CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 139 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 22nd AND TUESDAY 23rd NOVEMBER 2021

The Monetary Policy Committee (MPC) met on 22nd and 23rd November 2021, in light of the continued recovery of the global economy and improving output growth in the domestic economy. Though, the growth outlook for the global economy for the rest of the year and into 2022 remains favourable, the uneven pace of recovery across countries has persisted. This was driven primarily by country and regional disparities in COVID-19 vaccination rate, size of policy support and regional economic conditions. On the domestic front, the continued support by the monetary and fiscal authorities is sustaining the growth recovery, notwithstanding the persistence of security challenges and legacy infrastructural constraints. The Committee appraised the developments in the global economy, international financial environment and the domestic economy, as well as the outlook for the rest of the year and the first quarter of 2022.

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

Global Economic Developments

Global output growth has remained upbeat as economic agents defy the continued threat posed by the sharp rise in infection rates associated with new strains of the COVID-19 virus. Despite the forecast for a robust recovery of the global economy in 2021, the uneven pace of vaccination across the globe and the continued rise in infection rates by the more fatal and mutating strains of the COVID-19 virus, suggest that the current two-speed recovery of the global economy may persist longer than anticipated. This may, however, be remedied if governments across the globe rally to improve coordination in the distribution of vaccines to aid the early attainment of global herd immunity. The Committee noted that the downside risks to the recovery may persist if the spread of these new variants is not addressed urgently.

In light of the above dynamics and associated headwinds, the International Monetary Fund (IMF) downgraded its 2021 growth forecast for the global economy from 6.0 per cent to 5.9 per cent. It also revised the projection for the Advanced Economies downwards from 5.6 per cent to 5.2 per cent. The downgrade was, however, offset by an upgrade of the growth forecast for Emerging Markets and Developing Economies (EMDEs) in 2021. Thus, the forecast for the Emerging Markets and Developing Economies was revised upwards to 6.4 per cent from 6.3 per cent.

Inflation across several Advanced Economies is expected to continue its upward trend into 2022, contrary to earlier expectations of transiency, as commodity prices continue to recover and feeding into energy and goods prices. This is on the backdrop of rising demand, associated with the sustained rebound in global output growth, amid lingering supply constraints. In response to the persistence of price development, the US Federal Reserve Bank has announced its intention to commence tapering its monthly bond-buying programme by the end of November 2021. Other advanced economy central banks have also indicated the likelihood of following suit in the short to medium term. In key Emerging Market and Developing Economies, inflation remained relatively high compared with the Advanced Economies. This is mostly due to supply-side constraints associated with the Pandemic; exchange rate pressures; and other legacy structural problems. The severity of inflationary pressures in this group of economies, however, varies across countries in relation to the specific structure and dynamics of the individual economies.

In the global financial markets, equity prices largely maintained a strong post-lockdown recovery, while investors continued to maintain a sizeable hedge in gold, possibly to ease the impact of a rebound of the Pandemic as infection rates continue to rise. The financial markets remained moderately bullish, an indication that investors remain cautious in view of the unabating Pandemic. This is reflected by the price of Gold, which has remained well above pre-Pandemic levels.

Domestic Economic Developments

According to the National Bureau of Statistics (NBS), real Gross Domestic Product (GDP) grew by 4.03 per cent (year-on -year) in the third quarter of 2021, compared with 5.01 and -3.62 per cent in Q2 2021 and Q3 2020, respectively. The growth trajectory has thus, been positive in the last four quarters following the exit from the recession in 2020. Quarter-on-quarter, real GDP grew by 11.07 per cent in Q3 2021 compared with -0.79 per cent in the preceding quarter. This improvement in real GDP was driven by growth in both the oil and non-oil sectors by 12.05 and 10.99 per cent, respectively. The Committee also noted the continued improvement in the Manufacturing Purchasing Managers' Index (PMI), which though, remained below the 50-index point benchmark, rose to 47.3 index points in October 2021 from 46.6 index points in September 2021. This improvement indicated a gradual recovery of output growth, driven largely by the increase in new orders associated with rising aggregate demand and upswing in business activities. The Non-Manufacturing PMI, however, declined to 47.5 index points in October 2021 from 47.8 index points in September 2021 as uncertainties persisted around the poor security situation.

The Committee noted the continued moderation in headline inflation (year-on-year) to 15.99 per cent in October 2021 from 16.63 per cent in the previous month, the seventh consecutive month of decline. The decrease was attributed to a marginal decline in both the food and core components to 18.34 and 13.34 per cent in October 2021 from 19.57 and 13.74 per cent, respectively in September 2021. Inflation, however, remained above the Bank's implicit tolerance corridor of 6 – 9 per cent and above its benchmark policy rate of 11.5 per cent despite its progressive decline.

Observing developments in monetary aggregates, the Committee noted that broad money supply (M3) grew by 7.10 per cent in October 2021, compared with 4.72 per cent in September 2021. This was driven by growth in Net Domestic Assets (NDA) by 9.12 per cent in October 2021, compared with 10.71 per cent recorded in September 2021. Net Foreign Assets (NFA), on the other hand, contracted moderately by -1.50 per cent in October, compared with -20.85 per cent in the preceding month. The continued growth in Net Domestic Assets (NDA) was largely driven by increased claims on the Federal Government and other public nonfinancial corporations, private sector and state and local governments.

In the financial markets, money market rates oscillated within the standing facilities corridor, reflecting the prevailing liquidity conditions in the banking system. The monthly weighted average Open Buyback (OBB) rate increased to 12.18 per cent in October 2021 from 11.11 per cent in September 2021, while the monthly weighted average Inter-bank Call rate decreased from 13.21 per cent in September 2021, to 10.00 per cent in October 2021. The increase in the Open Buyback (OBB) rate reflected the tight liquidity condition in the banking system.

The MPC noted the positive performance of the equities market in the review period, with the All-Share Index (ASI) and Market Capitalization(MC) increasing to 43,199.27 and ₦22.55 trillion on November 19, 2021, from 39,219.61 and ₦20.43 trillion on August 31, 2021. This depicts improved investor sentiment, following impressive corporate earnings of listed companies on the Exchange. This has led to a new bargain hunting drive by investors.

The MPC noted that the Capital Adequacy Ratio (CAR) and Liquidity Ratio (LR) both remained above their prudential limits at 15.2 and 41.2 per cent, respectively. The Non-Performing Loan ratio (NPL) at 5.3 per cent in October 2021, reflected progressive improvement, compared with 5.7 per cent in October 2020. The Committee, however, urged the Bank to sustain its tight prudential regime to bring the Non-Performing Loan (NPL) ratio below the 5.0 per cent prudential benchmark.

The gross external reserves stood at US$41.41 billion as at November 18, 2021, compared with US$41.34 billion in October 2021, a moderate increase of 0.17 per cent.

Outlook

The overall outlook for both the global and domestic economies remain upbeat but for the significant downside risks clouding the path to full recovery. The key risks remain the unabating COVID-19 pandemic and uneven progress in vaccination. As the US Federal Reserve Bank commences scaling down of its monthly bond-buying programme, there is increased likelihood that other advanced economy central banks will follow in the same direction. With this impending development, external financial conditions will likely tighten for most EMDEs, in view of huge capital flow reversals to the Advanced Economies as yields rise. This will no doubt deepen the growth divergence between these two groups of economies.

Forecasts for key macroeconomic variables for the Nigerian economy, indicate continuing rebound in growth recovery for the rest of the year. This is expected on the back of continued support by both monetary and fiscal policy, sustained high crude oil prices and most importantly, availability of COVID-19 vaccines as well as high turnout for vaccination in Nigeria. Accordingly, the Nigerian economy is forecast to grow in 2021 by 3.10 per cent (CBN), 3.0 per cent (FGN) and 2.6 per cent (IMF). Inflation is expected to continue its downward trajectory as the harvest season sets in and the government works on improving the security situation to ease the bottlenecks constraining food supply.

The Committee's Considerations

The Committee commended the continued recovery in output growth following a positive outcome in the third quarter of 2021.

Based on the current outlook for price development and growth, Members carefully reviewed the options confronting the Committee in the short to medium term, taking into consideration, key downside risks to growth and upside risks to inflation. Members reiterated the need to remain cautious and urged both the monetary and fiscal authorities to sustain their support for the recovery, as the Pandemic was yet to be over. The Committee, however, noted that with the sustained intervention by the Bank, economic activities will normalize in the short to medium term, leading to improved output growth and lower inflationary pressure. The MPC also urged the fiscal authorities to sustain the current effort to revamp the economy through continued support to the critical sectors of the economy.

The continued security challenge across the country remained a major source of concern for Members, noting its impact on business confidence, foreign investment inflows and overall economic activities. The persistence of insecurity in major food producing areas, remained a key downside risk to the recovery. The Committee called on security agencies in the country to increase their presence in order to boost public confidence and facilitate the movement of people, goods and services across the country. With improved security, especially in these food producing areas, Members expressed optimism that food inflation will drop significantly following successful harvests and distribution.

The Committee also commended the gradual diversification of the economy with the increased contribution of the non-oil sector to Government revenues and called for more support to increase non-oil exports as a source of foreign exchange earnings into the economy.

Members also reiterated the impact of poor infrastructure on rising domestic price levels, urging the Federal Government to prioritize investment in public utilities to improve the business environment. These include transportation networks, power supply, education and health. Following the President's recent international call to investors to channel investments to Nigeria, Members were of the view that funding for such projects could be sourced through equitable partnerships with foreign investors and Nigerians in diaspora.

The Committee noted that the equities market remained in a strong position, signposting continued investor confidence in the Nigerian economy. Members thus urged the monetary and fiscal authorities to build on this sustained confidence to attract more Foreign Direct Investment into Nigeria.

The MPC welcomed the continued resilience of the banking system in the face of severe shocks to both the domestic and global economies, commending the Bank's Management for maintaining overall stability in the banking system. The Committee thus, called on the Bank to continue to push for increased intermediation as the way forward to reduce unemployment, enhance production, create wealth, and improve aggregate demand to strengthen the recovery. On this note, Members applauded the success achieved by the Bank's various intervention schemes, which have contributed to both the demand and supply sides of the economy.

The Committee reviewed the performance of the Bank's various interventions aimed at sustaining recovery of output growth and addressing the downside risks to other external and domestic shocks to the economy. Interventions continued largely in manufacturing/industries, agriculture, energy/infrastructure, healthcare and Micro, Small and Medium Enterprises (MSMEs). Under the Targeted Credit Facility, the Bank has disbursed a total of ₦363.49 billion to 766,719 beneficiaries, comprising 638,070 households and 128, 649 small businesses. Under its Agribusiness Small and Medium Enterprise Investment Scheme (AgSMEIS), the Bank has released ₦134.63 billion to 37,571 entrepreneurs.

Between September and October 2021, under the Anchor Borrowers' Programme (ABP), the Bank disbursed ₦43.19 billion to support the cultivation of over 250,000 hectares of maize, sorghum, soya beans and rice during the 2021 dry season; and ₦5.88 billion to finance six (6) large-scale agricultural projects under the Commercial Agriculture Credit Scheme (CACS). Cumulatively the Bank has disbursed the total sum of ₦864 billion to 4.1 million farmers, cultivating 5.02 million hectares. The bank also disbursed the sum of ₦41.2 billion for the commencement of the brown revolution, a large-scale wheat program to wean us off imports by 35 per cent in the first year.

In addition, the Bank disbursed the sum of ₦261.92 billion for 42 additional projects under the ₦1 trillion manufacturing intervention. Cumulatively, the bank has disbursed the sum of N1.08 trillion under this Scheme. As part of its effort to support the resilience of the healthcare sector, the Bank disbursed ₦5.39 billion to Nine (9) healthcare projects under the Healthcare Sector Intervention Facility (HSIF). The Bank has also cumulatively disbursed the sum of ₦108.65 billion to hospitals and pharmaceutical industry. 54 of the 117 projects funded are for hospital services. Committee was gratified that the funding under Health sector has resulted in establishment of two(2) new Cancer Centers, over 59 MRI and more than 42 CT Scan Centers in Nigeria, within the last 18 months

To further promote entrepreneurship development among Nigerian youth, the Bank recently approved the implementation of the Tertiary Institutions Entrepreneurship Scheme (TIES). The Scheme is designed to create a paradigm shift among undergraduates and graduates of tertiary institutions in Nigeria, from white-collar jobs towards entrepreneurship development. The guidelines for the implementation of the Scheme was recently published, as Bank of Industry (BOI) is presently partnering with the Bank for the pilot implementation phase.

Under the National Mass Metering Programme (NMMP), ₦8.69 billion was disbursed to four (4) Distribution Companies (DisCos) under the scheme's Phase-0. The sum of ₦47.66 billion has been disbursed so far for the acquisition of 858,026 meters. Also, in furtherance of its intervention in the energy sector, the Bank released ₦27.03 billion to power sector players under the Nigeria Bulk Electricity Trading Payment Assurance Facility (NBET-PAF). This is in addition to the ₦37.69 billion disbursed to eight (8) Distribution Companies (DisCos) recently, under the Nigeria Electricity Market Stabilisation Facility (NEMSF-2).

The Bank has disbursed the sum of ₦39.2bn under the Nigerian gas expansion program to promote the migration to compressed natural gas (CNG) as the preferred fuel for transportation and liquefied petroleum gas (LPG) as the preferred cooking fuel.

Furthermore, the Bank recently introduced the 100 for 100 Policy on Production and Productivity (PPP), designed to create the flow of finance and investments to enterprises with potential to kick-start a sustainable economic growth trajectory, accelerate structural transformation, promote diversification, and improve productivity in the country. It is geared to support private sector companies with the aim of reducing certain imports, increasing non-oil exports and improving the FX-generating capacity of the economy. The Bank will select and finance 100 of such companies at 100 day intervals, in line with detailed selection criteria as contained in the guidelines, and roll this over for another 100 companies for the next 100 days.

The Targeted Credit Facility (TCF) was particularly highlighted by the Committee for its contribution to alleviating poverty at the grassroot. The Committee thus urged the Bank to continue its support through the TCF to ensure that more people benefit from this programme.

With the announcement to commence monetary policy normalization by the US Fed and impending interest rate liftoff by central banks in some advanced economies, the MPC called on the Federal Government to intensify its drive towards a counter-cyclical fiscal policy in view of the imminent tightening of external financial conditions. Committee members, therefore, noted with concern that the gradual normalization of monetary policy by this group of economies would dampen the recovery of several Emerging Market and Developing Economies in the short to medium term due to the sharp reversal of capital flows.

The Committee also evaluated the developments in China relating to the re-occurring Pandemic, power outages and crisis in the property market, noting the likely impact these could have on Nigeria as a major trading partner. Members thus called on the Bank to ensure that the necessary buffers are put in place to shield the economy from the downside risks associated with these developments.

In general, Members expressed confidence in the ongoing policies of both the monetary and fiscal authorities which in their view was the hallmark of the current recovery and restoration of macroeconomic stability in Nigeria. They, therefore, called on both authorities to look beyond the current position and plan towards attracting sustainable investment flows to Nigeria.

The Committee's Decision

At this meeting, MPC was gratified that its policy actions in the past had started to yield positive results given the remarkable improvement in GDP which stood at 4.03 per cent during Q3 of 2021 and the 6th consecutive month moderation in inflation to 15.99 per cent in October 2021.

Given the level of its conviction about the efficacy of its actions on macroeconomic variables, MPC felt that whereas tightening would further help to rein in inflation aggressively, it nevertheless feels that tightening will increase cost of funds and constrain output growth.

On the other hand, whereas loosening will lower policy rates, ease liquidity pressures, and stimulate additional credit creation which will boost output growth, MPC also thinks that loosening will further widen the negative real interest rate gap and compound the price distortions in the money markets which could fuel inflationary pressures.

As for whether to hold its existing stance, MPC believes that the existing monetary policy stance has supported the growth recovery and should be allowed to continue for a little longer for consolidation to achieve the MPC mandate of price stability that is conducive for sustainable growth. The Committee also feels that a hold stance will enable it to carefully appraise the implications of the unfolding global development around policy tapering and normalization by advanced economies.

Based on the foregoing, the Committee decided to hold all policy parameters constant to support the enabling environment for sustained recovery.

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

23rd November 2021