



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 117 OF THE MONETARY POLICY COMMITTEE MEETING OF TUESDAY 3RD AND WEDNESDAY 4TH APRIL, 2018

Background

The re-constituted Monetary Policy Committee (MPC) held its maiden meeting, the 260th meeting of the Committee, its first in 2018, on 3rd and 4th of April, 2018 against the backdrop of strengthening global growth and improving domestic economic conditions. The Committee assessed the developments in the global and domestic economic environments during the first quarter of 2018, including the risks to price stability, financial stability, and economic growth in the short-to-medium term. Nine members of the Committee attended the meeting.

Global Economic Developments

The strong headwinds which confronted the global economy in 2017 showed signs of moderation, giving way to prospects for stronger growth in 2018. Consequently, global output is projected to grow by 3.9 per cent in 2018 from 3.7 per cent in 2017 on the heels of rebound in investment as a result of improvements in investor confidence, strengthening commodity prices, rising

aggregate demand and accommodative monetary policy, especially in some advanced economies. With the sustained recovery in oil prices, aggregate demand is expected to continue to firm up. Growth in the advanced economies is projected at 2.3 per cent in 2018, and 4.9 per cent for emerging markets and developing economies (EMDEs). The Monetary Policy Committee noted some downside risks to the outlook for global growth to include: continuing normalization of monetary policy in the advanced economies; new U.S. trade policy; uncertainties associated with the BREXIT negotiations; and rising geo-political tensions in the Middle-East and on the Korean Peninsula.

In the advanced and emerging market economies, inflation is projected at 1.9 and 4.5 per cent in 2018, respectively. However, the broad indication from the IMF is that over the medium to long term, inflation may rise at a modest pace as general economic conditions remain subdued. Asset prices and long-term yields in major financial markets are also on the increase, confirming the possibility of a future rise in the price level.

Domestic Output Developments

Data from the National Bureau of Statistics (NBS) indicate that real Gross Domestic Product (GDP) grew by 1.92 per cent in the fourth quarter of 2017, up from 1.40 and 0.72 per cent in the third and second quarters, respectively. The economy grew overall by 0.83 per cent in 2017. The main drivers of real

GDP growth were agriculture (1.08%), industry (0.56%) and trade (0.35%). Non-oil real GDP grew by 1.45 per cent in the fourth quarter of 2017 compared with a contraction of 0.76 per cent in third quarter of 2017, indicating that the economy is gradually returning to a path of sustainable positive growth.

The Committee also noted the continuous positive outlook based on the Manufacturing, and Non-manufacturing Purchasing Managers' Index (PMI), which stood at 56.7 and 57.2 index points, respectively, in March 2018, indicating expansion for the twelfth and eleventh consecutive months. The Committee believes that effective implementation of the Economic Recovery and Growth Plan (ERGP) by the Federal Government and quick passage of the 2018 budget will continue to enhance aggregate demand and confidence in the Nigerian economy.

Developments in Money and Prices

The Committee noted that money supply (M2) grew marginally by 0.07 per cent in February 2018 (annualised to 0.42%), in contrast to the provisional growth benchmark of 10.29 per cent for 2018. The development in M2 largely reflected growth in net domestic credit (NDC) of 4.05 per cent (annualised to 24.30%), emanating majorly from net credit to government, which grew by 19.99 per cent (annualised to 119.94%) against the provisional benchmark of 33.12 per cent. Credit to the private sector also grew by 1.49 per cent (annualised to 8.94%) in February 2018, compared with the provisional annual benchmark of 14.88 per cent. Net foreign assets (NFA), contracted by 2.82 per cent, annualized to 16.92 per cent, compared with the provisional

benchmark of -29.31 per cent. Narrow money (M1), also contracted by 2.77 per cent (annualised to 16.62%). The Committee urged the Federal Government to strongly exercise restraint on domestic borrowing in order to lower the cost of credit to the private sector.

The Committee noted that the continued low level of lending by banks remains a constraint to growth of the real sector of the economy. The Committee advised the Management of the CBN to continue to provide the required policy impetus to engender improved credit delivery by the deposit money banks to the economy.

Inflationary pressures in the economy continued to moderate with headline inflation (year-on-year) receding for the thirteenth consecutive month to 14.33 per cent in February 2018 from 18.72 per cent in January 2017. Month-on-month food inflation fell by 133 basis points to 17.59 per cent in February 2018, and core inflation also declined marginally by 38 basis points to 11.71 per cent during the same period.

Money market interest rates reflected liquidity conditions in the banking system as the average inter-bank call rate increased to averagely 12.42 per cent in February 2018 from 9.49 per cent in December 2017. The Open buy back (OBB) rate also increased to 13.19 per cent in February 2018 from 8.46 per cent in December 2017. The movement in the net liquidity position and interest rates reflected the combined effects of OMO auctions, foreign exchange interventions and statutory allocation to state and local governments.

The Committee also noted the continuous improvement in the level of external reserves, which stood at US\$46.699 billion as at March 29, 2018. Similarly, the All-Share Index (ASI) rose by 8.5 per cent from 38,243.19 on December 29, 2017, to 41,504.51 on March 29, 2018. Market Capitalization (MC) improved by 10.2 per cent from N13.61 trillion on December 29, 2017, to N14.99 trillion during the same period. The Committee observed that, while this development may be a reflection of improved investor confidence in the economy, it cautioned that the Management of the Bank should carefully monitor the developments and to establish mechanisms for safeguarding the stability of the foreign exchange market in the event of a sudden capital reversal. The Committee observed the continued rise in oil prices, but acknowledged the inherent volatility in commodity prices and urged the Bank not to relent in building external reserves buffers against any future price downturns and as a means of sustaining investor confidence in the economy.

The Committee noted the relative stability in the foreign exchange market, with declining premia across all segments of the market. It observed with satisfaction, the sustained high level of activity at the Investors' and Exporters' (I&E) window of the foreign exchange market. The window continues to attract more investors, thus boosting foreign exchange supply. Consequently, total foreign exchange inflow through the central bank increased by 73.00 per cent in February 2018, compared with the previous month. This was attributed to the increase in receipt of proceeds from Petroleum Profit Tax

(PPT), royalties and crude oil & gas. Total outflow also increased in February 2018 by 15.69 per cent, as a result of higher payments for invisibles, interbank transactions as well as JVC cash call payments.

2.0. Overall Outlook and Risks

Forecasts of key macroeconomic indicators give a positive outlook for the Nigerian economy in 2018. This is predicated on the quick passage and effective implementation of the 2018 budget, improved security, foreign exchange market stability as well as favourable crude oil prices. On the downside, the Committee noted the potential impact of the 2019 election-related spending, against the weak backdrop of tax revenue efforts, herdsmen related violence and rising yields in the advanced economies. Indications in the US and the UK point to higher interest rates in the short to medium term.

3.0. The Considerations of the Committee

The Committee noted with satisfaction the gradual return to macroeconomic stability as reflected in the third consecutive quarterly growth in real GDP in the fourth quarter of 2017. It also noted the continued moderation in all measures of inflation as well as sustained stability in the naira exchange rate and urged the Bank to sustain the stability to avoid a mission drift. In particular, the Committee welcomed the narrowing of the exchange rate

premium between the BDC segment and the Investors' and Exporters' (I&E) window of the foreign exchange market. Overall, the Committee noted that the recovery of the economy was strengthening, in view of the return to growth of the Services Sector. As the fiscal sector continues to settle its outstanding liabilities, it reduces its domestic debt profile, thus increasing the liquidity of the banking system. However, the Monetary Policy Committee observed increasing monetization of oil proceeds as evident in the growing FAAC distribution, relative to the 2017 level of disbursements. The Committee urged the Government to initiate strong stabilization programmes and to freeze the growth in its aggregate expenditure and FAAC distributions in order to create savings; needed to stabilize the economy against future oil price related shocks.

Notwithstanding the general improvement in macroeconomic conditions, the Committee noted the rather slow pace of moderation in food inflation. It also took note of the potential risk of a pass-through from rising global inflation to domestic prices. Members, however, expressed confidence that the tight stance of monetary policy would continue to complement other policies of government in addressing some of the structural issues underlying the stickiness of food prices. The Committee noted that at 14 per cent, the policy rate was tight enough to rein-in current inflationary pressures. The Committee, therefore, reaffirmed its commitment to price stability conducive to sustainable and inclusive growth.

The Committee noted with satisfaction the gradual implementation of the Economic Recovery and Growth Plan, in an effort to stimulate economic recovery. In the same vein, the Committee urged quick passage of the 2018 Appropriation Bill by the National Assembly, so as to keep fiscal policy on track and deliver the urgently needed reliefs in terms of employment and growth for the citizenry.

The Committee noted the relatively strong balance sheets of the deposit money banks' and the stable outlook. This is in spite of the concentration of non-performing loans in a few sectors, which the Committee observed was satisfactorily being addressed by adequate mechanisms established by the Bank to address the phenomenon. The Committee also noted that as Government pays off its huge contractor debts, a sizeable portion of these non-performing loans will be addressed. The Committee urged the Bank to strengthen its supervisory oversight and early warning systems to promptly identify, monitor compliance with extant prudential regulations, sustain macro-prudential policy and manage emerging vulnerabilities in the banking system.

The Committee reiterated the Bank's commitment to delivery of low interest credit as evidenced in its bold steps to adopt unconventional monetary policy to aid credit flow to vulnerable and growth enhancing sectors of the Nigerian economy. The Committee, therefore, enjoined the Bank to continue to support and encourage credit delivery at single digit interest rate through other mechanisms in the interim, while encouraging the banking system to

establish frameworks to increase credit delivery to the employment generating sectors of the economy. In consideration of available data and evolving macroeconomic indicators, the Monetary Policy Committee is committed to revisiting its decisions in the short to medium term as the fundamentals evolve.

4.0. The Committee's Decisions

In reaching its decision, the Committee appraised potential policy options in terms of the balance of risks. The Committee also took note of the gains made so far as a result of its earlier decisions; including the stability of the foreign exchange market, the moderation in inflation rate as well as the restoration of economic growth. The launching of the Food Security Council by the Federal Government to improve food sustainability is a step in the right direction. The Committee was concerned about the fiscal distortions associated with absence of buoyancy between GDP growth and tax revenue, and urged the fiscal authorities to deploy appropriate corrective measures to address this phenomenon.

The Committee was of the view that further tightening would strengthen the impact of monetary policy on inflation with complementary positive effects on capital flows and exchange rate stability. Nevertheless, it could potentially dampen the positive outlook for growth and financial stability. However, the Committee is of the view that loosening would strengthen the outlook for

growth by stimulating domestic aggregate demand through reduced cost of borrowing. This may, however, lead to a rise in consumer prices, generating exchange rate pressures on the currency in the process. The Committee also believes that loosening could worsen the current account balance through increased importation. On the argument to hold, the Committee believes that key macroeconomic variables have continued to evolve in a positive direction in line with the current stance of macroeconomic policy and should be allowed more time to fully manifest.

In consideration of the foregoing, the Committee decided unanimously by a vote of all members present to retain the Monetary Policy Rate (MPR) at 14.0 per cent alongside all other policy parameters.

Consequently, the MPC voted unanimously to retain the

- (i) MPR at 14.0 per cent;
- (ii) CRR at 22.5 per cent;
- (iii) Liquidity Ratio at 30.0 per cent; and
- (iv) Asymmetric corridor at +200 and -500 basis points around the MPR.

Thank you for listening.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

4th April, 2018

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMTEK

The April 2018 Monetary Policy Committee (MPC) meeting held against the backdrop of relatively stable global and domestic economic conditions. The world economy continues to recover, posting a substantially improved outlook for economic growth and prices in 2018. It, however, faces a potentially strong headwind from trade as China and some European countries brace up to respond to the recent protectionist policies by the United States. In the domestic economy, recovery remains on course, albeit slowly. After some quarters of decline, growth has effectively resumed, but far from recent years' average. The momentum for growth continues to build partly on account of the stability in the naira exchange rate, slowing inflationary pressures and real sector interventions by the Central Bank of Nigeria.

Nigeria's stock of external reserves continues to grow on account of reduced imports, improved inflows from more favourable oil prices, and increased autonomous inflows through the Investors' and Exporters' Foreign Exchange (I&E) Window. Confidence in the economy is building as the naira exchange rate continues to be stable and the premium between the BDC and interbank market segments narrows. The parallel market premium continues to shrink as legitimate foreign exchange transactions migrate to the formal market. It does therefore appear that the bold reforms of the Central Bank

on forex policy and in the foreign exchange market in 2016 and 2017 are paying off. It is gratifying that the benefits of these reforms have stretched beyond the stability of the naira exchange rate. Some manufacturing outfits have resorted to using locally available alternatives as raw materials, just as interest in domestic production of certain classes of food like rice and tomato products is growing. Likewise, capital market indicators have trended upward partly in response to positive market sentiments occasioned by the gradual improvement in the macro-economy.

However, over the short-to medium-term, the domestic economy faces a number of important risks, particularly to price and financial stability. In arriving at a decision during the April 2018 meeting of the Monetary Policy Committee (MPC), the threats to price and financial stability, which I will highlight shortly, greatly influenced my consideration of the policy options. Whilst not neglecting the case for pushing economic growth faster, I am persuaded by the logic that there can be no sustainable growth in an environment of price instability. In effect, the policy choice reduces to one of either engendering further price stability or pushing for faster economic growth.

To start with, the outlook for domestic liquidity, based on expected fiscal actions and election spending, is worrisome. With an impending Federal Government budget outlay of over N8.0 trillion and deficit of about N2.0 trillion for 2018, the short-term fiscal outlook appears expansive. The delay in the passage of the budget could result in substantial injections in the second

half of fiscal 2018 in an attempt to meet planned commitments. The immediate effect of this, combined with the repayment of local debt by the government and election spending would be a surge in banking system liquidity. Monetary policy cannot, at the same time, be expansionary. At 14.33 per cent in February 2018, inflation is still significantly higher than the Monetary Policy Committee's preferred range of 6 – 9 per cent.

Second, the economic recovery we have seen so far has benefitted partly from improved investment inflows. As a direct consequence, the country's external reserves' position has relatively improved, just as confidence in the economy. Rising yields in advanced economies, following the drift towards policy normalization as global inflation picks up, poses a significant risk to inbound investments. This threat is mitigated by a stable naira exchange rate and competitive yields locally. For this purpose, we will need positive interest rates, as do most emerging markets and developing economies. This means that inflation needs to moderate further.

Third, there is still work to be done to fully contain banking system fragilities which increased in the wake of the stagflation in 2015 through 2016. The NPLs ratio continues to be in excess of the Bank's desired level. Among other challenges, banks have had difficulty with their foreign currency denominated liabilities (loans) as the exchange rate moved against borrowers as from 2015. Therefore, from a financial stability standpoint, any threat to the naira exchange rate stability must be viewed seriously and promptly addressed to forestall another exchange rate shock.

If excess liquidity is allowed to build, the demands for foreign exchange could shoot-up in the second half of 2018 and throw the naira exchange rate out of equilibrium. Such an adverse scenario must be prevented through proactive monetary policy. This is justified by the reality that exchange rate stability is critical to the current recovery in economic growth and the gradual disinflation. Added to this is that a stable exchange rate should, in the minimum, prevent further deterioration of foreign currency denominated assets of the banking system and improve the resilience of the industry.

These concerns surely call for a forward-looking and cautious approach to policy. I see the need for greater coordination of monetary and fiscal policies and continued engagement of critical stakeholders to address misinformation and better anchor expectations. Having considered all, ***I voted to hold the current stance of monetary policy***, which in my view is sufficient to sustain the progress the economy has made in recent months on inflation, exchange rate stability and economic growth. In addition, I reckoned that some of the supportive administrative measures put in place since last year by the Bank need more time to work their way fully through the economy. I am equally persuaded by the commitment of the Federal Government to the Economic Recovery and Growth Plan (ERGP), especially in the area of infrastructure development, which continues to be relevant to sustaining and deepening growth and development of the country in the medium to long-term.

Overall, I voted to retain all the policy parameters at their current levels. That is:

- MPR at 14.0 per cent;
- CRR at 22.5 per cent;
- Liquidity Ratio at 30.0 per cent; and
- Asymmetric corridor at +200 and -500 basis points around the MPR

2. ADELABU, ADEBAYO

The improvement in macroeconomic conditions, which commenced in the latter half of 2017, has been reasonably sustained, raising the bar of optimism to a good height. Of great deal of interest is that the proactive monetary policy measures put in place to address the various headwinds have received the endorsement of development partners, notably the IMF, who confirms in the recently concluded Article IV consultation that the economy technically exited recession at end-December 2017. Although inflation at 14.33 per cent in February 2018 is still considerably high, it is a pleasant and welcome development that a deceleration has been consistently observed in the last 12 months, suggesting that the disinflationary process is well anchored. Another key benign outcome of recent policy measures is the burgeoning resilience of the foreign exchange market, buoyed by rising accretion to external reserves with the subsequent positive spillover on the exchange rate. In other words, the extreme volatilities in the exchange rate, which characterized the entire 2016 and the early part of 2017, has been sufficiently contained.

The foregoing positive outcomes are indeed quite remarkable, but the medium term landscape is still strewn with a number of risk factors such that vulnerability and setback are still imminent. As indicated in my last statement, the issue at this point in time is not just about sustaining the trend, but a compelling need to improve upon the trend with a view to building robust safeguards around the nascent macroeconomic stability. This seems to be

the only pathway through which the improvement in the macroeconomic indicators could translate to visible progress in development indicators particularly on employment and poverty level. The task of achieving this objective appears somehow complicated to the monetary authority because all of the policy choices: tightening; easing; and holding, present a good prospect. In other words, the challenge staring us at the face in this meeting is not a dilemma but more of a trillema in choices.

One of the significant challenges is the fragility of recovery and the inherent possibility of reversal. For example, GDP recorded a marginal growth of 0.8 per cent at end 2017, while about 2.8 per cent is projected for 2018. Apart from the fact that these rates are considerably lower than the pre-recession average, analysis of the structure reveals that it is not broad based. The growth was basically driven by recovery in price and volume of crude oil, while the non-oil sector particularly agriculture and manufacturing are still largely in comatose. A further scrutiny, particularly on the dynamics of oil price, reveals that the current rally in price is driven from both the demand and supply sides. On the demand side, the uptick in economic activities in key advanced economies like the USA, Euro zone, and some emerging Asia countries have given significant boost to the price of crude oil with the latest projection indicating that Brent grade may hover in the neighbourhood of US\$73/barrel in the latter part of 2018. While it is not envisaged that the demand for crude oil may experience adverse shock in the medium term, the future of the supply side is not that optimistic.

The medium path of supply side may be a little bumpy for at least two principal reasons. First, potential market level of supply has been restrained by output cut deal among OPEC members. OPEC, the largest cartel in the industry, has mounted pressure on its members to cut output since the second half of 2017, which has been extended to end-2018. The next policy move to contain glut in the market after the expiration of production cut deal is not yet certain. On another note, the market may witness an upsurge in the supply of crude oil as most of the shale oilfields in the US resume production. A critical mass of shale shut down on the backdrop of non-viability when the price of oil slumped in 2015-16. Financial analysis within the industry has shown that drilling of shale oil is profitable at a price of US\$60/barrel, suggesting that most of the marginal oil fields hitherto shut down may resume production if the current oil price regime persists. In the likelihood of crystallization of this risk therefore, the current hike in the price of crude oil could slow down or even retreat. The policy implication of the current crude oil price regime therefore is that this is a most auspicious time to rebuild fiscal buffer, having virtually depleted the Excess Crude Oil Account (ECA) in the run up to the 2015 economic recession. With the benefit of hindsight, this could be a tall order to both the national and sub-national governments particularly when the forth coming general election is put into perspective. However, given that this is a non-negotiable instrument for economic stabilization, necessary engagements with all stakeholders must be undertaken to obtain their buy-in with a view to facilitating a hitch free take-off on the scheme.

Besides, given that the bulk of employment is generated in the non-oil sector of the economy, it should not be much of a surprise that the ongoing economic recovery may not quickly translate to improvement in key development indicators. From, policy perspectives, this scenario presents a picture that supports policy easing, but there is a need to be a little bit circumspect particularly when inflationary variable is put into the equation. Against this perspective, some form of structural policies that could eliminate the bottlenecks on the supply side could be the least cost route to a sustained recovery. In this regard, it is commendable that the Federal Government has issued some Executive Orders, particularly the order on local content, which, if fully implemented, would unleash the potentials in the manufacturing sector, most notably MSME-led manufacturing, which could have a significant multiplier effect on employment.

Inflation is receding, but still reasonably above the single digit target of the Bank. To address this concern, some elements of tightening may be contemplated, but a diagnosis of the structure of price evolution may provide further guidance in terms of appropriate policy response. The structure of inflation reveals that the food component has been consistently sticky over the past couple of months, apparently due to rising food deficit. The latest report by the International Federation of Red Cross (IFRC) includes Nigeria on the list of countries that may continue to experience acute food scarcity on account of lingering conflicts in the North-East and ravaging drought, which has been driving pastoralists in search of viable zone. The

point here is that food prices may much likely be at risk and constrains a downward push in inflation most especially headline inflation. Obviously, this issue appears to be outside the scope of monetary policy, but further reinforces the imperative of a well-coordinated structural policies particularly the likelihood of utilizing strategic grain reserves in the short run as government continues to address the security challenge in the medium to long term.

One other issue that is assuming worrisome dimension is the weakening capacity of the banking sector on the backlash of rising Non Performing Loans (NPLs). The NPLs turned northwards in the aftermath of the slump in price of crude oil in 2015 as most of the banks are heavily exposed to the upstream segment of the sector. The situation was complicated by the recession, which pushed many businesses particularly small and medium scale enterprises out of viable zone. Although most of the soundness indicators are still within the prudential requirement, it is a matter of utmost concern that these indicators are almost at the threshold of the requirement. This, invariably, has implication on the capacity of the banks to support the fledging recovery. For example, credit to the private sector has been exceptionally weak over the last three years on account of constraints imposed by rising NPLs, among other factors. Some form of policy easing may enhance the liquidity condition of the banks as well as enhance the viability of key sectors such that asset quality could improve. The challenge however, is that such improvement in liquidity may translate to additional

pressure in the foreign exchange market. With this in mind, I think the appropriate response is the need to strengthen macro prudential regulation, while maintaining the status quo on monetary policy.

At the risk of repeating the obvious, but compelled by the strategic role of fiscal management in driving the ongoing recovery, I want to put in focus the adverse effect of the seemingly perennial challenge of the delay in the signing of the Annual National Budget. It is settled in both theoretical and empirical literature that fiscal multiplier is significantly high in a recessionary phase, consequently, timely release of capital votes cannot be more important at any other period of our economic life than now. The 2018 budget is yet to be passed by the National Assembly, leading to delay in implementation of capital component. Beside the fact that this challenge could impede the required expansion in infrastructural base, it also has the tendency to drive aggregate demand above the equilibrium level, invariably stoking price level. It is therefore important that all issues impeding the accelerated passage of 2018 Appropriation Bill be quickly resolved to enable fiscal policy play its expected role in the ongoing recovery phase.

Conclusively, the balance of risk tends towards maintaining the status quo ante on monetary policy measures, while advocating for the deepening of structural policy measures, in keeping faith with the tenets of the Economic Recovery Programme. I therefore, vote for the retention of all monetary policy measures in place.

3. ADENIKINJU, ADEOLA FESTUS

My vote at the April Meeting of the MPC was for a Hold policy option of:

- (a) MPR at 14 per cent
- (b) CRR at 22.5 per cent
- (c) Liquidity ratio at 30 per cent
- (d) Asymmetric corridor of -500 and +200 basis points around the MPR.

Several reasons informed my decisions, after the detailed presentations by staff of the Bank and extensive discussions and debates on the state of the economy, potential risks and challenges by the MPC members.

(1) International Economic Developments

On the optimistic side, there are several positive developments in the domestic economy, fueled mainly by positive developments in the external sector, and the monetary policy stance of the CBN that have helped to move the economy from recession into the recent upswing in key macroeconomic indicators.

The global economic outlook is largely positive as economic recovery remains sustained and broad based. The current stability in the global oil market has been reinforced by both fundamental and transitory factors. The global economic recovery continues to drive oil demand in China, India and other parts of the world. OPEC projected that global oil demand will increase by 1.6 million barrels per day, year on year in 2018. Oil supply quota

agreement by OPEC and a group of non-OPEC members led by Russia continues to restrict overproduction. However, the rising share of non-OPEC production, and the potential of economic pressure on Russia by the West may test the resilience of the current quota agreement in the medium term. Nigeria is however a beneficiary of the rising oil price and increased domestic oil production.

Certain dynamics may pose a threat to the pace of global economic recovery: the threat of possible trade wars between the world's two largest economies, the cloud of uncertainty cast by the BREXIT talks on the UK economy, rise of trade protectionist tendencies as America shifts from multilateral to bilateral trade negotiations, and the re-awakening of nationalist sentiments in Europe. Eventually, if the world moves in the direction of trade restriction, this may stymie the pace of global economic growth.

The increased volatility in the global stock markets in the first quarter of 2018 is a signpost of the need to continue to monitor global economic recovery. Trend in global stock market remains an important lead indicator of economic cycles. Overall, most stock markets indices are higher in the first quarter than where they were in December 2017.

Other developments in the external market with implications for Nigeria include the rising inflation rates in the advanced markets and the potential for interest rates spike, which may affect relative risk-adjusted rate of returns needed by portfolio investors, who are dominant drivers of capital markets developments and bonds prices issued by developing countries like Nigeria.

Hence, internationally, the optimism of current economic developments must be discounted by the rising uncertain economic environment that may affect the price of oil, the key driver of Nigeria's recent recovery and fluidity of portfolio investment. For a country like Nigeria, where the fortune of the economy is closely tied to a volatile commodity market, our history shows that adequate economic buffer is very important for economic stability. The recent accretion in foreign reserves should not dull our memory of the past nor the current mono-structure of the Nigerian economy.

(2) Domestic Economic Developments

Since the last MPC meeting, the Nigerian economy continues to show steady recovery of major economic indicators. Foreign reserves rose by 18.5 per cent from US\$39.35 billion at end-December 2017 to US\$46.63 billion by end of March 2018. Naira exchange rates remain stable in all the foreign exchange markets, with small appreciation across the various windows. Amount spent by the CBN to stabilize the market has declined remarkably as the investors' and exporters' (I&E) window continues its remarkable improvement.

Inflation rates continues on its downward trend as headline inflation declined from 15.13 per cent in January 2018 to 14.33 per cent in February 2018, core inflation fell to 11.71 per cent in February 2018 from 12.10 per cent in January 2018 and food inflation also declined from 18.92 per cent in January 2018 to 17.59 per cent in February 2018. However, while the pace of the decline has picked up recently, the rate of decline is still relatively sluggish and sticky.

Several factors such as the increased tension between farmers and herdsmen, rising insecurity in several parts of the country, high diesel prices, and rise in global inflation rates are contributory factors to high rate of food inflation.

In the first quarter of 2018, the PMI and investors sentiments' improved, the poor state of domestic infrastructure and security issues continue to affect the supply response capacity of many sectors of the economy.

In my view, and comparing Nigeria with economies like South Africa, Kenya, and Ghana, where MPR have been lowered within the past 12 months, inflation rates are not only lower than Nigeria, real interest rates are in the positive territory. However, in Nigeria, the MPR at 14 per cent is below the inflation rate of 14.33 per cent, keeping real interest rates for many market instruments in the negative territory. In the long term, negative real interest rate is bad for savings and investments which are long time drivers of economic growth. Nigeria savings-GDP, as well as investment-GDP ratio remain lower than long term trend and lower than rates in several comparator countries.

Conclusion

Nigeria economy rides on the back of a highly volatile commodity - oil. At the same time, with rising international oil price, subsidy on consumption of refined products continues to grow, with implications on budget

implementation. While the shift to external debt will likely provide a breather to the domestic investors who have been crowded out of the credit market, the rise in external debt comes with its own risks to the economy, especially for commercial debts. The share of interest debt payments in 2017 budget and 2018 appropriation bill is significant and higher than allocations to some human capital development sectors. The continued depletion of the excess crude account, the monetization and sharing of oil revenues, and foreign debts without any effective stabilization fund should be of concern to policy makers. Added to this is the potential spike in domestic spending that is a regular feature of past electoral cycles in Nigeria. All of these factors, plus the rising debt profiles of the government, increases inflationary outlook for the economy.

Hence to put Nigeria on the path of low-inflation induced economic growth, the following steps are important: the fiscal authority must do more to ensure the synchronisation of fiscal and monetary policies in Nigeria, commitment by fiscal authority to sustain an effective, functional and well resourced stabilization account that will provide needed buffer for the economy, increase in non-oil tax-GDP ratio, horizontal and vertical diversification of the oil sector, speedy passage of the 2018 budget, payment of contractors' debts to reduce the NPLs of banks, provision of more credit to the economy by the banking sector, reduction in the maximum lending rates by banks and the maintenance of adequate foreign reserves as a hedge against reversal in portfolio investments and cyclicity of the global oil market.

4. AHMAD, AISHAH

It was a privilege to contribute at the maiden Monetary Policy Committee (MPC) meeting for 2018 following my confirmation as Deputy Governor at the Central Bank of Nigeria (CBN). The MPC is an important platform for setting appropriate monetary policy that ensures fulfilment of the CBN's core mandate; promoting price and monetary stability. MPC members have a sacred responsibility, which must be discharged with utmost independence, diligence and care given the very real consequences of their decisions for Nigerian households, businesses, the financial system, the investment community and other stakeholders.

Decision

At the April meeting, I voted to maintain the current monetary policy stance, holding rates constant - MPR at 14 per cent; Cash Reserve Ratio at 22.5 per cent; Liquidity Ratio at 30 per cent and Asymmetric corridor at +200 and -500 basis points around the MPR. My decision was predicated on some important international and domestic economic developments, summarised below, which have implications for financial and macroeconomic stability in Nigeria.

Strong global growth, with recovery expected to persist in 2018

Global output growth was positive and remained resilient through 2017 driven by continued monetary easing in advanced economies and gradual recovery in commodity prices. The IMF projects global growth in 2018 at 3.9

per cent, up from 3.7 per cent for 2017, reflecting optimism that improved investor confidence, stronger commodity prices and rebound in trade and investment will sustain this global economic momentum in the immediate term.

These positive growth prospects and likely renewal of the OPEC production cap agreement is expected to support increased aggregate demand and higher prices for crude oil. This is good for Nigeria, given the significant impact of oil prices on our economic fortunes. Indeed, rising crude oil prices through 2017 and in Q1 of 2018. Bonny Light prices which rose from US\$65.40/b in December 2017 to US\$69.11/b in March 2018 have helped to grow the reserves and stabilize the exchange rate.

A few downside risks to global growth however have mixed implications for the Nigerian economy, so also are the uncertainty over the BREXIT negotiations, tensions over North Korea, US protectionist trade policy and the brewing trade war, growing investments in shale oil production and monetary policy normalization in the advanced economies.

Positive GDP growth strengthens domestic recovery prospects

Following its exit from recession in Q2 2017, the Nigerian economy grew by 0.83 per cent in 2017 compared with -1.57 per cent contraction recorded in 2016, due to improved crude oil production and rising prices, deliberate macro-economic stimulus and a relatively stable naira. This is further supported by the positive outlook for the Nigerian economy with World Bank

and IMF projections of 2.5 per cent and 2.1 per cent GDP growth in 2018, respectively.

However, it is important to note that GDP per capita continues to decline, given higher population growth compared with output growth rates. Other potential headwinds for output growth include insecurity, farmer/herdsmen conflicts, low implementation of the capital budget and delay in the approval of the 2018 Appropriation Bill.

Inflationary pressure continued to moderate with headline inflation declining to 14.33 per cent in February 2018 from a high of 18.72 per cent in January 2017. Progressively improved harvest, relative stability in the exchange rate, increased local production and tight monetary policy stance has helped to moderate prices. Although inflation remains above the CBN preferred benchmark of 6-9 per cent, coupled with current negative real rates of return over the policy rate, the steady rate of disinflation is a positive indicator for growth and wider monetary policy options in the near future.

The naira exchange rate was relatively stable across the segments of the market, on account of transparency in the foreign exchange (FX) management through the Investors' and Exporters' Window, recovery in crude oil prices and stability in domestic crude oil production. Improved liquidity and transparency in the FX market provided confidence for foreign portfolio investors helping to boost capital flows and accretion to reserves from a low of US\$23billion in October 2016 to over US\$46billion as of March

2018. The continued improvement in the external reserves position gives the Bank greater flexibility in managing the exchange rate; a fact which has aided the observed sustenance of stability in the foreign exchange market.

Risks to capital flows, exchange rate and macro-economic stability

Notwithstanding the foregoing positive developments, the economy remains exposed to potential global economic headwinds, whilst high lending rates and low private sector credit growth threatens the fragile recovery in domestic output.

Approaching *monetary policy normalization* in advanced economies, as inflation rises to long run targets, have potential negative implications for capital inflows as the competition for international investment flows intensifies. For instance, the US has raised rates twice already in the last one year, from 0.75 - 1.00 per cent in May 2017 to 1.25 - 1.50 per cent in August 2017 and 1.50 -1.75 per cent in March 2018, with more rate hikes expected in 2018.

Despite the relatively strong balance sheets of deposit money banks and the stable outlook, *the high and rising non-performing loans concentrated in a few sectors* is worrisome. Whilst macro prudential measures being implemented by the CBN are helping to proactively manage this risk, a stronger and resilient economic recovery remains crucial to reversing this trend.

Nigeria's exposure to volatilities in crude oil prices remains a concern - Building fiscal buffers and sustained efforts at revenue, economic and export

diversification remains paramount in view of volatilities in crude oil prices. This underscores the importance of ongoing efforts of the fiscal authorities towards economic and revenue diversification, such as the recent inauguration of the National Food Security Council and the implementation of Voluntary Asset and Income Declaration Scheme (VAIDS).

The anticipated *huge fiscal spending for the proposed 2018 budget and preparations ahead of the 2019 elections* may also have inflationary effects. This in itself would obviously call for a proactive and cautious monetary policy response to ensure there is no upward pressure on inflation. Thus, I would encourage quick passage of the 2018 Appropriation Bill by the National Assembly, to keep fiscal policy on track, boost investment, employment and economic output for the benefit of the citizenry.

Competing priorities and limited monetary policy options

It is my opinion that monetary policy considerations at this time should prioritize reduction in the general price level, exchange rate stability, and sustaining the fragile economic growth. We must - while we still can - encourage the positive momentum in capital flows and accretion to reserves, while accelerating the downward inflation trajectory.

In view of the preceding arguments and in the light of economic and financial data made available to the Committee, I support maintaining the current policy stance; holding rates at earlier defined levels.

5. ASOGWA, ROBERT CHIKWENDU

Decision:

At this meeting of the Monetary Policy Committee, I vote to hold all parameters as they are:

- Retain the MPR at 14.0 percent
- Retain the CRR at 22.5 per cent
- Retain the Asymmetric Corridor at +200/-500 basis points and
- Retain Liquidity Ratio at 30.0 per cent

In reaching this decision, I have carefully considered three key influencers (a) the current levels and forecasts of domestic inflation (b) the current levels and forecasts of domestic GDP and (c) the official interest rate changes and its expectations in some other countries. I have also taken into consideration other key macroeconomic pressure points that can either facilitate or threaten expected gains of any policy decision reached at this meeting.

First, are the current domestic inflation and the expectations in the coming months. It is clear that the inflationary trend has continued to moderate for several months now with headline inflation decreasing from 15.37 per cent in December 2017 to 15.13 per cent in January 2018 and further to 14.33 per cent in February 2018. While CBN staff estimates show further possible moderation in the coming months of 2018, the anticipated spending towards the 2019 election raises huge expectation of a possible hike in inflation in the

latter months of 2018. With inflation still above the CBN target, real interest rates still at the negative band, and higher chances of further climb associated with elections spending and other fiscal injections by the government in 2018, retaining the MPR at its current level will be key to dampening the possible inflationary trend in the future. At the global level also, inflation is expected to moderate on average in 2018 as both the spot and future prices of crude oil and other commodities have shown signs of improvement in recent times. For Nigeria therefore, keeping exchange rate on track will be increasingly difficult if domestic inflation persistently outpaces inflation abroad.

Second, domestic output at current levels appears to be gradually strengthening following exit from recession. The 2017 fourth quarter GDP growth was 1.92 per cent, while for the whole year 2017, a growth rate of 0.83 per cent was recorded. The IMF estimates a 1.9 per cent growth in 2018, the World Bank and CBN Staff estimate 2.5 per cent and 2.4 per cent growth, respectively in 2018. These estimates indeed look realistic as both the current and forecast of the manufacturing and non-manufacturing Purchasing Managers Index (PMI) in the first quarter of 2018 indicates expansion in the economy. These are positive signs even while some gap still exists between the current levels and the estimated levels for 2018 which ordinarily would have necessitated a reduction in the monetary policy rate. Since the expected growth enablers in 2018 are also not predicated on an expansionary monetary policy, suggestions of a rush to MPR cut will certainly

be counterproductive at this time. There is however, some evidence of low domestic credits to the private sector, which may partly be attributed to the perceived high interest rates, but given the credit market conditions that exist in Nigeria, monetary policy expansion may not perfectly yield a seamless expansion in private sector credit. Short term explicit interventionists support (credit and non-credit) for such non-oil sectors as industry and services yet to recover from the economic recession will be worthwhile now as long as such support conforms to the rationale for current monetary policy decisions.

Third, relates to the official interest rate changes abroad now and as expected in the future. Given that CBN also targets exchange rate, watching the international interest rates keenly is important especially as the rise in foreign portfolio investments in the recent past largely contributed to the prevailing exchange rate stability. For now, increasing the level of foreign portfolio investments or at least avoiding any possible reverse flight of capital outside the country will be key for exchange rate management in 2018 especially in the short term. This is more so as uncertainty in the oil market as well as the potential for more restrictive trade policies in advanced economies and the rising international geopolitical tensions may likely introduce new surprises. CBN Staff data show that most advanced and emerging economies who are either potential sources or recipients of portfolio investments have either increased policy rates (as in the US) or maintained rates (as in UK, Euro Area, China, Russia, Japan, India, Brazil). While data also show that Kenya, Ghana and South Africa reduced policy

rates recently, a MPR reduction in Nigeria now could reverse the flow of capital and possibly in vast amounts which may threaten the recent modest gains in exchange rate management. While interest rate induced foreign capital inflow will remain attractive in the short term, the historical risks associated with its volatility makes it a tricky long term solution for developing and emerging economies.

Other key economic pressure points

While developments in the external sector and the capital market show positive impetus for macroeconomic strengthening, recent developments in banking industry and the fiscal sector may yet drag down the process of economic recovery thus further limiting the expected maximum impact of monetary policy rules.

Generally, key indices of the external sector including inflow of foreign exchange and rate stability, external reserves position all look good at the moment which are clear signs of success with recent CBN measures in the sector especially the Investors' and Exporters' FX Window. CBN Staff data show that apart from the increasing levels of foreign exchange inflow, source diversification has also been very revealing. Between January 2017 and February 2017, CBN dominated as the source of foreign exchange inflow to the economy, but the scenario seems to have changed between January 2018 and February 2018, when other sources of inflow dominated the CBN sources. Consequently, external reserves have increased rapidly reaching over \$45 billion as at end of February 2018. The exchange rates have also

looked stable for the greater part of 2017, while the premium between BDC rates and interbank rates which appeared too high in the early period of 2017 has since narrowed considerably.

Particularly worrisome is the emerging signs of banking sector fragility. Besides the reported increases in non-performing loans, which by CBN staff report had increased to about 16.21 per cent in February 2018 (arguably still at moderate levels for now), the rise in average daily request of deposit money banks from the Standing Lending Facility (SLF) window and the continued reliance of many banks on operations in the government debt market to remain solvent are all early warning signs of future threats in the banking industry. While the gradual recovery from economic recession may rectify some of the causes of the increases in non-performing loans, the current preference of banks for SLF not only sends public signals of interbank fear and caution, but also introduces constant volatility in the interbank rates, and when unchecked may unnecessarily be expanding the balance sheet of the Central Bank. Increasing arbitrarily the rates on the SLF as a strategy to discourage banks from utilizing the window may also not be a good policy as this would unjustifiably expand the margin between the rates on SLF and that of the SDF. A significant reduction of MPR at this time could even further weaken the solvency position of these deposit money banks.

Closely related to the fragility of the banking system, is the banking sector credit to the private sector, which has recorded an abysmally poor growth in recent times, coupled with the widening gap between lending and deposit

interest rates. My earlier expectation was that with the economic recession over in 2017 and with current recovery signs, credit to the private sector will just naturally pick up in the early parts of 2018, but this has not been so. The popular belief now amongst manufacturers and other analysts is that the current stance of the MPR is the major limiting factor for the growth of credit to the private sector. Unfortunately, this may not practically be so given the peculiarities and imperfections of the credit market in Nigeria and indeed other parts of Sub-Sahara Africa where evidence has consistently shown that low interest rates, whilst increasing somewhat the demand for credit, does not necessarily lead to increases in the supply of bank credit. While addressing these credit market imperfections may be a reliable long-term solution, such short-term measures as the current CBN development financing support to few sectors can suffice in the interim and simply preparatory for a return to a longer-term market based solution for private sector financing by deposit money banks. A realistic long-term ambition is to have the bank credit to the private sector grow considerably faster than GDP.

On the fiscal sector, the major threat remains the growing public debt in the midst of declining government revenues. With continued decline in oil and non-oil revenue, government has desperately relied on domestic and external borrowing to finance the increasing budget expenditure targets. With the addition of Green Bond and FGN Sukuk to the expanding FGN Bonds and FGN Savings Bond, the stock of domestic debt increased significantly between June 2017 and December 2017. The same scenario happened with

external debt which had increased significantly partly due to additional Eurobonds sale. While the government may have commenced a debt substitution plan of refinancing maturing domestic debt with proceeds of Eurobonds, this approach (yet invisible in the market) may also be short lived as long as domestic revenue consistently falls below planned budget expenditure with a wide margin. The consequences of the burgeoning public debt growth not only for monetary policy but for entire macroeconomic growth and stability are really well known and have been elaborated extensively at previous MPC meetings.

6. BALAMI, DAHIRU HASSAN

Global Level

The global economy is expected to register positive growth of 3.9 per cent slightly higher than 2017 growth rate of 3.7 per cent. A number of countries like Russia, Brazil and South Africa have exited from recession. However, the global economy is still facing enormous challenges. For example the downside factors such as difficulties with BREXIT negotiations, new US trade policies and likely global trade war, nationalistic sentiment in Italy, tensions in the Middle East and North African countries such as Saudi Arabia and Iran as well as Libya and Sudan. Normalisation of the US economy and the rising of the interest rate from 1.50 to 1.75 per cent and the expectation of higher rates in 2018 and its consequent implications on the emerging and developing economies. In terms of inflation, the highly industrialised nations such as US, Japan, Germany, UK, and France were caught up in low inflation trap, while emerging and developing countries such as Nigeria, Ghana etc. are caught up in high inflation trap which has implications for growth.

Domestic Level

Although Nigeria has exited from recession due largely to rise in crude oil exports and price. Early recovery should be the main goal of both monetary and fiscal policy before other considerations. I believe the exit is very fragile as the vital sectors of the economy have not fully recovered. Therefore, recovery is expected to be achieved through implementation of

the Economic Recovery and Growth Plan (ERGP) and the Medium Term Expenditure Framework (MTEF). Similarly, the current growth rate (0.83%) is not impressive enough, because Nigeria's population growth rate is about 2.72 per cent. The challenges of growth include the following: non-approval of the 2018 budget by the Nigeria National Assembly (NASS), high interest rate, problem of high inflation rate (14.33 per cent), poor and deterioration of infrastructures such as roads, poor electricity supply and distribution, rising levels of NPLs and non-existence of stabilization programme in place to assist sustainability of growth. This requires a sound call on government to build a stabilization programme through increasing oil output, food security programme and see how investment can be channelled to employment enhancing sectors of the economy such as the agricultural sector, manufacturing, and other sectors of the economy.

Banking Sector

The key risk factors in banking industry include the followings: credit default, credit concentration, solvency and liquidity risks, outstanding approval of 2018 budget, which has halted development in the economy for most part of 2018. It should be noted that CBN's mandate includes price stability, exchange rate stability, and development functions. In the economy, the CBN has successfully achieved relative stability in the foreign exchange market. The exchange rate at the inter-bank segment remained around N305.0/US\$1 in the period under consideration.

The stability in the foreign exchange market has been achieved through CBN's intervention policies, creation of various windows such as the Investors' and Exporters' Window as well as the accretion to reserves from US\$39.35 billion at end-December 2017 to US\$46.63 billion as at March 28, 2018. The maintaining of policy on 41 commodities has greatly assisted in stabilizing the foreign exchange market. This has helped increase the level of investor confidence in the economy, which in turn has increased the level of foreign direct investment (FDI) and foreign portfolio inflows.

Financial Soundness Indices

The financial soundness indicators for 2018 showed that Capital Adequacy Ratio (CAR) has improved from 10.23 per cent in December 2017 to 11.43 per cent in February 2018 due to capitalisation of 2017 profits. The liquidity ratio (LR) has also improved slightly from 45.66 per cent in December 2017 to 46.40 per cent in February 2018. However, the non-performing loans (NPLs), the return on equity (ROE) and return on asset (ROA) have slightly declined from 14.80 to 16.21 per cent, 19.5 to 11.76 per cent and 2.17 to 1.28 per cent, respectively from December 2017 to February 2018. This clearly shows that a lot of efforts and strategies need to be put in place to improve the banking sector performance. However, the poor indices have partly been low due to negative contribution of some outlier banks. The LR is above the prudential requirement of a minimum of 30 per cent for commercial banks and 20 per cent for merchant banks. On the other hand, the CAR for banks with international authorisation is 12.7 per cent, while commercial

banks with national authorization is 7.63 per cent. Both fall below the prudential requirements of 10 per cent and 15 per cent respectively. It should be noted that outlier banks constitute only a small proportion of the whole banking industry. All necessary efforts are being put in place by the CBN to assist in stabilising them.

Requirements for Banking Sector Stability

- Expected improved oil output and prices
- Increased liquidity in the foreign exchange market which enhances the ability of the obligor to repay.
- Profitability in the 2017 financial year which is expected to improve the industry capital after audit and capitalization.
- Commercial banks should be closely monitored against the vulnerability and appropriately guided in their operations.
- NPLs can partly be reduced by the three layer of government by redeeming their contractor debts.

Achievements

Under the current economic policies put in place by the CBN, the macroeconomic environment had flourished. The Purchasing Managers Index (PMI) for manufacturing and non-manufacturing showed a further improvement in economic activities in the first quarter 2018; All Share Index (ASI) increased by 13.3 per cent; headline inflation dropped to 14.33 per cent in February 2018; there has been increased inflow of FDI and FPI; high

accretion pushed external reserves to US\$46.63 billion as at March 28, 2018; and foreign exchange market is relatively stable due to the strategies employed by CBN.

Policy Choice

On the basis of the data available, tightening of MPR is more appropriate for increased growth. However, 14 per cent is sufficiently high enough to stabilize the economy through encouraging FDI inflows and reducing inflation in the economy. Primarily the interest rate which is anchored on the MPR has no correlation with lending rate, but partially with inter-bank rate. The factors that influence interest rates overtime include the following: economic growth, expected inflation, government budget, and increased foreign exchange supply and loadable funds in securing price increase, primarily easing of the interest rate would help to reduce the cost of borrowing as well as cost of production and other economic activities. This will help to enhance the business environment, promote sustainability, discourage vulture investors as well as generate jobs through enhancing Small and Medium Enterprises (SMEs) access to affordable funds. It would promote investment to further drive economic recovery. Moreover, it will be inflationary and can destabilise the foreign exchange market. For the CRR, evidence based on available data showed that the utilisation of the standing lending facility (SLF) has been increased by some of the commercial banks. However, the current rate be retained at 22.5 per cent because loosening would mean more available liquidity to the big banks, which can be used to

hit the foreign exchange market and possibly destabilising it. Primarily, it is difficult in both theory and empiricism to lower price, interest rate and exchange rate simultaneously particularly at the exiting phase of the recession and recovery.

On the basis of the above analysis, I vote to hold, therefore, to retain the

(i) MPR at 14.00 per cent;

(ii) CRR at 22.50 per cent;

(iii) Liquidity ratio at 30.00 per cent, and

(iv) Asymmetric corridor at +200 and -500 basis points around the MPR.

7. NNANNA, OKWU JOSEPH

Nigeria's growth although fragile continues to gather momentum due to improved oil prices, oil production and a substantial increase in foreign exchange liquidity. Real GDP grew by 1.92 per cent in Q4 of 2017 up from 0.72 per cent and 1.4 per cent in Q2 and Q3, respectively. In 2017 growth stood at 0.83 per cent relative to a contraction of 1.58 per cent in 2016. Non-oil real GDP grew by 1.45 per cent in Q4 2017 compared with a contraction of 0.76 per cent in third quarter of 2017. In the non-oil sector, the major drivers of real GDP growth were Agriculture (4.23%), Construction (4.14%) and Trade (2.07%). Manufacturing, and Non-manufacturing Purchasing Managers' Index (PMI) stood at 56.7 and 57.2 index points, respectively, in March 2018, indicating expansion for the twelfth and eleventh consecutive months. However, structural headwinds remain a drag to growth in the non-oil sectors as the manufacturing and construction industries continue to be constrained by infrastructure deficits - mainly, erratic power supply and poor transportation networks.

Subsisting disinflation path continues to reflect the lower-than-expected liquidity conditions in the money market on account of the tight stance of monetary policy and the weak effect of exchange rate pass-through on domestic prices. Headline inflation (year-on-year) fell for the thirteenth consecutive month to 14.33 per cent in February 2018 from 18.72 and 15.13 per cent in January 2017 and 2018, respectively. Food and core inflation similarly declined to 17.59 and 11.71 per cent from 18.92 and 12.09 per cent,

respectively, in January 2018. However, structural factors, including dysfunctional transport infrastructure, absence of a vibrant manufacturing sector, high cost of energy, insurgency and insecurity in the North East; and increasing cases of herdsmen violence constitute upside risks to inflation.

Psychological factors such as risk aversion remain a constraint to the granting of credit to the real sector. Money market interest rates reflected rising NPLs and liquidity conditions in the banking system as the average inter-bank call rate increased to 12.42 per cent in February 2018 from 9.49 per cent in December 2017. The Open buy back (OBB) rate also increased to 13.19 per cent in February 2018 from 8.46 per cent in December 2017. The movement in the net liquidity position and interest rates reflected the combined effects of Open Market Operations (OMO) auctions, foreign exchange interventions and statutory allocation to state and local governments. Crowding out of the private sector persisted although credit to the private sector rose marginally by 1.49 per cent in February 2018, while net credit to government rose by 19.99 per cent relative to December 2017. The All-Share Index (ASI) rose by 8.5 per cent from 38,243.19 on December 29, 2017, to 41,504.51 on March 29, 2018. Market Capitalization (MC) improved by 10.2 per cent from ₦13.61 trillion on December 29, 2017, to ₦14.99 trillion during the same period of 2018. Although, this reflected improved investor optimism on account of positive real economy indicators including moderating inflation and increasing PMI, the downside remains is the potential for reversal of portfolio flows. I note the weakening banking industry soundness indicators as the non-

performing loans (NPLs) remain elevated, but I agree that adequate counter-cyclical and corrective measures are well in place to address isolated cases of vulnerabilities and systemic spill-overs. Despite these concerns, banking assets remain positive, recording an increase of 9.2 per cent in February 2018 over the corresponding period of 2017.

Global economic activity remains positive in 2018. The IMF and World Bank forecast the global economy to expand by 3.9 and 3.0 per cent respectively in 2018, higher than 3.7 and 3.0 per cent estimated for 2017. The upward growth momentum in the US economy remains positive, while much of the slack in the in the euro area labour market is being absorbed. China is on course to managing its slower growth, while Japan is determined to further bolster its growth. Despite the efforts by the Organization of the Petroleum Exporting Countries (OPEC) to keep oil prices on the upward trend by extending the existing production-cut deal alongside Russia until the end of 2018, offsetting effects largely from US shale production are expected. Higher commodity prices arising from strong aggregate demand from developed markets will spur emerging-market and developing economies with growth projected at 4.9 per cent in 2018. I note however that already 2018 is characterised by monetary policy normalisation and may portend challenging credit conditions in emerging markets and potential for capital reversal.

On the fiscal front, non-oil revenue buoyancy has remained non-existent, while fiscal buffers remain weak. However, in a pre-election year, added to the country's unique fiscal federalism of total sharing of funds from the Federation Account on a monthly basis, fiscal surprises maybe inevitable. I expect that current efforts to broaden the tax base and adjustment in the VAT rate together with the adoption of the "sin" tax on alcohol and tobacco should improve government revenue. Overall, the need to enhance fiscal buffers cannot be overemphasised.

External sector remains viable, supported by improved oil production, crude oil prices, and effective foreign exchange management. The Nigerian Autonomous Foreign Exchange (NAFEX) and the Investors' and Exporters' FX Window have continued to engender transparency in the FX market. The arbitrage premia across all segments of the market have narrowed substantially. I note with satisfaction the increase in the external reserves buffers.

Overall, staff estimates indicate positive and stable macroeconomic outlook for the economy in 2018. I also note the recent interest rate hikes in some climes and possible impact on portfolio flows in the frontier market. On the balance of risks, it is important to sustain the current disinflationary policies. Against this backdrop, I vote to retain the current monetary policy stance.

8. SANUSI, ALIYU RAFINDADI

1 Decision:

On the strengths of the analyses of the available macroeconomic data, developments in the global and domestic economic environments as well as the outlook for global output, inflation and monetary policies in the advanced and emerging market economies, keeping the current tight monetary policy stance, in my opinion, is the best policy option for delivering price stability and supporting the current output recovery. I have, therefore, voted to leave the current policy stance, which I consider to be just **tight enough** to keep domestic inflation trending downwards towards the single-digit long-run target, and **not too tight** for the current upward trend in output to continue.

2 Background and Justification

2.1 Global Economic Developments

Global Economic Developments present opportunity for improved exports revenues and capital inflows needed to sustain the current rate of reserves accretion for sustained exchange rate and price stability. The global output is projected to grow by 3.9 per cent in 2018, mainly due to expected rise in investments, strengthening commodity prices, rising aggregate demand as well as sustained recovery of international oil price. As at March 23, 2018, Bonny Light sold for \$70.21 per barrel compared with US\$67.02 per barrel as at January 2, 2018. The OPEC production cut, which was to end by March 2018,

has just been extended to the end of the year. Interest rates in most of the advanced countries remain close to the zero lower bound. However, there is an increasing pace of monetary policy normalization, following price developments, in the US and UK, which raises financial yields in these jurisdictions. In the US, for instance, the policy rate was raised five times consecutively between December 2016 and March 2018, and is expected to further rise by June 2018. There was a moderate hike in the repo rate in the UK in November 2017 and the ECB has significantly reduced the amount of its monthly asset purchases of its quantitative easing programme (to € 30billion, or by 50%) following positive price movements in some parts of the Euro area. Asset prices and long-term yields are expected to rise in major financial markets.

2.2 Domestic Economic Developments

Domestic Economic Developments and outlook present opportunity for policy to sustain the current disinflation process without stifling the fragile output recovery. Domestic output growth is strengthening following sustained quarterly rise for the fifth quarter since 2016Q3. Real output grew at the rates of 0.72 per cent, 1.4 per cent and 1.92 per cent in the 2nd, 3rd and 4th quarters of 2017, respectively. For the year 2017, therefore, output grew at a positive rate of 0.83 per cent, mainly driven by the non-oil sector, compared with the contraction of 1.58 per cent experienced in 2016. The upward trend is expected to continue in 2018, on the account of expected improvements in

the oil and non-oil sectors (as oil production increases and foreign exchange supply to the growth stimulating manufacturing, light industries and agricultural sectors continues to improve). The aggressive implementation of the Economic Recovery and Growth Plan (ERGP) is also expected to support output growth. All forecasts suggest that output in 2018 will grow faster than it did in 2017, ranging between 1.9 per cent (IMF's) to 2.5 per cent (World Bank's).

Although the rate of growth of credit (Y-o-Y) to the private sector has remained positive since December 2017, the increase of 1.75 per cent achieved in February 2018 is still fragile. However, when compared with the 0.54 per cent achieved in January 2018, the improvements in February is encouraging. The retail lending rates of the DMBs have remained high and the spread between average lending rate and weighted average deposit rates hovered around 25 per cent and has slightly widened during the period. However, given the empirical evidence of the link between the policy rate and retail rates of the DMBs, addressing the structural issues that are responsible for the wide spread are likely to be more effective in raising the flow of credit to the private sector. To support the up-trending output development, therefore, the Central Bank should continue to improve the effectiveness of its various credit interventions aimed at increasing credit delivery to the growth-inducing sectors at single-digit interest rates.

Domestic headline inflation, which stood at 14.33 per cent (year-on-year) as at February 2018, has been declining since December 2016, when it peaked at 18.72 per cent. Indeed, the pace of the decline has increased since November 2018. This downward trend is forecasted to continue, and will hit the lower double-digit mark by the July 2018. Although the trend in Core Inflation (which excludes the volatile components of the CPI basket) has been sticky-downward between May 2017 and November 2018, it has declined faster since December 2017 from 12.4 per cent (Y-o-Y) to 12.09 per cent and 11.71 per cent in January and February 2018, respectively. Food inflation, which has been on the decline since November 2018, is also forecasted to continue to fall over the medium term. Analysis of the impact different possible evolutionary paths of the core and food inflation as well as price of PMS show that the decline in headline inflation is still fragile in the short-term.

2.3 External Sector Developments

External Sector Developments and outlook present opportunity for policy to sustain external reserves accumulation for exchange rate stability and lower inflationary pressure. The External value of the naira has remained stable. The interbank exchange rate hovered around N305 per US\$ between May 2017 and February 2018. The BDC rate ranged between N362 and N365 per US\$ during the same period. The NAFEX has also stabilised at around N360/US\$1 between October 2017 and February 2018. The stability of exchange rate,

attributable to the various strategies adopted by the Central Bank, has significantly helped in easing inflationary pressures during the period. The positive net foreign exchange inflow has steadily raised external reserves from US\$29.8 million in May 2017 to US\$46.699 billion as at March 22, 2018. A monetary policy stance that encourages or sustains net positive inflow of foreign exchange and improves the external reserves position would, therefore, not only sustain the external value of the naira, but will also be consistent with long-term inflation target.

3 Implications for Policy

My review of global and domestic economic developments and outlook reveals:

1. That the headline inflation, which is the overriding objective of monetary policy, is well above the upper boundary of the target band, fixed by the MPC in 2012, of between 6 and 9 per cent. It is, however, on a downward trend suggesting that the current policy stance is "tight" enough to sustain the current disinflation process, which started in February 2017. This justifies keeping the current policy unchanged.
2. The current stability of the exchange rate, which has significant moderating effect on inflation, was aided by the improved external reserves position, which enabled the Central Bank to implement the various interventions and strategies that stabilized the naira. Keeping this position requires oil prices to remain high and production to rise; and net positive

capital flows to be sustained or reversal prevented. Given the rising yields in the US and many advanced and emerging markets, reducing the MPR would be inconsistent with exchange rate stability objective.

3. The current monetary policy stance not too “tight” for output growth, given the upward trend in real output, which is also forecasted to rise further. The FGN Bonds, as at February 28, 2018 exhibit a convex shaped yield curve, i.e., negatively sloping, therefore signaling that the market expects low future inflation. Voting for easing in order to increase the rate of output growth would, therefore, be a classic case of time-inconsistent policy.

4 Downside Risks

There are a number of risks that are capable of moderating the positive outlook for global output on the basis of which domestic economic outlook is hinged. For instance, the rise of protectionism and possible escalation of the trade war that started between the US and China may deliver a significantly lower global output growth than expected, hence reducing global demand for, and price of, oil. There are uncertainties generated by BREXIT, and continued difficulties of the BREXIT negotiations can further weaken investments in the UK and Euro area. There are indications from IMF that asset prices and long-term yields in major financial markets are expected to rise, increasing the risks of capital movements away from emerging markets as investors adjust portfolio.

9. EMEFIELE, GODWIN GOVERNOR OF THE CENTRAL BANK OF NIGERIA AND CHAIRMAN, MONETARY POLICY COMMITTEE

Though I voted, at today's meeting, to retain monetary policy parameters, there are two concerns I had related to two potential shocks to the domestic economy within the short-term. The first of these is the expected electioneering spending within the next twelve months and its knock-on effects on systemic liquidity, aggregate demand, the short-term traverses of inflation and exchange rates. The second set of concerns for me relate to the latent risks to the domestic economic linked to the rising international tensions and the probable 'trade war' and 'cold war', which need to be mitigated. Our in-house analyses of short-term inflation forecasts suggest a slow-paced disinflation, barring any shocks. However, as the effects of previous tightening is still evolving and given the continued improvements in key macroeconomic variables, it is imperative to not destabilise the ongoing recovery with impulsive policy shocks.

A review of global economic outlook indicates an upbeat short-term prospect. According to the IMF, global growth is projected to rise to 3.9 per cent in 2018 from 3.7 per cent in 2017. Reflecting this upswing, 2017 growth estimate for advanced economies was marginally revised upwards from 2.2 to 2.3 per cent, while the projection for 2018 was revised from 2.0 per cent to 2.3 per cent. Output growth in emerging markets and developing countries is also projected to pick-up from 4.7 per cent in 2017 to 4.9 per cent in 2018. At 3.3 per cent in 2018, growth projections for sub-Saharan Africa rose by 0.6

percentage points vis-à-vis the 2017 estimates. The global growth impetus is largely attributable to improved financial market sentiments and rising aggregate demand.

Congruent with the global developments, the short-term outlook for the domestic economy continues to strengthen. Recently released data by the National Bureau of Statistics indicates further consolidation of the cyclical rebound as real GDP growth progressed from a contraction of 0.9 per cent in 2017q1 to an expansion of 1.9 per cent in 2017q4. This translated to an annualised expansion of 0.8 per cent for the entire 2017. Driven mainly by non-oil growth (especially in agriculture, trade, and industry), the short-term prospects are brightening with in-house 2018 real growth projections at 2.4 per cent. Regardless of this upswing, cautious policy remains sacrosanct as current rebound is fragile, while per capita income and unemployment rate are outside desirable levels. I therefore, once again, reiterate the imperatives of well-coordinated macroeconomic policies amongst the various policymaking authorities to ensure balanced and optimal outcomes.

Inflation rate maintained a steady decline as the headline rate fell from 18.7 per cent in January 2017 to 15.1 per cent in January 2018 and 14.3 per cent in February 2018. This pattern of disinflation is also seen in the core sub-index which fell from 17.9 per cent in January 2017 to 12.1 and 11.7 per cent in January and February 2018, respectively. Though still relatively high, food inflation moderated to 17.6 per cent in February 2018 from 17.8 per cent in

January 2017. I note that whereas the downward trajectory of inflationary pressure is welcomed, the pace is slow, while the rates remain outside the preferred 6–9 per cent band. There is therefore the need to ensure that the path of disinflation is not reversed.

The moderating inflation pressure directly reflects the tight money and financial market conditions as well as the stability in the FX market. Hovering around NGN360/US\$, the exchange rate in the various segments remained stable, with steady convergent. External reserves rose progressively from about US\$23 billion in October 2016 to over US\$39.3 billion at end-December 2017 and US\$46.7 billion as at March 29, 2018. This reflected, among others, growing investors' confidence as inflows into the economy rose with a positive spill-over on the domestic capital market. Money market conditions, however, remained tight during the review period as key short-term interest rates rose. Relative to its end-December 2017 levels, average inter-bank call rate and Open Buy Back (OBB) rates, respectively, rose in February 2018 by 2.9 and 4.7 percentage points to 12.4 and 13.2 per cent, respectively.

Furthermore, liquidity conditions showed a 16.6 per cent annualised contraction of narrow money supply (M1) in February 2018, while the annualised growth of broad money supply (M2), at 0.4 per cent, was considerably below the target expansion of 10.3 per cent for 2018. Annualised expansion of net claims on government, at 119.9 per cent in February 2018, surpassed the provisional benchmark of 33.1 per cent. Credit

to private sector, with an annualised growth of 8.9 per cent, however, fell short of the 14.9 per cent programmed target. Given our unrelenting effort to diversify the economy and entrench financial inclusion, I note with concern that the low level of private sector credit may undermine our desired objective. The CBN remains indefatigable in its drive to sufficiently channel low-priced credit to high impact sectors with a view to bolstering domestic productivity, creating jobs and reducing poverty.

Overall, I note with delight the continued improvement in key macroeconomic metrics. The cyclical recovery of real GDP, the steady pace of disinflation, the sustained stability of the FX market and the continued accretion to reserves are indeed welcome. Though the short-term outlook of the domestic economy is bright, we must remain mindful of the potential shocks ahead and effectively mitigate their immanent risks. With high unemployment rate, I must also underscore that the current recovery is yet structurally delicate.

I re-emphasise the need for cautious policy decisions devoid of impulsive policy shocks, which could destabilise the current recovery trajectory. I am mindful that inflation rate, though declining, is outside the programmed band and at a growth inhibiting level. The prevailing macroeconomic rebound is hugely attributable to the stability in the FX market. Therefore, it is imperative that FX market stability is sustained in order to safeguard the ongoing recovery. To increase the pace of disinflation and advance the

stability of the FX market, further tightening of monetary conditions may be apropos. However, given that the current restrictive stance of policy is achieving the goals of exchange rate stability and disinflation (albeit at slow pace), further tightening, which may introduce policy shocks may not be necessary. I am of the view that the current level of real policy interest rate is appropriate to balance the objectives of exchange rate stability, price stability and output stabilisation. Consequently, I vote to:

1. Retain the MPR at 14.0 per cent;
2. Retain the CRR at 22.5 per cent;
3. Retain the asymmetric corridor at +200/–500 basis points; and
4. Retain liquidity ratio at 30.0 per cent

GODWIN I. EMEFIELE, CON

Governor

April 2018