



**CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 148 OF THE 291ST
MEETING OF THE MONETARY POLICY COMMITTEE HELD ON TUESDAY
23RD, AND WEDNESDAY 24TH MAY, 2023**

The Monetary Policy Committee (MPC) met on the 23rd and 24th of May 2023, confronted with persisting and emerging risks to both the global and domestic economies. On the global scene, the key risks are the fear of contagion arising from the US banking crisis; the ongoing Russia – Ukraine war; and growing tensions between China and the US. In addition to these, the oil market has remained volatile even as global trade figures continue to decline. In the domestic economy, the major risks identified include high public debt, high inflation, declining oil production, and moderate recovery of output growth.

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 deliberated on the key headwinds confronting the recovery of global growth, including the impact on global trade associated with the Russia-Ukraine war; the risk of contagion from the US banking crisis, as investors exercise caution; and the downside risks from the build-up of hostilities between the US and

China. Output growth recovery has thus, remained moderate in some countries and subdued in others.

Members noted that despite concerted efforts by the Advanced Economy central banks, inflation has remained broadly elevated and well above long-run objectives, with consequences for investment spending and the recovery of output growth. In the Emerging Markets and Developing Economies, inflationary pressure remains heightened amid several headwinds.

Global financial conditions have continued to tighten as several central banks maintain their push towards taming inflation. Gold price sustained an uptrend as investors seek a safe haven asset to hedge against losses in the event of a broader market downturn, with growing fears of a global financial contagion associated with the banking crisis in the US and Europe.

Consequently, the International Monetary Fund (IMF), in its April 2023 World Economic Outlook further downgraded the output growth forecast for 2023 to 2.8 per cent compared with its January forecast of 2.9 per cent. Growth is however, expected to improve moderately to 3.0 per cent in 2024.

Domestic Economic Developments

According to the National Bureau of Statistics (NBS), Real Gross Domestic Product (GDP) grew by 2.31 per cent (year-on-year) in the first quarter of 2023, compared with 3.11 per cent in the corresponding quarter of 2022 and 3.52 per cent in the preceding

quarter. The economy moderated on its current recovery trajectory, posting positive, albeit lower growth, for the tenth consecutive quarter, in spite of a multitude of headwinds to its full recovery. The growth performance was driven largely by the sustained growth in the services and agricultural sectors; progressive uptrend in economic activities across several sub-sectors; and sustenance of broad-based support by the Bank in growth enhancing sectors. Staff projections showed that output growth recovery is expected to continue reasonably in 2023, given the significant improvements in the Composite Purchasing Managers' Index (PMI), which rose to 51.1 index points in April 2023 from 42.6 index points in March 2023.

The Committee noted the persisting uptick in inflation, as headline inflation (year-on-year) rose to 22.22 per cent in April 2023 from 22.04 per cent in the previous month. While this amounted to a moderate increase of 0.18 percentage point. The recent uptick was driven largely by the increase in both the food and core components, which rose moderately to 24.61 and 20.14 per cent in April 2023 from 24.45 and 19.86 per cent, respectively, in March 2023. The lingering insecurity in major food-producing areas; high cost of transportation driven by rising energy costs; activities of middlemen in the food distribution channels; as well as the persistence of shocks from legacy infrastructural bottlenecks, remains major drivers of the inflationary pressure.

The MPC observed that the economy continued to be weighed down by high import bills, leading to pressure on foreign exchange and resultant increase in the general price level. The Committee

noted that the economy needs to build up the stock of foreign reserves to act as buffers against shocks. In addition, the current trend in price development would continue to be monitored by the Bank with greater collaboration with the fiscal authority, to address the drivers of inflation.

Broad money supply (M3) in April 2023 grew by 22.11 per cent (annualized), largely driven by the increase in Net Domestic Assets (NDA). Money market rates reflected the relatively tight liquidity conditions in the banking system. Consequently, the monthly weighted average Open Buyback (OBB) and Inter-bank Call rates increased to 17.05 and 15.80 per cent in April 2023, from 14.07 and 14.75 per cent in March 2023, respectively.

The Committee noted the sustained stability in the banking system, evidenced by the performance of the Financial Soundness Indicators (FSIs). The Capital Adequacy Ratio (CAR) stood at 12.8 per cent, Non-Performing Loans (NPLs) ratio at 4.4 per cent and Liquidity Ratio (LR) at 45.3 per cent, as of April 2023.

The MPC noted the momentary lull in the equities market in the review period following end-of-year activities by several companies on the Exchange. The All-Share Index (ASI) and Market Capitalization (MC) declined to 52,403.51 and N28.53 trillion on April 28, 2023, from 55,806.26 and N30.40 trillion on February 28, respectively.

The Committee, also, noted the moderate decline in the level of gross external reserves to US\$34.91 billion in April 2023, from US\$35.14

billion at end-March 2023, attributable to transactions in the foreign exchange market and largely to miniscule accretion to reserves from crude oil exports.

The Bank disbursed the sum of ~~N~~25.6 billion under the ~~N~~1.0 trillion Real Sector Facility to eight (8) new real sector projects in manufacturing packaging, pharmaceuticals, plastic and cosmetic products. Cumulative disbursements under the Real Sector Facility currently stands at ~~N~~2.56 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 disbursed the sum of ~~N~~13.81 billion to three (3) projects in the manufacturing sector. This brings the cumulative disbursement under the facility to ~~N~~173.31 billion, disbursed to 81 projects comprising 45 manufacturing, 23 agriculture, 5 healthcare, and 8 services sector projects with an estimated 23,343 direct jobs created.

Under the Nigerian Electricity Market Stabilisation Facility (NEMSF-2) for capital, and operational expenditure of distribution companies (Discos), the Bank disbursed ~~N~~11.82 billion to ease liquidity constraints and support the recovery of legacy debt. Under the scheme so far, the Bank has disbursed a cumulative sum of ~~N~~254.39 billion.

Outlook

The broad outlook for the full recovery of both the global and domestic economies remained clouded by legacy and emerging risks.

Available data and forecasts for key macroeconomic indicators in the Nigerian economy, suggest that the economy will continue on a moderate recovery path through 2023 as legacy headwinds linger. These include insecurity in food producing areas; high cost of energy and rising cost of debt servicing. Accordingly, the economy is forecast to grow in 2023 by 3.03 per cent (CBN), 3.75 per cent (FGN) and 3.29 per cent (IMF).

The Committee's Considerations

At this meeting, the MPC was concerned that, despite the tight monetary policy stance adopted since its May 2022 meeting, inflation had not decelerated towards the Bank's long run objective. The MPC noted that the continued rise in headline inflation, albeit moderately, remained the biggest challenge confronting macroeconomic stability in Nigeria. Headline inflation in the view of Members, remained high due largely to a host of non-monetary issues outside the reach of the central bank such as the perennial scarcity of Premium Motor Spirit (PMS) and expectations of short-term hikes in the pump price of PMS; high and rising price of various energy sources; and a host of headwinds confronting the food supply chain. In the circumstance, the Committee enjoined the fiscal authority to explore other avenues to expand the fiscal safety net in an urgent bid to improve its ability to respond to legacy and emerging shocks. Non-oil revenue sources, such as the expansion of the tax bracket, will enable the reduction of fiscal deficit and public debt to improve fiscal space.

Confronted by these challenges, the Committee tasked the Bank's Research and Monetary Policy Departments to evaluate the counterfactual evidence from available data, using empirical analysis. The results revealed that following each monetary policy rate hike, the rise in inflation moderated relative to what it could have been, if the MPC had not aggressively raised rates at all.

In fact, the empirical evidence provided showed that whereas inflation in April 2023 stood at 22.22 per cent, the counterfactual evidence suggests that, it could have risen to 30.48 per cent in April 2023, had the MPC not taken any action to raise policy rates as it did since May last year. Indeed, the cumulative effect of MPC's policy rate hikes moderated the rise in inflation by about 800 basis points since last year.

The Committee was also concerned that output growth, on a year-on-year basis dropped to 2.31 per cent during the first quarter of 2023 compared with 3.11 per cent during the first quarter of 2022. The challenge at this meeting, therefore, centered around whether to hold or loosen, in order to refocus on growth, or tighten further, in order to tame the rise in inflation. Members were, however, unanimous that given that rising inflation would hurt growth, it is imperative to continue to focus on price and monetary stability, though in a less aggressive manner.

The Committee called on the Management of the Bank to continue to explore avenues to improve the exchange rate policy to moderate pressure in the foreign exchange market. Members were

optimistic that the continued progress made with the RT200, Naira-for-dollar and other policies targeted at attracting trade and diaspora remittances, would continue to support accretion to reserves and improve liquidity in the foreign exchange market.

While output growth remains on a positive trajectory, the MPC noted the need for increased monetary and fiscal coordination to support recovery in light of the identified risks confronting the domestic economy.

Members expressed satisfaction with the banking and financial system stability indicators presented to the Committee. They, however, noted that the risk of global financial contagion is yet to dissipate. To this end, Management was enjoined to maintain strict vigilance to insulate the banking system from potential spillover effects. So far, the Bank has sustained stringent micro-and macro prudential measures to ensure that the banking system remains resilient with adequate buffers to ward-off both external and domestic shocks.

In its consideration as to whether to hold, loosen or tighten, the MPC was of the view that a hold or loosen option was not desirable at this time given that a hold may compromise the Bank's decision to tame the rising inflation, particularly when its in-house staff estimates have projected that headline inflation would continue to rise in the immediate months ahead before decelerating. As to whether to loosen, this option was considered undesirable, because loosening, in the face of persistently rising headline inflation would compound

the inflationary pressure and trigger further macroeconomic instability.

The Committee also felt that loosening would further widen the negative real interest rate margin and worsen domestic financial and money market conditions: including triggering a naira depreciation.

The Committee's Decision

In the opinion of the Committee, the key policy dilemma at this meeting was whether to hold or hike the policy rate marginally to offset the moderate increase in headline inflation.

Considering the option of a hold policy, the Committee reiterated the empirical counterfactual evidence of a '*do-nothing*' and believed that the rate hikes have indeed helped moderate the continued rise in inflation, albeit, month-on-month. In addition, the evidence revealed that the policy rate hikes have also moderated growth in new credit and reduced the pent-up aggregate demand contributing to the inflationary pressures. Members were unanimous in their conclusion, that the current policy stance is indeed impacting the targeted parameters and yielding the expected outcome, although slowly.

Reviewing the argument to further hike the policy rate in a bid to subdue aggregate demand, Members noted that the current uptrend in inflationary pressure was driven by a combination of both demand and supply side issues. The MPC observed the continued

upward risk to price development driven primarily by expectations of rising energy and food prices; unabating security challenges in food producing areas; as well as persisting exchange rate pressure. The Committee thus felt it was expedient to continue to address the demand-side issues falling within the ambit of its policy tools.

The balance of the argument thus leaned sufficiently in favour of a further hike (albeit less aggressively), considering the adverse impact of rising inflation on real income. The MPC therefore opted to tighten, though moderately, so as to:

- i. indicate the MPC's conviction that the current policy stance is moderating the rising inflation, albeit month-on-month, and sustaining the stance would consolidate the gains made so far;
- ii. support the efforts toward moderating the demand-pull inflation, as cost of funds increases, and discourages further build-up in aggregate demand, in the face of declining output growth;
- iii. narrow the negative real interest rate gap and moderate the associated consequences, including discouraging domestic savings mobilization and waning investors confidence;
- iv. effectively moderate the monetary phenomenon in the current drivers of inflation by tapering both economic and financial conditions and sweep-up excess liquidity in the system; and
- v. boost the Bank and Committee's credibility following its earlier forward guidance to continue to tighten when confronted with unabated rising inflation.

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

In summary, the MPC voted to:

- I. Raise the MPR to 18.5 per cent from 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
Governor, Central Bank of Nigeria
24th May 2023