



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 123 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 25TH AND TUESDAY 26TH MARCH, 2019

Background

The Monetary Policy Committee (MPC) met on the 25th and 26th March, 2019; against the backdrop of developments in the global and domestic economic environments in the first quarter of 2019. Eleven (11) members of the Committee were present.

Global Economic Developments

The Committee noted with concern the weakening performance of global output growth at the end of 2018 and observed that developments in the first quarter of 2019 were characterised by legacy headwinds from the second half of 2018. These include: the continued trade war between the US and China, policy uncertainty amongst advanced economy central banks; persisting uncertainties surrounding BREXIT negotiations; vulnerabilities in major financial markets and rising public debt in some Emerging Market and Developing Economies (EMDEs). Consequently, global output growth for 2019 was downgraded by the IMF from 3.7 per cent to 3.5 per cent.

Price developments across major advanced economies, continued to moderate in the review period alongside signals of weakening output growth. In the light of this development, the US Fed, the Bank of England and the European Central Bank retreated from their earlier stance of monetary policy normalisation in favour of a monetary policy accommodation. This led to

volatilities in the financial markets of the advanced economies as the balancing of portfolios moved capital from the equities to the bonds market.

The MPC noted the moderate appreciation of the US dollar against the currencies of most advanced and emerging market economies. It further noted the trend of declining long term yields in the US, and the likelihood that capital flows may be redirected to EMDEs in the medium term.

Domestic Output Developments

Output data from the National Bureau of Statistics (NBS) indicate that real Gross Domestic Product (GDP) grew by 2.38 per cent in Q4 2018 from 1.81 and 2.11 per cent in the previous quarter and corresponding period of 2017. The major impetus for growth came from the non-oil sector, which grew by 2.7 per cent in Q4 2018, while the oil sector contracted by 1.62 per cent.

The Committee welcomed the continued positive sentiments in the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMIs) for the 24th and 23rd consecutive months in March 2019. The manufacturing PMI rose by 57.4 index points compared with 57.1 in the previous month. Similarly, the non-manufacturing PMI increased by 58.5 index points compared with 58.4 in February 2019. The increase in both measures of PMI was driven by increases in production, employment, raw material inventories and new orders. This improved outlook was attributable to the continued stability in the foreign exchange market, various interventions by the Bank in the real sector and the effective implementation of the Economic Recovery and Growth Plan (ERGP) by the Federal Government. Furthermore, on the current measure of national output, the MPC noted the need to rebase the GDP, an exercise which was last carried out in 2010.

Developments in Money and Prices

The Committee noted that broad money supply (M2) contracted by 1.98 per cent in February 2019, below its level at end-December 2018. Net Foreign Assets (NFA) contracted by 7.47 per cent in February 2019 relative to its level at end-December 2018. In contrast, M3 grew by 4.31 per cent in February 2019 compared with its level at end-December 2018. Net Domestic Credit also grew by 10.68 per cent in February 2019. The growth in NDC was accounted for by the increase in credit to Government which grew by 17.20 per cent in February 2019 over its level at end-December 2018. Credit to the private sector also rose by 6.41 per cent compared with its growth benchmark of 9.41 per cent. Given the positive trajectory, the Committee urged the Management of the CBN, to sustain the various initiatives of the Bank, particularly the partnership between the Bankers Committee and the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) aimed at establishing a national microfinance bank to cater for the MSMEs of the economy.

The Committee noted the continued moderation in inflation as headline inflation (year-on-year) declined further to 11.31 per cent in February 2019 from 11.37 and 11.44 per cent in January 2019 and December 2018, respectively. The decrease in headline inflation was driven mainly by food inflation, which declined to 13.47 per cent in February 2019 from 13.51 per cent in January 2019, while core inflation declined marginally to 9.80 per cent from 9.91 per cent in the previous month. On a month-on-month basis, headline, food and core inflation declined to 0.73, 0.82 and 0.65 per cent in February 2019, respectively, from 0.74, 0.83 and 0.81 per cent in January 2019. The Committee noted the upside risks to inflation to include; high cost of energy, infrastructure constraints, insecurity in some parts of the country; and anticipated increase in liquidity from the late implementation of the 2018 budget, and noted that most of these factors were outside the ambit of monetary policy. The MPC, therefore, urged the Federal Government to sustain its current effort in stimulating output growth by executing the policies approved in the ERGP.

The net liquidity position reflected the impact of OMO auctions, foreign exchange interventions, statutory allocations to states and local governments, and maturing CBN Bills. Consequently, the average Inter-bank call rate increased to 16.45 per cent in February 2019 from 15.00 per cent in January 2019. The Open Buy Back (OBB) rate, however, declined marginally to 18.79 per cent in February 2019 from 19.71 per cent in January 2019. The interbank call rates, however, closed at 8.0 per cent on March 8, 2019, while the OBB closed at 14.39 on March 22, 2019.

The Committee noted that in spite of the recent upsurge in capital inflow into the economy, the All-Share Index (ASI) and Market Capitalization (MC) continued to decline, reflecting global sentiments in portfolio rebalancing from equities to fixed income securities. This generally reflected the perceived risk at the long end of the yield curve.

The Committee noted with satisfaction, the continued stability in the foreign exchange market at the Investors' and Exporters' (I&E) window of the market. In particular, it also observed the moderate improvement in oil prices and stable accretion to external reserves, which stood at US\$45.2 billion as at March 21, 2019, a 6.73 per cent increase from US\$42.35 billion at end-February 2019.

The Overall Outlook and Risks

The medium term outlook for the global economy continues to be uncertain with indications of increasing macroeconomic vulnerabilities and downward revision of the forecast for global output growth.

On the domestic economy, available data on key macroeconomic indicators for output growth in the first quarter of 2019, and forecasts for the rest of the year, suggests continued positive outcomes. Based on recent projections, the economy is expected to grow by 2.0 per cent (IMF), 2.2 per cent (World Bank) and 2.74 per cent (CBN). The projection is hinged on: the enhanced flow of credit to the real sector; sustenance of a stable exchange rate; moderating

inflation rate; CBN special interventions in growth-enhancing sectors, especially, agriculture and non-agricultural SMEs; improved growth in the non-oil sector and the effective implementation of the ERGP by the Federal Government, amongst others. The Committee expressed optimism that the establishment of the NIRSAL National Microfinance Bank and the enactment of the *Secured Transactions in Movable Assets Act 2017* will stimulate lending to small and medium enterprises.

Committee's Considerations

The Committee observed the tepid output growth in 2018, but noted with satisfaction that it strengthened in the last quarter of 2018 as well as the positive forecast for 2019. It further noted with great satisfaction, the continued moderation in all measures of inflation, sustained stability in the exchange rate and the robust level of external reserves. It commended the recent upsurge in capital inflows into the economy, noting this to be a demonstration of sustained confidence by the foreign investor community in the Nigerian economy. The Committee was, however, not unmindful of developments in the global economy, noting the recent slowdown in growth in some advanced economies and the dovish stance of some major central banks as an early warning sign of broader macroeconomic vulnerabilities. It, therefore, underscored the need to monitor the trend in capital flows and the continued downturn in the equities market, noting that the recent surge in portfolio inflows were concentrated in the money market.

The Committee noted the relative volatility in oil prices and its impact on accretion to reserves which could easily undermine the stability observed in the foreign exchange market. It, however, noted that current developments in the oil futures market indicate that oil prices will remain considerably above the Federal Government's 2019 budget benchmark. The Committee, therefore, urged the Federal Government to strengthen its current revenue

mobilization efforts as well as explore additional sources of revenue in order to improve fiscal buffers. It further urged the Federal Government to sustain its implementation of the ERGP, while ensuring that growth is all inclusive. It reiterated the need to concentrate effort on addressing the problem of weak power infrastructure, as well as support domestic manufacturing. The Committee also called on all relevant institutions of the government to address the menace of smuggling and dumping of goods into Nigeria; and encouraged the Bank to continue to explore available scenarios to deal with the activities of economic and policy saboteurs, including those involved in dumping and smuggling, in a bid to accelerate domestic production of goods in Nigeria.

The MPC noted the positive moderate outlook for growth and the risks in the horizon. The Committee also noted that having achieved a relatively stable exchange rate with price stability, it is imperative that monetary policy should explore the next steps necessary for enhancing growth, reducing unemployment and diversifying the base of the economy. It further observed that per capita income growth is very negligible, while aggregate demand remains weak. Aggregate output also remains below the potential output level, implying sufficient headroom for non-inflationary growth. This new direction has, therefore, become imperative against the backdrop of the aftermath of the general national elections and strong inflow of foreign direct and portfolio investments into the economy.

The Committee urged for the speedy passage of the other aspects of the Petroleum Industry Bill (PIB) to fast track the development of the value chain in the sector and create employment. It also welcomes the passage of the National Minimum Wage Bill by the National Assembly and call for its speedy implementation in order to boost domestic aggregate demand.

The Committee further observed that the performance of the monetary aggregates were below their benchmarks, indicating headroom for monetary growth. The MPC noted the encumbrances and constraints imposed on fiscal policy and the associated vulnerabilities as it has consistently failed to mobilise sufficient revenues to support development as enunciated in the ERGP, leaving room for continued debt financing, not previously envisaged. Against this backdrop, it is imperative for monetary policy to provide the much needed leverage to support output growth and employment generation in the country.

On a more cautious note, the Committee expressed concern and sympathises with the fiscal authorities, over the growing fiscal deficit, external debt and debt service, and urged the need to closely monitor the public procurement process in order to improve efficiency in public resource management.

On financial system stability, the MPC noted the improvements in key financial soundness indicators and commended the Federal Government for the settlement of debt owed to oil marketers, which has considerably, helped in reducing the non-performing loans (NPLs) portfolio of the banking industry. The Committee, therefore, urged the Government to expedite action in settling all outstanding contractor-related arrears so as to improve the NPLs position and stabilise the banking system. In addition, the MPC reiterated the Bank's commitment to improve credit delivery, especially to small and medium scale enterprises, while acknowledging efforts by the Central Bank of Nigeria in coordinating the de-risking of lending to the private sector through the collaboration between the Bankers' Committee and NIRSAL.

In its consideration of the best monetary policy option, the Committee noted the need for all agencies of Government to work hard, not only in consolidating the growth so far achieved, but also in ensuring that appropriate policies are put in place and implemented to create jobs on a mass scale and

diversify the economy in a proper direction. In doing this, the policy options facing the MPC at this meeting is a decision between retention of the current stance of monetary policy or a slight loosening of the policy rate, backed by the substantial stability of the major macroeconomic indicators. The Committee felt that given the relative stability in the key macroeconomic variables, there is the need to signal a new direction that is pro-growth.

In its arguments, the Committee was convinced that doing this would further uphold the Bank's commitment to promoting strong growth by way of encouraging credit flow to the productive sectors of the economy. The MPC felt that signalling through loosening by a marginal reduction would serve to manage the sentiments in the capital markets owing to the wider spread in yields in the EMDEs, relative to the advanced economies. Moreover, the real interest rate in the country would still remain positive.

The Committee's Decision

In light of the above, the MPC decided by a vote of six out of eleven members to reduce the Monetary Policy Rate (MPR) by 50 basis points. Two members voted to reduce the MPR by 25 basis points, while one member voted to reduce it by 100 basis points. Two members, however, voted to hold the MPR at its current level. Ten members voted to hold all other parameters constant, while a member voted to reduce the Cash Reserve Ratio (CRR) by 100 basis points from 22.5 to 21.5 per cent.

In summary, the MPC voted to:

- I. Adjust the MPR by 50 basis points from 14.00 to 13.50 per cent;
- II. Retain the asymmetric corridor of +200/-500 basis points around the MPR;
- III. Retain the CRR at 22.5 per cent; and
- IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

25th March 2019

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

The 266th meeting of the Monetary Policy Committee (MPC) held against the backdrop of sustained threats to global growth prospects arising mainly from uncertainties around BREXIT, Iran sanctions, volatile commodity (oil) prices as well as the rather slow progress on trade negotiations between the United States and China. Considering some of these headwinds, the IMF had, in January 2019, revised its projection of global growth for 2019 to 3.5 per cent from 3.7 per cent. On average, growth in the advanced economies is expected to slow in 2019 relative to 2018. Similarly, growth in emerging markets and developing economies (EMDEs) is expected to moderate, albeit slightly to 4.5 per cent in 2019 from 4.6 per cent in 2018. It is reasonable to estimate that the current external conditions would pressure growth in many developing economies especially when their impact on commodity prices is factored. For example, owing largely to some of the global vulnerabilities, oil output and prices have remained unsettled for months, and could discount output growth in oil producing (developing) economies.

On the positive side, however, yields in the advanced economies are expected to moderate on account of the slowdown in policy normalization by the US Federal Reserve and the likely continuation of monetary accommodation by the European Central Bank (ECB) and the Bank of England (BoE). This potentially means that EMDEs could continue to count on inflows especially of portfolio investment without having to further constrain their economies by raising interest rates. For Nigeria, this presents an opportunity to support growth which is currently facing important downside risks. Viewed alongside other opportunistic conditions in the domestic economic environment, which I will highlight subsequently, I voted to slightly ease the stance of monetary policy at the March 2019 MPC meeting.

Major indicators of economic growth are not as strong in the first quarter (Q1) of 2019 as they were in the fourth quarter (Q4) of 2018. The composite

manufacturing purchasing managers' index (PMI) slowed from 61.1 points in December 2018 to 57.4 points in March 2019; similarly, the non-manufacturing PMI slowed to 58.5 from 62.3. In addition, the CBN-Composite Index of economic Activity (CBN-CIEA), which leads the Nigeria's gross domestic product (GDP) growth by about three quarters, indicated softening economic growth in Q1 2019. Abstracting from these statistics, I figured that economic growth could slow in 2019, particularly in the first half, unless it receives additional policy push. Most of the current projections of real GDP growth for 2019 fall between 2.0 - 3.0 per cent. This is significantly below potential, and more importantly, growth needs to be better for the economy to generate the much needed jobs and achieve poverty reduction. Non-oil output, particularly agriculture and services, will need to be supported considerably to drive growth in 2019 given the weak outlook for the oil sector.

Meanwhile, consumer price developments in February resulted in a slight moderation in the headline inflation to 11.31 per cent from 11.37 per cent in January. On month-on-month basis, the headline index increased by 0.73 per cent in February 2019, down from 0.74 per cent recorded in January. The decline in headline inflation reflected the moderation in both food and core inflation. All the measures of inflation declined on the month-on-month basis in February 2019, suggesting that the prospect of a surge in headline inflation is minimal over the short-term horizon. The development interventions by the Bank especially in the area of food production have remained a major influence on the softening stance of food inflation. Barring any major shock, core inflation could attain single digit by the end of the third quarter. The outlook for inflation up to August 2019 does not indicate a major departure from current trends. However, key risks to this outlook include the in-coming (new) minimum wage and higher energy prices. Both could stoke a transient increase in the general price level.

The foreign exchange (FX) market has remained relatively stable on account of sustained supply of FX by the CBN and from autonomous sources.

Consequently, the naira exchange rate continues to be stable and premiums have virtually disappeared across the major segments. Based on the current level of external reserves and the prospects of sustained autonomous foreign exchange inflows, the short- to medium-term outlook for the naira exchange rate appears good. It is comforting that the economy continued to attract capital inflows in Q1, 2019 despite elections-related political uncertainties. In fact, threats to capital inflow have continued to moderate especially as the US Fed slows policy normalization and most other advanced economies are sustaining accommodative monetary policy.

In the banking system, major financial soundness indicators (FSIs) continued to improve in Q3 2019 owing principally to the resolution of one of the troubled banks, increased surveillance by the Bank as well as improved macroeconomic conditions. However, vulnerabilities have persisted including (high) FX exposure of banks, particularly to entities that do not earn FX; concentration and high non-performing loans (NPLs). I believe that payment of contractor debts by the Federal Government will go a long way in soothing the pressures in the banking system, while improved surveillance and deployment of sanctions against regulatory infractions will engender good governance and stability. This is important because financial intermediation, especially provision of credit, is highly dependent on the state of health of financial institutions. At end-February 2019, the stock of deposit money banks' total credit declined by about 2.5 per cent, year-on-year. This trend needs to be halted in the face of the prevailing sluggish performance of economic activity. In this context, the role of other financial institutions (OFIs) in the credit arena becomes important. These institutions (micro-finance banks, finance companies, mortgage banks, development finance institutions, etc.) are expected to play the very important role of closing certain gaps in the financial system including, crucially, financial inclusion. As such, they need to be encouraged to remain mission-focused.

Overall, the balance of risks continues to be tilted against economic growth. In my January 2019 statement, I emphasized the need to support growth given the weak outlook for economic activity based on indications from the oil sector (especially the volatility in crude prices and production cuts) and sluggish consumption demand. Of course, I noted that more clarity over the next two months (February and March) would be helpful in deciding the direction of monetary policy beyond Q3 2019. Clearly, the indications then have been justified by subsequent developments particularly as shown by the CIEA, PMIs, and the current outlook for the oil sector. My conviction about the merit of easing the policy stance around this time has been further strengthened by the increased opportunity for doing so. First, all the measures of inflation continued to trend downwards in February with an outlook for achieving single-digit core inflation by August. This means that the real challenge remains food inflation, which may be more effectively addressed through actions aimed at boosting production and easing distribution bottlenecks. In this regard, the Bank's interventions in agriculture will continue to be relevant. Second, domestic yields had declined with the 1 year NTB rate at about 13 per cent; the monetary policy stance needed to be in sync especially as inflow of portfolio investments remained high. Finally, the relatively good level of external reserves and growing confidence in the economy offer some guarantee of adequate supply of foreign exchange to the market from both the CBN and autonomous sources. As such, the naira exchange rate is expected to remain stable in the face of slightly easy monetary conditions. I, therefore, voted to reduce the Monetary Policy Rate (MPR) by 50 basis points while retaining all other policy parameters at their previous levels.

As I have always noted, a growth-supporting monetary policy orientation can only compliment policies in other sectors of the economy to deliver broad based economic prosperity. The structural impediments to growth and job creation, particularly poor infrastructure, low (public) revenue effort and insecurity have to be dealt with while also maintaining a focus on the diversification of the economy.

2. ADENIKINJU, ADEOLA FESTUS

My decision at this Meeting is influenced by a number of factors: developments in the global economy and within the domestic economy.

Developments in the Global Economy

There is an increasing concern about the weak state of the global economy. There are pressure points and vulnerabilities in many regions of the world, both in advanced economies and emerging and developing economies. Fear of impending global recession and slow down of growth in the US to 2.6% in Q4 2018 from 3.4% in Q3, 2018, the inversion of the US Yield Curve, as well as weak growth in Europe, China, Japan; the prevailing uncertainty around the BREXIT, the prolong US and China Trade War, declining growth of global trade, geopolitical tensions in the Middle East and other regions have put enormous pressures on the global economy.

However, global inflation rates remain moderate. Oil prices continue to benefit from geopolitical tensions and OPEC and non-OPEC oil supply cut. Hence, price of bonny oil is close to US\$70 per barrel in March. The medium outlook for oil is generally positive.

Nigeria, like other developing and emerging countries will benefit from the dovish monetary policy stance of the US Fed, which has put on hold the normalization of rates that led to three rates increase in 2018. President Trump is currently pushing for rate cuts by the Fed.

Other developed countries are also taking deliberate steps to boost their domestic economies by extending monetary accommodation policies. Hence, interest rates in advanced economies are likely to remain low, giving more elbow rooms for emerging and developing countries to be more flexible with domestic monetary policies. Egypt and Ghana have already reduced their monetary policy rates in order to support domestic economic growth.

Developments in Domestic Economy

There are positive developments within the domestic economy since the last meeting of the MPC in January, 2019. The real GDP grew by 2.38% in Q4 2018 compared to 1.81% in Q3 2018. This is still too low to make a major dent on poverty and employment. Purchasing Manager's Index rose in March, 2019 for 23rd consecutive months.

Staff reports show that there is a slack in aggregate demand and aggregate output is below potential output. This suggests that increase in expenditure may not necessarily translate to inflationary pressures. Monetary aggregates M1, M2 and M3 are below their provisional levels in February 2019. The expected increase in aggregate spending from higher minimum wage recently signed into law by the President may help to boost real consumer spending and raise aggregate demand which may be good for the productive sector of the economy.

Headline Inflation rate declined marginally in February 2019 to 11.31% from 11.37% in January 2019. Food and core inflation also declined over same periods. There has been a significant drop in inflation from peak of 18.2% in November 2016 to 11.31% in March 2019. While this is still above the single digit target for inflation rate, it lies within a growth neutral corridor and below a growth hindering range estimated by the Bank Staff. The anticipated surge in liquidity from the 2019 election spending did not show up in the NBS data. Moreover, from available information and projection, barring any fiscal surprises, threat of inflation in the short term seems to be low or moderate.

The Financial Soundness Indicators (FSI) showed an improvement since the last MPC Meeting. Capital Adequacy Ratio, CAR, NPLs, and Liquidity ratios continue to trend in the right direction. There is also a fall in total operating costs margins by banks. Improvements in the ROA and ROE among the banks coupled with the falling ratio of operating costs to operating income suggest to me that the DMBs have elbow room to pass lower rediscounting rate from the CBN to their customers.

The monetary authority should continue its current efforts to reduce NPLs in both DMBs and among the OFIs. Secondary market for trading in NPLs should be facilitated to encourage banks with relatively higher NPLs to clean their balance sheets and be able to create new credits.

The falling rate of total bank credit is a concern. The observed shift in bank balance sheet from loans and advances to fixed income assets is not a good omen to the real sector. Access to credit and high costs of credit are two of the major constraints to real sector growth. CBN efforts using nonconventional measures to raise domestic credit should be complemented by DMBs by performing their primary responsibility of credit creation. The huge gap between average lending and deposit rates is too wide and symptomatic of lack of real competition among the banks.

On the external sector, the exchange rate markets have continued to be relatively stable. The convergence between the I&E market and the Bureau de Change is a reflection of the CBN efforts at enhancing stability in the market. The Foreign reserve rose to US\$44.92 billion in March 20, 2019 from US\$42.52 billion in January 2019. Foreign inflow to the economy remains impressive showing strong confidence in the economy.

The big elephant in the room in my view is the fiscal authority, whose primary responsibility is to drive economic growth. There is a need for speedy passage of the 2019 Appropriation Bill, as well as its effective and timely implementation. The huge petroleum subsidy and the poor state of the local refineries should be addressed. Inefficient and unprofitable state assets should be disposed to raise government revenue. Attention must focus on the passage of the PIB after so much delay with huge costs on investments in the value chain in the petroleum sector. Government should be committed to establish fiscal buffers as it is the practice in many oil exporting countries. I am concern with the overall rising debt profiles of the government, at a time when the price of oil is above the government benchmark price.

Decision

Overall, I think it is time for the MPC to review its monetary policy stance which has been largely effective in delivering price and exchange stability, in order to support economic growth to address the unacceptably high rate of unemployment and poverty in the economy. The MPR is already losing its role as an anchor for interest rates in the economy. I have no illusion that the reduction in MPR alone would compel the banks to lower their lending rates. Hence, there is a need to reduce the CRR to increase banks liquidity. Other administrative steps open to the CBN should also be used to encourage banks to lower lending rates.

Hence, I vote:

1. To lower the MPR by 50 basis points to 13.5%
2. Reduce CRR by 100 basis point to 21.5%
3. Keep liquidity ratio at 30%
4. Maintain asymmetry corridor around the MPR by -500 and +200 basis points

3. AHMAD, AISHAH N.

At the March 2019 monetary policy committee (MPC) meeting, **I voted to cut the monetary policy rate by 100 basis points to 13% and retain other policy parameters**; CRR 22.5%, liquidity ratio 30%; asymmetric corridor at +200 and -500 basis points around the MPR. My decision to vote for an accommodative policy stance was predicated on global and domestic macroeconomic developments and the urgent need to dramatically improve our weak output growth.

As mentioned in previous statements, **GDP growth though positive, has been fragile since the country exited recession in 2017**, whilst unemployment is high at 23.1% in Q3 2018, up from 22.73% in Q2 2018. With output growth at current levels of 2.38% in Q4 2018, the recovery is yet structurally delicate and grossly insufficient to improve GDP per capita or deliver sustainable and inclusive growth. To strengthen the recovery and reverse the rising tide of unemployment, we must ramp up domestic productivity and dramatically increase investment in employment elastic sectors; a rate cut is a first step to stimulating the economy in this regard.

Latitude for monetary easing at this time is justifiable, given the MPC's relative success in maintaining price and monetary stability over the past few months and continued improvement in key macroeconomic indicators. Latest reports from the National Bureau of Statistics, (NBS), indicate that headline inflation (year-on-year) declined progressively to 11.31% in February 2019 from 11.37% and 11.44% in January 2019 and December 2018 respectively. This pattern of disinflation is also seen in the food sub-index which fell from 13.56% in December 2018 to 13.51% and 13.47% in January and February 2019, respectively.

Moderating inflation pressure reflects declining food prices, weak consumer demand, tight monetary policy stance and a relatively stable exchange rate. The naira exchange rate recorded an average of ₦363.65/US\$ between

December 2018 and February 2019 at the Investors' and Exporters' (I&E) window and ₦360.98/US\$ at the Bureau De Change (BDC) segment over the same period, indicating **improving convergence across the segments**. External reserves remained relatively robust at US\$44.92 billion (March 20, 2019), mirroring strong crude oil prices and continued net positive investment flows into the economy. This reflects growing investor confidence, despite the emerging market currency challenges of Q2/Q3 2018 and anticipated investor caution ahead of the 2019 general elections.

Strengthening financial soundness indicators provides the perfect springboard for private sector credit growth. The financial system stability profile continues to improve as reflected in key industry prudential ratios. Industry capital adequacy is healthy at 15.14% (February 2019), while liquidity and profitability indicators also stayed robust. The recent settlement of contractual obligations by the Federal government, supported by some CBN initiatives have helped improve industry non-performing loan ratios and this is expected to impact positively on credit to the economy which has grown slightly over the last two months. Financial institutions are increasingly leveraging technology to enhance retail credit origination processes and build scale; this is commendable. However, lending rates remain higher than desirable. The CBN is encouraged to continue its interventions in critical sectors to finance capacity expansion and its de-risking initiatives to make real sector lending safer and more attractive.

It is prudent to consider **the probable impact of a monetary policy rate cut on Nigeria's competitiveness as a foreign investment destination** relative to other emerging markets. There is the potential that it could trigger a market sell-off, exert pressure on the external reserves and exchange rate with negative implications for inflation and growth. Portfolio flows have however, remained strong through most of Q1 2019 especially since the Fed (and later the ECB and BOE) halted its earlier signaled policy normalization program. This, coupled with a relatively firm international oil price has led to net FX purchases by the CBN

at the I&E window for several weeks and continued accretion to reserves. This marginal rate cut also keeps real interest rates positive; thus, retaining a healthy yield for investors, but most importantly signals a focus on growth and investment to support sustainable economic expansion. **The chances that lowering rates could reverse the disinflation gains also appear slim.** Private consumption patterns remain constricted and the threats to price stability in the short term appear largely benign.

Notwithstanding, **a rate cut alone is simply not sufficient. Age-old structural challenges need to be tackled decisively to improve the fiscal revenue profile, reduce vulnerabilities and improve per capita income** in support of a more resilient recovery. Implementation of the ERGP must continue, whilst the successes recorded in developing agricultural value chains and reducing the import bill must be replicated in other non-oil sectors such as services and manufacturing to enhance export earnings potential.

Renewed focus on improving domestic economic productivity must be matched with vigilance on potential external sector shocks. As anticipated, the headwinds and uncertainties which confronted the global economy in the second half of 2018, (protracted trade dispute between the U.S.A. and China, geo-political tensions and uncertainty around the "BREXIT" deal), continue to burden global economic activity. These developments have prompted downward revisions of global growth forecasts, sent yields soaring and upset stock markets across many countries. In fact, the IMF's downward projections for global growth from 3.7% to 3.5% in 2019 could deteriorate further as risks tilt more to the downside.

Whilst the delay in rate hikes by major central banks may temporarily trigger increased capital flows into emerging and Africa's frontier markets, slowing global growth prospects portends lower global demand and as a direct consequence, lower demand for Nigeria's crude oil exports with adverse implications for fiscal revenue and domestic output.

Therefore, monetary policy must consolidate on price stability gains even as it supports growth in an era of persistent global and domestic economic uncertainties.

4. ASOGWA, ROBERT CHIKWENDU

Background:

The second MPC meeting held in March 2019 took place at a delicate moment for the global economy. Several advanced, emerging and developing countries are currently losing the momentum of growth with rising policy uncertainties. As the drumbeat of warnings about a looming worldwide economic recession is rising, it is imperative that costly policy mistakes are generally avoided. For monetary policy, it is important for decisions at this time to be data dependent ensuring that inflationary expectations remain the main anchor, while such policy choices are effectively communicated. Interestingly, many central banks of advanced economies which had hitherto embarked on aggressive monetary policy normalization have shifted the mode towards a 'pause in interest rate hikes'.

For Nigeria, one source of comfort is that the 2019 elections which apparently was a major drag on foreign capital flows have been successfully concluded. As such, the Nigerian Monetary Policy Committee meeting of March 2019 was guided by the international monetary policy developments as well as local economic conditions and pressures. The committee's choices at this meeting should generally reflect the need to contain any pending inflationary pressures, ramp up foreign capital flows whilst stimulating the domestic growth momentum with well synchronized complementary policies.

Loss of International Growth Momentum:

There has been a weak start to 2019 growth for several major economies with clear signs and expectations of poor growth results in quarter 1. In February 2019, there was a downward revision in global growth projections by 0.2 percentage points lower for 2019 and by 0.1 percentage points for 2020 from the earlier projections in January. These new forecasts are arising from corresponding negative revisions in major economies including US, the Euro Area and the United Kingdom.

In the United States for instance, the recent sharp drop in the yield curve in the midst of a big rise in the government budget deficit is reflecting clearly investors dampening expectations, thus suggesting even further weakening ahead. In addition, the United States data in January and February 2019 showed that personal income and household expenditures had fallen considerably more than in the last five years.

In Europe, growth in 2019 is also noticeably slowing in major economies including Germany, France, Italy and the United Kingdom. For instance, the GDP growth forecast for 2019 in Germany has been recently downgraded to 0.7 percent from the level of 1.6 percent previously forecasted and mainly caused by the continued drop in the purchasing managers index for German manufacturing, which reflects the rapid loosening of business and consumer sentiments and demand. In Italy, there are early signs of recession as the declining weak domestic demand and the recently raised higher borrowing costs remain key impediments to growth, while in the UK, the declining business environment amidst the prolonged uncertainties about the BREXIT outcome continue to dampen growth prospects. This has recently weakened the equity market in the UK, while credit growth also appears to be stagnating.

Similarly, in key Asian Economics, the momentum of growth has also loosened in the early months of 2019 thus lowering growth projections. In China, growth appears to be at its lowest level in several decades also due to weakening demand and the unsettled trade war with the United States. Despite recent government fiscal stimulus (including billions of dollars in tax cuts and infrastructure spending) aimed at offsetting some of the impact of the rising US trade tariffs, the Chinese economy still faces signs of stuttering growth. In Japan, there were earlier forecasts of considerable growth in 2019, but now, the perceptions of growth moderation seem to be rising especially as the financial conditions remain weak since January 2019 and the global trade tensions still pose significant problems for the country's exports.

In sum, there are persisting threats to the global economy which currently generate fears for a possible global recession. Such threats include, tensions in trade policy that could possibly flare up again, sparking retaliations and counter-retaliations, thus further disrupting global supply chains and possibly aggravating financial fragilities in many emerging economies. In addition, uncertainties and risks surrounding BREXIT at the moment remain very heightened as a disorderly exit would raise costs for several Euro economies which may further weaken market sentiments.

As a short term response, central banks in some key economies are adopting a de-facto monetary policy tightening in the form of delays to rate hikes and halts to unconventional monetary policy actions in the midst of the weakening global economy. Specifically, the US Fed, the European Central Bank, Bank of England and Bank of Japan have communicated officially a temporary halt to considerations on monetary policy adjustments.

Improving Domestic Macroeconomic Fortunes with Persisting Downside Risks:

Macroeconomic indicators for Nigeria before this MPC meeting have shown encouraging positive trends, but some potential downside risks remain. The latest data on the manufacturing purchasing managers' index, inflation, external reserves, foreign exchange rates and current account balance have shown good prospects. Similar to the position in the last January MPC meeting, macro indicators which remain on the downside trend are; the unemployment rates and the increasing public debt especially the external bond issuances. CBN staff report showed that the manufacturing performance manager index (PMI) in the month of March 2019 stood at 57.4 index points, which is higher than the 57.1 index point recorded in February 2019, but lower than the December 2018 rate of 61.1 points. Similarly, the non-manufacturing PMI increased marginally from 58.4 index points in February to 58.5 index points in March, but still lower than the December 2018 level of 62.2 index points. This further reinforces the projection of an expected marginal GDP growth from 1.81 percent in 2018 to 2.21 percent in 2019. Also year-on-year headline

inflation declined from 11.37 per cent in January to 11.31 per cent in February 2019 and mainly because of the declines in food inflation from 13.51 per cent in January to 13.47 per cent in February. On a month-on-month basis, both headline, core and food inflation all declined marginally in February when compared to the levels in January 2019. Similarly, CBN staff report showed that the external reserves which declined consistently (eventhough marginally) between December 2018 and February 2019, had risen very considerably by mid-March 2019, while the monthly average exchange rates also declined marginally between December 2018 and mid-March 2019. The recent increase in external reserves is attributed partly to the resumption of portfolio flows to Nigeria which has also helped in strengthening of the local currency relative to the dollar.

The elevated public debt levels especially those arising from the external bond issuances are likely to limit the country's ability to aggressively pursue growth, whilst containing any inflationary pressures. As at 31st December 2018, there was a 12.25 per cent year-on-year growth for total public debt. While the share of domestic debt has dropped in favour of external debt as part of government's strategy, the preference for external bond issuances (which is popular amongst international investors who permanently maintain a search for yield behaviour) rather than concessional external borrowing from bilateral and multilateral windows raises key sustainability concerns. It is imperative that fiscal policy in Nigeria should continually ensure that debt levels remain less elevated, highly concessional, and sustainable and that recurrent expenditures are constantly rationalized.

Changing Domestic Financial Market Indicators:

The developments in both the international and national macro economy have helped to fuel multiple changes in both the banking and stock exchange

markets in Nigeria. These changes have implications for the future path of monetary policy.

In the banking market, CBN staff report showed mixed performance trend for the risk measures (capital adequacy ratio and non-performing loans ratio) but there are overall improvements in the profitability measures (return on equity and return on assets) when compared to the position at the January 2019 MPC meeting. Specifically, while the non-performing loans ratio of banks decreased marginally between December 2018 and February 2019, the capital adequacy ratio surprisingly decreased, but marginally within the same periods. Interestingly, the liquidity ratio which had increased between October and December 2019, dropped by February 2019 probably suggesting that banks may currently be foregoing the holding of more liquid assets in favour of the traditional lending activities. A key concern however is the month-on-month reduction in total deposits by February 2019 compared to the January 2019 levels, but which hopefully can be reversed soon with the ongoing reforms including financial inclusion strategies. In addition, the continued dominance of the oil and gas sector in banks' credit allocation to the dis-advantage of the agriculture and manufacturing sectors is a source of concern. This credit concentration will not only frustrate government's economic diversification trend, but will neutralize the intended effects of any monetary policy rates reduction.

In the domestic capital market, CBN staff report showed that the negative trend which persisted in December 2018 worsened up to the mid of March 2109, with the All-Share Index, the Market Capitalization, decreasing. Also, the number of deals, volume and value of shares decreased between December 2018 and March 15, 2019. There are however hopes that with foreign investor sentiments shifting following the halt of Monetary policy normalization in advanced economies and the diminished 2019 election risk fears, some resumption in capital market activities are expected soon in Nigeria.

My Policy Decision:

The considerable uncertainty surrounding the monetary policy adjustment direction of several developed central banks shows that a turn is imminent especially with the continued weakening global growth which may persist in the near future. As such, a window of opportunity exists for Nigeria and indeed other developing markets to boost their domestic financial markets whilst introducing other liquidity measures to ease domestic funding/credit conditions and consequently boost local private investment. With the successful 2019 elections, quick financial market recovery is apparent in Nigeria, but will require supportive monetary policy actions that are data dependent and well communicated.

My strong opinion is for policy parameters to remain largely unchanged in this March 2019 MPC meeting.

I will thus vote to:

- Retain the MPR at 14.0 %
- Retain the CRR at 22.5%
- Retain the Asymmetric Corridor at +200/-500 basis points
- Retain the Liquidity Ratio at 30.0%.

5. BALAMI, DAHIRU HASSAN

Introduction

The weakening of global growth led to a downgrade to 3.5% in 2019 against the projection of 3.7%. Inflation at the global level remained below the benchmark 2% in most advanced economies. The price of crude oil remains sticky below US\$70 per barrel due partly to the glut in the oil market and United States (US) President Donald Trump's policy preference for lower oil price. Growth in the advanced economies' had also been downgraded to 2% in 2019 as against the projection of 2.3%. The slowing down of growth in the Chinese economy (6.6%) is also a contributory factor to the weakening global growth.

The slowdown in policy normalisation by the Federal Reserve Bank and the continuation of asset purchase in the Euro area, as well as the uncertainties around BREXIT negotiations, has implications for the domestic economy. At the domestic level, output growth for 2019 is estimated by the Central Bank of Nigeria (CBN) at 2.7%, was slightly higher than the World Bank's estimate of 2.2%.

In spite of the weak outlook for growth, the price level and exchange rate had remained stable, while growth rate, eventhough fragile remained positive. The thrust therefore is to ensure that real output growth is promoted, to sustain the growth momentum in the economy. Low level of government's capacity to collect adequate revenue could impair execution of the budget, and also the late approval of the budget. These must be addressed due to the implications on the economy.

Trend of Financial Soundness Indicator of the Banking Sector

On a month-on-month basis, the capital adequacy ratio (CAR) fell slightly from 15.26% in December 2018 to 15.14% in February 2019. Non-Performing Loans

(NPLs), somewhat improved from 11.68% in December 2018 to 11.28% in February 2019. The downward trend is a good indicator of the effectiveness of the recovery efforts of the banks and the regulatory support of the CBN towards achieving lower NPLs, even though the ratio remains above the prudential requirement of 5%.

The liquidity ratio at 52.96% in February 2019 over the previous month remains above the 30% minimum prudential requirement for commercial banks and 20% for merchant banks, which is 3.4% above the December 2018 figure.

The Return on Equity (ROE) and Return on Asset (ROA) for the banking industry were 26.12% and 2.59%, respectively in February 2019, compared with 20.54% and 2.43% in December 2018. The banking industry's performance is highly positive with 65.03% total operating cost to total operating income in February 2019 as against 67.06% in December 2018. This further shows that the CBN monetary policy is working positively.

Credit and Growth

Credit growth remains dismal, as total credit remained around the N15 billion corridor having grown from N15.63 billion in March 2018 to a high of N15.99 billion in October 2018, but contracted to N15.69 billion in February 2019. On an annual basis, aggregate credit equally recorded a decline of 2.53% from February 2018 to February 2019. The trend into 2019 was attributed to disposals and write-offs.

With the continued monetary policy support for fiscal policy to grow the economy, the Bank would continue to monitor its interventions (such as the Anchor Borrower Programme (ABP's) and the revitalisation of the Textile value chain sub-sector) to ensure successful implementation. Proper advice should be given to the government, particularly on the quality of public expenditure; in addition to proper cooperation and coordination of fiscal and monetary policies. It should be noted that concerns about growth remains a major

consideration because of the weakening of global growth rate, which could further retard domestic growth. For growth to be robust to create adequate jobs and to reduce poverty and inequality there should be aggressive policies to stimulate aggregate production.

Consequently, there should be improvement in the supply of energy, access to credit at lower interest rates to promote economic growth, and increase the creation of jobs. As part of the multifaceted approach to grow the economy, the monetary authorities should target specific sectors such as agriculture and manufacturing, with high employment elasticity's.

The CBN should continue to sustain the list of 41 items banned from accessing the official foreign exchange market, and expand it to include more items that can be produced locally. Attention also should be paid to the inflows and outflows of Foreign Direct Investments (FDI's) and Foreign Portfolio Investments (FPI's) which are critical in supporting the foreign exchange market stability, as well as inflation and growth.

Furthermore, the external debt should not be allowed to reach unsustainable levels, while potential interest and exchange rates shocks should be managed properly.

Policy Choice

There is an observed deceleration in interest rate, particularly on government bonds and treasury bills. The weighted lending rate across sectors had been on the decline, yet the MPR has been kept at 14%. The rates of Anchor Borrower's Programme, Differentiated Cash Reserve Ratio (DCRR), Development Bank of Nigeria (DBN) rates, Bank of Industry (BOI) loans etc. are all in the lower double digits and below. As growth, price, and exchange rate remain relatively stable, there is need to further promote growth in the economy by signalling the lowering of the anchor rate to encourage the

Deposit Money Banks (DMB's) to lower their lending rate so as to encourage credit in the economy.

I therefore, vote to:

- i. Vary MPR by 50 basis point to 13.50 percent;
- ii. Retain the CRR at 22.5 percent;
- iii. Retain the liquidity ratio at 30 percent; and
- iv. Retain the Asymmetric Corridor at +200 and -500 basis points around the MPR.

6. ISA-DUTSE, MAHMOUD

A. EXTERNAL ECONOMIC CONDITIONS

The IMF global growth forecast for 2019 was downgraded to 3.5% against the earlier projection of 3.7% as the global slowdown which commenced in 2018 has persisted and may even worsen. The weakening output growth in major advanced economies is increasingly giving way to accommodative monetary policies in a bid to ward-off economic recession. The US suspended its initial plan of at least two policy rate hikes in 2019 following growth decline to 2.6% in Q4 2018 from 3.4% in Q3 2018. The Bank of England placed its normalization agenda on hold since mid-2018, while the European Central Bank recently returned to monetary accommodation as the Euro Area is projected to see growth slowed to 1.6% in 2019 as against 1.8% in 2018. Developing Economies such as Nigeria that are dependent on commodities exported to these regions may therefore need to re-strategize.

Inflation in advanced economies is expected to decline to 1.7% in 2019 from 2.0% in 2018, but in developing economies, inflation is projected to rise to 5.1% in 2019 from 4.9% in 2018 partly due to the pass-through effect of currency depreciations to domestic prices as the US dollar appreciated against most currencies. Nigeria has however enjoyed a stable exchange rate regime with the naira recently appreciating against the dollar in the Bureau de Change (BDC) segment and the Investors' & Exporters' (I & E) window. Thus, depreciation-induced inflationary pressure may pose no serious challenge. Moreover, with the price of crude oil hovering above US\$67 per barrel, accretion to foreign reserves to support the foreign exchange market is expected to continue.

B. DOMESTIC ECONOMIC CONDITIONS

The uptrend in real GDP growth in Nigeria has progressed over several quarters – growing at 1.5%, 1.81% and 2.38% in Q2 2018, Q3 2018 and Q4 2018, respectively. The oil sector, however, contracted by 1.62% between Q3 2018

and Q4 2018, while the non-oil sector grew by 2.70% with the major growth drivers being the services and agricultural sectors. On yearly basis, real GDP growth stood at 1.93% in 2018 compared to 0.82% achieved in 2017. The need to promote growth in the real economy is supremely important for economic diversification, poverty reduction and employment generation. Regrettably, it seems unlikely with less than two years before the end of 2020 that the target of 7% real GDP growth set out in the Economic Recovery and Growth Plan (ERGP) will be achieved. The national unemployment rate at 23.1% in Q3 2018 calls for serious concern, especially when compared with the 11.23% in the Economic Recovery and Growth Plan document. Whilst recognizing that the primary mandate of the monetary authority is to promote price stability, in a developing economy context, it should give more than normal weight to the need to stimulate job-oriented growth and poverty reduction.

Inflationary pressures in the economy continued to moderate in the review period as all indicators (headline, food and core) declined both on year-on-year and month-on-month basis. Food inflation (year-on-year) decelerated to 13.47% in February 2019 from 13.51% in the previous month, while core inflation declined to 9.80% in February from 9.91% in the preceding month. For the year-on-year headline inflation, the decrease has been sustained for three consecutive months with inflation ticking down from 11.44% in December 2018 to 11.37% and 11.31% in January and February 2019, respectively. The inflation outlook or forecast in the short term shows that inflationary pressures will continue to moderate. There is a high probability that the ERGP inflation target of 9.90% p.a. by 2020 is achievable as the inflation outlook for August 2019 stands at 10.48%. Consequently, with inflation well anchored, it is rational to re-focus on attaining the ERGP growth target.

It is noteworthy that most of the key monetary aggregates underperformed relative to the provisional benchmarks. In February 2019, M3 grew by 4.31% - well below the benchmark of 14.47%, while M2 and Net Foreign Assets (NFA) contracted by 1.98% and 7.47% relative to benchmark figures of 12.99% and

18.66%, respectively. These statistics indicate that monetary policy has been quite restrictive and that money supply may be constraining the growth momentum in the economy. Thus, there is a need to review the current monetary policy stance to promote growth.

Financial market conditions indicate that maximum lending rate remains high at 30.56% in February 2019, whereas the yawning gap between maximum lending rate and consolidated deposit rate is as wide as ever at 26.23%. This picture is not growth-friendly. Reviewing the policy rate in a downward direction seems to be the right way to go in the absence of direct controls.

C. VOTING DECISION

In view of the foregoing observations – an external environment tilting towards softer monetary policy to avert global recession; a fragile domestic growth record with real GDP much below ERGP target; moderating inflation; and paucity of credit to optimally promote private-sector led growth, I voted to cut the policy rate by 50 basis points and to hold other parameters constant:

- MPR at 13.50% per cent
- The asymmetric corridor at +200/-500 basis points around the MPR
- Liquidity ratio at 30.0% per cent
- CRR at 22.5% per cent

7. NNANNA, OKWU JOSEPH

The economy achieved tepid growth, but showed signs of an uptick and resilience. Available data from the National Bureau of Statistics (NBS) reveal that the economy grew by 2.38 per cent in 2018 Q4, as against 1.81 per cent in 2018 Q3. In particular, services recorded the highest share of total output growth in 2018 Q4, followed by agriculture, construction, trade, and industry sub-sectors. Oil sector contracted by 1.62 per cent, but less than 2.91 contraction in 2018 Q3. Longstanding structural constraints of high unemployment, huge infrastructural gap, weak revenue mobilisation and narrow structural diversification remain the binding constraints to growth.

Inflationary pressure in the economy is moderating, supported by improved food supplies and exchange rate stability. Latest data revealed that headline inflation (year-on-year) fell marginally to 11.31 per cent at end-February 2019, compared with 11.37 and 11.44 per cent in the preceding month and end-December 2018, respectively. Food inflation also declined to 13.47 per cent in February 2019 compared with 13.51 per cent in the preceding month. Similarly, core inflation fell to 9.80 per cent from 9.91 per cent at end-January 2019. Overall, headwinds to the inflation outlook include high transportation cost, energy cost and incipient demand-pull inflation from the expected implementation of the national new minimum wage.

Relative expansion in broad money supply during the period is clearly, inadequate to sufficiently drive economic growth amidst weak credit transmission to the growth enhancing sectors. While financial conditions are softening coupled with declining non-performing loans (NPLs), the phenomena of crowding out and banks risk-aversion continue to be the binding constraints to credit growth. Credit to the core private sector grew by 5.93 per cent in February 2019 relative to end-December 2018. Net credit to the government increased by 17.20 per cent in February 2019 over the end-December 2018. In tandem with the liquidity conditions, money market rates

generally trended downwards in the review period; and remained largely within the monetary policy rate corridor.

Subsisting inadequate fiscal buffers clearly weakens the potential for implementing an inclusive growth strategy. Given the track record of weak revenue mobilisation and absence of strong fiscal buffers, further monetary tightening will further elevate yields on fixed-income securities and worsen the already precarious debt service obligations. The expectation in the near-term is for an urgent step towards a reduction in consumption subsidies and reform in tax administration. These should create the fiscal space to undertake efficient public investments

Nigeria's external sector has shown impressive resilience as all the key metrics showed relative stability. The overall balance of payments position recorded a surplus in Q4 2018 driven largely by lower import bills, (arising from enhanced import substitution), narrowed deficits in the income account and higher surplus in the current account. Gross external reserves, as at March 14, 2019, stood at US\$44.64 billion, boosted by positive foreign exchange earnings from crude oil receipts and swap transactions. Overall, continuous improvement in the ease of doing business should keep FPI and FDI in the positive trajectory.

Let me note the substantial moderation in inflation, the relative positive yield curve which has sustained investors' confidence in the economy and concomitantly, the exchange rate stability that has been achieved. Against this backdrop I consider it expedient to signal the need to pursue inclusive growth and address the dual challenge of poverty and unemployment. On the balance of risks, I am convinced that monetary easing at this time is consistent and *pareto optimum*. Thus, I vote to reduce the MPR by 50 basis points and keep all the other policy metrics at their current levels.

8. OBADAN, MIKE IDIAH

In recent times, monetary policy direction in various countries has been informed by global economic and financial developments, and even political developments, against the backdrop of the inter-connectedness of economies through globalization. Also, domestic developments, especially economic and policy shocks are critical influencers of monetary policy direction. It is therefore important to review aspects of these developments as basis for decisions on monetary policy direction in Nigeria in the next few months.

Global Growth and Monetary Policy Stance

In the global economy in which Nigeria is active, there have been strong concerns about growth prospects for 2019. Indications from various credible international organisations suggest the likelihood of growth slowing in 2019 in both advanced and Emerging Markets and Developing Economies (EMDEs). Accordingly, global growth in 2019 has been downgraded to 3.5 per cent compared to 3.7 percent in 2018 and is expected to weaken further on the basis of developments in some major economies. These developments include the lingering likelihood of the US economy going into recession in 2020, increasing uncertainty around BREXIT, weakening growth in Europe as major economies like Germany, Italy and France are confronted with internal weaknesses, slowing growth in China due to the impact of its trade war with the US and tighter financial regulations, amongst others.

With significant uncertainties brewing around the major economies that are expected to lead growth, output in the advanced economies was downgraded from 2.3 per cent in 2018 to 2.0 per cent in 2019. While the US is projected to lead this group of economies, the country's 2019 growth is also expected to trail its performance in 2018 as it continues to grapple with issues such as trade tensions with major allies, political uncertainties at home and conflicts between monetary and fiscal policies. In Europe, the European

Central Bank (ECB) formally downgraded its growth forecast for 2019 and gave indications of returning monetary accommodation to address emerging weaknesses in the Euro area economy. In the Emerging market and Developing Economies, growth is projected to slow moderately to 4.5 percent in 2019 from 4.6 percent in 2018.

The concerns about global growth in 2019 are such that:

- In a recent interview by the Chairman of the US Federal Reserve Bank (Fed), the initial guidance of at least two rate hikes in 2019 was withdrawn. He stated that the Fed had renewed evidence of a weakening global economy vis-à-vis a strong US economy. Consequently, in support of its mandate of fostering maximum employment and price stability, the US Federal Open market Committee, in a Federal press Release of January 30, 2019 conveyed the decision to maintain the target range for the federal funds rate at 2.25 – 2.5 percent. This halt to its monetary policy normalization is in view of a slowing global economy and threats to the US economy.
- Out of a total of fourteen (14) central banks surveyed by the Monetary Policy Department of the Central Bank of Nigeria (CBN) between January and March 2019, three of the central banks in the survey reduced their policy rates while all others left the rates unchanged.
 - After its August 2018 rate hike, the Bank of England continued to refrain from further rate hikes to avert a recession as the uncertainty around BREXIT threatens to dampen growth as the parliament entered into a deadlock in the weeks and days leading up to Britain's final exit from the European Union.
 - After providing guidance of its intention to progress with policy normalization in December 2018, the European Central Bank (ECB) has reversed its stance by returning to monetary accommodation

through the provision of low cost loans to commercial banks. The ECB has also confirmed that there is no likelihood of a rate hike till the end of 2020 as inflation continues to linger well below its long-run objective.

- With unemployment on the rise in South Africa, the Reserve Bank of South Africa retained its policy rate in March 2019 to support the economy's recovery from recession. The Central Bank of Brazil, a major oil producing country, also held its rate constant in March 2019 to support its slow post-recession recovery as output growth nudged up moderately to 1.1 per cent in 2018.
- Other central banks such as those of Egypt, Ghana and India eased their policy rates to accommodate growth concerns as global indicators show a broad slowdown in economic activities. The Bank of Ghana, and the Central Bank of Egypt lowered their policy rates by 100 basis points each, as inflation receded quite comfortably, thus providing the policy space to boost growth. All other central banks in the survey such as the Bank of Japan and the Peoples Bank of China retained their policy rates in response to prevailing uncertainties in the global economy.

Thus, MPR decisions have tended to be shaped by global growth trends, country growth concerns, recovery prospects, unemployment, and global uncertainties, among others. Although in most developed and developing countries, the pre-eminent mandate of the central banks / primary objective of monetary policy is price stability, this is being pursued without losing sight of the objectives of sustained economic growth and higher employment. Price stability (low inflation) remains a most important condition for economic growth. But in view of a slowing global economy in perspective, most central

banks are now confronted with the need to ensure that their policies support rather than choke off growth.

For an emerging market economy like Nigeria, with the signals of ECB's return to monetary accommodation and the US and UK refraining from monetary policy normalization in the short term, capital flows to the country may likely increase, particularly as the post-election security situation in the country improves contrary to earlier fears. Tinkering with the Monetary Policy Rate in a downward direction is not likely to deter capital inflows, especially as yields in the fixed income segment of the financial market are already in the range of 12 – 13 percent, below the MPR. This suggests that factors other than monetary policy rate (MPR) actually propelled the recent upsurge in capital inflows to that market.

Developments in the Nigerian Economy

My opinion on the monetary policy direction in the next few months is informed by both global economic and financial trends and developments in the Nigerian economy. The Monetary Policy Committee meeting was held against the backdrop of generally improved macroeconomic fundamentals including the economic growth rate, foreign exchange market stability as reflected in the exchange rate, external reserves which grew to nearly US\$ 45.0 billion or about 13 months imports cover, moderated inflation rate, capital inflows, financial system soundness indicators, among others. With respect to the latter, besides the improvement in the Non-Performing Loans (NPLs) ratio, there is also improvement in the provisions made for NPLs which stood at 98.59 percent coverage at end-February, 2019 compared to 78.27 percent at end-February, 2018. This should inspire greater confidence in the financial system. However, there are concerns relating to weak and fragile growth, high unemployment, limited economic diversification, and weak money supply growth in relation to private sector credit needs. Three of the developments are elaborated upon as follows.

GDP Growth and Unemployment

Since the Nigerian economy exited recession in the second quarter of 2017, the economic growth rate has remained positive, but low and fragile, averaging 0.83 percent in 2017 and 1.93 percent in 2018, indicating a 1.11 percentage increase. There was an uptick in real GDP growth in quarter 4 (Q4) 2018 as it grew by 2.38 per cent compared with 1.81, 1.50 and 1.95 percent in quarter 3 (Q3), quarter 2 (Q2) and quarter 1 (Q1), respectively. The real growth was driven by the non-oil sector, which remained the main driver of growth since Q4 2017. Thus, generally, the Nigerian economy continued on a slow recovery path in 2018 from its last recession. However, the economy could recover appreciably from the weak growth experienced in 2018 as oil price development is expected to remain above the budget benchmark. The price of Bonny light on March 13, 2019, stood at US\$ 67.48 per barrel, haven recovered from much lower prices. The reduction in production by OPEC and non-OPEC by 1.2 million barrels per day contributed to the recent uptick in oil price. However, oil price continued to witness volatility as uncertainties about the direction of global trade and broadly weakening global economy pose significant challenges to global aggregate demand.

Under the circumstance, Nigeria's output is projected to grow in 2019 as follows:

- 2.0% (IMF)
- 2.2% (World Bank)
- 3.01% (Federal Government)
- 2.74% (Central bank of Nigeria)

Although the macroeconomic fundamentals portray a favourable outlook, the prospects of growth in output remains constrained by external uncertainties, reflected by weak global growth trends, volatilities in oil market prices, trade tensions between the US and major trading partners. Under the circumstance, domestic initiatives aimed at stepping up growth through monetary policy support to fiscal actions are inevitable. No doubt, the Central

Bank of Nigeria has so far, through its unconventional monetary policy interventions in development through cheap financing, has played a highly acknowledged role in stimulating production of goods and services in critical sectors of the economy, such as agriculture, manufacturing, small and medium enterprises, etc. The atmosphere seems right at this time to provide further support to economic growth activities through a downward adjustment of the Policy Rate in the expectation that it will be reflected in lower lending rates and greater credit availability to real sector operators.

Arising from the phenomenon of low and non-inclusive and job-creating growth is the challenge of unemployment in the country which remains considerably high. The national unemployment rate stood at 23.1 percent in Q3 of 2018. The total combined unemployment and underemployment rates increased from 40.0 percent in Quarter 3, 2017 to 43.3 percent in Quarter 3, 2018. As at Q3 2018, 55.4 per cent of the youth population (15 – 34 years) of the labour force were either underemployed or unemployed compared to 52.6 per cent in the corresponding quarter of 2017. Thus, unemployment in the country which has remained a very worrisome problem could be abated by monetary policy that supports job-creating production.

Inflation

All measures of inflation, headline and core, moderated in February 2019. Headline inflation moderated from 11.44 per cent in December 2018 and 11.37 per cent in January 2019 to 11.31 per cent in February 2019 driven largely by the food component. Food inflation decreased to 13.47 per cent in February 2019 from 13.51 per cent in January 2019. Core inflation also decreased to 9.80 per cent from 9.91 per cent in January 2019. The downward trend in domestic prices partly reflects the Bank's tight monetary policy stance coupled with stable exchange rate and its pass-through to domestic prices and moderation in food prices due to irrigation farming. However, inflation at 11.31 per cent in

February 2019 is outside the Bank's benchmark corridor of 6-9 per cent. Nevertheless, inflation has remained below the monetary policy rate.

Structural factors, including poor transport infrastructure, high cost of energy, insurgency and insecurity in the North East; and the announcement effect of the upward review in salaries and wages could constitute an upside risk to inflation in the short to near-term. However, experts have indicated that inflation could maintain a downward trend considering that the feared headwinds to inflation have not materialized. Importantly, consumption expenditure is still low, the effect of increased investment spending on inflation may be minimal, especially if it stimulates increased output/productivity, and with the existence of output gap, supply can easily be generated to meet increased demand.

Thus, the year-on-year inflation rate is moderating, while the month-on-month annualized is moderating towards the Bank's single digit inflation target range of 6-9 per cent, reflecting partly the effectiveness of Bank's tight monetary policy stance. This development provides space to ease the current tight monetary policy stance.

Monetary Developments

Developments in monetary aggregates suggest scope to expand money supply to drive economic growth. Broad money supply (M2) declined by 1.98 percent in February 2019 below the level at end-December, 2018. The annualized growth of M2 stood at -11.91 percent compared to the 2019 provisional benchmark of 12.99 percent. On the other hand, annualized growth of broad money aggregate (M3) at 25.88 percent was, however, above the 2019 provisional benchmark of 14.47 percent.

Although M3 grew largely because of increase in CBN bills, the M2 component contracted in January and February 2019, respectively, reflecting tight

monetary policy stance of the Bank. Overall, money supply still remains weak to drive the growth momentum in the economy.

Two Pertinent Issues

There are other pertinent issues, some of which impinge on the effectiveness of monetary policy. Among these are the following:

- i. Bourgeoning fiscal deficit, rising debt and debt servicing levels. Analysis of fiscal operations of the Federal Government between January and December 2018 showed the actual Federal Government revenue as N3,909.94 billion, while the total expenditure for the period January – December, 2018 amounted to N7, 538.03 billion, resulting in a fiscal deficit of N3,628 billion. The Federal Government borrowed N669 billion from the domestic markets through the issuance of FGN bonds, to partly finance the budget deficit. The larger portion was financed from external borrowings, while the net deficit was accommodated by the CBN. The public debt level stood at US\$73.213 billion out of which US\$21.592 billion or 29.5 percent represents external debt. In the last few years, external debt has built up in a very uncomfortable manner.

The Federal Government's actual fiscal deficit has continued to widen and concurrently, the debt level and debt service have continued to rise. A major driver of the deepening fiscal deficit and debt levels is the under-performance in revenue generation largely due to non-diversification of revenue and continuing weakness in domestic economic performance in spite of slight recovery in the international price of crude oil. Another major concern is the rapidly growing cost of debt servicing, fuelled by increasing public debts with the potential for crowding out the private sector. Therefore, the government needs to step up domestic revenue mobilisation and

significantly reduce the pace of external debt accumulation because of the challenges of rising external debt servicing, as well as interest rate and exchange rate shocks. The proposed increase in VAT is in the right direction.

- ii. Apparent inefficiency in the financial sector. While stability issues in this sector are gradually being addressed by the CBN, contradictions abound. A good number of the operators, especially the deposit money banks, appear to be doing well as reflected by profitability indicators, rates of return, among others. However, inefficiency and monopoly practices seem to abound. Unacceptable interest rate spread persists. The maximum lending rate stood at 30.56 percent in February, while the Prime lending Rate stood at 16.08 percent in the same month. On the other hand, consolidated demand, savings and term deposit rates declined by 0.02 percentage points to 4.33 percent in February 2019 from 4.35 percent in January 2019. The spread between the maximum and consolidated deposit rates stood at 26.23 per cent in February 2019. This spread suggests exploitation and remains unacceptable in view of the adverse implications for savings, investment and welfare. It is important that regulatory actions are introduced to redress the situation.

Also, there is the phenomenon of high returns on Equities (ROEs) and Assets (ROAs). Nigeria's financial industry operators have higher ROEs and ROAs than comparator countries like Turkey, South Africa and Malaysia. Yet, these countries have better financial soundness indicators and asset quality indicators. The contradictions would need to be looked into with a view to reducing the interest rate spread and enhancing competitiveness and efficiency in the sector.

Opinion

For quite some time now, the Central Bank through the Monetary Policy Committee, has refrained from raising its policy rate. The policy rate has remained constant at 14.0 per cent since July 2016 because of considerations to move the economy out of recession. The 14.0 percent policy rate itself reflects tight monetary policy stance. Even in the face of this, interest rates have been trending downwards in the various markets in recent times with implications for the relevance of the monetary policy rate. However, this momentum provides an additional opportunity to adjust the MPR downwards in the hope that the deposit money banks would behave and make more credit available to the real sectors of the economy at lower interest rates. This will complement the extant unconventional monetary policy strategy of the CBN which makes credit available to priority sectors, for example, agriculture and manufacturing, at single digit interest rates. It must be understood that by implementing unconventional monetary strategies to complement fiscal policy initiatives aimed at promoting growth, employment and diversification, the CBN has not abdicated its primary responsibilities. Under the highly incapacitated fiscal policy environment of the last few years, the monetary policy interventions have provided succor which needs to be appreciated. Even some advanced economies tailor monetary policy to promoting growth and employment in addition to maintaining monetary and price stability. Under the circumstances of poor economic governance and conspicuous market failures in the country, monetary policy intervention becomes inevitable.

Now, the inflation rate has moderated and is lower than the Monetary Policy Rate although it is still above the desired inflation benchmark. Because of weak domestic revenue mobilization, fiscal policy is limited in its efforts to drive growth and the need has become stronger for further monetary policy support to the attainment of the growth, employment and economic diversification

objective. Finally, monetary growth and credit have yet to achieve the levels that can effectively drive the economic growth momentum of the country.

In light of the foregoing, I have the conviction that the current tight monetary policy stance should be eased by reducing the Monetary Policy Rate by 100 basis points, that is, reduce the rate to 13.0 percent. The other indicators will maintain the extant levels.

CRR - 22.5%

Liquidity Ratio - 30%

Asymmetric Corridor - +200/ -500 basis points

9. SANUSI, ALIYU RAFINDADI

1. Decision:

In today's meeting, my decision to vote for a hold reflects my conviction that the current level of real interest rate is appropriate for balancing the monetary policy objectives of price stability and output recovery. The current policy stance, which has brought inflation down close to the upper band its target range, supported sustained output recovery, maintained positive net capital inflows amidst monetary policy normalization in advanced economies, and delivered the much-desired exchange rate stability, is still optimal for sustaining the disinflation process amidst output recovery. Although available data shows that headline inflation (year-on-year) continued to moderate further in February 2019, Staff forecasts indicate that there are threats to inflation, which would remain sticky, while output recovery would continue at a slightly faster rate in the near term compared with that achieved in the fourth quarter of 2018. Despite the temptation to loosen to support speedier output recovery, holding all the key parameters constant is, in my opinion, the time-consistent optimal policy position needed for now to keep inflation low without threatening the output recovery.

2. Background and Justification

2.1. Global Economic Developments

Global economic developments show that weak output growth and price developments across the major advanced economies could have positive implications for capital flows to emerging markets and developing economies.

Global output, which the IMF's World Economic Outlook projected to grow at 3.7 percent in 2019, is now forecasted to grow at a slower rate of 3.5 percent. This downgrade is due to the slower growth projections in advanced economies (of 2.0 percent in 2019, compared with 2.3 percent in 2018) and

EMDEs (of 4.5 percent in 2019 compared to 4.6 in 2018). In the US, output growth slowed down to 2.6 percent in Q4 compared with the 3.4 percent archived in Q3 of 2018 as a result of the prolonged government shutdown, slower household and business fixed investment expenditures. In the Euro area, output grew by 0.2 percent in Q4, which is slower than the 0.6 percent achieved in Q3 of 2018. In major advanced economies, inflation is moderating and is trending below the 2 percent target. It is also forecasted to moderate further to 1.7 percent in 2019 compared to 2.0 percent in 2018 in these countries. In the US, for instance, inflation decreased in February 2019 to 1.5 percent, compared with 1.6 percent in January 2019. These output and price developments have caused a dovish monetary policy stance in the major advanced economies. The US Fed, for instance, was more dovish than expected, by retaining the Fed funds rate and issuing a guidance note showing its intention to pause monetary policy normalization. The European Central Bank has also reverted to monetary accommodation by providing low-cost loans to commercial banks. The bank has also pushed forward the likelihood of rate hikes to the end of 2020. These developments have caused volatility in the global financial markets as portfolio rebalancing moved capital from equities to fixed income markets. A key implication of these developments is the increased likelihood of capital flows towards the Emerging Markets and Developing Economies (EMDEs). Although there was a mild recovery in the international oil market following OPEC production ceiling, the growing investment in the production of Shale oil in the US coupled with the Chinese drive towards the elimination of machines that use fossil fuel by 2024 suggests that the long-term threat to oil market recovery remains real. These developments indicate that the Federal Government should, as a matter of urgency, intensify its current efforts at structural reforms aimed at economic and revenue diversification to mitigate the long-term threat to economic stability. The government should also focus on building fiscal buffers as a means of improving the resilience of the economy to short-term oil markets fluctuations.

2.2. Domestic Economic Developments

The real output recovery observed in the last quarter of 2018 is expected to continue at a faster rate into the first and second quarters of 2019, while the moderating inflation is expected to remain sticky above the upper bound of its target band owing to moderate inflationary pressure in the near-term.

Available data shows that positive growth in domestic output was sustained in 2018. Real output grew by 1.98 per cent in 2018 compared to 0.82 percent in 2017. Indeed, on a quarterly basis, the rate of recovery has significantly increased since the second quarter of 2018, rising from 1.5 percent in Q2 to 1.81 percent in Q3, and then to a higher than projected rate of 2.38 percent in Q4. The non-oil sector, which contributed 92.94 percent to the real GDP, was the primary driver of growth during Q4 as it grew by 2.7 percent. The oil sector, which added 7.06 percent to the real GDP, contracted by about 1.63 percent during the quarter. The primary drivers of the non-oil GDP were services and agriculture. The growth in agriculture was attributed to the improvements in crop and livestock production, forestry and fishing. Although industrial production index declined, in Q4 of 2018, due to the poor performance of the mining, the manufacturing and non-manufacturing Purchasing Managers' Index (PMI) have increased in March 2019 due to increased consumer demand and moderation in input prices. Staff forecasts show that output growth will continue to rise in 2019 driven by moderating inflation, stable exchange rate, financial system stability, enhanced credit flows to the real sector, effective implementation of the ERGP, CBN's special interventions in Agriculture and SMEs, addressing food supply and distribution problems including farmers/herders conflicts. Some of the critical risks to macroeconomic stability include moderate inflationary pressure beginning from April 2019, low credit to the real sector, increased fiscal deficits and high debt level.

Available data shows that headline inflation has marginally declined (year-on-year) from 11.37 percent in January 2019 to 11.31 percent in February 2019. This decline was mainly due to the decline in food inflation from 13.51 percent in January 2019 to 13.47 percent in February 2019. Core inflation has also declined from 9.91 percent in January 2019 to 9.80 percent in February 2019 as a result of moderation in the prices of processed foods, housing, water and electricity. Staff forecasts suggest that inflation would continue to remain sticky close to the upper bound of its target band. This is because of a moderate inflationary pressure expected in the near-term arising from the late implementation of the 2018 budget, increased fiscal deficits, inadequate power supply. The stability in the exchange rate has been sustained. There was slight appreciation (of about 0.51% compared to January) at the Investor and Exporter (I&E) window, which averaged N361.82/US\$ at the end of February 2019. It further appreciated by 0.37% to N360.47/US\$ in March 2019. The BDC rate had similarly appreciated, by 0.09%, to N359.33/US\$ in March 2019. This relative stability was achieved through the sustained intervention by the CBN in the foreign exchange market as well as the activities of the I&E window. This sustained intervention was enabled by the significant level of international reserves, which stood at US\$44.92 as at 20th March 2019. Indeed, the exchange rates at the BDC segment and I&E window appear to be converging towards a more unified rate.

3. The Basis for My Policy Choice

I voted to keep all the policy parameter unchanged in today's meeting because, on the one hand, as available data and staff forecasts show, inflation will continue to be sticky above its target band. A moderate inflationary pressure build-up is expected to begin in April 2019 and may last until July 2019. Achieving the price stabilization objective, therefore, requires that monetary policy should remain tight. On the other hand, output recovery has been sustained and is expected to increase in the medium-term. Although

it is tempting to ease the monetary policy to increase the speed of output recovery, doing so may threaten the inflation objective. Reducing the interest rate may also raise the exchange rate pressure. Overall, I believe the current level of real interest rate is appropriate to balance the objective of price and exchange rate stability and sustain output recovery.

Consequently, I voted to:

- Retain the MPR at 14.00 percent;
- Retain the CRR at 22.5 percent;
- Retain the asymmetric corridor at +200/-500 basis points; and
- Retain liquidity ratio at 30.0 percent.

10. SHONUBI, FOLASHODUN A.

Global Economic Developments

The preponderance of growth slowdown across different economic divides at the end of 2018 has generated significant doubt on growth prospects for 2019. Besides Japan, which grew marginally by 0.9 per cent in 2018, there were significant slowdown in the United States, United Kingdom and the euro-area. Similar trends were recorded in China, Russia, Brazil, India and South Africa, among others. Consequently, the World Economic Outlook (January 2019) projected global growth at 3.5 per cent in 2019, from 3.7 per cent in 2018, mainly, on account of the drag in growth in most of the major economies. Though this global macroeconomic condition poses a challenge for monetary policy in Nigeria, the prospect for higher and stable international crude oil prices, as well as, positive fundamentals attractive to foreign inflows provides a reasonable buffer.

Domestic Prices and Output

Despite the projection of uptick in inflation from the expected impact of possible changes in energy prices and wage increase, inflation has continued to trend downward in the last two months, while the persisting short fall in household consumption spending capacity may constitute strong drag to inflation in the near term. Headline inflation, on year-on-year basis, fell for the second consecutive month to 11.31 per cent in February 2019, from 11.37 per cent January 2019, mainly, due to decline in food inflation. This represented a reversal of the sudden uptick in the last quarter of 2018, possibly on account of seasonal spending effects. Likelihood of adjustments in the fiscal space, however, constitutes the major near-term risk to inflation.

Though the oil sector remained a major drag on output growth, gradual expansion in the non-oil sector, continue to facilitate steady growth, highlighting the positive impact of diversification efforts of the CBN and the Federal Government. Growth remained weak from 0.82 per cent in 2017

to 1.93 per cent in 2018, reflecting upward trend from the second quarter, with the highest growth of 2.38 per cent recorded in the fourth quarter 2018. Expansion in the non-oil sector, at 2.0 per cent, was the major driver of overall growth, with moderate contribution to growth observed in the agriculture, manufacturing and construction sub-sectors. With the purchasing managers' index and credit condition reports showing positive sentiments towards future expansion in production and general business activities and supported by stable exchange rate, which allows for long-term business planning, growth is expected to be stronger and deeper. Notwithstanding the positive outlook, the fragility of growth highlights call for intensification of growth supporting measures at all levels of policy formulation.

Monetary and Credit Developments

Growth in the monetary aggregates were generally moderate and within the benchmark but remained largely disconnected from real economic activities, especially with the growth in credit to the private sector. Broad money supply (M₂) contracted by 1.98 per cent in February 2019, relative to its level at end-December 2019, reflecting largely the 7.74 per cent decline in net foreign asset (net). Net domestic credit, however, grew by 1.68 per cent, on account of respective rise of 17.20 and 6.41 per cent in both credit to the government and credit to the private sector. CBN bills held by money holding sectors also grew by 31.40 per cent, thus growing the broader measure of money supply (M₃) by 4.31 per cent over the level at end-December 2019.

The dynamics of money market rates, continued to reflect the net liquidity condition in the banking system, which was largely buoyed by maturing CBN bills and fiscal injections, but moderated by Open Market Operations and foreign exchange interventions. Money market rates, including inter-bank and Open-Buy-Back rates generally trended lower in the current period, underscoring the liquidity condition in the market. The spread between the maximum lending and the average deposit rates, remained wide, implying high borrowing cost. Developments in the capital market

reflected investors' changing sentiments, on account of the search for long-term safety and return.

Financial System Stability Concerns

Intensification of monitoring, with special focus on targeted supervision and corrective regulation would further strengthen the improving trend of key prudential ratios in the first half of 2019. Banking industry liquidity ratio, at 51.05 per cent in February 2019, was significantly above the regulatory minimum of 30.0 per cent. Asset quality also improved, mainly, as a result of repayment, recoveries and disposal, though the non-performing loans ratio remained above the regulatory maximum. Industry capital adequacy ratio, however fell, but remained marginally above the regulatory minimum. The trends generally suggest improving health of the banking industry.

External Sector Vulnerabilities

Overall condition in the external sector indicated improved viability, underscored by exchange rate stability, balance of payment surplus and robust external reserves position. Despite the marginal decline in foreign direct and portfolio investments in the review period, lower import bills, narrowed deficits in the income account and higher surplus in the current account contributed to enhancing external sector viability. Moreover, sustained exchange rate stability and convergence due to effectiveness of measures by the Bank continued to enhance investors' confidence and business planning.

Overall Considerations and Decision

With a largely growth neutral inflation levels in most major economies of the world and under a slowing growth condition, the congruence of opinion is that of easing monetary policy to support economic growth and development outcomes. The general posture of monetary policy globally has therefore been focused on addressing slowdown in growth and averting recession.

On the domestic front, despite the marginal decline in the industry capital adequacy ratio in the domestic banking industry, mainly due to increased risk weighted asset, improvement in asset quality, liquidity ratio and earnings underscored stability of the banking industry. There is scope for measures to ensure that growth in monetary aggregates effectively impacts real economic activities through credit and financial intermediation, especially with the lag in its influence on inflation. The external sector remain generally viable, highlighting the need for intensification of current measures/policies to promote diversification and ensure rebalancing of the economic structure. Growth remain weak and fragile, while threat of inflation is generally muted on account of the persistently low consumption expenditure and negative output gap.

In the past 24 months, monetary policy has clearly achieved its objectives of price stability, particularly with inflation and money market interest rates trending down, stable exchange rate and robust external reserves. Over the medium term, however, monetary policy seems to have become less potent in its ability to indicate level and signal trend. Thus, with current global policy driven mainly by pro-growth sentiments, it is imperative that domestic monetary policy begin to effectively influence and signal the direction of other rates in the economy, especially considering that there is a limit to the scope and size of direct interventions by the Bank. Moreover, price stability devoid of growth is more likely to be unsustainable.

Though some progress has been made, the fiscal sector, as the primary medium for promoting growth, must within its present low capacity, take specific measures to push growth. Including further release of capital components of the 2018 budget; passage of the 2019 budget and Petroleum Industry Bills; intensifying measures to block leakages/economic sabotage; as well as build fiscal buffers. These inadequacies/uncertainties have held back investments. Rising debt stock in time of increasing oil price is another source of worry for sustainable growth.

Monetary policy must be time consistent to achieve its objective and thus must now target credit access and cost to facilitate expansion in the real sector. In this regard, downward trending money market interest rates provide opportunity for alignment of monetary policy with the present realities. The wide spread between deposit and lending rates also underscore limited competition. Inflationary threat from wage increase remain muted considering that low cadre employee to be mostly impacted already have shortfall in purchasing capacity.

In the light of the sub-optimal level of aggregate demand and level of output gap, easing the monetary policy stance within the present economic conditions is more likely to enhance aggregate supply rather than being inflationary. Moreover, returns to foreign investors remain attractive, compared to peer investment destinations. It is thus imperative for monetary policy to support employment generation and increase in productivity so as to address the challenge of weak and fragile growth. As we await the economic plans of the new government, it is necessary to underscore the fact that whatever strategy is adopted should be growth focused. This decision is therefore a signal of direction for both monetary and fiscal policies.

I therefore vote to:

- Reduce the MPR by 25 basis point to 13.75 per cent;
- Retain the asymmetric corridor of +200/-500 basis points around the MPR
- Retain Cash Reserve Ratio (CRR) at 22.5 per cent; and
- Retain Liquidity Ratio at 30.0 per cent.

11. EMEFIELE, GODWIN I.

GOVERNOR OF THE CENTRAL BANK OF NIGERIA AND CHAIRMAN, MONETARY POLICY COMMITTEE

The global growth forecast was revised downward to 3.5 per cent for 2019 and 3.6 per cent for 2020 in the January update of the World Economic Outlook (WEO). The downward revision was partly attributable to the softer momentum in the second half of 2018 negative effects of tariff increases in the United States and China in 2018 and lower growth forecast in Germany following the introduction of new automobile fuel emission standards. Also, in Italy where concerns about sovereign and financial risks weighed on domestic demand. In addition, weakening financial market sentiment, contraction in Turkish economy as well as softer than anticipated growth in some key emerging market economies contributed to the downward revision.

The overall risks to global growth tilt to the downside. Tightened financial conditions and further escalation of trade tensions remains key sources of risks to the outlook. In addition, a “no-deal” BREXIT from the European Union and the continued slowdown in China’s economy could worsen risk sentiment across the globe with serious implications for growth. This could be further aggravated by the high levels of public and private debt in the Emerging Economies.

Despite this, Nigerian economy continues on its modest recovery. Recent data released by the National Bureau of Statistics NBS showed that Real GDP grew by 2.38 per cent in the last quarter of 2018, up from 1.95, 1.50 and 1.81 per cent in the first, second and third quarters, respectively. On annual basis, the economy grew by 1.93 per cent in 2018. The growth performance was largely driven by non-oil growth (especially in agriculture and services sectors). IMF has projected Nigeria’s economy to grow at 2.0 per cent in 2019 and 2.2 per cent in 2020. Our in-house analysis indicates that the economy will grow by 2.34 per cent for 2019. The favourable growth sentiment is supported by

positive Purchasing Managers' Index (PMI) in the manufacturing and non-manufacturing indexes – buoyed by the continued stability in the foreign exchange market and the drive for increased credits to the real sector of the economy.

Data on domestic prices indicated that inflation had continued to trend downwards. Year-on year headline inflation consistently dropped from 11.44 per cent in December 2018, to 11.37 and 11.31 per cent in January and February 2019 respectively. The decline is observed in the two components of headline. Consequently, the composite food index declined from 13.51 per cent in January 2019 to 13.47 per cent in February 2019, while the core inflation, which excludes the prices of volatile agricultural produce stood at 9.8 per cent in February 2019, down by 0.1 percent when compared with 9.9 per cent recorded in January 2019. Analysis of month-on-month inflation, showed a deceleration in the three components during the review month; implying a possible slowdown on year-on-year rates in the short-term. Though the current stability in the foreign exchange market continues to impact favourably on inflation, near-term risks subsist; including the residual effects of the 2019 electioneering spending, and supply disruptions across major food-belts of the country.

The current stock of FX reserves at US\$44.6 billion can cover more than 13 months of imports as against the international standard of 3-month import cover. Exchange rate has not only stabilized, but also converged across different segments of the market. The provisional Balance of Payments (BOP) position estimates for Q4 2018 showed a significant improvement in the BOP outcome as the overall balance of payments recorded a surplus of US\$2.80 million compared to a huge deficit of US\$4,542.08 million recorded in the preceding quarter. Similarly, the current account balance (CAB) improved from a deficit of US\$1,544.41 million in Q3 2018 to a surplus of US\$1,104.57 million in Q4 2018. This development was largely attributable to the significant decline in import bills occasioned by our various intervention policies as well

as the restriction of FX supply for the importation of 41 non-essential items that has been in existence since 2016.

Both the broad and narrow money aggregates, M2 and M1 performed below their benchmark in February 2019. M2 contracted by 1.98 per cent over the preceding December 2018, about 14.47 percentage points below the 2019 growth benchmark of 12.99 per cent. Similarly, M1 declined by 6.16 per cent compared with the provisional growth benchmark of 17.08 per cent. Credit to private sector grew by 6.41 per cent, year to date, compared to the provisional benchmark of 9.41 per cent. Similarly, aggregate credit to the domestic economy grew by 10.64 per cent as against its provisional benchmark of 11.82 per cent. It is my candid opinion that the current performance of monetary aggregates have been unsatisfactory and that, in particular, we need to channel more credits to private sector businesses in order to provide the much needed impetus to growth. The issue of enhancing credits to the private sector businesses is critical to our recovery process and effective collaboration of all stakeholders is, therefore, needed in this direction.

In my consideration, I once again, note that stability have been achieved in some key macroeconomic indicators: inflation has stabilized for more than 10 months, exchange rate has not only stabilized, but has also converged across different segments of the market, net capital inflow has been rising, while present stock of external reserves at US\$44.6 billion can finance more than 13 months of imports, well over the international threshold of 3 months import cover. For the first time, we experience rising net capital inflow, declining inflation, and currency appreciation and net accretion to external reserves during months of general election in Nigeria. There is no doubt that the relative stability witnessed since the end of the 2016 recession reflects the continued potency of our past policy decisions

Despite all these, cautious policy approach is needed as growth is still low and the recovery fragile. We need economic growth that would feed and sustain

the teaming population. Per capita income and unemployment rates are trending outside the acceptable regions. Having achieved relative stability in some of the key macroeconomic indicators such as price and exchange rates, there is the need to signal a new direction that is pro-growth. Policy should pay greater attention to boosting growth, creating jobs and diversifying the economy. We are particularly interested in price stability conducive to economic growth.

I remain mindful of the fact that inflation is still trending higher than the target range of 6-9 per cent, but also note that the current level of inflation is below the bench mark of 12.0 per cent above which inflation becomes inimical to growth. We, therefore, have a small policy space within which we can tinker and support growth in order to create jobs in the economy. My indication today is, therefore, to signal support for the growth of the economy which has been low and fragile. A marginal adjustment of the current level of policy rate is needed to balance the objectives of exchange rate stability, price stability and output stabilisation. Therefore, I vote to:

1. Reduce the MPR to 13.5 percent;
2. Retain the CRR at 22.5 percent;
3. Retain the asymmetric corridor at +200/-500 basis points; and
4. Retain liquidity ratio at 30.0 percent

GODWIN I. EMEFIELE, CON

Governor

March 2019