Olayemi Cardoso: Economic briefing at the Joint Senate Committee on Finance, Banking, Insurance and other Financial Institutions and National Planning

Speech by Mr Olayemi Cardoso, Governor of the Central Bank of Nigeria, at the Economic briefing at the Joint Senate Committee on Finance, Banking, Insurance and other Financial Institutions and National Planning, Lagos, 9 February 2024.

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Chairman, Senate Committee on Banking, Insurance, and Other

Financial Institutions: Distinguished Senator Mukhail

Adetokunbo Abiru

Chairman, Senate Committee on Finance: Distinguished Senator

Mohammed Sani Musa

Chairman, Senate Committee on National Planning:

Distinguished Senator Abdullahi Yahaya

Distinguished Vice Chairs and Members of the Joint Senate

Committees here today

Honourable Ministers

My colleagues from the Central Bank of Nigeria

Gentlemen of the Press

Ladies and Gentlemen

Good morning,

Permit me to read a prepared statement given the seriousness of this matter and then subsequently have a discussion on these topics during the Q & A session.

I am honoured to appear before this Joint Senate Committee on Finance, Banking, Insurance, and Other Financial Institutions and National Planning to address critical concerns related to exchange rates and inflationary pressures in the economy.

Indeed, this is the major topic of concern in our villages, our towns and our cities. The urgency of the matter is not lost on us at the Central Bank, and I assure you we are working tirelessly with colleagues across government, including with the leadership of this National Assembly, to bring lasting solutions.

Inflation

In December 2023, the economic landscape revealed significant shifts. The headline inflation stood at 28.92% in December 2023 as against 28.20 % in November, food inflation was 33.93% as against 32.84% in November, while core inflation was 23.06% as against 22.38% in October 2023.

Headline inflation surged to 28.92%, propelled by food shortages, distribution challenges, and seasonal trends. The festive season's consumer demand upsurge, following subdued periods due to energy and foreign exchange reforms, contributed to this trend, persisting from November through December yearly.

The upward trend of food inflation is primarily due to supply shocks caused by insecurity, climate-induced factors such as flood and rainfall shortage in some cases, inefficient, subsistent and seasonal farming practices as well as importation bottle necks that have impacted the prices of imported food items. Anecdotal evidence indicates that recent exchange rate volatility has fuelled more foreign demands for agricultural products, especially, from neighbouring countries. While this presents an opportunity to expand and boost agricultural output, hence creating jobs in the sector, supply constraint exacerbated demand, instigating more inflationary pressures.

Given this backdrop, the emergency committee on food security set up by the President has been taking a number of measures and we see an end in sight to the persistent rise of food inflation.

On our side at the CBN, we have responded with significant monetary policy tightening to reign in inflationary pressure.

Empirical analysis has established that money supply is one of the factors fuelling the current inflationary pressure. For instance, an analysis of the trend of the money supply spanning over 9 months shows that M3 increased from N52.01 trillion in January 2023 to N68.25 trillion in November 2023 representing N16.24 trillion or 31.22 percent increase over the period. Increase in Net Foreign Asset (NFA) following the harmonization of exchange rates and the N3.22 trillion ways and means advances were the major factors driving the increase in money supply.

We have also halted quasi-fiscal measures totalling over 10 trillion naira by the Central Bank of Nigeria previously disguised as development finance interventions. These measures had contributed to increase in money supply thereby raising prices to the levels of Inflation we are grappling with today.

The CBN's adoption of inflation-targeting framework involves clear communication and collaboration with fiscal authorities to achieve price stability, potentially leading to lowered policy rates, stimulating investment, and creating job opportunities.

Our MPC meeting on the 26th and 27th of February is also expected to review the situation and take further decisions on these important issues.

Distinguished Senators, Inflationary pressures are expected to decline in 2024 due to the CBN's inflation-targeting policy, aiming to rein in inflation to 21.4 percent at the medium term, aided by improved agricultural productivity and easing global supply chain pressures.

Exchange Management

The Nigerian foreign exchange market is currently facing increased demand pressures, causing a continuous decline in the value of the naira. Factors contributing to this situation include speculative forex demand, inadequate forex supply increased capital outflows, and excess liquidity.

The shift to a market-driven exchange rate was intended to create a stable macroeconomic environment and discourage currency hoarding. However, short-term volatilities are attributed to arbitrage and speculation.

To address exchange rate volatility, a comprehensive strategy has been initiated to enhance liquidity in the FX markets. This includes unifying FX market segments, clearing outstanding FX obligations, introducing new operational mechanisms for BDCs and IMTOs, enforcing the Net Open Position limit, Open Market Operations and adjusting the remunerable Standing Deposit Facility cap among others.

Distinguished Senators, these measures, aimed at ensuring a more market-oriented mechanism for exchange rate determination, will boost foreign exchange inflows, stabilize the exchange rate, and minimize its pass-through to domestic inflation.

Indeed, they have already started yielding early results with significant interest from Foreign Portfolio Investors (FPIs) that have already begun to supply the much-needed foreign exchange to the economy. For example, upwards of $1 billion in the last few days came in to subscribe to the Nigeria Treasury Bill auction of 1 trillion Naira which saw an oversubscription earlier this week.

Our measures aimed at improving USD supply into the Nigerian economy, has significant potential in taming the volatility of the exchange rates. However, for these measures to be sustainable, we must as a country, moderate our demand for FX.

Distinguished Senators, we must understand that the genuine issue impacting the exchange rate is the simultaneous decrease in the supply of, and increase in the demand for, US Dollars. It is also clear that the task of stabilizing the exchange rate, while an official mandate of the CBN, would necessitate efforts beyond the Bank itself. It will also include actions by corporates and individuals to reduce our frequent demand for the dollar for business and personal needs.

I would like to underscore the importance of the ongoing collaboration between the Fiscal and Monetary authorities and particularly progress made on tackling a number of the issues challenging our economy today.

Conclusion

In conclusion, Distinguished Senators, we understand the economic costs of these developments not just for the economy, but also as they affect ordinary Nigerians.

However, as I have mentioned in previous engagements, these costs are temporary, and our decisions will address a lot of fundamental issues bothering Nigeria's macroeconomic landscape and ultimately put us on a surer path to prosperity. I look forward to providing more information during the Q & A session.

Thank you.