over Q3 2016.

In spite of this improvement, the external environment continued to be plagued by political, economic and financial market uncertainties, with the defining issues being: Brexit, growing protectionist and anti-globalization sentiments, divergent monetary policies of the advanced economies' central banks and volatile commodity price movements. The protectionist stance of the new U.S. administration could impact negatively on global trade and economic recovery.

The MPC noted the slip in oil prices against the backdrop of fears of a supply glut, fuelled by increased activities in US Shale oil production, which threatens to undermine the rebalancing effects of the last OPEC decision to cut output. The Committee also noted the increase in the target range of the US Fed funds rate at the last meeting of the FOMC and the potential spillover effects on global capital flows and interest rates, especially given the still tepid global economic activity and weak demand. Challenges in the emerging markets and developing economies persist, as they struggle with strong headwinds from low commodity prices, rising inflation, currency volatility, receding real income and capital reversals.

Overall, the Committee noted the dampening effects of economic stagnation and uncertainty on global trade and

investment. In spite of these constraints, however, the IMF estimates that the global economy would witness a slight improvement in growth from 3.1 per cent in 2016 to 3.4 per cent in 2017.

Global inflation continued its moderate but steady rise against the backdrop of improved oil prices and depreciated currencies in several emerging markets. Amongst the major advanced economies, the U.S Fed maintained its tightening stance, with a further upward adjustment¹ in March 2017. Meanwhile the Bank of Japan (BOJ), Bank of England and the European Central Bank, maintained the soft policy stance at their most recent meetings.

¹ The Federal Reserve again raised its benchmark Federal Fund rate by 25 basis points in March 2017, to a range of 0.75 to 1.00 per cent, having raised rates by the same margin in December, 2016, and also provided indication of further rate hikes in 2017

Domestic Output Developments

Data released by the National Bureau of Statistics (NBS) in February 2017 showed that the economy contracted marginally by 1.30 per cent in Q4 2016, effectively remaining in recession since Q2 2016. Overall, in 2016, the economy contracted by 1.51 per cent, with the contraction in Q4 being the least since Q2 2016. The non-oil sector grew by 0.33 per cent in Q4, largely reflecting the slowdown in the agricultural sector, which decelerated to 4.03 per cent in Q4 2016 from the 4.54 per cent recorded in Q3 2016. The Committee remains of the conviction that fiscal policy remained the most potent panacea to most of the key negative undercurrents i.e. stunted economic activity, heightened unemployment and high inflation.

In spite of the recent moderate recovery in oil prices, the Committee approached developments in commodity

prices cautiously. It noted that the era of high oil prices was over, thus making diversification away from oil more imperative today than ever.

Developments in Money and Prices

The committee noted that money supply (M2) contracted by 5.73 per cent in February 2017, annualized at -34.38 per cent in contrast to the provisional growth benchmark of 10.29 per cent for 2017. Similarly, Net Domestic Credit (NDC) contracted by 1.41 per cent in February, 2017, annualized to 8.46 per cent, being significantly below the 17.93 per cent provisional growth benchmark for 2017. Likewise, net credit to government contracted at an annualized rate of 49.74 per cent, representing 82.86 per cent below its programmed target of 33.12 per cent. In effect, all the major monetary aggregates contracted by end-February

and underperformed their programmed provisional benchmarks for fiscal 2017.

Headline inflation (year-on-year), however, declined for the first time in 15 months, dropping by 0.94 percentage point to 17.78 per cent in February, from the 18.72 per cent recorded in January 2017, and 18.55 per cent in December, 2016 seemingly reversing the monthly upward momentum recorded since January, 2016. The moderation in headline inflation in February, 2017 reflected base effect as well as decline in the core component, which fell by 1.90 percentage points from 17.90 per cent in January to 16.0 per cent in February, 2017. The food index, however, rose to 18.53 per cent in February, a 0.71 percentage point increase over the 17.87 per cent recorded in January, 2017.

The Committee, similarly, observed a continuous upward trend in the month-on-month inflation rate in February,

having slightly moderated between December 2016 and January, 2017. It noted the sustenance of the structural factors mounting pressures on consumer prices, such as the high cost of power and energy, transport and production factors, as well as rising prices of imports. Nonetheless, the Committee remains optimistic that the adopted policy stance and other ancillary measures directed at improving the agricultural and other relevant sectors of the economy would combine to restart growth and drive down prices in the short to medium-term.

Money market interest rates moved in tandem with the level of liquidity in the banking system. Rates were relatively stable during the review period, the interbank call rates opened at 6.25 per cent on January 25, 2017 and closed at 13.14 per cent on February 28, 2017. However, the average inter-bank call rate rose to 100.00 and 133.84 per cent on

January 21 and January 23, 2017, respectively, following the withdrawal of liquidity from the banking system through the sale of foreign exchange worth N137.00 billion on February 21, 2017.

The Committee noted the decline in the equities segment of the capital market as the All-Share Index (ASI) fell by 3.07 per cent from 26,036.24 on January 31, 2017, to 25,238.01 on March 10, 2017. Similarly, Market Capitalization (MC) decreased by 2.68 per cent from N8.97 to N8.73 trillion during the same period. Relative to end-December 2016, the capital market indices, fell by 3.12 and 3.03 per cent, respectively, reflecting the challenges still confronting the economy.

Total foreign exchange inflows through the CBN decreased by 8.87 per cent in February, 2017 compared with the

previous month, as foreign exchange market receipts were significantly lower. Total outflows, also declined by 7.32 per cent during the same period. The Committee noted that the average naira exchange rate remained stable at the inter-bank segment of the foreign exchange market in the review period.

2.0. Overall Outlook and Risks

Available data and forecasts of key economic variables as well as the newly released Federal Government's Economic Recovery and Growth Plan (ERGP), indicate prospects of output recovery in 2017. The Committee expects that the implementation of this plan, the new foreign exchange policy as well as the current effort by the Federal Government to restore peace in the Niger Delta region would help revive economic growth and stabilize prices.

The Committee identified the downside risks to this outlook to include the possibility of a slower-than-expected rate of global economic activity, tight monetary policy stance by the U.S. Fed, resulting in strengthening U.S dollar, and low oil prices.

3.0. The Considerations of the Committee

The Committee re-evaluated the implications for Nigeria of the continuing global uncertainties as reflected in the unfolding protectionist posture of the United States and some European countries; sustenance of the OPEC-Russian agreement to cut oil production beyond July 2017; sluggish global recovery and the strengthening U.S. dollar.

The Committee also evaluated other challenges confronting the domestic economy and the opportunities for achieving price stability, conducive to growth in 2017. In

particular, the Committee noted the persisting inflationary pressures; continuing output contraction; high unemployment rate; elevated demand pressure in the foreign exchange market; low credit to the real sector and weakening financial system indicators, amongst others. Nonetheless, members welcomed the improved implementation of the foreign exchange policy that resulted in naira's recent appreciation. Similarly, the Committee expressed satisfaction on the release of the Economic Recovery and Growth Plan, and urged its speedy implementation with clear timelines and deliverables. On the strength of these developments, the Committee felt inclined to maintain a hold on all policy parameters.

Nevertheless, the Committee noted the arguments for tightening policy which remained strong and persuasive. These include: the real policy rate which remains negative,

upper reference band for inflation remains substantially breached and elevated demand pressure in the foreign exchange market. The reality of sustained pressures on prices (consumer prices and the naira exchange rate) cannot be ignored, given the Bank's primary mandate of price stability. It noted that the moderation in inflation in February was due to base effect as other parameters, particularly; month-on-month CPI continued to rise. However, tightening at this time would portray the Bank as being insensitive to growth. Also, the deposit money banks may easily reprice their assets which would undermine financial stability. Besides, the Committee noted the need to create binding restrictions on growth in narrow money and structural liquidity and the imperative of macroeconomic stability to achieving price stability conducive to growth.

The Committee also considered the arguments for loosening the stance of monetary policy, noting its desirability in stimulating aggregate demand if credit increased with lower rates of interest. It noted the arguments that loose monetary policy was capable of delivering cheaper credit, making it more attractive for Nigerians to acquire assets, thus increasing wealth and stimulating aggregate spending and confidence by economic agents, which would eventually lead to lower Non-performing loans in the system. However, the counterfactual arguments against loosening was anchored on the upward trending month-on-month inflation and its impact on the exchange rate. Loosening would thus worsen the already negative real interest rate, widen the interest rate spread and reverse the positive outlook for the current account position.

On outlook for financial stability, the Committee noted that the banking sector was becoming less resilient as a result of the adverse macroeconomic environment. Nevertheless, the MPC reiterated its resolve to continue to pursue financial system stability. To this end, the Committee enjoined the Management of the Bank to work with DMBs to promptly address rising NPLs, declining asset quality, credit concentration and high foreign exchange exposures.

The Committee also noted the benefits of loosening at this time which will be in line with the needs of fiscal policy to restart growth. The MPC, however, noted that loosening would exacerbate inflationary pressures, worsen the exchange rate and further pull the real interest rate into negative territory. Since interest rates are sticky downwards,

loosening may not necessarily transmit into lower retail lending rates.

The Committee noted the consecutive positive contribution of agriculture to GDP in Q4 2016, a development partly traceable to the Bank's interventions in the sector. The Committee remains optimistic that, if properly implemented, the newly released Economic Recovery and Growth Plan (ERGP) coupled with innovative, growth-stimulating sectoral policies would help fast track economic recovery.

4.0. The Committee's Decisions

The Committee, in consideration of the headwinds in the domestic economy and the uncertainties in the global environment, decided by 9 out of 10 members to retain the MPR at 14.0 per cent alongside all other policy parameters. One member voted to raise the MPR. In summary, the MPC decided to:

- (i) Retain the MPR at 14 per cent;
- (ii) Retain the CRR at 22.5 per cent;

- (iii) Retain the Liquidity Ratio at 30.00 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 March, 2017