



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 147 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 20th AND TUESDAY 21st MARCH, 2023

The Monetary Policy Committee (MPC) met on 20th and 21st March, 2023, faced with new and existing headwinds, undermining the full recovery of the global economy. These include the recent bank failures in the United States and Switzerland, amidst widespread monetary policy tightening, which introduced a new dimension to the risks confronting the global financial system, as well as, the persisting high but receding global inflation. The continued hostilities between Russia and Ukraine and its implications to the smooth functioning of the global supply chain also remain a critical strain to the recovery of global output growth.

In the domestic economy, output recovery progressed at a relatively moderate pace, while headline inflation trended upwards, albeit less aggressively, driven mainly by a marginal increase in food inflation.

The Committee assessed key risks to the global economy associated with these developments and their impact on the Nigerian economy, as well as, the outlook for the rest of the year.

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

Global Economic Developments

The Monetary Policy Committee noted the new and existing headwinds to the broad stability of the global economy. Primary amongst these is the risk of a global financial contagion from the recent bank failures in the United States and Switzerland. In Europe, the war between Russia and Ukraine has continued

unabated, causing critical strains to the commodities and energy markets as supply chain bottlenecks remain, while the lingering risk of the resurgence of several variants of the Corona virus persists after China set aside its Zero-COVID Policy. Furthermore, the deteriorating relations between the US, China, Russia and some major oil producers in the Middle East, continue to contribute to increased volatility in the oil market.

In the Emerging Markets and Developing Economies, the unfolding tight external financing conditions and shock spillovers from the Advanced Economies, could further dampen the recovery of output growth.

In light of these developments, the International Monetary Fund (IMF), in its January 2023 World Economic Outlook, forecast global output growth for 2023 at 2.9 per cent, compared with 3.4 per cent in 2022. Growth is, however, expected to improve to 3.1 per cent in 2024.

While global inflation shows sign of deceleration, monetary policy normalization is progressing unabated, especially amongst key Advanced Economy central banks, targeted at moderating global demand pressure. Price development across several economies is thus expected to remain high throughout 2023, but to decelerate gradually in 2024.

The key factors expected to keep inflation above the long-run target of several central banks include: the persisting disruption to energy markets associated with continued war between Russia and Ukraine; high commodity prices; and general disruptions to the global supply chain associated with uncertainties around the COVID-19 pandemic in China and the ongoing tensions between the US and China over Taiwan's sovereignty.

Across several Emerging Market and Developing Economies, inflationary pressures have remained high due largely to rising energy prices, high prices of

grains and exchange rate pressures associated with capital flows to high yield US dollar-denominated assets.

In the global financial markets, renewed fears of a global financial contagion are forcing investors to move away from the equities market to safer assets such as gold, while others seek higher returns in treasury securities with improved yields. With several Advanced Economy central banks progressing with monetary policy normalization, global financial conditions will likely remain tight, thus reinforcing the reassignment of financial portfolios to reflect the risk aversion of investors.

Domestic Economic Developments

Data from the National Bureau of Statistics (NBS) showed that Real Gross Domestic Product (GDP) grew by 3.10 per cent in 2022. In the fourth quarter of 2022, it grew by 3.52 per cent (year-on-year), compared with 3.98 per cent in the corresponding period of 2021 and 2.25 per cent in the preceding quarter. The economy maintained a positive growth trajectory for nine consecutive quarters, since exiting recession in 2020. The improved performance was driven largely by sustained growth in the services and agricultural sectors, a rebound in economic activities associated with economic recovery and continued intervention in growth enhancing sectors by the Bank. Staff projections showed that output growth recovery is expected to continue into 2023 and 2024.

The Committee, however, observed with concern, the marginal increase in headline inflation (year-on-year) in February 2023, to 21.91 per cent, from 21.82 per cent in January 2023, a 0.09 percentage point increase. This increase was attributed largely to a minimal rise in the food component to 24.35 per cent in February 2023, from 24.32 per cent in January 2023, while the core component moderated to 18.84 per cent in February 2023, from 19.16 per cent in January 2023. The shocks to the food component were driven by high cost of transportation of food items, lingering security challenges in major food-

producing areas and legacy infrastructural problems, which continue to hamper food supply logistics.

Broad money supply (M3) grew by 13.14 per cent (annualized) in February 2023 (year-to-date), below the 2023 provisional annual benchmark of 17.18 per cent. This was driven largely by the growth in Net Foreign Assets (NFA), which was attributed to the increase in foreign asset holdings of the Central bank and decrease in foreign claims on Other Depository Corporations (ODCs).

Money market rates reflected the tight liquidity conditions in the banking system. Consequently, the monthly weighted average Open Buyback (OBB) and Inter-bank Call rates increased to 12.74 and 12.54 per cents in February 2023, from 10.14 and 10.35 per cent in January 2023, respectively.

The Committee noted the continued stability in the banking system, reflected by the performance of the Financial Soundness Indicators (FSIs). The Capital Adequacy Ratio (CAR) stood at 13.7 per cent, Non-Performing Loans (NPLs) ratio of 4.2 per cent and Liquidity Ratio (LR) of 43.1 per cent, as of February 2023.

The MPC observed the sustained improvement in the equities market in the review period, as the All-Share Index (ASI) and Market Capitalization (MC) both increased to 54,915.39 and N29.92 trillion on March 17, 2023, from 51,251.06 and N27.92 trillion on December 30, 2022, respectively, indicating renewed investor confidence in the Nigerian financial market.

The Committee, however, noted the marginal decline in the level of gross external reserves to US\$36.13 billion in February 2023, from US\$36.4 billion in January 2023, a decrease of 0.7 per cent, reflecting the downtrend in crude oil prices, as global uncertainties persist.

The Committee reviewed the performance of the Bank's various interventions aimed at stimulating production and productivity across the real sector. Between January and February 2023, the Bank disbursed N12.65 billion to three (3) agricultural projects under the Anchor Borrowers' Programme (ABP),

bringing the cumulative disbursement under the Programme to ~~₦~~1.09 trillion to over 4.6 million smallholder farmers cultivating or rearing 21 agricultural commodities on an approved 6.02 million hectares of farmland across the country.

The Bank also released the sum of ~~₦~~23.70 billion under the ~~₦~~1.0 trillion Real Sector Facility to eight (8) new real sector projects in agriculture, manufacturing, and services. Cumulative disbursements under the Real Sector Facility currently stands at ~~₦~~2.43 trillion, disbursed to 462 projects across the country, comprising 257 manufacturing, 95 agriculture, 97 services and 13 mining sector projects. Under the 100 for 100 Policy on Production and Productivity (PPP). The Bank also released ~~₦~~3.01 billion under the Nigerian Electricity Market Stabilisation Facility (NEMSF-2) for capital and operational expenditure of distribution companies (Discos) aimed at improving their liquidity status and aid their recovery of legacy debt. This brings the cumulative disbursement under the facility to ~~₦~~254.39 billion.

Outlook

The overall outlook for the full recovery of both the global and domestic economies, remained clouded by new and legacy downside risks.

Available data and forecasts for key macroeconomic variables for the Nigerian economy, suggest that the domestic economy will continue to recover for the rest of 2023 at a moderate pace, in light of evolving and persisting shocks to the economy. The continued upward pressure on inflation, rising cost of debt and debt servicing, as well as deteriorating fiscal balances remain headwinds, which may undermine the smooth path to a faster recovery. Accordingly, the Nigerian economy is forecast to grow in 2023 by 3.03 per cent (CBN), 3.37 per cent (FGN) and 3.20 per cent (IMF).

The Committee's Considerations

At this meeting, MPC focused its attention not only on the inflationary trends in most major economies, but also on the reported impact of policy rate hikes:

aimed at rein-in inflation on financial system stability in the global financial system.

The MPC hence took time out to discuss the recent bank failures in the US and Switzerland, an event that occurred following the persistent interest rate hikes in the US, and how this has adversely impacted the broad portfolio of banks in the US. It noted that whereas MPR was increased by 500 basis points in Nigeria, from 12.5 per cent in 2022 to 17.5 per cent in January 2023, the Financial Soundness Indicators (FSIs) in Nigeria shows that the Nigerian banking system remain resilient due largely the stringent prudential guidelines put in place by the CBN which has resulted in a strong build-up of not only the Cash Reserve Ratio (CRR) in Nigeria, but also the Liquidity Ratio and capital Adequacy Ratio.

In the light of these strong FSIs, MPC was comforted that its various decisions in increasing MPR have had moderate impact on inflation, given that the rate appears to have plateaued in Nigeria.

The Committee's major considerations at this meeting, therefore, focused on arriving at key policy mechanisms to shield the economy from emerging shocks from the global economy, as well as sustain its focus on domestic price stability.

Headline inflation, in the view of members, remained high with increased expectations of price development, due to the perennial scarcity of PMS and ongoing discourse around the removal of fuel subsidy. With the prices of other energy products also rising, members stressed the importance of addressing price development.

The Committee also considered the continued impact of exchange rate pressure on domestic price levels and called for policies to attract both portfolio and foreign direct investment to Nigeria. It maintained optimism that, the continued progress made with the RT200 FX programme, Naira-4-dollar and other policies targeted at attracting diaspora remittances, would continue to help improve accretion to the external reserves and improve liquidity in the foreign exchange market.

While output growth remains on a positive trajectory, Members called for increased monetary and fiscal coordination to support the recovery in light of risks confronting the domestic economy. To this end, the Committee enjoined the fiscal authority to explore other avenues to improve non-oil revenue to reduce the fiscal deficit and public debt burden.

Following new risks of financial contagion emerging from the scenario of failed banks in some Advanced Economies, members examined the possibility of shocks to the Nigerian banking system from these banks and concluded that the Nigerian banking system remains reasonably insulated from such likely contagion. The CBN has been able to achieve this through stringent micro and macro-prudential guidelines that have ensured that individual banks and the banking industry in Nigeria have adequate buffers to ward-off global contagion. In addition to this, the MPC examined the possible impact of further policy rate hikes on the stability of the banking system and was convinced that further hikes would not adversely impact the stability of the banking system. The Committee, however, called on the Bank's Management to strengthen its regulatory oversight on the banking system to ensure that the banking industry remain stable and resilient.

The Committee's Decision

The MPC noted that while the continued rise in headline inflation remained a significant problem confronting the economy, other macroeconomic variables are moving in the right direction, despite observed headwinds.

The Committee's debate at this meeting, therefore, was whether to continue its rate hike to further dampen the rising inflation trajectory or hold to observe emerging development and allow for the impact of the last five rate hikes to permeate the economy. Loosening, in the view of members, would gravely undermine the gains achieved so far.

The MPC observed the continued upward risk to price development around expectations on the removal of the PMS subsidy; rising prices of other energy

sources; continuing exchange rate pressure; and uncertain climatic conditions. These in the view of members, provides a compelling argument for an upward adjustment of the policy rate, albeit, less aggressively. The Committee, however, noted that the naira redesign and cash withdrawal limit policies have resulted in a sizeable reduction in Currency-Outside-Banks, indicating an expected improvement in the potency of monetary policy tools.

Members, however, remained aware of the ongoing challenges associated with the limits imposed on cash withdrawals in the face of frequent downtime in bank electronic transaction channels. The Committee thus called on Other Depository Corporations, online payment platforms, and other stakeholders to ensure that the prevailing incidence of network failures is overcome in the immediate and short term. This would ensure that the Naira Redesign and Cash Withdrawal Limit Policies lead to an improved in-road of the CBN Cashless program and efficiency of the transmission mechanism of monetary policy.

Members, thus, resolved by a majority vote to raise the Monetary Policy Rate (MPR) by 50 basis points. In Summary, ten (10) members voted to raise the MPR by 50 basis points, one (1) member voted to raise the MPR by 25 basis points and one (1) member voted to hold the MPR. All members voted to keep all other parameters constant.

The MPC, therefore, voted to:

- I. Raise the MPR by 50 basis points to 18.0 per cent;
- II. Retain the asymmetric corridor of +100/-700 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.

Godwin I. Emefiele, CON
Governor, Central Bank of Nigeria
21st March 2023