Central Bank of Nigeria Communiqué' No. 104 of the Monetary Policy Committee Meeting of Monday and Tuesday, November 23 and 24, 2015

The Monetary Policy Committee met on 23rd and 24th November, 2015 against the backdrop of slowing global growth and a weakening domestic economic environment, attributable largely to the down turn in oil prices. In attendance were 10 out of 12 members. The Committee appraised the global and domestic economic and financial environments up to October 2015 as well as the economic outlook for the first half of 2016.

International Economic Developments

The Committee noted the moderation in global output recovery evidenced by the less-than-expected growth of 2.9 per cent in the first half of 2015. The development was underpinned largely by deteriorating global trade, reversal in output growth in the advanced economies and a significant slowdown in growth in the emerging and developing economies. The key drag on growth in the advanced economies included unfavorable labor market conditions, suppressed foreign demand and weaker than anticipated domestic aggregate demand. Consequently, growth in the U.S. slowed to 1.5 per cent in the third quarter of 2015 as a result of a drawdown in inventories; deceleration in exports; drag in private consumption, government spending and residential fixed investment. The outlook for the fourth quarter, however, remains optimistic as consumption spending is expected to drive growth, supported by low inflation.

The Bank of Japan continued with monetary easing, through its asset purchase program, with a monthly injection of ¥6.7 trillion ($54.27 billion); but this was insufficient to restart output as third quarter growth is projected to be weaker than the second quarter, thereby increasing the likelihood of dampening growth and pressure for higher stimulus. The European Central Bank (ECB) in October 2015; reaffirmed its commitment to its monthly asset purchase of €60 billion ($64.2 billion) until September, 2016; although the package may fall short of what is required for meaningful impact on growth. Similarly, the Bank of England continued its ₤375 billion ($570 billion) monthly asset purchase program, as the economy is expected to retreat from its performance of 0.7 per cent in the second quarter to about 0.5 per cent in Q3 with the decline in foreign demand, potentially dampening the prospects for an interest rate hike.

Growth in the emerging markets and developing economies (EMDEs) continued to sag; reflecting the protracted slowdown in China as well as recession in Russia and Brazil. The slowdown among EMDEs has been mainly due to weak import growth in China, low commodity prices, capital flow reversals, rising debt levels and other geopolitical factors. In effect, the poor growth expectations could continue into the fourth quarter with the likelihood of further dampening into 2016.

Overall, monetary policy in the most advanced and emerging market economies appears oriented towards easing to revive output and strengthen employment. No substantial upswing is expected around the current tepid global inflation, projected to remain moderate through 2016. The continuously bearish commodity prices and stronger consumer sentiments have dampened consumer prices in the advanced economies. In the emerging and developing markets, the major risk to domestic prices is mainly the increased pressure on domestic currencies. However, in most emerging markets, the low prices of oil and other commodities continue to cushion consumer inflation pressures.

Domestic Economic and Financial Developments

Output

Data from the National Bureau of Statistics (NBS) indicated that real GDP grew by 2.84 per cent in the third quarter of 2015, compared with 2.35 per cent in the second quarter. However, economic growth in Q3 was lower than the 3.96 and 6.23 per cent in the first quarter of 2015 and the corresponding period of 2014, respectively. Both the oil and non-oil sectors contributed to growth in the third quarter of 2015. In the non-oil sector, the key drivers of output growth were Crop Production, Trade and Telecommunications and Information Services, contributing 0.91, 0.79 and 0.40 percentage points, respectively.

The overall outlook for economic activity is expected to improve on account of sustained improvement in the supply of power and refined petroleum products, progress with counter-insurgency in the North-East and targeted interventions in the real sector. In addition, the inauguration of the Federal Executive Council and the assumption of office of the Ministers, earlier this month, are expected to add impetus to the growth momentum. The Committee reiterated its commitment to support the various ongoing initiatives of the Federal Government to stimulate output growth.

Prices

The Committee noted with delight the slight decline in year-on-year headline inflation to 9.3 per cent in October, from 9.4 per cent in September, 2015. The decline in headline inflation in October 2015, reflected decreases in both the core and food components. Core inflation declined for the second consecutive month to 8.7 per cent in October from 8.9 per cent in September, while food inflation slowed to 10.1 per cent from 10.2 per cent over the same period. The Committee further noted the continued moderation in month-on-month inflation and reaffirmed its commitment to price stability, stressing the need for complementary supply side policies as part of an overall strategy to lock-in inflation expectations.

Monetary, Credit and Financial Markets Developments

Broad money supply (M2) contracted by 3.75 per cent in October, 2015, over the level at end-December, 2014. Annualized, M2 declined by 5.0 per cent, which is significantly below the growth benchmark of 15.24 per cent for 2015. Net domestic credit (NDC) grew by 10.8 per cent, which annualizes to 14.35 per cent in the same period. At this level, NDC fell below the provisional benchmark of 29.30 per cent for 2015. Growth in aggregate credit reflected mainly growth in net credit to the Federal Government which grew by 96.66 per cent in October, although lower than the 142.38 per cent in September, 2015. The sharp moderation in credit to government may be partly attributable to the lag effect of implementation of the Treasury Single Account (TSA).

During the period under review, money market interest rates were low but sometimes volatile, reflecting fluctuations in banking system liquidity during the period. Average inter-bank call and Open Buy Back (OBB) rates, which stood at 15.50 and 35.00 per cent on September 21 and 22, 2015, respectively, fell to 9.67 and 9.00 per cent on September 23, 2015. On October 19, 2015, OBB rate closed at 1.00 per cent with no transaction at the interbank call segment. Following the increase in net liquidity level, the interbank call and OBB rates further declined and closed at 3.76 and 0.73 per cent, on October 29 and 30, 2015, respectively. Between the last MPC and end-October 2015, interbank call and OBB rates averaged 6.66 and 6.72 per cent, respectively, and were 0.41 per cent and 1.33 per cent on 19th November, 2015.

The Committee also noted the bearish trend in the equities segment of the capital market during the review period. The All-Share Index (ASI) decreased by 9.9 per cent from 31,217.77 on September 30, 2015 to 28,131.28 on November 20, 2015. Similarly, Market Capitalization (MC) fell by 9.9 per cent from N10.73 trillion to N9.67 trillion during the same period. However, relative to end-December 2014, the indices decreased by 18.9 and 9.5 per cent, respectively. These developments reflected, largely the cautious approach to lending by the deposit money banks.

External Sector Developments

The average naira exchange rate remained relatively stable at both the inter-bank and Bureau-de-Change (BDC) segments of the foreign exchange market during the review period. The exchange rate at the interbank market opened at N197.00/US$ and closed at N197.00, with a daily average of N196.99/US$ between September 21 and October 30, 2015. At the BDC segment, the exchange rate opened at N223.50/US$ and closed at N225.00, with a daily average of N224.46/US$, representing a depreciation of N1.50k for the period. The relative stability in the foreign exchange market is attributable to the sustained supply of foreign exchange from autonomous sources as well as the effects of various administrative measures taken by the Bank. Gross official reserves increased from US$29.85 billion at end-September, 2015 to $30.31 billion on 20th November, 2015.

Committee's Considerations

The Committee acknowledged the continued fragile global economic environment, including the possibility of monetary policy normalization in the United States; poor outlook for commodity prices and further slowdown in the Emerging Markets and Developing Economies. The

MPC also noted the fragility of the domestic macroeconomic environment; reflected partly in low output growth, soft oil prices, low credit to the high elasticity sectors of the economy and sustained inflationary pressure, which however, softened moderately in October. The MPC was, particularly, concerned that the previous liquidity injections embarked upon through lowering of the Cash Reserve Ratio (CRR), in the last MPC, has not transmitted significantly to improved credit delivery to key growth and employment in sensitive sectors of the economy. Rather, credit went to sectors with low employment elasticity.

The Committee restated its commitment to evolve and implement measures that would be supportive of consolidating and strengthening output growth, however, with an eye on price stability. The Committee, however, recognized the limits of monetary policy under conditions of huge infrastructure gap and significant global financial market fragilities. While noting the imperative of complementary fiscal policies to augment monetary policy, under the circumstance, monetary policy must remain bold in charting the desired course that would stimulate sustainable output growth in the country.

Concerned about the state of unemployment in the country, the MPC evaluated various options for ensuring increased credit delivery to the key growth sectors of the economy, capable of generating employment opportunities, and improving productivity. The Committee underscored the need for the Deposit Money Banks to ensure that measures taken by the Central Bank to inject liquidity and stimulate the economy adequately translate into increased lending to the sectors with sufficient employment capabilities and the potential to generate growth. Accordingly, the MPC agreed that going forward any attempt by the CBN at easing liquidity into the system shall be directed at targeting real sector, infrastructure, agriculture and solid minerals. The MPC further directed the Bank's Management to put in place necessary measures/regulations to ensure strict compliance by the DMBs. This is aimed at ensuring that employment and productivity is stimulated while also moderating prices.

The Committee noted with satisfaction the stability, soundness and resilience of the banking system even against adverse global financial conditions. Given the situation, the MPC emphasized the necessity of focusing on financial market stability and proactive engagement of policy and administrative levers needed to support the environment in which market institutions operate. On their part, market institutions are encouraged to employ more stringent criteria in evaluating their portfolio and business decisions.

The MPC considered that although, headline inflation had remained at the borderline of single digit, the observed moderation, especially in the month-on-month inflation, provided some room for monetary easing to support output in the short to medium term, while keeping in focus the primacy of price stability. In effect, the Committee will continue to monitor developments around the Naira exchange rate, interest rates, and consumer prices, even as target measures are needed to channel liquidity to the key sectors of the economy in an attempt to drive growth.

The Committee noted that close coordination between monetary and fiscal policy was imperative for sustainable growth enhancing policies.

The Committee's Decisions

In consideration of the weakening fundamentals of the economy, particularly the low output growth, rising unemployment and the uncertainty of the global economic environment, the MPC, by a vote of 8 out of 10, reduced the MPR from 13.0 to 11.0 per cent while 2 members voted for a retention of the rate at 13.0 per cent; 7 members voted to reduce the Cash Reserve Requirement (CRR) from 25.0 per cent to 20.0 per cent while 3 members voted to hold. In addition, 8 members voted for an asymmetric corridor of +2/-7 per cent while 2 voted to retain the symmetric corridor of +/-2 per cent around the Monetary Policy Rate (MPR).

The MPC emphasized that the liquidity arising from the reduction in the CRR to 20 per cent, will only be released to the banks that are willing to channel it to employment generating activities in the economy such as agriculture, infrastructure development, solid minerals and industry.

In summary, the MPC voted to:

(i) Reduce the CRR from 25.0 per cent to 20.0 per cent;

(ii) Reduce the MPR from 13.0 per cent to 11.0 per cent;

(iii) Change the symmetric corridor of 200 basis points around the MPR to an asymmetric corridor of +200 basis points and -700 basis points, around the MPR.

Thank you for listening.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
24th November 2015