



**CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 134 OF THE
MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 25th
AND TUESDAY 26th JANUARY 2021**

The Monetary Policy Committee (MPC) held its first statutory meeting for the year 2021 on the 25th and 26th January on the backdrop of dampened optimism for improvement in global output recovery, associated with the resurgence of the COVID-19 pandemic and mild success with vaccinations across several countries. On the domestic front, recovery is expected to progress reasonably, following the mild contraction recorded during the third quarter of 2020 and with fourth quarter output growth figures expected to show further improvement. The Committee reviewed the developments in the global and domestic economic and financial environments in 2020 and the outlook for 2021 as well as the risks to this outlook.

Ten (10) members of the Committee were in attendance.

Global Economic Developments

The Committee noted a better-than-expected recovery in most economies towards the end of 2020, leading to moderation in the contraction of global output. It, however, observed that the rapid spread of the new variant of the Coronavirus, seemingly associated spike in fatalities and the recent re-introduction of containment measures across several economies, may dampen the recovery in 2021. In the Advanced Economies, headwinds largely associated with the COVID-19 pandemic such as vaccination-related challenges, weak aggregate demand associated with less than full employment in labour markets, partially functioning supply chain networks, the rapid spread of the new variant of the Coronavirus and a high infection rate dampened the initial rebound in economic recovery towards the end of 2020.

Output growth in the Emerging Market and Developing Economies (EMDEs) remained uneven across countries. In China, output slowed marginally in the

third and fourth quarters of 2020, following a faster-than-expected rebound in the second quarter of 2020. Following the lull in the second quarter, India's economy grew sharply in the third quarter, reflecting welcome adjustment to the stimulus measures. Accordingly, the International Monetary Fund (IMF) estimated global growth in 2020 as a contraction of 4.4 per cent and forecast growth in 2021 to improve to 5.2 per cent. This forecast is however, hinged on the successful vaccination of a significant number of people to create the much-desired herd immunity.

On price developments, the MPC noted that inflation, in most Advanced Economies, is likely to remain subdued in the short to medium term as the recent rise in COVID-19 infection and mortality rates have resulted in sub-optimal employment and weakened labour markets, which dampened aggregate demand across these economies. In the EMDEs, however, inflation remains relatively high compared with the Advanced Economies, with some economies confronted with stronger upside risks than others, as a result of weak accretion to reserves, persisting exchange rate pressures, poor inflow of capital as well as longstanding structural issues.

The MPC noted the steady build-up of systemic liquidity across the global economy, arising from the support by fiscal authorities and central banks to bolster the recovery and return confidence to the financial markets. It noted that the response to the pandemic has heightened the risk of debt accumulation, raising concerns of debt sustainability and vulnerability of the global economy to financial crisis once central banks commence normalization of monetary policy.

Domestic Economic Developments

Real Gross Domestic Product (GDP), according to the National Bureau of Statistics (NBS), contracted by 3.62 per cent in Q3 2020, compared with 6.10 per cent in Q2 2020 and a growth of 2.28 per cent in the corresponding period of 2019. The real GDP contraction in Q3 2020 was largely driven by the decline of 13.89 per cent in the oil sector from 6.63 per cent in Q2 2020. The non-oil sector also contracted by 2.51 per cent in Q3 2020, compared with 6.05 per cent in Q2 2020. The weak performance observed in both the oil and non-oil sectors was largely attributed to the lag effects of the lockdown, persisting weak global demand for crude oil and security challenges across the country.

The MPC noted with concern the continuing sluggish recovery in the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMIs), which remained below the 50-index point benchmark in December 2020, at 49.6 and 45.7 index points, respectively, compared with 50.2 and 47.6 index points during the previous month. This weak performance was attributed to the resurgence of the pandemic, foreign exchange pressures, increased costs of production, general increase in prices and decline in economic activities. Similar trend was also observed in the employment level index component of the manufacturing and non-manufacturing PMIs, which contracted for the ninth consecutive month in December 2020 to 46.3 and 45.1 index points, respectively, compared with 50.2 and 46.7 index points in the previous month. The Committee, however, noted that current growth headwinds would likely moderate in the short to medium term, as the containment measures and the sustained implementation of economic stimulus permeate the domestic economy.

The Committee expressed concerns on the persisting uptick in inflationary pressure for the sixteenth consecutive month, with headline year-on-year inflation moving further to 15.75 per cent in December 2020 from 14.89 per cent in November 2020. This uptick was attributed to the increase in both the food and core components of inflation, which rose to 19.56 and 11.37 per cent in December 2020, respectively, from 18.30 and 11.01 per cent in November 2020. This continued upsurge in food inflation was attributed to the logistical bottlenecks, spurred by the increasing security challenges in many parts of the country, which disrupted food production and supply to the market. Other factors driving the core inflation, include the recent deregulation of the downstream sector of the oil industry, which led to hikes in the price of Premium Motor Spirit (PMS) and the upward adjustment in electricity tariff.

The Committee, however, noted that as output rebounds, supported by the suites of stimulus packages by both the Federal Government and the Central Bank, inflationary pressure would likely begin to moderate in the near term.

On the performance of monetary aggregates, the Committee noted the further growth in broad money supply (M3) to 10.97 per cent in December 2020 from 5.02 per cent in November 2020, driven largely by the growth in Net Foreign Assets. It also noted the expansion in Net Domestic Assets (NDA) to 4.96 per cent from -0.45 per cent in the previous period. Aggregate domestic credit, also moved further up by 13.40 per cent in December 2020, compared with 9.48 per cent in the previous month. This was largely attributed to the Bank's policy on Loan-to-Deposit Ratio (LDR), complemented by its interventions in

various sectors of the economy. Consequently, banking sector gross credit as at end-December 2020 stood at N25.02 trillion compared with N24.25 trillion at the end of November 2020, representing an increase of N774.28 billion.

Under the Bank's real sector interventions, under the Anchor Borrowers Programme (ABP), N554.63 billion had been disbursed to 2,849,490 beneficiaries since the inception of the programme, of which N61.02 billion was allocated to 359,370 dry season farmers.

In light of the on-going synchronized efforts by the monetary and fiscal authorities to mitigate the impact of the COVID-19 pandemic, the Bank has committed substantial amount of money towards this objective. Indeed, total disbursements as at January 2021 amounted to N2.0 trillion. COVID-19 Targeted Credit Facility (TCF) meant for household and small businesses, wherein we have disbursed N192.64 billion to 426,016 beneficiaries. We have also disbursed N106.96 billion to 27,956 beneficiaries under the Agri-Business Small and Medium Enterprises Investment Scheme (AGSMEIS), while in the Health Care Support Intervention Facility, we have disbursed N72.96 billion to 73 project that comprise 26 pharmaceutical projects and 47 Hospitals and Health Care Services Project in the country. To support the provision of employment opportunities for the Nigerian youth, the Central Bank of Nigeria also provided financial support through the Creative Industry Financing Initiative and Nigerian Youth Investment Fund amounting to N3.12 billion with 320 beneficiaries and N268 million with 395 beneficiaries, respectively. On enhancing power supply, the Bank has so far, provided N18.58 billion for the procurement of 347,853 electricity reading meters to Discos in support of the National Mass Metering Programme.

The Committee urged the Bank to sustain its current drive to improve access to credit to the private sector while exploring other complementary initiatives, in collaboration with the Federal Government, to improve funding to critical sectors of the economy.

During the period under review, money market rates remained low, reflecting the prevailing liquidity conditions in the banking system. Overall, the monthly weighted average Open Buy Back (OBB) rates declined further from the 1.13 per cent in November 2020 to 1.09 per cent in December 2020.

On the equities market, the Committee noted the positive performance, particularly the sustained patronage by domestic investors largely driven by the prevailing low yields in the money market. The All-Share Index (ASI) increased by 1.82 per cent to 41,001.99 points as at 22nd January, 2021 from

40,270.72 points on 31st December, 2020. Similarly, Market Capitalization (MC) grew by 1.80 per cent to N21.44 trillion from N21.06 trillion over the same period. This improved performance was largely attributed to gains recorded in medium and large capitalized companies, notably in consumer goods, banking, insurance and oil and gas sectors.

The Monetary Policy Committee (MPC), however, noted the marginal increase in the Non-Performing Loans (NPLs) ratio which rose to 6.01 per cent at end-December 2020 from 5.88 per cent at end-November 2020 and above the prudential maximum threshold of 5.0 per cent. While noting that this development is not unexpected under the prevailing circumstances, it urged the Bank to strengthen its macroprudential framework to bring NPLs below the prescribed benchmark.

On the external reserves position, the Committee noted the increase in the level of external reserves, which stood at US\$36.23 billion as at 21st January, 2021 compared with US\$34.94 billion at the end of November 2020. This reflected improvements in crude oil prices, partial global economic recovery amid optimism over the discovery and distributions of COVID-19 vaccines by most developed economies.

Outlook

Overall, the medium-term outlook for both the domestic and global economies continued to show improved prospects of recovery, supported by the recent moderate uptick in crude prices and increased optimism over the procurement and distribution of COVID-19 vaccines.

Available data and forecasts for key macroeconomic variables for the Nigerian economy suggest further improvement in output growth in the first quarter of 2021. This would be supported by the coordinated and sustained interventions of the monetary and fiscal authorities, including the broad-based stimulus and liquidity injections. Inflationary pressure is also expected to commence moderation as the economy's negative output gap closes.

However, underlying uncertainties in the oil market and current uptick in the second wave COVID-19 infection rate may pose some downside risks to this forecast.

The Committee's Considerations

The Committee noted the moderation in output contraction in the third quarter of 2020, associated with news of the discovery of COVID-19 vaccines and rising oil prices. The outlook for the recovery, however, appears to be dampened by the second wave of the pandemic considering its intensity.

In the Committee's consideration, it noted that the COVID-19 pandemic and the necessary measures put in place by the Government to forestall its public health impact, such as the lockdown and other associated restrictions, contributed to the Nigerian economy going into recession, much like almost every other country in the world. Members thus agreed that the Committee's current priority remains to quicken the pace of the recovery through sustained and targeted spending by the fiscal authority supported by the Bank's interventions. In this light, it was thought necessary to increase collaboration with the fiscal authority by providing complementary spending to finance productive ventures in a bid to improve aggregate supply and reduce prices. This is in addition to effectively collaborating with the Presidential Task Force on COVID-19 through the existing private sector Coalition against COVID-19 (CACOVID) to procure and distribute vaccines to fast-track the pick-up of business activities and economic recovery.

Members reiterated the adverse impact of insecurity on food production, stressing that the current uptick in inflationary pressure could not be solely associated to monetary factors, but due mainly to legacy structural factors across the economy, including major supply bottlenecks across the country. The Committee, thus called on the Government to redouble efforts at strengthening infrastructural efficiency and address the emerging security challenges in the country. In addition to this, the Committee called on the Government to explore the option of effective partnership with the private sector to improve funding sources necessary to address the huge infrastructural financing deficit. The Committee expressed concern over the rising public debt stock, as recurrent expenditure remained relatively high, compared with capital expenditure, thus, signalling future debt servicing challenges.

To improve Government revenue sources and investment in capital, the Committee called on the Government to take advantage of the take-off of the African Continental Free Trade Area (AfCFTA), which could boost domestic production and generate sizeable revenues for Government, as well as improve domestic productivity and competitiveness.

The Committee commended the Bank's effort of improving liquidity in the foreign exchange market, but noted the need to continue to explore avenues to improve inflow from sources such as the International Money Transfer Operators (IMTO), diaspora remittances and non-oil export promotion, given the current trajectory of crude oil prices. These sources, in the view of the Committee, would boost foreign exchange supply and ease the current exchange rate pressure.

The Committee noted the continued improvement in the equities market as a lead indicator of medium-term macroeconomic recovery, thus, urging the Bank to maintain its collaboration with the fiscal authority to improve the investment climate towards attracting sustainable Foreign Direct Investment (FDI).

The Committee commended the Bank for maintaining a sound regulatory surveillance over the banking system by ensuring a reasonably low level of non-performing loans (NPLs), even with the aggressive credit expansion programme during this crisis period. Though, NPLs remained slightly above the prudential benchmark, members noted that the banking system remained stable, strong and resilient. Given the success recorded under the LDR policy, it thus urged the Bank to sustain its risk surveillance approach and ensure the continued soundness of the banking system.

In the Committee's consideration, it noted the broad-based global stimulus packages, including expanded credit lines, asset purchase programme, corporate bond purchase, additional funding facilities for financial system, commercial paper purchases, special central bank lending, increase in the Ways and Means limits introduced by the central banks of different countries to support economic recovery in their various economies and to prevent further distortions to the economy caused by the devastating impact of the pandemic. The Committee noted the large stimulus packages deployed by many countries to fast-track growth recovery and restore livelihoods across the world. For instance, Japan provided stimulus package valued at 66.9 per cent of its 2019 GDP; UK, 45.04 per cent; USA, 28.4 per cent; Brazil, 27.6 per cent; South Africa, 12.6 per cent; China, 11.5 per cent; India, 10.0 per cent; and Russia 7.1 per cent compared with Nigeria's paltry 4.0%. The MPC, therefore, urged the Bank to further expand its current stimulus packages to support the fiscal interventions to reflate and boost recovery in the economy.

The Committee's Decision

At this meeting, MPC was, as in the last meeting, confronted with a policy dilemma as to whether to aggressively combat the inflationary pressure or support measures currently aimed at stimulating growth and reversing the recession.

Although the economy is currently in a stagflation environment with simultaneous occurrence of inflationary pressures and contracting output, the MPC resolved to reverse both developments and continue pursuing price stability in growing the economy.

MPC was of the view, that whereas there may be wisdom in loosening, given that the impact of the global Covid-19 pandemic has resulted in constrained activities, disruption to supply chain and suppress aggregate demand, an accommodative stance may be required to stimulate credit expansion and boost recovery in the short term.

The Committee was also of the view that an expansionary policy would enable the monetary authorities convince the financial institutions to reduce loan pricing and defer interest and principal repayments to critically affected obligors in a sustainable manner.

On the flip side, MPC also opined that an aggressive expansionary stance may worsen both inflation and the negative real interest rate, thereby resulting in negative consequences on exchange rate.

With regard to tightening, MPC concluded that this may run contrary to its objectives of providing affordable credit to households, MSMEs, Agriculture, and other output growth and employment stimulating sectors of the economy.

MPC was therefore of the view that it should pursue its current stance of systematic synchronization of monetary and fiscal policy accommodation through its developmental finance initiatives, aimed at mitigating the impact of the COVID-19 pandemic on Nigerians.

While expressing understanding of the public health dilemma of the recent spike in infections, MPC encouraged Government not to consider a wholesome lockdown of the economy so as not to reverse the current gains of the stimulus earlier provided in 2020. It also encouraged the Central Bank of Nigeria Management to intensify its efforts in the targeted credit facility to household, SMEs, the Health Sector, as well as Agric and manufacturing sectors which would not only boost consumer spending but result in manufacturing

output thereby positively impacting the GDP. On this basis, the MPC agreed to hold all policy parameters constant.

The Committee thus decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 11.5 per cent.

In summary, the MPC voted to:

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

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

26th January 2021

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

The global economy continues to show prospects of recovery with contraction in output moderating in most countries. From an estimated contraction of about 4.0 per cent in 2020, the World Bank currently projects global output growth in 2021 at about 4.0 per cent, underpinned by a rebound in trade, currently forecast at about 7.0 per cent, from -9.2 per cent in 2020. The International Monetary Fund (IMF) sees a stronger recovery outlook with a projection of global growth for 2021 of over 5.0 per cent. The current optimism about global output recovery hinges substantially on developments around the COVID-19 pandemic, especially the pace and spread of vaccination and continued easing of global financial conditions.

Global growth recovery in 2021 is expected to benefit from strong output performance in emerging markets and developing economies (EMDEs) led by China and India. Growth in the EMDEs cluster is expected to be boosted by the rising trends in the prices of commodities and trade generally. Uncertainties remain, however. The second/third wave of COVID-19 pandemic has resulted in the resumption of lockdowns in parts of Europe and Asia. In addition, the huge adjustment cost of the pandemic on the global economy could slow the engines of growth, just as would financial fragilities in many countries as the growth shock impacts vulnerable households and businesses.

The Nigerian economy slipped into a recession in Q3 2020 following months of COVID-19 induced lockdowns, oil price crash and inflationary pressures. Thanks to early monetary and fiscal policy responses, the outlook for the economy has significantly improved. At the January meeting of the Monetary Policy Committee (MPC), I could see from the available data credible indications of a fast climb out of recession. First, the real economy had been largely insulated from the pandemic shock waves due to some of the policies implemented earlier by the CBN including a benchmark loan-to-deposit ratio (LDR),

innovations around CRR and development finance interventions. Second, output recovery commenced during the next quarter (Q3) following the initial contraction in Q2 2020. At -3.62 percent, Q3 2020 real GDP actually grew by over 10 per cent relative to Q2 2020, even though not enough to stave-off a recession. Third, the outlook for global output recovery continued to strengthen, with EMDEs leading the way - commodity prices and demand for imports were already firming by the beginning of Q4 2020 - supported by relentless policy efforts globally, aimed at containing COVID-19 and resuming full economic activity.

The data presented also highlighted some important downside risks - a second wave of COVID-19 infections in the country, insecurity and rising inflation, especially food. Among other consequences, inflation beyond a certain threshold can undermine the output recovery gains. Yet, to effectively address inflation, its origin and character must be well understood. Among others, I could see the dominant influence of high production cost and distribution bottlenecks in the current inflation dynamics. Of course, the effect of the easy stance of monetary policy cannot be completely discounted. However, given that food prices have remained the major driver of the overall domestic price pressure, the role of money can be assumed to be minimal. As such, the correct policy-mix must continue to include a focus on alleviating supply from both production and distribution sides.

Essentially, there is no one policy instrument that can mitigate all the risks in the horizon. In fact, some of the risks cannot be addressed using the monetary instruments of the Central Bank alone. Therefore, I saw clearly the need for greater policy coordination and synchronization of effort. To be clear, I view policy coordination across economic management institutions at the federal level as essential as response coordination across the tiers of government, particularly the states and the federal.

In coming to the decision to hold the monetary policy position at the January 2021 meeting of the MPC, I considered several other factors. First, the outlook for private credit, which holds the key to rapid output recovery, continues to be stable in view of the stability of the banking system. Key financial soundness indicators (capital adequacy ratio, liquidity ratio, non-performing loan ratio, and earnings) have remained strong, suggesting continued resilience of the industry. Second, the impact of previous actions of the Committee aimed at supporting the real sector, particularly the LDR and the differentiated cash reserves requirement (DCRR) and the COVID-19 special interventions are getting stronger. Third, the inflationary pressures on the economy could begin to ease early in the year owing to the dissipation of the base effect, as well as the decision of government to reopen the country's land borders. In fact, the month-on-month inflation slowed in December 2020.

In addition to providing stimulus for growth, the emerging consensus globally appears to be that public policy priorities must include managing the adverse consequences of rising public debt, declining fiscal sustainability, strengthening public health and ensuring price stability particularly in EMDEs. There is no doubt, doing all of these (and urgently so) poses a huge challenge for most countries just as it does for Nigeria. For the CBN, the policy complexity is obvious, when priorities are viewed against available instruments. Having to deal with inflation during a recession requires a great deal of innovation and a delicate deployment of instruments. The supply-side approach to economic stability that has embodied the Bank's policy responses in recent quarters continues to be relevant in my view. I therefore voted to maintain the extant policy position.

In effect, I voted at the January 2021 meeting of the MPC to:

- I. Retain the asymmetric corridor at +100/-700 basis points around the MPR;
- II. Retain the MPR at 11.5 per cent;

- III. Retain the CRR at 27.5 per cent; and
- IV. Retain the Liquidity Ratio at 30 per cent.

2. ADENIKINJU, ADEOLA FESTUS

Economic Developments

The global economy is expected to recover in 2021 from the negative growth in 2020. Commodity prices, including crude oil prices, are expected to stay above the 2020 average in 2021. Most indicators point to a 'V-shaped' recovery. However, the new wave of COVID-19 may dampen the pace of output growth recovery. Experts are of the opinion that vaccination is the key to permanently deal with the impacts of the virus. As global economy picks up, OPEC may likely relax its production quota which will help Nigeria to increase its production and exports. Global trade is widely expected to regain most of its loss in 2020 as it grows from -9.2% in 2020 to 7.2% in 2021.

From the presentations of the Bank's Staff, the Financial Soundness Indicators (FSI) remain strong, although there is a slight deterioration in the CAR and the

NPLs ratio. The CAR declined from 15.5% in October 2020 to 15.1% in December 2020. Similarly, NPLs ratio rose from 5.7% in October 2020 to 6.0% in December 2020. Bank Assets, Credits and Deposits continue to be strong and recorded growth since the last MPC Meeting. The Liquidity Ratio, LR, is above the minimum Prudential Guidelines. Both the Return on Equity and Return on Assets increased from their levels as at the November 2020 meeting. The various stress tests confirm that the financial system is consistently strong.

The Economic Report shows continuous rise in domestic inflation rate. Headline inflation rose from 14.89% in November 2020 to 15.75% in December 2020, making it the 16th consecutive increase and highest since January 2018. Food inflation also hit a 3-year high of 19.56%. The economy is expected to continue its recovery in Q4, 2020. Both manufacturing and non-manufacturing PMI, though below 50.0 level, showed growth in December 2020. Both employment and output rose in Q4, 2020, though employment continues to lag output recovery. The overall consumer optimism index for 2021 also rose in expectations of positive development in Q1, 2021. Disbursements under the Bank Intervention Funds continue to progress well, limiting the shortfall in consumers incomes and providing support for small and medium scale entrepreneurs.

Considerations

Nigeria's current experience is not out of step with global trend. For most countries in 2020, real GDP was negative, local currencies depreciated relative to the US dollar, inflation though muted in advanced economies, rose in most emerging and developing economies. Monetary stance remains accommodating and public debts are on the rise.

Nigeria's share of stimuli funding to rescue the economy and restore growth was in general lower than its comparator countries. Nigeria's share of 4% of 2019 GDP is extremely low compared to 12% in South Africa, 10% in India and

10% in Brazil. In more advanced countries like Japan, it is over 68%, 45.04% in the UK and 28.4% in the USA.

However, there are few issues that need to be addressed under the current dispensation of providing support for the economy. There is a need for robust oversight on the financial sector. The Bank must use all tools necessary to ensure that current forbearance granted to bank customers are not withdrawn prematurely.

The exchange rate management will continue to be challenging as the deficits in trade account and current account during slowdown in remittances and FPI persist. Hence, the Bank must creatively adjust the exchange rate at minimum costs to the economy. There is a need for continuous dialogue between CBN and key stakeholders in the economy like non-oil exporters, to ensure synergy between CBN policies and programmes and the incidence of their implementation.

Current adjustment in energy prices and liberalization of the downstream petroleum sectors are necessary for long term survival of the energy sectors to enable them play positive roles in economic recovery.

The Federal Government should sell off its moribund assets and explore the use of off-budget means to finance infrastructure in the country. A close examination of the 2020 FGN budget performance shows that the recent increase in crude oil prices is not reflected in gross government oil revenue. Government gross oil revenues for some months in 2020 were N454.34billion in April, N284billion in May, N254.34billion in September, N201.12billion in October and N225.41billion in November. Whereas between April and November 2020, price of Bonny Light rose steadily from \$12/b to \$43/b respectively. This is a worrisome development.

The persistent security challenges are a threat to the economic recovery programmes of government and needs to be addressed urgently. There is a need for a coordinated vaccination programme against COVID-19 in the

country. Government must get engaged quickly in the acquisition of vaccines for its citizens in 2021. The level of vaccination will have direct impacts on economic recovery.

I am aware of the recent trend in domestic inflation rates, as well as the long-term threat that inflation posed to the economy. However, at this time of major shocks to the economy, there is a need to stay the course of trying to stimulate domestic economic recovery and support weakened domestic economic agents. Nigeria's inflation problem is not just monetary but also has significant supply and structural components. Undue focus on monetary instruments to control inflation of the sort in the country could backfire and make the economy to reach an inferior equilibrium output levels.

The impacts of the virus have not fully abated and the uncertainty surrounding the 2nd wave means that Nigeria must continue to use unconventional means to support the financial sector, the economy and economic agents, in view of the current limits of conventional tools. However, it is important to focus on the implementation of the intervention programme to ensure they get to more Nigerians who are in desperate needs of support currently.

Decision

Given all the above considerations, I am in favour of holding all current monetary parameters constant.

Based on above considerations, I cast my vote as follow:

- i) Keep MPR at 11.5%
- ii) Retain CRR at 27.5%
- iii) Maintain Liquidity ratio at 30%
- iv) Retain asymmetric corridor around the MPR at +100/-700 basis points.

3. AHMAD, AISHAH N.

2021 opened in an atmosphere of positive global economic sentiment reflecting large fiscal stimulus packages, supportive monetary policy and political economy developments. Additional vaccines continue to emerge even as the Pfizer and Moderna versions have begun to be distributed. Joseph R. Biden was sworn in as the 46th President of the United States; global financial markets and crude oil prices rose in response, signaling positive outlook for international trade, global aggregate demand and a return to U.S. multilateralism.

Nevertheless, new UK and South African COVID-19 mutations and a deadly second wave of infections around the world, dampens the outlook. Global infections have grown to 97.1million with over 2 million casualties and many countries have restricted borders and re-introduced lockdowns. Authorities are confronted with limited, hard choices; keep economy open and record more casualties or lock down and face a recession. The embers of the record-breaking economic declines in many advanced economies in the first two quarters of 2020 still remain. Although the IMF forecasts a rebound in global output from -4.4 per cent in 2020 to 5.2 per cent in 2021, this will be highly dependent on seamless distribution of vaccines.

This rising global uncertainty has prompted further fiscal and monetary policy stimulus by various economies to preserve the gains recorded in the third quarter of 2020. For instance, the United States is seeking approval for additional US\$1.9 trillion corona virus relief package while the Bank of England has launched a fresh £150 billion stimulus package for the UK economy, amid the second wave. Overall, monetary and fiscal policies have remained accommodative through the crisis to protect the economy.

The domestic economy requires significant stimulus for a positive rebound. Although fourth quarter real GDP data is still being expected, and despite a lower contraction (3.62 per cent) in third quarter 2020 GDP, leading indicators show sluggish performance in the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMIs), which remained below the 50-index point benchmark in December 2020, at 49.6 and 45.7 index points, respectively, compared with 50.2 and 47.6 index points in the previous month. The employment indicators of both indices did not fare much better.

Rebound in real output growth and improved food production and distribution will be critical to tame rising domestic prices. Headline inflation year-on-year rose for the sixteenth consecutive month to 15.75 per cent in December 2020 from 14.89 per cent in November 2020. The uptick was due to increases in both

the food and core components of inflation, which rose to 19.56 and 11.37 per cent in December 2020, respectively, from 18.30 and 11.01 per cent in November 2020.

The continued upsurge in food inflation was attributed to food supply disruptions, spurred by increasing security challenges in many parts of the country. The recent deregulation of the downstream sector of the oil industry, which led to hikes in the price of Premium Motor Spirit (PMS) and the upward adjustment in electricity tariff also drove rises in core inflation.

Notwithstanding, **it is pertinent to note that month-on-month growth in headline inflation was flat at 1.6 per cent between October and December 2020**, further supporting hopes that the upward trend in domestic prices may dissipate in the near term. This optimism is also strengthened by the recent reopening of the land borders which should temporarily mitigate the current supply gap. Over the long term, planned repositioning of the Nigeria Commodity Exchange should address structural issues within the agricultural and commodity trading value chains, with positive impact on food prices and foreign exchange earnings.

As part of **efforts to improve supply of foreign exchange and stabilize the exchange rate, the Bank sustained its demand management strategies** (moderating over-invoicing of imports, elimination of third parties in the import process, etc), complementing supply-side initiatives such as amended procedures for receipt of diaspora remittances and a renewed focus on boosting non-oil export FX earnings. These initiatives are expected to enhance FX supply, even as external reserves increased to US\$36.23 billion as at 21st January 2021, compared with US\$34.94 billion at end November 2020. This partly reflects improvements in crude oil prices to US\$55.14 per barrel as at January 15, 2021 from over US\$40 per barrel in November 2020.

The **financial system continued to persevere in its resilience, supporting credit to the domestic economy whilst maintaining robust soundness indicators**, despite the economic disruption caused by COVID-19. Bank staff data indicated that domestic sector credit remained on an upward trajectory (gross credit grew by N4,917.05 billion from N15,567.66 billion at end-May 2019 to N20,484.71 billion as at end-December 2020) with significant increases recorded in manufacturing, agriculture, construction and general commerce – major sectors driving domestic GDP growth. The Loan to Deposit Ratio (LDR) policy has been markedly successful at directing credit to the real economy and should be sustained with a renewed focus on effective utilization, to guarantee expected benefits from supporting businesses, manufacturing capacity and domestic output.

Banking industry liquidity ratio improved markedly between October and December 2020 from 35.6 per cent to 44.5 per cent, through the Bank's provision of backstops via the CBN Special Bills, whilst capital adequacy ratio (15.1 per cent as at December 2020), return on asset and return on equity

remained stable. Strong growth recorded in deposits, total assets and funding over the period also solidifies the banking industry's capacity to support the real economy through to recovery. Although non-performing loan ratio increased marginally from 5.7 per cent in October 2020 to 6.0 per cent in December 2020, it remained reasonably contained and within tolerable levels, in view of the significant economic downturn in 2020.

Notwithstanding the positive outlook, the Bank must remain vigilant given the uncertain macro environment and continue to monitor risks and vulnerabilities in the economy and their impact on financial system stability. In this respect, it should continue monitoring restructured and unstructured industry loan portfolios, sustain dynamic stress testing and ensure banks build operational resilience by strengthening their cyber defenses and business continuity planning. Consolidating the industry's earnings profile will also be critical to grow capital buffers; which will be important to enable it to manage likely financial and macroeconomic headwinds.

Policy Considerations and Decision

Rising prices coupled with negative/low growth (i.e. stagflation) is a serious challenge confronting monetary policy in Nigeria and many African countries. With low fiscal space to spend out of the recession relative to advanced economies who have significant inflation slack, policy makers in Sub-Saharan Africa face uniquely challenging times.

Clearly, structural, long term policy initiatives to diversify the economy remain critical. However, containing the pandemic immediately will be paramount to economic resilience and recovery. Thus, a proactive and coordinated vaccine procurement and distribution strategy is required to improve business sentiment and promote a positive macro-economic outlook. Policy priorities must also include continued financial support to sectors most impacted by the pandemic and those most fundamental to recovery.

Whilst growing inflation remains of significant concern in the light of the primary mandate, tightening the monetary policy stance to curtail inflation may derail the emergent recovery and exacerbate already depressed demand of households and private businesses. On the contrary, easing to accelerate GDP growth may simply worsen domestic price developments especially in the light of electricity tariffs and PMS deregulation.

Therefore, holding the policy rate appears to be the most pragmatic option as current realities do not support adjustments to the policy rate now. Holding will also allow time for macroeconomic indicators to evolve in response to considerable policy measures already being implemented.

Thus, I vote to hold all parameters at existing levels, i.e., Retain the MPR at 11.5 per cent; Retain the asymmetric corridor of +100/-700 basis points around the

MPR; Retain the CRR at 27.5 per cent; and Retain the Liquidity Ratio at 30 per cent.

4. ALIYU, AHMED

INTERNATIONAL AND DOMESTIC ECONOMIC DEVELOPMENTS

The global economy suffered a huge loss in 2020 as a result of the corona virus pandemic which was characterized by unprecedented lockdown measures, precipitous fall in aggregate demand and a global recession not seen in the last 60 years. The accompanying sharp decline in crude oil demand and prices severely constrained oil-dependent economies like Nigeria as government revenues and external reserves plummeted. The synchronized influx of fiscal stimulus into the global financial architecture and the accommodative stance of monetary authorities through rate cuts and direct liquidity injections helped to kick-start the lukewarm global recovery in Q3 2020. However, following the recent emergence and rapid spread of a more contagious and deadly variant of the corona virus in several countries, this nascent recovery may be jeopardized as some economies re-introduced fresh restrictions between December 2020 and January 2021 to contain the disease spread.

The IMF projected global output to expand by 5.2% in 2021 (October 2020 WEO) while the World Bank (2021) estimate indicates that the global economy would recover to a growth of 4.0%. Nevertheless, there are notable downside risks that may limit the anticipated growth outcome such as uncertainty about the length and depth of the pandemic as well as the time lag in procuring and distributing vaccines to achieve herd immunity. The forecast by IMF shows that growth in the Advanced Economies and the Emerging Market and Developing Economies (EMDEs) would recover by 3.9% and 6.0% in 2021, respectively, while the Nigerian economy is expected to grow by 1.7% in 2021.

The United Nations Conference on Trade and Development (UNCTAD) forecast global trade to recover by 3.4% in 2021 but the World Bank and IMF outlook shows a respective 5.0% and 8.3% growth in global trade. The expected recovery in trade volume is hinged on efficient pandemic

management and sustained support of supply-side policies. As global production and trade gathers momentum, oil price climbed to US\$55.52/barrel on January 20, 2021 on the back of extended OPEC+ production cut compared with less than US\$40/barrel in March 2020. Hopefully, this scenario would enhance the implementation of the 2021 Federal Government Budget in Nigeria with an oil price benchmark of US\$40/barrel. This trend may be sustained as the US Energy Information Administration expects oil prices to average US\$53/barrel in 2021. Thus, there is the need to give serious consideration to building fiscal buffers in times of favourable oil prices. Besides, the monetary authority should take advantage of the improvement in oil prices to increase its external assets (reserves), stabilize the foreign exchange market, reduce the pass-through effects of exchange rate adjustments to domestic prices and promote overall price stability.

The portfolio market of emerging economies has continued to attract large capital inflows from Q4 2020 as business sentiments improved and policy rates remain subdued in advanced economies. To profit reasonably from these flows, it becomes germane to significantly improve the security and business climate in Nigeria to boost the confidence of foreign investors.

The domestic economic recession which commenced in Q3 2020 is predicted to linger in the fourth quarter as the CBN projection shows that the economy will grow by -2.13% in Q4 2020 compared with the actual growth of -3.62% in the preceding quarter. The Purchasing Managers Index (PMI) corroborates the expected slight improvement in growth as both the Manufacturing and Non-Manufacturing PMIs increased to 49.6 and 45.7 index points in Q4 2020 from 46.9 and 41.9 index points in the preceding quarter, respectively. Similarly, the index of manufacturing production inched up to 181.1 from 178.5 index points during the review period. The key headwinds to growth include the second wave of the corona virus pandemic as well as legacy structural and security issues such as endemic security challenges, severe infrastructural deficits, among others. Although, the stimulus packages executed by the fiscal

authority in 2020 was commendable, there is need to sustain the tempo, especially through the unalloyed and timely implementation of the Economic Sustainability Plan that embodies a stimulus package of N2.3 trillion. Likewise, the monetary authority should continue its strategic and result-oriented sectoral interventions in the economy through regular monitoring and evaluation to identify areas of improvement and consolidation.

The statistics on price development shows that inflationary pressure exacerbated in the review period as headline inflation (year-on-year) rose to 15.75% in December 2020 from 14.89% in the preceding month. On a year-on-year basis, food and core inflation also inched further upward to 19.56% and 11.37% from 18.30% and 11.05%, respectively, in the review period. Headline inflation (month-on-month) rose to 1.61% in December 2020 from 1.60% in the previous month. A disaggregation on a month-on-month basis reveals that core inflation dominates as it rose to 1.10% in December 2020 from 0.71% (a change of 0.39 percentage point) while food inflation rose only marginally to 2.05% from 2.04% in the review period (a change of 0.01 percentage point). Thus, in terms of month-on-month inflation evidence, it may be necessary to re-access the level of banking system liquidity to obviate monetary inflation.

Monetary developments indicate that the broad money aggregates M3 rose from 3.2% to 10.97% between September and October 2020 as a result of growth in net foreign assets and net domestic assets of the banking system. M3 exceeded its benchmark for 2020 by 4.13%. Furthermore, the monetary base declined by 14.41% between November and December 2020 while the total requests for the Standing Deposit Facility (SDF) from November 25, 2020 to December 31, 2020 significantly surpassed that of the Standing Lending Facility (SLF) window. Consequently, the Bank should sustain the use of its potent tools in addressing liquidity surfeit in the system.

The private sector credit growth stood at 13.34% in December 2020 compared with 10.5% in the preceding period – an indication of the efficacy of the Bank's targeted interventions in the private sector. The LDR policy has worked well as

total credit increased by N2.91 trillion (16.56%) between end-December 2019 and end-December 2020 due mainly to CBN's directive on LDR which encouraged Deposit Money Banks (DMBs) to lend to different sectors of the economy. In view of the uncertainty surrounding the length of the pandemic and given the need to exit recession as quickly as possible, the interventions of the Bank should be enhanced as credit to the private sector is still below its 2020 benchmark. Overall the banking stability indicators remain robust. The performance of the domestic capital market as measured by the All-Share Index shows an increase of 49.47% from 25,842.07 at end December 2019 to 40,270.72 at end-December 2020. The Nigerian stock market was ranked as the best performing stock market in the world in 2020.

CONSIDERATION FOR VOTING

The challenge of recession in an economy with significant output gap calls for caution in tweaking policy parameters. The focus now is to exit recession and the extant policies that promote the growth agenda should be retained. However, a key mandate of the Bank is to ensure price stability. Thus, the rising inflationary pressure raises serious concerns in a banking system that seems to have excess liquidity. I would not subscribe to hiking policy rate at this time of output slack. Rather, to curtail liquidity pressures, the Bank should employ its other potent liquidity management tools more aggressively to bring system liquidity under control. Moreover, there is need for more time to enable existing policy directions work out fully. Therefore, I voted to retain all policy parameters as follows:

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

5. ASOGWA, ROBERT CHIKWENDU

Monetary Policy Decision:

The considerations underlying the decision at this meeting are based on an assessment of the current global economic outlook and the domestic macroeconomic situation. At the domestic level, there is strong optimism that the moderate recovery of Nigerian economy since the third quarter of 2020, will likely continue in 2021 even though risks to economic activity are still skewed to the downside because of the resurgence of COVID-19 across the globe. The inflation rate has been adverse for several months and may likely continue on this upward trajectory for the time being but thereafter, it is expected to reverse and begin to decrease gradually. Breaking the inflation

spiral being partly fueled by supply chain disruptions will, however, be dependent on consistency with supply management strategies including Central Bank's targeted interventions to address some factors limiting food production in Nigeria.

An accommodative monetary policy stance would, therefore, still be appropriate at this time, but only as long as it is necessary. Considerable monetary and fiscal stimulus will be required especially given the successes recorded with earlier interventions. Any additional financing for firms and households will further brighten prospects for quick recovery whilst monitoring closely all threats to price stability.

I will thus vote to:

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

Assessment of the Global Economy:

The outlook for the global economy is now overcast with the resurgence of COVID-19 infections across Europe, the US and major emerging economies including South Africa. With the accompanying lockdowns, this second wave appears to be creating new economic uncertainties and unevenness leading to some choppy quarterly economic growth rates in many countries. Going into the last quarter of 2020, the global economy had a strong growth momentum, but since the first quarter of 2021, several countries are now experiencing setbacks in their economic recoveries with households and firms facing new hardships amidst tightening containment measures. In Canada for instance, economic activity is estimated to have expanded by almost 5 percent in the fourth quarter of 2020, but for the first quarter of 2021, the forecast is that GDP may decline by about 2.5 percent. Similarly, the UK GDP is expected to have risen a little in the fourth quarter of 2020, but with the scale and breadth of COVID restrictions in place now, the UK's economy is now

forecast to fall by as high as 4 percent in the first quarter of 2021. According to preliminary flash estimate, euro-area GDP had fallen by 0.7 percent in the fourth quarter of 2020, which is somewhat stronger than expected, but the first quarter 2021 economic activity in the euro area is also expected to be weaker than previously anticipated. In the US and China however, there are indications that economic recovery will continue in the first quarter of 2021 and may not be severely affected by recent spikes in the virus. The US GDP increased by 1.0 percent in the last quarter of 2020 according to advance estimates and there are strong indications of continued growth in the first quarter of 2021 as new COVID -19 restrictions remained minimal as compared to the euro area. In China, GDP increased by 2.6 percent in the fourth quarter of 2020 and with the virus relatively well controlled, there are expectations that the strong economic recovery will continue in the first quarter of 2021. In other emerging market economies including Brazil and India, activity indicators have continued to suggest that growth is recovering gradually, but with COVID cases rising in a number of countries, there will be significant variations in the 2021 first quarter GDP figures across countries, with positive trend expected in areas where tighter restrictions had not been strictly re-imposed.

Progress on vaccines appears to have generated some new optimism but for many developing and emerging market economies, broad immunity from the virus may extend up to the later part of 2022. Over the coming months, it is expected that as the current virus recedes and government restrictions are again eased, economic activity will rebound very strongly. Overall, global growth is now expected to expand by about 4 percent per year in 2021 but with possible moderation in 2022 to 3.8 percent. In the emerging markets, there are current projections of a stronger than anticipated economic recovery which will raise the output to 5 percent on average in 2021 but slowing to 4.2 percent in 2022.

Global financial markets remain buoyant and appear to have reacted positively to the arrival of vaccines as well as the prospects of medium term

economic recovery. Equity prices have picked up across many advanced economies bringing several indexes to historical highs in recent times and the flow of portfolio capital to emerging markets may have resurrected since October 2020. The US dollar has continued to depreciate against many currencies especially in the emerging markets as strong commodity prices extend.

Inflation is still near the low end of the target range for many advanced economies and remains subdued as the weak demand which characterised early periods of the pandemic continues to hold down prices. In recent months however, inflation has been stronger than expected driven partly by growing consumer demand for some goods. In the UK, inflation rose from 0.3 percent in November to 0.6 percent in December and is expected to rise quite sharply towards 2 percent in the spring, given developments in energy prices and as the reduction in VAT for certain services comes to an end. CBN staff report also show that in the US, inflation rose from 0.2 percent in November 2020 to 0.4 percent in December 2020. There were similar upward inflationary pressures in China, Russia and Brazil in December as compared to the levels in November 2020.

A new policy challenge that has been thrown up by the pandemic is the arrival of the fourth wave of global debt accumulation, long after the third wave occurred during the 2007-2009 global financial crisis. It is estimated that Global debt had risen to record high 230 percent of GDP. The concern is that despite the huge debt build up because of this pandemic, growth remains low in almost all countries while several low-income countries are already at the risk of debt distress.

Recent actions in many advanced and emerging markets remain consistent with the accommodative monetary policy stance which has been maintained since the pandemic. The massive roll out of several asset purchase programmes by Central Banks in both advanced and emerging market economies have had the expected positive effects. The European Central

Bank's asset purchase programme now trends at a monthly pace of 20 billion Euros. A key concern lately for emerging markets is that the governing framework, scale and duration of these asset purchase programmes appear less transparent as compared to the advanced economies and in most cases, the potential effects on inflation remain uncertain.

Domestic Macroeconomic Situation:

Nigeria's 2020 fourth quarter GDP figures are not yet out at the time of this meeting, but other economic activity high frequency real sector indicators point to an economic recovery that is gaining traction. CBN staff data show the manufacturing PMI stood at 49.6 index points in December 2020 compared to 46.9 index points in September 2020. The non-manufacturing PMI also inched higher to 45.7 index points in December compared to 41.9 index points in September 2020. These improvements have been attributed mainly to the reopening of the economy and the fact that monetary and fiscal stimulus being implemented are increasingly moving beyond supporting consumption and liquidity to supporting growth-generating investments. With crude oil prices picking up recently based on the optimism of global demand recovery, the outlook for growth in Nigeria for 2021 is highly positive.

Turning to Inflation, the situation remains adverse as price levels rose from 14.23 percent in October 2020 to 14.89 percent in November 2020 and further to 15.75 percent in December 2020. This was mainly driven by elevated food prices which have surged to historical highs across most food and alcoholic beverages including meat, vegetables, yams, potatoes and other tubers. The inflation hike has been attributed to multiple supply shocks rather than demand pressures but the inflation expectations of households seems to have eased modestly in recent times in anticipation of the positive effects of border reopening and the moderation of food prices as the 2021 rainy season approaches.

The domestic monetary and financial conditions remained easy in November and December 2020 with robust systemic liquidity. CBN staff report show that broad money supply (M3) grew by 10.97 percent in December 2020 from 5.02 percent in November 2020 and this has been attributed to the Central Bank's increased development finance interventions and the ongoing government cash roll-out to address the impact of COVID-19 pandemic. A noteworthy development is that aggregate domestic credit in December 2020 accelerated and moved marginally beyond the earlier indicative benchmark for 2020. In addition, the recovery in the equity market between October and December 2020 appears to have spurred financial market activities even in the midst of struggling output levels. This surge in market capitalization has ensured continued access to finance for listed firms despite several market uncertainties. The recovery in bank profitability between October and December 2020, even in the midst of recession, shows further resilience in the industry. Loan defaults are yet to surge in the industry, even though the non-performing loans ratio of banks increased marginally between October and December 2020. While the bank balance sheets still look strong at this time, the loan forbearance policy may somehow be masking some rising vulnerabilities.

Another persisting challenge is the high debt levels which appears to have been triggered further by the COVID-19 pandemic. CBN staff report show that total public debt grew from 83.8 million dollars in June 2019 to 84.5 million dollars in September 2020. Nigeria is however not alone in the speed of increase in debt associated to the pandemic as many other developing and emerging economies have been part of the recent wave of debt accumulation. A key concern with this debt build up is the fear that not all of it will be used for productive purposes and with revenues declining consistently, facing large debt-servicing costs at this time will further erode any government genuine attempts at boosting capital investments in the country.

Looking ahead, reviving growth and mitigating the impact of COVID-19 on the Nigerian economy and at the same time ensuring that inflation remains under check will be the key task for policy makers in 2021. Some considerable risks

may arise in achieving these objectives, but can be pinned and addressed within the medium term.

6. OBADAN, MIKE IDIAHI

Economic vulnerabilities and uncertainties remain in the global economy arising mostly from the twin health crisis and economic crisis triggered by the coronavirus pandemic. The true nature of the virus has continued to perplex medical scientists such that at times when nations felt that the virus was being contained and then began to relax lockdown containment measures, second/third waves of the pandemic have surfaced necessitating fresh rounds of rather painful and costly partial/total lockdowns of economies. Importantly, new variants of the virus, considered to be more deadly, have surfaced in some countries and are spreading to other countries. Doubts have been expressed as to whether the vaccines discovered so far would be effective in tackling the new variants of the virus. Besides, the vaccines developed are being administered rather slowly in the advanced countries. It is not certain

when the less developed countries, Nigeria included, will have access to the vaccines considering their limited financial capacities, availability of the vaccines in sufficient quantities and priorities in the developed world. Yet, Nigeria is already contending with the second wave of the pandemic in more intense form than the first wave which attracted near-total lockdown with significant negative impact on human lives and livelihoods. So far, Nigerian government officials have given an indication that lockdown of economic activities is not being contemplated. But this will depend on good behaviour by Nigerians in terms of complying with the safety protocols aimed at preventing the virus. Good behaviour will enable economic activities to go on, while other containment measures are being implemented. Otherwise, with rising cases of the virus and absence of vaccines, lockdown could be inevitable. This will need to be avoided. Past experience shows that strong containment measures in several countries to tackle the pandemic had negative implications for global demand, recovery and growth. The implications of weak recovery for global demand for crude oil, upon which Nigeria depends for its fiscal and foreign exchange sustenance, are very grave.

IMPORTANT GLOBAL DEVELOPMENTS

Global Growth. The coronavirus pandemic had a strong negative impact on the economies of the advanced countries and Emerging Markets and Developing Economies in the second quarter of 2020 with the USA, for example, recording -31.4 percent growth while South Africa recorded -51.0 percent. The growth performance of almost all other countries was negative. Only China recorded 11.7 percent growth. But growth in these countries rebounded in the third quarter. As there were signs of covid-19 being contained gradually, the economies re-opened and the well-established production structures and machines revved into action. Production and consumption in the economies rebounded and put growth in strong positive

territory in the third quarter of 2020. Thus, for example the US economy grew by 33.1 percent while the South African economy grew by 66.1 percent. And the global economy experienced a V-shaped recovery. But with the resurgence of covid-19 in second and third waves, the prospect for global growth in 2021 is subdued even though the IMF has revised its projections to put global growth at 5.2 percent compared to a revised -4.4 percent contraction in 2020. The major risk to global output remains the resurgence of the new variant of the coronavirus coupled with the delay in the roll-out of vaccines, i.e. procurement and distribution of the vaccines. Other risks include fiscal fatigue in some countries, i.e, inability of governments to continue providing supports, financial stress triggered by high debt levels and weak growth, and large-scale protectionist measures, among others.

Global Trade. This shows signs of rebound like global growth from the impact of covid-19 pandemic. To this end, world trade is projected by the World Trade Organisation to be 7.2 percent in 2021 from -9.2 percent in 2020. But recovery is still uncertain as it depends on factors such as: behaviour of covid-19 pandemic; risks of extended lockdowns following fresh surges of covid-19; availability of vaccines, easy accessibility and effectiveness of vaccines. The latter could accelerate recovery efforts and raise output growth and trade notably in 2021.

Global Inflation. Global prices showed a broad downward trend across several countries. In the advanced countries inflation slowed down as economic activities weakened. For example, in the Euro area, inflation remained flat at -0.3 percent in December 2020, as in November 2020, driven by depressed prices and stronger Euro. In the UK, inflation slowed to 0.3 percent in November 2020, from 0.7 percent in October 2020. In Japan, inflation declined further to -0.9 in November from -0.4 percent in October 2020. In the US, although inflation rate inched up to 1.4 percent in December 2020, it is still below its target rate of 2.0 percent. In the EMDEs, inflation has trended below historical averages. But in Nigeria, the reverse is the case with inflation rising for the 16th

consecutive month in December 2020 to 15.75 percent. As economic activities slowed, inflation increased, thus putting the economy in a stagflationary situation which poses significant challenge to policy.

Crude Oil prices. The current trend of oil prices is good news to the Oil Exporting Countries, Nigeria included. In December 2020, oil prices fluctuated in the forties range such that the OPEC reference basket monthly average crude oil price was US\$ 49.17 compared to US\$ 42.61 per barrel in November. But in January 2021, the oil market strengthened and the prices per barrel as at January 20 were as follows: OPEC Basket, US\$ 54.85/pb; Bonny Light, US\$ 55.52/pb; UK Brent, US\$ 55.51/pb; and West Texas Intermediate (WTI), US\$ 52.79/pb. Growing oil demand and lower oil output could sustain prices in US dollars mid-fifties even though the futures market suggests a range of US\$ 40.00 – US\$ 42.00 to the end of 2021. A sustenance of the current prices though will strengthen Nigeria's fiscal position and foreign exchange reserves. It should lead to increase in government revenues and accretion to external reserves which will reduce pressure on the foreign exchange market and exchange rate.

Policy Responses. Since the outbreak of the coronavirus, most countries, especially the advanced countries have not relented in deploying expansionary fiscal and monetary policy packages to stimulate the economies and achieve recovery. The priority has been economic recovery from the contractions and slow growths which followed the pandemic-induced lockdowns. To this end, they have provided substantial fiscal and monetary stimulus which has accounted for 66.9% of GDP in Japan; 45.04% in the UK; 28.4% in the USA; 27.6% in Brazil; 12.6% in South Africa; 10.0% in India; and only 4.0% in Nigeria. Besides, there is a strong trend towards continued monetary accommodation by both the advanced and emerging market economies. A survey of fourteen central banks conducted by the Central Bank of Nigeria showed that apart from Nigeria and Ghana, the 12 others have maintained low monetary policy rates and none has increased the rate since

September 2020 so as to ensure greater monetary accommodation to aid economic recovery. And in December 2020, the US government approved a new fiscal support package of US\$2.3 trillion which included a US\$ 892 billion covid-19 relief package. The European Union also announced the issuance of the Euro 100 billion EU SURE bond, a social bond targeted at providing relief from the coronavirus pandemic while the German government adopted an additional supplementary budget of 156 billion euros to combat covid-19 crisis and support economic recovery. And with continued regulatory forbearance granted to the banking industry in several countries, significant credit expansion, particularly to households and firms, are expected to support the recovery.

Thus, against the backdrop of the prevailing risks and uncertainties in the global economy, the concern of many countries is recovery from recession and sustained growth. Although, the Nigerian economy, unlike others, is experiencing stagflation there is the strong need to put more money in the economy now through various stimulus packages, to quicken recovery from recession and improve growth, failing which the cost to the economy – continued contraction/poor recovery, unemployment, increased poverty, social unrest – will be much greater than the benefits from alternative policy focus, for example, inflation.

DOMESTIC DEVELOPMENTS

The Nigerian economy has continued to grapple with serious challenges. Out of the four major sectors, only the financial sector seems to be doing reasonably well against the backdrop of the regulatory forbearance granted the banking industry since the outbreak of the coronavirus pandemic. Even then, there seems to be a disconnect between the financial sector and the real sector. The stock market seems to be booming and the banking industry is reporting profits while the real sector is highly challenged and the economy is in recession. The real sector and external sector are experiencing difficulties as

a fallout of the health and economic crisis induced by the coronavirus pandemic.

Real Sector. The economy is in a stagflationary situation. Following a 1.87 percent growth in the first quarter of 2020, the economy contracted by -6.1 percent in the second quarter and then slipped into recession in the third quarter following a contraction of -3.62 percent, although it signified improvement in the negative territory. With the emergence of the second wave of covid-19 pandemic towards the end of 2020, what the growth figure for the fourth quarter will be is not certain, although there are indications from informed sources that the figure could be marginally positive or at the worst a further improvement on the third quarter figure in the negative zone. To the extent that the second wave of the virus does not lead to fresh lockdowns, the growth outlook may be considered as positive.

External Sector. The challenges in the external sector are very worrisome. In light of the high level of integration of Nigeria's economy with the global economy, disturbances in the global economy easily transmit to the Nigerian economy, for example, the negative and positive shocks in the world oil market since the outbreaks of the covid-19 pandemic in 2020. The Nigerian economy has been hit by low crude oil prices, weak aggregate demand in the advanced countries, capital flows reversals, among others. Consequently, the external sector is characterised by current and capital account deficits, foreign exchange demand/exchange rate pressure, negative terms of trade, low accretion to external reserves, low capital inflows and foreign capital flows reversal. While the Central Bank will continue with its arsenal of foreign exchange management strategies, efforts by the government to boost supply of foreign exchange from non-oil sources will need to be intensified. Importantly, it is hoped that the current rebound in the crude oil market will be sustained. Enhanced earnings from the market will provide relief to the pressure in the foreign exchange market and the balance of payments.

Fiscal Sector. The fiscal sector is also a casualty of the coronavirus-induced crisis in the world oil market which has curtailed foreign exchange earnings and domestic revenue. Against the backdrop of the government's low-non-oil revenue collection capacity, absence of fiscal buffers, challenges in the oil market, and limited fiscal space, revenue is not growing apace with expenditure and debt accumulation. The overall fiscal balance has continued to deteriorate. The Federal Government's fiscal operations as at November 2020 recorded a deficit of N4,258.18 billion. And the 2021 Federal Government budget set out N13.59 trillion for expenditures, with an expected revenue of N7.89 trillion and a budget deficit of N5.2 trillion. The deficits are being financed mostly with domestic and foreign debt with resultant accumulation of public debt which has become worrisome. As at the third quarter of 2020, the total public debt stood at N32,222.00 billion. Although the exigencies of the covid-19-induced economic crisis have increased the pace of deficit financing and debt accumulation, poor fiscal management must be fingered. It signals the onset of fiscal dominance as the national debt levels have risen to such a level that the country is unable to repay or service the debt with only its revenue, except through further borrowing to remain solvent.

The issue of Accelerating Inflation. The most worrisome development in the economy today is the accelerating inflation in a period of recession. Inflationary pressure has persisted. All the three measures of inflation – headline, food and core – have trended upwards consistently for quite some time now. Headline inflation has risen for the sixteenth -consecutive month; it rose to 15.75 per cent at end-December 2020 from 11.98 percent in December, 2019, significantly above the implicit target corridor of 6-9 per cent. Core inflation also trended upwards from 9.33 per cent in December 2019 to 10.13 per cent in June 2020 and increased rapidly to 11.37 per cent in December 2020. Food inflation also trended upwards from 14.67 per cent in December 2019 to 15.18 and 19.56 per cent in June and December 2020 respectively.

Now, the crucial question is: What is responsible for the accelerating inflation? Is it monetary expansion or other factors or both? Some analysts are of the view that the current inflation is the result of rapid monetary expansion. I do not share this view. Yes, there is a perspective in the economics literature that inflation is everywhere a monetary phenomenon, that is, inflation is primarily caused by monetary expansion. The validity of this in all circumstances is very much in doubt. The view may hold true in the advanced countries with well-developed production structures, high level of productivity, high consumer and aggregate demand, low level of unemployment. In such countries, monetary expansion buoyed by high aggregate demand could result in monetary inflation. One thing though is that expansion of money supply does not automatically translate to inflation. There has to be increased aggregate demand in relation to credit expansion under conditions of full or near full employment output. The United States witnessed rapid monetary expansion arising from huge fiscal and monetary injections as a response to the coronavirus pandemic. But the rate of inflation did not explode. For example, during the period, March to June 2020, the average money supply growth was 4.1 percent, while the rate of inflation averaged 0.63 percent. Even though inflation inched up to 1.4 percent in December 2020, it was higher than the 0.52 percent growth in money supply, suggesting a weak connection between money supply and inflation. However, there is the view that in light of rising inflation expectations, surging money growth may be a precursor to future inflation, arising from pent-up spending after the pandemic.

Yes, there has been increase in money supply or liquidity in Nigeria. And a large part of it is targeted at increases in output of agriculture, manufacturing, electricity, MSMEs which should dampen inflation. The Central Bank of Nigeria's (CBN) liquidity injections have been through the following programmes, among others: Real Sector Support Facility, Targeted Credit Facility, SME/Rediscounting and Refinancing Facility, Commercial Agricultural Credit Scheme, Anchor Borrowers programme. Importantly, considering the present state of the economy, increases in money supply do not automatically

translate to price increases because of the following: recession (contraction of output and low economic activities), very high national rate of unemployment and underemployment at 27.1 and 28.5 percent, respectively, as at the second quarter of 2020, widening negative output gap (resulting from lull in economic activities and increased under-utilised capacity in the economy; high unemployment rate, supply shocks, decline in aggregate demand, infrastructure and security challenge), weak aggregate demand resulting from declining disposable income and rising inflation. Available data show limited correlation of money supply and inflation. For example, in January and February 2020, broad money supply recorded negative growth rates of -2.07 and -2.59 percent, respectively, while the inflation rates were 12.13 and 12.20 percent in the two months, respectively. From July to December 2020 money supply growth averaged 5.36 percent while the inflation rate averaged 14.10 percent. Thus, there seems to be no one-to-one correspondence between money supply and inflation in Nigeria. Under these circumstances, the drivers of headline, food and core inflation must be located elsewhere. In this direction, structural and other factors are key drivers. They include: supply chain disruptions resulting from the covid-19 containment measures, insecurity in the food producing areas of the country, land border closures till last December, deregulation of the downstream oil sector leading to hikes in petroleum product prices, upward adjustment in electricity tariffs, upward adjustment of the exchange rate and the strong pass-through effect of import prices to domestic prices, and the legacy infrastructural deficits which have created serious logistics problems in the rural farming communities. One factor that has so far not been adequately acknowledged is the obnoxious role of market unions and associations in hiking the prices of foodstuffs in the markets. These associations perpetuate monopoly and oligopoly practices in the markets, especially in the Southern part of the country, and hike prices with impunity, such that even when there are no shortages of supplies, they still succeed in setting prices that do not reflect market conditions. There is need to monitor their activities to ensure that competitive prices prevail and there is

no unbridled exploitation of consumers. Public policy needs to focus on appropriate measures to address the above factors. Monetary expansion might have played only a minimal role in Nigeria's current inflation. And so, any efforts to control money supply by tightening monetary policy through higher interest rates and increase in the cash reserve requirement (CRR) by the CBN will be counter-productive during this period of recession when the primary focus should be on how to take the economy out of recession and ensure sustained high economic growth that is employment-generating and poverty-reducing. In light of the above the CBN's policy stance of supporting growth without neglecting the price stability objective is well-advised. It complements the fiscal authority's efforts.

OPINION

In light of the foregoing, it is clear that the need for expansionary fiscal and monetary policies is still very high to quicken the pace of the economy's recovery from recession and sustain it on a path of respectable inclusive growth. Therefore, tightening monetary policy is not advised at this time. Tightening will hinder the much-desired credit flow to the real sector of the economy at affordable interest rates. Deposit money banks will capitalise on tight monetary policy, via monetary policy rate (MPR) hike or raising of the CRR to raise lending rates and hence discourage much desired investments to stimulate growth. The benefits of further loosening the monetary policy stance through reduction of MPR or reducing the CRR may not be transmitted to borrowers by DMBs through lower lending rates. Importantly too, there is need not to worsen the rising inflation or exacerbate inflationary pressure through an easy monetary policy. However, the Central Bank's extant development financing interventions which provides access to cheap finance will need to be sustained and intensified in coverage and quick delivery of funds to beneficiaries. There is need to enhance the impact of the interventions.

In light of the foregoing, I vote to maintain the monetary policy parameters at the extant levels:

MPR - 11.5%

CRR - 27.5%

Liquidity Ratio - 30%

Asymmetric Corridor around the MPR - +100/-700 basis points.

7. OBIORA, KINGSLEY ISITUA

In the face of a renewed surge in COVID-19 cases and the challenges of economic stagflation, I voted to: retain the MPR at 11.5 percent, the CRR at 27.5 percent, the LR at 30 percent and the asymmetric corridor of +100/-700 basis points around the MPR. I believe that this stance is complementary to our interventions to strengthen the recovery, whilst also containing inflationary pressures, fuelled mainly by food and structural factors.

Despite progress on vaccinations, the resurgence of the Novel Coronavirus Disease (COVID-19) is devastating many countries across the world. Since the last MPC meeting in November 2020, the global number of confirmed COVID-19 cases has soared from 58 million to almost 100 million, with total cumulative deaths increasing from 1.4 million to 2.1 million. This new wave has been accompanied by a much more contagious strain of the virus, which has led to the re-introduction of restrictive lockdown measures in several countries across the world. Encouragingly, since the last MPC meeting, certain countries have begun to rollout vaccinations to their populations. However, whilst this is an important development, the limited *global* distribution of vaccines is a cause for concern. If not properly resolved, the existing inequalities in vaccine access between advanced and low-income countries will culminate in a

'catastrophic moral failure', according to the World Health Organization (WHO).

Notwithstanding these challenges, the global economy is expected to strengthen in 2021, following improvements in the latter part of 2020. J.P. Morgan's Global Manufacturing Purchasing Manager's Index (PMI) has remained in positive territory, most recently at 52.7 in December 2020. In the January World Economic Outlook (WEO), the International Monetary Fund (IMF) projected the global economy to grow by 5.5 percent in 2021, rebounding from a -3.5 percent contraction in 2020. This will be driven by vaccinations and continued expansive monetary and fiscal policy support. The economies of the United States, the United Kingdom, France and Germany are forecast to expand by 5.1, 4.5, 5.5 and 3.5 percent in 2021, respectively. China, another significant driver of global growth, is forecast to grow further by 8.1 percent. Nevertheless, there remains significant uncertainty and these projections could be dampened by sustained COVID-19 infection rates and enduring containment measures, as well as by prolonged delays in vaccine distribution.

Domestically, the Nigerian economy appears poised to exit its current recession. The latest figures from the National Bureau of Statistics (NBS) estimate a contraction of -3.62 percent in the third quarter of 2020. However, since then, the economy has continued to gain steam, significantly boosted by proactive interventions by the Federal and State Governments, as well as the Central Bank of Nigeria (CBN). The Manufacturing PMI moved back into contraction territory at 49.6 index points in December 2020, down from 50.2 index points in November 2020, whilst the non-Manufacturing PMI continued to indicate contraction at 45.7 index points. However, it must be noted that the manufacturing production level index stood at 51.6 index points in December 2020, recording a second consecutive month of expansion. Moreover, since the last MPC, oil prices have continued to rise from US\$42.6 per barrel to US\$55.5 per barrel, which will further support domestic economic recovery. Therefore, even though there remains significant progress to be made, the economy has begun to move forward out of recession.

Accordingly, the IMF has projected growth of 1.5 percent in 2021, rebounding from a contraction of -3.2 percent in 2020.

The banking system has also maintained its stability and resilience during this crisis. Total gross credit rose to N20.48 trillion in December 2020, an increase from N19.72 trillion in November 2020 and from N17.57 trillion in the corresponding period of 2019. Non-Performing Loans (NPLs) stood at 6.01 percent in December 2020 compared to 6.06 percent in the corresponding period of 2019. This reflects strengthening of risk management practices, the Global Standing Instruction (GSI) policy and regulatory forbearance that has allowed banks to restructure credits impacted by COVID-19. I am supportive of extending this forbearance by an additional twelve months, which would enable Deposit Money Banks (DMBs) to continue providing reprieve to households and businesses through lower interest rates and repayment moratoriums. The average daily OBB and inter-bank call rates opened at 0.50 and 0.75 per cent, respectively, on November 25, 2020, and closed at 0.50 and 0.83 per cent, respectively, on December 31, 2020. The overall monthly averages for the period were 0.99 per cent and 1.33 per cent, respectively, due to the existing liquidity surfeit in the system.

But even as the domestic economy begins to recover, imbalances remain. COVID-19 infections have resurged, with 123,000 confirmed cases and 1,500 deaths; concerningly, both of these continue to rise. Inflation pressure has also persisted, as headline inflation increased to 15.75 percent in December 2020 from 14.89 percent in November 2020 and is at its highest level since December 2017. The upward pressure has been largely driven by food inflation, which rose to 19.56 percent in December 2020 from 18.30 percent in November 2020. This appears to be attributable to structural factors arising from disruptions to supply chains, insecurity in food producing areas of the country, infrastructural deficiencies and increases in both the pump price of Premium Motor Spirit (PMS) and electricity tariffs. Such inflationary pressures emphasise the critical

importance of the CBN's interventions to boost food supply, as well as ongoing efforts to crowd in private sector funding to alleviate the country's large infrastructure gap.

Although there are reasons for optimism in the medium term, the immediate global and domestic outlook is challenging. The renewed waves of COVID-19 and its variants have continued to severely impact health and economic outcomes across the world. The utmost priority for all countries is to save lives and to minimise the economic damage caused by the pandemic, and the approval of new vaccines is a welcome source of hope. However, as I have stated before, vaccines are not sufficient; only vaccinations, themselves, will lead the world out of the pandemic. The current global inequities in vaccine access will, therefore, have ramifications for every country. In terms of safeguarding the economy, monetary and fiscal authorities across the world have responded aggressively over the past year. The CBN has collaborated extensively with the Federal and State Governments and the private sector to forcefully stimulate the Nigerian economy and prevent an even worse crisis, through interventions targeted at households, SMEs, and the health, agricultural and manufacturing sectors, as well as through regulatory provisions. Given the current domestic conditions of rising inflation, weak output and the resurgence of COVID-19, the need to sustain and perhaps even increase such support cannot be overemphasised.

In light of our ongoing and comprehensive efforts to strengthen the recovery, whilst being mindful of the importance of containing inflation, I voted to:

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

8. SANUSI, ALIYU RAFINDADI

1.0 Decision:

Although evidence suggests that inflation may continue to rise, I believe focusing on recovery from the current recession should continue to be a more pressing objective of monetary policy. Raising output, rather than tightening the policy stance, could be a means of reducing the inflationary pressure,

which stems mostly from the supply-side. Given the evidence that the lending rates of interests are generally falling due to the heterodox policies of the bank, I have voted to retain all the policy parameters, as the bank continues the disbursement of the COVID-19 interventions funds. By continuing to provide the liquidity needed in the economy, I believe these interventions would enable a quicker output recovery without exacerbating the inflationary and exchange market pressures.

2.0 Background and Justification

2.1 Global Economic Developments

The rise in fatality from the second and third waves of the COVID-19 pandemic in many Advanced Economies, as well as the spread of several variants of the virus around the globe, have increased the risk of re-introduction of containment measures and, therefore, dampened the optimism for the anticipated global recovery.

The well-anticipated second wave (and, in some cases, third wave) of the COVID-19 pandemic has further heightened the associated uncertainties regarding global economic recovery. While the announcements of several effective vaccines against COVID-19 had raised hope for a quick recovery and reduced the prospects for another round of lockdown, several variants of the virus that are estimated to be 70% more infectious and 30% more fatal have spread across the globe. In addition, the effectiveness of the current vaccines against these new variants remain uncertain. A number of countries have, consequently, re-introduced containment measures to check the spread of the new variants of the virus. These developments, therefore, may hamper global demand and may lead to fall in commodity prices, thereby dampening the optimism for a quick global recovery.

The global economic developments reveal that, in the 3rd quarter of 2020, most of the Advanced Economies recorded output expansions. The US economy recorded a quarter-on-quarter output expansion of 33.1% compared with a contraction of 31.4% in Q2 2020. The Euro area also grew by 12.7% (q-on-q) in 2020Q3 compared with a contraction of 11.8% in 2020Q2. The UK economy grew by 15.5% (q-o-q) in 2020Q3 compared with the contraction of 19.8% in 2020Q2. Japan also recorded an output expansion of 5% in 2020Q3 compared with a contraction of 8.2% in Q2 2020. In the Emerging Markets and Developing Economies (EMDEs), China recorded a (slower, but) positive growth of 2.7% in 2020Q3. Brazil has recorded an output expansion of 7.7% (q-on-q) in 2020Q3. In India, output expanded by 21.9% (q-on-q) in 2020Q3. Similarly, quarter-on-quarter output expansions were recorded in Russia and South Africa. *Although Nigeria has recorded the second year-on-year output contraction in the third quarter of 2020 and, therefore, in a technical recession, the third quarter output was 12.1% higher than it was in the second quarter, hence, indicating that output recovery may have already begun.*

World trade has shown signs of rebound in 2021 from the impact of COVID-19 and is forecasted to grow by 7.2% according to WTO, and 8.3% according to the IMF. The recovery in crude oil price, which stood at US\$ 55.52/b on January 20, 2020, is projected to continue following production cuts from OPEC+ as well as recovery of world crude oil demand. The African Continental Free Trade Agreement (AfCFTA), in which 54 out of the 55 African countries are participating, has become effective on January 1st, 2021. This US\$3.4 trillion economic bloc is expected to increase intra-African trade by 33% when all tariffs are removed, and become a single market in 2063. *The implementation of AfCFTA could complement Nigeria's efforts at diversification through industrialization by making African market easier to access for her manufactures.*

Inflation in the Advanced Economies is expected to rise to 1.6% in 2021 from 0.8% in 2020, while that of EMDEs is expected to decline to 4.7% in 2021 from

5.0% in 2020. In the Euro Area, inflation has remained unchanged at -0.3% between November and December 2020. In the US, inflation has increased (year-on-year) from 1.2% in November 2020 to 1.4% in December 2020. In the UK, inflation declined from 0.7% in October 2020 to 0.3% in November 2020. In Japan, the deflationary situation continued with inflation rate declining further to -0.9% in November 2020 from -0.4% in October 2020. Price developments in the EMDEs continued to remain mixed, with inflation rising in China, Kenya, Ghana and Nigeria but declining in Egypt in December 2020.

2.2 Domestic Economic Developments and their Implications

Data from the National Bureau of Statistics show that although Nigeria has slipped into recession having recorded a second consecutive quarterly negative output growth (year-on-year), the relatively smaller contraction recorded in 2020Q3 indicates that recovery may have started. Real output declined (y-o-y) by -3.62% in 2020Q3 compared with a decline of -6.1% in 2020Q2. The Industrial Production Index (IPI) has decreased in 2020Q4 by 6% as a result of decline in crude oil production. The Index of Manufacturing Production, however, rose by 1.5% in 2020Q4 due to increased economic activities and increase in consumer demand. *These improvements reflect the gradual recovery of the domestic economy as a result of increased business activities supported by the various monetary and fiscal stimuli. Although output is expected to contract in the year 2020, staff forecast shows that output in Q4 would grow by about -0.65, and will rebound to about 1.42% in 2021.*

Data from the NBS shows that, in December 2020, headline inflation had continued on the upward trend that started in September 2019. It has risen to 15.75% (y-o-y) in December 2020 from 14.89% in November 2020, driven by increases in both food inflation and core inflation. Food price inflation (y-o-y) rose to 19.56% in December 2020, from 18.3% in November 2020, driven by an increase in the prices of processed foods such as fish, sea food, milk, cheese, eggs, sugar, jam, and honey, and farm produce such as vegetables, potatoes and tubers. Core inflation (y-o-y) rose from 11.05% in November 2020, to 11.37%

in December 2020 due to increase in the prices of processed food, housing, water, gas & other fuels, health, transport, education and restaurants & hotels. Staff forecasts suggest that inflation would continue on the upward trend in the first quarter of 2021 before declining in April 2020. This forecast reflects the rising cost of food due to disruptions in the supply chain; rising spates of insecurity in the food-producing areas; hikes in the price of PMS; hike in electricity tariff as well as the liquidity impacts of the various fiscal and monetary interventions aimed at reflatting the economy.

Available data shows that money supply has continued to expand. The broadest money supply, M3, has increased by 10.97% in December 2020 relative to December 2019 and is well above the 6.84% provisional benchmark for 2020. The expansion was as a result of the rise in both the Net Foreign Assets (NFA) and Net Domestic Assets (NDA). Domestic credit has expanded by 13.4% in December 2020. Credit to core private sector has grown by 15.35% in December 2020 chiefly reflecting the effect of the various CBN's credit policies as well as the on-going development finance interventions. For instance, between November 2020 and January 2021, a total of N499.01 billion was disbursed under the 15 interventions, including AGSMEIS, TCF, ABP, Manufacturing Sector Stimulus, Electricity Market Stabilization Facility, CBN/BOI Facility, Export Development Facility, etc. These policies have significantly affected interest rate developments. Available data shows that Prime Lending and Maximum Lending rates have declined between October 2020 and January 2021. In addition, about 62.7% of the N8.421 trillion lent by the banking system as at December 2020 was lent at less than 10% rate of interest per annum. As at December 2020, 92.32% of the total amount lent by the banking system was at less than 20% interest rate.

3.0 The Basis for My Policy Choice

In weighing the policy options, the key consideration for me was the need for a quick recovery from the current recession. Although inflation continues to be a threat in the medium-term, I do believe tightening the policy stance amidst recession will not only delay the recovery but may also exacerbate the inflationary pressure by further depressing the aggregate supply. The downward trend in interest rates following the implementation of the various monetary policy measures suggest that further reduction in the MPR may not be needed for now. In addition, with the rising inflation, a further reduction in MPR could worsen the already negative real yields, which could increase the exchange rate pressure and adversely affect capital flows. By continuing to provide the liquidity needed in the economy, I believe that the on-going disbursements of the various intervention funds would enable a quicker output recovery without exacerbating the inflationary and exchange market pressures. I, therefore, voted to retain all policy parameters at their current levels, for now, to allow for the effects of these interventions to work themselves out.

Consequently, I voted to:

Retain the MPR at 11.50 per cent;

Retain the CRR at 27.5 per cent;

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

Retain liquidity ratio at 30.0 per cent.

9. SHONUBI, FOLASHODUN A.

The year 2020 was historic for the global economy. Widespread slowdown in economic activities, due to pandemic-induced disruptions and uncertainties led to deep recession in most economies around the world. Despite the

positive outcomes from vaccine trials, ongoing vaccination and policy support, expected rebound in the first half of 2021 is, however, likely to be weighed down by record high second wave infections. The world is, therefore, poised to witness a long and slow recovery, that will be heavily dependent on the pace of vaccination.

As with many other emerging and developing economies, Nigeria faces the herculean task of ingeniously fashioning a way out, in a troubled global economic space. Grappling with a combination of rising prices and negative output, the tight policy space in Nigeria is worsened by high unemployment, widespread insecurity and significant infrastructure deficit. Even as the monetary policy space appear stretched, the Bank must widen the scope of its intervention measures, through which the financial system has strongly supported recovery. On the back of moderated contraction in Q3 and further improvement projected in Q4 of 2020, expeditious vaccine procurement and administration, as well as, sustained synchronization of the intervention measures of fiscal and monetary authorities will go a long way to preserve the gradual, but fragile recovery so far achieved, as well as, aid steady return to normalcy.

Global and Domestic Economic Developments

Major headwind to global growth in 2020 was the pandemic, which caused significant uncertainty, as extended lockdown to curb its spread led to protracted shut-ins and shutdowns. Stunted global trade, volatile commodity market, tight financial condition and muted capital flows were the immediate implications, that occasioned sluggish economic activity across the world economies. The situation was worsened by intermittent socio-political tensions. Consequently, contraction in advanced economies is projected to range between -2.5 per cent and -11.1 per cent in 2020. In the emerging and developing economies (EMDEs), except for China, which is projected to grow at 2.3 per cent, Mexico, India, South Africa and Russia economies are estimated to contract by 8.5 per cent, 8.0 per cent, 7.5 per cent and 3.6 per

cent, respectively in 2020. Inflation in advanced economies was low in 2020, due to low aggregate demand, while prices in the EMDEs were elevated as a result of increased production cost and exchange rate pass through to prices.

Domestic inflation persisted in 2020, rising throughout the year, and driven by increase in both food and core components. Headline inflation rose to 15.75 per cent in December 2020, translating to 13.25 per cent monthly average for 2020. Food inflation reached 19.56 per cent in December 2020, after 16 consecutive months of increase. Exchange rate pass through, as well as, supply shortages due to pandemic-induced disruption and border closure pushed core inflation to 11.37 per cent in December 2020, from 9.35 per cent at the beginning of 2020.

Following two consecutive quarters of contraction, the economy unavoidably slid into recession in the second quarter of 2020. Though with a lower -3.62 per cent decline in the third quarter, compared with -6.10 per cent in the second quarter, contraction of the economy reflected the impact of significant decline in both oil and non-oil sectors. The oil sector declined by -13.69 per cent in Q3, from -6.63 per cent in Q2 of 2020, while contraction in the non-oil sector, decelerated from -6.05 per cent in Q2, to -2.51 per cent in Q3 of 2020.

Throughout the turbulence of 2020, the Nigerian banking system was generally resilient, with major financial soundness indicators staying in comfortable territory. Industry capital adequacy ratio closed the year at 15.1 per cent, against 15.0 per cent regulatory threshold. Similarly, the industry liquidity ratio, at 44.5 per cent in December 2020, was above the regulatory threshold of 30.0 per cent. Growth in asset and deposit was sustained all through the year, and measures of profitability in 2020 remained above 2019 levels. Notably, the sector has continued to respond favourably to measures by the CBN to enhance financial system stability.

Developments in monetary aggregates and the financial markets generally reflected cautious sentiments due to uncertainties around the pandemic in

2020. Growth in the major monetary aggregates of narrow (M_1) and broad money supply (M_3) were positive but below the benchmark for fiscal 2020. Growth in domestic claims reflected sustained expansion in credit to promote economic recovery. The capital market ended the year on a bullish note, recovering swiftly from initial pandemic-induced downturn. The All-share index and aggregate market capitalization gained about 50.0 per cent at the end of 2020, with the index emerging the best-performing index in the world in 2020. Money market rates were generally lower, a reflection of the ample banking system liquidity and effect of the Bank's policies to stabilize markets.

In 2020, the external sector was generally challenged, due to reduced foreign exchange revenue from low oil output and price, as well as, drying capital flow. Trade and current account balances were pressured by high importation vis-à-vis significantly reduced export. The nation's external reserve improved marginally to US\$36.65 billion resulting in a higher external reserve per capita of US\$177.78 as at January 11, 2021. The fiscal space was significantly strained due to requirement for high expenditure to combat impact of the pandemic and stimulate economic recovery, under a regime of low income. Though deficit remained high, it was lower than both its level in 2019 and the projection for fiscal 2020. The authority, however, contended with the challenges of reduced revenue, increased debt burden and limited headroom for much needed expenditure.

Overall Considerations and Decision

Unprecedented global monetary and fiscal stimulus, positive outcomes from many successful vaccine trials and building momentum of vaccination across many jurisdictions have provided much-needed boost to businesses and economic sentiments. Also, recent uptick in price of oil, improved global financial market conditions and moderated socio-political tensions support better prospects of recovery. However, improving the roll-out and vaccination rate, addressing imbalance in global distribution of vaccines, and sustaining the stimulus regime will be critical to preserving the fragile rebound and

ensuring gradual return to normalcy to actualize this optimism around the global economy.

On the domestic scene, it is critical that we also fast track the ongoing effort to secure supply of vaccines. In this regard, the Bank is encouraged to leverage its lead role in the private sector Coalition Against Covid-19 (CACOVID) to work with the Federal Government in facilitating expeditious procurement, distribution and administration of vaccines. This will be important to further opening-up of the business space and promoting economic activities, which had been negatively impacted by second wave induced slowdown, as shown in the sudden reversal of the initial gains in Manufacturing and Non-Manufacturing Purchasing Manager's Indices between the third and fourth quarter of 2020.

Without doubt, the Bank's policies have ensured that the financial system remain the major source of impetus to the economy through provision of credit. Also, through its creative monitoring measures, the resilience of the sector has been preserved. This may be a good time to explore the opportunities in the capital market to further close the funding gap in the real economy. We must, also creatively deal with the wide interest rate premium and sharpen our supervisory activities to prevent deterioration, and strengthen shock absorber mechanism of the sector, so it can withstand issues that may crystalize in the near future.

While we cannot afford to take our focus off the primary mandate of price stability, especially in the light of accelerating inflation, we recognise that current inflationary pressures are attributed to non-monetary factors driving, particularly, food inflation. I strongly believe that an efficient rail system remains one of the enduring solutions to the logistic bottlenecks impeding produce movement and fueling food inflation. In the short-term, however, a Public Private Partnership model to immediately address the logistics challenges may provide a quick win.

The Federal Government must also adopt more ingenious and practical approaches to resolving the insecurity challenges that is affecting food supply. In general, my conviction is that, as we step up our effort at improving output, increasing supply and availability will eventually have a moderating effect on prices. In this regard, I also implore that we adopt appropriate strategies to take advantage of the opportunities of the start of the African Continental Free Trade Area (AfCFTA) agreement to enhance domestic productivity and grow exports.

As we grapple with rising inflation and huge output gap, major challenge to the attainment of the productivity level that will dampen prices is low aggregate demand. Though the interventions by the fiscal and monetary authorities has made some impact, the scope and depth need to be enhanced, especially when compared with the levels in peer jurisdictions. While I admonish that the collaboration between the two authorities be sustained and enhanced, I must also call on the State Governments to rise to the occasion by providing some interventions to prop up effective demand at state level. I recognise that few states are already implementing different forms of interventions. Adoption by most states will go a long way to expand the scope of the stimulus, improve national aggregate demand, propel productivity, close the output gap and create employment.

As we strengthen collaboration towards securing vaccines, as well as, step-up our actions to improve and sustain ongoing interventions, I reckon that we should allow more time for the gains of the current measures to fully mature, especially as we are witnessing positive outcomes so far.

I therefore vote to retain:

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

10. EMEFIELE, GODWIN I.

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

The second half of 2020 witnessed strong recovery in global markets following the unprecedented effects of COVID-19 on the global economy in the first half of the year. Most advanced and emerging market economies witnessed significant pick-up in growth in the 3rd quarter of the year. Growth remained on

a positive trajectory in the 4th quarter supported by the development and distribution of several COVID-19 vaccines, even though the pace of growth moderated due to the resurgence of COVID-19 cases, which has led to the re-imposition of containment measures in affected countries, such as the United Kingdom and France. While the resurgence of COVID-19 cases in some advanced and emerging market countries is a key risk to global growth in 2021, with portending implications on commodity prices and global supply chains, the continued development and distribution of vaccines, along with accommodative monetary policies is essential in order to support a strong recovery of global growth in 2021.

In Nigeria, accommodative monetary and fiscal policies, gradual recovery in the price of crude oil, and the loosening of movement restrictions have helped to mitigate the effects of the significant drop in crude oil earnings and foreign portfolio funds on the economy witnessed in the first half of the year. While Gross Domestic Product (GDP) growth in the third quarter contracted by 3.62 percent, relative to a contraction of 6.1 percent in the 2nd quarter, the reduction in the pace of contraction indicates that key sectors of the economy, particularly service-related activities are beginning to recover from the downturn in the 2nd quarter. A total of 18 sectors recorded positive growth in the third quarter relative to 13 sectors in the second quarter, furthermore, 36 out of the 46 economic activities tracked by NBS, reflected positive improvements in growth.

GDP growth numbers for the 4th quarter are likely to reflect continued pickup in growth due to improved activities in the manufacturing and service sectors. The Manufacturing Purchasing Managers Index, in the month of December stood at 49.6 points, indicating a recovery in manufacturing activities relative to a low of 43 points in April 2020, even though it remained below the 50-point benchmark. With sustained implementation of accommodative policy measures, I am optimistic that the Nigerian economy would emerge from the recession latest by 1st quarter of 2021.

On inflation, after sixteen consecutive months of uptick, year-on-year headline inflation stood at 15.75 percent in December 2020, from 14.89 percent in November 2020 reflecting persistent inflationary pressures. The uptick in headline inflation reflected the rise in food and core inflation, which stood at 19.56 percent and 11.37 percent, respectively, in December 2020. The rise in inflation was due to structural and economic factors such as farmer/herder clashes, logistics bottlenecks, rise in electricity tariffs and petroleum prices. While the rise in inflation is a valid cause for concern, the projected increase in the domestic supply of key staple items, following CBN interventions to boost production and speedup recovery, is likely to lead to a slowdown in inflation between the 2nd and 3rd quarter of 2021.

The rise in inflation along with the need to implement growth enhancing measures that would enable the Nigerian economy to emerge from the recession, continues to pose a dilemma for policy making authorities. Given the fact that the rise in inflation has been due to cost-push factors rather than demand pull factors, the Monetary Policy Committee has placed greater weight on utilizing tools that would strengthen our productive base as a nation. These measures such as the intervention programs being implemented by the Central Bank of Nigeria, will help to improve output, by enabling improved production of staple food items, which would ultimately help to support lower food prices and a more favorable outlook for food inflation. Given the unprecedented stress the Nigerian economy faced in 2020 as a result of the pandemic, and the pressing need to support households and businesses, I am inclined to support measures that would enable faster recovery of the economy. The corresponding option of increasing rates to contain inflation, may lead to a further downturn in economic activities, without achieving the intended objective of containing inflation.

Domestic financial conditions have remained supportive to growth, due to measures being implemented by the CBN. Money market rates remained low, reflecting the prevailing liquidity conditions in the banking system. The Open

Buy Back rates in December 2020 stood at 1.09 percent, reflecting continued decline from 1.13 percent in November 2020. Aggregate domestic credit grew by 13.4 percent in December 2020, compared with 9.48 percent in November 2020. In addition, the flow of financial resources to the private sector has been improving, as credit to the private sector grew by 13.34 percent in December 2020 from 10.5 percent in November 2020, highlighting the effects of the CBN's intervention programs, our LDR policy and accommodative lending rates by the banks. In the equities market, the Nigeria Stock Exchange has continued to record positive performance, as the All-Share Index increased, from 30,530 in October 2020 to 40,270 by December 2020, reflecting a 31.9 percent increase. The rise in the index is due to positive sentiments arising from improved earnings and output by several listed corporates on the exchange.

I am aware of the marginal increase in the Non-Performing Loans (NPLs) ratio which rose to 6.01 per cent at end-December 2020 from 5.88 per cent at end-November 2020. With the impact of the corona virus on particular sectors of the economy, it was not entirely unexpected, nevertheless it is imperative that we continue to work to ensure that banks comply with our macro prudential framework in order to prevent further deteriorations in their loan portfolios. Nonetheless, all other financial system indicators are reflective of a sound and robust financial system. In addition, our external reserves have remained above \$35billion, which can finance 7 months of our imports. The robustness of our reserves has been supported by the recovery in crude oil prices, and measures that are being implemented to support production of items that can be produced locally. I do however believe that strong emphasis must be placed on diversifying our foreign exchange earnings, as this will help to limit the impact of low crude oil prices on the Nigerian economy. The CBN in this regard will be deploying part of its intervention schemes towards supporting growth in our non-oil exports, along with measures to improve the flow of remittances through formal channels. These measures will help to provide sustainable flows of foreign exchange to meet the needs of the Nigerian economy, while supporting our job creation efforts.

In my consideration, I will not fail to emphasise the primacy of containing inflation, as price stability is critical in guiding savings and investment decisions by households and businesses. Due to the unprecedented situation that we faced in 2020, and the need to limit the scars that a prolonged recovery could have on our growth prospects as a nation, I am inclined to support measures that will enable greater recovery of the economy. These measures such as continued implementation of our intervention programs in the agriculture and manufacturing sectors, along with our LDR policy, will ultimately alter the structural constraints that have supported the rise in inflation.

Accordingly, my inclination is, thus, to hold all parameters. I believe the current stance is adequate to attain the long-run objectives of price stability and output stabilization without complicating recovery. Accordingly, I vote to;

1. Retain the MPR at 11.5 percent
2. Retain the Asymmetric Corridor at +100/-700 basis points
3. Retain the CRR at 27.5 percent
4. Retain liquidity ratio at 30.0 percent.

GODWIN I. EMEFIELE, CON

Governor

January 2021