CENTRAL BANK OF NIGERIA COMMUNIQUÉ No. 122 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 21ST AND TUESDAY 22ND JANUARY, 2019

Background

The Monetary Policy Committee (MPC) held its first meeting for fiscal 2019 on 21st and 22nd January, 2019 amidst concerns over the slowdown in global economic activity, arising from on-going trade tensions, tightening global financing conditions and mounting external debt in Emerging Market and Developing Economies (EMDEs). On the domestic front, the resurgence of moderate inflationary pressure and possible threats to accretion to external reserves due to softening crude oil prices were noted. The Committee reviewed the developments in the global and domestic economic and financial environments in 2018, as well as the risks and outlook in the short to medium term. Eleven (11) members of the Committee were in attendance.

Global Economic Developments

The Committee noted the divergence in performance of most economies in 2018 leading to moderation in global output. In addition, a combination of factors including: financial market volatilities, trade war between the US and key allies, continuing monetary policy normalization by the US, BREXIT, the termination of the European Central Bank's (ECB) asset purchase program in

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December 2018 and the slowdown in the Chinese economy, further heightened uncertainties for the global economy in 2019. Consequently, global growth has been downgraded by the IMF to 3.5 per cent in 2019, from 3.7 per cent in 2018.

The Committee noted the gradual increase in global inflation, with inflationary pressures intensifying in some Emerging Markets and Developing Economics (EMDEs) that had in the recent past faced currency depreciation arising from capital flow reversals arising from progressive monetary tightening by the Federal Reserve. It is, however, expected that the recent decline in oil prices may reverse the trend, especially for oil importing economies and thus moderate currency depreciation in these countries.

Domestic Output Developments

The Committee noted the continued recovery in output growth in the domestic economy after the 2016 recession as real GDP grew by 1.81 per cent in Q3 2018 from 1.50 per cent in Q2 2018. The services and agricultural sectors continued to drive output growth, contributing 1.19 and 0.56 per cent, respectively. However, the persistence of herdsmen attack on farmers, cattle rustling and flooding in some parts of the country affected agricultural and livestock output. Based on the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI), output growth for Q4 2018 is expected to expand further. The expected performance projected in the PMI is attributed to continued stability in the foreign exchange market, improvements in the flow of financing resources to the real sector through the various interventions by the Bank, effective implementation of the Economic Recovery and Growth Plan (ERGP) and the increase in non-oil sector GDP. The outlook for growth, however, remains fragile as the late implementation of the 2018 budget and the residual impact of flooding and security challenges, constitute headwinds to growth. The Committee, therefore, believes that the effective implementation of the 2018

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capital budget and the ERGP, improvement in the security situation, and continued stability in the foreign exchange market will enhance aggregate demand and output growth.

Developments in Money and Prices

The Committee noted that the broader measure of money supply, M3, grew by 16.58 per cent in 2018, above the provisional benchmark of 13.02 per cent. Broad money (M2), also grew by 12.17 per cent in December 2018 over its level at end-December 2017, in contrast to the provisional benchmark of 10.48 per cent for 2018. The increase in M2 reflected the growth in Net Foreign Assets (NFA) of 18.54 per cent in December 2018, above its provisional benchmark of
14.50 per cent. Credit to the private sector rose marginally by 1.96 per cent below its provisional benchmark of 12.39 per cent, while credit to government grew by 33.77 per cent in December 2018, above its benchmark rate of 17.38 per cent.

The Committee noted the appreciable growth in credit to the private sector which had been a constraint to growth in the real sector and expressed optimism of further improvement in lending, through the sustained effort of the Bank to enhance credit delivery to small and medium scale industries in the economy. The MPC, thus, commended the Management of the Bank for its efforts so far in sustaining credit delivery to the real sector of the economy.

The resurgence in inflationary pressure in the economy was of concern to the MPC as headline inflation (year-on-year) inched up to 11.44 per cent in December 2018 from 11.28 per cent in November 2018. The increase in headline inflation was driven by food inflation, which rose to 13.36 per cent in December 2018 from 13.30 per cent in November, while Core inflation declined marginally to 9.77 per cent in December 2018 from 9.79 per cent in the previous month. The Committee, however, observed that the uptick in inflation was attributed to

seasonal factors, which impacted mainly on food. Consequently, all measures of

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inflation, month-on-month, showed a decline. Thus, headline, food and core inflation declined to 0.74, 0.81and 0.50 per cent in December 2018 from 0.84, 0.90 and 0.68 per cent, respectively, in November 2018.

The Committee observed that the near-term risks to inflation remain: the residual impact of flooding on agricultural output, insecurity in parts of the food producing belts of the country, exchange rate pass-through to inflation due to weakening oil price and campaign-related spending towards the 2019 general elections. Accordingly, the MPC urged the Federal Government to sustain its current effort towards improving security to ease the food supply chain bottlenecks.

Money market interest rates in the review period, generally reflected the level of liquidity in the banking system as the average inter-bank call rate declined significantly to 7.17 per cent in November 2018 from 14.18 per cent in October 2018. The Open Buy Back (OBB) rate, which stood at 6.57 per cent in October 2018, increased marginally to 6.76 per cent in November 2018. On December 24 and 31, 2018, the interbank call and OBB rates, however, closed at 14.00 and 18.94 per cent, respectively. The improvement in net liquidity position and interest rate reflected the combined effects of the CBN quasi-fiscal operations, OMO auctions, maturing CBN Bills and foreign exchange interventions as well as statutory allocations to state and local governments.

The Committee observed the decline in the equities market for the most part of 2018. On a year-on-year basis, the All-Share Index (ASI) decreased by 17.81 per cent from 38,243.19 at end-December 2017 to 31,430.50 at end-December 2018. The All-Share Index (ASI) further decreased by 1.35 per cent to 31,005.17 as at January 18, 2019. Similarly, Market Capitalization (MC) decreased by 13.87 per cent from N13.61 trillion at end-December 2017 to N11.72 trillion at end-December 2018. It further declined by 1.37 per cent to N11.56 trillion as at

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January 18, 2019. The Committee observed that these developments largely reflected the impact of the progressive monetary policy normalization in some advanced economies and the sustained profit taking activities of foreign investors arising from perceived political risk in the build-up to the 2019 general elections. The MPC, however, remained optimistic of the gradual reversal of the current trend in the medium term, given the current stability in the foreign exchange market and the external reserves position, as well as continued improvements in key macroeconomic indicators.

The Committee noted the relative stability at both the Bureau-de-Change (BDC) and the Investors' and Exporters' (I&E) window of the foreign exchange market, supported by the Bank's proactive exchange rate management policies. It also observed with satisfaction, the contribution to stability in the market of the implementation of the Bilateral Currency Swap Agreement (BCSA) with China and the inflow of the US$2.8 billion Euro bond. The Committee also noted the marginal increase in the external reserves, from US$42.54 billion at end- December 2018 to US$43.28 billion as at January 21, 2019, noting that these improvements would further strengthen investor confidence in the Nigerian economy.

The Overall Outlook and Risks

Forecasts for key macroeconomic indicators in 2019 portend a positive outlook for the domestic economy. Output growth is expected to be driven by fiscal stimulus from increase in oil and non-oil receipts to support the Federal Government's Economic Recovery and Growth Plan. The economy is projected to grow by 2.0 per cent by the IMF, 2.2 per cent by the World Bank and 2.28 per cent by the CBN. Key headwinds to these forecasts, however, are softening oil prices, persistent security challenges arising from insurgency in the North East,

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herdsmen attack in some parts of the country and perceived political risks associated with the 2019 general elections.

The outlook for inflation in the first half of 2019 is mixed, with the expectation of an increase in the near-term before a gradual decline towards the mid-year. Inflation is expected to rise marginally amidst palpable tailwinds, which include increased spending preparatory to the 2019 general elections and continued disruptions to the food supply chain in the insurgency prone areas and herdsmen attacks in food producing regions of the country.

The MPC appraised the possibility of external shocks in 2019 as the outlook for the global economy remains uncertain due to the effect of on-going trade tensions between the US and its key allies, slower growth in China, unclear direction of BREXIT negotiations and continuing monetary policy normalization in some advanced economies. The Committee was of the view that oil prices may, however, remain relatively stable, within the US$50pb bracket in view of recent OPEC's production cutting actions.

Committee's Considerations

The Committee noted with satisfaction, the performance of the economy in 2018, highlighting the achievements in key macroeconomic indicators in the face of global uncertainties and domestic challenges. In particular, it noted the stability in the exchange rate, stable accretion to external reserves, moderation in inflation and the low but gradual improvement in real GDP growth in the last six consecutive quarters commencing from Q2 2017. The MPC noted that given global economic conditions and the risk confronting emerging markets and developing economies in recent times, as well as the limited productive capacity of the economy, the managed float foreign exchange management regime of the CBN has delivered the most optimal results when compared with

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other emerging markets in recent times. Consequently, capital flows into the domestic economy has continued unabated after an initial lull. The Committee considered the risks to the global economy, noting the downward revision in projected global output in 2019, the adverse impact of the trade war between the U.S and its major trading partners, likelihood of lower crude oil prices, impact on capital flows of continued monetary policy normalization by major advanced economies, distorted signals on BREXIT negotiations, as well as pockets of other socio-political tensions and perceived election risks on the domestic front.

The Committee commended the government's focused expenditure on investment in infrastructure and urged the Federal Government to sustain the pace towards addressing the infrastructural deficit in Nigeria. It noted that the immediate impact of this approach on GDP may be slow in coming, but will eventually expand the economy's productive base, reduce unemployment and increase aggregate demand in a more sustainable manner and over a long period of time.

The Committee acknowledged the strategic role of the private sector in economic growth and remained concerned over the slow growth in credit to the private sector through 2018, while noting the sudden increase at end- December 2018. The MPC commended the initiative of the Bankers Committee in addressing the phenomenon of low credit to the small and medium scale enterprises through partnering with the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) to establish a national Microfinance bank with branches in all States and Local Government areas of the Federation to provide low interest rate lending to small scale businesses. A further initiative by NIRSAL with the CBN to de-risk lending to small scale enterprises is also being fine-tuned. On external borrowing, the Committee noted the increase in the

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debt level, it advised for caution, noting that debt levels could fast be approaching the pre-2005 Paris Club exit level.

The MPC also noted that although there was an increase in the inflation rate for the second consecutive month, month-on-month inflation continued to moderate, indicating that the year-on-year measures will also moderate in the near term. This is supported by the stability in the naira exchange rate and thus, urged the Bank to sustain this stability. To this end, it welcomed the narrowing of the exchange rate premium between the BDC segment and the Investors' and Exporters' (I&E) window of the foreign exchange market.

The Committee also noted with satisfaction the gradual reduction in Non-Performing Loans of the deposit money banks (DMBs) which has further strengthened their balance sheets. The Committee believes that as Government pays off contractor debt and other obligations, there will be a sizable reduction in the NPLs of the banking system.

The Committee also noted the attempt by Government to broaden the base of the Value Added Tax (VAT) and urged the authorities to expedite action in that respect, arguing that increased tax collection will reduce the pressure on government expenditure and create fiscal buffers to improve macroeconomic management.

The observed and recent high foreign capital inflow into the Nigerian economy despite the perception of election risk, is evidence of the confidence of the international community in the country's macroeconomic management and provides a compelling reason for the Committee to await clarity on macroeconomic performance after the general elections in February and March 2019.

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In the light of the observed risk confronting the economy, including the global and domestic inflationary pressures, which have intensified the risk of currency depreciation, the MPC was of the view that a loosening option was very remote. Weighing the balance of its judgement on price stability conducive to growth, the MPC felt that tightening would result in the loss of the gains so far achieved, noting that this may drive the banks to reprice their assets; thus increasing the cost of credit as well as elevating credit risk in the economy. It will also worsen the position of non-performing loans of the banks. The Committee also felt that tightening would dampen investments and hamper improvements in output growth, given the already fragile growth performance so far achieved.

The Committee's Decision

In the light of the above, the MPC decided by a vote of all eleven (11) members to keep the policy parameters unchanged from their current levels.

In summary, the MPC voted to:

I. Retain the MPR at 14 per cent;

II. Retain the asymmetric corridor of +200/-500 basis points around the MPR;

III. Retain the CRR at 22.5 per cent; and

IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
22nd January, 2019

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PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

Economic recovery strengthened in 2018 judging by the out-turn of key economic parameters. In Q3 2018 real output grew by about 1.8 per cent, contrasting the decline in 2017; inflation decelerated, on average and the naira exchange rate remained stable. These improvements occurred despite many headwinds including the uptick in political activities and uncertainties in the global economic environment. Needless to say, the Monetary Policy Committee (MPC) adopted a cautious approach to policy in 2018 in consideration of a broad spectrum of risks emanating mainly from the international scene. Those risks which I will highlight shortly effectively reshaped the outlook for capital flows, external reserves, exchange rates and economic growth particularly in the emerging markets and developing economies (EMDEs).

In 2018, monetary policy normalization continued in some of the advanced economies. This combined with increased volatility in commodity prices to pressure local currencies and capital markets in emerging markets and developing economies (EMDEs). Meanwhile, the protracted trade dispute between the U.S.A. and China, as well as geo-political tensions continued to burden global economic activity, prompting downward revisions of global growth forecasts for 2018. These developments resonated in slower output growths, higher yields and unsettled stock markets across many countries including Nigeria. In fact, most of the current projections of global output growth for 2019 are less optimistic compared with the estimates for 2018. Specifically, the IMF envisages a further weakening of global growth prospects in 2019.

In Q2 2018, Nigeria's output recovery pace slowed, accompanied by a bearish run on equities. Both the NSE All-Share Index (ASI) and market capitalization streaked downwards through Q4 2018, chiefly on account of flow reversals engendered by adverse external factors and election-related uncertainties.

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Those external conditions could persist in 2019, thereby muffling the outlook for growth and financial stability. In light of these concerns and other considerations outlined below, I voted at the January 2019 MPC meeting for a hold on all policy parameters.

First, it is important to note that the developments on the external front could translate to a protracted softening of oil prices and reduced capital inflows to Nigeria, implying that the much needed domestic growth impetus may not be coming from the external sector. In Q3 2018, the oil sector contracted even as overall growth regained some momentum, driven mainly by services and agriculture. Given the outlook for oil prices and the OPEC production cut, the economic growth pattern in most of 2019 is likely to mimic Q3 2018. In essence, decisions on all economic policy levers at this time need to incorporate consideration for supporting the non-oil sector.

Like I stated in my November 2018 statement, improving credit to the real sector continues to be a key imperative towards strengthening growth and job creation. The Bank's interventions in agriculture have clearly shown the immense prospects with properly directed credit. Deposit money banks (DMBs) need to step up credit delivery to the growth poles – agriculture, manufacturing, and services especially. The last couple of months have witnessed a sustained improvement in banking sector resilience – industry capital adequacy and liquidity ratios have grown, while the non-performing loans (NPLs) ratio is on the decline. This should translate to improved intermediation to be relevant. While monetary policy has to accommodate the need to sustain current improvements in banking industry Financial Soundness Indicators (FSIs), the DMBs would need to moderate their appetite for government securities and oil & gas assets in order to gradually re-balance their asset portfolios.

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Second, at 11.44 percent in December 2018, inflation is higher than the policy preference range set by MPC (6.0% - 9.0%). However, the increase in headline inflation in December 2018 was essentially driven by the food price index which rose by 13.56 per cent, year-on-year, from 13.30 per cent in November. This may be attributed to the usual spike in demand for food on account of the year-end festivities. Core inflation remained flat in December at 9.8 per cent. More importantly, all the measures of inflation declined on the month-on-month basis in December 2018.

Third, developments in the interbank market somehow suggest that the sterilization actions of the Bank have remained very effective in reining-in excess liquidity. It is important that such actions should continue to be a component of monetary management in 2019 as liquidity threats do not appear to be abating any time soon. Keeping domestic liquidity in check is important not only for inflation, but also for the stability of the naira exchange rate.

Overall, my assessment is that risks to inflation have remained tepid notwithstanding the year-on-year increase in headline inflation in December 2018. This could change depending on the short to medium-term evolution of fiscal policy. Given elections in February and March, the fiscal outlook should become clearer as from April 2019. On the other hand, the outlook for economic growth is a bit concerning given the indications from the oil sector (especially the volatility in crude prices) and sluggish consumption demand. I view the balance of risks to economic growth tilting to the downside, which suggests that there is a more urgent need to support growth or in the minimum delay any policy action that might further tighten credit conditions.

It is important to stress nonetheless that a supportive monetary policy orientation alone will not be sufficient to lift economic growth to the historical levels of 5-6 per cent. Other policies of government, particularly fiscal and sector policies have to be in the same mode. Over the short-term, I am especially hopeful that

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the implementation of a new national minimum wage will lift disposable incomes and boost aggregate demand.

2. ADENIKINJU, ADEOLA FESTUS

Background

Nigeria, along with other countries faces potentially significant uncertainties in 2019. The possible outcomes are laced with probabilities which would exert positive or negative influence on emerging countries' economies. These uncertainties have made several multilateral agencies to revise downwards their projections on global output growth. Key drivers of these uncertainties include trade war between the US and China, the slowing Chinese economy, resurgence of protectionism and rise of nationalism in different parts of the world, the uncertain Brexit negotiation, continued volatility in capital markets, America's domestic policies, among others.

Nigeria is also confronted with a number of uncertainties in 2019. The threats around the general elections, the national minimum wage legislations, strikes by Unions seeking improved working conditions, the continuous insurgencies in parts of the country, impacts of climate change manifesting in increased incidence of flooding, desertification and lower agricultural productivities, oil market volatilities are additional challenges that will have impacts on the economic landscape in 2019.

Economic Developments

The global economic outlook is not very bullish for 2019. Global oil price is projected to settle in the US$60-US$68 per barrel band. Although this band is above the benchmark for 2019 budget, oil output is currently below the benchmark value. Global inflation rate is expected to trend up gradually, as US

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domestic policies continue to impact on capital flows into emerging economies. Output growth in major blocs, especially developed countries and China may trend lower from their 2018 levels. Nigeria, therefore, needs to factor the various scenarios into policy considerations for 2019. The external fragilities will have impact on rate of foreign reserves accumulation and fiscal buffers to stabilize the economy, as well as other macroeconomic indicators.

On the domestic front, output growth retains its fragile but positive trajectory in 2018, achieving a 1.81%, growth rate which is definitely below the long term potentials of the economy. Headline inflation (year-on-year) rose marginally to 11.44% in December 2018, from 11.28% in November 2018. This is partly due to seasonal effects. However, inflationary expectations surrounding the elections and announcement effects of increase in national minimum wage remain muted as at December 2018. The foreign reserves level at US$43.67.billion by mid-January still provides respectable import coverage. The exchange rate market remain stable at both the BDC segment and the I&E windows.

The monetary aggregates overshot their targets growth rates for 2018, suggesting inflationary build up, which must be closely monitored. Projected annual growth of M2 and M3 monetary aggregates by the end of fiscal 2018 stood at 12.17% and 16.58% as against targeted benchmarks of 10.48% and 13.02%, respectively.

With respect to the banking and financial system, there is positive trend in all financial system indicators (FSI) between November 2018 and January 2019. The NPLs ratio continues its downward trend, capital adequacy ratio of the banking sector improved three consecutive months, liquidity ratio inched northward, aggregate assets and deposits of the banking sector also rose over the same period. However, the monetary authority should not lower its guard and must continue to monitor the banks and implement policies to consolidate and further improve the FSI.

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Aggregate credit expansion to the real economy continues to pose serious challenges. Net credit growth to the private sector is lower than provisional benchmark for 2018. The high interest rate spread and the high lending rates are challenges that require new and innovative approaches. The proposed National Microfinance Bank; strengthening of the existing Micro Finance Banks, and other initiatives by the CBN to promote financial inclusion and access to credit by those in the rural areas, semi/urban; and even the poor areas in the cities across the country at affordable interest rates would boost real sector activities at the MSMEs level.

The Bank has in the past few years been successful in managing inflation and exchange rate expectations. It has also succeeded in creating the environment for foreign capital inflows, however, there is a need for coordination between monetary and fiscal authorities to unlock the economic potentials of the economy and of Nigerians. Addressing infrastructure constraints and measures to promote competitiveness of local products will be critical to economic diversification. Widening the revenue base beyond oil revenue will enhance the fiscal space for the government in 2019. Dependence on oil revenue, in such an uncertain global economic environment will continue to undermine government fiscal performance and increase national debt. This is a time to build fiscal buffer to cushion the economy against macroeconomic shocks and help finance diversification objectives. The current and growing level of national debt should be urgently addressed before it becomes unsustainable.

Decision

Short and medium term inflationary outlook presents a cautionary approach, in view of the multiple layers of uncertainties domestically and globally. However, inflationary build up remains moderate. The usual spending spree associated with previous general elections is yet to manifest in any significant increase in money supply to the economy. There is also the need to protect the fragile growth rate

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which a further tightening of the economy would portend.

Hence, I cast my vote to hold the existing monetary policy parameters at this meeting, cautiously watching as the year unfolds unto the various projected outcome paths.

3. AHMAD, AISHAH N.

At its first meeting of 2019, the Monetary Policy Committee, myself included, unanimously voted to maintain the current monetary policy stance, retaining the MPR at 14.0 per cent; CRR at 22.5 per cent; liquidity ratio at 30.0 per cent and the asymmetric corridor at +200/–500 basis points. The data presented at the meeting provided no compelling reasons to significantly alter the monetary policy stance at this time; particularly given the global and domestic uncertainties which are yet to fully unfold so early in the year.

In my view, the economic imperatives confronting us at this moment concern how we will, in the words of the IMF, "address [remaining] vulnerabilities, and prepare for when a serious slow down materializes". For Nigeria, this is analogous to addressing long entrenched structural vulnerabilities in our economy: high import dependency, over reliance on foreign exchange earned from a single commodity with an increasingly volatile price - oil, high unemployment and low labour productivity and a sustained era of stubbornly low growth. These issues require urgent attention if we are to create a vibrant, globally competitive economy that provides opportunity and prosperity for all its citizens.

Notwithstanding this long term view, a number of recent global economic developments have potential to degenerate, bringing our vulnerabilities sharply into focus. These call for review, reflection and action to ensure the Nigerian economy sustains its positive growth trajectory.

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Global growth environment is expected to be decidedly weaker in 2019

The risks to global growth which intensified over the second half of 2018, have persisted and are expected to heighten as 2019 progresses. This is somewhat validated by the further downward revision of the IMF's global output growth projections to 3.5 and 3.6 per cent in 2019 and 2020, respectively, 0.2 and 0.1 percentage points below last October's projections. Although the global economic outlook remains broadly positive, the spillover effects of sluggish momentum in the second half of 2018, global trade policy uncertainty, weakening financial market conditions, the possibility of a "no-deal" Brexit and a greater-than-envisaged slowdown in China (6.6 per cent in 2018; slowest in almost three decades) remain major headwinds to global growth in 2019.

Slower global growth prospects may have a negative impact on global demand and price of crude oil, which has potential adverse implications for Nigeria as a major oil producer. The US Fed's normalization program is another significant potential headwind which may impact the ability to attract foreign exchange flows with implications for exchange rate stability. Thankfully, recent economic developments in the US suggest the Fed may delay further rate hikes.

More worrisome is the volatile movement in crude oil prices since August 2018. From an average of US$73.64p/b in August 2018, it rose to US$82.5p/b in October before declining to US$58.16p/b in December of the same year. This reflects supply influences partly driven by the US policy on Iranian oil exports and, more recently, fears of softening global demand. As of January 21, 2019, the price of Bonny light crude per barrel, hovered around US$62, whilst oil price futures indicate the price may stay within the US$60 margin through the year. The prediction notwithstanding, the trajectory over the medium term remains unclear, thus threatening economic stability, particularly in emerging and developing oil exporting countries.

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This volatility in crude oil prices, coupled with reliance on oil for about 90.0 per cent of foreign exchange earnings remains a key risk factor for the Nigerian economy, with significant implications for continued accretion to external reserves, and as a direct consequence, exchange rate and price stability. More importantly, the scope of the fiscal authority to stimulate growth remains constricted, in view of the attendant low revenue and fiscal buffers as well as rising public debt. This raises further concerns with regards to growth prospects in the medium-to-long term and calls for even greater focus and commitment to achieving fiscal consolidation.

External sector performance withstood significant headwinds as the naira emerged relatively unscathed from the emerging markets currency challenges of Q3 2018 due to the Fed's normalization, coupled with the idiosyncratic foreign portfolio investment sell offs in anticipation of the 2019 general elections. Nigeria's stock of external reserves remains relatively healthy at US$43.1bn (January 21, 2019) - on account of reducing imports, and increased autonomous inflows through the Investors' and Exporters' Foreign Exchange (I&E) Window. Thus, in spite of these headwinds, confidence in the economy is relatively strong, evidenced by improved inflows from US$7.0bn to US$8.7bn in November and December 2018, respectively. Relative stability in the exchange rate has manifested along with improving convergence within the foreign exchange market, reflected in narrowing premium between the BDC and interbank market segments. Thanks in part to the bold reforms of the Central Bank since 2016 and other complementary fiscal measures which are yielding dividends.

The relative stability of the exchange rate, monetary tightening and other supply side initiatives has helped keep inflation largely under control. Headline Inflation moderated from 15.37 per cent to 11.44 per cent between December 2017 and 2018, reflecting considerable decline in the price level. Although it increased

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marginally from 11.28 per cent to 11.44 per cent in November and December 2018, respectively, due largely to modest increases in food prices to 13.56 per cent in December 2018 from 13.30 per cent in the preceding month, the near term risks to price stability (Increased general election spending and proposed increase in the national minimum wage) appear largely benign.

Since Nigeria's exit from recession in Q2 2017, GDP growth has remained fragile, averaging about 1.5 per cent, far below the pre-2016 recession levels. This fragility is further exacerbated by rising unemployment rates, reaching as high as 23.1 per cent in Q3 2018 (y-o-y); indicating that the economy is operating far below its potential. Although the medium term outlook for growth remains positive, based on projections of 2.2 and 2.0 per cent by the World Bank and IMF, respectively, a stronger, more resilient and inclusive growth is desirable in view of the currently high unemployment and population growth rates and weak per capita income. This requires more coherent and balanced set of policies particularly with respect to revenue reforms, targeted investments in growth enhancing sectors, a more technologically driven production process and overall diversification of the economic base away from over reliance on crude oil.

Improving financial soundness indicators reflect growing banking sector resilience. Data provided by bank staff showed that the industry capital adequacy ratio increased considerably from 10.23 per cent in December 2017 to 15.26 per cent in December 2018; marginal improvement in non-performing loans ratio recorded is also expected to strengthen further on account of the recent promissory notes issued by the Federal government to settle contractor debts, whilst liquidity ratios, return on asset and return on equity remained robust. The improvements in capital buffers is a positive development which will be critical should a downward trend in crude oil prices manifest given banks' portfolio concentrations in the oil and gas sector.

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Notwithstanding the robust liquidity levels, credit to private sector remains lower than required to support business investment and long-term growth. Growth in lending portfolios is particularly important to diversify banks' asset portfolios away from energy-related assets as earlier mentioned. Banks are strongly encouraged to commit fully to de-risking their portfolios in this aspect through new lending to SMEs and previously overlooked, but high potential sectors such as services and creative industries.

The use of innovative technology by some of the larger commercial banks for more efficient and scaled deployment of retail lending is commendable, even as the micro finance sector is repositioned to more effectively serve its target segments. Naturally, these efforts will continue to be supported by continued de-risking initiatives by the CBN especially for SMEs to improve the industry risk appetite, to engender more sustainable lending.

Juxtaposing the signals from the global environment with domestic economic developments, there are indications that the risks to price stability remain ever present, coupled with the challenge of a persistent low growth environment. The monetary authority must therefore remain vigilant and forward looking to successfully deliver on its mandate to maintain price stability conducive to economic growth.

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4. ASOGWA, ROBERT CHIKWENDU

Background:

The first MPC meeting in 2019 was held at a time when risks to global growth were tilted to the downside with a mix of predictions around political, financial and trade issues that could shape the near-term outlook of the global economy in 2019. With consumer price inflation generally contained in many advanced economies in the twilight of 2018, policy priorities in the face of this diminished growth optimism may largely focus on strengthening resilience. As such, the shape of monetary policy at the international level will be amply passive until around the third quarter of 2019. For Nigeria, beyond these global downside risks, the domestic economic outlook will be influenced additionally by oil price movements as well as financial markets response to the post 2019 election developments and the prospects of a stronger non-oil sector performance. Concerns about these global growth risks and the monetary accommodation sentiments which can influence domestic capital flows and exchange rate stability should therefore guide policy rate choices by MPC members at this meeting.

The International Economy: Signs of Expected Downturns in 2019.

The optimism about a robust global economic outlook now look dim with earlier forecasts for several major economies downgraded for 2019 especially the early quarters of the year. Specifically, growth in advanced economies is projected to slow from an estimated 2.3 percent in 2018 to 2.0 percent in 2019 and 1.7 percent in 2020. The key triggers of the expected downturn include the escalating trade actions with consequences for higher prices in China and US, higher input costs and heightened financial market volatility. Besides, the geopolitical tensions in the Middle East and East Asia are other downside risks to

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global growth. These effects will generally have spill over consequences for several developed and emerging markets.

In China, growth has steadily been slowing from 6.9 percent in 2017 to 6.6 percent in 2018, which is the lowest level in about 10 years and the expectation is that it will fall further to 6.2 percent in 2019. Eventhough there are recent monetary and fiscal measures designed to support growth, the outcome may just remain modest if US trade tensions becomes aggressive in the year. Growth in the US is projected to decline to 2.5 percent in 2019 and even soften further to
1.8 percent in 2020.

In the Eurozone, the heightened trade tensions and declining business environment is also driving a deceleration of growth expected in 2019. The Eurozone growth numbers which peaked in the second half of 2017 has declined since then to 1.8 percent in 2018 and there are predictions for a further decline to 1.6 percent in 2019. In Germany for instance, the purchasing managers index fell in January 2019 for the fifth consecutive month in a row leading to a cut in the country's economic growth forecast for 2019. Similarly, Japan's recovery remains weak with growth predictions of less than 1 percent in 2019 as the slowdown in China's economy and the fallout from trade tensions between US and China drags growth further down.

For many emerging markets, the downturn spill-over from key advanced economies will likely see growth decelerate in 2019. Eventhough Brazil, India and Russia experienced some mild pick up in 2018, such countries as Argentina, South Africa and Turkey will remain under intense pressure to recover from the recessions and near- recessions experienced in 2018. With severe headwinds including further dim in growth for several advanced economies, extended slow pace of world trade, tightening financial conditions and continued weakening of capital flows, growth in these emerging markets may still stagnate especially in the first two quarters of 2019. Similarly, for many African Countries, growth

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forecasts for 2019 has also been downgraded, but there are expected possible improvements in commodity prices by mid-2019 and for which growth rates may look positive at that time for several resource intensive countries in the continent.

Major Central Banks appear to be adopting a more cautious approach with policy interest rates for many global economies likely to remain unchanged in the early parts of 2019 given the expected weaker growth and the muted inflationary pressures experienced in key economies. While the US Federal Reserve raised the target range for the federal funds rate in December 2018 and plan additional rate increases at least two times in 2019, it has also signalled that the pace of removing this accommodation may likely be more modest than expected and even happen in the latter part of the year. The Bank of England may also likely refrain from rate hikes early in 2019 as the Brexit process remain uncertain, while the European Central Bank which ended its net asset purchases in December 2018 may also not hike rates until early in 2020.

Mixed Bag of Domestic Macroeconomic Fortunes:

Recent economic indicators in Nigeria such as GDP, External Reserves, Unemployment and Inflation presents a mixed bag of economic fortunes. Based on latest figures, while growth and external reserves were on the upward spiral, there were downside trends for both inflation and unemployment. The 2018 third quarter real GDP which grew by 1.81 per cent is encouraging when compared to the 1.50 per cent growth in the second quarter of 2018 and was primarily driven by a rebound of the non-oil sector. Similarly, the Manufacturing Purchasing Managers Index (PMI) for December 2018 stood at 61.1 points indicating expansion in the manufacturing sector for the 21st consecutive month and also shows faster growth when compared to the index in the earlier month. Similarly, the composite PMI for the non-manufacturing sector stood at 62.2 points in December 2018 also indicating expansion in the non-manufacturing sector for the 20th consecutive time. External reserves also made an upward

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bound in November 2018 compared to the levels in the preceding month. Eventhough it dropped by December 2018, the levels have since picked up in the middle of January (prior to the MPC meeting).

On the downside, the recent unemployment rates for 2018 released by the National Bureau of Statistics (NBS) in December 2018 support the earlier fears that the economic recession may have worsened the employment levels as there were increases in unemployment rate to 20.4 per cent in the last quarter of 2017 and further to 23.1 per cent in the third quarter of 2018. Unfortunately, the youths seem to have more than a fair share of the worsening unemployment trend as the gap between the youth unemployment rate and the aggregate unemployment rate widened as from the second quarter of 2017. Often, the incidence of unemployment in Nigeria has been attributed to the slow pace of job creation, which has been weaker than the labour force growth. For instance, between 2010 and 2017, the average job growth was about 1.6 per cent while the labour force growth was 3.9 per cent.

Similar to the unemployment figures, the year-on-year headline inflation rate increased marginally from 11.28 percent in November 2018 to 11.44 percent in December 2018, but on month-on-month basis, inflation rates dropped from 0.80 percent in November 2018 to 0.74 percent in December 2018, while year-on- year core inflation declined to 9.77 percent in December 2018 from 9.70 percent in November 2018. This marginal uptick in inflation is attributed to movements in food inflation, which rose year-on-year to 13.56 percent from the
13.30 percent level in November, while on a month-on-month basis, it declined from 0.90 percent to 0.81 percent. These have been due to rises in prices of farm produce and several processed foods which are linked to the several conflicts in the major food producing regions as well as the adverse weather conditions that occurred for several months in 2018.

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Financial Sector Soundness:

The domestic capital market continued a negative trend in December 2018 with both the All Share Index and the Equity Market Capitalization declining year-on-year and month-on—month basis. The bearish sentiment has been linked to the declining ratio of foreign to domestic participation in the equity market, partly attributed to the monetary policy normalization in some advanced economies as well market perception of the anticipated 2019 election risks.

On the banking system, CBN staff report indicate modest improvement of the indicators as compared to the situation at the MPC meeting of November 2018. Both the Capital Adequacy Ratio and the Non-Performing Loans (NPLs) Ratio showed positive signs in December 2018 and partly attributed to some prompt corrective actions taken by the Central Bank. On the profitability indicators (ROE and ROA), there were mixed signals based on the December 2018 data. While ROE increased marginally between October and December 2018, the ROA decreased marginally during the same period. Of key concern however, is the trend in total bank credit which reduced in November 2018 and further in December but surprisingly total bank assets increased between November 2018 and December. The inverse movement between bank total assets and bank total credit at the same time may simply be as a result of banks' excessive interest in securitization and other non-traditional banking activities rather than real sector lending. The negative implications of this credit reluctance by banks in a period of economic recovery have been discussed severally and remain significantly limiting for the economy.

Policy Decision:

With the expectations of a slower global growth in 2019 and the diminished chances of policy rate increases by many advanced economies at least in the

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early parts of 2019, a cautious policy rate choice seems realistic at this time. Moreover, with domestic inflation rates at near subdued levels and possible post 2019 elections financial market recovery, my strong opinion is for policy parameters to remain largely unchanged for this period.

I will thus vote to:

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

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5. BALAMI, DAHIRU HASSAN

The year 2018 has been turbulent both globally and domestically, witnessing changes politically and economically which have implications on the Nigerian economy. At the global level, these include normalization of U.S economy and increase in the level of interest rate in U.S which has led to the outflow of both foreign direct investments (FDIs) and foreign portfolio investments (FPIs) from less developed countries to the U.S. economy. Others include the trade war between the US and China, slow growth in the Chinese economy, the volatility in the oil prices at the international level, and the issue relating to the Brexit etc. At the domestic level, the performance of the 2018 budget has been affected negatively by the following factors: poor internal revenue generations and late approval of the budget by national assembly and late release for capital projects budget. Other domestic challenges identified were floods, herdsmen/farmers conflict and insurgency in the North-East which are all being minimized still with us in 2019.

The Monetary Policy within the 2019 Budget Proposal

The N8.83 trillion budget is decomposed into recurrent expenditure of N4.04 trillion and capital expenditure of N2.031 trillion, and the remainder account for servicing debt. The 2019 budget proposal is less than the 2018 budget by N300 billion with the amount allocated to capital expenditure less than the amount budgeted in 2018.The 2019 budget was based on five assumptions that have implications on monetary policy to drive the economy.

Firstly, the assumption of price of crude oil at U.S$60 per barrel. The benchmark oil price per barrel was US$38.0, US$44.5 and US$51.0 for 2016, 2017, and 2018 respectively, which has implications for monetary policy due to low level of Federal Government expected revenue projections and fiscal deficit. The reliability of the 2019 budget would be based on realistic nature of the

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assumptions. With the current volatility in the international oil market the assumption that the price of crude oil at US$60 per barrel may not be realistic due to the dynamics of the international oil market including the role of Saudi Arabia, Iran, US and other non-OPEC countries such as Russia. It should be noted that even countries like Russia, Azerbaijan and Mexico etc. have lowered their benchmark to US$58 per barrel. In 2019, the main challenge monetary policy will face if crude oil price goes down below the budget estimate will be low inflow of foreign exchange into the external reserves and this has implications on the exchange rate which is critical to the stability of the foreign exchange market and inflation in the economy since Nigeria economy is an import dependent economy.

Secondly, the assumption of oil production output of 2.3m barrel per day. Again in terms of oil production, this may not be realistic if no other new oil fields or new investments are not put into production of crude oil as well as the maintenance of peace in Niger Delta region. For 2018, Nigeria was not able to achieve the 2.2 million barrels per day, but ended up with 1.98 million barrels per day in 2018. It is expected that the organizations of petroleum exporting countries (OPEC) is likely to meet in the future in order to cut the oil output, this is likely to affect Nigeria's oil output in terms of allocation from OPEC. If the 2019 oil output assumption is not achieved, it will translate into low level of inflows into the country this will also impact on the foreign exchange market and the level of foreign reserves thereby affecting price stability in the economy.

Thirdly, the assumption of exchange rate at N305.0 to US$1.The assumption on the exchange rate of N305.0 to $1 can only be achieved through constant Central Bank's intervention in the various segments of the foreign exchange market such as the interbank segment, investor's and importer's window and the Bureau De Change segment. Again the volatility of the oil price and output of the oil production will affect the level of external reserves which is highly

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relevant for the management of foreign exchange rate market as well as price stability is the main mandate of the CBN. The higher the level of inflow through higher crude oil price, loyalties, petroleum and tax, the higher will be the level of reserves, the current stability in the foreign exchange market is due to CBN interventions as highlighted earlier. Exchange rate stability is very vital because Nigeria does not produce and export goods apart from the crude oil and gas and the goods produced are vulnerable to shocks. The pass through effect of exchange rate to prices in the economy is high should depreciation occur.

Since exchange rate is a strong weapon of trade Nigeria should adopt a managed floating exchange rate regime due to productive base to support floating the naira.

Fourthly, is the assumption of a growth rate at 3.01%. Nigeria's economic growth remains fragile and weak after exiting from the 2016 recession in 2017. The growth rate of less than 2 percent is far lower than the population growth of 2.82 per cent. The assumption of growth rate at 3.01% will also be possible only if there is improvement in access to credit to the real sector of the economy particularly for the small and medium scale enterprises (SMEs), small holder farmers and increase in the level of consumption in the economy by households.

Diversification of the economy is therefore necessary particularly in the areas of manufacturing, mining and agricultural sector to promote economic growth. The following challenges in the economy will affect the growth process: trend in the crude oil market, balance of payments disequilibrium, exchange rate volatility, fiscal crisis, growth prospect and other domestic developments in the economy. It should be noted that the growth that has been achieved is not inclusive hence the need for financial inclusion. Growth can be better supported through the reduction in inflation. Consequently, the macro- economy still require a lot of support to actualise the growth target of 3.01

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percent that was projected for the year 2019 through the utilisation of unconventional monetary policies by the CBN.

Lastly, the assumption of inflation rate at 9.98%. This assumption may not be feasible in the first quarters of 2019 due to the following expected electionary expenditure and increase in the level of wages and salaries; poor infrastructural facilities such as inadequate supply of electricity; all of which may directly effect the cost of production. In addition, low level of agricultural output as a result of natural phenomenon such as flood and farmers/herds men clashes could also cause supply constraint and drive food inflation upwards. To achieve inflation rate of 9.98 per cent therefore, the following must be taken into consideration, application of development finance through making soft loan provision by government through agencies like Bank of Industry (BOI), Bank of Agriculture (BOA), Nigerian Development Bank (DBN) and other micro-finance agencies to households and firms in the economy to stimulate economic activity. Also, investment in the infrastructural facilities including roads to promote growth in the medium term.

CBN should ensure credit allocation through its intervention schemes to provide microfinance credits so as to reduce the cost of production in the agricultural and the SMEs sectors of the economy. It should be noted that both fiscal and monetary policies should be coordinated for advancement of credit to the real sectors of the economy and the level of interest rate charged by the Deposit Money Banks (DMBs).

On the basis of the analysis I vote to hold because further tightening would encourage DMBs to re-price assets leading to increase in cost of credit. This will further exacerbate the already high levels of NPLs and increase cost of credit thereby dampening new investment, and depress aggregate demand. Loosening on the other hand would worsen the level of inflation in the economy by raising the level of liquidity and this will intensify the demand

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pressure in the foreign exchange market. The argument to hold will enable us to maintain the stability that has so far been achieved particularly in the improvement in capital adequacy ratio from 13.80 per cent in October 2018 to 15.26 per cent, NPLs from 14.05 percent to 11.68 per cent, and liquidity ratio of 49.31per cent to 51.87 per cent in November 2018. Again with the current policies, the Return on Equity (ROE) has increased from 21.43 per cent to a high of 22.31 per cent, which are indications that the polices are working though slowly, but in the positive direction.

I therefore vote to hold rates and support the sale of government securities such Nigerian Treasury Bills (NTB) and Open Market Operation (OMO) to manage price stability in the economy due to pressure on inflation and exchange rate. The CBN should be more aggressive by adding more to the existing 41 items exempted from accessing interbank foreign exchange in order to conserve foreign exchange for critical sectors of the Nigerian economy. I therefore vote to:

i. Retain the MPR at 14.00 percent;
ii. Retain the CRR at 22.5 percent;
iii. Retain the Liquidity Ratio at 30.00 per cent, and
iv. Retain the Asymmetric Corridor at +200 and -500 basis points around the MPR.

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6. ISA-DUTSE, MAHMOUD

A. INTRODUCTION

The global economy witnessed several challenging developments in 2018 which constrained economic performance resulting in moderation in output growth, an upward price trend and exacerbation in financial market fragilities. The global political economy scenario that prevailed since mid-2018 is essentially the same in the current period. On the domestic scene, the various risks to macroeconomic stability remain with election related concerns.

B. EXTERNAL ECONOMIC CONDITIONS

The major developments that characterized the global economic landscape in 2018 include monetary policy normalization in key advanced economies, unabating hindrance to freer trade, the seemingly intractable BREXIT conundrum and the lower level adjustment of oil price. Thus, the International Monetary Fund (IMF) forecast the global economy to grow at 3.5% in 2019 as against the earlier projection of 3.7% to account for downside risks to growth. This implies that highly oil-dependent economies, such as Nigeria, may not witness an improvement in oil demand. Nonetheless, the US Energy Information Administration projected the price of oil to average $61 per barrel in 2019 against the backdrop of OPEC and non-OPEC agreement to cut oil production. Thus, oil price developments may not adversely affect Nigeria’s external reserves and foreign exchange rate stability. A slight uptick in global inflation of 3.3% is expected in 2019, up from 3.2% in 2018.

The global economy experienced a tight policy environment 2018 as the US Federal Reserve Bank relentlessly pursued its policy normalization agenda through four rate hikes. Although indication of US funds rate hike in 2019 is relatively subdued, yet it is expected that the impact of previous policies will continue to engender capital outflows and currency weakening in vulnerable

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Emerging Market and Developing Economies. The recent termination of the €3 trillion asset purchase programme by the European Central Bank (ECB) is a signal for the possible commencement of an upward trajectory in policy rate in the Euro area. The implication for Nigeria is that the Central Bank may need to use more of its reserves to stabilize the domestic currency despite the hold on interest rates by the Bank of England as BREXIT uncertainty heightens. The trend witnessed in the global capital market in 2018 may continue, with even deeper bearish sentiments in 2019 as more cautious trading and sell offs by investors is anticipated as capital flows to policy normalizing advanced economies.

C. DOMESTIC ECONOMIC CONDITIONS

Increasing output of goods and services is of paramount importance as it is essential in moderating inflationary pressure and providing jobs. Policy options aimed at promoting price stability should therefore take into account the implications for economic growth, employment and poverty reduction. Although, the economy performed better in Q3 2018 with a real GDP growth of 1.81% compared with 1.50% in Q2 2018, the underlying data clearly underscore the fragility of the growth process. The oil sector has continued to experience negative growth with a contraction of 2.91% in Q3 2018, while the non-oil sector trended upward with a growth of 2.32% in the same period, with the services sector contributing over 51% of the total and the high employment generating agricultural and manufacturing sectors lagging far behind. Data from the National Bureau of Statistics indicates that unemployment rate rose to 23.1% in Q3 2018.

Headline inflation recorded marginal increase during the review period, standing at 11.26%, 11.28% and 11.44% in October, November and December 2018, respectively. The figures remained above the single digit target of the Central Bank, but it is noteworthy that the month –on-month data shows a deceleration in the rate of increase from 0.80% in November to 0.74% in

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December 2018. Though the progression in price development appears mild and seems to pose no serious risk in the near term, there is palpable anxiety that unless the fiscal and monetary authorities brace up in their stabilizing roles, the multiplicity of upside risks to inflation such as insecurity-constrained agricultural production, implementation of the new minimum wage, high liquidity injections from 2018 budget implementation and quasi-fiscal injections of CBN might perpetuate and aggravate the inflation spiral.

Furthermore, there is the need to employ appropriate policy mix to rein-in money growth in view of the fact that both M3 and M2, over-shot their benchmarks by 28% and 16%, respectively, in December 2018. Reserve money also exceeded its benchmark in December 2018. More needs to be done to manage net banking system liquidity. Capital outflows occasioned by sustained stock sell-off by investors have continued to exert a downward pressure on the equities market with negative implications for external reserves accretion.

D. VOTING DECISION

Given current conditions and immediate outlook for the economy, coupled with the need to appropriately balance price stability considerations with policies that will sustain the growth momentum, I voted to retain all policy parameters as follows:

- MPR at 14.0% per annum
- The asymmetric corridor at +200/-500 basis points around the MPR
- Liquidity ratio at 30.0% per annum
- CRR at 22.5% per annum

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7. NNANNA, OKWU JOSEPH

The economy recorded relative expansion during the quarter. However, growth was fragile. Persisting deep structural factors such as: weak economic diversification, protracted unemployment and the huge infrastructure deficit, remain serious binding constraints. Available data showed that Real GDP rose to 1.81 per cent in third quarter, compared with 1.50 per cent in the second quarter of 2018 (NBS, 2018). The growth reflected the 2.32 per cent growth in non-oil sector. Services and agriculture sectors were the major drivers, contributing 1.19 and 0.56 percentage points, respectively. The oil sector, however, contracted by 2.91 per cent.

Though broad money supply grew higher than the programmed target, it remained relatively consistent with the current GDP growth and inflation levels. The uptick in inflation revealed early signs of incipient inflationary pressures on account of cost-push factors and simmering food inflation. Headline inflation, year-on-year increased marginally in December 2018 to 11.44 per cent, compared with 11.28 per cent in the preceding month. Similarly, food inflation rose to 13.56 per cent at end-December 2018, from 13.30 per cent in the preceding month. Core inflation, however, fell slightly to 9.77 per cent relative to 9.79 per cent recorded at end-November 2018. While upside risks to the inflation outlook in the near-term remained contingent on the expected wage increase and election spending, these parameters are unlikely to trigger consumer demand in the short-run. Consequently, the danger of demand-pull induced inflationary pressure is not warranted.

The financial system remained resilient, despite concerns about non-performing loans (NPLs) in the banking sector. Sustained regulatory oversight is reducing the NPLs, and the relative rebound in the oil sector, would further strengthen financial stability. Overall, credit to the core private sector has remained sticky upward, as government borrowing continued to gain momentum. Money

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market rates reflected liquidity conditions in the banking system. The monthly average inter-bank call and OBB rates were 22.68 and 22.94 per cent, respectively, for December 2018.

I see sufficient scope and merit in a well-tailored capital expenditure in the key sectors of the economy, while reducing subsidies. Hopefully, the manage-float regime will strengthen external reserves buffers, ensure greater flexibility of the exchange rate and guarantee foreign exchange liquidity.

On the balance of risks, I vote to keep all the policy metrics at their contemporaneous levels.

8. OBADAN, MIKE IDIAHI

Nigeria has remained an active participant in the global economy with developments in the global economy having serious implications – positive and negative - for the local economy in the spheres of policy making, macro-economic performance and growth, among others. Some of the global developments that have affected the local economy and which have implications for the direction of monetary policy are as follows:

- Tensions in US-China trade relations which have been prompted by imposition of tariffs by the US on imports from trade partners, particularly, China and European Union, and counter tariffs by these countries on US exports to them. Negotiations between the US and China, for example, aimed at preventing a full blown trade war has continued. It is hoped that the negotiations will yield some results by the end of February 2019. Meanwhile, the tariffs and counter-tariffs have the implications of slowing the growth of the warring countries and their trading partners including Nigeria and hence global growth.

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- Global growth. The momentum of global economic activity slowed in 2018 and global growth trends became more fragile as growth in some major advanced economies slowed further. For example, output growth in the US economy in the third quarter of 2018, slowed to 3.4 percent compared to 4.2 percent (year-on-year) in the second quarter. The Japanese economy contracted by 0.6 percent in the third quarter of 2018 after it grew by 0.7 percent in the second quarter. Growth trends in the Emerging and Developing Economies have become increasingly mixed. The Chinese economy slowed to 1.5 percent (quarter-on-quarter) in the third quarter of 2018 from 1.7 percent in the second quarter. This has elicited serious concerns in view of the increased significance of China in global trade. The South African economy expanded by 2.2 percent (quarter-on-quarter) in the third quarter after a contraction of 0.4 percent in the second quarter of 2018. In 2019, the IMF forecast for global growth is
  3.7 percent, same as in 2018, reflecting shocks to global output in the second half of 2018 in major advanced economies and weaker outlook for some emerging markets and developing economies. The need to strengthen global growth cannot be overemphasized as weak growth could culminate in a recession with spill-over effects.
- Normalisation of monetary policy in the US and EU. In the US, this has entailed raising the monetary policy rate; four times in 2018, the fourth being by 25 basis points in December. In the Euro area, monetary accommodation continued at a reduced monthly rate of 30 billion euros. The European Central Bank put an end to its monthly purchase programme of bonds at the end of December 2018, after a total commitment of US$ 3.0 trillion. The implication of the monetary normalization is the rise in interest rates in the US relative to other economies and the reverse flow of capital from emerging and developing economies to the US. In Nigeria, the huge capital flight

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experienced in 2018 was largely due to the normalization, and it had adverse effect on the nation's external reserves and exchange rate stability. Nigeria would need to brace itself up to likely huge capital outflows as more normalization actions are taken abroad.

- Global inflation. This has continued to trend up and is affected by energy prices and currency depreciations in emerging markets and developing economies. Global inflation grew by 3.2 percent in 2018 compared to 3.1 percent in 2017. In 2019, it is estimated to grow by 3.3 percent. With Nigeria's heavy dependence on importation of goods and services, rising world prices are transmitted to the local economy as imported inflation through imported goods and services. A depreciation of the naira exchange rate further increases imported inflation through the pass- through effect. This is a threat to domestic macroeconomic stability.
- Oil market instability. Oil price has been volatile against the backdrop of uncertainties about the direction of global trade, BREXIT negotiations and severity of Iranian sanctions. As at January 10, 2019, the price of Bonny Light crude stood at $58.50 per barrel compared with $72.82 per barrel in November 2018. By January 18, 2019, however, the price increased to $62.83 per barrel. Although OPEC and non-OPEC agreed to cut oil production by 1.2 million bpd, it is not certain if the regime of high oil prices witnessed throughout 2018 will be replicated in 2019 because of rising supply and a weaker outlook for demand, weakening global economic activities, especially in the Eurozone, and the collaboration between the United States and Saudi Arabia to increase oil supply in the market with a view to lowering crude oil prices. The increased investment in shale oil production in the U.S remains a significant threat to future oil price increase. According to the U.S. Energy Information Administration (EIA), crude oil production averaged 11.5 million b/d in November 2018, an increase of 150,000 barrels compared with the previous month. Futures

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prices, however, trended upwards with March-June 2019 deliveries of US$58.65, US$58.82, US$59.57, and US$60.07 per barrel respectively. Even these prices will challenge the annual budget and macroeconomic performance of a country like Nigeria that relies heavily on oil earnings for foreign exchange and domestic revenue.

Basis of Opinion

My opinion is informed by the implications of the various global developments outlined above and specific developments in the Nigerian economy, especially since the last Monetary Policy Committee Meeting. These include the following:

Weakening oil market. As was noted above, oil price has been volatile and the signals from the oil futures market have been mixed. Consequently, the ability of the Central Bank to support the naira in the short to medium term may be constrained by renewed pressure as declining oil price may result in a slowdown in accretion to external reserves, especially if capital inflows are also weakening. Under the circumstances of external sector vulnerabilities and volatile oil prices, especially declining oil prices, and limited oil output, the recovery of the economy from low growth trajectory may be unattainable, while the Central Bank's ability to maintain exchange rate stability may be impaired. Although, the contribution of oil to Nigeria's GDP is a little lower than 10 percent, it remains a major driver of economic activities in the country. Therefore, monetary policy support may be inevitable as has been the case in the past few years.

Economic growth. The economy has remained on the path of recovery supported by moderate increase in oil production and price, leading to gradual accretion to foreign reserves and relative stability in the foreign exchange market and rate. However, growth remains low and fragile at 1.95, 1.50, and

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1.81 percent in quarters 1, 2 and 3 of 2018, respectively. The growth was driven mainly by activities in the non-oil sector

Also, the outlook for growth remains fragile as the contraction in the oil sector poses risks to the achievement of the growth target of 4.8 percent in the Economic Recovery and Growth Plan (ERGP) in 2018. It is thus necessary for monetary policy to continue to support growth through facilitating access to bank credit at affordable cost and with both conventional and non-conventional strategies.

Inflation. In 2018, inflationary pressure in the economy moderated. From 15.37 percent at the end of December, 2017, headline inflation (year-on-year) consistently declined to 11.23 percent at end-March, 2018. However, it inched up marginally to 11.26, 11.28 and 11.44 percent in October, November and December 2018, respectively, largely due to increase in food prices arising from adverse weather conditions and slight volatility in exchange rate during the period. Also, insurgency and armed banditry continued to disrupt economic activities including agricultural output in the North-Eastern and North-Western parts of the country and parts of the Middle-Belt.

It is instructive to note that on year-on-year basis, core inflation declined continuously from 9.88 percent in October 2018 to 9.77 percent in December 2018. Similarly, on month-on-month basis, core inflation declined from 0.81 percent to 0.50 percent during the same period. Also, although all the measures of inflation indicated moderation in 2018, they consistently remained outside the target range of 6 – 9 percent. Nevertheless, they are far from the alarming range of the previous two years.

Importantly, so far, the identified headwinds to inflation have not materialized as expected, for example, election spending and implementation of the national minimum wage, as headline inflation witnessed only marginal increase last

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December. Such increase was not unexpected during that period of festivities. Election spending has not reflected much on consumption spending as a major element of aggregate demand and driver of growth. The national minimum wage has yet to be implemented. The prospect of election spending producing a big shock on inflation is not strong with election about one month away. Also, the national minimum wage, when implemented, is not likely to have a big impact on prices as the proportion of public sector employees which is most likely to benefit from it is very small – 5 percent of the total work force in the country. The informal sector which employs the largest number of workers is not likely to implement the national minimum wage otherwise it may retrench workers. Even then, election spending, capital budget and minimum wage implementation should also have a positive impact on aggregate output with a possible ameliorating effect on prices. Under the circumstances, only marginal increases may be witnessed in inflation in the next few months and thereafter, perhaps, a downward trend.

Monetary growth. For nearly the whole of 2018, the key monetary aggregates – narrow money (M1), broad money (M2) and (M3) – underperformed as they remained below their benchmarks. It was only in December that M2 and M3 performed above their benchmarks. In December 2018, M3 grew by 16.58 percent compared to the benchmark of 13.0 percent, while M2 grew by 12 .17 percent compared to the benchmark of 10.48 percent. While the growth of M3 was driven largely by growth in Net Foreign Assets and Net Domestic Assets, the growth of M2 was largely driven by time and savings deposits of deposit money banks. The performance of monetary aggregates confirm the observation that inflation in the country is not purely a monetary phenomenon; both monetary and structural factors including cost push factors have been in operation.

Generally, money supply remains weak to drive the growth momentum in the economy. The rather risky unconducive investment environment and weak

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transmission mechanism continue to undermine the flow of credit to the real sector of the economy. As improved growth is very much desired at this time, monetary policy, through the Central Bank of Nigeria's development interventions, will need to be sustained while a judicious balance is struck between economic growth and price stability objectives.

Conclusion

In light of the prevailing circumstances of low and fragile growth with corresponding high level of unemployment and incidence of poverty, inflationary pressure prospects that are marginal, and money supply that is weak to drive the real sector of the economy, raising the monetary policy rate will not be a desirable option at this point in time. Raising it may further dampen the prospects of achieving quick economic recovery and inclusive growth in the country. Therefore, I vote to maintain the monetary policy instruments at their current levels:

MPR, 14.0%;

CRR, 22.5%;

Liquidity Ratio, 30.0%;

Asymmetric corridor, +200/-500 basis points.

It is expected that the fiscal authorities would conduct fiscal policy in such a way as not to overburden monetary policy while taking necessary actions to address major problems that tend to undermine the effectiveness of monetary policy including the serious phenomenon of insecurity in the country, herdsmen/farmers conflicts, bourgeoning fiscal deficits and external debt, among others.

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9. SANUSI, ALIYU RAFINDADI

1. Decision:

A key consideration in my decision to vote for a hold on all the policy parameters, today, is the need to strengthen the improvements in output recovery and price stability over the medium term. This is against the background of increased uncertainties arising from the global as well as domestic economic and political developments. These include, for instance, the lingering US-China trade tensions, BREXIT negotiations, financial market vulnerabilities, monetary policy normalisation in the US as well as the termination of the asset purchase programme by the European Central Bank. On the domestic front, economic and political developments, which include the February 2019 general elections, implementation of the new minimum wage, are important sources of uncertainties in short to medium term. In addition, analysis of the available data and Staff forecasts suggest that, while output recovery could be dampened by further tightening, the threat to inflation is significant in the medium term and loosening the current monetary policy stance could jeopardise successes achieved in the disinflation efforts. I, therefore, voted to maintain the current policy stance.

2. Background and Justification

2.1. Global Economic Developments

While the major global economic and political issues that shaped the second half of 2018 subsist, they are likely to dominate the first half of 2019, thereby raising policy uncertainties. The geopolitical tensions and policy uncertainty could have adverse effects on global output and the international oil market and could, therefore, have important implication for domestic price stability and output recovery.

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During the year 2018, the global economic and policy environments were characterised by uncertainties originating from many political economy developments, which made policymaking challenging. The most prominent of these developments were the US-China trade war; uncertainties surrounding BREXIT; monetary policy normalisation in the US; and, the termination of the ECB's €3 trillion asset purchase programme in December 2018. The uncertainties relating to the evolution of these events have shaped, not only the evolution of global output growth, but also its forecasts. For instance, the IMF's global output projection was revised downward during the year from the initial estimates of 3.9 per cent to 3.7 per cent. These developments also contributed to uncertainties in the evolution of global inflation, commodity prices as well as global financial market development. The domestic policy environment in 2018, which is intricately linked to the global economy, was therefore challenging. For instance, the path of domestic price and concerns for exchange rate stability was raised by the possible effect of the rising yields in the US following the rate hikes of 25bps by the Fed that started in February 2018. The increasing yield in the US had, during the year, led to a reduction in capital flows and reversal in many developing and emerging markets, leading to reserves depletion and currency adjustments in many economies. Despite the fall in US headline inflation from 2.2 per cent in November 2018 to 1.9 per cent in December 2018, the Fed raised its rate for the 4th time in the year during its December meeting and provided forward guidance of at least two additional rates hikes in 2019. Although the Bank of England has refrained from raising its repo rate due to the adverse effects of BREXIT on output, it has maintained its forward guidance on the need to continue normalisation of monetary policy. In the international oil market, OPEC and non-OPEC oil producers have agreed to a production cut of 1.2mbpd effective from January 2019. Nigeria's quota is expected to drop by 44,000 bpd to 1.72 mbpd. Increased investment in shale oil production in the US,

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which averaged 11.5mbd in November 2018, will continue to be a significant threat to future oil price increases. Deliveries for March to June 2019 oil futures, however, show a positive trend, from $58 per barrel for March to $70 per barrel for June deliveries.

2.2. Domestic Economic Developments

Review of domestic economic development in 2018 suggests that the current policy stance has delivered lower inflation, positive output growth, stable exchange rate and appreciable external reserves accretion.

The output recovery was sustained in the first three quarters of 2018, which remained positive, albeit fragile. In the first quarter of 2018, domestic output grew by 1.95 per cent; while in the second and third quarter, it increased by 1.50 and 1.81 per cent, respectively. The third quarter output growth was driven mainly by the non-oil sector, which grew by 2.32 per cent, while that of the oil sector contracted by 2.91 per cent. Data on the Manufacturing PMI and forecasts from the Composite Index of Economic Activity (CIEA) indicates that fourth quarter real GDP will expand. In terms of contribution to GDP, the non-oil sector contributed 90.62 per cent in Q3. The annual growth, which is projected to be 1.81 per cent for 2018, is significantly higher than the 0.79 per cent achieved in 2017.

The headline inflation (Y-o-Y) increased slightly to 11.44 per cent in December 2018 from 11.28 per cent in November 2018, driven by food prices and marginal exchange rate pressure. Food inflation rose to 13.56 per cent in December 2018 from 13.30 per cent in November 2018. Key drivers of food price developments include higher demand for agricultural output, prices of processed food and farm produce as well as the adverse effects of insurgency and rural armed banditry. On a month-on-month basis, headline inflation declined to 0.74 per

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cent in December 2018 from 0.80 per cent in November 2018, driven by a decline in both food and core inflation. *Despite remaining sticky at low double digits, the headline inflation has significantly declined from 15.37 per cent in December 2017 to 11.44 per cent in December 2018, representing 3.93 percentage points during the year.*

Exchange rates have been broadly stable during the year 2018. The average rate at the Investor and Exporter (I&E) window, for example, has slightly depreciated from N360.53 per USD in January 2018 to N364.76 per USD in December 2018, representing a depreciation of 1.13 per cent. The exchange rate was even more stable at the BDCs segment where it depreciated by only
0.07 per cent from N363.20 per USD in January 2018 to N363.46 in December 2018. External reserves, which have been key to the stability achieved in the foreign exchange market, have also increased from $39.35 billion in December 2017 to $42.54 in December 2018, representing a growth of 8.11 per cent. Indeed, the growth in reserves during the year peaked at $47.34 billion in April before declining.
The decline was driven by measures taken by the bank to stabilise the foreign exchange markets by increasing foreign exchange supply through sales in the I&E window, BDCs and interbank forwards. The financial sector has been stable and resilient during the year. The total assets of the banking industry have increased by N2.67 trillion representing an increase of 6.55 per cent between December 2017 and December 2018. The high non-performing loans (NPL) in the industry has also significantly moderated during the year, from a peak of
16.21 per cent in February 2018 to 11.68 per cent in December 2018. This moderation in NPLs, if sustained, would encourage banks to increase lending to the economy, which has remained challenging during the year. The unemployment rate has remained stubbornly high at 23.10 per cent as at the third quarter of 2018, compared with 22.73 per cent during the previous quarter.

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This is why monetary policy during 2018 focused on developing heterodox policies aiming to increase the flow of credit to the employment generating sectors of the economy. Having maintained all the policy parameters, monetary policy during the year relied on OMO to the influence interest rates and yields, which, among other things, have worked well in mitigating the adverse effects of the well-anticipated capital, flow reversals following policy normalisation in the US.

3. The Basis for My Policy Choice

I voted to maintain the status quo in today's meeting based on the perception of the increased global and domestic economic and political uncertainties, which could have differing effects on the evolution of inflation, output, and exchange rate stability in the medium term. Although further tightening may stem the rise in inflationary pressure; attract capital inflows; and reduce reversals, it may also increase the cost of credit, dampen domestic investment, and therefore jeopardise the fragile output recovery. Given that the current policy stance has worked well in supporting the disinflation and output recovery in 2018 hold on all parameters would enable us to monitor the political and economic development while maintaining the current level of stability. I, therefore, choose to retain the current policy stance, under which most of the price and output gains were achieved.

Consequently, I voted to:

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

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10. SHONUBI, FOLASHODUN A.

Global Economic Developments

As with other emerging and developing economies, dynamics of global macroeconomic conditions and political economic developments continued to have implications for monetary policy in Nigeria. Persistent tensions in US-China trade relations, volatilities in the global financial market and protracted regional crises have been major challenges to the global economy. The latest IMF – World Economic Report (WEO) report revised global growth downward to 3.7 per cent in 2019, same as in 2018, from earlier projection of 3.9 per cent. The lack of progress around BREXIT has also been a source of uncertainties, with implications for ripple effects on emerging and developing economies. In addition, the agreement for further output cut by the Organisation of Petroleum Exporting Countries (OPEC) have significant implications on revenue profile and exchange rate pressure, thereby constituting key drag on the growth prospect of oil exporting countries in 2019, as output allocations reduce and oil prices fluctuates. These developments underscores the need for a policy posture that enhances the ability of the domestic economy to ward-off possible negative externalities/spillovers.

Domestic Economic Environment

Notwithstanding the uptick in inflation in the last two months, the overall dynamics of movement in prices does not portend the need for urgent and drastic policy actions. Attributed, mainly, to pressures from increased seasonal spending, headline inflation, on year-on-year basis, rose to 11.44 per cent in December 2018, translating to average of 12.15 per cent for 2018. The overall dynamics of movement in general prices, however, indicated moderation in inflationary pressure as the month-on-month changes in headline, food and core inflation trended downward. This further highlights the sustained effectiveness of the largely non-expansionary monetary policy stance, including

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measures to ensure exchange rate stability, reduce pass-through and curb excess liquidity. In terms of near-term risks, impact of the planned wage rise and election spending are anticipated to be moderate, on account of low aggregate demand and significantly moderated campaign-related spending. Effort by the Government to improve security and boost agricultural productivity will, however, be critical to curbing inflationary pressure from possible food shortages due to disruption of farming activities arising from insecurity, flooding and investment-gap in agricultural activities.

Output growth remained generally weak and fragile, though sentiments for future growth remained mildly strong, due to sustained efforts to gradually diversify the production base of the economy and cautious optimism about favourable international oil price. After the economy gladly exited the 2016 recession, growth crept to 1.81 per cent in the third quarter, from 1.50 per cent in the second quarter of 2018, driven mainly by activities in the agricultural and services sectors. The sub-optimal performance of the economy was also reflected in further increase in the unemployment and underemployment rates. However, on account of sustained stability in the exchange rate and effect of other measures to facilitate expansion in production, the composite Purchasing Managers' Index (PMI) for manufacturing and non-manufacturing sectors continued to signify future expansion in domestic output. Overall, the sluggishness of growth highlights the need to intensify implementation of measures, including targeted credit delivery and the current infrastructure expansion by Government to facilitate improved productivity and increased aggregate demand.

While performance of monetary aggregates in 2018 surpassed the provisional benchmark, the sudden growth at end-December does not negate the fact that on average, performance was generally within the target, though it did not translate to the real economy. Growth in broad money supply (M_2), at 12.17 per

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cent at end-December 2018, reflected mainly the above benchmark increase in credit to the government and net foreign asset, while growth in credit to the private sector remained very marginal at 1.96 per cent, against its 12.40 per cent benchmark growth for fiscal 2018. Hence, a priority policy issue is the lack of appreciable growth in credit to the private sector and insufficient of overall monetary expansion to drive or translate to growth in the real economy. This was evidenced by the decline in the velocity of money to 0.59 in Q32018 from 0.60 in the corresponding period of 2017, indicating consummation of fewer transactions in the economy.

Movements in the money market rates was influenced by the liquidity condition in the banking system, which was buoyed, mainly, by statutory allocations to the tiers of government, CBN quasi-fiscal injections and maturing CBN bills, but moderated by CBN OMO auctions and foreign exchange interventions. The inter-bank and Open-Buy-Back rates were higher at end-December 2018, due to intensified liquidity mop up by the CBN to ward-off the undesired effect of excess liquidity. The spread between the maximum lending and average deposit rates remained high, a constraint to increased demand for lending. In the capital market, sustained profit taking and foreign investors' apathy due to a combination of factors precipitated bearish sentiments, though the gradual reversal witnessed in December 2018, on account of improved macroeconomic conditions and exchange rate stability, is expected to persist into the first quarter of 2019.

The banking industry continued to respond favourably to the various measures by the CBN to enhance financial system stability, as key prudential ratios generally improved, though asset quality remain challenged. Industry capital adequacy and liquidity ratios, at 15.26 and 51.87 per cent, respectively, were above the levels in September 2018 and the prudential threshold. Asset quality, measured by the non-performing loans (NPL) ratio also improved over the

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position in October 2018, but remained above the minimum threshold of 5.0 per cent. Overall, while performance of the banking sector generally showed gradual and consistent improvement in the health and soundness of the institutions, mainly, due to timely regulatory actions, decisive resolution of outlier institutions will further strengthen the resilience of the industry.

Relative stability and sustained convergence in foreign exchange rate, coupled with marginal accretion to external reserves, as a result of the various measures by the Bank has strengthened investors' confidence, encouraged gradual resurgence of stable capital inflow and aided domestic investment planning for productive activities. Overall balance of payments surplus in the external sector, supported by exchange rate stability, reduced premium and gradual return of inflow have combined to portend continued positivity in the external sector. As I noted in my earlier statement, previous worry about gradual outflow of foreign capital is waning and therefore, with less volatility in the international crude oil market and continued implementation of the various measures, including foreign exchange intervention, viability of the external sector is expected to be preserved. Moreover, the Bank must sustain its measures to facilitate and promote export, as well as, significantly reduce import to further consolidate the sector's viability.

Overall Considerations and Decision

Current macroeconomic conditions, including moderated inflation, exchange rate stability, balance of payments surplus and level of external reserves stock highlight the efficacy of monetary policy in 2018. Whereas exchange rate play a central role in the Nigeria economy, especially considering the dynamics of trade and structure of the economy, the macroeconomic consequences of fully floating the domestic currency – volatile exchange rate, inflation, challenged business and production planning, capital flight and currency crisis, among

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others, will be devastating. Hence, a retention of the current policy posture in the external sector will aid further consolidation of the gains made so far.

Notwithstanding the increase in inflation in the last quarter of 2018, declining month-on-month trend showed moderating overall inflationary pressure, and thus, affirmed effectiveness of the current monetary policy regime in curbing rising prices. Pass-through effect has waned significantly, on account of stable exchange rate, while expected pressure from electioneering spending and the planned wage rise are projected to be marginal, with muted impact on inflation.

The gradual improvement in the health of the banking system is expected to continue in 2019, as banks implement regulator prescribed corrective and preventive measures, as well as, benefit from the positive spillover from the favourable macroeconomic conditions.

With a less than stable and robust revenue base, especially in the face of the mono-product nature of the economy, lack of fiscal buffers constitute a major policy priority. This has continued to expose the economy to the vulnerabilities of volatile international oil price and thus re-emphasises the imperative for ensuring a robust fiscal buffer build-up.

Overall, just as price stability is within control, financial stability concerns appear to have slightly abated, while external sector viability remain deftly on course. Real growth, however, remained weak and fragile, requiring intensified implementation of growth enhancing measures. With the significant progress achieved through the various intervention programmes of the Bank, it is imperative that maintaining this regime, supported by the aggressive and targeted programmes to facilitate sustainable expansion in the real sector, will enhance the growth prospect of the domestic economy.

I therefore vote to retain:

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- MPR at 14.0 per cent;
- The asymmetric corridor of +200/-500 basis points around the MPR
- Cash Reserve Ratio (CRR) at 22.5 per cent; and
- Liquidity Ratio at 30.0 per cent.

11. EMEFIELE, GODWIN I.

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

Short-term global economic outlook remained weak as muted economic activities and heightened risks continued to dampen prospects. International trade and investments have moderated, while trade tensions remain elevated. Disagreements in the UK parliament over the BREXIT deal, also, amplified global uncertainties. A number of Emerging Market and Developing Economies experienced significant financial market pressures, which diminished growth prospects in these countries and increased debt vulnerabilities, particularly in low-income countries. Consequently, from a rate of 3.8 percent in 2017, the IMF projects a slowdown to 3.7 percent in 2018 and further deceleration to 3.5 percent in 2019 and 3.6 percent in 2020. This is driven largely by the poor performance of key European economies and the moderation of the Chinese economy.

Amidst all this, the short-term outlook of the Nigerian economy remains modest, as recovery of output growth is expected to progress in 2019. Growth is projected at about 2.3 percent both by the IMF and our in-house analysis for 2019. This could be accompanied by a moderate rise in inflation over the short- term driven largely by cyclical and political factors in the domestic space. Data by the National Bureau of Statistics shows evidence of consolidation in economic recovery as real GDP growth increased to 1.81 percent in 2018q3 from 1.5 percent recorded in 2018q2. This implies an annualised expansion of about 2.0

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percent for the entire 2018 with a robust prospect for 2018q4 outcome. The Q3 growth performance was largely driven by non-oil growth (especially in agriculture and services sectors). The favourable growth sentiment is supported by positive Purchasing Managers' Index (PMI) –both in the manufacturing and non-manufacturing indexes– buoyed by the continued stability in the foreign exchange market and the drive for increased credits to the real sector of the economy.

Regardless of this upswing, cautious policy is irrefutable as growth is still low and the rebound fragile, while per capita income and unemployment rate stayed outside tolerable levels. Besides, the modest short-term prospect is threatened by a delicate oil price dynamics, persistent herder–farmer conflicts, weak aggregate demand, and pensiveness around the 2019 general elections. I am of the view that a favourable resolution of these challenges, reinforced by sustained foreign exchange stability, as well as continued implementation of the 2018 capital budget would boost short-term outlook.

Data on domestic prices shows a marginal uptick in year-on year headline inflation rate from 11.3 percent in November 2018 to 11.4 percent in December 2018, with near-term outlook suggesting a slight build-up of inflationary pressure by mid-2019. The observed rise largely reflected the 0.03 percentage point increase in food inflation to 13.6 percent relative to the preceding month even as core inflation stayed largely unchanged around 9.8 percent. Analysis of month-on-month inflation, however, showed a deceleration in the three components during the review month; implying a possible slowdown on year- on-year rates in the short-term. Though the current stability in the foreign exchange market continues to impact favourably on inflation, near-term risks subsist; including the residual effects of the 2019 electioneering spending, and supply disruptions across major food-belts of the country.

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Liquidity conditions indicate an expansion in monetary aggregates in 2018. While M1 growth at 5.2 percent was subpar, M2 and M3 measures of money stock at 12.2 percent and 16.6 percent outstripped their respective targets of 10.5 percent and 13.0 percent. Breakdown of money stock shows a substantial 18.5 percent expansion in net foreign assets (exceeding its 14.5 percent target for 2018) vis-à-vis a modest 6.4 percent growth in net domestic credit. At about 2.0 percent, private sector credit (PSC) growth was significantly below the target of 12.4 percent. I note the unsatisfactory pace of PSC and continue to emphasise the importance of enhanced credit flows to strategic private sector ventures through an effective collaboration of all stakeholders. I remain aware of the risk aversion of banks to supposedly high risk real sector ventures. Yet, improvements in banks NPL position and our continuing efforts at de-risking the target activities are steps in the right direction. We expect that this could begin to bolster domestic investment, household demand, and aggregate productivity, while accelerating economic diversification, and ensuring strong and inclusive growth.

In my consideration, I once again, note the welcome stability at the foreign exchange market and near convergence of rates at different segments of the market in 2018, and expect this to continue in 2019. I also note that the prevailing macroeconomic stability and short-term prospects remain cautious due to multifaceted global and domestic risks. On the global scene, rising yields in the US and the concomitant capital flow reversals threaten our foreign exchange (FX) reserves, exchange rate and inflation. This is further exacerbated by the trade-wars, global political tensions, and fragilities in the crude oil market. On the domestic front, the financial outlay and uncertainties accompanying the 2019 general elections are expected to impact inflation expectations within the short-term. I reiterate that even as economic recovery stayed fragile, effective anchoring of inflation expectations remain sacrosanct.

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Besides, potential fall in oil prices could debilitate our FX reserves and could adversely impact the exchange rate with ramifications for inflation. It remains urgently imperative to create institutional structures that would insulate the economy from oil shocks. My inclination today, given the near-term inflation expectations and risks to exchange rate stability, is to further tighten monetary policy stance. However, the dilemma of the trade-off between inflation and output remains afoot. As I have said before, a rate hike could derail our weak recovery; even as we understand the need to urgently stimulate the domestic economy. I remain mindful of the need to pursue a policy of price stability without losing sight of the importance of economic growth. On a balance of judgement and evidence (and with an eye on oil price dynamics and other latent risks), my predisposition is, thus, to prudently hold all parameters at their current level.

I acknowledge that the relative stability witnessed since the end of the 2016 recession reflects the continued potency of our past policy decisions. Overall, I am of the view that the current levels of key policy parameters are sufficiently tight. An adjustment at this time could significantly disrupt on-going permeation of past decisions. In my view, the current level of real policy rate remains appropriate to balance the objectives of exchange rate stability, price stability and output stabilisation without introducing disruptive policy shocks. Therefore, I vote to:

- Retain the MPR at 14.0 percent;
- Retain the CRR at 22.5 percent;
- Retain the asymmetric corridor at +200/–500 basis points; and
- Retain liquidity ratio at 30.0 percent

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GODWIN I. EMEFIELE, CON

Governor

January 2019

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