CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 127 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 25th AND TUESDAY 26th NOVEMBER 2019

The Monetary Policy Committee (MPC) met on the 25th and 26th of November 2019 in an environment of continued global macroeconomic uncertainty, but gradual improvements in the domestic economy. The Committee appraised the developments in both the global and domestic economies, as well as the outlook for the rest of the year and the first quarter of 2020. All the eleven (11) members of the Committee were in attendance.

The Committee reviewed the effect of monetary policy on developments in the economy in 2019, particularly, price stability, improved credit delivery, low interest rate regime, exchange rate stability, financial system stability, reduction in non-performing loans (NPLs), job creation and output growth.

The Committee noted the use of home-grown heterodox policies used by the Bank to successfully achieve substantial macroeconomic stability in 2019. Amongst the policies were the use of the Global Standing Instruction (GSI) to address the predatory impact of serial borrowers in the banking system, a phenomenon that reduced the level of NPLs over time, the Loan to Deposit Ratio (LDR) to boost credit delivery by the deposit money banks (DMBs) to the real sector, Differentiated Cash Reserve Requirement (DCRR), Development Finance Initiatives in agriculture, micro, small and medium enterprises (MSMEs) and other real sector activities, including restriction of patronage by local corporate and individual investors in CBN OMO bills.

Global Economic Developments

Global output growth remained weak due to the impact of the trade war between the US and China; growing vulnerabilities in the financial markets, downturn in global manufacturing, sustained downward pressure on oi prices, lingering uncertainty around BREXIT, which has continued to dampen investment growth in the United Kingdom, subdued growth in the European Union and Japan, and dampening output growth in China. These headwinds resulted in slowing global trade, weakening aggregate demand and contraction in the aggregate supply chain. Major Emerging Market and Developing Economies (EMDEs) particularly China and India also slowed, while South Africa, Russia and Brazil, recorded slower-than-expected growth. Consequently, there was a broad slowdown in global output. In the light of

these developments, the IMF revised global growth forecast downwards to 3.0 per cent in October 2019 from its previous projection of 3.2 per cent in July 2019.

Inflation in most Advanced Economies remained well below their long-run objectives, with price development staying subdued and unemployment trending mostly below the Non-Accelerating Inflation Rate of Unemployment (NAIRU). In the US, wage growth and aggregate demand continued to perform below the long run average even though unemployment remained below the NAIRU. Consequently, the recent trend towards monetary accommodation by key central banks is expected to continue into the foreseeable future. In key EMDEs, however, prices trended upwards with the output gaps widening and unemployment remaining relatively high.

Domestic Economic Developments

Data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 2.28 per cent in the third quarter of 2019, compared with 2.12 and 1.81 per cent in the preceding and corresponding quarters, respectively. The improved growth was driven largely by the performance of the oil sector, which grew by 6.49 per cent, while the non-oil sector grew by 1.85 per cent. The Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI) also expanded for the 31st and 30th consecutive months at 58.2 index points, apiece, in October 2019. Staff projections indicate that real GDP in Q4 2019 is expected to grow by 2.38 per cent, driven by the non-oil sector. Headwinds to this projection, include: continued high level of unemployment, mild resurgence of anticipated inflationary pressures towards the December festive season, rising public debt, high level of insecurity, and slow pace of oil price recovery. Despite these headwinds, growth is expected to pick on the back of recent actions to boost credit to the private sector through the recent Loan-to-Deposit Ratio (LDR) and Global Standing Instruction (GSI) initiatives, sustained interventions by the Bank in selected employment and growth-enhancing sectors, as well as fiscal policy measures to support growth.

The Committee noted the uptick in headline inflation (year-on-year) from 11.24 in September to 11.61 per cent in October 2019. This was anticipated as part of the seasonal end-of-the year uptick in prices; but was further accentuated by the border closure, an expected temporary food supply shock which will adjust over the medium-to-long term as the economy increase investments in food production. Consequently, food inflation rose from 13.51 to 14.09 per cent in September and October 2019, respectively. Core inflation, the underlying inflation in the economy, however, declined marginally from 8.94 to 8.88 per cent in September and October, respectively. The decline observed in core

inflation was attributed to the relative stability in the foreign exchange market. The Nigerian land borders were closed to address the incidence of increased cross-border banditry, smuggling and dumping, insurgency and the illegal trade practices of neighbouring countries whose economies had become dependent on Nigeria through smuggling through the borders. The Bank's continued intervention in the agricultural sector is expected to improve medium-term food supply. Indeed, there has been reports of bumper harvest in some staples like rice, maize, etc.

The Committee observed that broad money supply (M3) grew by 5.72 per cent (year-to-date) in October 2019, compared with the 2019 indicative benchmark of 16.08 per cent. Growth in Net Domestic Credit (NDC) moderated to 26.38 per cent in October 2019 from 30.33 per cent in the previous month. This was attributed to a significant reduction in credit to Government in October 2019 to 85.99 per cent from 114.79 per cent in the previous month. Growth in credit to the private sector, however, improved to 13.08 per cent in October 2019 from 12.49 per cent in the previous month, reflecting the impact of the Bank's recent policy on loan-to-deposit ratio. An increase in absolute gross credit, amounting to N1,169.70 billion, was recorded between end-May and end-October 2019. Consequently, the manufacturing sector received N459.69 billion, the highest in two decades. This was followed by consumer loans of N356.65 billion, General Commerce (N142.98 billion), Information and Communications (N82.07 billion), Construction (N74.52 billion), Agriculture, Forestry and Fishing (N73.20 billion), Mining and Quarrying (N3.64 billion) and Transportation and Storage (N3.09 billion), amongst others. The Committee, therefore, urged the Management of the Bank to sustain its current efforts to improve lending to the private sector and to explore other initiatives to provide funding to other critical sectors of the Nigerian economy.

In the review period, money market interest rates reflected the prevailing liquidity conditions in the banking system. Overall, the monthly weighted average Inter-bank call and Open Buy Back (OBB) rates fell to 7.87 and 7.22 per cent, respectively, in October 2019, from 11.41 and 10.73 per cent, respectively, in September 2019.

The Committee noted that the persisting bearish trend in the equities market, had started to abate in November 2019, and was pleased by the increased patronage in the sovereign bonds market. The All-Share Index (ASI) grew by 2.41 per cent to 26,991.42 index points on November 22, 2019, from 26,355.35 index points at end-October 2019. Market Capitalization (MC) also grew by 1.54 per cent to N13.03 trillion on November 22, 2019, from N12.83 trillion at end-October 2018, due largely to portfolio shift from short-term Government securities to the equities market.

The MPC also noted the improved resilience of the banking system, as the Non-Performing Loans (NPLs) ratio declined further to 6.56 per cent at end-October 2019 from 6.67 per cent at end-September 2019 and from 14.05 per cent in October 2018. The Committee, however, noted that this figure remained above the prudential benchmark of 5.0 per cent, and urged the Bank to sustain its current efforts, which have created this exorable prudential regime.

Outlook

Overall, the medium-term outlook for the domestic and global economies continue to be clouded with uncertainties, associated with the persisting trade wars between the US and its major trading partners, financial vulnerabilities, rising levels of public and corporate debts, pockets of geopolitical tensions and weakening global output. However, the reforms underway in the domestic economy; aimed at diversification away from oil over the last three years have provided adequate shock absorber to withstand the headwinds. However, the Committee urged the fiscal authorities to invest massively in public works programme and improve fiscal buffers to complement these efforts.

Forecasts of key macroeconomic variables, however, indicate prospects of improved output growth for the economy. Based on recent revised projections, the economy is expected to grow in 2019 by 2.3 per cent (IMF estimate), 2.1 per cent by the World Bank, and 2.20 per cent by the CBN. The Committee noted the tailwinds to these developments, to include: sustained stable exchange rate; enhanced flow of credit from the Deposit Money Banks (DMBs) to the private sector; expected improvements in tax revenue and efficiency in public expenditure; continued improvement in the business environment and activities; and the sustained interventions by the Bank in the real sector.

The Committee's Considerations

The Committee welcomed the improvements in output growth in the third quarter of 2019, noting that the current direction of the Purchasing Managers Index suggests stronger growth in the fourth quarter. It however, re-emphasized the need for diversification to strengthen the productive base of the economy and reduce dependence on oil. Diversification has become necessary now that Nigeria has signed the African Continental Free Trade Agreement (AfCTA). To achieve this, the Committee urged the Federal Government to continue to improve the investment climate and ease of doing business to attract Foreign Direct Investment. Particularly, Government should, as a priority, improve conditions for global auto manufacturers, including for aviation and rail industries to invest in the country.

The Committee commended the expansion in manufacturing output, noting that it was a direct fallout of the policy on loan-to-deposit ratio. The Committee, called on Government to urge the Pensions Commission to improve the prudential requirements for Pension Funds to refocus their investment portfolio away from their traditional choice of Government securities in favour of other viable long-term investments in real estate, manufacturing and agriculture; and indeed infrastructure. Moreover, the Committee called for strong visibility of fiscal and structural policies to improve infrastructure and investment conditions in the economy. It expressed strong optimism that the current policies of the Bank, in a regime of solid fiscal and structural policy support, would yield strong dividends in closing the current negative output gap in the medium to long term, and place the economy on a sustainable and self-sufficient path of output growth.

As a key pillar of economic diversification, the MPC directed the attention of the fiscal authorities to the immense potentials of the gas sub-sector and the urgency to encourage horizontal integration through private sector participation. This, the Committee argued will improve domestic power supply and export earnings.

On price developments, the Committee considered the moderate uptick in headline inflation in October 2019, attributing it partly to an expected temporary shortfall in food supply because of the recent land border closure and rise in demand as the festive season approaches. Although it noted that the price increase was not unexpected, the Committee believed that the medium to long-term benefits far outweigh the short-term cost. Consequently, it noted the need to drive down food prices through increased support for local production of staples foods, including rice, fish, poultry, palm oil, tomatoes etc. It also urged the Government to follow through with a sustainable policy on backward integration in the milk industry and other priority sectors of the economy.

On the fiscal sector, the Committee identified the need for institutional reforms through policies that would automate day to day processes of key revenue generating and security agencies such as the Nigerian Customs. This would provide additional advantage of stemming smuggling, kidnapping and the migration of terrorists into the country. The MPC reiterated the need for increased efficiency in public expenditure and the building of fiscal buffers.

On the impact of the recent closure of Nigerian land borders on domestic food prices, the Committee noted that any upward price movement arising from the closure was reactionary and therefore temporary. Moreover, significant investment has been made over the last three years to sustainably increase domestic food supply. It noted some of the key initiatives in this direction to

include: the Commodity Development Initiatives, designed to finance the agricultural value chain of ten ((10) commodities namely; Cassava, Cocoa, Cotton, Rice, Tomato, Poultry, Livestock and Dairy, Fish, Oil Palm and Maize, which has received N171.66 billion in funding. Four of these crops received over 140.12 billion naira or 81.6 per cent of total disbursements (Cassava, 11.44 billion naira; Cotton, 40.47 billion naira; Rice, 53.40 billion naira; Oil palm, 34.81 billion naira). It is, therefore, expected that the outcome of these interventions will close the supply gaps already envisaged in the medium to long term, including dampening domestic prices. It thus, expressed support for the temporal closure of Nigeria's land borders, noting that securing the country's land borders should be further enhanced.

On crude oil price, the Committee noted the lull in the futures market, suggesting that prices would remain relatively weak into the foreseeable future. The Committee, therefore, urged the Federal Government to reconsider its 2020 budget oil price benchmark of US$57 per barrel, to build fiscal buffers.

The Committee was confident that despite the weaknesses from the external sector, efforts to ramp-up domestic production, through several measures by both the monetary and fiscal authorities, would douse the adverse effects on the domestic economy in the medium term, through the reduction of importation of food and other commodities.

The Committee's Decision

The MPC reviewed the upsides and the downsides of the options to tighten, hold or loosen. It was conscious that, while tightening may encourage capital inflows, it also has the downside consequence of constraining the already nascent recovery in output growth. The Committee also noted that a reduction in the policy rate will improve growth prospects, but in view of the uptick in inflationary pressures, it decided that the balance of risks was in favour of protecting price stability. Considering the recovery, decline in market interest rates, growth in domestic credit amongst other positive developments, the Committee felt that there would be more gains in the short to medium term in holding policy at its current position.

In its consideration to hold, the MPC noted with pleasure, the positive outcome of actions already taken by the Bank. These actions include: current policy on loan-to-deposit ratio, which has resulted in loans and advances rising by over N1.1trillion between June to October 2019. It further noted that these actions have assisted in boosting credit to the agricultural and manufacturing sectors, hence, the positive outcome on the GDP. The MPC is hopeful that the LDR initiative must be sustained as interest rates being paid by borrowers have so far dropped by up to 400 basis points between June and October 2019. These have happened with corresponding decline in NPLs to 6.5 per cent at end-

October 2019. The MPC is, therefore, of the view that sustaining the MPR at its current level is crucial for better understanding of the unfolding impetus of growth before deciding on any probable variations. The MPC also feels that holding its current policy position offers pathways for appraising the effect of the heterodox policies to encourage lending by the banking industry without varying the policy rate as the downside risk to growth and caution on inflation looks stable. The MPC is also of the view that the improvements in the macroeconomic indicators such as the GDP, NPLs, CAR, and the LDR, suggest that current monetary policy stance is yielding results. It therefore, feels that maintaining the current stance would be necessary in order to sustain the improvements.

In view of the foregoing, the Committee decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 13.5 per cent and to hold all other policy parameters constant.

In summary, the MPC voted to:

I. Retain the MPR at 13.5 per cent;

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

III. Retain the CRR at 22.5 per cent; and

IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

26th November 2019

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

The global economy continues to struggle under the combined weight of factors including trade tensions resulting in significant tariff increases between the United States and China; subdued investment and activity prospects in emerging markets and developing economies (EMDES); increasing policy uncertainty across many countries; unstable commodity prices, Brexit uncertainties as well as other geo-political setbacks. These conditions have continued to hurt business sentiment and confidence globally in the second half of the year. After several downward reviews, the International Monetary Fund (IMF) currently projects the world economy to grow at 3.0 percent in 2019—the lowest since the most recent global economic and financial crisis. At the projected level, growth in 2019 would be significantly lower compared with 2017/2018 for EMDEs and advanced economies. Clearly, the external environment of economic policy continues to deteriorate, and the short- to medium-term outlook remains unclear. Against this backdrop, and given the rather muted inflation path globally, monetary authorities have generally had no hesitations about sustaining, or even, intensifying monetary expansion to boost growth and employment.

Although there may not be as much room to expand money in Nigeria, given the current upward path of inflation, constraining liquidity any further does not, in my view, represent an optimal orientation of monetary policy at this time. I therefore voted to retain all policy parameters at their prior levels at the November 2019 meeting of the Monetary Policy Committee (MPC), while urging the Bank to sustain its targeted and largely catalytic interventions in agriculture and SMEs sectors especially.

The data available to the Committee suggested to me that the credit constraint in the economy was alleviating, owing mainly to the Differentiated Cash Reserve Requirement (DCRR) and the minimum loan-to-deposit (LDR) ratio specified by the Bank during the year. Between January and October 2019, gross credit expanded by over one trillion naira (N1.0 trillion); much of the increase actually occurred between June and October 2019. The sectors with the largest increases in credit during the period include agriculture, manufacturing, consumer credit and general commerce. Importantly, both measures (DCRR and LDR) had not resulted in rapid monetary expansion as key monetary aggregates continued to be significantly below their indicative benchmarks. I figured that the immediate risks to price stability were not necessarily emanating from the growth in credit, but more crucially from a variety of structural constraints in the economy, preventing efficient and effective circulation of goods, particularly food. It is expected that the food

supply shock, which led to the mild increase in food inflation in October would be short-lived as producers of food are incentivized to ramp up production. Already from the Q3, 2019 GDP numbers, we could see agriculture quickening, driven by crop production. In addition, the partial border closure offers the economy an opportunity to regain control of food production and prices in the medium-term. It is partly in this connection that I find merit in sustaining the on-going strategic interventions in the agricultural sector by the CBN. It is equally important that governments at the state and local government levels evolve ways to promote agricultural production including incentives and infrastructure to complement those initiatives by the CBN and the Federal Government.

As I evaluated the economy's overall performance in the first eleven (11) months of 2019 and the short- to medium-term outlook, I clearly could see two defining elements – credit to the real sector and the naira exchange rate. On credit, the Bank has been able to turn around the situation through the LDR and the Global Standing Instruction (GSI) which aims to reduce credit risk. Given that interest rates have started to moderate and banking industry non-performing loans (NPLs) trending towards the regulatory 5.0 percent level, money market activities could only be expected to buoy in months ahead. Regarding the second element, the naira exchange rate, most analysts agree that its stability has been the central driving force of the current recovery. I also subscribe to this view. I would argue, therefore, that the most important medium-term challenge for monetary policy would be how to preserve the stability of the exchange rate of the naira. I recognize though that some of the associated mechanics like oil price and capital flows are a bit exogenous to domestic policy calibrations. As the outlook for the foreign exchange supply side continues to be uncertain, the Bank must manage the demand side effectively to keep the exchange rate stable. In this regard, the restriction on the use of foreign exchange remains relevant and the list of items-not-valid for funding from the foreign exchange market should, perhaps, be expanded to ease the pressure building on the current account.

Overall, I have considered that the measures currently in place have not lived out their full impact and as such should be allowed some more time to strengthen the recovery process. Meanwhile, the routine sterilisation actions of the Bank should be enough to prevent system liquidity from surging rapidly on account of credit expansion. More importantly, however, the need remains for Government to maintain the focus on diversifying the economic base and growing revenue. It is especially relieving that the process of the 2020 budget has very well advanced which means implementation could begin much earlier than previously experienced. This should accord economic activity and growth recovery the much-needed push in 2020. Based on the foregoing, I

found no compelling need to tweak any of the headline instruments of monetary policy at the November 2019 MPC. In effect, I voted to:

I. Retain the MPR at 13.5 per cent;
II. Retain the asymmetric corridor at +200/-500 basis points around the MPR;
III. Retain the CRR at 22.5 per cent; and
IV. Retain the Liquidity Ratio at 30 per cent.

2. ADENIKINJU, ADEOLA FESTUS

Economic Developments

Developments in the global economy has not changed radically from the last MPC meeting in September 2019. The global economy provides mixed opportunities and challenges. Rising yield in the US poses challenges for portfolio flows to emerging economies. The outlook for the oil sector is not very bright and remains volatile due to geo-political developments in the Middle East and around the world. Trade war between the US and China and the BREXIT issue continues to impact negatively on global output, global trade, commodity prices, and on the financial markets. Nigeria, like many other emerging and developing economies have not been able to insulate its economy sufficiently from these uncertainties and vulnerabilities.

Global inflation rate is somehow tepid. Most advanced economies continue to implement accommodating monetary policies and allow corporate debts to soar in order to boost their economies. On the other hand, several developing countries are faced with rising public debt. The expected capital flows from advanced economies to emerging economies have also not happened at the quantum and speed previously anticipated.

On the domestic front, the results are mixed. Output growth retains its fragile, but positive trajectory in the third quarter of 2019, with a 2.28% growth compared to 1.81% recorded in comparative period in 2018. This makes it the fourth consecutive quarter that real GDP has posted a growth above 2.0%. The growth in GDP was driven mainly by the oil sector. The increase in electricity generation by 4.4% in the third quarter also contributed to the improved performance recorded in the GDP. Headline inflation (year-on-year) rose to 11.61% in October 2019, from 11.22% in September 2019. The foreign reserves level stood at US$39.65 billion by November 21, 2019, compared to US$40.33 billion as at end-September 2019.

Moreover, the current account balance also deteriorated between the second and third quarters of 2019. While, the foreign exchange rate markets remain relatively stable at both the BDC and the I&E windows, the weak performance of the current account balances, fall in foreign reserves and the small margin between oil price and the benchmark price for oil, implies that there could be increasing pressure on the naira in the medium term if the existing conditions subsists.

The fiscal space also deteriorated due to rising fiscal deficit. Government revenue underperformed relative to budget, while expenditure rose above the budgeted sum in the first half of the year. The equity market also continues its downward trajectory in the third quarter of the year. All-Share Index (ASI)

declined by 14.12% to 16,991.42 index points on November 22, 2019 from 31,430.5 index points at end December 2018.

The financial system indicators (FSI) trend was generally positive. The NPLs was particularly encouraging. NPLs ratio declined from 9.4% in August 2019 to 6.6% in October 2019. It is hoped that the trend will continue. Total operating cost to operating income of banks also declined from 67.4% in August 2019 to 66.9% in October 2019, suggesting more efficiency in their operations. Loans and advances as share of banks' assets rose by 2 percentage points from 33% to 35% between May and October 2019. Gross credits rose by nearly a trillion naira between October 2018 and October 2019. More sectors of the economy benefitted from the increase in lending, with the manufacturing sector, retail and consumer credits recording the highest increase.

Liquidity in the economy remains high, driving down unsecured interbank and OBB rates below the lower band of the MPR corridor of 8.5% - 15.5% between September 23 and November 20, 2019. Patronage at the SLF window declined significantly, while those at the SDF rose appreciably between the period July 22 -September 20, 2019, and the period September 22 to November 20, 2019. Net liquidity position of the economy was lower in October 2019 relative to December 2018. Reserve Money in October 2019 was 18.72% lower than the benchmark value. Broad money aggregates M3 and M2 performed below their indicative benchmarks in September 2019.

Maximum lending rate declined by 0.87 percentage points to 30.56% in October 2019 from 31.43% in September 2019. Similarly, the prime lending rate fell by 0.08 percentage points to 15.07% in October 2019 from 15.15% in September 2019. The balance of trade and current account balances deteriorated in the third quarter of 2019 relative to same period in 2018.

Considerations

Existing policies put in place by the MPC has been yielding results. Credit to the economy is expanding, Lending rates are reducing, albeit marginally and domestic output is growing. Support from the fiscal side to the efforts of the monetary authorities would further boost these positive indicators. However, the economy is facing a number of headwinds, including the new minimum wage, and its effects on Government finances, especially at the states level, challenges pose by the closure of the border, including higher costs of imported food, securities challenges, climate change and poor state of infrastructure.

Bank's staff forecast that inflation may yet tick up in the last quarter of 2019. The negative output gap and the positive unemployment gap suggest that the economy has the potential to generate non-inflationary output growth by

utilizing more of the currently unemployed and underemployed labour force. The absence of any serious fiscal buffer portends increasing borrowing, and even more debts for the Government.

There is no doubt the economy is in a need of an urgent and deep boost if it is to grow at a far more descent rate that will dent the current high unemployment and poverty rates in the country. The Government needs to take bold steps in the following areas:

a) Sale of government wasteful assets to improve government financing
b) Promote domestic gas utilization and gas-based industries to diversify dependence on oil exports and boost electricity generation
c) Alternative funding of Government capital projects, using the private sector funding to reduce pressure on government budget
d) Reforming energy subsidies in the oil and electricity subsectors
e) Enactment of oil sector reform law

Decision

On the basis of above considerations, I cast my vote to hold the existing monetary policy parameters at this meeting at their existing levels:

i) MPR at 13.5%
ii) CRR at 22.5%
iii) Liquidity ratio at 30%
iv) Asymmetric corridor around the MPR at -500/+200 bases points.

3. AHMAD, AISHAH N.

The **Monetary Policy Committee held its last meeting in 2019 within a subdued global economic environment amidst some domestic optimism**. The Committee broadly appraised its existing policies vis a vis global and domestic developments over the year, taking stock of their impact on the price and monetary stability mandate.

Undoubtedly, it had been an eventful year. Whilst uncertainties continue to persist, some headwinds are now fully developed and policy makers across many jurisdictions admit to working with increasingly limited toolkits. Thankfully, domestic policies are yielding some positive results, evidenced by a relatively resilient domestic economy with a positive short-to-medium-term outlook, even in the face of rising external vulnerabilities.

Thus, I shared members' broad optimism that the Nigerian economy had a few bright spots expected to manifest into tailwinds as the global economy slows into 2020.

Global economic sentiment at end 2019 is decidedly weak. Bank staff reports revealed that 11 out of 14 major central banks reviewed, cut policy rates, and the IMF cut its global growth forecast three times within the year. Bleak economic narratives dominated the annual meetings, all clearly indicating a world bracing itself for a recession. The yet unresolved US-China trade war was disrupting global trade value chains and hurting the Chinese economy – the world's second largest - whilst unresolved Brexit and approaching general elections in the UK are exacerbating the worrisome situation. Clearly, global trade uncertainty and geopolitical tensions appear to be the new normal going forward.

Notwithstanding, domestic output recovery continues to strengthen and remains on a positive trajectory. Based on Q3 2019 real GDP numbers recently released by the National Bureau of statistics (NBS), the economy grew by 2.28 percent, compared with 2.12 percent in Q3 2018. This improved growth numbers which can be partly attributed to rising domestic credit, exchange rate stability and fiscal stimulus, represents the 10th consecutive positive quarterly growth in GDP since the economy exited a recession in Q2 2017. The trajectory is expected to continue as reflected in staff and IMF 2019 GDP forecasts for Nigeria at 2.2 and 2.3 per cent, respectively and a purchasing managers' index (PMI) at 58.2 points (October 2019), rising for the 31st consecutive month.

While the domestic economic momentum remains broadly optimistic, global trade headwinds and geopolitical uncertainties mentioned earlier, may have

potential negative effects. Crude oil prices have remained dampened on the back of deteriorating growth sentiments with limited signs of any significant price increase in the near term. This has negative implications for our fiscal revenue, inflation, output performance and external reserves. However, the current level of external reserves (US$39.65b as at 21st November, 2019) is sufficient to accommodate over 9 months of imports and ward off medium term threats to price stability as more sustainable economic reforms are being explored. Limited buffers, lower expected revenue in view of lower oil prices and a rising debt profile, constrict the fiscal authority's ability to stimulate growth. However, the Finance Bill - detailing the planned Value Added Tax increase and other measures - is a positive indication of commitment to fiscal consolidation.

As anticipated, headline inflation increased modestly from 11.24 percent in September 2019 to 11.61 percent in October 2019 on account of seasonal end-of-year uptick in prices; and partly due to Nigeria's border closure, which impacted on food supply. Consequently, food inflation rose from 13.51 percent to 14.09 percent in September and October 2019, respectively. Core inflation, the underlying inflation in the economy, however, declined marginally from 8.94 percent to 8.88 per cent in September and October, respectively. The decline reported in core inflation was attributed to the relative stability in the foreign exchange market.

Whilst **data provided at the meeting strongly indicated that there were net gains to the economy on the partial border closure** - improved local production and access to market, reduced Premium Motor Spirit (PMS) consumption, - **a longer term strategy will be critical to preserve the net positive effects**. These include a comprehensive review of Nigeria's trade policies and effective monitoring of the borders to consolidate on the gains recorded so far. Significant investments should also be channeled towards infrastructure development through public private partnerships in view of the constricted fiscal space, while sustaining the ongoing tax reforms. These measures will help strengthen output expansion, improve job creation, thus making growth more inclusive – an essential ingredient for securing better economic prospects.

Financial stability; buoying domestic output growth and lower yield curve - The financial system remains one of the key bright spots of the economy, rising up to its intermediation role albeit with some policy nudging. A major driver of economic activities, it continues to be safe and resilient, maintaining progressively strong soundness indicators across liquidity, capital adequacy and asset quality; a trend which was sustained through the year. NPLs ratio reduced further to a remarkable 6.6 percent as at end October 2019, the lowest in over four years. Other prudential ratios remain within desired levels,

while positive domestic GDP growth prospects is expected to further strengthen asset quality, solvency ratios and sustain financial system stability.

The Loan to Deposit Ratio (LDR) policy has continued to be very successful adding N1,060.29 billion in loans to the private sector between end May 2019 and end September 2019 and over N1.6 trillion in new loans to the economy since it was first pronounced in July 2019. Monetary aggregates provided by Bank staff validate the impact of increased lending and reduction in credit to government and clearly show growth in consumer credit.

Significant portions of the new credit went to manufacturing (N459.69 billion), the highest in two decades, consumer loans (N356.65 billion), General Commerce (N142.98 billion), Information and Communications (N82.07 billion), Construction (N74.52 billion), Agriculture, Forestry and Fishing (N73.20 billion), Mining and Quarrying (N3.64 billion) and Transportation and Storage (N3.09 billion), amongst others.

In addition to credit to the private sector, which has helped spur growth in Q3 2019, the LDR policy created a number of other positive effects. Renewed focus on lending by banks has created competitive pressure, which is driving a reduction in market lending rates, enhancing affordability and creating demand for loans. The new credit has been primarily in manufacturing, agriculture and consumer lending which is helping to diversify bank credit portfolios which have hitherto been heavily concentrated in Oil and Gas. Contribution of Oil and Gas reduced to 27.4 per cent of total loans and manufacturing grew to 16.0 percent (end October 2019) from 30.41 and 14.68 per cent respectively (end December 2018). The reduction in credit to Oil and Gas and FGN Payments of outstanding obligations in this sector is also helping to reduce risk, as the sector NPLs reduced from 20.76 to 5.39 per cent of industry NPLs from end October 2018 to end October 2019.

Other complementary policy measures such as the Global Standing Instruction (GSI) to address willful default by serial borrowers in the banking system, Differentiated Cash Reserve Ratio (DCRR), Development Finance Initiatives in agriculture, micro, small and medium enterprises (MSMEs) are expected to further strengthen the credit drive. The recent policy measure limiting participation in the OMO bill market to banks and foreign portfolio investors is expected to have a positive impact on both the fixed income and equities markets, creating supply of long term equity capital from domestic and foreign investors seeking improved yields, given the reduction in yield and supply of treasury products.

Summary and Policy Decision

2019 ends with the Nigerian economy having 'held its own' in the face of growing headwinds and uncertainties in the international monetary and financial system. Oil prices have been choppy through the year, averaging around US$60 per barrel and external reserves have seen some net reduction on the back of uncertainty in the global economy. However, on balance, the economy has weathered the storm.

Growth has continued to be positive and rising fueled by increased lending to the manufacturing, agriculture, and consumer goods sectors, and progressively lower interest rates. Inflation has risen slightly and remains critical to watch but, continues to be driven primarily by temporary supply-side factors to be resolved by an expected bumper harvest, counterbalanced with positive impact on domestic production in some sectors due to the temporary border closure.

Positive impact from the monetary policy measures is expected to be sustained as credit growth, domestic production and aggregate demand continues to rise. This must be complemented by fiscal initiatives aimed at improving the investment climate to attract foreign direct investment to keep Nigeria globally competitive.

Price and monetary stability continue to be maintained at the current policy rate, and thus there appears to be no immediate reason to change course. Therefore, I vote to retain the current monetary policy stance, by keeping MPR at 13.5%; Cash Reserve Ratio at 22.5%; Liquidity Ratio at 30% and Asymmetric corridor at +200 and -500 basis points around the MPR.

4. ASOGWA, ROBERT CHIKWENDU

Background:

The period preceding the November 2019 Monetary Policy Committee meeting was characterised by a mix of macroeconomic events driven by multiple, but interrelated factors at both the domestic and global levels. These events have particularly shaped the configuration of thoughts on expected monetary policy choices at this meeting. On the domestic side, there are concerns with the re-emergence of marginal upticks in monthly inflation rates at a time when the GDP growth is picking up and a gradual output recovery is projected to continue in the 2020-2021 period. On the global level, the persistence of economic uncertainty that has kept growth subdued for a long period amidst muted inflation in many countries is taking an increasing toll on investment confidence. The possibility of further escalation of trade tension or a disorderly Brexit now casts an obstructed 2020 outlook for monetary policy for all developing and emerging economies, and the policy responses in many countries have been similar, focused more on scaling back in monetary easing.

The policy options at this MPC meeting should therefore seek to balance the weights of risks between the global economic uncertainties and the changing domestic economic conditions. While monitoring closely the responses of global policy makers to Brexit developments and the prospects for faster recovery in global growth, it is also important to invest in measures that enhance the prospects of sustainable medium term growth for the domestic economy.

The Global Economic Outlook:

Over the past two months, the global growth outlook has again been revised slightly lower and the risks remain titled to the downside. The key source of uncertainty for the external environment remains the same as in the last MPC meeting. The signs of economic slowdown intensified even with weakening inflation. The US-China trade disputes continue to affect international trade flows and investment as many firms step up the scaling back of spending. The projected global growth of 3.0 percent in 2019 appears to be the weakest in the past decade and except for countries in sub-Sahara Africa, per capita growth for 2019 is expected to be the lowest in over two decades. For the US, output growth looks strong, but shows a slower pace of expansion in the first three quarters of 2019. The growth slowdown has been pronounced in other major economies including the UK, the Euro Area as well as in such emerging economies as China, Hong Kong, Mexico and Russia. CBN staff report suggests that UK's 2019 third quarter growth is perhaps its weakest growth figure in a long time. GDP growth in the Euro Area has also remained subdued in the third

quarter of 2019 especially as Germany and Italy record poor growth despite the marginal growth upticks in France and Spain. GDP growth in China is expected to moderate further in 2019 and 2020 as escalating trade tension weigh in on investment and fuels even more uncertainty. Output trend in Brazil and India in contrast to other emerging markets appears to be improving and largely underpinned by some modest acceleration in private consumption expenditures.

While global output expansion weakened, core inflation remained muted and below target ranges in many advanced economies, often as an aftermath of the weakening aggregate demand and subdued wage growth. In many emerging and developing economies, inflation rates also moderated, sometimes below historical levels except in few cases like Argentina where the large currency depreciations found its way to higher prices or in Venezuela where there were acute shortages of food and other essential items which has generated increases in prices.

The risks of economic slowdown and the prevailing low inflation rates prompted may central banks in the advanced economies to either ease monetary policy or communicate their readiness to act in such a direction. The US Federal Reserve lowered policy rates cumulatively by 75 basis points and in three successive sessions in 2019. More recently, the Federal Reserve also resumed purchases of treasury bills, which it plans to continue into the second quarter of 2020. The European Central Bank also in November 2019 introduced a new and indefinite monthly asset purchase programme despite maintaining policy rates at same levels, while the Bank of England in early November 2019, agreed to maintain policy rates as before, whilst strengthening the level of bond purchases from central bank reserves.

With this drop in global borrowing costs, some emerging markets and developing economies benefitted from the global liquidity flows, while some others suffered from flight to safety issues. These outflows from emerging markets came largely from the weakening equity markets and in Sub-Sahara Africa particularly, sovereign bond issuance activity has been relatively subdued compared to the levels in 2018 and 2017.

The Domestic Economic Outlook:

The outlook for the Nigerian economy is a little changed from the position from two months ago which was the last MPC meeting for 2019. After a soft patch in Q2 GDP growth, which declined to 1.94 percent in Q2 2019 from the Q1 2019 GDP growth of 2.10 % (revised from 2.01% due to oil output revisions), a subtle turning point appears to have started in Q3 2019 as the GDP growth moved

upwards to 2.3 percent. The central scenario remains that the Nigerian economy will on average grow by 2.3 percent in 2019, but then the growth rate will pick up to about 2.9 percent in 2020, and further to 3.3 percent in 2021. Generally, the oil sector performance was again impressive, growing from 5.15 percent in Q2 2019 to 6.49 percent in Q3 2019, while the non-oil sector which grew by 1.64 percent in Q2 2019 also improved to 1.85 percent in Q3 2019. The expansion in both the manufacturing and non-manufacturing PMI from 57.7 and 58.0 index points, respectively in September 2019 to 58.2 and 58.2 index points in October 2019 also show a brighter outlook for investment and consumption expenditure expected to support future growth.

The recent inflation data for October 2019 just released before this MPC meeting were generally as expected with headline inflation increasing to 11.61 percent from 11.24 percent in September 2019. The expectation of a marginal uptick is in response to the temporary effects of the border closure on such commodities as rice and poultry products. CBN staff projection is that inflation may increase further in the remaining months of 2019 (expected at 11.87 percent at end December 2019) and probably commence a modest decline in early 2020.

The outlook for oil prices continues to be an important source of uncertainty from the external environment as negative developments could further harm exchange rate stability and hence pass through to inflation. Gross external reserves as at October 31, 2019 declined by 2.69 percent compared to the levels at the end of September 2019 and there are projections of further declines by end of December 2019.

The banking stability indicators have shown some further signs of a turnaround after the last MPC meeting. The non-performing loans ratio dropped dramatically from 9.4 percent in August 2019 to 6.6 percent in October 2019 which is now very close to the regulatory benchmark of a 5 percent maximum. This has somewhat increased the confidence in the banking system despite the October 2019 marginal drop in the capital adequacy ratio to 15.3 percent from the August 2019 level of 15.8 percent. The growth in total assets by October 2019 when compared to earlier months and largely driven by growth in credit is quite remarkable as it also suggests that credit conditions especially for small and medium enterprises have responded to new Central Bank regulatory policies especially the loan to deposit ratio and the sector targeted quantitative easing measures.

The wide expectations on the part of the fiscal authorities in Nigeria to minimise distortions created by the current fiscal stance through revised policy options remain unfulfilled. In previous MPC meetings, the concerns over increasing public indebtedness have been extensively expressed. Eventhough Nigeria

remains characterised at the 'moderate risk level' in terms of the debt distress situation, the increased reliance on external debt remains a potential source of vulnerability and pose severe risks to future growth. A coherent fiscal consolidation strategy that complements and enhances the effectiveness of monetary policy remains a strong option.

My Decision:

The fragile global outlook has pushed a number of central banks around the world to ease monetary policy in response to declining inflation rates and the growth downside risks, which appears to have persisted for a long period. The expectations of further monetary easing in these key advanced economies is now low, but still uncertain. While Nigeria's Q3 output show some modest improvements in the economy, but in the face of such new challenges as the latest marginal inflation upticks and a slowdown in the overall level of the country's external reserves, a balance of future expectations is key for the choice of monetary policy stance. Taking together, it is reasonable to maintain status quo, while the committee continues to monitor developments and also remain prepared to adjust monetary policy in future if required so as to support overall growth in economy, whilst keeping on track the targeted inflation band.

My opinion therefore, is that policy parameters should remain largely unchanged at this November 2019 MPC meeting. I will thus vote to:

- Retain the MPR at 13.5 %
- Retain the CRR at 22.5%
- Retain the Asymmetric Corridor at +200/-500 basis points
- Retain the Liquidity Ratio at 30.0%.

5. BALAMI, DAHIRU HASSAN

GLOBAL ECONOMIC AND FINANCIAL ENVIRONMENT

Output Growth

The year 2019 can be described as a year of weak global growth which was downgraded from 3.6 percent to 3 percent. Factors that shaped the 2019 global economy largely included: the trade war between the US and its major trading partners such as China; the inconclusive Britain exit from the European Union (EU); continued weak response to monetary stimulus; slowdown in car market in China and Germany, in the latter where the manufacturing sector has been in recession; the threat to central banks independence mirrored by development in the US Fed, sacking of Turkish Central Bank Governor, and resignation of the Reserve Bank of India Governor. Other factors affecting global economy were: uprising in Hong Kong; trade dispute between South Korea and Japan, tension in the Persian Gulf, and weakening aggregate demand and output in many advanced economies namely; Germany, France, Italy, Spain as well as United Kingdom and Japan.

Output growth in emerging markets

Output in China declined to 1.5 percent in October 2019 from 1.6 percent in September 2019. The Chinese economy, which is the major economy in the block of emerging market economies, contributed sizably to the slowdown of the global economy. Also, contraction of the Chinese and German automobile markets, which is partly due to increase in pressure to innovate coupled with great emphasis on the environmental protection. The Indian economic growth also moderated to 1.0 per cent in the second quarter of 2019 from 1.3 per cent in Q1 2019, due to low growth in construction and manufacturing which was expected to grow at 6.6 percent instead of 6.15 percent in 2019.

Output growth in other developing economies also moderated. For instance, growth in the Ghanaian economy decreased to 1.3 percent in the second quarter of 2019 from 1.6 percent in the first quarter of 2019. Output in the Middle-East and North African countries in 2019 similarly dropped to 1.0 percent due to weakening oil prices. In Kenya, output growth declined to 1.25 percent from 1.57 percent into first quarter 2019. The totality of this is that global growth was marked down as earlier highlighted.

The uncertainties reviewed above have implications for the Nigerian economy such as the possible threat of further appreciation of the US dollar. Remedial actions could include the necessity to create a foreign reserves buffer and reducing fiscal deficit; building buffers to support foreign exchange;

improvement of investment climate and restoring investor confidence. Nigeria could also proactively re-align its trade strategies to win new trade partners.

The Domestic Economic and Financial Environment

Output Growth

The growth rate of the Gross Domestic Product (GDP) shows that the economy recorded a positive growth from 2.10 percent in the Q1 2019 to 2.28 percent in Q3 of 2019. This level of growth is weak when compared with the estimated population growth rate of 2.82 percent, indicating that the economy has a lot of excess capacity in terms of harnessing huge natural resources to push the economy to the next level. The growth drivers for the third quarter 2019 growth of the economy were crude oil price; increased credit to the real sector of the economy; non-oil sector; the level and quality of infrastructural development; and level of security and peace in the economy.

The volatility in the price of oil is a big determining factor in the growth of the economy. The current situation in the global oil market does not guarantee further higher price due to development in the Shale oil, and the US preference for lower price of crude oil during periods of elections. In terms of the position of external reserves, the situation showed improved performance compared with 2015 and 2016. Although there had been appreciable level of outflow compared with the inflows. This development therefore requires additional demand and supply management polices to reverse the trend. It should be noted that in Nigeria, the conventional monetary policy seems to have become less effective, which prompted and promoted the leaning towards the deployment of unconventional monetary policies. This trend in policy had been very effective and has positively impacted the economy. The goal of policy therefore should be to reduce the level of import-dependence and, in the long term diversify the economy by getting more aggressive to encourage exports other than crude oil. Massive investment is required in the gas sub-sector to expand output. As part of supply management strategies, import can be reduced by boosting domestic production, and further provide the enabling environment for domestic industries. Additionally, Nigeria should also put in place polices to fight corruption, tackle the problem of institutional failure, and reducing smuggling activities across the Nigerian borders.

To promote an all-inclusive growth, the Government needs to create more jobs through public works by deliberately embarking on labour intensive rehabilitation of public buildings, road repairs, construction, and cleaning of the environment. There is also the need for increasing support to the agricultural sector through anchor borrowers programme, establishment of more rice mills, construction of rural roads and credit expansion to the

agricultural sector. As a short to medium term strategy, temporary border closure.

It will lead to the following: reduction in smuggling of goods through neighbouring countries; imported goods that were repackaged by neighbouring countries and brought into Nigeria; and the reduction in the level of import of petroleum products, for example, available statistics show that fuel consumption dropped by 30 percent due to reduction in smuggling of the petroleum products following the border closure which in turn will enhance more production and milling of Nigerian rice. The temporary border closure will reduce the smuggling of illicit drugs, and weapons, thereby reducing terrorism, robbery and kidnapping. Currently, there are a lot of sectoral linkages in the economy hence the need to link agricultural output with the manufacturing sector, so that agricultural output can be fed into industry, for example, skin and hides into production of leather.

Financial Sector

The trend of financial soundness indicators shows improved performance for Capital Adequacy Ratio (CAR), the Non-Performing Loans (NPL), Liquidity Ratio (LR), Return on Equity (ROE), Return on Asset (ROA), Interest margin to total operating ratio (TOC), and as well as the total operating cost when compared to figures of October 2018. It should be noted that the total asset of the banking sector recorded an increase in October 2019. The Deposit Money Banks (DMBs) performance in terms of credit to the private sector of the economy was remarkable. The declining level of credit to the real sector was reversed in Q3 October 2019, thus aiding the level of growth in the economy to 2.28 percent in the Q3 2019. This is reflective of the impact of the CBN's directive on Loan to Deposit Ratio (LDR) of the initial 60% in July 2019, and further increase to 65% by the end year 2019.

Policy Choice

From the foregoing analysis, it is evident that the current polices put in place by the CBN were effective as shown by the improvements in financial soundness indicators, particularly the capital adequacy ratio, the non-performing loans ratio, and the liquidity ratio. In fact, the improvement in the non-performing loans ratio from 9.6 per cent in August 2019 to 6.65 per cent October 2019 is highly commendable. Introduction of credit polices by the CBN has led to the growth of credit in the economy, particularly to the private sector. The Loan-to-Deposit Ratio has been moved from 60 to 65 per cent leading to increased advancement of credit in the economy. Monetary policy has contributed immensely to the economy, the fiscal side is encouraged to

create conditions for growth, fix the land borders, review the tariff on trade, and support the growth of value chain in agriculture. Government should be consistent in any policy decision it takes to facilitate more growth and employment generation in the economy. Such policy should also include infrastructural developments.

With regards to policy options, the possible three options are to tighten, loosen or hold, given the above scenario, I vote to hold so as to allow the policies on ground to work itself through, given the positive outcomes thus far. I therefore vote to:

(i) Retain the MPR at 13.5 percent;
(ii) Retain the CRR at 22.5 percent;
(iii) Retain the liquidity Ratio at 30 percent; and
(iv) Retain the asymmetric corridor of s+200/-500 basis points around the MPR.

6. ISA-DUTSE, MAHMOUD

A. INTRODUCTION

The global economic downturn which started in the second half of 2018 worsened in 2019 with the world economy now expected to grow at its slowest pace since the global financial crisis of 2008/2009.

On the domestic front, the Nigerian economy has shown some degree of resilience despite the numerous headwinds. Economic growth continued on its recovery trend in Q3 2019, with significant upturn in the volume of new credits channeled to the real sector. The foreign exchange market remained stable and the financial soundness indicators portray an increasingly robust banking system.

B. EXTERNAL ECONOMIC CONDITIONS

The broad slowdown in global economic activities is evident as output growth in the advanced economies is expected to decelerate to 1.7% in 2019 from 2.3% in 2018, while growth in the Emerging Market and Developing Economies (EMDEs), is projected to decline to 3.9% in 2019 from 4.5% in the preceding year. On the whole, global growth is forecast to drop to 3.0% in 2019 from 3.6% in 2018. The negative trend in global production is traceable to the seemingly intractable trade war between the United States (US) and its key trading partners and rising geopolitical tensions. The impact of these shocks has resulted in falling manufacturing performance, disruptions in global input supply chains, subdued investment, and reduced trade flows. Global trade growth is forecast at 2.6% in 2019 as against the 3.6% recorded in the previous year.

The on-going monetary accommodation in key advanced economies implies that further appreciation of the US dollar may have subsided. However, this development may not translate into more capital flows for Nigeria because of the uptrend in the US yield curve, which signifies a return of attractiveness in dollar-denominated assets. Thus, Nigeria might experience more portfolio outflows in the foreseeable future, which may impact negatively on external reserves and the stability of the naira.

The twin factors of a weak global crude oil demand and increase in supply from non-OPEC sources has served to dampen the outlook of oil prices in the medium term. It is projected that prices may hover around the mid-US$50.0 per barrel in 2020. This may constitute a serious downside risk to the implementation of the 2020 budget in Nigeria where the stated benchmark oil price per barrel is US$57.0. Furthermore, the anticipated accretions to external reserves may

not materialize, and in turn, foreign capital flows and exchange rate stability may be constrained.

C. DOMESTIC ECONOMIC CONDITIONS

The growth momentum in Nigeria is still tepid as real GDP maintained a gentle rise of 2.10%, 2.12% and 2.28% in Q1 2019, Q2 2019 and Q3 2019, respectively. The most recent output data for the third quarter of the year indicates a sustained rebound in oil sector output, which grew by 6.49%, while the non-oil sector recorded a growth of 1.85%. The three main drivers of growth were services, agriculture and industry. The significant recovery of the oil sector and its contribution to real GDP underscores the fragility of the growth process because the performance of the sector is primarily determined by exogenous forces. The current drive of the Federal Government to achieve a higher growth trajectory by focusing more on the agricultural and industrial sectors with high potentials for value-addition and job creation is very important and should be sustained.

Headline inflation (year-on-year) inched up to 11.61% in October 2019, compared to 11.24% in September 2019. Food inflation also rose (year-on-year) to 14.09% in October 2019 from 13.52% in the preceding month, while core inflation declined to 8.88% in October 2019 from 8.95% in the previous month. Furthermore, headline and food inflation increased (month-on month) in October 2019 to 1.07% and 1.33% from 1.04% and 1.30% in the previous month, respectively, but core inflation declined to 0.74% in October 2019 from 0.94% in the preceding period. As inflationary pressures mount, there is need for appropriate measures to tackle the problem. The identified upside risk to inflation include insecurity in key food producing areas in the country, the supply-side shock arising from the border closure between Nigeria and neighbouring countries as well as quasi-fiscal and other liquidity injections into the economy.

Monetary conditions in the review period remained tight to curtail upward price movements. In October 2019, broad money aggregates, M3 and M2, fell below their benchmarks for 2019 by 10.36 and 11.02 percentage points, respectively, while reserve money dipped by 18.74% below the Q4 2019 benchmark. Nevertheless, the combined effects of various policy measures, such as the increase in loan-to-deposit ratio (LDR) of deposit money banks and the global standing instruction (GSI) of set-off have pushed the volume of new credits to record heights. The main sectoral beneficiaries were manufacturing, general commerce and agriculture.

The remarkable upsurge and broad sectoral spread in new credits is indicative of a more efficient intermediation process in the banking system. The capital- and asset-based financial soundness indicators provide a picture of a liquid

and stronger banking system that is poised to meet the growth challenges of the economy with non-performing loans down to 6.6% - a little above the prudential maximum of 5%.

C. VOTING DECISION

A policy rate cut is inadvisable at this time given the uptick in inflation. Further Monetary tightening is also inadmissible given that growth is still sluggish and fragile and there is the yawning need to accommodate growth concerns, create jobs and reduce widespread unemployment. To balance the competing objectives of monetary policy, I voted to retain all existing policy parameters as follows:

- MPR at 13.50% per annum
- The asymmetric corridor at +200/-500 basis points around the MPR
- Liquidity ratio at 30.0% per annum
- CRR at 22.5% per annum.

7. NNANNA, OKWU JOSEPH

Output and Prices

Recent data from the National Bureau of Statistics (NBS) reveal symptoms of an economy on the mend with real GDP rising and non-oil sector making modest contribution. Real GDP grew by 2.28 per cent in Q3 2019 compared with 2.12 and 2.10 per cent in Q2 2019 and Q1 2019, respectively. Comparatively, the oil sector grew by 6.49 per cent, while the non-oil sector growth stood at 1.85 per cent. Growth was driven largely by services, agriculture, industry and construction which grew by 3.24, 2.28, 3.74 and 2.37 per cent, respectively.

Non-oil growth epitomizes the recent surge in credit growth to the private sector attributed to the de-risking of banking industry and the innovative loan-to-deposit ratio of 60 per cent, which was prescribed for Deposit Money Banks. Domestic output has responded positively to the favourable credit and weather conditions across the country. The push towards import substitution and food self-sufficiency appears on track.

The uptick in inflation in October arising from supply side shocks was largely envisaged, but certainly the supply shortages were lower than expected. Structural factors have continued to weigh negatively on inflation over the short term. Food and headline inflation rose from 13.51 and 11.24 per cent in September 2019, to 14.09 and 11.61 per cent in October 2019, respectively, while core inflation declined from 8.95 per cent to 8.88 per cent in the same period. The need for scaling-up investment to address the investment gap and narrow the infrastructure deficit, cannot be overemphasized.

Financial System

The financial system remain resilient with stable and positive outlook. Liquidity transformation into risk assets is progressing albeit slowly. The introduction of the Global Standing Instruction (GSI), in the banking industry by the Regulator is indeed a welcome development. The GSI empowers the Central Bank to prevent predatory serial borrowers from reneging on loan repayments. The policy would contribute immensely in de-risking lending and reducing Non-Performing Loans (NPLs).

The exclusion of non-deposit bank corporates from participation in the open market fixed income instrument (OMO), has forced a reduction in the money market yield curve and mild resurgence of the equity market. Overall, interest rates are trending low, despite the fact that the Monetary Policy rate remained unchanged since it was reduced from 14.0 per cent to 13.5 per cent in March 2019.

Net claims on the Federal Government grew by 85.99 per cent in October 2019, compared with the growth of 114.79 per cent in September 2019. Credit to the core private sector increased to 13.08 per cent in October 2019 from 12.49 per cent in September 2019.

The Balance of Payments position remained resilient, while exchange rate in all the windows remained relatively stable. The external reserves is sufficient to finance 12 months of imports, surpassing the 6 months of import cover provided under the ECOWAS convergence criteria. This, I believe, should allay the concerns of foreign investors. The overall balance of payments outlook in the short-to-medium term remains positive and stable, especially with crude oil price hovering around US$60 per barrel and daily production level of approximately 2.0 million barrels per day.

The major threat to macroeconomic stability is the lack of fiscal buffer and the creeping rise on the level of unemployment. However, the recent increase in Value Added Tax (VAT) and Sundry Stamp Duty represent a step in the right direction. We continue to reiterate our call for massive public works programs to be executed in conjunction with the private sector particularly as Nigeria is in dire need for the rehabilitation of hundreds of its public buildings such as schools and hospitals, housing for the Armed Forces, as well as several kilometers of urban/rural and farm-to-market roads dotted all over the country. Government should appropriately incentivize the private sector to execute these projects. The "big-bang" strategy should be adopted as public works program represents the low hanging fruit and the antidote for the unemployment scourge. Incrementalism on the other hand will be tantamount to, 'too little too late' cure for the unemployment plague.

In view of these developments, I vote to hold all the policy metrics constant.

8. OBADAN, MIKE IDIAH

The monetary policy opinion expressed in this Statement, as in previous Statements, takes cognisance of both global developments and domestic developments in the spheres of growth, prices, external sector, and monetary and financial conditions, among others. They have significant implications for monetary policy stance.

IMPLICATIONS OF GLOBAL DEVELOPMENTS FOR THE NIGERIAN ECONOMY

The challenges facing the global economy have not abated. For example, global output growth in 2019, which was earlier projected to moderate to 3.2 percent from 3.6 percent in 2018 has been further downgraded to 3.0 percent. Even then, the growth rate could weaken below this level as uncertainties in the global economy remain high and unrelenting. There are the issues of continuing trade tensions across the global economy, in particular the continuation of US-China trade conflict, the likelihood of the dollar weakening further, moderating price of gold, subsisting uncertainties around BREXIT and the likelihood of lower oil prices. Global trade is projected to weaken further from 3.2 percent in 2018 to 1.1 percent in 2019 – the weakest since the global financial crisis of 2008/2009, largely because of weakening growth and US-China trade war. Volatility in the oil market is sustained. And the futures prices of oil in 2020 do not signal any notable improvement. Rather, the price of oil is expected to hover around the mid-fifties due to uncertainties surrounding both the demand and supply sides of the market. On the supply side, rising non-OPEC supply, especially projected sharp increases in US shale oil supply from 12.3 million barrels per day (mbpd) in 2019 to 13.2 mbpd in 2020, is a significant threat to increase in oil prices. On the demand side, in light of the subdued global growth, the demand for oil may remain weak for some time, thus dampening crude oil prices.

Against the backdrop of the subsisting global uncertainties and a slowing global economy coupled with signals of possible recession in some countries, there is a growing trend towards monetary accommodation in both the advanced economies and some Emerging Market Economies. The United States Fed, European Central Bank and some other central banks have cut their policy rates and/or adopted other measures aimed at averting recession, stimulating recovery and growth and boosting employment. Many others have maintained their policy rates in response to the prevailing uncertainties in the global economy. Some of the implications of the global developments for Nigeria are as follows.

First, in light of the monetary accommodation stance in the advanced economies, Nigeria could attract more capital inflows to boost its reserves and maintain exchange rate stability. For this to happen, however, the right

investment environment is required along with an appropriate monetary policy stance. The Government would need to continue the reforms that resulted in the country's significant improvement in the World Bank's latest ranking on the Ease of Doing Business Index. Secondly, the oil market outlook does not provide good news for the country. Therefore, the Government must seize any opportunities of high oil prices to build fiscal buffers to smoothen public expenditure and avoid painful adjustments when oil prices decline significantly. Thirdly, with global growth momentum subdued to the lowest level in recent years due to the already identified factors coupled with un-encouraging oil prices forecast, Nigeria's growth outcomes in 2019 and 2020 may be far below those in the Economic Recovery and Growth Plan. Thus, the need to diversify the economy away from oil cannot be overemphasised.

DOMESTIC MACROECONOMIC DEVELOPMENTS

There is some good news on the **economic growth** front. The revised growth figures for Q2 2019 at 2.12 percent is a marginal increase over the Q1 figure of 2.10 percent. The previous estimate for Q2 at 1.94 percent was lower than the Q1 figure. Then, in Q3, the aggregate growth rate increased to 2.28 percent. Thus, growth has showed a steady increase in the three quarters of 2019 but the highest is lower than the rate achieved in Q4 2018 of 2.38 percent. However, there is the prospect that the growth rate could be between 2.5 and 3.0 percent in Q4, 2019. Nevertheless, the growth rate is still relatively low and fragile. Importantly, there is a negative output gap, reflected by real output being lower than the potential output since Q2 2016. This suggests the existence of under-utilised capacity in the economy, reflected in high rate of unemployment and subsequent pressure on the real wage rate.

Although the oil sector grew by 6.49 percent in Q3 2019 and contributed less than 10.0 percent to total domestic production, the sector still accounts for the bulk of government revenue and foreign exchange earnings. But then, instability is a major feature of the oil sector. No doubt, the non-oil sector has, for some time now, being a major driver of growth of the economy contributing over 90.0 percent of total output. But the sector is not diversified and dynamic enough to generate non-oil tax revenue to finance development. Hence the serious revenue challenge that the country is currently facing with attendant high fiscal deficits which stood at over N3.0 trillion naira in the first three quarters of 2019.

Thus, the economy needs greater diversification and interventions to stimulate growth that can reduce the very high rate of unemployment and make a dent on the high incidence of poverty.

But the news is not that good on the **inflation front** as the latest inflation figures indicate a further movement away from the CBN's implicit inflation target of 6-

9 percent. Headline inflation (year-on-year) further increased to 11.61 percent in October 2019 compared to 11.02 and 11.24 percent in August and September, respectively. The uptick in inflation in Q3 was mainly due to increased food inflation. Food inflation increased to 14.09 percent in October from 13.51 percent in September. The rise in food inflation may not be unconnected with structural factors such as poor transport infrastructure, insecurity arising from insurgency activities, impact of the farmers-herders clashes and the border closure since August. The insurgency and farmers-herders conflict-induced food shortages has subsisted causing increases in food prices. The partial closure of the nation's land borders has had short-term shock effects on domestic prices, especially food prices, arising from limited imports through the land borders. However, the effect on prices is likely to taper-off as local supply response increases. The medium-long-term benefits of the measure outweigh the short-term costs: reduced subsidization of smuggled petroleum products, increased production and enhanced growth of the economy, reduction in unemployment and poverty, among others. Thus, there is the strong need for local producers of importables shut out by the border closure to realise that the policy is aimed at helping them to expand their production capacities, be assured of a market and hence earn more income. They should therefore reciprocate the government's good gesture by stepping up production significantly to boost supply and, hence bring down prices and the inflation rate. They should also avoid hoarding goods. In other words, as they are the primary beneficiaries of the land border closure policy, they must ensure adequate supply from the medium-term, moderate prices and vindicate the good intentions of the policy. Therefore, the Government should sustain the border closure until the neighbouring countries respect the ECOWAS rules of origin on intra-ECOWAS trade, and reach a firm and enforceable agreement as to how they will discourage smuggled re-exports to Nigeria and smuggled petroleum products from Nigeria into their countries. At the same time, the Federal Government needs to intensify efforts to ameliorate the short-term effects with appropriate measures.

What becomes clear from the latest inflation figures and, indeed, for some time now, is the largely non-monetary nature of inflation. While the Central Bank's conventional monetary policy instruments may appear not to be directly helpful in fighting food inflation, the heterodox policy measures expressed through the various development interventions aimed at making credit available at affordable interest rates to priority real sectors of the economy – agriculture, manufacturing, MSMEs, etc. – will boost production/supply and hence push down prices and the rate of inflation. Under the present circumstances of un-abating fiscal challenges of the government, the Central Bank will have to continue with the policies to complement the efforts of the fiscal authority, especially the following special interventions that have

impacted positively on output, employment and poverty reduction: Anchor Borrowers' programme, Agricultural Credit Guarantee Scheme, AGSMEIS, MSMEs Fund, Differentiated Cash Reserve Requirement, etc.
But then, the Government will need to come up with imaginative solutions to the structural factors driving non-monetary inflation in the country.

Monetary developments. The growth of the monetary aggregates has not warranted any fears about inflationary expectations. Broad money supply M2 and the broader money supply M3 increased in October but stayed below the provisional growth benchmarks. The annualised M2 growth of 2.51 percent was below the provisional benchmark of 13.11 percent for 2019 while M3's annualised growth rate of 6.87 percent was below the benchmark of 16.08 percent for 2019. In addition, Net Foreign Assets decreased by -19.92 percent in October 2019 due to a fall in the foreign assets holding of the banking system. Thus, the performance of the monetary aggregates imply that money supply remains weak to drive the growth momentum of the economy. However, the annualised net aggregate domestic credit to the economy, credit to Government, and credit to the private sector were all above their respective provisional benchmarks. But the annualised rate of credit to the government at 103.19 percent was much higher than the provisional benchmark of 58.78 percent for 2019, suggesting that the government was borrowing too much from the banking system. This has implications for the cost of borrowing and crowding out of the private sector.

Relative effectiveness of the Bank's monetary policy measures, especially the Loans to Deposit Ratio (LDR), financial inclusion, and measures targeted at reducing Non-Performing Loans (NPL) and helping the deposit money banks to de-risk. The financial soundness indicators as at October 2019 are encouraging: Capital Adequacy Ratio that is above the Prudential requirement, highly improved NPL ratio of 6.6 percent although still above the Prudential Limit of 5.0 percent, good Liquidity Ratio Position, increasing total banking assets, changing structure of assets in favour of loans and advances and less of government securities. Importantly, is the observed steady increase in aggregate credit, manufacturing sector credit and consumer credit. The LDR has compelled the commercial banks to move in the direction of advancing more loans and advances which is their primary function and a vital ingredient for growth and development. Competition among the banks for loans recipients has resulted in the observed downward movement of lending rates. They are now emboldened to advance more loans because of the Central Bank's new policy measure – the Global Standing Instructions (GSI). GSI allows a clause to be inserted in a loan agreement to recover, in case of default, a loan facility to a customer from any other bank where he/she has

accounts with funds. These are new measures whose impact needs to be allowed to work out.

The **deficit incurred in Government's fiscal operations** is rising and highly worrisome because of its implications for debt accumulation and inflation. For example, From January to September, 2019 the cumulative fiscal deficit stood at N3,466.83 billion. To finance the deficit, the Government issued FGN bonds amounting to N670.0 billion, thus leaving a net overall deficit of N2,796.83 billion which may have been financed through inflationary sources. Therefore, while the current efforts of the Government to step up domestic revenue mobilisation through, for example, increasing the Value Added Tax from 5.0 to 7.5 percent, are in the right direction, it is crucial at this point in time to take a hard look at the structure of recurrent expenditure with a view to rationalising it and achieving some cost savings. Growing fiscal deficits not only lead to debt accumulation and crowding out of the private sector in the financial markets it also undermine monetary policy effectiveness.

OPINION

This takes cognisance of the fact that monetary policy making has continued to be a delicate balancing act as to the need for: robust and inclusive economic growth which, reduces unemployment and poverty; single digit inflation; robust external reserves and stable exchange rate, among others. In light of these, cognisance was taken of developments relating to the following: economic growth situation, price developments, monetary developments external sector developments and reserves position, oil prices and market outlook, financial sector developments in terms of soundness of the indicators, the recent monetary policy measures aimed at ensuring financial sector soundness, and role of heterodox policy measures, among others.

A review of the above suggests the need to allow time for the recent monetary policy measures to demonstrate their full effects which have been positive, especially in ensuring financial sector soundness and increasing credit to the real sectors of the economy. This means holding the monetary policy parameters – Monetary Policy Rate, Cash Reserve Requirements and Liquidity Ratio – at their extant levels while the Central Bank also continues with the heterodox policy measures that have proved so successful in achieving the objectives of the various development interventions.

9. SANUSI, ALIYU RAFINDADI

1.0 Decision:

At today's meeting, the last for the year 2019, I voted for a hold on all the policy parameters in consideration of the key global and domestic economic developments. The global macroeconomic uncertainties that characterized the year 2019 continued to weigh on global output, commodity price developments as well as monetary policy responses that have potential consequences on the evolution of domestic prices and output in the medium term. On the domestic side, the positive developments, including the significant increase in the flow of credit to the private sector, implying that the Bank's heterogeneous monetary policies may have, finally, succeeded in encouraging banks to lend to the real sector. While domestic price developments are driven by the recent closure of land borders, the observed surge in the flow of credit to the private sector needs to be sustained as a means of raising the domestic production and, therefore, reducing the inflationary pressure in the medium term. My vote today was, therefore, for a hold on all parameters to enable the positive effects of the heterogeneous policy on output manifest, as a mean of curbing the inflationary pressure occasioned by the fiscal authorities' policy on the land border.

2.0 Background and Justification

2.1 Global Economic Developments

The vulnerabilities and uncertainties in the global economy associated with BREXIT, the lingering trade tension between US and China as well as between US and key trading partners have slowed down global output growth, global trade and subdued investments in the Emerging Markets and Developing Economies (EMDEs). These have important implications for exports earnings, capital flow into EMDEs, exchange rate stability and fiscal buffers.

Available data from IMF shows that global output growth is projected to slow to 3.0% in 2019 from the 3.6% achieved in 2018. This forecast, which is the lowest since the 2008 financial crises, was based on the US-China trade war that has weighed down the global economy for the last 15 months. Consequently, global manufacturing activities also fell as a result of the contraction in Chinese and German car market as well as for the Japanese manufacturing sectors. Output in the EMDEs was also projected to slow down to 3.9% in 2019 compared with 4.5% in 2018. The JP Morgan's Global Composite Output Index showed that the rate of expansion of the Global economy declined in October 2019 (stood at 50.8) relative to September 2019 (which stood at 51.1). Global output growth remained at 1.8% in Q3 2019, attributable to weak global trade flows and deteriorating business condition. Forecast for the growth of the

Global Potential Output, estimated by the Bank of Canada, was also revised downwards from 3.3% to 3.0% in 2019 as the escalating uncertainties adversely affected capital growth and total factor productivity.

In advanced economies, inflation continued to trend below their long-term target. Inflation in advanced economies is expected to continue to moderate to 1.5% in 2019 from 2% in 2018. In the US, inflation increased to 1.8% in October 2019 from 1.7% in September 2018. In the Euro area, inflation declined to 0.7% in October 2019 compared with 0.8% in September 2019 due to the fall in the cost of energy. In the UK, inflation declined from 1.7% in September 2019 to 1.5% in October 2019. As a result of this, the recent monetary accommodation observed in key central banks is expected to continue into the foreseeable future.

The volatilities in the international crude oil markets also continue, owing to excess supply driven by the increase in crude oil inventory in the US, increase in non-OPEC supply, fading concerns about oil supply disruptions as well as market's reaction to the weak global demand. The price of OPEC basket and Bonny light stood at US$63.68/barrel and US$63.64/barrel, respectively, as of November 24, 2019.

Developments in the global economic environment such as the weakness in global demand, accommodative monetary policy stance in advanced economies, and excess supply of crude oil in the international market may be expected to affect Nigeria's foreign exchange earnings and fiscal balance adversely.

2.2 Domestic Economic Developments and their Implications

The observed recent increase in credit flows to the private sector, especially manufacturing, occasioned by the Bank's Loan-to-Deposit Ratio (LDR) policy, could help raise domestic output and, therefore, reduce the observed inflationary pressure. Indeed, the fiscal authority's policy on the land border could complement the Bank's LDR policy by raising the demand and quality of loans, thereby further consolidate the observed improvements in credit flows and reduction in NPLs as well as improve banking sector stability.

In my personal statement for the 267th Meeting of May 2019, I attempted to characterize and document my belief about the nature of Nigeria's inflationary process based on my interpretation of the medium-term data on the evolution of prices, output and employment since 2018. I depicted the domestic inflationary process as predominantly driven by the supply-side factors, and therefore governed by movements in short-run Aggregate Demand with output below the NAIRU. I argued that, while tightening could help in the disinflationary process, there would be associated costs in terms of output and

employment. I argued for intensifying the Bank's "*development finance interventions and other heterodox policies that support the supply side so that both lower inflation and faster output growth can be achieved simultaneously*". This view on the nature of the inflationary process has influenced my policy choices during the 268th MPC meeting of July and the 269th Meeting of September 2019. In my personal statement for the 268th meeting, for instance, I noted that the low positive growth of output was too weak to "make a dent" on the unemployment rate and that supply-side pressures made inflation "*sticky around the low double digits*" above its target band. I, therefore, noted that "significant output growth, especially in employment elastic sectors" was required to reduce unemployment and inflation. I also argued that achieving this required bank "*to play their traditional role of extending credit to support production as well as boost aggregate demand*". In my personal statement for the 269th meeting, I also reiterated my conviction that supply-side improvements, supported by the heterodox monetary policy interventions could be the sustainable means reducing inflation and unemployment.

The available data shows that these policies, especially the policies on LDR and the Global Standing Instruction (GSI), have begun to improve the much-needed credit flows to the private sector. The resumption of banks' willingness to lend, in compliance with the policy guidelines, is an especially welcome development in the context of the fiscal authority's policy on the land border. This is because, although the border closure has, by reducing the supply of (foreign) goods in the domestic market, raised the domestic inflationary pressure in the short-term, it also expands the potential demand for good-quality lending as domestic firms respond to the price signals to raise domestic supply capacity. This would further consolidate the observed improvements in the stability of the financial system, as evidenced by the significant reduction in the NPLs over the last few months.

The rate of real domestic output growth, which has remained positive throughout 2019, increased from 2.12% in Q2 2019 to 2.28% in Q3 2019. This rate is also significantly higher than the 1.81% achieved in the corresponding quarter of 2018. This performance was largely driven by the oil sector (9.77% of the total real GDP), which grew by 6.49 % in the Q3 of 2019. The non-oil sector, which contributed 90.23% of the real GDP, grew by 1.85% in Q3 2019 compared with the 1.64% achieved in Q2 2019. The growth in the real GDP was driven by services (1.09%), industries (0.69%), agriculture (0.67%) and construction (0.07%). Trade output, however, declined by 0.23% during the quarter. Manufacturing output, which contributed 8.74% of the total real GDP, grew by 1.1% in Q3 2019 compared with a decline of 0.13% in the previous quarter. Data on the Industrial Production Index (IPI) indicates an increase of 0.6% in Q3 2019

over the preceding quarter. This increase was driven by growth in manufacturing, mining, and electricity generation and consumption. Index of manufacturing production increased by 2.3% due to increased consumer demand and moderation in input prices. The Purchasing Manager's Index (PMI) also showed a faster rate of expansion in October 2019 compared September 2019 due to higher production level, new orders, suppliers' delivery time and raw materials inventory. This is an indication of greater manufacturing activities during the 4th quarter and, therefore, higher quarterly output than achieved in Q3 2019. *This also implies that the higher lending activities by banks, which is expected to continue, would further support output expansion as it strengthens consumer demand to sustain the increase in new orders and support production activities.* The staff projected that output growth in the fourth quarter of 2019 would grow by 2.38%, driven mainly by the stable exchange rate, enhanced credit to the real sector, sustained peace in the Niger Delta and CBN's special intervention in Agriculture and SMEs.

In October 2019, the headline inflation (year-on-year) increased to 11.61% from 11.24% in September 2019. This increase was driven by the increase in food price inflation from 13.52% in September 2019 to 14.09% in October 2019. *This increase, caused by the increased supply constraints due to the closure of the land border, is the highest recorded since May 2018.* The closure of the land border significantly reduced the supply of food, especially rice, oils, grains, poultry products and other processed foods, hence their prices. For instance, the price of imported rice rose by 15.51% (y-o-y). Core inflation has, however, declined to 8.8% in October 2019 from 8.95% in September 2019. Staff forecasts showed that inflation would continue to rise, in the medium term, mainly due to shortages and higher costs of imported food caused by insecurity in the food-producing areas and land border closure as well as the festivities of the season.

A review of the banking system stability report showed some encouraging signs that the various policy actions during the course of the year were yielding the desired results. For instance, the combined effect of the GSI, which reduced the default risk and improved chances of debt recoveries, and the LDR guidelines, incentivized banks to resume lending to the real sector. Data revealed that the growth in credit to the private sector increased from 12.49% in September 2019 to 13.08% in October 2019. The total credit as increased by about N1.17 trillion in five months between the end of May 2019 and end of October 2019. The manufacturing sector received the highest share (of N459.69Billion), followed by Retail & Consumer (N355.11billion), General Commerce (N142.98billion), ICT (N82.07billion), Construction (N74.52billion) and Agriculture & Forestry (N73.2billion). An additional credit flows of N2.17 trillion is expected between November 2019 and end of December 2019 to

meet the 65% target for LDR. In addition, data showed that the decline in Non-Performing Loan (NPL) continued from the 9.4% achieved in July and August 2019 to 6.56% in October 2019 compared with 14.05% in October 2018. The significant decline is largely attributed to recoveries, write-offs and disposals. This welcome development would further encourage bank lending.

In my opinion, therefore, the rise in inflation, which is clearly as a result of supply constraints arising from the border closure, could be reversed by the increased output growth supported by credit flows to the real sector. The border closure provides an opportunity for increased demand for good-quality lending from firms as they attempt to raise output in response to price signals. The data on PMI appears to support this.

3.0 The Basis for My Policy Choice

My interpretation of the available data reinforces my conviction that a policy stance that help raises output is the preferred means of sustainably reducing inflation beyond the lower-double digits towards its long-run target of 6 – 9 per cent. It is also a means of reducing the unemployment that has been above the NAIRU since Q2 2017. I am also convinced that the heterodox monetary policies have started to direct credit to the real sector, which would raise production, especially in the context of the recent border closure. In considering my options, therefore, I am convinced that the best course of action is to hold all policy parameters in order to sustain the observed improvements.

Consequently, I voted to:

Retain the MPR at 13.50 per cent;

Retain the CRR at 22.5 per cent;

Retain the asymmetric corridor at +200/–500 basis points; and

Retain liquidity ratio at 30.0 per cent.

10. SHONUBI, FOLASHODUN A.

As we approach the end of 2019, the policy spectrum becomes increasingly challenging, on account of a volatile global economy, and, frail, but slowly recovering domestic macroeconomic environment. I am, however, optimistic that despite the tight fiscal space and slightly pressured external sector, the scope for policy options to support growth is enhanced by emerging trend in the domestic economy.

Global and Domestic Economic Developments

The global economy is troubled by low inflation in developed economies, international trade uncertainties, unstable commodity market and a global financial condition that signals buildup of vulnerabilities. Generally, Less than 2.0 per cent inflation in the developed economies is a disincentive to investment and therefore constituted major drag on global growth. In the Emerging and Developing Economies, mixed developments in prices and moderate growth, on the back of volatile commodity market, has been inadequate to boost global growth. The protracted trade impasse between US and China, is another destabilising factor to global growth.

On the domestic scene, consistent improvement in banking industry's prudential ratios and significant increase in credit by the banking system is heartwarming. With industry non-performing loan ratio at 6.6 per cent in October 2019, down from 11.68 per cent at the end of 2018 and, capital adequacy and liquidity ratios above the minimum threshold, the industry's resilience has greatly improved. Also, of note is the growth in credit as a result of the loan-to-deposit ratio and differentiated cash reserve ratio based measures.

The recent upward movement in the general price levels is not unexpected, as the drivers appear to be temporary or at best transitory. Inflation notable rose to 11.61 per cent at end-October 2019, from 11.24 per cent in the previous month, following the sudden turn in September 2019, after three successive periods of decline. ***Rise in food inflation the major driver of the increase, cannot be divorced from the impact of seasonal factor and the land border closure by Nigeria, the side effect of which is expected to be short-lived and eventually lead to improved productivity with lower domestic prices.*** Moreover, as harvest activities intensify, food supply is expected to improve with implications for moderation in prices. Core inflation, however, declined marginally to 8.88 per cent, from 8.94 per cent in the previous month, reversing the temporary rise in September 2019 after 8 consecutive months of decline from January to August 2019. I expect that the downward trend in core inflation will be preserved as exchange rate stability is sustained.

Recently released data by the National Bureau of Statistics (NBS) put output growth at 2.28 per cent in Q3:2019, reflecting modest expansion in the non-oil sector and considerable growth of the oil sector. Activities in the non-oil sector, driven by construction, agriculture and services sub-sectors is gradually picking up, but gaps in sectoral inter-linkages highlights the need to intensify the efforts aimed at expanding capacity and improving productivity.

Sustained exchange rate stability has continued to preserve steady price of imported goods, and encouraged investment, though the external sector remained challenged by slowing capital inflow. The situation is made worse by the tight fiscal space, on account of persisting revenue shortfall, absence of fiscal buffer and elevated debt profile. In both instances, volatile international oil market, characterised by re-balancing of the direction of global demand, low price regime and lower than expected domestic crude oil output, have heightened uncertainty around oil revenue and foreign exchange flow. Off-target performance of overall monetary aggregate, in spite of overshoot in aggregate domestic credit growth, may have undermined the achievement of target levels of macroeconomic variables, particularly growth and inflation.

Overall Considerations and Decision

Data on developments in the economy show encouraging trend and positive outcome of extant monetary policy stance and supporting measures. With the GDP expanding, on the back of stronger agriculture and manufacturing sectors, lower interest rate and exchange rate stability, the present state is indicative of an economy on the turn towards sustainable growth. The manner of growth in the non-oil sector suggests progress in the drive towards import substitution and highlights opportunities for improved sectoral interlinkages in the agricultural and manufacturing value chain.

The uptick in inflation is in fact less than expected and indicates that domestic supply is already closing the gap in the supply of some commodities due to border closure. Perhaps, the temporary increase served as incentive for increased domestic production. It is expected that the inflationary pressure will trend downwards, as domestic output increases further. Improved resilience of the financial system, accompanied by rising credit and lower interest rate is a testament to the efficacy of current measures to improve financial intermediation. The recent turnaround in the capital market, a direct effect of the measures taken by the CBN to sanitize the money market, is expected to strengthen conditions that encourage asset reallocation towards the equity segment to support the real sector. These provides greater scope for policy maneuver to improve economy.

Low prospects of crude oil prices constitutes major headwind and a challenge to domestic policy dynamics. Its impact, through external reserves depletion and tight fiscal space, both critical sources of stimulus for the domestic economy, portends significant risk. It is therefore imperative that, while pursuing price stability and promoting growth to reduce unemployment, monetary policy must engender buildup of domestic buffer, in case the risk crystalises.

We must take bold steps to further encourage domestic "capital" investment by taking advantage of available resources in the pension fund and stock market to consolidate the gains of loan-to-deposit ratio and differentiated cash reserve ratio measures. The resources must be directed at addressing shortages in utilities and responding to the fact that recent positive outcomes in the short term underscores the importance of investment. Robust domestic investment will go a long way to sustain foreign investors' interest in the Nigerian economy. To sustain and move the growth process forward, we must become aggressive on further reducing the imports of finished goods and items we can produce locally. I want to also suggest that we explore production methods that combine abundant cheap labour with minimum high cost resources like power.

I would encourage the fiscal authority to step up on critical reforms and vigorously explore alternative financing models to provide the needed stimulus to support monetary policy. The fiscal authority is advised to consider strengthening the framework for Public Private Partnerships, so as to overcome the limitations of tight fiscal space, reduce project cost and ensure more efficient spending.

I am delighted with the outcomes of the current measures and therefore advocate for the present policy posture to be sustained for the benefits to fully materialise. I agree that we need to be more aggressive and further loosen the policy environment, but considering that impact of rate adjustment is low in economies with structural hiccups, I will rather advocate that we continue the de-risking process to further encourage investment and promote growth.

I therefore vote to retain the:

- MPR at 13.50 per cent;
- Asymmetric corridor of +200/-500 basis points around the MPR
- Cash Reserve Ratio (CRR) at 22.5 per cent; and
- Liquidity Ratio at 30.0 per cent.

11. EMEFIELE, GODWIN I.

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

Global macroeconomic condition remained tepid throughout 2019 as weak demand, rising uncertainties, and levitating risks continued to dampen prospects. International trade and investments have moderated, encumbered by continued trade tensions especially between the US and China and exacerbated by the Brexit impasse. Near-term outlook thus remained fragile as global growth momentum is expected to further diminish amidst persistent vulnerabilities and depressed demand in key advanced economies.

Accordingly, the IMF downgraded its 2019 global growth forecast to 3.0 percent, yet again, from a previous projection of 3.2 percent. The stuttering global impetus implicitly indented emerging market and developing economies whose growth in 2019 projection was also lowered by 0.2 percentage point to 3.9 percent. The prevailing headwinds kept global inflation and interest rates trends southwards even as financial markets vulnerabilities, trade fragilities, capital flows vacillations heightened, and diminished growth prospects.

For the domestic economy, short-term outlook remained modest, as output growth recovery is expected to trudge-on beyond 2019. Year-end growth for 2019 is projected at about 2.3 percent by the IMF and 2.2 percent by in-house estimates. This could be accompanied by moderate inflation over the short-term due to cyclical and supply factors in the domestic space.

Macroeconomic recovery remained positive, but fragile so far in 2019. Real GDP growth rate quickened from about 2.1 percent in 2019q2 to nearly 2.3 percent in 2019q3. Analyses indicate that, though the oil sector grew by 6.5 percent during the quarter, it only contributed about 0.6 percentage point to total growth. Non-oil sector, with a growth of 1.9 percent during the quarter, however, accounted for the balance of nearly 1.7 percentage points of overall real growth. I note that whilst the performance of the oil sector is satisfying, the non-oil sector remained the bedrock of a more structurally balanced and well diversified economy. Efforts at bolstering non-oil sector productivity must be sustained and intensified for a sturdy long-run outturns.

Again, I underscore the imperatives of a cautious and well-balanced policy. This is particularly noteworthy as growth stayed below potential and key socio-economic metrics including per capita income, incidence of poverty, total

factor productivity and unemployment rate linger at unacceptable levels. Though, short-term outlook is positive, it is threatened by subdued oil price trends, fragile domestic contexts, and adverse global conditions. I remain convinced that an adequate mitigation of these risks, buoyed by sustained foreign exchange stability, appropriate credit policy to the domestic real sector, sustained nonconventional development financing by the CBN, and expected implementation of the 2020 capital budget will enhance short-term outlook.

Data on domestic prices showed a marginal uptick in year-on year headline inflation rate from 11.2 percent in September 2019 to 11.6 percent in October 2019, with near-term outlook suggesting a slight build-up of inflationary pressure by 2020q1. The rise in domestic inflation is attributable to the dawn of year-end festive spending and the transient knock-on effects of the border closure on food supply. Accordingly, the observed uptick reflected the 0.6 percentage point increase in food inflation to 14.09 percent relative to the preceding month even as core inflation fell 0.06 percentage point to 8.9 percent. Analysis of month-on-month inflation, also, showed similar trend for the three components during the review month. Regardless, long-run trend of inflation remained asymptotically downward due to continued stability in the foreign exchange market.

On liquidity conditions, subpar outcomes continued in October 2019 with an annualised expansion of 6.9 percent in broader money supply (M3) below the benchmark of 16.1 percent. A cursory analysis indicated that this was supported by the accelerated expansion of private sector credit which quickened from 12.5 percent in September 2019 to 13.1 percent in October even as government credit decelerated during that period. The improvement in private sector credit is attributable to the recent stance on loan-to-deposit ratio. This policy will be sustained and strengthened to ensure the attainment of an inclusive, diversified and sustainable growth. The CBN will continue to seek ways to de-risk key high-impact non-oil private sector activities. The Bank will also sustain its development finance intervention so as to channel vital funds to the real sector to boost local productivity, spur job creation, and moderate poverty.

In my consideration, I note that the domestic economic recovery remained positive regardless of prevailing global headwinds. Global growth prospect is tepid with continued downgrading of forecasts. This is on the backdrop of lingering trade and geo-political tensions with an underlying effect on crude prices. Oil prices remained relatively weak and may not exceed US$65pb in 2020; a considerable downside risk for Nigeria. Accordingly, I reiterate the

need to intensify, refocus and become more aggressive with our efforts to structurally rebalance and diversify the economy from oil. We need to strengthen our FX reserves on the fortitude of the non-oil sector. In this regard, the success of the 43 items in bouying productivity is fervently acknowledged.

I emphasise once more the need to maintain our unconventional approach to tackling macroeconomic challenges. We have seen a pickup in real growth rate up to 2019q3, traceable to improved credits and higher LDR. This is even more pleasing as NPL continued to decline even with higher credits, due primarily to regulatory mechanisms. We also observed marginal uptick in inflation rate due to supply hitches heralded by border closures. Given the price stability mandate of the CBN, it is foremost to keep inflationary concerns within sight while remaining mindful of the need to correct the output gap. Hence, on a balance of evidence and probability, it may be more judicious to hold all parameters at this time.

Given the subsisting global risks, any policy shock now may be impetuous and distabilising, especially as the year-end festivity spendings could impact on domestic prices, output and the exchange rate. The consequences of border closure on supply and economic trajectory also need to be heeded. At this time, I am also cognisant of the budgetary cycle and fiscal dynamics and their real effects on our impulse-response function and outcomes. I am wholly confident that the current level of real policy rate is appropriate to balance the objectives of exchange rate stability, price stability and output stabilisation without introducing disruptive policy shocks. Therefore, I vote to:

- Retain the MPR at 13.5 percent;
- Retain the asymmetric corridor at +200/–500 basis points;
- Retain the CRR at 22.5 percent; and
- Retain liquidity ratio at 30.0 percent

GODWIN I. EMEFIELE, CON
Governor

November 2019