CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 125 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 22nd AND TUESDAY 23rd July, 2019

The Monetary Policy Committee (MPC) met on the 22nd and 23rd of July, 2019, in an environment of subdued global growth and fragile domestic economic recovery. The Committee reviewed developments in the global and domestic macro-economy. It noted that the global environment is overwhelmed with vulnerabilities and financial fragilities. Inflation in the advanced economies is trending downwards and significantly below the long-run objective, necessitating the adoption of accommodative monetary policy, the global economy is poised to see another round of loose monetary policy. All Eleven (11) members of the Committee were at the meeting.

Global Economic Developments

Global output growth remained weak with persistent headwinds expected to continue for the rest of the year. Key amongst these headwinds is the rising trade tensions, particularly between the US and its key trading partners in Europe, Canada, China and India, rising debt levels in some Advanced Economies and Emerging Markets and Developing Economies (EMDEs) as well as growing political uncertainties across several regions. Consequently, the International Monetary Fund (IMF) downgraded its 2019 global growth forecast from 3.6 per cent to 3.3 per cent.

Price developments across the major advanced economies remained muted alongside softening output growth. In the Emerging Markets and Developing Economies (EMDEs), however, inflationary developments were mixed in response to challenging macroeconomic conditions. The Committee noted, that the return to monetary accommodation by the advanced economies could see a new wave of capital flows to the EMDEs as investors continue to search for higher yields.

Domestic Economic Developments

Available data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 2.01 per cent in the first quarter of 2019, driven by the non-oil sector, compared with 2.38 and 1.89 per cent in the preceding and corresponding quarters of 2018, respectively. The Committee noted the continued but moderate expansion in the economy as indicated by the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI), which grew for the 27th and 26th consecutive months in June 2019. The indices stood at 57.4 and 58.6 index points, respectively, in June 2019. Staff forecast indicate a 2.11, 2.39 and 2.56 per cent growth in GDP in Q2, Q3 and Q4 2019, respectively, expected to be driven largely by the non-oil sector. The Committee, however, noted that the downside risks to the growth projections to include low credit to the private sector; high unemployment; delayed intervention of fiscal policy as well as low revenue and fiscal buffers, amongst others. The continued intervention by the Bank in the real sector is, however, expected to partly ameliorate the downside risks only in the short-run, while sound fiscal policy is expected to drive growth in the medium to the long-run.

The Committee observed that broad money supply (M3) grew by 4.97 per cent in June 2019 from the level at end-December 2018, at an annualized rate of 9.95 per cent. It was also below the indicative benchmark of 16.08 per cent for 2019. The growth in M3 was largely driven by the increase in Net Domestic Credit (NDC), which grew by 17.26 per cent in June 2019 from the level at end-December 2018. The growth in Net Domestic Credit (NDC) was accounted for by the significant increase in credit to Government, which grew by 55.80 per cent, while credit to the private sector grew by 9.0 per cent in June 2019. The Committee, however, noted that the constrained growth in the monetary aggregates as an indication of weak financial intermediation in the banking system and called on the Management of the CBN, to sustain the various initiatives of the Bank to improve lending to the private sector in Nigeria.

The Committee welcomed the moderation in headline inflation (year-on-year) to 11.22 per cent in June 2019 from 11.40 per cent in May 2019. This was attributed to the decline in the Food and Core components to 13.56 and 8.80 per cent in June 2019 from

13.70 and 9.03 per cent in May 2019, respectively. It noted the development as being partly due to the CBN's support to the agricultural sector and the prevailing stability in the Nigerian foreign exchange market. The MPC further noted that although inflation moderated in June 2019, the continued pressure on prices continues to be associated with structural factors such as the high cost of electricity, transport and production inputs. The MPC, however, expects that with the commencement of the harvest season, food prices will taper further downwards. It thus, however, advised that the security challenges in some parts of the country should be addressed urgently to increase agricultural produce in order to sustain the downward trend in inflation. The MPC reiterated its commitment to ensure the maintenance of price stability.

The net liquidity position and interest rates in the economy reflected the impact of liquidity injections and the Bank's liquidity management operations associated with fiscal federalism, transformation of maturing CBN Bills, Open Market Operations (OMO) auctions and foreign exchange interventions. Accordingly, the monthly weighted average Inter-bank call and Open Buyback (OBB) rates, oscillated within the MPR corridor, increasing to 8.38 and 8.71per cent in June 2019 from 5.14 and 8.34 per cent in May 2019, respectively.

The Committee noted with concern the continued bearish trend in the equities segment of the capital market in spite of the sustained capital inflow to the economy, reflecting continued portfolio reallocation from equities to fixed income securities. Consequently, the All-Share Index (ASI) declined by 9.11 per cent to 28,566.79 index points on July 12, 2019, from 31,430.50 index points at end-December 2018. Market Capitalization, however, grew by 18.77 per cent to N13.92 trillion on July 12, 2019, from N11.72 trillion at end-December 2018. This was due largely to the additional listing of new firms during the review period.

The Committee welcomed the continued stability in the foreign exchange market and the steady accretion to external reserves, which stood at US$44.88 billion as at July 19, 2019, representing a 0.38 per cent increase from US$44.71 billion at the end-June 2019. The MPC also noted the steady moderation in the Non-Performing Loans (NPLs) ratio of the banking industry to 9.36 per cent in June from 10.95 per cent in May 2019. While this remained above the prudential benchmark of 5.0 per cent, its continued moderation indicates the improved resilience of the banking system. The Committee thus emphasised its resolve to further drive down the Non-Performing Loans (NPLs) in the industry so as to strengthen the strategic health of banks in the Country.

Outlook

The overall medium-term outlook for the global economy remains mixed with indications of continued softening of global output due to persisting policy uncertainties and sustained macroeconomic vulnerabilities. These are likely to be accentuated by the increasing trade tensions between the US and its major trading partners, rising debt levels and geo-political tensions.

On the domestic economy, output growth in 2019 is expected to remain weak, peaking at 2.27 per cent, while inflation is projected at 11.37 per cent by the CBN staff projections by end-2019. The underlying arguments in favour of this forecast include: favourable oil prices; stable exchange rate; moderate inflationary pressures; enhanced flow of credit to the private sector; sustained CBN interventions in the real sector; effective implementation of the Economic Recovery and Growth Plan (ERGP); building fiscal buffers; and improved security in the food producing areas of the country.

Committee's Consideration

In its considerations, the Committee noted the need to boost output growth through sustained increase in consumer credit and mortgage loans and granting loans to our Small and Medium Enterprises companies. It also observed that the Management of the Bank had started the prescription of using benchmark loan-to-deposit ratios to redirect the banks focus to lending. To mitigate credit risk, the Committee enjoined the Management of the Bank to de-risk the financial markets, via the development of a reliable credit scoring system, similar to what applies in the advanced countries as this will encourage Deposit Money Banks (DMBs) to safely grow their credit portfolios.

The MPC called on the fiscal authorities to expedite action on expanding the tax base of the economy to improve government revenue and stem the growth in public borrowing. It further urged the fiscal authorities to build fiscal buffers to avert macroeconomic downturn in the event of a decline in oil prices.

The Committee also called on the Bank to intensify efforts to encourage Nigerians in the diaspora to use official sources for home remittances, noting that the effort will complement other measures geared towards improving Nigeria's current account balance. It enjoined the Bank to consider introducing incentives such as the reduction of charges on diaspora home remittances into Nigeria.

On the African Continental Free Trade Agreement (AfCFTA), the Committee urged the Federal Government to put in place measures to aid the economy in realising the benefits and full potentials of that Agreement. In particular, it noted the need to resuscitate moribund industries in Nigeria and improve key infrastructure in order to strengthen the productive base of the economy, create job opportunities as well as boost exports.

The Committee noted the positive developments towards the creation of a common currency in the West African Zone by January 2020 and commended Government and the Central Bank for pushing forward the initiative. The Committee, however, enjoined the Bank to ensure that Nigeria is properly positioned to maximise the benefits of monetary integration.

In consideration of the specific policy options to adopt; to hold, loosen or tighten, the MPC made the following observations:

(i) Whilst the focus on growth was imperative, the mandate of price stability remains sacrosanct;

(ii) Given the happenings in the external sector and the fact that inflation is moderating, tightening of monetary policy should not be an option at this time, as restriction of the capacity of the DMBs to create money could curtail their credit creation capabilities.

On the contrary, the Monetary Policy Committee (MPC) was of the view that, whilst loosening could increase money supply, stimulate aggregate demand and strengthen domestic production, the economy could be awash with liquidity especially if loosening drives growth in consumer credit without commensurate adjustment in aggregate output.

On holding the current monetary policy position, the Monetary Policy Committee (MPC) observed that given the recent actions of the Bank's management involving the prescription of minimum lending thresholds by the deposit money banks to our Deposit Money Banks (DMBs), it is safe to assume that this action, targeted at stimulating credit growth to the real sector would increase credit delivery to the real sector and accelerate investment and economic growth. It also observed that since interest rates were currently trending downwards, it is safer to await the full impact of these policy actions on the economy before a review of the position of monetary policy.

The Committee's Decision

In consideration of the foregoing, the Committee decided unanimously by a vote of all members present to retain the Monetary Policy Rate (MPR) at 13.5 per cent and to hold all other policy parameters constant. The decision was informed by the conviction of members that key macroeconomic indicators are trending in the right direction.

Consequently, the MPC unanimously voted to:

I. Retain the MPR at 13.5 per cent;

II. Retain the asymmetric corridor at +200/-500 basis points around the MPR;

III. Retain the CRR at 22.5 per cent; and

IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

23rd July, 2019