CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 142 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 23rd AND TUESDAY 24th May 2022

The Monetary Policy Committee (MPC) met on the 23rd and 24th of May 2022 confronted with declining global growth and heightened uncertainties associated with adverse price developments across the world. These developments partly reflect the aftermath of the ongoing war in Ukraine, the backlash from the numerous sanctions imposed on Russia by major Advanced Economies, as well as persisting supply chain disruptions in major trading routes. At the same time, the Chinese economy remained confronted with the lingering impact of the COVID-19 pandemic, total lockdown of major cities, significant distortions in the property market and modest inflationary pressures. Consequently, Advanced Economy and Emerging Market Economy central banks alike, are switching to monetary tightening to curb the sharp rise in inflation globally.

Even as global output growth recovery moderates, the domestic economy is expected to remain on the current path of recovery through 2022. This is hinged on the continued impact of stimulus by both the monetary and fiscal authorities to support the economy following the outbreak of COVID-19 pandemic. The Committee assessed these developments and the outlook for the rest of the year.

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

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Global Economic Developments

Global output growth commenced a broad slowdown in the first quarter of 2022, as a result of the conflict between Russia and Ukraine, after recovering considerably in 2021. This led to massive supply constraints, with the backlash of sanctions against Russia creating huge macro-economic imbalances for several countries. Consequently, the uncertainties that have arisen are buoyed by the resumption of the spread of the COVID-19 pandemic in China, a key hub of global manufacturing. This has given rise to upside risks to inflation and downside risks to growth.

In addition, the huge amount of stimulus deployed by various countries to ease the downsides of the COVID-19 pandemic, particularly in 2021, has predisposed the global economy to huge debt levels, considering the current burgeoning global private and public debt portfolios. Central banks in both the Advanced and Emerging Market Economies have thus commenced monetary policy tightening to curb rising prices. This could impact the recovery negatively and result in a rise in debt default as global financial conditions tighten. Furthermore, China has also re-introduced constraining measures to mitigate the spread of a new wave of the COVID-19 pandemic within its major industrial cities, resulting in a slowdown in production. In light of these headwinds, the International Monetary Fund (IMF) downgraded its forecast for global output growth for 2022 and 2023 to 3.6 per cent apiece from 4.4 and 3.8 per cent, respectively, reflecting the severity of setbacks to the global recovery.

Inflation continued to rise unabated across several Advanced Economies and is projected to remain high, at least in the medium term, as food and energy prices pushed higher to levels not previously recorded in four decades. This is due to tightening supply amidst closure of major trade routes that supply inputs for food and fertilizer, as well as the high price of energy. In the Emerging Market and Developing Economies (EMDEs), inflation also remained high due to a combination of persisting high food and energy prices; supply chain disruptions

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associated with the impact of sanctions against Russia; exchange rate pressure; capital flow reversals; as well as underlying legacy constraints.

In the global financial markets, investor confidence is gradually being restored, evidenced by portfolio rebalancing with the gradual decline in gold price. The demand for advanced economy equities and bonds has improved with the commencement of interest rate lift-off led by the US Fed and the Bank of England, resulting in the outflow of capital from emerging market securities. Global financial conditions are thus, expected to tighten in the near term, as risk-averse investors reassign substantial portions of their portfolios from perceived riskier, though more rewarding Emerging Market securities to less risky advanced economy securities.

In general, the global economy and financial markets, are confronted with significant risks in the medium term as the huge build-up of both private and public debt may push several fragile economies into a new era of recession.

Domestic Economic Developments

According to the National Bureau of Statistics (NBS), Real Gross Domestic Product (GDP) grew by 3.11 per cent in the first quarter of 2022, compared with 3.98 per cent in the fourth quarter of 2022 and 0.51 per cent in the corresponding period of 2021. This is the sixth consecutive quarter of real output expansion, following the economy's exit from recession in 2020. This steady positive performance, was driven largely by the growth in aggregate consumption, arising from the continued policy support at the onset of the pandemic and gradual recovery of aggregate demand.

Headline inflation (year-on-year) ticked up to 16.82 per cent in April 2022 from 15.92 per cent in March 2022, 90 basis points increase. This is the third consecutive increase in inflation since the commencement of the year 2022, attributable to the rise in both the core and food components to 14.18 and 18.37 per cent in April 2022 from 13.91 and 17.20 per cent in March 2022, respectively. The rise in headline inflation resulted from rising energy prices

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associated with the epileptic supply of Premium Motor Spirit (PMS), high cost of Automotive Gas Oil (AGO), mostly used in transportation and production as well as a progressive hike in electricity tariffs. The increase in the food component was driven by shocks to food prices associated with persisting security challenges in major food-producing areas and legacy infrastructural problems which continue to hamper food supply logistics and storage across the country.

Broad money supply (M3) rose significantly to 6.22 per cent in April 2022, compared with 4.19 per cent in March 2022. This was largely driven by strong growth in Net Domestic Assets (NDA) of 11.86 per cent in April 2022, compared with 8.82 per cent in the previous month. The growth in NDA was attributed to the increase in claims on the Federal Government and other sectors (public non-financial corporations, private sector, and state and local governments).

Money market rates oscillated within and outside the Standing Facilities Corridor (SFC), reflecting the prevailing liquidity conditions in the banking system. Consequently, the monthly weighted average Open Buyback (OBB) and Inter-bank Call rates increased to 7.49 and 8.67 per cent in April 2022, from 6.62 and 4.50 per cent in March 2022, respectively. The increase in rates was an indication of the tight liquidity conditions in the banking system during the review period.

The performance of the equities market remained strong and positive in the review period, with the All-Share Index (ASI) and Market Capitalization (MC) increasing significantly from 46,965.48 and N25.31 trillion on March 31, 2022, to 52,979.48 and N28.56 trillion on May 20, 2022, respectively.

In the Banking System, the Capital Adequacy Ratio (CAR) and the Liquidity Ratio (LR) remained above their prudential limits at 14.6 and 43.7 per cent, respectively. The Non-Performing Loan (NPL) ratio stood at 5.3 per cent in April 2022, compared with its prudential limit of 5.0 per cent, reflecting sustained stability in the banking system, though there remains a need to bring this down to the prudential limit.

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Gross external reserves declined moderately to US$38.36 billion as at May 19th, 2022 from US$39.28 billion at end-March 2022. This was attributed to the weak accretion to the reserves from exports and the high cost of importation of refined petroleum products.

The Committee reviewed the performance of the Bank's intervention schemes targeted at stimulating productivity in agriculture; manufacturing/industries; energy/infrastructure; healthcare; exports; and micro, small and medium enterprises (MSMEs).

Between April and May 2022, the Bank released the sum of ₦57.91 billion under the Anchor Borrowers' Programme (ABP) to 185,972 new projects for the cultivation of rice, wheat, and maize, bringing the cumulative disbursement under the Programme to ₦1.01 trillion, disbursed to over 4.2 million smallholder farmers cultivating 21 commodities across the country.

The Bank further disbursed the sum of ₦1.50 billion, under the Accelerated Agriculture Development Scheme (AADS), to one (1) new youth-led project, piloted and funded through the Government of Ondo State for the acquisition of assets for oil-palm cultivation and the establishment of poultry farms. This brings the total disbursement under the Scheme to ₦21.23 billion for 10 state-led and three (3) private sector-led projects.

In addition, the Bank released ₦21.73 billion to finance seven (7) large-scale agricultural projects under the Commercial Agriculture Credit Scheme (CACS). The funds were utilized for the establishment of a ranch and milk processing facility; procurement of feed and medication for livestock/dairy production; construction of a 300 metric-tonne per day oil mill in Gusau, Zamfara State; acquisition and installation of an agrochemical factory; as well as purchase and stockpiling of homegrown maize for animal feed production. This brings the cumulative disbursement under this Scheme to ₦741.05 billion for 674 projects in agro-production and agro-processing.

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Under the Paddy Aggregation Scheme (PAS), ₦6.20 billion was disbursed by the Bank to three (3) new projects for the purchase and mopping-up of home-grown rice paddy. This brings the total funds disbursed to 42 integrated rice millers under the PAS to ₦106.39 billion.

To support the growth of the manufacturing sector, the Bank disbursed the sum of ₦436.85 billion to 34 new projects under the ₦1.0 trillion Real Sector Support Facility (RSSF). This was utilized for both greenfield (new) and brownfield (expansion) projects under the COVID-19 Intervention for the Manufacturing Sector (CIMS) and the Real Sector Support Facility from Differentiated Cash Reserve Requirement (RSSF-DCRR). Cumulative disbursement under the RSSF for the financing of 402 real sector projects across the country, currently stands at ₦2.10 trillion.

The Bank disbursed ₦55.34 billion, under the 100 for 100 Policy on Production and Productivity (100 for100 PPP), to 44 projects, comprising 24 in manufacturing, 17 in agriculture, 2 in healthcare, and 1 in the services sector.

In the healthcare sector, the Bank disbursed ₦17.70 billion to four (4) healthcare projects under the Healthcare Sector Intervention Facility (HSIF), bringing the cumulative disbursements to ₦130.49 billion for 126 projects, comprising 58 hospitals, 31 pharmaceuticals and 37 other healthcare services.

The Bank released the sum of ₦21.00 billion Under the Export Facilitation Initiative (EFI), for three (3) projects in domestic production and value addition of cocoa and sesame seed. This intervention is targeted at further expansion of the economy's non-oil export basket towards improving foreign exchange revenue earnings for the country.

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To support micro, small and medium enterprises (MSMEs), the Bank disbursed ₦1.50 billion to 2,718 new projects through the Agri-Business Small and Medium Enterprises Investment Scheme (AgSMEIS) for activities in fish farming, rice processing, wheat farming, poultry farming, livestock farming, ICT and tailoring amongst others. This brings the cumulative disbursements under AgSMEIS to ₦136.13 billion.

Under the Micro, Small, and Medium Enterprises Development Fund (MSMEDF), the Bank disbursed ₦2.79 billion to support youths engaged at various nodes of the agricultural value chain, bringing the total disbursement under this intervention to ₦98.88 billion to 749 MSME projects across the country.

In energy/infrastructure, the Bank released ₦15.71 billion to power sector players including generation companies (GenCos) and gas companies (GasCos), under the Nigeria Bulk Electricity Trading Plc – Payment Assurance Facility (NBET-PAF), bringing the cumulative disbursement under the facility to ₦1.30 trillion. The sum of ₦22.67 billion was also released to Distribution Companies (DisCos) for their Operational Expenditure (OpEx) and Capital Expenditure (CapEx), under the Nigeria Electricity Market Stabilisation Facility – Phase 2 (NEMSF-2). Cumulative disbursement under the NEMSF-2 currently stands at ₦251.93 billion.

Additionally, under the National Mass Metering Programme (NMMP), the Bank has disbursed ₦0.19 billion to DisCos for the procurement of electricity meters, bringing the cumulative disbursement for the procurement and installation of 865,956 meters across the country to ₦47.82 billion. Interventions in energy/infrastructure are designed to improve investment and develop enabling infrastructure in the Nigeria Electricity Supply Industry.

Outlook

The broad outlook for both the global and domestic economies in the medium-term, remains clouded with uncertainties arising from the lingering war between

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Russia and Ukraine, the unfolding impact of the extensive sanctions imposed by several countries on Russia, and the downside risks from the continued spread of the COVID-19 Pandemic.

Global growth is thus confronted with significant headwinds which may derail the current projection further. The persisting rise in inflation, is also set to undermine the recovery of output growth, due to the associated build-up of uncertainties around the cost of inventory and other production inputs. The rise in global debt is also an unfolding dilemma which policy makers must carefully evaluate and address to avert a near-term global financial crisis. In summary, while global aggregate demand remains strong and growing, the numerous supply-side constraints will continue to undermine the recovery effort, at least in the short to medium term.

In the domestic economy, data on key macroeconomic variables indicate that the recovery of output growth will continue, probably at a more subdued pace, considering the unfolding domestic and external shocks to the economy. Domestic price development is, however, expected to maintain an upward pressure in the light of the build-up of increased spending related to the 2023 general elections.

Consequently, the Nigerian economy is expected to grow, in line with CBN forecast of 3.24 per cent in 2022. However, the FGN forecast is at 4.20 per cent, while the IMF projects Nigeria's growth in 2022 to be 3.40 per cent.

<u>The Committee's Considerations</u>

At this meeting, the MPC noted the risks confronting the global economy, as those associated with, not only inflation and prices, but also include risks associated with weakening growth prospects across the world.

The Committee observed that whereas post-pandemic policy support has remained broadly expansionary, at least, from a fiscal standpoint, the sharp rise

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in inflation across both the Advance & Emerging Markets Economies has generated growing concern amongst central banks, as the progressive rise in inflation, driven by rising aggregate demand and wage growth, is putting unsustainable upward pressure on price levels. Consequently, major central banks such as the US Fed, Bank of England, European Central Bank, and Bank of Canada have provided strong guidance for a progressive shift away from monetary policy accommodation to drive market interest rate upward, which may ultimately impact capital flow away from Emerging Market Economies.

On another hand, MPC noted that the war between Russia and Ukraine has resulted in significant disruption of the global supply chain, at a time when the global economy is still confronted with downside risks to growth associated with the Covid 19 pandemic. In addition to this, global trade has been impacted by the series of restrictions imposed by NATO countries and its allies against trade with Russia. This has increasingly fragmented the global economy, imposing huge strains on the tepid post-pandemic recovery. Only recently, China, the USA, and South Africa are seeing a renewed spike in COVID-19 infections. As a result, the Chinese government recently re-introduced lockdown in major industrial cities, to forestall the spread of the pandemic: further disrupting the supply chain crisis. In the view of the MPC, these two risks pose great challenges to rising inflation globally.

For the domestic economy, the MPC noted with delight that the GDP grew by 3.11 percent in Q1, 2022 (y-o-y), highlighting a steady recovery for the 6th consecutive quarter. Quarter on quarter real GDP grew by 9.36 percent, a slight moderation from 11.07 percent in the previous quarter. The MPC however was concerned about the somewhat aggressive rise in inflation by almost 90 basis points in April, 2022. To dampen the expectation of the inflationary pressure, MPC decided on the need to take a shift from its historically cautious approach on interest rate, to a policy rate hike, while still adopting an accommodative approach to development finance initiatives that have supported the growth of the economy and sustained recovery. The MPC is of the view that rates on

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the development finance initiatives of the Bank should remain at 5 percent till March, 2023.

Consequently, as regards the decision on whether to hold. tighten or loosen, MPC feels that loosening in the face of the rising policy rates in Advance economies may result in a sharp rise in capital outflow and faster dry-up of foreign credit lines. MPC also feels that loosening could lead to further liquidity surfeit and inflationary pressure. S to whether to hold, MPC feels its stance would strengthen the perception that the CBN has abandoned its primary mandate of taming inflation.

On the need to tighten, MPC feels that tightening would help moderate the inflationary trade-off from the steady growth recovery so far. MPC also feels that tightening would help rein in inflation before it assumes a galloping trend, considering the progressive increase in headline inflation (m-o-m), particularly with the sharp 90 basis point increase in April, 2022.

Furthermore, MPC feels that tightening would narrow the negative real interest rate margin, improve market sentiment and restore investor confidence. Equally, members believe tightening would moderate inflationary pressure pass-through to exchange rate depreciation and moderate the speed of capital flow reversal, provide incentives for foreign capital inflows and sustain remittances. Lastly, tightening could moderate government domestic borrowing, as government debt servicing to revenue ratio increased significantly in recent times, threatening debt sustainability.

The Committee's Decision

Members expressed deep concern about the continued uptrend of inflationary pressure. Despite the gradual improvement in output growth. The Committee noted that the current rise in inflation may be inimical to growth, and thus hinder the full recovery of the economy. While the MPC identified several supply-side factors which may be contributing to inflationary pressure, emerging evidence shows that money demand pressure is on the rise and is unlikely to abate until

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the 2023 general elections are concluded. The dilemma confronting the Committee at this meeting, therefore, is how best to drive down domestic prices while continuing to support the fragile recovery.

In the current circumstance, the Committee was of the view that it was confronted with the choice of either to hold all policy parameters constant to allow previous policy measures to continue to support growth or tighten the stance of policy to curb money demand growth and upward movement of domestic prices. A loosening option would likely result in an increased liquidity surfeit, rise in inflationary pressure, and further pressure on the exchange rate.

The choice of holding, in the view of Members, would not only continue to support growth, even though moderately, but will also allow the growth of money demand to continue at the current pace, leading to the uptick in inflationary pressure. While growth concerns remain paramount to the Committee, the persistent uptick in domestic price levels is clearly a downside risk to growth, that must be addressed urgently.

While it may seem contradictory to raise rates in the face of fragile growth, this is the dilemma that most Central banks around the world are grappling with at the moment. Yet, on balance, it is quite clear and compelling that tackling inflation is more urgent in the sequence of policy objectives. In this regard, the MPC urged the Bank to redouble its efforts at supporting the priority growth-enhancing sectors of the economy while urging the Federal government to do more to provide a safe and secure environment for economic agents to boost activities and growth.

After carefully reviewing the developments of the last two months and the outlook for both the domestic and global economies, as well as the benefits and downsides of each policy option, the Committee decided to raise the Monetary Policy Rate (MPR) to rein in the current rise in inflation as Members were of the view that the continued uptrend would adversely affect growth. The Bank further reaffirmed its commitment to continue to provide support to

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priority sectors as the need arises to support growth until the current upward pressure in price development abates.

The Committee thus decided by unanimous vote to raise the Monetary Policy Rate (MPR). Six (6) members voted to raise the MPR by 150 basis points, four (4) members by 100 basis points, and One (1) member by 50 basis points.

In summary, the MPC voted to:

I. Raise the MPR to 13.0 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

24th May, 2022

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