CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 136 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 24th AND TUESDAY 25th MAY 2021

The Monetary Policy Committee (MPC) met on the 24th and 25th of May 2021 as the global economy gradually emerges from the six-quarter long COVID-19 pandemic with lingering uncertainties. The recovery is on account of widespread vaccinations, easing of restrictions, reopening of economies and gradual return to international travels. India and Brazil however continue to battle high levels of infections and fatalities resulting from mutating strains of the virus. In the domestic environment, the economy is expected to remain on the current trajectory of recovery in 2021, mirroring the cautious optimistic trend in global output recovery. The Committee reviewed the developments in the global and domestic economic and financial environments in the second quarter of 2021 and the outlook for the rest of the year.

Ten (10) members of the Committee were present at this meeting.

Global Economic Developments

The Committee noted that while the vaccination against COVID-19 is drastically reducing fatalities across several economies, the recovery remains uneven and is tilted against developing economies compared with the developed economies with better access to vaccines. Other emerging markets economies with strong manufacturing capabilities like China are also on the verge of full recovery.

Accordingly, the International Monetary Fund (IMF) revised global output growth for 2021 to 6.0 per cent. This represents an upward revision of 0.5 percentage point, compared with the earlier projection of 5.5 per cent. The projection is, however, dependent on the efficient deployment of COVID-19 vaccines and sustained policy support across economies to strengthen the recovery of global output growth.

Prices, however, are expected to rise globally due to the massive monetary and fiscal injections in several countries to mitigate the impact of the Pandemic. The MPC noted the gradual recovery of prices, especially amongst some developed economies as inflation continued a steady movement towards the long-term objective of their central banks. It is expected that inflation may breach the long-term objective of several central banks in the medium-term, as economic activities continue to recover with more people being vaccinated. In several Emerging Market and Developing Economies (EMDEs), inflation has remained relatively high, with some economies confronted with significantly higher inflationary pressures than others, because of legacy structural issues, capital flow reversals and unabating exchange rate pressures.

The prevailing conditions in the global financial markets remained relatively stable, as central banks sustain monetary accommodation. There are, however, growing indications that monetary policy normalization may commence amongst some key central banks by the fourth quarter of 2021. The timing and pace of this normalization must, however, be carefully managed to mitigate the risk of a financial crisis post-Pandemic.

Domestic Economic Developments

Available output data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 0.51 per cent in the first quarter of 2021, compared with 0.11 and -3.62 per cent in Q4 2020 and Q3 2020, respectively. Real GDP was driven largely by the non-oil sector, which grew by 0.79 per cent in Q1 2021 compared with 1.69 and -2.51 per cent in Q4 2020 and Q3 2020, respectively. The major drivers of the non-oil GDP were Agriculture and Industry with sectoral growth rates of 2.28 and 3.05 per cent, respectively in Q1 2021. Whereas Agriculture declined by 1.14 percentage points from 3.42 per cent in Q4 2020, Industry, supported by growth in Manufacturing and Construction, grew by 3.30 percentage points from -0.25 per cent in Q4 2020. The sectoral contribution of Services to GDP, however, contracted from 1.31 per cent in Q4 2020 to -0.39 per cent in Q1 2021. The oil sector, contracted by -2.21 per cent in Q1 2021, from -19.76 and -13.89 per cent recorded in Q4 2020 and Q3 2020, respectively. The weak performance in the oil sector is largely attributable to the decline in production, in compliance with the OPEC+ production cut agreement.

The Committee noted the marginal growth in the Manufacturing Purchasing Managers' Index (PMI) to 49.0 index points in April 2021 from 48.8 index points in March 2021. This increase is a lead indicator of recovery of output growth following the easing of restrictions to curtail the spread of the Pandemic. The Non-manufacturing PMI, however, declined marginally to 47.3 index points in April 2021, compared with 47.9 index points in March 2021.

The employment level component of the manufacturing and non-manufacturing PMIs rose moderately in April 2021 to 46.5 and 48.2 index points from 45.9 and 47.7 index points in March 2021, respectively.

The Committee noted the moderate decline in headline inflation (year-on-year) to 18.12 per cent in April 2021 from 18.17 per cent in March 2021, following nineteen consecutive months of continuous rise. The decrease was driven by a marginal slowdown in food inflation to 22.72 per cent in April 2021 from 22.95 per cent in the previous month. This was partly attributed to the Bank's massive interventions in various sectors of the economy to stimulate aggregate demand and boost production, particularly for Small and Medium Scale Enterprises. The MPC, however, noted that headline inflation remained well above the ceiling of the Bank's 6-9 per cent inflation corridor as a result of a combination of factors, including: the heightened security tensions in the country and deteriorating public infrastructure. As a result, the Bank expressed its support to the Federal Government's commitment to tackle insecurity as this will improve the business environment and encourage economic activities to reduce inflation.

The MPC was also mindful of the impact of exchange rate pressures resulting from capital flow reversals associated with the COVID-19 shock, as investors sought for safe havens. It, however, applauded extant measures by the Bank in ensuring both liquidity and stability in the Foreign Exchange market as well as moderating the exchange rate pass-through to inflation.

On the performance of monetary aggregates, the Committee noted that broad money supply (M3) grew by 1.15 per cent in April 2021, compared with 0.04 per cent in

March 2021. This development was largely driven by growth in Net Domestic Assets (NDA), while Net Foreign Assets (NFA) contracted. The growth in Net Domestic Assets reflects the growth in aggregate credit supported by the ongoing broad based monetary and fiscal stimulus. Accordingly, gross banking sector credit at end-March 2021 stood at N23.53 trillion compared with N22.68 trillion at end-December 2020. This represents an increase of N0.85 trillion (year-to-date), of which commercial & merchant banks disbursed (N0.66 trillion), microfinance banks (N0.13 trillion), development finance institutions (N0.05 trillion), and primary mortgage banks and finance companies (N0.01 trillion).

The liquidity condition in the banking system in the review period was determined by several factors including; fiscal disbursements and withdrawals by states and local governments, periodic CRR debits, foreign exchange interventions, Open Market Operations, and maturing CBN bills, the net effect of which imposed liquidity constraints on the banking system.

The Committee noted the moderate decline in the equities market (year to date) as the All-Share Index (ASI) decreased by 1.97 per cent to 38,287.58 on May 24, 2021 from 39,045.13 on March 30, 2021. Similarly, Market Capitalization (MC) decreased by 4.30 per cent to N19.96 trillion on May 24, 2021 from N20.82 trillion on February 26, 2021.

The MPC noted that the Capital Adequacy Ratio (CAR) and the Liquidity Ratio (LR) both remained above their prudential limits at 15.8 and 38.9 per cent, respectively. The Non-Performing Loans (NPLs) at 5.89 per cent in April 2021, showed progressive improvement compared with 6.6 per cent in April 2020. The MPC, however, urged the Bank to sustain its tight prudential regime to further reduce the level of Non-Performing Loans in the industry.

The Committee noted the external reserves declined marginally to US$34.17 billion as at May 21, 2021, from US$34.29 billion as at end-April 2021. This reflects sales to the foreign exchange market and third-party payments.

Outlook

The optimism for medium-term macroeconomic recovery in both the global and domestic economies is slow, but steadily growing, even as some level of uncertainty are still present. This is due to the unabating COVID-19 pandemic in some countries such as India and Brazil caused by mutation of the virus into more fatal strains. In addition, the recovery is uneven and seem to be more tilted towards countries that have high vaccination rate than those less vaccinated or that are still suffering from the effects of more fatal strain of COVID-19 disease. As conditions improve however, central banks of Advanced Economies are beginning to signal the possible shift to monetary policy normalization by the fourth quarter of 2021.

Available data and forecasts for key macroeconomic variables for the Nigerian economy, suggest that output growth will continue to recover for the rest of 2021. This is premised on the continued support for agriculture to improve food supply, reduce inflation and improve employment. Others include efforts of both the monetary and fiscal authorities to improve infrastructure challenges in the country. The forecast for the Nigerian economy for

2021 is, thus, strong domestic push to support recovery particularly to ensure an end to insecurity in the country.

Consequently, as the productive capacity of the economy improves and the supply chain fully restored, we expect inflationary pressure to ease further, as the supply of goods and services offset demand.

The Committee's Considerations

At this meeting, the MPC recognized that the twin problems confronting the Nigerian Economy that must be addressed relates to stagflation, reflected in rising inflation with simultaneous contraction in output.

Committee further recognized that the strategies put in place to rein in inflation through the use of series of administrative measures by the Bank to control money supply through liquidity mop up in the banking industry had started to yield results. It also recognized that measures put in place to stimulate output growth through the use of its intervention facilities to inject liquidity into employment generating and output stimulating initiatives like the Anchor Borrower Program, Targeted Credit Facility and

Agri-Business Small and Medium Enterprise Investment Scheme (AGSMEIS) had started to yield results.

In the view of the MPC, although the economy had successfully exited the recession, the recovery was very fragile given that the GDP of 0.51 per cent was still far below population growth rate. Committee therefore was of the view that, there is a strong need for the Monetary Authorities to consolidate on all administrative measures taken not only to rein in inflation, but also on the actions so far taken to grow output.

In the Committee's view, such measures should include boosting consumption and investments, as well as diversifying the base of the economy through FX restrictions for the importation of goods and food products that can be produced in Nigeria. It also urged the Bank to continue to put in place measures that will boost export earnings. On consumption and investment, MPC noted that the intervention facilities under the Anchor Borrowers was N631.4 billion granted to 3,107,949 small holder farmers cultivating 3.8 million of land hectares; for the AGSMEIS, N111.7 billion to 29,026 beneficiaries; and for the Targeted

Credit Facility, N253.4 billion to 548,345 beneficiaries - comprising 470,969 households and 77,376 SMEs.

Notwithstanding that all these have helped in boosting output, the Bank should continue to aggressively increase its interventions in these subsectors, including agricultural processing and manufacturing. Under the National Youth Investment Fund, N2.04 billion was disbursed to 7,057 beneficiaries, of which 4,411 were individuals and 2,646 were SMEs. Under the Creative Industry Financing Initiative, the CBN has disbursed N3.19 billion to 341 beneficiaries across movie production, movie distribution, music and software development.

Under the N1 trillion Real Sector Intervention, N856.3 billion had been disbursed for 233 real sector projects, of which 77 are in light manufacturing, 36 in agro-based industry, 30 in services and 11 in mining. Under the N100 billion Healthcare Support Intervention fund, N97.4 billion has been disbursed for 91 health care projects, of which 26 are pharmaceutical and 65 hospital services. Also, N232.5 million has been disbursed to 5 beneficiaries under the CBN Health Care Grant for Research on Covid-19 and Lassa Fever. Under the National Mass Metering program, N35.9

billion has been disbursed to 9 DisCos for the acquisition of 656,752 electricity meters. Under the Nigerian Electricity Stabilization Facility 2 (NEMSF-2), N93.8 billion has also been disbursed to 11 DisCos.

The Committee members applauded Government's efforts in combating the headwinds imposed by the Pandemic and urged that going forward, Government should avoid an entire nationwide lockdown like was experienced in 2020, as this will reverse the wholesome gains jointly achieved between the Government and the Central Bank in response to the outbreak of the Pandemic.

The MPC carefully assessed the options on direction of policy in the short to medium term. It re-appraised current measures by the Government to purchase COVID-19 vaccines and the general preparedness of relevant public health agencies to guard against the spread of the mutating strains of the virus. To this end, the Committee noted the appropriate steps taken by the Government to ensure that up to 70 per cent of the populace get vaccinated to drastically drive down the infection rate in the country and hence, sustain economic activities.

The Committee noted the persisting security crisis, especially in major food producing regions of the country and the severe toll on food supply and prices. It noted that inflation had moderated marginally due to the unrelenting effort of the Bank in supporting agriculture to boost food supply and prices. The Committee, thus, re-iterated its call to the Government to intensify effort towards addressing the security situation in the country to ease supply bottlenecks and bring down food prices. The MPC further noted Government's commitment towards investing in public infrastructure despite constrained fiscal position and urged a continued focus on this objective, while exploring the option of effective partnership with the private sector, as improved road networks, telecommunications and power supply will greatly and proactively impact the supply chain and moderate price increments. It further noted the need for collaboration with Nigeria's huge diaspora, through the issuance of diaspora bonds targeted at specific infrastructure projects. Even as the Committee noted that the public debt stock was currently high, it was of the view that project specific diaspora bond issues could conveniently pay itself back without imposing a burden on

Government finances. It noted the complementary role this would play in boosting foreign exchange supply, accretion to reserves and easing of the current exchange rate pressure.

The Committee noted that the equities market remained stable, an indication of investor confidence in the Nigerian economy in the medium-term. The MPC thus urged the Bank to maintain its collaboration with the fiscal authority to improve the investment climate towards attracting sustainable Foreign Direct Investment (FDI).

With the developments in the Banking system, the Committee applauded the efforts of the CBN in ensuring a reasonably low level and steady reduction in Non-Performing Loans (NPLs), even as aggregate credit continued to expand through the crisis period. While NPLs remained marginally above the Bank's regulatory threshold, members noted that it was in line with the current state of macroeconomic imbalances occasioned by the Pandemic.

The Committee's Decision

The recent developments in the domestic economy presented two broad options to the MPC, which were to either aggressively address the high inflationary pressure or continue to pursue measures aimed at supporting the recovery.

Whereas the Committee remained overwhelmingly committed to supporting the efforts of the Federal Government in ensuring full restoration of the productive capacity of the economy, members remained much more focused towards achieving price stability in the short to medium-term. The MPC noted that economic growth could be hampered in an environment of unstable prices. To this end, the choice therefore was between loosening the stance of policy to ease credit further or tighten to moderate price development or maintain a hold stance in order to allow previous policy measures continue to permeate the economy while observing global and domestic developments.

The Committee noted that an expansionary stance of policy could transmit to reduced pricing of the loan portfolios of Deposit Money Banks and result, therefore, in cheaper credit to the real sector of the economy. On the converse, this expected transmission may be constrained by persisting security challenges and infrastructural deficits.

On the other hand, while a contractionary stance will only address the monetary component of price development, supply side constraints such as the security crisis and infrastructural deficits can only be addressed by policies outside the purview of the Central Bank. A tight stance in the view of members, will also hamper the Bank's objectives of providing low cost credit to households, Micro Small and Medium Enterprises (MSMEs), Agriculture, and other output growth and employment stimulating sectors of the economy.

Based on the above considerations, the MPC made the decision to hold all policy parameters constant.

The Committee thus decided by a unanimous vote to retain the Monetary Policy Rate (MPR).

In summary, the MPC voted to:

I. Retain the MPR at 11.5 per cent;

II. Retain the asymmetric corridor of +100/-700 basis points around the MPR;

III. Retain the CRR at 27.5 per cent; and

IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

25th May 2021