CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 138 OF THE 281ST MONETARY POLICY COMMITTEE MEETING HELD ON THURSDAY, 16th AND FRIDAY, 17th SEPTEMBER 2021

The Monetary Policy Committee (MPC) met on the 16th and 17th September, 2021, on a relatively comforting note of a moderate global output growth recovery and improved global trade. The performance of the global economy in the first two quarters of the year and into the third quarter, remained favourable with positive outlook for the rest of the year. However, cautious optimism persists, driven primarily by mutating and more fatal strains of the COVID-19 virus and disparities in the progress of vaccinations across several countries. In the domestic economy, output growth performance continued to improve, signposting the positive impact of the unwavering fiscal and monetary support by both the fiscal and monetary authorities to revive and sustain economic growth, post pandemic. The Committee reviewed the developments in the global and domestic economic environments in the third quarter of 2021, as well as the outlook for the rest of the year.

Ten (10) members of the Committee attended this meeting.

Global Economic Developments

The Committee noted the continuing rebound in the global recovery as several advanced and emerging market economies posted promising second quarter output growth figures, despite the uneven progress in vaccination coverage. The MPC noted that the uncontained spread of the COVID-19 virus continues to pose downside risks to global recovery in 2021 and into 2022. The MPC further noted that despite the strong output growth identified in some Advanced Economies, several developing economies were still lagging in vaccination progress. Members, emphasized that the widespread availability of vaccines, remained vital to surmounting the Pandemic and attaining full and all-inclusive recovery of the global economy. Despite the challenges posed by the ongoing mutation of the coronavirus, governments across the globe remain focused on easing business restrictions and resuscitating economic activities. Consequently, the International Monetary Fund (IMF), maintained its aggregate projection for global growth in 2021 at 6.0 per cent, but increased its projection for the Advanced Economies to 5.6 per cent from a previous 5.1 per cent, while that for the Emerging Markets and Developing Economies (EMDEs) was downgraded to 6.3 per cent from 6.7 per cent.

Price development across several Advanced Economies has remained on a sustained uptrend and exceeding their long run objectives. This is expected to continue in the short to medium term as against earlier forecasts that the upward shift was transient. Consequently, several central banks of advanced economies are currently considering early commencement of monetary policy normalization, even though policy rate adjustments are not expected in the medium term. Across several Emerging Market and Developing Economies, inflationary pressures remained mixed, as some economies had much higher rates than their peers, due to lingering exchange rate pressures, capital flow reversals, high energy costs, supply chain disruptions and poor response to policy stimulus resulting from structural bottlenecks.

In the global financial markets, the Committee noted that while demand for equities remained strong, an indication of renewed market confidence, gold price still maintained its post-Pandemic high, reflecting the hedging by investors against a possible rebound of the Pandemic. Long-term sovereign bond yields are expected to improve with the commencement of monetary policy normalization by central banks of advanced economy. Committee members, however, expressed cautious optimism for a gradual normalization of monetary policy by these central banks, as a sharp retreat of policy stimulus may plunge the global economy into a financial crisis again. This may also increase the uncertainty around the full recovery of several Emerging Market and Developing Economies. The MPC, therefore, called on the Bank to put in place measures to moderate the likely impact of the normalization of monetary policy on the domestic economy.

Domestic Economic Developments

In the second quarter of 2021, there was a significant improvement in the real Gross Domestic Product (GDP), which grew by 5.01 per cent compared with 0.51 and -6.10 per cent in the previous quarter and corresponding quarter of 2020, respectively. This recovery was attributed to the non-oil sector, driven by a rebound in services sector and continued growth in agriculture sector. The oil sector contracted further by -12.65 per cent (year-on year) in the second quarter of 2021, compared with -2.21 per cent in the previous quarter. This deeper contraction, was attributed to several factors: including declining crude oil production at two crude streams in the country, associated with leakages in two major pipelines; deteriorating oil production infrastructure; poor pipeline maintenance; and the need to comply with OPEC+ production ceiling.

The Committee noted the moderate improvement in both the Manufacturing and Non-Manufacturing Purchasing Manager's Indices (PMIs), though still below the 50-index point benchmark, showed a marked improvement over time. In August 2021, the Manufacturing and non-Manufacturing PMIs improved to 46.9 index points apiece, compared with 46.6 and 44.8 index points, respectively, in July 2021. This was attributed to an increase in new orders, driven largely by rising demand, uptrend in business activity and further normalization of economic activities. Similarly, the employment level index component of the Manufacturing and non-Manufacturing PMIs in August 2021 improved to 49.4 and 48.8 index points, respectively, compared with 46.5 and 47.0 index points in July 2021. The Committee expressed optimism that with the current level of monetary and fiscal stimuli, as well as efforts to increase vaccination and contain the Pandemic, the economy will continue to improve in the short-to medium term.

The Committee reviewed the performance of the Bank's interventions to sustain the recovery of output growth and address the downside risks to other external and domestic shocks to the economy. Interventions continued largely in Manufacturing, Agriculture, Energy/infrastructure and Micro, Small, and Medium Enterprises (MSMEs).

The Bank under its Anchor Borrowers Programme (ABP) has cumulatively released the sum of ₦798.09 billion to 3.9 million smallholder farmers cultivating 4.9 million hectares of land across the country. Out of this for the 2021 wet season farming, the Bank released the sum of ₦161.18 billion to 770,000 small-holder farmers cultivating seven (7) commodities on 1.10 million hectares across the country. While harvesting for the 2020 dry season under the Programme is rounding up, harvesting activities have commenced for the 2021 wet season cultivation. The Strategic Maize Reserve Programme of the CBN has been useful in moderating maize prices by directly targeting large feed mill producers. Under its Commercial Agriculture Credit Scheme (CACS), the CBN has supported 657 large-scale agricultural projects, to the tune of ₦708.39 billion.

To support MSMEs across the country, the Bank disbursed ₦134.57 billion to 38,140 beneficiaries under the Agribusiness/Small and Medium Enterprise Investment Scheme (AGSMEIS), and for the Targeted Credit Facility (TCF), the sum of ₦343.21 billion has been released to 726,198 beneficiaries, comprising 602,730 households and 123,468 Small and Medium Enterprises.

Under the Real Sector Facility, the Bank released the sum of ₦1.00 trillion to 269 real sector projects, of which 140 are in light manufacturing, 71 in agro-based industry, 47 in services and 11 in mining. Under the Healthcare Sector Intervention Facility (HSIF), ₦103.02 billion has been disbursed for 110 healthcare projects, of which 27 are pharmaceutical, 77 hospitals and 6 other healthcare service projects. The Bank has also disbursed a total of N145.99 billion under its Non-Oil Export Stimulation Facility (NESF). The CBN has revised the guidelines, working with Nigerian Export-Import Bank to improve access to the intervention and stimulate non-oil export growth in Nigeria.

Under the National Mass Metering Programme (NMMP), ₦41.06 billion has been disbursed to ten (10) DisCos, for the procurement and installation of 759,748 electricity meters. Under the Nigerian Electricity Market Stabilization Facility - 2 (NEMSF-2), the Bank has released the sum of ₦145.66 billion to 11 DisCos as loans to provide liquidity support and stimulate critical infrastructure investment to improve service delivery and collection efficiency.

In furtherance of its intervention in the energy sector, the Bank has disbursed ₦39.20 billion to six (6) beneficiaries to improve gas-based infrastructure to support the Federal Government's Auto-Gas Conversion Programme. The Bank has also encouraged Deposit Money Banks (DMBs) to participate in the Solar Connection Facility (SCF) to improve energy access in the rural areas.

To promote entrepreneurship development among Nigerian youth, the Bank recently approved the implementation of the Tertiary Institutions Entrepreneurship Scheme (TIES). The Scheme is designed to promote entrepreneurial activities and foster job creation among Nigerian youths.

The Committee applauded the continued moderation in headline inflation for the fifth consecutive month to 17.01 per cent (year-on-year) in August 2021 from 17.38 per cent in July 2021. The continued decrease was attributed to a marginal decline in the food component to 20.30 per cent in August 2021 from 21.03 per cent in July 2021. The core component, also, declined to 13.41 per cent in August 2021 from 13.72 per cent in July 2021. The MPC noted that headline inflation remained well above the Bank's benchmark corridor of 6 – 9 per cent, but expressed optimism that with sustained interventions by the Bank, food production will continue to improve, thus moderating headline inflation further. The Committee, thus, urged the fiscal authority to build on earlier efforts to articulate a clear strategy to attract private sector investment while resuscitating critical infrastructure to improve the ease of doing business in the country.

Members observed that broad money supply (M3) rose to 5.83 per cent in August 2021, compared with 2.91 per cent in July 2021. This was largely driven by the growth of Net Foreign Assets and Net Domestic Assets by 12.35 and 4.30 per cent in August 2021, compared with 1.84 and 3.17 per cent in July 2021, respectively. The growth in Net Foreign Assets was largely driven by increase in foreign asset holdings of commercial and merchant banks. The increase in Net

Domestic Assets reflects the boost to aggregate credit net, which increased to 8.14 per cent in August 2021, from 5.71 per cent in July 2021.

In the money market, the monthly weighted average Inter-Bank Call and Open Buyback (OBB) rates increased to 13.45 and 12.97 per cent in August 2021 from 10.72 and 11.60 per cent in July 2021, respectively. This increase reflected the tight liquidity conditions in the banking system during the review period as the Bank curtailed excess system liquidity.

The MPC noted the moderate improvement in the equities market in the review period, as the All-Share Index (ASI) increased by 2.67 per cent from 37,907.28 on June 30, 2021, to 38,920.50 on September 14, 2021. Market Capitalization (MC) also increased by 2.63 per cent from N19.76 trillion to N20.28 trillion over the same period, reflecting improvement in investor confidence following the strengthening of output growth.

The MPC noted that the Capital Adequacy Ratio (CAR) and the Liquidity Ratio (LR) both remained above the prudential limits at 15.2 and 41.7 per cent, respectively at end-July 2021. The Committee, also, welcomed the improvement in the Non-Performing Loans (NPLs) ratio at 5.4 per cent in July 2021, compared with 5.7 per cent in June 2021. The Committee thus, urged the Bank to sustain current efforts to bring NPLs below the 5.0 per cent prudential benchmark.

The Committee noted the improvement in lending to the real sector following the introduction of the Loans-to-Deposit Ratio (LDR) in 2019. Industry gross credit increased by N6.63 trillion from N15.57 trillion at end-May, 2019 to N22.20 trillion at end-July, 2021. The credit growth was largely recorded in manufacturing, oil and gas and agriculture sectors.

The Committee noted the significant increase in the external reserves which rose to US$35.97 billion at end-August 2021 from US$33.49 billion at end-July 2021, representing an increase of 7.41per cent. It also welcomed the further increase to US$36.03 billion on September 13, 2021.

Outlook

The outlook for both the global and domestic economies appears mixed. This is due to lingering uncertainties over the end of the COVID-19 pandemic as well as continued mutation of the virus. The slow and uneven pace of vaccination in developing economies is also compromising the achievement of global herd immunity, thus imposing a considerable headwind to the attainment of the global growth forecast.

Some central banks in advanced economies have given guidance of intended commencement of monetary policy normalization as monetary and fiscal policy across major advanced and emerging market economies have remained robust. This would constitute a further headwind to the full and inclusive recovery of the global economy due to the likely rise in cost of capital. The global economy is confronted with more headwinds than tailwinds, evidenced by the multitude of conflicting signals emerging from various major economies.

Available data and forecasts for key macroeconomic variables for the Nigerian economy, suggest further rebound in output growth for the rest of the year. This will however be hinged on the continued stability in oil price and robust vaccination in Nigeria and across other countries. Foreign exchange market stability, further reduction in inflationary pressure in the economy and continued interventions by the monetary and fiscal authorities are very important factors to sustain the recovery momentum. Consequently, the Nigerian economy is forecast to grow in 2021 by 2.86 per cent (CBN), 3.0 per cent (FGN) and 2.5 per cent (IMF).

The Committee's Considerations

The Committee noted the recovery in output growth and improving PMIs in the second quarter and urged the Bank to maintain the momentum of its current policy measures to sustain positive and inclusive real GDP growth.

The increasing level of insecurity in parts of the country remained a crucial point of concern for the MPC as its persistence could adversely impact business confidence and derail the recovery. It continued to call on the Federal Government to prioritize security surveillance in farming communities as the increased supply of food would play a significant role in stabilizing macroeconomic fundamentals.

The Committee applauded the steady but moderate decline in domestic prices as inflation decelerated for the fifth consecutive month with forecast indicating a continued downward trend. The Committee also welcomed ongoing efforts towards revitalising the Nigeria Commodity Exchange (NCX) to improve the supply value chain, curtail the speculative activities of middlemen in the agricultural sector, and consequently drive down prices of key commodities such as paddy rice, maize, wheat and sorghum, amongst others.

Members applauded the relentless effort by the Bank and other collaborators in ensuring the eventual take off of the Nigerian Infrastructure Corporation (INFRACORP), as this will improve the business environment, attract new investment and create new jobs in the Nigerian economy. The MPC further emphasised the importance of investment in transportation networks, power supply and telecommunication as these have a multiplier effect on other sectors of the economy. In addition to the INFRACORP initiative, Members urged the fiscal authority not to relent on other complementary infrastructure initiatives such as Public-Private-Partnerships and engagement of Nigeria's huge diaspora through the issuance of diaspora bonds to fund specific projects.

The MPC noted the moderate improvement in the equities market and commended the sustained investor confidence in the Nigerian economy. The Committee however called on the Federal Government to continue to improve the ease of doing business in Nigeria to retain the current patronage of the Nigerian economy by foreign investors.

Members applauded the continued resilience of the banking system, noting the progressive decline in the non-performing loans ratio, and broad improvement in all banking system parameters, despite the downside risks posed by the Pandemic to the smooth running of businesses. While the Committee was cognizant of the credit risks associated with lending in the current economic climate, it urged Nigerian banks to extend more credit to businesses and consumers to facilitate a seamless recovery of output growth, reduce unemployment and stabilize prices.

On the management of the exchange rate, the Committee applauded the Bank for improving foreign exchange supply in the economy to meet legitimate business and consumer demand. Members thus, urged the Bank to take further steps to restrict the activities of unauthorised and illegal dealers in the foreign exchange market, stating that all foreign exchange transactions must be conducted at the I&E window to ensure transparency and stability. The Committee, thus, called on the Bank to intensify surveillance over foreign exchange sales and utilisation by commercial banks and customers, to ensure that operators adhere to stipulated guidelines set by the CBN. The Bank thus, maintains its resolve to continue to restructure the foreign exchange market and will pursue all recent policies targeted at sanitizing the market to improve transparency and proper functioning to eliminate illegal foreign exchange dealers in the economy.

On Government revenues, members urged the Federal Government to improve its tax collection in order to reduce its dependence on oil revenues and reduce its exposure to counter-cyclical shocks.

The Committee emphasised the growing need to improve the agricultural value chain, particularly in key commodity products like cocoa, palm oil and cashew to diversify the country's export receipts. It, therefore, called on the Bank to support manufacturing initiatives that could achieve this objective.

The Committee applauded the Bank for its resilience and robust efforts in managing the downside risks to growth and the upside risks to inflation since the outbreak of the Pandemic, while charting a stable path for the economy to continue to expand its potential capacity through investment in infrastructure.

Overall, the MPC assessed the headwinds and tailwinds to growth, as well as, the upside risks to inflation, noting the immense effort by both the monetary and fiscal authorities to achieve a substantial recovery in output growth and decrease in inflation. The Committee urged the Presidential Task Force on COVID-19 to intensify efforts toward procurement of more vaccines and the vaccination of more people to ensure that herd immunity is achieved.

The Committee's Decision

The MPC expressed delight at the robust recovery of output growth during the second quarter and the continued decline in inflation. Members, however, re-iterated the need to put in place further measures to drive down inflation and improve real returns on investment. The MPC noted the unequivocal importance of credit growth to the sustained recovery of output and the moderation in price development as supply improves. It thus, called on the Bank to maintain adequate surveillance on banks to ensure compliance with its extant credit policy, while ensuring that they are not unduly exposed to credit risks.

The Committee also noted the relevance of the Bank's suite of interventions to the overall system credit, urging its continued use to fund sectors with high employment-generating capacity.

MPC weighed the pros and cons of tightening, holding or loosening the stance of policy, noting the impact on output growth, price development, unemployment and exchange rate.

Members felt that tightening will contract the current level of system liquidity, and thus reduce demand pressure in the foreign exchange market, given that the current MPR at 11.5 per cent, CRR at 27.5 per cent and liquidity ratio at 30.0 per cent is already a tightening stance. This will, however, raise the cost of credit and reduce the volume of credit to the private sector.

On loosening, the Committee felt that this would lower retail interest rates and improve the ability of obligors to repay their obligations, with a complementary reduction in NPLs. The gradual downward movement of inflation may, however, be compromised if policy accommodation is increased, leading to a further widening of the negative real interest rate and thus exacerbating capital outflows as investment in naira denominated assets become less attractive.

Members considered that a hold stance would allow the current recovery of output growth and decline in inflation to continue smoothly, thus gradually moving the economy to a sustainable path before adjustments are made to the stance of policy.

Based on the above considerations, the MPC made the decision to hold all policy parameters constant; believing that a hold stance will enable the continued permeation of current policy measures in supporting the recorded growth recovery and macro-economic stability.

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;
iv. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

17th September, 2021