



**CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 134 OF THE
MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 25th
AND TUESDAY 26th JANUARY 2021**

The Monetary Policy Committee (MPC) held its first statutory meeting for the year 2021 on the 25th and 26th January on the backdrop of dampened optimism for improvement in global output recovery, associated with the resurgence of the COVID-19 pandemic and mild success with vaccinations across several countries. On the domestic front, recovery is expected to progress reasonably, following the mild contraction recorded during the third quarter of 2020 and with fourth quarter output growth figures expected to show further improvement. The Committee reviewed the developments in the global and domestic economic and financial environments in 2020 and the outlook for 2021 as well as the risks to this outlook.

Ten (10) members of the Committee were in attendance.

Global Economic Developments

The Committee noted a better-than-expected recovery in most economies towards the end of 2020, leading to moderation in the

contraction of global output. It, however, observed that the rapid spread of the new variant of the Coronavirus, seemingly associated spike in fatalities and the recent re-introduction of containment measures across several economies, may dampen the recovery in 2021. In the Advanced Economies, headwinds largely associated with the COVID-19 pandemic such as vaccination-related challenges, weak aggregate demand associated with less than full employment in labour markets, partially functioning supply chain networks, the rapid spread of the new variant of the Coronavirus and a high infection rate dampened the initial rebound in economic recovery towards the end of 2020.

Output growth in the Emerging Market and Developing Economies (EMDEs) remained uneven across countries. In China, output slowed marginally in the third and fourth quarters of 2020, following a faster-than-expected rebound in the second quarter of 2020. Following the lull in the second quarter, India's economy grew sharply in the third quarter, reflecting welcome adjustment to the stimulus measures. Accordingly, the International Monetary Fund (IMF) estimated global growth in 2020 as a contraction of 4.4 per cent and forecast growth in 2021 to improve to 5.2 per cent. This forecast is however, hinged on the successful vaccination of a significant number of people to create the much-desired herd immunity.

On price developments, the MPC noted that inflation, in most Advanced Economies, is likely to remain subdued in the short to medium term as the recent rise in COVID-19 infection and mortality

rates have resulted in sub-optimal employment and weakened labour markets, which dampened aggregate demand across these economies. In the EMDEs, however, inflation remains relatively high compared with the Advanced Economies, with some economies confronted with stronger upside risks than others, as a result of weak accretion to reserves, persisting exchange rate pressures, poor inflow of capital as well as longstanding structural issues.

The MPC noted the steady build-up of systemic liquidity across the global economy, arising from the support by fiscal authorities and central banks to bolster the recovery and return confidence to the financial markets. It noted that the response to the pandemic has heightened the risk of debt accumulation, raising concerns of debt sustainability and vulnerability of the global economy to financial crisis once central banks commence normalization of monetary policy.

Domestic Economic Developments

Real Gross Domestic Product (GDP), according to the National Bureau of Statistics (NBS), contracted by 3.62 per cent in Q3 2020, compared with 6.10 per cent in Q2 2020 and a growth of 2.28 per cent in the corresponding period of 2019. The real GDP contraction in Q3 2020 was largely driven by the decline of 13.89 per cent in the oil sector from 6.63 per cent in Q2 2020. The non-oil sector also contracted by 2.51 per cent in Q3 2020, compared with 6.05 per cent in Q2 2020. The weak performance observed in both the oil

and non-oil sectors was largely attributed to the lag effects of the lockdown, persisting weak global demand for crude oil and security challenges across the country.

The MPC noted with concern the continuing sluggish recovery in the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMIs), which remained below the 50-index point benchmark in December 2020, at 49.6 and 45.7 index points, respectively, compared with 50.2 and 47.6 index points during the previous month. This weak performance was attributed to the resurgence of the pandemic, foreign exchange pressures, increased costs of production, general increase in prices and decline in economic activities. Similar trend was also observed in the employment level index component of the manufacturing and non-manufacturing PMIs, which contracted for the ninth consecutive month in December 2020 to 46.3 and 45.1 index points, respectively, compared with 50.2 and 46.7 index points in the previous month. The Committee, however, noted that current growth headwinds would likely moderate in the short to medium term, as the containment measures and the sustained implementation of economic stimulus permeate the domestic economy.

The Committee expressed concerns on the persisting uptick in inflationary pressure for the sixteenth consecutive month, with headline year-on-year inflation moving further to 15.75 per cent in December 2020 from 14.89 per cent in November 2020. This uptick

was attributed to the increase in both the food and core components of inflation, which rose to 19.56 and 11.37 per cent in December 2020, respectively, from 18.30 and 11.01 per cent in November 2020. This continued upsurge in food inflation was attributed to the logistical bottlenecks, spurred by the increasing security challenges in many parts of the country, which disrupted food production and supply to the market. Other factors driving the core inflation, include the recent deregulation of the downstream sector of the oil industry, which led to hikes in the price of Premium Motor Spirit (PMS) and the upward adjustment in electricity tariff.

The Committee, however, noted that as output rebounds, supported by the suites of stimulus packages by both the Federal Government and the Central Bank, inflationary pressure would likely begin to moderate in the near term.

On the performance of monetary aggregates, the Committee noted the further growth in broad money supply (M3) to 10.97 per cent in December 2020 from 5.02 per cent in November 2020, driven largely by the growth in Net Foreign Assets. It also noted the expansion in Net Domestic Assets (NDA) to 4.96 per cent from -0.45 per cent in the previous period. Aggregate domestic credit, also moved further up by 13.40 per cent in December 2020, compared with 9.48 per cent in the previous month. This was largely attributed to the Bank's policy on Loan-to-Deposit Ratio (LDR), complemented by its interventions in various sectors of the economy. Consequently, banking sector gross credit as at end-December

2020 stood at N25.02 trillion compared with N24.25 trillion at the end of November 2020, representing an increase of N774.28 billion.

Under the Bank's real sector interventions, under the Anchor Borrowers Programme (ABP), N554.63 billion had been disbursed to 2,849,490 beneficiaries since the inception of the programme, of which N61.02 billion was allocated to 359,370 dry season farmers.

In light of the on-going synchronized efforts by the monetary and fiscal authorities to mitigate the impact of the COVID-19 pandemic, the Bank has committed substantial amount of money towards this objective. Indeed, total disbursements as at January 2021 amounted to N2.0 trillion. COVID-19 Targeted Credit Facility (TCF) meant for household and small businesses, wherein we have disbursed N192.64 billion to 426,016 beneficiaries. We have also disbursed N106.96 billion to 27,956 beneficiaries under the Agri-Business Small and Medium Enterprises Investment Scheme (AGSMEIS), while in the Health Care Support Intervention Facility, we have disbursed N72.96 billion to 73 project that comprise 26 pharmaceutical projects and 47 Hospitals and Health Care Services Project in the country. To support the provision of employment opportunities for the Nigerian youth, the Central Bank of Nigeria also provided financial support through the Creative Industry Financing Initiative and Nigerian Youth Investment Fund amounting to N3.12 billion with 320 beneficiaries and N268 million with 395 beneficiaries, respectively. On enhancing power supply, the Bank has so far, provided N18.58 billion for the procurement of 347,853

electricity reading meters to Discos in support of the National Mass Metering Programme.

The Committee urged the Bank to sustain its current drive to improve access to credit to the private sector while exploring other complementary initiatives, in collaboration with the Federal Government, to improve funding to critical sectors of the economy. During the period under review, money market rates remained low, reflecting the prevailing liquidity conditions in the banking system. Overall, the monthly weighted average Open Buy Back (OBB) rates declined further from the 1.13 per cent in November 2020 to 1.09 per cent in December 2020.

On the equities market, the Committee noted the positive performance, particularly the sustained patronage by domestic investors largely driven by the prevailing low yields in the money market. The All-Share Index (ASI) increased by 1.82 per cent to 41,001.99 points as at 22nd January, 2021 from 40,270.72 points on 31st December, 2020. Similarly, Market Capitalization (MC) grew by 1.80 per cent to N21.44 trillion from N21.06 trillion over the same period. This improved performance was largely attributed to gains recorded in medium and large capitalized companies, notably in consumer goods, banking, insurance and oil and gas sectors.

The Monetary Policy Committee (MPC), however, noted the marginal increase in the Non-Performing Loans (NPLs) ratio which rose to 6.01 per cent at end-December 2020 from 5.88 per cent at end-November 2020 and above the prudential maximum threshold

of 5.0 per cent. While noting that this development is not unexpected under the prevailing circumstances, it urged the Bank to strengthen its macroprudential framework to bring NPLs below the prescribed benchmark.

On the external reserves position, the Committee noted the increase in the level of external reserves, which stood at US\$36.23 billion as at 21st January, 2021 compared with US\$34.94 billion at the end of November 2020. This reflected improvements in crude oil prices, partial global economic recovery amid optimism over the discovery and distributions of COVID-19 vaccines by most developed economies.

Outlook

Overall, the medium-term outlook for both the domestic and global economies continued to show improved prospects of recovery, supported by the recent moderate uptick in crude prices and increased optimism over the procurement and distribution of COVID-19 vaccines.

Available data and forecasts for key macroeconomic variables for the Nigerian economy suggest further improvement in output growth in the first quarter of 2021. This would be supported by the coordinated and sustained interventions of the monetary and fiscal authorities, including the broad-based stimulus and liquidity injections. Inflationary pressure is also expected to commence moderation as the economy's negative output gap closes.

However, underlying uncertainties in the oil market and current uptick in the second wave COVID-19 infection rate may pose some downside risks to this forecast.

The Committee's Considerations

The Committee noted the moderation in output contraction in the third quarter of 2020, associated with news of the discovery of COVID-19 vaccines and rising oil prices. The outlook for the recovery, however, appears to be dampened by the second wave of the pandemic considering its intensity.

In the Committee's consideration, it noted that the COVID-19 pandemic and the necessary measures put in place by the Government to forestall its public health impact, such as the lockdown and other associated restrictions, contributed to the Nigerian economy going into recession, much like almost every other country in the world. Members thus agreed that the Committee's current priority remains to quicken the pace of the recovery through sustained and targeted spending by the fiscal authority supported by the Bank's interventions. In this light, it was thought necessary to increase collaboration with the fiscal authority by providing complementary spending to finance productive ventures in a bid to improve aggregate supply and reduce prices. This is in addition to effectively collaborating with the Presidential Task Force on COVID-19 through the existing private sector Coalition against COVID-19 (CACOVID) to procure and

distribute vaccines to fast-track the pick-up of business activities and economic recovery.

Members reiterated the adverse impact of insecurity on food production, stressing that the current uptick in inflationary pressure could not be solely associated to monetary factors, but due mainly to legacy structural factors across the economy, including major supply bottlenecks across the country. The Committee, thus called on the Government to redouble efforts at strengthening infrastructural efficiency and address the emerging security challenges in the country. In addition to this, the Committee called on the Government to explore the option of effective partnership with the private sector to improve funding sources necessary to address the huge infrastructural financing deficit. The Committee expressed concern over the rising public debt stock, as recurrent expenditure remained relatively high, compared with capital expenditure, thus, signalling future debt servicing challenges.

To improve Government revenue sources and investment in capital, the Committee called on the Government to take advantage of the take-off of the African Continental Free Trade Area (AfCFTA), which could boost domestic production and generate sizeable revenues for Government, as well as improve domestic productivity and competitiveness.

The Committee commended the Bank's effort of improving liquidity in the foreign exchange market, but noted the need to continue to explore avenues to improve inflow from sources such as the International Money Transfer Operators (IMTO), diaspora

remittances and non-oil export promotion, given the current trajectory of crude oil prices. These sources, in the view of the Committee, would boost foreign exchange supply and ease the current exchange rate pressure.

The Committee noted the continued improvement in the equities market as a lead indicator of medium-term macroeconomic recovery, thus, urging the Bank to maintain its collaboration with the fiscal authority to improve the investment climate towards attracting sustainable Foreign Direct Investment (FDI).

The Committee commended the Bank for maintaining a sound regulatory surveillance over the banking system by ensuring a reasonably low level of non-performing loans (NPLs), even with the aggressive credit expansion programme during this crisis period. Though, NPLs remained slightly above the prudential benchmark, members noted that the banking system remained stable, strong and resilient. Given the success recorded under the LDR policy, it thus urged the Bank to sustain its risk surveillance approach and ensure the continued soundness of the banking system.

In the Committee's consideration, it noted the broad-based global stimulus packages, including expanded credit lines, asset purchase programme, corporate bond purchase, additional funding facilities for financial system, commercial paper purchases, special central bank lending, increase in the Ways and Means limits introduced by the central banks of different countries to support economic recovery in their various economies and to prevent further distortions to the economy caused by the devastating impact of

the pandemic. The Committee noted the large stimulus packages deployed by many countries to fast-track growth recovery and restore livelihoods across the world. For instance, Japan provided stimulus package valued at 66.9 per cent of its 2019 GDP; UK, 45.04 per cent; USA, 28.4 per cent; Brazil, 27.6 per cent; South Africa, 12.6 per cent; China, 11.5 per cent; India, 10.0 per cent; and Russia 7.1 per cent compared with Nigeria's paltry 4.0%. The MPC, therefore, urged the Bank to further expand its current stimulus packages to support the fiscal interventions to reflate and boost recovery in the economy.

The Committee's Decision

At this meeting, MPC was, as in the last meeting, confronted with a policy dilemma as to whether to aggressively combat the inflationary pressure or support measures currently aimed at stimulating growth and reversing the recession.

Although the economy is currently in a stagflation environment with simultaneous occurrence of inflationary pressures and contracting output, the MPC resolved to reverse both developments and continue pursuing price stability in growing the economy.

MPC was of the view, that whereas there may be wisdom in loosening, given that the impact of the global Covid-19 pandemic has resulted in constrained activities, disruption to supply chain and suppress aggregate demand, an accommodative stance may be

required to stimulate credit expansion and boost recovery in the short term.

The Committee was also of the view that an expansionary policy would enable the monetary authorities convince the financial institutions to reduce loan pricing and defer interest and principal repayments to critically affected obligors in a sustainable manner.

On the flip side, MPC also opined that an aggressive expansionary stance may worsen both inflation and the negative real interest rate, thereby resulting in negative consequences on exchange rate.

With regard to tightening, MPC concluded that this may run contrary to its objectives of providing affordable credit to households, MSMEs, Agriculture, and other output growth and employment stimulating sectors of the economy.

MPC was therefore of the view that it should pursue its current stance of systematic synchronization of monetary and fiscal policy accommodation through its developmental finance initiatives, aimed at mitigating the impact of the COVID-19 pandemic on Nigerians.

While expressing understanding of the public health dilemma of the recent spike in infections, MPC encouraged Government not to consider a wholesome lockdown of the economy so as not to reverse the current gains of the stimulus earlier provided in 2020. It also encouraged the Central Bank of Nigeria Management to intensify its efforts in the targeted credit facility to household, SMEs,

the Health Sector, as well as Agric and manufacturing sectors which would not only boost consumer spending but result in manufacturing output thereby positively impacting the GDP. On this basis, the MPC agreed to hold all policy parameters constant.

The Committee thus decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 11.5 per cent.

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

26th January 2021