



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 144 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 26th AND TUESDAY 27th SEPTEMBER, 2022

The Monetary Policy Committee (MPC) met on the 26th and 27th of September 2022, amidst continued weakening of the global economy due largely to the lingering disruptions to the global supply chain as a result of the Russia-Ukraine war, persisting global inflationary pressure, and lockdowns in China. Other contributing factors include tightening global financial conditions, declining global trade, and increasing risks of a financial meltdown owing to the burgeoning global private and public debt portfolios. The Committee reviewed these and other developments in the global and domestic economies in the third quarter of 2022 as well as the outlook for the rest of the year.

All (12) members of the Committee attended this meeting.

Global Economic Developments

The Committee expressed concern over the heightened risk of spillovers associated with the broadly weakening global recovery. These have been further exacerbated by uncertainties emanating from lingering supply chain bottlenecks, due to the Russia-Ukraine war and continued COVID-19 lockdown in China. Consequently, global trade maintained a steady decline while inflation remained unabating despite aggressive rate hikes by several central banks. The risk of yet another global recession would be extremely damaging for fragile economies still confronted with the lag impact of the 2020 recession, especially for emerging market and developing economies currently confronted with huge capital flow reversals and tightening global financial conditions.

Consequently, the International Monetary Fund (IMF), in its July 2022 growth forecast, further downgraded global output growth for 2022 and 2023 to 3.2 and 2.9 per cent, respectively, from 3.6 per cent apiece.

In the Advanced Economies, inflation remains high and considerably above the long-run objectives of several central banks' threshold despite progressive rate hikes, due largely to persistent increase in the prices of food and energy. In major Emerging Market and Developing Economies (EMDEs), the uptrend in inflation is expected to continue in the medium term, driven by legacy structural issues, elevated exchange rate pressures, rising capital flow reversals, in addition to the outlined shocks from the global economy.

In global financial markets, investors have continued to rebalance their portfolios as yields on fixed income securities improve with the ongoing policy rate increases. Gold price is thus gradually declining, as investors move steadily towards the fixed income market. In addition, risk-averse portfolio investors have continued with reassignment of their portfolios from perceived risky emerging market securities to less risky advanced economy securities.

Domestic Economic Developments

According to the National Bureau of Statistics (NBS), Real Gross Domestic Product (GDP) grew by 3.54 per cent (year-on-year) in the second quarter of 2022, compared with 3.11 per cent in the first quarter of 2022 and 5.01 per cent in the corresponding quarter of 2021. The economy has thus maintained continuous growth for seven consecutive quarters, following its exit from recession in 2020. This consistent positive performance was driven largely by the sustained growth in the non-oil sector, particularly services and agricultural sub-sectors, supported by continued policy interventions, as well as credit expansion to the private sector.

While output growth remains positive, the Committee, was concerned about the contraction in economic activities, as indicated by the Composite Purchasing Managers' Index (PMI), which fell to 47.2 index points in August 2022, below the 50-index point benchmark, compared with 50.4 and 51.9 index points in July and June 2022, respectively, an indication of weakening output growth. The contraction was attributed to a decline in production levels, new orders, inventory levels, employment levels and persisting shocks from the global economy associated with both the Russia-Ukraine war and the unabating Pandemic, as well as other domestic shocks. The Committee, however, expressed optimism on the economy's recovery in the short to medium term in view of the unwavering support by both the monetary and fiscal authorities in Nigeria.

The Committee noted the continued uptrend in inflation for the seven consecutive months, with headline inflation (year-on-year) rising to 20.52 per cent in August 2022, from 19.64 per cent in July. Both the food and core components rose to 23.12 and 17.20 per cent in August 2022, from 22.02 and 16.26 per cent in July 2022, respectively. The hike in energy prices, such as rising price of Automotive Gas Oil (AGO), hike in electricity tariff, as well as the perennial scarcity of Premium Motor Spirit (PMS) contributed significantly to the building of expectations, thus pushing up the cost of transportation and production. Other contributory factors include: the broad-based insecurity across the country, which continue to dampen production activities; legacy structural factors such as the inadequate state of critical infrastructure; high cost of importation of essential grains, such as wheat; and increased demand for money associated with the forthcoming electoral campaign season. The ongoing monetary policy tightening by the US Federal Reserve Bank is also putting upward pressure on local currencies across the world, with pass-through to domestic prices, as investors exit these economies to seek higher yields in US dollar denominated fixed income securities.

The Committee noted that broad money supply (M3) grew by 11.05 per cent in August 2022, compared with 8.66 per cent in July. This was driven largely by the growth in Net Domestic Assets (NDA) of 26.19 per cent in July 2022, compared with 22.78 per cent in the preceding month. The sustained growth in Net Domestic Assets (NDA) was driven largely by increased claims on the Federal government and other financial corporations and the private sector.

Money market rates continued to fluctuate, reflecting liquidity conditions in the banking system. Consequently, the monthly weighted average Open Buyback (OBB) rate declined to 13.21 per cent in August 2022, from 14.15 per cent in July, while the Inter-bank Call rate increased to 15.00 per cent in August 2022, from 13.00 per cent in July.

The Capital Adequacy Ratio (CAR) and the Liquidity Ratio (LR) remained above their prudential limits at 13.4 and 40.1 per cent, respectively, in August 2022. The Committee, applauded the improvement in the Non-Performing Loans (NPLs) ratio to 4.8 per cent in August 2022, compared with 5.0 per cent in June 2022, reiterating its call on the Bank to sustain its tight prudential regime, to ensure that the NPL ratio is kept below its 5.0 per cent prudential benchmark.

The MPC noted the development in the equities market in the review period, as the All-Share Index (ASI) decreased to 49,836.51 index points on August 31, 2022, from 51,817.59 index points on June 30, 2022. Market Capitalization (MC) also decreased to ₦26.88 trillion, from ₦27.94 trillion in the same period. The bearish performance reflected sustained profit taking and sell-off by investors rebalancing their portfolios in favour of higher yields in the fixed income market.

The Committee noted the marginal increase of 0.39 per cent in the level of external reserves to US\$38.46 billion at end-August 2022 from US\$38.31 billion at end-July 2022 despite continued demand pressure. With crude oil price forecast to continue to moderate in the short to medium term, Members urged the Bank not to relent on the various policies put in place to support non-oil exports to shore up external reserves.

Under the Real Sector Facility, the Bank released the sum of ₦66.99 billion to 12 additional projects in manufacturing and agriculture. Cumulative disbursements under the Real Sector Support Facility (RSSF) currently stood at ₦2.10 trillion disbursed to 426 projects across the country.

Furthermore, under the 100 for 100 Policy on Production and Productivity (PPP), the Bank disbursed the sum of ₦20.17 billion to 14 projects in healthcare, manufacturing, and services, bringing the cumulative disbursement under the facility to ₦93.39 billion to 62 projects. In the healthcare sector, ₦4.00 billion was disbursed to two (2) healthcare projects under the Healthcare Sector Intervention Facility (HSIF), bringing the cumulative disbursement to ₦130.54 billion for 131 projects, comprising of 32 pharmaceuticals, 60 hospitals and 39 other services. Under the Export Facilitation Initiative (EFI), the Bank funded several commodity projects in the non-oil export segment for value-addition and production to the tune of ₦3.24 billion, aside the ₦50.00 billion disbursed through the Nigerian Export Import Bank (NEXIM).

In the Micro, Small and Medium Enterprise (MSME) sector, the Bank supported entrepreneurship development with the sum of ₦39.26 million under the Tertiary Institutions Entrepreneurship Scheme (TIES), bringing the total disbursement under this intervention to ₦332.43 million. Under the Intervention Facility for the National Gas Expansion Programme (IFNGEP), the Bank disbursed ₦1.00 billion to support the adoption of Compressed Natural Gas (CNG) as the preferred fuel for transportation and Liquefied Petroleum Gas (LPG) as the preferred cooking fuel.

Outlook

The broad outlook of the global and domestic economies in the medium-term remains clouded by uncertainties associated with lingering headwinds from the Russia-Ukraine war and the residual impact of the COVID-19 pandemic. Others include tightening global financial conditions with elevated shocks to foreign capital flows, as some Advanced Economies continue to pursue aggressive

policy rate hikes; the high level of corporate and public debt with heightened risk of another global financial meltdown; and the high level of inflation across several economies.

On the domestic front, available data on key macroeconomic variables indicate that output growth will continue for the rest of 2022, however, at a much-subdued pace. Some of these domestic shocks include: the high level of insecurity currently disrupting the free flow of economic activities; heightened sovereign risk as the 2023 general elections approach; continued upward pressure on inflation, driven by exchange rate pressures amongst other domestic factors. In addition, domestic price development is expected to maintain the current upward trend in light of the build-up of increased spending and demand for money, as the 2023 general elections approach. Accordingly, the Nigerian economy is forecast to grow in 2022 by 3.52 per cent (CBN), 4.20 per cent (FGN) and 3.40 per cent (IMF).

The Committee's Considerations

At this meeting the focus of the MPC was on the aggressive acceleration of inflation globally and how this had begun to retard growth in both Advanced and Emerging Market Economies. Members noted that though the global economy was progressively weakening due to the various headwinds confronting the recovery. In Nigeria, output growth had been sustained as a result of the combination of development finance interventions by the Bank and fiscal stimulus by the Federal Government. Members noted that in the last 3 years, the CBN has injected over N9 trillion into the economy, in addition to offering 2- year moratorium for 10-year long-term loan facilities. The Committee believe that these interventions have significantly helped engendered growth. However, in light of the persisting pressures on inflation, the Committee encouraged the Bank maintain a close watch on the inflationary implications of the interventions.

The MPC noted the moderate downturn in the equities market, attributing it to a continued outflow of portfolio capital as investors re-assign their portfolios to more attractive US dollar denominated fixed income securities. The Committee, however, also called on the Federal Government to continue to improve the ease of doing business in Nigeria to retain the current patronage of foreign investors through sustained investor confidence in the Nigerian economy.

The MPC applauded the Bank for its continued stringent regulatory measures over the banking system, noting the progressive decline in the Non-Performing Loans (NPLs) ratio of the banking system despite the heightened macroeconomic uncertainties.

The MPC was concerned that within a four-month period, inflation had accelerated aggressively by 280 basis point from 17.71 per cent in May 2022 to 20.52 per cent in August 2022. The Committee was thus, of the view that given the primacy of its price and monetary stability mandate, it was expedient that significant focus must be given to taming inflation.

The Committee was therefore of the view that a hold or loosen option was not in consideration at this meeting. This is also because a loosening will further widen the negative real interest rate gap and worsen the financial market conditions, as savings mobilization and investment inflows would decline further. It was also of the view that with the aggressive policy normalization in Advance economies, loosening the stance of policy would result in a sharp depreciation of exchange rate, leading to further hike in capital outflows.

As regards a hold decision, this would mean a continuous deterioration in real earnings of fixed income earners and the livelihood of middle- and low-income households.

The MPC noted that a tight policy stance would help consolidate the impact of the last two policy rate hikes, which is already reflecting in the slowing growth rate of money supply in the economy. It also felt that an aggressive rate hike

would slow capital outflows and likely attract capital inflows and appreciate the naira.

The Committee's Decision

Members deliberated on the impact of the widening margin between the current policy rate of 14 per cent and the inflation rate of 20.52 per cent. At this Meeting, the option to loosen the policy rate was not considered as this would be gravely detrimental to reining-in inflation. The Committee thus, agreed unanimously to raise the policy rate to narrow the negative real interest rate gap and rein-in inflation.

The Committee thus voted unanimously to raise the Monetary Policy Rate (MPR) and the Cash Reserve Requirement (CRR). Ten members voted to raise the MPR by 150 basis points, one member by 100 basis points, and another member by 50 basis points. Ten Members voted to increase the CRR by 500 basis points, while two Members voted to increase CRR by 750 basis points.

In summary, the MPC voted to:

- I. Raise the MPR to 15.5 per cent;
- II. Retain the asymmetric corridor of +100/-700 basis points around the MPR;
- III. Increase the CRR to a minimum of 32.5 per cent; and
- IV. Retain the Liquidity Ratio at 30.0 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

27th September, 2022