Central Bank of Nigeria Communiqué' No. 104 of the Monetary Policy Committee Meeting of Monday and Tuesday, November 23 and 24, 2015

The Monetary Policy Committee met on 23rd and 24th November, 2015 against the backdrop of slowing global growth and a weakening domestic economic environment, attributable largely to the downturn in oil prices. In attendance were 10 out of 12 members. The Committee appraised the global and domestic economic and financial environments up to October 2015 as well as the economic outlook for the first half of 2016.

International Economic Developments

The Committee noted the moderation in global output recovery evidenced by the less-than-expected growth of 2.9 per cent in the first half of 2015. The development was underpinned largely by deteriorating global trade, reversal in output growth in the advanced economies and a significant slowdown in growth in the emerging and developing economies. The key drag on growth in the advanced economies included unfavorable labor market conditions, suppressed foreign demand and weaker-than-anticipated domestic aggregate demand. Consequently, growth in the U.S. slowed to 1.5 per cent in the third quarter of 2015 as a result of a drawdown in inventories; deceleration in exports; drag in private consumption, government spending and residential fixed investment. The outlook for the fourth quarter, however, remains optimistic as consumption spending is expected to drive growth, supported by low inflation.

The Bank of Japan continued with monetary easing, through its asset purchase program, with a monthly injection of ¥6.7 trillion ($54.27

billion); but this was insufficient to restart output as third quarter growth is projected to be weaker than the second quarter, thereby increasing the likelihood of dampening growth and pressure for higher stimulus. The European Central Bank (ECB) in October 2015; reaffirmed its commitment to its monthly asset purchase of €60 billion ($64.2 billion) until September, 2016; although the package may fall short of what is required for meaningful impact on growth. Similarly, the Bank of England continued its ₤375 billion ($570 billion) monthly asset purchase program, as the economy is expected to retreat from its performance of 0.7 per cent in the second quarter to about 0.5 per cent in Q3 with the decline in foreign demand, potentially dampening the prospects for an interest rate hike.

Growth in the emerging markets and developing economies (EMDEs) continued to sag; reflecting the protracted slowdown in China as well as recession in Russia and Brazil. The slowdown among EMDEs has been mainly due to weak import growth in China, low commodity prices, capital flow reversals, rising debt levels and other geopolitical factors. In effect, the poor growth expectations could continue into the fourth quarter with the likelihood of further dampening into 2016.

Overall, monetary policy in the most advanced and emerging market economies appears oriented towards easing to revive output and strengthen employment. No substantial upswing is expected around the current tepid global inflation, projected to remain moderate through 2016. The continuously bearish commodity prices and stronger consumer sentiments have dampened consumer prices in the advanced economies. In the emerging and developing markets, the major risk to domestic prices is mainly the increased pressure on domestic currencies. However, in most emerging markets, the low prices of oil and other commodities continue to cushion consumer inflation pressures.

Domestic Economic and Financial Developments

Output

Data from the National Bureau of Statistics (NBS) indicated that real GDP grew by 2.84 per cent in the third quarter of 2015, compared with 2.35 per cent in the second quarter. However, economic growth in Q3 was lower than the 3.96 and 6.23 per cent in the first quarter of 2015 and the corresponding period of 2014, respectively. Both the oil and non-oil sectors contributed to growth in the third quarter of 2015. In the non-oil sector, the key drivers of output growth were Crop Production, Trade and Telecommunications and Information Services, contributing 0.91, 0.79 and 0.40 percentage points, respectively.

The overall outlook for economic activity is expected to improve on account of sustained improvement in the supply of power and refined petroleum products, progress with counter-insurgency in the North-East and targeted interventions in the real sector. In addition, the inauguration of the Federal Executive Council and the assumption of office of the Ministers, earlier this month, are expected to add impetus to the growth momentum. The Committee reiterated its commitment to support the various ongoing initiatives of the Federal Government to stimulate output growth.

Prices

The Committee noted with delight the slight decline in year-on-year headline inflation to 9.3 per cent in October, from 9.4 per cent in September, 2015. The decline in headline inflation in October 2015, reflected decreases in both the core and food components. Core inflation declined for the second consecutive month to 8.7 per cent in October from 8.9 per cent in September, while food inflation slowed to 10.1 per cent from 10.2 per cent over the same period. The Committee further noted the continued moderation in month-on-month inflation and reaffirmed its commitment to price stability, stressing the need for complementary supply side policies as part of an overall strategy to lock-in inflation expectations.

Monetary, Credit and Financial Markets Developments

Broad money supply (M2) contracted by 3.75 per cent in October, 2015, over the level at end-December, 2014. Annualized, M2 declined by 5.0 per cent, which is significantly below the growth benchmark of 15.24 per cent for 2015. Net domestic credit (NDC) grew by 10.8 per cent, which annualizes to 14.35 per cent in the same period. At this level, NDC fell below the provisional benchmark of 29.30 per cent for 2015. Growth in aggregate credit reflected mainly growth in net credit to the Federal Government which grew by 96.66 per cent in October, although lower than the 142.38 per cent in September, 2015. The sharp moderation in credit to government may be partly attributable to the effect of implementation of the Treasury Single Account (TSA).

During the period under review, money market interest rates were low but sometimes volatile, reflecting fluctuations in banking system liquidity during the period. Average inter-bank call and Open Buy Back (OBB) rates, which stood at 15.50 and 35.00 per cent on September 21 and 22, 2015, respectively, fell to 9.67 and 9.00 per cent on September 23, 2015. On October 19, 2015, OBB rate closed at 1.00 per cent with no transaction at the interbank call segment. Following the increase in net liquidity level, the interbank call and OBB rates further declined and closed at 3.76 and 0.73 per cent, on October 29 and 30, 2015, respectively. Between the last MPC and end-October 2015, interbank call and OBB rates averaged 6.66 and 6.72 per cent, respectively, and were 0.41 per cent and 1.33 per cent on 19th November, 2015.

The Committee also noted the bearish trend in the equities segment of the capital market during the review period. The All-Share Index (ASI) decreased by 9.9 per cent from 31,217.77 on September 30, 2015 to 28,131.28 on November 20, 2015. Similarly, Market Capitalization (MC) fell by 9.9 per cent from N10.73 trillion to N9.67 trillion during the same period. However, relative to end-December 2014, the indices decreased by 18.9 and 9.5 per cent, respectively. These developments reflected, largely the cautious approach to lending by the deposit money banks (DMBs).

External Sector Developments

The average naira exchange rate remained relatively stable at both the inter-bank and Bureau-de-Change (BDC) segments of the foreign exchange market during the review period. The exchange rate at the interbank market opened at N197.00/US$ and closed at N197.00/US$, with a daily average of N196.99/US$ between September 21 and October 30, 2015. At the BDC segment, the exchange rate opened at N223.50/US$ and closed at N225.00/US$, with a daily average of N224.46/US$, representing a depreciation of N1.50k for the period. The relative stability in the foreign exchange market is attributable to the sustained supply of foreign exchange from autonomous sources as well as the effects of various administrative measures taken by the Bank. Gross official reserves increased from US$29.85 billion at end-September, 2015 to US$30.31 billion on 20th November, 2015.

Committee's Considerations

The Committee acknowledged the continued fragile global economic environment, including the possibility of monetary policy normalization in the United States; poor outlook for commodity prices and further slowdown in the Emerging Markets and Developing Economies. The MPC also noted the fragility of the domestic macroeconomic environment; reflected partly in low output growth, soft oil prices, low credit to the high employment-elastic sectors of the economy and sustained inflationary pressure, which however, softened moderately in October. The MPC was, particularly, concerned that the previous liquidity injections embarked upon through lowering of the Cash Reserve Ratio (CRR), at the last MPC meeting, has not transmitted significantly to improved credit delivery to key growth and employment sensitive sectors of the economy. Rather, credit went to sectors with low employment elasticity.

The Committee restated its commitment to evolve and implement measures that would be supportive of consolidating and strengthening output growth, however, with an eye on price stability. The Committee, however, recognized the limits of monetary policy under conditions of huge infrastructure gap and significant global financial market fragilities. While noting the imperative of complementary fiscal policies to augment monetary policy, under the circumstance, monetary policy must remain bold in charting the desired course that would stimulate sustainable output growth in the country.

Concerned about the state of unemployment in the country, the MPC evaluated various options for ensuring increased credit delivery to the key growth sectors of the economy, capable of generating employment opportunities, and improving productivity. The Committee underscored the need for the DMBs to ensure that measures taken by the Central Bank to inject liquidity and stimulate the economy adequately translate into increased lending to the sectors with sufficient employment capabilities and the potential to generate growth. Accordingly, the MPC agreed that going forward any attempt by the CBN at easing liquidity into the system shall be directed at targeting real sector, infrastructure, agriculture and solid minerals. The MPC further directed the Bank's Management to put in place necessary measures/regulations to ensure strict compliance by the DMBs. This is aimed at ensuring that employment and productivity is stimulated while also moderating prices.

The Committee noted with satisfaction the stability, soundness and resilience of the banking system even against adverse global financial conditions. Given the situation, the MPC emphasized the necessity of focusing on financial market stability and proactive engagement of policy and administrative levers needed to support the environment in which market institutions operate. On their part, market institutions are encouraged to employ more stringent criteria in evaluating their portfolio and business decisions.

The MPC considered that although, headline inflation had remained at the borderline of single digit, the observed moderation, especially in the month-on-month inflation, provided some room for monetary easing to support output in the short to medium term, while keeping in focus the primacy of price stability. In effect, the Committee will continue to monitor developments around the Naira exchange rate, interest rates, and consumer prices, even as target measures are needed to channel liquidity to the key sectors of the economy in an attempt to drive growth.

The Committee noted that close coordination between monetary and fiscal policy was imperative for sustainable growth enhancing policies.

The Committee's Decisions

In consideration of the weakening fundamentals of the economy, particularly the low output growth, rising unemployment and the uncertainty of the global economic environment, the MPC, by a vote of 8 out of 10, reduced the MPR from 13.0 to 11.0 per cent while 2 members voted for a retention of the rate at 13.0 per cent; 7 members voted to reduce the Cash Reserve Requirement (CRR) from 25.0 per cent to 20.0 per cent while 3 members voted to hold. In addition, 8 members voted for an asymmetric corridor of +2/-7 per cent while 2 voted to retain the symmetric corridor of +/-2 per cent around the Monetary Policy Rate (MPR).

The MPC emphasized that the liquidity arising from the reduction in the CRR to 20.0 per cent, will only be released to the banks that are willing to channel it to employment generating activities in the economy such as agriculture, infrastructure development, solid minerals and industry.

In summary, the MPC voted to:

(i) Reduce the CRR from 25.0 per cent to 20.0 per cent;

(ii) Reduce the MPR from 13.0 per cent to 11.0 per cent;

(iii) Change the symmetric corridor of 200 basis points around the MPR to an asymmetric corridor of +200 basis points and -700 basis points, around the MPR.

Thank you for listening.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

24th November 2015

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1.0 ADELABU, ADEBAYO

Since 2011, following the recovery of the economy from the adverse effects of the 2008 global financial crisis (GFC), monetary policy has basically taken a tight stance based on the conventional tools with the objective of ensuring macroeconomic stability. It is remarkable that monetary policy succeeded in maintaining both internal and external balances during the period up to mid-2014 when another round of global imbalances resurfaced. It is quite apt to note that the favorable outturns on monetary policy during the period received significant boost from benign global macroeconomic environment particularly the rising commodity prices and easy monetary conditions in the matured economies which spurred capital flows into the emerging economies, in the quest for better yield.

Today, all these favorable global conditions are being reversed. Growth in global output has been weak since the beginning of the year with reasonable evidence of vulnerabilities to setback. Oil prices have assumed a phenomenal downward trend since the mid-2014 and was further compounded in August 2015 following the nuclear deal agreement between Iran and the permanent members of the UN with the attendant worsening of supply glut in the oil market. The easy global financial conditions began to dry up with the tapering tantrum in 2014 and now with the imminence of hike interest rates by the US Federal Reserves.

The spillover of these international shocks has had monumental consequences on the domestic economy. Despite massive deployments of conventional monetary policy tools in the domestic economy, key macroeconomic indicators have not shown commensurate improvements. Growth in GDP, estimated at 2.84 per cent in 2015 q3, is significantly weak and could not in any way compete with the 6.23 per cent in the corresponding period of 2014. Inflation, though recorded a marginal deceleration to 9.2 per cent in October, has persistently remained elevated since the beginning of the year while trade balance was in deficit at the end of the first half of 2015, first time in over ten year period. The pressure in the foreign exchange market continues to increase resulting in the widening of gap between rates at the interbank and Bureau de Change (BDCs) segments of the market. Finally, there is rising threats to the stability of the banking system on the backlash of increasing Non-performing Assets due to huge exposure to oil and gas sector. As expected under this kind of scenario, unemployment continues to head northward as the latest statistics from the National Bureau of Statistics, revealed that unemployment accelerated to 9.9 per cent in 2015q3 compared to 9.7 in the corresponding period of 2014.

Against this perspective, it is quite logical to critically assess the strategy in relation to the challenges. The immediate objective of monetary policy is to deliver on macroeconomic stability but this is the means and not the end. The overall end of macroeconomic policy is robust output growth and enhancement in the well-being of the people, normally proxied by improvement in the labor market condition.

A number of observations could be gleaned from current developments in the economy. First, monetary policy succeeded in delivering macroeconomic stability up to around 2014 q3 while the stability has been threatened since that time, signifying that the transmission mechanism of monetary policy must have been constrained in recent times. Second, even when macroeconomic stability was being achieved, the impact did not sufficiently rub off on long ends of macroeconomic policy which are growth and employment. Third, the economy is currently facing multidimensional challenges cutting across all sectors of the economy.

Based on these observations in addition to well-known limitations of conventional monetary policy tools, it may be necessary to rethink the stance and strategy of monetary policy. Thus, at this meeting, in the light of the fact that the transmission mechanism seems to have been impaired such that monetary impulses are no longer being transmitted to the real variable, I am of the opinion that it may be expedient to change the strategy of monetary policy by adopting an approach that focus on the ultimate variable of macroeconomic policy which is growth.

Given the importance of bank financing to growth in a capital scarce economy such as ours therefore, the stance of monetary policy must also change to an expansionary one in order to strengthen the capacity of the DMBs in providing strong impetus for growth. This is by improving the liquidity of the banking system to enable it extend credit without strains and on such terms and conditions that would not impair the repayment capacity of borrowers. As I have argued severally, the present monetary policy measures, based essentially on the strategy of maintaining macroeconomic stability, are stifling the banks and constraining them on many fronts. With LR of 30 per cent, CRR of 25 per cent, and deposit insurance premium of 1 per cent, over 50 per cent of deposit mobilized by the banks are not available for intermediation. Given that one of the basic functions of banks is to transform deposit of different maturities in order to lend on long term basis, an environment of tight liquidity stance constrains the performance of such function. ***Thus, as a first step towards a growth focus strategy, the current CRR of 25 per cent must be reviewed downward to free liquidity sterilized and made it available for lending. Related to this is the current level of the MPR.***

Although the high CRR could have contributed to the apparent subsisting high lending rate regime but the MPR is also a major contributory factor since it provides the basis for pricing riskless government securities. High interest rate does not only lead to adverse selection on the part of lenders but it also promotes moral hazard from the side of the borrowers. The adverse impact of the high lending rate could be observed on the structure of the GDP. The current sectorial composition of GDP revealed that Services and Agriculture are the largest contributors which is more of a feature of underdeveloped economies or economies in transition as such structure could hardly address the challenge of unemployment and poverty staring us at the face. To address these twin challenges, manufacturing sector must take a commanding height in the nation's output. The present lending rate regime does not offer prospects for the manufacturing sector particularly small and medium scale enterprise which possess the capacity to reduce the army of unemployed citizen. As such, there is compelling need to address the issue of high lending rate holistically. The concern is further reinforced by the threat to banking system stability arising from the high NPLs on exposure to the oil and gas sector. I am of the opinion that a reasonable proportion of banks' exposure to oil and gas could have been in foreign currency with the interest thereon being more responsive to foreign monetary policy than domestic monetary policy. Thus, with the expected normalization of monetary policy by the US Fed, there is the likelihood of upward re-pricing of these facilities, further impairing borrowers' repayment capacity. In view of this, reduction on domestic interest rate could provide some comfort to the banking system. Consequently, I am of the view that the MPR should be adjusted downward.

Given the structural rigidities in the economy, it is not unlikely that a shift to expansionary monetary policy stance in which both the MPR and CRR are adjusted downward may be accompanied by unintended consequences. A likely unintended consequence would be the preference of the DMBs for Central Bank's deposit window facilities over lending to the real sector, particularly when consideration is given to the fact that lending rate would need to adjust downward. To address this challenge, the current symmetric corridor of the policy rate may need to be changed to asymmetric corridor in such a way that the deposit window facilities of the Bank become highly unattractive.

Another fundamental issue that deserves recognition, which I have also reflected in a couple of times in my statement, is about the uncompetitive nature of the business environment which results largely from structural rigidities within the economy. For instance, available statistics revealed that the banking system is currently facing liquidity surfeit given the extremely low interbank and OBB rates but growth in credit, particularly to the private sector at 3.49 per cent in October is highly disturbing. This development simply reflects negative perception of the banking system to lending due mostly to harsh business environment. It is instructive at this point that structural reforms that address inherent bottlenecks in the economy must be tackled frontally. Comprehensive reforms that would address physical infrastructure such as energy, roads, fuel and soft infrastructure like rules and regulations should be instituted.

One more fundamental issue is the fact that the economy is confronted with myriad of challenges at the same time: deceleration in output growth, elevated inflation pressure, rising trade imbalance, slowdown in capital flow, exchange rate pressure, rising Non-Performing assets in the banking industry, and sluggish growth in credit, particularly to the private sector. Under this kind of regime, it is impossible to use one single instrument to address all the challenges without some costly tradeoffs. Interest rate, as an instrument of policy, is desirable given that it gives no scope for regulatory arbitrage but the key limitation is that it is a blunt instrument which implies that it cannot be used to address challenge emanating from a particular sector. Reduction in the CRR and MPR could improve the overall lending environment but in view of structural constraints in certain critical sectors like manufacturing and agriculture, supply of credit to these sectors may still be constrained. This suggests that the time is ripe to combine the conventional monetary policy tools with unconventional monetary policy (UMP) tools. Consequently, I would like to propose the use of unconventional monetary policy tools like liquidity support to certain critical sectors of the economy.

In light of the foregoing, I would like to vote as follows.

The MPR should be reduced by 200 basis points to 11 per cent with asymmetric corridor of +200/-700 basis points while the CRR should be reduced by 500 basis points to 20 per cent. These measures should be complemented with unconventional monetary policy measures that provide liquidity support to critical sectors of the economy.

2.0 ALADE, SARAH O.

This MPC meeting is taking place against the background of continued decline in oil price and increasing international terrorist *attacks which have the potential of further depressing global economic recovery. Low oil price is helping to fuel turbulence in the foreign exchange market and a bearish situation in the stock market as investors continue to divest their portfolio away from the Nigerian market. In the domestic market, the latest inflation figures show a marginal decline from 9.4 percent in September to 9.3 in October and GDP growth rate in the third quarter increased to 2.84 percent from 2.35 percent recorded in the second quarter. In the face of these mixed developments, monetary policy should be sensitive to both domestic and global economic development. I therefore, support a decrease in Monetary Policy Rate (MPR) by 200 basis points, and a reduction in Cash Reserve Requirement (CRR) to boost economic growth.*

The global economy remains highly imbalanced and uneven. The U.S. economy is gradually moving to a higher and more sustainable growth trajectory that is driven by domestic demand. In contrast, much of the rest of the world's economies are moving to lower and less sustainable growth trajectories as a result of the reliance on external demand. In spite of solid domestic demand in the United States, weak global demand and a strong dollar is putting downward pressure on overall GDP growth, which only grew by 1.5 percent in the third quarter and is expected to end the year at 2.4 percent. After strong October jobs report, the consensus forecast is that a rate increase is imminent and might happen at the December 2015 meeting. Borrowing costs are starting to rise, and Fed officials are encouraging the solidification of expectations from the market. Growth in emerging markets and developing economies is projected to be lower as a result of low commodity prices and tighter financial conditions. Oil exporting countries have had to revise their growth projection downwards. In view of these developments, monetary policy is expected to remain responsive to these emerging issues and their effects on the Nigerian economy.

Headline inflation fell marginally to 9.3 percent in October compared to 9.4 percent recorded in September 2015. Headline inflation decreased to 9.3 percent in October from 9.4 percent recorded in September. This is the first time in a long time that inflation has trended downwards after breaching the upper limit of the Central Bank inflation target of 9 percent set since 2013 early this year. All the major indexes declined in October as food inflation edged lower in October to 10.1 percent compared to 10.2 percent recorded last month, and core index stood at 8.7 percent compared to 8.9 in the previous month. While this is a welcome development, the outlook for inflation in the coming months will be closely monitored. This trend coupled with tighter financial conditions in the global environment calls for monetary easing to help grow the domestic economy.

GDP growth is trending up, but far lower than the trend in recent years. Third quarter real GDP grew by 2.84 percent compared to 2.35 percent recorded in the second quarter. This is almost 50 basis points higher than the second quarter growth rate. Oil sector increased by 1.06 (year-on-year) in third quarter and contributed to the increase in real GDP growth. Non-oil growth was subdued, growing by 3.5 percentage points, lower than 5.6 percent in the first quarter. The subdued growth is attributable to lower oil price which resulted in lower government revenue, the feedback effect of fuel disruptions as a result of the stand-off between oil marketers and government and foreign exchange scarcity. The drop in oil price reduced export earnings by 40 percent year-on-year, putting pressure on the foreign exchange market and reserve level. Despite these challenges, the Nigeria economy remains resilient however. Policy actions will be needed to secure the gains made. In the coming months, as government economic policy for 2016 is articulated, and a conducive environment is created to attract foreign and domestic investors, the downside risk to growth could be reversed.

Pressure at foreign exchange market has continued as demand outstrips supply. Rates at the Bureau de Change segment of foreign exchange market window increased while rates at the interbank remained stable. The exchange rate at the interbank market had remained N197.00/US$ since the last MPC. At the Bureau de change segment, exchange rate opened at N223.50/US$ and closed at N225.00, with a daily average of N224.46/US$, representing a depreciation of N1.50k for the period. The relative stability in the foreign exchange market is attributable to the sustained supply of foreign exchange from autonomous sources as well as the effects of various administrative measures taken by the Bank.

Given the divergent monetary policies on the global scene, the slight decline in domestic inflation, and a marginal pick-up in growth, policy should be directed at promoting domestic growth. Therefore policies that will be supportive of output growth and increase liquidity in the banking system should be encouraged. Base on this, I vote for a reduction in monetary policy rate by 200 basis points and a reduction of Cash Reserve Requirements (CRR) to 20 percent to help support domestic growth.

3.0 BALAMI, DAHIRU HASSAN

The year 2015 (i.e. from January to November) has been turbulent in terms of the following trends: The US dollar reign/supremacy, emerging market meltdown, China's economy , Europe triple dip recession and continued advancement in technology and science. Further, the level of growth at the global level has been disappointing except in the United Kingdom (U.K) and United States of America (U.S.A) where expected normalization of the economy, strengthening of the dollar against other major currencies and the expected rise in the level of interest rate so as to stimulate their economy, which has implications for the developing economies. Another compelling reality during period under review was slow economic growth witnessed by emerging economies like China, Brazil, and Russia. Even where the Purchase Manager's Index (PMI) has been high coupled with strong domestic demand, it has not been able to stimulate growth in other countries. At the global level, the continuous fall in the prices of crude oil as a result of glut, and other commodities implies less revenue and foreign exchange for the exporters. The low commodity prices have affected countries differently. For crude oil importers, it means cheaper prices and reduction in the costs of production, while the oil exporting countries are having budgetary problems in relation to running their economies thereby raising the level of budget deficits. In addition, economies of the Euro Zone such as Germany, France, and Italy are currently witnessing deflation or low inflation in consumer prices which dissipated from 0.1 percent in August to -0.1 percent in September, 2015. Specifically, emerging economies like China and South Africa are benefiting from the importation of cheap oil which has led to reduction in costs of production, as well as consumer prices. In China, the annualized inflation rate was 1.6 per cent in September 2015 down from 2.0 percent in August 2015, reflecting a growing strain in the Chinese economy. However, advanced economies like the U.S and Euro zone countries have reduced exports because of constraints the oil producers are having.

The currencies around the world showed a mixed development against the US dollar between August and October, 2015. Most commodity exporting countries showed depreciation while commodity importing countries showed appreciation of their currencies. In terms of monetary policy issues, most Central Banks did not change their policies except India (from 7.25 to 6.7 percent) and China (from 4.85 to 4.3 percent), all with the hope of stimulating the level of growth in their economies.

The 2015 outlook is for moderate growth rate of 5 percent due to vulnerability to slow global economic recovery, oil price volatility and global financial developments. The low oil price led to a sharp decline in fiscal revenues. The real GDP witnessed two consecutive declines in the first quarter and second quarter of 2015; however, the growth rate increased from a low of 2.35 percent in the second quarter to a high of 5.94 percent in the fourth quarter. On the other hand, real non-oil sector mainly consisting of agriculture, industry, construction, trade and services witnessed a declining trend from 6.44 percent in the third quarter to a low of 3.05 percent in the fourth quarter of 2015. However, the overall impact on non-oil sector GDP was relatively muted. Thus, this sector is expected to remain the main driver of growth over the medium term and, nevertheless, of the recent macroeconomic challenges, the government has adopted an adjustment strategy that hinges on revenue.

Inflation in the domestic economy shows a slight increase in third quarter of 2015. Statistics from NBS indicated that Nigeria inflation rate increased from 9.3 percent recorded in August to 9.4 percent in September, 2015. According to the NBS report, the CPI increased as a result of higher food and non-food divisions – Alcoholic Beverages, Tobacco and Kola; Clothing and Footwear; and Housing, Water, Electricity, Gas and other Fuels components which contributed to the surge in consumer prices. This is due to increase in cost of production as a result of foreign exchange restrictions by CBN on certain importations. In the same vein, core CPI increased by 8.9 percent in September compared with 9 percent recorded in August, which is most likely as a result of slow demand in textile, Fuels and lubricants for personal transport equipment, hotel accommodation services and miscellaneous goods and services divisions. The Food Sub-index recorded a marginal 10.2 percent (year-on-year) in September from 10.1 percent in August, indicating increase in prices in major categories such as Meat, Fish, Bread and Cereals; Oils and Fats groups. Further, the report revealed that Urban index increased by 9.2 percent (year-on-year), increasing at the same pace for three consecutive months. On the other hand, the rural index increased 0.2 percent points to 9.4 percent, from 9.2 percent in July. On a month-on-month basis, both the Urban and Rural indices increased at a slower pace, increasing by 0.6 percent in August. The Urban and Rural indices both grew by 0.7 percent in July.

It is very important we situate the current happening in Nigeria in proper perspective. Since 1989, the balance of spending has shifted constantly towards recurrent spending. Available statistics showed that at the federal level, 75 percent of the budget is spent on current consumption and only a quarter on capital investment, which is inadequate to promote growth in a developing economy like Nigeria's .Physical infrastructure like electricity, transportation and communication networks for functioning market economy are very vital and critical for economic development, progress and human security. Without electricity, for instance, manufacturing, mining and agriculture which are the largest employer of labor in less developed countries like Nigeria cannot survive or thrive. Without efficient and affordable transportation networks, markets become disconnected and therefore fail. It should be noted that Nigeria's electricity supply shortages is very much inadequate. Nigeria now produces about 3,000 megawatts, while a country like South Arica produces over 40,000 megawatts. These shortages affect households, schools, hospitals, hotels, manufacturing, extractive and other organizations. The same challenges apply to our roads, seaports, airports, and water supply infrastructure. Infrastructure is critical to growth and development. It attracts Foreign Direct Investment (FDI) and promotes economic growth in the economy.

The exchange rate has depreciated by over 53 percent from N136/dollar to N197/dollar in 2015 and the factors that contributed to this depreciation include: Nigerians' import dependence on basic household items, high marginal propensity to import (0.63), low competition in the domestic market, low competition in the international market for non-oil products, over dependence on oil for the bulk of foreign exchange. This requires adjustment of the supply-demand dynamics, there is need for competiveness of the domestic manufacturing industries on the international front, limiting or restricting importation of non- essential or unproductive items.

Nigeria's foreign reserves as at July 7, 2015, according to the CBN, had risen to 31.89 billion dollars which is attributable to some policy measures taken by the CBN. These measures also led to significant stabilization in the exchange rate and improvement in market sentiments. By November, 2015 the level of reserve has slightly fallen to about 30 billion dollars. Various policies put in place by the CBN include: vigilant demand management, further tightening of monetary policy, Closure of the official foreign exchange window, review of net operators' Net Open Position (NOP), placement of 72 hour limit on foreign exchange utilization and ban on selected items from access to foreign exchange in either the interbank or the BDC markets.

At the domestic level, the Nigerian economy has, throughout the period of eleven months, been facing a lot of challenges which are basically still with the economy with the exception of the electioneering problem. These include slowing level of economic growth particularly in the first and second quarters, with marginal improvement in the third quarter of 2015 due to slight improvement in power supply. For the rest of the 2015 and parts of 2016, the critical questions are how to tackle the problems of: How do we handle the problem of slowing growth, rising inflation, reducing level of unemployment, soaring up the value of the Naira, level of efficiency in the distribution of petroleum products, problems of poverty, inequality, rising level of non-performing loans (NPLs), the oil crisis and the need for the diversification of the economy, the insecurity in the North-east and other parts of the economy and how the deposit money banks can lend to the preferred sectors of the economy? To provide answers to these questions raised, the utilization of both monetary and fiscal policies will be of importance in moving the economy forward and help stabilize the economy. To promote the non-oil sector of the economy through the adoption of growth enhancement scheme to be financed by the Deposit Money Banks, there should be collaboration between the monetary and fiscal authorities. Though in my mind, there is need to lend to the preferred sectors of the economy through targeted lending, it should be noted that demand for lending is perfectly elastic while supply for lending is perfectly inelastic. One also needs to know the debt servicing capacity of the private sector. What kind of policies affects inputs in the production process, as well as the appreciation of the dollar such as outflow of foreign exchange. This will entail additional liquidity in the economy which is expected to lead to lending.

In my opinion, to promote growth in the economy, there is need for an expansionary policy particularly policies that will touch the lives of those at the lower ladder and enable them to have access to credit. In view of the above, I voted for the following:

i. Reduce the CRR from 31 percent to 25 percent

ii. Reduce the MPR from 13 percent to 11 percent

iii. Expand the symmetric corridor to +2/ - 7

As I stated in my August personal statement, if appropriate monetary policies are in place and are backed-up by a deliberate fiscal policy, about N700 billion will be released into the economy for the DMBs' lending. I suggest that in the face of dwindling capital and government expenditure particularly with the withdrawal of about N1.23 trillion from the DMBs to the CBN as a result of the introduction of the Treasury Single Account (TSA), lending should be targeted to employment enhancement sectors of the economy such as: agriculture, solid minerals, Small and Medium Enterprises (SMEs), and the service sectors of the economy because of their capacity to create jobs.

4.0 BARAU, SULEIMAN

Background

My vote at the last meeting was for a reduction in the Cash Reserve Requirement (CRR) in order to improve liquidity condition in the banking sector, but my assessment of current macroeconomic conditions including medium term outlook suggest that far reaching measures, including change of policy stance, need to be adopted. It is noteworthy that monetary policy has made giant strides in containing some of the imbalances in the economy but economic conditions in both the global and domestic economies are demanding urgent adoption of easing mode in the conduct of monetary policy. The risk matrix in the global economy is on the upside as recovery in global output is still soft with the drag emanating from both the developed and emerging economies. There is heightened apprehension in global financial markets on the backdrop of the depreciation in Chinese Renminbi and crash in stock markets as well as concerns around the imminent normalization of monetary policy by the US Federal Reserve with the attendant global risk aversion for emerging economies. Furthermore, a renewed wave of downward trend in crude oil prices commenced in August 2015 following increases in the supply glut in the aftermath of the nuclear deal agreement between Iran and five permanent members of the UN with Germany. All these developments portend grave implications for the domestic economy which already has its inherent fragilities. A major implication for the domestic economy is tighter external financial conditions which could worsen the subsisting high pressure in the foreign exchange market and ultimately increase the volatility of the exchange rate. In addition, the dual challenges of rising inflationary pressure and softening output are still lingering, which are further complicated by limited fiscal space due to dwindling revenue, and uncertainty about the direction of fiscal policy. On the positive side however, the recent formation of cabinet by the political authority is raising the bar of optimism, signaling that activities may scale up soonest and thereby address some of the issues head-on, particularly the softening output.

In the light of these multidimensional challenges, I am of the view that monetary policy should switch to easing mode in which the banking sector should have sufficient liquidity on permanent basis to enable it support the real sector sustainably. In addition, in recognition of structural rigidities within the economy, the conventional monetary policy tools should be complemented with some forms of unconventional monetary policy measures that provide liquidity enhancement for certain critical sectors.

Issues and Pressure Points

Global Economy

Generally, the negative legacies of the recent global financial crisis (GFC) are yet to fully recede, paving way for lingering downturn in overall global economic performance. The IMF has twice revised the 2015 global growth projection downward with the latest one being 3.1 per cent, which is 0.2 and 0.3 percentage point below the July projection and fiscal 2014 growth level, respectively. Beside the fact that current growth level is not as robust as the pre-GFC era, the spate of downward revision is an evidence of vulnerabilities to setback, underscoring prevalence of challenges across countries. Although the advanced economies, led by the USA and the UK, have shown relatively stronger recovery, underpinned by sustained monetary support and resumption of neutral fiscal stance, growth in emerging market economies (EMEs) has remained weak. Growth in EMEs as a whole is expected to slow down to 4.0 per cent in 2015, representing a consecutive fifth year of deceleration.

There are at least two distinct implications of the continuing weakness of global output on domestic monetary policy. Firstly, it shows that the present downward trend in commodity prices may not come to a halt soonest, therefore requiring critical assessment of foreign exchange management strategies. The second implication arises from the influence on fiscal stance through the channel of public debt. Total public debt grew at 49 per cent between 2011 and end-June 2015, at a time oil price averaged US$95 /barrel. Thus, with expected permanent downward pressure on oil price and the need for the new administration to address growth concern, it is not unlikely that public debt will show a further increase. This will affect yield on long term domestic bonds with further implication for monetary policy.

Another major global development is the renewed financial markets volatility with implication of tighter external financial conditions on the domestic economy. Against the backdrop of the rising internalization of emerging economies currencies, a renewed wave of volatility resurfaced in August 2015 following the depreciation of the Chinese Renminbi, leading to a sharp increase in global risk aversion. This development accelerated capital outflow from emerging and developing economies as Chinese stock markets in particular suffered a near total collapse. The second driver of tighter external financial condition is the much anticipated normalization of monetary policy stance by the US Federal Reserve. The timing has somehow been clouded with uncertainty but my assessment of unfolding developments suggests that the decision may be taken at the next meeting of the FOMC or latest within the first quarter of 2016. In its October meeting, the Committee downgraded its assessment of global risks, giving them sufficient leverage to commence tightening at its next meeting in December. This development would have at least three key implications on the domestic economy. Firstly, it would lead to further appreciation of US dollar against most emerging countries' currencies including the naira with profound influence on the balance sheets of firms in view of the import dependent nature of our economy, thereby worsening the precarious growth condition. Secondly, as a fallout of the rising inter connectivity of the global financial markets, the long term domestic yield is becoming increasingly correlated with yield in advanced economies, thus, it may be expected that the rise in interest rate in the US will lead to increase in rate at the long term end of the domestic financial markets. Thirdly, there is likelihood of an increase in cross border claims, usually defined as claims by foreign banks on domestic firms or claims by domestic banks on domestic firms but in foreign currency. What about reversal of capital flows since emerging and frontier market debt and equity markets would become less attractive? These types of claims are more sensitive to foreign monetary policy than domestic monetary policy. Given the nature of the oil sector, a reasonable portion of the exposure must have been in foreign currency, thus, with expected increase in the US policy rate, there may be an upward adjustment of interest rate on these facilities, further impairing the repayment capacity.

Domestic Economy

The key challenges in the domestic economy that commenced in the beginning of the year are still lingering but more fundamentally, most of the issues are directly or remotely linked to the adverse developments in the global economy. The softness in aggregate output, which started in the early part of the year is still lingering, GDP's estimated at 2.84 per cent in the third quarter of 2015, compared with 6.23 per cent in the corresponding period of 2014. Apart from the security challenge in certain parts of the country, which weighed down on agricultural activities, a large chunk of the softness could also be attributed to development in the oil sector. Oil and gas sector recorded a negative growth of 0.85 per cent in the first half of the year on the backlash of plummeting international price of crude and to some extent production losses due to pipeline vandalism and associated vices.

Notwithstanding, it is not unlikely that structural rigidities in the economy could have contributed to the weakness in output. A diagnosis of the structure of the GDP shows that growth in the manufacturing sector has been recording consistent slow down since 2013, having posted a growth rate of 21.8, 14.7, and 9.1 per cent, in 2013, 2014, and end- June 2015, respectively. Given that weakness in macroeconomic indicators is more of a recent phenomenon, the fairly long history of declining trend in the manufacturing sector underscores the fact that some common factors outside deteriorating macroeconomic variables are at play. It also appears that the structural challenge within the larger economy has dovetailed into the banking system. Available statistics show that all the money market rates have been running below the Monetary Policy Rate, signifying excess liquidity in the system, yet the banks are not lending. Growth in credit to the private sector has recorded abysmal performance, reinforcing the fact that the lending climate is generally unattractive.

Another key development is the high inflationary pressure. It sounds fairly good that all measures of inflation decelerated marginally in October, the current levels however are still not comfortable. Headline inflation at 9.2 per cent in October is still at the border of single digit, with elevation coming from both the core and food components, suggesting that both structural and macroeconomic factors are at play. It is most disturbing that while global inflation is decelerating on account of falling energy prices, our core inflation, driven mostly by imported items, is increasing. This is an evidence of exchange rate pass through. The medium term upside risks include likely pressure on domestic currency against the background of imminent tightening of policy by the Federal Reserves, likely expansionary fiscal stance in 2016, and recurring scarcity of petroleum products.

Finally, there is a growing evidence to support the thesis of a breakdown in the transmission mechanism of monetary policy in the domestic economy. Generally, recent empirical evidences have shown that long term interest rates in emerging economies, represented by yield curve on long term bonds, are more correlated with yield in advanced economies than with the policy rates within the domestic economy. Analysis of the trend of the yield curve on 10 year bonds in Nigeria clearly support this thesis. The MPR, our policy rate, was increased to 13 per cent in November 2014, yet the yield curve on 10- year bond has been trending downward, the same direction with the 10-year US Treasury bond and 10-year South Africa bond.

Recommendations/Way Forward

In the light of the multidimensional challenges confronting the economy, I would like to proffer the following measures.

i. Structural Reforms: Given the importance of the real sector, particularly manufacturing for employment and ultimately poverty reduction, an urgent attention needs to be given to the challenge of declining growth trend. This requires far reaching structural reforms that would enhance productivity of resources within the economy. In this regard, the power sector deserves special attention. Total energy generated in the country has been hovering around 4,000 megawatts in the last one year against potential capacity of 6,000 megawatts. The present challenge demands a faithful implementation of power sector reforms that comprises both short and long term measures. The short term measures should address various factors that constrain maximum utilization of installed capacity such as inadequate supply of gas to thermal plants and vandalism of gas pipelines. In addition, renewable sources like solar should be explored by building clusters of solar plants in the country to minimize losses due to haulage. In the long run, strategic alliance should be formed with relevant stakeholders, public and private sectors, in the quest to achieve the target of 40,000 megawatts by the year 2020. Similar reforms should be extended to the petroleum, agriculture, solid minerals and other critical sectors.

ii. Liquidity Support for Critical Sectors: Theoretical, empirical, and even anecdotal evidences have shown that conventional monetary policy tools are stretched to the limit and become relatively less efficient in an environment of multidimensional challenges. This is the basis for deployment of unconventional monetary policy measures.

Again, as implied by the concept of the unholy trinity, conventional monetary policy tools cannot simultaneously achieve commitment to a stable exchange rate and independent conduct of policy in an open economy with high degree of financial liberalization that allows for rapid spillovers of international shocks. Independent monetary policy in this context is the ability of domestic monetary authority to conduct monetary policy without being compelled to submit to foreign monetary policy. Another justification for the use of UMP is the breakdown in transmission mechanism of conventional monetary policy tools and market distortions as pointed out in the preceding section. Against this perspective, I am of the view that liquidity support (an unconventional monetary policy tool) should be deployed to support critical sectors like power, manufacturing, and agriculture, albeit as a temporary measure.

iii. Reduction of Lending Rate: The average prime lending rate of the DMBs is over 17 per cent while retail lending rate, at which SMEs access bank financing, is about 27 per cent. The internal rate of return on large scale business in the country is about 20 per cent while it is around 15 per cent for small and medium scale investment. This, invariably, shows that most businesses cannot break even under the subsisting interest rate regime with implication for growth and employment. The subsisting MPR as well as CRR could have arguably contributed to the high lending rate regime. Reduction of the lending rate would achieve dual objectives. First, it would enhance repayment capacity of borrowers with the attendant reduction in the rising of non-performing loans thus contributing to the strengthening of banking system stability. Secondly, it would improve the productivity of firms particularly SMEs with the attendant salutary impact on growth and employment. The conventional argument against reduction in policy rate is that it accelerates inflation rate but as pointed out earlier, there are valid evidences of breakdown in transmission mechanism. Within this context, I am of the view that both MPR and CRR should be reduced to give some intermediation space to the banking system.

iv. Discourage abuse of Standing Deposit Facilities: The objective of corridors around the policy rate is to ensure efficiency in liquidity management and thereby minimize the cost burden of the deposit money banks by ensuring that they have some returns on their excess reserves. The benefit of hindsight however, has shown gross abuse of the corridor as DMBs prefer to lend to the central bank instead of financing real sector. Given that reduction in the CRR may further crash interbank rate and with the perception of high risk in the real economy, the central bank's deposit window may become the natural investment outlet for the deposit banks. Consequently, I will like to recommend an asymmetric corridor around the MPR such that the deposit window facilities become unattractive.

v. Promote Long Term Lending: A basic function of the banking system is transformation of deposit of different maturities in order to lend. This function is however constrained in an environment of high and volatile spread on long term bonds with implication for credit and output expansion. Credit to the private sector has been largely subdued since the beginning of the year with a growth rate of 3.49 per cent at end-October, which annualized to 4.19 per cent compared to the fiscal 2015 target of 26 per cent. Further rise in term spread is clearly undesirable. To manage this risk, liquidity is required in the domestic financial market. Thus, the CRR may be reviewed further downward to minimize the term spread on yield curve and thereby give sufficient scope to the DMBs to extend longer term credit.

vi. Manage Pressure in the Foreign Exchange Market: Exchange rate has been relatively stable at the interbank market but the pressure index appears to be rising as signaled by the widening gap between the inter-bank and Bureau de Change (BDCs) rates, among others. If the current high pressure in the foreign market persists, it will eventually crystalize as extreme volatility in the exchange rate which is inimical to our financial system given the low hedging opportunities. Exchange pressure could be managed by different measures depending on its sources. Upward adjustment in the policy rate could be used if the pressure on external reserves is due to interest rate differential between the domestic and foreign interest rates. I do not think this is the case in our present circumstances. Intervention in the foreign exchange market could be used if the monetary authority perceives the pressure to be temporal in nature. Again, I do not think so. If the pressure, on the other hand, is perceived to result from a permanent shock, which seems to be so in my opinion, monetary authority may need to complement the conventional monetary policy tools with macro prudential tools. Therefore, in my opinion, the monetary authority, and possibly in collaboration with the fiscal authority, may need to strengthen the various prudential measures particularly the recent list of items excluded from the official interbank foreign exchange market. In addition, as discussed under structural reforms, strategic partnership may be needed between the two authorities to stimulate domestic production of a number of imported items.

Decisions

In view of the foregoing, I would like to propose as follows.

i. Monetary policy should shift stance towards easing mode to address lingering challenge on growth

ii. Monetary Policy Rate (MPR) should be reduced by 200 basis points to 11 per cent in order to reduce lending rates

iii. The corridor of MPR should become asymmetric at +2/-7 per cent for SLF and SDF respectively to discourage abuse of standing deposit facilities

iv. CRR should be reduced by 200 basis points to free liquidity for lending on long term basis

v. In releasing the CRR, unconventional monetary policy tools such as deployment of associated liquidity to critical sectors should be employed in the light of limitations of conventional monetary policy tools.

5.0 GARBA, ABDUL-GANIYU

Decision and Justification

At the last MPC I voted to hold. I explained after a detailed discussion of context that bears no repeating that my vote to hold; was a vote for harnessing and directing all available intellectual and political resources to engage the fiscal authorities to develop a strategic macroeconomic management framework for Nigeria. I was convinced that such a framework was urgently needed ''to meet the **real** challenges of macroeconomic management in this new epoch.'' Nothing has fundamentally changed to change my position.

I am still convinced in the light of experience and Staff Reports and data presented to MPC as well as the domestic and analysis of the global outlook for 2016 and 2017 that; the real policy choice is still ''not between tightening or easing . . . It is far more fundamental.'' I am still convinced that ''it is about **institutions**, **incentives**, **strategy**, **coordination** and (a) **forward looking** (perspective).'

Experience has shown clearly that a disconnection between fiscal, monetary and prudential policies hurts all policies in terms of credibility, coherence, effectiveness, trade-offs, opportunity costs and sustainability. It seems obvious that we are able to walk or run because our bodies work as coordinating and cooperating systems. If the legs and other parts of a body do not work together for the good of the body or if a part of the body turns against the other parts (as cases of auto-immune diseases) or is malfunctioning, the body becomes critically troubled. Getting the body to work together assumes urgency. In like manner, it is urgently necessary that the three pillars are constructed within a strategic macroeconomic management framework and that they prioritize the building of the institutions and incentive system for strategic, coordinated and forward looking macroeconomic, prudential and development policy making.

The development agenda which is pivoted on solving the almost 50 million unemployment problem (unemployed, underemployed and those not searching) requires the right incentives to correct the malfunctions in the pricing, allocating, discovery and creative functions of financial markets revealed by key price spreads (interest rates and exchange rates) and the loan structure that is biased against relatively high output and employment elastic sectors in favour of prudentially high vulnerability sectors. If there is one lesson we should learn from the global financial crisis and its aftermath, it is that financial markets malfunction, powerful players cheat and manipulate asset prices and allocation and both weaken the effectiveness of policy (fiscal, monetary and prudential). Simply increasing the flow of water is not sufficient to water a fertile land starved of water if the water is dammed before it gets to the land or the water is diverted to less fertile fields.

Now that the Federal Cabinet is in place and planning and budgeting seem to have been united, it is important that both the monetary and fiscal authorities begin the hard work of purposefully and thoroughly developing the requisite **institutions, incentives, strategy, coordination** and a **forward looking** perspective if the mandate and agenda of macroeconomic stability, decent and sustainable employment and development are binding priorities. The 2016-2020 planning and budgeting cycle offers opportunities that the monetary and the fiscal authorities should use to have continuing purposeful and thorough strategic sessions, working out and agreeing on a continually adjustable strategic macroeconomic management framework at least, for 2016-2020.

6.0 NNANNA, O. JOSEPH

Available major macroeconomic indicators suggest persisting imbalances in both advanced and developing economies in the second half of 2015. While moderate growth was recorded in advanced economies due to weakening oil prices, accommodative monetary policy and strong consumer demand, declining growth persisted in emerging and developing countries, largely due to weak commodity prices, and slowing capital flows. Specifically, United States posted weaker than expected growth of 0.1 percent as against projected 2.0 percent in Q4 of 2015, whereas growth in the Euro Area remained largely flat, while output growth in Japan and China slacked. Overall, the uneven global growth accompanied by mixed macroeconomic developments remains a challenge for domestic monetary policy.

OUTPUT AND PRICES

Sluggish output growth in Q3 accompanied by marginal decline in inflation, suggested likely emergence of a potential recession underpinned by weak fiscal and external buffers, declining investment and rising unemployment.

At the domestic front, the recession scare that manifested in the sustained decline in output growth from 3.96 percent in Q1 to 2.35 percent in Q2 of 2015 was still lurking in Q3. Specifically, GDP grew marginally from 2.35 percent in Q2 to 2.84 percent in Q3 amidst a surprising, marginal decline in core inflation from 9.4 percent in September to 9.3 in October, 2015. Developments in the monetary aggregates indicated that broad money supply (M2) declined by 3.75 percent, and 5 percent (annualized) in October, 2015, over the level at end December 2014, and was below the benchmark of 15.24 percent for 2015.Consequently, Net domestic credit (NDC) grew by only 10.8 percent in October and 14.35 percent (annualized) as against provisional benchmark of 29.30 percent.

Overall, credit to the private and public sector fell short of their benchmark of 29.30 percent and 142.38 percent respectively. These developments in the domestic credit market called for an accommodative monetary policy, to spur growth in the product and labour markets.

Exchange Rate Developments

The challenge posed by the decline in the external reserves buffer in the management of the naira exchange rate regime continued to linger.

In spite of these challenges, relative stability was achieved both at the interbank and BDC segments of the market. Specifically, the naira exchange rate remained relatively stable in the interbank market, while at the BDC segment, the exchange rate depreciated by N1.40k on the average during the period under review. The relative success achieved in stabilizing the exchange rate was attributed to the effectiveness of the moral suasion of the monetary authorities and the demand management strategy employed by the Central Bank. However, notwithstanding the achievements so far recorded, the rebuilding of the external reserves buffer remains a challenge to the fiscal and monetary authorities in the short to medium term.

Liquidity management

"In the wake of the implementation of Treasury Single Account (TSA), quantitative easing (QE) may be imperative"

Money market interest rates have been largely volatile and surprisingly very low in the period under review for indistinct reasons. Specifically, Interbank (IBR) and Open Buy Back (OBB) rates which stood at 15.50 and 35.00 percent in September 21 and 22, 2015, respectively, crashed to 3.76 percent and 0.73 percent in end-October on account of the reduction in Cash Reserve Ratio (CRR). However, while the crash in interbank and OBB rates was still unravelling and mainly attributed to increased net banking system liquidity, credit to the private sector remained below the benchmark and sticky at a high double digit interest rate. In the context of these evolving developments, the challenge of monetary policy remains how to bring down interest rate to a single digit and at the same time spur credit growth to the real productive sector where capacity utilization remains low. In the circumstance, I see strong merit for monetary policy to embark on aggressive quantitative easing, in order to grow the economy and reduce unemployment.

Conclusion,

Based on available empirical evidence and against the back-drop of the affore discussion, I see merit to vote for:

1. Reducing The CRR from 25.0 percent to 20.0 percent;
2. Reducing the MPR from 13.0 percent to 11.0 percent; and
3. Tweaking the interest rate to an asymmetric corridor of +200 basis points and -700 basis points, around the MPR

I believe that these measures will assist the economy to escape sliding into recession / stagflation in the short to medium term.

7.0 UCHE, CHIBUIKE U

The main objectives of monetary policy are to help promote price stability and support the economic policy of the Federal Government of Nigeria. With respect to our price stability mandate, it is pleasing to note that despite the free fall in the price of crude oil, which is the major foreign exchange earner in our mono product economy, inflation is still in single digit territory. Most of the meeting was however focused on devising ways monetary policy can be used to support the economic policy of the Federal Government of Nigeria. Perhaps because Ministers have just been appointed, the Federal Government is yet to publicly declare its economic policy direction. Interpreting this to mean that the Government is waiting for the monetary authorities to take the lead in determining the economic policy direction of the country is in my humble view erroneous. In the light of the above point, I would prefer to give more time for Government to determine its economic policy direction before we amend the existing monetary policy stance to support such policy.

Another important point that was widely discussed during the meeting was the issue of the corridors surrounding the MPR. It was for instance rightly canvassed that we should move from a symmetric to an asymmetric corridor regime so as to promote the development of the interbank money market, encourage lending to the real sector and discourage banks from dumping their excess liquidity at the CBN. While it is difficult to fault the logic behind such a policy shift, I believe there is need for some caution before we act. This is because the logic of asymmetric corridors is not new. The question we must ask is why we adopted the present symmetric corridor regime in the first place. My suspicion is that this may be linked to the existing level of trust in the interbank market which has implications for banking stability in the country. Since the existing deposit insurance structure does not cover dealings in the interbank market, banks that are perceived weak may be disadvantaged in playing in such markets. It is therefore possible that the symmetric corridor regime was enthroned in the first place to help promote banking stability. Although the above analysis is purely speculative, I consider it prudent to maintain the status quo until a detailed analysis of the reasoning behind the adoption of the symmetric corridor regime has been conducted. At the very least, this will help enhance our understanding of the dynamics that impact on MPR interest rate corridor regimes in our local context.

Another issue that was widely debated during the meeting was the idea of using CRR reduction to encourage banks to lend to the preferred sectors of the economy. I am philosophically in agreement with this idea. I however believe that there is need for more studies in this area before we take the leap. This is particularly important especially given the fact that Nigeria has a long history of using monetary policy to incentivize banks to lend to the preferred sectors of its economy. Learning from the mistakes or successes of the past will in my view lead to better policy making.

It is in the light of the above points that my personal preference at this meeting would be to maintain the existing monetary policy stance until the Government's economic policy direction becomes clearer. There is also need to have a more complete picture of why past policies especially the ones that relate to MPR corridor regimes and those aimed at encouraging banks to lend to preferred sectors of our economy came into being and/ or why such policies either succeeded or failed.

In summary therefore, I am again inclined to adopt a cautious attitude at the present time. I therefore vote as follows: (1) to retain MPR at 13 percent with interest rate corridor of + 200/- 200 basis points; (2) to retain CRR at 25 percent; and (3) to retain Liquidity Ratio at 30 percent.

8.0 YAHAYA, SHEHU

The Global Economy

On the whole, the global economic situation can be characterized by slow or slowing growth and low price levels in the advanced economies; stable growth and prices in most of the emerging countries and slowing growth plus rising inflation in sub-Saharan Africa.

Economic recovery in the US and UK is positive but slow, growth is tepid in Europe; China, despite a slight slow down still has stable growth. Japan and Brazil are facing a recession. The main problems appear to be weak external demand and insufficiently recovered consumer demand. India is maintaining its growth trend. In sub-Saharan Africa, growth is decelerating in the major oil-exporting countries while, on the whole, oil-importing countries are faring better. The US and UK are facing very low price levels and there is deflation in the EU countries

Global commodity prices (particularly metals, agricultural produce and oil) are also falling- 24% decline between January and September this year.

Domestic Economy

After the significant slow-downs experienced in growth rates in the first two quarters of 2015, there has been a small increase in the GDP growth rate in Nigeria in Q3 2015. Nonetheless, real GDP is expected to grow by only 2.63% in 2015- less than half the rate achieved in the last two years. Given the high and increasing rate of unemployment in the economy- up from 8.25% in Q2 2015 to 9.9% in Q3 2015, with youth unemployment jumping from 14.9% to 17.8% during the same period- it is necessary that additional efforts be made to strengthen growth.

Year-on-Year headline, food and core inflation all slightly declined in October. Headline inflation marginally declined to 9.3% mainly due to lower domestic demand and a slight moderation in the pump price of PMS. CBN estimates indicate that headline inflation may continue to dip gradually in November and December before rising gradually, but is likely to remain below 10% up to April 2016 if there is no substantial increase in the pump price of PMS. This may give some scope for monetary loosening.

Due to the low oil prices, federation account revenue distributed in January-September 2015 was 29% lower than for the corresponding period in 2014. For federal government revenue, it was 10.49% lower.

The government has tried to make up for the drastic decline in revenue through increased borrowing- indeed net credit to the government shot up, year-on-year, by 116% as of October 2015, while net credit to the economy and to the private sector are both below 2014 levels and well below the benchmark. (Note however, that new credit has shot up dramatically, both in value and number in September-October 2015). The prioritization of growth might mean much higher government borrowing in the next budget in order to provide a fiscal stimulus.

The external sector is fairly stable, with external reserves only slightly lower than in the last month- but this is largely due to transitory factors such as the implementation of the TSA and lower payments to Joint Venture Partners in the oil sector. Although the interbank exchange rate of the Naira remained steady, the rates at BDC fell and there is clearly suppressed pressure in the market. The administrative measures being implemented are at the moment helping to put a cap on the exchange rate.

As far as the banking system is concerned, the monthly figures for October indicate a reasonably sound level for capital adequacy, liquidity ratio. Nevertheless, it should be noted that total assets, total credit, and profitability are at the moment all trending downwards and these need to be carefully monitored. Moreover, new credits still show a high level of concentration in sectors that are neither growing nor labour intensive

Conclusion and Recommendation

The emerging priorities of the new government appear to focus on fostering strong and inclusive growth, reducing poverty and inequality, fostering a stable macro environment, promoting employment, diversifying the economy, promoting non-oil sector and industrial development

It is very important that monetary policy supports these objectives. In particular, the drastic fall in oil revenue provides a major opportunity for economic diversification, broadening and restructuring growth to generate jobs and reduce inter-personal and spatial inequalities.

While the government strategy is still unfolding, at the moment, what is clear right now is that it is imperative to support inclusive growth. This implies pursuing accommodative monetary policies, but nuancing them carefully in such a way as to have the right impact on the economy. It is also necessary to weigh their costs. In particular, there is a significant risk that monetary accommodation may add some impetus to inflationary pressure in the short term, as well as worsen the incentives for inward portfolio investment. These consequences will have to be carefully taken into account in judging the instruments and weight of the instruments to be deployed.

Taking the above factors into account, we vote as follows:

- Reduce MPR by 100 basis points to 12%, with an asymmetric corridor of + 2% and -7%. This is to incentivize DMBs to put additional liquidity at their disposal to lend more
- Reduce the CRR to 20%, conditional upon the utilization of the additional liquidity thereby generated to support productive

sectors of the economy with strong employment generation potential.

9.0 ADEDOYIN SALAMI

I voted, at this meeting, in favour of reducing the Monetary Policy Rate (MPR) but was unable to support the proposal to reduce the Cash Reserve Ratio (CRR).

As I reflect on the outcome of this meeting, it is difficult to avoid a sense of déjà vu - where despite the best of intentions, the outcomes are more likely to distort and worsen operating economic and business conditions in Nigeria.

The background to this meeting was, as usual, framed by release of activity growth and price data by the National Bureau of Statistics (NBS). Beyond consideration of the NBS' data, the meeting also offered an opportunity to review the outcome of monetary easing measures implemented in consequence of the majority decisions at the meeting in September. My sense being that this MPC meeting faced the dual challenge of (i) responding to a raft of data confirming weakness in domestic economic activity; and (ii) preparing the policy ground for adjusting to obviously worsening international economic conditions.

While Headline inflation, recorded in October at 9.3percent, remains outside the target band, the rate of increase in aggregate prices actually slowed from 9.4percent the previous month. Similarly, both Food and Core also decelerated to 10.1percent and 8.7percent respectively. The outlook for inflation remains quite benign. – Estimates by Bank Staff show Headline Inflation closing the year at 9.2percent while both Food and Core inflation marginally ease to 9.9percent and 8.5percent at year-end. The reduction in the rate of increase in prices continues to reflect underlying weakness in economic activity.

The latest figures for Gross Domestic Product (GDP) show that while Output growth in Q3-2015, at 2.89percent, was an improvement on 2.35percent in the previous qtr., it remains significantly below recent ‘normal’ performance. Detailed inspection of output data unsurprisingly shows that manufacturing activity continues to shrink in consequence, at least in part, of the continuing application of measures to conserve reserves.

Expectation that growth in Q4-2015 will show further improvement on the back of festive season spending should not mask the weakness in demand. The deceleration in output growth, reflected in rising incidence of both unemployment and under-employment, coupled with the fiscal weakness at the subnational tiers of government have contributed to weakness in demand.

While meeting the challenge of building a competitive, rapidly growing and inclusive economy has simultaneously become more urgent, this task is now made more difficult by the drift of job creation into the informal sector. Job Creation data for the past year shows the creation of only 0.5mn new jobs in the face of 1.9mn new entrants into the labour force. Worse still, 90percent of the new jobs are in low paid informal sector activity. It is a source of regret that monetary policy measures aimed at conserving forex demand may be responsible for job destruction rather than support and enhance job creation.

Given sharply slowing growth, it is unsurprising that the 9percent increase in the nominal value of the consolidated loan book remains lower than the rate of increase in prices. Also expected is the continuing weakness in the quality of risk assets of the banking sector. Even though the Non-Performing Loan (NPL) Ratio improved from 4.97percent to 4.53percent between September and October, it remains very high relative to a threshold of 5percent.

Notwithstanding the seeming improvement in NPL ratio, a review of available NPL data show that 12 of the 22 sectors into which the Central Bank of Nigeria classifies lending saw an average increase of 75percent in the year to October 2015. Included amongst the sectors that have seen NPLs grow fastest are Construction (119.64%), Agriculture (107.51), Oil & Gas (95.41%), Manufacturing (39.11%), in my judgment, there are Financial System Stability issues that remain quite potent!

In responding to slower output, the majority of colleagues voted to reduce the Cash Reserve Ratio (CRR) from 25percent to 20percent. As I indicated earlier, I was unable to support the proposal for a further reduction in CRR. Banking system liquidity, despite all the anxiety about the impact of the Treasury Single Account Policy (TSA), at 45.74percent, provides no justification for further injection of liquidity.

It is not clear to me that all but a few banks have any appetite for lending in the present environment. The Banking Stability Report presented by Bank Staff shows gross lending rose by N39bn following the net injection of approximately N400bn following reduction of CRR in Sept.. While it is unrealistic to expect that all the additional liquidity would be deployed to lending or that any increase in lending would happen immediately, however an increase in lending which suggests that only 10percent of the additional liquidity appears rather low especially when compared with the collapse in money market rates which had accompanied the reduction of CRR in Sept.. In other words, despite the collapse in Money Market rates, banks don't appear to consider lending an attractive alternative deployment for any additional liquidity.

Beyond my doubts as to the risk appetite of Banks at this time, I am also unsure how the rebate nature of this proposal works. My understanding is that this reduction in CRR will be operated as a rebate scheme. In other words, Banks will only be entitled to the CRR reduction after lending to the 'Real' Sector. Given that the proposal is intended to stimulate 'new lending', I expected the proposal would set thresholds beyond which banks would be entitled to have the CRR reduction apply.

In addition, the sectors to be supported were not articulated save reference to the 'real' sector and that the beneficiaries would be determined by the banks. This, I imagine insignificant, omission notwithstanding, I struggle to understand why a bank which hadn't supported a sector of activity would suddenly find it attractive to increase lending on the strength of access to increased liquidity – especially at a time when it didn't have liquidity constraints. In reflecting on the CRR proposal, it occurs to me that this measure will create distortions at a time when least affordable. If, as proposed, banks benefitting from the CRR reduction will have to make the ‘qualifying’ loans at single digit interest rates, this will, in a multiplicity of dimensions, simply distort an already uncertain environment.

Affording fiscal incentives to stimulate lending to ‘deprived’ sectors is, in my view, a more effective stimulant to lending. Though deploying CRR in this way is certainly unorthodox, I contend, also inappropriate.

Supporting the proposal to reduce the Monetary Policy Rate (MPR) was less difficult. Even though I disagreed with the decision to reduce CRR taken at the Sept. meeting, the effect of the resulting increase in liquidity on the structure of interest rates had left the MPR isolated. Furthermore, keeping the fixed exchange rate, however unwise and unsustainable, fatally undermines any basis for retaining the MPR at 13percent. I however don’t expect to see the reduction in MPR bringing any relief to borrowers. Supporting the proposal is an attempt – albeit cosmetic - at achieving some consistency in the policy framework.

As a Committee, the policy challenges to be faced in 2016 are pretty clear and, I think, very uncomplicated. They coalesce around the question, how will Nigeria adjust to deteriorating external environment whilst both avoiding further self-inflicted wounds and quickly healing those already inflicted?

The worsening outlook for Oil coupled with the clearly unsustainable FOREX demand restrictions makes it inevitable that the Naira will have to be managed with greater flexibility in the year ahead. It is difficult to understand how, as a nation, we have allowed a puerile debate about the Naira's value dominate the policy discussion. Greater value would be gained if attention focused instead on how to use the present circumstances to create a globally competitive economy able to sustainably grow quickly while providing opportunity for fellow Nigerian.

In this quest to build a globally competitive, fast growing and inclusive economy, we will need to address our collective mind to determining how best to remove conditions which provide HUGE subsidies to a select few at the expense of pretty much everyone else. In previous statements, I have argued that having removed the subsidy on fertilizer with beneficial effect on agricultural output, the same determination must be applied to see us remove the subsidy on fuel and foreign currency.

The reactionary approach of monetary policy in the outgoing year will have to be replaced, in 2016, with a more proactive stance – hopefully based on the outcome of an objective and holistic review of the framework of goals and instrument deployment. At the heart of the approach must be (I) an appreciation of the need to urgently return monetary policy to its core mandate and abandon its use as substitute for coherent and internally consistent fiscal, trade and industrial policy; (ii) a clear understanding of the need to rebuild and sustain operator confidence by articulating and consciously working towards goals and policies which demonstrate a clear understanding of the relationship between national objectives, the characteristics of the international environment and the imperatives of policy making.

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

The state of the global economy remained weak and infused with considerable uncertainty. In the first half of 2015, global growth was less than envisaged leading to a somewhat negative outlook for the rest of the year. Analysis in the October 2015 edition of the IMF's World Economic Outlook (WEO) indicate that global growth in the first half, at 2.9 percent, was nearly 0.3 percentage points lower than forecasted. Consequently, projected global growth for the entire 2015 was revised downward to 3.1 percent, which was marginally lower than the 2014 outcome of 3.4 percent. The diminished global performance reflected continued slowdown in key emerging market economies and the fragile rebound in advanced economies, as growth outcomes were below predictions in both groups. According to the IMF, performance and prospects remained largely uneven across countries and regions.

Among advanced economies, projected growth was revised downward by 0.1 and 0.2 percentage points to 2.0 and 2.2 percent for 2015 and 2016, respectively. In the United States, growth was weaker than envisaged, having slowed sharply from 3.9 percent in the second quarter of 2015 to 1.5 percent in the third quarter. This primarily reflected a strong dollar, weak international trade numbers and a business inventory correction. Within Europe, growth prospects and outcomes remained considerably uneven. In some economies, especially within the Euro area, demand continued to be relatively weak while output gaps remained substantial. The UK economy lost some momentum in the third quarter of 2015 as growth decelerated to 0.5 percent from 0.7 percent in the preceding quarter. Following an initial rebound in the first quarter of 2015, the Japanese economy relapsed into recession in the third quarter, having recorded a downturn of 0.8 percent. In many advanced economies, especially the US and the UK, the modest third quarter performance reflected weakening domestic demand. Consequently, growth prospect for 2016 is expected to be boosted by accommodating monetary stance supported by strong real income growth, and improved business and consumer confidence. Given these, there is a likelihood that the European Central Bank, the Bank of England, and the Bank of Japan may intensify their respective asset purchase programmes in 2016 in order to prop-up domestic growth.

For emerging and developing economies, the tepid economic growth observed so far in 2015 is expected to continue into 2016. Led by China, the group's growth is projected decline from 4.6 percent in 2014 to 4.0 percent in 2015 and 4.5 percent in 2016. This reflected the effects of weakening demand, falling commodity prices, structural imbalances, non-accommodating monetary policy, and intensifying vulnerabilities. Among the BRICS countries comprising Brazil, Russia, India, China, and South Africa, economic developments paralleled the global trends. In China, where growth potentials is being dragged below its long-run trend, medium-term outlook has weakened as the economy continues to experience harsher than anticipated slowdown which is underlain by dwindling exports and falling domestic demand. Russia and Brazil are also experiencing profound contractions, which on the whole were larger than expected and were driven essentially by declining commodity prices and the spill-over effect of the Chinese slowdown. In South Africa, economic outlook remained largely subdued with growth rate projected to decelerate slightly from of 1.5 percent in 2014 to 1.4 percent in 2015.

I note that, given the magnitude of fragility inherent in the global economy, the focus of monetary policy in many economies –even those that has adopted a strict form of inflation targeting– has shifted from price stability to output stabilisation in the short-term. In a lot of advanced economies, the fear of deflation remained significantly palpable especially as cost pull effect of softening oil prices continued to erode consumer prices. The delicate hold on the interest rate by the US Federal Reserves is, therefore, not expected to be rescinded soon; at least not until the growth of the

US economy has steadied. While falling commodity prices are threatening deflation in advanced economies it is aggravating structural imbalances and amplifying exchange market pressure in many emerging market economies as the gravitational pull on the exchange rates intensifies.

In Nigeria, the headwinds from the prevailing global developments particularly the fall in oil prices, the continued strengthening of the US dollar and a weakening Chinese economy are having adverse effects on the economy. As a result, the average economic growth so far in 2015, at 3.1 percent, remained below its medium-term historic average. Growth was estimated at 2.84 percent in the third quarter of 2015, vis-à-vis 3.98 percent and 2.35 percent in quarters 1 and 2, respectively. The current rate, which was less than half of 6.23 percent that was recorded in the corresponding period of 2014, indicated the vulnerable fundamentals of the Nigerian economy to a sustained tumbling of crude oil prices and the effects of these imbalances on consumer and business sentiments. Consequently, the annualized growth projection for 2015 has been marked down from 5.5 percent to about 3.2 percent. The marginal recovery in quarter 3 was attributable to positive expansions in both the oil and non-oil sectors. A closer look at the sectoral breakdown of growth based on data from the National Bureau of Statistics indicates that crop production, trade, telecommunications and information services accounted for the growth in the non-oil sector during the quarter.

While the trajectory of oil prices is difficult to accurately predict, I note that the prospects of improved business sentiments that hinges on crude oil developments is broadly subdued in the short-term. Nonetheless, for the Nigerian economy, I expect that a continued improvement in the domestic energy sector, the attenuation of insurgents in the country and strategic interventions in some productive non-oil sectors will improve the overall outlook in short-term. Therefore, there is need for a deliberate stimulus of the economy through creative financing of growth and job generating enterprises and infrastructures. I believe this is required for a sustainable, self-sufficient and inclusive growth in the medium-term.

On domestic prices, the year-on-year rate of headline inflation remained single digit but above the Bank's tolerance range of 6—9 percent in October 2015. The Consumer Price Index report of the National Bureau of Statistics indicated that the gradual rise in inflation was reversed during the month as the rate fell, albeit marginally, for the first time in eleven months to 9.3 percent from to 9.4 percent in September. This reflected the decline in both the food and the core components of inflation. Food inflation fell by 10 basis points to 10.1 percent while the core component slowed for a second consecutive month to 8.7 percent from 8.9 percent in September. The slight disinflation during the month was indicative of the diminishing base effects of unfavourable energy prices and exchange rate pass-through that is illustrated in the moderation of month-on-month inflation rate. In October 2015, month-on-month rate of headline inflation fell for the fourth consecutive month to 4.2

percent from 6.1 percent in September. Food inflation dropped 19 basis points to 0.45 percent, while core inflation decline from 0.56 percent in September to 0.40 percent in October on a month-on-month basis.

Data on domestic monetary, credit and financial conditions indicated that broad money supply (M2) contracted by 3.75 percent in October 2015 from its level at end-2014. On an annualized basis, this represented a 5.0 percent fall in M2, which was at variance with the programmed expansion of 15.2 percent for fiscal 2015. The continued contraction of M2 reflected the diminishing balance of net foreign assets. However, net domestic credit (NDC) increased by 10.8 per cent during the review month. When annualized, this amounts to 14.35 per cent growth that was significantly below the 29.30 percent growth targeted for 2015. I note that this expansion was essentially traceable to the increase in net claims on the Federal Government. Though higher-than-programmed, the growth rate of net credits to government moderated to 96.66 percent in October from 142.38 percent in

September 2015; partially reflecting the dampening effect from the implementation of the Treasury Single Account (TSA).

The underlying liquidity conditions in the money market resulted in relatively low but ambivalent interest rates movements in October 2015.

Average interbank call and Open Buy Back (OBB) rates fell from 15.50 and 35.00 per cent on September 21 and 22, 2015, respectively, to 3.76 and 0.73 per cent, on October 29 and 30, 2015. Cumulatively, interbank call and OBB rates averaged 6.66 and 6.72 percent, respectively, during that period. As at 19th November, the rates respectively stood at 0.41 percent and 1.33 percent reflecting the surfeit liquidity conditions in the money market. The lingering bearish developments at the equities market continued during the review period. Closing at 28,131.28 points on November 20, 2015, the All-Share Index shed 9.9 percent from the 31,217.77 points it recorded at end-September just as Market Capitalization declined by a comparable 9.9 per cent to N9.67 trillion from □10.73 trillion.

Year-to-date, the All-Share Index and Market Capitalisation have dropped 18.9 and 9.5 percent of their respective values. The continued fragility in the capital market is attributable to weak investor sentiments underlain by the unappetizing effects of oil price dynamics on external reserves.

I note the relative exchange rate stability experienced at both the interbank and bureau de change segments of the market during the review period. At the interbank market, the exchange rate stabilised around N197.00/US$ with a daily average of N196.99/US$ between September 21 and October 30, 2015. The observed stability in both segments reflected the indefatigable resolve of the CBN to safeguard the domestic currency using a mix of administrative policies and market instruments. For example, the introduction of the use of customers' Biometric Verification Number (BVN) has drastically reduced the number of BDC operators seeking to buy foreign exchange from the CBN. Operators who have complied with this directive find it an easy one, and are selling US

Dollars at a range of between N204 and N210. Regardless of the prevalent exchange market pressure, the gross official reserves recorded a modest accretion as it rose to $30.31 billion on 20th November 2015 from US$29.85 billion at end-September.

On the whole, I note the continued fragility of the Nigerian economy and its vulnerability to global developments. The caustic dependence of the economy on oil for foreign exchange inflows and an untenable appetite for imported commodities do not only expose the domestic economy to unsavoury global developments, but also continue to weaken its fundamentals and exacerbate structural imbalances. It is beyond doubt that these lopsided dependences on external markets explain the gradual but unrelenting erosion of Nigeria's productive base. Hence, the effect of global headwinds on the Nigerian economy is deepened by a lack of domestic capacity that would have absorbed some of the global shocks. In this regard, I note the urgent need to direct efforts at all levels to the creation of a robust productive base.

While the benign inflection observed both in inflation and GDP growth rate during the review period are welcome, it is important to note that their absolute levels remained sub-par. I genuinely hope that the trends from the turning points will be maintained in the short- to medium term. However, a realistic view is that if nothing was done to support the domestic economy, the marginal gains observed in the recent NBS data would not only be reversed but could plunge the economy into an excruciating tempest. I maintain that it is expedient to prop the economy on a sustainable basis that would ensure self-sufficiency but also shield the economy from excessive global shocks, create jobs domestically and bring about sustainable growth.

At the last MPC, the lowering of the CRR was expected to provide vital liquidity to support lending to the private sector with a view to jump starting the economy. However, since this has not translated to increased credit to output and employment elastic sectors of the economy, it has become imperative that authorities creatively design measures that will strategically direct credit flows to these sectors in a way that will be concurrently beneficial to the overall economy and the banking sector. I therefore advocate for decisions at the MPC that will surprise the market positively and ensure that any further liquidity due from today's meeting will be channelled to sectors and ventures that will create jobs, strengthen growth, maintain price stability and ease exchange market pressures.

By examining the current state of the Nigerian economy and evaluating its short- to medium-term outlook it is indeed clear that the time is right to ease policy stance, albeit delicately. The sub-par growth rates recorded during the year may continue into the near future if nothing is done. In this light, I am of the strong view that the MPR be lowered to stimulate the economy. Some of the key reasons for lowering the MPR at this time include: continued slow growth and weakening outlook; liquidity surfeit in the market leading to a huge divergence between the MPR and the falling interbank rates and fiscal policy coordination. I also advocate for a conditional reduction in the CRR. The condition here being that the liquidity thus created will only be released as a rebate to banks that have shown evidence of lending to key productive sectors that are capable of consolidating growth, domestic self-sufficiency and job creation. Preferably funding of projects in the agriculture, manufacturing and power sectors as well as other infrastructure boosting ventures will be rebated.

I reiterate the imperatives of a coordinated synergy of fiscal and monetary policies as the panacea that will reposition Nigeria in the aftermath of the prevailing unsavoury conditions. The recently constituted cabinet of the Federal Government is expected to calm the financial markets in the near term, improve business and investor sentiments, and bolster growth momentum in the short-term; as the new Ministers unfold their policy directions. I am not unaware of the exasperating effects of declining oil price on fiscal manoeuvrability. Nonetheless, I implore the relevant fiscal authorities to intensify effort at capital projects in power, refinery and transportation with a view to strengthening the domestic economy permanently. I am of the opinion that, as the economic blueprints of the government become clearer, uncertainties will dissipate, financial markets will steady, business outlooks and consumer sentiments will improve, productive capacity will strengthen, and domestic inflation will stabilise.

In summary, I am strongly of the view that the aggregate supply aspect of the current economic quagmire does not only dominate the aggregate demand aspect but it also has an expansive and a permanent effect on the economy through the process of hysteresis. Consequently, I submit that an expansionary monetary policy, creatively targeted at strategic sectors, is exigent to support the economy, promote growth and enhance job creation at this critical time.

Therefore, I vote for:

1. A conditional reduction in the CRR from 25.0 percent to 20.0 percent;
2. A lowering of the MPR by 200 basis points to 11.0 percent from

13.0 percent;

3. An introduction of an asymmetric corridor of +200 basis points and -700 basis points, around the mid-point of the MPR.