

KEY POINTS



- A total of 109 MPC communiqués released in the last 20 years are analyzed, using a text-mining algorithm to score the sentiments in the communiqués across CBN governors' terms.
- Generally, the highest sentiment score was obtained from the communiqués released under Soludo (60.2%), followed by Sanusi (58.3%) and then Emefiele (44.1%).
- The next MPC meeting, being first under Mr. 'Yemi Cardoso, will most likely decide to tighten further, to address rising inflation, raise real interest rate, and incentivize inflow of capital to support the naira.
- There are consequences, especially in higher cost of capital to businesses and the cost of borrowing to the national and sub-national governments, as well as investors' returns on different portfolios.

Sentiment Analysis of Considerations and Decisions in MPC Communiqués

Section 12 Sub-sections (1) to (5) of the Central Bank of Nigeria (CBN) Act of 2007 (Amended) established the CBN's Monetary Policy Committee (MPC) to facilitate the attainment of price stability and support the economic policy of the Federal Government. The MPC, which has the responsibility for formulating monetary and credit policy, meets regularly based on a pre-announced calendar released annually.

The outcomes of these regular meetings are communicated to the public through a policy communiqué read in a press conference by the CBN Governor. These communiqués serve as a rich source of information on the global and domestic economic development and outlook, the committee considerations and decisions as well as their voting patterns and personal statements.

This edition of Analysts' Policy Brief analyzes the communiqués released from a total of 109 MPC meetings held in the last 20 years, i.e., between 2004 and 2023. A sentiment analysis approach is adopted in analyzing these communiqués to examine their contents and evaluate opinions, sentiments, and considerations of the committee over this period.

Sentiment analysis involves subjectively classifying opinions in text into categories like "positive" "stable" or "negative", and using a sentiment score to summarize and rank the tone of the texts and contents of the communiqués. A text-mining algorithm is used to analyze these communiqués and compare the outcomes under different CBN governors. One major aim of this is to examine if some scenarios can be developed from the sentiments of past meetings to model the likely outcome of the first MPC meeting to be held under the new CBN's governor, Mr. 'Yemi Cardoso.

Global Economic Environment Consideration

Half of the communiqués released during Charles Soludo’s tenure as the CBN governor reported a negative global economic sentiment while the other half had stable sentiment. During the tenure of Lamido Sanusi, 50.0% of the MPC communiqué described the global economic environment as negative, while 34.6% observed it to be stable and 15.4% as positive. Under Godwin Emefiele, 68.8% of MPC communiqué had negative global economic sentiment, 18.8% had positive and 12.5% stable.

Table 1: Sentiment on the Global Economic Environment (%)

Category	Charles Soludo	Lamido Sanusi	Godwin Emefiele	Total
Negative	50.0	50.0	68.8	59.5
Stable	50.0	34.6	12.5	23.8
Positive	0.0	15.4	18.8	16.7

Source: CBN communiqués and ADSR research

The sentiment of the global economic environment can be said to be relatively more stable under Soludo, more negative under Emefiele, and relatively more positive under both Emefiele and Sanusi than under Soludo. According to figure 1 therefore, the sentiment on the global economic environment was relatively more favourable under Lamido Sanusi (32.7%) than Charles Soludo (25.0%) and Godwin Emefiele (25.1%).

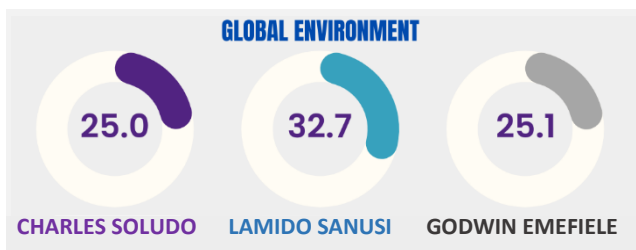


Figure 1: Global Economic Environment

Source: CBN communiqués and ADSR research

Inflation Consideration

The description in 57.1% of the MPC communiqué showed an upward trend in inflation while 42.9% reported a downward trend during the Soludo’s era. Conversely, a larger proportion (68.0%) of the communiqué released during the tenure of Sanusi described a downward inflation trend, and 32% reported otherwise. Under Emefiele, the description in 37.0% of the communiqué showed a downward trend in inflation, while 63% indicated upward trends.

Table 2: Sentiment on Inflation (%)

Category	Charles Soludo	Lamido Sanusi	Godwin Emefiele	Total
Downward	42.9	68.0	37.0	46.1
Upward	57.1	32.0	63.0	53.9

Source: CBN communiqués and ADSR research

On average, inflation was relatively less favorable under Godwin Emefiele (63.0%) and Charles Soludo (57.1%) than Lamido Sanusi (32.0%).

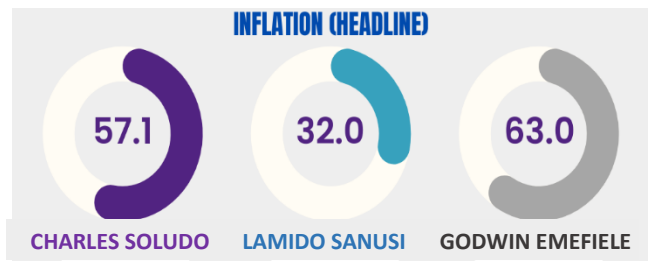


Figure 2: Inflation (Headline)

Source: CBN communiqués and ADSR research

External Reserves Consideration

From the communiqué released during Soludo's tenure, 88.9% described an upward trend in external reserves while only 11.1% described a downward trend. The contents of 72.0% of MPC communiqué during Lamido Sanusi's administration reported an upward trend in external reserves and 28% described a downward trend. In the era of Emefiele, 60.6% also observed an upward trend in external reserves, and 39.5% reported otherwise.

Table 3: Sentiment on External Reserves (%)

Category	Charles Soludo	Lamido Sanusi	Godwin Emeziele	Total
Downward	11.1	28.0	39.5	30.7
Upward	88.9	72.0	60.6	69.3

Source: CBN communiqués and ADSR research

On average therefore, external reserves had a higher sentiment score during Soludo (88.9%) than Sanusi (72.0%) and Emeziele (60.6%).



Figure 3: External Reserves

Source: CBN communiqués and ADSR research

Exchange Rate Consideration

During Soludo’s era, the description in 7.7% of the MPC communiqué showed a depreciation in the exchange rates while 46.2% reported either of a stable exchange rate or an appreciation in the exchange rate. Conversely, a larger proportion (70%) of the communiqué released during Sanusi’s term described an appreciation in the exchange rate, and 30% reported depreciation. Under the administration of Emeziele, half of the communiqué (50%) reported that the exchange rate depreciated while the other half indicated an appreciation.

Table 4: Sentiment on Exchange Rate (%)

Category	Charles Soludo	Lamido Sanusi	Godwin Emeziele	Total
Depreciate	7.7	30.0	50.0	31.2
Stable	46.2	0.0	50.0	35.4
Appreciate	46.2	70.0	0.0	33.3

Source: CBN communiqués and ADSR research

A slightly higher sentiment score was therefore observed under Sanusi (70.0%) than Soludo (69.3%) and the lowest sentiment on the exchange rate was observed under Emeziele (25%).

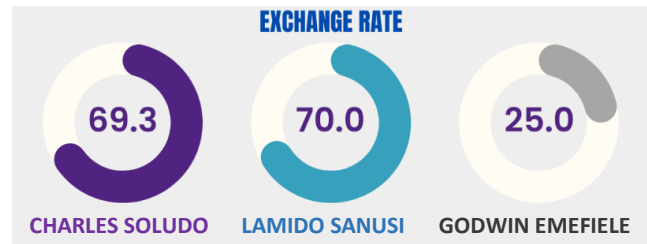


Figure 4: Exchange rate

Source: CBN communiqués and ADSR research

Output Growth Consideration

On output growth, the description in 75% of the MPC communiqué released under Soludo’s administration showed an upward trend while 25% reported a downward trend. Also, 83.3% of the communiqué during the tenure of Sanusi described an upward trend in output growth. Under Emeziele, 55.2% described the output growth as upward, while 44.8% indicated a downward trend.

Table 5: Sentiment on Output Growth (%)

Category	Charles Soludo	Lamido Sanusi	Godwin Emeziele	Total
Downward	25.0	16.7	44.8	34.7
Upward	75.0	83.3	55.2	65.3

Source: CBN communiqués and ADSR research

The sentiment on output growth was highest under Sanusi (83.3%), followed by Soludo (75%), and lastly by Emeziele (55.2%).

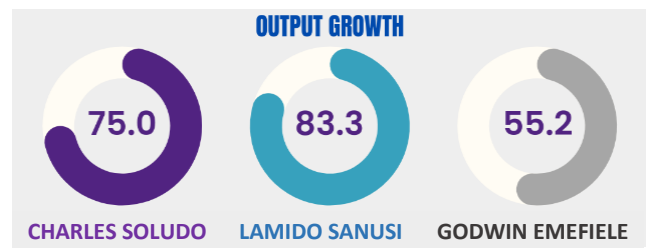


Figure 5: Output Growth

Source: CBN communiqués and ADSR research

Overall Sentiment on Considerations

Computing the overall average to the sentiment analysis, it is observed that generally, the highest sentiment was expressed in the communiqués released under Soludo (60.2%), followed by Lamido (58.3%) and then Emeziele (44.1%).

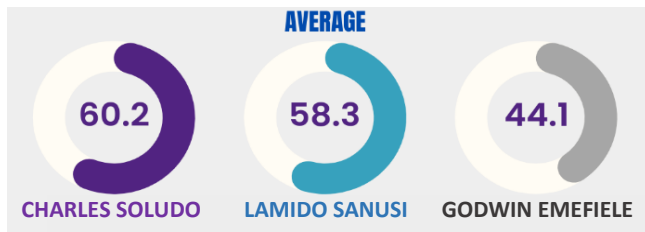


Figure 6: Overall Average
Source: CBN communiqués and ADSR research

Decision on Monetary Policy Rate (MPR)

Now moving from considerations to decisions. For the MPC decisions concerning the monetary policy rate (MPR), the rate was revised upward in 26.6% of the meetings chaired by Soludo, 29.2% during Sanusi and 20.4% under Emezie. While there was a higher tendency to hold the MPR under all governors, decisions concerning MPR under Soludo appeared more balanced.

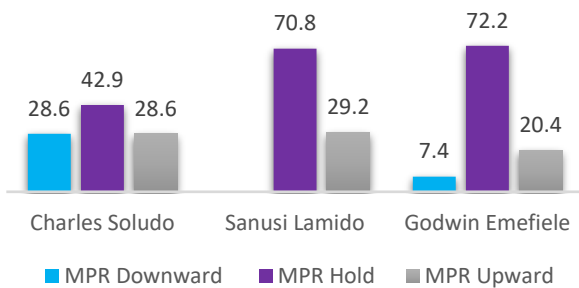


Figure 7: Monetary Policy Rate (MPR)
Source: CBN communiqués and ADSR research

Further analysis of the association between the committee’s consideration and decisions concerning MPR shows the following:

- In a negative global environment, there is a 32% chance of deciding to raise MPR and a 12.5% chance of lowering it.
- When inflation is rising, there is a 24% chance of an upward review to MPR
- In a declining external reserves environment, there is a 36% chance that MPR will be raised
- Exchange rate depreciation is accompanied by a 40.0% chance of MPR being raised.
- During a period of output growth, there is a 26.7% chance of raising rates while this reduces to 13.5% if output is contracting.

Decision on Cash Reserve Ratio (CRR)

From the analysis, the majority of decisions across all governors and circumstances were to hold the Cash Reserve Ratio (CRR). Notably, while Soludo’s era showed a preference for downward adjustments (50.0%), the Sanusi and Emezie eras overwhelmingly opted to hold CRR (76.5% and 88.9% respectively).

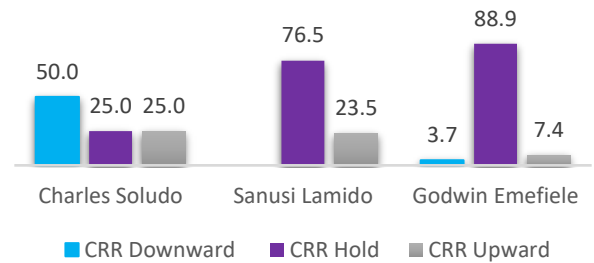


Figure 8: Cash Reserve Ratio (CRR)
Source: CBN communiqués and ADSR research

- This conservative approach persisted across different states of the various economic indicators, highlighting a commitment to stability in CRR.
- Notably, however, when external reserves are down, there's a 20% likelihood of increasing CRR.

Decision on Liquidity Ratio (LR)

The overall analysis shows the dominant tendency to hold the LR at the various meetings under each of the governors, about 95.6% of the time.

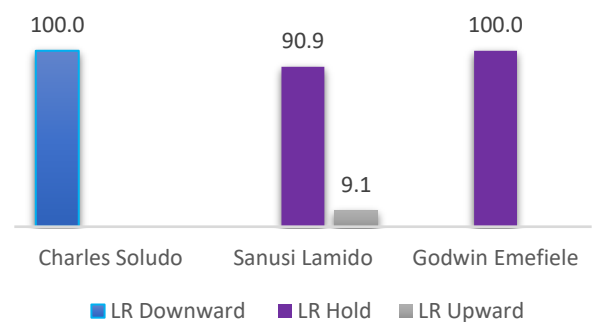


Figure 9: Liquidity Ratio (LR)
Source: CBN communiqués and ADSR research

However, during a period of rising inflation, there is a 5.3% chance of downward adjustment to LR, so also is a 10.5% chance of reducing LR when the equities market booms.

Likely Decisions at the Next MPC Meeting

Following the analysis of past MPC decisions under different global and domestic conditions, it is possible to attempt a prediction of the decisions in the forthcoming MPC meeting.

Currently, the global environment can be described as negative, with Nigeria's inflation climbing to 29.90%, up from 28.9% in December 2023, and a weak performance in output growth. Also, there has been further depreciation in the naira with a decline in external reserves, however, the equities market is experiencing an upward trend so far in 2024.

Combining the current state of the indicators that will be under consideration at the meeting with the probabilities earlier described, the MPC will likely make the following decisions at its next meeting:

- Raise the MPR
- Retain the asymmetric corridor
- Raise (likely) the CRR
- Retain the Liquidity Ratio

This suggests a continued tightening of monetary policy to address the inflationary pressures and reduce the size of the negative real interest rate as

well as encourage the inflow of capital into the country to support the naira.

Table 6: Simulation of Current Economic States and Likely MPC Decisions

Considerations	Current States	Likely Decisions		
		MPR	CRR	LR
Global Environment	Negative	Upward	Upward	Hold
Inflation	Upward	Upward	Upward	Down
External Reserves	Down	Upward	Upward	Hold
Exchange Rate	Depreciate	Upward	Upward	Hold
Equities Market	Upward	Upward	Upward	Upward
Output Growth	Down	Down	Hold	Hold
Final Decision		Upward	Upward	Hold

Source: CBN communiqués and ADSR research

There are consequences though, especially in the form of higher cost of capital to businesses and the cost of borrowing to government, both at the national and sub-national levels. Investors in different segments of the financial market will also be re-evaluating their portfolios and positions.

Although the direction that the MPC will decide may be as argued in this Brief, there is no doubt that a lengthy discussion will ensue at the meeting to explain how the decisions fit into the needs to develop the real sector of the economy and address the President's desires for a low-interest rate environment to attract real investment.

But in the end, the need to fight rising inflation and raise real interest rates to attract and retain foreign capital will most likely prevail.

CONTACT

+234 7037470047
 info@adsrng.com, mail.adsr@gmail.com
 www.adsrng.com, www.adsranastat.com

Analysts' House,
 University of Ibadan 2nd Gate,
 Ibadan, Nigeria