CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 136 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 24th AND TUESDAY 25th MAY 2021

The Monetary Policy Committee (MPC) met on the 24th and 25th of May 2021 as the global economy gradually emerges from the six-quarter long COVID-19 pandemic with lingering uncertainties. The recovery is on account of widespread vaccinations, easing of restrictions, reopening of economies and gradual return to international travels. India and Brazil however continue to battle high levels of infections and fatalities resulting from mutating strains of the virus. In the domestic environment, the economy is expected to remain on the current trajectory of recovery in 2021, mirroring the cautious optimistic trend in global output recovery. The Committee reviewed the developments in the global and domestic economic and financial environments in the second quarter of 2021 and the outlook for the rest of the year.

Ten (10) members of the Committee were present at this meeting.

Global Economic Developments

The Committee noted that while the vaccination against COVID-19 is drastically reducing fatalities across several economies, the recovery remains uneven and is tilted against developing economies compared with the developed economies with better access to vaccines. Other

emerging markets economies with strong manufacturing capabilities like China are also on the verge of full recovery.
Accordingly, the International Monetary Fund (IMF) revised global output growth for 2021 to 6.0 per cent. This represents an upward revision of 0.5 percentage point, compared with the earlier projection of 5.5 per cent. The projection is, however, dependent on the efficient deployment of COVID-19 vaccines and sustained policy support across economies to strengthen the recovery of global output growth.

Prices, however, are expected to rise globally due to the massive monetary and fiscal injections in several countries to mitigate the impact of the Pandemic. The MPC noted the gradual recovery of prices, especially amongst some developed economies as inflation continued a steady movement towards the long-term objective of their central banks. It is expected that inflation may breach the long-term objective of several central banks in the medium-term, as economic activities continue to recover with more people being vaccinated. In several Emerging Market and Developing Economies (EMDEs), inflation has remained relatively high, with some economies confronted with significantly higher inflationary pressures than others, because of legacy structural issues, capital flow reversals and unabating exchange rate pressures.

The prevailing conditions in the global financial markets remained relatively stable, as central banks sustain monetary accommodation. There are, however, growing indications that monetary policy normalization may commence amongst some key central banks by the fourth quarter of 2021. The timing and pace of this normalization must, however, be carefully managed to mitigate the risk of a financial crisis post-Pandemic.

Domestic Economic Developments

Available output data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 0.51 per cent in the first quarter of 2021, compared with 0.11 and -3.62 per cent in Q4 2020 and Q3 2020, respectively. Real GDP was driven largely by the non-oil sector, which grew by 0.79 per cent in Q1 2021 compared with 1.69 and -2.51 per cent in Q4 2020 and Q3 2020, respectively. The major drivers of the non-oil GDP were Agriculture and Industry with sectoral growth rates of 2.28 and 3.05 per cent, respectively in Q1 2021. Whereas Agriculture declined by 1.14 percentage points from 3.42 per cent in Q4 2020, Industry, supported by growth in Manufacturing and Construction, grew by 3.30 percentage points from -0.25 per cent in Q4 2020. The sectoral contribution of Services to GDP, however, contracted from 1.31 per cent in Q4 2020 to -0.39 per cent in Q1 2021. The oil sector, contracted by -2.21 per cent in Q1 2021, from -19.76 and -13.89 per cent recorded in Q4 2020 and Q3 2020, respectively. The weak performance in the oil sector is largely attributable to the decline in production, in compliance with the OPEC+ production cut agreement.

The Committee noted the marginal growth in the Manufacturing Purchasing Managers' Index (PMI) to 49.0 index points in April 2021 from 48.8 index points in March 2021. This increase is a lead indicator of recovery of output growth following the easing of restrictions to curtail the spread of the Pandemic. The Non-manufacturing PMI, however, declined marginally to 47.3 index points in April 2021, compared with 47.9 index points in March 2021.

The employment level component of the manufacturing and non-manufacturing PMIs rose moderately in April 2021 to 46.5 and 48.2 index points from 45.9 and 47.7 index points in March 2021, respectively.

The Committee noted the moderate decline in headline inflation (year-on-year) to 18.12 per cent in April 2021 from 18.17 per cent in March 2021, following nineteen consecutive months of continuous rise. The decrease was driven by a marginal slowdown in food inflation to 22.72 per cent in April 2021 from 22.95 per cent in the previous month. This was partly attributed to the Bank's massive interventions in various sectors of the economy to stimulate aggregate demand and boost production, particularly for Small and Medium Scale Enterprises. The MPC, however, noted that headline inflation remained well above the ceiling of the Bank's 6-9 per cent inflation corridor as a result of a combination of factors, including: the heightened security tensions in the country and deteriorating public infrastructure. As a result, the Bank expressed its support to the Federal Government's commitment to tackle insecurity as this will improve the business environment and encourage economic activities to reduce inflation.

The MPC was also mindful of the impact of exchange rate pressures resulting from capital flow reversals associated with the COVID-19 shock, as investors sought for safe havens. It, however, applauded extant measures by the Bank in ensuring both liquidity and stability in the Foreign Exchange market as well as moderating the exchange rate pass-through to inflation.

On the performance of monetary aggregates, the Committee noted that broad money supply (M3) grew by 1.15 per cent in April 2021, compared with 0.04 per cent in March 2021. This development was largely driven by growth in Net Domestic Assets (NDA), while Net Foreign Assets (NFA) contracted. The growth in Net Domestic Assets reflects the growth in aggregate credit supported by the ongoing broad based monetary and fiscal stimulus. Accordingly, gross banking sector credit at end-March 2021 stood at N23.53 trillion compared with N22.68 trillion at end-December 2020. This represents an increase of N0.85 trillion (year-to-date), of which commercial & merchant banks disbursed (N0.66 trillion), microfinance banks (N0.13 trillion), development finance institutions (N0.05 trillion), and primary mortgage banks and finance companies (N0.01 trillion).

The liquidity condition in the banking system in the review period was determined by several factors including; fiscal disbursements and withdrawals by states and local governments, periodic CRR debits, foreign exchange interventions, Open Market Operations, and maturing CBN bills, the net effect of which imposed liquidity constraints on the banking system.

The Committee noted the moderate decline in the equities market (year to date) as the All-Share Index (ASI) decreased by 1.97 per cent to

38,287.58 on May 24, 2021 from 39,045.13 on March 30, 2021. Similarly, Market Capitalization (MC) decreased by 4.30 per cent to N19.96 trillion on May 24, 2021 from N20.82 trillion on February 26, 2021.

The MPC noted that the Capital Adequacy Ratio (CAR) and the Liquidity Ratio (LR) both remained above their prudential limits at 15.8 and 38.9 per cent, respectively. The Non-Performing Loans (NPLs) at 5.89 per cent in April 2021, showed progressive improvement compared with 6.6 per cent in April 2020. The MPC, however, urged the Bank to sustain its tight prudential regime to further reduce the level of Non-Performing Loans in the industry.

The Committee noted the external reserves declined marginally to US$34.17 billion as at May 21, 2021, from US$34.29 billion as at end-April 2021. This reflects sales to the foreign exchange market and third-party payments.

Outlook

The optimism for medium-term macroeconomic recovery in both the global and domestic economies is slow, but steadily growing, even as some level of uncertainty are still present. This is due to the unabating COVID-19 pandemic in some countries such as India and Brazil caused by mutation of the virus into more fatal strains. In addition, the recovery is uneven and seem to be more tilted towards countries that have high vaccination rate than those less vaccinated or that are still suffering from the effects of more fatal strain of COVID-19 disease. As conditions improve however, central banks of Advanced Economies are beginning to signal the possible shift to monetary policy normalization by the fourth quarter of 2021.

Available data and forecasts for key macroeconomic variables for the Nigerian economy, suggest that output growth will continue to recover for the rest of 2021. This is premised on the continued support for agriculture to improve food supply, reduce inflation and improve employment. Others include efforts of both the monetary and fiscal authorities to improve infrastructure challenges in the country. The forecast for the Nigerian economy for 2021 is, thus, strong domestic push to support recovery particularly to ensure an end to insecurity in the country.

Consequently, as the productive capacity of the economy improves and the supply chain fully restored, we expect inflationary pressure to ease further, as the supply of goods and services offset demand.

The Committee's Considerations

At this meeting, the MPC recognized that the twin problems confronting the Nigerian Economy that must be addressed relates to stagflation, reflected in rising inflation with simultaneous contraction in output.

Committee further recognized that the strategies put in place to rein in inflation through the use of series of administrative measures by the Bank to control money supply through liquidity mop up in the banking industry had started to yield results. It also recognized that measures put in place to stimulate output growth through the use of its intervention facilities to inject liquidity into employment generating and output stimulating initiatives like the Anchor Borrower Program, Targeted Credit Facility and Agri-Business Small and Medium Enterprise Investment Scheme (AGSMEIS) had started to yield results.

In the view of the MPC, although the economy had successfully exited the recession, the recovery was very fragile given that the GDP of 0.51 per cent was still far below population growth rate. Committee therefore was of the view that, there is a strong need for the Monetary Authorities to consolidate on all administrative measures taken not only to rein in inflation, but also on the actions so far taken to grow output.

In the Committee's view, such measures should include boosting consumption and investments, as well as diversifying the base of the economy through FX restrictions for the importation of goods and food products that can be produced in Nigeria. It also urged the Bank to continue to put in place measures that will boost export earnings. On consumption and investment, MPC noted that the intervention facilities under the Anchor Borrowers was N631.4 billion granted to 3,107,949 small holder farmers cultivating 3.8 million of land hectares; for the AGSMEIS, N111.7 billion to 29,026 beneficiaries; and for the Targeted Credit Facility, N253.4 billion to 548,345 beneficiaries - comprising 470,969 households and 77,376 SMEs.

Notwithstanding that all these have helped in boosting output, the Bank should continue to aggressively increase its interventions in these subsectors, including agricultural processing and manufacturing. Under the National Youth Investment Fund, N2.04 billion was disbursed to 7,057 beneficiaries, of which 4,411 were individuals and 2,646 were SMEs. Under the Creative Industry Financing Initiative, the CBN has disbursed N3.19 billion to 341 beneficiaries across movie production, movie distribution, music and software development.

Under the N1 trillion Real Sector Intervention, N856.3 billion had been disbursed for 233 real sector projects, of which 77 are in light manufacturing, 36 in agro-based industry, 30 in services and 11 in mining. Under the N100 billion Healthcare Support Intervention fund, N97.4 billion has been disbursed for 91 health care projects, of which 26 are pharmaceutical and 65 hospital services. Also, N232.5 million has been disbursed to 5 beneficiaries under the CBN Health Care Grant for Research on Covid-19 and Lassa Fever. Under the National Mass Metering program, N35.9 billion has been disbursed to 9 DisCos for the acquisition of 656,752 electricity meters. Under the Nigerian Electricity Stabilization Facility 2 (NEMSF-2), N93.8 billion has also been disbursed to 11 DisCos.

The Committee members applauded Government's efforts in combating the headwinds imposed by the Pandemic and urged that going forward, Government should avoid an entire nationwide lockdown like was experienced in 2020, as this will reverse the wholesome gains jointly achieved between the Government and the Central Bank in response to the outbreak of the Pandemic.

The MPC carefully assessed the options on direction of policy in the short to medium term. It re-appraised current measures by the Government to purchase COVID-19 vaccines and the general preparedness of relevant public health agencies to guard against the spread of the mutating strains of the virus. To this end, the Committee noted the appropriate steps taken by the Government to ensure that up to 70 per cent of the populace get vaccinated to drastically drive down the infection rate in the country and hence, sustain economic activities.

The Committee noted the persisting security crisis, especially in major food producing regions of the country and the severe toll on food supply and prices. It noted that inflation had moderated marginally due to the unrelenting effort of the Bank in supporting agriculture to boost food supply and prices. The Committee, thus, re-iterated its call to the Government to intensify effort towards addressing the security situation in the country to ease supply bottlenecks and bring down food prices. The MPC further noted Government's commitment towards investing in public infrastructure despite constrained fiscal position and urged a continued focus on this objective, while exploring the option of effective partnership with the private sector, as improved road networks, telecommunications and power supply will greatly and proactively impact the supply chain and moderate price increments. It further noted the need for collaboration with Nigeria's huge diaspora, through the issuance of diaspora bonds targeted at specific infrastructure projects. Even as the Committee noted that the public debt stock was currently high, it was of the view that project specific diaspora bond issues could conveniently pay itself back without imposing a burden on Government finances. It noted the complementary role this would play in boosting foreign exchange supply, accretion to reserves and easing of the current exchange rate pressure.

The Committee noted that the equities market remained stable, an indication of investor confidence in the Nigerian economy in the medium-term. The MPC thus urged the Bank to maintain its collaboration with the fiscal authority to improve the investment climate towards attracting sustainable Foreign Direct Investment (FDI).

With the developments in the Banking system, the Committee applauded the efforts of the CBN in ensuring a reasonably low level and steady reduction in Non-Performing Loans (NPLs), even as aggregate credit continued to expand through the crisis period. While NPLs remained marginally above the Bank's regulatory threshold, members noted that it was in line with the current state of macroeconomic imbalances occasioned by the Pandemic.

The Committee's Decision

The recent developments in the domestic economy presented two broad options to the MPC, which were to either aggressively address the high inflationary pressure or continue to pursue measures aimed at supporting the recovery.

Whereas the Committee remained overwhelmingly committed to supporting the efforts of the Federal Government in ensuring full restoration of the productive capacity of the economy, members remained much more focused towards achieving price stability in the short to medium-term. The MPC noted that economic growth could be hampered in an environment of unstable prices. To this end, the choice therefore was between loosening the stance of policy to ease credit further or tighten to moderate price development or maintain a hold stance in order to allow previous policy measures continue to permeate the economy while observing global and domestic developments.

The Committee noted that an expansionary stance of policy could transmit to reduced pricing of the loan portfolios of Deposit Money Banks and result, therefore, in cheaper credit to the real sector of the economy. On the converse, this expected transmission may be constrained by persisting security challenges and infrastructural deficits.

On the other hand, while a contractionary stance will only address the monetary component of price development, supply side constraints such as the security crisis and infrastructural deficits can only be addressed by policies outside the purview of the Central Bank. A tight stance in the view of members, will also hamper the Bank's objectives of providing low cost credit to households, Micro Small and Medium Enterprises (MSMEs), Agriculture, and other output growth and employment stimulating sectors of the economy.

Based on the above considerations, the MPC made the decision to hold all policy parameters constant.

The Committee thus decided by a unanimous vote to retain the Monetary Policy Rate (MPR).

In summary, the MPC voted to:

I. Retain the MPR at 11.5 per cent;

II. Retain the asymmetric corridor of +100/-700 basis points around the MPR;

III. Retain the CRR at 27.5 per cent; and

IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

25th May 2021

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

Global growth outlook continues to be good, reflecting largely, activity rebound in the United States and China. The IMF currently projects global growth at 6.0 percent in 2021. This growth outlook is stronger than all the previous ones and reflects additional fiscal support and progress with vaccination particularly in the advanced economies; continued adaptation of economic activity to the COVID-19 world; and substantial improvement in trade. Global trade is projected to expand by about 8.0 per cent in 2021 from a trough of about –5.2 per cent in 2020. The recovery in trade is powered by pent-up demand for consumables following the restoration of supply chains in emerging markets and developing economies (EMDEs).

However, the divide between the advanced economies and others in terms of access to COVID-19 vaccines remains and could worsen on account of the recent catastrophe in India, Brazil, Turkey and even Japan. The growth outlook continues to be fragile and uncertain in several countries in South Asia, Sub-Saharan Africa, Latin America and the Caribbean. Nigeria is now projected to grow by about 2.5 per cent in 2021, which is below her potential and obviously not enough to significantly alleviate the unemployment situation.

Globally, economic activity continues to face major challenges including new corona virus mutations and heavy human toll in some countries, divergent pace of recovery across countries and sectors, debt burden and slow vaccination in poor countries. In addition, financial markets and commodity prices continue to harbour some risks and prospects of adverse monetary policy spillovers are getting stronger. A sudden normalization in the US, for example, could derail or at least slow recovery in the EMDEs. This possibility needs to be factored into the policy calculations in these countries.

Equally important for policy at this time is the uneven recovery across sectors. Contact-intensive activities are still struggling at way below pre-pandemic levels. Travel, the arts, entertainment, sports, and hospitality are some of those activities. On flip side, demand is strong for products that support working from home and durable goods generally. Developing countries do not, generally speaking, produce the latter but are now forced to consume a lot of those. In fact, they are likely, owing to the prevailing circumstances, to run current account deficits for a while. This is one of the major economic fallouts of the COVID-19 pandemic and may not change any time soon. Nigeria is not immune to this consequence; indeed, the pressure on the country's trade balance may be attributed in part to increased demand for such items. There are indications that the elevated demand for products that support working from home is likely to endure as the economy continues to re-open. Meanwhile, sectors that are contact-intensive could remain depressed for some time unless they receive special policy attention. Essentially, certain sectors/activities would require a lot more policy and programmatic support to recover.

As I evaluated the Q1 2021 domestic output data released by the National Bureau of Statistics (NBS) in May 2021, I could see in the numbers the global pattern of recovery referred to earlier. Arts, Entertainment & Recreation posted zero per cent growth in the quarter; Accommodation and Food Services declined (-0.05%); Transportation and Storage declined (-0.39); Education (-0.13%) as well as Trade (-0.39%). It is instructive to note, however, that those sectors in which the Bank had intervened the most since the pandemic struck - Agriculture, Manufacturing as well as Human Health and Social services – grew by 0.5, 0.33 and 0.03 per cent respectively, and were largely responsible for the 0.51 per cent overall growth in Q1 2021. This feedback is important because it reinforces the relevance of the Bank's development finance interventions and the administrative measures aimed at improving credit delivery to the real economy.

To spur all-round economic recovery and brighten the outlook for overall growth, fiscal actions must be aimed at supporting a wide range of activities including contact-intensive activities that have been heavily impacted by the COVID-19 pandemic. This is important because the overall output horizon continues to be uncertain as both manufacturing and non-manufacturing Purchasing Manager's Indexes (PMIs) remained below the 50 index points at 49.0 and 48.3 index points, respectively, in April 2021; and high unemployment continues to be a key concern.

Equally concerning is inflation which however moderated to 18.12 per cent in April 2021 from 18.17 per cent in March. In particular, food inflation continues to be major challenge for monetary policy, even as the impetuses are not all amenable to monetary remedy. To the extent that supply and distribution bottlenecks are involved, supply-side actions are needed. By ensuring optimal liquidity in the money market, the monetary element in the inflationary process is curtailed. In this regard, the routine sterilization actions of the Bank have proved effective. Owing to those actions, banking system liquidity appears to have moderated significantly in recent weeks – in fact, the flagship rate in the inter-bank money market, the open buy back (OBB) rate has trended upwards lately. I believe, this development would partially address the monetary side of the prevailing inflationary pressure without harming economic activity.

As I have argued previously, monetary policy at this time must be anchored on a balanced view of the diverse pressures on the economy. While remaining committed to the primacy of price stability, the choice of instrument must be carefully judged to avoid undermining the fragile economic recovery gains. Essentially, this consideration informed my decision to vote for a hold position at the May 2021 Monetary Policy Committee (MPC) meeting. Though headline inflation remained unacceptably high in April 2021, the prognosis point to a gradual deceleration given the current liquidity path and expected impact of harvest as from the third quarter of the year.

In the short term, therefore, the policy priority continues to be how to firm up economic recovery. The PMIs are still below 50 points and the virus mutations underlining the 3rd wave of COVID-19 ravaging India, Brazil and Japan, suggest that economic activity still runs a credible risk globally. To strengthen the domestic growth outlook, the Bank must ensure, among others, sustained flow of credit to the real sector of the economy. The opportunity to do so exist with extant policies like the minimum loan-to-deposit ratio (LDR), development finance interventions and the innovations around the implementation of the cash reserves requirement

(CRR). I have no doubt that the recovery in real output since Q4 2020 has been underpinned by a robust banking system credit to the real sector of the economy. I believe we have not reached the limits of the impact of these policies.

The banking industry remains resilient with relatively good fundamentals. In April 2021, industry non-performing loans (NPLs) ratio moderated to 5.9 per cent and capital adequacy ratio (CAR) rose to 15.8 per cent. Likewise, industry earnings have remained strong despite the macroeconomic shock arising from COVID-19. In effect, the capacity of the banking system to create credit is high. From a regulatory angle, what is needed is a mechanism that ensures that growth/employment-elastic activities receive adequate funding from the banking system. This is essentially what most of the extant policies including the global standing instruction (GSI) are designed to achieve. These policies should be allowed to run their full course. I therefore voted to:

I. Retain the MPR at 11.5 per cent;

II. Retain the asymmetric corridor at +100/-700 basis points around the MPR;

III. Retain the CRR at 27.5 per cent; and

IV. Retain the Liquidity Ratio at 30 per cent.

2. ADENIKINJU, ADEOLA FESTUS

International Market Development

The global economy is recovering fast from the 2020 pandemic. While there are several downside risks, the global economy is projected to grow at 6% in 2021 compared to -3.3% in 2020. Vaccination is progressing well in the developed countries, but at a relatively snail speed in developing countries. Commodity prices are climbing up including the price of oil. Global inflation, though rising in many parts of the world, is still not a major concerning issue. A sharp rebound in global trade because of pent-up demand and resumption of supply chains is expected. However, global capital flows, including remittances are yet to recover to pre-pandemic level. Developed countries need to support the developing countries in access to vaccines. This is necessary to ensure that all countries of the world can overcome the gripping effects of COVID-19. There is also a need for a coordinated exit from economic stimuli to protect global recovery.

Domestic Economic Development

According to the Economic Report prepared by Staff of the Bank, the economy grew by 0.51% in Q1, 2021, up from 0.11% in Q4, 2020. The sectors largely accounting for the growth were information and communication, manufacturing, and agricultural sector. The economy also benefitted from relatively high oil prices, which hovers in the high $60s/per barrel, and is significantly higher than the 2021 FGN budget benchmark price. The growth in manufacturing sector at 3.2% is particularly impressive, given the negative performance of the sector in recent times.

Inflation also decelerated marginally from 18.17% in March 2021 to 18.12% in April 2021. Both headline and food inflation show trend reversal from the March level. However, core inflation ticked up marginally from 12.67% in March 2021 to 12.74% in April 2021. This suggests to me that inflation is probably turning the corner. The GDP growth and inflation numbers signify that the economy is responding to the CBN intervention programmes. In April 2021, manufacturing PMI and Non-Manufacturing PMI inched closer to the 50-point benchmark.

In the report on Banking System Stability Review prepared by Bank Staff, the financial soundness indicators show that the financial sector remains strong, sound, and resilient. The Capital Adequacy Ratio, the non-Performing Loan ratios and Liquidity ratios were close to the values in

March and hover around the prudential requirements. In the same vein, Return on Equity and Return on Assets at 19.0% and 1.6% as at April 2021, were generally higher than those of comparator countries. Similarly, measures of banking size: assets, deposit and credits also grew from their levels as at March 2021 Meeting of the MPC. The good thing is that aggregate credit to the economy both from the deposit money banks and the other financial institutions maintain its upward trend. The number of Nigerians having access to new credits also increased Month-on-Month.

My Concerns

The economic recovery rate is still very weak and fragile. Poverty and unemployment rates are still quite high. The security situation in the country is hurting economic recovery, while at the same time, poverty and unemployment also contributes to the worsening security challenge we have. As we enter another planting season, the effect of climate change may have negative impacts on food prices in later part of the year. The current efforts of the CBN to promote dry season agriculture would be quite helpful.

There is a need for timely and orderly withdrawal of forbearance on loan restructuring granted to the banking sector. The growth in aggregate credit indicates that the CBN policy on Loan-to-Deposit Ratio (LDR) is working, and defaulting banks should be encouraged to keep to the LDR. The various intervention programmes of the CBN are already providing strong support for the youths, women, and those who could not readily access formal credit market. Lending to households increased from N1.17 trillion in Q1 2020 to N1.22 trillion in Q1, 2021. There is need to expand the Targeted Credit Facility (TCF) and the Agri-Business/Small and Medium Enterprises Investment Scheme (AGSMEIS) to ensure more Nigerians benefit from the programme. In addition, regular evaluation of the programmes is necessary to ensure they meet their objectives.

However, there are many headwinds assailing the domestic economy. Domestic inflation is still unacceptably high and is putting pressures on domestic interest rates. It is also affecting standard of living of Nigerians. The CBN should continue to use the various administrative tools at its disposal to control excess liquidity in the system.

Exchange rate speculations are fueling depreciation of the naira in all the exchange rate windows. External reserves declined from US$34.29 billion in April 2021 to US$34.13 billion in May 2021. We also continue to experience dual deficits in the BOP. There is a need for a major boost to Government revenue to reduce the rising fiscal deficit and narrowing of fiscal space. The subsidy on petroleum products and the poor performance of refineries are issues that need immediate attention.

As a country, our excessive dependence on oil for revenue and foreign exchange sustenance is no longer tenable in the medium and long term. We need to diversify the economic and revenue base of the economy to reduce our exposure to external shocks as well as prepare the economy for the global shift from fossil fuel to green economy. It should not be business as usual for our economic managers. The economy also needs a strong buffer to mitigate external volatility.

My Vote

The recovery is still very tenuous and must be supported. I am encouraged by the positive news on growth and inflation. Hence, while encouraging the CBN to use its administrative tools to rein in inflation, especially those coming from monetary impulses, and to expand the current intervention programmes targeted at boosting real consumption by households, and production by SMEs, I cast my vote to maintain all monetary parameters at their extant values:

i) Keep MPR at 11. 5%
ii) Retain CRR at 27.5%
iii) Maintain Liquidity ratio at 30%
iv) Retain asymmetric corridor around the MPR at +100/-700 basis points.

3. AHMAD, AISHAH N.

Sharp economic rebound was witnessed globally in the first quarter of 2021 as a fallout of a combination of massive fiscal and monetary stimulus as well as widespread administration of COVID-19 vaccines. The International Monetary Fund (IMF), in its April 2021 WEO, accordingly revised its forecast for global growth upward by 50 bps to 6 per cent reflecting renewed optimism of continued rebound in the global economy.

Nonetheless, persistent high rate of COVID-19 infections and fatalities in some countries, challenges with administering vaccines in EMDEs and lingering uncertainties on the efficacy of these vaccines against new strains of the virus portend downside risks to global output growth.

On the domestic front, **key economic indicators continue to rebound.** The Nigerian economy grew by 0.51 per cent year-on-year in the Q1 of 2021, slightly higher than the 0.11 per cent growth recorded in Q4 2020 buoyed by sustained monetary and fiscal stimulus, easing of COVID-19 restrictions as infection rates declined, and recovery witnessed in the international oil market. The non-oil sector remained the main driver of economic activities, growing by 0.8 per cent propelled mainly by information & communication, agriculture, manufacturing, real estate, and construction sub-sectors. The Manufacturing and Non-manufacturing Purchasers Indices also inched up to 49.00 points and 48.30 points, respectively in April 2021 from 48.80 points and 47.90 points in March 2021, signaling recovery in economic activity.

Conversely, the oil sector shrank by 2.2 per cent, following a 19.8 per cent decline in Q4 2020. Whilst noting that the economy is not entirely out of the woods, there is room for cautious optimism that output growth will accelerate in the near term as interventions to growth stimulating sectors of the economy are sustained.

Thankfully, **inflationary pressures slowed in April 2021** after nineteen consecutive months of persistently high general price increases. Headline inflation declined from 18.17 per cent in March 2021 to 18.12 per cent in April 2021 driven by decrease in food prices - food inflation decreased to

22.72 per cent in April 2021 from 22.95 per cent in March 2021. Inadequacies in transportation & logistic infrastructure, planned removal of petroleum subsidy and proposed adjustments of electricity tariff, however, remain upside risks to monitor in the short to medium term. Notwithstanding, it is expected that deceleration in the rate of inflation will continue as positive impact of government's investment in the agriculture and manufacturing sectors continue to manifest through increased output and product supply in the market.

It is important to acknowledge the positive impact that the CBN's development finance initiatives have had on output growth and employment generation in the domestic economy. The CBN increased its development finance interventions by 56.21 per cent to N234.14 billion in April 2021 from N149.89 billion in January 2021 to further catalyze growth stimulating sectors of the Nigerian real economy. It is also envisaged that government's efforts at addressing insecurity will yield expected results and thus further moderate inflationary pressures.

The **financial system continued to record strong growth** with total asset increasing by N6.97 trillion from N46.20 trillion to N53.17 trillion between April 2020 and April 2021, driven mainly by increase in credit. Total credit increased by N2.84 trillion or 15.26 per cent between end April 2020 and end-April 2021, largely due to CBN's Loan to Deposit Ratio (LDR) policy and increased credit demand by businesses and households as economic activities picked up following the lifting of COVID-19 restrictions. It is gratifying to note that the sectors powering output growth in the economy (manufacturing, agriculture, construction, general commerce and information & communication) attracted increased lending from the banking sector during the period under review.

The **banking industry also sustained its resilience, posting strong soundness indicators**. Capital adequacy ratio at 15.8 per cent as at April 2021, was 90 bps above the ratio recorded in April 2020. Non-performing loans ratio as at April 2021 continued its downward trajectory decreasing 70 bps to 5.89 per cent compared with April 2020. Liquidity ratio stayed healthy at 38.9 per cent as at end- April 2021, above the 30 per cent minimum liquidity ratio even as credit to the real sector continued to grow. The CBN also built significant liquidity buffers in Cash Reserve Ratio balances to provide liquidity backstops as and when required. Earning performance was also satisfactory with Returns on Equity ratio and Return on Assets ratio at 19.0 per cent and 1.6 per cent respectively surpassing the ratios posted by the banking sectors in comparator jurisdictions.

Macroprudential risk reviews remain paramount in the view of the restructured industry credit portfolios. Stress test results in this respect also showed that industry solvency and liquidity positions were at comfortable levels and could withstand mild to moderate shocks in the short to medium term.

Whilst noting the positive performance of the financial system, the **Bank must remain vigilant to identify and proactively manage possible downside risks to financial stability arising from credit default risk**. The regulatory authorities must also enhance micro and macroprudential policy tool kits for managing the stability of the system, while the sector continues to build adequate buffers to be in a vantage position to withstand and manage possible headwinds.

Policy Considerations and Decision

It is gratifying to see a positive shift in the direction of inflation, albeit slight. This gives confidence that policy measures implemented by the Bank – particularly the monetary authority's stay on the policy rate despite persistently rising inflation - have begun to bear fruit. Further slowing of domestic prices at a faster pace is expected as economic gains from expanded credit to the real economy continue materialize.

Maintaining the policy rate remains appropriate at this time to further solidify on output growth which remains fragile. Given that inflationary pressures are primarily driven by structural factors which are currently being addressed, it is prudent to preserve the strengthening growth trajectory by continuing to retain the policy rate at current levels.

This will provide authorities with a pathway for continued impact assessment of policy actions on key economic parameters in the near to medium term.

Given the foregoing, **I vote to hold all parameters at existing levels, i.e:**

- Retain the MPR at 11.5 per cent;
- Retain the asymmetric corridor of +100/-700 basis points around the MPR;
- Retain the CRR at 27.5 per cent; and
- Retain the Liquidity Ratio at 30 per cent

4. ALIYU, AHMED

INTERNATIONAL AND DOMESTIC ECONOMIC DEVELOPMENTS

The global economy remains characterized by uneven recoveries across economies as well as downside risks associated with mutations of the COVID-19 virus. Although, the International Monetary Fund (IMF), in its April 2021 WEO, reviewed upwards its forecast for global growth to 6.0 percent from -3.3 percent in 2020, on optimism that the pandemic will be subdued by ongoing vaccinations, and sustained monetary and fiscal stimuli rolled out in several countries, the mutation of the virus, particularly with heavy fatalities in India and Brazil, may dampen hope for a quick and significant global recovery, as new restrictions to the movement of people and merchandise gradually resurface.

The sizable fiscal support and growing vaccine coverage are already lifting economic activity among advanced economies than in emerging market and developing economies (EMDEs), that are confronted with limited fiscal space, thus, resulting in an unbalanced recovery across the global economy. The implication is the likely re-direction of capital flows from EMDEs to the advanced economies, as major world central banks hint on tapering their bond-buying programme in the fourth quarter of the year.

Indeed, there is a connection between global growth and world trade. Global trade forecast by the World Trade Organization (WTO), shows a rebound to 8.0 percent in 2021 from a contraction of -5.2 percent in 2020, driven largely by progressive recovery of global output. Things could, however, become tough for world trade in the near to medium term following the mutation and spread of the new variants of the COVID-19 virus, thereby, dampening the expectation of full reopening of international markets and sufficient roll-out and access to vaccines.

The above situation could be more severe for oil-exporting countries. Although, oil price has been trending upwards since January 2021 despite some downward pressure and volatility, signs from the oil futures market, however, suggest a gradual downtrend towards December 2022 in the region of US$50 – US$60 per barrel from its current price level. In April 2021, the OPEC Reference Basket monthly average crude oil price decreased by US$1.34, or 2.01 percent (m-o-m), to average US$65.42 per barrel, from US$66.76 per barrel in March 2021, due partly to dampened demand as the third wave of the virus surges in India. Price of Bonny Light as at May 21, 2021, stood at US$65.27 per barrel, indicating an increase of 2.35 percent from US$66.84 per barrel on April 30, 2021.

Moreover, beyond the decline in oil prices is the growing paradigm shift from oil to a green economy which poses a threat to future oil demand. Staff report shows that the share of fossil fuels is set to decline from the current 85 percent of total primary energy demand in 2018 to between 20 and 65 percent by 2050. As such, crude oil demand is forecast to decline, led by the evolution of electric, hydrogen and biofuel-powered means of transport. There is no better time, therefore, to stress the need to diversify the Nigerian economy than now. In addition to adopting new technologies that support the agenda of the green economy, Nigeria's developmental objectives should also focus on encouraging non-oil export promotion to improve the Country's trade balance and increase the accretion to external reserves.

On global price developments, inflation rates in advanced economies have sustained an upward trend, approaching the long-run objectives as negative output gaps narrow. In the emerging market economies, however, available data showed that inflationary pressure has remained high, driven mainly by supply-side constraints and exchange rate pressures. Central banks have, however, noted that current inflationary pressure is being driven more by transitory, rather than permanent price adjustments.

Attributed largely to the gradual recovery in the non-oil sector which grew by 0.79 percent in 2021 Q1, the Nigerian economy grew by 0.51 percent (y-o-y) in 2021 Q1 from 0.11 percent in 2020 Q4. The National Bureau of Statistics (NBS) report showed that the growth was largely driven by Information and Communication, Manufacturing, and Agriculture, which grew by 6.31, 3.4 and 2.28 percent, respectively. The agricultural sector accounted for 22.35 percent of the total growth. The marginal growth in real GDP mirrors the growth in Manufacturing and Non-Manufacturing Purchasing Managers Indices (PMIs) which inched closer to the 50-point benchmark at 49.0 and 48.3 points, respectively, following the slight increase in business and production activities.

Unemployment surged by 6.2 percentage points to 33.3 percent in Q4 2020, from 27.1 percent recorded in Q2 2020. The increase in unemployment rate is attributed, among others, to job losses, due to the drop in economic activity occasioned by the Pandemic.

Inflationary pressure persists, eventhough headline Inflation moderated to 18.12 percent in April 2021 from 18.17 percent in March 2021, due largely to moderation in Food & Non-alcoholic beverages, which makes up 51.8 percent of the inflation basket. Food inflation (y-o-y) moderated to 22.72 percent in April 2021 from 22.95 percent in March 2021. Despite the improvement in food inflation, the persistence of insecurity in the food-producing belts is increasingly impacting food supplies and prices. On the other hand, core inflation (y-o-y) grew to 12.74 percent in April 2021 from 12.67 percent in March 2021.

Financial Soundness Indicators (FSIs) have remained impressive despite headwinds occasioned by the pandemic. Total assets and total deposits of the banking industry increased by 15.08 percent and 19.30 percent, respectively, (y-o-y). Non-performing loans (NPLs) ratio noticeably improved to 5.89 percent at end-April 2021 compared with 6.58 percent at end-April 2020 on account of CBN strategies to manage NPLs, including the implementation of the Global Standing Instruction (GSI) policy; approval of COVID-19 forbearance, and strengthening risk management practices. Gross banking sector credit at end-March 2021 stood at N23.53 trillion compared with N22.68 trillion at end-December 2020, representing an increase of N0.85 trillion (year-to-date). The salutary performance of credit strengthens confidence in the efficacy of the Loan to Deposit Ratio (LDR) policy in improving financial intermediation. The equities market indices recorded a moderate improvement on account of positive Q1 results.

CONSIDERATION FOR VOTING

It is heartwarming to note that inflation has started to moderate, suggesting that it may have peaked, while growth sustained the upward momentum which commenced in Q4 2020. While it appears that inflationary pressure is abating, challenges, remain. These include the rising level of insecurity in the Country which has continued to have significant impacts on agricultural activities and the pressure in the foreign exchange market.

The reported growth in output is a clear reflection of the success of interventions by both the monetary and fiscal authorities. The interventions should, therefore, be sustained as tightening or pulling out prematurely from the current stimulus programme could roll-back the fragile growth and create distortions in the economy. This is more so as the output gap, though moderating, is still negative at -2.8 percent, coupled with a high rate of unemployment.

It also comes as a big relief to observe that the industrial sector which contracted for three (3) consecutive quarters has returned as a major contributor to real GDP growth in Q1 2021. I strongly believe that channeling interventions to develop the energy sector, particularly gas and electricity production, would provide the required impetus for industrial growth.

In the financial sector, I noted the continued resilience of Financial Soundness Indicators (FSIs), including growth in banking sector credit to the economy, the downward trend in NPLs and improvements in industry size and profitability. While there are no signs of distress in the system, there is need to sustain current regulatory measures and prudential requirements as the challenges to the economy persist.

At this meeting, I do not think a tightening policy would necessarily speed up the reduction in prices. While it has its merits such as raising the real interest rate to attract foreign portfolio inflows and boosting accretion to reserves, it could reverse the fragile improvement in growth, through increase in the cost of credit, with negative consequences on investment, output growth and employment.

On the other hand, loosening policy stance could still reverse the current downward trend in inflation, eventhough, it may help in improving output growth. It is indeed a delicate balancing act.

While, I advise that the ongoing monetary and fiscal interventions in critical sectors of the economy be sustained, with interventions also targeted at addressing job and wealth creation, promoting non-oil exports, and building critical infrastructure in the energy/power and transport sectors, I am not oblivious of the tight fiscal space, which calls for the need to broaden the revenue base to meet government's expenditure profile. The recent efforts by the fiscal authorities to strengthen revenue collection channels is commendable and should be supported by all stakeholders.

I reiterate the call for more time to enable existing policy actions to fully work through the economy, as any policy shift could jeopardize the current gains to improving output and prices. Consequently, I vote to retain all policy parameters constant as follows:

- MPR at 11.5 percent
- The asymmetric corridor at +100/-700 basis points around the MPR
- Liquidity ratio at 30.0 per cent, and
- CRR at 27.5 per cent

5. ASOGWA, ROBERT CHIKWENDU

Background:

The decisions at this May meeting are based on an assessment of the current and evolving macroeconomic situations at both the international and domestic levels. Since the last MPC meeting in March, the recovery of the global economy has strengthened, supported by accelerated vaccination programmes, stimulus packages in many countries and the relaxation of restrictions on economic activities. However, the course of recovery is still surrounded by a number of uncertainties especially downside risks from renewed waves of infection and slow speed of vaccine allocation required to reach community immunity. On average, there has been an increase in global growth expectations. At the domestic level, Nigeria's 2021 quarter 1 GDP figures turned out somewhat stronger than expected but remains fragile. With significant uncertainty partly due to the low predictability of the future path of the pandemic both at home and abroad, policy decisions at this May meeting should therefore be in consonance with the objective of increasing the speed of economic recovery. This path will also be key to ensuring that inflationary pressures remain fairly under control.

Assessment of the Global Economy:

Global growth outlook has improved and risks are more balanced eventhough it is uneven across countries. Advance estimates of 2021 first quarter GDP growth figures clearly show some positive trend in many countries, although it remains poor in some especially those affected by renewed disruptions due to the emergence of the third wave of COVID-19. In the US, output in 2021 quarter 1 expanded by 6.4 percent compared with 4.3 percent in the previous quarter and this increase was driven by the strength of household consumption. In China, GDP increased by 0.6 percent in 2021 quarter 1, which is a continuation of the recovery since the onset of the COVID-19 crisis but was a little weaker than the 3.2 percent growth posted in the fourth quarter of 2020. Also in South Africa, first quarter 2021 GDP growth stands at 2.7 percent which is lower than the expansion of 6.3 percent recorded in the fourth quarter of 2020 but the overall forecast for 2021 has been lifted from 3.8 percent to 4.2 percent with expectations of a more robust terms of trade. The Euro-area GDP growth fell by -0.6 percent in 2021 quarter 1 from a contraction of -0.7 percent in 2020 fourth quarter. Similarly, the UK-weighted GDP growth slowed further to -1.5 percent in 2021 first quarter compared to 1.3 percent in the fourth quarter of 2020, as new restrictions to contain the spread of COVID-19 virus had weighed on economic activity.

The outlook and forecast for the global economy in the remaining quarters of 2021 is, however, strong and predicated on a surge in global demand for goods and the rebound of the industrial sector. Incoming economic data and latest business surveys in many countries point to this resumption of growth with both manufacturing and non-manufacturing PMIs generally indicating expansions. The JP Morgan global manufacturing PMI picked in April and May 2021 to its highest level in a decade. Even in India where there has been a sharp increase in COVID-19 cases lately, the Manufacturing and Services PMIs both entered a seventh month sustained expansion in April at 55.5 and 54.0 percent, respectively. Similarly, there were expansions in the Manufacturing PMIs for USA, China and the Eurozone in the month of April 2021. The IMF April forecast for global GDP for 2021 has now been revised upwards to 6.0 percent but the level of output is expected to remain well below pre-pandemic levels in a number of countries.

A key development in recent months had been the rebound of commodity and producer prices which is now contributing to higher inflationary pressures. For many advanced and emerging market economies, inflation expectations had now moved closer to their Central Banks' targets. CBN staff report show that month-on-month inflation in the US rose marginally to 0.6 percent in March 2021 from 0.4 percent in February and in UK, inflation rates for March also rose to 0.3 percent from 0.1 percent in February 2021. There were similar marginal increases in March 2021 inflation rates in Japan and India, with Brazil recording headline inflation rates at 6.1 percent in March, the highest since January 2017.

While monetary policy decisions in many countries favoured the continuation of an accommodative stance, some Central Banks are already factoring in the emerging inflationary pressures and the prospects of higher inflation in the near term. By April 2021, Central Banks in such emerging economies as Brazil, Russia, Turkey, Ukraine all hiked policy rates as a tightening policy stance to contain surging inflation rates. Others have simply reiterated their intention to maintain accommodative monetary policy stances while monitoring inflation closely. For instance, the Bank of England decided in early May to maintain rates at 0.1 percent, whilst continuing with its programme of bond purchases. Similarly, the US Federal Reserve and the European Central Bank both maintained rates, while also accelerating the pace of asset purchases.

Domestic Macroeconomic Conditions:

Turning to the domestic economy, recovery from the effects of COVID-19 pandemic seems to have somewhat strengthened. Following a real GDP expansion of 0.11 percent in the fourth quarter of 2020, there was a further rebound in the first quarter of 2021 as the real GDP growth rose to 0.51 percent, but uneven across sectors. Only the Industry sector recorded quarter on quarter expansion, from -1.48 percent in 2020 fourth quarter to 0.22 percent in 2021 first quarter. Agriculture slowed from 0.89 percent growth in 2020 fourth quarter to 0.50 in 2021 first quarter, while the services sector had a dismal performance of -0.21 growth in the first quarter of 2021, from 0.70 percent growth recorded in the preceding quarter. Interestingly, the manufacturing sub-sector (especially food, beverages and tobacco) was key to the remarkable performance of the industry sector eventhough there were marginal improvements from construction and electricity sub-sectors in the first quarter of 2021. The sudden decline in the Services sector real GDP growth is largely from the information and communication sub-sector which dropped to a 0.91 percent growth in the first quarter of 2021 compared with the 1.96 percent growth in 2020 fourth quarter. It is, however, expected that recent relaxation of restrictions amongst Nigeria's trading partners and Government's de-restriction guidelines should accelerate activities related to the trade and entertainment sub-sectors. This will surely provide some offset to the Service sector weakness over the coming months. CBN staff report show that both the manufacturing and non-manufacturing PMIs increased marginally to 49.0 and 48.3 index points, respectively in April 2021, compared with 48.8 and 47.9 index points, respectively in March 2021.

Eventhough both are still below the expected 50 index points; it shows signs of some momentum in growth recovery.

In recent months, exports have picked up and with rising international commodity prices, the persisting current account deficits is expected to be modulated. With positive external developments and the improving real sector trend, expectations are that domestic output levels will get back to pre-pandemic levels soon.

On Inflation, April 2021 data appears to have calmed growing concerns as headline inflation registered a moderation for the first time in nineteen months from 18.17 percent in March 2021 to 18.12 percent in April 2021. The marginal decline in headline inflation was attributed to the deceleration in food prices (especially bread, cereals and tubers) as government support helped in addressing some supply disruptions. On a month-on –month basis, both headline and core inflation moderated from 1.56 percent in March to 0.97 percent in April and from 1.06 percent in March to 0.99 percent in April, respectively. While some inflationary pressures could emerge in coming months driven by supply side uncertainties especially security challenges in food producing areas and also adverse weather conditions which may affect some cereal products, it is widely expected that inflation will remain on a downward spiral during the remainder of 2021. Further supply side fiscal and monetary interventions are needed to soften any likely pressures. Hopefully, existing weak demand conditions may also limit any strong pass-through to core inflation in the coming months.

A persisting downside risk is the weakness in the fiscal sector but it is a problem faced by many other countries and the nature of this pandemic has warranted the debt surge across the globe. With the speed of ongoing recovery efforts, debt decline will however be imminent soon but may be uneven across emerging and developing countries. For Nigeria, fiscal deficits widened further in March 2021 and in the absence of clear fiscal consolidation plans or an expenditure austerity strategy, hopes of an imminent debt decline may be out of the way. Important macroeconomic gains would be surely realised by achieving a stable public debt level and will definitely enhance the effectiveness of monetary policy.

Domestic Financial Market Developments:

The domestic financial market exhibited a more stable behaviour prior to this MPC meeting as some of the risks observed at the previous monetary policy meeting seems to be dissipating. The equity market improved in April following a period of heightened weekly market volatility between February and March 2021. CBN staff report show that the All-Share index (ASI) increased by 0.09 percent between 26th February and 30th April, while the Market Capitalization increased by 0.11 percent within the same period. We expect that in the days ahead, the divergence of the equity market and real economic developments will narrow as investor confidence and expectations return to pre-pandemic levels.

For the banking industry, recent data also show that stability has been maintained and a smooth functioning of financial intermediation ensured. CBN staff report indicate that the banking sector's non-performing loan ratio has fallen from 6.3 percent in February to 6.0 percent in March and further to 5.9 percent in April. However, at present, the non-performing loans ratios do not provide a full picture of the quality and risk level of the overall loan portfolio as the moratorium on COVID-19 restructured payments prevents debtors from defaulting on their debts to banks. Records show that vulnerable borrowers benefiting from the CBN COVID-19 forbearance hold about 37.72 percent of the entire banking industry loan portfolio and this surely represents a significant size for the banking industry. However, the increase in the total assets and total deposits of the banking industry in April 2021 compared to the position in February shows that the system remains robust and characterised by a balanced funding structure despite the marginal deterioration in both capital adequacy ratio and profitability indicators between March and April 2021.

Decision:

In consideration of the current and expected macroeconomic developments highlighted above, it is clear that the ongoing accommodative monetary policy stance is appropriate. While the broad focus of monetary policy will remain the maintenance of price stability, support for sustainable economic growth and preservation of financial stability, emphasizing economic recovery at this time is still pertinent.

Accelerating the distribution of bank liquidity to firms and households in a targeted manner will ensure an early return to pre-pandemic output levels. There is a strong belief that the cost of withdrawing the CBN monetary stimulus too soon will exceed that of withdrawing it too late and it is thus important for the Central bank to continue monitoring the domestic and global macroeconomic developments. Once there are clear signs that economic conditions are normalizing, the Bank should stand ready to take appropriate actions to address any upward pressure on inflation over the medium term.

I will thus vote to:

- Retain the MPR at 11.5 %
- Retain the CRR at 27.5%
- Retain the Asymmetric Corridor at +100/-700 basis points
- Retain the Liquidity Ratio at 30.0%

6. OBADAN, MIKE IDIAHI

INTRODUCTION

The 279th Meeting of the Monetary Policy Committee was held at a time that the debilitating effects of the Covid-19 pandemic had receded significantly in most economies consequent upon relaxation of the associated containment measures. Consequently, there is optimism about global growth and trade prospects in 2021 in spite of issues relating to emergence of new and more virulent variants of Covid-19 in some countries, doubts about the effectiveness of the existing vaccines against the new variants, and uneven access to the vaccines by mostly the poor countries. With respect to the latter, the World Health Organisation is reported to have raised alarm over a "scandalous inequality" in Covid-19 vaccine distribution. More than 75 percent of all covid-19 vaccines has been administered in just 10 countries while Africa recorded a paltry 1.5 percent of the doses administered world-wide. This uneven distribution of vaccines has implications for global economic recovery which can be a threat to the realisation of this year's growth projections. If the supply of vaccines remains limited in many poor and emerging market economies, their recoveries will be hampered. The implication is the need to accord the poor and developing countries more protection through greater access to Covid-19 vaccines so that the optimism about global growth prospects can be sustained.

GLOBAL CONTEXT

The notable global developments relate to economic recovery and growth, trade, oil market and sustained policy responses to the exigencies of Covid-19. The International Monetary Fund revised upwards by 0.5 percent its output growth forecast for 2021 to 6.0 per cent on the expectation that the coronavirus pandemic will be subdued as vaccination becomes more widespread globally. The challenge though, as noted above, is the slow pace at which the vaccines gets to the poor countries. Also of concern, is the spread of new variants of the virus and the gradual return of lockdowns, as well as some constraints to supply chains which are weighing on activities in several economies. Under the circumstance, what will help is the efficient deployment of Covid-19 vaccines and its effectiveness in preventing the coronavirus infection and disease. Also vital is continued and effective fiscal and monetary policy support across economies to ease the downside macroeconomic risks and social disruptions associated with the pandemic.

Although different international organisations have projected different global trade volume growth in 2021 ranging from 3.4 percent (UNCTAD), 5.1 percent (World Bank), 8.0 percent (World Trade Organisation) to 8.4 percent (IMF), they are signs of stronger global trade. These forecasts contrast with the -5.2 percent trade growth in 2020. The drivers of the expected recovery include expectation of full reopening of international markets, roll-out of Covid-19 vaccines and equitable access to vaccines, progressive recovery of global output and sustained fiscal and monetary stimulus. However, like growth, the major downside risk to the expected significant recovery of trade volumes relates to the lingering uncertainties surrounding the efficacy of the vaccines against the newly identified strains of the virus. Another is the damage to the global supply chains due to the change to available labour post-COVID-19 crisis, especially, diminished labour force participation. However, it is hoped that the available vaccines will curb the spread of the virus to create the required herd immunity so as to increase social and economic activities including trade.

Since January 2021, oil prices have trended upwards although with some volatility. The price of Bonny Light at US$ 66.0 per barrel as at March 18, 2021 and US$ 65.51 as at May 22, 2021(compared to US$ 51.27 in December, 2020), was far above the budget benchmark of US$ 40.0 per barrel. Indications from the oil futures market, however, suggest a gradual downtrend towards December 2022 to about the high fifties from the current level of mid-sixties. For Nigeria, the current crude oil price regime is good news in terms of its positive impact on exchange rate stability, domestic revenue and foreign exchange earnings although this is dampened by OPEC+ production quota limitation of about 1.4 million barrels per day.

Globally, there is still concern about the moderate economic recovery and global growth prospects. Consequently, monetary and fiscal policy continue to support the recovery and create jobs required to push the global economy over the brink to full recovery. Central banks are not relenting in their quantitative easing programmes and, in some cases, direct liquidity injections. At its April 2021 meeting, the European Central Bank (ECB) maintained its liquidity support programmes to drive recovery; retained its benchmark policy rate at 0.0 per cent; and held all other monetary policy parameters constant. The US Federal Reserve Bank maintained its asset purchase programme of treasury securities and agency mortgage-backed securities as a means of injecting liquidity into the economy to support the recovery. These central banks have continued to engage in one form or the other of monetary accommodation without policy rate adjustment.

Although policy makers are aware of the heightened risk of a debt crisis in the medium term due to the ongoing massive monetary and fiscal policy accommodation, their immediate concern is to guide the global economy out of recession and return it to a path of long term respectable and sustainable growth.

DOMESTIC ECONOMIC DEVELOPMENTS

Now, in light of the global developments, there is also a basis for optimism about Nigeria's growth prospects. Between the last meeting of the MPC in March and this meeting in May, there has been some cheering news on certain domestic economic developments. First, is the sustained positive growth of national output. The first quarter 2021 GDP increased by 0.51 percent compared to the 0.11 percent growth in the fourth quarter of 2020 largely due to easing of lockdown and recovery of economic activities, administration of Covid-19 vaccines, and sustained fiscal and monetary interventions (particularly the latter) in various sectors. Although the growth is still very low, it is an inspiration that the economy has indeed exited recession and is on the path of positive growth trajectory. Second, is the reversal of the upward trend of the inflation rate from 18.17 percent in March, 2021 to 18.12 percent in April. Third, is the relatively high crude oil price and the stability of the crude oil market with the dollar price of oil per barrel still hovering in the mid-sixties, very much above the budget benchmark of US$ 40.0 per barrel. Although price projections relating to the oil futures market are not as encouraging as the current ones, it is important for Government to avoid pro-cyclical policies in the present era of relatively high oil prices. What this suggests is that oil earnings above a threshold in relation to the budget benchmark should be saved as a way of gradually building robust fiscal buffers. This is the strategy along with economic diversification to avoid recessions in the future.

Underlying the good news relating to growth and inflation is the sustained fiscal and monetary stimulus, especially the CBN's development finance and covid-19-related interventions and the heightened momentum in the re-opening of economic activities in various sectors in spite of fears of a new wave of covid-19 infections from a more virulent variant. These are pointers that inspire hope in sustained economic recovery and growth in the next few quarters. However, vulnerabilities remain in the various sectors which fiscal, monetary and other policies must continue to tackle with even greater intensity.

Importantly, India, a major buyer of Nigeria's crude oil, is one of the countries currently battling with the new variant of the corona virus, causing some governments to re-introduce travel restrictions on their citizens to and from the countries harbouring the new variants of the virus. Consequently, the likelihood of eliminating the virus in the short to the medium term is looking increasingly uncertain. What this means for Nigeria that has had very limited access to covid-19 vaccines and apathy of some people to the vaccine, is that the government must not relent in efforts to encourage the citizens to avail themselves with available vaccines and continue to comply with the anti-covid-19 safety requirements. The cost to lives and the economy of any further waves of the pandemic could be very heavy.

Although the rate of inflation has declined marginally, the current headline rate of 18.12 percent is still high. The continued high inflation rate, despite progressively weakening aggregate demand, has been attributed mostly to rising food prices as a result of structural factors and the challenge of insecurity challenge hampering food supply, the impact of the pass-through from the several adjustments to the exchange rate, and adjustments to domestic energy prices. However, the role of market manipulation/arbitrariness, market trade associations/groups in the sustained high inflation should not be under-rated. The prices of even manufactured goods with large percentage of local content have been jacked up arbitrarily by the manufacturers and/or distributors/retailers. As an example, in the case of floor tiles, an important finishing building material, the local raw materials content is very high. Yet in the last six months, the price per square metre of tile has increased by 107 percent from N1,400.00 to N2,900.00 per square metre in the part of the country where I live. I understand that the distributors, who have direct access to the factories, create artificial scarcity and jack up prices while the retailers seem to be helpless. Similarly, the price of cement, another product based largely on local raw materials, has, for some time now, increased by over 50.0 percent where I live. In the area of food items, the role of market unions/associations has become pervasive with their pricing characterised by monopoly/oligopoly practices and arbitrariness. The market is being manipulated in a brazen manner by distributors and retailers to hike prices with impunity. Such prices do not reflect market conditions. There is thus the need to monitor their activities to ensure that competitive prices prevail and there is no unbridled exploitation of consumers. If the Government cannot go into price regulation, moral suasion will at least demonstrate its awareness of the problem and could be helpful.

OPINION

No doubt, the good news relating to first quarter positive growth and reversal of the upward trend of headline and food inflation are reassuring, especially because the exit from recession has been consolidated with positive growth in two successive quarters, and the decline in inflation rates is the first in 19 months or so. But the growth of 0.51 percent in the first quarter is still very low and fragile. It will be necessary to significantly enhance the growth trajectory so that the projections for 2021 could be realised or surpassed. The decline in inflation rate by 0.5 percentage point is also marginal. However, the policy measures that gave rise to these outcomes have the potential to yield better outcomes given an improved macroeconomic and social environment and sustained / intensified implementation of the fiscal and monetary measures. Improved policy outcomes can be achieved if we begin to have a macroeconomic perspective of policy-making in terms of taking cognisance of the economy-wide effects of individual policies before implementing them. This will obviate the situation whereby a microeconomic perspective of policy yields deleterious effects on other aggregates which tend to counterbalance the positive effects of the policy. As a basis for improved growth and price deceleration, there is need to ensure stability of the exchange rate. But for the fact that agriculture is resilient, the marginal reduction in food inflation would not have been possible in a season which is far from harvest. Therefore, while what the government is doing in fighting insecurity is highly appreciated, it is crucial that it does not relent in efforts to ensure security in the country, especially in all the food producing areas.

The above considered, I hold the opinion that there is no need to review the monetary policy parameters. I therefore vote to retain the monetary policy parameters at their extant levels as follows:

MPR	-	11.5%
CRR	-	27.5%
Liquidity Ratio	-	30%
Asymmetric Corridor	-	+100/-700 basis points

7. OBIORA, KINGSLEY ISITUA

> *Considering the continuing effects of the COVID-19 pandemic, and the fragile economic recovery, I voted to: retain the MPR at 11.5 percent, the CRR at 27.5 percent, the LR at 30 percent and the asymmetric corridor of +100/-700 basis points around the MPR. I believe this stance will complement the Bank's effort at supporting economic activity and resuscitating livelihoods.*

Although we have made progress on vaccinations with death tolls significantly reduced, the effects of the COVID-19 pandemic are still visible around us. While there has been a declining global trend in recent weeks, the incidence of COVID-19 cases and deaths remain concerning, particularly amongst younger people. Since the MPC's May meeting, the number of confirmed cases had soared globally from over 124 million to 167 million, with deaths increased from 2.7 million to over 3.4 million. Whilst we have seen multiple rollouts of the approved vaccines across the world, there are concerns about equitable distribution of these vaccines, especially between developed and developing countries – a situation if not addressed may dampen the pace of the global economic recovery. As World Health Organisation noted, "we will not end the pandemic anywhere until we end it everywhere"

Nevertheless, the global economy is set to rebound in 2021, supported by a strong policy response and the prospect of broader COVID-19 vaccinations. J.P. Morgan's Global Manufacturing Purchasing Manager's Index (PMI) continued to remain above the 50 points thresholds, having recorded 55.8 and 55.0 points in April and May 2021, respectively, bolstered by improved production, aggregate demand, and employment.

The IMF's latest World Economic Outlook (WEO) projected the global economy to grow by 6.0 percent in 2021, recovering from a contraction of 3.3 percent in 2020. The expected rebound will be driven by progress in global covid-19 vaccination programmes and continued monetary and fiscal policy support. Accordingly, the United States, the United Kingdom, the Euro Area and Japan are forecast to expand by 6.4, 5.3, 4.4, and 3.3 percent in 2021. From the Emerging Economies, China and India will also grow at 8.4 and 12.5 percent in 2021. However, these projections are susceptible to the ravaging effect of the COVID-19 pandemic, containment measures and access to vaccines, and better vaccines rollout.

Following these global trends, the Nigerian economy continues to recover in Q1 2021 after exiting a recession in Q4 2020. Official statistics from the National Bureau of Statistics (NBS) showed that the real GDP grew by 0.51 percent in the first quarter of 2021 from 0.11 percent in the fourth quarter of 2020. The sub-sectors recording growth in activity include Metal Ores, Cement, and Food Beverages and Tobacco with 28.8, 11.2 and 7.11 percent, respectively. Human Health and Social Services, Manufacturing, Agriculture, and Real Estate also grew by 4.65, 3.40, 2.28 and 1.77 percent, respectively. However, economic activity in Quarrying and other minerals, Oil Refining, Air Transport, and Accommodation and Food Services continued to lag the growth recovery with a contraction of 59.8, 57.0, 11.8 and 4.60 per cent, respectively. The gradual economic recovery is driven by the continued fiscal stimulus and accommodative monetary policy stance of the Central Bank of Nigeria (CBN). Accordingly, the IMF has projected a growth of 2.5 percent in 2021 from a contraction of 1.8 percent in 2020.

The banking system has maintained a sound and stable position amid a fragile recovery. The gross banking sector credit increased by N0.85 trillion from N22.68 trillion at the end of December 2020 to N23.53 trillion at the end of March 2021. The credit growth was largely recorded in manufacturing, consumer credit, general commerce, information and communication and agriculture. The increase in credit will bolster aggregate demand and sustain economic recovery, thereby creating more jobs and resuscitating livelihoods. Non-Performing Loans (NPLs) stood at 5.89 percent in April 2021 compared to 6.58 percent in the corresponding period of 2020. The slight improvement reflects the strengthening of risk management practices, the Global Standing

Instruction (GSI) policy and regulatory forbearance that has allowed banks to restructure credits impacted by the COVID-19 pandemic. Also, the monthly weighted average Inter-bank Call and Open Buy Back (OBB) rates rose to 15.26 and 14.58 per cent in April 2021 from 1.80 and 1.50 in March 2021, respectively as reduced liquidity levels pervaded the banking system.

The domestic economy has begun to recover with significant headwinds. The COVID-19 infections continue to spread though at a slower pace, with 166,000 confirmed cases and over 2,000 deaths. There are, however, concerns about access to more vaccines and better vaccination rollouts as well as the effectiveness of the approved vaccines against the new variants. The headline inflation remains high, though slightly moderated to 18.12 in April from 18.17 per cent in March 2021. This was driven largely by the food component, which marginally declined to 22.72 per cent in April from 22.95 per cent in March 2021. Whilst this is a signal that inflation may have plateaued and ready towards a deceleration, it is still far above the Bank's implicit target of 6-9 per cent. The growth is still fragile as key sub-sectors of the economy are still contracting since the onset of the COVID-19 pandemic. This includes Oil Refining, Air Transport, Accommodation and Food Services, as well as Trade. Furthermore, there is a high level of unemployment. The latest figure from the National Bureau of Statistics Labour Force Survey for the fourth quarter of 2020 showed that 56.1 percent of the Nigerian labour force was either unemployed (33.3 percent) or underemployed (22.8 percent).

Notwithstanding the improved global and domestic outlook, the economy is still confronted with an uncertain path. The risks associated with the COVID-19 pandemic have not waned despite progress on global vaccination. The emergence of more contagious variants in several countries continued to affect millions of people across the world, which is a reminder that the infection is far from over. This may continue to cast a shadow on the near to medium-term outlook. The key priority is to save lives and livelihoods and to minimise the economic damage caused by the pandemic. Therefore, a coordinated effort is required to boost the production of vaccines, ensure equitable distribution, and provide better vaccination rollouts across the world. In terms of the economy, whilst the outlook has improved somewhat, the full recovery and transformation of Nigeria's economy will continue to face significant resistance. The CBN has collaborated extensively with the Federal Government and the private sector to stimulate the economy and prevent economic scarring, through various interventions targeted at households, SMEs, health, agricultural and manufacturing sectors. Whilst the impact of these policies on the economy is undeniable but given the fragile recovery and coupled with long-standing infrastructural challenges, more action will be required to truly return the economy to a full recovery. For example, I believe this is the right time we start addressing the housing deficit by making a big push in mortgage financing to reduce the 22 million housing deficits in Nigeria. We also need to put in place a trade policy that will encourage SMEs, and boost non-oil exports, as well as invest more in infrastructure and the digital economy. This offers opportunities for investments and job creation that will boost economic growth in the near-term. However, it will require mobilizing private sector funds, especially in light of the Nigeria's huge investment requirements and limited fiscal space.

Given the fragile growth recovery, and in support of policy actions already taken by the Bank, whilst also ensuring that inflationary pressures are contained, I voted to:

- Retain the Monetary Policy Rate (MPR) at 11.5 percent;
- Retain the Cash Reserve Requirement (CRR) at 27.5 percent;
- Retain the Liquidity Ratio (LR) at 30.0 percent; and
  Retain the asymmetric corridor to +100/–700 basis points around the MPR.

8. SANUSI, ALIYU RAFINDADI

1.0 Decision:

My vote for a hold on all the policy parameters in today's meeting was premised on the expectation that the current trajectories of both output and inflation, as revealed by the latest data released by the National Bureau of Statistics (NBS), would continue into the medium term. My optimism about the output recovery and inflation moderation is supported by widespread optimistic outlook for both the domestic and global economies, especially as forecasts suggest that output will continue to recover throughout the year, and that inflation will, consequently, continue to moderate. This is especially so as the positive impact of the fiscal and monetary stimulus continue to permeate the economy. The new data and forecasts for both domestic inflation and output have persuaded me vote for a hold, for now as output continues to recover and inflation recedes.

2.0 Background and Justification

2.1 Global Economic Developments

The optimism regarding global economic recovery has continued to grow, as reflected by the upward revision of the global output growth forecasts. This rising optimism is predicated on the recovery of world trade and international oil prices as the worldwide vaccination progresses.

As at May 15th 2021, more than 100 out of the 195 countries have received doses of COVID-19 vaccines and 1.32 billion doses have been administered globally, albeit unevenly, across countries. Despite the emergence of several new variants of the corona virus to which the existing vaccines may not be effective, there is increased optimism for full global economic recovery in 2021 as global economies continues to respond to the unprecedented combination of fiscal and monetary stimuli across the globe. Consequently, the previous forecasts for global output growth for 2021 and 2022 by the IMF have been revised upward by 0.5 and 0.2 percentage points to 6.0% and 4.4%, respectively. Developed economies are now forecasted to grow at 5.1% and 3.3% in 2021 and 2022, respectively, on account of the substantial fiscal and monetary stimuli as well as the widespread vaccine coverage. In the Emerging Markets and Developing Economies (EMDEs), output is forecasted to grow at 6.7% and 5.0% in 2021 and 2022, respectively, but the speed of recovery will vary greatly across countries. Global trade has also shown signs of strong recovery. It is forecasted to grow at 8.0% in 2021 as the global markets continue to re-open and global output continues to expand, compared with the contraction of -5.0% in 2020. On the account of global output growth, and the commitment of OPEC+ to production cut, crude oil prices continue to rise. As at May 22nd, 2021, the price of OPEC basket stood at US$65.29 per barrel compared with US$54.38 per barrel in January 2021.

Inflation continues to rise in the Advanced Economies, and is expected to rise to 1.6% in 2021 from 0.7% in 2020, while that of EMDEs is expected to decline to 4.9% in 2021 from 5.1% in 2020. In the Euro Area, inflation rose to 1.6% (m-o-m) in April 2021 from 1.3% in March 2021. In the US, inflation has increased (year-on-year) to 4.2% (m-o-m) % in April 2021 from 2.6% in March 2021. In the UK, inflation increased from 0.7% in March 2021 to 1.5% in April 2021. In the EMDEs, price developments were mixed. Inflation has increased China (0.4% to 0.9%), but has declined in Kenya (5.9% to 5.76%), Egypt (4.5% to 4.5%), Ghana (10.3% to 8.5%). In Nigeria, inflation also declined marginally for the first time after 18 consecutive months of rise, from 18.17% in March 2021 to 18.12% in April 2021.

2.2 Domestic Economic Developments and their Implications

Although the domestic output recovery has continued to improve in the first quarter of 2021, having exited the recession in the fourth quarter of 2011, the recovery is still weak. Data from the National Bureau of Statistics (NBS) show that, in Q1 2021, the economy grew (y-o-y) by 0.51% compared with 0.11% in Q4 2020. The output growth was driven by the non-oil sector, which grew by 0.79%, largely due to growth of ICT (6.31%), Manufacturing (3.4%) and the Agricultural (2.28%) sub-sectors. The Oil sector actually contracted by -2.21% during the period. The positive output growth is attributable to the improvements in economic activities as the economy re-opened as well as the sustained expansionary fiscal and monetary policy interventions. Although still below the 50.0 break-even benchmark, the marginal rise in the CBN’s Manufacturing and Non-manufacturing Purchasing Manager's Indices (PMIs) suggests that there was a marginal increase in business activities in April 2021 compared with that of March 2021. Staff forecasts show that output growth for 2021 will be growing at the rate of between 1.70% and 2.15% depending on the oil price. Although crude oil price has remained above the budget benchmark since February 2021, oil production has remained below the budget provision, thereby adversely affecting fiscal revenue.

Headline inflation moderated (y-o-y) to 18.12% in April 2021 from 18.17% in March 2021. The moderation, the first in 18 consecutive months, was driven by the food component, which declined to 22.72% in April 2021 from 22.95% in March 2021. The moderation in food inflation was, in turn, driven by the slower (y-o-y) growth in the prices of bread, cereals, yam, potatoes & other tubers, sugar, jam and honey. The core component, however, increased (y-o-y) to 12.74% in April 2021 from 12.67% in March 2021. The rise in core inflation was driven by the prices of pharmaceutical products, medical services, vehicle spare parts, shoes and other footwear. inflation. Staff forecasts suggest that inflation would continue to gradually moderate to18.05% in May 2021 and further to 17.37% in July 2021. This forecast is predicated on the expected impact of the fiscal and monetary interventions in the real sector and improvements in the insecurity situation in the country.

3.0 The Basis for My Policy Choice

In today's meeting, like in the previous meeting, the effective choice, for me, was between voting to *tighten the policy stance* in order to deal with inflation, and *holding* on the current stance to prevent the reversal of the fragile output recovery. Unlike in the previous meeting, however, because both output and inflation are now on the desired trajectories, todays choice is a bit easier. On the one hand, tightening would raise the cost of credit, reduce output and exacerbate the current unemployment situation. In addition, the indications from staff forecasts that output would continue to recover while inflation moderates suggest that the optimal choice, for now, is to hold on all the policy parameters.

Consequently, I voted to:

Retain the MPR at 11.50 per cent;

Retain the CRR at 27.5 per cent;

Retain the asymmetric corridor at +100/–700 basis points; and

Retain liquidity ratio at 30.0 per cent.

9. SHONUBI, FOLASHODUN A.

Subtle exit of the Nigerian economy from recession in Q4:2020 and further growth in Q1:2021 provided justification for CBN's adoption of a largely unconventional policy mix to enable recovery from disruptions caused by the COVID-19 pandemic. Following four consecutive quarters of contraction in the oil sector, rebound in growth, as a result of mainly expansion in the non-oil sector, also lend credence to the efficacy and credibility of the targeted measures. Consequently, relative to the situation in most part of 2020, the Nigerian economy is steadily taking a better shape, with gradually strengthening recovery and slowly abating inflationary pressure.

Without doubt, growth remains fragile, threatened by weak aggregate demand and high inflation. We are thus faced with twin challenges requiring opposing measures, amidst a global economy that is characterised by uneven growth. Recent developments, however, show that the current policy mix of the Bank to deal with weak output and elevated inflation, is slowly but steadily leading to the right outcomes and positively impacting economic agents. Sustaining the measures and supported by a boost to fiscal revenue from rising oil prices, should offer additional relief and facilitate further improvement.

Brief Review of Global and Domestic Economic Developments

Lifting of restrictions and reopening of economies due to increasing rate of vaccination across different jurisdictions has led to a rebound in global economic activities. Global output recovery is, however, threatened by doubts about efficacy of vaccines against new strains, uncertainties around vaccine roll-out differentials and possibilities of new restrictions due to rising infections in some jurisdictions. On account of dispersed gradual reopening and stronger than expected rebound in trade, the IMF projected a global growth at 6.0 per cent in 2021, reflecting low base effect and impact of unprecedented policy support. The downside risks, however, constitute a drag on the pace of global growth.

Domestic output growth of 0.51 per cent in Q1:2021, indicated a slight strengthening of the pick-up recorded in Q4:2020. Growth in the non-oil sector, at 0.79 per cent, though lower than the 1.69 per cent of Q4:2020, was strong enough to offset the impact of the 2.21 per cent contraction in the oil sector. Agriculture and industrial sectors expanded by 2.28 and 0.94 per cent, respectively, while the services sector contracted by 0.39 per cent. Manufacturing and Non-manufacturing PMIs at 43.9 and 44.1 index points, respectively, however, remained at sub-optimal levels in May 2021, reflecting persisting contractionary impact of the pandemic induced disruptions on activities in the economy.

Domestic headline inflation decelerated to 18.12 per cent in April 2021, from 18.17 per cent in March 2021, thereby halting nineteen consecutive months of rise in price increase. The marginal decline in inflationary pressures reflected, mainly, deceleration in food inflation to 22.72 per cent in April 2021, from 22.95 per cent in March 2021. In contrast, core inflation rose further to 12.74 per cent, from 12.67 per cent in the preceding month.

The financial sector continued to show resilience and much-needed support for the economy. In terms of size, industry total asset and credit by the banking sector rose further at end-April 2021, though aggregate deposit declined marginally. Industry liquidity and capital adequacy ratios remained above the regulatory minimum, while the non-performing loan ratio improved marginally to 5.9 per cent, though it was above the prudential maximum of 5.0 per cent.

Despite being challenged by low foreign exchange revenue from exports and reduced capital flows, marginal overall balance of payments surplus and generally adequate foreign reserves level provided some respite in the external sector. Federal Government retained revenue increased slightly in April 2021, while expenditure reduced, due to decline in mainly personnel cost. Though fiscal deficit contracted, it remained above the budget benchmark.

Considerations and Decision

Optimism about global growth is hinged on increasing vaccination and sustained fiscal and monetary stimuli. However, substantial gap in vaccine roll-out rate between advanced and developing economies induced uneven economic recovery, constituting major downside risk to global growth. Amidst the uncertainties around global economic recovery, rising oil prices and recent outcomes of domestic policy mix that leverage internal drivers of growth, the outlook for the domestic economic growth is likely immuned to the risks of drag from a depressed global economy.

Despite the progress achieved so far, the twin problem of elevated inflation and low growth, with high unemployment, remain the focus of policy. Clearly, we are not yet out of the woods, but the Bank has creatively tackled both issues by deploying its development finance intervention programmes to output stimulating and employment generating sectors, while administratively handling excess banking system liquidity to effectively have a handhold on the monetary aspect of inflationary pressure.

I commend the Federal Government for the progress on further reopening of the economy, as a result of facilitating the first round of vaccination and concluding the ordering of more doses of the vaccine. In terms of what more that can be done to promote productivity, I implore the Government to strengthen collaboration with the Bank, in relation to working with institutions that are critical to facilitation of trade and economic activities. This will be important to consolidating the common progress made so far. In the same vein, aggressive implementation of deliberate policy to promote domestic productivity and marketability, including standardization of product quality, packaging etc. and improvement of port process, among others, would aid further growth in output.

Manufacturing and Non-manufacturing PMIs contracted in May 2021, despite growth of the manufacturing sector in Q1:2021, points to the possibility of the buildup in the inventory of finished goods, as a result of low purchasing power. I will thus strongly advocate for a widening of the scope and coverage of our development finance interventions, targeted at household and small businesses to address the challenge of low aggregate demand and encourage further productivity.

The increasing need to refocus the economy and look beyond oil stares us in the face, as many jurisdictions scale down further investments involving use of fossil fuel. Interestingly, the speed and source of our recovery underscored the fact that recent economic downturn was strictly on account of external shock and not due to a weakness in domestic macroeconomic fundamentals. We must therefore take more steps to enhance domestic investment and productivity, as well as, reinforce the internal stabilizers of the economy. Considering the observed gradual but steady positive outcomes of the current policy mix, I am convinced that as we strengthen implementation of the intervention programmes, we should maintain status quo, and allow more time for the manifesting gains to fully mature.

I therefore vote to Retain:

- MPR at 11.50 per cent;
- Asymmetric corridor of +100/-700 basis points around the MPR
- Cash Reserve Ratio (CRR) at 27.5 per cent; and
- Liquidity Ratio (LR) at 30.0 per cent.

10. EMEFIELE, GODWIN I.

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

Recovery of global economic activities is expected to keep strengthening in 2021 from the collapse of 2020 as the world adapts to a life with the pandemic. With a better-than-anticipated global growth of –3.3 percent in 2020 (–3.5 percent expected), the IMF's projection of global growth for 2021 is upgraded by 0.5 percentage point to 6.0 percent. This reflects the stronger recovery expectations as activities in many sectors pick-up, global vaccine rollout gains momentum and government stimulus provide a major boost across countries. Prevalently accommodative monetary policy also buoyed businesses, households and global financial market conditions. Global output could reach pre-pandemic levels in 2021. Yet, vaccine-powered growth prospects are uneven between advanced economies and vulnerable EMDEs, while evolving strains of the virus fuel uncertainties and undermine global outlook.

Short-term outlook of the Nigerian economy continue to improve, congruent with strengthening global prospects. The upturn of domestic economic activities is progressive, but marginal and fragile. Inflation rate also showed a welcome slowdown though it remained at a higher-than-desired level. Barring unforeseen shocks, the subsisting dilemma of the stagflation could peter out by end-2021 as key fundamentals improve, economic recovery quickens, and disinflation sustains.

Turnaround of the economy continued with growth of 0.5 percent in 2021q1, from 0.1 percent in 2020q4, –3.6 percent in 2020q3 and –6.1 percent in 2020q2. Though q1 growth was mainly due to the 0.8 percent growth in non-oil activities —notably agriculture (2.3%), industries (0.9%), and manufacturing (3.4%)— it was reinforced by the –2.2 percent uptrend in oil GDP from –19.8 percent in 2020q4. Agriculture and manufacturing growths could be traced to CBN development finance interventions in those sectors. This highlights the importance of the non-oil sector and the need to completely diversify the economy. Projected GDP growth for the whole year could reach 2.3 percent on the assumption of consolidating non-oil growth, effective deployment of vaccines locally, benign oil price, and continued synchronisation (and orderly implementation) of macroeconomic policies. I reaffirm that the CBN will maintain its collaboration with fiscal authorities to proactively target and stimulate high impact productive sectors of the economy.

Reflecting the fall in food inflation, headline inflation rate moderated slightly to 18.1 percent in April 2021 from 18.2 percent, halting nineteen months of uninterrupted uptick. This could be the onset of the cycle of disinflation expected to begin in 2021q2. The slowdown in food inflation partially derives from the CBN development financing to boost agriculture sector and enhance overall domestic supply capacity. Core inflation, however, rose during the month. Long-standing structural imbalances and deep-seated supply-side constraints propped inflation rates above the tolerance band of 6–9 percent. Pervasive security strains, infrastructural debility, energy price shocks, exchange rate pressure, and COVID-19-induced vulnerabilities are the major cost-push drivers of inflation. The Bank will continue to engage and partner with fiscal authorities on measures to dismantle the encumbering structural bottlenecks and correct inflationary trends.

Financial market conditions during the review period was subpar, with a bearish stock market, tepid liquidity in the money market, and lingering exchange market pressure. Weighted average inter-bank call and open-buy-back rates rose from 1.8 and 1.5 percent, respectively, in March 2021 to 15.3 and 14.6 percent in April. Comparably, at 3.5 percent, annualised growth rate of broad money supply (M_3) was below the 10.8 percent recorded in December 2020 and reflected the 10.2 percent annualised growth in Net Domestic Asset (NDA) below the 15.9 percent at end-2020. Monetary condition was steered by the 32.0 percent annualised expansion of private sector credit in the review month exceeding the 15.2 percent recorded in 2020. The observed growth in credit illustrates the continued potency of the Bank's LDR policy and targeted interventions. It underscores the need to sustain credit flows to the private sector, especially at this critical time when the economy needs to indefatigably support its productive machinery. I re-echo the imperatives of enhanced credit flows to strategic high-impact private sector ventures through an effective collaboration of all stakeholders to strengthen economic fundamentals.

In my consideration, I reiterate that the objective of price and exchange rate stability remain foremost. I note also the frail but improving short-term domestic outlook. Though GDP growth has reverted to positive region, it is substantially below the 5.5 percent average pre-2015 and about 2.0 percent pre-covid. This weaker outcome has dire ramifications for poverty, unemployment and potential output and needs to be strengthened. I note the inherent trade-off between GDP and inflation, especially as recovery remains fragile and inflation higher-than-desired. I am firmly inclined towards measures to boost domestic supply capacity and quicken reversion to pre-2015 average. As this could also impact favourably on inflation, we will support the Federal Government to resolve infrastructural (and other supply-side) constraints that currently deter growth. The Bank will also continue to finetune liquidity conditions to minimise speculative activities that distabilise money and foreign exchange markets. We will accentuate ongoing efforts to diversify the economy, enhance domestic productivity, and bolster aggregate demand through our interventions to critical private sector ventures and MSMEs.

Overall, I note that prices decelerated in April, though inflation remained at growth inhibiting levels. With the primacy of price stability, I favour the need to rein in inflation. However, we should not be impetuous. I believe that an aptly timed and measured tweak will aid disinflation without significantly undermining output growth. It remains imperative to ensure that the long-run path of output is not depressed permanently. Though weak recovery provides an argument for further policy ease to support growth, subsisting inflation inertia justifies a tightening. Given the favourable outcomes of both inflation and output as well as improving expectations and outlook, I lean towards a balanced and cautious approach to monetary impulses. The outcome and outlook suggest that our recent policies are effectual. My position is to maintain the current stance of monetary policy, allow its effects to traverse the system, and intensify our interventions. An adjustment today could, in my view, derail the fragile recovery and destabilise emerging equilibrium. Therefore, I vote to:

1. Retain the MPR at 11.5 percent;
2. Retain the asymmetric corridor at +100/–700 basis points;
3. Retain the CRR at 27.5 percent; and
4. Retain liquidity ratio at 30.0 percent

GODWIN I. EMEFIELE, CON
Governor

May 2021