



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 149 OF THE MONETARY POLICY COMMITTEE MEETING

HELD ON MONDAY 24th AND TUESDAY 25th JULY 2023

The Monetary Policy Committee (MPC) met on the 24th and 25th of July 2023, against the backdrop of continued uncertainties in the global and domestic economies. This included geo-political tensions, threats to globalization and the multilateral economic system. On the domestic front, output growth continued at a moderate pace, while the general price level remained elevated as markets adjust to the new policies introduced by the Federal Government. Consequently, these developments at both the global and domestic levels continue to pose significant challenges to the policy environment.

The Committee assessed these developments and the outlook for the rest of the year.

Eleven (11) members of the Committee attended this meeting.

Global Economic Developments

The Committee reviewed developments impeding the smooth recovery of the global economy. Notable amongst these, is the continued hostility between Russia and Ukraine, as Russia reneged from further renewal of the Black Sea Agreement. This development would likely push commodity prices much higher than current levels. In addition, China's slow recovery is dampening global trade, while the increasing polarization of the global economy with several economies seeking

macroeconomic alliances with the group of BRICS countries, is increasing uncertainty in the direction of trade flows.

Inflation across several Advanced Economies has continued to moderate but remains considerably above their respective long-run objectives even as monetary policy tightening progresses. In the Emerging Markets and Developing Economies, inflationary pressure remains broadly elevated, though there are signs of moderation in some countries. Global Inflation is, thus, expected to remain elevated through 2023, despite broad measures by several central banks to ease the pressure.

In the global financial markets, financial conditions remain tight and may exacerbate further as monetary policy normalization progresses. Investors' preference is thus, shifting to advanced economy fixed-income securities with improved yields as well as safe haven assets.

The International Monetary Fund (IMF), in its July 2023 World Economic Outlook, revised the 2023 output growth forecast for the global economy upwards to 3.2 per cent, from 2.8 per cent in its April forecast. The improved outlook was due to the sustained resilience of the global economy to the prevailing headwinds in the first half of 2023. Global growth is however, projected to moderate downward to 3.0 per cent in 2024.

Domestic Economic Developments

Available output data from the National Bureau of Statistics (NBS) showed that, Real Gross Domestic Product (GDP) grew by 2.31 per cent (year-on-year) in the first quarter of 2023, compared with 3.52 per cent

in the preceding quarter. While growth moderated, it has remained positive since Q4 2020. This steady and positive performance was driven largely by sustained growth in the services and industry sectors, supported by broad-based measures by both the monetary and fiscal authorities.

Staff projections showed that output growth recovery in 2023 would remain positive as economic agents adjust to the recent policies on zero subsidy on the price of Premium Motor Spirit (PMS) and convergence of exchange rates.

On price development, the Committee noted the continued uptick in inflationary pressure, as headline inflation (year-on-year) rose by 38 basis points to 22.79 per cent in June 2023 from 22.41 per cent in the previous month. This was driven by the moderate increases to both food and core components. Legacy headwinds, including security challenges in major food-producing areas; high cost of transportation driven by the rising cost of energy; and inadequacies in public infrastructure, continue to drive the rise in food and core inflation. Key developments that would likely sustain upward pressure on domestic prices, in the short to medium term, are the recent deregulation of petrol price and the transition to a unified and market-determined exchange rate. The unfolding dynamics in the policy environment and the resultant pass-through to domestic prices would thus require greater collaboration between the Bank and the fiscal authority.

Broad money supply (M3) in June 2023 grew by 24.35 per cent (year-to-date), compared with 6.70 per cent in May, driven largely by the

increase in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA). Money market rates reflected the level of liquidity in the banking system. Consequently, the monthly weighted average Open Buyback (OBB) and Interbank Call rates decreased to 9.12 and 11.61 per cent in June 2023, from 12.60 and 12.31 per cent in May, respectively.

In the Banking System, Financial Soundness Indicators (FSIs) remained stable and strong. The Capital Adequacy Ratio (CAR) stood at 11.2 per cent, Non-Performing Loans (NPLs) ratio of 4.1 per cent and Liquidity Ratio (LR) of 48.4 per cent, as at end June 2023.

In the financial market, equities remained bullish through the review period, with the All-Share Index (ASI) and Market Capitalization (MC) increased to 60,968.27 index points and N33.20 trillion, respectively, on June 30, 2023, compared with 51,251.06 index points and N27.92 trillion as at December 30, 2022. This indicates continued investor confidence in the Nigerian market as investors foresee a more stable macroeconomic environment once the current policies of the Bank and Federal Government fully permeate the economy.

Gross external reserves improved marginally to US\$33.97 billion as at July 20, 2023, from US\$33.75 billion in June 2023, as accretion to external reserves remains weak while foreign exchange demand pressures persist.

Outlook

The overall outlook for the recovery of both the global and domestic economies moderated, however uncertainties remain. At the global

level, legacy headwinds such as the war in Ukraine and slow recovery of the Chinese economy as well as ongoing *bricsification* are key downside risks to output growth. In the domestic economy, factors precipitating the uncertainties remain the continued insecurity, particularly in farming communities; high prices of PMS and other energy products; as well as pressure in the foreign exchange market.

Forecasts for key macroeconomic indicators for the Nigerian economy indicate that the economy will continue to recover moderately through 2023 to grow by 2.66 per cent (CBN), 4.20 per cent (FGN) and 3.20 per cent (IMF).

The Committee's Considerations

The Committee's considerations focused on the persistent rise in inflation and its potential adverse effect on output growth and household income. The continued uptick in inflation (month on month), driven by increase in both the food and core components of the CPI, in the view of members, remained a key challenge. The members also expressed concerns that the recent policy decisions around subsidy removal, exchange rate liberalization and disbursement of palliatives, would have pass-through effects to inflation. Members therefore called for decisive measures, by the Bank, to address the likely liquidity surfeit from these developments, including using appropriate monetary policy instruments.

The Committee urged the monetary and fiscal authorities to sustain its collaboration towards addressing the inflationary pressure and incentivise domestic investment to reduce unemployment and boost

output growth. It enjoined the Federal Government to continue to explore policies to improve investor confidence in the Nigerian economy and pave way for foreign and domestic investments. Members emphasized the need to attract investments, particularly, to auto manufacturing, aviation, and rail industries to boost non-oil revenues. The Committee, thus, expressed the view that, key policy mechanisms to shield the Nigerian economy from persisting global shocks and other emerging domestic shocks, are urgently required for the economy to continue to post positive growth.

The Committee also recognized the several measures put in place by the Bank to boost foreign exchange liquidity. Particularly, Members were of the view that the recent policy on foreign exchange market reform would increase market transparency and encourage more foreign capital inflows. It, therefore, urged the Bank to leverage on effective policies to attract remittances from diaspora to help moderate exchange rate pressures.

The Committee commended the Bank's role in the effective oversight of the banking system, evidenced by the relative stability in key financial soundness indicators and resilience of the sector, despite tight global and domestic financial conditions. Members, however, noted the potential impact of the recent policy reforms on financial system stability and called on the Management to act proactively to ringfence the banking system from any possible second-round effects. The MPC, thus, urged the Bank to sustain its macro-prudential surveillance over the banking system.

The Committee's Decision

Following the outlook for the domestic economy, Members were of the view that the Committee was confronted with only two policy options, to hold or hike the policy rate to offset the moderate increase in headline inflation.

Considering the option to hold, the Committee reviewed the impact of the continued rise in inflation on various macroeconomic variables, noting the potential dampening effect on output growth. Members agreed unanimously that the previous series of rate hikes had indeed greatly moderated the pace of price increases.

The option to continue to hike the policy rate, albeit moderately, also presented a strong alternative. This is premised on the expected liquidity injections into the economy from the recent policy developments and the likely impact on inflation.

The Committee remained cautious in arriving at a policy decision as Members noted the need to continue to support investment which will ultimately lead to the recovery of output growth. The balance of these arguments thus, leaned in favour of a moderate rate hike, to sustain efforts at anchoring inflation expectation, narrow the negative real interest rate gap, and improve investor confidence.

The MPC, thus, resolved by a majority vote to raise the Monetary Policy Rate (MPR). Six (6) Members voted to raise the MPR: Four (4) Members by 25 basis points and two (2) Members by 50 basis points. Five (5) Members voted to hold the MPR constant. All Members voted to narrow

the asymmetric corridor from +100/-700 to +100/-300 basis points around the MPR.

In summary, the MPC voted to:

- I. Raise the MPR by 25 basis points, from 18.50 to 18.75 per cent;
- II. Adjust the asymmetric corridor to +100/-300 basis points around the MPR;
- III. Retain the CRR at 32.5 per cent; and
- IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Folashodun A. Shonubi, OFR
Ag. Governor,
Central Bank of Nigeria
25th July 2023